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APPROPRIATORS QUERY KENNARD ON FREE TIME AND BUDGET: FCC Chmn. Kennard took "some punches" before House Appropriations Commerce Subcommittee March 29, Chmn. Rogers (R-Ky.) said. Large part of hearing was dedicated to Rogers and Kennard exploring what former called "fraud" related to FCC's move to Portals. Ranking Democrat Serrano (N.Y.) wondered why AT&T-MediaOne review was taking so long, Rep. Wamp (R-Tenn.) wanted to know why his cable rates were so high and Rogers was curious why Kennard didn't heed warning not to pursue free air time for political candidates.

Rogers said he had told Kennard not to act on free time without legislation and yet "you've proceeded." Kennard said Commission has begun proceeding only under "public interest obligations of television broadcasters in the digital age" as included in Telecom Act, and said later that "I've believed for many, many years now that the FCC has that authority" to act on free time without legislation. Referring to "millions of Americans" who Kennard said are "very concerned about this issue," Rogers replied "I've yet to receive the first letter... People are sick of candidates on television." He also raised question of "who is going to pay for the free time that is mandated?" Kennard said agency would examine that question in proceeding urged by "scores and scores" of members, as well as President Clinton and Vice President Gore.

Serrano for most part was friendly questioner but he was puzzled as to why AT&T-MediaOne review was taking so long, particularly when FCC had said it now would try to resolve merger reviews in 6 months. "It's obviously a major transaction that has a lot of complexity," Kennard replied, and delays can be caused by company if it files incomplete application: "We have to go back to them, they have to file more documents, we have to put those documents out for public comment." As to AT&T-MediaOne, he said Commission was "in the final stages of considering that particular case."

Consumer Electronics

DVD PIRACY THREATENED by new 'DivX' compression that fits high-quality video on single CD and permits faster Internet transmission. (P. 11)

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ZENITH POSTS PROFIT of \$65.1 million in 4th quarter, reversing \$87.7 million year-earlier loss by gaining \$70.2 million on debt exchange. (P. 15)

TOSHIBA TO ADD HDTV line to Lebanon, Tenn., assembly plant, with production to start in July, deliveries in Sept. (P. 16)

After Telecom Act “I just assumed that my cable rates were going to go down, and they haven’t,” Wamp said. “As a matter of fact, they continue every year to go up.” He wondered why rates would rise, particularly faster than inflation. “Cable rates are too high,” Kennard responded: “The fact remains that cable rates are not going in the right direction.” But, he said, “given the tools we have today, which does not include rate regulation, the only thing that we can do is aggressively promote more competition to cable television.”

Kennard again asked for access to \$5.8 million in excess regulatory fees for FY 2000 information technology (IT) budget, reminding Rogers that he had written chmn. warning of dire consequences otherwise (TVD March 20 p7). Kennard said that because of lack of money “I’ve had to implement drastic measures to fund our IT program, including a hiring freeze... and drastically reducing our ability to travel to essential programmatic functions.” Rogers said he was “disappointed” Kennard took those actions when “we appropriated a very generous increase for fiscal 2000, an \$18 million increase, to be precise.” Kennard cited “uncontrollable cost increases,” including rent at Portals — \$9.6 million more annually than at former M St. hq.

Appropriating more money for rent “is rewarding fraud,” Rogers said, resurrecting debate over role of GSA in move to Portals. Kennard said entire process had been investigated by Justice Dept. and no action was taken, but Rogers said: “I mean, the smell is so putrid.” Kennard said he felt like “whipping boy” because he had opposed move, and Rogers said “there may be a little bit of this going through you, to punish somebody else; and for that I’m sorry. But I don’t have any other club to hit it with.” Rogers didn’t address his views on FCC request for \$237 million for FY 2001, 13% over FY 2000.

Kennard’s new adopted baby son was topic of discussion at hearing. Serrano asked “how’s Robert James Kennedy Kennard doing?” “He’s doing fine,” Kennard replied, “better than his sleep-deprived parents at this point.” Serrano said “let’s get him a little low-power FM station.”

NAB CONVENTION TO SET RECORDS IN LAS VEGAS: Year ago, NAB Pres. Edward Fritts questioned whether Assn.’s annual convention in Las Vegas was getting too big to provide “quality experience” for its members (TVD April 12 p2). Even so, next week’s convention (April 10-13) will be even larger than 105,000 who attended last year, with preregistration up 10%. But none of those extra people will be coming from FCC — which is sending 4 commissioners and only 17 staffers (down 10 from year ago) — or Congress, with only 4 members and 10 staffers.

Major issue on agenda and in hotel corridors will be low-power FM for radio delegates. For TV, issues will be digital standards and what stations will do with extra spectrum space provided by DTV. Major issue not on any agenda will be deteriorating relationships between Big 4 TV networks and their affiliates — NBC in particular. NBC Affiliates’ Chmn. Alan Frank, pres. of Post-Newsweek stations, has called meeting Sun. in Las Vegas on stations’ acrimony with network — without participation of NBC executives. Unlike ABC, CBS and Fox, NBC has no working agreement with its affiliates and network created bigger rift with stations with its same-week repeats of quiz show *Twenty One* on Pax TV (TVD March 20 p2). Executives of affiliates of other networks aren’t meeting next week in Las Vegas, except for engineers from ABC affiliates.

“Local, over-the-air broadcasting is going to continue to be the key to success” for TV stations, Fritts told us. “If we do not remain local, we’re going to lose our franchise to competitors.” In that respect, NAB will release new study Tues. showing public service time donated by stations over 12-month period in 1998-1999 was “substantially higher” than \$6.89 billion reported in similar study 2 years ago. Of 3 consortia formed by stations to devise ways to use their digital spectrum for such things as datacasting (move that has caused CBS to express concern), Fritts said their plans are “very tentative.” Extensive live datacasting could leave stations without enough spectrum at times to transmit in HDTV, he said, and uses other than high definition were likely to be on delayed and “flexible basis.”

As she did last year, FCC Comr. Tristani has declined NAB’s invitation to participate in convention, but other 4 commissioners are going to Las Vegas. Chmn. Kennard will speak at Tues. breakfast, and Comrs. Ness, Powell and Furchtgott-Roth, along with NTIA Dir. Gregory Rohde, will participate on “Regulatory Dialog” panel that afternoon. Just as at recent Cellular Telecom Industry Assn. convention in New Orleans, FCC restricted number of staffers that could attend to no more than 3 from any one bureau. As result, Mass Media is sending Chief Roy Stewart, Deputy Chief Keith Larsen and Linda Blair, chief of Audio Services Div. That means Barbara Kreisman, chief of Video Services Div., won’t be attending for first time in many years. Also, there will be nobody from Gen. Counsel’s Office or Cable Bureau, first time in memory that’s happened. Commissioners all are sending legal assistants (including Tristani), with 2 going from Ness’s office. Coming from Hill, in addition to staffers, Republicans all: Sen. Burns (Mont.) and Reps. Rogers (Ky.), Stearns (Fla.), Fossella (N.Y.).

Viacom Chmn. Sumner Redstone will keynote formal opening session Mon., with MultiMedia World keynote by Adobe Systems Chmn. John Warnock and radio keynote by consultant Herb Cohen. Lowell (Bud) Paxson, chmn. of Pax TV, will keynote Bcst. Education Assn. convention just ahead of NAB. Ironically, NBC's *Sat. Night Live* will be inducted into TV Hall of Fame — ironic because NBC withdrew from NAB membership month ago in dispute over regulatory policy. Talk-show host Tom Joyner will be added to Radio Hall of Fame.

NAB entered new fiscal year April 1, for which it's projecting revenue of \$55.9 million, expenses of \$41 million — up from \$53.2 million and \$38.7 million, respectively. Of income, \$36.77 million will come from next week's convention, compared with \$34.96 million last year, which produced net of \$24.9 million (8.6% over budget). Convention is expected to provide 66% of NAB's total income for coming year, with next largest income from TV dues at \$5.5 million (10%), radio dues \$4.07 million (7%), radio show \$2.7 million (5%). TV dues' dollars will drop at least \$400,000 following withdrawal of NBC network and owned stations. TV dues fell \$218,000 under budget for year ended March 31 caused by Fox withdrawal last year.

Major item on expense side for new year is \$12.4 million for "general and administrative," which includes president's office and board expenses, followed by \$10.4 million expected to be spent on convention, which still leaves profit of \$26.3 million from annual show. Govt. relations expenses this year are budgeted at \$3.8 million, up \$497,000, with legal expenses of \$1.6 million, up \$150,000. Corporate communications received \$104,000 boost to \$1.34 million. Budget, approved by board in Jan., sets aside \$3 million "board contingency" fund, increase of \$2 million. Included in set-aside are funds for existing and possible court appeals on several issues such as low-power FM, digital must-carry, Satellite Home Viewer Improvement Act, local-into-local TV service.

VBI BATTLE LAUNCHED: In brewing must-carry fight that could pit broadcasters against cable operators, Gemstar International Group wants FCC to block Time Warner Cable (TWC) from stripping Gemstar's electronic program guide from MSO's cable systems. Gemstar filed petition asking Commission to order TWC not to remove data that Gemstar sends through vertical blanking interval (VBI) of local broadcast stations carried by MSO. Petition follows TWC's removal of Gemstar's program guide information from local broadcaster VBI signals in at least 9 markets in last 2 years, claiming cable operator should be paid for use of spectrum. "We've been stripping it out market by market to get their attention," Time Warner spokesman said.

Issue is whether use of VBI for program guide information is covered under must-carry rules. Gemstar, which has signed deals with local broadcasters in each Time Warner market, contends it is, since program guides are closely related to broadcast programming. "We want the Commission to enforce its must-carry rule," Gemstar Exec. Vp-Gen. Counsel Stephen Weiswasser said. "This is content logically and contextually related to broadcast signals."

TWC said must-carry doesn't cover VBI, and Gemstar should pay it for use of VBI, just as does any other company that wants to use cable bandwidth. "It's our bandwidth — it's our primary commodity," spokesman said.

Weiswasser contended TWC simply was trying to protect its native program guide carried in MSO's Scientific-Atlanta set-top boxes. While several other cable operators also have removed Gemstar's guide from VBI in selected systems, he said, TWC is "only one that appears to be systematic and concerted." Weiswasser said he will seek help from broadcasting industry in fight. "The broadcast industry has real interest here in not allowing Time Warner to assert that it controls the space," he said.

Both sides said they were looking forward to FCC's settling dispute, first of its kind in 6-year history of must-carry. Observers believe issue could draw much attention from broadcasting and cable industries because of implications for continuing digital must-carry dispute, much as FCC leased access ap-

plication by Internet Ventures helped ignite fierce debate over open-access policy. NAB officials declined comment.

Daniel Brenner, NCTA senior vp, law and regulatory policy, said group will file comments "strongly supporting" TWC because of dispute's must-carry implications. He said must-carry never was intended to cover such ancillary services as program guides. "Must-carry is a limited right," he said, position that he said is consistent with organization's view of digital must-carry: "It should be restricted to that which Congress has required."

Comments on Gemstar petition are due within 20 days of release of March 24 public notice, replies 10 days later.

Meanwhile, top antitrust senators sent strong letter to Joel Klein, asst. attorney gen.-antitrust, raising concerns on Gemstar's pending acquisition of TV Guide. Senate Antitrust Subcommittee Chmn. DeWine (R-O.) and ranking Democrat Kohl (Wis.) wrote that merger "has potentially significant implications for future competition in interactive electronic program guides (EPGs)," saying merger should be "carefully scrutinized" and another time suggesting it be "closely examined." Senators noted that Gemstar and TV Guide dominate EPG market, "with Gemstar the dominant licensor of interactive EPGs and TV Guide the dominant licensor of passive or scrolling EPGs." They said merger would "diminish Gemstar's incentive to license its technology to other competitors," which could have major impact if, as expected, Internet becomes commonly accessed via TV. DeWine and Kohl said TV Guide — which was involved in 6-year patent war with Gemstar before they agreed to merge — was "most likely to compete with [Gemstar] in the future" and questioned how removing that competition would benefit consumers.

First meeting of DTV task force March 31 was relatively uneventful, with none of parties walking out and "no gunplay," we're told. There had been some concerns that Advanced TV Systems Committee task force to review DTV standard could be established in way that would guarantee particular outcome, and some had said that could cause walkout. Details of meeting in D.C. weren't available. Session was open to all industry participants with exception of press.

HOUSE COMMITTEE LIMITS LPFM: House Commerce Committee approved severe cuts in FCC's plans for LPFM in markup March 29. Compromise bill was approved on voice vote and sent to full House for final action. It would require FCC to retain 3rd adjacent channel protection for existing FM stations, change that co-sponsor, ranking Democrat Dingell (Mich.), said would cut number of allowed LPFM stations nationwide to about 70 from estimated 400 under FCC rules. Bill almost certainly wouldn't allow new LPFM stations in any major metropolitan area.

New version of bill, approved as substitute amendment offered by Rep. Wilson (R-N.M.) to earlier bill (HR-3439) sponsored by Rep. Oxley (R-O.), won support from Oxley, who said it would solve interference concerns he had raised. Dingell said he hadn't talked with broadcasters about substitute, but was sure they would be pleased.

In fact, NAB Pres. Edward Fritts said in statement that "amended legislation sends a very powerful message from Congress," noting that religious broadcasters, NPR, CEA and reading services for blind all had raised concerns over LPFM.

Bill would "eliminate 75% of the opportunities for schools, churches, transit authorities, local governments" and others to "have access to the public airwaves," FCC Chmn. Kennard said in statement: "Those who want to silence LPFM are ignoring a strong, substantive, methodically developed, 2-year public record replete with solid engineering analysis."

Pres. Kevin Klose said NPR is "moving forward" with its field tests studying potential interference with local public radio stations, their translator networks and subcarrier channels offering radio reading services. In March 30 speech at National Press Club, Klose stressed that public radio stations are "much more susceptible to interference" than others. Klose said Wilson bill "does embrace our concerns, but added NPR is concentrating on its "dialog with the FCC" because "the legislative process is extremely sensitive and changing."

Unlike Oxley version, substitute would allow FCC to go ahead with LPFM immediately as long as interference standards weren't changed. It also would require 9-market field study of LPFM, including urban, suburban and rural markets, and at least one market with translators, which has been NPR concern. Study also would review impact on digital audio broadcasting and reading services for blind, which use secondary audio channels.

Bill would require that study not be done by FCC — Dingell said independent party must be used because "frankly, they [FCC] don't want to be bothered with the facts." Bill would require that no one known to be pirate be allowed to have LPFM license, unlike FCC plan. Even if study indicates LPFM causes less interference than expected, Commission could ease interference standards only with congressional approval. Telecom Subcommittee Chmn. Tauzin (R-La.) called Wilson amendment "very well balanced" and said original bill by Oxley "needs to be modified to reach the President's desk. This amendment may have done that."

Main opposition to substitute came from Rep. Waxman (D-Cal.). He said it would place too many limits on LPFM and study period was too long, because it wouldn't be completed until Feb. 1, 2001, after new Administration takes office. He also said there's no guarantee that even if LPFM causes little interference that FCC would be able to expand it. Rep. Markey (D-Mass.) said "I reluctantly rise in opposition." He contended

FCC had right to conduct LPFM rollout as it was "part of continuing the Telecom Act."

Markup followed beginning of FCC process 2 days for earlier distributing low-power licenses. Kennard, in news conference at event, called "fraudulent" a Compact Disc (CD) about interference that NAB has widely distributed on Hill.

FCC is asking Congress to "rely on the expert agency" on technical issues, rather than word of industry with personal interest, Kennard said. He said agency doesn't believe more testing is needed. He also noted that LPFM would be launched in only 1/5 of states in first year: "As they come on the air, if there are any problems with interference I am sure we will hear about it, and we can take quick action." (Some members at markup objected to this statement, suggesting even if interference is discovered it would be very difficult for FCC to revoke LPFM licenses.)

NAB said FCC is writing off "hundreds of millions of less expensive radios" that would suffer from LPFM interference: "And while Chmn. Kennard says he's sure that there won't be 'harmful interference,' the FCC never defined what level of interference listeners would find objectionable."

FCC Office of Engineering & Technology Deputy Chief Bruce Franca conducted demonstration March 27 that he said proved cross-talk is very unlikely, and any interference would be nearly inaudible hiss or static. Franca also said NAB demonstration was based on 3% distortion, rather than 1% FCC rules would allow. NAB defended its claim that cross-talk was likely, but said: "Whether it's cross-talk or noise and hiss, the real question that the FCC is trying to avoid is why it is introducing new interference to FM radio." NAB engineering chief Lynn Claudy said agency's percentage measurement was "technically inappropriate," but even 1% figure wouldn't be acceptable.

FCC took "conservative approach" to LPFM, Comr. Tristani said, including deciding not to license 1,000 w LPFM stations, not end 2nd-channel interference protection and to create buffer zone: "We could have licensed many more LPFM stations, but we didn't want to jeopardize the use of the spectrum."

At markup, Rep. Pallone (D-N.J.) said "most would be willing to suspend LPFM while it is examined once and for all." Rep. Ganske (R-Ia.) said after conflicting interference tests by FCC and NAB "we need to have this type of [new] study." Companion legislation by Sen. Gregg (S-2068), which mirrored Oxley bill before it was amended, is in Senate Commerce Committee awaiting hearing and markup.

Licensing window for first batch of LPFM stations is to include applicants for Alaska, Cal., D.C., Ga., Ind., La., Me., Mariana Islands, Md., Okla., R.I., Utah. Batch was first selected in FCC lottery March 20. Five-day filing window is to open in late May. Separate groups of states, in order selected in lottery, will have their own filing window each of next 4 years.

FCC formalized rules for Class A status for low-power TV (LPTV) stations in decision last week. Rules mainly codify conditions for Class A status that were included in Nov. legislation creating Class A, which gives qualifying LPTV stations same interference protection as full-power stations. Rules also allow FCC to grant Class A status to LPTV stations that don't otherwise qualify if Commission decides "public interest, convenience and necessity would be served... or for other reasons determined by the Commission."

DTV ANCILLARY SERVICES KEY: As usual, broadcasters and public interest groups were widely divided on FCC's inquiry into DTV public interest obligations (MM 99-360) in comments filed last week. Broadcasters said there's no justification for different obligations for DTV and scarcity rationale is outdated, so any requirements would be unconstitutional. Public interest groups countered that market forces aren't improving quality of programming, FCC isn't enforcing current rules adequately and broadcasters should face new obligations in return for DTV spectrum.

One of key issues was obligations for new services such as datacasting and multicasting that DTV allows. Joint filing led by Center for Media Education said broadcasters should have to provide free DTV datacasting services to schools and others, that broadcasters shouldn't be allowed to link ads to Web sites during children's shows, that principles of Children's Online Privacy Act should apply to DTV and broadcast Web services. NAB, in contrast, said it would be "inappropriate" to apply public service obligations to multicasting, particularly given "speculative nature" of that upcoming service. NAB also said DTV ancillary and supplementary services should face same essentially nonexistent public interest obligations as nonbroadcast services.

Sides remained divided on mandatory free air time for political candidates. RTNDA said "any requirement that would force broadcasters to provide air time to political candidates could not survive constitutional scrutiny," and availability of free time would make it easier for candidates to "duck" debates and other forums with "accountability." However, Alliance for Better Campaigns and others said "reasonable amount" of free time "would ensure that citizens have access to the information they need." Free time requirement is "clearly within the Commission's authority," Alliance said.

Merely switching to digital from analog "does not warrant the adoption of new and expanded public interest obligations," NAB said. Broadcasters also said convergence of telecom technologies requires that industry not face obligations beyond those of competitors. Basing obligations on spectrum scarcity is "logically and factually deficient," NAB said. Media Institute said end of scarcity rationale means "no longer can broadcasting be regulated, consistent with the First Amendment, as a public utility." At most, state broadcast associations said, public interest obligations could be imposed only on primary broadcast channel, not multicast channels or ancillary services. Any new requirements "may well forestall technical innovation and slow the conversion to digital," state associations said.

Broadcasters are abandoning public service obligations for analog, meaning they must be reinforced for DTV, Benton Foundation said. It cited study of 24 markets that it said showed only 0.3% of TV time is used for public interest programming. Foundation said FCC should adopt DTV "bill of rights," including guidelines on treatment of news and public affairs shows, and should require that if stations don't carry public interest programming they should pay spectrum fees. Morality in Media used inquiry to press FCC again on what it called indecent programming, saying Commission "refuses to use the tools it has to enforce the law." Group said it's "unreasonable burden" to require tape or transcript of program to accompany indecency complaint, and TV ratings system should be amended.

In other comments: (1) Center for Media Education said FCC should require additional "core" educational and informa-

tional programming and mandate that stations support production of children's shows by PTV or noncommercial stations. It also said agency should develop children's ad safeguards for DTV. (2) APTS said FCC shouldn't place new public interest obligations on PTV stations because they already are imposed by statute. (3) WGBH Caption Center said captioning and video description rules should be extended to DTV, FCC should take bigger role in setting captioning and description standards, and space on DTV signals should be reserved for such services.

Effort to capture DTV signals in difficult RF environments was begun by Advanced TV Technology Center (ATTC), group said. Stored RF data are to be available to DTV set makers to help them improve receiver performance. "Our industry, and DTV receiver manufacturers in particular, has been hampered by the lack of real world material with which they can test their receivers," ATTC Exec. Dir. Paul DeGonia said: "Our target is to assemble a large variety of various interference conditions that will provide an excellent measurement tool for the evaluation of DTV receiver performance." Data will be collected in Washington area, which ATTC said is difficult RF environment with 6 available DTV stations on air. Data will be collected at 30 different locations on all 6 DTV stations. Tests in other cities are to follow. Data will be available to all DTV equipment manufacturers for "nominal fee" to be used to recoup cost, ATTC said. MSTV is participating in project. MSTV Senior Vp Victor Tawil said project "underscores the urgency of improving DTV reception" and will provide benchmark for assessing DTV receiver improvements.

In e-mail to TV affiliates last week, CBS TV Pres. Leslie Moonves said network hopes to become partner with stations "to establish a national digital footprint that, in addition to the television network, can exploit additional profitable opportunities for affiliates and CBS within our available digital spectrum." To that end, and after commenting on several "new entities" formed by stations to use spectrum for datacasting (TVD March 27 p7), Moonves told stations: "We hope that you will not enter into any business arrangements which will preclude your participation in the network's forthcoming plans... We are anxious to create a business model that is mutually beneficial and reinforces our existing network partnership." He said subject will be on agenda for May 30-June 1 affiliates' convention in Las Vegas and asked affiliates for their comments and ideas in meantime.

NBC will take equity stake in World Wrestling Federation Entertainment (WWF) and partner with WWF to start professional football league, companies said. Network will buy 3% of WWF stock for \$30 million and NBC and WWF each will own 50% of new league, called XFL, as well as of 8 teams in league. NBC committed to prime-time regional and national broadcasts of XFL games Feb. through April, with first game to be played April 21, 2001. Companies said league would be "100% competitive" and would feature "brand of 'smash-mouth' football that fans crave." Broadcasts will include cameras in locker rooms and helmets, as well as extensive use of microphones in huddles and elsewhere, and league will include many rule changes to speed pace and action. They said XFL is "actively negotiating" with 2nd broadcast partner to complement NBC broadcasts.

FCC Chmn. Kennard and wife Deborah have adopted boy, 3-week-old Robert James Kennedy Kennard, he said in e-mail birth announcement to Commission employees March 28. Baby was born March 4, weighing 9 lb. Message said Kennard is somewhat "sleep-deprived" as result of event.

TV LOAN GUARANTEES ADVANCE: Full Senate approved loan guarantee program for local signals to rural areas March 30. S-2097, sponsored by Banking Committee Chmn. Gramm (R-Tex.) and Communications Subcommittee Chmn. Burns (R-Mont.), awaits House floor action on HR-3615 by Reps. Goodlatte (R-Va.) and Boucher (D-Va.), which emerged from Commerce Committee markup March 29. Bill must be reconciled with version passed by Agriculture Committee and is expected on House floor for vote in mid-April.

S-2097 saw spirited floor debate on amendment by Sen. Johnson (D-S.D.) to expand pool of eligible loan applicants. Gramm had written bill with goal of reducing defaults, restricting loan applicants to those who are federally insured. Such action would eliminate cooperatives, which don't have govt. pedigree. Johnson's amendment required only that co-op have good record on at least one long-term loan, and passed Senate 99-0, after which full bill passed 97-0. House version out of Commerce Committee also contains co-op clause, added in amendment by Telecom Subcommittee Chmn. Tauzin (R-La.).

Goodlatte-Boucher bill was changed little in full Commerce markup despite attempts by recurring foes Cox (R-Cal.) and Largent (R-Okla.). Only 3 of 12 amendments introduced passed, most provocative by Rep. Oxley (R-O.) that if it becomes law would have effect of preventing Northpoint from receiving authorization to operate in DBS spectrum unless FCC first conducts independent test of possible harmful interference to satellite services. Amendment doesn't name Northpoint but it was clear from bill language and debate it was intended target.

Satellite Bcst. & Communications Assn. applauded committee "for acknowledging the serious threat... that would result if the FCC allows Northpoint Technology to operate a terrestrial microwave service in the frequency band allocated for DBS services." In order to make amendment germane to bill, language was inserted on protecting possible loan recipients from interference, which would mean entire loan program couldn't move forward until FCC review was complete.

"We were caught in a legislative collision," Northpoint CEO Sophia Collier told us. Saying committee earlier had called for FCC to conduct interference tests for low-power FM, she said members "may have been in a mood to slow the FCC down." DBS providers "are anxious to do anything they can to delay our deployment even by one day," she said, although she added it was "victory" that amendment calls for 90-day test, vs. unlimited time in original draft. Collier said Northpoint was only company "ready, willing and able" to provide local signals to rural America, but "we don't need a loan, we need a license" from FCC to operate.

Other amendments approved: (1) By Rep. Cubin (R-Wyo.), further defining eligible satellite carriers as those with billing, collection and service relationship with subscribers. (2) By Tauzin, cap on number of local channels required to be carried by provider to ensure it's no larger than number of signals carried by cable system serving largest number of subscribers in that market.

Cox and Largent had less success than at subcommittee level. Cox saw 4 amendments fail. He again attempted to reduce loan guarantee, this time to \$200 million from \$1 billion (failed on voice vote). He tried to insert fee for loan applicants to cover administrative costs (failed 16-20), failed again to have at least one officer of applicant be personally liable for loan (7-28), again tried to accelerate sunset date to 2004 from 2006 (17-17). Largent, author of successful substitute amendment in subcommittee, re-

stricted himself to one amendment in full committee, trying to reinstate definition of "unserved areas" as those outside Grade A contours and where consumers have no access to multichannel provider that carries local signals (failed 11-31).

Perhaps most unusual of remaining failed amendments was one by Rep. Lazio (R-N.Y.). Without any attempt to tie into bill, amendment would call for \$10 million to be appropriated to CPB for FY 2000 "for costs associated with the transition of public broadcasting to provide digital broadcasting services." Lazio withdrew amendment.

Rural DBS loan guarantee program could "increase the role of government in private markets and distort innovation and investment," 4 limited-govt. groups said in joint letter to House Commerce Committee Chmn. Bliley (R-Va.). Groups — Citizens Against Govt. Waste, Citizens for Sound Economy, Competitive Enterprise Institute, Heritage Foundation — said access to information is "vital," but "government programs that push technological applications beyond their capacity actually limit the ability of the market to provide the most efficient and economical means of achieving this goal." Free markets are best way to manage risk, groups said.

Meanwhile, Sen. Dorgan (D-N.D.) introduced bill to provide that federal govt. must assist in broadband rollout to rural areas because it's "not going to happen on its own." S-2307 would create \$3 billion loan program run by Dept. of Agriculture's Rural Utilities Service (RUS) over 5-year period to help make broadband as ubiquitous as electric and telephone service. Bill could face opposition from Republicans, many of whom are wary of RUS's spotty track record with loan programs, spotlighted in local-into-local debate.

Dorgan bill is quite broad, specifically naming DSL, cable modems, wireless services and satellite technology as possible areas of funding. "Broadband service" is defined as any switched telecom service offering at least 1 Mbps download and 0.5 Mbps upload speed transmitting "high-quality voice, data, graphics and video," but bill says advances in technology could allow for modifications to criteria. Community would have to be without broadband service to receive loan-subsidized service and would have to have fewer than 20,000 inhabitants.

OpenTV Corp. plans to use its proposed \$2.5 billion purchase of Spyglass to crack U.S. cable market for interactive TV software and extend its reach to wireless phones, executives of companies said. They said they plan to integrate Spyglass's Web browser and other Internet technology into OpenTV's interactive TV offerings by year-end, particularly in U.S. They also said they intend to promote OpenTV's full suite of services to Spyglass's client roster, which includes Cablevision Systems, GTE, Microsoft, Motorola, NEC, Nokia, Sony, Thomson. OpenTV, which is about to launch in at least 700,000 EchoStar satellite homes, ended last year with 6.1 million subscribers on 25 cable, satellite and digital terrestrial systems globally but none in U.S.

Backers of Europe's Digital Video Bcstg. (DVB) system for DTV will demonstrate both HDTV and standard-definition in 6 MHz channel at NAB convention in Las Vegas. DVB broadcasts will be on Ch. 29, DTV channel operated by KVWB Las Vegas, and will be receivable by fixed and mobile receivers, backers said. DVB also will demonstrate hierarchical modulation, in which receivers with good receiving conditions receive high-quality signal, but in poorer conditions would receive lower quality, but viewable, signal.

INTERNET TV PLANNED: Expanding into interactive TV market, Excite@Home is gearing up to introduce its new broadband service for TV screens, featuring full Internet access, in selected cable markets this summer and fall. Company is planning 2-tier service that would compete against interactive TV offerings from America Online, Microsoft's WebTV Networks, OpenTV, U S West, WorldGate Communications, others. Excite@Home co-owners AT&T and Cox Communications have committed to rolling out service to undisclosed number of cable households, and venture is negotiating with co-owner Comcast and others.

Jeff Huber, Excite@Home engineering and product development vp, said Excite@Home would focus on marketing interactive TV applications to its growing base of high-speed PC subscribers, now 1.1 million and climbing at rate of one new customer every 2 seconds. With aid of more than 20 MSO distribution partners, Excite@Home also intends to pitch service to its total coverage area of 72 million homes passed, 60 million in U.S., rest in Australia, Germany, Japan, Netherlands. Company executives believe they can sign up at least 20-25% of those homes as interactive TV subscribers over several years.

Planned @Home TV service — encompassing full Internet access, personalized news, weather and sports, e-mail, enhanced TV screen overlays, electronic commerce, interactive programming, wireless keyboard and other advanced features — is likely to cost digital cable subscribers extra \$15 per month, Huber said. Unlike WebTV, WorldGate, U S West and planned services from AOL and OpenTV, @Home TV is designed for advanced digital cable boxes that set-top makers are just beginning to ship. List includes General Instrument's DCT-5000 and Scientific-Atlanta's Explorer 6000 boxes, as well as advanced boxes from Pace and others. Excite@Home say broadband service will distinguish itself from competitors through its fast transmission speeds, greater capacity for graphics and multimedia displays, emphasis on TV video and audio and "always-on" nature.

ABC TV Network Pres. Patricia Fili-Krushel — highest-ranking woman in commercial TV — has resigned to become pres.-CEO of Healtheon/WebMD, where she takes over April 10. She was network's chief negotiator in reaching agreement last spring with affiliates that stations considered more favorable to ABC and has been "one tough negotiator" in new affiliation contract talks, group executive told us. One of factors causing her to leave ABC was order last year requiring network's top executives to move to parent Disney hq in Burbank by this summer. In memo to employees praising Fili-Krushel, Disney Pres. Robert Iger said she "preferred to stay in New York" with her 2 school-age children. Iger named Alex Wallau, pres. of administration and operations, as interim head of TV network. Fili-Krusehl, 45, has been in job 18 months, moving up from pres. of ABC Daytime. She rejoined ABC in 1993 after executive stints at HBO and Lifetime. Healtheon, which provides Internet links to consumers, doctors, hospitals and other health groups, is 50-50 owned by News Corp. and TV Health Network.

National Football League (NFL) voted to create NFL Internet Network, joint venture with revenues shared among teams. Business plan contemplates streaming full-length football games online, both live and archived. NFL, which has billion-dollar TV contracts to protect, has been among most aggressive content providers in preventing use of its games by Internet sites such as iCraveTV. So far it has streamed games only internationally, not in U.S., but has said streaming rights probably will be explicitly given or denied in upcoming TV deals.

Some 30 representatives of small cable operators visited Capitol Hill March 28, lobbying key lawmakers to strengthen "technology-neutral" elements of bills providing federal loan guarantees for rural local-into-local TV signals. Staging annual "emergency national summit" in Washington last week, American Cable Assn. (ACA) pressed legislators to grant cable operators same access to loans as DBS providers. Group, credited with blocking congressional passage of rural loan guarantees for DBS providers last fall, also favors limiting guarantee program to unserved areas rather than broader, underserved areas, requiring loan applicants to invest private capital before getting any federal funds and not restricting size of MSOs that could receive loans. Smaller MSOs also want any must-carry obligations eased for DBS providers to be loosened for cable operators as well. "We're not arguing against must-carry," said ACA Pres. Matt Polka, whose group represents 300 smaller MSOs with total of 3 million subscribers in rural areas. "We're saying that if we have to live with it, then at some point satellite has to live with it, too." He said ACA members are "very pleased" with evolution of loan legislation from satellite bill to technology-neutral measure and strongly support current Senate bill, S-2097, sponsored by Communications Subcommittee Chmn. Burns (R-Mont.) and Banking Committee Chmn. Gramm (R-Tex.). While they're less enthusiastic about House bill, HR-3615, before House Telecom Subcommittee, Polka said smaller operators are happy that it now looks more like Burns-Gramm bill. He hopes to see final legislation approved by Congress by July 4 recess.

Although there's bipartisan support for CPB in Congress, CEO Robert Coonrod was bombarded with questions on DTV rollout and "bridging" digital divide via its programming at House Appropriations Subcommittee hearing March 28. CPB requested \$365 million for FY 2003, up \$15 million, and additional \$20 million for FY 2001 to assist conversion to digital by FCC-mandated 2003. Subcommittee Chmn. Porter (R-Ill.) questioned funding's going to large TV stations such as WETA-TV Washington, which he said could convert without additional govt. money. Rep. Wicker (R-Miss.) questioned \$20 million for FY 2001, saying "this money could be saved... and used at another time." Coonrod said public broadcasting is "holding its own" in marketplace, but needs additional funding to support digital program development, production and distribution. With technology, he said, consumers would get high resolution and with multiplex channeling they could pick from up to 4 channels from each public station.

Lucent began venture to put together first video network that will target Internet by delivering HDTV-quality, bidirectional IP video over private fiber network, avoiding streaming logjams of public Internet. Metromedia Fiber Network (MFN) will supply metro and long-haul fiber networks to venture, named GeoVideo Networks. Companies said MFN subsidiary AboveNet will provide global IP services to venture, which is planning video hubs in international markets. "The Internet has not been ready for high-quality video transport until now," Lucent New Ventures Group Pres. Thomas Uhlman said. Lucent also is developing plans for CSRG Digital with for-profit consortium of 27 public TV stations. Stations plan jointly to market and sell venture's services to make production studios available to GeoVideo customers.

DirectTV said most retransmission consent agreements with broadcasters and local stations have been signed and no channels will have to "come down" in May when grace period to close such deals ends.

DBS UP TO 11.5 MILLION HOMES: Record satellite TV sales in 1999 put DBS providers on track to reach goal of 30%-35% market penetration by 2005, DirecTV's Eddy Hartenstein, SBCA's Charles Hewitt and Pegasus CEO Mark Pagon agreed at Sky Forum March 28 in N.Y.C. "It's achievable," Hartenstein said. Pagon said DBS eventually would become "dominant medium," with sales doubling over next 5 years. Hewitt told us DBS banner sales year led him to believe bigger and better things were in store for industry. DBS added 5.2 million subscribers in 1998-1999, pushing to 11.489 million, 10% of U.S. households.

Much of optimism involves local-into-local, which made satellite TV more attractive alternative to cable. "Local-into-local has been a tremendous success," Hewitt said. "Our research shows that 50% of our existing customers have opted for local-into-local service. That is much higher than our projections, which were around 10%. Based on that, we think there is going to be a tremendous wave of new customers."

Pagon expects local-into-local offerings to move from top 30 markets to top 50-60 markets in next few years. He said 50 million homes could have DBS when that occurs: "There is no real reason to sell new customers if you can't bundle in local services. You are going to be offering a package price. The service is going to be sold to more than 90% of our new subscribers. If legislation passes [in Congress], the top 100 markets will be delivered local-into-local service. That will mean 90% of U.S. households will have access to DBS."

Hartenstein said his company has felt impact of being able to offer local programming to customers, although he was hesitant to describe it as cure-all for industry. "It's turning out to be what we hoped it to be," he said. "We are approaching 50% penetration in the markets where we are offering local service and we have new subscribers coming on. In essence, we're becoming a cable replacement, rather than an augmentation of their service... One of the things we have to do is educate people that local channels are available on DBS."

Hewitt and Hartenstein said (1) Congress needs to do more than provide loan guarantees to provide broadcast stations in rural areas, (2) FCC must provide more spectrum for service and (3) industry and rural consumers would be better served with "most-carry" rather than "must-carry." Hartenstein said DirecTV would be addressing problem with July 2001 launch of satellite capable of spot beam service.

Hewitt said recent announcements linking DBS providers with ISPs pointed to another trend. "We are going to lead the way in providing broadband service," he said. "Cable can only reach 60%-70% of market, but the other 30%-40% will have to depend on satellite companies for Internet. We are the answer for closing the digital divide in rural America."

Meanwhile, DirecTV will reorganize when successor to Hartenstein is named as president in "6-8 weeks," he said in interview. He also said lawsuit brought against DirecTV by rival EchoStar was "without merit." Hartenstein, now corp. senior exec. vp-Hughes Consumer Sector, said he had "nothing to report" on negotiations with News Corp. on possible merger.

"We want to reposition DirecTV," Hartenstein said. "We are looking at a number of candidates. We are searching high and low for the right person. We want to find a person to fill

the job in the U.S. who can broaden our base and better serve our customers." Hughes announced in Jan. that Hartenstein would give up title as DirecTV pres. when successor was named following his promotion to current position.

Much-anticipated launch of AOL-TV would happen by "Christmas," he said. Joint project of AOL and DirecTV announced last May will give consumers access to Web, e-mail, chat rooms, interactive TV, online shopping and satellite TV programming with one set-top box. AOL made \$1.5 billion investment in DirecTV parent Hughes to close deal.

Spokesman also said similar partnership with TiVo to provide personal TV service would start in July. Pricing hasn't been set. Hartenstein said marketing of HDTV would be stepped up to meet demand for product. "Our retailers and manufacturers are selling everything they can get," he said. "As the programming expands and we get more NFL packages and NBA game-of-the-week packages, there will be even more demand."

AT&T, Comcast and Cox extended distribution deals with Excite@Home cable modem venture in high-stakes move to shore up its sagging stock price and erase continuing doubts about its future. Companies said they would restructure their governance of Excite@Home and carry high-speed cable data service at least 4 years longer than previously planned. Under complicated series of agreements, AT&T will assume unchallenged voting control of Excite@Home while Comcast and Cox will relinquish certain veto rights and resign from board. In exchange for greater control, AT&T will extend its cable distribution of Excite@Home 6 years through 2008, offer Excite@Home's upcoming Internet TV service through digital cable set-tops and feature high-speed data service on its wireless phone network. Comcast and Cox agreed to continue distributing service additional 4 years through June 2006 and gained right to end exclusive carriage and terminate entire deal by June 2001, one year earlier than before. AT&T Chmn. Michael Armstrong said agreements will spur his company's drive to open its cable lines to multiple ISPs and gain federal regulatory approval of its pending purchase of MediaOne Group. He said regulators never have heard all 3 MSOs and Excite@Home "speak out so clearly" on carrying multiple ISPs before. "I think it's a positive step communicated to Washington," he said. FCC officials couldn't be reached for comment by our deadline.

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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.

KY. FLAT TAX KILLED: Ky. Senate dealt mortal blow to innovative telecom tax restructuring plan advanced by Gov. Paul Patton (D), despite strong support from state's telecom and cable industries. Senate voted to refer tax bill (HB-996) back to committee, effectively killing it for this year. Patton had proposed replacing 1,300 different state and local sales and franchise taxes now levied on telecom and cable firms by state and its municipalities with single 7% state telecom excise tax. The tax would have been applied to all landline and wireless phone services as well as to cable and satellite TV services.

Plan had fast passage through House but ran into roadblock in Republican-controlled Senate because that chamber's leadership viewed it as imposition of new state tax, something GOP has vowed to prevent. Apart from supplanting local franchise fees on cable and some telephone companies, excise tax would replace 6% sales tax on local and intrastate telephone services and school gross receipts utility tax (generally 3%) on most telephone and some cable services. Although proposed tax represents minimum 1% increase for cable, step was welcomed by industry, which said it would level playing field with satellite TV, which doesn't pay franchise fees.

Spokeswoman for Ky. Cable TV Assn. said industry would benefit from proposed removal of "intangible tax on value of a company." Besides having to pay regular property tax, telecom and cable companies are subject to tax on their value, which is double taxation, she said. Most attractive part of package for cable is that it "levels the playing field for all competitors," she said.

New PBS Pres. Pat Mitchell promised complete review of "every aspect" of network's programming and operations, with beginnings of strategic plan to be made public by annual meeting in June. At March 30 meeting of PBS board, she said she was "willing to evaluate everything... This is not a good time to be indecisive." Mitchell, who has been on job for month, said initiative "should put an end to discussions on Capitol Hill [and elsewhere] over whether there's a need for public television." However, board members grumbled that preliminary budget they approved at meeting showed little movement toward ambitious goals of making PBS leader in technology and wide field of education. Mitchell said next budget, formed under her supervision, would be radically different. Meanwhile, in latest defection from PBS's top ranks, Exec. Vp-Learning Ventures John Hollar is going to Pierson Broadband in April. All 3 exec. vps of year ago have left, along with former Pres. Ervin Duggan.

Liberty Media is keeping up pace of aggressive investments in new media, video and telecom companies. In latest move, Liberty paid \$200 million to Primedia March 30 for 5% stake and 1.5 million warrants in publishing company. Deal also calls for Liberty or its interactive TV and Internet unit, Liberty Digital, to receive option to buy 12.5% stake in Primedia's new broadband video division. Primedia also will buy \$25 million in Liberty Digital stock and companies will work together to develop broadband and interactive video services for consumers and businesses. Separately, Liberty Digital invested undisclosed amount for equity stake in Kozmo.com, online delivery company for ordering videos and other entertainment and convenience items.

Political spending on local TV stations in Jan. was \$12.84 million, double \$6.42 million spent on stations in same month of 1996 presidential campaign, according to TV Bureau of Advertising (TvB). This Jan., presidential candidates spent \$7.47 million (up 169%) for ads on local stations, TvB said.

DBS SERVICE PLANNED: EchoStar and iSky announced nonexclusive deal to offer 2-way wireless broadband and DBS services using set-top box and small dish. Deal, which Wall St. analyst called "significant," calls for EchoStar to invest \$50 million in iSky in exchange for 12% of latter and warrants that could increase share to 20.8%. It also will receive "substantial" revenue share, companies said.

EchoStar will distribute iSky satellite Internet services along with DISH Network satellite TV service through 23,000 retailers nationwide after start of new iSky service in 4th quarter 2001. Dish, with 26" diameter, will be able to receive and send Internet data at same time it's receiving DBS TV channels. Companies still are determining price, but iSky plans to market its Ka-band Internet service for \$35-\$40 per month and set-top box for \$200. Deal puts EchoStar in position to deliver Ku and Ka-band services.

Merrill Lynch Vp William Pitkin said deal continues EchoStar pattern of joint projects that will help it bundle TV, data and Internet services to subscribers. Last month, EchoStar signed deal with Gilat-To-Home. Pitkin said he expects EchoStar to land deal with Covad or Northpoint in "30 to 60 days."

iSky CEO Thomas Moore said he expects to reach large number of estimated "25 to 30 million U.S. homes" without Internet when new service begins next year. Greenwald said company had satellite capacity to serve several million people.

Personals

William Lansing, CEO-chmn., Fingerhut, named NBCi CEO, succeeding **Chris Kitze**, appointed vice chmn... NBC Washington attorney **Diane Zipursky** promoted to vp-Washington law & policy... **Gary Zenobi**, ex-WBZL Miami, appointed vp-gen. mgr., WTIC-TV Hartford, replacing **Jerome Martin**, who moved to vp-gen. mgr., WBDC-TV Washington... **Melissa Klinzing** promoted to news dir., KYW-TV Philadelphia, succeeding **Joel Cheatwood**, now vp-news CBS Station Group and news dir.-WCBS-TV N.Y... **Jorgen Bredeesen**, ex-Motorola, named CEO-pres., Tandberg TV.

Joel Andryc promoted to exec. vp-kids programming & development, Fox Family Channel and Fox Kids Network... Changes in Disney/ABC Cable Networks mktg: **Adam Sander** promoted to senior vp-mktg., **John Rood** named vp-mktg., **Hope Winter** named exec. dir.-brand management, **David Watson** appointed dir.-online, **Todd Hatley** named dir.-promotions... **Rick Bailey** promoted to vp-chief counsel, AT&T Broadband... **Charlie Maday** promoted to senior vp-programming, History Channel... **Neil Hoffman**, ex-USA Network, appointed vp-programming, WGN Cable... **Thomas Forst** named dir.-affiliate relations, Cox Bcstg., **Tina Denicole** dir.-finance... **Joan Ziff** advanced to dir.-trade and media relations, Showtime Networks.

Bill Burke, ex-Time Warner Digital Media, Turner South and TBS Superstation, named pres.-CEO, Resort Sports Network... **Jean Prewitt**, ex-Podesta.com, elected pres., American Film Mktg. Assn... **Elinor Hirschhorn**, ex-MTV Networks, named senior vp-global business development & strategic partnerships, MTVi Group... **David Obstler**, ex-J.P. Morgan, named CFO, ScreamingMedia.

Obituaries

Sig Mickelson, 86, first pres. of CBS News and instrumental in development of televised political coverage, died March 24 of pneumonia at Scripps Mercy Hospital in San Diego. Graduate of Augustana College in Sioux Falls, S.D., with master's degree from U. of Minn., he entered broadcasting at CBS-owned WCCO(AM) Minneapolis. In 1951, he was named dir. of news and public affairs of CBS TV, which at time had staff of 12, and was major force behind first gavel-to-gavel coverage of 1952 political conventions — for which Mickelson selected Walter Cronkite as anchor and coined phrase "anchor-man." Mickelson was named vp of CBS News in 1954, pres. 1959, supervised coverage of 1960 Olympics. In 1961, he became head of Time-Life Bcstg. International Div., where he remained for 9 years before joining faculty at Northwestern U. Medill School of Journalism. From there, he went to San Diego State U. where he served on faculty 1978-1991. In 1994, he was prof. of journalism at La. State U., returning to San Diego following year. Mickelson was co-founder of RTNDA, serving as its pres. 1948-1949, and also had govt. stint as dir. of Radio Free Europe/Radio Liberty. He authored 7 books, including *The Decade That Shaped Television News*, published in 1998. Wife, 2 sons, 2 daughters, survive.

Neil Patterson, 50, longtime ABC News executive, died March 25 at St. Vincent's Hospital in N.Y.C. of complications from Feb. 1 stroke. Patterson was 22-year veteran of ABC News and was in charge of network's 24 hours of New Year's Day coverage from around world. For many years, he was managing dir. of overseas operations where he was on site for events such as Beirut's civil war, Persian Gulf War, Iranian revolution, Somali invasion. Patterson became dir. of production for ABC News magazines in 1992, then vp-operations, and senior vp in 1995. Born in N.Y.C., Patterson was raised in Manhattan and in Pelham, N.Y., studied technical theater at Syracuse U. and began broadcasting career as NBC N.Y. page in 1974. Wife, 2 sons, daughter survive.

Citing Digital Millennium Copyright Act, NAB asked U.S. Dist. Court, N.Y.C., for declaratory judgment that streaming audio of stations' programs is subject to new copyright royalty payments. In suit filed March 27, NAB acknowledged that Act gave some new copyright rights, but said it specifically exempted services such as radio, where consumer can't ask for specific song and is considered less likely to record it. Recording Industry Assn. of America (RIAA) has said audio that's streamed over Internet is subject to copyright fees, and filed petition for rulemaking with Copyright Office. Copyright Office published notice March 16 seeking comments on issue and began proceeding for determining copyright fees for audio services that aren't exempt from Millennium Act.

AT&T's Liberty Media completed \$460 million cash tender offer for Ascent Entertainment Group March 28, one day after agreeing to buy 9.9% stake in IDT Corp. for \$130 million. Liberty said Ascent stockholders tendered 25.3 million shares (85% of those outstanding) to Liberty for cash payment of \$15.25 per share. Liberty will buy remaining shares through merger in which each share of Ascent common will be converted into right to receive cash. Liberty still expects to close merger in 2nd quarter. Separately, Liberty agreed to pay \$130 million in cash (\$34.50 per share) for stake in IDT, telecom and Internet services firm. Liberty will receive nearly 3.8 million shares of IDT common and seat on IDT board.



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BEA and NAB joined to form Bcst. Research Initiative (BRI) to help fill need for qualified research professionals. "As the competition between media outlets grows, the demand for qualified candidates to fill research positions will only intensify," NAB Vp Mark Fratrik said. "There is more data to analyze than ever before [and] we need skilled people to manage the data and improve our ability to understand what the data tell us." Special BEA committee now is working to design curriculum and primer for use by BRI and to be made available on Web sites.

Consumer Electronics

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STATE OF THE INDUSTRY

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

	MAR. 11- MAR. 17	1999 WEEK	% CHANGE	MAR. 4- MAR. 10	11 WEEKS 2000	11 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	564,091*	401,562	+ 40.5	463,729	5,136,051	4,491,077	+ 14.4
DIRECT-VIEW**	537,196*	387,466	+ 38.6	449,776	4,875,747	4,299,636	+ 13.4
TV ONLY#....	461,647*	321,738	+ 43.5	376,459	4,134,166	3,685,173	+ 12.2
TV/VCR COMBO.	75,549*	65,728	+ 14.9	73,317*	741,581*	614,463	+ 20.7
PROJECTION...	26,895*	14,096	+ 90.8	13,953	260,304*	191,441	+ 36.0
TOTAL VCR**....	380,894*	351,099	+ 8.5	339,075	4,173,280*	3,614,470	+ 15.5
HOME DECKS...	305,345*	285,371	+ 7.0	265,758	3,431,699*	3,000,007	+ 14.4
CAMCORDERS.....	96,877*	69,159	+ 40.1	84,922*	826,175*	655,748	+ 26.0
DVD PLAYERS....	60,322*	35,396	+ 70.4	56,592*	949,228*	320,920	+195.8

Direct-view TV 5-week moving average#: 2000-431,193*; 1999-355,668 (up 21.2%).

Projection TV 5-week moving average: 2000-26,249*; 1999-19,371 (up 35.5%).

VCR deck 5-week moving average: 2000-359,099*; 1999-320,995 (up 11.9%).

TV/VCR 5-week moving average: 2000-85,251*; 1999-65,222 (up 30.7%).

Camcorder 5-week moving average: 2000-83,493*; 1999-77,398 (up 7.9%).

DVD player 5-week moving average: 2000-94,016*; 1999-32,819 (up 186.5%).

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

NEW VIDEO-PIRACY THREAT EMERGES — WITH OLD NAME: Efficient compression formula that permits higher quality video to be stored in smaller files is making rounds of Internet tekkies. New codec is called DivX — no relation to defunct Divx conditional-access DVD platform — and for first time makes it possible to fit entire movie on single recordable CD or transmit video over Web in less time than in past.

New “DVD Video Codec” has circulated underground at least since Dec., we have discovered. Recently, though, Web sites devoted to topic have proliferated where desktop video enthusiasts swap information on how to use DivX, as well as video files compressed in format. One site we visited — divx.ctw.cc — had selection of 30 movie trailers, including box office and home video hits such as *Apollo 13*, *The Matrix*, *The Mummy* and *Saving Private Ryan*.

DivX has potential to become MP3 of video by providing fast and easy way to transmit and store data. Until now, large size of pirated movie file has made Internet transmission unfeasible for most people, and required storage on multiple CDs in MPEG-1 format of indifferent quality.

Depending on variable bit rate selected for compression, DivX users claim they can fit 2 hours of video on 650 MB-capacity CD-R. Video quality ranges between MPEG-1 Video CD and MPEG-2 DVD, and is at very least as good as VHS. But greater threat to copyright holders is potential of DivX for Internet transmissions. Smaller file size enables 2-hour movie to be downloaded in about 4 hours using wide bandwidth T1 line, although longer with cable, ADSL or dial-up modem.

Reason for efficiency is that DivX is based on MPEG-4 video compression, new standard approved in Dec. and incorporated in Microsoft's Windows Media Player (WMP) to create AVI files. Soundtrack for DivX video uses MP3 compression. Anonymous creators of DivX claimed on Internet that they had hacked WMP in order to continue making AVI files that Microsoft no longer supports. In effect, DivX is cloned from WMP and set up as separate codec. Although no DivX player software now exists — compared with plethora of MP3-based Internet music players — DivX files can be opened and viewed with attachment to WMP.

DivX uses another hacked technology to copy DVDs — DeCSS created by Norwegian hackers to circumvent DVD's Content Scrambling System (CSS) and posted on Internet in Nov.. By circumventing CSS, disc played in PC's DVD-ROM drive can be copied directly as digital bitstream to hard drive, then compressed with DivX for burning on CD or uploading to Internet. Before emergence of DivX, threat from DeCSS was downplayed by some in movie industry because uncompressed video files were huge.

MPAA isn't minimizing threat from DivX. "We are currently investigating DivX as a whole," said Mark Litvack, attorney who's vp-dir. of worldwide legal affairs for antipiracy. "We're continuing to search both for pirated materials and for the technology pirates are using."

MPAA has yet to find DivX files pressed on discs, Litvack told us. "But we are aware that data is being made available on the Internet that would be consistent with the use of DivX." He couldn't say when MPAA became aware of DivX, but told us Fri. he himself had learned of situation only in last 10 days. Although Microsoft couldn't be reached for comment on hacking of WMP, Litvack told us software giant is likely to join investigation. "Microsoft, to the extent it itself gets pirated, is someone we're almost constantly in contact with," he said. "And they are always very cooperative."

DVD COPYING POSSIBLE WITH SONY PLAYSTATION2: Yet another glitch has been discovered in Sony's star-crossed PlayStation2 (PS2). This time, hackers apparently have figured out how to circumvent Sony console's Macrovision copy protection to make VHS and other dubs from DVDs.

Despite implementation of Macrovision on PS2's component-, composite-, S-video and RGB outputs, press and Internet reports from Japan last week indicated that consumers could use machine's analog RGB port to copy DVDs. Postings on various Web sites carried circuit diagram and model of converter that could transform RGB signals used for PCs to NTSC video for recording. Converter coincidentally removes Macrovision encoding in process, possibly when adjusting progressive-scan RGB horizontal and vertical synchronization to interlaced NTSC. Ironically, technology to prevent such conversion exists, we have learned.

Japanese company Micomsoft is one manufacturer of converter, reports said. Device originally was developed to enable PC videogamers to view games on home TV, and Macrovision circumvention apparently is inadvertent. But VGA-to-NTSC/PAL converters readily available worldwide for below \$100 probably could perform same job. To connect Sony's proprietary 12-pin RGB port to converter, special cable is needed with 12-pin connector on one end and 21-pin multiconnector on other. Sony used to sell such cable as first-generation PS accessory, but company said it's no longer available. Sources told us it wouldn't be hard to build cable or versions for devices that convert PC's VGA output for display on TVs.

DVD licensing agreement prohibits PC-type RGB interface in standalone DVD-Video players because of piracy concerns, but doesn't prevent computer DVD-ROM drives from offering same output because of need for connection to PC monitor. It was unclear just how DVD license classifies PS2 or whether Sony will defend it on ground that videogame console is more like PC than DVD player.

Ironically, technology exists to prevent RGB conversion to NTSC/PAL. We found patent applications filed nearly 2 years ago by Macrovision (WO 99/00977) and last year by Hewlett-Packard (99302387.8 and 99302492.6) that describe different methods of degrading quality during RGB or VGA conversion process to make video unviewable in other formats. Macrovision's system confuses horizontal and vertical synch of TV or VCR, while Hewlett-Packard's adds artifacts to spoil image. Patents for both systems say legitimate RGB/VGA viewing isn't affected. Macrovision also patented methods and circuits for defeating RGB-to-composite copy protection, giving it legal means to prosecute hackers.

Word that PS2's copy protection can be circumvented followed discovery that PS2 owners easily can change console's DVD regional code settings as well (TVD March 20 p10).

Calls for comment weren't returned last week by Sony Computer Entertainment America (SCEA). But parent Sony Computer Entertainment (SCE) in Japan did clarify various other issues. SCE told Reuters that 1.25 million consoles had been shipped through March 25 and that company planned to move 1.4 million by end of month, then 500,000 each month despite variety of concerns that have been raised about next-generation game console. SCE Pres. Ken Kutaragi told Reuters Sony plans to ship 10 million PS2 consoles worldwide in business year that started April 1 — 4 million in Japan, 3 million each in Europe and U.S.

Upgraded software utility disc that prevents changing machine's regional code setting started shipping with PS2 consoles March 27, SCE said. Still unclear was status of consoles that already had shipped with flawed disc, and exactly

what Sony was going to do to encourage consumers who already had bought console to turn in utility disc that permits regional code change.

Although SCE officially recalled flawed disc that came with 1.25 million consoles sold through March 25 and is offering upgraded disc free to consumers, there seems to be little incentive for customers to make exchange. It was unclear last week what Sony could do to insist customers return old utility discs.

Before regional code flaw discovery, SCE had admitted receiving many complaints about console's memory cards (TVD March 13 p12) and said it was unable to ship million consoles in first week because of "10-day lag in production" (TVD March 13 p18). Production now apparently is back on track.

SCE spokesman conceded possibility of recall after regional code flaw was discovered, but company hadn't announced recall of hardware by our March 31 deadline. To date, no Hollywood studio has publicly criticized Sony or announced any legal action against manufacturer over regional code or copyright circumvention glitches. Spokesman for DVD Copy Control Assn. (DVDCCA) told us last week that his group has talked to Sony about regional code issue, saying: "Sony is fixing the problem [and] is making all corrections as necessary in cooperation with DVDCCA. Sony basically has been amazingly cooperative and they have been in full cooperation with DVDCCA on this situation from day one and has worked with DVDCCA to correct it."

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As for ability of customers to record DVDs to VHS, DVDCCA spokesman said: "There have been reports of that that we are aware of. Sony has assured DVDCCA that regardless of these reports, the RGB situation is in compliance with the CSS agreement and that Macrovision is in place."

Meanwhile, gray-market PS2s continued to be readily available. Although most pricing we found in U.S. was about \$1,000, cost was considerably lower for PS2 in downtown Manhattan at The Game Shop, which was selling it for \$630. Price in U.K. has dropped, too. Central London retailer Computer Exchange now is charging \$1,100, down from \$1,265 in mid-March and \$1,599 in week after March 4 introduction in Japan.

AMAZON.COM WINS AUTHORIZATION FROM SHARP: Amazon.com told us it had received authorization last week from Sharp to sell full line of manufacturer's CE products at its e-commerce Web site. At same time, company said it now will receive broad line of products direct from Casio for first time and is continuing efforts to get authorization from Sony.

Christopher Payne, vp of Amazon.com's CE store, said that up to now it had been receiving only Sharp's line of home office products direct from manufacturer. Although full line of Sharp CE products are being added to Amazon's mix, he said it could take several weeks before all merchandise shows up at Web site. Limited amount of Sharp CE products have been sold at site up until now that Amazon had been able to obtain through 3rd party distribution, Payne said. Sharp spokesman said at our Fri. deadline that he couldn't confirm or deny Amazon.com authorization.

In case of Casio, Payne said Amazon so far has carried "just a couple" of that vendor's PDA products, "and now we're going to broaden that" to include calculators and complete line of digital still cameras.

Calling ability to receive product direct from all manufacturers and "have tight relationships" with them "key tenet of" Amazon's philosophy, Payne said company is working to gain authorizations from vendors it currently lacks now. That includes Sony, with which he said Amazon has been discussing issue. He regards recent Sony online authorization of 800.com (TVD Feb 7 p14) as "a signal that Sony is embracing the Internet, and we think it is an event that will kind of spur on additional authorizations and direct relationships in the coming months."

When Amazon.com launched CE store at its site last summer and started selling Sony products and merchandise from other manufacturers without authorization, Sony was among most vocal in expressing concern (TVD July 19/99

p12). But Payne said that hasn't stopped Sony from honoring warranties on its products that have been sold by Amazon.com. Sony spokesman confirmed that last week, saying: "Any instance where a customer has a Sony product, Sony will honor the warranty." But as for any discussions with Amazon, Sony spokesman said: "We are in talks with a lot of people now, but we have nothing to [say] as far as anything related to Amazon right now."

As to still-undisclosed source of unauthorized Sony products available at Amazon.com, Payne said: "We get it kind of through 3rd parties to make it available to our customers." But he declined to identify those 3rd parties.

Asked why Amazon.com wouldn't simply wait for authorization from vendors such as Sony before offering such products for sale online, Payne said that "the problem with that [is] we listen to our customers. That's the thing we're very focused on at Amazon.com. And if you want to launch an electronics store, Sony has done just a phenomenal job of building one of the world's most recognized brands. They stand for innovation, cutting edge technology. You really cannot meet the needs of your 17 million customers if we don't carry Sony."

When asked whether company had received cease-and-desist letters from any manufacturers that may have been angry their products have been sold at Amazon.com without authorization, Payne said: "I can't comment specifically. We've had discussions, both in written correspondence and face-to-face discussions with various manufacturers, and it's an ongoing discussion about a direct relationship." But he added: "All of our product is legally sourced [and] frankly, the vast majority of our product is sourced directly from our manufacturers or through authorized 3rd party distribution. I think it's unfortunate, quite frankly, that right now everyone's focused on these few examples of what I think is a temporary holdout in embracing the Internet. It can frankly forestall massive adoption on the Internet by consumers. We want to work with manufacturers to help them understand the tremendous opportunities that's presented by taking advantage of the Internet channel."

As for goods such as B&W speakers and Yamaha AV gear that for months had been offered for sale on Amazon.com despite objections from those vendors, Payne said it no longer makes those specific products available. He said company is in "ongoing discussions" with B&W and Yamaha, among other vendors, in seeking direct partnerships. Payne said Amazon expects "in the coming months" to announce additional partnerships that will represent all brands now featured at its Web site.

Although Amazon.com seemed more open last week to discuss sources of its products than in past, it still declined to provide specifics on issues such as its return rates — something not unusual in light of fact that majority of online retailers we have spoken to in recent months also have declined to provide specifics. On returns, Payne said: "The only thing we've said publicly is that they're very low relative to what return rates are published in the physical world." He said Amazon.com believes they're low for 2 main reasons: (1) Abundance of "upfront" information to help consumers make right product "decision." (2) No salesperson "pressuring them" into buying decision. As result, he said, "there's a little bit less of the buyer's remorse that is a big generator of returns." He said there's big misconception that it's tougher to return product to Amazon.com. But "even though it's easier, we still are experiencing lower rates than we are seeing in the physical world."

Amazon.com also announced last week that it had become exclusive retailer for Ceiva, new Web-enabled picture frame that allows consumers to receive photos directly over phone line. Once activated, Ceiva automatically checks to see whether new images have been sent each night and downloads any that have been. Ceiva is being sold by Amazon for \$284.99 including one year free dial-up connection; after year, connection costs \$3 per month.

Payne also told us company last week was "splitting out" its software store that has up to now been located as sub-department of its electronics store. Shift means software "will have its own tab" as distinct store at site, he said.

ITA REVOKES TUBE TARIFFS: Commerce Dept.'s International Trade Administration (ITA), in 6-0 vote, last week revoked antidumping duties that have governed TV picture tubes imported from Canada, Japan, Korea and Singapore for 13 years (TVD June 29/87 p17).

In reaching decision, text of which will be released May 4, ITA sided with Japanese manufacturers, most of which now operate tube factories in U.S. or Mexico, stark reversal from mid-1980s when only 26% of U.S. picture tubes were imported. In lifting antidumping measures, ITA ruled that imported tubes will be subject to standard duty equal to 15% purchase price.

Kenneth Pierce, attorney for Japanese manufacturers, said move to revoke antidumping duties rested on several issues, including fact that much of picture tube production has shifted to N. America. NAFTA agreement, which estab-

lished free trade zone along Mexico-U.S. border in 1993, also lessened "economic incentive" to import tubes, he said. Hitachi, Matsushita, Sony, Samsung and Toshiba all have tube plants in N. America.

Thomson, along with glass suppliers Corning-Asahi and Techneglas, and IBEW, which filed original complaint along with 4 other unions (TVD Dec 1/86 p11), had argued that duties should remain as digital TV market emerges in U.S. Thomson is sole widescreen tube manufacturer in U.S. with rest of 16x9 models being imported from Japan and Korea. Pierce contended that court records reflected that speed at which TV market was shifting to digital was "perhaps an exaggeration." Thomson, Corning and Techneglas officials weren't available for comment. Any appeal must be filed with Court of International Trade within 30 days after ITA publishes its decision.

ZENITH POSTS PROFIT: Zenith Electronics, benefiting from \$70.2 million gain in exchange of subordinated debt, reversed year-earlier \$87.7 million loss to post \$65.1 million 4th quarter profit, but sales slid to \$238.1 million from \$309.7 million.

Minus gain, Zenith reported \$5.1 million loss. Added income came from agreement with bondholders Caspian Capital Partners, Loomis Sayles & Co. and Mariner Investment Group to exchange \$103.5 million of 6.25% convertible debt for \$50 million of new 8.19% notes due Nov. 2009. Debt exchange was part of Zenith's bankruptcy reorganization plan that court approved last fall (TVD Nov 8 p13).

For fiscal year ended Dec. 31, Zenith's last as publicly traded company, it reported \$6.1 million profit vs. \$275.5 million loss year ago. It emerged as LG Electronics (LGE) as part of bankruptcy reorganization plan.

Sales fell 15% (see financial table). Without \$70.1 million gain, Zenith had \$64.1 million loss. Gross margin rose to \$81.9 million from \$79.3 million, although it ended year with negative working capital of \$52 million.

Zenith had \$19.5 million in restructuring charges, including \$11.1 million in consulting and legal fees and \$5.5 million in severance and other employee costs. It trimmed work force to 3,950 from 6,800 in 1999 as it sold off TV assembly plant in Juarez, Mexico (\$23.7 million) (TVD March 15/99 p13), network systems facility in Chihuahua (\$8.1 million), warehouse in Franklin Park, Ill. (\$3.1 million).

Zenith's CE sales fell to \$739.9 million from \$878.7 million year ago, and network systems, which includes cable and satellite set-top boxes and modems, to \$94 million from \$106.1 million. Downturn in CE sales was tied to what Zenith called "fierce competitive market actions" taken in response to its bankruptcy filing as well as delays in product introductions and decrease in projection TV. Decline in network systems was due to continued phaseout of analog STBs and cable modems, Zenith said.

Circuit City accounted for 14% of Zenith's revenues in 1999 (\$115 million). Sears, which represented 10% of revenues in 1998 (\$102.7 million), slipped below that mark last year, although exact figure wasn't announced.

Also included in revenues was \$1.7 million in royalties stemming from parent LG Electronics (LGE) agreement to ship VCRs direct to Sears and Circuit. Another \$500,000 came from LGE affiliate that paid license fee to sell products in Canada under Zenith brand.

On personnel side, senior Zenith executives have signed amended employment agreements that expire Dec. 31, according to

SEC filing. Former Pres.-CEO Jeffrey Gannon, who resigned in Nov., received \$548,077 salary in 1999, down from \$572,727 year earlier, but gained \$5 million bonus as part of severance pact. Under terms of contract, Gannon this year will receive \$698,077 in salary and \$1.1 million in guaranteed bonuses. Ian Woods, who replaced Gannon in Nov., was paid \$52,000 for two months.

Senior Vp-CFO Edward McNulty received \$280,952 in 1999, up from \$150,024, and \$531,542 bonus, while Senior Vp-Gen. Counsel Richard Vitkus was paid \$282,396 (\$275,018) and \$71,917 bonus. Payments under short-term incentive program, first implemented in 1998 as Zenith geared up for bankruptcy, totaled \$352,300 in 1999 for tier one executives including McNulty (\$78,142). Tier 2 executives were granted \$70,103.

Still pending at year-end was lawsuit filed by Funai in 1998 that seeks to have Zenith's tuner patents found invalid. U.S. Dist. Court, L.A., has denied Funai requests for temporary restraining order and preliminary injunction.

Zenith also is awaiting \$7.5 million payment from video-on-demand service Americast that has been held in escrow since 1998 pending its emergence from bankruptcy protection. Zenith, which signed 5-year agreement in 1996 to supply STBs for service, said it expects to record payment later this year. Fate of Americast, however, remains unclear amid indications that BellSouth is weighing dropping out of partnership in favor of launching low-power satellite service.

Investigation of Warrantech 4th-quarter earnings conducted by outside law firm found company didn't direct that adjustments be made before closing of books, report to SEC showed. While Warrantech's asst. controller raised questions during Ernst & Young (E&Y) annual audit on items in financial statements, accounting firm's "recollection" of statements wasn't accurate, making it impossible to "determine the exact nature of them," law firm Paul, Weiss, Rifkind, Wharton & Garrison said in report. E&Y and Warrantech parted ways last summer after disagreement over accounting method latter used for recognizing revenues. E&Y favored recognizing revenues over life of contract, while Warrantech used method that registered them at time of sale. Dispute resulted in Warrantech's missing SEC deadline for filing annual report. SEC's Chief Accounting Office said later that it didn't object to Warrantech's procedures as they applied to deal-obligor contracts that account for 63% of its revenues, Warrantech said. However, company is required to "exclude" from gross revenues premiums paid insurance companies. In addition to accounting dispute, Warrantech suffered through year in which it lost contract with CompUSA, its largest customer, and was creditor in bankruptcy of build-to-order PC company Proteva. During year, Chmn.-CEO Joel San Antonio saw salary rise to \$590,434 from \$557,865 year earlier, although bonus was slashed to \$1,600 from \$211,941. However, he was granted options for 400,000 shares at \$3.37, 43.2% of total

TOSHIBA TO ADD HD PRODUCTION: Toshiba said it will add new production line for high-definition (HD) and HD-ready TVs at Lebanon, Tenn., assembly plant.

New line will be able to handle sizes up to 65" and will be dedicated to digital TVs, Asst. Mktg. Vp. Scott Ramirez said. DTVs had shared line with analog sets. Production will start in July, with first sets to ship in Sept., he said.

Ramirez declined to disclose capacity of new line or how much Toshiba is investing in plant expansion. But 500,000-sq.-ft. factory, which has 5 direct-view and 2 projection TV lines, has overall annual capacity approaching 2 million sets (TVD Oct 10/94 p17).

Addition of line should help Toshiba ease what has been tight supply of DTVs, Ramirez said. Manufacturers were hit with shortage last fall and many conceded they had underestimated demand for HD-ready sets. Supply continues to be tight this spring, retailers said.



EchoStar invested \$50 million in satellite ISP iSky last week as it moved to round out 2-way broadband service that will expand Digital Sky Highway beyond entertainment programming. Under nonexclusive agreement, iSky will provide EchoStar subscribers with Internet access via Space Systems Loral-built Ka-band satellite. Bird will have 41 spot beams and is scheduled to launch to 109.2° W aboard Arianspace rocket from Kourou in 3rd quarter 2001. Service, which will be priced at \$30-\$40 per month, will require separate IRD and 26" dish fitted dual LNB to gain both Internet access and DISH programming, iSky Mktg. Vp Brad Greenwald said. It will be able to deliver programming and data at maximum 1.5 Mbps, although more likely scenario would 600-700 kbps, industry experts said. Speed will be roughly double that of Gilat-to-Home, which also has agreement to provide 2-way high-speed service to EchoStar via Ku-band satellite (TVD Feb 21 p19). Unclear is how 2 services will co-exist, although analysts said Gilat could be used for rural markets, while iSky handles urban areas. Isky is planning to use 2nd satellite for N. America at 111° W in 2002 and add separate bird at 73° W for Latin America, Greenwald said. In seeking to complete 2-way lineup, EchoStar is said to be in discussions with digital subscriber line (DSL) providers Covad Communications and Northpoint Communications. EchoStar spokesman wasn't available for comment. Separately, EchoStar said it will spend \$16 million to build customer service center in Christiansburg, Va. New 100,000-sq.-ft. center, which will employ 1,400, will be EchoStar's 5th following those in Colo., Pa., Tex. Construction is being funded in part by \$750,000 grant from Va. Governor's Opportunity Fund... **Pegasus Communications** filed with SEC last week to sell up to \$750 million in debt and equity. Pegasus, which provides DirecTV service to 1.1 subscribers, registered to sell common and nonvoting stock, senior debt securities, senior debt notes. Proceeds will be used for working capital and general corporate purposes. Pegasus, which also owns commercial TV stations, recently purchased rival Golden Sky for \$693.1 million (TVD Jan 17 p21).

Philips will post \$509.7 million after-tax gain in first quarter as result of selling 20% of holdings in fiber company JDS Uniphase. Philips said it retains 15.5 million shares and will sell them "from time to time" based on market conditions. It gained stake in sale of Philips Optoelectronics to Uniphase in June 1998. Uniphase later merged with JDS. JDS stock was trading at \$132 last week, down from 52-week high of \$153.

Palm rival Handspring filed March 31 to raise maximum of \$300 million in IPO. Handspring reported \$15.8 million in revenue in 6 months ended Jan. 1 and listed \$29.6 million in total assets. It had accumulated deficit of \$28 million since inception in July 1998 as of Jan. 1. Venture capital firm Kleiner Perkins Caulfield & Byers owns 12.4 million shares, while Benchmark Capital has 4 million. Largest shareholder is Jeffrey Hawkins, chief product officer, who owns 27.3 million shares (36.4%). He founded Palm and, along with Handspring CEO Donna Dubinsky, ran company until 1998. Palm was sold to 3Com, which since has spun it off. Handspring said it has more than 2,000 developers registered to create modules that can be snapped into expansion slot of Visor handheld PCs. Slot allows handheld to be transformed into cellular phone, digital camera, etc., via module. Handspring also began selling its Visor through Best Buy, CompUSA, Staples. It had sold handheld through own web site since fall... **Palm Computing** said income before one-time items was \$15.5 million, up from \$8.7 million year earlier, as sales more than doubled \$272.3 million from \$125.9 million. Including \$8.2 million in separation costs tied to spinoff from 3Com, Palm said income rose to \$10.9 million from \$6.6 million. Palm, which has sold more than 6 million handhelds since 1996, said it has 55,000 registered software programmers. Despite strong 3rd-quarter results, CFO Judy Bruner cautioned analysts in conference call that shortage of flash memory chips and LCDs brought on by demand for cellular phones could slow sales. Shortage is expected to last for several quarters, she said. Palm went public in March.

Displaytech will start delivering samples of 0.85" microdisplay with 1,280x1,024-pixel resolution for front- and rear-projection applications in Aug., Senior Field Operations Dir. Anthony Artigliere said. Display, which had been under development in joint venture with Hewlett-Packard (HP) that since has been absorbed by Displaytech, will have 60%-65% light efficiency and 150-200:1 contrast ratio, he said. While evaluation kit hasn't been priced, display will be \$250 in volumes of 5,000 units per month starting in first quarter 2001, Artigliere said. Original joint venture with HP (TVD Nov 9/98 p12) had targeted 0.85" display with 1,280x1,024 resolution that was to be available in 2nd half of 1999 at \$100-\$150 in high volumes. Despite consolidation of venture, HP retains stake in Displaytech that it gained via investments in Jan. 1998 and Feb. 1999. It also expects to start volume production of 0.19" microdisplay for digital camera viewfinder applications in April. Device will be priced at \$20 in annual volumes of "a few hundred thousand," dropping to \$15 when production hits one million. Microdisplay has 75 ft. lamberts and operates at 60 Hz, he said. Displaytech, which designed 0.75" panels for Samsung's 43W and 50W sets, also is developing microdisplays with 1,920x1,200 resolution for high-definition applications, although final details aren't expected for 3-6 months, Artigliere said. Miyota will assemble microdisplays for Displaytech at Nagano, Japan, factory using 8" wafers and starting at 250,000 unit annual capacity that will increase to 775,000-1 million by 2001, Artigliere said. While HP also had been expected to supply silicon for displays, it currently is one of "several" under consideration, he said. HP had supplied silicon from Ft. Collins, Colo., plant.

Camcorder with printer will be unveiled in Japan by Sony this month. New DCR-TRV 820K (\$1,750) is Digital8 model that records digital video and stills on conventional 8mm or Hi8 tape. Images for printing are stored on MemoryStick card. Built-in thermoelectronic color printer's resolution is 254 dots per inch.

NATM GROUP TIGHTENS: Slimmed-down version of NATM Buying Group is moving to tighten ties to core and key suppliers as it seeks recognition as national retail organization.

NATM, which cut 4 dealers from its ranks earlier this year, is enforcing rules that require members to forecast and meet buying commitments to its core CE vendors Sony, Thomson and Toshiba, members said at meeting in Tucson last week. Stepped-up enforcement is largely result of fact that 5 NATM members account for 60% of group's estimated \$3 billion in annual sales and are able to bring others in line, members said. Handy Andy, Queen City, Vann's and Video Only left group earlier this year, slimming ranks to 13 chains from 17. NATM has no immediate plans to add members, although officials concede they lack representation in Boston, N.Y.C. and West Coast markets.

"We're asking manufacturers to look at us as an entity similar to the national retailers, which is why we want to keep the membership numbers at a manageable level," said Jerry Throgmartin, pres. of Indianapolis-based H.H. Gregg and NATM. "This means that when we say we can do something for a vendor, we can do it and they get the same level of support in Indianapolis that they get in Philadelphia, Houston or Detroit."

In effort to focus on core CE suppliers as well as those considered key, NATM cut number of vendors invited to annual spring meeting, limiting list to those that sell products to majority of members, Throgmartin said. In past, NATM had invited range of vendors including build-to-order PC companies such as Proteva, phone provider Sprint and off brands Barron America and Affinitas Electronics.

NATM, in first meeting since William Trawick replaced Saul Gold as executive dir., also dispensed with some traditions including annual vendor awards and added seminars on DVD, home networking and interactive TV and Internet Service Providers.

"We've set out to focus on executing our business plan as a group and making the members more cohesive, consistent and viable for vendors, and that hasn't always been the case in the past," executive of NATM member said.

Part of NATM's evolving business plan is setting e-commerce strategy. While some members such as Abt Electronics, American TV and R.C. Willey have begun business, others are developing one. Cowboy Maloney's Electric City has hired 24/7 Showroom to create e-commerce site and plans rollout later this year. ABC Warehouse said it will plunge into e-commerce business within 90 days as it installs kiosks that give stores link to Web site. Others such as BrandsMart have no plans for e-commerce, preferring instead to add to Web site features like ability to check on deliveries and/or product repairs. NATM itself is weighing creating "umbrella" site that would have links to individual members, Throgmartin said.

"I have yet to see anybody make any money selling electronics and appliances on the Internet," BrandsMart Pres. Michael Pearlman said. "I think you make money on the Internet if you do a small amount of volume, but also drive volume to your stores."

In products, Throgmartin said video, led by DVD players and digital TV (DTVs), was strong seller in 1999, al-

though latter remains in short supply. Audio category sales also grew, although not in "huge numbers" that were logged by video. Audio components remained slow seller, although shelf systems and audio packaged in home theater systems and/or big screen TVs were exceptions, NATM members said. MP3 players also have been slow in making inroads with NATM members.

"We want to participate in those businesses, but if we convert our stores to where we're exciting to a younger audience, we may lose older customers, and we're not willing to make that trade today," Throgmartin said.

NATM members also are continuing to carry PCs, although some said they have scaled back assortment. Two members — Abt and Bernie's Audio/Video — don't carry any models. PCs accounted for 12% of NATM's combined sales in 1999 and many dealers said they carry them largely to accommodate consumers.

NATM members also are seeking access to program offering \$400 rebate on PCs equipped with Microsoft Network Internet software, but so far have been rebuffed. Program is limited to national retailers, including Best Buy and Circuit City, and isn't likely to change despite entreaty to Microsoft's Bill Gates by investor Warren Buffett, whose Berkshire Hathaway firm owns Nebraska Furniture Mart and R.C. Willey. "I think as time goes by it will change, but they're starting with the nationals and then they will get down to the regionals," NATM dealer said.

NATM Notes: BrandsMart will open 4th store in Miami-area this month and plans to add another in June 2001. Chain acquired 20-acre tract for new 100,000-sq.-ft. Kendall, Fla., outlet year ago (TVD May 31 p15). W. Palm Beach location for 5th store was purchased as part of settlement of lawsuit. BrandsMart sued developer D.R. Lakes (TVD Nov 23/98 p19) alleging it had breached contract to sell 17.9-acre parcel by negotiating with another company for higher price. BrandsMart had said it had contract to buy property for \$5.5 million and planned 110,000-sq.-ft. store... **ABC Warehouse** will open 2 stores this month, expanding to 36. Among new outlets is Marysville, O., location that had housed Sun TV, which filed for bankruptcy and liquidated in 1998 (TVD Dec 7/98 p19). It also opened store in former Sun location in Finley, O., in Nov. ABC said it would open 3rd store in fall... **Bernie's Audio/Video**, moving to tighten hold on Springfield, Mass., market will open new store, its 12th, in Holyoke in June and will add another in New Bedford area in 2001... **Cowboy Maloney's Electric City** may postpone opening of new Gulfport, Miss., outlet as it awaits Eckerds to finish clearing out store, Exec. Vp Eddie Maloney said. Cowboy Maloney's had planned to open 10,000-12,000-sq.-ft. store this spring (TVD Jan 10 p12). Chain had weighed entering Gulfport several years ago, but settled on Biloxi, Miss... **Conn's** will add 2nd store in Baton Rouge and another to 16-store base in Houston this year, and is said to also have sites in New Orleans and Dallas markets. Former, home to both Circuit City and Best Buy stores, has lacked major regional chain since Campo's closed in 1998. It has focused largely on 18,000-25,000-sq.-ft. stores.

Clarification: Patents for optical DigiCard (TVD March 27 p21) were established by Singapore-based Nexxt Media. JVC owns patents to technology that creates hybrid CD-ROM card with recordable area.

OPENTV TO BUY SPYGLASS: OpenTV has agreed to buy Spyglass in stock deal valued at \$2.5 billion that will give interactive TV software company long-sought access to U.S. cable market.

Under proposed purchase, Spyglass shareholders would receive 0.7236 OpenTV Series A ordinary shares in exchange for each share of Spyglass common. Acquisition, expected to close in 3-4 months, values Spyglass at \$122.28 per share, 75% premium to Spyglass' closing price of \$69-7/8. Spyglass shares rose \$12-1/2 on news of proposed sale to \$91-15/16 while OpenTV plunged \$31-61/64 to \$129-3/64.

For OpenTV, which is expected to deliver its interactive software for EchoStar's Digital Sky Highway (DISH) satellite service later this year, acquisition will give it access to cable market that so far had eluded it. OpenTV, which had planned to have DISH service online in first quarter (TVD Sept 20 p17), is providing data services such as news and weather along with interactive ads. Spyglass, which got its start developing Web browser software, has alliances with Sony for digital set-top box (STB) being built for Cablevision as well as Worldgate, which provides interactive services for Charter Communications. General Instrument is investor in both companies.

"Combined, we will be able to leverage the content, communications and e-commerce capabilities of the Internet," OpenTV CEO Jan Steenkamp said. "This will provide a broader solution which will increase royalty revenues."

Purchase also will allow OpenTV to broaden reach into wireless market that includes cellular phones and handheld PCs. Spyglass, which markets Prism software that reformats standard Web content for display on STBs, mobile phones and other non-PC devices, has agreement with Nokia for wide area protocol (WAP) browser. First products combining OpenTV and Spyglass software are expected by year-end, Steenkamp said. Spyglass will maintain offices in Ill. and Cal. and CEO Douglas Colbath will direct wireless business group.

Companies also will work to develop software for new generation of wireless phones capable of displaying video, Steenkamp said.

Acquisition is OpenTV's first major move since going public last fall (TVD Nov 1 p13). MIH Holdings remains largest investor with more than 60% stake, while Sun Microsystems holds 19%. OpenTV has base of 6.1 million STBs worldwide, including British Sky Bstg. (BSkyB) in U.K. and Television Par Satellite service in France. EchoStar's DISH network is expected to add 700,000 to total.

OpenTV has long history in interactive TV, having been formed in 1995 as joint venture of Thomson and Sun. Thomson later reduced stake (TVD Sept 15/97 p19) and eventually sold it, but Sun kept 19%. Spyglass, meanwhile, was early entrant in Internet market when it built browser-based Mosaic software developed at U. of Ill. Browser later was overtaken by Netscape's Navigator.

As OpenTV was announcing Spyglass purchase, rival Liberate Technologies was keeping pace. Liberate, former network computing division of Oracle, paid \$561 million to buy Morecom, based in Horsham, Pa., which develops technology to merge digital video with Internet content. Both

companies are building vast array of technologies for interactive TV market that remains largely in its infancy. Liberate's most recent major win has been as interactive software supplier for AOL TV service that's scheduled to start on DirecTV this summer.

Infogrames posted improved earnings and sales last week for first half 2000. French interactive game giant said income rose 81% to \$18.1 million on 65% sales increase to \$276.8 million for period ended Dec. 31. Company, parent of Infogrames N. America, credited improved performance to successful debuts of new titles including *Mission: Impossible* and *Test Drive 6* for Sony's PlayStation (PS), strength of games from company's overall catalog, economies of scale through reduced production costs, improved product mix, especially on PC titles. Infogrames said it expects to double net revenue in year ending June 30 from \$316 million it reported for 1999. It said new titles to ship in 2nd half include *Duck Dodgers* for Nintendo 64 (N64), *Looney Tunes Collector: Alert* for Nintendo's Game Boy Color (GBC), *Beetle Buggin'* for PC, *Test Drive Le Mans* for PC and PS. Infogrames N. America began shipping *Worms: Armageddon* for N64 late last month and *Test Drive Le Mans* for PC at \$29.95 last week in U.S. Versions of *Test Drive* will follow in early May for PS and June for GBC. Titles to be shipped in summer include *Hogs of War* for PS. In other Infogrames news, British press report last week said Gauntlet "has emerged as the front-runner in the bid to sign up the exclusive distribution rights to the Infogrames portfolio" in U.K. Infogrames has been using Centresoft while its recently acquired GTI has been relying on various firms, but Infogrames since has restructured its U.K. operations and now apparently is considering its options.

Interplay revenue increased to \$27.3 million in 4th quarter ended Dec. 31 from \$20.6 million year ago. But interactive software publisher based in Irvine, Cal., said revenue for year dropped to \$101.9 million from \$126.9 million. Although Interplay managed to narrow loss to \$7.8 million from \$16.6 million in quarter, loss for year widened to \$40 million from \$28.2 million. Among factors it said contributed to losses was inability to ship 2 of major releases — *Giants* and *Messiah* — in 1999 and delay of *Torment* until late Dec. Interplay also said product returns and allowances in first 3 quarters of 1999 for previously sold product far exceeded its expectations. Interplay CEO-Chmn. Brian Fargo said: "1999 will go down as a year when Interplay was able to change course 180 degrees and develop into a new company." But he admitted it "came up short of our goal of returning to profitability within the year." He said "our principal operating goals for 2000 are to leverage our strengths as new platforms are introduced and to increase our console focus to be more balanced as a publisher and developer." Games that Interplay plans to ship in first half include *Caesar's Palace 2000*, *Evolva*, *Icwind Dale*, *Messiah* and *Star Trek: Klingon Academy* for PC; *MDK 2* for PC and Sega's Dreamcast; *Caesar's Palace 2000 II* and *Gekido* for Sony's PlayStation. Titles for 2nd half will include *Baldur's Gate II: Shadows of Amn*, *Giants: Citizen Kabuto*, *Star Trek: New Worlds* and several games for PlayStation2. Interplay's OEM division recently said some of its new titles will fully utilize latest 3D technology from Nvidia.

Toys "R" Us started advertising spring holiday promotion in circulars offering consumers \$5 off and free shipping on on-line purchase of \$50 or more at its e-commerce Web site, Toysrus.com. Offer runs through April 9.

CDNOW FUTURE IN DOUBT: CDNow attempted damage control last week after reports drew attention to statements made by company itself as well as its independent public accountant in annual SEC filing that raised questions about its future.

Latest woes for CDNow followed announcement last month that its proposed merger with Sony-Time Warner's Columbia House direct marketing joint venture had been terminated (TVD March 20 p16). That development led to drop in company's stock price, but last week's development sent CDNow stock plummeting even further, about 31% on March 29 to \$3.50. In 1999, company had traded at highs of \$24.94 on Nasdaq in first quarter and \$18.13 in 4th quarter.

In filing, CDNow said "its current cash and cash equivalents are sufficient to meet its payment obligations until approximately September 30." Although it said it "is actively seeking third party financing or another merger transaction," CDNow admitted it "cannot assure that it will be able to obtain the financing necessary to continue supporting its business" beyond that.

CDNow also included letter by Arthur Andersen, its independent public accountant, that said "the company has suffered recurring losses from operations, has a working capital deficiency and significant payments due in 2000 related to marketing agreements that raise substantial doubt about its inability to continue as a going concern."

After reports singled out Andersen's comment, company issued news release in which it said Andersen's information "was based on news reported by CDNow" itself before filing and its "auditors were obligated to issue a qualified opinion" on CDNow's future. As it continues to seek new financing or merger possibilities, company said it "plans to significantly reduce its operating expenses during the quarter by almost one-third."

CDNow Pres.-CEO Jason Olim also issued statement in which he said: "CDNow is one of the strongest franchises on the Internet. We are clearly an Internet leader and the online music leader." To back that up, he referred to Media Metrix numbers for Feb. that said its customer base increased to 3.5 million from 3.2 million in Dec. and reached 8.1% of total Web users, which he said makes his company "5th largest shopping site and the only all-music site among the top 10 sites on the list."

PD Data Online Internet Research Analyst Cameron Meierhoefer provided us with positive CDNow figures for Feb. and March. He said his research indicated that CDNow had topped "Amazon for the first time in terms of buyers, which was quite a surprise." CDNow also referred to PC Data's findings to back up its claim that it's setting traffic records.

But many industry observers question how CDNow can survive — regardless of its sales and traffic — without much-needed financial backing. It said its sales had increased to \$147.2 million in 1999 from \$56.4 million year earlier, but its loss expanded to \$119.2 million from \$43.8 million.

THIS WEEK'S YEN RATE

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

High-definition channels "are proving very popular" among DirecTV subscribers, Senior Exec. Vp Eddy Hartenstein told SkyForum attendees in N.Y.C. last week via satellite. But he said real "breakthrough" for HDTV won't come until there's more programming. "When it comes to the game of the week in every other major sport and then 2 games of the week in high-definition, we plan to be there," Hartenstein said. "We will expand the number of channels of high definition that we carry as soon as the market content is available and we expect to have that happen here as the year goes on." DirecTV currently has 2 channels offering high-definition programming, he pointed out. Hartenstein commented on variety of other issues last week as well, among them his company's plan to reorganize once his successor is named, saying: "I think it's safe to say that in the next 6 to 8 weeks we'll have an announcement on this subject — who might come on and how else we might reorganize these different functions within DirecTV." Hartenstein also once again took opportunity to criticize Echostar's anti-trust suit against it (TVD Feb 7 p10), calling it "without merit." He also said AOL TV and other advanced, interactive services are on track for launches this year. (See separate report, Bcst.-Cable section.)

More than 900,000 custom CDs were produced and shipped by Musicmaker.com in first quarter, which company said was 3,000% jump from 4th quarter 1999. Musicmaker.com Pres. Larry Lieberman credited Jimmy Page/Black Crowes and Beastie Boys custom CD promotions, "as well as business-to-business events," for growth. Company also said last week that Page/Black Crowes song *What Is and What Should Never Be* that is part of promotion had made history by hitting number 6 on Radio & Records rock chart, which company said makes it first e-tailer to generate hit radio single. Musicmaker.com last week finally made details of its upcoming custom CD promotion official: Promotion will indeed be in conjunction with Pepsi as we previously reported and will start in May (TVD March 20 p14). Musicmaker.com said it expects to produce 3-5 million custom CDs for promotion, which will be backed by \$15 million TV ad campaign.

Tandy will receive 75% of profits and losses of RadioShack.com while partner Microsoft gets 25%, retailer said in annual 10K report to SEC. Microsoft invested \$100 million in RadioShack.com (TVD Nov 15 p10) and while Tandy owns all common units of Internet business, software giant has preferred units that can be converted to common. Tandy has said it may spin off part of RadioShack.com, which is scheduled to begin in 3rd quarter. Web site will receive premiere placement on Microsoft Network and online shopping service eShop. Microsoft also is developing store-within-store format for RadioShack stores. Elsewhere in 10K, Tandy-controlled A&A International, which buys products manufactured in Asia for Intertan, said sales and commissions declined to \$5.7 million from \$7.5 million year earlier, while royalties rose to \$7.2 million from \$5.5 million. Intertan has license for RadioShack name in international markets and operates chains in Australia and Canada. It sold off operations in U.K. in 1999. Meanwhile, tornado that swept through downtown Ft. Worth March 28 damaged Tandy Towers and Tandy Technology Center, although no injuries were reported. Damage, mostly involving broken glass, was estimated at \$2 million, Tandy said. There was no structural damage to 3 buildings that comprise Tandy complex, it said.

British Video Assn. (BVA) said DVD is fastest-growing and most popular electronics category in U.K. Group said 822,000 DVD movie titles were sold in Feb. — volume greater than entire first 6 months of 1999. Software sales in first 8 weeks of 2000 exceeded total for first 8 months last year, BVA said. Top selling Feb. title was *The Mummy* (Universal Studios Home Video), which sold 74,000 copies in first week, surpassing Warner Home Video's *The Matrix*. DVD now accounts for 20% of video revenue, BVA said. Group estimated U.K. Feb. hardware sales at more than 20,000 players and installed base at 300,000 — double tally at end of Nov. 1999. Quarterly survey of consumers' buying intentions for next 2 years found DVD players at top of wish list, with 20% of U.K. adults saying it's next technology purchase they will make. Digital TV set-top — highly-subsidized commodity in U.K. — came in 2nd with 15% intent-to-buy.

Rambus asked U.S. International Trade Commission to investigate what it charged were unlawful imports into U.S. by Hitachi and Sega. Rambus, technology company based in Mountain View, Cal., said it was looking to stop importation and sale of Hitachi SDRAM and DDR SDRAM memory products, select Hitachi SH series microprocessors and Sega Dreamcast consoles that use same SH microprocessors. Rambus said products in question infringed on its U.S. patents. Sega spokesman declined comment, but Hitachi official said his company responded to complaint with answer and counterclaim in same Del. court where Rambus filed suit against Hitachi. He said that "in the answer, Hitachi has denied allegations of Rambus" and questioned "validity, enforceability and noninfringement of the Rambus patents." In counterclaim, he said, Hitachi is asking for "money damages and [for govt.] to invalidate Rambus's patent" based on federal antitrust laws Hitachi believes Rambus has broken.

S3 is mulling sale of PC graphics chip business as it seeks to shift focus to Internet devices. Among likely candidates is Via Technologies, which quietly has bought 13% stake in S3 (13.1 million shares) and "continues to have discussions" with company on acquisition "of all of, or an interest in," graphic accelerator business. Via, which bought Cyrix microprocessor business from National Semiconductor last year, purchased 1.3 million shares of S3 stock in Sept. for \$14 million and added 10 million shares (\$145 million) in Feb. S3 hired Lehman Bros. in Jan. to explore options for splitting Internet device business, which includes Rio MP3 players, from graphics chip operations. S3 acquired Rio business in buying Diamond Multimedia for \$160 million year ago (TVD June 28 p14)... Nvidia filed at SEC last week to sell \$400 million in debt securities and common stock. Proceeds are to be used to fund growth of business, move to new facilities, general working capital.

Three-Five Systems is asking shareholders to increase number of shares outstanding to 60 million from 16 million, it said in prospectus for April 27 annual meeting. Pres.-CEO Jack Saltich, who replaced founder David Buchanan in July, received \$141,538 salary, \$128,997 bonus, \$266,668 options at \$12.51 each. His annual base salary is be \$320,000. Buchanan's salary dropped to \$326,154 from \$346,037 year ago. Finance Vp Jeffrey Buchanan's salary rose to \$190,000 from \$162,864 and bonus to \$148,770 from \$52,500.

Take-Two Interactive (TTI) said it's planning public offering for its recently formed Broadband Studios subsidiary (TVD March 20 p20) in Europe. It said it expects to complete offering within 6 months. Move is latest attempt by interactive software company based in N.Y.C. to enter online game arena aggressively.

Sega signed exclusive agreement with San Francisco Giants that allows it to construct interactive gaming complex inside new Pacific Bell Park. Sega said complex — "Sega Sports at Centerfield" — will begin April 28 and be open for all Giants home games this season. Sega also said its new Dreamcast games shipping in U.S. include *Time Stalkers* and first soccer title for console — *Virtua Striker 2* — each at \$49.95. Capcom is shipping *Resident Evil Code: Veronica* for Dreamcast at \$49.95. At our deadline, Sega also announced it had signed agreement with Activision to publish id Software's *Quake III Arena* for Dreamcast — first time popular PC game is being made available to any videogame console. Sega version is being developed by Activision and Raster Productions and will ship later this year. Sega said those using PC version of game would be able to play those using console via Sega Dreamcast Network. Company also said last week it had signed Boston Red Sox pitcher Pedro Martinez as spokesman for its *Sega Sports World Series Baseball 2K1* game shipping later this spring.

California Amplifier (CA) has agreed to pay \$2 million and issue 187,500 shares of common to settle shareholder class action suit. Coupled with payment of another \$1.5 million by DBS component supplier's insurance company, total settlement will be \$11 million. About \$9.5 million of that will be recorded as pretax charge against fiscal 4th-quarter earnings, it said. CA said it's seeking another \$2 million from insurance carrier to reduce charge. CEO Frederick Sturm said that while CA had "meritorious defenses," complexity of case combined with claims seeking more than \$100 million made it "extremely difficult for many jurors to decide" and outcome "unpredictable." Among other things, CA supplies LNBs and feed horns to satellite market.

RealNetworks began Real.com Games service last week at real.com/games. Service allows consumers to download PC games — some of them exclusive titles — from various developers. It said it signed distribution agreements with developers, including Fiendish Entertainment, Gamescape Studios, Lokasoft, MasterWorks Software, Mountain King Studios, Reflexive Entertainment. RealNetworks said its deals with LithTech and NonStop Entertainment are multititle exclusives. RealNetworks also announced milestone — more than one billion songs have been recorded or played by users of company's RealJukebox digital music software.

Consumer intentions on buying TV sets rose slightly in March from Feb., according to preliminary data in Conference Board monthly survey. Of 5,000 households polled, 7.3% said they plan to buy TV set in next 6 months, vs. 6.9% in Feb., 6.6% in Jan., 8.1% in March 1999. Consumer Confidence Index in March fell for 2nd straight month. Conference Board said optimism about current economic conditions "continues at high levels." However, it said consumers "have turned cautious about prospects" for next 6 months.

Bandai signed deal with Lucent Technologies as part of attempt to gain U.S. foothold for its mobile WonderSwan handheld game devices and wireless online services. As part of deal, Japanese toy giant Bandai said it will use Lucent's network infrastructure to distribute game software online and will receive Lucent's help in marketing game machines through U.S. mobile phone service providers. But despite Lucent's strong presence in U.S. market, Takashi Oya, Deutsche Securities analyst, told Reuters last week: "WonderSwan is not as competitive as Nintendo's [Game boy] and it's tapping the U.S. market is likely to have a very limited impact."

Hauppauge Digital (HD), hampered by slow sales of its digital TV tuners for PCs, said earnings for fiscal 2000 2nd quarter would be 2¢ (\$200,000), short of analysts' 12¢ projections. HD stock plunged 45% on news of shortfall, which came just days after it hit 52-week high of \$48-1/2 March 27. Sales are expected to hit \$19 million, it said. Gross margin is expected to shrink to under 20% from 27% year ago as slow sales of digital tuners (\$250) resulted in more revenues' being derived from less profitable analog models (starting at \$49), CEO Kenneth Plotkin said. WinTV-D tuners produced less than 5% of revenue in fiscal first quarter, but comparable figure wasn't available for current quarter. Digital tuner sales slackened despite promotion at Best Buy priced product at \$250. OEM sales remain "small piece of the volume" as PC makers prove hesitant to include features that add cost to low-priced product, company said. "Sales to date haven't met expectations and didn't contribute in a meaningful way to revenues and profits," Plotkin said. Nevertheless, he said he "anticipated a ramp" in digital TV product sales "over the next several quarters." HD plans to expand retail distribution of WinTV digital tuner cards in fiscal 3rd quarter and begin value-added services that will be used as hedge against downturns in retail market.

Universal Electronics is using Internet to recode its One for All Model 6 remote controls to prevent them from becoming obsolete. Remote has 32 Kb ROM chip to store codes for all devices known at time of manufacture, and 2 Kb of EPROM that can store codes for any new device user wants to control. Universal's Web site (oneforall.com) now will have library of all known codes, updated daily for new devices. When owners of Universal remote want to add code for new device, they can search for unit on Web site and hold remote near PC's loud-speaker as database warbles coded signal that updates remote's EPROM. Web site already is being tested with limited codes and goes live with full library in midmonth. Model 6, now available worldwide, is Internet-ready even through instruction manual doesn't yet say so.

CEA DTV definitions committee disbanded technical working group last week as it continued to struggle to reach agreement. 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, briefed committee in Feb. It recommended, among other things, that minimum standard be set for HDTV resolution (TVD March 6 p16). "I think we got closer," said committee member who declined to disclose contents of March 30 meeting in Chicago. "While there is definitely some disagreement on what is digital TV and how we qualify it, there has been some progress." While standard definition and widescreen HD set requirements are clear, "all the argument is based on is 4x3 HD sets and how we judge and rate them," committee member said. With working group having completed report, members will continue discussions via e-mail with no new meeting date set, committee members said.

Macrovision will add to its Digital Rights Management (DRM) technology business on completion of acquisition of Globetrotter Software, San Jose-based company with unaudited 1999 revenue of \$15 million. Macrovision signed letter of intent to acquire company for 11.2 million shares of Macrovision common stock — about 28% of its outstanding shares, worth about \$861 million — plus assumption of Globetrotter's unvested stock options. Acquisition will add business software clients to Macrovision's consumer product base.

MGI Software reported 4th-quarter loss grew to \$7.3 million from \$1.6 million year earlier as it digested recent acquisitions. Sales more than doubled to \$12 million, with e-commerce imaging software accounted for 71% of revenue and digital video business 29%. Video business, which includes Pure Diva MPEG-2 software codec, posted increase in sales to \$3.5 million from \$951,000. U.K. retailer Dixon licensed Pure Diva in quarter for house brand Advent PCs (TVD Jan 31 p15). MGI also has signed licensing pact for Pure Diva with NEC for PC/TV graphics card. MGI expects to generate first revenues from PhotoSuite composition and editing software in June-July and recently signed pact to package it with Sony's digital cameras. It also said it was developing PhotoSuite as built-in feature on digital camera chip being designed by Zoran and would reconfigure it for wireless phones. Gross profit margin slid in quarter to 81% from 85% on increased royalty costs and shift in product mix. Sales and marketing expenses rose in quarter to \$6.2 million from \$3.4 million.

TradeOut.com, business-to-business Internet site that has alliance with CEA, posted \$18.7 million loss in year ended Dec. 31 on \$828,000 revenues from 230 companies that sold surplus inventory through site, it said in initial public offering (IPO) prospectus. Cost of revenues was \$529,000, producing \$299,000 gross profit. CE products are but one component of site that also carries PC items, health and beauty, food and beverage, power and utility equipment. TradeOut had 12,700 registered users as of Dec. 31, with more than 8,400 items listed on site representing \$979 million in business surplus, it said in SEC filing. Two companies — Infinergy and Denergy — accounted for 66.9% of total revenue. Among TradeOut's shareholders is online auctioneer eBay, with 2.27 million shares and GE Capital Equity Investments, 2.7 million. eBay CEO Margaret Whitman, who sits on board, owns 6,675 shares. Tie to GE Capital, which has remarketing business for used and surplus goods, requires it "encourage" business units to post assets on TradeOut site. TradeOut Chmn.-CEO Brian McCragg owns 7.4 million shares, drew \$178,325 salary.

Eidos warned that its financial results for year ended March 31 would fall substantially below last year because of dropping consumer demand for current game titles amid transition to new game platforms, Reuters reported. Company's shares dropped 37% to 13-month low after announcement but started up again last week. London-based game publisher said it was delaying shipments of various titles, including *Tomb Raider* for Nintendo's Game Boy Color, *Daikatana* and *F1 World Grand Prix* for PC, *Nomad Soul* for Sega's Dreamcast, until first quarter 2001. Eidos also said it was selling 1.14 million shares of its 1.47 million in Norwegian data storage company Opticom. Company will report actual results last week of May. Games that company's Eidos Interactive division is shipping in U.S. include *Sword of the Berserk: Guts' Rage* and *Tomb Raider: The Last Revelation* for Dreamcast. Company announced last week that it would continue to support Dreamcast with more than 9 titles this year. Among other titles are *Commandos 2*, *Legacy of Kain: Soul Reaver 2*, *102 Dalmatians*, *Sydney 2000 Olympic Games*, *Walt Disney World Quest: Magical Racing Tour*.

Budget line of games for current PlayStation priced at \$12.54 will start shipping from Midas Interactive this summer, British press said last week. Latest PS1 games on tap for U.S. market include *Speed Punks*, shipping April 18.

Consumer Electronics Personals

Zenith changes: **Richard Vitkus**, senior vp-gen. counsel, retires, succeeded by **Beverly Wyckoff**, senior counsel; **Drew Pragliola**, field sales vp, resigns, plans unknown; **Edward McNulty**, senior vp-CFO, will leave later this year, replaced by **H.I. Jo**, ex-LG Electronics strategic planning & auditing vp-home appliances division... **Glenn Kephart** resigns as Kopin mktg. vp, plans unknown... **Anthony Artigliere**, Displaytech senior sales & mktg. vp, promoted to senior field operations vp... **Carl Gish** and **Kirk Koenigsbauer** appointed Amazon.com gen. mgrs. for electronics and software and videogames, respectively... **Kenney Roberts**, ex-Cirrus Logic, named Colorado Microdisplays pres.-COO, replacing **Mark Willner**, who remains CEO... Appointed at Sonance: **Dennis Locke**, ex-Nobel Biocare USA, as vp-finance; **Steven Howell**, ex-Smart Corp., as product specialist, new post... **Walter Beckman**, Skillman Foundation, elected to Handleman board; **Hamutal Raab**, dir., Zoran human resources, promoted to vp... **Joseph Zils** named Optical Coating Laboratory (OCLI) pres.-COO, replacing **Charles Abbe**, who shifts to senior operating officer at OCLI parent JDS Uniphase... **Yoav Cohen**, Bogen Communications senior vp-CFO, resigns to join venture capital firm... Elected to Hyundai Electronics board: **Chang-rok Woo**, law firm Woo, Yun, Kang, Jeong & Han; **Yong-wook Jun**, Chungang U. business administration professor; **Young Sohn**, Oak Technology pres.-CEO... **Sergio Zyman**, ex-Coca-Cola, named to MGI Software board... **Gregg Armstrong**, Starfish Software vp-strategic planning & mktg., promoted to COO.

After being hit with copyright infringement suit by RIAA (TVD Jan 24 p21), MP3.com is being sued by Paul McCartney's publishing company, MPL Communications, also for copyright infringement. MP3.com spokeswoman declined comment last week. Separately, MP3.com said it has become shareholder in PacketVideo, developer of MPEG-4 compliant software that for delivery, management and viewing of full-motion audio and video over wireless networks on mobile information devices including Web-enabled cellphones, handheld devices, laptop computers, personal digital assistants (PDAs). MP3.com Chmn.-CEO Michael Robertson said in statement: "The delivery of music via wireless technologies is a logical extension of our Music Service Provider concept of consumers' being able to access their music from everywhere." He added that "investment brings us to a total of \$56 million we have invested in several key software, hardware, marketing and technology companies." MP3.com also said it signed agreement with Tickets.com to develop integrated ticketing services and music event guide for each company's respective customers.

4Kids Entertainment income and revenue jumped in 4th quarter and year ended Dec. 31. N.Y.C.-based company said revenue climbed to \$34.9 million in quarter from \$7.4 million year earlier while income soared to \$14.1 million from \$1.9 million. For year, company's revenue increased to \$60.5 million from \$14.8 million and income to \$23.6 million from \$2.7 million. Commenting on results, CEO **Al Kahn** said "Pokemon continues to be a driving force behind our record growth." He said company anticipated "continued growth for the year 2000." 4Kids has rights to license Nintendo's Pokemon worldwide excluding Asia. CFO **Joseph Garrity** said company plans to use capital gained last year "to enhance our library of properties through the acquisition and development of additional content," although he didn't provide specifics.

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
Best Buy			
2000-year to Feb. 26	12,494,023,000	347,070,000	1.70
1999-year to Feb. 27	10,064,646,000	216,282,000	1.09
2000-13 wk. to Feb. 26	4,314,615,000	163,805,000	.81
1999-13 wk. to Feb. 27	3,456,030,000	108,807,000	.54
Bogen Communications			
1999-year to Dec. 31	58,487,000	3,500,000	.52
1998-year to Dec. 31	52,103,000	342,000	.. ^a
1999-qtr. to Dec. 31	16,159,000	316,000	.05
1998-qtr. to Dec. 31	12,717,000	222,000	.03 ^a
CD Warehouse			
1999-year to Dec. 31	31,912,276	(1,141,132)	..
1998-year to Dec. 31	15,261,903	775,352	.27
1999-qtr. to Dec. 31	9,656,521	(635,387)	..
1998-qtr. to Dec. 31	5,340,783	307,914	.09
Corning			
1999-year to Dec. 31	4,812,500,000	515,800,000	2.02 ^a
1998-year to Dec. 31	3,921,600,000	421,300,000	1.72 ^a
1999-qtr. to Dec. 31	1,380,500,000	150,400,000	.58 ^a
1998-qtr. to Dec. 31	1,060,200,000	109,800,000	.45 ^b
Emmis Communications			
2000-year to Feb. 29	325,265,000	(33,000)	.. ^a
1999-year to Feb. 28	232,836,000	1,248,000	.04 ^a
2000-qtr. to Feb. 29	80,127,000	(3,946,000)	.. ^a
1999-qtr. to Feb. 28	58,704,000	(6,116,000)	..
Infogrames Entertainment^c			
1999-6 mo. to Dec. 31	276,800,000	16,300,000	1.19
1998-6 mo. to Dec. 31	168,700,000	10,000,000	.80
Matsushita Electric			
1999-9 mo. to Dec. 31	5,459,428	94,722	..
1998-9 mo. to Dec. 31	5,830,196	29,803	..
1999-qtr. to Dec. 31	1,866,736	60,656	..
1998-qtr. to Dec. 31	1,938,354	20,295	..
MGI Software^d			
2000-year to Jan. 31	30,840,000	(20,435,000)	.. ^a
1999-year to Jan. 31	15,962,000	(8,451,000)	..
2000-qtr. to Jan. 31	11,973,000	(7,246,000)	.. ^a
1999-qtr. to Jan. 31	5,331,000	(1,591,000)	..
Sound Advice			
2000-year to Jan. 31	177,349,000	6,526,000	1.74
1999-year to Jan. 31	152,124,000	707,000	.19
2000-qtr. to Jan. 31	58,934,000	4,065,000	1.08
1999-qtr. to Jan. 31	52,217,000	705,000	.19
Tech Data			
2000-year to Jan. 31	16,991,750	127,501	2.47 ^b
1999-year to Jan. 31	11,528,999	128,952	2.59 ^b
2000-qtr. to Jan. 31	4,779,555	37,057	.71 ^b
1999-qtr. to Jan. 31	3,852,971	36,480	.71 ^b
Zenith Electronics^e			
1999-year to Dec. 31	833,900,000	6,100,000	.. ^f
1998-year to Dec. 31	984,800,000	(275,500,000)	..
1999-qtr. to Dec. 31	238,100,000	65,100,000	.. ^f
1998-qtr. to Dec. 31	309,700,000	(87,700,000)	..

Notes: ^aAfter special charge. ^bIncludes special credit. ^cConverted from Euros at current rate. ^dIn Canadian dollars. ^ePer share data not available. ^fIncludes special items.

Sensory Science (SS) will bring its dual-deck technology to DVD market in fall with combo DVD player/4-head hi-fi VCR that ships in Sept. at \$400, Senior Sales & Mktg. Vp **Ralph Palaia** said. Go-Video branded device, first shown in design form at CES, will be built by Samsung in S. Korea. Unit will have component, composite and S-Video outputs to TV and navigational features via universal remote common to DVD players, but DVD can't be copied to VCR, company said. Separately, SS is hiring 8-10 sales rep firms to target professional A/V market ad is culling products from its consumer line to focus on professional applications. Loewe TVs will be marketed along with standalone processor (\$300) that allows dual-deck VCRs to be daisy-chained for mass duplication. Dual-deck is 4x4-head hi-fi model (\$499) with RS-232 port. Processor is being built at SS's Cal. Audio facility.



TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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CONCERNS ON DATACASTING emerge on Hill as groups proliferate. Tauzin says data are okay as long as HDTV is possible. Some groups' data needs could block HDTV 'flavors.' (P. 1)

INTERNET TOPS 'ENTERTAINMENT' show. Karmazin said it's 'taking a lot of my time.' Broadcasters to benefit from 'spectrum drought.' Interconnecting assets called key. (P. 2)

DTV LABELING STALEMATED as cable and set makers maneuver. FCC to open rulemaking this week on labeling, copyright. (P. 4)

OPEN ACCESS SPREADING among big MSOs, although details differ. Seven of 11 largest to allow more ISPs on cable systems. (P. 5)

NPR REJECTS LPFM: Kennard 'disappointed' that NPR endorsed bill. Klose says FCC is moving too fast. (P. 6)

STREAMING HOT AT NAB: Broadcast equipment overshadowed by Internet, datacasting. Hundreds of announcements, demonstrations expected. (P. 7)

DATACASTING PLANS RAISE GOVT. CONCERNS ABOUT HDTV: Proliferation of groups planning to use TV spectrum for datacasting is causing concern in Washington over whether true HDTV broadcasting will be compromised. Capitol Hill is "absolutely" concerned about issue, House Telecom Subcommittee Chmn. Tauzin (R-La.) told us, because Congress authorized 2nd 6 MHz channel for broadcasters on condition that "consumers would get to see some true HDTV and make a decision." Failure to provide HDTV "would violate the spirit of that unwritten agreement," he said.

Congress has become "very petulant at the prospect that they wouldn't see a lot of HDTV," Media Access Project Chmn. Andrew Schwartzman said, referring to heat faced by ABC's Preston Padden. He predicted that carrying data instead of HDTV would prompt some legislators to "act as if they were misled" by broadcasters, although he said they "shouldn't be surprised... Policymakers expecting to see more HDTV were just wrong."

Broadcasters would be "making a mistake and walking into a minefield" if datacasting fully replaced HDTV, Tauzin said. He said legislators already are facing much criticism for giving broadcasters additional channels: "If they're not going to use it for HDTV, it will be hard to explain." Govt. could have given broadcasters much smaller channels for standard-definition digital TV, Tauzin said. He noted that Hill "did not say how much, when or with what standard" broadcasters must carry HDTV: "We never intended to micromanage this, but they have got to do it." Tauzin said if broadcasters can provide "good quality" HDTV with less than 6 MHz, and use rest for datacasting, "then so be it."

FCC appeared to be less concerned about issue. Commission rules require only that broadcasters provide one standard-definition digital video stream on their 6 MHz channels, which can be done with as little as 4-5 Mbps of 19.3 Mbps that DTV channels can carry. Stations can "do whatever else they want" with remaining bits, said FCC official involved

Consumer Electronics

NEW BUYING GROUP MEETS this week in Chicago to lay groundwork for Assn. of Select Television and Appliance Retailers (ASTAR). (P. 11)

CODE-FREE DVD DECK YANKED: Circuit City won't sell Apex deck that defeats regional codes and Macrovision. MPAA adds to DeCSS suit. DVD prices hits \$99.99 low. (P. 12)

SEGA WILL GIVE DREAMCASTS AWAY via \$200 rebate in return for 2-year subscription to its SegaNet ISP and online game service. (P. 13)

GRAY MARKET PLAYSTATION2s ON RISE in U.S. Sony passes up chance to curb game piracy by adding Macrovision antihacking technology. (P. 13)

EXPANDED E-COMMERCE SITE PLANNED by Audiohighway.com for mid-May will feature electronics and 5 other 'stores.' (P. 16)

BLOCKBUSTER EXPANDS GAME RENTALS: Chain says Divx-like PC software test will be offered in 14 markets. (P. 17)

in issue: "We fully expect that that would be mostly television, but not necessarily. They ought to be able to experiment, not just re-create the 50-year-old business model" of TV.

"I think there are looming concerns," said broadcast official who has been heavily involved in HDTV. He said some of new datacasting groupings are requiring that member stations commit 3-7 Mbps of their data stream to consortium, and that's enough to preclude at least some types of HDTV. Stations that do that, he said, may be "selling off the seed corn" and opening themselves to govt. criticism or stronger action.

One of key issues is just what is true HDTV. Even 1080i HDTV allows some spectrum to be available for datacasting, and 720p, which some viewers prefer, allows even more. In addition, HDTV that originates from film can be transmitted in as little as 8-12 Mbps, leaving large chunks of spectrum available for datacasting. Even in high-definition HDTV, significantly larger data streams are possible when video being transmitted has little motion.

"The only real problem would be with live, fast-action sports," FCC official said of datacasting groups' requirements for spectrum. "This would not preclude HDTV, maybe only put constraints on some of its flavors." He also downplayed importance of HDTV itself, saying no one but video engineers can tell difference between 1080i and 480p on consumer-size DTV sets.

Concerns about datacasting groups are being pressed by networks, official suggested. He said networks are concerned that their affiliates are bypassing them in making their datacasting plans, "taking control of their own broadcast time." Networks are pressing affiliates to delay decisions on datacasting, they said. NBC Pres. Robert Wright said potential of datacasting may be overstated, since it's still only one-way. He said broadcasters would have to either buy return spectrum or use telco return: "I don't think anyone sees applications that they would pour millions of dollars into," in part because there are few datacasting receivers. CBS TV CEO Leslie Moonves said datacasting cooperatives that are springing up "don't necessarily have a game plan either," so networks are encouraging stations not to give up control of their "beachfront property" until future is clearer.

Several datacasting groups are planning to begin trials this year, and hundreds of TV stations already have signed up. Geocast, for example, has convinced stations to commit to making 4 Mbps of data capacity available for next 4 years, and has partnered with Thomson to build set-top box to receive data and feed it to PC. Other services, some of which are said to be requiring up to 7 Mbps, are planned by Bcstrs. Digital Co-op, led by Data Management Inc., Granite Bcstg., iBlast. Several companies, including DiviCom, Dotcast and Wavepress, are planning to offer datacasting equipment.

Key question, some analysts believe, is demand for broadcast datacasting. Some believe there's little demand for one-way broadcast data service and broadcasters will have difficulty installing set-top receivers that are needed. Much of revenue from datacasting will be profit, since little modification of station is needed, but they predicted revenue itself would be so small as to be almost unnoticeable. One possibility, some officials believe, will be for broadcasters to buy spectrum at auction for return links, or even to use telephone return links.

INTERNET DOMINATES 'ENTERTAINMENT' CONFERENCE: Subject was supposed to be entertainment, but main topic was Internet at Schroder/Variety Big Picture conference last week in N.Y. Internet as it relates to television was subject of both keynotes, main part of lunch speech by FCC Chmn. Kennard, one entire panel and part of another. Entertainment, Internet and other industries are "fusing together to create one future," said AOL Chmn. Steve Case.

Internet is "taking a lot of my time," CBS CEO Mel Karmazin told conference, and that he spends about 1/3 of his time on computer: "It is changing my thinking a little bit." Kennard predicted "another paradigm shift as the Internet moves from the PC into a lot of little mobile devices." He said change will make broadcast spectrum even more valuable because wireless Internet will mean "spectrum drought." Kennard said Internet/TV opportunities mean "there are partnerships waiting to be made, and we [FCC] have to do what we can to facilitate it."

Key to Internet success won't be how many assets companies have, but how well they're interconnected, Case said. He said AOL merger with Time Warner (TW) makes sense partly because one hour of AOL use per day is "nice," but access to content will make it easier to fill other 23. E-commerce will be big part of partnership, he said. TV hasn't changed much "since we were kids," Case said, but entities such as AOL TV will make it into largely new medium where data and entertainment services blur. TV is "big opportunity" for merger partners, he said, but not only one — he said interconnections will "revitalize" TW movie and music businesses. Comcast Pres. Brian Roberts said arrival of AOL in cable industry through TW acquisition will be good for cable because "they will bring their marketing savvy to our industry in a positive way."

Content will remain king in Internet environment, according to Viacom Chmn. Sumner Redstone. He said quality brand names also will be important in Web environment, so “we have nothing to fear.” Disney Chmn. Michael Eisner agreed that “the Internet needs content. People don’t log on because of the elegant Cisco routers.” He said content is mainly information, but will move toward entertainment as broadband proliferates, allowing new streaming services. Eisner warned that improvement in content will “stall if content owners can’t enjoy the full benefits of ownership.” He spent most of keynote talking about intellectual property issues on Internet, saying piracy could leave it as “a wonderful delivery system with nothing to deliver.”

Eisner said Disney is committed to “promoting the convergence of the Internet with TV,” and plans to continue “pouring resources in” toward that goal, “but not if it means surrendering what we own.” He said Disney is starting 5-point plan to promote intellectual property rights on Internet: (1) Lobbying Washington to “first do no harm” by refraining from imposing Internet compulsory license. He said harm of license, which gave cable right to retransmit TV programs, was manageable in cable because distribution was limited to small geographic area, but Internet is worldwide. (2) Working with govts. around world to create Internet-friendly environment. (3) Educating public, which he said is basically honest and “wants to do the right thing” with intellectual property. (4) Taking technological measures, including developing “innovative and flexible encryption” that would keep ahead of pirates. (5) Devising economic models that would allow Internet to distribute content at “reasonable price.” He said, for example, studios could make good business out of distributing movies via Internet for \$2.50 each, since they would keep full amount instead of sharing with video stores: “People will gladly pay a fair price for a legal product.”

Time is approaching when Internet will be “an important new revenue stream for the studios, if not the most important,” Eisner said. He compared change with arrival of videocassettes: “This is a new way to access entertainment... It may be a little bumpy to work out, but I’m convinced that we will get there.”

Kennard predicted convergence of Internet and broadcast TV also would be difficult for broadcasters. He said datacasting, for example, will “cause more strains” in network-affiliate relations, adding that’s “not a bad thing.” Digital technologies also will change relationship between govt. and broadcast industry, Kennard said. Broadcasters have “special relationship with the government” since they’re “public trustee” of spectrum, he said, but govt. has “not really defined that relationship with specificity. We can’t duck this issue.” He didn’t say how relationship would change, saying he wants constructive debate: “This is about something we would do with the broadcasters, not to the broadcasters.”

Internet will have big impact on TV advertising, conference sponsors said. David Londoner of Schroder & Co. said Internet ad revenue is growing 55% per year and broadcasters are trading ad time for dot.com stakes. Niraj Gupta of Salomon Smith Barney said Internet currently is having positive impact on broadcasters, buying \$7 billion in ad time on traditional media last year (up from \$3 billion year earlier), and attracting only \$6 billion in Internet ad revenue. However, he said, advantages of targeting and interactivity gradually will mean more ad dollars’ going to Internet.

NBCi Vice Chmn. Chris Kitze said full impact of streaming media still is “several years out” because it will take that long for significant penetration of broadband networks that are necessary to deliver acceptable quality. Broadband now reaches 2-3 million households, he said, but will have 75% penetration by 2008, meaning streaming media will be “big” about 2004.

FCC is proposing to extend Children’s TV Programming Report requirement indefinitely, and possibly even to mandate that reports be sent to Commission quarterly, instead of annually, it said in notice of proposed rulemaking (MM 00-44). Agency said even quarterly reporting shouldn’t be big burden on broadcasters because they have to compile reports for station files anyway, and reports can be sent to FCC electronically. It said having reports at hand makes it easier for public to access information, allowing it to influence children’s TV decisions. Reports identify educational and informational programs aired, when they were scheduled and how often preempted, age of target audience, average number of hours of core programming weekly. Stations have been required to file annual reports for 3 years, and FCC proposes to extend that indefinitely. Comrs. Furchtgott-Roth and Powell, in concurring statement, disagreed with tentative conclusion that reports should be extended, saying additional information is needed through rulemaking process. Comments are due June 12, replies July 12.

Rejecting efforts by electric utilities to charge higher leasing fees to cable operators and telecom carriers, FCC last week approved updated pole attachment rules and policies that should largely keep existing govt.-mandated rates in place. Commission action, 3 years after it began rulemaking, generally retains use of current rebuttable presumptions and historical costs to calculate maximum rates that utilities can charge for attachments. But, in one revision favorable for utilities, new rules clarify formula’s complicated calculation of accumulated depreciation so pole owners don’t wind up setting negative rates. FCC also adopted its first formal methodology for determining attachment fees that utilities can charge for underground conduit systems, which are common in big cities. New federal formula estimates amount of volume used by each competing wire rather than linear feet. It generally presumes that each wire takes up half-duct of space in concrete pipe, although it allows for exceptions.

DTV LABELING STALEMATED: Tired of waiting for elusive final agreement between cable and CE industries, FCC plans to start formal rulemaking on DTV set labeling issue at April 13 meeting. FCC Chmn. Kennard said rulemaking would be started if industries, which have scrapped over issue for years, can't conclude deal by then. Cable and CE negotiators reached what NCTA characterized as "basic understanding on terminology describing digital sets" 2 weeks ago but haven't been able to finalize it because of side issues that have cropped up (TVD March 27 p6). Final deal still appears to be at least week away.

At same meeting, FCC also intends to start rulemaking on licensing of copy protection technology for DTV sets, another thorny issue that has eluded agreement by movie studios, technology companies, set makers. Despite intense negotiations, 3 sides still are well apart on 5C standard favored by Silicon Valley developers and cable industry but opposed by some Hollywood studios and set manufacturers. Earlier target of March 15 for tentative agreement passed without deal.

Related rulemakings come after repeated warnings by Kennard that FCC would act soon if industries couldn't resolve differences quickly. He recently used similar threat to pressure cable and CE into agreeing on technical standards for hooking up new DTV sets to digital cable systems. "We've been saying we would do it and they kept asking us to wait," FCC spokeswoman said. "We're following up."

CEA Pres. Gary Shapiro surprisingly embraced FCC's proposed move, saying it should help industries bridge remaining differences. "It's something we welcome," he said. "We've pretty much gone about as far as we could go." NCTA Pres. Robert Sachs called it "unfortunate that the Commission feels compelled to launch a rulemaking" on digital labeling because 2 sides are "very close" on issue. He said cable supports tentative agreement reached 2 weeks ago. "We remain optimistic that the labeling issue will be resolved by the parties," he said.

Not surprisingly, sources in each industry pinned blame for digital set labeling impasse on other side and agreed that final deal no longer was imminent. Cable sources said NCTA leadership already had approved tentative deal for separate labels for new DTV sets with and without 1394 "firewire" connectors favored by cable interests but opposed by some set manufacturers. They said they primarily were waiting for CEA executives and members to endorse "gentleman's agreement" announced 2 weeks ago.

CE sources disputed that assessment, saying industries still were apart on several issues. Biggest new issue appeared to be proper labeling of digital cable set-top boxes, which CEA wants to be covered by new DTV set labeling rules and NCTA doesn't. Industries still are squabbling over proposed descriptions of components in digital sets and next steps for interindustry group negotiating details.

On separate cable-related issue, FCC said it would consider at April 13 meeting proposed closed-captioning rules on accessibility of emergency programming to persons with hearing disabilities. Commission said it would consider 2nd report and order on issue.

Winners of 31 newly auctioned broadcast licenses have until April 20 to make lump-sum payments and receive licenses, FCC said in notice April 6. Stations that don't pay until May 4 face 5% penalty. Construction permits will be announced after fees are received, agency said.

FCC Events: Chmn. Kennard addresses NAB convention, Las Vegas Hilton, 7:30 a.m., April 11. Comrs. Furchtgott-Roth, Ness and Powell participate in Regulatory Dialog, NAB, Las Vegas Convention Center, 4 p.m., April 11. FCC open meeting, Portals II Rm. TW-C305, 9:30 a.m., April 13. Wireless Telecom Bureau Chief Thomas Sugrue addresses Land Mobile Communications Council, noon, April 14, Loews L'Enfant Plaza Hotel. Ness and Alaska Regulatory Comr. Nanette Thompson host western regional field hearing on "The Relationship Between Advanced Services Deployment and Economic Development, Satellite Development" Anchorage, April 17, time and location to be announced. Furchtgott-Roth addresses KMB Video Journal conference, 8 p.m., April 17, Don CeSar Conference Center, St. Petersburg Beach. Kennard speaks at Quello Telecom Symposium, 9:45 a.m., April 18, Washington Hilton, and participates, along with Comr. Tristani, in panel on First Amendment issues, 3:45 p.m., April 19. Kennard and N.C. Utilities Commission Chair Jo Anne Sanford host midwestern regional field hearing on "Cable and Fixed Wireless Deployment and Deployment in Rural Areas," S. Sioux City, Neb., time and location to be announced. Furchtgott-Roth addresses Federalist Society, noon, April 20, Rivers Club, One Oxford Centre, Pittsburgh. He speaks at S.C. Telephone Assn., 9:45 a.m., April 25, Kingston Plantation Embassy Suites, Myrtle Beach. He addresses David Chase Free Enterprise Institute, 11 a.m., April 26, Eastern Conn. State U., Willimantic. He speaks at American Enterprise Institute in Washington, 1:30 p.m., April 28.

Administration is "firmly behind" public TV's \$110 million funding request for PTFP, NTIA Dir. Greg Rohde told industry meeting in Washington last week for APTS Capitol Hill Day. White House seeks increase from this year's \$26.5 million budget, and "I've been spending a lot of time on Capitol Hill lobbying for this money," Rohde said. As 2003 deadline approaches for PTV to convert to digital, he said, applications for Public TV Facilities Program (PTFP) already have doubled, with \$233 million in funding requests received so far. "You have the right to feel aggrieved" about federal govt.'s failure to fund mandated conversion, APTS Pres. David Brugger told station managers in annual briefing on mass lobbying trip. Most Washington insiders felt PTV had opportunity to receive additional funding, but it would be difficult to get full amount requested, which also includes \$20 million additional DTV funding for CPB. They felt industry had virtually no chance for full authorization this year. Lobbyist Larry Sidman said it "speaks very well for the future" that Republican Reps. Lazio (N.Y.) and Wilson (N.M.) were willing to offer PTV-friendly amendments to recent bills as show of support, although amendments were doomed by point of order. He said this year, like last year, would come down to appropriations "end game" and question would be just how committed Administration is. Lobbyist Dom Ruscio said PTV would try to regain \$10 million lost when last year's reauthorization failed in supplemental appropriation bill.

Hearst-Argyle TV signed retransmission agreements with Cox and Charter that had been pending renewal since Dec. 31. Spokesman said terms and components of agreement weren't being released at request of cable companies. Hearst-Argyle, which owns some ABC affiliates, is negotiating retransmission deals with Time Warner, Comcast, CableOne. Broadcaster gave TW another 30-day retransmission extension until May 2. Negotiations with TW were continuing, spokesman said. ABC Disney spokeswoman said "conversations with Time Warner" on retransmission renewal were "ongoing."

CABLE GOING OPEN ACCESS: At least 7 of 11 largest cable operators are looking at offering access to multiple Internet service providers (ISPs) on their high-speed broadband lines in wake of heavily publicized pledges by AT&T and proposed AOL-Time Warner union to do so in 2 years. Charter, Classic, Comcast, Cox and Insight all either plan to carry other ISPs or are studying issue intently. In addition, such other top MSOs as Adelphia and Cablevision Systems clearly are rethinking their positions. Cable One and Mediacom didn't comment by our deadline.

Large cable operators attribute shift to growing consumer demand for unfettered access, increasing competition in high-speed data market, potential for lucrative new revenue stream. They also cite industry momentum created by moves of AT&T and AOL-Time Warner to pledge open access when their existing exclusive ISP deals run out in order to avoid govt. regulation. "The pressure has grown, no doubt about it," Charter Exec. Vp Steven Schumm said.

As typically happens in cable, each MSO is approaching switch to multiple ISPs in somewhat different way. While Cox and Comcast plan to rely heavily on their current exclusive ISP, Excite@Home, to address technical and financial concerns of open access, Charter is researching complex issues on its own. Each MSO also must deal with different contracts with existing ISPs, ranging from exclusive national commitments to Excite@Home by Cox and Comcast to Classic's market-by-market deals with High Speed Access Corp. to largely independent status of Adelphia and Cablevision. "There's no one-size-fits-all business model," Comcast External Affairs Vp Joseph Waz said.

Like AT&T, which has said repeatedly that it will honor its exclusive contract with Excite@Home through June 2002, none of other top MSOs would pledge to opening its broadband lines in less than 2 years. Comcast and Cox said they also were committed to Excite@Home through June 2002, although their recently restructured agreement with high-speed cable consortium allows them to end exclusive carriage and terminate entire distribution deals by June 2001. Insight similarly is wedded to Excite@Home in most of its systems, while Charter and Classic are vague about when they might start carrying other ISPs.

Business plan for offering multiple ISPs remains elusive. Cable operators, which have spent billions of dollars upgrading their lines, insist they must be well compensated before sharing their plant with others. "We're happy to allow some ISPs, assuming we can make a fair amount of money on the infrastructure we built," said Classic CEO Merritt Belisle, whose cable systems have 413,000 subscribers.

Industry observers believe AOL-Time Warner, Adelphia and Charter are likely to be most aggressive in opening their systems, AOL-TW because of its strong interest in placing AOL on other cable systems and Adelphia and Charter because of their relatively independent positions in industry. Charter seems determined to have open access strategy in place in as little as one month. Schumm said company team of 2 engineers and one financial analyst will report back to him in early May.

Industry shift by larger MSOs doesn't extend to less populated areas or smaller cable operators, most of which haven't even upgraded their lines for high-speed data service. Matthew Polka, pres. of American Cable Assn., said his members still are seeking ways to offer some kind of Internet access to customers in rural areas and small towns. "We're a step earlier in devel-

opment," he said. "You can't even talk about open access until the thing gets deployed."

Meanwhile, AOL Senior Vp-Global & Strategic Policy George Vradsburg in letter March 27 to House Judiciary Committee Chmn. Hyde (R-Ill.) provided written answers to questions stemming from hearing on Internet issues held June 30. Vradsburg told Hyde that company planned to merge with Time Warner, and as result cable operator made commitment to open access: "Given this important progress in the marketplace, it appears that government intervention in this area is not necessary at this time." Referring to bills that would help facilitate open access, HR-1685 by Rep. Boucher (D-Va.) and HR-1686 by Rep. Goodlatte (R-Va.) that were subject of June hearing, Vradsburg seemed to distance AOL from "light-touch" regulation that AOL Chmn. Steve Case had advocated before Congress. He said that "just in the short time since this legislation was introduced, the market has responded accordingly."

Broadcast TV efforts to educate parents about V-chip availability have been "plainly insufficient," FCC Comr. Tristani said in letters to Big 4 networks, asking them to "re-commit" themselves to V-chip, which now is standard in all new TV sets 13" or larger. In letters that in most cases began, "This is a call to action," Tristani, chmn. of FCC's V-Chip Task Force, said installation has followed schedule and programmers have been made aware of requirements, leaving only educating parents to make V-chip viable solution to televised violence. She said CBS is only network to make real effort to run PSAs on V-chip at network level, having carried 54 such PSAs, compared with one by ABC and 2 each by Fox and NBC. As result, CBS got slightly kinder letter, thanking network for its efforts so far but encouraging it to do even more. Citing recent survey finding 39% of U.S. parents haven't even heard of V-chip, Tristani told networks: "This must change." For many in Washington, V-chip is "old news," she said, but for parents "the V-chip is brand new. These are the people we need to reach. And we need to do it now." She said she expects in coming weeks to make "other public calls for action," pointing to retail outlets as places where work will be needed, without elaboration.

News Corp. and DirecTV showed little interest in merger or joint venture in answer to questions at Schroder/Variety conference. News Corp. COO Peter Chernin acknowledged there have been "a lot of rumors" of deal between 2, which would give News Corp. satellite presence in U.S. and DirecTV outlet overseas. But he said News Corp. doesn't view itself as having "hole" in distribution in U.S. since it owns Fox. He said it uses variety of delivery platforms around world, including broadcast, cable, DBS: "We would be interested in having a U.S. satellite piece, but we're not wedded to any one technology." DirecTV Pres. Eddy Hartenstein said it's "no secret" that his company is interested in acquiring content, including taking "minority stakes in a variety of new services that can launch on our platform, but no bigger deal is imminent."

Community Bcstrs. Assn. (CBA) said it was disappointed FCC's LPTV Class A rules didn't include opportunity for future Class A filings. Group, which represents LPTV stations, said it will "pursue opportunities for the further development of the Class A service." It also said it was pleased FCC had "focused its attention on implementing the statute as written by Congress."

NPR REJECTS LPFM FCC Chmn. Kennard said he was "disappointed" that NPR endorsed bill (HR-3439) to cut back low-power FM (LPFM) service and require new study of potential interference with existing stations and services such as public broadcasters' radio reading service (TVD April 3 p4). Having failed to obtain delay of LPFM licensing from FCC, NPR Pres. Kevin Klose, who had said he preferred to work with FCC and not risk political whims of Congress, called HR-3439 "carefully balanced approach."

NPR, which had asked FCC to delay implementation while looking at its petition for reconsideration, said it "appears clear" that FCC won't do so. Media Access Project's Cheryl Leanza criticized move, saying NPR has maintained that it's supporter of LPFM if done right, but "their actions effectively seek to kill it." She said bill, although presented as compromise, was "clearly designed by lobbyists to eventually kill low-power radio."

"Rather than continuing the process of finding common ground and resolving differences, NPR walked away from the table," Kennard said. "I am surprised that an organization which has done so much to promote opportunities for Americans to be heard on the airwaves would join with the special interests in curbing this new service." He said FCC made several commitments to NPR, including that LPFM wouldn't harm radio reading services, and he thought he had resolved public broadcasting concerns that LPFM stations could interfere with translator networks. NPR had said it was clear FCC wouldn't delay LPFM implementation while reviewing petitions for reconsideration by NPR and others, as NPR had requested.

In interview, Klose said delay "is in everyone's interests," including LPFM stations'. "The one thing no one wants, I believe, is to have a series of ongoing conflicts... between existing radio stations and LPs," both of which are "public service broadcasters," he said. "We believe there's a rational way at this," Klose said, reiterating that public broadcasters feel their services can be made compatible with LPFM ones. He denied assertion bill was stealth attempt to kill program altogether: "Everyone's come a long distance." Klose wouldn't discuss breakdown in talks with FCC or where those talks had ended except to say he had had "serious discussions" with Commission but continued to have "unanswered interference issues." He said decision to back bill didn't rule out future talks with FCC.

Meanwhile, Kennard sent letter to House Speaker Hastert (R-Ill.) asking that House delay consideration of bill, which has passed Commerce Committee, until Commission reviews petitions for reconsideration filed by several groups, "especially NPR." He said measure "is premised on several false allegations, misleading technical arguments and engineering misinformation put forth by opponents of LPFM service, primarily about potential LPFM station interference with existing broadcast stations."

In continuing effort to defend current DTV system, group of manufacturers plans to announce "the latest advances in VSB" modulation system today (Mon.) at NAB convention. Companies weren't saying much about what specifically would be announced, but Zenith is expected to describe latest generation of its VSB receiver technology and chip-maker NxtWave is expected to participate. Capitol Bcstg. will demonstrate its system for simulcasting HDTV and data. Also during show, CBS is expected to announce what are said to be successful reception tests of VSB. Variety of other companies, as well as attorney Richard Wiley and CEA Vp Michael Petricone, also will participate.

AOL's purchase of Time Warner is valued at \$146 billion, companies said in SEC filing. Total includes \$300 million in transaction expenses, including legal, investment banking and registration fees. Valuation is based on \$130.8 billion in Time Warner common stock, \$3.6 billion in preferred and \$11.4 billion in stock options. In future, companies will report year-end results June 30, as has been AOL's practice, rather than Time Warner's Dec. 31 date, they said. For 6 months ended Dec. 31, combined company would have had pro forma revenues of \$17.8 billion, \$1.1 billion loss before extraordinary items and after reconciling Time Warner statements with AOL's, they said. After variety of adjustments, new company would take charge of close to \$3 billion for amortization of goodwill and intangible assets acquired from Time Warner, with many details still to be worked out. Companies said they still expected to close merger in fall. Preparing for its acquisition, Time Warner issued special version of annual report online for first time. Web version of report features streaming video clips of interviews with top company executives as well as promotional video clips of Time Warner movies, TV shows, music performers. Time Warner also released print version of annual report, with 7 different covers highlighting company's various businesses.

Negotiated agreements for broadcasters to leave Ch. 60-69 before DTV transition is complete were endorsed by Assn. of Public-Safety Communications Officials (APCO) in ex parte filing at FCC April 5. APCO said Commission could facilitate deals by, for example, allowing stations to move their analog signals to DTV channels temporarily. Broadcast spectrum to be reallocated for public safety "is needed now to relieve dangerous congestion," it said. Meanwhile, potential bidders for Ch. 60-69 spectrum in upcoming June 7 FCC auction should consider whether possible interference from neighboring TV channels may make spectrum too "noisy" for mobile communications, Andrew Seybold said in monthly newsletter, *Andrew Seybold's Outlook*. On other hand, he said there's "no doubt" that spectrum will be "great for point-to-multipoint high-speed data." — www.outlook.com.

ATSC's DTV task force will focus on 3 key issues, creating separate subgroups for each, Exec. Dir. Mark Richer said: (1) Assessing VSB modulation and "what, if anything, needs to be done" to improve its performance. (2) Working with broadcasters to understand their applications and needs. (3) Developing common methodology for any field tests to be done by others. Richer said ATSC has no plans to do its own field tests, but others may, and common methodology would assure that data are comparable. Subgroups are expected to report to full task force at April 26 meeting. Richer said no other timetable was finalized. About 100 persons, representing broadcasters and consumer electronics and semiconductor companies, attended March 31 meeting.

CBS TV, in conjunction with Web site iWon.com (in which network has \$30 million investment) plans April 15 special during which \$12 million will be given away to one person. CBS said it planned to tell viewers of its ownership interest in sponsor at end of program. Planned show was criticized by Jeffrey Chester of Center for Media Education as "clearly a commercial for a CBS investment and it needs to be labeled as such." He told us FCC needs to update its sponsor identification rules in light of industry convergence, particularly as they relate to commercials directed toward children. CBS says program, *iWon.com Annual \$10 Million Giveaway*, is entertainment.

STREAMING HOT AT NAB: Normal batch of broadcast equipment announcements at NAB convention this week in Las Vegas will play 2nd fiddle to even larger wave of Internet-related deals. NAB officials acknowledge that much of convention's growth in recent years can be attributed to Internet-related activity, and streaming media and datacasting will dominate news conference rooms and show announcements. That's based on hundreds of invitations that showgoers have received in weeks leading up to session.

Impact of streaming media may be indicated by fact that new Internet Bcstg. Assn. will be announced during convention. Group plans to lobby on issues such as Webcasting standards, regulations, taxation, ethics, security, privacy — www.internetbroadcastingassociation.org.

Among dozens of other preshow announcements: Williams Communications said its Vyvx will provide backhaul services for Webcasting. Offer includes broadband connections to more than 1,000 content origination sites, such as sports arenas, production houses, TV stations. Vyvx also will do live streaming video Webcasting from NAB convention.

"Internet TV station-in-a-box" will be demonstrated at 2 NAB venues by San Carlos, Cal.-based Imaginon. Company said its ImOn.comTV Instant Internet TV is turnkey software package that enables station or cable operator Web site to present interactive TV on browser of any PC with cable, DSL or T1 modem of at least 384 kbps speed. Minimum speed yields VGA video resolution with 16-bit color at 15 fps. Packages can accommodate 20 to 200 simultaneous video data streams for \$31,000 to \$49,000, CEO David Schwartz told us. Prices don't include servers, available optionally for \$35,000 to \$84,000, he said. System is targeted at stations and cable operators that want to expand audience beyond local reach and create narrowcast specialty channels, Schwartz said. Advertisers can measure effectiveness of spots in real time by viewing instantaneous clicks on links embedded in commercial, he told us.

BroadcastTVNews.com signed 4-year streaming media deal with Nexstar Bcstg. and its 14 stations, then claimed leadership position with 59 affiliated news stations. BroadcastTVNews.com will provide all technical support, equipment and streaming costs throughout agreement, while Nexstar stations will carry promotions.

BellSouth will cooperate with iMagicTV in digital interactive TV demonstration at NAB convention, companies said. Demonstration will combine iMagicTV DTV Manager platform with simulated BellSouth DSL network, they said.

Hauppauge Digital is developing family of DTV receiver equipment designed to work with WaveXpress datacasting service, companies said. They said Hauppauge's WinTV-D receiver board, which will be demonstrated at NAB, was used in recent successful datacasting tests.

EchoStar said it will deliver broadband Internet content and video channels to PCs via its satellite-delivered DishLink service. Service, capable of live streaming video at up to 27 Mbps, will be demonstrated at NAB. Company expects it to be used for employee training and other applications. Receiver prices will begin at \$1,000, EchoStar said.

Approaching end of Microsoft antitrust case makes CBS and Viacom "hopeful" that Justice Dept. will make quick decision on their merger, CBS CEO Mel Karmazin said. Viacom Chmn. Sumner Redstone added that companies have received "a fairly clear signal, but no guarantee," that merged company would be allowed to keep UPN TV Network, despite FCC rule prohibiting dual network ownership. Although he said he was optimistic that FCC and DoJ would clear merger "shortly," Karmazin said Justice process is "amazingly time-consuming" and "so harmful to the companies." He said they would be willing to pay higher merger review fee to provide DoJ with resources to make quicker decision. Price (\$5 million) that Viacom paid for Chris-Craft's half of UPN was fair, Redstone said, because Chris-Craft couldn't get higher price or partner elsewhere. He said price was based on fact that Viacom was "confident that [Chris-Craft head] Herb Siegel would have a hard time finding a partner, given his track record as a partner." Karmazin asked what business that loses \$180 million per year is worth. He said it would be worth hundreds of millions of dollars if CBS-Viacom could make it successful, but "a lot less than \$5 million" if it continued to lose money in long term.

There's no current business model that would make HDTV "an attractive consumer proposition," News Corp. COO Peter Chernin said. He said Fox TV is prepared to make HDTV available, "but there's not much dissatisfaction among American people with the quality of the current TV picture." It's difficult for most people to distinguish between digital standard definition TV and HDTV, DirecTV Pres. Eddy Hartenstein said. He said DirecTV already is carrying 2 HDTV channels and will add more as more content becomes available. NBC Pres. Robert Wright said HDTV "clearly will happen" eventually, "it will just take a little longer." He said customers already are buying wave of digital consumer equipment, and "there's a limit to how much consumers can spend." Comcast Pres. Brian Roberts said it was "hard to see any new revenue for broadcasters" from HDTV, but HDTV could provide more benefits for cable, "so we're more optimistic."

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\$8.1 BILLION DONATED BY TV-RADIO: NAB April 4 disclosed results of its 2nd comprehensive survey of donations of time and facilities to public service, showing that \$8.1 billion was provided free by local stations between Aug. 1, 1998, and July 31, 1999 — 12 months during nonelection period. Figure represents dollar value of air time donated by local stations for public service announcements (PSAs), money raised for charity and disaster relief and prevention efforts.

Results aren't comparable to donations of \$6.89 billion in 1996-1997 study, said William McInturff of Public Opinion Strategies (which conducted study) because of changes in "very technical methodology," "complexity of questionnaires" and fact that earlier study was taken during presidential election campaigning. That study was in response to Gore Commission's then evaluation of public interest requirements of TV stations in digital era (TVD Dec 21/98 p1).

Study was released at well-attended 2-hour news conference and lunch during which heads of many nonprofit organizations that were major beneficiaries of broadcasters' efforts spoke. NAB Pres. Edward Fritts called survey "the nicest piece of work that this organization [NAB] has ever produced in history... I'm very proud." He said \$8.1 billion was "conservative" and more than annual combined contributions of top 100 foundations in U.S. McInturff stoutly defended study from critical questions by reporters, saying he was "very confident" about validity of findings.

Of \$8.1 billion total in contributions, \$3.8 billion was for radio PSA air time, \$1.8 billion for TV PSAs, \$1.4 billion charity fund-raising on radio, \$934 million TV charity fund-raising, \$187 million in TV-radio time donated for charity relief. Not counted in total contributions were such things as production costs, local news and public affairs, telethons, time devoted to weather emergencies, salaries, among others, NAB said. Questionnaire was sent to 11,000 commercial stations (including non-NAB members) and response rate was 51% — 73% for TV stations, 49% radio, both considerably higher than 2 years ago. McInturff said \$8.1 billion represented weighting of responses to include all U.S. commercial stations.



TV networks indicated they might not vigorously oppose free air time for political candidates — but only as part of comprehensive campaign finance reform. In response to questions at Schroder/Variety conference in N.Y. last week, CBS TV CEO Leslie Moonves said he was "not totally adverse to" free time, "but I'm adverse to being the lone ranger." He was co-chmn. of Gore Commission that recommended in Dec. 1998 that TV stations provide free time (TVD Dec 21/98 p1). News Corp. COO Peter Chernin said it was "laughable" to think TV is core of political fund-raising problem, but conceded TV could be part of overall reform. NBC Pres. Robert Wright also noted that free time proposals apply only to federal candidates, while local campaigns may be more important to many voters. He said free time for all could "swamp" TV stations in market such as N.Y.C.

NBC isn't anticipating any "transforming transaction" such as major merger or acquisition, Pres. Robert Wright repeated last week. He said corporate structure and needs of parent GE mean that major acquisition or merger would cut severely into profits, so they were unlikely. Alternative has been to grow new companies from scratch, Wright said: "For the immediate future, I don't see any changes."

SEC Chmn. Arthur Levitt responded April 5 to charges by members of Congress and others that his agency may violate privacy rights with its planned Internet fraud surveillance efforts. In statement, Levitt acknowledged "considerable interest" in SEC's search for vendor to run program that searches electronic bulletin boards and Web sites for keywords associated with securities fraud such as "get rich quick." Among those questioning plan was Telecom Subcommittee Vice Chmn. Oxley (R-O.), who wrote Levitt calling plan "constitutionally problematic." Levitt repeated message of his staff that search engine would examine only "public sites that are already accessible to the general public through commercial search engines," comparing it to tracking down newspaper article. "I want to make clear," he said, "that the SEC has never had any intention of intercepting or monitoring private transmissions, including conversations taking place in chat rooms or on e-mail." Request for proposal, Levitt said, specifically states that contractor can't search "private e-mail correspondence, transactions or communications." Of concern to some members such as Oxley was fact that PricewaterhouseCoopers withdrew from contract contention out of concern that system would violate consumer privacy. Levitt said SEC would continue with its current efforts to combat online fraud, "mindful and respectful of fundamental privacy rights." Speaking to American Advertising Federation conference in Washington, Oxley said "the real question is what role should the SEC have in policing Web sites, bulletin boards and the like?" He said SEC needs "to ferret out the crooks and the fraud artists but at the same time you want to protect privacy."

Internet Content Rating Assn. (ICRA) appointed 13 board members and opened European office in Brighton, England, beginning its task of developing internationally acceptable online content labeling system that can be used for filtering web. It still has vacancy for Washington dir. Board members include representatives of 8 countries. U.S. members are Center for Democracy & Technology Exec. Dir. Jerry Berman, Yale Law School Prof. Jack Balkin, George Washington U. Prof. Dianne Martin, Internet Kids & Family Yellow Pages author Jean Armour Polly. ICRA, formed last May and incorporating assets of former Recreational Software Advisory Council (RSAC), is modifying its predecessor's RSACi system that already is embedded in most current Netscape and Microsoft browsers.

TV Bureau of Advertising (TvB) said average American household viewed TV 7 hours, 26 min. per day in 1999 — "the most of any year in the history of the medium." Total, increase of 11 min. over 1998, is based on Nielsen figures, TvB said, and increased viewing trend "appears to be continuing" in 2000. "The trend suggests, contrary to popular opinion, that the Internet is having little negative effect on American TV viewing patterns," TvB Vp-R&D Harold Simpson said. "In fact, the 2 media may actually have a synergistic effect with each other to the detriment of radio and print."

Viacom has completed its takeover of UPN network, following buyout of Chris-Craft's 50% interest for \$5 million (TVD March 27 p7). Still pending is word from FCC as to whether Viacom will be able to retain ownership after its acquisition of CBS closes.

In 10K filing at SEC, E.W. Scripps Co. said it expects its compensation from TV networks to drop to total of \$10 million for 2000 and 2001 combined from \$13.1 million in 1999 alone. Scripps owns 6 ABC affiliates, 3 NBC.

FCC, AT&T SQUABBLE: In classic case of tempest in teapot that left bruised feelings on both sides, AT&T backed down from brewing battle with FCC over customer counts for Time Warner Entertainment and Time Warner Cable. AT&T, which would inherit MediaOne Group's 25% stake in Time Warner Entertainment if govt. approves MediaOne merger, agreed to provide additional information sought by agency after apparently refusing to do so earlier. Company moved quickly to supply requested information, following publicity about chiding letter sent by FCC Cable Services Bureau Chief Deborah Lathen April 5.

FCC-AT&T dispute involves agency's quest for precise number of cable subscribers that could be attributable to AT&T because of its proposed stake in Time Warner Entertainment joint venture. Recently revised govt. rules, which are not being enforced because of pending judicial review, bar any cable operator from controlling more than 30% of all multichannel video subscribers. AT&T, which estimates it would have 23.8 million subscribers (28.9% of all multichannel subscribers) once it consummates MediaOne deal, would go well over that limit if its Time Warner Entertainment holding were included. Number of AT&T customers would be even higher if, as FCC argues, all of Time Warner cable systems were included because they're managed by Time Warner Entertainment venture.

AT&T contends most Time Warner Entertainment subscribers, and all other Time Warner cable customers, shouldn't be attributable to it. It also is seeking 18-month waiver from FCC's 30% ownership cap to comply with any divestitures mandated by agency if its MediaOne acquisition is approved. Partly as result, AT&T-MediaOne merger application, filed with FCC 9 months ago and originally expected to be approved by now, still awaits action by agency.

In April 5 letter, Lathen faulted AT&T for reneging on promises to provide updated information on Time Warner Entertainment and customer counts. She said Betsy Brady, AT&T vp-federal govt. affairs, recently told FCC company wouldn't produce data until Commission acted on waiver request. "We do not understand the underlying rationale for your refusal to provide without delay the requested information with respect to the TWE Limited Partnership Agreement and subscriber certification," Lathen wrote.

While denying that it ever refused to provide updated information, AT&T sought to reassure FCC that it would comply promptly. In reply letter from Brady to Lathen late April 6, company said it would provide requested materials by April 10. "This is a misunderstanding," AT&T spokesman said. "We felt that they had the information already."

Despite bruised feelings, FCC spokeswoman expressed satisfaction with AT&T response: "We are glad they understand that we need to have this information as part of the record. We will continue to work expeditiously on the review."

Technical Notes: DiviCom and Geocast said they will co-operate on datacasting for broadcasters. DiviCom will integrate Geocast system with its DataTrackTM technology, allowing data to be merged into video streams, they said... ABC will use Leitch nonlinear digital editing systems for its West Coast NewsOne Affiliates News Service under new agreement, terms not disclosed.

Hollywood "should be a little bit afraid" of trend toward reality-based and game shows, CBS TV CEO Leslie Moonves said. He said such programs such as *Millionaire*, upcoming *Survivor* and *Big Brother*, proliferating news magazines and NBC's planned XFL football coverage will mean average of 8-10 hours per week fewer scripted sitcoms and dramas produced by Hollywood for TV. Change is necessary because of networks' financial pressures and strong audiences, Moonves said, but it could "put an awful lot of people out of work." However, News Corp. COO Peter Chernin said trend would reverse itself soon since "the audience grows pretty tired of" such shows "pretty quickly... The market will correct itself and people will come back to more traditional programming." Although Fox pioneered many reality shows, Chernin said economics aren't as good as they appeared because such programs have less value for reruns.

MTV's' Box Music Network intends to introduce its new TV-Web convergence service, Box Fusion, on cable systems in at least 10 major markets this week in conjunction with ACTV. Designed for cable customers simultaneously using TVs and PCs, Box Fusion will match music videos on TV network with specially synchronized Web content on computer, including artist biographies, liner notes, song credits, concert information, interactive trivia games, questions, music reviews. Plan calls for adding interactive ads, coupons, online merchandising and ticket orders later this year. Box Music and ACTV said service would start with 12 million homes in such large markets as Chicago, Miami, N.Y.C., Philadelphia, San Francisco.

Sun Microsystems and iMagicTV signed tentative agreement to deliver digital, interactive TV services over asymmetric digital subscriber line (ADSL) and very high bit-rate digital subscriber lines (VDSL). Under Memorandum of Understanding, Sun and iMagicTV will engage in joint marketing, promotion, sales and product development of digital TV services. Partners said they aim to help phone companies offer video services along with voice and data on their high-speed broadband lines in competition with similar service bundles being developed by cable operators.

DirectTV said it added record 160,000 net customers in March, for 33% increase over March 1999, and 405,000 in first quarter. It said 105,000 more subscribers were transitioned from PrimeStar and it now has total of 8.3 million. Company also said it added 8 new channels and national feed of PBS as family programming option to its digital satellite service. Customers will get free preview May 25-June 30 that will include Biography Channel, Boomerang, Discovery Kids Channel, DIY (Do It Yourself), Odyssey Network, Oxygen, PBS, PBS Kids Channel, SoapNet.

Sinclair Bcst. Group ordered DTV transmitters for 8 stations in deal with Acrodyne. Transmitters are to be compatible with either 8-VSB or COFDM modulation. Stations are in Des Moines, Kansas City, Norfolk, St. Paul and 2 each in Greensboro, N.C., and Dayton. Sinclair also announced agreement to test datacasting technology and services developed by WaveXpress, terms not disclosed.

Time Warner Cable's N.Y.C. system introduced interactive TV advertising, using enhanced technology from Wink Communications. Free service allows cable subscribers to respond to commercials and place orders with their remote controls. Wink said it has signed 20 national advertisers for service, including Clorox, General Motors, Honda, Kraft, Unilever.

Personals

Josie Thomas advanced to senior vp-diversity, CBS TV... Robert Shellard promoted to vp-planning & administration, affiliate relations, CBS TV... Lisa Simpson, ex-Sony Online Entertainment, appointed COO, CBS Internet Group and group pres., CBS Online... Gary Ehrlich promoted to exec. vp-investments in non-TV-related sports assets, Fox Sports Enterprises... Derek Medina promoted to exec. dir.-business development for multimedia, ABC News.

Cary Jones advanced to pres., Meredith Bcstg., replacing John Loughlin, resigned... James Keelor, pres. of Cosmos Bcstg., elected chmn. of TV Operators Caucus (TOC), succeeding Nick Evans of Spartan Communications; Jeffrey Smulyan, Emmis Bcstg. chmn., elected to TOC board... Kim Johnson, ex-Clear Channel, named vp-Internet sales, Entercom... John Quigley advanced to gen. mgr., WRLH-TV Richmond, Sinclair Bcst. Group... Stuart Powell promoted to vp-gen. mgr., WCNC-TV Charlotte... David Rabinovitch advanced to vp-production, KCTS-TV Seattle... Unapix Entertainment promotions: David Dreilinger to pres.-CEO, Rob Miller to pres-Unapix TV.

Laura Wendt advanced to senior vp-Nickelodeon, Nick at Nite and TV Land Research & Planning... Allen Sabinson, ex-Miramax, appointed senior vp-programming, A&E Network... David Rhodes promoted to exec. vp-mergers & acquisitions, corporate finance and advisory services, Daniels & Assoc... ESPN promotions: William Burkhardt to exec. vp, ESPN International & Enterprises; Rick Alessandri to senior vp & gen. mgr., SportsTicker; Bob Eaton to senior vp-production; Jed Drake to senior vp-production and exec. producer; Skip Desjardin to vp-video products group; Jim Noel to vp-business affairs; Sean Bratches, senior vp-affiliate sales, adds research operations; Glen Enoch to vp-research... Dale Bennett, ex-AT&T/TCI-Texas, named COO, Classic Communications... Vivian Schiller advanced to exec. vp, CNN Productions... Michael Johnson promoted to pres., Walt Disney International.

Matt Raymond, communications dir. for Sen. Burns (R-Mont.), will swap positions with Larry Akey, chief of staff for Rep. Hill (R-Mont.), April 10... Ann Morton, ex-legislative counsel to Rep. Boucher (D-Va.), named senior vp-public policy and advocacy, Internet, e-commerce, emerging technologies, Simon Strategies... John Loughlin, ex-Meredith Bcstg., named pres.-CEO, Primedia Magazine & Internet Group... Changes at XM Satellite Radio: Patricia Kesling, ex-GTE, named vp-mktg. strategy; Gary Hahn, ex-DirecTV/Primestar, joins as vp-ad & creative services; Derek de Bastos promoted to vp-space segment... Chris Callero, ex-Bank of America, named COO, Wink Communications... SkyStream Networks board additions: Liam Strong, CEO, MCI WorldCom International; Adam Grosser, pres., Excite@Home.

Game Show Network began its first major consumer marketing campaign April 5, relying mainly on broadcast and cable TV commercials and outdoor signs. Cable network, unit of Sony Pictures Entertainment, is running commercials on at least 8 other cable channels, as well as spot broadcast, syndicated programs and cable interconnects in selected markets. Start of campaign came week before network makes its first upfront presentation to major advertisers and ad agencies in N.Y.

European Bcstg. Union said tests of its scrambling system were successful. Basic Interoperable Scrambling System is expected to be used for digital satellite newsgathering.



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Obituary

Larry Finley, 86, pioneer in TV programming and audio-tape, died April 3 of natural causes in N.Y.C. He had multifaceted career, including as partner with band leaders Tommy and Jimmy Dorsey and ownership in what is now McKinnon Bcstg. (3 TV stations). Finley produced and hosted several early vintage TV shows from West Coast and was founder of International Tape Assn., now International Recording Media Assn. (IRMA), which he served as adviser until his death. Wife, 5 sons survive.

Consumer Electronics

A Section of Television Digest with Consumer Electronics

STATE OF THE INDUSTRY

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

	MAR.18- MAR.24	1999 WEEK	% CHANGE	MAR.11- MAR.17	12 WEEKS 2000	12 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	508,546	502,677	+ 1.2	564,091*	5,644,597	4,993,754	+ 13.0
DIRECT-VIEW**	482,466	480,521	+ 0.4	537,196*	5,358,213	4,780,157	+ 12.1
TV ONLY#....	416,064	417,210	- 0.3	461,647*	4,550,230	4,102,383	+ 10.9
TV/VCR COMBO.	66,402	63,311	+ 4.9	75,549*	807,983*	677,774	+ 19.2
PROJECTION...	26,080	22,156	+ 17.7	26,895*	286,384*	213,597	+ 34.1
TOTAL VCR**....	454,495	486,111	- 6.5	380,894*	4,627,775*	4,100,581	+ 12.9
HOME DECKS...	388,093	422,800	- 8.2	305,345*	3,819,792	3,422,807	+ 11.6
CAMCORDERS.....	102,167	106,379	- 4.0	96,877*	928,342*	762,127	+ 21.8
DVD PLAYERS....	98,134*	37,481	+161.8	60,322*	1,047,362*	358,401	+192.2

Direct-view TV 5-week moving average#: 2000-432,209*; 1999-368,543 (up 17.3%).

Projection TV 5-week moving average: 2000-26,172*; 1999-19,557 (up 33.8%).

VCR deck 5-week moving average: 2000-393,349*; 1999-361,483 (up 8.8%).

TV/VCR 5-week moving average: 2000-83,207*; 1999-66,541 (up 25.0%).

Camcorder 5-week moving average: 2000-93,323*; 1999-92,884 (up 0.5%).

DVD player 5-week moving average: 2000-98,406*; 1999-35,596 (up 176.5%).

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

NEW BUYING GROUP MEETS THIS WEEK: Two former NATM members will meet with dozen other dealers in Chicago this week to lay groundwork for new Assn. of Select Television and Appliance Retailers (ASTAR) buying group.

Video Only of Seattle and Queen City of Charlotte sent nearly 30 letters to other dealers to gauge interest in forming ASTAR, which will be headed by former NATM Exec. Dir. Saul Gold. While Video Only Pres. Peter Edwards declined to disclose names of dealers expected to attend April 12 meeting, one current NATM member was said to be sending representative. Handy Andy, Queen City, Vann's and Video Only were terminated as NATM members in Jan. Vann's is expected to join Pro Buying Group, while status of Handy is unclear. Handy, which isn't expected to attend ASTAR meeting, in past has indicated it might not join another buying group.

ASTAR is likely to consist of 10-12 members, each with annual sales of \$30-\$100 million, Edwards said. First 10 charter members will receive incentives such as lower initiation fee. Group's costs will be kept below those of NATM, which has 13 members and annual budget of \$1.2-\$1.3 million. While NATM charges members \$85,000 annual fee, ASTAR will have one that's "dramatically lower," Edwards said.

ASTAR, which would be first new buying group since short-lived New Marketing Alliance in 1992 (American Appliance, H.H. Gregg, P.C. Richard and Fred Schmidt), will have "good representation" in most regions of U.S. and is targeting \$1 billion in combined sales after first year in operation, Edwards said. Group will include mixture of dealers that sell CE or major appliances only, as well as those that sell both, he said.

Despite suspicions that new group would raid rosters of existing organizations — NATM, Associated Volume Buyers (AVB), Nationwide and Marta — Edwards said ASTAR isn't soliciting members of other organizations. One NATM member approached ASTAR, Edwards said. Nationwide and AVB recently have set up separate groups within their organizations that appear designed to meet needs of larger members and lessen chances of their leaving. "Our pol-

icy is not to go out there and go after NATM people at this time," said Edwards, who conceded that "2 or 3" NATM members might fit group's profile. "That is not the way we wanted to end things."

New group will be set up as nonprofit organization and members are expected to be given shares that won't translate into equity but rather may provide for greater voting power based on size or seniority, Queen City Pres. Chip Player said. ASTAR also will have buying committee structure similar to NATM's, Edwards said. Player said, "This is going to be a small, select group of people that are basically the same size and have the same agenda. The equity isn't the issue. It's more of how do you earn increasing voting power and what is fair, right and appropriate."

Vendors, most of which had only preliminary discussions about ASTAR, were withholding judgment on need for new buying group. "There is room for another group out there, but only if they can marshal all the retailers and come to a manufacturer and guarantee they're going to buy a certain amount because then it becomes viable," Hitachi Exec. Vp Gary Bennett said. "Otherwise, they're all run as independents."

Indeed, while NATM has 13 members, 4-5 chains account for 60% of revenue and carry substantial influence in its executive committee, sources said. Power of executive committee was seen as key in enforcing requirement to meet forecast commitments to vendors.

While NATM is enforcing commitment guidelines, it also is requiring that core suppliers — Sony, Thomson and Toshiba — sign contracts with performance guarantees covering delivery of products and other areas. Failing to meet guarantee would carry penalty such as fine, said BrandsMart Pres. Michael Pearlman, whose chain is member. "They want us to commit to volume and we're saying 'no problem, but if you don't deliver, then there is a problem,'" Pearlman said. "Vendors want you to guarantee share, but if they don't ship, you can't buy the products from somebody else so you have to build these things in."

Pearlman also denied rumors that group had raised annual fee. Charge will remain at \$85,000, but while members in past would receive back part of unspent monies at year-end, "this year they said not to count on anything being left over," he said.

CODE-FREE DVD DECK GONE, BUT ISSUES LINGER: In hectic week for copy protection issues, retailer Circuit City (CC) stopped selling DVD player that circumvents regional coding and Macrovision anticopy system while MPAA stepped up its efforts to remove DVD Content Scrambling System (CSS) hack from Internet Web sites. Separately, DVD player pricing was set to hit new low of \$99.99 last weekend.

Notice on CC Web site and posted prominently in stores said now-notorious Apex Digital AD-600A player would be modified to eliminate code-free features. "We are aware from media reports that initial production of the Apex... had secret menus which allowed some users to bypass copy protections," CC statement said. "These menus have now been deleted from this player in recent production and our present stock reflects this fact."

CC move caused feeding frenzy last week on various Web sites devoted to Apex and sent price of player zooming as individuals claiming to have large quantities offered them for direct sale online. One individual claimed to have inside line to Apex OEM in China and planned to buy 640-player container at \$109 cost per deck. We contacted OEM and were quoted \$160 cost for same quantity. Deck has been selling for \$179 at CC and other retailers. For time being, some continue to stock and sell original code-free Apex, including 29-store American Appliance chain, Future Shops in Canada and mail-order dealers such as Heartland America.

Despite Apex withdrawal, cat might be out of bag for Macrovision and regional coding circumvention. Hackers have been posting online offers to provide Apex "secret menu" firmware that can be "dumped" onto EPROM memory chip for retrofitting in DVD-license compliant players. Although that activity has been going on since Apex AD-600A arrived on market in Jan., code-swaps and offers proliferated last week in wake of CC announcement.

Meanwhile, MPAA filed motion to stop further Web postings of DeCSS hack that lets PCs circumvent CSS to send unencrypted DVD digital bitstream to hard drive or other recording media.

In Jan., MPAA won injunction from U.S. Dist. Court, N.Y.C., prohibiting 3 Web sites from posting hack. But MPAA motion filed last Wed. complains that although those sites no longer carry DeCSS code themselves, they have posted hyperlinks to other sites that tell how to circumvent CSS. MPAA said one of 3 enjoined sites carries hyperlink to more than 300 others. "This motion is about modifying the court's injunction to cover the hyperlinking activity in order to curtail efforts to evade the court's prior order," said Mark Litvack, MPAA vp-dir. legal affairs for worldwide antipiracy. Trial is scheduled for Dec., and free-speech advocates and others are opposing MPAA.

Catch-22 that got DeCSS ball rolling could be eliminated with new software-based DVD decoder for PCs that's due soon. Norwegians who originally hacked CSS claimed they did so because there was no way to play discs on DVD-ROM drives in PCs that use Linux operating system. Now, software developer InterVideo says it will release software-based decoder for Linux PCs. It said it has CSS license and will release LinDVD program with software Dolby Digital decoder at \$29.95 later this spring.

That's 30% of price for new home DVD-Video deck. At our Fri. deadline, we learned that CompUSA planned \$99.99 Sun.-Mon. in-store promotion on Raite-brand DVD player. Price includes \$90 mail-in rebate off regular \$189.99 ticket for Taiwan-made brand that CompUSA introduced last fall. Deck might be discontinued model, or CompUSA exclusive. CompUSA listed SKU number as 249718 for AVPhile 711 — model that Raite no longer offers on its listing that's open to all vendors. Chat on Internet insisted sale-player was Raite AVPhile 715, model with MP3 playback and component video outputs that's well known to circumvent regional coding and Macrovision. Raite doesn't have factory dealer network in U.S., but we learned brand is distributed by Pixie Technology, Fremont, Cal.-based marketer of LCD monitors and other PC products.

SEGA WILL GIVE DREAMCASTS AWAY AS \$200 REBATE: As part of risky move Sega is hoping will both expand market for online gaming and keep it well-positioned as new videogame consoles arrive from competitors, company said it will start rebate program late this summer that essentially will give away its \$199 Dreamcast.

Rebate program, similar in concept to various PC rebates that have proliferated since last summer (TVD Aug 2/99 p11), will allow new Dreamcast customers and those who already own system to get check for \$200 as well as free keyboard by signing up for SegaNet ISP and online game service for 2 years at \$21.95 per month (total of \$526.80). Although company already has entered online gaming with its Sega Network and select Dreamcast games, advanced SegaNet site offering true 3D multiplayer online gaming for first time will begin in U.S. this summer in conjunction with rebate program.

SegaNet will be demonstrated at E3 in L.A. next month and go live in Aug., although company said official "marketing launch" won't come until Sept. 7. Sega said that by fall 10-12 online games will be available, including *Phantasy Star Online*, *Quake III Arena*, *Sega Sports NBA 2K1*, *Sega Sports NFL 2K1*.

Details of program were provided by company last week in conference call with reporters. At same time, Sega also announced formation of new, independent Web company, *Sega.com*, that will run online business. Much of first \$100 million in funding for new company is being provided by Sega Enterprises in Japan.

What rebate program will end up costing company isn't yet clear. *Sega.com* Pres.-CEO Brad Huang said "it depends on how many people sign up." He said if 2 million people signed up for ISP service, it would cost company \$400 million in rebates, although "there is potential to [earn] \$1 billion in revenues" from ISP service.

If forecast for Dreamcast sales this year proves correct, company will have to hand out considerably more rebate checks than Huang's example. Sega Senior Vp Peter Moores said "hardware installation base plans for this fiscal year" call for company to "raise our installed base to a total of 6 million units of hardware." He said "almost 2 million consoles have been sold to date," so it's expecting to sell additional 4 million by March 31, when fiscal year ends.

When asked whether rebate program was indication that Sega intended to move away from hardware business entirely, Moore said: "There'll be no change to the business model whatsoever... We're still firmly a gaming company." He said "the idea of console gaming is impossible without a console," adding: "Who knows where we'll be in the next 5 years. But there are no plans whatsoever to walk away from our core competency, which is providing great gaming experiences through great gaming hardware."

Moore also said Sega is "totally and utterly confident in our positioning against Sony PlayStation2" because of what Sega sees as its "triple threat" — that it has all 3 "necessary" ingredients for success going forward: SegaNet, delivery system for online games; Dreamcast console itself, which is proprietary hardware and delivery system; slate of already existing games. Moore stressed that one major factor Sega believes gives it edge over PlayStation2 is Sony's "lack of a clear Internet strategy" for online gaming. He said: "I'd much rather be sitting in this position than be sitting in Sony's position."

Moore said company's first fully networked online multiplayer game, *Chu Chu Rocket*, introduced last month, "has been a phenomenal success at retail," with "as many as 40 percent of purchasers" buying game and then taking advantage of its online components. Average daily online play among those customers is "close to about 70 minutes," he said.

Although focus of SegaNet clearly will be on games, it also offers consumers full range of typical ISP services, including e-mail. Company is hoping that it can lure many of its customers away from competing ISPs, although those

who use other dial-up services still will be able to play Dreamcast games online. Sega said quality of games will be much better for those who sign on with SegaNet.

Providing Internet access services for SegaNet will be GTE Internetworking, division of GTE Corp. As part of deal, GTE will provide national and local access for SegaNet. Although AT&T WorldNet has been preferred ISP provider for Sega Network since Dreamcast debut, Huang said Sega picked GTE as backbone provider for SegaNet because "online gaming is very different from just receiving information" online and "GTE is designing a new network for us" — essentially private network for Sega gamers — that will enable high-speed gaming.

At start, SegaNet will be geared exclusively toward average Internet subscriber with standard dial-up connection, but Sega said it will ship Ethernet adapter in 4th quarter this year that also will allow broadband subscribers to play. Sega.com Mktg. Vp Greg Chiemiango said Ethernet adapter can be inserted in same place where Dreamcast's 56K modem currently is located.

Also on tap from Sega are variety of peripherals designed to be used in conjunction with its online games. Moore said they will include MP3 player "targeted for Sept. of this year" that's "currently slated to have the capacity to hold two 64 [MB] cards." It will be priced "at or below \$100" and will enable consumers to download music through their Dreamcast, he said. Also coming are Dreamcast digital camera that "will allow [online] gamers to see each other prior to playing" and microphone that will allow them "to talk to each other before — and in some cases during — playing." Peripherals will "all be rolled out in the next 12 to 18 months," he said.

Sega said it met with retailers last week at its annual summit in Las Vegas to discuss terms of rebate. Moore said Sega will support dealers with marketing program that will include co-op funding as well as print and TV ads. Although he said most retailers seem to prefer having special counter at their stores for customers who have just bought Dreamcast to register for SegaNet and get instant \$200 rebate check, "retailers that can't handle this particular process" simply can tell customers to register for SegaNet online and have check mailed to them. In either case, \$200 check will come from Sega.com so retailers won't be losing money from hardware sales.

Sega of America (SOA) Mktg. Communications Dir. Charles Bellfield later told us "we will put a marketing program together for each of the retailers depending on what they do — depending on reach, depending on white space advertising promotions" and other factors. He said "it's quite feasible to discuss that maybe there is a revenue-sharing potential for them concerning their customer sign-up online."

Industry analysts and retailers last week seemed to think that despite riskiness of Sega plan, it may work to company's advantage. For example, Funco Chmn.-CEO David Pomije said: "I think they — in order to compete in this environment — have to come up with tactics like that." But he added: "I can't judge their economics [of plan] at this point."

Separately, Sega said it wouldn't bow to retailer pressure in Europe to drop pricing of its Dreamcast there — now about \$313.98 — despite disappointing sales, British press report said. Retailers also have been complaining about low number of titles available for system in Europe. SOA's Bellfield said he couldn't comment on European situation, but pointed out that there was no lack of titles in U.S. As of last week there were 86 games available, he said, and "by the end of 2000, it'll be over 200." Among factors that may make it difficult to match such numbers in Europe are number of different languages involved.

GRAY MARKET PLAYSTATION2s ON RISE IN U.S.: PlayStation2 (PS2) continues to be available on gray market in U.S. and U.K. despite fact that Japanese govt. prohibited export of Sony's next-generation videogame console (TVD March 13 p18) and manufacturer hasn't authorized sale of console outside of Japan yet. Meanwhile, we've learned that Sony so far has passed up opportunity to curb PS software piracy with technical solution proposed by Macrovision.

Latest entity we found distributing PS2 last week was Conn.-based Innovation Technologies, which took classified ad in April 3 *Video Business* proclaiming: "PlayStation 2 Systems In Stock Now!" Innovation didn't publish its name in ad and only other information provided was phone number to get "more info on the greatest Rental System of all time!" We called last week and sales representative gave us details, including name of his company. He told us Innovation was charging \$650 for PS2 consoles, which were purchased from undisclosed source in Japan. Company had "sold about a hundred of them" so far, although he later boosted number to "300." Salesman indicated that PS2 sales were made to retailers to date, and Innovation was suggesting that dealers who buy deck could rent it out for \$29.99 per night. Innovation also was selling PS2 games for \$78 each. Rep said company had 3 titles in stock with 3 more on way. Sony announced more than 10 titles at March 4 rollout in Japan.

PS2 from Innovation could play "American" DVDs, salesman told us. So company obviously had version of console that allows customer to change regional code setting from Japan's Region 2 to N. American Region 1. As we reported, after many news reports of regional code glitch, Sony started shipping console with new utility disc — one that won't allow user to change setting (TVD March 20 p10).

Innovation wasn't providing English instructions with PS2. Although Web site — www.innovation1.com — showcased console with pictures and specifications, it didn't provide pricing information or mention game titles. But we found comprehensive English-language user guide to PS2 on ign.com gaming Web site. Site acquired PS2 in Japan and translated key operating functions, along with color photos showing onscreen Japanese menus that would help gray market users perform machine set-up and follow onscreen prompts. Guide also discusses region code change.

Innovation hasn't been only company selling PS2 in U.S. or U.K. As we reported, PS2 can be found easily at retailers in Manhattan and London and at Web sites of eBay and Game Express, www.gexpress.com. Sony Computer Entertainment America (SCEA) spokeswoman didn't return calls for comment.

Nor has Sony commented on Macrovision breakthrough that would prevent PS consoles from playing pirated software titles. Just-published British patent by Macrovision subsidiary CDilla (GB 2340698) describes method devised nearly 2 years ago to prevent PS1 consoles modified with \$40 chip from playing counterfeit discs (TVD Dec 14/98 p10).

Beauty of system is that existing consoles needn't be changed at all. Instead, Macrovision anticopy code is embedded on legitimate game discs and carries through when pirated disc is made on CD recorder. Inventor Roger Edwards says in patent that putting code on new game discs effectively retrofits "even the oldest consoles." CDilla tried to interest Sony but was rebuffed, said Macrovision U.K. Managing Dir. David Simmons. "We tried to discuss this with Sony but they showed no interest, and we attributed that to a not-invented-here syndrome," he told us.

PS software piracy is thorn in side of 3rd party developers and retailers, who repeatedly have petitioned Sony to address situation. Problem is most acute in Europe, where new game titles don't appear until long after release in Japan and U.S. By then, games already have been pirated and sold underground for fraction of legitimate price. When authorized title is released, retailers say they find demand to be less than expected.

PS discs can be pirated easily on CD burner, but can't be played unless console is modified with chip that mimics legitimate authorization codes. Those are lost during copying process because CD recorders correct authentication code errors deliberately placed on legitimate titles to foil copying. Inexpensive mod-chip fools console into playing bogus game — and that's where Macrovision system foils pirates. Where legitimate disc transmits authorization code only when game is booted up, mod-chip sends it out continuously. New Macrovision code on legitimate disc would instruct console to keep checking for authorization signal and to shut down if it saw authorization repeated.

SCE spokesman in U.K. dodged our specific question asking why PS1 and PS2 don't use Macrovision anticopy system to curb piracy. Spokesman from outside PR firm said only "Sony does not comment on piracy other than to advise people not to buy pirate games." On Fri., though, in-house SCE-U.K. spokesman said he would refer question to relevant executives.

Meanwhile, value of unauthorized copies of CD-ROMs in consumer households approached \$675 million in U.S. last year, Macrovision reported. Company's latest study was conducted in Feb. by Merrill Research & Assoc. In 69% of cases, respondents said they would have purchased software if they couldn't copy it. Survey found that 20% of households questioned now have CD-recordable drive — 200% increase in single year. Merrill Research Report deals with "casual copying" as opposed to organized piracy, and is available at macrovision.com Web site.

Silverline Records is new record label under which L.A.-based supplier 5.1 Entertainment Group will market 15 classical and jazz "DVD Music" titles starting at \$19.98 per title. DVD Music products, not to be confused with DVD-Audio, essentially are DVD-Video titles maximized for multichannel surround audio and thus are playable on existing DVD-Video players. Separate Immergent Records label, also marketed by 5.1 Entertainment Group, will carry pop reissue releases starting in late spring or early summer. Company said true DVD-Audio will incorporate all Silverline and Immergent releases starting in June. Introduction timetable presumes that specifications on Content Protection for Prerecorded Media (CPPM) encryption system now being evaluated will have been finalized by then.

Tough new restrictions for online AV content vendors in China will include ban on sale of pirated material or any CDs with MP3-compressed audio downloaded from Internet. New rules, drafted by Ministry of Culture and effective May 1, also forbid online sale of imported or smuggled video and audio content and any wholesaling. Regulation also requires domestic online content vendors to register with govt. for permission to sell online. Foreign-funded e-commerce vendors aren't permitted to sell AV software online in China. Separately, Ministry of Culture announced that 6 million illegal audio and video recordings had been seized since Oct., including 3.2 million pirated Video CDs. Ministry said Chinese spend \$1.8 billion to \$2.4 billion on audio and video titles yearly, but overwhelming proportion is for pirated goods.

MASSMERCHANT.COM PLANS MAY DEBUT: "By mid-May," Audiohighway.com will join online CE retailer field, Pres.-CEO Nathan Schulhof told us last week.

Company based in Cupertino, Cal., currently operates 2 Web sites: Audiohighway.com, which features trailers, music clips, entertainment news, e-mail and voice mail services, and MassMusic.com, which sells music. Schulhof said latter site will grow next month to include 6 separate "stores" — for CE products, computer hardware and software, games, music, video. At that point, site's name will be changed to MassMerchant.com to reflect increased selection, he said, and separate Audiohighway.com site will remain.

MassMerchant.com will feature "700,000 different products" at start, some of which it will receive from distributors, some direct from manufacturers, Schulhof said. He said company already has received authorization from various manufacturers, including Samsung, Sanyo-Fisher, Sharp, VTech.

On software side, although product at outset will consist only of hard copies, he said: "Eventually we will be doing downloading." He intends to sell downloads of games, music and movies, but said it was too early to say when that would happen. For one thing, although it already has relationships with labels including BMG and Universal, Schulhof admitted company has yet to receive rights to sell downloads of those companies' titles, but "we're working on that. It's only a matter of time." Another factor is relatively small number of homes that have access to broadband now.

Company "spent 8 months" on site, Schulhof said, and inventory will work on real-time basis so "consumers will be able to know what they can get and what they can't get" at any given moment. He had hinted at expanded site in conference call with analysts week earlier. At same time, Web company reported revenues jumped to nearly \$2 million in 1999 from \$139,000 year ago, although loss expanded to \$12.7 million from \$5.9 million.

In conference call, Schulhof said company had met its projections for 1999 and saw increased growth in revenue and traffic in each quarter. Breaking down revenue by quarter, he said company took in \$165,000 in first quarter, \$249,000 in 2nd, \$613,000 in 3rd, \$925,000 in 4th. Schulhof said Web site had 186,000 visitors in Sept. 1998 — right before company went public. By Feb. 2000, he said, number of visitors had jumped to 5.7 million, 3.1 million of them unique visitors. "We anticipate a healthy increase in revenues from our e-commerce site in the 3rd and 4th quarter this year," which he said would be driven in part by relaunched Web site.

Despite Audiohighway.com's continued losses, Schulhof described its cash situation as "fine" and promised that upcoming SEC filing would underscore that and reassure investors. Meanwhile, it's looking for opportunities to raise additional funds, he said.

Audiohighway.com is continuing to suggest that various hardware manufacturers may have infringed on patent it received. Company first raised issue last summer on U.S. patent No. 5,914,941 it was given for "portable information storage/playback apparatus having a data interface" (TVD July 19/99 p22). Audiohighway.com said then that patent covers all

portable devices that record and play back digital audio files from Internet, and Audiohighway.com's goal was to get companies that manufacture such devices to pay royalties. Competitors we spoke to on that point said they were reviewing issue and weren't convinced patent was as broad as Audiohighway.com's claim.

Schulhof told investors Audiohighway.com continues to see patent as "very valuable asset" and is following advice of its attorneys. But he told us it had yet to file any lawsuits, although he said it had "put some companies on notice." He declined to identify those companies.

In 1997, Audiohighway.com — when it was known as Information Highway Media — released Listen Up, one of industry's first portable digital audio players. But since going public in 1998, it has focused on its e-commerce site and services rather than hardware. Schulhof told us company no longer markets Listen Up, although it still feels "we invented it and pioneered the market."

RioPort signed letter of intent to license its Audio Manager playback software and media device manager (MDM) API technology to Korean MP3 player manufacturers Maycom, marketed in N. America under I-Jam brand, and Unitech. Latter's current line includes Juli, device designed for user to wear around neck or attach to belt, and Rome, product similar to one we recently reported that will be shipped by SmartDisk in 4th quarter this year (TVD March 27 p15). Like SmartDisk's FlashTrax, Rome is cassette-like device that lets user download and listen to digital audio content using traditional car, home or portable cassette decks. Rome also can be used outside of tape deck by plugging earphones directly into it. Unitech spokeswoman told us company is setting up distribution channel worldwide although device is available already online for \$249 at www.Romemp3.com. One main difference between Rome and FlashTrax is that latter accepts removable memory cards. Rome, instead, has "portable hard disc function" that's selectable by region, which Unitech spokeswoman said in written response means "player can be used as a normal hard disket" and "you can save the files just like a normal disket." Rome has built-in 32 MB of flash memory. Spokeswoman said company applied for patent in Japan, Korea and U.S. year ago. SmartDisk didn't announce pricing for product and declined comment on Unitech's product last week.

DTV sellthrough to consumers will reach 460,000 sets this year, majority of them HDTV-ready sets. Study by Neretin Assoc. polled 188 retailers, which research group said would account for 95% of DTV sets sold. Neretin said retailers indicated they would downplay set-top DTV decoders and DTV sets with integrated decoders until there's more HDTV broadcasting and prices for integrated sets come down. Dealer poll indicated sales of decoders and integrated sets would represent only 5.4% of DTV total. Only 32 of 188 retailers polled said they carry integrated DTV sets. Sony integrated set was carried by 50%, Zenith by 28%, ProScan and Toshiba 12.5%, Sharp 9.4%, Samsung 6.3%. In HDTV-ready category, brand-share leader was Mitsubishi (54.7%) followed by Toshiba (51.9%), Sony (41.5%), Panasonic (28.3%), Hitachi (22.6%), RCA (17.9%), Pioneer Elite (13.2%), Pioneer (10.4%). Neretin 50-page study includes breakdown of DTV sizes and types and retailers' verbatim comments — 973-763-1894, researchup@aol.com.

BLOCKBUSTER EXPANDS GAME RENTALS:

"Rent-to-own" PC software test being conducted by 12 Alaska and Texas Blockbuster franchise stores in conjunction with NetActive is expanding to 175 corporate stores run by video rental chain in 14 markets.

Markets in test are Austin, Boston, Cleveland, Detroit, Hartford, Houston, Indianapolis, Jacksonville, L.A., Orlando, Raleigh, Sacramento, Salt Lake City, San Diego. Blockbuster said stores taking part will carry about 20 PC games from Activision, Broderbund, Eidos, Fox Interactive, Infogrames, Sega, other publishers. Titles include such popular games as *Croc* and *Tomb Raider III: Adventures of Lara Croft*.

Spokesman for NetActive (known as Channelware until name change in Feb.) told us back in Nov. that company had made deal with Blockbuster that would allow it to test rental system "early in the new year" at 175 corporate-run Blockbuster stores in 14 markets (TVD Nov 22 p21). But Blockbuster spokeswoman couldn't confirm NetActive deal then and video chain kept its talks with NetActive under wraps until official announcement last week.

However, Blockbuster did announce in Nov. that it was starting same type of PC software rental test program in conjunction with Rockville, Md.-based AegiSoft Corp. Fourteen markets also were selected for that test, but were completely different from ones chosen for NetActive. Picked for AegiSoft test were Atlanta, Buffalo, Charlotte, Chicago, Dallas, Denver, Miami, N.Y., Phoenix, San Antonio, San Francisco, Seattle, St. Louis, Tampa. AegiSoft test closed at end of 1999, Blockbuster spokeswoman told us.

As we reported, both AegiSoft and NetActive systems bear resemblance to failed Divx system in that customers rent title at store and take it home to play in computer for limited time. After that, they can opt to pay for additional time or buy title outright. With NetActive program, Blockbuster customer rents game for 5 evenings at \$5.99 and can extend play time extra 5 evenings for \$3.99 either by using credit card online or by buying "e-tickets" at Blockbuster.

When asked how AegiSoft test fared at her company's stores, Blockbuster spokeswoman said company "doesn't comment on tests." She said Blockbuster is "testing the technology" of each company and "we're just looking at the different offerings to see what our customers want." How long NetActive test will be run was unclear last week.

Other games that are part of NetActive test include *Actua Ice Hockey 2*, *Asteroids 3D*, *Bugs Bunny: Lost in Time*, *Commandos: Behind Enemy Lines*, *Darkstone*, *Demolition Racer*, *Jeff Gordon: XS Racing*, *Pro Hunter 2*, *Railroad Tycoon*, *Slave Zero*, *Sonic 3D*, *Test Drive: Off-Road 2*, *Test Drive 6*, *Tom Clancy's Rainbow Six: Rogue Spear*, *Where in the World Is Carmen Sandiego?*

Meanwhile, NetActive has teamed up with Activision and General Mills for promotion in which "NetActivated" CD-ROM versions of interactive game publisher's *Asteroids* and *Extreme Mountain Biking* are being included on boxes of Cinnamon Toast Crunch and Trix cereals. Customers can load games into PC and play them for 2 hours each at no charge. After that, they have option of extending playing period for extra 2 days for \$4.99 or unlimited play at \$19.99. Similar promotion was

offered earlier by NetActive and General Mills in conjunction with Disney/Pixar game *Toy Story 2*.

In early March, NetActive announced it had completed \$10 million financing with new strategic investors and reinvestments by majority of existing shareholders.

Separately, Blockbuster started renting Sega Dreamcast games nationwide at select stores. Video chain already had been running rental test of Dreamcast titles in 534 of its U.S. stores.

Commenting on decision to expand Sega rental program, Blockbuster Interactive Merchandising Vp Steve Lundeen said: "Consumer response to these tests was very positive, and now that the format has caught on... we've decided to roll it out nationally to participating stores."

Miniature optical storage disc about size of quarter with 500 MB storage for music, video or other digital content was introduced last week by DataPlay. Company based in Boulder, Colo., said write-once disc could sell for as little as \$5-\$7, compared with \$200 for 64 MB flash memory cards used in Internet music players, digital cameras, handheld games, electronic books, other portable devices. DataPlay disc can contain prerecorded or user-recorded content, DataPlay said. Key feature is ContentKeyT, e-commerce function that enables customers to activate prerecorded content on disc over Internet, without requiring download. Application would enable record company to embed multiple music selections on disc, giving customer option of paying online to unlock and activate desired content. That and other capabilities of DataPlay drew strong endorsements from variety of music and CE companies, including Capitol Records, Panasonic Disc Services, Samsung, S3's Diamond Multimedia, Toshiba, Universal Music Group. DataPlay said it expects discs and CE devices that use it to be on market early next year. It said discs also could be used at stations in retail stores to download content from Internet.

Casio will outsource production of its Cassiopeia Fiva subnotebook PCs to Taiwan-based Acer. Casio said shift to OEM offshore will make PC more cost competitive. Portable uses Casio's LCD technology. Production of 3,000 monthly is planned.

TELEVISION DIGEST NOW AVAILABLE IN PDF FORMAT

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BABBAGE'S BATTLES BOUTIQUE: Videogame retail chains Babbage's Etc. and Electronics Boutique (EB) each made moves last week to acquire Funco — merger that stands to make winner world's largest dealer specializing in electronic games.

As week started, EB and Funco announced they had signed definitive merger agreement under which EB, based in West Chester, Pa., would acquire latter for \$110 million (\$17.50 per share). But before week was over, Funco announced that it had received written unsolicited proposal from Babbage's that said it was prepared to acquire Funco for \$135 million in cash or, at Funco's option, combination of cash and stock in Barnes & Noble, which bought Babbage's in Oct. 1999 (TVD Oct 11/99 p20). Babbage's had merged with Software Etc. in 1994.

EB currently operates 628 stores in 46 states, Australia, Canada, Puerto Rico and S. Korea under names Electronics Boutique, BC Sports Collectibles, EB Kids, EBX Stop 'N Save Software. In comparison, Babbage's had 526 stores at end of 1999, while Funco has 400 retail stores in U.S. All 3 operate e-commerce Web sites as well. As result, either merger would create videogame retail giant with 1,000 stores and multiple Internet sites.

Although Minneapolis-based Funco made its name as retailer of used videogames, it later shifted its merchandise mix to include new titles with lower margins — category that accounted for 61% of its \$206.6 million in net sales in fiscal 1999, up from 48% year earlier (TVD July 19 p16).

Explaining why his company sought to acquire Funco, EB CEO Joseph Firestone told us last week, before Babbage's announcement, that it would be good fit "because [Funco's] customer is different than our customer... We are basically a mall-based operator and our customer is the 15-to-35-year-old male. Their customer is a strip center customer demographically different who does not shop in the mall — probably a 12-to-22-year-old male." As result, he said, acquisition would "sort of jump-start our [plan] of getting out into strip centers and take us about 7 or 8 years ahead of what we would normally build."

Although EB and Funco have similar product mixes, Firestone said, "We can add to their mix by changing a few things" — additions of PC software and Pokemon trading cards to Funco's mix being 2 examples.

Firestone said previously owned game business is something that stands "to grow tremendously this year as PlayStation2 comes out and people bring all their PlayStation1 merchandise in to trade in for the new [games]." Although EB already sells previously owned titles, it doesn't do it on same scale as Funco: "Our business in previously owned accounts for 13% of our gross margin dollars."

Combined EB-Funco company would be headed by Firestone, who said presidents would be tapped for EB and Funco divisions. Funco Chmn. David Pomije said he would leave company and videogame retailing entirely to concentrate on 2nd Swing, company he bought year ago that buys, sells and trades new and used golf equipment. What will happen with other Funco executives was unclear last week.

Firestone said EB is "not going to go in there with a big hammer and bang people over the head," explaining that EB isn't out to cut jobs in substantial way. But he said: "We haven't

determined what will stay at Minneapolis and what will come to EB. We will make arrangements for anyone who wants to leave Minneapolis and come to EB."

Funco stores, under EB acquisition, would keep FuncoLand name, and EB plans to open 60 more Funco stores and 125 EB stores worldwide by year-end. Funco would keep its 2 Web sites and EB its site, he said.

Firestone said timing of acquisition being finalized depends on approval of SEC and shareholders. He said deal "could close hopefully by the middle of May." But that was before Babbage's bid. EB and Babbage's didn't return calls for comment on change in scenario by our deadline.

Funco Pres. Stan Bodine told us his company would be discussing Babbage's and EB offers with shareholders "in due course." He pointed out that Babbage's offer was only "nonbinding proposal" as opposed to EB's, which is "agreement that has been signed." Bodine declined comment on other details of Babbage's proposal.

In rare showing of unity, competitors Nintendo and Sega joined forces with game publisher Electronic Arts to file lawsuit against Yahoo, charging Web company has engaged in sale of illegal and counterfeit videogame products and with copyright and trademark infringement. Suit seeks injunction against Yahoo to stop auctions and sales of counterfeit computer and video games and illegal devices plaintiffs said are designed to circumvent copyright protection. Game companies also said suit seeks damages as compensation for losses caused by illegal sale of their products. Suit alleges Yahoo directly profits from sale of illegal merchandise on its Web site, is fully aware of activity, has means to prevent it. Nintendo of America Gen. Counsel Richard Flamm said: "We have advised Yahoo many times that easily identifiable counterfeit, unpublished and illegal goods are being sold on its site, and we have asked them to implement effective controls to prevent the posting of illegal goods." But he said "they have refused to do this." Legal action, he said, was companies' "only remaining recourse." In filing suit, Flamm said companies also are trying "to send a message to Internet software pirates that there are no safe havens" for them. Yahoo didn't return call for comment by our Fri. deadline. We tried to find out last week whether Sony Computer Entertainment America has experienced same sort of dilemma and whether or not it plans any legal action if it has, but spokeswoman didn't return calls by our deadline.

Midway warned last week that it expects to report loss of \$8.8-\$10.5 million for 3rd quarter ended March 31 compared with \$1.1 million profit year earlier. Chicago-based game publisher said it also expects revenues to take beating — dropping to \$50-\$55 million from \$80.3 million. Company blamed results on "sluggish unit sales of both home video and coin-operated games and a softening of home videogame prices." Midway said there has been slowdown industrywide in demand "due to aging of the current generation of game platforms and the anticipation of the next-generation platforms." Company expects to report loss once again in 4th quarter and said it no longer believes it will be able to achieve record revenue and income for year ending June 30, as it had announced. Warning sent its shares tumbling 44% Fri. Midway said actual results for 3rd quarter will be released later this month.

CIRCUIT EARNINGS RISE: Circuit City Stores, driven by strong sales of digital products, reported 4th-quarter income soared to \$159.7 million from \$84.7 million year earlier as revenue rose 15% (see financial table) on 10% gain in same-store sales. Year-ago earnings included \$32.1 million after-tax loss related to CC's Divx business, which closed in June.

Gross margin increased to 24.7% from 24.4% on influx of new technologies that offset continued decline in PC prices, company said. It also was hampered in quarter by "limited availability" of digital TVs. Supply has remained tight this year, Chmn.-CEO Richard Sharp told analysts in conference call.

"Any time you roll out new technology you're going to hit some pitfalls," Sharp said. And while CC has begun to "see the strength of the digital products cycle," home office category remains its "fastest grower," he said.

CC will spend \$245 million on capital projects in fiscal year 2001. About \$150 million of total will cover opening of new stores including major appliance-only outlets (\$80 million) and remodeling of 30-35 outlets in Fla. and Va. (\$70 million) to feature CE and PC products (March 13 p18). New 8,500-sq.-ft. appliance stores will be located near main CC outlets. Majority of work will be done in 2nd and 3rd quarters, Sharp said.

Capital costs also will fund installation of AOL Internet Centers and Sony Memory Stick Interactive Universe displays that are expected to be chainwide by June, Sharp said. As part of revamp, CC is increasing number of self-service departments including those with VCRs and boom boxes, he said. "It's quite hard for us to afford the economics of serving the customer there," Sharp said. CC will continue staff departments to answer questions, he said.

CC also will start new TV ad campaign in May, although Sharp declined to disclose details. Chain already has overhauled print ads, switching to 24-page, 4-color inserts on Sundays from smaller circulars that mixed color and b&w, he said.

Chain didn't disclose online sales, but Sharp said he was pleased with results thus far. It's spending "nowhere near" \$75 million Best Buy has projected for its online business this year. About 50% of customers choose to pick up order at local CC store, it said.

CC's CarMax, despite taking charges for terminating leases and writing down property, narrowed 4th-quarter loss to \$1.7 million from \$10 million year ago. Lease terminations included location in L.A. Gross margins increased to 11.9% from 11.7%. Sales are expected to rise 12-15% this year, Sharp said.

Although new cars accounted for 10% of revenue in quarter, he conceded that "we have to drive a new body of customers to the store and that's taken longer than we expected."

Acclaim Entertainment said its first 3 titles for Sony's PlayStation2 (PS2) next-generation videogame console will be *All-Star Baseball 2002* and new games based on its Ferrari Formula 1 and 360 Challenge series. Acclaim said it's developing "several new games" for PS2 that will ship in its fiscal year 2001, starting Sept. 1. Among them will be games it said "will be platform exclusive."

Strategic restructuring plan was announced by Activision last week that game publisher said is designed to accelerate development of titles for next-generation consoles and Internet. As result of restructuring, company said it will take pretax charges of \$66 million for fiscal year ended March 31. It said it expects that to result in pretax saving of \$11 million in 2001. Activision said it expects to report net revenue gain of 36% for 2000 over year earlier, but didn't provide profit or loss estimate. Due to timing of product releases, company said it anticipated first-quarter 2001 results would be down from year ago but 2nd quarter would top same period. Company also said it was consolidating its Expert Software subsidiary into its Head Games subsidiary to form single integrated business unit in value software category. In process, company said it will close Expert's Miami hq and discontinue several Expert product lines. It said it also was "terminating substantially all" employees in that division. Activision also plans to drop several noncore product lines that aren't geared for next-generation consoles and online opportunities or don't meet its operating margin targets. Also planned are restructuring of its worldwide distributor relationships and expansion of direct distribution system in Canada, Europe, Pacific Rim, U.S. New games from company include *Alundra 2* for PlayStation.

Wherehouse Entertainment has increased commitment to videogame category by starting test of GameSpace store-within-a-store concept at 7 southern Cal. locations. GameSpace sections, which take up 1,100-1,300 sq. ft., have been running since late last year in San Diego, Orange County and L.A., said Robert DeVere, Wherehouse Merchandising Vp-Movies and More. But he said there currently are no plans to expand test. GameSpace is staffed separately from rest of Wherehouse store and sells new and used console software, hardware, peripherals, other related merchandise. DeVere said Wherehouse has direct distribution deals in place with major publishers and hardware makers, but conceded holiday GameSpace sales were hurt by inability to get enough supplies of products. He said goal of GameSpace was to make chain destination location for gamers, but said company would not commit to every platform, only to those it deemed viable. Wherehouse currently has 530 stores, more than 300 of which already are selling game software. "We are a music store, that's our core competency," DeVere said, adding: "The reason we went into the test is that we share the same demographics as gamers." GameSpace concept also is being tested online at Wherehouse's e-commerce partner, Checkout.com.

Only month after announcing that its Dolphin next-generation videogame console would be delayed until 2001 (TVD March 20 p12), Nintendo now says its Game Boy Advance (GBA) next-generation handheld system also might be delayed. Company said it might have to postpone Aug. shipment of GBA in Japan because of shortages of LCD panels and microchips needed to run them. But Bloomberg News reported last week that company still thinks it can launch GBA in U.S. and Europe by end of year. Nintendo of America spokesman didn't return call for comment by our deadline.

THIS WEEK'S YEN RATE

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

KOZMO.COM REDESIGNS WEB SITE: Kozmo.com unveiled redesigned Web site last week with expanded home page showcasing all product categories being offered and easier navigation and search functions. News came shortly after N.Y.C.-based one-hour e-commerce delivery company filed IPO and expanded its service to Chicago and Atlanta. In filing, Kozmo.com said it expects to raise \$150 million.

IPO disclosed that Amazon.com's \$60 million investment gives it 31% stake in Kozmo and that latter entered into revenue-sharing agreements with Columbia Tristar Home Video and Warner Home Video (WHV). Arrangement with latter includes New Line and HBO and was part of deal that gives WHV \$10 million worth of Kozmo preferred stock. Kozmo also made direct deals with both studios on sellthrough VHS and DVD product. Kozmo-WHV deal was discovered just before WHV had informed its network of wholesale distributors that it was cutting off their rental business and now would deal directly with retailers.

Among Kozmo's other recent deals was 5-year agreement with Starbucks announced last month in which it paid coffee giant \$150 million in exchange for in-store exposure and cross-promotional opportunities.

Although Amazon.com didn't announce its deal with Kozmo.com until late last month, we reported in Jan. (TVD Jan 24 p.20) that *Wall St. Journal* had learned of pact between e-commerce companies. At time, we noted there was irony in deal: Kozmo.com CEO Joseph Park had told us in Dec. that idea for company came to him after he became frustrated with Amazon.com Web site because of cost involved to receive book overnight (TVD Dec 27 p15).

Amazon.com admitted that agreement with Kozmo.com closed in Dec. and said that as part of deal they also signed 3-year strategic alliance in exchange for warrants to purchase additional shares in Kozmo.com.

Amazon.com will start offering one-hour delivery option to its customers at some point for certain book, music and toy orders, it said, and it isn't exclusive because Kozmo.com and Amazon.com may use other one-hour delivery service providers as well. Whether they will be providing links to each other's Web sites was unclear. Although CE products weren't among items planned for one-hour delivery option by Amazon.com, Christopher Payne, vp of its CE store, told us company wasn't ruling it out in future and he expected certain electronics items to be made available for one-hour delivery as well.

When we asked whether Kozmo.com or one-hour delivery competitor Urbanfetch.com has had impact on Amazon's business in markets where those companies have been selling CDs, electronics, videos and other items in, Amazon.com spokeswoman said: "I don't think so" and it wasn't "looking at [Kozmo.com as] a threat to our business." She also said: "I don't think we can measure whether they have" had impact on her company's business. Rather, reason Amazon.com decided to invest in Kozmo.com, she said, was "we're always looking to provide quick delivery of products."

As for what specific items lend themselves best to one-hour delivery option, Amazon.com spokeswoman said: "I think we're still trying to figure that out." She said option may be useful when "someone needs a gift at the last minute or just can't wait to get the new John Grisham book or is having a party that night and they need a video to show."

That take on when one-hour delivery may be attractive option to customers was echoed by Cameron Meierhoefer, PC Data Online Internet research analyst, who said items such as CDs and drugstore products may lend themselves particularly well to it. But he said one reason Amazon might have invested in Kozmo.com was "to get a little closer to the ground" as "people are coming to realize that people still live locally" and some sort of local investment may be required by large e-tailers such as Amazon. He called it "in part a hedge" on Amazon's part.

As Kozmo.com entered Chicago, Phil Hannon, gen. mgr. of Chicago-area retailer Abt Electronics, which has its own e-commerce Web site, didn't seem too concerned. He said "there are certain businesses [one-hour delivery] it sounds like it would be a great thing for," but "for the average consumer, I don't know that it's a major issue" when buying items such as electronics.

Meierhoefer said Kozmo.com in Feb. had only 0.2% reach among all Internet users compared with Amazon, which has been averaging about 15% each month. But he admitted it was difficult to really gauge impact of Kozmo.com because it services only select markets. He said company gained 129,000 unique users last month. Kozmo.com said in IPO filing that number of registered users rose 30% each month last year but it had accumulated deficit of \$27.3 million as of Dec. 31. It said its revenue for year ended Dec. 31 was \$3.5 million but it lost \$26.4 million.

In Chicago, Kozmo.com is serving customers in 6 zip codes. Other markets in which it operates are Boston, L.A., N.Y.C., San Francisco, Seattle, Washington. Park told us in Dec. that it planned to be in 30 markets by end of 2000 — same thing it says at its Web site. But in IPO filing, it gave more conservative goal — at least 10 new markets (not including Chicago) by end of this year.

Among factors in filing that company warned may affect whether it can become profitable was ability "to obtain sufficient quantities of products at competitive prices from our key vendors." It said it now relies "on national and regional distributors for a substantial portion of our products." Kozmo.com also admitted rise in alternative sources of home video and pre-recorded music such as digital downloading and video-on-demand could hurt business in future.

Digital video recorder on-chip was announced by iCompression. Company said its iTVC15 combines MPEG-2 encoder/decoder with graphics controller for onscreen display of broadcast information. It said mass-market priced DVR with "pause and play" and enhanced time-shifting is possible by combining chip with peripheral circuits and low-cost hard disc drive. Additional details are expected soon.

Semiconductor spinoff from Philips will become joint venture with Sony and other CE manufacturers. New company, TriMedia Technologies, will make very-long instruction word (VLIW) processors for DTV sets, digital recorders and other set-tops. Company will have 70 employees from Philips Semiconductors at start relocated to new hq in Silicon Valley. Partners didn't disclose financial terms of deal.

Sony will sell PCs direct over Internet in Asian markets except Japan. It said Web will be key selling resource in areas where retail outlets are scarce. PCs will be shipped to customers by Federal Express from Japan.

SIRIUS SATELLITE POSTS LOSS: Sirius Satellite Radio posted \$63 million loss in year ended Dec. 31 as engineering, design and development costs soared. Expenses increased to \$33.1 million from \$2.1 million year earlier as digital audio radio service (DARS) gears up for debut late this year. Sirius, which has raised \$1.3 billion to fund development, ended year with \$500 million cash.

Sirius, which is to begin field tests and demonstrations in Aug., is scheduled to fly first Space Systems/Loral satellite aboard Proton rocket June 28 from Kazakhstan. It will be followed by 2 other birds that have launch windows of Aug. 30-Sept. 29 and Sept. 30-Oct. 29, it said in SEC filing. Sirius had postponed launch earlier this year after failure of Proton rocket (TVD Feb 14 p16).

Company also has added Sanyo and Mitsubishi to roster of 9 car receiver and 14 auto manufacturers, respectively, Chmn.-CEO David Margolese said. Honda and Toyota continue to remain only automakers without agreement with either Sirius or rival XM Satellite.

Sirius will finalize receiver manufacturing schedule within 90 days, although commitment is for single production line with 2,000-unit-per-day capacity, Ira Bahr, senior mktg. vp-alliances & communications, told analysts in conference call. Among manufacturers is Matsushita, which will build receivers for heavy truck market, he said. Sirius has agreement with truck manufacturer Freightliner.

As for service's infrastructure, Margolese said installation of 105 terrestrial repeaters in 46 markets has been completed, along with RF engineering. Chipset supplier Lucent Technologies remains on schedule for delivery later this year. Sirius also is developing parallel chipset that could replace portions of Lucent design if latter encounters delays, Margolese said. Chipset development costs are expected to be \$35 million, SEC filing said.

Appollo Investment Fund is Sirius's top stockholder (7 million shares) followed by Margolese (5.9 million), Blackstone Management (5.8 million), Prime 66 Partners (5.1 million). DaimlerChrysler bought 2.2 million shares for \$100 million in Feb. and Loral controls 1.9 million.

Margolese signed 5-year contract with Sirius in 1999 starting at \$450,000 annual salary and increasing \$50,000 annually, annual report showed. He also was awarded 700,000 stock options.

Copy protection agreement for pay-per-view transactions was announced by Macrovision and e-VideoTV, Scottsdale-based company that plans to market satellite and digital cable set-top box to receive near-video-on-demand programming for time-shift viewing. Although e-VideoTV didn't reveal specifics, it said it plans to offer "extensive catalog" of programming that includes movies, sports, concerts, interactive videogames. It said its proprietary compression, transmission and storage technology would enable customers simultaneously to download and archive up to 20 movies for subsequent viewing. Compression system enables material to be downloaded in "significantly" less than real time, e-VideoTV said. Company called its system "an attractive delivery alternative to the \$8 billion per year U.S. movie rental business." Limited trial with unnamed "regional U.S. cable operator" is planned for this summer, e-VideoTV said.

Creative Labs is shipping its Nomad II portable digital audio player. Company is offering 2nd-generation player to consumers in 3 different configurations: Version with 64 MB Smart Media memory card through retailers for \$329.99; 32 MB version through various online retailers for \$229; player with no memory card for those who already own Smart Media for \$99. Last version is available exclusively online direct from company at its www.creative.com and www.NomadWorld.com Web sites. Creative said SDMI-compliant Nomad II is upgradeable to permit future compatibility with multiple digital audio formats. Hardware comes bundled with Nomad II Manager software, Creative Digital Audio Center software by MusicMatch, compilation CD with more than 70 free songs in MP3 format.

Video City will sell some West Coast Entertainment stores under management agreement retailer signed last month, SEC filing revealed. Under agreement dated March 3, Video City will "use commercially reasonable efforts to effect the sale, on [West Coast's] behalf, of a sufficient number of [West Coast's] video retail stores (as determined in [Video City's] sole discretion) to raise net cash proceeds to satisfy up to \$20,000,000 of [West Coast's] outstanding indebtedness" to its banks. Video City owns 76 stores, West Coast 236 plus 90 franchised locations. Filing also showed that merger's "outside date" had been extended to Aug. 31. When announced last year, merger was supposed to close by year-end 1999.

DVD titles will be certified "platinum" at 2 million copies sold at wholesale, not including returns, under new DVD certification program unveiled by VSDA. DVDs will be certified "gold" at million copies sold, while "silver" certification goes to those selling 500,000 discs. Rights holders may use their own or VSDA's N.Y. accounting firm, Thomas Turrin & Co., to audit certifications. Turrin is same firm that has audited International Recording Media Assn. (IRMA) awards for VHS programs. VSDA will welcome DVD-Audio certification applications, too, Assn. Pres. Bo Andersen said, "because they are a combination" format that will include video.

DVD market in Europe could sell 60 million discs and 4 million players this year, Netherlands-based European Platform for Optical Discs (EPOD) forecast. Group said disc shipments reached 30 million last year following late showing in 1998, when 2.5 million were sold. Player sales totaled one million last year, for 1.2 million installed based following 1998 debut. Currently, 60 DVD player models and 1,000 titles are available in Europe, EPOD said. Top 3 markets are France, Germany, U.K.

TV/PVR combo with built-in digital video recorder will be marketed in Europe this fall by Turkish CE maker Vestel. Company said combo's recorder module will use MPEG-2 encoder chip from Israeli company Exatel Visual Systems. PVR in high-end sets will permit 4 hours recording and 30 sec. of instant replay, as well as usual functions such as pause-and-resume during live program.

Evolution Studios (ES) became first company to sign 3rd party development deal with Sony for PlayStation2, British report said. Report said first ES game, yet to be titled, is to be completed in 2001 and will use ES's new 3D engine. ES was founded last year by industry veterans Ian Hetherington and Martin Kenwright.

Low-end VCR production will shift from Matsushita's plants in Japan to Malaysian subsidiary in fall, company said. Low-end models account for 400,000 of 2 million decks Matsushita sells in domestic market each year. Industrywide, 80% of VCRs now sold in Japan are made overseas.

Consumer Electronics Personals

Brad Huang, ex-Goldman Sachs, named pres.-CEO, Sega.com... **Robert Kenneally**, ex-Fox Entertainment, joins ReplayTV as exec. vp... **Cheryl Nelson-Madden**, ex-Next Century Communications, named CES mktg. dir... **Lisa Simpson**, ex-Sony, joins CBS Internet Group as COO... **Chris Callero**, ex-Bank of America, appointed COO, Wink Communications... **Frederick Heigold**, Eastman Kodak vp, and **William Lloyd**, Hewlett-Packard vp-chief technology officer-digital media solutions, named co-CEOs of companies' photofinishing joint venture... **David Perrin**, Fuji Photo Film midwest regional sales mgr., promoted to distributor sales dir.-magnetic markets div., replaced by **Ty Atherholt**, New England/Upstate N.Y. account rep... **Jeffery Hattara** resigns as BMC Industries CFO, plans unknown.

James Steger, Aaron Rents franchise development regional dir., promoted to franchise development dir.-sales & leasing div... **Raymond Karrenbauer**, ex-The Meta Group, named Outpost.com chief technology officer... Appointed at SmallWorld.com: **Leslie Andrews**, mktg. vp; **Leigh Randall**, exec. vp-corporate development and general counsel; **Peter Strauss**, chief technology officer... **Louise Curcio**, ex-Mattel, named Pink Dot vp, e-commerce... **Kelly Wood** joins Interactive Objects as business development vp; **Peter Miller** named legal adviser and joins board; **Dennis Tevlin** to head advisory board and named mktg. and media strategy adviser — all 3 ex-Microsoft... Resignations at Aureal: **Kip Kokinakis**, pres.-CEO; **Scott Foster**, chief technology officer; **David Domeier**, CFO; **Brendan Flaherty**, chief operating officer-gen. counsel... **James Agnello**, ex-SmithKline Beecham, named WorldGate Communications CFO, replacing **David Dill**, resigned.

Blockbuster said in annual report to SEC "we believe that the potential exists for 4,000 additional video stores in the United States" — about double number of U.S. stores it now owns. It added 596 company-owned stores in U.S. in 1999 and plans to add 100-125 more per quarter in 2000. But annual report said company "will be reviewing our expansion plans on a quarter-by-quarter basis and, depending on the market share gains, returns on our investment and other factors, we may reduce the number of stores we plan to open." Retailer plans to concentrate on new stores in top 70 markets, using franchisees for others. As of Dec. 31, retailer had 823 franchised stores in U.S. and 3,970 domestic corporate locations. Company's proxy for annual meeting May 23 revealed chain gave Chmn.-CEO **John Antioco** stock options valued at \$27 million last year if its stock rises 10% per year through 2009. However, stock has moved downward since IPO last year. Antioco's salary last year was \$1.26 million, up from \$1.2 million, proxy said, and annual bonus rose to \$5 million from \$4.75 million. He also exercised options for 110,200 shares, giving him gain of \$2.8 million, and can exercise options worth \$6 million on first and 2nd anniversaries of IPO.

Microsoft unveiled Windows Media Player 7, next generation of its multimedia digital AV player with redesigned user interface and more features, including all-in-one integration that makes it faster for users to switch between multiple forms of digital media. Version of software for developers and technical evaluators already is available for download at microsoft.com/windows/windowsmedia/. But final version of software won't be available for public until later this year, possibly in summer.

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
ATI Technologies			
2000-qtr. to Feb. 29	380,100,000	51,100,000	.24
1999-qtr. to Feb. 28	297,200,000	21,700,000	.10
Aureal			
2000-year to Jan. 2	40,257,000	(26,934,000)	--
1999-year to Jan. 3	25,328,000	(18,506,000)	--
2000-qtr. to Jan. 2	8,463,000	(9,522,000)	--
1999-qtr. to Jan. 3	10,775,000	(3,476,000)	--
California Amplifier			
2000-year to Feb. 26	85,628,000	(1,393,000)	-- ^a
1999-year to Feb. 27	37,140,000	(1,436,000)	--
2000-qtr. to Feb. 26	27,709,000	(4,237,000)	-- ^a
1999-qtr. to Feb. 27	10,077,000	91,000	.01
Circuit City Stores			
2000-year to Feb. 29	12,614,390,000	197,590,000	1.63 ^a
1999-year to Feb. 28	10,810,468,000	142,924,000	1.09 ^a
2000-qtr. to Feb. 29	3,980,407,000	159,741,000	.79
1999-qtr. to Feb. 28	3,403,382,000	84,685,000	.60 ^a

Notes: ^aAfter special charge.

Obituary

Larry Finley, 86, pioneer in magnetic recording and TV programming, died April 3 in N.Y. of natural causes. He had multifaceted career that included 1970 founding of International Tape Assn., now International Recording Media Assn., where he served as adviser until his death. He also worked with JVC on compliance testing for VHS videotape license requirements of consumer and duplicator tape. He remained adviser to JVC Intellectual Property Dept., and testing continues at Bethel, Conn.-based Advanced Product Evaluation Laboratory. Finley's roots in recording media go back to early 1960s, when as pres.-CEO of International Tape Cartridge Corp. he acquired audiotape rights from 27 record labels. His other ventures included partnership in what now is McKinnon Bcstg. (3 stations) and creation of Finley Productions, first West Coast TV production company. He also hosted several early-vintage live TV shows from L.A., and was partner with band leaders Tommy and Jimmy Dorsey in San Diego nightclub. Wife, 5 sons survive. Funeral was private, and Finley requested no public memorial services be planned. Family requested that in lieu of flowers, donations be made to San Simeon by the Sound Nursing Home, Greenport, N.Y., or to Larry Finley Memorial Fund c/o Vision Fund of America, N.Y.C.

Live365.com and **Valley Media** signed one-year distribution agreement in which latter will be supplier of CDs and cassettes for Internet company's new e-commerce store. Live365.com, based in Foster Hills, Cal., also is creating connected database between its e-commerce store and its online "radio stations." Site opened in July 1999 and has been providing free tools and bandwidth needed for consumers with computers to create their own "station" online. Company also provides Web services for commercial and independent radio stations.

3dfx Interactive signed definitive agreement to acquire privately held GigaPixel for \$186 million. GigaPixel, based in Santa Clara, Cal., was reported to be company Microsoft had considered as supplier of high-speed graphics chip for X-Box before opting for Nvidia's graphics chip instead.



TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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BROADCASTERS BACK 8VSB STANDARD: At NAB, they say receivers can be improved. CEA says only 17% of DTV sets sold contain DTV-capable electronics. (P. 1) DTV notebook. (P. 7)

HOUSE PASSES VETO-PROOF LPFM BILL in bipartisan vote. Tauzin seeks DoJ investigation into FCC lobbying. (P. 3)

FCC OPENS DTV RULEMAKING: Focus is on unresolved DTV-cable compatibility issues not solved by industries. (P. 5)

BROADCAST FUTURE CALLED BRIGHT: Redstone says at NAB that broadcasters won't be displaced by 'dot commandos.' (P. 6) NAB notebook. (P. 9)

LOCAL TV BILL PASSES HOUSE: With 375-37 vote and language similar to Senate bill and White House support, bill should become law later this year. (P. 8)

FCC DIVIDED ON PUBLIC INTEREST: There's no consensus on DTV obligations and spectrum scarcity rationale, NAB is told. (P. 8)

BROADCASTERS PRESS FOR CURRENT DTV STANDARD: Backers of U.S. VSB-based DTV standard circled wagons at NAB convention in Las Vegas last week, saying VSB receivers can be improved quickly and reconsidering standard would create long delay that would slow transition and ultimately unbalance federal budget by lowering value of TV channels to be auctioned beginning in June. Two groups released new receiver quality studies suggesting DTV reception isn't as bad as it has been portrayed, and CEA released new DTV receiver numbers that indicated fewer DTV sets actually can receive signals and that future DTV penetration could be cut in half if standard were revisited and cable carriage issues weren't resolved. Others, however, said fight with COFDM backers over DTV standard is far from over.

Only 17% of all DTV sets sold to date actually include DTV-capable electronics, CEA said. It said 143,218 DTV sets had been sold to date. CEA Vp-Research Todd Thibodeaux said 17% figure showed that "consumers are opting to purchase high-resolution monitors even when programming is not widely available — to use with DVD players and pre-recorded digital content. We can expect receivers to remain a small percentage of overall DTV sales until consumers have access to regular, high-quality DTV programming."

CEA said "fast lane" approach to DTV could boost DTV set penetration to 50% of U.S. TV households by 2006, still well below 85% penetration figure for giveback of analog TV channels scheduled for 2006 but above CEA's traditional 30% penetration figure. Fast track would include 100% broadcaster compliance with DTV rollout schedule as well as aggressive broadcast of HDTV-originated programming, CEA said. Figure could fall as low as 15% by 2006 if broadcasters continue to focus on non-HDTV business models such as extensive datacasting and use of upconverted digital programming as well as reopening DTV standard, CEA said.

Consumer Electronics

CEA LAUDS FCC ROLE in proposed rulemaking on DTV set labeling and copy protection. (P. 14)

CE MAKERS BETTING ON DATACASTS: Investments being made and alliances formed in race to gain edge in fast-evolving interactive TV market. (P. 14)

METALLICA BAND SUES NAPSTER and 3 universities for copyright infringement over MP3 music files swapped on Internet. (P. 16)

DLP REAR PROJECTION EMERGES at NAB with Panasonic planning 52" model, Mitsubishi expanding concept to monitor applications. (P. 17)

PROPOSED BUYING GROUP MEETS in Chicago to lay groundwork for ASTAR, which could form by midsummer. (P. 17)

DIGITAL MUSIC DOWNLOADS COMING for consumers by month's end, Sony Music says. BMG will follow in summer. (P. 18)

Broadcasters have been aggressive in broadcasting HDTV, NAB Exec. Vp Charles Sherman said. He said networks have transmitted more than 750 hours of HDTV programming in first year, compared with only 68 hours of color programming in first year of color TV transition. National HDTV programming has been supplemented by some local HDTV programming, Sherman said. He said most important factors for successful transition aren't more programming, but DTV must-carry, cable compatibility and DTV receiver performance standards: "If we don't resolve those questions, there will be a serious slowdown."

Broadcasters repeatedly pressed for govt. role in assuring cable carriage and compatibility as well as receiver standards. Responding to reports that cable and set-makers were near deal on compatibility and copyright protection, NAB Senior Vp-Technology Lynn Claudy said he would prefer that FCC simply set rules: "I don't think the [industry] solution will be adequate. I think the Commission should step in. Then we'd all be better off."

Original premise that "if we build it they [DTV buyers] will come was wrong," Claudy said. He said DTV won't be success as result of market forces alone, at least on schedule set by FCC, because of lack of cable carriage and acceptable DTV set performance: "We need robust participation by all market segments." Only way to achieve that is through govt. intervention, he said. Thomas Powers, mass media aide to FCC Chmn. Kennard, said Commission perhaps should have moved sooner on compatibility issues because it "should have been more cynical about the claims by the industry that they would work it out."

However, although must-carry proceeding is likely, Powers indicated it may not come out way broadcasters would like. He noted that analog must-carry "barely survived" U.S. Supreme Court test because justices were convinced it wouldn't be big burden on cable since most stations already were being carried anyway. DTV must-carry, however, would double number of channels that cable would have to carry, raising tougher First Amendment issues: "This is a whole different kettle of fish." He said Commission also would like to avoid "a whole new layer of FCC regulations... I suppose it would be possible if that is the only thing that would make the transition possible, but I don't think we're there yet."

Broadcasters also want "predictable and uniformly high performance" by all DTV receivers, meaning FCC should mandate receiver performance standards, Claudy said. "Wide variation" in indoor reception performance of some DTV sets will "make you sick," he said: "The technology is far more mature than the products." He said acceptable reception performance is "not out of reach" of current DTV standard, "it just isn't happening through the market regulating itself."

Technology certainly is adequate, said Matthew Miller, pres. of DTV receiver chip-maker NxtWave: "I believe the standard is exactly right for the U.S. There's a lot of water left in the VSB well. The quality of the reception technology will be a nonissue within 2 years."

Improvements in later generation DTV receivers were confirmed by receiver study unveiled at convention. In meeting with affiliate engineers, CBS for first time showed results of its receiver studies last summer in Philadelphia. Using 2nd- and 3rd-generation receivers from Motorola, NxtWave, Zenith and others, CBS said DTV receivers could produce high-quality picture even in difficult indoor environment 94% of time when even marginal NTSC signal was available. Figure jumped to 99% for outdoor antennas. Tests were done with simple bowtie antennas, CBS said: "It is evident that the current ATSC system is replicating the NTSC reception coverages for both indoor and outdoor reception." It said tests also indicate there is plenty of room for receivers to be improved even more, and suggested that, rather than FCC-mandated receiver standard, "a nonmandatory DTV design target specification should be established."

In other comments on DTV at convention: (1) Dale Hatfield, chief of FCC Office of Engineering & Technology, said public interest "demands" that spectrum be used more efficiently since it's "scarce natural resource." He said he hopes modulation debate can end soon so transition can move forward, and he's "very bullish" on DTV datacasting. (2) Several broadcasters, including LIN TV Vp Paul Karpowicz, vice chmn. of NAB TV board, said cable systems are refusing to negotiate DTV carriage, with one saying cablers are demanding half of broadcasters' revenue from DTV in return for carriage. (3) Powers, discussing COFDM issue, said "it seems like a huge waste to change horses in midstream, especially when there is not a major problem." (4) Attorney Richard Wiley said "as long as there are questions about the standard, it is impeding progress. We have got to get along with it and move ahead."

Fox and Philips Electronics Research Div., meanwhile, announced agreement to work on improving DTV reception using current 8-VSB standard. Cornell U. and Australian National U. also will be involved. Other terms weren't disclosed. Companies said they also hope to aid understanding of datacasting and simulcasting capabilities and find ways to datacast to portable devices such as laptop computers. Meanwhile, Fox said Allen Telecom will provide it with engineering consulting services to ensure integrity of TV signals during transition.

LPFM BILL PASSES HOUSE IN VETO-PROOF VOTE: Bipartisan compromise language restricting low-power FM adopted in House Commerce Committee helped Telecom Subcommittee Vice Chmn. Oxley (R-O.) draw support of 85 Democrats in House floor vote on HR-3439 late April 13. Approval of bill by 274-110 gave supporters more than 2/3 necessary to override Presidential veto, and in fact bill already had been approved by voice vote when Oxley called for roll-call vote. "Special interests triumphed over community interests today," FCC Chmn. Kennard said in statement released after vote. He continued his criticism of NPR and said bill was intended to put up "roadblocks" to FCC's implementation of LPFM. Earlier in week members of Congress and Hill staff took several opportunities to bash LPFM and FCC at NAB in Las Vegas. Telecom Subcommittee Chmn. Tauzin (R-La.) began floor debate by accusing FCC of illegal lobbying and saying he would refer matter to Dept. of Justice (DoJ) for investigation.

Modified from original Oxley language calling for ban on LPFM, compromise language approved in Commerce Committee markup and on House floor would allow 70 or so LPFM licenses that can operate within existing interference standards to proceed, while field tests would be conducted by independent agency in 9 markets to ascertain whether relaxed interference standards caused problems with existing stations. Compromise, sponsored by Rep. Wilson (R-N.M.) and Commerce Committee ranking Democrat Dingell (Mich.), was touted at markup by Tauzin as way to get veto-proof vote.

Many Democrats voting for bill had reservations, however. Rep. Barrett (D-Wis.) said "as far as Dingell-Wilson, I have no quarrel with that," but he was bothered by fact that FCC wouldn't be able to proceed with LPFM, even if interference report found no harm, unless Congress gave it authority to move ahead. Barrett amendment would have given FCC authority to move ahead 6 months after interference report was given to Congress: "I see no reason why Congress should be micromanaging stations." Rep. Waxman (D-Cal.), who had been adamant defender of LPFM in markup, said he supported "modest change" in Bennett amendment: "I only wish it went further."

Oxley said Barrett amendment "undermines the purpose of the bill... there's certainly a reason why congressional intent is important." Tauzin said amendment would mean FCC could go forward even if interference were found: "Do you really want to vote for that?" Dingell said that "if you want regulators to do their job correctly, you have to oppose this amendment."

Barrett amendment failed 142-245, mostly on party lines, although 57 Democrats did oppose it. Margin on amendment wasn't veto-proof, however, unlike final vote for bill, and Media Access Project Pres. Andrew Schwartzman called Barrett amendment "test vote." "This shows that more than a third of the members prefer a bill which permits the FCC to go forward, and thus are likely to vote to sustain the expected Presidential veto of a more punitive bill like the one passed by the House tonight." He said NAB "won one battle, but... will lose the war."

Kennard took issue with House vote: "While it appears on the face to simply be about requiring the FCC to conduct more tests to protect existing broadcasters from interference, its practical effect is to set roadblocks and hurdles for the FCC... that may never be met and that only can serve to protect incumbent broadcasters from competition." He repeated his criticism of NPR for its support of HR-3439 after passage of Wilson-Dingell amendment: "I'm particularly disap-

New Edition of Warren's 'Inside Sprint' Depicts An Innovator in Transition

Whether or not regulators ultimately approve its acquisition by MCI WorldCom, Sprint already is facing up to its many technological and strategic challenges, according to the fully revised and updated 2000 edition of Warren Communications News' *Inside Sprint*. With stagnant long distance market share – but a well-deserved reputation for high service quality – Sprint could well use MCI WorldCom's clever marketers to compete in the low-cost long distance sweepstakes and as a local service provider outside its traditional territory. On the other hand, Sprint need only sustain what *Inside Sprint's* authors call its "vision and technological savvy" to remain a leader in the data transmission and mobile communications markets.

At more than 250 pages, and including dozens of graphs, charts and tables, *Inside Sprint: Technological Sophistication and Market Leadership*, is a comprehensive analysis of Sprint's complex organizational structure, which underwent a major change in late 1998. It contains an overview chapter, as well as chapters on the company's networks, its long distance and local operations and strategies, Internet and data offerings, wireless services, and its product and service offerings. Written and edited by Warren's Telecom Research Group, working in association with the editors of Warren's award-winning *Communications Daily*, the eighth edition of *Inside Sprint* is available for \$1,695.

To order or to get more information, call 1-800-771-9202 or go to www.warren-news.com/secondRR.htm.

pointed that National Public Radio joined with commercial interests to stifle greater diversity of voices on the airwaves. I can only wonder how an organization that excels in national programming could fear competition from local programming by these tiny stations operated by churches, schools, community groups and public safety agencies." NPR leaders have told us issue has nothing to do with competition, but rather with interference concerns that are particularly worrisome in noncommercial band, and said Kennard never showed any inclination to work with NPR about interference concerns. Comr. Tristani expressed regret that NAB had "flexed its considerable lobbying muscle," and hoped for better luck on other side of Capitol: "I hope the Senate will help us give a voice to the voiceless."

NAB praised passage, saying it was pleased "with the magnitude of bipartisan support." Assn. suggested this was time where it favored govt. involvement: "We are gratified that the House of Representatives exerted its authority over the telecommunications policy, as it should."

Tauzin shook up observers with charge that FCC was guilty of "criminal violation" in distributing talking points on LPFM to members' staffs. He and Oxley apparently had just received copy of one of faxes sent by FCC and we're told he even caught some of his own staff off guard. Tauzin said he would make "a formal request" to DoJ to investigate, saying "no part of monies appropriated by Congress can be used directly or indirectly to influence any member." Oxley said "virtually every member received 10 reasons to support low-power and oppose HR-3439," apparently attached to letter from labor union opposing bill. He agreed with Tauzin that such lobbying was "against the law."

Oxley and Tauzin will send letter to DoJ this week, Tauzin spokesman Johnson said, with Justice expected to respond several weeks later. "This is clearly a coordinated effort between the White House and the FCC to advance the cause of low-power radio," he said. If DoJ declines to investigate, "there's a strong possibility we'll have a hearing," Johnson said, "and if Kennard doesn't show [as witness] there's a strong possibility we'll subpoena him." Earlier that day Tauzin had bemoaned Kennard's absence from hearing on FCC's actions in Dec. on religious broadcasters, noting he had declined last 4 invitations to testify. Kennard told Telecom Subcommittee he couldn't testify because record on case was sealed, but Comrs. Tristani and Furchtgott-Roth did testify. Johnson said DoJ referral "is not a vendetta against Bill Kennard," adding that Tauzin "likes the man, just not his politics."

Four members of Congress and twice as many staffers spoke at NAB April 10 on LPFM. Rep. Rogers (R-Ky.), chmn. of House Appropriations subcommittee overseeing Commission budget, said "this FCC is really headstrong." He said "they're operating under the belief there is no controlling legal authority. There is... it's called the Congress." "I look forward to a change in attitude and personnel at the FCC," he said: "I can't be much plainer." Tauzin's Johnson said Tauzin believes Kennard "is hellbent on creating a legacy" with swift rollout of LPFM.

Senate Communications Subcommittee Chmn. Burns (R-Mont.) who supports LPFM legislation, said "best shot is quick passage of the House version, which will force the Senate to do something." House Commerce Committee Gen. Counsel Lauren "Pete" Belvin agreed with Burns, saying "the House will be an important catalyst for Senate action." Rep. Stearns (R-Fla.) made accurate prediction that vote would be veto-proof. He, too, expressed frustration with Kennard, saying FCC receptive to Hill "is not going to happen unless we have new leadership" at Commission. However, Johnson said he was concerned about single senator's putting hold on legislation.

NAACP blasted 10 largest cable MSOs for not promoting many African Americans to higher positions, putting few blacks on corporate boards and hiring almost no minority contractors and vendors. In cable industry "report card," group also faulted industry for advertising little in African American media, not deploying advanced services in minority communities and generally not investing more in their franchise areas. Threatening action on several fronts, NAACP Pres. Kweisi Mfume urged customers of low-rated companies to consider dropping their cable in favor of satellite TV or over-air broadcasts until cable operators show "real, noticeable improvement." He also pledged to lobby FCC and Congress against pending cable mergers if situation doesn't improve: "We really will be bringing very serious consumer action. I hate threatening that, but even the NAACP can lose its patience." NCTA reacted immediately with statement emphasizing industry's recent progress and promise to do better. Trade group said minority employment in cable industry has increased steadily each year, reaching 30.9% of total cable work force in 1999, compared with 26% in national labor force.

Thomas Power will be leaving FCC position as top mass media aide to Chmn. Kennard effective May 8, when he becomes gen. counsel of Fiberlink. In his 6 years at Commission, Power also was div. chief in Cable and Common Carrier bureaus. Before that, he was partner in Winston & Strawn. In addition to legal and lobbying duties, Fiberlink CEO James Sheward said, Power will be involved in business development. Fiberlink develops virtual private networks and provides secure connections between businesses and Internet.

Part of U.S. Appeals Court decision on attachments on utility poles "upends forced access movements" in areas such as Portland, Ore., and Broward County, Fla., NCTA Pres. Robert Sachs said. Court "suggests" local franchise officials can't regulate Internet service by cable operators as cable, he said, nor can state or federal agencies regulate Internet as telecom service. Decision forecloses both of those regulatory channels and "leaves in place the hands-off, competitive approach of the FCC, Congress and the vast majority of franchising authorities who have looked at the question," Sachs said.

COMPATIBILITY RULEMAKING BEGUN: Still hoping to spur dueling cable, consumer electronics, movie and software development industries to reach voluntary agreements soon, FCC began formal rulemakings April 13 on 2 unresolved DTV-cable compatibility issues. In 5-0 votes, Commission approved notices of proposed rulemaking (NPRM) on proper labeling of DTV sets and set-top boxes and on licensing terms for copy protection technology in digital TV receivers. Despite frequent claims of progress by representatives of 4 industries, both issues have bedeviled negotiators for years, finally prompting Commission to step in after repeated warnings. "We've been very patient," FCC Chmn. Kennard said before vote. "But, unfortunately, time is running out. It's been 6 years."

Despite unanimous vote, FCC Comr. Furchtgott-Roth objected to idea that agency was acting in response to "commercial negotiations outside this room." He said private negotiations never should "precipitate or forestall Commission action" involving its legal responsibilities. He also questioned FCC's authority to act on digital copyright protection issue. He said he supported rulemaking "because I believe it's required by law."

As expected, FCC avoided proposing actual names for digital sets and set-top boxes or standards and licensing terms for copy protection technology, although it eventually may do so. Instead, it simply asked for industry and public opinion on 2 issues. Specifically on set labeling, FCC is seeking comment on how to describe DTV receivers with and without 1394 firewire connectors favored by cable industry but opposed by some set manufacturers. It also is seeking comment on whether transition to digital requires any changes in its requirements for cable operators to offer supplemental equipment to DTV viewers. "We're going to get proposals from the industries on the record and we'll see what works best," said Robert Pepper, chief of FCC's Office of Plans & Policy, who is aiming for final rule by late summer. "It would be terrific if the issues were resolved by the industries themselves."

On copy protection, FCC asked for comment on appropriate regulatory action, if any, on technology licensing. Noting it generally is focusing on hardware and compatibility standards, agency stressed that its rules covering navigation devices place limits on licensing terms that programmers can impose on set-makers. It also asked whether there are unresolved copy protection licensing issues on cable industry's new point-of-deployment technology. "We don't claim to have broad and sweeping powers over the licensing of intellectual property," FCC staffer said. "I don't anticipate us going into every little detail of copyright licensing."

Reaction to rulemakings varied widely. CEA embraced move, with spokesman saying "we welcome the FCC's support." In particular, he said, CEA welcomes FCC involvement in copy protection, where set-makers, software firms and movie studios have battled over licensing terms for proposed 5C technology standard. "We hope the Commission's entry into the copy protection debate will spur an agreement that balances the necessary protections and preserves the fair-use rights that consumers have enjoyed," he said.

NCTA was more neutral, with cable officials repeating earlier contentions that they were close to final DTV set labeling deal with CE counterparts. Saying they reached tentative agreement with CEA negotiators 3 weeks ago that still awaits approval, they said they already had reserved Internet domain names for proposed DTV set names, which they declined to dis-

close. "We are as close as close can be," NCTA Gen. Counsel Neal Goldberg said.

MPAA questioned need for FCC to intervene in copy protection negotiations and challenged Commission authority. MPAA spokesman said movie studios also objected to being portrayed as "among roadblocks" to DTV development: "There's nothing that's delaying the rollout of digital TV. It can go any time it wants to go."

Meanwhile, FCC unanimously adopted rules requiring broadcasters, cable operators and other multichannel video programming distributors to make local emergency information accessible to viewers with hearing disabilities. Order calls for local programmers to use closed-captioning, open captioning, crawls, scrolls or some other visual technique to provide information on emergencies, including weather conditions, areas affected, evacuation orders, approved shelters, road closures and school closings, among other things. Rules, which grant no exemptions, will take effect in about 60 days. "This is really a matter of life and death for millions of Americans who are deaf or hearing-impaired," Kennard said.

Entering must-carry duel between broadcasters and cable, NCTA said Congress didn't grant broadcasters right to sublease their must-carry rights to vertical blanking interval (VBI) tenants or to anyone else. In petition filed with FCC opposing Gemstar petition asking Commission to order Time Warner not to remove data that Gemstar sends through VBI of local broadcast stations, NCTA said Communications Act requires carriage only of "program-related" material in VBI and Gemstar's electronic programming guide (EPG) that lists programming for all channels on system is "not, under any reasonable definition, program-related." NCTA said Congress specifically did "not intend that this [must-carry] provision be used to require carriage of secondary uses of the broadcast transmission, including the lease or sale of time on subcarriers or the VBI for the creation or distribution of material by persons or entities other than the broadcast licensee." Gemstar's EPG wouldn't promote purposes of must-carry either, it said, as it would do nothing to help ensure viability and continued availability of local broadcasting in manner intended by Congress. NCTA said VBI must-carry also would be unconstitutional. Even if Commission had authority to grant Gemstar's petition, "which it does not," it wouldn't serve public interest because it wouldn't promote marketplace competition, association said: "It would unfairly insulate Gemstar and any other service that may be transmitted in a broadcaster's VBI from the need to compete on the merits of an MVPD's [multichannel video programming distributor's] service offering." Gemstar's petition, if granted, would set "broad, unsustainable" system of free rides for commercial entities on MVPDs, including cable operators, it said.

Local TV on Satellite (LTVS) signed retransmission consent agreements with Capitol Bestg., Clear Channel Bestg., E.W. Scripps, Landmark Communications, LIN TV. Companies represent 50 stations and 25% of U.S. TV households. LTVS said it has 178 PBS stations participating in LTVS plan covering 75% of nation. LTVS offers one-dish, one-box seamless solution for expanding existing DBS services into local broadcast signal area. Spokesman said LTVS has "common platform" that allows DBS companies to comply with must-carry legislation.

BROADCAST FUTURE BRIGHT: With record 113,000 in attendance, up from 106,000 year ago, speakers at NAB convention last week in Las Vegas cited localism and content as reasons broadcasters have bright future, despite competition from Internet and Web sites. "To the naysayers," said keynoter Viacom Chmn. Sumner Redstone, "I say broadcasting is not crashing, not dying, not endangered... I say, we'll be a leader, not a left behind." Distinguished Service Award recipient Frank Bennack, pres. of Hearst Corp., said "our critics are wrong. This medium will not be displaced by new media." Said NAB Pres. Edward Fritts: "Broadcasting stands before a door that is opening — not one that is closing."

Broadcasters' advantage over new media remains their "unparalleled content, unbeatable brand strength and unmatched opportunities," Redstone said. This means, he said, "we are in the opportunity age... an era of incredible possibilities for traditional media companies." But, he said, broadcasters need to "reinvent ourselves or embark on radical new strategies... What we need is to have the resolve to fully exploit our unique strengths." He called Internet companies and other digital technologies "dot commandos."

Redstone, Bennack and Fritts took swipes at "excessive government regulation." At news conference following speech, Redstone said if FCC doesn't permit dual network ownership after Viacom takes over CBS it will mean "the death of UPN, which is just what is going to happen if we don't get" waiver of 2-network rule. Bennack said "it certainly can't be reasonable or in the public interest" for FCC to continue its ban on broadcast-newspaper cross-ownership. Asked whether he was concerned about AOL takeover of Time Warner, he said: "No, we're not worried about it... We [Viacom] probably have more going on today with AOL than Time Warner."

Fritts cited as "our biggest fights" on Washington scene LPFM, digital must-carry, TV receiver standards. On DTV, he charged Commission has been "dithering and indecisive [and] failed in its basic obligation to guide this process." Fritts said "we broadcasters must rethink who we are and appreciate what it is that we actually provide" for Internet, other new technologies and public and "remain focused on the local community. That's what separates us from cable TV or satellite radio on the Internet... The dot-coms and high-tech companies want what broadcasters provide."

NAB Chmn. James Yager took apparent swipe at NBC (although he didn't mention it by name), which withdrew its network and TV stations from Assn. over NAB refusal to endorse end of 35% ownership cap. "The NAB is not now, nor has it ever been, about one issue or even one or 2 members," he said. He said NAB board members "focus on the status quo [as in case of ownership issue] only when the status quo is fundamental to preserving the world's best broadcast system."

NTIA Dir. Gregory Rohde said "consolidation is a way of life" and technology is changing so rapidly, but it still is "fundamentally important that we retain a very healthy" local broadcast system in U.S. Consolidation of broadcasting and new technologies generates new challenges, such as how broadcasting is going to serve all segments of U.S. society, Rohde told ABA conference before start of NAB. "The fact is," he said, "we will always have the need for local broadcasters" along with how to make new technology available for all of rural America. In shift to wireless technology, U.S. must be in forefront, he said.

On regulatory overview panel at legal seminar, FCC Mass Media Bureau Chief Roy Stewart complained that Commission isn't getting sufficient credit for many deregulatory steps it has taken, citing several examples. But, he said, it wouldn't be in "public interest" for agency to do away with many of its remaining rules, citing diversity. Senate Commerce Committee aide Lauren (Pete) Belvin (former FCC official) countered that there's need for much more deregulation. Citing Internet and other technological developments, she said: "One simply does not need access to the spectrum anymore."

ABA-NAB seminar lost several scheduled panelists because of large cutback in FCC staffers attending convention, with only 3 allowed from Mass Media Bureau.

Technology Notes: RealNetworks said its streaming media software has been downloaded by more than 115 million unique users since debut 5 years ago at NAB convention. It said latest software version, RealPlayer 7, has been downloaded by 25 million users. Company also announced technology for inserting ads in streaming media and said its broadband-ready RealSystem G2 software is getting widespread support from Internet, satellite and terrestrial broadcasters... SeaChange International introduced MediaExpress digital satellite distribution service. System allows ads to be encoded in MPEG-2 4:2:2 format at 18 Mbps data rate for delivery to stations... Radamec announced HDTV version of its virtual studio system... Teleglobe and TV New Zealand said they will launch globally integrated fiber and satellite transmission network, combining facilities of each company... USA Digital Radio and Dielectric Communications said Dielectric will develop and test combiners, filters and other technology for USA's in-band, on-channel DAB system... Broadcast equipment maker Chyron unveiled broadcast-compliant coder designed for streaming audio and video over Internet. It said new technology is part of global strategy to switch to "mediacasting" from broadcasting... BBC unveiled broadcast and new media consultancy group named BBC Resources. Group is to be involved in business, organizational and technology consulting... Harris Corp. formed alliance with Continental Electronics to provide high-power AM radio broadcast transmission systems worldwide. New entity will focus on large international and govt. projects... DiviCom introduced TransRater TR200 and TransRater TR400 technology to manipulate MPEG-2 compressed video streams for streaming video. Systems are designed to eliminate compression artifacts before video is streamed... Lightningcast showed its system for inserting targeted and audited ads in streaming video. Patented system is intended to allow ad insertions without requiring consumers to download additional software. Lightningcast said its first customer is Cyberradio2000.com.

In broadband world, "at the end of the day, value will migrate to those that have branded content, a direct relationship to the customer, and technology in the product that enables content to be delivered to the customer," Liberty Media CEO Robert Bennett told N.Y.C. investors conference. Company said total attributed revenue of its nonpublicly traded assets rose 22% to \$995 million in 4th quarter ended Dec. 31 from \$814 million year earlier. Total attributed cash flow declined to \$105 million from \$123 million. Company also announced 2-for-1 split of Class A and B common stock, subject to shareholder approval May 24, payable June 9 to holders of record May 25. Bennett said he didn't know whether Liberty would be able to sustain revenue growth of last 2 years.

DTV NOTEBOOK: MSTV board approved 6-month program to test both VSB and COFDM modulation systems for DTV, Pres. Margita White said. Program is to be separate from task force set up by Advanced TV Systems Committee to deal with modulation issues, which includes participation of set-makers and others. "This is a broadcaster initiative," MSTV Senior Vp Victor Tawil said. "We want to do this quickly. This debate has been dragging on for more than a year, and we are no further ahead in answering the technology questions." Tawil said MSTV plans lab and field tests of both improved versions of VSB system and COFDM system, both in U.S. RF environment. Goal, he said, is to gather "pure science" on both systems: "There have been a lot of claims out there, and someone has got to step up to the plate and look at what are the real facts." Actual test plans and means of funding initiative still are in development, MSTV officials said.

Congress is "a little bit confused" about possibility that datacasting will limit HDTV, Cox TV Exec. Vp Andrew Fisher said. He said technology is allowing broadcasters to pack more into 6 MHz DTV channels, so data can be transmitted without affecting HDTV. Despite concerns that separate datacasting consortia are being formed, unrelated to broadcast networks, datacasting isn't "driving a wedge" between networks and affiliates, said Jay Ireland, pres.-NBC TV Stations. "What is being created is a different network," he said, and traditional networks still are trying to decide how to make best use of DTV signal's data capabilities. Fisher said most network affiliate stations will end up partnering with networks over data since "our most valuable partner is the network. We are all looking forward to hearing the plans of our partner of choice."

Broadcasters are worried FCC proposals to encourage TV stations to leave Ch. 60-69 early to enhance auction value of channels could extend into other channels and ultimately lead to congestion and lost service area on lower frequency channels, MSTV Counsel Jonathan Blake said. FCC is suggesting making 36 MHz of spectrum to be auctioned beginning June 7 more valuable, since use of those channels will be limited by 90 analog and 16 DTV stations operating on those channels, he said. Blake said same technique could be used for Ch. 52-59, which are to be auctioned later, even though they're used by 120 analog and 187 DTV stations: "And there's no guarantee the same technique couldn't be used for even lower channels."

Countries that don't opt for European Digital Video Bcstg. (DVB) standard for DTV will be "rare animals" soon, DVB officials said at crowded news conference. DVB group touted hierarchical coding for DVB, in which stationary DTV sets with good antenna would be able to receive full HDTV signal, while mobile units would get standard-definition DTV signal carried simultaneously with HDTV in 6 MHz DVB channel. They also showed recently approved specification for DVB-MHP (Multimedia Home Platform) that will allow interactive TV services within DVB standard.

Mobile DTV reception is inherent part of U.S. DTV system, but it "comes at the expense of a lower data rate," NAB Senior Vp-Technology Lynn Claudy said. He said U.S. VSB-based DTV system would deliver mobile services same way as European DVB, by lowering data rate to make signal more robust, and "there's an emerging awareness in the broadcast community that we may be interested in mobility, especially if it's compatible with the existing system. We must be very aggressive in bringing the same features to VSB." Matthew Miller, pres. of DTV receiver chip maker NxtWave,

agreed that mobile VSB is doable: "Just tell me what you want, and what you're willing to give up to get it. Right now we don't know what the requirements are."

Advanced TV Systems Committee is working on "middleware" to make it easier for different applications to work with DTV, Exec. Dir. Mark Richer said. DASE (DTV Application Software Environment) would allow content to be developed that could operate with multiple receivers, he said: "The goal is to write once, run everywhere."

Performance of U.S. DTV receivers is "all over the map," Yiyan Wu of Communications Research Centre Canada said following DTV receiver tests there. He said "wide range of performance" is based in part on how recently different receivers were developed, as well as on manufacturer. Wu didn't provide identities of receivers that performed best or worst, but said best sets were in 0-3 dB range for multipath performance and worst were in 4-8 dB range. Among other things, he said, tests showed that DTV receiver performance is improving and "can continue to improve."

Joining open access debate, Telecom Resellers Assn. (TRA) urged FCC to make AT&T-MediaOne and AOL-Time Warner mergers contingent on "specific and enforceable open access commitments" by MSOs. In letter to Commission, TRA expressed reservations about potential anticompetitive impact of AT&T's assertion of control over Excite@Home. Group said it's worried restructuring marks retreat from AT&T's earlier assurances that it eventually would open its cable systems to rival ISPs. At least, TRA suggested, FCC should require cable operators to commit that: (1) All ISPs would be free to market their services to all cable operators' customers, no matter when customers signed up. (2) Internet transport services would be unbundled from Web portal services and would be offered separately for purchase. (3) Customer access to independent ISPs wouldn't be screened, degraded or limited by cable provider.

AT&T plans increases of 5.3-9.5%, and in one instance 21%, in basic cable rates. Its customers in Salt Lake City will receive 21% boost for what spokesman said was "entirely new package." Number of channels in Salt Lake market is to increase to 62 from 34, he said. Among areas in high range are Chicago (9.5%) and Miami (6.2%). In low range are San Francisco (5.26%) and Dallas (5.7%).

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HOUSE PASSES LOCAL TV BILL: Full House sent strong message to constituents demanding local broadcast signals in rural areas by passing HR-3615 with overwhelming 375-37 vote evening of April 13. Many members have said that since passage of Satellite Home Viewer Improvement Act (SHVIA) last fall, no topic has generated more mail and calls to Hill offices than fact that only top markets will receive local TV channels from DirecTV and EchoStar. HR-3615, sponsored by Va. Reps. Goodlatte (R) and Boucher (D), reached floor in version combining referrals from Agriculture and Commerce Committees and bears strong resemblance to S-2097 by Senate Banking Committee Chmn. Gramm (R-Tex.) and Communications Subcommittee Burns (R-Mont.). S-2097 already has passed Senate, 99-0.

House voted on bill that retained \$1.25 billion loan guarantee limit passed by Agriculture, dropping \$1 billion level adopted in Commerce Committee that Boucher said would be insufficient to fund program. House leadership did retain 80% limit that govt. would guarantee on each individual loan adopted in Commerce, rather than 100% in Agriculture version. Boucher had said he was okay with 80%, and in fact that's same figure (along with \$1.25 billion limit) that's in Senate bill. Both bills are technology-neutral, although many supporters clearly expect loans to provide funds for satellite startup to work with DBS providers.

One of only few differences between 2 bills is that Senate version calls for oversight board of representatives of Agriculture and Treasury Depts. and Federal Reserve, while House Commerce Committee substituted Commerce Dept. for Federal Reserve. Senate bill originally didn't have Agriculture representative but Gramm added it as part of negotiations to resolve jurisdictional conflict with Agriculture Committee Chmn. Lugar (R-Ind.).

Most of speeches on floor praised HR-3615 and members expressed eagerness for services to be deployed in rural areas. However, Reps. Cox (R-Cal.) and Largent (R-Okla.) continued their opposition, with Largent saying members shouldn't be misled by widespread praise for bill: "There's a lot more opposition to this bill than you're hearing." Still, opponents mustered only 37 votes, disappointment for them considering there had been much talk among some Republicans that bill would encounter real trouble on floor.

Given strong support in both houses and similarities between House and Senate bills, members and staff we spoke with were confident bill would have easy and quick conference. However, Senate is in recess until April 25 and House until May 2, so conference can't begin until May. White House also supports legislation.

Cox, co-owner and one of largest affiliates of Excite@Home, notified 350 customers in San Diego market that they risk losing their @Home accounts if they keep running Napster, music-exchange software that allows swapping of MP3 music files. Napster issue is latest example of problems faced by cable modem operators in monitoring and managing bandwidth traffic. Napster permits users to exchange personal MP3 music files through software installed on computers. Cox spokeswoman said it was not first time that customers had been notified about running servers but problem wasn't rampant.

PUBLIC INTEREST FOR DTV: FCC commissioners' offices remain widely divided over DTV public interest obligations and over spectrum scarcity rationale that justifies them, aides indicated in panel discussion at NAB convention. Given changing media market, including arrival of Internet streaming media and expansion of cable and DBS, it would be "abominable not to take a hard look at the rationale of scarcity," said Marsha MacBride, aide to FCC Comr. Powell, but Rick Chessen, aide to Comr. Ness, said things that broadcasters want, such as DTV must-carry, rely on "special relationship" between broadcasters and govt. that's based on public interest obligation.

Since some spectrum being auctioned isn't attracting even single bid, "I don't know how you can argue that the spectrum is scarce," said Helgi Walker, aide to Comr. Furchtgott-Roth. She said she wasn't sure scarcity ever was good justification, and Internet, DBS and others mean broadcasters no longer are "unique" way to provide information to public. Chessen said demand for LPFM and LPTV channels shows spectrum still is scarce.

Question is whether broadcasters have special relationship with govt., Chessen said: "Either the special relationship is over and we can auction their spectrum, or the special relationship still exists." He said relationship includes requirement for public service by broadcasters. NAB Vp Karen Fullum acknowledged that public interest and special benefits such as must-carry may be linked, but said govt. isn't fulfilling its part of bargain since FCC "isn't addressing" issues such as must-carry and cable compatibility and is increasing regulation of such things as EEO rules.

Thomas Power, aide to FCC Chmn. Kennard, said broadcaster resistance to proposal to allow channel auction winners to pay stations to move off Ch. 60-69 was surprising. He called plan deregulatory effort designed simply to give broadcasters and auction winners more flexibility, and no broadcaster would be forced to move early.

Financials: NBC profit grew 18% to \$394 million in first quarter ended March 31, parent GE said. Network revenue rose to \$1.38 billion from \$1.18 billion year ago. GE provided no other details of network operation, but Chmn. Jack Welch said company overall had "terrific first quarter"... **Tribune Co.** broadcast and entertainment operating profit jumped 33% to record \$84 million in first quarter from \$63 million year earlier. Gain was attributed mainly to improvements at WB affiliate stations as well as at WGN Chicago superstation. Broadcast revenue was up 18% to \$312 million... **Gannett TV** cash flow edged up 1% to \$82.3 million in first quarter ended March 26 from \$81.4 million year earlier while revenue was up 3% to \$166.8 million from \$161.2 million... **Scripps Co.** broadcast revenue inched up 1.8% to \$76.7 million in first quarter ended March 31 from \$75.4 million year ago, while cash flow was up 9.8% to \$23.6 million from \$21.4 million. Cable networks grew more quickly, with Home & Garden TV revenue jumping 54% to \$51 million from \$33.1 million and subscribers 8.6 million to 60.5 million, Food Network revenue 60% to \$22.2 million from \$13.9 million and subscribers 7.3 million to 46.4 million. Company said its Internet sites generated \$4.9 million in revenue, against costs of \$8.1 million.

Avis signed agreement with XM Satellite Radio to offer service in its vehicles along with standard AM-FM radio. Companies will market service jointly but didn't release details.

NAB Convention Notebook: NAB said convention in Las Vegas drew record crowd of more than 113,000, up from record of 106,050 at same site in 1999. Of attendees, more than 26,000 were international, up from 22,889 year ago. Exhibit space increased to 950,000 sq. ft.

Fissure between NBC TV Network and its affiliates enlarged following closed meeting of stations at convention. NBC reportedly "has or is" refusing to negotiate with affiliates' board, instead wants to meet with new group composed only of owners. At meeting, that position was labeled "an affront and offensive to the board duly elected by affiliates," which is composed of executives from several groups. Dispute has raged since last spring, with affiliates rebuffing several network proposals considered too favorable to NBC, and reached its height last month when network announced it would repurpose quiz program *Twenty One* on Pax TV Network same week it's aired on NBC. There are several instances of repurposing network shows on cable, but this is first time it has been done on another over-air network and "that's very troubling," affiliate told us.

Feature of NAB convention for years has been panel of FCC commissioners and NTIA dir., but this year's session was labeled "the duller in my memory, probably ever" by veteran attendee. "I absolutely agree," said another: "An absolute waste of my time." Moderator Henry Baumann of NAB was unable to get response from any of 3 commissioners participating — Ness, Furchtgott-Roth, Powell — when he asked whether there would be digital must-carry ruling by Commission this year. Ness said future of broadcasting in digital era to come is very promising. Powell said he agreed with that if industry leaders are "farsighted enough, courageous enough." NTIA Dir. Gregory Rohde said "there's always going to be a market for local broadcasters" but question remains how their content will be delivered to homes. Of public interest obligations, Furchtgott-Roth said "I am mystified" that they are still required in era of many signals into home. As for industry concentration, Rohde said he couldn't make "value judgment" that it's too highly concentrated.

Process of mergers and partnerships to survive in converging media world is just beginning, speakers said. Ross Levinsohn of AltaVista predicted small number of "uber converge units" pairing content providers and Internet firms would emerge within few years and said his company would be looking for partner in 2-3 years: "If you want to be a major player, you do need the exposure that a broadcast or cable network can bring," as well as their marketing expertise. James Moroney of Belo Interactive said broadcasters that don't treat Internet like "core business" are "pouring money down a rat hole." He said failure to do good job with Internet, including constantly updating breaking news, would mean someone else would win local news "brand" in station's market: "This is an opportunity for everyone in the room, but you better get serious about it or you will be left behind." Broadcasters resisted arrival of cable, Levinsohn said, and are doing same with Internet: "If you continue to resist, you will die." Moroney said Web content must bring additional value: "If they don't, why bother. If we make short-term mistakes and send the viewers somewhere else, we have lost them forever."

"It's a beneficial change," NATPE Chmn. Steve Mosko said of new TV network trend of demanding ownership participation in programs produced by others. In opinion countering most programming colleagues, Mosko, exec. vp-sales, Columbia Tristar TV Distribution, said permitting networks to acquire ownership partici-

pation is good because of cost-sharing it creates. He expressed concern about "financial types" now running networks who are happy with 6 audience share if show is more profitable than program with 12 share that's more costly.

Amount of Internet content will grow "tenfold" over next 3 years, IBM Vp-Global Media Mktg. Steven Canepa said, and much of growth will be in streaming audio and video. He said content would be available to "pervasive devices," starting with Palm units and Web-enabled phones, and extending eventually into even more exotic devices. Successful services will provide "content dial tone," Canepa said, offering "whatever you want, where you want it, and using the device you want to use."

Broadcasting is involved in "reanalysis of the way the old things worked," Sun Microsystems Chief Technologist John Gage said: "There are people attending this convention that would never have thought of it 3 years ago. The average age level at the NAB convention has dropped precipitately because now the NAB is hip." He said transformation is just beginning, and by 2010 it will have to have changed itself into "World Assn. of Casters," since much of effort will involve Webcasting. Within few years, Gage said, there will be 1.5 billion handheld Internet devices in world, most capable of storing video: "The question is whether broadcasters will be able to reach them."

Convergence of entertainment and Internet is "completely changing and redefining entertainment," producer Don Mischer said, because new media are "not limited by time. People in television see that as a negative, but we see it as a positive." Errol Gerson of Creative Artists Entertainment agency said change is so pervasive that by 2005 broadcast TV will trail both cable and Internet in total ad dollars. Gordon Paddison of New Line Cinema said that by 2010 there would be no way to distinguish between TV and Web and between TV set and PC.

Dozen major media companies helped start Advanced TV Forum, designed to boost interactive TV, during convention. Group is to build on work of Advanced TV Enhancement Forum and help resolve implementation issues for interactive TV, interim Chmn. C.J. Fredericksen said. New Forum will focus on commercial requirements of consumers and content providers, rather than setting technical specifications, he said.

Criticizing comments by NAB Pres. Edward Fritts at NAB convention in Las Vegas last week, NCTA Pres. Robert Sachs charged broadcasters were trying to use new digital TV licenses to offer "competitive data systems or multiple channels" at cable industry's expense. In statement, Sachs said attempt showed that "the digital must-carry fight is not, and never has been, about cable carriage of broadcast digital television signals. It's about an attempt to misuse a government rule to give broadcasters an economic advantage in a competitive new commercial business." Instead of negotiating digital carriage deals with cable operators, Sachs contended, broadcasters want govt. to "mandate free access over cable systems to them so they can launch new competitive data services and channels." He questioned how carrying those new services would benefit public interest in receiving local broadcast stations.

EchoStar said it paid \$50 million for 17.6% stake in Gilat-To-Home broadband Internet service due to start later this year. Joint venture includes Gilat Satellite and Microsoft.

STREAMING MEDIA 'WAKEUP': iCraveTV was "a wakeup call" for broadcasters to importance of streaming media, said Rich Lappenbusch, dir.-strategic planning for Microsoft's Digital Media Div. He and others at NAB convention said wakeup involved not only copyright issues but also business opportunities and threats. "If 3rd parties are more effective at taking your brand and getting it to the audience, you better wake up," he said. Jerry Hinrikus, whose KSAL(AM) Salinas, Kan., is planning 8 separate audio streams, paraphrased *Wizard of Oz*, saying streaming means "we're not in Kansas any more."

Most broadcasters "are in the mindset of seeing themselves continually losing audience," said Floyd Christofferson, vp-gen. mgr. of VNI's News/Bcst. Div.: "They see the Internet as just one more strain on that." Hinrikus said proliferation of content is real issue: "You're worried about a few little LPFM stations? We're going to have so many channels come at us that that will be nothing. We better have a plan. But local stations can end up on the top as the main driver of new revenue" from Internet. "What makes [streaming media] work is turning all those eyeballs into dollars, and that is where the local broadcaster comes in."

Although streaming media still have some shortcomings, including "dropouts" when audio fades and slow, small pictures in video streaming, those problems will be resolved quickly as broadband media such as DSL lines, cable modems and even DTV delivery arrive, speakers said. "The technology issue has already largely been addressed," said Paul Campbell, vp-streaming, Akamai Technologies: "Now it's just a matter of working out the business models."

If broadcasters don't take charge of creating shelf space for their own content, others will, said Ajay Chopra, co-founder of equipment maker Pinnacle Systems. He said there already is "wave" of new Internet content companies, such as Zatso.com and those that stream media from other countries for niche audiences in U.S. Despite threat of new content's competing for audience, Clint Chao, SkyStream vp-mktg., said streaming is "huge opportunity" for broadcasters because "the local guys have an enviable footprint" in their communities and ownership of "last mile" delivery system.

Stations won't be able to be successful being thousandth station to stream top-40 format, Campbell said, so they will have to find way to stream unique content. One possibility, he said, will be making archived news material searchable and streamable: "Strictly repurposing video from over-the-air to the Internet is not compelling, unless you time-shift, because the quality is still not what you would expect from TV." Chopra said stations also might want to stream video not used in newscast, or even live coverage of breaking news event, since crews already are on site anyway.

Radio stations already are heavily involved in streaming. Howard Freedman of iRadio said latest figures showed 3,537 radio stations streamed on Internet, up from 56 in 1996. He said Internet should be considered new radio band, equal to AM or FM, that can be offered at relatively low cost. Typical cost for station to stream its signal is \$1,500-\$2,000 per month, he said, and revenue stream can easily equal that already.

Much streaming media will be very specialized, trying to aggregate large enough audience from very small niche of national or international audience, but localism is key for many stations' streaming media, Hinrikus said. His station plans to

fill its 8 audio streams with such materials as live and taped coverage of local high school sports, with audio often provided free by announcer students from local college. He said programming also will include such things as high school speech contests and drama events, church services, even some programming on leased channels.

Streaming media can be ad supported, but main opportunity is e-commerce, said Gordon Bridge of SurferNetwork.com. He said streaming radio listener may be worth few pennies to advertiser, but single e-commerce transaction can net hundreds of dollars for station. Meanwhile, online advertising, including streaming media, is \$2.8 billion market now, but is expected to grow to \$25 billion, roughly equal to total radio ad market, within 5 years, Bridge said. Most of those ad dollars won't come from broadcast budgets, he said, with more than half coming from direct mail and newspapers. He said \$108 billion worth of goods will be sold online within 5 years, still only about 6% of all retail transactions, but enough to be "Holy Grail" for streaming companies.

One concern is regulatory environment, said Benjamin Ivins, NAB senior assoc. gen. counsel. He said beginning streaming is "almost like starting a new station all over" from copyright standpoint, since anything that station didn't produce itself, including music, could be subject to new copyright clearances. He said that includes any syndicated programming, things that emanate from AP or other news services, as well as music.

Rep. Stearns (R-Fla.) at show said "I'm not sure I know what to do" about future iCraveTV-style ventures. Issue will become serious when broadband gains greater penetration, but he wasn't sure compulsory licenses for Internet operators was answer. Rep. Fossella (R-N.Y.) predicted House Telecom Subcommittee would hold another hearing on issue this year. Senate Communications Committee Chmn. Burns (R-Mont.) suggested N. American Free Trade Agreement might be vehicle to enforce intellectual property law if transmissions were treated as export.

"I do believe this is the biggest issue broadcasters are going to face," Senate Commerce Committee Gen. Counsel Pete Belvin said of Internet streaming of broadcast signals. "Is it too early for the government to jump in? Yes." Al Mottur, aide to Senate Commerce Committee ranking Democrat Hollings (D-S.C.), agreed. "We learned during the SHVA [Satellite Home Viewer Act] that copyright is incredibly complex," he said, adding "once these entities get a compulsory license it's awfully hard to take it away from them." To Shawn Bentley of Senate Judiciary Committee, which oversees intellectual property, issue "becomes an enforcement question." Current property laws can be used to prosecute iCraveTV imitators, he said, but issue is that they could be operating out of "Netherlands Antilles" and be virtually unreachable by law enforcement.

Broadcasters and online companies need to "partner with each other," Yahoo founder Jerry Yang said in NAB keynote. Cooperative tone became more threatening, as he made veiled reference to broadcasters' discussions with federal regulators and Congress on intellectual property and copyright issues. Following keynote, Wall St. analysts said those issues were more important to broadcasters than Yang indicated. They also predicted industry would see more duopolies and mergers that would lead to more rapid convergence, while at same time new

(continued on next page)

ventures such as TiVo and AOL TV would continue trying to insert themselves between broadcaster and consumer.

Yahoo offers streaming video and audio of 500 radio stations and networks and 70 TV stations and cable networks, Yang said. As result, he said, "it's certainly not a surprise to me that the word 'broadcasting' is being redefined before our very eyes." Still, he expressed concern that redefinition could be delayed, hurting Yahoo's business plan. Federal "regulators need to look at what this new definition is," he said: "As the lines continue to blur, it's very important we don't try to do something that slows down growth."

New definition for broadcasting requires new thinking, Yang said. In old way of thinking, network was programmer, he said; now consumer is. In past, viewer waited for programming, now it's "what I want, when I want it." Shift is from Big 4 networks to "anyone is a broadcaster," he said, and old debate on TV vs. PC is moot as "any device" could be used.

There was consensus among Wall St. panelists that vertically integrated media companies such as Disney and Viacom were leading convergence as stations convert to digital. However, Sanford C. Bernstein analyst Tom Wolzein had harsh words for stations that air reruns and don't differentiate themselves. He said in transition to digital "they're going to die and have their bandwidth taken away from them." Bear, Stearns analyst Victor Miller said stations would take different approaches to conversion, with content-heavy stations using most of bandwidth for programming and content-poor stations such as Barry Diller's home shopping stations using new spectrum mostly for datacasting and related services. Wolzein said stations will find intense competition in data services, saying cable has far more bandwidth than single station: "Don't build your business on that."

Cable will be 95% consolidated and radio 85% after conclusion of pending deals, Miller said, but "the final structure is not in place" for TV broadcasting. He said that would come in time, as would new mergers, and as result conversion to digital and integration with Internet would accelerate. Elimination of TV-newspaper cross-ownership rule also would aid that, panel said. Legg Mason Precursor Group founder Scott Cleland faulted broadcasters for basing business plan on regulatory relief. "The broadcast industry is pursuing a congressional business model," he said, "trying to slow the rate of change" and preserve past. He said NAB lobbying on digital spectrum issues, ownership caps, must-carry and low-power FM showed industry "trying to resist change... [it's] not forward-thinking."

Merrill Lynch analyst Keith Fawcett said 2 critical issues for broadcasters in Internet age are copyright protection and intellectual property, "quagmire that could go on for 10 years." He said "if you want to make some money, you have to have copyright protection; you're going to have to have a way to get paid." Some panelists cited Yang's earlier presentation on Yahoo as one source of potential problems. Others included hardware from AOL TV, Replay, TiVo. Wolzein saw clear copyright problem with new services, which Cleland said are trying to "insert themselves" between broadcaster (and cable operator) and consumer by shifting control over programming.

Broadcasters still have one-way business model for digital spectrum "when the future is a 2-way medium, more specialized, more niched," Cleland said. Wolzein agreed: "Broadcasters are not pounding on the door asking to give 1 MHz back to get 1 MHz upstream."

NCE RULES SET: Giving preference to local applicants and those with few stations, FCC set out standards by which it will judge competing applications for licenses in noncommercial educational (NCE) spectrum. In replacing time-consuming and expensive comparative hearing system, which had been on hiatus since 1995 while Commission chose new method of weighing competing filings, agency rejected simple lottery. On commercial frequencies, FCC said noncommercial entities can compete with commercial ones for spectrum but will receive no preference, decision that drew dissent from Comrs. Furchgott-Roth and Tristani. Many details remained unclear, with order not yet available.

FCC said it will open filing windows, then automatically grant licenses to applicants whose filings are uncontested. It will settle competing applications through point system that's much simpler than those proposed by various public broadcasting entities: (1) 3 points for applicants that are "established local entities." (2) 2 points for applicants that either own no other local broadcast stations or are part of statewide network that services accredited schools. (3) 1-2 points based on undisclosed technical parameters of proposed facility. Tie-breaker will go to applicant with fewest existing stations, followed by one with fewest pending applications. Defending process against gaming, Commission said applicants must maintain characteristics they filed under for 4 years. They can transfer license during that time only to entity that would receive at least as many points, and for no more compensation other than covering expenses.

Subtext to proceeding has been battle between public radio stations and religious broadcasters, whom public broadcasters have accused of flooding FCC with applications to take advantage of agency's inability to settle competing ones. With news release issued late Fri., and many of key parties still returning from NAB, it wasn't clear who was biggest winner. However, FCC rejected point systems that would have specifically disadvantaged religious broadcasters, including preference for applicants receiving govt. funding and narrower state network preference that would have attached only to public educators. It also didn't include National Federation of Community Bcstrs. proposal for most points to accrue for locally produced programming, to favor community stations over networks. In separate statement, Tristani called "specious" majority's reasoning for doing so.

Commission lacks authority to auction any licenses to non-commercial entities, whether on NCE spectrum or commercial, Tristani and Furchgott-Roth said. They said Congress in Telecom Act explicitly rejected including such authority when it required that commercial licenses be auctioned. Majority said it "conducted an in-depth analysis of conflicting directives," but dissenters said objectives are "not in equilibrium" and auction language "must give way" to exemption for noncommercial entities.

Cablevision Systems disclosed details of its planned digital set-top box (STB) switch expected in 2001 first half. Cablevision will switch out analog STBs at no charge for "thin client" digital version capable of being upgraded via software downloads and that has much of processing power housed in servers at headend, Cablevision CEO James Dolan said. Sony-built STBs won't have home networking or personal video recording features at start, although those will be added in future, Dolan said. First STB will have IEEE-1394 connectors, he said.

RELIGIOUS BROADCASTERS DEFENDED: House Telecom Subcommittee April 13 pushed 2 bills designed to prevent FCC from ever again seeking to define religious broadcasting as educational or noneducational, as it did in Dec. before vacating rules in Jan. under heavy congressional pressure. Republican subcommittee members said sentiment needed to be codified to prevent FCC from revisiting issue in future (TVD Feb 7 p4). General preference of witnesses and members was for HR-4201, recently submitted by Rep. Pickering (R-Miss.), with Subcommittee Chmn. Tauzin (R-La.), Vice Chmn. Oxley (R-O.) and Rep. Stearns (R-Fla.) as original co-sponsors. Original bill, HR-3525 by Oxley, almost immediately after FCC's first action, drew less support because it was less comprehensive.

Of 5 witnesses, FCC Comr. Tristani was only one to support applying educational standards monitored by FCC to religious programming on noncommercial stations, and many lawmakers opposed to her position applauded her bravery in attending.

Tristani and Comr. Furchtgott-Roth took different First Amendment approach to Commission's Dec. action denying definition of "educational" to religious programming in approving Cornerstone TV's acquisition of noncommercial WQEX Pittsburgh. Ness argued that allowing religious programmers to make judgment as to what qualified as educational programming "would run afoul of the Establishment Clause" of First Amendment in favoring religious programming not intended for universal audience. Furchtgott-Roth, on other hand, said First Amendment violation was "chilling effect" on speech of religious broadcasters.

Tristani repeatedly said that members were missing point — that FCC wasn't banning religious services and other such programming, saying only that it wouldn't qualify toward 50% of educational broadcasting required of noncommercial licenses.

"The scariest moment, the most frightening moment, the most chilling moment" in his tenure at FCC "was when my staff asked if I wanted to review videotapes," Furchtgott-Roth said. "I will never support any move to have the government in a position of deciding whether programming fits in one pigeonhole or another."

Stearns asked Tristani whether following programs would be educational: (1) Instruction on living by 10 Commandments. (2) Show on collecting wrestling magazines or comic books. (3) Instruction on collecting pet rocks. On first 2, Tristani said "I'd have to see more of the program," on 3rd said, "I don't know what pet rocks are." Stearns said "you have to be culturally informed even to make a decision, and you can't make a decision yourself this afternoon." He said he didn't want to see "czar of programming."

National Religious Bcstrs. Pres. Brandt Gustavson read from language in FCC order that said educational religious programming could include "analyzing the role of religion [in history]... exploring the connection between religious belief [and health]... examining the apparent dichotomy between science, technology and established religious tenets, or studying religious texts from a historical or literary perspective." Gustavson said "FCC created a category of politically correct government-approved religious speech... and that is abhorrent to us."

OWNERSHIP RULES 'IN PLAY': FCC Mass Media Bureau expects to make its recommendations on reconsideration petitions for broadcast ownership rules by end of June, Bureau Chief Roy Stewart said at NAB in Las Vegas, and number of petitions filed mean "virtually every decision is in play." He said FCC has been surprised by relative lack of transactions resulting from easing of ownership limits, involving only few dozen TV stations and 50-60 radio stations: "We were braced to see a heck of a lot more."

Attorneys speaking at convention said several provisions of rule had limited its impact. Gregory Schmidt of LIN TV, for example, said rules would limit new owner's ability to sell stations later: "It was liberalized, but not very significantly relaxed." Price of broadcast stations is another reason for lack of deals, said attorney John Feore. He said price of even independent UHF's has gotten so high that not many deals were attractive for buyers. However, Feore said one of "unintended consequences" of new rules is "a significant increase in minority ownership" of stations, citing sale of "a lot of" Clear Channel stations to minority-controlled groups.

Senate Commerce Committee Gen. Counsel Lauren (Pete) Belvin called TV-newspaper cross-ownership and TV ownership cap "2 dumb rules... get rid of them both," but then acknowledged it would be "tough" to move legislation through Congress. House Telecom Subcommittee Chmn. Tauzin (R-La.) spokesman Ken Johnson said it was "time to make the change" on newspaper-TV, but he said Tauzin preferred that affiliates and networks work out their differences on ownership cap first.

Burns drew applause from broadcasters when he said HDTV "should be market-driven... you shouldn't just set a date" for conversion. Referring to standards fight between widely accepted 8 VSB and Sinclair-backed COFDM, Belvin said "it's not surprising that what we knew about HDTV didn't turn out to be the gospel truth." She also said broadcasters should be given flexibility if broadcasting HD "24-7" isn't economical. However, Johnson said that if broadcasters "abandon" HD they "are going to have legislators asking 'Why did we give you that much spectrum?'"

As new figures indicated proposed AT&T-MediaOne merger might have to divest nearly 30% of its cable holdings to comply with FCC's cable ownership rules, Media Access Project (MAP) called on Commission to consolidate pending AT&T-MediaOne and Time Warner-AOL deals into single docket. Representing Center for Media Education, Consumer Federation of America and Consumers Union, MAP filed motion with agency April 11 arguing that 2 proceedings really are intertwined. MAP said AT&T would gain MediaOne's key stakes in Time Warner Entertainment and Road Runner if its deal were approved, giving AT&T vast cable resources and control of 90% of cable modem market. It also contended mergers could be "mutually exclusive," meaning even if one could be in public interest, that decision might make 2nd impossible to approve. AT&T spokeswoman dismissed petition as "unwarranted and, to the best of our knowledge, unprecedented."

Few radio and TV station Web sites have "credible privacy policies," said Christine Varney, adviser to Online Privacy Alliance. She encouraged broadcasters to learn more about what's acceptable posted policy, area Internet companies have learned about from hard experience recently at www.privacyalliance.org.

Personals

NBC advancements: Thomas Cairns to senior vp-west coast employee relations, Adria Alpert-Romm to vp-organization & staffing... Andy Bloom, ex-Great Media, named vp-programming, Emmis International... ABC TV Network additions in L.A.: Val Nicholas, ex-NBC Entertainment, as vp-special projects; Jim McClintock, ex-TBWA Chiat/Day, as vp-network media... Promotions in ABC National TV sales: Diane Dougherty-Chachas and Taryn Soba-Kianofsky to dirs., N.Y. national sales-East... Neil Schubert advanced to senior vp-publicity, advertising & promotion, USA TV Group... Jayne Adair, ex-Fox Sports Pittsburgh, named station mgr., WPGH-TV Pittsburgh, including oversight of WCWB-TV.

Bruce Tuchman promoted to senior vp-new media ventures, Nickelodeon... Tony Illsley resigns as CEO, Telewest Communications, but remains as consultant until June 30, being replaced by Adam Singer... Bob Allison and Craig Moseley promoted to senior vp-mergers & acquisitions, corporate finance and advisory services, Daniels & Assoc.... Joseph Mangione, ex-e-Greetings Network, appointed senior vp-global client solutions, Turner Bcstg. Sales... Advanced at A&E TV Networks: Maggie Reilly-Brooks to vp-deputy gen. counsel, Stephen Stander to vp-legal & business affairs, international & business development... Bob Storin, ex-America's Voice TV Network, named dir.-special events, affiliate sales & mktg., Discovery Networks.

Alice Cahn, ex-Children's TV Workshop, joins Markle Foundation as head of its Interactive Media for Children program... Promotions in Children's TV Workshop Online Div.: Paul Marcum to vp-product development, Caroline Farnsworth to vp-business development & mktg., Chuck Fletcher to vp-technology.

Ex-FCC Comr. Rachelle Chong leaves San Francisco law firm Coudert Bros. to become gen. counsel of Broadband Inc.; joining firm's Washington office are ex-FCC officials Kathleen Abernathy as vp-public policy, Paul Gallant as public policy council, Dan Connors as corp. counsel... Rick Mandler advanced to vp-Go Local & Bcstg., Go.com.

FCC denied petitions for stay of new EEO rules filed by all 50 state broadcasters' associations, which had asked that Commission wait until U.S. Appeals Court, D.C., decides their appeal of rules before implementing them. Broadcasters won't suffer irreparable injury, FCC said, chiding them for brief that it said "mischaracterizes" rules as creating racial- and gender-based employment programs. Comr. Furchtgott-Roth dissented, saying potential employees would suffer irreparable injury if passed over for recruiting event, interview or job.

Geocast will begin beta test of data broadcasting service in fall involving several hundred Cal. subscribers using Thomson set-top box (STB), CEO James Ramo said. Geocast, which signed supply agreement with Thomson earlier this year and counts Philips among its investors, is likely to use either Granite Bcstg. station in San Jose or Hearst-Argyle TV affiliate in Sacramento, both of which already are involved in early tests, Ramo said. Rollout of service is expected in first quarter 2001, he said.

World news broadcasts are available on PCs in U.K. via Eurosky satellite Internet service. Broadband Web site (www.europeonline.net) makes newscasts from around world available by downloading data from Astra satellite.



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Obituary

Howard Miller, 67, retired PBS senior vp-bcst. operations and engineering, died April 6 at his home in New Bern, N.C. In his 7 years at PBS he was chief architect of analog-to-digital distribution transition that included digital technology for program storage, digital routing and switching, Ku-band satellite with digital encoding, flexible multichannel program streams, Extended Data Service. Miller also helped develop Advanced TV Test Center (ATTC), entity involved in HDTV/DTV issues, and served as chmn. emeritus until his death.

Consumer Electronics

A Section of Television Digest with Consumer Electronics

STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending March 31 and year to date:

	MAR.25- MAR.31	1999 WEEK	% CHANGE	MAR.18- MAR.24	13 WEEKS 2000	13 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	790,202	659,987	+ 19.7	508,546	6,434,799	5,653,741	+ 13.8
DIRECT-VIEW**	751,110	636,980	+ 17.9	482,466	6,109,323	5,417,137	+ 12.8
TV ONLY#....	597,234	496,460	+ 20.3	416,064	5,147,464	4,598,843	+ 11.9
TV/VCR COMBO.	153,879*	140,520	+ 9.5	66,402	961,859*	818,294	+ 17.5
PROJECTION...	39,092*	23,007	+ 69.9	26,080	325,476*	236,604	+ 37.6
TOTAL VCR**....	931,386*	742,652	+ 25.4	454,495	5,559,161*	4,843,233	+ 14.8
HOME DECKS...	777,510*	602,132	+ 29.1	388,093	4,597,302*	4,024,939	+ 14.2
CAMCORDERS.....	194,599	144,985	+ 34.2	102,167	1,122,941*	907,112	+ 23.8
DVD PLAYERS....	136,263*	52,548	+159.3	98,134*	1,183,625*	410,949	+188.0

Direct-view TV 5-week moving average#: 2000-441,507; 1999-349,476 (up 26.3%).

Projection TV 5-week moving average: 2000-25,709; 1999-16,264 (up 58.1%).

VCR deck 5-week moving average: 2000-416,529; 1999-337,902 (up 23.3%).

TV/VCR 5-week moving average: 2000-89,999*; 1999-67,408 (up 33.5%).

Camcorder 5-week moving average: 2000-105,073*; 1999-87,807 (up 19.7%).

DVD player 5-week moving average: 2000-82,512*; 1999-35,203 (up 134.4%).

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

CEA APPLAUDS FCC RULEMAKING ROLE ON DTV: With FCC now ready to jawbone CE, cable and movie industry into settling unresolved set-labeling and copy protection issues for DTV, only industry group embracing Commission role was CEA.

Commissioners approved proposal for formal rulemaking April 13 as concerned industries have yet to settle differences over labeling of cable-compatible DTVs or implementation of digital copy protection. While NCTA reacted coolly and MPAA took hostile stance, CEA Pres.-CEO Gary Shapiro said: "Our industry welcomes the FCC's support as we seek to resolve these 2 remaining critical issues surrounding the transition to DTV."

Shapiro said he was optimistic that CE, cable and entertainment interests could work out solutions on their own that FCC would accept as alternative to final rulemaking. But he said he hoped Commission's entry into copy protection debate "will spur an agreement on a balanced copy protection licensing agreement that provides the necessary protections for intellectual property while preserving the normal and customary fair use rights enjoyed by all Americans for more than 20 years."

MPAA's reaction was stark contrast to Shapiro's. Hollywood group questioned FCC's need to intervene in copy protection negotiations — and challenged its authority to act. (Comprehensive reports on FCC's proposed rulemaking and DTV-related coverage from NAB convention appear in this issue's Best.-Cable section.)

CE COMPANIES TURNING FOCUS TO DATACASTING: For most part, CE companies at NAB convention entered alliances in effort to provide end-to-end solution for datacasting segment of digital TV market or bought financial stake to gain missing piece in overall interactive TV strategy.

Leading charge was Samsung, which along with 4DL (software authoring tools), Harris (system integration), NDS (conditional access) and Skystream Networks (media routers), formed group that is developing ATSC-sanctioned DTV

Applications Software Environment (DASE) technology for datacasting. At same time, Panasonic's Bcst. Div., along with Tiernan Communications (compression and transmission technologies) and Synergistic Technologies (engineering and integration) formed Digital Bcst. Resources, while Sarnoff and Wave Systems started WaveExpress joint venture aimed at providing e-commerce to broadcast market. Thomson invested \$10 million in Virage, company best known for its VideoLogger video search technology that has been used by studios and broadcasters for archival purposes. Virage's most recent version, VideoLogger 4.0, allows user to search by face for person programmed into data base.

"In the interactive industry it's all about time to market and fastest way to get there, in many cases, is through a 3rd party," Virage Business Development Vp Andrew Langhoff said. Thomson, which gains seat of Virage board, also has invested in Geocast, which is expected to begin PC-based datacasting service early next year.

As part of DASE alliance, Samsung will supply digital set-top boxes (STBs) from plants in S. Korea that will be based on 64 MB Smart Media card that could be purchased as part of prepaid e-commerce service. Samsung, which had sought to champion open DASE standard itself 2 years ago but found little interest, will seek other manufacturers to join alliance and sell product at retail, DTV Strategy Group Dir. Frank Romeo said. STB won't have hard drive, but will be upgradeable via software download, he said. If service is implemented by broadcasters, it could be available by year-end, Romeo said.

"I would like to see some other people out there because to go at it alone is somewhat risky and we wouldn't be able to do it ourselves," Romeo said, noting that Philips had representative on DASE standards group. Also among those who have taken preliminary look at DASE is Geocast, whose network features proprietary technology. "This could get us toward a more open standard," Geocast Software Dir. Mark Grossman said.

Philips, which has invested in Geocast, is pushing MPEG-4 encoding as technology for media streaming via Internet and datacast networks. While full implementation of MPEG-4 in STBs isn't expected for 3-5 years, availability as software download to MPEG-2-equipped device is expected in 6-12 months, said Ahmad Ouri, vp-gen. mgr.-Philips bcast. & Internet delivery solutions. While Philips doesn't expect to combine MPEG-4 with STBs it's building for AOL TV service, it will seek to add technology to Geocast system in future, he said.

Scope of interest in datacasting also was underscored by NDS, which in addition to alliance with Samsung is pushing MediaStorm software system that's designed to deliver multicast streaming, high-speed Internet, Web caching and MPEG video to PCs and TVs. NDS also is promoting extended TV (XTV) concept that combines data embedded in video stream with STB. First XTV STB built by Pace Micro Technology has 20 GB hard drive and OpenTV interactive software, but NDS said it's seeking additional partners. XTV, which also is designed for video-on-demand (VOD), is expected to be available by 3rd-4th quarter, although Mktg. Vp Carmi Bogot declined to identify potential customers. Both DirecTV and British Sky Bcastg. (BskyB) are major NDS customers for conditional access. NDS also has alliance with Broadband Studios, which has developed Jive Platform to serve as basis for PowerPlay Network online videogaming service that's scheduled to start in fall. Although details haven't been finalized, service is likely to charge for subscription or per-play fee that's based on time limit. Broadband said it has developed *AirCade* combat simulation game for service and is readying football and racing titles.

While manufacturers' interest in datacasting is on ascent, broadcasters appeared skeptical, saying that they already have invested heavily in HD video production and doubt that additional use of spectrum can offset cost significantly. About 75 stations are transmitting HD broadcasts including most recently CBS-TV and ABC-TV affiliates in Las Vegas. "I don't know whether the revenues will be enough to pay for the conversions because it's real expensive right now," said Capitol Bcastg. Vp John Greene, who estimated that company so far has spent \$14 million converting stations to HD.

As broadcasters struggle with funding for HD conversions, CE manufacturers appear to be pulling back slightly from underwriting strategy championed year ago. While Mitsubishi and Samsung are continuing to pursue it, Panasonic hasn't renewed agreement for ABC-TV's *Monday Night Football*, which had been broadcast in 720p. Panasonic is in discussions with ABC on *Monday Night Football*, but hasn't reached agreement on "economics" of project, Panasonic Bcast. Pres. Warren Allgyer said. However, it's going to film New Orleans Jazz & Heritage Festival that starts later this month in HD and signed agreements with Mandalay Media Arts for *Eye-to-Eye* 6-part natural history TV series that will be offered in fall 2001 and Sea Studios for *Shape of Life* program for *National Geographic* series.

Among those underwriting HD programming, Mitsubishi questioned economics of dedicating spectrum to datacasting. Mitsubishi Mktg. Dir. Robert Perry cautioned if "no killer application" is found for datacasting "you're looking at what the American consumer is paying for Internet access and that's very quickly plunging to zero." Perry also contended that datacast network could face same problems as cable modem systems, which slow down as more cus-

tomers tie into service. "What will happen if they are able to create a strong data broadcasting network is they will charge for spectrum," Perry said. "This is about television as inexpensively as possible with the highest possible performance."

* * * * *

While broadcasters continued to mull DTV plans, Cablevision disclosed additional details of digital STB switch expected in 2001 first half. Cablevision will switch out analog STBs at no charge for "thin client" digital version capable of being upgraded via software downloads and that has much of processing power housed in servers at head end, Cablevision Pres.-CEO James Dolan said. Sony-built STBs won't have home networking or personal video recording features at start, although those will be added in future as Cablevision starts retail sales through its Wiz chain and other N.Y.C. dealers, Dolan said. First STB will have IEEE-1394 connectors, he said. Sony is manufacturing 3 million STBs for Cablevision at total \$1 billion cost, first 5,000 of which are expected for beta test in fall.

LAWSUITS MOUNT OVER MUSIC SWAPPING ON WEB: Napster MP3 sharing program and 3 universities are target of lawsuit by rock group Metallica that alleges defendants encourage and enable repeated copyright infringements. Suit against Napster is first by recording artists, although RIAA sued in Dec. Separately, German court last week found AOL guilty of abetting music piracy.

Suit charges Indiana U., Yale U., U. of Southern Cal. and Napster with copyright infringement, unlawful use of digital audio interface device and violations of Racketeering Influenced & Corrupt Organizations Act (RICO). Complaint filed April 13 in U.S. Dist. Court, L.A., invoked RICO Act with charge that Napster and universities permitted trade in unauthorized music copies by failing to block students' access to Napster and because multiple continuing violations with multiple conspirators are involved. Some colleges in past have locked out Napster, mainly because heavy downloading traffic clogged their network servers and T1 phone lines. Indiana briefly did so this month, then switched Napster traffic to faster Internet pipe.

Napster is software program that lets PC users find and download desired MP3 music files on PCs of other Napster users. Program is available free from Napster Web site, which itself doesn't store or distribute any music files. RIAA in Dec. filed suit against Napster seeking damages of \$100,000 for each song swapped. Joining Metallica in lawsuit is Creeping Death Music, band's music publisher and E/M ventures, joint venture with band's label Elektra Records. Band is believed to be first music act to sue because it's among few that owns its recordings and publishing company. Universities had no comment on suit at our deadline. Napster said it would defend itself.

In other case on music downloads, German court last week found AOL online service liable for enabling users to swap pirated music files over Internet. Suit was filed in 1998 by German label Hit Box when it learned people were using AOL to download unauthorized copies of its instrumental karaoke tracks. Court hasn't yet ruled on damages. Ironically, AOL subsidiary Nullsoft last month briefly released swapping software called Gnutella that's similar to Napster. Service posted Gnutella at very time when AOL was negotiating to acquire Time Warner, whose assets include music division. AOL quickly yanked Gnutella from service but software already had been leaked, enabling hackers to post clones.

Reference design for personal video recorders (PVRs) using Stream Machine's low bit-rate MPEG-2 encoder/decoder will be available in June from San Jose-based developer. Stream Machine said new Time Machine architecture has software for variety of PVR functions such as time-shifting, on-demand viewing, instant playback, simultaneous record and playback. Reference design, at \$25,000, gives manufacturers fast time-to-market for PVRs. Package includes Stream Machine's SM2210 video codec chip, which maintains DVD-quality video in single-pass real-time encoding at less than half of compressed bit-rate compared with other systems, Stream Machine said. Ability to double compression ratio effectively doubles amount of video that can be recorded on PVR's hard drive or other storage medium. Besides hard disc drive, Stream Machine PVR can use recordable and rewritable CDs. That design was shown first by Chinese manufacturer Amoisonic at Jan. CES (TVD Jan 10 p20). SM2210 chips are available now at \$49 each for order of 4,000, under \$30 in greater volumes. Amoisonic is expected to ship recorder this month.

Virgin Megastores started distributing Webplayer, new Virgin-branded wireless Internet device made by N.Y.-based Internet Appliance Network (IAN). As part of joint promotion, Virgin and IAN are giving Webplayer to 10,000 customers who complete online application at www.virginconnectme.com. Consumers who use device directly link to private Virgin portal that then gives them access to Web. Although unit is free to 10,000 applicants selected for first year, they will have to pay \$50 per year for 2nd and 3rd years they have it. After 3rd year, device is theirs free. Catch is that those who apply must be willing to provide personal information that will be used to send them targeted ads. What separates arrangement from controversy involving other companies is that Virgin is admitting up-front that information will be used by other companies and is asking for permission at sign-up stage. Separately, Virgin said it recently teamed with Liquid Audio to record live performance by Joshua Redman Quartet at its Virgin Megastore in San Francisco that was immediately digitized and burned onto CD. Those who attended event entered raffle and 12 received limited edition autographed CDs just after recording was made.

DLP REAR PROJECTION EMERGES: Matsushita will ship 52W rear-projection TV based on Digital Light Processing (DLP) technology, joining growing race to provide alternatives to CRT-based sets.

With 52W set containing single 0.7" chip with 1,280x720p resolution and based on Texas Instruments' technology, Panasonic will join Hitachi and Mitsubishi, which are expected to have 61W and 65W sets by year-end (TVD March 27 p19). Panasonic unit, with \$10,000 retail price, will have 400 lumens, although contrast ratio hasn't been set; it will be 18" deep vs. 23-24" standard in conventional projection sets, will weigh 130 lbs. Panasonic also will ship 50W plasma display in fall, although price and specs haven't been set, Asst. TV Gen. Mgr. Edward Wolff said.

As Panasonic entered market, Mitsubishi expanded its use of DLP chip to include video wall display of 50" rear-projection sets (\$20,000-\$25,000 each) and 50-55" monitor that will anchor high end of its MegaView line (\$15,000-\$18,000). Unlike consumer version, monitors will use 1,024x768-pixel chip and have 400 lumens, contrast not set, Large Screen Displays Product Mgr. Patty Wenke said. In seeking to separate itself from competition, Mitsubishi is building DLP optical engines for sets, she said.

As DLP joined ranks, Hitachi and Panasonic moved to smaller, 37" plasma displays that target business applications. Hitachi 4:3 model, which has 1,024x768-pixel resolution, 150 candelas and 400:1 contrast ratio, will complement 42W model. Neither company's CE Div. is expected to add smaller sizes to line, focusing instead on larger screens. Philips also has been said to be developing 37W plasma in joint development agreement with Pioneer.

As plasma moves down in size, Stuart English, Panasonic Broadcast Div. mktg. vp, said technology may be reaching its limits. "Plasma has a large manufacturing cost so it's unlikely we'll go much smaller than that [37W]," English said. At 35-36" size, market shifts to big-screen tubes, he said.

As convergence market takes form, NetTV, which championed PC/TV big-screen sets 4 years ago, is seeking to revive itself. NetTV is shipping 36W set this quarter (\$4,599) with Hauppauge Digital's WinTV HD PC tuner card. Flat-screen set has 1,024x768 resolution, RGB inputs and outputs, two 12 w built-in speakers, subwoofer. WinTV-HD, priced at \$500, has had slow sales amid dearth of HD programming. It passes through Dolby AC-3 audio portion of signal. While 36W will be high-end product at start, goal is to sink it below \$3,000 by year-end, Pres. Ronald Perkes said.

Hitachi will join lightweight LCD projector race when it introduces 5-lb. model with \$3,495 price at InfoComm show in June, said Peter Denes, national sales mgr.-multimedia products. Projector will have 0.7" LCDs, 700 lumens, 200-300:1 contrast ratio and be 2.5" thick, he said. Hitachi will join Sony, which introduced similar model in Nov., as LCD projectors seek to gain foothold in lightweight category that has been dominated by models featuring Texas Instruments' Digital Light Processing (DLP) technology. "We've been having some trouble competing [in lightweight category] and this is our entry into that market," Denes said. Hitachi's lightest model to date has been 9.8 lbs., he said.

PROPOSED ASTAR MEETS: Proposed Assn. of Television and Appliance Retailers (ASTAR) held preliminary meeting with 13 dealers in Chicago last week and could have buying group in place by midsummer, said Video Only Pres. Peter Edwards, whose chain would be among founding members.

Dealers, another 3 of whom didn't attend meeting because of weather-related flight delays, met for 4-1/2 hours in effort to gauge interest in forming ASTAR, Edwards said. "It was a positive meeting," he said. Retailers are expected to meet via teleconference this week, he said.

"We wanted to have a general dialog about why there was a need for the group and how it would function," Edwards said.

Dealers are being asked to answer questionnaire that seeks details on annual volume, product mix and geographic region, Edwards said. Majority of retailers are either current or former members of Assn. of Volume Buyers, Marta, NATM or Nationwide buying groups, he said, declining to release identities. Vendors will be contacted as part of membership screening process, he said.

If group can set up structure in coming weeks, ASTAR could be formed as soon as June 1, although formal group buying agreements probably wouldn't be executed before CES in Jan., Edwards said. "The first 6 months would be for relationship building, proving it [buying group] out and taking advantage of spot buy opportunities," he said.

First wave of membership probably would consist of 10 dealers with sales in \$30-\$100 million range, Edwards said. Next phase would include another 5-10 "noncompeting" retailers with \$20-\$30 million in sales.

DataPlay mini-optical disc will be produced under license by established blank media makers, spokesman told us (TVD April 10 p17). Outside OEMs also will be licensed to make drive for 1.5" 500 MB disc for sale to CE vendors marketing DataPlay co-branded portable music, imaging and e-book devices. DataPlay said portables and other devices will be shown at Jan. CES and marketed early next year. Double-sided, write-once 500 MB magneto-optical disc records data with pit pattern and transfer rate comparable to DVD, and data aren't compressed, spokesman told us. But company wouldn't divulge laser wavelength used, whether disc uses land-and-groove recording or whether consumer blanks will have pregrooved pattern like recordable CDs and DVDs. Disc can support about 10 min. of full-motion video for short prerecorded or home movies, spokesman said. Disc will be priced at \$5-\$7, far cheaper than flash memory cards selling in \$200 range for 64 MB storage. Other benefit is ContentKey e-commerce system for prerecorded material that lets content owner embed multiple selections that customers can pay later to access without having to download from Internet. Although DataPlay was endorsed by companies including Capitol Records' Nashville label, Panasonic Disc Services, Samsung, S3's Diamond Multimedia, Toshiba and Universal Music Group, to date only Nashville and Diamond have committed to selling product.

Final agreement was announced by Best Buy on "strategic alliance" with Microsoft announced late last year (TVD Dec 20 p12). In addition to "significant co-marketing" activities between companies, Microsoft has invested \$200 million in Best Buy common stock.

DIGITAL DOWNLOAD PLANS UNVEILED: As digital music downloads continue to proliferate online illegally — through pirates — and legally, through such retailers as Musicmaker.com, major music labels are stepping up their own plans to enter arena full force. In last few weeks, Sony Music Entertainment (SME) and BMG unveiled their plans to deliver digital downloads to consumers soon.

SME announced last week that it will start making select downloads of its singles available to consumers by month's end at retail Web sites through Alliance Entertainment, Hastings Entertainment, Tower Records.

More than 50 songs will be made available at start from artists including Mary Chapin Carpenter, Celine Dion, Lauryn Hill, Jennifer Lopez, Shawn Mullin, Pearl Jam.

SME said songs will be formatted for playback on Microsoft's Windows Media Player (WMP) with plug-in of Sony's ATRAC3 audio compression technology. Songs then can be transferred from consumer's hard drive to compatible SDMI-compliant portable devices on market. Reciprocal, which worked with SME to design system, was chosen by Sony to provide digital rights management. SME said it "plans to expand the system in the near future to offer additional secure formats" compatible with SDMI-compliant devices that are slated to ship this spring.

Week earlier, BMG said it would begin selling digital downloads of its music in summer. Label said it would use Microsoft's WMP for sales of secure downloadable music as well as technologies from variety of other companies, among them IBM's Electronic Media Management System (EMMS). Other companies with which BMG has signed downloading deals include Liquid Audio (LA) and Reciprocal. Digital downloads will be offered by BMG as early as beginning of June.

Warner Music Group (WMG) recently announced it would begin electronic distribution program "during the 2nd half of 2000." It said it was licensing Sony's ATRAC3 technology, but said that was just one of technologies it will be using. Among remaining major labels, Universal Music Group is expected to start digital downloading in June, while EMI has yet to announce timing. Effect Warner Music's proposed merger with EMI (TVD Jan 31 p11) on timing of EMI's plans was unclear last week.

Also unclear were specifics on number of recordings or artists that will be available from labels other than Sony. Although only small amount of music may be available at start from BMG, it said there will be "significant increases in the variety of music titles in time for the 2000 holiday buying season."

BMG said it decided to start commercial rollout to public after what it said was "successful completion of the AlbumDirect consumer music distribution trial," in which other music labels also took part. BMG Worldwide Mktg. & New Technology Senior Vp Kevin Conroy said implementation of EMMS is "part of our overall strategy for digital downloading." He added: "The technologies that BMG has selected, including EMMS, will enable us to provide the consumer with the best possible experience and protect our artists' rights."

BMG said it will use EMMS Content Preparation module in mastering process to prepare its music content for distribution and to distribute content through 3rd party services includ-

ing clearinghouse, consumer playback applications and devices, distribution, hosting. Under deal with LA, BMG said it will offer content for sale through online retailers using their software to integrate component technologies from various companies. Label said it will use LA's Command and Control Applications software to control flow of content online from point of creation to retail delivery.

In related news, SME (Japan) and 9 other major Japanese record companies are starting joint venture, tentatively named Interlabel, to distribute music online, *Nikkei Weekly* reported last week. Venture will open Web site offering titles from each of studios, report said.

Meanwhile, LA said full catalog of its downloads will be offered on Sony's Musicclub Web site in Sony's ATRAC3 format. In other LA news, GetMusic online music venture of BMG and Universal announced agreement to integrate LA's entire catalog of secure music downloads and streaming audio previews throughout GetMusic Network. LA already has been providing backend system for GetMusic's promotional downloads and music previews for year.

LA also signed deal with Culver City, Cal.-based Web company MediaX that will significantly expand number of downloads available at latter's www.amuZnet.com Web site. MediaX said it will use LA's secure music delivery software and services to sell downloads to consumers.

Recoton's Audio Div. posted \$5.3 million loss before taxes in 1999 against \$817,000 gain year earlier, despite 7.5% sales increase to \$254.9 million from \$237.2 million, it said in annual 10K. Gross margin slid to 29.8% from 32.5% as Recoton took \$6.6 million inventory write-down to cover discontinued home speaker products and outsourcing of manufacturing. Also taking major hit was Recoton's InterAct video and PC game accessory business, which said income before taxes plummeted to \$9.3 million from \$27.3 million year earlier. Sales dropped 4.5% to \$232.9 million as gross margin fell to 43.5% from 45.3%. Decline in gross margin was linked to increase in air freight and "competitive pricing pressures," Recoton said. In CE accessories, income before taxes slipped to \$7.6 million from \$14.5 million as sales were flat with year earlier at \$222.5 million. Gross margin decreased to 37.8% from 39% because of \$2.3 million write-down in connection with restructuring plan. Overall, Recoton reported \$710.3 million in sales in year, with audio accounting for 36%, followed by InterAct (33%), CE accessories (31%). It said new 3-year, \$270 million credit facility with Heller Financial would "replace substantially all of" existing debt except for \$35 million in subordinated debt issued in Feb. 1999. Recoton incurred \$2.2 million in bad debt expenses in 1999, down from \$2.7 million year earlier, but write-offs of uncollectible accounts jumped to \$2.4 million from \$1.6 million. Chmn.-CEO Robert Borchardt was paid \$1 million base salary in 1999 under contract that carries annual increase "by the greater of 6%" or change in consumer price index. Contract expires Dec. 2004... **Gemini Industries**, in first major move since installing new management last year, signed agreement for Universal Electronics to supply IC microchips for remote controls sold under Magnavox and Philips brands. Universal Chmn.-CEO Camille Jayne said maximum of 3 different chip lines would be built for Gemini's 3-, 4- and 6-function remotes. Universal also will build 2 new remotes for Gemini, Jayne said. Contract is major gain for Universal, which quit retail business in late 1990s to focus on OEM market.

GEOCAST BETA TEST DUE: Geocast will begin beta test of data broadcasting service in fall involving several hundred Cal. subscribers using Thomson set-top box (STB), CEO James Ramo said.

Geocast, which signed supply agreement with Thomson earlier this year and also counts Philips among its investors, probably will use either Granite Bcstg. station in San Jose or Hearst-Argyle TV affiliate in Sacramento, both of which already are involved in early tests, Ramo said. Rollout of service including \$300 STB is expected in first quarter 2001, he said.

Service will focus at start on desktop PCs with STB containing custom-built microprocessor and target 40 MB hard drive, Ramo said. Minimum requirement for service is Pentium II-level CPU, but Intel won't be supplier, said Ramo, saying Geocast has opted for 3rd party source he didn't identify.

Datacasting service will operate as free, advertising supported network, with customized optional packages likely to be offered in future on fee basis, Ramo said. While network will have standard data fare, it also is expected to add online gaming through investor Electronic Arts, although it was unclear whether feature would be available at debut.

To deliver service, Geocast signed long-term lease for single, 110 w transponder aboard GE Americom's GE-4 satellite at 101° W that went into operation in Jan. Bird has 28 Ku-band transponders. System also will use Harris's data encapsulator to insert information from Geocast server into MPEG-2 transport stream for over-air broadcasting, Divicom's compression and encoding technology and Skystream's media router.

While STB will be linked to PC at start, Thomson's investment in Geocast was aimed largely at "pulling that technology into the television set," source close to Thomson said. Such product isn't likely until at least 2001, sources said. Philips's interest is centered on Geocast's ability to deliver multimedia content that could use MPEG-4 video streaming technology that former is championing, said Ahmad Ouri, Philips vp-gen. mgr. for broadcast and Internet delivery solutions. "Today most of their services are data, but they would like to add multimedia features and that's where we're looking at MPEG-4," he said.

Nam Tai Electronics will enter lithium ion rechargeable battery pack business in May with models targeting camcorder, PC, cellular telephone and handheld PC applications. Nam Tai, which has 266,000-sq.-ft. manufacturing complex in Shenzhen, China, said it signed technical agreement with Toshiba Battery last year for packs and licensed RF technologies. Battery is likely to be implemented first in Chinese version of handheld PC based on Windows CE operating system that Nam Tai is building for Legend Computers. It also recently added 900 MHz phone and Family Radio Service (FRS) production to China plant and will expand to include 2.4 GHz phones in next 2 years, it said in annual 10K. Overall, electronic calculators accounted for 35% of Nam Tai's \$145 million in revenue in year ended Dec. 31, down from 60% year earlier, while subassemblies and LCD modules represented 35%, up from 24%. Handheld PCs and linguistic products (23%) and telecommunications (6%) rounded out remaining revenue. Sharp Electronics, which buys organizers and calculators from Nam Tai, accounted for 30.2% of revenues, down from 32%, while Texas Instruments (TI) (organizers and calculators), dropped to 26.2% from 44.2%. Partly offsetting TI decline was new customer Epson (LCD modules for cellular phones), with 21.5%.

MP3.com is acquiring majority stake in MP3radio.com from Cox Interactive Media (CIMedia), it said last week. Price was unclear at our deadline. Cox and MP3.com started MP3radio.com joint venture last fall. MP3.com said MP3radio.com attracts more than 413,000 unique visitors each month, who get local music information and free music downloads from Web site. Explaining why his company decided to take controlling stake now, MP3.com CEO-Chmn. Michael Robertson said: "As we began to work more closely with over-the-air radio stations to help promote the artists posted on our Web site, both CIMedia and MP3.com realized that we were duplicating some of MP3radio.com's efforts on a number of fronts. To more effectively leverage our resources, both companies felt that by bringing MP3radio's operations under MP3.com we could offer a coordinated suite of products and services to the over-the-air radio market." MP3.com also announced formation of music service provider (MSP) strategic partnership with Cal.-based Internet service company EntryPoint. As part of deal, EntryPoint will integrate 2 new MP3.com MSP products into embedded MP3 players on EntryPoint's toolbars. Customers will be able to use toolbar to play and manage music through co-branded MP3 player while also receiving personalized MP3.com music selections, companies said. Week earlier, MP3.com said it signed agreement with Palo Alto, Cal., company WebSwap that makes latter official Internet swapping service of MP3.com. Companies said service lets consumers swap merchandise they have for items they would rather have. WebSwap charges small fee for item swapped based on its value. For example, it said cost for item valued at under \$10 would be 50¢.

Sony Computer Entertainment (SCE) and NTT DoCoMo said they will combine Internet-capable i-mode cellphone service and game console to develop audio and image distribution payment services and other services, *Nikkei Weekly* said. Report said NTT would take 2.02% stake in SCE's PlayStation.com (Japan) subsidiary and Web site would market PS2 hardware and software to NTT's i-mode subscribers as part of deal. PS2 also will function as terminal in mobile network that won't need fixed lines and will let subscribers view i-mode contents on TV screen that PS2 is hooked up to. Deal followed word that Sony was joining forces with J.P. Morgan and Japan's Sakura Bank to create online bank. Although Sony didn't outline how or whether online bank would work in conjunction with PS2, many industry observers expected that manufacturer in future would enable PS2 users to use console for online banking via Sony-Morgan-Sakura venture. Sony has been saying since Sept. that it intends to use PS2 as key way to expand its e-commerce initiatives and as means to establish broadband distribution of digital content by 2001 (TVD Sept 20 p14). In related news, at our deadline last week reports indicated that Sony was taking \$8 million stake in Array.com, startup wireless based in San Jose, in move to create high-speed wireless network in U.S. for consumers to use in conjunction with Sony products. However, it was unclear what products Sony intends to be used in network.

"Duo" is "provisional" name of miniaturized Memory Stick media module announced by Sony last week for use in PDAs, mobile phones, other small devices. Sony said Duo module measures only 0.8x1.2x0.6" and will be usable in existing Memory Stick products when it's commercialized starting in early 2001. Sony said cumulative worldwide shipments of Memory Stick devices have reached 2 million and are expected to grow to 8 million and 20 million in 2000 and 2001 fiscal years, respectively.

Sensory Science (SS), continuing to expand distribution of dual-deck VCRs, has licensed technology to JVC for use in minidigital video (DV)/S-VHS deck. Device, which will ship in fall under JVC and Sensory Science's Go-Video brand, is expected to be priced at \$2,000. Companies are planning distribution strategy that would avoid conflicts at retail, although price could keep deck confined to professional market. SS has moved in recent weeks to lay groundwork for entry into professional market. Licensing agreement signals "importance of digital tape to Sensory Science's product initiatives" and leaves company "well-positioned to pursue additional opportunities" in VCRs, Senior Corp. Development Vp Edward Brachocki said. JVC, for its part, "believes strongly" in dual-deck technology, said Yuki Nagaoka, mgr. in video and display sales dept. JVC agreement followed deal SS signed earlier this year with Thomson for RCA brand. At same time, SS board adopted shareholders rights plan that would be triggered should unsolicited bid for 15% of company be made. No such offer has been submitted, company said.

Copy protection for D-VHS digital VCRs was introduced by licensor JVC last week, opening way for sale of decks with digital IEEE-1394 connection and release of high-definition prerecorded video in D-VHS format. Among studios, Fox was first to endorse copy protection system, with Chmn.-CEO Bill Mechanic lauding backward compatibility of D-VHS with existing analog VHS libraries. JVC said it was approaching other studios for similar endorsement. It said new D-VHS standard incorporates several IEEE-1394 compatible copy protection technologies. They include Intel's High-bandwidth Digital Content Protection (HDCP), for uncompressed digital baseband signal over Digital Visual Interface (DVI). Copy protection includes Digital Transmission Content Protection (DTCP) devised by Hitachi, Intel, Matsushita, Sony and Toshiba, and JVC's proprietary Related Device Authentication (RDA) System. JVC said by combining protection systems, deck will be able to respond to types that content owners choose to adopt.

Ex-Sansui Pres. Tom Yoda is starting audio/video download Web site for his Avex music label — Japan's biggest independent. Yoda, who served long stint in U.S. before returning to Japan to head Sansui, now is Avex chmn. He said new Avex Network site goes online this week and will offer downloadable music files from label's own domestic and international artists. Songs will cost about \$3.30 each, encoded in Liquid Audio or Sony ATRAC3 formats, and available only in Japan. Yoda told Japanese press he expects Avex Network music sales to reach \$1-\$2 million within year. Company also plans to sell DVDs, video and videogames through site. Avex Network is capitalized at \$1 million and is 51% owned by Avex. Further issue of \$2 million in shares is spread among 10 other investors, including Seven-Eleven Japan and Softbank. Avex, founded in 1988, is listed on Tokyo exchange.

Best Buy (BB) and **Circuit City** were among stocks that took hit Fri. as Dow Jones and Nasdaq plunged 6.52% (712 points) and 11% (407 points) to finish at 10,211 and 3,260, respectively. BB stock, which ended April 13 at \$84-11/16, fell 15-1/4% to finish at \$69-7/16. Circuit, which closed at \$58 April 13, dropped 13.36% Fri. to end at \$50-1/4. Tandy was somewhat immune to falloff, but dipped \$3 (5.56%) to finish week at \$51.

Acquisition of e-tailer CoolAudio.com was completed last week by Internet services and venture capital company NetGain Development. CoolAudio.com now is wholly owned operating company of NetGain, which said it plans to help CoolAudio "rapidly and more effectively expand" its e-commerce business to consumers as well as its business-to-business marketing.

Samsung and Virgin Mobile will ship Virgin-branded SGH M100 combination mobile phone/MP3 player in U.K. this summer at \$477. User will be able to download music from Web or CD onto phone using computer, Virgin said, adding that device will ship with 32 MB of memory and specially designed music manager software that will let user digitally store and file music, then download it to phone. Virgin said it will take user 30 sec. to transfer 3 min. track from PC to phone. Virgin Mobile is division of Virgin Group, company best known in U.S. for its Virgin Megastores. Phone will be sold direct by Virgin Mobile, at Virgin Megastores, online at Virgin.com/mobile. Ad campaign targeting 18-35 year-old consumers will be launched when phone starts shipping. Company said consumers won't have to sign contract for service, instead will be able to pay for calls in advance using vouchers on their credit or debit cards or pay later by direct debit. However, no plans were announced for product to ship in U.S.

S3 is selling its PC graphics chip business to its newly formed joint venture with Taiwan's VIA Technologies for \$323 million in cash and securities, S3 announced last week. We reported earlier this month (TVD April 3 p20) that S3 was mulling sale of chip business to VIA, which had quietly bought 13% stake in S3 (13.1 million shares) in move to shift focus to Internet devices such as its Rio digital audio players. S3 said it expects deal to be completed by July, before its 3rd quarter. It said customers wouldn't experience "disruptions of any kind."

Rent-a-Center board authorized repurchase of up to \$25 million in common stock. Chmn.-CEO Ernest Talley said decision was prompted by shares' being "undervalued, particularly in light of our long-term growth opportunities and our successful track record in achieving earnings growth through the improvements in existing stores."... **Hewlett-Packard** will join Compaq and Dell in marketing PCs to rent-to-own chains. Alliance Computing Technologies will be reseller for HP's Brio 200 PC, monitor and printer line.

Toysrus.com will open 2 new fulfillment centers that it said will triple its fulfillment capacity to nearly 2 million sq. ft. by holiday season this year. New centers, in Chambersburg, Pa., and Mira Loma, Cal., are 700,000 and 760,000 sq. ft., respectively, and will join company's existing one in Memphis. Move is sign that company — online division of Toys "R" Us — is out to make sure that it doesn't experience repeat of last holiday season, when it was unable to fulfill many orders in time for Christmas (TVD Jan 3 p16).

MGM will start online business in July that will sell 80 DVD and videocassette movies at start, said David Rondan, exec. operations dir. at MGM.com. Movies, which will fall between first-run and classic films, will be shown as 2-5-min. trailers on Web site, after which consumers will have option to buy DVD or videocassette, he said. Despite MGM's recent agreement to provide films for Blockbuster's proposed video-on-demand service, site won't be linked to rental chain at start, Rondan said.

THIS WEEK'S YEN RATE

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

Mattel is selling its troubled software business, Learning Company (LC). Company said it retained investment company Credit Suisse First Boston to handle sale and software business is being treated now as discontinued operation in its financial statements. LC was acquired by Mattel in May 1999 for \$3 billion (TVD April 19/99 p16) and has been problem for toy giant ever since. Jill Barad resigned as Mattel CEO in Feb. (TVD Feb 7 p21) amid LC woes that translated into 4th-quarter and year-end losses for Mattel. Separately, Mattel Interactive (MI) signed strategic partnership with Danish company TV Animation to bring latter's interactive TV series *The Nelly Nut Show*, already seen on Danish station Denmark's Radio, to additional markets. As part of deal, MI will represent show in N. America and other English-speaking regions worldwide... **Hasbro** said last week it filed suit against Mattel claiming that latter had infringed on patents owned by Hasbro for its Ricochet remote control vehicle. Hasbro also claimed that when its Tiger Electronics division's Poo-Chi interactive puppy went on sale April 1 in Japan, it sold out of 100,000 toys in only 3 hours. Tiger is to ship toy this month in U.S. Poo-Chi was unveiled in U.S. at this year's Toy Fair in N.Y.C. (TVD Feb 21 p12).

Matsushita formed Matsushita Network Marketing subsidiary in Japan last week to sell products online direct to consumers and will open "Pana Sense" e-commerce Web site April 21 at www.sense.panasonic.co.jp. Reuters said site will sell only select merchandise from company, including headphones, music and video software, PC peripherals. Downloading of software will be offered at some point in future, report said. But most of Matsushita's appliances and CE products apparently won't be part of mix — at start, anyway. Matsushita U.S. spokesman told us last week site will have no impact on its U.S. e-commerce site, Panasonic Select Direct (PSD), which officially opened in Nov., selling only CE accessories, PC peripherals, personal care products (TVD Nov 15 p16). PSD now lists e-tailers that have been authorized to sell Panasonic CE products online. As of last week, only retailers on list were Abt Electronics, BestBuy.com, CircuitCity.com, Crutchfield.com, Tweeter@Outpost.com. But we were unable to determine by our deadline whether Panasonic had changed other aspects of its Web policy since Nov. For instance, it was unclear whether it had started taking or planned to take any actions against nonauthorized dealers who are selling company's products online.

Sony's PlayStation2 (PS2) next-generation videogame console will include hard drive and modem when U.S. version ships in U.S. in fall, online report said last week. Accuracy of report couldn't be confirmed and Sony Computer Entertainment America spokeswoman didn't return call for comment by our Friday deadline. But move certainly would make sense in that competing Sega Dreamcast includes built-in modem and upcoming Microsoft X-Box will have hard drive. Since Sept., Sony has indicated it plans to use PS2 as platform for Internet-based electronic distribution of digital content via broadband networking in 2001 (TVD Sept 20 p14), but it hasn't announced specific online gaming strategy as Sega has.

Best Buy CEO Richard Schulze has filed with SEC to sell 310,000 shares with value of \$26 million. He owns 37.6 million shares, 18.4% of those outstanding... **Circuit City** Pres.-CEO Alan McCollough filed to sell 15,000 shares (\$750,000), retaining 222,572. Charitable trust controlled by Chmn.-CEO Richard Sharp is seeking to sell 133,000 (\$6.7 million)... **Corning Chmn.** Roger Ackerman is proposing to sell 36,000 shares (\$6.8 million), retaining 688,885.

Good Guys, citing decision to drop home office and PC products, said 2nd-quarter sales fell to \$190.4 million from \$219.1 million. Sales generated by continuing categories declined 1%, it said. As it released sales figures, Good Guys projected \$10 million pretax loss for quarter that included \$300,000 restructuring charge for severance packages. It cut 325 jobs earlier this year in moving to close Personal Electronics Depts. within its stores, action that it expected would yield \$9 million in annual savings... **Tweeter Home Entertainment** reported sales for first quarter ended March 31 rose 40.5% to \$87.5 million on 12.2% gain in same-store sales, excluding Home Entertainment and Dow Stereo/Video chains. Houston-based Home Entertainment said same-store sales gained 50.7% while Dow fell 5.9%. Tweeter also said it completed purchase of 7-store United Audio chain in Chicago. United Audio reported \$49 million in sales for year ended Jan. 31, Tweeter said.

Tandy's RadioShack, crediting strong sales of DBS equipment, said sales in March increased 17% to \$346.9 million from \$297.3 million year earlier on 14% gain in same store sales... **Intertan**, which licenses RadioShack name for international markets, said March sales rose 15.9% to \$36.2 million on 11.8% gain in same-store sales. Sales in Canada jumped 17.6% on 10.6% rise in same-store sales despite "late delivery" of "certain key advertised products," Pres.-CEO Brian Levy said. In Australia, revenues were up 11.4% as same-store sales increased 14.7%... **Musicland**, blaming "negative impact of Easter season shift," said sales dipped 0.8% in March to \$158.5 million and same-store sales 1.6%. Mall stores (Sam Goody, Suncoast Motion Picture Co.) saw sales edge down 2.6% to \$100.9 million, while Superstore Div. (Media Play and On Cue) rose 2.9% to \$57.6 million.

ATI Technologies, riding revenues from Rage graphics chips, said 2nd-quarter income climbed to \$51.1 million from \$21.7 million year earlier and revenues 28%. Adjusting for amortization of acquired intangibles and gain on sale of long-term investments, net profit increased to \$44.8 million from \$39 million. ATI, which acquired chip developer ArtX for \$400 million in Feb., is "well on its way to integrating the product portfolios," Pres.-CEO David Orton said... **Aureal**, supplier of PC audio cards, filed for bankruptcy protection last week. Company announced filing as it reported that 4th-quarter loss grew to \$9.5 million from \$3.5 million year earlier and sales shrank to \$8.5 million from \$10.8 million year ago, \$11.2 million in 3rd quarter. Aureal also claimed victory in patent infringement case against rival Creative Technologies. But Pres.-CEO Kip Kokinakis said court win "didn't come without significant costs" including "stretching" finances in 4th quarter.

EchoStar made \$50 million investment in 2-way satellite service Gilat-to-Home (GTH) and was said to be negotiating for \$12 million stake in another Israeli satellite company, Yes. Investment in GTH, which will give EchoStar 17.6% in company, follows agreement to carry 2-way data service later this year. Microsoft also invested \$50 million in GTH earlier this year. **Maariv** daily newspaper in Israel reported EchoStar would join Gilat and Bezeq Israel Telecom as investors in Yes. EchoStar has made series of investments in recent months in companies readying 2-way interactive services including \$50 million in iSky, which is developing satellite-based Internet access business. "EchoStar appears to be placing bets on a lot of technologies and hoping that one or more of them turns out to be a winner," analyst 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
Acclaim Entertainment			
2000-6 mo. to Feb. 29	167,095,000	(18,542,000)	---
1999-6 mo. to Feb. 28	240,487,000	24,807,000	.46
2000-qtr. to Feb. 29	65,943,000	(18,975,000)	---
1999-qtr. to Feb. 28	135,656,000	14,520,000	.27
ARM Holdings*			
2000-qtr. to Mar. 31	21,419,000	6,668,000	.16
1999-qtr. to Mar. 31	13,055,000	2,034,000	.05 ^b
AT&T-Liberty Media^c			
1999-10 mo. to Dec. 31	729,000,000	(2,022,000,000)	---
Burr-Brown			
2000-qtr. to Apr. 1	90,554,000	18,497,000	.33
1999-qtr. to Apr. 3	61,007,000	7,464,000	.14
c-cor.net			
2000-39 wk. to Mar. 24	201,598,000	10,092,000	.35 ^d
1999-39 wk. to Mar. 26	135,001,000	(1,765,000)	---
2000-13 wk. to Mar. 24	62,936,000	5,415,000	.16 ^d
1999-13 wk. to Mar. 26	51,819,000	751,000	.03 ^a
Circuit City Group			
2000-year to Feb. 29	105,994,060,000	197,334,000	.98 ^f
1999-year to Feb. 28	9,344,170,000	148,381,000	.75 ^b
2000-qtr. to Feb. 29	3,476,171,000	160,149,000	.79
1999-qtr. to Feb. 28	3,029,418,000	87,020,000	.44 ^b
Gannett			
2000-13 wk. to Mar. 26	1,364,443,000	950,154,000	3.47
1999-13 wk. to Mar. 28	1,185,939,000	178,893,000	.64
General Electric			
2000-qtr. to Mar. 31	29,996,000,000	2,592,000,000	.79
1999-qtr. to Mar. 31	24,165,000,000	2,155,000,000	.66
Hughes Electronics			
2000-qtr. to Mar. 31	1,703,100,000	(81,900,000)	---
1999-qtr. to Mar. 31	918,400,000	73,000,000	---
In Focus Systems			
2000-qtr. to Mar. 31	125,079,000	13,056,000	.57
1999-qtr. to Mar. 31	86,450,000	2,844,000	.13
Koss			
2000-9 mo. to Mar. 31	25,265,601	3,425,474	1.32
1999-9 mo. to Mar. 31	25,097,558	3,131,234	.99
2000-qtr. to Mar. 31	8,289,742	1,102,648	.45
1999-qtr. to Mar. 31	7,679,636	806,158	.26
Media General			
2000-13 wk. to Mar. 26	199,195,000	14,362,000	.56
1999-13 wk. to Mar. 28	191,811,000	11,306,000	.42
Motorola			
2000-qtr. to Apr. 1	8,768,000,000	448,000,000	.63 ^f
1999-qtr. to Apr. 3	7,736,000,000	199,000,000	.28 ^f
New York Times			
2000-qtr. to Mar. 31	843,197,000	83,063,000	.48
1999-qtr. to Mar. 31	739,058,000	61,410,000	.34
Office Depot			
2000-13 wk. to Mar. 25	3,063,253,000	109,036,000	.34 ^d
1999-13 wk. to Mar. 27	2,622,851,000	100,576,000	.27 ^f
Phoenix Gold International			
2000-6 mo. to Mar. 31	13,404,835	452,583	.15
1999-6 mo. to Mar. 31	12,866,001	366,055	.11
2000-qtr. to Mar. 31	6,511,208	240,610	.08
1999-qtr. to Mar. 31	6,200,066	159,719	.05

First MP3 portable recorder with built-in encoder will be marketed by Aiwa in Japan in June and in U.S. in fall. New MM-FX500, developed jointly with S. Korean company DnC Tech, allows MP3 music files to be created directly from home audio equipment without need for PC hookup. Device, \$398 in Japan, connects directly to analog outputs of stereo equipment to compress music files in MP3 format for storage on 32 MB flash memory card. Portable can accommodate 2 flash cards, and files can be transferred to Windows PCs. Besides line input, portable can record from built-in microphone, but only monaurally and at lower quality bit rate, in compliance with Secure Digital Music Initiative (SDMI) agreements, Aiwa spokesman told us. Device also complies with Phase I copy protection mandated by SDMI, he said.

Company & Period	Revenues	Net Earnings	Per Share
Rambus			
2000-6 mo. to Mar. 31	27,643,000	(164,376,000)	---
1999-6 mo. to Mar. 31	20,433,000	4,064,000	.18
2000-qtr. to Mar. 31	15,694,000	(166,841,000)	---
1999-qtr. to Mar. 31	9,859,000	2,009,000	.09
E. W. Scripps			
2000-qtr. to Mar. 31	410,859,000	33,604,000	.43
1999-qtr. to Mar. 31	376,260,000	32,001,000	.40
Three Five Systems			
2000-qtr. to Mar. 31	39,162,000	3,587,000	.28
1999-qtr. to Mar. 31	23,044,000	(642,000)	---
Time Warner			
2000-qtr. to Mar. 31	6,549,000,000	(96,000,000)	---
1999-qtr. to Mar. 31	6,091,000,000	138,000,000	.10 ^g
TriStar			
2000-26 wk. to Feb. 26	27,087,000	207,000	---
1999-26 wk. to Feb. 27	28,515,000	(286,000)	---
2000-13 wk. to Feb. 26	13,624,000	(179,000)	---
1999-13 wk. to Feb. 27	13,440,000	(510,000)	---

Notes: *In British pounds; per ADS. ^bAdjusted. ^cComparable results not available. ^dIncludes special items. ^eAdjusted; includes special items. ^fAfter special charge. ^gIncludes special credit.

Consumer Electronics Personals

Appointed at Good Guys: **George Hechtman**, ex-OfficeMax and onetime BizMart, Circuit City, Montgomery Ward and Pacific Stereo, joins as vp-administration, new post; **Vance Schram**, vp-finance, shifts to acting CFO; **Stanley Baker**, a Good Guys dir. and founding partner, becomes chief strategic adviser... **Jon Kirchner** promoted to DTS pres.-COO from exec. vp-operations... **Marinus Henny**, ex-Sony, named Universal Music Group CFO, replacing **Neal Cravens**... **Erwin Mevorah**, ex-Meigher Communications, joins Take-Two Interactive subsidiary Broadband Studios as CFO... **Elliot Goldman**, ex-BMG, named CDBeat.com COO; **Marty Marion**, ex-Paradigm Shift Universal, appointed chief strategic officer; **Ralph Sorrentino**, ex-Liberty Digital, joins advisory board... **Gary Orrell**, ex-International Audio Group in U.K., named NXT dir.-commercial, professional and architectural audio division... **Amy Weiss**, ex-Burson Marsteller, joins RIAA as senior vp-communications... **Peter Hoagland**, ex-KEF America, Meridian America and B&W Loudspeakers, named Russound dir.-mktg. & technology, new post.

Clearinghouse to license and police use of DVD logos on compliant product has been established by 10 original DVD Forum companies — Hitachi, JVC, Matsushita, Mitsubishi, Philips, Pioneer, Sony, Thomson, Time Warner, Toshiba. Clearinghouse will be called DVD Format/Logo Licensing Corp. (DVD FLLC). Ten companies, each of which will nominate one dir. to serve on DVD FLLC, said establishing agency would “facilitate a simplified licensing process that supports market expansion.” DVD FLLC takes over logo licensing functions from Toshiba, which has been serving as interim agent since DVD format launch in 1997.

Faroudja settled patent infringement suit with Dwin Electronics, terms not disclosed. Company sued Dwin in 1998 alleging that company violated patents covering film-to-video conversion and method for detecting film-to-video sequence. U.S. Dist. Judge Spencer Williams, San Diego, dismissed film-to-video claim in 1999 (TVD March 15/99 p13), but allowed other to stand. Faroudja settled similar suit in 1999 involving Snell & Wilcox and line-doubling technology. Snell agreed to obtain royalty-bearing license for 2 General Instrument (GI) patents that Faroudja had licensed from GI in 1989.



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The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

APRIL 24, 2000

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Broadcast - Cable

NBC REPURPOSES BROKAW ON PAX TV: Affiliates angry. Move to air *NBC Nightly News* on Pax, threatens deal between NBC and stations. Olympics included. (P. 1)

KENNARD DEFENDS AGENCY, HIMSELF: Rebuts charges of illegal lobbying on LPFM, politicizing telecom initiative with Native Americans. (P. 2)

FCC NEAR AT&T DECISION: Divestiture seen likely for MediaOne deal. AT&T proposes safeguards. (P. 4)

NAB MOVES TO BLOCK STREAMING: Asks Library of Congress Copyright Office to suspend action on radio streaming. (P. 5)

FURCHTGOTT-ROTH SUPPORTS NAB: Defends association's lobbying on LPFM, faults Kennard 'goodwill.' (P. 6)

POLE ATTACHMENT RULING LINKED to open access case by access supporters and opponents, although public interest groups see no correlation. (P. 6)

CABLE ADOPTING OPEN ACCESS: Rising competition from telecom and wireless carriers said to be driving move. (P. 7)

NBC RELATIONS WORSEN FOLLOWING NIGHTLY NEWS DEAL: If possible, NBC's relations with its affiliates could get worse in wake of network's announcement that *NBC Nightly News with Tom Brokaw* will air on Pax TV in competition with affiliates. Pax affiliates will begin airing show on same night — and in some cases back-to-back — as NBC affiliates beginning in May, NBC and Pax announced. Deal "will just about end the dim hopes we had of striking a deal with NBC," according to one affiliate. This despite fact that NBC announcement claims that "affiliates will benefit from the ensuing local and network news distribution opportunity." NBC also said that starting June 3, Pax affiliates will air "extended prime-time coverage" of U.S. tryouts for summer Olympics in Sydney.

Pax rebroadcast of 6:30 p.m. *Nightly News* will be on one-month trial basis at 7:30 p.m. (in some markets, such as NBC-owned WRC-TV Washington, Brokaw airs at 7 p.m., meaning news would air back-to-back on 2 networks), NBC said, as part of joint sales agreement (JSA) with Pax TV. JSAs "are part of the NBC/Paxson strategy to increase economic and operating efficiencies" of 2 networks, NBC said. Local news on NBC-owned stations already is being repeated by Pax (32% owned by NBC) affiliates and "it is anticipated that the local and national news bloc will become a permanent part of the Pax schedule" next fall, networks said. NBC's nonowned affiliates have declined to permit Pax affiliates in same market to air their local news.

"This is just the beginning of a dynamic programming and distribution partnership," Paxson Pres. Jeff Sagansky (former NBC programming executive) said of news and Olympics broadcasts: "These agreements streamline our business operations... In addition, our U.S. Olympic team trial coverage will provide an exciting promotional base for Pax's new fall schedule." NBC TV Network Pres. Randy Falco said news and sports deal with Pax "is the first step in our strategy

Consumer Electronics

TOSHIBA DEALER POLICY will require authorization starting June 1 and \$200,000 minimum in annual sales for direct shipments. (P. 11)

COPY-PROOF CD MODIFIED by Macrovision, but still could cloud CD+RW boom with CD dubbing decks en route from many vendors. (P. 12)

TWEETER EARNINGS UP 88% in 2nd quarter on 40.8% gain in sales, but payroll issues remain at Dow Stereo/Video chain. (P. 14)

BLOCKBUSTER, PHILIPS DISCUSS deal for latter to build set-top box for rental chain's proposed VOD service. WebTV to be upgraded starting in midyear. (P. 14)

BABBAGE'S-BOUTIQUE BATTLE CONTINUES as latter matches Babbage's bid of \$135 million to acquire Funco. (P. 15)

NINTENDO TOPS SONY IN CONSOLE SALES, NPD and PC Data report. (P. 15)

SONY STORE OPENS AT 800.COM and Pioneer outlet will follow next month. (P. 16)

of developing Pax into a full local and national entertainment and information network." However, NBC executive said network didn't think Pax deal was "a slap at them [affiliates]."

Relations between NBC TV Network and its affiliates have been strained for months (TVD Oct 25 p1) and may have reached breaking point, we're told. "It's terrible," said group head with several NBC affiliates. "It is clearly overstepping our partnership with the network. For whatever reason, they [NBC] are continuing to devalue... the network-affiliate relationship." Added another affiliate: "With GE's bottom-line attitude, you can bet that [GE Chmn. Jack] Welch is behind NBC's treatment of us." However, NBC Pres. Robert Wright, who is in forefront of affiliate situation and has written and spoken some very affiliate-unfriendly words, is main target of stations. Last week, Wright was present at social-golf-poker-business sessions in Bay Hill, Fla., that select group of NBC affiliates have been attending every spring since late 1940s, but no immediate word was available on what happened.

Even before Pax deal was announced, some 200 NBC affiliate executives met in Las Vegas at start of NAB convention to air gripes against network and to discuss their options (TVD April 17 p9). Following announcement of newest NBC deal with Pax (earlier, network began airing quiz show *Twenty One* on Pax TV in prime time within days of original NBC airing), NBC Affiliates' Chmn. Alan Frank, pres. of Post-Newsweek Stations, told us: "I think it's very sad for all of broadcasting... It goes to the heart of the network-affiliate distribution system." He said affiliates are "studying our alternatives. I don't know where we will come down, but we're considering several options" to counter NBC's affiliate-unfriendly moves.

At start of vastly truncated NBC affiliates' convention in N.Y. next month, stations will meet in closed session May 14 — with TV Network Pres. Randy Falco and John Damiano, head of affiliate relations, invited to part of session — with NBC hosting cocktail party that night. Customary closed meeting between affiliates and Wright and other network executives — to respond to stations' questions and concerns — isn't on agenda. Affiliates have been invited to network's up-front presentation to advertisers May 15, but NBC doesn't plan customary closing dinner for stations.

While relations among Big 4 TV networks and their affiliates aren't very good (caused primarily by reductions in compensation and demands that stations help pay for sports rights), they are especially sour at NBC which, according to stations, is refusing to negotiate with affiliates' board. Dispute has raged since last spring and reached its highest point last month when NBC started rebroadcasting quiz show *Twenty One* on Pax 6 days after it aired on NBC.

Meanwhile, Viacom Chmn. Sumner Redstone recently told reporters that after takeover of CBS he wouldn't get involved in such matters as affiliate negotiations and relations, leaving that area to CBS CEO Mel Karmazin and TV Pres. Leslie Moonves: "Who would I be to intervene in [their] area of expertise?... We'd like more money, though" from affiliate dealings. Redstone said: "It's pretty early to forecast how the network-affiliate relations will evolve" at CBS under Viacom ownership and expressed expectation "stations will cooperate with CBS in bringing about the most successful results."

KENNARD DEFENDS FCC AGAINST ILLEGAL LOBBYING CHARGES: FCC "strictly adheres" to laws regulating lobbying of Congress by federal agencies, Chmn. Kennard wrote House Telecom Subcommittee Chmn. Tauzin (R-La.) April 14 in letter Commission released April 18. Letter was in response to Tauzin's charge on House floor April 13 that FCC was guilty of "a criminal violation" by distributing talking points opposing HR-3439, bill to restrict low-power FM (TVD April 17 p3). Tauzin said he intended to refer case to Dept. of Justice (DoJ) for investigation, with strong possibility he would call for hearing if DoJ declined to pursue issue. Tauzin spokesman Ken Johnson said he would even consider subpoena for Kennard if he declined to testify. Johnson said Kennard letter "hasn't changed Billy's mind." He said Kennard "is clearly pushing the envelope... He may have sealed his fate as far as relations go with Congress this session."

Meanwhile, Comr. Powell took issue with FCC's cooperation in promoting initiative claimed by President Clinton April 17 to bring low-cost phone service to Native American lands, saying he was "disturbed" by impact on Commission's credibility as independent agency. Powell said politics was involved.

Kennard strongly denied FCC violated Anti-Lobbying Act of 1919, in letter to Tauzin, saying "the Commission scrupulously adheres to the Department of Justice's guidance" on Act. Attorney Gen. Janet Reno in 1995 distributed to all federal agencies 3-page guideline on Act crafted in 1989 by then-Asst. Attorney Gen. William Barr. Kennard quoted DoJ summary of guidelines as saying Act "does not prohibit officials from supporting an Administration's legislative program through direct communications with Congress." Rather, Act bars "high-expenditure campaigns." Tauzin had faulted use of govt. funds in preparing talking points for legislative staff, but Kennard seemed to dispute that such action

would be costly expenditure. Kennard also sent copies of letter to House Telecom Subcommittee Vice Chmn. Oxley (R-O.), who plans to join Tauzin in letter to DoJ, ranking Democrat Markey (Mass.), Commerce Committee Chmn. Bliley (R-Va.) and ranking Democrat Dingell (Mich.).

Tauzin is "still convinced that the FCC is engaged in prohibited activities," Johnson said, and subcommittee staff is drafting letter to DoJ. Johnson said Kennard was adopting "generous interpretation of law" in citing guidelines that are "someone's interpretation of law back at Justice" and said Tauzin is "looking at the law Congress passed." Tauzin is convinced that "this was a carefully coordinated lobbying effort by the FCC and the White House," Johnson said, citing 4 letters — from AFL-CIO, Consumers Union, Low-Power Radio Coalition and National Council for Traditional Arts Union — all dated April 11, opposing HR-3439, that were attached to talking points distributed by FCC. He said "there are a lot of miffed members" on Hill.

Oxley found it "disturbing" that FCC sought to influence House vote on bill, spokeswoman said. (Oxley is sponsor of HR-3439.) She said "it's incredible how politicized the FCC is," citing attachment of letter from major labor organization to talking points. FCC also excluded Oxley, Tauzin and other HR-3439 supporters from distribution list, meaning they didn't learn of action until shortly before floor vote when asked about literature by other members. Acknowledging "there's a lot of gray areas" in Anti-Lobbying Act and subsequent guidelines, she said it still was "extraordinary effort" of lobbying that deserved further examination, and said Oxley was determined to move ahead on referral to DoJ. She also added that "for all their lobbying, the FCC sure didn't win many votes."

DoJ indicated guidelines are intentionally broad and, as such, don't completely endorse or condemn FCC's action. For example, Act expressly prohibits using govt. funds for targeting Hill with "printed or written matter," which is what FCC did in distributing written list of 10 reasons to oppose HR-3439 on Hill. DoJ guidelines expressly permit writing in communicating with general public, but offer no definition of what constitutes permitted "direct communications with Congress." FCC argument is that there's no restriction on "direct communications." Justice guidelines also support communication when "in support of Administration or department positions." However, they also say Act does apply in forbidding "lobbying with respect to legislation or appropriations." FCC was campaigning against particular bill, HR-3439, rather than more general statement of support for low-power FM, but insists it wasn't "lobbying."

Guidelines state that if Act is "applied according to its literal terms," it "would have extraordinary breadth, and it has long been recognized that the statute, if so applied, might be unconstitutional." Also stated is fact that "there has never been a criminal prosecution under the Act since its adoption in 1919." However, Reno in memo distributed with guidelines cautioned against relying solely on 3-page guidance in making lobbying decisions: "The attached guidelines are, necessarily, general in nature. The Office of Legal Counsel is available for consultation should you wish advice in connection with specific activities your department or agency is considering undertaking." FCC spokeswoman said agency didn't consult with DoJ beforehand, but its legislative staff "frequently consult with [FCC] Office of Gen. Counsel and has asked for and been provided with DoJ guidance prior to developing these informational materials for Congress."

Powell said he feared FCC's credibility had been harmed by "what appears to be the unabashed politicization of Commission business." In statement April 18, he said "Chairman Kennard and my Democratic colleagues eagerly issued supportive press releases in response to what is reported as 'Mr. Clinton's proposal'" to help Native Americans receive affordable phone service, when "initiative is in fact a Commission item that was formally initiated in August of last year." Saying issue hasn't yet been fully considered or voted, he said "I am surprised to see the matter being loudly heralded as a new and dramatic initiative by the Administration."

Powell said he objected to Kennard's "carefully orchestrating Commission business to play on the political stage in support of White House activities," and said he was "particularly disturbed" that staff "unwittingly" was involved. "Such action puts at risk the independence and integrity of the FCC and its career staff by purposely joining our authority and agenda with that of the Administration," he said: "We are now credibly subject to the criticism that our decisions are not the product of an independent evaluation of what is in the public interest, but are instead a bow to what is in the political interest." He feared such actions would leave FCC "badly tarnished" after election when "principal actors have exited stage left." Response from Tauzin's office to Powell's statement was: "Amen, brother."

Kennard said program "has nothing to do with politics." In statement responding to Powell, he said "the President himself said... the proposal to increase telephone access comes from the FCC," and there wasn't better way "to raise awareness" of existing telephone lifeline policies than to receive President's endorsement. "President Clinton endorsed the proposal as part of his official duties as President," Kennard said: "He is not running for office, and these were not campaign appearances."

AT&T DIVESTITURE LIKELY: FCC staffers have recommended that agency approve AT&T's proposed acquisition of MediaOne Group as long as it dumps at least one of major assets it would own after merger, sources confirmed. While details weren't available by our deadline, it appeared that AT&T would have to divest either its programming subsidiary, Liberty Media, or MediaOne's 25.5% stake in Time Warner Entertainment to gain control of MediaOne because of govt. concerns about AT&T's influence over video programming market. It wasn't clear whether company would be given choice or whether Commission would impose choice.

Also not clear was whether AT&T would be granted 18-month grace period to come into compliance with FCC's cable horizontal ownership limits, as it had sought, or shorter period. Sources said proposed order drafted by Cable Bureau was circulating on agency's 8th floor, with Chmn. Kennard seeking formal vote at Commission's May 15 meeting. FCC, AT&T and MediaOne declined comment on proposed order, but AT&T spokeswoman said it always had expected that it would "have a variety of options to come into compliance" with FCC rules after "an appropriate waiver period."

Earlier, AT&T spelled out proposed "safeguards" for limiting its influence over video programming market following takeover. In 10-page filing with FCC, MSO listed steps it would take to avoid involvement in programming operations of Time Warner Entertainment (TWE) unit, in which it would inherit stake from MediaOne, as well as Liberty Media and Rainbow Media Holdings operations in which it already holds sizable interests. AT&T also proposed series of compliance moves, including appointment of corporate compliance officer and independent auditor, as well as penalties and enforcement measures that FCC could impose if company violates those safeguards.

In filing, AT&T also proposed regulatory steps for handling its compliance with FCC's cable horizontal ownership limits if MediaOne acquisition is approved. Under recently revised agency rules, which aren't being enforced because of pending judicial review, cable operators are barred from controlling more than 30% of all multichannel video subscribers. AT&T, which figures that it would have 23.8 million customers (28.9% of all multichannel video subscribers) once MediaOne deal is consummated, would go well over that limit if its Time Warner Entertainment holdings were included and even higher if all Time Warner cable systems were covered.

AT&T said no company officer or dir. would also be officer or dir. of TWE, although it would exempt company employees as long as they weren't involved in AT&T's programming efforts. Further, company said, no AT&T officer, dir. or employee would "directly or indirectly influence or attempt to influence, or otherwise participate in, the management or operation of the video programming activities of TWE."

AT&T proposed forfeitures of \$100,000 and up for failure to comply with safeguards. Repeated violations would prompt penalties as high as \$100,000 per day. Company said it intends to hire corporate compliance officer and engage independent auditor to ensure it lives up to pledges. It also plans to file regular reports with Commission and make all of auditor's working papers and supporting materials available to agency.

If company doesn't comply with Commission's cable ownership limits, it proposed transferring cable systems and video

programming assets in violation of ownership limits into irrevocable trust for ultimate sale.

In meantime, public interest groups objected to proposed programming "safeguards" and regulatory steps floated by AT&T earlier last week, contending they didn't go far enough and FCC never would enforce them. Suspicious that deal may already have been struck with company, they nonetheless urged Commission to reject AT&T's efforts and tell it that it must dispose of TWE assets as quickly as possible. "I don't know whose trial balloon it is, but it isn't going to fly," said Mark Cooper, research dir., Consumer Federation of America. "There's a simple solution. They [FCC] ought to simply pull the plug and tell them [AT&T] to spin it off."

Following up on their open access pledges, America Online executives said they were working on deal to place AOL on Time Warner cable systems by end of June. AOL Chmn. Steve Case said it's "highly likely" that AOL and Time Warner would reach carriage agreement in "this quarter." He said he expects agreement, which will spell out price that AOL will pay Time Warner for carriage, to become template for carriage deals that ISP intends to reach with other cable operators as well as those that other ISPs will sign with Time Warner. "We do believe it'll be a model embraced by other companies," he said. Spokeswoman for Road Runner, Time Warner-owned high-speed data service that now enjoys exclusive carriage on MSO's cable systems through 2001, said its status had not changed. "We do have preexisting binding contracts and we are not in any active mode to renegotiate them," she said. AT&T spokesman declined comment on impact Case's statement might have on AT&T's exclusive arrangements with its high-speed cable ISP, Excite@Home. Case said new Netscape 6.0 has generated "a lot of enthusiasm," with nearly million users downloading it in several weeks. With Microsoft having "such a stranglehold" on PC operating systems, he said, Netscape that's optimized for wireless and other mobile devices provides AOL "opportunity for a fresh start on other appliances." Pres. Bob Pittman said next version of AOL will take into account growing demand for ability to use service simultaneously on multiple PCs or devices, akin to multiple-TV trend. "That's very good for us," he said. Meanwhile, company's strong earnings carried it to 1-3/8 (2.3%) gain on Wall St. April 19, closing at 62-1/8. Wit Capital raised its already bullish share price target for AOL to \$95 from \$88.

Tribune Co. CEO James Madigan received total compensation (including salary, bonus, stock options and other "pay-outs") of \$4.92 million in 1999, according to proxy statement for May 2 annual meeting in Chicago. James Dowdle, who retired Dec. 31 as exec. vp-pres. of broadcasting, received \$2.92 million; Dennis FitzSimons, who replaced Dowdle as head of broadcasting and on Tribune board, \$2.15 million; Tribune Publishing Pres. Jack Fuller \$1.63 million; Senior Vp-Development David Hiller \$1.54 million. Madigan's bonus was \$1.75 million, up from \$797,065, while Dowdle received bonus of \$650,000, up from \$475,000.

AdForce and wireless carriers and equipment makers plan to start Wireless Advertising Industry Assn., in part to address issues such as standards development. Formation of group, which bills itself as first of its kind, comes after Internet Advertising Bureau unveiled initiative to set ad guidelines for wireless Internet services, including how to measure traffic.

STREAMING RULES DEBATED: NAB is trying to get Library of Congress Copyright Office (CO) to suspend rulemaking on copyright obligations for radio stations streaming their signals on Internet (TVD March 20 p8). In filing at CO, NAB said issues would be better addressed in suit it filed against RIAA in U.S. Dist. Court, N.Y.C.. With broadcasters and recording industry unable to agree on whether streaming should be eligible for compulsory license or whether it requires copyright payments at all, RIAA had asked Copyright Office to intervene, and office opened rulemaking in March.

Issue involves "primarily statutory interpretation, as opposed to intricate and technical questions of fact or regulatory policy," NAB said, so it doesn't require Copyright Office's "specialized experience and insight." It said all major parties are represented in court case, so CO should feel confident question can be settled there "for all time."

Internet-only Webcasters sided with RIAA in seeking to deny traditional broadcasters extension of their exemption from copyright payments to record companies when they stream their broadcasts online. Digital Media Assn. (DiMA) said extension would give broadcasters competitive advantage over its own members, such as RealNetworks and NetRadio, that must pay license fees for programs they stream. NAB countered that otherwise broadcasters would face disadvantage since they must tailor their Webcasting streams to FCC on-air requirements and local audiences.

Meanwhile, RIAA fired new salvo in forum-shopping war, asking U.S. Dist. Court, N.Y.C., to dismiss NAB's lawsuit against it there. Move was response to NAB's request that CO suspend its Webcasting proceeding until court acts. RIAA told CO not to "put itself on the sidelines of a debate over what everyone recognizes is a fundamental and critically important issue of copyright law." It told court that Congress relied heavily on CO's expertise in drafting Digital Millennium Copyright Act (DMCA), so nobody would be better qualified to interpret congressional intent. RIAA also said court decision in NAB case wouldn't be binding on member broadcasters or record companies.

"Congress could not have intended to undermine the very marketplace it wished to stimulate," DiMA said. It said its members and broadcasts compete directly with broadcasting for audience share and ad dollars and should play by same rules. DiMA questioned NAB contention that broadcasters must play by on-air rules online, pointing to unnamed D.C. station that it said plays entire CD sides on Webcast, practice that wouldn't be permitted on FM. Still, acknowledging what's likely to be long appellate process, it said CO should set rules but not implement them pending judicial review.

Court could settle all issues more quickly, NAB said. It said CO's proposal would allow only "one-way rulemaking," granting RIAA request if that group were found right but requiring new rulemaking if NAB interpretation were correct. It said rulemaking also didn't address scope of broadcasters' exemption, questioning only whether there was one, thereby missing "fundamental issue." NAB said requiring radio stations to obtain licenses "would lead to absurd results," with stations forced either to negotiate new agreements with each record label or desist from streaming altogether. Either result "would directly thwart Congress's repeatedly expressed intent not to thwart the mutually beneficial relationship between the radio and recording industries," it said. NAB was backed by BroadcastAmerica.com, which helps broadcasters

stream their signals. Meanwhile, ASCAP, BMI and SESAC said CO should be careful in how it rules not to change performers' right to perform works, including online.

One point not contested was enormous amount of money that could be at stake. NAB said 1,700 radio stations now stream their signals, with 100 more added each month or so. If CO or courts should require copyright payments by broadcasters, CO then would reconvene Copyright Arbitration Royalty Panel (CARP) to fix payments, process begun but dropped pending settlement of underlying question.

Apparently ending proceeding over sale of Buffalo PTV station to commercial broadcaster, FCC denied application for review filed by Coalition for Noncommercial Media (CNM), which had sought to block transaction. CNM had argued that Mass Media Bureau, which had cleared sale to Sinclair of WNED-TV sister station WNEQ-TV (Ch. 23), failed to consider CNM's counterproposal that FCC not allow any transactions that would result in fewer public TV stations in market. Bureau "may have omitted mention" of counterproposal, FCC said, but "any error this involved was harmless" since CNM's arguments wouldn't have won anyway. It said proposal to reserve all channels being operated noncommercially should be raised as general rulemaking, not in adjudicatory proceeding. Commission didn't comment on flurry of last-min. filings by CNM and WNED-TV seeking to strike each other's briefs in dispute that hinged on whether quotes from Warren Communications News' *Communications Daily* could be used as evidence. CNM had based its petition for emergency relief on comments by WNED-TV Pres. Don Boswell, after Sinclair pulled out of \$33 million purchase of WNEQ-TV, that another commercial entity could operate station immediately under local marketing agreement. It argued that such arrangement shouldn't be allowed at time when FCC was cracking down on them in commercial world. WNED-TV dismissed "reference to a trade press report" as "hearsay statements" that shouldn't be relied on by FCC. CNM countered that WNED-TV didn't deny truth of statements made by its own pres. to "journal of record in the communications industry." LMA dispute apparently has been mooted by failure of WNED-TV to find new buyer for WNEQ-TV in 6 months. "There's been interest," spokeswoman told us, "but as far as I know no one has made a formal offer."

Cablevision Systems' Rainbow Media Holdings subsidiary fleshed out its proposal to launch satellite-delivered local programming service in many big U.S. markets. In presentation to FCC's International Bureau last week, Rainbow pitched plan to offer at least 8 local broadcast and cable channels in targeted markets using spot beam satellite built by Loral. Orbital slot reaches as far west as St. Louis. Sources said cable programming portion of service would resemble 3 local MetroChannels that Cablevision's systems carry in N.Y.C. area. RLDBS is seeking 2-year extension of Loral's frequency rights, which expired in August. EchoStar Communications, which holds rights to most of frequencies at 61.5° slot and already operates satellite there, and Kelly Bcstg. oppose petition. Sources said they expected FCC International Bureau to decide issue in next several weeks.

House Telecom Subcommittee Chmn. Tauzin (R-La.) will seek to move Internet legislation when House returns after current 2-week recess, spokesman Ken Johnson said. He will push HR-1291 sponsored by Rep. Upton (R-Mich.), which would ban FCC from imposing access charges on ISPs. Upton bill has 133 co-sponsors, but list doesn't include House Commerce Committee Chmn. Bliley (R-Va.).

FURCHTGOTT-ROTH BACKS NAB: When individuals or businesses are afraid to speak, "free speech is abridged," FCC Comr. Furchtgott-Roth told symposium on First Amendment in Washington. Without naming FCC Chmn. Kennard (who, at NAB convention, had criticized Assn.'s lobbying activities), he said "a high-ranking official at the FCC recently chastised the broadcast industry for losing 'goodwill' at FCC by fighting for LPFM legislation in Congress (TVD April 17 p3). Furchtgott-Roth asked: "Do some industries have more or less goodwill at the FCC?... Does the regulatory treatment of an industry depend on goodwill? Are the free speech rights of businesses or individuals a function of goodwill?"

When people are "afraid to speak their mind, free speech is abridged [and] government should take notice," Furchtgott-Roth said. "I'm troubled by the concept that there is goodwill, or a lack of it, at a government agency. But, I'm even more troubled that a government official would suggest that... With [ex-FCC Comr.] Jim Quello around, no one ever needed to be afraid of speech... And that is the way it ought to be." (Note: Symposium was sponsored by Quello Center of Mich. State U.)

"Truth can never be defined," particularly in broadcasting, Furchtgott-Roth said, but "good old FCC" tries to keep broadcast industry "on the straight and narrow," in wondering how broadcasting got to "where it is now" regulatory-wise. "Opportunity for mischief abounds" in FCC's regulatory scheme, he said.

Washington attorney Robert Corn-Revere compared history of railroad regulation with that of broadcasting, pointing out phrase "public interest, convenience and necessity" was used in Transportation Act of 1920, making its application to broadcasting "an historical anomaly that is inconsistent with traditional understandings of the First Amendment." Now, he said, in its rulemaking to codify public interest mandates in digital TV era, Commission is seeking ways to "perpetuate and expand a regulatory construct that permits it to exercise unique control over the content of communications that otherwise would be impermissible under the First Amendment."

FCC must make "hard choices" to balance its goals of competition, innovation and access, said agency's Chief Economist Howard Shelanski at symposium. Shelanski said agency's spectrum cap policy is one of challenges. Policy promotes competition in wireless industry but FCC must be watchful that spectrum caps don't eventually impede innovation, he said.

Agency also faces difficult choice between competition and innovation when it weighs arguments by companies that their merger will bring innovation even though at outset it also might lessen number of competitors, he said. Convergence raises such questions as well, Shelanski said.

Commission could be faced with another difficult decision were broadcasters to delay leaving Ch. 60-69 as part of transition to digital transmission, he said. Agency's upcoming auction of that spectrum is based on assumption that broadcasters will vacate it. If they don't, would FCC have to force them out, he asked, decision that "goes to the core of broadcast regulation and maybe the First Amendment."

Cable modems will continue to lead DSL deployment in residential market for next 2-3 years, Insight Research said in new report. It said 2 million U.S. homes will have cable modems by year-end, compared with 1.1 million for DSL.

POLE RULING FUELS ACCESS: Supporters and opponents of govt.-mandated carriage of multiple ISPs on cable systems are debating possible impact of pole attachment ruling by 11th U.S. Appeals Court, Atlanta, on pending open access case before 9th U.S. Appeals Court, San Francisco. Cable industry opponents of govt. mandates plan to use pole attachment decision, in which Atlanta court ruled that Internet services provided by cable systems shouldn't be treated as regulated cable or telecom services, but as unregulated information services by FCC, to buttress their claim that local authorities can't require open access. Public interest groups say one case has nothing to do with other.

AT&T sent 2-page letter to San Francisco court considering company's appeal of Portland, Ore., open access rules for cable ISPs. Letter argued that pole attachment ruling "underscores" that cable systems transmitting information from Internet to consumers are "necessarily telecommunications facilities." Thus, letter said, Portland ordinance should be struck down because city lacks authority to require cable operators to provide telecom services or facilities.

AT&T also contended that its TCI@Home high-speed data service in Portland and elsewhere still qualifies as cable service, not more strictly regulated telecom service. It said TCI@Home also provides video programming and other cable-originated content, not just Web access. Even under Atlanta court's analysis, AT&T said, TCI@Home qualifies as "both an information service and a cable service."

Public interest groups and Portland officials said different courts often interpret federal law in different ways, and AT&T's arguments contradict each other. "Legally, it's a different issue," said Mark Cooper, research dir., Consumer Federation of America.

Portland officials will ask San Francisco court to ignore AT&T's arguments in its supplementary citation because letter "violates the letter and spirit of Federal Rules of Appellate Procedure," spokesman for City Commissioner Erik Sten said. AT&T violated Rule 28(j) because supplemental citations should be submitted without fresh arguments, he said, and it "is pretty self-evident that the letter does add argument."

Internet ad revenue more than doubled to \$4.6 billion in 1999 from \$1.9 billion in 1998, including \$1.7 billion in 4th quarter alone, Internet Ad Bureau (IAB) reported. That's still far cry from TV ad market, which exceeds \$200 billion annually. Disputing questioning of revenue accounting, IAB said 94% of purchases were paid for in cash, with barter deals accounting for just 6% of deals and 1% of total revenue. Banners made up 56% of ads, sponsorships 27%, interstitials 4%, e-mail 2%, other ad forms 11%. Meanwhile, leading ad company DoubleClick reported revenue of \$110.1 million in first quarter ended March 31, up 179% from \$39.4 million in same period year ago. Loss excluding one-time items and noncash charges grew to \$13.2 million from \$3.1 million, but net loss was cut to \$18.4 million from \$42.1 million.

Clarification: CEA previously refused to say what percentage of DTV display devices include decoder electronics (TVD April 17 p1), although one official mistakenly said all devices included in CEA figures included decoders. Unlike previous announcements that gave total for only all DTV display devices sold, in most recent announcement CEA said only 17% of DTV sets sold to date included DTV receiver electronics.

ACCESS GAINING STEAM: Despite lack of federal mandates, open access commitments by cable operators are growing primarily because of steeply rising competition from telecom companies and wireless carriers, Media Institute panelists said. Panelists predicted cable operators would open their broadband lines to rival ISPs within 2 years because of rapid growth in DSL rollouts. They also argued that consumer demand for "seamless services across platforms" would drive cable systems to offer access to multiple ISPs, similar to telecom and wireless companies. "There's an increasingly large consensus that open access is the right approach in the cable industry," AOL Senior Vp George Vradenburg said.

Vradenburg said AOL, which is negotiating carriage agreements with cable division of prospective merger partner Time Warner, no longer is pushing for govt. action because market finally is moving in right direction. Saying question of govt. involvement now may be "moot point because the government has taken too long to act," he reiterated AOL's intention to reach carriage deal with Time Warner by end of June. He said AOL then will address Time Warner's exclusive carriage agreements with Road Runner cable ISP, scheduled to expire at end of 2001.

AT&T Gen. Counsel James Cicconi said his company is likely to offer varying number of regional and national ISPs in different markets, depending on size and location, once its exclusive deals with Excite@Home expire in June 2002. While AT&T intends to abide by its exclusive agreements, he hinted that competitive forces could cause AT&T's Excite@Home partners — Cox and Comcast — to abandon their exclusive carriage deals one year earlier despite "economic disincentives" to do so in their contracts.

Cicconi chided telephone companies and other DSL providers for not matching recent open access pledges of leading cable MSOs. He urged regulators and public interest groups to start subjecting them to "same scrutiny" cable industry has received. Cox's Alex Netchvolodoff said cable and telecom companies are turning digital divide into "myth" by quickly wiring U.S. for broadband. Citing statistics from consultants, he predicted 90%-plus of U.S. households would have access to cable modem service by 2004, up from about 40%. He said telecom companies are offering DSL service to 25-28% of homes and "their buildout rate is now faster than cable's."

Seeing promising niche market for TV-Web convergence programming, ESPN will boost its enhanced TV, interactive TV and Web content efforts in next year, ESPN Pres. George Bodenheimer said. Speaking at Washington Cable Club lunch at new ESPN Zone restaurant, he said ESPN will be "back in the saddle" in fall with synchronized TV-Web coverage of NFL games on Sun. and Mon. nights. He said Disney unit also is exploring such enhanced TV coverage of baseball and other sports, after drawing 75,000 users per game for its regular-season, 2-box (set-top and PC) experiments last fall and 650,000 for ABC's Super Bowl enhanced TV telecast in Jan. On interactive TV front, ESPN intends to do more experiments like "NHL Rules," where network commentators responded to viewer e-mails during hockey telecasts this season. With more than 16,000 viewers sending e-mails during recent game, ESPN will extend idea to several baseball telecasts this season, Bodenheimer said. ESPN, which recently opened Internet site for its X Games productions, also aims to expand its growing Web family and offer far more streaming video on its sites despite continuing fragmentation of TV and sports audiences, he said.

AT&T, CABLEVISION SWAP: In long-rumored deal, AT&T agreed to buy Cablevision Systems' large cable properties in Boston metro area for more than \$1.1 billion in stock and cash and smaller cable properties in northern N.Y.C. suburbs. With agreement, AT&T will gain 358,000 subscribers in Boston and suburbs, becoming its largest regional cluster. AT&T said deal, combined with its pending purchase of MediaOne Group and system purchases from Charter Communications, would boost Boston presence to 2.1 million customers, 3.5 million homes passed.

Cablevision, which has been selling and swapping systems in Ohio and eastern Mass. to concentrate on N.Y. metro area, will get MediaOne systems with 125,500 subscribers in Westchester, Rockland, Putnam, Orange, Ulster and Dutchess counties. As result, Cablevision will have 2.9 million subscribers and more than 4 million homes passed in N.Y. suburbs. Deal also calls for Cablevision to receive \$878 million in AT&T stock and \$284 million cash.

Executives of MSOs said transaction would create larger, more efficient regional "super clusters" for their companies. They said deal also would speed delivery of new digital cable and other advanced services to cable subscribers in both markets. "This move gives AT&T a new regional cluster through which we can offer customers a wide range of communications, information and entertainment services under one brand," AT&T Chmn. Michael Armstrong said. AT&T and Cablevision said their boards have approved transaction, which companies expect to consummate by year-end. Agreement is subject to regulatory approvals. It also is dependent on AT&T/MediaOne deal, now awaiting FCC approval.

Americans are depending more on cable and Internet for election news and less on broadcast, radio and newspapers, according to Cable Ad Bureau (CAB) seminar on political advertising. At seminar, lightly attended because of rain and World Bank demonstrations, speakers stressed cable's growing role as primary source for voters seeking political news. Kevin Barry, CAB local sales & marketing vp, said Pew Research Center study showed that 31% of surveyed voters named cable as their leading source of election news in Jan., up from 23% in 1996. Internet was only other medium to rise in survey, doubling to 6%. On other hand, broadcast network TV fell to 24% from 39% 4 years ago and newspapers fell to 31% from 48% in 1996. Barry also cited 1999 Rocky Mountain Media Watch study indicating that local cable news networks carry more news and less violent content, "triviality" and advertising than most local broadcast stations. Ron Faucheaux, editor-in-chief of Campaigns & Elections magazine, said Web is emerging as "6th medium" for political ads, along with TV, radio, newspapers, mail and phones.

Fox has sent warning notices to several TV affiliates that haven't kept their assessments current for inventory buyback approved by stations last spring. Affiliates' Chmn. Cullie Tarleton, Bahakel Communications, said he hasn't heard of any affiliations that have been terminated because of nonpayment but that may be in works. Most small market affiliates say it's bad deal for them and they are unable to recoup amount paid network through local sale of spots. Payments were due to Fox in Nov. and Feb. and we're told many affiliates didn't make Feb. payment.

Colin Powell will keynote NAB Radio Show in San Francisco Sept. 20, Assn. said. Former chmn. of Joint Chiefs of Staff and father of FCC Comr. Powell, he is chmn. of America's Promise/Alliance for Youth.

FCC PREFERS MASS MEDIA EVENTS: Broadcast and cable groups have been much more successful in luring FCC commissioners to their conventions than telephone and cellular groups, according to commissioner expense reports obtained through Freedom of Information Act. For 1999, commissioners made 30 trips to identifiable mass media events, vs. 17 common carrier events. Examination of their travel reimbursement requests showed few other surprises.

NAB and NCTA conventions clearly were biggest draws for commissioners, accounting for 12 trips. They also attended such events as Consumer Electronics Show, ALTV/NATPE convention, Academy of TV Arts & Sciences, Variety/Schroder conference, Western Cable Show, other mass media events. Comr. Furchtgott-Roth, for example, attended conventions of state broadcast associations in Ind., Mich., N.D. Comr. Tristani was at N.M. Bcstrs. Assn.

Telecom meetings attended included CompTel, National Assn. of Telecom Officers & Advisers (which also handles cable issues), NARUC, National Telecom Cooperative Assn., several state associations. Next biggest group of events attended was 13 commissioner trips to think tank or investor events, such as those sponsored by KMB Assoc., Federalist Society (Furchtgott-Roth), Mass. Economics Summit (Chmn. Kennard), Sun Valley Conference (Kennard), International Discussion Forum, SGCowens Investors and Goldman Sachs (Comr. Ness).

Bar-related events also attracted commissioners, with all 5 attending FCBA weekend seminar in Hershey, Pa. Kennard also attended several minority-related events, including National Assn. of Minorities in Cable, trip to Africa. Several commissioners also attended FCC field hearings, and Furchtgott-Roth went to London Business School, Tristani to Communications Expo in Buenos Aires.

Kennard, not surprisingly, was biggest traveler among commissioners, making 37 trips in 14 months. He was followed by Furchtgott-Roth (21), Ness (14), Comr. Powell (12), Tristani (10). Kennard also had largest amount reimbursed (\$7,345.43), followed by Ness (\$2,598.65), Tristani (\$2,342.56), Furchtgott-Roth (\$1,789.63), Powell (\$1,659.23). In most cases, conventions or other groups visited either directly provided or reimbursed Commission for air fare, hotels, most other expenses.

Newly named Fox Cable Networks Pres. Jeff Shell plans to push carriage of News Corp.'s 2 newest cable channels, Health Network and yet-to-launch National Geographic Channel, and promote sweeping carriage deals encompassing all of Fox's cable properties. Shell said he aims to build Health Network and National Geographic Channel into widely distributed networks through mix of analog and digital cable and DBS carriage in next 5-6 years. He also will seek greater digital cable carriage of such specialty networks as Fox Sports World, Fox Sports World Espanol, Fox Movie Channel, Golf Channel, Outdoor Life and Speedvision. "It's going to be less and less in coming years about selling channels for a specific price and more and more about selling packages for broadband," he said.

FCC Mass Media Bureau is considering allowing WTKR-TV Norfolk, Va., to use DTV Ch. 40, instead of Ch. 58. Station notes that new channel would be within "core" TV channels after transition. Comments are due June 12, replies June 27.

Two class action suits were filed against Terayon Communications and several of its executives for alleged violations of federal securities laws. In one suit, filed in U.S. Dist. Court, L.A., by Bernstein, Liebhard & Lifshitz, shareholders claimed Terayon had issued "materially false and misleading information" about CableLabs' certification of company's cable modem technology, financial condition and operations, artificially pumping up stock price until truth was disclosed. Suit seeks to recover damages on behalf of all those who purchased Terayon shares between Feb. 2 and April 11. Terayon CEO Zaki Rakib said charges are "completely without merit" and promised to "mount a vigorous defense against the allegations" and "remain focused on executing our strategy to grow in the broadband market."

BMI and TV Music Licensing Committee are "very, very close" to new 3-year contract, Jack Zwaska, exec. dir. of Committee, told us. "We literally are crossing the T's and dotting the I's right now," he said. Old BMI agreement expired year ago. Committee has filed suit against ASCAP in U.S. Dist. Court, N.Y., and case is expected to go to trial in late summer before Judge Michael Dollinger, who has handled previous music litigation cases. Broadcasters are seeking reduced blanket fees (while ASCAP wants increase) and expanded use of per-program licenses. While court case is pending, stations are paying \$98.1 million per year in blanket fees to ASCAP. About 200 TV stations now use ASCAP per-program licenses at cost of about 50% of blanket fee, Zwaska said. Music agreement with SESAC expires at end of this year.

Telesat Canada purchase of Hughes Space Communication (HSC) 702 satellite for \$600 million is part of public-private partnership by company that also includes Canadian Space Agency (CSA), Com Dev International Limited of Cambridge, Ont., EMS Technologies of Bellevue, Que. Group plans to develop and operate Ka-band high-speed multimedia communications payload, including high-speed Internet, audio, video, telemedicine, telelearning, teleworking, e-commerce, and govt. services in urban, rural and remote communities throughout Canada. Hughes spokeswoman said Anik F2 will be one of largest satellites ever built by company and 11th for Telesat. Anik F2 will have 108 transponders to provide fixed satellite services (FSS). Launch is scheduled for 4th quarter 2002.

Several Washington offices were closed or operating on skeleton staffs April 17 as result of demonstrations around International Monetary Fund meetings. FCC remained open because it's outside demonstration area, but NTIA was closed and NAB's office at 1771 N St. NW was closed. MCI WorldCom closed its office at 1801 Pa. Ave. NW and only about 10% of employees at U S West's Washington office were at work. Law firm Wiley, Rein & Fielding, 1776 K St. NW remained open despite protests occurring in front of its building. SBC decided to close its offices at 14th and I Sts. following D.C. police request.

Fox News Channel and Massillon (Ohio) Cable TV announced settlement of their protracted carriage dispute that led to former's pulling its signal from cable system March 31. Companies said in joint statement that Fox News Channel would be carried on both basic and extended basic for next 30 days, then only on basic tier. Dispute centered on Massillon Cable's alleged refusal to adhere to contract that specified Fox should reach 90% of system by Oct. 1999. Fox said it paid \$350,000 in launch fee but cable system had put channel on basic extended tier that charged additional \$5.40 for subscribers.

CABLE FEAR D.C. CHANGES: Cable and telecom companies are rankled by recent Washington, D.C., City Council regulations aimed at curbing disruption caused by utility trenching of streets that they fear will be onerous, time-consuming and result in price escalation and tardy service for customers. Besides levying rights-of-way "rental fee" for first time, city adopted guidelines for coordinating trenching activity to minimize disruption from digging. Moratorium imposed on digging, which is in last leg of its 2nd extension, also is holding up upgrades of cable system. While supporters of rental fee such as National Assn. of Telecom Officers & Advisers (NATOA) believe fee is reasonable since it's less than those charged in most metropolitan cities, industry officials pointed out that D.C. comes out on top on gross receipts tax (GRT), "which is not found in most jurisdictions." Many other cities and counties are considering similar rights-of-way ordinances but none is believed to have same provisions.

According to estimates, fees would work out to \$739-\$2,059 per mile, depending on area where pipe or cable is laid. Bell Atlantic spokeswoman said if fee is added to 10% GRT that "we are already paying, it's much higher than in other jurisdictions." Calling city's decision "to take action" wonderful, NATOA Exec. Dir. Elizabeth Beaty said Washington had come up with "very reasonable" fee structure that was lower than those of such major cities as Chicago and N.Y.

Regulations exempt cable from rental fee, giving it potential advantage over telecom companies, officials said. Spokeswoman for city's Dept of Public Works clarified that cable exemption stemmed from its payment of 5% franchise fees. Most controversial provision is requirement that they file plans for all excavation work anticipated to be done in public rights-of-way in 2-year period immediately following filing date. Plan should be filed twice per year, on first day of June and Dec. If no work is planned in 2-year period, companies must certify to that fact. To coordinate trenching activities among companies, Dept. of Public Works would review all 2-year plans as part of semiannual update to identify conflicts and opportunities for coordination, spokeswoman said.

TV and newspaper coverage of religion issues doubled in 1990s, but most of it dealt with political issues rather than "matters of faith or spirituality," study by Center for Media & Public Affairs said. "Sharpest increase" in coverage was of "nontraditional" and Far East religions, plus new religious movements, Center said. Only one story in 14 dealt with religious beliefs or doctrines, with only one in 20 on Protestants, Catholics or Jews, study found. Churches and denominations made news most often when it dealt with public policy debates or authority conflicts, Center said, with coverage of church-state relations tripling in decade. Study involved random sample of 3,365 stories that appeared in major newspapers and news magazines and monitoring of NBC, CBS and ABC evening newscasts.

Wireless cable could be good way to provide local TV signals to remote areas, Wireless Communications Assn. (WCA) said in comments to NTIA. But group said that can work only if FCC makes it easier for wireless cable to get consent of broadcasters to retransmit their signals. WCA also said NTIA should recommend legislation that would ease wireless cable access to signals. Group, many of whose members have abandoned video services in favor of data, said wireless cable technology can cost-effectively meet needs of rural residents for local TV signals.

With new children's online privacy rules in effect, FTC received 2nd and apparently stronger application for safe harbor certification, from Children's Ad Review Unit (CARU) of Council of Better Business Bureaus. First application for self-regulation, from private company PrivacyBot, was roundly criticized by consumer groups. FTC hasn't issued finding in that case on whether PrivacyBot members would qualify for safe harbor protection. CARU plan, which would involve considerably more activity by industry group, would meet requirements of Children's Online Privacy Protection Act (COPPA) and it "in some cases goes beyond," CARU said. CARU said its guidelines will require "notice," "choice" and "consent," as those terms are defined by FTC, and always will "reflect the latest developments in technology and its application to children's advertising."

APTS criticized FCC decision to throw public broadcasters into auctions when competing for commercial spectrum (TVD April 17 p11), saying that could "potentially harm existing public television stations." Vp-Policy & Legal Affairs Marilyn Mohrman-Gillis said FCC "has misinterpreted the language and intent of the statute regarding auctions. We believe that this language will have a far-reaching negative impact on public television translators and, ultimately, service to the American people." APTS said all of PTV's translators are located in nonreserved portion of FM band, since reserved band is either full or unsuitable for new translators. With many translators forced to relocate to accommodate DTV transition, APTS said, if PTV has to participate in auctions for every move, "there could be a downward spiral in public television coverage."

Ad revenue for national cable networks jumped to \$2.3 billion in first quarter, up 33% from same period in 1999, Cable Ad Bureau (CAB) said. It said national cable ad revenue has nearly doubled from \$1.2 billion in first quarter 3 years earlier. CAB projected that national cable ad revenues for full year will reach \$9.7 billion. Increased ad revenue growth comes as cable programming penetration surpasses 80-million home mark, according to CAB analysis of Nielsen Media Research data. CAB said 80.1 million homes — 80% of all U.S. TV households — now receive cable programming, up 2.2 million in year, but it neglected to mention that most of growth is coming from additional satellite TV homes, not cable homes. Both cable and satellite TV systems carry cable and broadcast programming.

Proposed digital audio broadcasting (DAB) systems show "reasonable probability of substantial improvement for broadcast listening compared to current analog performance," National Radio Systems Committee (NRSC) said following first phase of evaluation of in-band, on-channel systems proposed by USA Digital Radio and Lucent Digital Radio. NRSC, after meeting at NAB convention, also said it still hadn't received "substantial amount of information" from DAB proponents. Companies have until May 8 to tell NRSC that they will submit their systems to full independent analysis by NRSC — www.nab.org/scitech/nrsc.asp.

Tribune Co. said it purchased 23,444,800 (40%) common shares of Times Mirror Co. (TV) for cash in tender offer that closed at midnight April 17, as first step in its \$8 billion takeover of TM. TM holders also have option of receiving 2-1/2 Tribune shares for each Tribune common share. Waiting period under provisions of Hart-Scott-Rodino Antitrust Act ends April 26, and Tribune said it expects to close on deal in late 2nd or 3rd quarter this year.

Personals

Senn Moses, ex-Columbia Pictures, appointed exec. vp-mktg., Fox... ABC TV promotions: **Craig Martinelli** to vp-photography & new media, **Ray Slay** to exec. dir.-photography and new media... Changes at NBC Entertainment: **Curt Sharp**, ex-Digital Entertainment Network, named vp-alternative programs; **Karey Burke**, exec. vp, prime-time series development, signs new multiyear contract... **Peter Dunn**, WNBC N.Y.C. local sales mgr., appointed senior vp-NBC TV Stations Sales & Mktg. Div... **Paul Slavin** advanced to exec. producer *World News Tonight*, ABC News... **Darlene Chapman** advanced to vp-promotions mktg., Nickelodeon and Nick at Nite... Viacom changes: **Carol Melton**, senior vp-govt. affairs, adds CBS Washington operations after Viacom takeover of network; **Martin Franks** no longer will head CBS's lobbying efforts or corporate communications but will continue working for Pres.-COO **Mel Karmazin**; **Carl Volta** to head corporate communications; **John Orlando**, CBS vp-Washington, no longer will handle Washington affairs, is considering other options with Viacom.

Derek Dalton advanced to vp-gen. mgr., KWGN-TV Denver... **Leslie Glenn** ex-WLVI-TV Boston, named vp-gen. mgr., WPHL-TV Philadelphia... **Steven Cohen**, ex-USA Bcstg., appointed dir.-business affairs, Buena Vista TV... **Len Grossi**, ex-Film Roman, appointed pres., Columbia TriStar TV... **Sherri Brennen** promoted to vp-recruiting & training, Belo... **Robert Williams** advanced to market exec. vp-Philadelphia station group, AMFM.

Jeff Shell, pres., Fox Sports Network, named pres.-CEO, Fox Cable Network and member of News Corp. Exec. Management Committee; **Tom Chiappetta**, ex-Country Music TV, appointed dir.-media relations, Fox Sports Net; **Randy Freer** advanced to exec. vp, Fox Sports Net, L.A.; **Tracey Lawrence** promoted to senior vp-gen. mgr., Fox Family Channels... **Mae Douglas** advanced to vp-chief people officer, Cox Communications... **Bryan Mullen**, ex-Turner Bcstg.'s Cartoon Network, named vp & dir., Disney Kids Network... **Susan Werbe** promoted to vp-historical programming, History Channel... A&E TV Network changes: **Gary Ellis**, ex-Bachelor Group, appointed dir.-sales administration & finance; **Meesun Woo** promoted to dir.-sales & mktg. systems... **Tania Mennes** advanced to vp-mktg., Cable & Telecom Assn... **Steve Carcano**, gen. mgr., Fox Movie Channel, resigns to pursue opportunities in new media... Daniels & Assoc. promotions: **Melissa Hubbard** to senior vp-gen. counsel, **Bill Fowler** to senior vp-CFO... **Eric Brown**, ex-Times Mirror Cable TV, named vp & gen. mgr.-northern region of W. San Fernando Valley, Time Warner.

Karen Onyeije, special counsel in FCC Office of Gen. Counsel, appointed legal adviser to chmn., replacing **Thomas Power**... **Brad Deutsch**, ex-special asst. to FCC Mass Media Bureau chief, named assoc., Hogan & Hartson... RealNetworks additions to Media Systems: **Jeff Pancottine**, ex-Intel, as senior vp-senior vp-sales & mktg.; **Tom Hull**, ex-Sequent Computer Systems, as vp-N. American Sales... RealNetworks promotions: **Len Jordan** to senior vp-consumer appliances, **Kelly MacArthur** to senior vp, gen. counsel & corp. secy... MultiMedia Telecom Assn. names co-vice chmn., Value-Added Reseller Div.: **Greg Larnder**, vp-sales, Cygcom Integrated Technologies; **George Robertson**, partner, VirtualChannel.Net... **James Hobson**, ex-Donelan, Cleary, Wood & Maser, sets up own telecom law practice, 3613 Trinity Dr., Alexandria, Va. — 703-370-3562.



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Eight Utah stations collaborating on DTV transmission said they were backing study on extending digital signals to rural areas using on-channel repeaters. DTV Utah Consortium, 7 manufacturers and Advanced TV Technology Center said they were building 5-7 facilities for tests between July and Sept. Rural areas, defined as homes blocked by terrain or beyond horizon of existing DTV signals, are reached by analog network through 622 licensed translators in Utah. Stations said there aren't enough frequencies to duplicate network in digital, but on-channel repeaters potentially can be built next to analog translators to mirror distribution system.

Consumer Electronics

A Section of Television Digest with Consumer Electronics

STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending April 7 and year to date:

	FEB. 1- FEB. 7	1999 WEEK	% CHANGE	MAR. 25- MAR. 31	14 WEEKS 2000	14 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	401,875	321,438	+ 25.0	790,202	6,836,674*	5,975,179	+ 14.4
DIRECT-VIEW**	391,973	310,726	+ 26.1	751,110	6,501,296*	5,727,863	+ 13.5
TV ONLY#....	335,048	248,518	+ 34.8	597,234	5,482,512	4,847,361	+ 13.1
TV/VCR COMBO.	56,925*	62,208	- 8.5	153,879*	1,018,784*	880,502	+ 15.7
PROJECTION...	9,902	10,712	- 7.6	39,092*	335,378*	247,316	+ 35.6
TOTAL VCR**....	320,194*	299,045	+ 7.1	931,386*	5,879,355*	5,142,278	+ 14.3
HOME DECKS...	263,269*	236,837	+ 11.2	777,510*	4,860,571*	4,261,776	+ 14.1
CAMCORDERS.....	80,059*	98,160	- 18.4	194,599	1,203,000*	1,005,272	+ 19.7
DVD PLAYERS....	46,591*	31,206	+ 49.3	136,263*	1,230,216*	442,155	+178.2

Direct-view TV 5-week moving average#: 2000-437,290; 1999-353,693 (up 23.6%).

Projection TV 5-week moving average: 2000-23,184; 1999-16,689 (up 38.9%).

VCR deck 5-week moving average: 2000-399,995*; 1999-352,430 (up 13.5%).

TV/VCR 5-week moving average: 2000-85,214*; 1999-73,181 (up 16.4%).

Camcorder 5-week moving average: 2000-111,725*; 1999-93,735 (up 19.2%).

DVD player 5-week moving average: 2000-79,580*; 1999-37,595 (up 111.7%).

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

TOSHIBA TO ROLL OUT AUTHORIZED DEALER POLICY: Toshiba will start first authorized dealer program June 1 in move that will cut number of accounts and eliminate Internet-only retailers from distribution mix.

Authorization program, which will require that dealers have minimum \$200,000 in annual sales of Toshiba products to receive direct shipments, will cover 250 retailers, 50 fewer than currently carry product, National Field Sales Vp Richard Calacci said. Action also will reduce number of high-end Cinema series dealers to 80 from current 92, he said. Internet sales will be limited to less than 10 brick-and-mortar retailers, he said.

Excluded from mix, for now, will be Internet-only retailers that have carried Toshiba product in past including 800.com and Amazon.com, which have offered breadth of line including DVD players and HD-ready sets up to 65W. Most obtained product through Toshiba distributors, which also are being trimmed — to 22 from 32, Calacci said.

New Internet policy "is designed to go hand in hand with what we want our retailers and consumers to see in our brand and in our product," said Calacci, who didn't rule out selling to e-tailers in future. "The e-commerce community may not like it, but we are going to manage the business and not let the business manage us." Amazon officials weren't available for comment, but 800.com Senior Mds. Vp Frank Sadowski said e-tailer supported authorization policy and "applauded Toshiba for taking control of their business." While Sadowski declined comment on fate of Toshiba products currently posted on site after June 1 deadline, he said e-tailer was "confident" that it eventually would gain authorization.

Violation of dealer agreements, including selling to unauthorized retailers, will carry penalties including being dropped from distribution list. Calacci conceded that existing Toshiba product being sold via Internet is likely to remain through year-end, but said program was timed to coincide with introduction of new items.

Toshiba, which 4 years ago first established \$100,000 as annual sales minimum, joins Sony and Pioneer, among others, in setting up authorized dealer network. Program will include logo that will be displayed in stores and on Internet, Calacci said.

At same time, Toshiba has narrowed planned assortment of integrated high-definition TVs to single 65W model, eliminating 56W that was first shown last May. Both sets included DirecTV IRD. However, shorter line of HDTV sets is being accompanied by expansion of HD-ready models that will include 36" flat-screen direct-view set in addition to existing 34W. Overall, HD-ready line will grow to 14 models from 10 with entry-level at \$1,999.

Toshiba also has postponed delivery of HD set-top decoder box, originally scheduled for last fall, to June at \$899. Delays have been attributed to testing of product and fact that broadcasters are using variety of encoding systems, Asst. Mktg. Vp Scott Ramirez said. "The anomalies and idiosyncracies went way beyond anybody's expectations," Ramirez said. "We don't want to ship out anything that isn't perfect so we're making sure our units work everywhere around the country before they ship."

As for future technologies, Toshiba has no plans to introduce 42W plasma currently being sold by Commercial Div. and is studying prospects for LCD rear-projection TV, Ramirez said. Toshiba last year showed 40" LCD set with single 1.6" panel, he said. Other option is Toshiba-Canon joint venture that's developing display based on surface-conduction electron-emitter (SCEE) technology. Display under development uses SCEE cathode plate with electron emitters that are distributed in amount equal to number of pixels in display. First products are expected in 2002, company has said. "That is the path for our future and it's a product that we think will change the industry," Ramirez said.

In making push into HD-ready, Toshiba will rely on flat-screen sets, Ramirez said, citing success of Sony's Wega. Toshiba, which said it had 15.8% market share in big-screen direct-view sets in 1999, is expected to add flat-screen tube production at Horseheads, N.Y., plant next year. Technology currently accounts for 25% of 35-36" TV sales, Ramirez said. Toshiba will focus efforts on 36" because "it appears to have a more elastic demand and is shifting quickly to flat," he said.

In projection TVs, industry sales to dealers are expected to increase this year to 1.56 million from 1.33 million year ago, with HD-ready sets accounting for 29% of mix vs. 13.8% in 1999, Ramirez said. Sales of analog projection TVs are expected to slip to 1.1 million in 2000 from 1.23 million year ago as digital TV expands to 450,000 from 125,000. About 310,000 conventional HD-ready sets are projected to be sold this year, with widescreen accounting for 140,000. Conventional sets will represent majority of business, with widescreen "stabilizing" at 31% of HD-ready market, he said.

Stripped from TV line this year will be sets containing Wink Communications module that was introduced in 36" in 1998 (TVD Aug 10/98 p16). Module, which Toshiba manufactured, allowed user to get supplemental data on program or commercial from cable or broadcast by activating Wink's script on-screen "I" icon. Technology added \$50-\$100 to cost of set and proved too pricey for retail, Ramirez said. Toshiba may reintroduce technology as part of DirecTV IRD. Wink-enabled DirecTV IRDs, being built by Thomson, are expected to ship by midyear. Zenith is among those expected to ship Wink-compatible IRDs.

"When you combine it with DirecTV, almost all of the components are there already and it's a software change," Ramirez said. "It is a good service, but the analog application that we did probably wasn't the right one."

ANTICOPY ISSUE LINGERS AS CD DUBBING DECKS ARRIVE: Copy-proof CD technology from Macrovision appears to have undergone some modifications since our last reports (TVD Jan 17 p13, Jan 3 p13). But it's still not clear if or when labels will deploy technology — or to what extent they might exploit all its capabilities to foil CD recorders.

Modifications come as industry awaits flood of CD recorders, especially dual-drive Audio CD+RW dubbing decks at sub-\$500 prices. Philips this week is expected to take wraps off broad Audio CD+RW line that includes long-awaited 2X speed CDR-775 — \$499 dubbing deck announced last year as successor to first-generation CDR-765. Deck was expected in time for holiday selling season, but retailers were left in lurch owing to delay over what one Philips executive described as "overly ambitious" software.

OEM clients Kenwood and Onkyo, which also were put on hold by Philips's delay, have said their versions of deck will be available in near future. We saw demonstration of Kenwood deck earlier this month, and software menu for making dubs is more user-friendly and intuitive than original CDR-765, as Philips promised. "We wanted to make sure it was right," Philips Managing Dir.-Worldwide Audio Guy Demuynck told us.

Unless Philips pops surprise this week, CDR-775 and OEM clones will operate at 2X speed when making CD-to-CD dub. But 4X decks already are on market, with more coming. Harman/Kardon introduced first such deck last fall at \$649, made by unidentified Korean OEM. Since then, Zenith and Korean parent LG have announced 4X dubbing decks,

as has Akai. More are likely to emerge by 4th quarter, and ante is likely to be upped in speed wars when major recording media company enters fray with Audio CD+RW deck we we're told will have minimum of 4X dubbing.

Plethora of CD dubbing decks is in pipeline for later this year. Besides aforementioned brands and early pacesetters Marantz, Pioneer and Teac, other vendors delivering CD recorders in various configurations include Aiwa, JVC, Koss, Oritron, RCA, Yamaha. Although Koss and Oritron will market same CDR-100 model made by Chinese OEM Orient Power Group, we're told latter's Video Division also is readying Audio CD+RW deck that compresses music in MP3 format for recording on blank CDs.

Price of dubbing decks will fall by holidays, we're told — assuming supply can meet pent-up demand. Philips' CDR-775 carries \$499 MSRP but street price retailers already are quoting is \$449. List on first-generation model was \$649. Harman/Kardon 4X deck made debut at \$799 list, dropped to \$649 by Christmas and now is \$549 at retail. Prices will fall more by summer as Philips is expected to reduce royalty for Audio CD+RW hardware. One source told us Chinese-made dubbing decks will arrive at \$399 by then — and could be sold profitably at \$299. "At \$299, it becomes mass market," source told us.

U.S. retailers sold 110,057 Audio CD+RW recorders last year through Nov., and nearly 14,000 in Nov. — 500% increase over 1998 month, according to NPD Intellect. Average selling price in 1999 was \$464, down from year-earlier \$548, and most models sold were single-drive decks, NPD said. U.S. market absorbed 600 million blank CDs last year and volume will double this year, TDK Electronics Pres. Kuniyoshi Matsui told us. He said Data CD+RW, Audio CD-R and CD+RW accounted for small percentage of total, owing to insufficient hardware supply to meet demand, but predicted audio market "will explode at Christmas" with advent of more decks at lower prices.

Fly in ointment for CD dubbing is market reaction to possible deployment of Macrovision anticopy process. Last summer, company gave us demonstration of copy-proof CD developed by CDilla, its U.K. subsidiary. AudioLok technology, since renamed SafeAudio, could prevent music CD from playing in PC's CD-ROM drive or being copied on Audio CD+RW deck.

Purpose of preventing playback in CD-ROM drive was to foil copying to CD burner in PC. But Macrovision seems to have abandoned that function because PC owners use CD-ROM drive legitimately for music listening. Macrovision now tells us that SafeAudio system will allow PC users to play CDs and even rip content to hard drive for compression, such as MP3. But SafeAudio now ensures that copy stored on hard drive complies with requirements of Secure Digital Music Initiative for making further digital generations, said David Simmons, Macrovision U.K. managing dir.

Despite those modifications, SafeAudio still has ability to prevent CD playback in CD-ROM drive or copying to Audio CD-R deck, Simmons told us. In contrast with CDilla founder Peter Newman's earlier candor on how AudioLok worked, Simmons wouldn't explain SafeAudio lockout technology. But he stressed that those functions would be enabled only if content owner requested them. Some industry observers think that's unlikely.

"No record company is going to disconnect from large numbers of consumers," said Philips copyright executive Gijs (Gerry) Wirtz. "As we understand it, though, the system is intended to control copying with PC writers, not CD recorders, and not playback on CD-ROM drives," he told us. But Wirtz cautioned that Philips didn't have full information on how SafeAudio works, so he expressed reservations about "unforeseen playback issues and random results with some players and ROM drives." He told us that disc technologies introducing incompatibilities with CD hardware would contravene CD license. "But it won't come to this," he told us, explaining that Macrovision would be diligent in efforts to avoid causing "problems" with playback compatibility. Macrovision has said same in past, and will conduct extensive testing of SafeAudio with current and legacy CD playback equipment. "We think this is a common sense issue, not a license issue," Wirtz said.

Compaq, moving to expand exclusive distribution agreements, signed on Sears last week to carry Presario Internet PCs as well as branded notebook PCs, printers and monitors. Compaq also renewed agreement with Tandy's RadioShack. Compaq will be only Windows-based desktop PC brand sold at Sear's 860 stores, although chain will continue to sell Apple Computer's Macintosh models. Sears had carried Hewlett-Packard and IBM, which ended retail distribution of its desktop PCs last fall.

Sega will ship special edition black Sega Sports Dreamcast in fall that will be first of many "special edition" consoles, British press report said. Sega spokesman was unable to confirm or deny details of report by our deadline. Black console wouldn't be first for Sega, which had long-standing practice of manufacturing consoles with that color before current gray Dreamcast. Meanwhile, Dreamcast made its way into plot of first episode of *South Park* this season where Cartman and other main characters schemed to earn enough money to buy game console.

TWEETER EARNINGS RISE: Tweeter Home Entertainment, crediting strong sales of digital TVs (DTVs), reported net income climbed 88% on 40.8% rise in revenue (see financial table). Same-store sales were up 12.2% excluding Home Entertainment (HE) (+50.7%) and Dow Stereo/Video (-5.9%).

Chain based in Canton, Mass., said it sold 2,100 high-definition and HD-ready TVs in quarter vs. 617 year earlier. HD-ready sets accounted for 62.8% of projection TV sales in quarter, 9.5% of chain's total revenues, Mdsg. Vp Bernard Sapienza told analysts in conference call. Projection TV sales increased 47.6% overall and gross margin rose to 36.8% from 35.9%.

Direct-view TV sales were flat with year ago, reflecting transition of market to digital from analog, Sapienza said, and VCR and cassette deck sales declined. Tweeter's inventory increased to \$72 million from \$44 million year ago as chain stocked up on DTVs. For example, HE inventory at Tex. distribution center jumped to \$3 million in 2nd quarter from \$1.5 million year earlier, CFO Joseph McGuire said. Increase is largely result of chain's offering both analog and digital versions of sets, he said.

"We've made a decision to be heavy and inventory-well on that product," McGuire said. While some sales of HD-ready sets have been "constricted" in sub-\$3,000 range, "HDTV inventories vs. demand are the best they've ever been for us," Sapienza said. As part of DTV push, Tweeter is carrying 3 plasma displays priced at \$10,000-\$20,000 and averaging sales of 30-40 units per month, he said.

Selling expense increased in quarter to \$22.8 million from \$16.4 million. Rise was attributed to "issues" involving "payroll as a percentage of sales" largely at Dow chain in San Diego, which Tweeter acquired in July, McGuire said. Dow store payrolls were "a little higher" as Tweeter sought to retain staff, he said. Tweeter plans to bring Dow stores under own name by mid-July and HE by year-end.

Tweeter said it will open 10 stores in 2nd half of fiscal year and another 23 in fiscal 2001. It completed purchase of 7-store United Audio in March and plans to open 10 outlets in Chicago area "over the next several years" and use chain as "springboard" into surrounding markets, Sapienza said.

Retailer also will start custom installation business, beginning with Atlanta market in late May, then moving to New England. Currently, 14 Tweeter and 12 Bryn Mawr employees have received custom installation training, Pres. Jeffrey Stone said.

In online joint venture with Cyberian Outpost — Tweeter@Outpost.com — "some issues" remain in expanding merchandise beyond current 480-490 SKUs, McGuire said. Doubling mix is goal, but that will depend on Tweeter's gaining additional authorizations from manufacturers. "I don't think we're going to ramp up" until site gets more products, McGuire said, cautioning analysts to have "modest expectations" for venture. Cyberian reported that Tweeter@Outpost.com had \$2.3 million in sales in 4th quarter ended Feb. 29 while turning \$400,000 profit (TVD March 27 p17).

Chinese DTS licensee Languang Science & Technology Co. is working with U.S.-based Sherwood Electronics to jointly manufacture DTS-decoding AV amps and speaker systems. Languang said it plans to market DTS home theater system in China for \$725. It said it has annual production capacity for 500,000 amps and 2 million speakers.

PHILIPS, BLOCKBUSTER IN TALKS: Philips has had discussions with Blockbuster on supplying set-top box (STB) for rental chain's proposed video-on-demand (VOD) service, sources said.

Discussions were said to have centered on STB featuring thin client design that could be upgraded via software. Blockbuster declined comment and Philips spokesman wasn't available.

Addition of Blockbuster would be major victory for Philips STB OEM business, which also is producing America Online's AOL TV device. Blockbuster has signed separate alliances with AOL and TiVo (TVD Jan 10 p24). TiVo owners are expected to be offered small selection of movies through service, although fate of VOD proposal will hinge on Blockbuster's agreement to negotiate agreements with film studios. MGM is only studio to have signed pact so far.

Meanwhile, Microsoft's WebTV is expected to add aspects of Windows Media Technologies 7 software to its next generation STB starting at midyear, sources said. Microsoft declined comment, but addition of Windows Media would give WebTV major boost in adding audio/video streaming to service.

Addition of Windows Media Format 7 would be done through gradual upgrade of WebTV software, sources said. Key to Windows Media 7 is its ability to deliver video at 60 frames per sec. with 640x480 resolution, company said. It also provides CD-quality audio and encode/decode support for MPEG-4 video codec. "We're getting very close to broadcast quality video here," Microsoft Technical Product Mgr. Sean Alexander said. Windows Media 7, which is expected to be available in beta form in May, occupies 14 MB uncompressed on hard drive and has screen-capture compression technology.

WebTV has been slow to roll out audio and video streaming technologies for its service. It postponed plans for streaming audio feature last in after technical problems (TVD Nov 15 p17). WebTV had signed agreement with Microsoft rival RealNetworks last July for audio. At same time, it had been developing video modem technology for delivering video via Web (TVD April 26 p21), but never went forward with proposed cable test.

Microsoft will further sharpen focus on video with Millennium operating system due in fall that features Windows Movie Maker. Software is designed to turn home movies from any analog or digital camera or VCR into digital format that can be stored, edited and shared via PC and Internet.

Panasonic has no plans at this point to take any steps to stop unauthorized retailers from selling its products online, spokesman for manufacturer told us last week. He said: "We're simply going to continue to support our network of dealers." As we reported last week, Panasonic Select Direct Web site now lists retailers authorized to sell Panasonic's CE products online (TVD April 17 p21). Added to list last week was Sears, although site indicated retailer wouldn't be selling A/V products from Panasonic until summer. Other retailers that have received Panasonic authorization for online CE sales are Abt Electronics, BestBuy.com, Circuit City, Crutchfield, Tweeter@Outpost.com. Meanwhile, BestBuy.com last week featured message saying: "Our new online store will open shortly." As we reported, Best Buy spokeswoman said site would add CE products to its online mix by end of May (TVD March 27 p21).

BABBAGE'S-BOUTIQUE WAR CONTINUES: War between Babbage's Etc. and Electronics Boutique (EB) to buy Funco continued last week as EB matched \$135 million acquisition offer made by Babbage's and its parent, Barnes & Noble (B&N). At our Fri. deadline, Funco said its board approved amended acquisition offer made by EB and tender offer process is to begin this week.

But Funco Pres. Stan Bodine indicated on Fri. that it's not done deal. He told us that if B&N were to come back with higher offer, "we would obviously look at it."

Babbage's and B&N spokeswomen couldn't be reached for comment by our deadline.

As we reported (TVD April 10 p18), EB signed definitive merger agreement earlier this month under which it would acquire Funco for \$110 million (\$17.50 per share). But shortly after announcement was made, Funco said it received written unsolicited proposal from Babbage's to acquire it for \$135 million (\$21 per share) in cash or combination of cash and stock in B&N.

Week later, Funco said it received letter agreement from B&N containing unconditional commitment by B&N to enter into merger with Funco. B&N said it would keep its commitment open until April 21 to allow Funco to give EB 5 business days notice to adjust terms of \$110 million offer. Funco then wrote EB letter in which it said it was prepared to enter into merger with B&N after those 5 days.

One day before deadline, Funco said it received written proposal from EB in which latter agreed to match B&N's price.

Funco also said one of its shareholders, David Eckert, started class action lawsuit against it on April 11 — after Babbage's proposal was made — claiming that videogame retail chain and its board inhibited "maximization of shareholder value" by entering into initial merger agreement with EB. Funco denied allegations and said it intended "to defend the action vigorously."

Separately, EB signed distribution and marketing agreement with AOL UK in which retail chain will distribute latter's Netscape Online (NO) as its exclusive Internet service provider, EB will become key distribution channel for NO, EB's EB.uk.com Web site will have "anchor tenant" placement across AOL UK and Compuserve Online services.

Feb. factory audio shipments jumped 7.8% to \$542.25 million on strong growth in portable audio and systems, CEA reported. Shipments topped billion-dollar mark for year's first 2 months, rising 6.4% to \$1.025 billion from year-earlier \$963.21 million. In Feb. portable audio shipments rose 16.2% to \$134.69 million on 39% and 15% increases in personal portable CD players and CD boomboxes, respectively. CEA said compact systems strength fueled gain in overall systems category, which grew 10.5% to \$117.93 million from \$106.77 million. Compact ensembles rose 15% in month to \$94 million. Meanwhile, Feb. shipments of separate components and aftermarket autosound climbed 6.7% and 1.2%, respectively. CEA said components were spurred by surging sales of CD-R equipment, which has reinvigorated overall home CD hardware business. CEA said home CD equipment revenue was up 17% in year's first 2 month to \$49 million, with CD-R products accounting for 20% of that volume.

N64 TOPS PLAYSTATION: Nintendo 64 (N64) grabbed No. 1 videogame console spot from Sony's PlayStation (PS) in U.S., according to NPD Group and PC Data.

Nintendo boasted of NPD report last week, saying N64 had captured 46% of all console sales in U.S. since March 6 debut of new "Funtastic" series of colored N64s, while PS1 had 43% and Sega Dreamcast 11%. Nintendo of America Exec. Sales & Mktg. Vp Peter Main said: "During March, sales of the Nintendo 64 jumped 30% from the same month a year ago, while those of our nearest competitor plunged 32%."

Also helping to drive N64 sales in month was *Pokemon Stadium*, which NPD said was top-selling videogame in March.

Sales results released by PC Data last week backed up what Nintendo and NPD said. PC Data said that for 2 weeks April 2-15, N64 had 44% unit share and 42.3% dollar share of market, while PS had 40.6% and 32.7% and Dreamcast 15.4% and 24.9%.

Reason for Sony dropoff may have something to do with rumored PS shortages in U.S. Sony Computer Entertainment America (SCEA) spokeswoman didn't return call for comment by our deadline.

On more positive note for Sony, Japan's Trade Ministry simplified export procedures that had been placed on manufacturer's PlayStation2 (PS2), Reuters reported. Ministry previously imposed strict controls on next-generation game console (TVD March 13 p18) over concern that machine's graphics processing capability was so powerful it could be used in weapons such as missiles. Report also said Sony didn't feel any of Ministry's restrictions would hurt its business anyway and manufacturer already had been granted permission to export console to Europe and U.S., where it will ship in fall.

Toshiba has postponed delivery of Nuon-enhanced DVD players to 3rd quarter from this spring, citing chip delays. Toshiba and Samsung are expected to be first CE manufacturers to introduce DVD players containing processor, which among other things has videogaming capabilities. Chip, developed by VM Labs, also replaces many DVD internal components and new features can be software programmed. VM Labs officials weren't available for comment. Toshiba said it has no plans to introduce DVD-RAM recorder this year. Samsung and Matsushita are only members of DVD-RAM camp that have pledged to introduce recorders this year. Toshiba, leading proponent of progressive-scan DVD players, will add 2nd-generation models by midyear, National Sales Vp Richard Calacci said. Toshiba said it had strong sales of 2 players introduced last fall, with \$999 piece outselling \$1,999 model. Toshiba had planned to introduce DVD player with progressive scan output in fall 1998, but withdrew it because of copy protection concerns. On MP3 front, Toshiba will introduce first player later this year based on secure digital (SD) memory cards developed jointly with Matsushita and SanDisk. Player, which will support CPRM copy protection technology, will use delivery system developed by Liquid Audio. It's among first to allow users to access music from Internet in MP3 and AAC format, new technology designed to cut download times. Unit, which was to go on sale in Japan April 22, is expected to be packaged with 64 MB card. In entering category, Toshiba set up new Mobile A/V Networking Div. in Japan, but there are no plans to form similar group in U.S. "We'll divvy up the product between existing divisions depending on what it is," company said.

SONY STORE OPENS AT 800.COM: Sony store has opened at 800.com's e-commerce Web site and Pioneer store-within-store at site will follow in May, 800.com Senior Mdsgr. Vp Frank Sadowski told us.

Although 800.com received authorization from Sony to sell its CE products online in early Feb., when it signed dealer agreement (TVD Feb 7 p14), Sadowski told us then that Sony products wouldn't actually appear at site until spring, probably by April. Sadowski said building Sony store at site took about 10 weeks and required "a lot of additional hours of work" — especially design, engineering and development teams. But he said no additional staff had to be hired.

Sony store opened without announcement at 800.com early April 13, but "soft launch" followed last week and official "grand opening" is scheduled for this week, Sadowski told us. Noting that Sony and most other manufacturers are going through product transitions to new lines, he said: "We are receiving new products from Sony literally every day, so our product assortment will continue to grow from now through June as their products become available."

In conjunction with debut of Sony Store, 800.com held "sneak preview promotion" before "grand opening" in which it e-mailed its existing customer base information on addition of Sony products, Sadowski said. During promotion, 800.com offered those customers free shipping on Sony CE products through April 20.

As we reported, 800.com has authorization to sell wide variety of Sony CE categories, including audio components, DVD players, TVs, mobile electronics. 800.com said about 200 Sony products would be available at site as of grand opening. There also is link connecting 800.com to Sony's site.

Sadowski said 800.com would "roll out a similar presentation for Pioneer within the next several weeks... in May." There will be link to Pioneer site from 800.com as well, he said. 800.com already has added teaser on home page telling visitors that Pioneer products are coming soon.

In Feb., e-tailer became first "pure play" (Internet-only) retailer to get Pioneer authorization (TVD Feb 28 p18). 800.com also was first pure-play site to win Sony authorization. Pioneer and Sony so far still have authorized only select number of on-line retailers to sell their merchandise, but Sony recently added one more authorized electronics dealer — Cameraworld.com — to small but growing list at its own Web site.

Although Sadowski said his company had no new additional direct dealer agreements to talk about, he said, "there's a lot in the works." Company's goal, he said, "is to purchase everything direct from the suppliers in as short a period of time as possible." While he said it has been able to sign direct shipping agreements "with the vast majority" of its suppliers, it still is receiving at least some of its goods from 3rd party distributors. But he said 800.com is "not purchasing any kind of gray goods or" merchandise from "transshippers or anything like that — it's all through authorized sources." He said: "We want to sell what manufacturers are comfortable with having on our site."

Sadowski said company is continuing process of trying to have direct relationships with remaining suppliers, which is in keeping with what 800.com said its goal was in its recent IPO filing (TVD March 27 p20).

Sensory Science, with sharp rise in operating costs, reported 4th-quarter net loss from continuing operations grew to \$309,000 from \$306,000 year earlier on 20% gain in sales (see financial table). New products, including digital TVs (DTVs) and MP3 players, accounted for 22% of revenue in quarter and 6% year ago. However, total operating costs jumped to \$5 million from \$3.3 million as general and administrative expenses climbed to \$1.7 million from \$969,000 and sales & marketing to \$2.8 million from \$1.6 million. Promotional expenses hit \$700,000 — 8% of revenue, up from 4% year ago and 3¢ per share higher than projected, Chmn.-CEO Roger Hackett said. Among promotions was Champions Program that offered free Loewe DTV to store staffers that sold 8-10 models in period, Hackett said. Loewe line, which will add 30W, 34W and 38W direct-view sets later this year capable of displaying 1080i, will expand distribution to another 150 stores including Good Guys, Hackett said. Recent move to cut prices \$400-\$900 on conventional 32-36" Loewe DTVs (TVD Feb 28 p19) "worked well and it's doing exactly what we expected," he said. Overall DTV market, however, sold 130,000 units to dealers in 1999, short of 300,000 goal, Hackett said in projecting that market would hit 600,000 this year. In core dual-deck VCRs, Hackett said recent sales and marketing agreement with Thomson for RCA brand (TVD March 13 p15) would result in "hundreds of thousands" more shipments and that retailers "will be compelled to advertise the dual-deck as never before." Thomson is expected to sell \$199 mono dual-deck, while Sensory Science focuses on \$299 hi-fi piece, Hackett said. In DVD, where SS sells models under Go-Video and Cal. Audio brands, category was "only area we missed this year," Hackett said. It's planning to add DVD player/4-head hi-fi VCR that will ship in Sept. at \$400 (TVD April 3 p22).

Audiohighway.com posted revenue of \$2.1 million for year ended Dec. 31, up sharply compared to \$139,000 year earlier. But company based in Cupertino, Cal., said loss jumped to \$12.7 million from \$5.9 million. Audiohighway.com Web site where consumers can access audiobooks and music in variety of different Web audio formats generated more than 7 million visits in March, up from 5.8 million month earlier. Meanwhile, as we reported, Audiohighway.com is gearing up to start separate Massmerchant.com e-commerce site in May that will have 6 stores: CE products, computer hardware and software, games, music, video (TVD April 10 p16).

'TELEVISION DIGEST' NOW AVAILABLE IN PDF 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.

SONY INVESTS IN LEXAR: Sony made \$2 million equity investment in digital storage media company Lexar Media last week as part of what companies said was strategic partnership to apply latter's high-speed flash memory controller technology to Sony's Memory Stick.

Companies also signed definitive agreement formalizing their previously announced Memorandum of Understanding whereby Lexar will license its controller technology to Sony to improve read/write speed of Memory Stick to download 64 MB of data in less than 10 sec. As part of same agreement, first announced at CES (TVD Jan 10 p17), Lexar received license to manufacture and market Memory Stick media under Lexar brand.

Sony Corporate Senior Vp Yutaka Nakagawa said companies plan "to make [Memory Stick] the best suited storage media for a variety of applications in the broadband network era."

Lexar, based in Fremont, Cal., recently filed IPO for 7.5 million shares at \$11-\$13 per share. It said it would use proceeds "for general corporate purposes, including working capital, capital expenditures and the repayment of debt."

Company reported revenue jumped to \$29.2 million in year ended Dec. 31 from \$7.6 million year earlier, 27.6% from countries outside U.S. Lexar said its loss widened to \$15.3 million from \$9.1 million and said: "As of Dec. 31, 1999, we had an accumulated deficit of approximately \$34.1 million. We will incur losses for this year and are likely to incur losses through at least the end of 2001."

Lexar's largest retail accounts in 1999 were Best Buy, B&H Photo, Camera World, CompUSA, Fry's, Wal-Mart.

Lexar also pointed out it still is involved in litigation with its main competitor, SanDisk, which sued in March 1998 alleging that Lexar CompactFlash and PC cards infringe on one of its patents, No. 5,602,987. SanDisk charged that all of Lexar's controllers infringe on its patent and sought preliminary and permanent injunctions.

If SanDisk were to win, Lexar admitted impact on its business would be substantial, although it said "we are vigorously contesting these claims." Lexar said 80% of its 1999 revenue was from sales of its controllers and parts "and we expect this to be the case for the next several years." It added: "In the event that a permanent injunction were granted, we would be unable to sell products incorporating those methods or parts found to infringe SanDisk's patent. We would need to either negotiate a license with SanDisk or engage in a redesign of those products. A redesign of those products would result in an interruption in sales that could extend for some time." Lexar admitted it "cannot ensure... that any development or redesign efforts would be successful" and, as result, there would be "a substantial reduction in our revenues and losses over an extended period of time."

Lexar said it currently uses variety of suppliers for some of its key components, among them: Zetex Semiconductors, sole manufacturer of transistors for Lexar's CompactFlash, PC Card and connectivity products; and United Microelectronics, which supplies controller wafers. Lexar said: "Substantially all of our digital film is currently assembled and tested by Flash Electronics Inc. in Fremont, Cal., and Samsung in Korea."

Investors in Lexar include Toshiba America Electronic Components, which owns 3 million shares for 5% stake. Lexar Pres.-CEO John Reimer, who owns 2.8 million shares, received salary of \$252,000 in 1999 plus \$45,000 bonus and \$5,496 in other compensation.

As of March 20, Lexar had 120 employees and company said "we anticipate further significant increases in the number of our employees as we continue to grow." It said it's negotiating lease to relocate to larger space in Fremont that will be better able to handle that growth.

NetFlix.com and SightSound.com filed initial public offerings (IPOs) with SEC last week. SightSound.com filing followed its announcement that it had signed deal with Miramax Films for downloading movies. Agreement calls for SightSound to download 12 Miramax films on Internet in nonexclusive PPV distribution. Specific titles haven't been determined. Miramax will operate Web sites from which films will be downloaded. SightSound.com will encode and encrypt films and process e-commerce transactions for Miramax. Miramax will retain majority of revenue, and films will be available in U.S. only. Agreement with Disney-owned Miramax is most high-profile to date for Mt. Lebanon, Pa.-based SightSound, which said in filing it has been discussing video content rights with various major studios. Company made headlines last year in offering Artisan's *Pi* on Internet on PPV basis. SightSound's SEC filing seeks to raise \$50 million through IPO but didn't disclose number of shares being offered to public or price range. It said company will use net proceeds for technological development, acquiring and developing content, general corporate purposes and litigation costs to protect patents. It has outstanding lawsuit over patents against N2K, now owned by CDNow. Meanwhile, NetFlix revealed in IPO it's seeking more than \$86 million mainly for general corporate purposes, with number of shares being offered and price range not yet named. Filing said Internet DVD rental company's largest distributors are Ingram Entertainment (49%) and Amplified.com, 50%-owned by Valley Media (33%). NetFlix has DVD tie-in agreements with various CE manufacturers.

Music labels continued to forge online alliances last week. Universal Music (UM) granted its first "interactive radio" license to ClickRadio, N.Y.-based company starting free digital radio service this spring that allows listeners to customize music they hear through their computer. As part of ad-supported service, music is stored on consumer's hard drive and updated automatically when Web connection is detected. Information about listener's favorite artists is stored on hard drive as well. ClickRadio signed licensing agreement with Lucent that allows it to use latter's patented ePAC (Enhanced Perceptual Audio Coding) compression system. ClickRadio and UM said music will be CD-quality. Separately, EMI Music Publishing and Web music portal Net4Music signed deal that allows latter to digitize and globally distribute sheet music in digital form taken from EMI's catalog of more than one million songs.

Roxy.com's weekly TV show on ValueVision's SnapTV, *Electronics Without the Static*, will premiere at 9 p.m. on April 25. One-hour show combining CE product information, entertainment and shopping was announced at CES, where e-tailer Roxy.com said ValueVision and NBC Internet took minority stakes in it (TVD Jan 10 p18)

GAME MAKERS TAKE HIT: As videogame industry continues to make transition to new platforms, some software developers and publishers are being hurt more than others.

While companies such as Electronic Arts and Infogrames appear to be unaffected in major way, most game makers that have released business results in last month have reported losses and/or restructuring plans. Most of them have placed at least part of blame on slowdown in sales of current platforms.

Acclaim and Midway are among game makers who seem to be hit most by dropoffs in sales for current platforms as they make transition. Acclaim had \$19 million loss in 2nd quarter ended Feb. 29 compared with \$14.5 million profit year earlier. Revenue also took blow — dropping to \$65.9 million from \$135.7 million. Company said main reasons included slowdown in rate of sales growth of hardware systems and decline in market for console software. Acclaim also admitted that it still was feeling effect of previous strategy emphasizing Nintendo 64 software.

Midway warned that it expects to report \$8.8-\$10.5 million loss for 3rd quarter ended March 31 compared with \$1.1 million profit year ago (TVD April 10 p18). At same time, it said it expects revenue also to take beating, dropping to \$50-\$55 million from \$80.3 million. Midway is to announce actual results for quarter Wed.

Midway blamed drops, at least in part, on industrywide slowdown in demand “due to aging of the current generation of game platforms and the anticipation of the next-generation platforms.”

But Forrester Research Senior Analyst Jeremy Schwartz pointed out, “this is not the first time this has happened,” saying for example that same thing happened when market shifted to 32-bit platforms from 16-bit. He said: “Basically, when you develop new content for new platforms, there’s a whole lot of things that have to happen. For example, you have to purchase development systems... and these can be pretty expensive. I mean we’re not just talking about a \$2,000 PC here. We’re talking about systems that are \$20,000, \$50,000 — that kind of thing.”

Schwartz said that in addition to development kit, software company must devote dollars to R&D, “groups of programmers assigned to developing code for [the] new platform,” assembling teams to develop games “which probably are additional teams to what you already have,” marketing.

“Degree to which [transition] impacts development companies will depend on many things, such as how prepared they were for this [and] at what point in time they decide to put the money out. If you look back, historically, certain companies made certain mistakes. Acclaim got into the PC game market much too late. They hung onto the 16-bit platforms too long and overanticipated the continuing success of those platforms and so were stuck with a lot of inventory.”

Acclaim admits it was plagued with same trouble in past. In recent 10K filing with SEC, it said: “As a result of the industry transition to 32-bit and 64-bit game consoles which commenced in 1995, the company’s software sales during fiscal 1996, 1997 and 1998 were significantly lower than in fiscal 1994 and 1995. The company’s inability to predict accurately

the timing of such transition resulted in material losses in fiscal 1996 and 1997.”

As for current transition, Acclaim said in filing that it will be affected “for the balance of the fiscal year and possibly into fiscal 2001.”

But game makers see light at end of tunnel and Schwartz said he expects software companies eventually to make it through transition. Activision recently announced major restructuring as it tries to accelerate development of titles for new platforms (TVD April 10 p19). It said that although it expects first-quarter 2001 results will be down from year earlier, 2nd quarter will top same 2000 period.

Many of today’s e-tailers will be driven out of business by 2001, Forrester report *The Demise of Dot Com Retailers* predicted. Forrester said its doomsday forecast was based on combination of weak financials, increasing competitive pressures, investor flight. Forrester Senior Analyst Joseph Sawyer said: “It’s time to face facts: Online retail’s honeymoon is over. The difficulties that firms like CDNow and Peapod now face will only become more widespread. Financial turbulence and new competition will dry up venture funding and accelerate the dot com shakeout as the year progresses.” Although Forrester said it believes that online dealers “selling heavily branded, high-style products like apparel and furniture will remain stable until 2002,” it doesn’t believe that can be said for other e-tailers. Forrester believes consolidation will take place by fall among companies that started selling commodity products such as books and software successfully in Web’s early days. But it said future is more gloomy for “plethora of merchants selling undifferentiated products at razor-thin margins — including pet supplies, toys, and consumer electronics.” Those companies, it said, “will collapse before marketing expenditures ramp up for the next holiday season.” Forrester expects brick-and-mortar retailers to be among retailers that will prevail in online space. Sawyer said: “Among all the online-retail pioneers, only Amazon can claim a balanced set of assets that guarantees its leadership. Pure plays with few hard assets beyond solid, full-function sites will fall by the wayside, unable to keep up with their multichannel peers.” Fifty online retailers were surveyed for report, but Forrester said “additional sources interviewed” included Amazon.com, 800.com, Outpost.com, Value America.

Chip Notes: ATI Technologies introduced new Rage 6 graphics chip that includes support for high-definition TV (HDTV). While chip, which has 30 million transistors, targets high-end PC graphics market, it also is designed for digital set-top boxes (STBs). Rage 6 can calculate 30 million triangles per sec., while typical CPU handles 1-5 million, company said... **Samsung** will start selling 512 MB DRAM chip in late 2001 that was developed using 0.12-micron processing technology. Chip makers currently use 0.17-0.20-micron technology. Advanced processing technology allows Samsung to pack 512 million memory cells into chip that’s same size as 256 MB version. New 512 MB market will grow from sales of \$20 million when chip debuts next year to \$41.1 billion by 2004, Samsung said. Chip will be produced as part of expansion of Kiheung, S. Korean complex south of Seoul... **Nvidia** has received \$200 million advance payment from Microsoft for graphics processing unit (GPU) that will serve as key component in X-Box videogame console (TVD Sept 13 p12). Nvidia, major supplier of graphics chips to PC market, signed agreement in March to develop custom-designed model.

PIRATED SOFTWARE PROLIFERATES: Ninety-one percent of computer software auctioned online at Amazon.com, eBay, Excite and Yahoo Web sites March 3-April 3 was pirated, Software & Information Industry Assn. (SIIA) said in survey.

SIIA said survey revealed more than 1,300 auctions featuring pirated software compared with only 138 legitimate auctions. In reporting results of survey, SIIA Antipiracy Programs Vp Peter Beruk said: "Software pirates have a new address, complete with anonymity and landlords who too often choose ignorance over doing what's right. It's an epidemic. Pirates and auction sites are making ill-gotten gains at the cost of copyright holders and the buyers, who unknowingly receive copies of illegitimate products that may not work, could carry a virus and will receive no technical or upgrade support."

Although "SIIA has provided auction sites with suggested policies and procedures that could eradicate this problem," Beruk said "to date most auction sites have chosen to be complacent and continued to allow pirates to ply their trade. SIIA hopes the results of this survey changes that approach."

But Beruk told us last week that "Amazon is not a so-called 'pirate's haven'... in respect to having a lot of infringing software auctions" because it reviews its auctions and seems to be effectively screening out illegitimate auctions. He said only one infringing software auction was found at Amazon.com's site during survey. Amazon said it usually removes items it believes are pirated from its auctions within 24 hours of being listed.

In contrast, eBay, Excite and Yahoo had considerably more pirated items on their sites than Amazon, SIIA said, with survey finding 544 pirated items on eBay, 343 on Excite, 478 on Yahoo.

Excite spokeswoman told us last week that those who want to auction off merchandise at company's site must fill out agreement in which they promise that item "they're providing us is not pirated software." Therefore, "it's our belief that when we put [item up for auction] it's actually legitimate." She said that in light of what survey revealed, "Of course, we'll work to make sure that the software is legitimate when we put it up. I'm sure we'll be taking steps to combat that." But she said that, as of our Fri. deadline, "I don't know exactly what they'll be."

eBay and Yahoo hadn't returned calls for comment by our deadline.

Survey concentrated on computer software so actual amount of overall pirated software — including movies, music and videogames — available at auction sites during period presumably was larger.

Just before release of survey, we had reported that Electronic Arts, Nintendo and Sega sued Yahoo, accusing Web company of engaging in sale of illegal and counterfeit videogame products and for copyright and trademark infringement (TVD April 10 p18).

Hacker who attacked Amazon.com and various other Web sites in Feb. (TVD Feb 14 p19) apparently was 15-year-old boy. Montreal police learned suspect's identity after he boasted of his exploits in Internet chat rooms and police received warrant to search his home. Computers and software equipment were seized and boy was charged with 2 counts of computer mischief. His name wasn't released because of Canadian law, but reports said he goes by computer name of "Mafiaboy."

Rent-Way (RW), crediting strong sales of CE and prepaid local phone service, reported 2nd-quarter income rose 53.5% (see financial table) on 18.4% gain in revenue. Same-store sales increased 5.1%. PCs, largely Compaq models, accounted for 7% of overall revenue, up from 5.7% in first quarter and 2% year ago. RW's dpi Teleconnect, which offers prepaid local phone service, increased customers to 25,000 from 14,000 in quarter as chain expanded sales to 200 stores, up from 70 year ago. Dpi service sales hit \$1.5 million in March at 1¢ per share cost and RW is targeting \$20 million in revenue for year, Chmn.-CEO William Morgenstern said. Dpi sales have been strongest in S.C., with stores averaging 65-75 customers with 89-90% retention rate, he said. RW also benefited from Thomson's RCA promotion in March during which 9,000 52" rear-projection TVs were shipped to stores. Overall, same-store sales increased 5.1% at core RW stores, 0.6% at Home Choice (HC), which turned positive for first time since being purchased by chain in 1998. RW has retained 300 of HC's 450 outlets and plans to switch them to own name within 18 months, Morgenstern said. RW also bought 10-store Primetime chain and completed conversion of Rent-a-Vision, which it acquired last fall, by merging 25 stores to reduce overall size to 225 outlets from 250. While Rent-a-Vision averaged annual revenue of \$72-\$75 million before sale, it since has moved closer to \$85 million, Morgenstern said. Increase is largely result of upgrade of furniture products, he said.

Universal Electronics reported first-quarter income jumped to \$1.03 million from \$449,000 year earlier on increased sales to cable and CE companies. Sales rose 8.2% (see financial table) as gross margin improved to 42% from 39.5% in year. UE also said it had received first orders from cable companies for wireless keyboard and planned to add touch-screen LCD remote to line by 3rd quarter. Among major customers are Philips and Sony, latter buying largely chips and universal remote controls including device that will be sold with new TiVo personal video recorder. Universal also signed 2-year pact with Logitech to develop RF game controllers for 2-way cable and satellite markets. In quarter chip supplier Samsung experienced "yield problems" in "early stages" of production of 1532 model, but manufacturing since has gone "back to normal" Pres.-COO Paul Arling said. Separately, Chmn.-CEO Camille Jayne was paid \$311,077 salary plus \$327,600 bonus and options for 160,000 shares in 1999, up from \$271,154 and \$109,800, respectively. Arling received \$225,750 salary, \$195,000 bonus and 80,000 shares in 1999 vs. \$182,798 and \$76,000 year earlier.

Metallica dropped lawsuits against Indiana U. and Yale U. last week after schools agreed to block Internet access to Napster program that lets PC owners swap MP3-compressed files of rock band's and others' music (TVD April 17 p16). Metallica had sued 2 universities and U. of Southern Cal. (USC) on April 13, charging copyright infringement, unlawful use of digital audio interface device, and violations of Racketeering Influenced & Corrupt Organizations Act. Complaint alleged that schools permitted trade in unauthorized copies of music by failing to block access to Napster from campus servers and Internet pipes. At our Fri. deadline, USC had yet to address issue. Meanwhile, in latest challenge to Napster, rap musician Dr. Dre (aka Andrew Young) issued ultimatum Fri. for service to remove his songs from database. Implication was that Dr. Dre would pursue lawsuit similar to Metallica's if request weren't heeded — he's represented by Howard King, same attorney who filed Metallica suit. Napster didn't comment on Dr. Dre challenge by our deadline. Internet song-swapping service also is being sued by RIAA.

HUGHES ELECTRONICS POSTS LOSS: Hughes Electronics, blaming higher costs in acquisitions of U.S. Satellite Bestg. and Primestar and one-time charge for DirecTV Japan, reported first-quarter loss grew to \$81.9 million from \$73 million as revenue rose 85.4%.

Hughes also took \$171 million one-time pretax charge to cover shutdown of DirecTV Japan, which has sold assets, including 425,000 subscribers, to SkyPerfectTV. Hughes will retain 6.6% stake in SkyPerfectTV.

At DirecTV, which added 405,000 subscribers and converted another 270,000 from Primestar, operating loss expanded to \$126 million from \$23.4 million year earlier. Revenue increased to \$1.17 billion from \$556.6 million but was up only slightly from \$1.05 billion in 4th quarter.

Greater operating loss was related to slight increase in advertising to \$22 million from \$20 million in 4th quarter and \$25 million in cost of expansion of customer service. Latter added new service centers (11 vs. 5 year ago) and tripled staff. While DirecTV outsources majority of customer service, it operates own facility in Boise, Ida., with staff of 1,200. Also contributing to costs was local-into-local programming service.

DirecTV Pres. Eddy Hartenstein said in conference call with analysts that company has "focused on restoring customer service availability" to 90% level it was before acquisition of Primestar last year. Operating loss will be lowered in rest of year by \$50 million improvement in customer service, including reducing number of calls per subscriber to 0.5-0.6 per month from current 0.9 and eliminating costs of operating Primestar's medium-power service by 4th quarter. DirecTV has converted 745,000 former Primestar subscribers thus far and will hit goal of 1.6 million by year-end, Hartenstein said. Also contributing to lower operating loss will be elimination of subsidies for self-install kit that had been free by year-end.

In quarter, revenue per subscriber rose to \$58 as customer acquisition cost slipped below \$500. Subscriber churn rose to 1.7% from 1.5% as result of "stricter credit practices" and "overhang from customer service problems," Hartenstein said.

DirecTV postponed planned midsummer launch of AOL TV service to fall in time for holiday selling season. However, AOL Plus service for PC will be available for Hughes Network Systems' (HNS) DirecPC in June-July, company said. Delay was largely linked to software for AOL TV/DirecTV IRD, Hartenstein said. DirecTV will roll out Wink Communications and TiVo services in summer, followed by AOL TV in fall, he said. While Bell Atlantic and SBC Communications are bundling DirecTV with digital subscriber line service (DSL), AOL TV combo box won't have DSL modem at start, but may add it in 2nd-generation product, Hartenstein said.

Hughes said its 2-way high-speed strategy, which is expected to peak with introduction of Spaceway system in 2003, will start late this year with DirecPC. Transmitter will be added to Direc Duo dish, which can receive both DirecTV and DirecPC services, and packaged with USB box. New components will result in speeds of 128 kbps uplink and 40-45 Mbps downlink, company said. Two-way service will carry \$40 monthly fee.

DirecTV's local-into-local service, which started in Nov., has expanded to 24 markets and achieved 50% "take rate," Hartenstein said. Addition of local programming has provided 15-20% "lift" in revenue in markets where it's available, he said. Local service hasn't been without glitches. Analyst Mickey Alpert said DirecTV and EchoStar services have seen brief periods in some markets in which screen has frozen. DirecTV and EchoStar spokesmen weren't available for comment.

In Latin America, DirecTV's Galaxy Latin America (GLA) reported negative \$38 million in earnings before interest, taxes, depreciation and amortization (EBITDA), vs. \$20 million year ago. However, revenue doubled to \$114 million as service added 105,000 subscribers, largely in Brazil (35,000) and Argentina (27,000). Revenue per subscriber decreased to \$34 from \$36 as service experienced lower "take rate" for premium programming, Hartenstein said. GLA ended quarter with 554,000 subscribers.

HNS, which supplies IRDs for DirecTV, reversed year-earlier \$17.8 million operating loss to post \$600,000 operating profit as revenue jumped to \$364.5 million from \$230.9 million. HNS produced million IRDs in quarter, up from 200,000 year ago, is targeting 4 million for year, it said.

Hughes's PanAmSat Satellite Services Group posted \$127.3 million operating profit in quarter, up from \$78.3 million year earlier as revenue increased to \$299.1 million from \$193.5 million.

After losing usual spot as top online retailer of month to CDNow in Feb., Amazon.com bounced back in March, PC Data Online (PCDO) reported. Amazon.com attracted 14.8 million unique users and 1.2 million unique buyers in March, representing 12% jump in traffic and buying activity from month earlier, PCDO said, and saw as much online retail activity in March as No. 2 CDNow and No. 3 Ticketmaster.com combined. Although PCDO Internet analyst Cameron Meierhoefer said "Amazon.com has built up an enviable number of loyal customers that makes them tough to beat," he said "it is premature for Amazon.com to lie back on its laurels." He explained: "As large portal sites move into the retail arena, Amazon.com will no longer have a size advantage. Yahoo, in particular, is already leveraging its enormous traffic base in a strong push into retail. This is expected to significantly heighten competition and dramatically change the e-tail landscape as we know it today." Although Yahoo was only 11th in top 20 with 182,000 unique buyers, PCDO said its buying activity had grown steadily for 3 months from only 88,000 unique buyers in Jan. Other e-tailers in top 20 for March included Barnesandnoble.com (4th), Buy.com (5th), Netflix (10th), Gateway.com (14th), Egghead.com (19th), eToys (20th). E-tailers with largest jumps in rankings included Netflix, which was 17th in Feb. and eToys, 35th.

THIS WEEK'S YEN RATE

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

Egghead.com posted \$147.8 million in revenue for first quarter ended March 31, up from \$110.1 million year ago. But online retailer, which merged with Onsale in Nov., said loss widened to \$25.1 million from \$18.3 million. In announcing results, Egghead.com CEO Jerry Kaplan said: "We are now realizing the benefits of the Egghead/Online merger. Our focus for the first quarter was to increase gross margins while moving other business metrics in the right direction. Our 190 basis point jump in margin, along with a 5% increase in gross merchandise sales, 30% reduction in operating expenses, 52% drop in customer acquisition costs and 22% decrease in inventory, demonstrates substantial progress toward profitability." Cost to acquire new customers dropped 52% in quarter, to \$39, he said, and number of returning buyers jumped 89%. In last quarter, Egghead.com also signed reseller agreements with Compaq, Palm, Sony. Compaq deal, announced by Egghead.com 2 days before financial results were released, allows e-tailer to add Compaq desktop and notebook computers and servers to product mix. Egghead.com also announced expansion into general office products through reseller agreement it signed with e-Nited Business Solutions.

Philips Display Components will cut 120-160 jobs at Ottawa, O., tube plant in June. Layoffs are part of effort to "get productivity costs in line with both the industry average and Philips' worldwide benchmarks," said spokesman, who declined to disclose amount of savings. Most of jobs cut will involve production line maintenance and support positions, he said. Philips had planned to implement reductions in May, but postponed action to June, said spokesman, who declined to disclose reasons for delay. Officials of IBEW Local 1654, which represents 1,500 of 1,800 workers at factory, said management also indicated another 50-60 positions may be trimmed this year, but Philips spokesman said no decisions had been made. Three-year contract covering workers at plant expires Sept. 27. Pending layoffs follow reduction of 71 salaried positions at plant last year, about half through early retirement. Ottawa plant, which has annual capacity of 3.8 million tubes, produces 25", 27" and 32" units and is expected to add flat-screen models in June.

Microsoft, after failing for 4 years to make dent in Palm's dominant position in handheld PCs, unveiled new weapon last week. New Pocket PC handhelds will be sold under Casio, Compaq, Hewlett-Packard and Symbol Technologies brands and feature color screens and 16 MB memory, double that of Palm Pilot. Handhelds, which are powered by Windows CE operating system, contain miniversions of Word, spreadsheet program Excel and Outlook for e-mail. But device also has NEC 64 bit microprocessor designed to handle stereo sound, video playback, modified PC games. Microsoft also spread its Windows Media Player software, originally designed for MP3 players, into device. Pocket PCs have electronic book reader feature that uses Microsoft's ClearType technology to make words on screen look nearly as crisp as printed page. Microsoft introduced its Windows CE-based handheld PCs in 1996, but it so far has failed to reduce Palm's 80% market share. Original field of 7-8 Windows CE hardware vendors has been winnowed in recent years with Everex, LG Electronics and Philips, among others, dropping product.

Navarre subsidiary Digital Entertainment changed name to eSplice. Subsidiary will introduce service in May that will allow customers to integrate digital content at e-commerce sites, allowing for combination of digital and physical goods to be sold in single transaction. Company also said it has ability to offer secure download solutions to broad base of customers.

Microsoft has remained in spotlight on various fronts as it waits to learn what actions will be taken after judge ruled against software giant in antitrust case. Just days after judge's ruling, Microsoft started demonstrating test version of Windows Millennium Edition — "Windows Me" for short — next generation of its operating system with more multimedia and Web features. Windows Me is to ship in 2nd half 2000. Features include Windows Movie Maker, which lets user digitize, edit and share video online; redesigned Windows Media Player; Windows Image Acquisition tool that lets user view and share digital pictures online without downloading before viewing and editing; Internet Explorer 5.5 Beta 3 next-generation Web browser; Direct Play Voice Chat that lets user play PC games and chat in real time online. But Windows Me Intro quickly stirred controversy when reports said Web Standards Project (WSP) criticized new Microsoft browser claiming that version 5.5 doesn't adequately support Web software standards. WSP said result will be that consumers who use new browser may not be able to use certain Web sites. Microsoft didn't return calls by our deadline for comment.

DVD player sales forecast has been revised upward to 10 million from 8 million in U.S. by NPD Intellect. Research firm, which tracks retail sales, said 10 million mark would more than triple 3 million player sellthrough in 1999. Installed base launch-to-date is 4.5 million decks — 4% of U.S. households, Intellect video analyst Tom Edwards said. Penetration should jump to 12% by year-end. Group said it revised 2000 forecast based on strong sellthrough in Jan. and Feb., as well as increased availability of hybrid products combining DVD with TV or VCR, or both. DVD software sales also have been strong, with VideoScan reporting 10.5 million sellthrough as of April 9. Edwards issued 2 caveats with new forecast: (1) "Test" of DVD's sales strength will come in July and Aug. (2) Availability of key components for DVD worldwide. Edwards said several manufacturers polled on player supply didn't indicate concerns but, "given fiscal considerations, it is difficult to plan to accommodate a growth rate as large as we have been experiencing in a new product category."

Buy.com unveiled redesigned customer support section at its e-commerce Web site. Enhanced features include new shopper guide that welcomes first-time visitors and walks them through site's features and improved e-account functionality that allows customers to request returns online, cancel back-ordered items, receive tracking information directly from their order histories. Company also opened U.K. e-commerce Web site that can be accessed from company's home page at www.buy.com. Web company based in Viejo, Cal., set up U.K. division named buy.com Ltd. with London hq in conjunction with debut. U.K. version of online store offers same multicategory selection of products as in U.S., such as digital cameras, PCs, PDAs, software.

CD Warehouse selected Half.com as its exclusive 3rd party online selling partner. Under agreement, CD Warehouse said it will start making its inventory of more than one million previously owned CDs available to shoppers at Half.com's recently launched Web site. CD Warehouse said all of its company-owned stores and warehouses would have their inventory listed at Half.com and its franchisees also would be given option of uploading their inventories to Half.com. But new CDs that CD Warehouse sells aren't part of deal. Orders will be filled automatically from CD Warehouse store with particular title in stock located closest to customer. Half.com investors include CMGI@Ventures, Comcast Interactive Capital, Venture Investment Management.

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
America Online			
2000-9 mo. to Mar. 31	4,924,000,000	893,000,000	.40 ^a
1999-9 mo. to Mar. 31	3,400,000,000	602,000,000	.29 ^b
2000-qtr. to Mar. 31	1,836,000,000	438,000,000	.19 ^a
1999-qtr. to Mar. 31	1,253,000,000	411,000,000	.20 ^b
BHC Communications			
2000-qtr. to Mar. 31	121,966,000	4,436,000	.20
1999-qtr. to Mar. 31	106,495,000	1,980,000	.09
Chris-Craft Industries			
2000-qtr. to Mar. 31	127,834,000	2,935,000	.08
1999-qtr. to Mar. 31	111,460,000	748,000	.02
Cree Research			
2000-39 wk. to Mar. 26	72,342,000	19,575,000	.60
1999-39 wk. to Mar. 28	42,352,000	8,594,000	.31 ^c
2000-13 wk. to Mar. 26	28,363,000	9,155,000	.26
1999-13 wk. to Mar. 28	16,035,000	3,377,000	.11 ^c
Eastman Kodak			
2000-qtr. to Mar. 31	3,095,000,000	289,000,000	.93 ^d
1999-qtr. to Mar. 31	3,100,000,000	191,000,000	.59 ^d
Egghead.com			
2000-qtr. to Mar. 31	147,800,000	(25,100,000)	---
1999-qtr. to Mar. 31	110,100,000	(18,300,000)	---
Faroudja			
2000-qtr. to Mar. 31	5,407,000	1,162,000	.09
1999-qtr. to Mar. 31	2,435,000	(1,478,000)	---
Flextronics International^a			
2000-year to Mar. 31	5,739,735,000	198,754,000	1.14
1999-year to Mar. 31	3,253,025,000	107,753,000	.74
2000-qtr. to Mar. 31	1,896,745,000	62,256,000	.32
1999-qtr. to Mar. 31	941,877,000	34,007,000	.22
Grow Biz International			
2000-13 wk. to Mar. 25	12,807,300	25,100	---
1999-13 wk. to Mar. 27	18,535,400	(175,200)	---
Iomega			
2000-qtr. to Mar. 26	344,897,000	51,826,000	.19
1999-qtr. to Mar. 28	386,212,000	569,000	---
Meredith			
2000-9 mo. to Mar. 31	813,476,000	68,298,000	1.32
1999-9 mo. to Mar. 31	765,882,000	66,321,000	1.27 ^a
2000-qtr. to Mar. 31	286,943,000	24,816,000	.48
1999-qtr. to Mar. 31	265,121,000	22,087,000	.43
Musicland			
2000-qtr. to Mar. 31	415,821,000	2,044,000	.06
1999-qtr. to Mar. 31	401,797,000	1,374,000	.04
Pinnacle Systems			
2000-9 mo. to Mar. 31	174,254,000	9,847,000	.21 ^d
1999-9 mo. to Mar. 31	111,592,000	9,058,000	.22 ^d
2000-qtr. to Mar. 31	61,246,000	1,669,000	.03 ^d
1999-qtr. to Mar. 31	40,147,000	8,000	---
Polaroid			
2000-qtr. to Mar. 31	403,400,000	(1,400,000)	---
1999-qtr. to Mar. 31	379,000,000	(30,800,000)	---
Raytheon			
2000-qtr. to Apr. 2	4,231,000,000	(181,000,000)	---
1999-qtr. to Apr. 2	4,336,000,000	205,000,000	.61
Rent-Way			
2000-6 mo. to Mar. 31	289,798,000	21,056,000	.94
1999-6 mo. to Mar. 31	249,710,000	(2,934,000)	---
2000-qtr. to Mar. 31	148,887,000	10,926,000	.48
1999-qtr. to Mar. 31	125,750,000	7,115,000	.32 ^d
SanDisk			
2000-qtr. to Mar. 31	109,369,000	219,271,000	3.32 ^a
1999-qtr. to Mar. 31	44,136,000	4,323,000	.08
Sensory Science			
2000-year to Mar. 31	72,149,000	(320,000)	---
1999-year to Mar. 31	63,551,000	1,081,000	.13
2000-qtr. to Mar. 31	17,995,000	(309,000)	---
1999-qtr. to Mar. 31	15,040,000	(658,000)	---
Shop At Home			
2000-9 mo. to Mar. 31	152,930,000	(4,631,000)	---
1999-9 mo. to Mar. 31	110,613,000	(2,357,000)	---
2000-qtr. to Mar. 31	53,567,000	(3,524,000)	---
1999-qtr. to Mar. 31	37,130,000	(1,710,000)	---
SpatialLight			
1999-year to Dec. 31	62,000	(7,410,861)	---
1998-year to Dec. 31	29,750	(3,183,674)	---

Company & Period	Revenues	Net Earnings	Per Share
Texas Instruments			
2000-qtr. to Mar. 31	2,653,000,000	426,000,000	.52 ^d
1999-qtr. to Mar. 31	2,081,000,000	255,000,000	.32 ^e
Tivo			
2000-qtr. to Mar. 31	424,000	(24,055,000)	---
1999-qtr. to Mar. 31	---	(5,515,000)	---
Tribune Co.			
2000-13 wk. to Mar. 26	782,473,000	71,236,000	.28 ^a
1999-13 wk. to Mar. 28	719,859,000	343,262,000	1.42 ^b
Tweeter Home Entertainment Group			
2000-6 mo. to Mar. 31	212,306,000	10,828,000	.68 ^a
1999-6 mo. to Mar. 31	149,020,000	5,996,000	.44
2000-qtr. to Mar. 31	87,492,000	2,706,000	.16 ^a
1999-qtr. to Mar. 31	62,236,000	1,440,000	.10
United Television			
2000-qtr. to Mar. 31	53,939,000	9,134,000	.96
1999-qtr. to Mar. 31	44,961,000	8,068,000	.86
Universal Electronics			
2000-qtr. to Mar. 31	22,664,000	1,034,000	.08
1999-qtr. to Mar. 31	20,941,000	449,000	.03 ^e
Univision Communications			
2000-qtr. to Mar. 31	181,500,000	20,800,000	.22
1999-qtr. to Mar. 31	138,000,000	6,600,000	.07 ^d
Zilog			
2000-qtr. to Apr. 2	59,518,000	(7,550,000)	---
1999-qtr. to Apr. 4	54,209,000	(12,924,000)	---
Zoran			
2000-qtr. to Mar. 31	17,642,000	3,490,000	.25
1999-qtr. to Mar. 31	11,892,000	102,000	.01

Notes: ^aIncludes special credit. ^bAdjusted; includes special credit. ^cAdjusted. ^dAfter special charge. ^ePro forma; does not include special items. ^fAdjusted; after special charge.

Consumer Electronics Personals

Toru Uchiike, gen. mgr., Toshiba International Operations Div., promoted to pres., Toshiba America Consumer Products, replacing **Toshihide Yasui**. **Tom Graham**, national mktg. dir., Yamaha, promoted to vp-mktg. **Michael Teicher**, ex-Turner Bcstg. Sales, named ReplayTV senior ad sales exec. **Gary Orrell**, ex-Wharfedale, appointed vp-NXT international vertical market. **Maureen Flotard**, Bogen Communications corp. controller, adds vp-finance. Keynote speakers for IEEE International Conference on Consumer Electronics, June 13-15, L.A.: **Rob Gingell**, chief technology officer, Sun Microsystems; **Enrique Rodriguez**, senior vp-worldwide multimedia products, Thomson Consumer Electronics. **Kevin Hanson**, ValueVision chief technology officer, advanced to senior vp. **James Long**, ex-Starlight Networks, named pres.-CEO, RioPort; **Mark Thompson**, Integration.com chmn., appointed chmn. **Judson Green**, chmn., Walt Disney Attractions, named pres.-CEO, Navigation Technologies Corp., effective May 8. **Matthew Ready**, ex-Brooks Technical Group, named Genesis Microchip sales vp.

Obituary

Herbert Borchardt, 93, Recoton chmn.-emeritus and veteran CE and recording industry executive, died April 10 in N.Y.C. Borchardt, who was born in Berlin, began his career in London at Brunswick Records, subsidiary of Deutsche Grammophon, which sent him to Paris in 1929 to start Polydor Records. He assumed Recoton presidency in 1943, 7 years after company was founded as supplier of styli, preamplifiers and other audio equipment. He became a Recoton dir. in 1945 and purchased company in 1952. Recoton became publicly traded in 1969. Survivors include daughter and son, Robert, currently Recoton pres.-CEO.