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# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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**NESS RENOMINATION MAY GET HELP MOVING TO SENATE FLOOR:** FCC Comr. Ness's chances for approval of her renomination in Senate may be "very slim," as we have been told by prominent Senate Republican, but that doesn't mean it doesn't have chance to advance out of Commerce Committee. Despite contention that Chmn. McCain (R-Ariz.) has reversed his position and won't permit nomination to move onto floor, source close to situation said sufficient pressure could be mounted to have committee clear nomination. This month will be critical for Ness nomination, as members in both houses will be turning their attention to appropriations after Easter recess. Among issues pending in Congress are FCC reform, phone fees including excise tax, legislation resulting from e-commerce commission, broadband initiatives, low-power FM (LPFM), local TV to rural areas.

Ness has "become a bargaining chip," Senate source told us, and "we'll see just how much the Democrats want her to stay at the FCC... There always could be a trade-off." He said McCain now doesn't plan to bring her name before full committee for vote. McCain's office has had no comment on subject. While there's lack of solid legal precedent, consensus is that if not reconfirmed Ness would have to step down at adjournment of Congress, currently scheduled for Oct. Statute says commissioner can't serve beyond expiration of Congress in which her term expires, and Ness's expired last summer.

Although McCain's pledge to advance Ness renomination came secondhand from acting Chmn. Burns (R-Mont.) at her hearing (TVD March 27 p3), her supporters on committee intend to hold McCain to it. Burns said several times at hearing that McCain would advance nomination — which was as surprising to some as fact that he had scheduled hearing in first place — but now he's said to be changing his position. "He made a pledge," said Democrat close to issue.

### Consumer Electronics

**APEX DVD PLAYER RECALLED** from Circuit City to have Macrovision and regional coding circumvention removed. Major effort launched to enforce DVD license. (P. 10)

**SONY INVESTS \$47 MILLION** for 15% stake in Fujitsu-Hitachi plasma joint venture in move that heightens competition for manufacturing partners. (P. 11)

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McCain already had declined to include Ness in last committee markup, and if she is left out of next markup, expected shortly, "he'd face some pressure" from committee members to keep to his commitment and include her. While source declined to specify which members might lean on McCain, it's believed strong candidates would be Sen. Snowe (Me.), most prominent Republican supporter of Ness on committee, and ranking Democrat Hollings (S.C.). If Ness is to be bargaining chip, as we have reported, source said "it would be on the Senate floor, not in committee."

House has no constitutional authority over FCC nominations but it's looking at limiting FCC merger reviews. Compromise legislation from Rep. Pickering (R-Miss.) limiting review to 90 days has bipartisan support in House Commerce Committee and is expected to be marked up shortly after House returns from recess May 2. Bill was effort of several committee members, and represents scaleback of more ambitious FCC reform some members had sought. Pickering and Telecom Subcommittee Chmn. Tauzin (R-La.) said with limited time left in Congress, remaining items on reform agenda will have to wait until next year. Similar legislation by Senate Antitrust Chmn. DeWine (R-O.) and ranking Democrat Kohl (Wis.) cleared Judiciary Committee July 1 and has been awaiting floor vote ever since.

Broadband continues to be source of contention on Hill. Tauzin and House Commerce Committee Democrat Dingell (Mich.) now have 187 co-sponsors for HR-2420, which would allow ILECs to transport data across LATA boundaries. Chmn. Bliley (R-Va.) still opposes bill for fear of opening Pandora's Box in revisiting Telecom Act, and has yet to schedule hearing. HR-1685 and HR-1686, sponsored by Reps. Goodlatte (R-Va.) and Boucher (D-Va.), and its sponsors believe bill will be marked up shortly by Judiciary Committee, although there's been no word from committee to that effect. Among other things, legislation would require open access to cable plant, which some on Hill argue has lost momentum with recent outbreak of open access pledges by MSOs. In Senate, word is that McCain may give push to S-877 by Brownback, which would free ILECs from obligation to fully open network if 70% of its lines were ready for high-speed services.

One piece of legislation almost guaranteed to become law this year is loan guarantees for local TV signals into rural areas. Both S-2097 by Senate Judiciary Committee Chmn. Gramm (R-Tex.) and Burns and HR-3615 by Goodlatte and Boucher passed overwhelmingly on respective floors, and after conferees are named in next few weeks there will be little to debate because bills are quite similar. President Clinton backs legislation, according to sources. LPFM is another matter. While HR-3439 by Telecom Subcommittee Vice Chmn. Oxley (R-O.) passed with veto-proof margin in House (CD April 17 p1), S-2068 by Sen. Gregg (R-N.H.) still awaits action in Commerce Committee. However, Committee staffers have said passage by substantial margin in House should spark Senate action. To reach bipartisan support House bill had acquired, observers agree, Gregg's bill will need to be modified, as was Oxley's, to permit LPFM licenses where they can meet existing interference standards and field tests can be conducted before additional licenses are awarded.

Bill by Oxley, HR-3525, to prevent FCC from regulating content of religious broadcasters has 125 co-sponsors and had recent hearing in Telecom Subcommittee and could be marked up there soon, but since FCC has withdrawn its guidelines that could hurt bill's momentum. There has been no recent action on issue on Senate side.

**LPTV STATIONS COULD OFFER DATA UNDER BURNS BILL:** LPTV stations would be permitted to provide variety of data services or even lease out their licenses to secondary parties under bill introduced by Senate Communications Subcommittee Chmn. Burns (R-Mont.). Bill (S-2454) is designed to further spread of high-speed advanced services to rural areas. It's unclear how change in LPTV services would affect other services next to LPTV spectrum currently reserved for video broadcasting. However, bill does specify that once LPTV station is providing data service, no nearby full-power TV station could modify its signal if change might interfere with that data service.

For every LPTV license with operating station there are more that haven't been built, and Burns aide said it was senator's hope that additional market pull of data services would encourage more buildouts. Currently, "there are far more licenses than stations," he said. Burns views S-2454 and his rural satellite bill co-authored with Banking Committee Chmn. Gramm (R-Tex.) that House recently passed as 2 ways to get high-speed Internet to rural areas, problem recently highlighted in NTIA report.

Bill is sweeping in authority it would grant to LPTV stations. Station could provide interactive data services, one-way or 2-way, portable or fixed, even connected to Internet via band allocated to Interactive Video and Data Service (IVDS), and could be used in conjunction with "multiple transmitters at multiple locations." LPTV station's only requirement would be to notify FCC that it was starting data services. However, Commission would be required to protect LPTV station's new services by not authorizing any service, including new TV station or modification of any existing full-power station, that would interfere with original LPTV station's data service. LPTV station would be subject to FCC policing to make sure it didn't interfere with other preexisting TV signals. NAB had no comment on legislation.



Portion of bill likely to generate most market interest for LPTV license holders is provision that would allow them to lease license to 2nd party seeking to provide data services. Burns is said to see that as another way to spur development of unused licenses.

Bill, which was referred to Commerce Committee, is co-sponsored by Sen. Breaux (D-La.) and Burns's staff is seeking more co-sponsors. No similar legislation exists in House, although HR-486 by Rep. Norwood (R-Ga.) was passed in Oct. That bill would authorize converting some LPTV stations to Class A status in preparation for DTV transition, but it has been preempted by FCC rulemaking.

**FCC LISTS PENDING MERGERS:** Senate Judiciary Committee last July passed legislation limiting merger reviews by FCC to 3-6 months, but S-467 by Antitrust Subcommittee Chmn. DeWine (R-O.) and ranking Democrat Kohl (D-Wis.) has failed to be moved to floor. However, DeWine and Kohl may seek to change that after receiving from FCC, at subcommittee's request, compilation of all pending mergers at each agency bureau.

Some who have seen binder of materials told us they were taken aback at number of transfers and assignments awaiting approval, and combined with recent push in House Telecom Subcommittee for bipartisan legislation by Rep. Pickering (R-Miss.) to limit FCC reviews to 90 days (HR-4019), there's growing belief that issue could pick up momentum in dwindling days of 106th Congress. Staffs for Antitrust Subcommittee, DeWine and Kohl, having just received materials, weren't ready last week to comment on binder or its contents but announcement of findings is expected as soon as today (Mon.).

Antitrust Committee staff was believed to be poring through materials supplied by FCC. However, work was said to be slow going because of different methods and documentation approaches taken by various bureaus and by sheer mass of materials. Among items majority and minority staff might be seeking are mergers that have undergone unduly long reviews without conclusion, particularly in cases where deals weren't high profile or particularly controversial.

Opponents of FCC merger process in both houses ideally would like to end agency's role altogether on ground that it duplicates Dept. of Justice and FTC, and wasn't authorized in Telecom Act. But opponents have recognized persuasiveness among some members of Chmn. Kennard's argument that FCC has right to review mergers under its public interest obligation. Thus, latest strategy has been to reduce, not eliminate, agency's regulatory power. In particular, complaints from companies looking to merge and awaiting word from FCC has led to legislation seeking to limit time it takes to review deals.

FCC has resisted that offensive vigorously. Kennard and others at Commission have said 90 days isn't enough time to review mergers, and delays often result because companies file incomplete applications. There also needs to be sufficient time for public comment, FCC officials have said.



Oversight of ABC TV Network will be taken over by Robert Callahan, who will add job to current portfolio that includes ABC TV Stations Group and ABC Radio. Promotion makes Callahan responsible for all Disney TV operations with exception of cable and Buena Vista TV. Callahan started in CapCities publishing operations, moved to radio in 1990, took over Stations Group in Feb. 1999. He replaces Patricia Fili-Krushel, who moved to Web-based company (TVD April 3 p7).

**FCC clarified** how it will award localism points for settling disputed applications for noncommercial TV and radio licenses in text of order released April 14. Applicants will be considered local, and eligible for 2-point advantage, if they have within 25 miles of center of proposed license area: (1) Physical hq. (2) Campus. (3) 75% of board members. Govts. are local throughout area over which they have authority. One-point bonus for technically superior applications will require applicant to cover 10% greater area and population than next best proposal, or 25% more for 2 points in rare cases. Although not implementing it now, Commission said it would study further proposed minority preference. FCC said it would allow competing applicants to file petitions to deny based on alleged factual inaccuracies and it will perform random audits of applications. Commission said it believed decision to subject non-commercial applicants to auctions when competing for commercial spectrum best meets conflicting obligations of exempting them from auctions on reserved channels and auctioning all commercial spectrum. Decision to operate noncommercially on nonreserved channels is "voluntary choice" that "is easily undone," FCC said. To have commercial channel switched to reserved, station must show that it's technically precluded from using reserved band and that it would provide first or 2nd noncommercial radio or TV service to 10% of its served population.

**Seeking to lure** more commercial users to its upgraded cable systems, Cox Communications set up centralized business services unit and started national marketing campaign for division. New Cox Business Services unit, headed by Vp Charles McElroy, will pitch video, voice, data and high-speed Internet access services to small and mid-sized companies and institutions in such major Cox cable markets as Hampton Roads, Va., Orange County, Cal., Phoenix, San Diego. Marketing campaign, introduced first in Phoenix and Orange County, includes direct mail, radio, TV, print, outdoor media. Theme is "Plug in. Do business." Cox Business Services spokesman said aim of effort is to at least double MSO's commercial revenues to \$100 million this year. Separately, Cox Communications selected Concurrent Computer to provide video-on-demand (VOD) hardware and software for MSO's deployment of residential VOD services. Cox said it plans to introduce VOD services first in San Diego later this year following tests in employee homes.

**Saying he was "happy to join"** battle against cable, former BellSouth executive Odie Donald took reins of DirecTV April 24. Donald was handpicked by outgoing DirecTV Pres. Eddy Hartenstein. Donald, 50, also has title of vp-Hughes Electronics (HE) after being Cable & Wireless CEO-Caribbean and Atlantic Islands, where he directed 19 business units. Hartenstein has new position as DirecTV global chmn. and senior exec. vp. Company also named DirecTV Exec. Vp-New Ventures & Advanced Products-Programming Larry Chapman as pres. of new Hughes business unit DirecTV Global Digital Media Inc. Bill Casamo, DirecTV exec. vp-sales distribution, added pres., DirecTV Merchandising title.



**FCC 'LOBBYING' EXAMINED:** House Telecom Subcommittee Chmn. Tauzin (R-La.) and Vice Chmn. Oxley (R-O.) sent 3 letters April 28 seeking 2 investigations and additional information on alleged FCC lobbying in opposition to HR-3439 (TVD April 24 p2). As expected, one letter was to Dept. of Justice (DoJ) asking investigation of talking points FCC lobbyists distributed to key Hill staff before vote on bill to curtail low-power FM (TVD April 17 p3).

Tauzin and Oxley also wrote FCC Inspector Gen. Walker Feaster asking for internal agency investigation. Third letter went to FCC Chmn. Kennard, who strongly denied charges in April 14 letter to Tauzin, citing DoJ guidelines that he argued supported Commission's actions. Letter to Kennard contained questions demanding by May 15 detailed answers to charges, and if Kennard fails to cooperate fully he was told he would be likely to face subpoena.

Tauzin and Oxley wrote Attorney Gen. Janet Reno that FCC may have violated Anti-Lobbying Act, saying its actions "certainly raise questions about whether this statutory line was crossed." They had 2 concerns: (1) "First, by employing an inordinate amount of public resources for the sole purpose of defeating H.R. 3439, the FCC appears to have flatly disregarded the Act's clear prohibition against using congressionally appropriated funds to influence the votes of members of Congress." (2) "We believe that the FCC engaged in statutorily prohibited 'grass-roots' lobbying by soliciting interested third parties to contact members of Congress" opposing LPFM bill. Tauzin and Oxley made similar request of Feaster, inviting him and Reno to expand investigation if either saw fit.

Neither member seemed pleased with letter from Kennard defending agency's actions, which was accompanied by information on DoJ guidelines for lobbying that FCC follows. They wrote Kennard that "your letter raises more questions than it answers. Indeed, it does nothing to alleviate our concerns." Tauzin and Oxley asked Kennard to reply by May 15 with following information: (1) All FCC personnel "who were involved in any way in formulating, drafting, reviewing, generating or disseminating any materials regarding H.R. 3439."

(2) All FCC personnel "who in any way attempted to contact or influence members of Congress or their staffs" on bill. (3) For each item above, identity of their supervisors and amount of time spent on bill. (4) Why FCC included letters from AFL-CIO, Consumers Union, Low Power Radio Coalition and National Council for Traditional Arts in its faxes to Hill, how agency came into possession of letters that were addressed "Dear Representative" or "Dear Member of Congress," did FCC staff "request or in any other way encourage" groups to write letters and if so who and how much time was spent. (5) Were all employees involved in operation "made aware of the provisions of the Anti-Lobbying Act" and were they monitored by FCC Gen. Counsel's office?

"We will exercise our authority... to subpoena you" and other FCC officials before House Telecom Subcommittee if response is inadequate, Tauzin and Oxley wrote: "Any refusal to comply would subject you to being held in contempt of Congress." Kennard hasn't appeared before Telecom Subcommittee since Oct., although he was invited several times.

**Justice Dept. won't oppose Viacom takeover of CBS,** companies said. They said they had received DoJ notification, now await only FCC approval, which they said "is expected imminently."

**AUCTION DELAY SOUGHT:** Citing "once in a lifetime" opportunity of 700 MHz spectrum auctions and difficulties moving TV stations on Ch. 60-69, FCC Chmn. Kennard told House and Senate appropriators last week that bidding should be postponed from June 7 and 14 until Sept. Kennard said "additional time will allow auction bidders to develop better business plans and bidding strategies and to form strategic alliances." In particular, he cited complexity raised by existing broadcasters in spectrum, which will use band during transition to digital programming. Verizon Wireless asked Commission April 21 to delay upcoming nonguardband portion of 700 MHz auction by one month, citing uncertainty in several spectrum policy areas.

Extension of auction until Sept. would allow more time to address issue of incumbent UHF broadcasters in 700 Mhz spectrum, FCC source said. Extension would give Commission "some time to try to figure out a way to facilitate" discussions between broadcasters and bidders, source said. Letter itself emphasized that Commission doesn't intend to "disregard the will of Congress. However, in this unique situation it seems prudent to provide for a brief delay of the start of the auctions."

Kennard said delay might mean FCC couldn't meet congressionally mandated deadline of Sept. 30 for depositing proceeds from auction in U.S. Treasury: "As a legal and operational matter, we believe we could still conduct the auction. However, as a matter of spectrum management policy, I believe such a course would be unwise and would jeopardize the efficient assignment of this valuable resource." He stressed importance of spectrum's achieving its "highest valued use," which would be possible if bidders had more time and certainty to make their plans.

Kennard reportedly spent earlier part of week putting feelers out on Capitol Hill to gauge reaction to potential delay. No "red lights" were received in initial round of reactions from lawmakers, source said. Key component in FCC's being able to gauge comfort level of Congress in potential delay is that when mandate was passed that estimated \$2.6 billion from auction would be deposited in Treasury by Sept. 30, lawmakers were working against federal deficit. Pressure to capture revenue from auction in current fiscal year has lessened in light of federal surplus, source said.

Delay in 700 MHz auction would address some of larger uncertainty involving both Ch. 60-69 spectrum and C- and F-block re-auctions set for July 26, industry sources said. Potential bidders have said they're linked because business strategies governing how carriers will bid in Ch. 60-69 auction will have impact on plans for bidding for C- and F-block licenses.

**Continuing retransmission feud,** ABC wrote to Time Warner offering to extend retransmission consent until May 24, through May sweeps. Network earlier had rejected TW proposal for extension until end of year. "Our reaction to the TW proposal was, we are not interested in a long-term extension," ABC spokeswoman said: "We feel that they [TW] are doing this to get their merger with AOL approved and duck issues such as monopoly control while the merger is pending." She said she didn't know whether TW had accepted latest offer. TW spokesman said MSO was considering proposal but was also awaiting response from ABC to proposals it had put forward for overall resolution of dispute. Meanwhile, Hearst-Argyle TV, which also is entangled in retransmission dispute with TW, offered 60-day extension through June 30.



**AOL-TW DRAWS LITTLE INTEREST:** Who's afraid of AOL-Time Warner? Apparently not many major companies, judging from number of companies that filed comments on deal by FCC's April 26 deadline.

Despite fact that merger would easily be biggest in history if consummated, only 7 companies, 2 trade associations, 2 individuals and single coalition of consumer groups submitted comments on transaction, surprising veteran Commission observers. Only handful called for govt. to block merger outright, with most urging FCC to approve it with such conditions as divestitures of key assets, open-access mandates, stricter program access rules. "I'm surprised," said William Fishman, Washington attorney for RCN Corp., one of few major companies that did file comments. "I would have thought there would have been a lot of filings."

Conspicuously missing from list of petitioners were major TV programmers and Internet content providers. Even Walt Disney Co., which has loudly expressed concerns that its programming and Web content wouldn't enjoy fair access to Time Warner cable systems and AOL Web sites, didn't comment. Disney, which has been sparring with Time Warner over retransmission consent rights to its broadcast stations, did file against Time Warner in separate FCC case involving battle over control of local broadcasters' vertical blanking interval (VBI) signals.

Industry analysts, executives and others cited several possible factors for lack of public comment, including fear of antagonizing prospective AOL-Time Warner media powerhouse, belief merger would be approved anyway and sense that lobbying efforts in such other venues as FTC and Congress might be more fruitful. "Many of the content providers are too scared to come forward publicly at the FCC," said Andrew Schwartzman of Media Access Project, which joined with 3 other consumer groups in opposing merger. He and others said critics are more willing to object privately at FTC, which also is weighing deal.

Bill Whyman, Internet analyst at Legg Mason Precursor Group, said Web firms don't play by same rules in Washington, at least not yet. While phone companies have established "deliberate campaign" to appeal or challenge in every available regulatory proceeding, he said, that's not part of Internet culture. Also, Whyman said, FCC is considered "just one part of the arena here," particularly with recent questioning of agencies' authority to place conditions on mergers. He suggested critics might focus on FTC and Congress, where they could do so more quietly.

Petitioners were American Cable Assn. (ACA), Gemstar, iCast, Memphis Light, Gas & Water, Memphis Network, Tribal Voice, Telecommunications Resellers Assn., SBC Communications and coalition of Center for Media Education, Consumer Federation of America, Consumers Union and Media Access Project. RCN called on FCC to impose strict program access regulations on AOL-Time Warner. Gemstar and TRA urged Commission to adopt open-access mandates for Time Warner cable systems. ACA questioned impact of merger on smaller cable systems that want to keep carrying non-Time Warner programming.

Combined company shouldn't be allowed to frustrate overbuilders, said Memphis municipal power authority and Memphis Network (MN), its joint venture with private A & L Networks, which hopes to build competing network in city. Instant messaging (IM) companies Tribal Voice and iCast asked FCC to force AOL to interconnect its IM network with theirs.

iCast asked FCC to condition AOL-Time Warner merger on AOL's interconnecting its instant messenger (IM) service with competitors'. Company and others have fought over issue for year with AOL, which has dominant position with more than 90% of market, and have had it raised by members of Congress, but little action has been taken. iCast said that for last 2 months it has continued to find ways around AOL's blocking of its service, but charged AOL continues to shut it out, despite public commitments last summer that it would allow interoperability. It said AOL now has taken position that it will require individual licensing agreements under which companies pay for right to software that allows customers to exchange IM messages with AOL's. IM's popularity will continue to grow, iCast said, especially once it expands to wireless devices, and AOL's monopoly could be "barrier to the explosion of new innovations and uses" for technology. It said AOL plans to use IM technology in new ways with Time Warner content, for example to push news alerts, so merger will allow ISP to extend its monopoly to IM content: "AOL could force anyone wanting to communicate with its members to get instant financial updates from *Fortune* instead of *Forbes*, and get instant sports updates from *Sports Illustrated* instead of ESPN."

While there's no agreement on final terms for labeling DTV sets and possibly digital set-top boxes, cable and consumer electronics officials are seeking trademark protection for 2 proposed set names. Attorneys for NCTA and CEA jointly filed applications to protect undisclosed set names at Patent & Trademark Office April 21 after earlier reserving Internet domain names for 2 labels. But, with 2 industries still negotiating labeling issue, proposed names may not necessarily end up being ones used. "It doesn't mean we've agreed on the names," CEA Pres. Gary Shapiro said. "It could mean we've agreed on protecting [certain] names." With FCC having started rulemaking on unresolved DTV-cable compatibility issues April 13, industries hope to achieve final agreement by Commission's May 24 deadline for comments on proposed rules. Both sides continued to insist last week they were very close to final deal but confirmed that they still remained apart on CEA's drive to have labeling terms cover digital cable set-tops.

Requirement that broadcasters provide free time to candidates wouldn't violate First Amendment because it wouldn't infringe on journalists' discretion and because it would "make a significant contribution to the public's First Amendment rights" to access to candidates' views, said Alliance for Better Campaigns and other public advocacy groups. In latest round of comments on DTV public interest obligations (MM 99-360), Alliance asked FCC to hold public hearings on how to structure free time requirement. However, RTNDA repeated its earlier contention that requirement would be unconstitutional. Citizens for Independent Public Bcstg. said FCC should "set and hold stations accountable to their public interest obligations," claiming Commission didn't do so in WQED-Cornerstone case in Pittsburgh. Group said there was no justification for giving public stations more funding for DTV transition without "concrete and enforceable public interest requirements."

**NAB Exec. Vp-External Affairs** Roanne Robinson resigned, effective May 5, after just 4 months on job (TVD Dec 6 p4). She said it's "a totally friendly parting... NAB is a great opportunity, but it's just not the right opportunity for me." Before joining NAB, Robinson was chief of staff at NTIA and before that NCTA dir. of industry affairs. She said she would take care of personal matters and do free-lance work, particularly on native American issues. She is member of Hopi Tribe.



**CBS RESULTS IMPROVED:** TV and radio segments led CBS to 36% growth in revenue and 85% in operating profit in quarter ended March 31. Other broadcasters' results were down, but asset sales boosted cable MSOs.

CBS had net loss of \$38 million after \$387 million profit year ago, which included large after-tax gain on asset sales. For continuing operations, loss was \$40 million this year, including \$75 million write-off on equity investments in Internet companies, compared with \$25 million loss year ago. Revenue grew to record \$2.4 billion from \$1.77 billion, and earnings before interest, taxes, depreciation and amortization to \$517 million from \$280 million. TV revenue was up 28% to \$1.5 billion, Infinity Bestg. 66% to \$789 million.

**Sinclair Bcst. Group** loss widened to \$1.8 million in quarter ended March 31 from \$1.6 million loss year ago. Station revenue grew to \$160.8 million from \$148.1 million, but operating profit fell to \$22.6 million from \$26.9 million... **Clear Channel Communications** loss expanded to \$39.4 million in quarter ended March 31 from \$12.7 million loss year earlier. Revenue rose to \$782.5 million from \$376.8 million because of acquisitions and operating profit to \$42.5 million from \$21.3 million. Clear Channel shareholders, meanwhile, approved merger with AMFM Inc... **Belo Corp.** had \$15.4 million profit in first quarter ended March 31, up from \$12.6 million last year. Broadcast revenue increased to \$153 million from \$131.3 million.

Two major cable MSOs and one equipment maker reported strong revenue increases in most recent quarter as growing number of cable subscribers signed up for digital video, high-speed data and cable telephony services. Although such advanced services still contribute small fraction of cable companies' overall revenue, percentage is rising rapidly.

**Cox** said both data and telephony revenue more than doubled in first quarter from year ago, to \$30.2 million and \$37.7 million, respectively. Both new services beat much older pay-per-view category for Cox, which saw its PPV revenue drop 28% to \$23.7 million.

With digital cable, high-speed data and local telephony all growing steadily as revenue streams, Cox said it had \$846.3 million in overall pro forma revenue in first quarter ended March 31, up 11% from year earlier. Cox said actual cable revenue climbed 5% to \$778.3 million in quarter, thanks to 2.1% gain in basic cable customers, rate increases and larger boost in digital cable, high-speed data and telephony revenue.

**MediaOne** said its consolidated revenue rose 6% to \$706 million in first quarter ended March 31, largely because of increased consumer demand for advanced services. Consolidated operating cash flow was up 13% to \$239 million. MediaOne reported \$1.2 billion profit for quarter, thanks to \$2.2 billion gain from sale of international operations and U.S. cable systems.

**Scientific-Atlanta** had net earnings of \$38.1 million in 3rd quarter ended March 31, up 83% in year, on heavier demand for its new digital cable set-top boxes. S-A said cable operators ordered more than one million Explorer digital boxes in period, and it shipped 512,000, up from 267,000 in 2nd quarter. With its bookings and backlog both up significantly in 3rd quarter, S-A said overall revenue rose 38% to \$440.7 million... Equip-

ment maker **Harris Corp.** lost \$14.3 million in March 31 quarter, reversing \$41.4 million profit year ago. Revenue rose to \$455.2 million from \$445.4 million.

**XM Satellite Radio** said its net loss widened to \$12.7 million from \$4.4 million loss year ago. It had no revenue... **NBC Internet (NBCi)** reported revenue of \$30.1 million for first quarter ended March 31, up 10% from pro forma \$27.3 million in previous quarter and 165% from \$11.3 million year earlier. On pro forma basis, net loss dropped to \$37.4 million from \$50.9 million.

**Boeing** announced plans for Connexion, live in-flight TV network, Internet and E-mail service. Start of satellite-delivered service, which already is available for private jets, is set for 4th quarter 2001 for passengers on domestic flights and worldwide by 2005. With Hughes Space & Communications purchase pending, in-flight venture signals move toward space communications markets by Boeing, industry analyst said. Customers will use laptop computers and network card to access service and pay fee based on usage that Boeing said would be about same as cellular phone, about \$30 per hour. It said Connexion would be able to deliver services faster than other planned e-mail or Internet services for airline passengers. Company said it's first to offer services together. Rivals AirTV and Alcatel will begin competing service in 2002, Rockwell and News Corp., 2001. Cathay Pacific of Hong Kong will test system later this year. Connexion also can be used on cruise ships, oil-drilling platforms and military planes. Boeing said it had signed agreements with Alenia Spazio, CNN In-Flight Services, Loral Skynet, Matsushita Avionics Systems, Mitsubishi Electric.

**At social-golf** and informal business sessions in Bay Hill, Fla., involving NBC Pres. Robert Wright, other network officials and group of NBC TV affiliates (TVD April 24 p1), discussions centered on "big picture" and how to "invigorate" TV industry, with controversial issues dividing network and stations "totally avoided," sources told us. "We didn't talk about compensation or things like that," participant said. "That would just be going over old ground" and Wright has made clear network's position on issue. Also discussed at length, we're told, was political side of broadcasting and "how to develop some kind of relationship with those young pups starting dotcoms." In what was described as "very awkward moment," Wright talked at dinner about taking compensation away from small-station group with 5 NBC affiliates last fall. With CEO of group in room, NBC pres. joked that compensation was replaced with large gift certificate from NBC Store. Overall, semiworking sessions in Bay Hill were described by NBC official as "very constructive," by affiliate as "very open... excluding any controversies."

**Moving into emerging market** for personal TV applications, TV Guide Inc. and SeaChange International will integrate latter's video-on-demand (VOD) technology into TV Guide's interactive program guide, companies said. TV Guide Interactive will begin offering SeaChange's VOD service this summer, permitting digital cable subscribers to choose pay-per-view movies and shows and use such standard VCR functions as fast-forward, pause, rewind. Terms weren't disclosed. TV Guide Interactive, now in 3.5 million digital cable households, is available on 1,100 cable systems in N. America passing more than 34 million homes.



**PEG DEMANDS BANDWIDTH:** Anxious not to be left out of digital revolution, public, educational and govt. (PEG) channel providers want Internet access sites, bandwidth, additional funding for capital expansion and bidirectional capacity from cable operators. Nationally, Alliance for Community Media (ACM), representing 1,000 PEG organizations, is pushing for federal legislation to ensure that bandwidth is set aside for community media, some of which are operating nonprofit ISPs. Cable operators have been responsive to demands, PEG providers say, but have been reluctant to part with bandwidth and 2-way capacity.

ACM Exec. Dir. Bunnie Riedel said she has been raising issue of bandwidth for PEG providers and Internet access for nonprofits on Capitol Hill for some time but it was "nonstarter" until AOL-Time Warner merger proposal. Some broadband capacity is being allocated for Institutional Networks (I-Nets) now, Riedel said, and although "franchise negotiations are a great way to do it, we really need federal regulation ensuring set-asides for community media."

Litmus case for PEG providers is franchise renewal for Adelphia Cable Communications by Vt. Public Service Board (PSB), where access providers formed 2010 Committee to jointly press issue. Committee represents 23 access channels in Burlington area, Middlebury, Bennington, Rutland and Montpelier systems. Similar thrust is being made in other Vt. communities, as well as Md.'s Montgomery County. PSB is expected to announce Adelphia franchise renewal this week.

PEG providers also say funding should be based on percentage of revenue from all cable services, including cable modem, Internet services, telephony. Adelphia has agreed to include cable modem and Internet service in calculation, committee said. Lauren-Glenn Davitian, committee member and exec. dir. of CCTV in Chittenden County, Vt., said access providers also require percentage of all analog and digital bandwidth. Demand for bandwidth has been sticking point in negotiations, Davitian said, since Adelphia is expanding to 150 channels from 75 as part of upgrade: "We need 6% of that, upstream and downstream, for public access and they [Adelphia] don't want to give it up."

**More than 75%** of ad agencies now buy online ads for clients, and 20% of those have placed Webcast ads, according to new survey by Arbitron Internet Information Services. It said 56% of agencies not using Webcast ads plan to use them this year. Study found banner ads still dominating, used by 83% of agencies that place ads online. Meanwhile, new group of online ad agencies said it will precisely define terms such as impressions, clicks and caching, then later propose industry standards on privacy. New Media Consortium, which includes companies such as Media.com and Ogilvy, didn't disparage work of Internet ad groups such as Internet Ad Bureau, but said agencies bring unique perspective that hasn't been addressed elsewhere. It said current lack of standards on metrics has led to "significant statistical discrepancies."

**ViaSat completed** acquisition of satellite business of Scientific-Atlanta for \$64.4 million. ViaSat will combine acquired businesses with Starwire broadband-on-demand satellite networks to form new ViaSat Satellite Networks Div. Acquisition includes personnel, technology products and distribution capabilities that extend ViaSat's product lines into broadband satellite network gateways, data transaction networks, telephony, mobile asset tracking, automated meter reading, remote monitoring, space imaging, antenna manufacturing.

**FCC ruled** that Meadow Community Service Assn. (MCSN) Environmental Preservation Committee (EPCOM) regulations can't restrict installation of antenna or satellite dish on personal property. Commission said standing policies of MCSN-EPCOM were "invalid" and "unenforceable" because they lacked safety objective and weren't established to protect historic area. MCSN-EPCOM had standing resolution that permitted use of antennas or satellite dishes only on rear roof surface unless they were no larger than 24", no more than 72" above ground or mounted on any rear corner or rear wall surface of home. Bell Atlantic and DirecTV challenged MCSN-EPCOM regulations on grounds policy violated Commission rules and was being used to restrict competition with cable TV providers.

**TV audience** is increasingly dissatisfied with local TV news, according to survey by Insite Media Research, and reaction is causing 22% of adults to avoid local news. Complaints include story repetition (55%), sensationalism (45%), misleading or irritating news promotions (28%). Insite Pres. Scott Tallal said results indicate "crisis point" in local TV news. Meanwhile, in U.K., Independent TV Commission cited "substantial loss of viewers to evening news programs" for its determination that British TV network ITV had failed to meet conditions of its broadcast license. Commission said ITV had failed to deliver adequate local or international news.

**Weeks after its purchase** by Liberty Media, Ascent Entertainment Group is selling NBA's Denver Nuggets, NHL's Colorado Avalanche and Pepsi Center Arena in Denver for \$450 million to real estate developer Stanley Kroenke. Liberty will retain 6.5% stake in 2 teams and arena. Deal, subject to league and govt. approvals, doesn't cover On Command and Ascent Network Services. Kroenke also is vice chmn. and minority owner of NFL's St. Louis Rams.

**Former President Jimmy Carter** will keynote NAB Education Foundation Service to America Summit June 12, Ronald Reagan Bldg. in Washington. Other speakers include NAACP Pres. Kweisi Mfume and Federal Emergency Management Agency Dir. James Witt. Summit, which concludes with awards ceremony banquet, is co-sponsored by Bonneville International.

**NAB Education Foundation (NABEF)** will host broadcast leadership training program over 10 weekends in Washington — starting Sept. 8-10 — for senior level TV-radio managers who aspire to move up as group executives or station owners. Half of 30 spots will be reserved for NABEF scholarship recipients, said Diane Sutter, pres. of Shooting Star Bestg., who designed program. Registration is \$8,995 (including meals and materials) for nonscholarship participants — 202-775-2559.

**U. of Cal.-Berkeley's Boalt Hall School of Law** is first recipient of \$300,000 grant under Markle Foundation program to develop public advocacy clinics for Internet issues. Foundation said it committed \$1.6 million to program, which will promote public interest representation on issues such as privacy, access to technology, copyright. Berkeley program also will be backed by \$2 million grant from Prof. Pam Samuelson.

**On Command** said it had installed its high-speed data service in more than 50,000 hotel rooms in U.S. Hotel guests receive choice of complementary @Hotel TV or @Home PC service, depending upon whether they want fast Internet connection for their room TV set or laptop computer.



**DBS FIGHT ESCALATES:** Spectrum fight between satellite TV concerns and Northpoint Communications continued to escalate last week as FCC prepared to decide whether latter should be allowed to use DBS spectrum for its fixed wireless broadband service. Northpoint would be able to provide video and data services directly competing with cable and DBS, if approved.

Expressing "concern" FCC is about to make decision that's "unquestionably anticonsumer and anticompetition," CEOs Charles Ergen of EchoStar and Eddy Hartenstein of DirecTV urged FCC Chmn. Kennard in letter to deny Northpoint license to operate in 12.2-12.7 GHz band. Ergen and Hartenstein said it was "distressing" that decision could come just as consumers were beginning to see "benefits" of local-into-local DBS service. EchoStar and DirecTV fear Northpoint offering will "diminish high quality" of service for customers because of possible interference created by its terrestrial microwave service. Commission was urged to delay action until independent testing could be conducted.

Northpoint Vp Antoinette Cook-Bush said letter ignored fact Northpoint "conducted extensive testing" without interference and said it was "simply an effort to thwart competition" by Northpoint.

Meanwhile, "possibility exists" that Northpoint's fixed broadband wireless system could operate in 12.2-12.7 GHz spectrum band without causing problems to satellite providers, AuraStar Information Systems CEO Gerald Armes said. Armes, who helped develop 1984 spectrum sharing plan, said: "It's an effective way to use [spectrum] if you can pull it off. Anytime you do spectrum sharing, you have the potential for interference. It depends on who is doing the analysis. Not everybody agrees on how to do it or what the data mean." Armes said spectrum issues have become more volatile as competition has increased: "Spectrum has taken on a lot of economic value."

**Heritage Foundation** questioned reality of digital divide in new study, saying Internet essentials can be bought for not much more than TV set, which is nearly ubiquitous in American households. It said 4 different vendors offer adequate PC (466 MHz processor, 32 Megabytes of RAM, 56 kbps modem) for under \$400, and dial-up Internet access can be obtained free from many sources, while 25-to-27" color TV sells for \$288-\$402. "If Americans really want a personal computer and access to the Internet, they can get them at very little cost," Heritage fellow Adam Thierer said. "Expensive federal entitlement programs will not facilitate this process."

**Scientific-Atlanta** said it will invest \$10 million in Luminous Networks, which develops advanced optical transport technology. Under series of agreements between 2 companies, S-A also will purchase fiber transport products from Luminous over next several years and S-A's video technology will be integrated into Luminous platform. Terms weren't announced.

**Next Level Communications** plans to offer DBS service along with VDSL/ADSL services currently provided through N3 Residential Gateway. System will use set-top box for delivery of interactive voice, data and video services over existing phone lines.

**Cox Radio** filed SEC shelf registration to raise \$750 million. It said proceeds will be used for general corporate purposes, which may include acquisitions.

**FCC and industry** sources expressed "cautious" optimism late last week on apparent progress in bilateral discussions between U.S. and Mexican officials on latter's spectrum plans for satellite digital audio radio service (DARS). Mexico's plans have raised concerns in U.S. because of potential interference with U.S. wireless communications services (WCS) licensees. FCC official said talks, which began April 25, continued through 2 a.m. April 28. U.S. and Mexican officials still were finalizing last changes Fri. and hadn't released details. "We are cautiously optimistic that we are going to reach a solution that will satisfy our licensees' needs, and we still have some work to do," U.S. official said. Discussions are expected to yield "a general framework" for how U.S. will operate WCS and satellite DARS service and how Mexican DARS and rural telephony services also can operate. "The broad framework will be reviewed and looked at in more detail over the next few weeks," he said. Discussions have involved representatives of U.S. State Dept., FCC, Mexican regulatory agency Cofetel and Mexico's Secretariat of Communications, official said. Agreement that appeared to be taking shape last week would involve Mexico's satellite DARS systems using 6 MHz of WCS spectrum, while nation agreed to certain technical limitations, industry source said. Exactly where in spectrum those 6 MHz would come from wasn't clear.

**Without providing** legal basis for ruling yet, U.S. Dist. Court, N.Y.C., Judge Jed Rakoff found for RIAA in its suit against MP3.com. He promised to flesh out 3-sentence summary judgment for recording industry with full ruling "probably within the next 2 weeks." MP3.com, which potentially could be liable for billions of dollars in damages, didn't return call for comment. RIAA Pres. Hilary Rosen said only that Assn. is "pleased with the court's decision." RIAA had sued MP3.com in Jan. over Web site's copying of 45,000 CDs onto servers, where users who proved they owned physical copies could access them. RIAA argued that although owners have right to digitize their legal copies, 3rd party can't do it for them and profit via ads and subscriptions. Copyright Act allows damages of up to \$150,000 per work infringed, making case potentially ruinous for MP3.com, which had revenue of just \$17.5 million in first quarter ended March 31, while losing \$8.4 million. Its stock, which before lawsuit was filed was over \$60, sagged \$4-3/4 (40.9%) to \$6-7/8. MP3.com had expressed enough confidence in its legal position to countersue RIAA for defamation. Rakoff didn't comment on that proceeding.

## 'TELEVISION DIGEST' NOW AVAILABLE IN PDF FORMAT

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## Personals

Ed Goren advanced to pres., Fox Sports... Fox TV Stations promotions: **Jim Burke** to pres.-sales, **Tom Herwitz** to pres.-station operations... **Phillip Lombardo**, Citadel Communications, appointed to ABC TV affiliates' seat on NAB TV board, succeeding **David Barrett**, Hearst-Argyle TV, who was elected to at-large seat on board in Jan.; **Michael Fiorile**, Dispatch Bcst. Group, appointed to NAB TV board for term ending June 2001, replacing **John Loughlin**, ex-Meredith, resigned... **Meredith Momoda**, ex-Buena Vista TV, named vp-integrated mktg. & promotion, ABC TV Network... **John Kamp**, AAAA senior vp-Washington and former chief, FCC Office of Public Affairs, leaves in mid-June to consult on Internet and marketing issues... **Debbie DiMaio**, ex-Oprah Winfrey Show, named pres.-NBCx.com, NBC... **Derek Dalton**, gen. sales mgr., KWGN-TV Denver, promoted to vp-gen. mgr... **Steve Hammel**, ex-KMOV-TV St. Louis, named news. dir., WJLA-TV Washington... **Patrick Guy**, ex-Lifetime Entertainment Services, appointed senior vp-business affairs, Scripps Networks... **Julie Kantrowitz** promoted to exec. vp-media sales, Warner Bros. Domestic TV... Pearson TV changes: **Brian Harris**, managing dir., Pearson TV International, moves to CEO, Pearson TV N. America; **Tony Cohen**, pres.-production, Pearson TV N. America, named CEO, Pearson Worldwide Domestic Production; **Jamie Bennett**, CEO, Worldwide Productions, named chmn., Worldwide Productions... **Javier Avita**, senior attorney, Paramount Domestic TV, moves to vp-business affairs, Paramount International TV... **Dick Soule**, ex-MTV Networks Asia, appointed senior vp-international TV ad sales, Columbia TriStar International TV... Tribune Co. changes in takeover of *L.A. Times*: **John Madigan**, Tribune chmn., pres.-CEO, named chmn., Times Mirror board, replacing **Mark Willes**, who remains on board; Tribune executives elected to Times Mirror board: **Philip Doherty**, vp-finance, Tribune Publishing; **Dennis FitzSimons**, exec. vp and pres., Tribune Bcstg.; **Jack Fuller**, pres., Tribune Publishing; **David Granat**, vp-treas.; **Donald Grenesko**, senior vp-finance & administration; **David Hiller**, senior vp-development; **Crane Kenney**, vp-gen. counsel & secy.; **Timothy Landon**, interactive vp-business development; **Luis Lewin**, vp-human resources; **Mark Mallory**, vp-controller; **Ruthellyn Musil**, vp-corporate relations; **James O'Dell**, vp-operations & systems... Additions at Scripps Networks' New Ventures Group: **Susan Packard**, as pres.; **Channing Dawson**, ex-HGTV, senior vp-interactive strategies; **Michael Evans**, ex-Food Network, senior vp-finance; **John deGarmo**, vp-Scripps Networks affiliate mktg. & local ad sales, becomes vp-development; **Harry Jenkins**, ex-Walt Disney, named vp-technology... **Julio Aponte**, ex-Radio Unica Network, appointed pres., Emmis Argentina, effective May 1... **Jim Samples**, vp-gen. mgr., Cartoon Network Latin American and TNT Latin American, moves to gen. mgr., Cartoon Network Online... Daniels & Assoc. promotions: **Mark Mullen** and **Bryan Sorge** to senior vp-mergers & acquisitions and senior vp, corporate finance & advisory services, respectively; **Kevin Brynestad** to senior vp... **Tim Somers**, ex-Fox Family Channel, named central regional vp-affiliate sales, Recovery Network, RnetHealth.com... **Susan Werbe** promoted to vp-historical programming, History Channel... **Pierluigi Gazzolo**, regional dir.-affiliate sales, MTV Networks, moves to vp-MTVi Latin America... **Jack Womack**, exec. vp, CNN Headline News, moves to exec. vp, CNN Newsource... **Franklin Watson**, ex-WCTV Tallahassee-Thomasville, Ga., and WTLH Bainbridge, Ga., named gen. mgr., Fla. News Channel... **Steve Villano**, ex-Episcopal Health Services, appointed exec. dir., Cable Positive... **Larry Novenstern**, ex-BBDO Worldwide, named exec. vp-sales & mktg., Sportvision... **Jay Feldman**, exec. vp-gen. mgr., Travel Channel, leaves to pursue new media opportunities... **William Meyer**, ex-Paxson, named COO, USA Video Interactive.



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CableLabs said it completed first round of Packet Cable interoperability testing program for delivering IP telephony, multimedia conferencing, interactive gaming and other advanced services over cable systems. More than 30 equipment vendors participated in program. With another round of early testing slated this month, CableLabs said it expects to develop formal compliance testing program by end of year.

Pappas Telecasting is buying KSWT (Ch. 13, CBS) Yuma, Ariz., from Eclipse Media for \$5 million.



# Consumer Electronics

A Section of Television Digest with Consumer Electronics

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending April 14 and year to date:

|                     | APR. 8-<br>APR. 14 | 1999<br>WEEK | %<br>CHANGE | APR. 1-<br>APR. 7 | 15 WEEKS<br>2000 | 15 WEEKS<br>1999 | %<br>CHANGE |
|---------------------|--------------------|--------------|-------------|-------------------|------------------|------------------|-------------|
| TOTAL COLOR TV. (a) | 507,776            | 350,750      | + 44.8      | 401,875           | 7,344,450        | 6,325,929        | + 1.6       |
| DIRECT-VIEW**       | 489,901            | 336,969      | + 45.4      | 391,973           | 6,991,197        | 6,064,832        | + 15.3      |
| TV ONLY#....        | 426,345            | 280,028      | + 52.3      | 335,048           | 5,908,857        | 5,127,389        | + 15.2      |
| TV/VCR COMBO.       | 63,556*            | 56,941       | + 11.6      | 56,925*           | 1,082,340*       | 937,443          | + 15.5      |
| PROJECTION...       | 17,875*            | 13,781       | + 29.7      | 9,902*            | 353,253*         | 261,097          | + 35.3      |
| TOTAL VCR**....     | 359,327*           | 381,852      | - 5.9       | 320,194*          | 6,238,682*       | 5,524,130        | + 12.4      |
| HOME DECKS...       | 295,771*           | 324,911      | - 0.9       | 263,269*          | 5,156,342*       | 4,586,687        | + 12.7      |
| CAMCORDERS....      | 95,485             | 71,569       | + 33.4      | 80,059*           | 1,298,485*       | 1,076,841        | + 20.6      |
| DVD PLAYERS....     | 44,648*            | 35,053       | + 27.4      | 46,591*           | 1,274,864*       | 477,208          | +167.2      |

Direct-view TV 5-week moving average#: 2000-447,268; 1999-352,791 (up 26.8%).

Projection TV 5-week moving average: 2000-23,969\*; 1999-16,750 (up 43.1%).

VCR deck 5-week moving average: 2000-405,998\*; 1999-374,410 (up 8.4%).

TV/VCR 5-week moving average: 2000-83,262\*; 1999-77,742 (up 7.1%).

Camcorder 5-week moving average: 2000-113,837\*; 1999-98,050 (up 16.1%).

DVD player 5-week moving average: 2000-77,192\*; 1999-38,337 (up 101.4%).

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

**APEX DVD RECALLED IN LICENSE ENFORCEMENT EFFORT:** Draconian action to enforce sanctity of DVD copy protection and regional coding has resulted in recall of Apex DVD players from Circuit City (CC) chain and measures against Web sites that carry method for defeating Macrovision and regional codes, senior Macrovision executive told us. Meanwhile, our test of latest Apex AD-600A player confirms that manufacturer has removed secret "loopholes menu" for circumventing Macrovision and regional coding.

Following 4-month investigation that identified source of "loopholes menu" found in several DVD player brands, consumer-resettable program has been eliminated and previously noncompliant brands have been put on final notice, said Carol O'Flaherty, senior vp, Macrovision Video Copy Protection Group. Any further infraction of DVD licensing terms will precipitate "immediate action, without warning" such as embargo on manufacturer's shipments or rescinding DVD license, she told us. In investigating infractions and arranging settlements with offending parties, Macrovision worked in conjunction with MPAA and DVD Copy Control Assn. (DVDCCA), O'Flaherty said. Latter entity now administers DVD license, including issues related to Content Scrambling System (CSS) encryption.

Regional coding has been circumvented ever since DVD debut in Region 2 Europe, where consumers sought means to play more abundant supply of discs with earlier release dates from Region 1 N. America. But event that shook movie studios more profoundly was Jan. appearance of Apex Digital AD-600A that not only reset regional codes but also could defeat Macrovision copy protection that prevents deck's video output from being recorded on VCR (TVD Feb 7 p11). Low-cost deck, most widely sold by CC in \$179-\$199 range, also could turn off CSS — although that made viewing most DVDs impossible, as our previous lab test showed (TVD Feb 28 p11, March 6 p11).

Macrovision discovered "loopholes menu" in Dec. when testing several Asian-sourced DVD players, O'Flaherty told us. All had same script, and company determined menu was imbedded on ES4308 and 4408 Video Drive decoder chip made by Fremont, Cal.-based ESS Technologies. Deck manufacturers hadn't asked ESS to create menu and had option



to disable it, which some Japanese brands such as Denon did, O'Flaherty told us. But various brands from China, Hong Kong and Taiwan left menu intact and hackers soon discovered how to access it and posted instructions on Internet.

ESS quickly cooperated with licensing authorities to eliminate problem, O'Flaherty said. Chip vendor visited clients and signed them to contract stipulating loopholes menu couldn't be used. Meanwhile, ESS wrote new chip firmware without hack menu, which immediately went into use in March. Since then, Macrovision regularly has tested decks pulled randomly from manufacturers' inventory and found them in compliance, O'Flaherty said. She identified OEMs in question as Labway, Royal Information Systems (OEM for Raite and other brands), Sampo; Shinco, Zhenjiang Jiangkuy Group (OEM for Apex).

Loopholes menu might have afterlife, but brief one. Numerous postings on Internet offer EPROM chip that has been burned with menu cloned from original chip's firmware, and that can be inserted in Apex players. But ESS has written new Video Drive decoder chip to be incompatible with old firmware in such EPROMs, O'Flaherty told us. Moreover, ESS will add enhancements to decoder monthly as incentive for manufacturers to replace existing inventories of original decoder. Without new features, brands can't be competitive in market, O'Flaherty said. Meanwhile, manufacturers are supposed to destroy existing stocks or return them to ESS.

In case of Apex, chips must be surrendered to Macrovision under deal worked out last week. Apex is replacing CC's entire inventory of AD-600A decks by retrofitting original ESS chip with new one, company spokesman told us and Macrovision confirmed. Retrofitting must be completely by May 15, O'Flaherty told us. She also said CC earlier sent letter to Apex saying chain wouldn't accept any decks after April 1 that had loopholes menu. Days earlier, CC Web site posted disclaimer on Apex decks with menu, and said new stock would comply with DVD licensing requirements. Last week, chain ran \$179 special on AD-600A, down from \$199. CC spokesman didn't return our calls for comment on Apex issue.

In future, Macrovision will spot-check Apex decks regularly from vendors inventory and samples purchased at retail, O'Flaherty said. Apex sent us AD-600A model for testing last week, and we found loopholes menu couldn't be accessed by previous method — if at all. Under hood, deck had ESS 4308F decoder chip. Other than loopholes menu, AD-600A retained popular but legitimate features, including MP3 music playback, multistandard video display (NTSC/PAL), component video output, CD+RW compatibility.

Meanwhile, Apex itself is taking action against further spread of loopholes menu. Like Macrovision, DVD manufacturer's lawyers have sent cease-and-desist notice to Web sites that post code for accessing loopholes menu. O'Flaherty said lawyers have contacted 17 ISPs and requested that they deactivate sites that don't comply. Internet monitoring will continue indefinitely, she said. "This is not by any means an event that concludes today."

Macrovision and others are working with authorities to pursue enforcement of DVD license provisions under relevant laws in U.S. and elsewhere. High-powered law firms hired by Macrovision, MPAA and DVDCCA have met with U.S. Treasury and Customs officials, as well as House Judiciary Committee that framed Digital Millennium Copyright Act (DMCA). In U.K., lawyers have consulted with Patent Office authorities and others, and are examining recourse under 1998 Copyright, Designs and Patents Act. Legal remedies are strongest in U.S., O'Flaherty told us. Besides DCMA, which carries \$500,000 penalty for each infraction, arsenal includes laws on copyright and patent infringement and, in Cal., Unfair Competition Act. "There are criminal as well as civil procedures," O'Flaherty said. "What companies have to understand is that their executives are in jeopardy of criminal actions."

"Collective action" also includes education campaign by Macrovision, MPAA and DVDCCA, O'Flaherty told us. Effort will begin in June timed for Computex Fair in Taiwan, where groups will co-sponsor seminar on DVD licensing and copy protection issues for manufacturers. Industry lab there that now tests Asian-made DVD players for CSS compliance also will begin testing for copy protection. "We are going to stop this problem offshore," O'Flaherty said.

**SONY INVESTS \$47 MILLION IN PLASMA VENTURE:** Sony will invest \$47.1 million for 15% stake in Hitachi-Fujitsu plasma joint venture in move that further heightens competition to find partners in developing advanced display technologies.

Investment will ensure Sony, which has purchased 42W plasma display panels (PDP) from joint venture, stable supply in worldwide market that's projected to grow to 2.3 million units annually by 2003, up from current 250,000. Fujitsu and Hitachi, which formed joint venture in 1998 (TVD Aug 24/98 p16) and operate factory in Kyushu, Japan, each will retain 42.5% stake.



Agreement is most recent partnering of companies that are seeking to pare cost of entering plasma market. NEC is supplying Marantz, Philips and Runco, while Pioneer has paired with Sharp and Toshiba with Matsushita. Fujitsu also builds displays for Philips. Sony had considered several other potential sources before choosing Fujitsu-Hitachi, sources said. Mitsubishi, which phased out plasma production in 1999 with goal returning this year with high-definition models (TVD Jan 25/99 p15), is said to be in discussions with NEC. Mitsubishi officials weren't available for comment.

"It's becoming more and more the partner game with plasma," senior executive at plasma supplier said. "This [Sony investment] is more of a worldwide venture and while Hitachi and Sony compete in North America, what happens in Europe and other places is much different. Although there is some conflict here, what Sony wants to do is make this the de facto panel because then it will be easier to compete with Panasonic or NEC."

Sony's investment further deepens break with joint venture it formed with Philips and Sharp to develop plasma addressed liquid crystal (PALC). Philips indicated late last year that it was pulling back from PALC development after delivering lighting and semiconductor technology to alliance (TVD Dec 27 p9). Sony had been sourcing plasma panels from Fujitsu for commercial applications since 1998. And Sharp had shifted some R&D efforts to continuous grain silicon LCD technology that it's building into 60" rear-projection TV.

Wild card will be whether investment leads to Sony introduce plasma panel for consumer market. While it has told dealers privately that plasma wasn't ready for volume shipments in consumer market, Sony has sold panels for custom installation. It also sells 42W panel in commercial market with Fujitsu's Alternative Lighting of Surfaces (AliS) technology that delivers 1,024x1,024 resolution and 500 lumens. Sony officials in U.S. weren't available for comment, but company said in statement that it believes "alliance will ensure supply of highly competitive PDP devices."

Chief hurdle for plasma has been price, with most finished products in \$10,000-\$15,000 price range. Fujitsu has sold some panel modules for around \$7,000, but consumer market has proved elusive. Prices are likely to fall as Fujitsu narrows gap with CRTs in yield. While Fujitsu has said yields have topped 50% mark, it still is short of CRT's 96% rate. Fujitsu-Hitachi also will further boost production with addition of 2nd plant that's scheduled to open in Oct. in Kunitomi, Miyazaki, Japan, with maximum capacity of 60,000 units per month for 42W (TVD Nov 1 p16).

"The expectation is that the yields and the quality control problems are going to get better and that the price will drop," Video Only Pres. Peter Edwards said. "This will be a category at around \$5,000. Right now, it's primarily a corporate product, but we'll see." Some chains made plasma key segment of custom installation business including Tweeter, which carries 3 different models and has been selling 30-40 units per month, Mdsg. Vp Bernard Sapienza said (TVD April 24 p14).

EToys finished its first year as public company with mixed results. Company last week posted \$189.6 million loss for year ended March 31 and \$151 million in sales compared with \$28.6 million loss and \$30 million in sales year ago. For quarter, eToys reported \$48.4 million loss and \$23 million in sales vs. \$13.2 million loss and \$6.1 million in sales year ago. Company also said that, in last year, its total customer accounts grew to 1.9 million from 365,000. But company, which is in its 2nd full year of operation, doesn't expect to turn profit soon. EToys Pres.-CEO Toby Lenk said he believes "company's flagship domestic business is well on its way to achieving profitability in fiscal 2002." Meanwhile, although eToys Senior Vp-CFO Steve Schoch said he believes company "is adequately financed to achieve its growth objectives into 2001," he said it "is exploring opportunities to finance [its] growth until it achieves profitability." In announcing results, company also revealed its facility plans, saying it has leased 763,000-sq.-ft. building in Ontario, Cal., to anchor its West Coast operations and is adding to its East Coast capability 715,000-sq.-ft. warehouse next to its existing 440,000-sq.-ft. facility in Danville, Va. EToys also said it has signed short-term lease for 280,000-sq.-ft. facility in Chimney Rock, N.C. Company said it expects those facilities to meet its fulfillment needs for at least next 2 holiday seasons. Although eToys said it lost \$9.5 million on investment in U.K. Web site it launched in Oct., it said it still plans to enter 2nd European market this year and is exploring opportunities to separately finance European operations.

Three-Five Systems is in discussions with Samsung on supplying 0.78" microdisplay for 25" PC monitor. Under proposed agreement, Advanced Optical Engineering (AOE) would design light engine for monitor and Samsung would build it, sources said. Three-Five will deliver 0.78" display with 1,280x1,024 resolution, 600-700 lumens and better than 300:1 contrast ratio that will be available in volume by 3rd quarter at under \$550, said Senior Sales & Mktg. Dir. Al Davis, who confirmed negotiations with Samsung, but said final agreement hadn't been reached. Samsung officials weren't available for comment. Three-Five also signed pact for Nikon to supply light engines for its 0.78" display starting late this year. In making push in 0.78", Three-Five is scrapping plans for 0.98" that was expected by midyear with 1,920x1,200 resolution (TVD Dec 27 p9). "All of our newer products will be in the smaller sizes, which will allow us to use a single light engine," Davis said. Also on drawing board is display with 920x1,200 resolution for delivery in 2001, although size and other specs haven't been set, Davis said. Separately, Three-Five filed April 27 to sell 2.6 million shares of common in offering expected to raise \$126.9 million based on \$51.67 price. Proceeds will be used to increase manufacturing capacity, fund development and for working capital, company said. There will be 21.5 million shares outstanding after offering. Three-Five shareholders have approved increasing shares outstanding to 60 million from 16 million and board last week cleared 3-for-2 stock split.



**THOMSON X-BOX ACCESSORIES:** Thomson will develop line of accessories for Microsoft's X-Box videogame console, but with goal of creating "universal platform" that could tap into competing systems as well, Product Mgr. David Faulkner said.

With Microsoft's X-Box not due on market until fall 2001 (TVD March 13 p11), Thomson was short on product specifics but is targeting input and communications devices including wireless keyboards, Faulkner said. Thomson is expected to use X-Box technology in other products as well.

Development of X-Box accessories will provide bridge into supplying products for broadband networks, Thompson said. "We want to be on the cutting edge of digital products," Faulkner said.

In seeking access to more high-tech accessories market, Thomson also will ship 4-in-1 RCA Docuport portable device that contains printer, fax, copier and scanner features in 4th quarter at \$299.

Docuport, developed by Fairfield, N.J., company of same name, can send and receive 8½"x11" documents at up to 9,600 bps and create 200x400 dots per inch (DPI) copies at speeds up to 2½ pages per min. Device also can print at 200x200 and 200x400 dpi b&w images at 2 pages per min., color at one page per min. Docuport, which was first shown at Comdex last fall, will be packaged with 48' roll of thermal paper capable of delivering 50 prints. Device uses Motorola processor and has 32 kbps memory for cache storage, Docuport Engineering Vp Paul McGrath said.

Introduction of 4-in-1 device represents Thomson's first major push into home office market where it had largely limited itself to home networking products. In addition to Docuport, it's expected to introduce USB-equipped cable modem in June as follow-up to model that shipped last year. It also will offer new line of computer network adapters that feature Inari's 2nd generation Powerline chipset. Current adapters, which communicate at 2 Mbps using existing household wiring, will be upgraded to 10 kbps by early 2001. Thomson also has bought 5% stake in Inari.

Networking gear eventually may be paired with wireless 56 kbps modem that uses 900 MHz digital spread spectrum technology to send signal up 200', company said. Modem, which will be available in fall at \$249, allows transfer of data between PCs via RF at speeds up to 115 kbps. System consists of base and extension unit and modem has RS232 port and PS/2 power cable for hookup.

In more conventional gear, Thomson unveiled its first 8-function LCD learning remote (\$69). Backlit device has 32 K memory with 13 menu sequences and 4 programs including manual or auto search by brand or code. Remote has 471 product codes, range of 60', 240-hour battery life based on backlit feature. With higher price, Faulkner projected that \$69 price will account for 15-20% of Thomson's revenues for remote category. In seeking to grow higher priced models, Thomson will add versions with touch-screen LCD and voice activated features within year, he said.

Thomson also is expanding distribution of multicolored line (blue, purple and green) of 3-, 4- and 5-function remotes that were tested earlier this year at Wal-Mart at \$14.95. Purple

has been top-seller thus far and Thomson is designing version with metallic finish that will be marketed to specialty retailers within 12 months. Memory ranges from 16 K in both 3- and 4-function models, 24 K in 5- and 6-function devices.

On antenna side, Thomson will ship 2 new passive models in summer at \$14.95 and \$19.95, higher priced unit adding 12-position switch for tuning VHF and UHF reception. Antennas, which Thomson sources from Antennas America, have 25 db range and expand line to 15 SKUs.

Tandy, crediting strong sales of DirecTV satellite hardware and programming, reported first-quarter income rose 24.6% on 18% gain in sales (see financial table). Same-store sales jumped 8%. Tandy's RadioShack sold 270,000 DirecTV units in quarter, up 170% from year earlier, and is targeting sales of one million for year, up from earlier projection of 900,000, CEO Leonard Roberts said in conference call with analysts. Earnings also benefited from \$2.9 million pretax credit on sale of securities. Overall gross margin slid to 49.3% from 50.6% as RadioShack moved to sell off private label Optimus A/V gear ahead of installation of RCA Digital Entertainment store-within-store concept. Roberts said Tandy, which signed agreement with Thomson for RCA brand year ago, will have format chainwide by June. Chain has sold through 80% of existing Optimus inventory, he said. CFO Dwayne Hughes said discounting of Optimus products boosted A/V dollar sales 60% in quarter, but drove down gross margin to mid-30%. Roberts said sales of parts and batteries increased 4% in quarter, while PCs rose in "mid-single digits." Residuals increased to \$23 million from \$12 million year ago and chain is projecting \$92-\$102 million for year. Residuals will get boost from Microsoft Internet Centers that are expected to in place by Aug.-Sept. Roberts said display will offer range of high-speed technologies including Northpoint Technologies' digital subscriber line (DSL), Gilat-to-Home's satellite and Sprint's Ion services. Microsoft display also will merchandise Compaq Pocket PCs, RCA WebTV and Sprint's Internet access phones, he said. RadioShack's installation group, which handles DirecTV and was formed from acquisition of Amerilink last year, posted \$20 million in outside sales in quarter and is available in 75-80% of RadioShack markets... Good Guys (GG), taking \$475,000 one-time charge for cutting of 315 store and advertising positions (TVD March 27 p14), said 2nd-quarter loss grew to \$10.2 million from \$7.2 million as sales fell to \$190.3 million from \$219 million on 1% dip in same-store sales. Sales were minus home office products, which were dropped from mix last fall. Job cuts were result primarily of closing of personal electronics dept. in chain's 79 stores. Personal electronics since have been combined with surviving departments. GG is continuing discussions on leasing space within stores for software sales, but hasn't reached final agreement, GG spokeswoman said. Any agreement is likely to start as pilot program, she said. GG also is targeting summer for start of online joint venture (TVD Jan 10 p23) after having earlier postponed 2nd-quarter debut. Chain is continuing search for executives to head up goodguys.com, which will be based in Portland, Ore., area, GG spokeswoman said.

Zmarket.com signed agreement for Merisel to provide fulfillment for its BuyerPortal channel. BuyerPortal is designed as sourcing, merchandising and information resource for Internet and brick-and-mortar retailers with e-commerce presence. Among e-tailers currently using BuyerPortal technology are Beyond.com, Jackpot.com, WorldBestBuy.com.



**COMPUTERS INVADE RTO:** After years of nibbling at fringes of rent-to-own (RTO) industry, PC manufacturers plunged into market last week with flurry of deals.

Rent-Way (RW) formed alliance with Gateway that will have latter install kiosks in chain's 1,000-plus stores and package PC with Internet access for \$19.95 weekly fee. Rival Rent-a-Center (RAC) signed agreement with BellSouth, which will supply Internet access via UUnet starting in June to chain's customers at \$5.99 per week. And Rainbow Rentals, which had carried both Compaq and Hewlett-Packard models, signed agreement with Dell.

"The technology curve on computers isn't steep anymore and that's why you've seen all the rent-to-own companies come into it," RAC Finance Vp Peter Bates said. "There is not that fear that I just bought a PC and 2 years from now there will be advances. The reality is the 500 MHz computer is good enough for an average customer's use and it will probably continue to be. Two or 3 years ago you probably couldn't say that."

RW's deal with Gateway is most aggressive promotion in RTO to date. At \$19.95 per week including Internet access, it's almost half RW's previous price and well below competitors. RAC has been offering Compaq PC with Advanced Micro Devices K-6 II 500 MHz Compaq PC with 64 MB RAM, 10 GB hard drive, 56 kbps modem, 40x CD-ROM drive and 15" monitor with JBL speakers at \$44.99 weekly rate. RW said Gateway model hasn't been configured and declined comment on how lower price would be achieved.

"This will drive our business now and for the years to come," Chmn.-CEO William Morgenstern said. Under accord, Gateway will make \$7 million investment in RW common stock based on 20-day average trading price from April 17. Pact also carries lock-up provision barring Gateway from selling stock for one year. Gateway is expected to start rolling kiosks out to 850 RW stores in June, with completion by Oct. 31. Program will produce 14% gross margin when its available chainwide, Morgenstern said. RW also will be able to use kiosks to sell its dpi Teleconnect prepaid local phone service, he said.

Agreement is projected to generate \$140 million in incremental revenue for RW after 12 months based on each store's having 200 Gateway PCs on rent, Pres.-COO Jeffrey Conway said. Internet access will be provided by America Online (AOL), affiliate CompuServ or Gateway itself, he said. AOL made \$800 million investment in Gateway earlier this year.

In starting exclusive deal with Gateway, RW will have to dispose of 20,000-22,000 Compaq and Dell PCs currently in system. Inventory will either be sold as part of existing RTO contracts or rented again, Conway said. PCs accounted for 7% of RW's 2nd-quarter revenue, up from 2% year ago (TVD April 24 p19).

To meet Gateway deal, RAC is likely to package its branded RentaCenter.com Internet service with Compaq and Dell PCs it carries, Bates said. BellSouth will administer service, including servers, and consumers will get 4 e-mail accounts per subscription, Bates said. Internet deal will generate \$20-\$25 million in revenue based on RAC's signing up 70,000-75,000 accounts by year-end, Bates said. "There really is very little risk to us in this venture and it's something we can offer to our customers," he said.

Rainbow, which says PCs generate nearly 20% of its revenue, signed on with Dell last week. Unclear are whether agreement is exclusive and fate of existing Compaq and Hewlett-Packard models already in stores. Rainbow reported first-quarter income rose 18.3% and revenue 23% on 7.8% gain in same-store sales (see financial table). Average per-store revenue in quarter was \$266,000.

**Corning, taking \$89 million pretax charge** for recent acquisitions, reported first-quarter income fell to \$76.9 million from \$92.5 million year earlier as revenue soared 36% (see financial table). Minus special items, which also included \$36.3 million after-tax charge for investment in Pittsburgh Corning, Corning posted \$178.1 million profit. Gross margin rose to 41.7% from 38.4%, benefiting from 50% and 45% increases in sales of Leaf fiber and LCD products, respectively. LCD industry continues suffer from glass shortage and Samsung Corning Precision joint venture will add new furnaces in S. Korea and Japan as part of Corning's \$1.4-\$1.5 billion capital budget for year, CFO James Flaws said. Sales at Corning Asahi Video TV glass joint venture jumped 8% in quarter and aggressive "cost-reduction" program is "beginning to pay off," Flaws said. Corning temporarily closed TV glass plant in State College, Pa., last summer in face of rising inventory. U.S. Precision Lens Div., which produces lens for projection TVs, reported sales climbed 50% in quarter on doubling of earnings, Flaws said. **BMC Industries** reported income slid to \$2.3 million from \$3.6 million despite 5% rise in revenue. BMC's Buckbee Mears Div., which includes shadow masks for PC monitors and TVs, said operating income increased to \$5.8 million from \$3.6 million as sales rose 7% to \$53.3 million. Division benefited from incremental sales generated by PC monitor mask line at Cortland, N.Y., plant that was restarted year ago. BMC cut jobs and shut down mask production lines in face of industrywide inventory glut in 1998 (TVD July 13/98 p19), but began restart year ago. Revenue from PC monitors, led by 17-19" category, increased 59%, while entertainment masks declined 4%. Jumbo models for 30" and up TVs gained 42%, but smaller sizes were down 29%, Chmn.-CEO Paul Burke said. To cut costs in mask business, BMC has added automatic inspection equipment to PC lines and will spread it to entertainment later this year, he said. Addition of equipment could cut inspection costs 50%, Burke said. BMC's lens business revenue edged up 2% to \$35.4 million, but sharp drop in sales in glass and plastic segments dragged its operating earnings to \$2 million from \$5.6 million.

**Kopin Corp.**, citing strong sales of gallium arsenide transistors for wireless phones and high-speed fiber systems, said first-quarter income leaped to \$2.2 million from \$206,000 year earlier as sales soared to \$19.7 million from \$6.7 million. Kopin's heterojunction bipolar transistors (HBT), which have been installed in 60 million GSM and CDMA phones worldwide, logged \$16.4 million in revenue in quarter, up 179% from year ago. Remaining \$2.9 million in revenue was generated by Kopin's 0.24" CyberDisplays that have been installed as camcorder viewfinders by Matsushita and JVC. Matsushita has introduced CyberDisplay-based model in Europe, but plans to bring it to U.S. later this year, Kopin Pres.-CEO John Fan said. Display has 320x240 resolution. Kopin, which is adding 8 machines to Mass. facility to accommodate demand for HBT products, is using 4" and 6" wafers, CFO Richard Sneider said. Top customers in quarter included power amplifier manufacturers Connectix (54% of Kopin revenue) and Mitsubishi (11%), Sneider said. Goal is to pair CyberDisplay with HBT transistor in new generation of cellular phones due in 2001, Fan said.



**AMAZON SALES AND LOSSES SOAR:** As Amazon.com once again reported jump in revenue and widening of losses, company last week said it expects, for first time, to post profit in its U.S. books, music and DVD/Video business by end of year.

Amazon said revenue jumped 95% in first quarter ended March 31 to \$573.9 million from \$293.6 million year earlier. But it said loss deepened to \$308.4 million from \$61.7 million.

Company said it added 3.1 million new customers in quarter, increasing total to 20 million. Another positive sign, it said, was that repeat customers represented 76% of orders in quarter, up from 66% in first quarter 1999.

Commenting on expectations for rest of year, Amazon CFO Warren Jenson said: "We believe that over the next 3 quarters combined, Amazon.com will be operating cash flow positive — enough, we expect, to more than cover our planned capital expenditures." But he said profitability expected in its U.S. books, music and DVD/video segment will be on pro forma operating basis as opposed to net income.

Meanwhile, Amazon said in its recent 10K filing that 3 federal lawsuits were filed against it and subsidiary Alexa Internet. It said suits allege that Alexa's tracking and storage of Web usage paths of consumers violated federal and state statutes prohibiting computer fraud, unfair competition, unauthorized interception of private electronic communications, trespass, invasion of privacy. Amazon said suits seek actual, statutory and punitive damages as well as restitution on behalf of all consumers who use Alexa's Web navigation service. Although it denied wrongdoing, it said "there can be no assurance" it wouldn't be found guilty.

Amazon has also been sued for patent infringement by San Francisco-based company Intouch Group, developer of iStation interactive music sampling kiosks. Intouch Pres.-CEO Joshua Kaplan told us last week that his company sued Amazon and 4 other companies he claims violated patent 5,963,916 that Intouch received in Oct. 1999 for "network apparatus and method for preview of music products and compilation of market data."

Other 4 companies named in suit were Discovermusic.com, Liquid Audio, Listen.com, Warner Brothers' Entertaindom. Kaplan said Intouch sued Liquid Audio for violating earlier patent his company received in 1993 — No. 5,237,157. That covers only "kiosk apparatus," but newer one also covers Internet applications.

Kaplan said he put about 30 companies "on notice" Dec. 1, explaining: "I had specifically written letters on my own behalf on company letterhead so that we could keep the lawyers out and allow them to negotiate a patent royalty license agreement. And I would say out of the 30 companies, half [of them] responded." Kaplan said that once it appeared that companies seemed to be engaging in "delay tactic after delay tactic after delay tactic," he decided to sue. He said "about a half dozen companies right now are in discussion with us on licensing" and Intouch may wind up adding other companies with which it can't reach agreement of some sort to suit. Kaplan declined to name other companies involved.

Amazon's involvement is "ironic" to Kaplan, who pointed out that e-tailer had sued Barnes & Noble for violating patent it had received for its "once-click" technology. He said that if he

could get injunction against Amazon and other companies, result would be elimination of "music portion" of their sites.

Responding to suit, Amazon spokeswoman said her company "believes the Intouch case to be completely without merit." She said: "We respect the intellectual property of artists, vendors, and inventors, and we go to great lengths to protect others' IP rights. In fact, Amazon.com is a recognized industry leader when it comes to enforcing copyright and trademark protections and preventing piracy."

Meanwhile, it revealed other details of its business in filing, among them: (1) It had 7,600 employees at end of 1999. (2) It admitted that its "inventory forecasting, purchasing, receiving, reconciliation, accounting and payment systems are not well developed and are not well integrated." (3) It increased direct buying from manufacturers in 1999, but 30% of all purchases in year were from Baker & Taylor, Ingram Book Group, Valley Media. (4) It doesn't have "long-term contracts or arrangements with most" of its vendors that would "guarantee the availability of merchandise, particular payment terms or the extension of credit limits." (5) It had accumulated deficit of \$882 million as of Dec. 31 and anticipated further losses "for the foreseeable future."

**In challenge to studios' revenue-sharing ambitions,** independent video retailers association in U.K. is taking up issue with British govt. Like independents in U.S., stores want studios to put them on level playing field with major retailers in terms of prices they pay for VHS rental titles. Council of Entertainment Software Retailers Assn. (ESRA), which counts about 1/3 of rental retailers in U.K. as its members, made "unanimous decision" to submit application to U.K.'s Office of Fair Trading (OFT), Assn. Dir. Gen. Derek Mann told us. ESRA application will complain that studios (known as distributors in U.K.) are using unfair pricing by allegedly offering special revenue-sharing deals to large chains that aren't being offered on same terms to smaller retailers, if offered to them at all. After application is submitted, OFT will decide whether ESRA's complaints are valid and could adopt interim measure forcing studios to stop practices in question until investigation is completed, Mann said. Investigation could take 6 months, he said. If OFT finds that distributors' conduct is illegal, they could be fined or even sentenced to prison if they resist measures to prohibit such practices, Mann said. Complaint first will target Warner Home Video and Columbia TriStar, companies ESRA has most information against, he said. Studios didn't respond to our requests for comment by our deadline. Complaint also may target 2 distributors in U.K. whose plans are less certain — Buena Vista and Fox Pathe (which distributes 20th Century Fox Home Entertainment product), Mann said. In U.S., independent retailers filed lawsuits against Blockbuster and studios last summer (TVD July 26 p15).

**EMusic.com revenues jumped** to \$2.1 million in 3rd quarter ended March 31 from \$21,000 in same period year ago. At same time, online downloadable music retailer said loss widened to \$22.5 million from \$14.3 million. In quarter, company said its downloadable music catalog grew to more than 100,000 songs, it opened co-branded Web sites with AOL, completed acquisition of Tunes.com. EMusic Pres.-CEO Gene Hoffman said company was able to sign deals with popular artists including Elvis Costello in quarter. CFO Joseph Howell said company is "confident that our current cash resources are sufficient to support our operations for at least the next 12 months."



**MUSICMAKER.COM POSTS LOSS:** It was usual scenario for Musicmaker.com when custom CD company posted first-quarter results last week for period ended March 31: Large gain in revenue but widening loss.

Musicmaker.com reported \$11.1 million loss and \$3.1 million in revenue compared with \$1.8 million loss and \$20,160 in revenue year ago. It stressed that its sales in quarter represented big gain over 4th quarter 1999 as well, when its revenue was \$787,000.

When company provided projected results last month, Musicmaker.com Global Mktg. Pres. Larry Lieberman credited growth to Jimmy Page/Black Crowes and Beastie Boys custom CD promotions, "as well as business-to-business events" including CDNow/Pizza Hut "Big New Yorker" promotion (TVD April 3 p19).

Meanwhile, after being hit with class action suit in Feb. claiming it had violated federal securities laws (TVD March 6 p20), Musicmaker.com became target of 2 more such suits.

In annual 10K report, Musicmaker.com said "follow-on actions" were filed against it in U.S. Dist. Court in Cal. on March 2 and 29 that were "virtually identical" to first with exception that one named CFO Mark Fowler, in addition to Musicmaker.com, EMI and executives of companies.

After filing with SEC, Musicmaker.com said it retained law firm of Wilson, Sonsini, Goodrich & Rosati to represent it in securities suits. Pres.-CEO-COO Raju Puthukarai said: "We believe these cases are without merit and intend to defend them vigorously."

First suit's major charge was that "Musicmaker and EMI do not disclose the difficulty or inability for EMI to give Musicmaker access to the A talent that would really provide the content for [Musicmaker's] Web site," lawyer handling case told us. He questioned why EMI had yet to provide Musicmaker.com music from such top-name artists as Beatles and Frank Sinatra, especially in light of EMI's having stake in Musicmaker.com.

EMI New Media Senior Vp Jay Samit said in Nov. that his company was "committed to clearing and delivering its top artists for custom CD promotions on Musicmaker.com" Web site. But he said: "Due to the complexities of record contracts, the program has taken longer than expected to get off the ground."

In filing, Musicmaker.com said that as of March 15, EMI had provided 37,000 tracks for use under licensing agreement. It said agreement, at least for now, allowed it to use EMI songs only to create custom CDs that are mailed to customers, not for digital downloads online or for kiosks that company is testing at retail stores (TVD Nov 8 p17).

Filing said Musicmaker.com had received 1,200 tracks from independent Zomba label by March 15. As of last week, EMI was only major label from which it had received licensing rights. Effect of Warner Music's proposed merger with EMI (TVD Jan 31 p11) on latter's ability to make tracks available to Musicmaker.com was unclear last week.

Musicmaker.com also said it was in legal battle with German company Magix Entertainment Products over rights to domain name "Musicmaker.com." It said Magix claimed owner-

ship of trademark "Musicmaker" in 1998 and asked to obtain domain name "Musicmaker.com." Musicmaker.com said it reached "definitive settlement" of Magix claim in written agreement same year, but in 1999 Magix again requested domain name. Musicmaker.com considered it "violation of our settlement agreement" and sued Magix in case that's pending, and loss of domain name now "could detrimentally and materially affect the financial condition and results of operations of the company."

Separately, company said it acquired exclusive long-term rights for Web distribution of The Who's new live recording, *The Blues to the Bush*. Last week it was selling 5 Who songs for \$4.95 with option to buy additional songs at \$1 each. Musicmaker.com also gave customers option of buying all 20 songs on double CD for \$19.90.

**RioPort and The Orchard** announced deal in which latter's entire music catalog will be made available for digital downloading via RioPort's online distribution partners. The Orchard is independent music supplier based in L.A. RioPort also released new Audio Manager 3 software featuring audio/video playback capabilities for downloadable or streaming content, ability to create custom CDs for playback of music and spoken word content, ability to manage and download to portable devices, easier acquisition and downloading of tracks in multiple formats using integrated Web browser. Company said customers who download and register software free by May 10 will receive unlimited MP3 encoding at no charge. After May 10, free version of Audio Manager 3 will offer up to 50 MP3 encodes and 25 CD burns, but to get unlimited encoding and burning consumers will have to pay \$18.95. Company also will charge \$9.95 for each unlimited encoding or CD burning.

**BestBuy.com** signed strategic deal with RollingStone.com that will give e-tailer access to latter's album reviews, music news, Webcasts. Deal also will give Best Buy's e-commerce division access to RollingStone.com and DownBeatJazz.com photos and videos. BestBuy.com becomes music sites' exclusive online retailer of CDs and cassettes. It also becomes online merchandise sales partner for RollingStone.com and will create and manage new co-branded version of latter's online store. RollingStone.com and DownBeatJazz.com are operated by EMusic.com, Redwood City, Cal.

**Take-Two Interactive Software** started shipping new budget line of PlayStation titles at \$9.99 in move designed to "help ease consumers through" transition to new platforms and technologies, CEO Ryan Brant said. Budget line includes *Darkstone* (shipping in July), *Grudge Warriors* (April), *Martian Gothic* (May), *Spec Ops: Stealth Patrol* (April). N.Y.-based game maker also signed exclusive 2-year deal with IBM to distribute latter's educational software titles throughout Europe. Earlier, it had signed pact with eUniverse to promote Take-Two games online.

**Clarification:** Minimum advertised price of Harman-Kardon's CDR-2 dubbing deck remains \$649, Pres. Tom McLoughlin told us (TVD April 24 p12). Company's 4X speed CD+RW dubbing deck sells for \$549 at N.Y.C. retailer J&R Music World, but dealer's Web site lists deck at \$649 and advises customers to phone for updated pricing information. Report also omitted Hitachi's unique hybrid DVD/CD+RW deck that dubs CDs at 2X from DVD drive. Deck is slated to ship midyear at \$799.



**ECHOSTAR NARROWS LOSS:** EchoStar reduced first quarter loss to \$185.3 million from \$372.3 million year earlier as revenue rose sharply to \$478.1 million from \$263.2 million. Loss year ago included one-time \$269 million charge for early retirement of debt.

Reduced loss came despite rise in marketing expenses to \$273 million from \$138 million. Most expenses were related to subscriber promotions including Dish One-Rate Plan and free installation, latter of which is expected to end in current quarter. Acquisition costs soared to \$273 million — \$467 per subscriber — against \$142 million (\$355) year earlier. Advertising and other costs nearly doubled to \$23 million. EchoStar ended quarter with \$3 billion in long-term debt.

Digital Sky Highway (DISH) network loss grew to \$534 million from \$495.4 million year ago, although revenue rose to \$484.4 million from \$269.1 million. EchoStar ended quarter with 3.9 million subscribers, up from 2.3 million. Per-subscriber monthly revenue rose to \$43.85 from \$41.50.

Direct-to-Home equipment sales, largely to Bell ExpressVu in Canada, increased to \$63 million from \$30 million year ago. Second customer, Telefonica in Spain, has been in merger discussions with Canal Plus Satellite, but EchoStar said it has binding equipment orders for 2000. Unit's loss in quarter grew to \$4.4 million from \$3.7 million. Satellite service division profit increased to \$11 million from \$4.9 million and revenue jumped to \$14 million from \$6 million.

Among capital projects, EchoStar has postponed June launch of EchoStar VI satellite one month as result of delay in earlier Atlas launch. It also continued to encounter problems with EchoStar IV bird where failure of solar arrays to fully deploy has left only 16 of 44 transponders available for use. About 15 transponders are expected to be available for rest of satellite's life, which is estimated at 4 years. Reduced life of satellite contributed \$2.4 million to first-quarter loss, company said. EchoStar filed \$219.4 million insurance claim for satellite in 1998 and carriers last month proposed \$88 million settlement that it rejected.

EchoStar is budgeting \$180-\$240 million for launch and construction of VI, VII and VIII satellites and another \$50-\$100 million for receiver systems. About \$40 million has been allocated to expand digital broadcast center.

EchoStar invested \$50 million each in quarter in iSky and Glat-to-Home (GTH) 2-way high-speed services. It has 17.6% stake in GTH.

Zenith denied rumors last week that it would move hq to N.J. from Glenview, Ill. Company, which now fills less than half of 408,000-sq.-ft. hq it has occupied since 1976, must vacate building by year-end and will lease 150,000-sq.-ft. space in Chicago area, spokesman said. Zenith, which emerged from bankruptcy in Nov. as LG Electronics subsidiary, expects to sign lease by midyear and move in Nov.-Dec., spokesman said. LG has U.S. hq in Englewood, N.J. Zenith sold hq to Blackstone Real Estate Advisors in 1998 for \$24 million (TVD Oct 12/98 p10). Zenith had gradually reduced operations in Chicago area in recent years, closing Melrose Park, Ill., TV tube plant and slimming hq work force to less than 700 from 1,400 at peak.

**BMG INVESTS IN CUSTOMDISC.COM:** BMG signed licensing agreement with CustomDisc.com to make tracks available for custom compilation CDs and MiniDiscs. As part of deal, BMG is getting equity stake in CustomDisc.com.

Although amount of BMG's stake wasn't revealed, CustomDisc.com spokeswoman told us last week it was about same as one Sony Music Entertainment (SME) received in similar deal announced in Feb., which also wasn't revealed.

CustomDisc.com spokeswoman indicated company was close to finalizing its 4th round of financing and had raised \$33 million to date. Just before announcing deal with BMG, CustomDisc.com said it received \$10 million equity investment from Hicks, Muse, Tate & Furst. CustomDisc.com said it will use that money as working capital for general corporate purposes and continued development of its [www.customdisc.com](http://www.customdisc.com) Web site.

While BMG and SME are only major labels with which CustomDisc.com had signed licensing deals as of our deadline, CustomDisc.com spokeswoman told us company was in talks with other major recording companies as well, although number of labels and which specific ones she was referring to weren't disclosed. Content-for-equity deal is similar to one EMI signed with CustomDisc.com competitor Musicmaker.com last year (TVD June 14 p17). Like Musicmaker.com, CustomDisc.com sells custom CDs as well as downloads and in future plans to offer video as well.

Separately, BMG parent Bertelsmann and Time Warner (TW) held preliminary talks on merging their respective BMG Direct and Columbia House Direct product clubs late last year, *Wall St. Journal* reported. Sony, which jointly owns Columbia House, wasn't part of talks, report said. Bertelsmann and TW declined comment last week. If BMG and TW actually reach accord and Sony approves it, end result would create interesting situation in which CustomDisc.com and Musicmaker.com would each have TW as investor — that's if proposed merger of TW's Warner Music and EMI is finalized (TVD Jan 31 p11).

J&R Music World is latest retailer to carry Apex DVD player that drew attention for its MP3 music playback, CD+RW compatibility and component video output as well as its ability to circumvent DVD's regional coding, Content Scrambling System and Macrovision copy protection through "loopholes menu" (TVD Feb 28 p11). N.Y.C. dealer gave prominent space to Apex player in its Sun. April 23 *N.Y. Times* ad, and features deck in its online store and summer catalog. J&R price for Apex AD-600A is \$199.99. At our deadline, it wasn't know whether deck still had "loopholes menu" that violates DVD license terms that Apex had promised to delete.

Eastman Kodak moved last week to boost stake in Chinon to 67.5% from 50.1% in effort to protect company from hostile takeover and to speed up management decisions. Kodak said it would start to buy 4 million shares (17.4%) of Chinon at \$3.30 on May 1. Kodak, which purchased interest in Chinon in 1997, has pushed company to improve "price performance" for digital cameras it produces (TVD Jan 18/99 p19). As digital cameras prices plunged, Kodak shifted low-end digital camera production to new OEM source in Taiwan (TVD Jan 31 p16), leaving Chinon to focus on higher priced models and R&D.



**GAME INDUSTRY GEARS UP FOR E3:** Those who attend videogame industry's annual Electronic Entertainment Expo (E3) in L.A. May 11-13 can expect to see more than 2,400 new interactive software titles for multiple platforms — number that Interactive Digital Software Assn. (IDSA), which runs event, called most in show's history. Attendees also expect numerous announcements on hardware front.

Although hardware manufacturers were mostly keeping silent about their E3 plans last week, that didn't stop rumors from proliferating. One of more interesting — although not entirely surprising — was that Sony Computer Entertainment America (SCEA) would announce plans for handheld game machine to compete with Nintendo's Game Boy. Responding to our inquiry last week, SCEA spokeswoman said: "It is not our company policy to comment on rumors and speculation."

As we reported, Sega is planning to demonstrate its new SegaNet ISP and online game service at E3 (CMR April 17 p3).

On software front, THQ was among game publishers who already have unveiled product lineups that will be shown at E3. Calabasas Hills, Cal., company said its line will include 19 titles for multiple platforms, including games based on films *Aliens* and *Evil Dead*, as well as ones based on TV shows *Buffy the Vampire Slayer*, *Rugrats*, *Scooby-Doo*, *Simpsons*. THQ will host Kids Day at E3, where it will showcase its line for 6-12 year old demographic.

Among many other games scheduled to be demonstrated at E3 is *Neverwinter Nights* developed by Edmonton, Canada-based BioWare, based in Edmonton, Alberta, and published by Interplay's role-playing game division, Black Isle Studios. PC game is designed for online play and uses 3D graphics technology from Nvidia. BioWare said game is played using Wizards of the Coast's recently-updated *Third Edition Dungeons & Dragons* rules. Other games developed by BioWare include *Baldur's Gate* and its sequel and *MDK2*.

Also expected to be demonstrated at show is *Clive Barker's Undying* PC fantasy game from DreamWorks Interactive. Game was inspired by story and characters created by author/filmmaker Barker, best known for *Hellraiser*.

Keynote speaker Bob Pittman, AOL pres.-COO, will officially kick off E3 May 11.

Finalists for Game of Year were announced by Academy of Interactive Arts and Sciences (AIAS), and winners will be announced at E3 May 11. Fighting it out for top prize this year are *Age of Empires II: The Age of Kings*, *Donkey Kong 64*, *Pokemon Yellow*, *Soul Calibur*, *The Sims*, *Unreal Tournament*. *Age* and *Unreal* also are nominated in Computer Game of Year category, along with *Command and Conquer: Tiberian Sun*, *Homeworld*, *RollerCoaster Tycoon*. Meanwhile, *Donkey Kong*, *Yellow* and *Calibur* also are nominated for Console Game of Year, along with *Crazy Taxi*, *Driver*, *Gran Turismo 2*, *Tony Hawk's Pro Skater*. Nominees for Online Game of Year are *Asheron's Call*, *EverQuest*, *Get the Picture*, *Pop-Tarts "Pop" Trivia*, *Wordox*. *Age* — developed by Dallas-based Ensemble Studios and published by Microsoft — is nominated for most awards, with 7, including ones for animation, character/story development, game design, engineering.

**SPIELBERG'S JAWS COMING TO DVD:** *Jaws* will be 2nd Steven Spielberg blockbuster to make its way to DVD after already-released *Saving Private Ryan*. Universal Studios Home Video (USHV) said last week it will release *Jaws Anniversary Collector's Edition* on DVD at \$26.98 July 11 to coincide with 25th anniversary of movie's theatrical release.

Two widescreen versions will be offered on DVD — one Dolby Digital, other DTS — both with "making of" documentary and other bonus features including deleted scenes, trivia game, PC screen saver.

Release will be supported by cross-promotion with Microsoft's WindowsMedia.com., which will feature *Jaws* teaser trailers and footage from film. USHV will advertise title with network TV, national cable, spot TV, radio, print, online, direct mail and outdoor signage May through summer's end. Campaign kicks off May 6 during film's airing on ABC. Entire campaign is designed to reach 90% of audience 5 times for more than one billion total impressions.

Although USHV spokesman told us last week that company wasn't announcing DVD plans for Spielberg's other hit movies made by studio — at least yet, anyway — reports indicated that Spielberg now is willing to allow all his films to be issued on DVD, and *Close Encounters*, *E.T.*, *Jurassic Park*, *Schindler's List* and other hits he made for Universal are expected to follow later this year. *Jurassic Park* originally was scheduled for DVD release in first year of DVD launch before director decided to hold back many of his films for reasons that never were clear but were thought to include piracy and size of installed base. To date, only other films Spielberg made for Universal that have been released on DVD were *Always* and *1941*. *Private Ryan* was made by DreamWorks.

USHV also said it will ship double-cassette *Jaws Anniversary Collector's Edition* VHS at \$19.98 July 11, with entire movie on one tape and bonus features on other.

**Smith Corona** was dropped from Nasdaq last week after failing to meet exchange's requirements for net worth and market capitalization. It marks 2nd time in 4 years that SC has been delisted, last time being in June 1996. SC, which has sought to reinvent itself by licensing its brand name and lessening reliance of typewriter sales, hired Deloitte & Touche in Feb. to review options ranging from debt or equity private placement to sale of company. SC spokeswoman declined comment on status of Deloitte & Touche review, but said company would release update in "next few weeks." SC has licensed brand to Office Depot for calculators, but royalty revenues aren't expected until 3rd fiscal quarter. Company, which obtained waiver earlier this year from lenders after violating covenant of loan agreement, had net worth of \$560,000 as of Dec. 31 against \$4.4 million year earlier. Its market capitalization stands at \$1.68 million.

#### THIS WEEK'S YEN RATE

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



**HASBRO HAS PROFIT, MATTEL LOSS:** While Hasbro's results for last quarter were upbeat, same couldn't be said for its biggest rival, Mattel, which is trying to clean up mess made by its failed Learning Co. division.

Hasbro posted \$15.1 million profit on revenue of \$773.5 million for first quarter ended April 2 compared with \$13.8 million profit and \$668.4 million in revenue year ago. It said sales were driven by continued Pokemon craze, as well as strong sales of its core categories including board games.

Despite overall good news, Hasbro said revenue from interactive software games represented \$22 million, down from \$38 million year ago, and attributed dropoff to frequently cited problem: Industrywide softening of video and PC CD-ROM game business. Commenting on interactive game business, Hasbro CEO-Chmn. Alan Hassenfeld said: "While we expect improved performance from interactive games, we do not expect a return to profitability this year." Company also said spending on its Games.com Internet game initiative was slower than it had expected because of "highly competitive recruiting environment."

Hassenfeld was optimistic on company's business this year, saying: "We still expect revenue growth of approximately 5%, and earnings per share growth approaching 10%, excluding the impact of Games.com in 2000 and [Hasbro's] consolidation program charges in 1999."

Mattel, which recently said it would sell off its financially troubled Learning Co. software business (TVD April 17 p21), reported \$6.2 million loss on continuing operations and \$693.3 million revenue in first quarter ended March 31, improvement on \$12.6 million loss and \$688.3 million revenue year ago. Loss after restructuring charges and other losses associated with Learning Co. was \$171.2 million. Company treated its Mattel Interactive division as discontinued operation in results. Software business alone incurred after-tax loss of \$126.6 million.

Brightest spots for Mattel in quarter came from Barbie sales, up 14% domestically (but down 5% outside U.S.), and 29% jump in core Fisher-Price product in U.S.



**Matsushita and Quantum** said they had developed IEEE-1394-based hard drive that CE company will build into products for 2nd half delivery. Matsushita didn't disclose potential candidates for new drive, but QuickView subsystem with IEEE-1394 is designed to be embedded in TVs, cable and satellite set-top boxes and digital A/V recorders, Quantum said. Quantum supplied 20 and 30 GB hard drives for Matsushita's ShowStopper personal video recorder that shipped last month for ReplayTV system. "This puts the responsibility for managing the audio and video streams in both the record and playback modes on the hard drive itself," source close to Quantum said. "This means that you can embed this technology into relatively simple devices that don't have a lot of overhead built into them." As such, cost of adding IEEE-1394 architecture to hard drive is "insignificant," he said. While subsystem was designed and developed for Panasonic products, Quantum isn't barred from "entertaining discussions" with other companies, source said. At same time, Quantum's Hard Disk Drive Group reported 4th-quarter income increased to \$17 million from \$5 million year earlier. Rise came despite decline in sales to \$901.8 million on shipments of 8.6 million drives from \$918.6 million year earlier.

**KODAK EARNINGS RISE:** Eastman Kodak said it had \$289 million profit in first quarter, increase of more than 50% over \$191 million year ago. But sales during period, at \$3.1 million, were essentially flat with last year.

Quarter was first for Kodak under new Pres.-CEO, Daniel Carp. In conference call with analysts, he said he continued "to see good progress" in digital camera sales. Company said digital products and services represented 23% of overall sales in quarter, compared with 21% year ago. *Wall St. Journal* reported Kodak's digital sales grew 14% in quarter to \$612 million while losses dropped to \$29 million from \$46 million year earlier.

Carp said Kodak is "selling every digital camera we can make right now" and will continue "to take the actions necessary to gain share in this business" and "be the number one player in the digital imaging space."

Despite increased digital sales, Carp admitted: "The digital camera business is still a problem in terms of profitability. I feel strongly that we need to be [number] 1 or 2 in market share there, so that when this thing settles up, we will be in a position to profit out of it."

Although Kodak sales were flat in quarter, Carp said they actually were "up 5% when adjusted for portfolio changes and an adverse currency impact" caused by euro's declining value in quarter. He also called Kodak Professional Div. "problem child this quarter" because its sales dropped 8%, to \$412 million from \$449 million in year.

Separately, **Polaroid** saw modest uptick in sales for first quarter to \$403.4 million from \$379 million while loss narrowed to \$1.4 million from \$30.8 million. Loss was lower than analysts had expected. Reuters said analysts polled by First Call/Thomson Financial expected loss of 22¢ per share loss instead of actual 13¢ loss.

Although Polaroid continues to have biggest share of instant imaging market, it's counting more and more on new products, including its digital cameras.



**Thomson Multimedia's** N. American Tube Div. has secured \$220 million in financing to build tube plant in Mexicali and will break ground in summer, Sales & Mktg. Gen. Mgr. Thomas Carson said. As it lined up funding, Thomson postponed start of production to mid-2001 from spring, he said. "Pulling together the financing for the project is taking a little longer than we expected," he said. Plant, with 900,000 sq. ft., will have single big-screen production line with annual capacity of one million units. It will employ 500 and will be Thomson's 2nd in Mexico following factory in Juarez. Thomson will join Daewoo, Mitsubishi and Nippon Electric Glass in Mexicali. Thomson Displays Mexicana SA de CV will offload some 31-32" capacity from Marion, Ind., plant. Latter has 600,000-tube capacity for 31-36" and added 34W and 38W. Carson also said Thomson isn't likely to appeal International Trade Administration (ITA) decision (TVD April 3 p14) that revoked tariffs that had governed tubes imported from Canada, Japan, Korea and Singapore for 13 years. "We knew it was a long shot going in," he said. He had testified that lifting of duties could have impact since many companies currently are importing widescreen tubes from Far East.



**JVC, AIWA PLAN iDVD PLAYERS:** JVC and Aiwa have signed agreements to manufacture Internet-enabled DVD (iDVD) players, PlanetWeb Pres.-CEO Kenneth Soohoo said.

PlanetWeb, which supplies browser, was among companies that formed alliance in Jan. (TVD Jan 17 p14) to back plan to offer DVD players free with agreement to pay monthly fee to Internet Service Provider for specific time period. Among signatories were 3 ISPs — Edge, Favorite Online, Global Data Tel.

Aiwa and JVC would be first major brands to field iDVD players, joining low-cost suppliers Lucas and Raite. JVC executives weren't available for comment, but Soohoo said company hadn't set timetable for iDVD debut. Aiwa spokesman confirmed that company has prototype iDVD that has been shown in Japan and at recent U.S. dealer meetings to gauge reaction, but company has no firm plans at moment to market iDVD. It's evaluating desirability of feature, dealer reaction and cost implications, spokesman told us.

As currently configured, players have National Semiconductor's Pantera 66 MHz MIPS processor, 56 kbps modem and require that DVD and Internet functions be operated separately. Models with 100-120 MHz MIPS processor necessary to integrate DVD and Internet functions are expected by first quarter 2001, Soohoo said. Units have 2 MB flash and 4 MB DRAM, which also may expand, he said. Integrating of iDVD feature, involving addition of both modem (\$20-\$25) and keyboard (\$10), tacks \$40 on to manufacturing cost, Soohoo said.

"With all of the devices, there is going to be a convergence and as Internet appliances evolve they're going to get compressed into fewer and fewer boxes," Soohoo said.

Linking of DVD discs to Internet has occurred with increasing frequency. About 200 titles are available with Web-based content including, most prominently, *Matrix*.

PlanetWeb, which claims 8 design victories for iDVD players, supplies browser, e-mail, chat software. Its browser software is biggest revenue generator as key part of Sega's Dreamcast videogame console. Sega is investor in PlanetWeb along with Creative Technologies and Toshiba, Soohoo said.

**First audio CD recorder with built-in 3-disc carousel** is highlight of new Philips CD-R hardware line making its way to retail shelves this month. Double-speed CDR-785, which is "go"-priced at \$499, also has "compile CD" function for automated recording of compilation CDs. Also new are 2 minisystems at \$599 and \$499 with built-in audio CD recorders. Additional FW-D5 minisystem dispenses with CD recorder but includes 3-CD carousel and DVD player with integrated Dolby Digital receiver and 5 speakers for package price of \$599. Responding to our question, Senior Mktg. Dir. Des Power told N.Y.C. news conference there are no "concrete" plans to incorporate 4X-speed recording into new Philips CD-R products. Power said 4X recordability would command higher pricing than 2X products newly introduced in Philips line, but said he was unable to offer specifics on price premiums or on issue of relative transcription accuracy of 4X recorders compared with 2X. Power said 4th-quarter 1999 supply shortages on CDR-765 dubbing deck were "well-documented," but said Philips has been working closely with its retail partners to "secure a healthy launch of this new range of product."

**In Focus Systems** and Proxima combined income rose to \$43.5 million in 1999 from \$6 million year earlier as revenue increased to \$688.5 million from \$515 million, they said in proxy filed with SEC. In Focus scheduled meeting for later this month for shareholders to vote on proposed \$478 million acquisition of Proxima (TVD March 13 p17). Proxima itself said income jumped to \$15.3 million from \$11.4 million as sales increased to \$263.7 million from \$178.8 million. Proxima generated 63% of revenues in Americas region, up from 55% year earlier; 28% in Europe, down from 38%; 9% in Asia, up from 7%. Proxima also conceded that its online business — ePresenter.com — was "not yet significant" but said it would become "important sales channel" in future. As part proposed acquisition, In Focus is entitled to \$3.5 million termination fee if deal isn't completed. Proxy also outlined companies' talks that began in Nov. following meeting between In Focus Chmn. John Harker and Proxima Chmn. Ole Fredriksen in San Diego. In Focus retained Salmon Smith Barney as advisers in Dec. and board approved deal in March. In Focus also is asking shareholders to approve increase in outstanding common shares to 150 million from 50 million and amend 1998 stock incentive plan to expand number of shares available to 4.5 million from 1.5 million.

**3DO expects to post improved \$10-\$11 million profit** for 4th quarter ended March 31 on \$45-\$47 million in revenue. Redwood, Cal., game maker had \$23 million revenue in same period year earlier. CEO-Chmn. William (Trip) Hawkins attributed "progress in this past quarter" to "overall success of our shipping 15 new games during the quarter versus 5 new games shipped during fiscal 4th quarter 1999." But he said results would be below initial expectations because of various factors, among them delay in shipping *Army Men World War* for PlayStation. Hawkins said 3DO also was hurt by "some shifts at the retail level across multiple platforms" that caused "slower than anticipated growth across the industry during the quarter." His comments echoed those of other game makers and others in industry who have been noting that transition to new platforms has affected their results (TVD April 24 p18). Company said it will report actual results for quarter and year early this month. In other 3DO news, it said it secured \$50 million credit line from Wells Fargo subsidiary Foothill Capital. 3DO CFO John Adams said new funding will help company aggressively pursue R&D activities in support of PlayStation2, accelerate expansion in Europe, pursue acquisition opportunities.

**War between Babbage's Etc. and Electronics Boutique (EB)** to buy Funco continued last week. After Funco accepted amended acquisition offer by EB that matched \$21-per-share proposal by Babbage's parent Barnes & Noble (B&N) (TVD April 24 p15), B&N jumped back into bidding last week with \$24.75-per-share offer. Commenting on development, EB CEO Joseph Firestone told us last week: "We have 5 days within which to respond. We have told our shareholders from day one we will not do anything that will [dilute] our earnings. So we have to go through our model and make a determination as to how we want to deal with it. We will do that within the next 5 days." Whether or not EB had made decision was unclear at our Fri. deadline. Bidding war between B&N and EB started when Funco said it had received unsolicited proposal from Babbage's that said it was prepared to acquire Funco for \$21 per share (\$135 million) less than week after EB and Funco announced they had signed definitive merger agreement under which EB would acquire Funco for \$17.50 per share (\$110 million) (TVD April 10 p18).



New buying group is expected to meet May 17 or May 24 to get formal commitment from proposed membership. Assn. of TV & Appliance Retailers (ASTAR) also approached CE and major appliance vendors with goal of having 2 of each attend, said Video Only Pres. Peter Edwards, who has led organizing of group that so far encompasses 16 retail chains. No vendor had committed to meeting at our deadline, but CE companies with group buying programs include Matsushita, Mitsubishi, Thomson, Toshiba, Zenith. Goal has been to have ASTAR formed by June with formal group buying programs executed by early 2001 (TVD April 17 p17).

Consumer intentions on buying TV sets fell slightly in April from March, according to preliminary data in Conference Board monthly survey. Of 5,000 households polled, 6.8% said they plan to buy TV set in next 6 months, vs. 7.7% in March, 6.9% in Feb., 7.1% in April 1999. Consumer Confidence Index in April fell for 3rd straight month, Conference Board saying: "The recent volatility of financial markets has clearly had little, if any, impact on consumer confidence. In fact, while consumers rate current economic conditions less positively than last month, their short-term outlook has improved."

March DTV sales to dealers hit monthly high of 24,332 for DTV-ready and integrated sets, CEA said. Tally was 7% increase over Feb. and brought launch-to-date sales to 202,586. CEA also said vendors shipped 11,796 standalone DTV set top decoders to dealers in first quarter; 21,992 were shipped in 1999 for 33,788 total launch-to-date. Extrapolation of decoder and display figures indicates at least one in 6 DTV households can decode digital broadcasts.

Midway posted \$11.5 million loss and \$55 million in revenue for 3rd quarter ended March 31 compared with \$1.1 million profit and \$80.3 million in revenue year ago. Company had warned it expected to report \$8.8-\$10.5 million loss and 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" (TVD April 10 p18).

Interplay released revised results for 4th quarter ended Dec. 31 after Virgin Interactive Entertainment, 43.9%-owned subsidiary of Interplay, restated its results for quarter. As result, Irvine, Cal.-based game maker now posted loss of \$9.6 million vs. \$16.6 million loss year earlier. When Interplay first announced results for period, it said loss was only \$7.8 million (TVD April 3 p18). For year, Interplay revised loss to \$41.7 million and revenue to \$101.9 million from \$28.2 million loss and \$126.9 million in revenue last year.

THQ reported \$4.7 million profit on sales of \$70.4 million in first quarter ended March 31, down from \$9.5 million profit and \$78.8 million in sales year ago. Calabasas, Cal.-based game maker said sales were driven by *WWF Smackdown* for PlayStation, which shipped in early March, *WWF WrestleMania 2000* for Nintendo 64, released in 4th quarter 1999, and *Toy Story 2* for Game Boy Color. It attributed dropoff in sales this year, at least in part, to rollout early in first quarter 1999 of 3 wrestling games under now-expired license with World Championship Wrestling (WCW).

First DVD-ROM/CD+RW combo drive for PCs has been introduced by Samsung. Company said \$349 drive, named Combo, ships today. It has 4X write speed for CD-R and CD+RW, 24X CD read, 4X DVD-ROM read.

## Consumer Electronics Personals

Senior management changes at Matsushita, subject to shareholder approval in late June: Pres. Yoichi Morishita advances to chmn., succeeding Masaharu Matsushita, who remains honorary chmn. and exec. adviser; Exec. Vp Masayuki Matsushita becomes vice chmn.; Kunio (Kirk) Nakamura replaces Morishita as pres.; Kazuo Toda shifts to pres. of Matsushita AVC Co., replaced as pres., Home Appliances & Housing Electronics Co., by Yoshitaka Hayashi; Yukio Shotoku becomes managing dir. for overseas operations; Jason Gastman appointed product mgr., Panasonic Consumer Video Div... John Froman, senior mdsg. vp, Circuit City, advanced to exec. vp... Pioneer USA Pres.-COO Takafumi Asano returns to Pioneer Japan May 2, succeeded by Susumi Kotani, onetime Pioneer senior vp-car electronics planning & coordination... Promoted at Sega of America: Peter Moore, senior mktg. vp, to pres.-COO; Shinobu Toyoda, exec. vp, to content strategy exec. vp; Chris Gilbert, senior sales vp, to sales-mktg.-operations exec. vp; Neal Robison, 3rd party licensing group dir., to 3rd party licensing vp... Changes at Hughes Electronics' DirecTV: Odie Donald, ex-BellSouth, named pres., succeeding Eddy Hartenstein, promoted earlier this year to senior exec. vp; Larry Chapman and Steven Cox, new ventures vp and senior vp, advance to pres. and exec. vp, respectively, of new Hughes business unit DirecTV Global Digital Media; William Casamo, sales & distribution exec. vp, adds responsibilities as DirecTV Mds. pres... Michael Dugan, EchoStar Technologies Corp., pres., promoted to EchoStar Communications pres.-COO; Soraya Hesabi-Cartwright, sales, customer service & human resources vp, advanced to DISH Network exec. vp... Frank LoVerme, ex-Warner Advanced Media Operations, joins Greenleaf Technologies as COO... Chester Pribonic, ex-Compaq, named DuPont Displays vp-gen. mgr... Robert Fay, Cirrus Logic finance vp, promoted to vp-CFO, replacing Glenn Jones, who will remain in advisory role for special projects... Amnon Fisher, Genesis Microchip pres.-COO, adds CEO title, replacing Paul Russo, who remains chmn... Mark Bernstein, ex-Wiz, joins Clean Rite as COO... Michael Krasny resigns as CDW Computer Centres CEO, remains chmn.

Strengthening of intellectual property protection was among issues at meeting of Global Business Dialogue on Electronic Commerce (GBDe) in N.Y.C. last week. Walt Disney Co. Vice Chmn. Sanford Litvack said: "If content is the key to the growth of the Internet, then protection of the intellectual property that that represents is vital to that growth." One issue GBDe is addressing, he said, is solution to current way in which property rights cases are handled in courts. He said: "Judicial proceedings tend to be elongated [and] tend to deal in a way that is inappropriate for the kind of instant relief that a rights-holder would need." Other issues taken up by GBDe included consumer confidence, which group said must be improved. Hewlett-Packard Pres.-CEO Carleton Fiorina said: "Global electronic commerce will only succeed if consumers feel confident in undertaking online transactions." To bolster consumer confidence, GBDe is attempting to establish global mediation system. Main topic of meeting — 3rd of GBDe's business steering committee — was need to remove international e-commerce barriers (See separate report, Bcst.-Cable section).

Lego acquired assets of smart toy developer Zowie Entertainment and said it would integrate latter's proprietary sensing and recognition technology into its own products worldwide. Price of Zowie wasn't provided.



## Financial Reports of TV-Electronics Companies

These are latest reports as obtained during past week. Dash indicates information not available. Amounts expressed in dollars. Parentheses denote loss.

| Company & Period                  | Revenues      | Net Earnings  | Per Share         |
|-----------------------------------|---------------|---------------|-------------------|
| <b>Aaron Rents</b>                |               |               |                   |
| 2000-qtr. to Mar. 31              | 125,372,000   | 7,278,000     | .37               |
| 1999-qtr. to Mar. 31              | 104,303,000   | 6,679,000     | .33               |
| <b>Ackerley Group</b>             |               |               |                   |
| 2000-qtr. to Mar. 31              | 82,300,000    | 165,300,000   | 4.72 <sup>a</sup> |
| 1999-qtr. to Mar. 31              | 67,700,000    | (3,900,000)   | --- <sup>b</sup>  |
| <b>Amazon.com</b>                 |               |               |                   |
| 2000-qtr. to Mar. 31              | 573,889,000   | (308,425,000) | --- <sup>c</sup>  |
| 1999-qtr. to Mar. 31              | 293,643,000   | (61,667,000)  | --- <sup>d</sup>  |
| <b>Avnet</b>                      |               |               |                   |
| 2000-39 wk. to Mar. 31            | 6,443,264,000 | 78,584,000    | 1.96 <sup>c</sup> |
| 1999-39 wk. to Mar. 31            | 4,707,731,000 | 67,928,000    | 1.90 <sup>c</sup> |
| 2000-13 wk. to Mar. 31            | 2,686,170,000 | 41,306,000    | .94 <sup>c</sup>  |
| 1999-13 wk. to Mar. 31            | 1,599,266,000 | 25,736,000    | .73               |
| <b>BMC Industries</b>             |               |               |                   |
| 2000-qtr. to Mar. 31              | 88,751,000    | 2,301,000     | .08               |
| 1999-qtr. to Mar. 31              | 84,645,000    | 3,191,000     | .12               |
| <b>CBS</b>                        |               |               |                   |
| 2000-qtr. to Mar. 31              | 2,403,000,000 | (38,000,000)  | --- <sup>a</sup>  |
| 1999-qtr. to Mar. 31              | 1,768,000,000 | 387,000,000   | .56 <sup>b</sup>  |
| <b>C-Cube Microsystems</b>        |               |               |                   |
| 2000-qtr. to Mar. 31              | 61,002,000    | 1,284,000     | .03               |
| 1999-qtr. to Mar. 31              | 58,287,000    | 12,960,000    | .31               |
| <b>Cohu</b>                       |               |               |                   |
| 2000-qtr. to Mar. 31              | 72,467,000    | 9,923,000     | .49               |
| 1999-qtr. to Mar. 31              | 29,526,000    | 1,391,000     | .07 <sup>a</sup>  |
| <b>Compaq Computer</b>            |               |               |                   |
| 2000-qtr. to Mar. 31              | 9,513,000,000 | 325,000,000   | .19               |
| 1999-qtr. to Mar. 31              | 9,419,000,000 | 281,000,000   | .17               |
| <b>Comsat</b>                     |               |               |                   |
| 2000-qtr. to Mar. 31              | 171,400,000   | 21,000,000    | .40 <sup>c</sup>  |
| 1999-qtr. to Mar. 31              | 144,500,000   | 12,000,000    | .23 <sup>c</sup>  |
| <b>Concord Camera</b>             |               |               |                   |
| 2000-39 wk. to Apr. 1             | 118,477,347   | 10,529,606    | .48               |
| 1999-39 wk. to Apr. 3             | 83,605,175    | 4,936,455     | .22               |
| 2000-13 wk. to Apr. 1             | 32,717,048    | 2,115,782     | .10               |
| 1999-13 wk. to Apr. 3             | 21,497,763    | 150,230       | .01               |
| <b>Corning</b>                    |               |               |                   |
| 2000-qtr. to Mar. 31              | 1,381,700,000 | 76,900,000    | .28 <sup>b</sup>  |
| 1999-qtr. to Mar. 31              | 1,007,000,000 | 92,500,000    | .37               |
| <b>Cox Communications</b>         |               |               |                   |
| 2000-qtr. to Mar. 31              | 779,851,000   | 1,067,516,000 | 1.77 <sup>a</sup> |
| 1999-qtr. to Mar. 31              | 498,546,000   | 251,179,000   | .45 <sup>f</sup>  |
| <b>Creative Technology</b>        |               |               |                   |
| 2000-9 mo. to Mar. 31             | 1,035,889,000 | 143,609,000   | 1.75              |
| 1999-9 mo. to Mar. 31             | 1,021,403,000 | 100,346,000   | 1.10              |
| 2000-qtr. to Mar. 31              | 330,022,000   | 88,319,000    | 1.09              |
| 1999-qtr. to Mar. 31              | 313,715,000   | 18,251,000    | .21               |
| <b>CTS</b>                        |               |               |                   |
| 2000-qtr. to Apr. 2               | 204,466,000   | 19,247,000    | .69               |
| 1999-qtr. to Apr. 4               | 120,339,000   | 2,163,000     | .08 <sup>d</sup>  |
| <b>Echostar Communications</b>    |               |               |                   |
| 2000-qtr. to Mar. 31              | 565,721,000   | (185,130,000) | ---               |
| 1999-qtr. to Mar. 31              | 309,364,000   | (372,331,000) | --- <sup>c</sup>  |
| <b>Egghead.com</b>                |               |               |                   |
| 2000-qtr. to Mar. 31              | 147,783,000   | (25,059,000)  | --- <sup>e</sup>  |
| 1999-qtr. to Mar. 31              | 110,103,000   | (18,335,000)  | ---               |
| <b>Good Guys</b>                  |               |               |                   |
| 2000-6 mo. to Mar. 31             | 452,575,000   | (4,612,000)   | ---               |
| 1999-6 mo. to Mar. 31             | 513,199,000   | (5,594,000)   | ---               |
| 2000-qtr. to Mar. 31              | 190,364,000   | (10,231,000)  | ---               |
| 1999-qtr. to Mar. 31              | 219,099,000   | (7,246,000)   | ---               |
| <b>Grupo Elektra</b>              |               |               |                   |
| 2000-qtr. to Mar. 31              | 316,000,000   | 33,000,000    | .27 <sup>g</sup>  |
| 1999-qtr. to Mar. 31              | 270,000,000   | 37,000,000    | .31 <sup>g</sup>  |
| <b>Grupo Televisa<sup>h</sup></b> |               |               |                   |
| 2000-qtr. to Mar. 31              | 4,335,124,000 | 29,561,000    | --- <sup>e</sup>  |
| 1999-qtr. to Mar. 31              | 4,161,629,000 | 34,964,000    | --- <sup>e</sup>  |
| <b>GTE</b>                        |               |               |                   |
| 2000-qtr. to Mar. 31              | 6,100,000,000 | 807,000,000   | .83 <sup>a</sup>  |
| 1999-qtr. to Mar. 31              | 5,879,000,000 | 882,000,000   | .90 <sup>a</sup>  |

| Company & Period                 | Revenues      | Net Earnings  | Per Share         |
|----------------------------------|---------------|---------------|-------------------|
| <b>Harman International</b>      |               |               |                   |
| 2000-9 mo. to Mar. 31            | 1,231,530,000 | 49,518,000    | 2.87              |
| 1999-9 mo. to Mar. 31            | 1,078,318,000 | (9,254,000)   | --- <sup>c</sup>  |
| 2000-qtr. to Mar. 31             | 423,931,000   | 22,317,000    | 1.30              |
| 1999-qtr. to Mar. 31             | 374,904,000   | 12,817,000    | .72               |
| <b>Hitachi<sup>i</sup></b>       |               |               |                   |
| 2000-year to Mar. 31             | 8,000,000,000 | 16,920,000    | 5.07              |
| 1999-year to Mar. 31             | 7,980,000,000 | (336,920,000) | ---               |
| <b>Ingram Micro</b>              |               |               |                   |
| 2000-13 wk. to Apr. 1            | 7,796,350,000 | 96,133,000    | .65 <sup>a</sup>  |
| 1999-13 wk. to Apr. 3            | 6,725,275,000 | 42,254,000    | .29 <sup>a</sup>  |
| <b>Intertan</b>                  |               |               |                   |
| 2000-9 mo. to Mar. 31            | 381,777,000   | 20,376,000    | .66               |
| 1999-9 mo. to Mar. 31            | 408,289,000   | (27,753,000)  | .53 <sup>b</sup>  |
| 2000-qtr. to Mar. 31             | 104,604,000   | 3,628,000     | .12               |
| 1999-qtr. to Mar. 31             | 88,066,000    | (41,222,000)  | .08 <sup>c</sup>  |
| <b>Kopin</b>                     |               |               |                   |
| 2000-qtr. to Apr. 1              | 19,739,763    | 2,272,742     | .07               |
| 1999-qtr. to Apr. 3              | 6,729,596     | 205,867       | .01 <sup>a</sup>  |
| <b>LSI Logic</b>                 |               |               |                   |
| 2000-qtr. to Mar. 31             | 615,186,000   | 86,243,000    | .28 <sup>a</sup>  |
| 1999-qtr. to Mar. 31             | 463,617,000   | (87,764,000)  | --- <sup>d</sup>  |
| <b>MediaOne Group</b>            |               |               |                   |
| 2000-qtr. to Mar. 31             | 706,000,000   | 1,158,000,000 | 1.80 <sup>a</sup> |
| 1999-qtr. to Mar. 31             | 665,000,000   | (111,000,000) | --- <sup>a</sup>  |
| <b>musicmaker.com</b>            |               |               |                   |
| 2000-qtr. to Mar. 31             | 3,086,082     | (11,071,454)  | ---               |
| 1999-qtr. to Mar. 31             | 20,160        | (1,804,725)   | --- <sup>e</sup>  |
| <b>Nokia<sup>j</sup></b>         |               |               |                   |
| 2000-qtr. to Mar. 31             | 6,537,000,000 | 891,000,000   | ---               |
| 1999-qtr. to Mar. 31             | 3,870,000,000 | 505,000,000   | ---               |
| <b>Oak Technology</b>            |               |               |                   |
| 2000-9 mo. to Mar. 31            | 49,674,000    | (27,833,000)  | --- <sup>a</sup>  |
| 1999-9 mo. to Mar. 31            | 57,793,000    | (34,917,000)  | --- <sup>a</sup>  |
| 2000-qtr. to Mar. 31             | 28,502,000    | 2,645,000     | .05 <sup>a</sup>  |
| 1999-qtr. to Mar. 31             | 15,965,000    | (11,045,000)  | ---               |
| <b>OpenTV</b>                    |               |               |                   |
| 2000-qtr. to Mar. 31             | 10,945,000    | (30,715,000)  | ---               |
| 1999-qtr. to Mar. 31             | 5,860,000     | (1,231,000)   | ---               |
| <b>Ravisent Technologies</b>     |               |               |                   |
| 2000-qtr. to Mar. 31             | 5,710,000     | (5,537,000)   | ---               |
| 1999-qtr. to Mar. 31             | 10,812,000    | (310,000)     | ---               |
| <b>Rayovac</b>                   |               |               |                   |
| 2000-6 mo. to Apr. 2             | 357,400,000   | 17,600,000    | .64               |
| 1999-6 mo. to Apr. 2             | 271,500,000   | 13,100,000    | .48 <sup>c</sup>  |
| 2000-qtr. to Apr. 2              | 142,600,000   | 3,700,000     | .13               |
| 1999-qtr. to Apr. 2              | 111,000,000   | 3,100,000     | .11 <sup>c</sup>  |
| <b>Sinclair Broadcast Group</b>  |               |               |                   |
| 2000-qtr. to Mar. 31             | 175,848,000   | (1,820,000)   | --- <sup>c</sup>  |
| 1999-qtr. to Mar. 31             | 162,358,000   | (1,615,000)   | ---               |
| <b>Sony<sup>k</sup></b>          |               |               |                   |
| 2000-year to Mar. 31             | 6,686,661,000 | 121,835,000   | 289.2             |
| 1999-year to Mar. 31             | 6,804,182,000 | 179,004,000   | 436.9             |
| <b>SRS Labs</b>                  |               |               |                   |
| 2000-qtr. to Mar. 31             | 7,190,552     | (4,341,047)   | ---               |
| 1999-qtr. to Mar. 31             | 7,654,570     | (1,497,110)   | ---               |
| <b>Tandy</b>                     |               |               |                   |
| 2000-qtr. to Mar. 31             | 1,047,300,000 | 69,700,000    | .36               |
| 1999-qtr. to Mar. 31             | 890,200,000   | 55,900,000    | .28 <sup>a</sup>  |
| <b>Times Mirror</b>              |               |               |                   |
| 2000-qtr. to Mar. 31             | 745,328,000   | 112,419,000   | 1.86 <sup>a</sup> |
| 1999-qtr. to Mar. 31             | 699,207,000   | 48,813,000    | .59               |
| <b>Viacom</b>                    |               |               |                   |
| 2000-qtr. to Mar. 31             | 3,025,800,000 | 76,000,000    | .11               |
| 1999-qtr. to Mar. 31             | 2,951,100,000 | 44,900,000    | .08 <sup>a</sup>  |
| <b>Videonics</b>                 |               |               |                   |
| 2000-qtr. to Mar. 31             | 3,059,000     | (320,000)     | ---               |
| 1999-qtr. to Mar. 31             | 3,665,000     | (823,000)     | ---               |
| <b>Washington Post</b>           |               |               |                   |
| 2000-13 wk. to Apr. 2            | 546,771,000   | 24,069,000    | 2.50              |
| 1999-13 wk. to Apr. 4            | 520,397,000   | 45,190,000    | 4.43              |
| <b>Wells-Gardner Electronics</b> |               |               |                   |
| 2000-qtr. to Mar. 31             | 12,899,000    | 596,000       | .12               |
| 1999-qtr. to Mar. 31             | 9,207,000     | (245,000)     | ---               |

Notes: <sup>a</sup>Includes special credit. <sup>b</sup>Includes special items. <sup>c</sup>After special charge. <sup>d</sup>Adjusted; after special charge. <sup>e</sup>Adjusted. <sup>f</sup>Adjusted; includes special credit. <sup>g</sup>Per ADR. <sup>h</sup>In Mexican pesos. <sup>i</sup>In thousands of Japanese yen, except per share. <sup>j</sup>In euros.





# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

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### **Consumer Electronics**

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**MITSUBISHI HDTV LINE** includes 8 HD-ready widescreen models. 65W integrated set based on Digital Light Processing technology. (P. 14)

**CDNOW EXPECTS NEW MERGER** or investment deal by end of June as it announces \$37.8 million first-quarter loss. (P. 15)

**BESTBUY.COM RELAUNCH ON TRACK** for later this month, with Sony only major CE supplier yet to grant authorization. (P. 16)

**TW AND ABC END CARRIAGE DISPUTE — FOR NOW:** In day of very public negotiations, Time Warner and Disney agreed May 2 to reinstate ABC temporarily on MSO's cable systems for 2½ months while companies continue to negotiate new retransmission consent contract. Agreement came day before FCC ruled against TW, saying it had violated agency's rules banning removal of local broadcast stations from cable systems during Nielsen sweeps periods. Agency delayed enforcement action, declining even to discuss range of possible measures it could take. TW said it was "unfortunate" that Cable Bureau had acted without full Commission and said it "will pursue further review of this order." Issue promises to remain visible, with no permanent extension in sight and FCC, House Telecom Subcommittee and Senate Commerce Committee all delving into case.

FCC spokeswoman said Commission rules clearly require cable operators to carry stations through crucial advertising sweeps periods regardless of whether stations invoke must-carry rights or sign retransmission deals. "This clarifies that you may not drop a signal during sweeps," she said. "If you're carrying it when the sweeps start, you can't drop it." Time Warner argued that FCC sweeps rule didn't apply because its old retransmission pact with ABC had expired and case was must-carry dispute. FCC Chmn. Kennard said "Time Warner Cable committed a clear violation of FCC rules," for which, "unfortunately, millions of consumers paid the price." Commission could fine Time Warner from \$7,500 per day to maximum of \$250,000 for violation.

NAB Pres. Edward Fritts said he was "pleased the FCC has ruled that Time Warner was at fault in denying viewers access to over-the-air television signals from the ABC network. Time Warner's anticonsumer action once again places a spotlight on the cable industry's gatekeeper power."



FCC decision came as other top cable executives warned that increasingly bitter public dispute raised threat of greater govt. regulation of industry. At conference in N.Y.C., AT&T Chmn. Michael Armstrong said cable companies are "just inviting the regulators to come in and tell us how to do it" if they can't work out commercial terms and conditions on their own.

Controversy will be discussed at upcoming Capitol Hill hearings, not yet scheduled. House Telecom Subcommittee is likely to address retransmission consent during AOL-Time Warner hearing to be held shortly after Memorial Day recess, spokesman for Chmn. Tauzin (R-La.) said. Tauzin is concerned with "rapid control of cable consolidation," spokesman said, and always is worried when one entity controls both programming and distribution. He said no member of Congress wants to be "bombarded by angry consumers" seeking local TV channels, noting last time that happened it passed Satellite Home Viewer Improvement Act. After giving some thought to hearing on general topic of cable carriage last week, Senate Commerce Committee decided to hold session in summer, spokeswoman said.

Kennard said he was "pleased" Disney and TW agreed, but said "television sets of average consumers should never be held hostage in these disputes." Noting that "game of brinkmanship played this week deprived viewers of ABC network programming," he said: "This should never happen again."

Facing barrage of negative publicity for its blackout of ABC in 3.5 million cable homes May 1, TW made first move by offering to reinstate ABC on its cable systems for 10 years under expired retransmission consent deal or for at least 5½ months while companies keep negotiating new deal. Latter option, based on recent Disney deal with Comcast, would put ABC on TW systems through mid-Oct., about 2 weeks before start of Nov. ad sweeps. "This relieves our customers from uncertainty and provides an adequate amount of time for the 2 companies to work out the core issues that have been separating us," TW Cable Chmn. Joseph Collins told N.Y. news conference.

ABC quickly responded with offer to provide "our service to them (TW) until July 15 for free" in order to "settle this more quickly." TW quickly agreed to July 15 extension.

Meanwhile, Disney officials said they would continue to push for Internet access component of retransmission consent agreement when negotiations continue. "We feel we need to at least address some of these issues as part of these negotiations," COO Robert Iger said in conference call. Chmn. Michael Eisner said: "This is not about access for the Walt Disney Company. Disney and its products are going to be seen." Fight is for "rest of the industry," he said. "No one else has the size to take on this sort of negotiation."

ABC has provided 6 retransmission consent extensions since Dec 31 expiration of its contract with TW. Negotiations between media giants have been bruising, with broadcaster making repeated threats to pull its signal, prompting intervention from elected officials to get parties back to negotiating table.

ABC was quick to blame pending TW-AOL merger for TW's rejection of its extension offer. Henry Florsheim, pres. of ABC owned KTRK-TV (Ch. 13) Houston, where ABC had pulled back from brink of showdown on March 10, said: "The Time Warner-AOL merger is having a significant impact on the negotiations. Time Warner wants to extend for 8 months so they can get their merger approved. They want to duck the issues of monopoly control and consumer access while their merger is pending." TW had rejected 2 ABC proposals involving nondiscrimination and consumer access, he said, and wants "right to limit consumer choice by blocking part of our broadcast signal. They also insist on the right to discriminate in favor of their own channels." KTRK-TV spokesman said TW was stripping out programming information provided by Gemstar and logos from its signals using its digital boxes. He also said TW wasn't paying ABC as much for its news and other programs as it does for its own programs. Among other things, ABC is demanding carriage of Toon Disney and its new soap channel SoapNet as basic services and switch of Disney Channel from pay to basic.

Retransmission consent dispute promises to lift profile of festering open-access issue in pending AOL-Time Warner merger. Public interest groups wasted no time in raising open access. TW's blackout of ABC provided plenty of proof, if any were needed, that open access is "an important principle for broadband era," said Jeff Chester, exec. dir. of Center for Media Education. If TW has power right now to block top-rated TV network in country, "one can only imagine what the new AOL-Time Warner will be able to do in the broadband Internet arena. This is precisely why the FCC must reject that proposed merger, and why the Commission should establish, in the process, a national open access policy that prevents other cable providers from pursuing similar abuses of power."

Tom Kans, pres.-gen. mgr of ABC affiliate WABC-TV (Ch. 7) N.Y., said there was "no reason" for TW to pull station's signal because "we gave consent to carry our programming through May 24. They unilaterally pulled us off their systems. We believe this is illegal." He said TW action was "terrible disservice to viewers who rely on WABC for their news, entertainment and information."



DBS providers DirecTV and EchoStar said it was "too early" to tell overall impact of TW decision to pull ABC TV network from its system in 11 cities. Both DBS companies started special promotions as result of carriage dispute, and both claimed marketing efforts were paying dividends. DirecTV spokesman said plan in which ABC TV network offered \$100 rebate for "first 1,000" customers who called 800 number to order service was smash hit in Houston, L.A. and N.Y.C., where offer started May 3. DirecTV said offer sold out in 2½ hours in N.Y., 2 hours in Houston, 25 min. in L.A. Spokesman said DirecTV "anticipates a bump" in customer acquisition, but it was too early to tell how big bump would be: "This incident has created an enormous amount of impressions for us." DirecTV promotion will continue on "open-ended basis," ABC official said. EchoStar said customers in affected cities also were responding to "It's As Easy As A-B-C" promotion. Cable subscribers can receive Free Dish 500 system with one-year contract for \$39.98 per month until May 14. Company wouldn't release figures on new subscribers. "We anticipate a lot of sales," EchoStar spokesman said.

**VIACOM TAKES OVER CBS FOLLOWING FCC APPROVAL:** CBS name disappeared from stock exchange May 4 following closing of \$30 billion takeover by Viacom and FCC approval of deal. Closing came amid confidence among officials that FCC would begin proceeding that would allow Viacom to avoid spinning off UPN network because of dual network rule. Officials said FCC, which gave Viacom 12 months to come into compliance, is expected to raise issue of repealing rule as part of biennial review that's due by May 27.

Viacom must divest one of its 2 networks, as well as TV stations reaching more than 6% of national audience and radio stations in 5 markets, FCC said in order approving CBS-Viacom merger. Viacom would have 12 months to come into compliance with dual network and TV ownership cap rules and 6 months to divest radio stations in Baltimore, Chicago, Dallas, L.A., Sacramento. Approval includes transfer of 38 TV and 162 radio stations to Viacom, plus translator and satellite stations. Commission also said Viacom must preserve UPN as viable network during divestiture period.

FCC Comr. Tristani issued strong dissent, based largely on lost diversity of ownership, saying: "Those who are counting on the Commission to use its public interest authority to scrutinize the impact of huge media mergers should be disheartened by this decision. The Commission shows little sensitivity to the broader context in which these mergers are taking place, and little stomach for limiting consolidation based on diversity concerns." Tristani said she wasn't expressing opinion on deal's impact on diversity, but said FCC had failed to even consider question, which she said was "abdication of its responsibility." She and Comr. Furchtgott-Roth, who otherwise agreed with decision, also questioned Commission ruling on local station divestiture.

Combination created \$91 billion media company with 35 TV stations, more than 160 radio stations, 2 TV networks, plus cable and syndication assets. It still was unclear what stations Viacom would have to dispose of to meet station ownership limits (stations now reach 41% of U.S. population, vs. 35% limit), although FCC said it could sell one large station or more than dozen smaller ones. Acquisition was tax-free for CBS stockholders, who receive Viacom stock in return for CBS shares. New Viacom board includes 10 current Viacom board members, plus 8 from CBS. After transition period, board members will be elected by holders of stock controlled by Viacom Chmn.-CEO Sumner Redstone. CBS head Mel Karmazin is COO of merged company. Redstone called closing "truly momentous and historic occasion for Viacom."

Viacom had argued that owning both CBS and UPN didn't violate dual network rule since UPN didn't meet audience coverage requirements. Argument was based on claim that secondary affiliates should be counted as, in effect, syndication agreements. In final order, FCC rejected claim, as well as Viacom request for 24 months to come into compliance. It said requirement shouldn't be surprise, and sale of UPN actually has become easier since Viacom bought out Chris-Craft. It also noted that Viacom had pledged to preserve UPN as "a viable, independent voice distinct from that of the CBS TV Network" during 12-month period.

In other decisions, FCC said: (1) It never has granted more than 12 months to come into compliance with national ownership cap, and Viacom presented no evidence that longer time is needed. (2) Viacom's TV duopolies in Boston, Dallas, Detroit, Miami, Philadelphia and Pittsburgh comply with new duopoly rules. (3) No more than 6 months is needed for radio divestitures because stations "make up a small portion of an extremely large merger." (4) National Black Media Coalition provided no legal basis to support denial of merger on EEO grounds, and denied petitions to block deal based on complaints about Howard Stern Show radio broadcasts.

Viacom said it will merge operations of CBS Cable unit and MTV Networks under MTV Networks Chmn.-CEO Tom Freston. As result of move, TNN and CMT: Country Music TV will join MTV Networks family of cable channels, which already includes MTV, MTV2, Nickelodeon, VH1, TV Land, The Box. Viacom said business operations of combined CBS Cable/MTV Networks division will be based in N.Y.C. while TNN and CMT will continue to operate out of Nashville. Company also announced that it will divest CBS Cable's regional sports network business, including Home Team Sports in Baltimore/Washington, Midwest Sports Channel in Minneapolis and Milwaukee and Group W Network Services technical operations. Viacom said CBS Cable Pres. Don Mitzner and Sales & Mktg. Exec. Vp Lloyd Werner



will leave company, although Mitzner will stay on temporarily as part of transition team. TNN & CMT Pres. David Hall will remain in that role, reporting to Freston.

Meanwhile, Martin Franks, CBS senior vp and head of Washington office, has been promoted to exec. vp-CBS TV to assist Pres. Leslie Moonves "in day-to-day operations while continuing to take on special projects at CBS" and for Viacom. Franks joined CBS in 1988 after working in Carter Administration and in Democratic congressional staff posts. CBS CEO Mel Karmazin said Franks, who will maintain his home in Washington while commuting to N.Y., also will be named Viacom senior vp. Viacom's Carol Melton will succeed Franks as network's chief Washington lobbyist.

**FCC MERGER BILLS MOVING:** Members of House and Senate vowed to press on with legislation to impose time limits on FCC merger review process despite data provided by Commission it hoped would clear its case and plea from Commerce Secy. to leave reform up to FCC. FCC recently supplied license transfer data from each bureau (TVD May 1 p3) to Senate Antitrust Subcommittee Chmn. DeWine (R-O.) and ranking Democrat Kohl (Wis.), but they called length of some reviews "unacceptable."

Mass Media Bureau listed multiple TV and radio stations' license transfers that have been under review for years, but in most cases it had explanation. For example, sale of WHCT-TV Hartford has been pending since 1993, but Bureau said its approval is tied up in appeal of administrative hearing. Sale of WELU Aguadilla, P.R., also filed in 1993, is awaiting amendment from buyer. Of 105 pending TV assignments and transfers in Bureau's Video Div., 74 have gone beyond 30-day public notice period, data showed.

Audio Div. reported 22 reviews outstanding more than 180 days, with 16 of those facing competition concerns. Of 870 pending reviews, 478 involve AM FM-Clear Channel proceeding, Div. said. It said "staff generally acts on routine assignment and transfer applications within 60 days from the date that the application was filed," and as of March 29 there were 53 applications subject to petitions to deny that had been pending more than 180 days.

Cable Bureau is reviewing 24 licenses from WorldCom-Sprint merger and 4 from Bell Atlantic-GTE, it said. It also has on its plate 72 licenses from AT&T-MediaOne and 159 from AOL-Time Warner. It said average review time is 45 days, but U S West-Continental Cablevision took 97 and AT&T-TCI 141. Bureau has close to 300 pending license transfers and assignments of license, and is lead bureau on 15 transactions.

FCC materials failed to satisfy DeWine and Kohl, who in joint statement May 1 said: "These findings are cause for concern, and clearly underscore the need for legislation we introduced [S-467] to provide a more uniform and reasonable time frame for FCC merger reviews." "While there were plenty of instances where the FCC completes its reviews in a timely manner," they said, "there are too many reviews held up in the system, leaving workers, consumers and the marketplace in limbo." S-467 would require FCC to issue decision within 6 months for mergers of \$15 million or more. Majority of Commissioners could give themselves 60-day extension regardless of merger size. House Commerce Committee compromise bill (HR-4019) sponsored by Rep. Pickering (R-Miss.) would set 90-day limit.

Three days after pronouncement by DeWine and Kohl, Commerce Secy. William Daley wrote Hill leaders saying he

was concerned about merger review legislation because public could be hurt. Consolidation in telecom sector raises public interest issues "that are of serious concern," he said. He said he agrees merger reviews should be conducted quickly, but arbitrary time limits aren't good. Even though Justice Dept. and FTC conduct merger reviews, FCC's is broader and done in public view, he said.

"We're glad to see Secretary Daley is finally taking an interest in telecommunications," staffer for Senate Antitrust Committee said. DeWine and Kohl intend to continue with their legislation despite Daley letter. Staffer suggested once Daley becomes more immersed in telecom merger process "he'll see the need for reform."

House Telecom Subcommittee spokesman said response of Chmn. Tauzin (R-La.) to letter is that "we're going to schedule a markup for the Pickering bill right after the Memorial Day recess." He repeated his boss's line that "asking the FCC to study its own merger review process is like asking a fox to guard the henhouse." "It's laughable but certainly not surprising," he said, "that one big bureaucracy has come to the defense of another."

FCC has taken great strides in making merger review process "more transparent and streamlined," Senior Counsel James Bird said. Bird joined FCC in Dec. from Shea & Gardner and was picked by Chmn. Kennard to head FCC Merger Task Force. Bird said Commission consistently coordinates review efforts among various bureaus and with 8th floor. He said delays in review often are caused by external factors, such as (1) incomplete application filed by merger parties and (2) parties' modifying application, sometimes in subtle ways such as through filed comments. "We have to stop the [merger review] clock" at those points to ensure FCC has complete materials and public has opportunity to comment, Bird said.

**Push for open access** wasn't about consumers, ISP choice, prices or regulatory parity but "primarily about the drive by GTE" at state level to slow deployment of cable broadband, Rick Cimmerman, NCTA dir.-state telecom, said at National Conference of State Legislatures (NCSL) forum on bandwidth issues in Washington May 5. Pointing out that 7 cable companies had announced they would carry multiple ISPs on their systems, he sought to discount arguments that cable had monopoly over ISP service. Of 48 million homes passed by cable, only 2 million subscribers had opted for high-speed Internet service, he said, and only one of every 20 Internet subscribers depends on cable for connection. That hardly could be called monopoly, Cimmerman said. Greg Simon, co-dir. of OpenNet Coalition, stressed need for uniform rules at national and state levels to remove disparity consumers now face on choice of ISPs in different localities. BA Dir.-Govt. Relations Frank Thompson, contending battle over bandwidth has only begun, said open access was only small element of Internet and real issue was interconnection of networks.



**COURT BACKS CABLE:** Ruling against ISPs' mandatory open access to cable systems, U.S. Dist. Court, Richmond, granted summary judgment sought by MediaOne against ordinance passed by Henrico County, Va., requiring open access as condition of AT&T-MediaOne franchise transfer. Meanwhile, bill that would mandate cable open access has languished for months in House Judiciary Committee but its sponsors are seeking to revive it by acknowledging market has moved open access cause forward faster than have legislators.

In Richmond, Judge Richard Williams said localities don't have legal authority to mandate open access. AT&T hailed decision while GTE and Bell Atlantic said they planned to appeal. Richmond decision conflicted with Dist. Court ruling in similar, more publicized Portland, Ore., case. County Attorney Joseph Rapisarda said county will decide later whether to appeal, and in meantime he hoped MediaOne would provide high-speed Internet access to Henrico residents "during the pendency of this litigation as it has agreed to do so in other localities."

AT&T spokesman said decision "affirms what we've said all along — this is a matter that the marketplace will determine in the best interest of consumers and providers." Hands Off Internet Exec. Dir. Peter Arnold said decision showed movement to regulate Internet is "house of cards that's collapsing." He said 14 state legislatures have considered access regulations and none has even passed it out of committee.

Va. Reps. Goodlatte (R) and Boucher (D) said they are re-writing portion of HR-1686 that would impose cable open access, while reserving right to return to possible regulation at later date. Boucher said "I believe we have the votes" to hold and win markup in Judiciary. Bill will contain "mechanism to monitor the progress" of MSOs in keeping their commitments to permitting ISPs access to broadband plant, although he provided no details, and he expected to see significant progress "in the next year to a year-and-a-half." He said he and Goodlatte believe "voluntary compliance is always better," but he had "very serious doubts" that some MSOs would comply with open access to Congress's satisfaction, making it important that in next Congress bill provide ability to revisit open access issue.

While revised language isn't likely to contain detailed road map for MSO compliance, Boucher said he favors 4 commitments made by Time Warner: (1) Ability to attach at cable headend, "a condition which assures competition." (2) No limit on number of ISPs that can attach to cable headend. (3) Ability of ISP to contract directly with customers, to extent that "cable company has no role" in process. (4) Assurance of consistent terms and conditions among ISPs. Time Warner's commitment was drafted in conjunction with AOL, now taking over TW, which had been biggest proponent of HR-1686.

AT&T "does not need a legislative gun to its head" to keep its open access commitment, Gen. Counsel James Cicconi said. Despite "cosmetic changes" in bill, he said Goodlatte and Boucher re-write merely is "an attempt to jump-start a piece of legislation that to this point has been seen for what it is — an attempt to protect incumbent telephone providers... There's no justification for any bill which would regulate the Internet in such a manner."

**Standard-definition DTV** sets will outsell HDTV sets by 2003, In-Stat Group forecast in report. Research firm predicted 500,000 DTVs would be shipped this year, increasing to 5.9 million, valued at \$9 billion, in 2004.

**CABLE CONSOLIDATION CONTINUES:** Despite delays in AT&T's pending purchase of MediaOne, largest MSOs increased their hold on cable subscribers in our latest survey of Top 50 operators. Our new report, updated through March 1, shows 8 cable operators with at least 3.5 million subscribers while no other company has more than 935,000 customers. That list will dwindle to 7 later this spring if, as expected, federal regulators approve AT&T's acquisition of MediaOne, leaving widening gap between top-tier and second-tier MSOs. Consolidation of MediaOne deal also would lift AT&T (now ranked 2nd) back into first place, ahead of Time Warner.

Rest of top 10 list reflects considerable churn of MSOs in last year, as both Century Communications (formerly 9th) and Lenfest Communications (formerly 10th) disappeared from ranks because of buyouts. Other former top 25 MSOs swallowed up recently include FrontierVision Partners (formerly 13th), Multimedia Cablevision (15th), InterMedia Partners (17th), Harron Communications (19th) and Media General (24th). Prime Cable (now ranked 12th) is being bought by Comcast Cable Communications.

Here's summary of top 50 buyouts since last fall: Adelphia Communications (6) purchased Century, FrontierVision, Harron and Coaxial Communications (formerly 45th). Comcast (4) acquired Lenfest. Cox (5) bought out Multimedia and Media General. AT&T and Insight Communications (9) split takeover of InterMedia. Classic Cable (13) purchased Star Cable Associates (formerly 50th).

In shifts among biggest MSOs, Cox moved up one slot because of purchases and industry consolidation, Adelphia moved up 2 slots and Classic Cable 5. SBC's Ameritech New Media (15), biggest cable overbuilder on list, jumped 8 slots and overbuilder RCN (19) 6. Other midsize MSOs making big strides included: Service Electric Cable (14), up 6 slots; Armstrong Group of Companies (18), up 8; Susquehanna Cable (20), up 7; Millennium Digital Media (21), up 7; Prestige Cable TV (22), up 7; Galaxy Cablevision (23), up 8; Pencor Services (24), up 8; US Cable (26), up 7; Midcontinent Communications (28), up 6; GS Communications (29), up 7; News Press & Gazette (30), up 7.

Basic cable subscribers among top 50 MSOs edged up scant 0.13% (81,603) to 63.1 million — 65% of all 97.1 million homes passed, in face of strong customer gains by DBS services. Penetration by pay services rose 3.7% to 78.8% from 76.1% in our fall survey. In one other notable result, miles of cable plant climbed 2.1% to 1.2 million. (Detailed list of top 50 MSOs is in this week's edition of *Warren's Cable Regulation Monitor*. For copy, contact Betty Alvine, 202-872-9200.)

As expected, prospective merger partners America Online and Time Warner announced May 4 that AOL Chmn.-CEO Steve Case would be chmn. of combined company and Time Warner Chmn.-CEO Gerald Levin would be chief executive. AOL Pres.-COO Robert Pittman and Time Warner Pres. Richard Parsons will be co-COOs of combined company. Under new management structure, Pittman would oversee AOL-TW's subscription services, advertising and commerce businesses while Parsons would run content business and legal and personnel development. Merger partners also named Ted Turner as vice chmn. and senior adviser and elevated Barry Schuler, currently pres., AOL Interactive Services, to chmn.-CEO of AOL, succeeding Pittman.



**POLICY ISSUES TOP NCTA SHOW:** Despite emphasis on new technologies and consumer products, NCTA's Cable 2000 convention opening in New Orleans today (May 8) is likely to be overshadowed by policy and regulatory controversies unfolding in Washington and elsewhere. Some 30,000 conventioners partying in Big Easy this week will be waiting for word on host of major issues, including fate of AT&T-MediaOne and America Online-Time Warner mergers at FCC, repercussions of Time Warner/Disney retransmission consent fight on other cable operators, federal court rulings on open access mandates and DTV-cable compatibility negotiations with consumer electronics industry and Hollywood studios. In particular, lingering programming carriage dispute between Time Warner and Disney promises to dominate much of convention hall discussions.

Even as Time Warner and Disney officials reportedly reopened their talks on new, long-term retransmission consent pact late last week, nation's largest MSO scrambled in effort to contain fallout from its blackout of ABC's signal in 11 markets May 1 and 2. Chastised by FCC, N.Y.C. Mayor Rudolph Giuliani and 2 *N.Y. Times* editorials for pulling ABC from its programming lineup for 2 days, Time Warner sought to reclaim high ground May 5 by pledging to keep ABC on its cable systems throughout further Disney negotiations, at least in N.Y.C. Speaking at N.Y. City Council hearing, Time Warner Cable N.Y.C. Pres. Barry Rosenblum promised to accept extensions of any length from Disney as long as they continued to provide ABC. MSO also promised to credit its subscribers for 2 full days of basic cable charges, provide \$15 rebates for customers buying A/B switches and offer viewers free month of additional premium channel of their choice.

Despite conciliatory moves, industry analysts and observers criticized Time Warner for taking its spat with Disney so public, especially at time when federal regulators are scrutinizing MSO's proposed merger with AOL and localities are weighing open access mandates. They argued that Time Warner was destined to lose battle once it pulled plug on such popular programming service as ABC. "There's a disconnect between the private leverage and public leverage," said Scott Cleland, managing dir., Legg Mason Precursor Group. "If it's quiet and private, Disney loses."

Indeed, fallout from Disney dispute continued for Time Warner May 5. In 2nd scathing editorial of week, *N.Y. Times* took company to task for its "blunt use of monopoly power" that newspaper said "could enter the annals of business history as a famous strategic blunder." As result of fight, *Times* said it was shifting its influential stance on open-access mandates for cable operators and now supports some type of federal regulation. "For now, perhaps, only the principle of nondiscrimination can be declared, with the rule book to be written as conditions required," newspaper said. "But the Time Warner-ABC conflict proves that it is time to start declaring principles and working on instituting them."

Another major regulatory issue at NCTA convention will be fate of AT&T-MediaOne merger. FCC sources said again May 5 that they expect Commission to approve merger at its May 15 meeting as long as AT&T divests at least one of 2 key programming assets it would own after deal closed. In report to 5 commissioners last month, Cable Bureau recommended that AT&T shed its Liberty Media unit and/or MediaOne's 25.5% stake in Time Warner Entertainment because of concerns about ownership links between AT&T and Time Warner. Regulators also fear that AT&T-MediaOne combination would dominate video programming market without divestitures and other restrictions.

**AT&T LIKELY TO SHED TWE:** Faced with choice of divesting MediaOne's 25.5% stake in Time Warner Entertainment or spinning off its Liberty Media programming unit, AT&T is likely to sell off interest in TWE to get FCC okay for its MediaOne purchase, industry analysts said. Analysts expect AT&T, under pressure from Commission to divest at least one of its 2 major cable assets, to shed MediaOne's TWE stake because of regulatory concerns about ownership links between AT&T and Time Warner, nation's 2 biggest MSOs. Observers also cite large tax burden of spinning off Liberty barely year after AT&T inherited it when it bought TCI. "They're going to have to sell something," said Scott Cleland, managing dir., Legg Mason Precursor Group. "It looks increasingly likely it'll be tough to hold onto TWE in the form they have it now."

Cable analysts still expect AT&T to use TWE as key bargaining chip to pursue sweeping local telephony deal with Time Warner. Tentative pact of 2 companies, announced early last year but never consummated, called for Time Warner to offer AT&T's phone service over its cable lines in return for hefty share of proceeds. Deal is on hold because of pending purchase of MediaOne and America Online's proposed buy of Time Warner.

Analysts also believe AT&T eventually will spin off Liberty. In recent interview, Liberty Pres. John Malone estimated spinoff could cost AT&T as much as \$7 billion in federal taxes today. But, analysts said, that problem could disappear once AT&T has held company for 2 years. "It would make a lot of sense," Broadband Intelligence Pres. Cynthia Brumfield said. "It's [Liberty] an independent company anyway."

AT&T and FCC declined comment on what company might do. "At the end of the process, our expectation is that we will have a variety of options to come into compliance with the ownership rules at the end of an appropriate waiver period," AT&T spokesman said.

**In move intended** at least in part to ease stormy relations between NBC and its TV affiliates, network didn't start repurposing its evening news on part-owned Pax TV Network at 7:30 p.m. May 1 as planned (TVD April 24 p1). NBC has been pushing affiliates unsuccessfully to take advantage of opportunity to sign local marketing agreements (LMAs) with Pax stations in their markets, but to date only NBC-owned stations have done so. Pax announced 3 more NBC-owned stations have signed LMAs, raising total to 10. In return for delaying repurposing of news, Pax and NBC said 4 major groups have agreed to further discuss signing LMAs with Pax stations. "We have an understanding" with Belo, Gannett, Hearst-Argyle and Post-Newsweek to continue negotiations, Paxson Vp-Publicity Nancy Udell told us, and "we are methodically moving ahead" in effort to sign LMAs with those groups. Paxson Pres. Jeff Sagansky said "key to Paxson's paradigm" since selling interest to NBC last fall "has been to team up with other [NBC] stations in each market where Paxson has a local station." NBC Affiliates' Chmn. Alan Frank, who had been highly critical of news repurposing, called NBC's decision "very refreshing." NBC will continue to air repeats of *Twenty One* on Pax, plus movies and miniseries, and Pax will air U.S. Olympic tryouts this summer through courtesy of NBC. Affiliates will meet May 14 in N.Y. and network has reduced annual convention for stations to reception that evening, followed by non-prime time programming presentation next morning and up-front sales presentations in afternoon to advertisers.



**FCC MOVES ON LPFM:** Despite congressional efforts to limit LPFM (TVD April 17 p3), FCC said it will start accepting station applications May 30, with filing window to close June 5. Move came despite continuing opposition from public broadcasters, but with support of public advocacy groups. First round of applications will be accepted for stations in Alaska, Cal., D.C., Ga., Ind., La., Me., Mariana Islands, Md., Okla., R.I., Utah.

FCC "haste" in opening LPFM window "does not serve the public interest because existing FM broadcasters don't know whether their signals will be protected and new LPFM applicants don't know whether they will be licensed," NPR Pres. Kevin Klose said. NPR earlier petitioned FCC for reconsideration and stay of LPFM decision pending further testing and additional interference protections. Klose said NPR believes it's possible for public radio and LPFM to co-exist, but said public stations are uniquely vulnerable to interference.

Ads urging Congress not to limit LPFM ran in *Washington Post*, *N.Y. Times* and dozen other newspapers May 2. Full- and half-page ads say "broadcast lobbyists want to keep broadcasting in the hands of a few corporations... They also want to weaken the FCC and win final say on how America's airwaves, a priceless public resource, are allocated in the future." Drive to limit LPFM is headed by NAB, which contributes "\$1,000 a day to federal candidates," ads claim. Ads were funded jointly by advocacy ad agency Public Media Center and by Media Access Project. They urge readers to contact senators — as well as House members — to urge them to vote against bill (S-2068) that would limit number of LPFM stations allowed.

While they still haven't agreed on final terms for labeling DTV sets and digital set-top boxes, cable and consumer electronics officials are circulating proposed wording on their last major area of disagreement. Sources in both camps said negotiators tentatively have agreed to come up with joint names for DTV and digital cable set-tops, in addition to already agreed-upon labels for 2 basic types of digital sets. If members of both industries sign off on deal, negotiators will continue meetings to develop set-top names while submitting DTV set label deal to FCC, which has started formal rulemaking on unresolved DTV-cable compatibility issues. Cable officials had resisted push by consumer electronics counterparts to include digital cable set-tops in DTV labeling agreement. "We hope to have the labels submitted to the FCC before the May 24 comment period [deadline]," NCTA Gen. Counsel Neal Goldberg said. CEA spokesman agreed, saying his organization hoped to have final agreement on set labeling in week or 2.

Lack of installers may hamper growth of DBS, DSL, telecom and broadband companies, industry analysts said. There may be as many as "1.5 million jobs available," slowing installations and service, official said. AT&T, Comsat, EchoStar, Microsoft and NCTA said they were having "major problem" finding "qualified workers," especially for DSL and DBS installations. DirecTV spokesman said company is "working to tighten the window on time lags" on installations. Customers can wait "3 to 4 weeks for installation of new DSL or DBS service," source said. Matthew Feshback, founder of startup FatpipeU, which trains installers for cable, telecom and DBS companies, estimated 100,000 workers are needed for broadband installations and another 500,000 for Microsoft technology. He's attempting to solve problem by hiring "underemployed and unemployed" workers through "hands-on" 4-week training course in urban areas.

**FCC DELAYS AUCTIONS:** As expected, FCC officially moved back date of spectrum auctions involving broadcast channels, postponing bidding that would have occurred June 7 and 14. Delay until Sept. 6, which wireless carriers had urged FCC to consider, covers auction of 747-762 and 777-792 MHz bands previously scheduled for June 7 and of 700 MHz guardbands set for June 14. Spectrum is in broadcast Ch. 60-69. Decision by FCC sparked protest from Comr. Furchtgott-Roth, who urged that Commission follow letter of law and proceed with current timeline.

FCC Chmn. Kennard had signaled that Commission was planning to delay auctions after receiving positive feedback from Capitol Hill. In letters to Appropriations Committee chairmen in House and Senate April 27, Kennard stressed that additional time would allow bidders to develop "better business plans and bidding strategies and to form strategic alliances" (TVD May 1 p4). Commission public notice indicated decision is "to provide additional time for bidder preparation and planning."

FCC should go ahead and hold auctions June 7 and 14 for spectrum "because it's the law" under Telecom Act, Furchtgott-Roth said. "There's no reason we can't hold" auctions as scheduled, he said. He was critical of Kennard's communications to Congress about delaying auctions, saying agency shouldn't be "lobbying" to have law changed. Furchtgott-Roth also said "law is clear" on issue of Congress's requiring proceeds from auctions be deposited in U.S. Treasury by Sept. 30. He said "no technical or physical reason" bars Commission from meeting deadline. If "compelling reason" exists for changing date, "Congress can make that determination on its own," Furchtgott-Roth said. Even if congressional opposition to delay doesn't exist, he warned that FCC "cannot utilize a 'wink and nod' with congressional leaders to escape a statutory mandate."

**FCC didn't define minority control** clearly enough to allow it to impose "severe penalty" on Trinity Bcstg., U.S. Appeals Court, D.C., said in decision May 5 (99-1183). Commission had decided Trinity wasn't qualified for renewal of license of WHFT (Ch. 45, TBN) Miami because of lack of candor about control of National Minority TV (TVD April 19/99 p5). Court said FCC didn't provide "fair notice" of minority control requirement and vacated Commission's denial of license renewal. In long analysis, court said FCC's "de facto control" requirement is reasonable interpretation of law and "has intuitive logic." It also rejected Trinity claims that de facto control provision conflicts with other Commission statements. "Our task would be at an end" if court were reviewing only interpretation, court said, but it said due process in case of severe penalty requires higher level of notice of interpretation. It disagreed with FCC claim that simple use of word "control" should have made it clear to Trinity that it meant "actual control." Commission never clearly articulated how "actual minority control" is required by statute, court said, and Trinity's interpretation that only majority of board must be minorities was "particularly understandable."

**N. America will be largest market** for multicast-enabled satellite equipment in what will be \$7 billion industry by 2005, said report by Pioneer Consulting (PC). PC said streaming and multimedia distribution offer greatest opportunity for growth because of "rising demand" for services. Europe, Asia and Latin America also offer large markets because of "high cost of multicast solutions for fiber," PC said. It said U.S. is expected to have \$2.88 billion in sales, Asia-Pacific \$1.93 billion, Europe \$1.15 billion, Latin America \$1 billion.



**DISNEY TV RESULTS UP:** Led by *Who Wants to Be a Millionaire*, Disney reported strong results from TV components of its business for quarter ended March 31. Media Networks revenue rose 30% to \$2.4 billion, while operating income jumped 48% to \$537 million. Other companies' financial results were mixed.

With ratings soaring and ad market strong, Disney broadcast revenue surged 35% to \$1.7 billion and operating income 79% to \$244 million. Cable revenue was up 21% to \$728 million and operating income 29% to \$293 million, despite increasing programming costs and rollouts of new ESPN channels and SoapNet. Investments in cable networks such as A&E and Lifetime generated 26% more profit, to \$168 million. Huge losses continued at Internet-direct marketing spinoff Go.com, with Disney's interest losing \$53 million. Overall, Go.com lost \$292 million compared with \$254.9 million on pro forma basis, while revenue jumped 38% to \$98 million. Executives in conference call touted ABC's first ratings victory in 5 years. Chmn. Michael Eisner said he had no problem with AOL-Time Warner merger based on its sheer size. With content becoming more and more expensive to create, "I'm in favor of size," he said. "It just has to be size with control and restraint."

In other financials: **LIN TV** loss expanded to \$22.6 million in quarter ended March 31 from \$15.2 million loss year earlier. Revenue grew to \$59.3 million from \$44.6 million and operating profit was \$4.3 million, reversing \$1 million loss year ago... **Hearst-Argyle TV** had \$4.6 million profit in quarter, up from \$2.8 million year ago. Revenue soared 49.8% to \$169.9 million because of acquisitions (7.5% on pro forma basis).

**Comcast** reported big increases in consolidated revenue and cash flow in first quarter. Revenue was up 35.3% to \$1.9 billion and cash flow up 38.1% to \$587 million. Company had net loss of \$199 million in quarter, compared with profit of \$73.5 million year earlier, due largely to its purchases of Jones Intercable and Lenfest Communications... **Mediacom Communications** posted operating loss of \$30.8 million in period, compared with \$5.1 million loss year earlier. Mediacom said revenue climbed 115.1% to \$77.4 million on acquisitions and rollout of digital cable and high-speed data services.

**AMFM** lost \$161.6 million in quarter vs. \$103.4 million loss year ago. Revenue grew to \$521.3 million from \$350.3 million because of acquisitions, and cash flow to \$197.9 million from \$123.9 million. Net includes \$22.8 million loss on sale of assets... **Cox Radio** profit increased to \$32.9 million in quarter from \$3.8 million year ago and revenue 25.7% to \$75.9 million.

"It's very difficult to come up with a definition" of public interest mandate, FCC Comr. Furchtgott-Roth told Washington Legal Foundation seminar: "This is something we grapple with every day." But, he said, it doesn't mean that public interest standard is something that can be enforced in some cases and not in others — "something the Commission does all the time." All too often, he said, FCC interprets public interest mandate as being a rule, which in most cases "it is not." Panelist Randolph May of Progress & Freedom Foundation said public interest standard is unconstitutional — position with which ex-FCC Chmn. Richard Wiley disagreed. But, said Wiley, it would be very "premature" for Commission to place additional public interest obligations on digital transmissions at this time. Washington attorney Robert Corn-Revere predicted that less than full First Amendment protection for broadcasters "will remain in perpetuity" and "that is a very dangerous thing."

**BAHAMAS BARS STREAMING:** In action that MPAA hailed as indicating U.S. govt.'s willingness to use its trade power to crack down on would-be iCraveTVs around world, U.S. Trade Representative (USTR) convinced Bahamas to revise compulsory license law that would have allowed streaming of TV signals over Internet. Praising USTR for protecting U.S. intellectual property, MPAA Pres. Jack Valenti said case set "invaluable precedent." Meanwhile, Bahamas has agreed to work with USTR but hasn't resolved satellite component of comprehensive compulsory license law passed in Jan. (TVD March 13 p5).

U.S. could have placed Bahamas on its Special 301 list, perhaps leading to revocation of certain trade privileges. Bahamas "agreed to fix the Internet problem right away" once USTR became involved, MPAA source said: "They said it wasn't their intent, just bad drafting." Although MPAA and other U.S. copyright owners have fought what they see as international piracy involving various media for years, including Bahamas and other Caribbean nations on TV programming, companies view Internet transmissions as particularly dangerous because once content is on Web, it can be downloaded anywhere in world, including back in U.S., without copyright holder's consent. MPAA source said that in addition to case of Canadian Webcaster iCraveTV, which MPAA and broadcasters shut down through successful suit for copyright infringement in U.S. court, Assn. with U.S. support has managed to close infringing site in central Europe.

**Internet will be "primary vehicle"** for TV programming by 2005, Broadlogic CEO Toby Farrand predicted. He said streamed media would represent 47% of "bandwidth demand" by then, up from 34% in 2002 and 17% today. At Satellite & Internet Conference at U. of Md., Farrand said Broadlogic is focusing on data broadcasting and 2-way satellite operations. He said Internet logjam has created demand "for new services" that can preserve and relieve bandwidth. He said cheaper cost of multicasting over satellites "puts it right there with cable... There is a tidal wave of Internet end users coming. Billions of dollars are going to be spent in investment of spot beam satellite technology. The long-term race is going to be between digital cable and satellite."

**Shortly after its pledge drive ended March 12, WMHT** Schenectady-Albany-Troy, N.Y. PBS member station discovered 1,000 of its donors' credit card numbers had been stolen and placed on phantom, unregulated site on Internet, officials confirmed. Spokeswoman said N.Y. State Police were investigating and treating case as theft. Some donors were starting to get credit card statements and so far, she said, 2-3 had reported some sort of discrepancy on their bills. In meantime, she said, WMHT has changed ways it processes and handles credit card numbers. House Telecom Subcommittee Vice Chmn. Oxley (R-O.) saw episode as potential "pattern of disregard for donors' privacy" when paired with last year's list-swapping, spokeswoman said.

**In \$209.5 million deal,** Cumulus Media said it's acquiring 11 radio stations in 4 markets from Clear Channel Communications (CCC) in swap for 25 Cumulus stations in 5 markets, plus undisclosed cash. Cumulus stations going to CCC include 5 in Chattanooga, 2 in McAllen, Tex., 4 in Ann Arbor, 8 in Salisbury, Md., 6 in Eau Claire, Wis. In return, Cumulus is acquiring from CCC 3 stations in Shreveport, 3 in Cedar Rapids, 4 in Harrisburg, WHKR(FM) Melbourne, Fla.



## Personals

**Douglas McCorkindale**, Gannett pres.-vice chmn., named CEO, effective June 1, succeeding **John Curley**, who will remain chmn... **Robert Friedman** advanced to senior vp-cable sales mgr., Paramount TV group... **Tribune Co.** appointments: **David Hiller** promoted to pres., Tribune Interactive; **Hilary Schneider**, ex-Times Mirror, named senior vp & gen. mgr., Tribune Interactive, succeeding **Jeff Scherb**, who remains Tribune senior vp & chief technology officer; **Andrew Oleszczuk** advanced to senior vp-development; with following promotions: **Vincent Manzi** to vp-gen. mgr., WLVI-TV Cambridge-Boston; **Crane Kenney** to senior vp-gen. counsel; **Luis Lewin** to senior vp-human resources... **Steve Friedman** advanced to pres.-cable distribution, Paxson... **Stephen Zhawred**, ex-Columbia Pictures Worldwide Mktg., appointed dir.-business development, licensing & promotions, NBC Enterprises.

**Charles Schueler** promoted to senior vp-media & community affairs, Cablevision Systems... **Nathan Fagre**, ex-Occidental Oil & Gas, appointed senior vp-gen. counsel, ValueVision International, replacing **David Quinby**, resigned... **Laureen Ong**, ex-WTTG-TV Washington, named pres.-domestic service, National Geographic Channel... **Jamie Chasalow** promoted to vp-consumer insight, Fox Family Worldwide... **Excite@home** changes: **Chris Kelly**, ex-Kendara, appointed chief privacy officer; **Byron Smith** promoted to exec. vp-consumer broadband services & chief mktg. officer; **Mark O'Leary** advanced to exec. vp-business solutions... **John West** promoted to senior vp-ad sales, Speedvision & Outdoor Life Network... **Tracy Dolgin** advanced to pres., Fox Sports Net... **Larry Jones** promoted to exec. vp-gen. mgr., TV Land... **Cynthia Rubins** advanced to vp-sales & business integration, USA Cable... **Todd Schwartz** promoted to vp-original programming, VH1... Promotions at Weather Channel: **Jason Hyde** to brand dir.-audience research, **Mark Richardson** to brand dir.-ad sales mktg... **James Fleischer** advanced to dir.-sales & mktg. analysis, Showtime Networks.

**Tony Thompson** advanced to gen. mgr., KPDX Vancouver, Wash., and KFXO-LP Bend, Ore... **Mark Mulholland**, ex-Lee Enterprises, appointed vp-mktg., WFLA-TV Tampa... **Bart Feder**, ex-WABC-TV N.Y., named vp-news, FeedRoom... **Bobbi Hurt** promoted to dir.-mktg., ad sales, Cox Communications... **Ravinder Singh**, ex-Bank of Montreal, appointed vp-gen. mgr.-video over telco/cable div., Leitch Technology... **Donald Buck** promoted to exec.-vp, Video Services.

## Obituary

**Martin B. Umansky**, 83, longtime pres.-gen. mgr. of KAKE-TV-AM Wichita, died May 4 of heart failure. He also had Alzheimer's. Native of N.Y.C., he graduated from U. of Mo. School of Journalism in 1940 and settled in Wichita, where he was hired by KANS(AM) after he ran out of money while hitchhiking around Midwest looking for job with newspaper or radio station. He switched to KAKE in 1947, and was prime force in putting KAKE-TV on air in Oct. 1954 as 3rd station in market and became its first gen. mgr. Umansky didn't coin word localism, but he was its primary practitioner and in 1987 (year after he retired) was presented NAB's highest honor — Distinguished Service Award — as result. In 1959 interview, he said: "The local operation makes the difference... The station that is closely integrated with the community is the one that will produce the greatest results for advertisers." Umansky received many other local, state and national honors and served as chmn. of ABC TV affiliates' board. Widow, 2 sons (including former NAB staffer Barry), survive.



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**FCC plans to upgrade its Web site** by offering "intelligent gateway" to make it easier to search for information, agency's Secy. Magalie Salas said at Commission forum April 28. Forum was held to outline FCC's efforts to prepare for its changing role in future. Salas said upgrade would enable user to find information without having to know what bureau or office was involved. User simply could type in question and software would search and find answer, she said. FCC has set up elaborate network of committees and working groups to consider how it will have to change in future, Chief of Staff Kathryn Brown said.



# Consumer Electronics

A Section of Television Digest with Consumer Electronics

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending April 21 and year to date:

|                     | APR. 15-<br>APR. 21 | 1999<br>WEEK | %<br>CHANGE | APR. 8-<br>APR. 14 | 16 WEEKS<br>2000 | 16 WEEKS<br>1999 | %<br>CHANGE |
|---------------------|---------------------|--------------|-------------|--------------------|------------------|------------------|-------------|
| TOTAL COLOR TV. (a) | 501,175             | 474,569      | + 5.6       | 507,776            | 7,845,625*       | 6,800,498        | + 15.4      |
| DIRECT-VIEW**       | 481,303             | 454,287      | + 5.9       | 489,901            | 7,472,500*       | 6,519,119        | + 14.6      |
| TV ONLY#....        | 357,134             | 398,581      | - 10.4      | 426,345            | 6,265,991        | 5,525,970        | + 13.4      |
| TV/VCR COMBO.       | 124,169             | 55,706       | +122.9      | 63,556*            | 1,206,509*       | 993,149          | + 21.5      |
| PROJECTION...       | 19,872              | 20,282       | - 2.0       | 17,875*            | 373,125*         | 281,379          | + 32.6      |
| TOTAL VCR**....     | 523,065             | 488,283      | + 7.1       | 359,327*           | 6,761,747        | 6,012,413        | + 12.5      |
| HOME DECKS...       | 398,896             | 432,577      | - 7.8       | 295,771*           | 5,555,238*       | 5,019,264        | + 10.7      |
| CAMCORDERS.....     | 87,787              | 91,556       | - 4.1       | 95,485             | 1,386,272*       | 1,168,397        | + 18.6      |
| DVD PLAYERS....     | 76,596*             | 82,870       | - 7.6       | 44,648*            | 1,351,460*       | 560,078          | +141.3      |

Direct-view TV 5-week moving average#: 2000-426,365; 1999-368,159 (up 15.8%).

Projection TV 5-week moving average: 2000-22,564; 1999-17,988 (up 25.4%).

VCR deck 5-week moving average: 2000-424,708\*; 1999-403,851 (up 5.2%).

TV/VCR 5-week moving average: 2000-68,152\*; 1999-75,737 (down 10.0%).

Camcorder 5-week moving average: 2000-112,019\*; 1999-102,530 (up 9.3%).

DVD player 5-week moving average: 2000-80,446\*; 1999-47,832 (up 68.8%).

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

**PHILIPS SHIFTS TUBE PRODUCTION TO MEXICO:** Philips Display Components (PDC) will close most of its Ottawa, O., TV tube plant over next 3 years, laying off 1,500 workers and joining growing ranks of CE manufacturers that are moving price-sensitive business to Mexico.

Philips is said to have scoured Mexico for better part of year (TVD Dec 6 p12) before settling on area in central region of country that will start production with single line for 25-27" tubes in 2001 and add 3-4 more by 2003, spokesman said. Philips hasn't decided whether it will build new factory or retrofit existing structure, spokesman said. It will retain aging Ottawa plant to build 32" flat-screen tubes that start production in July, spokesman said. PDC will keep hq in Ann Arbor, spokesman said.

Ottawa facility, which Philips acquired from Sylvania-GTE in 1981, had capacity for 2 million 19-32" tubes, but had gradually narrowed focus. It halted production of 19-20" tubes for commodity sets but had continued with larger sizes, adding 31-35" capacity in 1994 (TVD Jan 31/94 p13).

Decision to close Ottawa factory is part of Philips strategy to remain "competitive," spokesman said. Move also brings its production closer to its OEM customers, including Zenith, whose parent LG Electronics operates assembly facility in Reynosa, Mexico. About 90% of Philips' OEM customers have factories in Mexico, spokesman said.

Yet Philips had been searching for alternatives to replace Ottawa facility for nearly 10 years. It proposed and later scrapped plans to build \$100 million tube plant in Saline, Mich. (TVD Nov 26/90 p10) and at one point had negotiated to shift some 25" production to Zenith's now-closed Melrose Park, Ill., facility (TVD Oct 19/98 p9). Philips also sold assembly plant in Greeneville, Tenn., to Five Rivers Mfg. in 1997 as it moved CE hq to Atlanta from Knoxville. There are "no current plans" to execute similar sale involving Ottawa facility, spokesman said.

"PDC needed to do this to remain competitive in the large size tubes because the sales price erosion has been significant," Philips spokesman said.



Philips' move to Mexico follows similar strategy pursued most recently by Thomson, which is expected to break ground this summer on new facility for 31-32" tubes in Mexicali, Mexico. Like Philips, virtually all other tube manufacturers have shifted U.S. work on higher priced products including both widescreen and flat-screen tubes and have moved commodity business to Mexico or Far East. Hitachi (Greenville, S.C.), Matsushita (Troy, O.), Sony (New Stanton, Pa.), Thomson (Marion, Ind.) and Toshiba (Horseheads, N.Y.) all continue to produce tubes in U.S.

While new Mexican plant is likely to yield cost savings, industry officials said facility will face several-year learning curve and must ensure clean source of water for tube production.

"The question is, 'Is it more in our best interests to use the facilities we already have in place or establish a new facility in Mexico?," source close to Hitachi said. "It takes a long time [in Mexico] before you can achieve the yields that you get in the United States. There is a significant cost advantage, but the question is whether that is offset by the investment you make in the factory and the equipment."

Meanwhile, CE vendors in U.S. are struggling with increasingly tight market for bare-bones components — capacitors, resistors, diodes and others — as suppliers shift production to meet ever-growing demand for cellular phones. Components shortage affects virtually all areas of CE market including rapidly growing segments such as projection TV and DVD players. Cellular phone sales are projected to hit 400 million units worldwide this year.

"Everybody we know in the TV business is faced with a serious shortage of one passive component or another," CE executive said. "If they're a big company, the problem doesn't seem to be as bad and they can find product, but if they're smaller it can be a difficult situation."

While components shortage is starting to be felt only now, tight supply could heighten as demand increases for fall selling season. Some industry officials, however, expressed confidence that shortfall could be resolved by 4th quarter as suppliers, largely in Taiwan, expand capacity. Taiwan's largest maker of resistors is Yageo, which last week bought 2 units from Philips for \$590.7 million.

**MICRODISPLAYS MOVE TO CRACK PROJECTION TV:** As microdisplays move from development to production, technology is posing challenge to CRTs in race for next generation of projection TVs, industry officials said.

Prices remain high — projection TVs based on Texas Instruments' (TI) digital light processing (DLP) technology are at \$10,000 — but promises of delivering high-definition resolution in narrower cabinets are drawing attention. Rear-projection TVs sold 1.3 million units to dealers in U.S. in 1999, while front LCD and DLP projectors logged 790,000 worldwide.

"I think they're a complement to CRTs, which have an inherent cost advantage, said James Sandusky, mktg. dir. for visual media products at Samsung, which has postponed delivery of 43W and 50W sets based on Displaytech's 0.78" ferroelectric LCD (FLCD) display to Sept. from current quarter as it seeks to improve contrast and brightness to 300 lumens and 200:1 range. "But as we develop manufacturing efficiencies for these chip technologies, they will come down the cost curve. But certainly initially the form factor is what is most attractive because they have a narrower depth which gives them greater placement opportunities within the home."

Fast emerging as leading microdisplay technology is DLP. After brief, unsuccessful run with Projectavision, DLP has gained new rear-projection TV adherents in Hitachi, Matsushita, Mitsubishi. Mitsubishi has unveiled 65W DLP-based model (\$10,000) with single 0.7" DLP chip that delivers 350:1 contrast and 500 lumens (TVD March 27 p19), while Hitachi has chosen smaller 55W set with similar specs but featuring "tabletop" design with stand. Matsushita is pegging 52W for DLP. While DLP prices remain high, moves by Matsushita, Mitsubishi and projector maker InFocus Systems to build display's engine could lower costs, industry sources said. TI also has encountered yield problems in past. Last fall, particles became trapped between micromirrors during etching process for 0.9" DLP with 1,024x768 resolution, resulting in scrapping of some wafers, sources said. TI since has shifted production to 0.7" DLP, which increases number of chips gained from each wafer, spokesman said. Company also is "working to get the yields up," he said.

DLP is gaining strong support in sub-5-lb. front-projector market where InFocus is planning to add model with 0.7" display by 3rd quarter and further reduce weight to 3 lbs. within 12 months, CFO Scott Hildebrandt said. New 3 lb. projector probably will have 1,280x1,024 resolution and boost brightness by 20%, he said. Current 4.9 lb. Dragonfly front projector has 650 lumens.



Yet even InFocus, which relied on DLP projectors for 69% of revenues in most recent quarter, is hedging bets. It said it has had talks with Three-Five Systems and Colorado MicroDisplay (CMD), in which it has \$1 million investment, on developing liquid crystal on silicon (LCOS) technology for projection applications. Three-Five and CMD declined comment. Three-Five is developing 0.78" LCOS display with 1,280x1,024 resolution and 600-700 lumens brightness that's expected to be heart of 25" Samsung PC monitor (TVD May 1 p12). CMD, meanwhile, has worked on 0.9" version, but currently is focusing on 0.47" with 800x600 resolution and 100 lumens for cellular phone, portable DVD and "wearable computer" applications, CEO Mark Willner said. LCOS is widely viewed as low-cost alternative to DLP and Hildebrandt said technology "provides us with the vehicle to have a \$999 front projector."

"The big market [for LCOS] is clearly rear projection, but it has yet to become a viable one," Willner said. In creating viable rear-projection TV market for both LCOS and DLP, manufacturers need to extend life of bulbs in set, experts said. Bulbs, which cost \$200 to replace, have 2,000-3,000-hour life in front projectors, span that could pose problems in TV market. "The real issue for DLP and LCOS-based technologies is you have to change bulbs and there are still issues with integrating the displays," Willner said.

While LCOS and DLP target projection market, organic light-emitting diodes (OLEDs) are being promoted as low-cost and low-power consumption alternative to LCDs for cellular phones. New OLED manufacturing facility can be built for \$30-\$40 million vs. \$500 million for LCD factory and displays draw 30 mw, said Steven Abramson, pres.-COO at Universal Display Corp. (UD), which has developed 7.5" prototype OLED with Princeton U. and U. of Southern Cal. Emagin, formerly FED Corp., is readying its Microview OLED with 852x600 resolution for mass production in 2nd-3rd quarter 2001 under license with Kodak. Pioneer introduced 5.2" OLED in 1999 as display for car head unit.

In seeking niche for OLED, manufacturers are developing it as flexible technology that could substitute plastic for standard glass substrate to create "rollup" display, said UD CFO Sidney Rosenblatt, who projected that such product is 3 years away. "There will be a transition over the years to a flexible substrate, but it will be a multiyear transition because glass remains an excellent material," eMagin CEO Gary Jones said. "There will not be a total displacement of the glass-based industry, but there will be a very important role for electronic displays on plastic."

**Recoton, joining chorus** of companies of blaming downturn in video game industry for disappointing financial results, reported first-quarter loss widened to \$2.6 million from \$1.4 million on less than 1% rise in sales (see financial table). Improved results by audio and accessory divisions were "masked by what we believe is a temporary weakness in the entire gaming industry" linked to transition to new hardware platforms, Pres.-CEO Robert Borchardt said. Recoton's InterAct videogame accessory subsidiary will benefit from introduction of new videogame systems from Microsoft, Nintendo and Sony later this year and in 2001, he said. InterAct, which claims 60% share of videogame accessory market, has 3-year agreement with Sega to produce joysticks, controllers and other accessories for Dreamcast console. InterAct also has developed wireless "DVD Remote" for Sony's Playstation 2 console. New 16-function remote, which will ship in Sept. at \$19.99, has game port IR receiver, IR transmission indicator, LED and 23' range. Recoton's STD manufacturing facility will supply Microsoft with private label joystick starting in fall, he said. Recoton has undergone major overhaul in last year including inventory writedowns, debt restructuring and severance payments for closing of R&D facility in Des Plaines, Ill., and moving of audio group to Lake Mary, Fla., from Benecia, Cal. (TVD Nov 15 p13).

**Sage remains on track** to complete purchase of Faroudja by June despite sharp drop in latter's stock price in recent weeks. Faroudja, which is being sold in deal valued at \$155 million, has seen stock drop to \$4 range in recent weeks from high of \$9 when acquisition was announced in March. Sage, which markets display processors, will maintain Faroudja's retail distribution, CFO Simon Westbrook said. First Sage display IC with Faroudja's video processing technology will be introduced by midyear, he said.

**Sony Music Entertainment (SME) and Universal Music Group (UMG)** are entering joint venture to develop subscription-based online music and video service for consumers with computers, set-top boxes, wireless personal devices. Companies said they will license content to new venture, but specifics of service were sketchy last week. Joint venture involving major record companies is hardly first of its kind in industry. Sony and Time Warner own Columbia House direct marketing joint venture, while UMG and BMG last year created joint online venture GetMusic. Separately, on same day as SME-UMG announcement, MP3.com said it started Classical Music Channel on-demand subscription service at [www.mp3.com/channels](http://www.mp3.com/channels). Company is charging \$9.99 monthly fee for unlimited streaming access, but is providing customers with 14-day, risk-free trial listening period. As of last week, company said it had more than 3,400 tracks and over 300 free downloads in its classical collection for consumers to choose from. Calling subscription music "way of the future for the music business," MP3.com Channel Programming Dir. Chris Montgomery said: "We have created a working 'channel' model and we now invite labels and content owners alike to join us in developing a mutually equitable system." Company said new CDs will be featured each month and subscribers will receive 50% discount off price of CDs sold at Web site.

**Hollywood Entertainment** hired investment bankers Donaldson, Lufkin & Jenrette to explore alternatives including possible sale or leveraged buyout of company, as well as business divestitures and combinations or strategic partnerships. Chmn.-CEO Mark Wattles said board and management believe current stock price doesn't reflect its real value — stock price has fallen more than 50% in year. It's believed FTC rejected idea of Blockbuster's taking over Hollywood stores last year.



**RETAIL MARKET CHANGES:** Roberds, unable to reach credit agreements with major appliance and furniture vendors, said it will close its remaining 14 stores and liquidate. Meanwhile, Sound Advice (SA) is readying Electronics Environment (EE) format that will target custom installation.

Roberds, based in Dayton, which has struggled with losses for 4 years and filed for bankruptcy protection in Jan., said it has shut stores in Ohio (5), Ind. (1) and Ga. (8) and will begin liquidation within 90 days. Chain closed 8 stores in quitting Cincinnati and Fla. markets earlier this year, but never regained footing.

"The genuine bottom line is we ran out of cash," CEO Melvin Baskin said. "We simply did not have any more money." Vendors were "cautious" and didn't "stand behind us to the level we thought they would," he said. Roberds had seen revenues slip to \$287 million in 1999 from \$342 million year earlier and in bankruptcy filing listed assets of \$142.5 million and debt of \$117.8 million. Baskin had arrived from Federated Dept. Stores in July 1998 in attempt to reverse chain's fortunes after it lost \$1 million per month Jan. 1998-Sept. 1999.

Shutdown will affect 1,300 employees and spell end for chain that was founded by late Kenneth Fletcher in 1971. Roberds began expansion push in 1985-1994 when it opened outlets in Fla. and Ga., each with separate distribution center, strategy that industry sources said may have led to its undoing. Roberds also opened ill-fated 250,000-sq.-ft. outlet in Cincinnati in 1995.

While lack of vendor support proved to be final blow, Roberds also suffered as Circuit City and Best Buy invaded its Ohio market along with regional chain H.H. Gregg. On furniture side, Rhodes also proved tough competitor. Roberds departure shrinks NATM Buying Group to 12 dealers, number that members had said privately earlier this year that they expected to reach.

"They had some pretty big stores and ran into some competition, but it's a shame for the industry," said NATM Exec. Dir. William Trawick, whose group also lost Ohio-based Sun Television to liquidation in 1999. "I guess the consolidation is still going on."

Sound Advice will unveil mall-based Electronics Environment concept in midsummer with single, 5,400-sq.-ft. store in N. Palm Beach, Exec. Vp Michael Blumberg said. Store will combine 1,500-sq.-ft. Bang & Olufsen (B&O) outlet with 3,900-sq.-ft. EE format that will be designed as showroom, not selling floor. B&O store, which also will be operated by SA, will have separate entrance, but will be connected to EE, Blumberg said.

EE outlets won't carry inventory, but will be filled with high-end products such as plasma displays. They also will target customer that typically doesn't shop SA's 24 free-standing outlets that largely are 15,000-17,000 sq. ft., Blumberg said. "This is all about putting this concept in the line of sight of people that don't come into Sound Advice stores," he said. "It's all about applications and solutions for customers and will have nothing to do with selection and merchandise mix." SA's custom installation business generates \$35-\$40 million in annual sales, Blumberg said.

EE will be most recent format SA has introduced since opening first of 4 B&O-only outlets in 1998. If new concept

proves successful, it's likely to be expanded later this year in Fla. before moving to other markets, Blumberg said. He declined comment on whether EE was being funded internally or via outside investment or secondary stock offering. "They're not that expensive to open because you have minimal inventory and it will just be a matter of rent and sales," he said. EE outlets will draw on SA inventory and buying staff, he said.

In B&O format, which is expected to add 2 new stores fiscal 2001, average investment for existing outlets was \$405,000, which includes leasehold improvement, fixtures, equipment, inventory. Inventory accounts for \$175,000-\$200,000 and average net per store sales for B&O was \$2 million in fiscal 2000, SA said in 10K filing with SEC. That contrasts with full-size outlet where average initial cost is \$950,000-\$1.2 million and average annual per-store revenue was \$7.1 million, 10K said.

Overall, TV and video accounted for 41% of chain's \$163.5 million in sales for year ended Jan. 31, up from 39% year earlier. Home audio was 35% vs. 33% and mobile electronics declined to 13% (14%). Service, installation and product warranty slipped to 9% (10%).

**Hollywood Entertainment**, despite expanded loss at online subsidiary Reel.com, said first-quarter loss narrowed to \$12.1 million from \$14.8 million as revenue jumped to \$335.3 million from \$266.5 million. Reel.com's loss grew to \$23.6 million from \$17.6 million, partly offset by sharp rise in sales to \$14.3 million from \$6.3 million. Product revenue rose to \$13.8 million from \$5.9 million and rental to \$470,000 from \$431,000. Reel.com acquired more than 158,000 customers in quarter and recorded 1.4 million unique visitors in March against 900,000 year earlier. Hollywood's 1,701 core video stores said profit declined slightly to \$11.4 million from \$13.3 million despite increase in sales to \$321 million from \$260.1 million. Same-store sales were up 2%. Rental revenue rose to \$271.9 million from \$220.8 million and product sales to \$49 million from \$39.2 million. Hollywood opened 86 stores in quarter... **Movie Gallery** reported first-quarter income inched up to \$3.9 million from \$3.3 million as sales jumped 17.1% to \$81.4 million from \$69.6 million. Same-store sales rose 3.1%. Upturn in revenue was tied to opening of 24 stores to end quarter at 960. Movie Gallery remains "on track" to add 100 stores this year, Chmn.-CEO Joseph Malugen said.

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**MITSUBISHI'S NEW HDTV LINE:** Mitsubishi, continuing push in HDTV, introduced 8 new high-definition-ready models and its first integrated set based on Texas Instruments' Digital Light Processing (DLP) technology.

HD-ready line is shorn of 4:3 sets as Mitsubishi shifts to widescreen with exception of analog models. Sets range 46W-73W with low level priced at \$3,499, about \$300 below last year's entry-level piece (TVD May 17 p16). Line tops out at \$9,999 for 73W CRT-based set and 65W DLP model. Major advances are in lens and audio system.

Entry-level 46W-65W Platinum series (\$3,499-\$4,499) features DiamondDigital Pixel Multiplier, MicroFine phosphor CRTs and 3D-Y/C comb filter. Line shifts to enhanced depth-of-field (EDF) lens with 55W-65W Platinum Plus (\$4,499-\$4,999). High-end Diamond models are 55W-73W (\$4,999-\$9,999) with Tru-Focus lenses and enhanced 2-way audio system. New 73W adds 9" CRTs.

As it rolled out new sets, Mitsubishi said it wouldn't renew \$10 million package used year ago to convert CBS-TV prime-time programming to HD. Focus this year will be on sports and other special events, it said.

Mitsubishi is retaining 7-model, 4:3 analog line of 45-70" (\$1,899-\$3,899). ColorTuned Diamond Shield and DiamondBrite screen are added to step-up TVs.

DirecTV offerings are being greatly expanded. While it had standard IRD year ago, new line features HD model that's sold both separately (\$899) and with oval, 24" dish (\$1,199). Rest of DirecTV line includes standalone unit at \$349 and one package with 18" or 24" dish (\$399-\$549).

In DVD, Mitsubishi adds progressive scan model at \$999 that has Dolby Digital decoder with 6-channel output and HDCD digital audio processor. Entry-level set at \$299 features component and S-video outputs and 10-bit processor Dolby Digital/DTS bitstream processor.

**Channel Master** has reached agreement to buy Cambridge Industries for \$35 million in deal that would bring satellite dish maker into low-noise blocker (LNB) business. U.K.-based Cambridge, with 40 employees, is LNB supplier to British Sky Bcstg. (BskyB), but will expand distribution to U.S., Channel Master Pres. Harold Miles said. First dual LNB for U.S. market will ship in midsummer, he said. Cambridge, which designs LNBs and uses off-shore contract manufacturer to build them, will continue OEM business but will put greater focus on Channel Master, Miles said. Channel Master will distribute Cambridge LNBs, but also seek other sources based on customer preference, he said. Channel Master will sell LNBs both separately and as package with 18" dish, Miles said. In U.S., Cambridge will compete with Alps, Cal. Amplifier and Sharp in seeking to provide LNBs for DirecTV and EchoStar satellite systems. Cambridge will seek additional manufacturing capacity in gearing up for U.S., although Miles declined to disclose size of expansion. Cambridge will remain in U.K., but sales and marketing functions will be combined with Channel Master's field office in Germany, Miles said. Channel Master has dish manufacturing plants in Smithfield, N.C., and Blackburn, England. Cambridge has operated as independent LNB supplier since separating from Spacecraft in management-led buyout in 1994.

**InFocus** plans to complete acquisition of Proxima by June, deal that will be "accretive" to earnings after first year, CFO Scott Hildebrandt said. Purchase also will enhance company's "negotiating position" with component suppliers, he said. Material costs including LCDs, DLPs and lamps, were 88% of cost of overall sales in first quarter ended March 31, he said. InFocus is likely to retain Proxima brand through year-end, but eventually 2 "will be blended," Hildebrandt said. "There will be an integration of the corporate cultures, but this will not be a slash-and-burn, layoff type of merger," Hildebrandt said. "But over time we will find opportunities to consolidate." InFocus hasn't decided whether it will keep Proxima factory in Oslo, Norway, but facility could be key as company seeks to double OEM business to 20% of revenues by year-end, Hildebrandt said. Combined company will have 23% share of worldwide market for LCD projectors, followed by Epson, Sanyo and Sony, all with 7-8%, he said. Meanwhile, InFocus discontinued projector that was part of joint marketing agreement with Faroudja and has no plans to renew deal, Hildebrandt said. Faroudja is in process of being sold to Sage. In searching for new revenues, InFocus will pitch projectors to movie theaters as means of displaying trailers in U.S. and subtitles in international markets, Hildebrandt said. InFocus also is seeking to boost sales of projector packaged with laptop PC to 5% of revenue from current 3%, he said.

**CustomDisc.com** unveiled industry's first customized DVDs last week. Its "CustomDVD" service allows consumers to create customized DVD from content including films, music videos, sports, TV shows. Stamford, Conn., company began service with Alanis Morissette promotion in which customers could create custom DVD by choosing 5 selections from variety of artist's music videos for \$39.99. Service also allows users to design their own packaging. CustomDisc.com CEO-Chmn. David Gould said company also created new division to concentrate on film and TV content: "We are also currently entering into marketing and distribution arrangements with television and film studios." Up to now, company has focused on customized CDs like competitor Musickmaker.com. CustomDisc.com recently signed licensing deals with BMG and Sony Music Entertainment (SME) to make custom CDs of each company's music (TVD May 1 p17). BMG and SME received equity stakes in CustomDisc.com, which says its line eventually will include CustomArchives, CustomDownloads, CustomMiniDiscs, CustomTV.

**Hasbro Interactive** (HI) will show new line of PC and videogames at E3 this week, including *Frogger 2: Swampy's Revenge* for PC and PlayStation (PS), *Monopoly Tycoon* for PC, *NASCAR Racers* for PC and PS, *Nicktoons Racing* for PC and PS, *Pac-Man Adventures in Time* for PC, *Tonka Space Station* for PC and PS, *X-Com: Alliance* for PC. Electronic Game Div. of toy giant Hasbro also is expanding line of games based on TV game shows with *Family Feud*, *Jeopardy 2nd Edition* and *Wheel of Fortune 2nd Edition* for PC and PS. Also being unveiled are 4 new CD-ROM Playsets: *Barney Magical Music Playset*, *Playskool Store*, *Tonka Dig 'N Rigs*, *Tonka Power Tools*. All titles will ship in fall, HI said.

**Ripcord** will unveil 6 games at E3 this week — 2 for Sega's Dreamcast (*Quest of the Blade Masters*, *Spec Ops: Omega Squad*), 3 for Dreamcast and PC (*Gorkamorka*, *Legend of the Blade Masters*, *M.O.U.T. 2025*), one for PC (*Spec Ops: Platinum*). Santa Clara, Cal.-based game maker said *Quest*, *Gorkamorka* and *M.O.U.T.* fully utilize console's online capabilities. All of titles are slated to ship in summer or fall.



**CDNOW EXPECTS NEW FINANCING DEAL:** CDNow Pres.-CEO Jason Olim said last week "we anticipate signing a merger or investment transaction by the end of the 2nd quarter" as company posted increased sales of \$43.6 million and widened loss of \$37.8 million for first quarter ended March 31.

Olim's financing prediction was given in conference call with analysts in which he said company was "very pleased with the level of interest" by potential investors and CDNow had "received more than 2 dozen inquiries" to date. He declined to identify potential investors.

CDNow's optimistic forecast arrived amid growing concerns in financial community — and even by company's own independent public accountant (TVD April 3 p19) — about CDNow's future that started after Sony and Time Warner terminated planned merger of their Columbia House joint venture and CDNow (TVD March 20 p16). Despite fact that Sony and Time Warner still are committing \$51 million to CDNow under new arrangement, Internet music retailer remains independent company that already has admitted it isn't sure it can carry on past Sept. 30 without receiving new major investment.

Company's wider-than-expected \$37.8 million loss in quarter was in comparison with \$19.1 million loss year ago. But CDNow said loss for quarter excluding special items was \$28.2 million. Special items included \$8.2 million in charges related to company's March 1999 merger with N2K (TVD March 22/99 p15) and June 1998 acquisition of superSonic Boom, \$1.3 million write-off related to discontinuation of its investment in Cosmic Music Network (CMN), \$126,000 in expenses in terminated Columbia House merger.

Olim said company has opted to terminate its CMN and other "noncore" investments as part of plan to prioritize spending — one step in CDNow's new business model to achieve profitability. In prioritizing spending, company hopes to shrink cost to acquire new customer down to "less than \$20 each" from current \$38.

Other 2 main steps in company's plan, he said, are (1) to increase revenue opportunities through sponsorships and additional ad sales and (2) implement services and expand product offerings in move to increase purchasing frequency among customers.

If company can achieve those goals, Olim said, company can "become profitable by the 4th quarter of 2002." He said it believes it can be profitable with revenues of \$100 million per quarter.

In first quarter, CDNow added 440,000 new customers, raising total to 3.7 million, Olim said. Through promotion in conjunction with Musicmaker.com and Pizza Hut, he said there were more than 800,000 custom CD redemptions in quarter. He said 600,000 of those represented new accounts and 200,000 were from repeat customers. But company said it had seen little evidence that it had transformed many of those 600,000 into repeat shoppers at CDNow's Web site yet.

In same conference call, CFO Joel Sussman said DVD and VHS titles "have been a growing part of our business" and category represented 6-7% of revenue in latest quarter.

On digital download front, CDNow said it had 70,000 downloads available for sale at site as of last week, but admitted few were popular recordings from major artists and labels. But Olim,

pointing to recent rise in announcements on download front from major labels (TVD April 17 p18), said he expects more "major product" to be available by end of year, which will lead to dramatic growth in that segment of its business. He said that over the next 3 years or so, he believes downloads "can reach a double-digit percentage of sales."

**Zany Brainy (ZB) and Noodle Kidoodle (NK)** have signed merger agreement in all-stock deal valued at \$40 million. Combination will create chain with 163 stores and \$370 million in combined sales. Deal is expected to close within 60 days and integration, including changing NK-branded stores to ZB, will be completed in 2nd half, ZB Chmn.-CEO Keith Spurgeon said. Chains largely operate in separate regions, but do share markets in Chicago (14 stores) and northern N.J. (5). ZB said it may close 3-4 outlets. ZB and NK, which specialize in education products for children including selection of CE items, have 80% overlap in inventory, ZB CFO Robert Helpert said. Major dividing point is books, which ZB stocks in greater depth, he said. Merger will yield "several million dollars" in savings largely through elimination of overlapping administrative positions. Chains have similar format that features 8,000-10,000-sq.-ft. stores, although NK had branched into smaller 5,000-sq.-ft. versions for urban and mall-based locations. ZB will retain smaller stores as possible "area of growth," Helpert said. Each chain had average per store sales of \$2.7 million, he said. ZB will retain NK warehouse in Philipsburg, N.J., to supplement own in Pa., Helpert said. NK's Syosett, N.Y., hq will be closed, but new warehouse in Nashville will open in summer, Helpert said. Merger also will combine chains' fledgling online businesses — noodlekidoodle.com and zanybrainy.com — both of which began last fall, latter in joint venture with Online Retail Partners. NK had spent \$800,000 on revamping its site in 1999, but logged only \$1 million in sales. Both chains have suffered through downturn in sales of Beanie Babies and had single-digit sales gains in holiday selling season (TVD March 20 p20). Merger will mean end for NK, which evolved from former Greenman Bros. toy chain (TVD March 25/96 p16) to emerge under new banner in mid-1990s as purveyor of educational products... **Toy R Us** unit in Japan made solid debut on over-the-counter (OTC) Tokyo market, opening at \$142.50, up 25% from IPO price. IPO raised \$463.6 million in selling 2.77 million existing shares and 1.3 million new shares at \$114. Chain, which has operated in Japan for more than decade, plans to expand to 100 stores from 93 by Jan. It projected increase in sales for year ending in Jan. to \$1.5 billion from \$1.27 billion. U.S. parent will retain 48% stake in Japanese operation.

**Best Buy (BB)** paid partnership that included Chmn.-CEO Richard Schulze \$1.3 million in rent in fiscal year ended Feb. 26 on leases for 2 of chain's 358 stores, according to proxy filed with SEC for June 22 annual meeting. BB also paid \$358,244 to company controlled by Schulze and his wife that leases airplane to retailer. BB is charged hourly rate and aircraft is used when "it is more economical or practical than flying commercial airlines," retailer said. Schulze received \$1 million in salary in fiscal 2000, up from \$950,000 year earlier, along with \$1.5 million bonus, options for 100,000 shares. Schulze controls 37.2 million shares (18.5%) of chain. Pres.-COO Bradbury Anderson received \$730,000 salary, increase from \$695,000, \$679,247 bonus, 60,000 shares. Exec. Mktg. Vp Wade Fenn was paid \$525,000 salary, \$423,266 bonus, 37,500 options.

**MP3.com** and venture capital company Prime Ventures invested \$4 million in AntEye.com, recently formed Web start-up that provides financial support to film and music content creators.



**BESTBUY.COM RELAUNCH ON TRACK:** At our Fri. deadline, Sony was only major CE supplier that hadn't granted BestBuy.com authorization to sell its products when e-commerce Web site relaunches later this month, spokeswoman for retail chain and its online subsidiary told us.

BestBuy.com spokeswoman said: "Sony is a major supplier for us and we fully expect that they will be up on our site, but we do not have a formal, signed agreement." She said company is confident that authorization will be given by time site appears with expanded product offerings including electronics, but declined to say what would happen if BestBuy.com doesn't get authorization. However, BestBuy.com Pres. John Walden told us at CES that it was his company's intention to abide by wishes of suppliers and would go ahead with debut of site minus products from manufacturers that didn't grant authorization.

Also at CES, Best Buy named 24 CE manufacturers it "had secured partnerships with" for Web sales (TVD Jan 10 p14). Included on list were Aiwa, Bose, Cerwin Vega, Clarion, DirecTV, JBL, JVC, KLH, Panasonic, Philips, Recoton, Samsung, Sharp, Thomson, Toshiba. Among most prominent manufacturers missing was Sony.

Exact day site will be up and running wasn't given by BestBuy.com spokeswoman, but she said "it is toward the end of this quarter." She also denied veracity of reports by at least 2 publications that relaunch had been delayed from earlier this year. One report said it was delayed first from last year and then again from earlier in 2000. But BestBuy.com spokeswoman said: "We never said we'd relaunch last year. That was an assumption because we brought John Walden in — that he would be launching the site [right away]. But he needed a staff and we intentionally [held off] because of all the problems [other companies] were having. We wanted to make sure we had it up and we had it right." Since Walden was hired, she said, "I've never heard delay. That's never been a discussion. It's been 'we're going to get it up as soon as we can and as good as we can possibly can get it.'"

At CES, company didn't provide specific date of relaunch, saying only that it was scheduled for first quarter.

Although Sanford Bernstein Senior Research Analyst Ursula Moran told us last week she hadn't asked Best Buy whether there's been delay in Web site, she said: "I would expect they're having problems" because "what they're trying to do is inherently complex and challenging and my opinion is that their information systems are not quite as good as Circuit City's." Pointing to recent deal BestBuy.com signed with RollingStone.com (TVD May 1 p16) as just one example, she said "they clearly want to make this a really content-rich Web site."

Moran also was quick to say: "I don't care if they don't do it in May. The important thing is that they do it right. If you get it out there and it's wrong, that's a huge problem."

Although Best Buy already began e-commerce Web site, it has only sold select products online, including software. But as company gears up for relaunch, it ceased selling any products at all online. Last week, only thing appearing at site was message informing consumers that improved site is coming soon.

BestBuy.com also said last week that it selected DDB Worldwide as its ad agency. Retailer said DDB Digital and

DDB New York will help it develop \$50 million offline and online campaign. Campaign will be fully integrated with retailer's bricks-and-mortar campaign, BestBuy.com said.

**Foreign banks**, owed more than \$4 billion by Daewoo Group affiliates, face deadline later this month for replying to offer giving them 40¢ on dollar, S. Korean govt. official said. Offer requires that 90% of 200 foreign banks involved accept it, he said. Foreign banks extended loans to 4 Daewoo companies including Daewoo Electronics. Daewoo Group ran into financial problems last summer that forced creditors to inject emergency funds. Daewoo's 12 firms had combined \$80 billion debt and were put on restructuring programs last Aug. Group of Korean banks, lead by Hanvit, is expected to emerge as new owner of Daewoo Electronics (TVD Feb 21 p14). Daewoo Electronics has had several potential owners in past including Samsung and Walid Alomar & Assoc., but deals collapsed and banks stepped in last fall.

**Sixty percent of Americans** age 6 or older say they regularly play computer or videogames and almost half — 43% — are female, according to new survey by Peter D. Hart Research Assoc. Average age of game players is 28 and 61% are 18 or older. Interactive Digital Software Assn. (IDSA) Pres. Douglas Lowenstein quoted NPD Group data that indicated industry experienced another record-breaking sales year in 1999. More than 215 million computer and videogames were sold in year for more than \$6.1 billion — up 11% over 1998's \$5.5 billion. Videogames alone grew 13.5% to \$4.2 billion.

**Acclaim is developing 2 more videogames** for Sony's PlayStation2 (PS2) — *Big Wave Surfing* and *Shadow Man: Second Coming*. Games will ship in early 2001 after next-generation console arrives in N. America. Game maker earlier announced development of 3 other games for PS2 and said it will show PS2 games for first time at E3 this week. Acclaim's Club Acclaim division recently announced its first Mary-Kate and Ashley title for current PlayStation console, *Mary-Kate and Ashley's Magical Mystery Mall*. Club Acclaim said it will ship first *Bust-A-Move* game for Sega Dreamcast — *Bust-A-Move 4* — June 1. Game is being developed by N-Space. Acclaim also signed exclusive multiyear deals with boxers George Foreman and Roy Jones, who will serve as spokesmen for upcoming *HBO Boxing* videogame, shipping in fall.

**European Commission (EC)** said it was investigating whether Nintendo and 7 videogame distributors have been engaging in price-fixing that has kept prices artificially high. EC issued statement saying: "The Commission believes that the companies concerned participated in a cartel-like arrangement with the aim of partitioning the European single market." Distributors named by EC were Bergsala AB, CD Contact Data GmbH, Concentra LDA, Itochu, John Menzies Plc, Linea GIG SpA, Nortec SA. Commenting on investigation, Nintendo last week said EC's Statement of Objections "is based on information provided voluntarily to the Commission following an internal review by Nintendo management." Company added: "Nintendo has cooperated with the Commission and will continue to do so in order to bring the proceedings to a swift conclusion."

**Strong demand** for DVD and consumer multimedia copy protection pushed Macrovision first-quarter profits to 136% gain from year earlier to \$4.4 million from \$1.9 million on 78% revenue rise to \$12.7 million from \$7.2 million.



**MP3.COM TERMED 'CLEAR' INFRINGER:** Although "the complex marvels" of Internet communication may create "difficult legal issues," that's not true of RIAA copyright infringement suit against MP3.com. So said U.S. Dist. Court Judge Jed Rakoff, N.Y.C., in 10-page written elaboration issued May 4 of his summary judgment week earlier in RIAA's favor.

MP3.com infringement of major record labels' copyrights is "clear," Rakoff said. RIAA had sued MP3.com in Jan. over Web site's copying of 45,00 CDs onto servers, where users who proved they owned physical copies could access them. Rakoff rejected MP3.com claims that service was "functional equivalent" of storing subscribers' CDs. Judge said that "in actuality," MP3.com was "replaying for the subscribers converted versions of the recordings it copied, without authorization, from plaintiffs' copyrighted CDs."

MP3.com had argued that such practices were protected under "fair use" doctrine of Copyright Act. But Rakoff said actions don't qualify under 4 factors that "must be considered" for fair use defense: (1) Whether it's intended for commercial or nonprofit purposes. (2) Nature of copyrighted work. (3) Size of portion to be excerpted. (4) Impact on copyrighted work's potential value. On 4th point, for example, Rakoff said MP3.com actions "invade plaintiffs' statutory right to license their copyrighted sound recordings to others for reproduction."

Reacting to release of written decision, MP3.com Pres. Robin Richards said that development was "exactly what we expected," given Rakoff's earlier ruling in RIAA's favor. "Everyone is getting tired of the constant litigation," Richards said, adding that MP3.com could "continue to negotiate with RIAA and the major labels" to reach "equitable business resolution." RIAA earlier had hailed court's decision.

**Unfavorable market conditions** was reason given last week for delayed IPO of Staples.com and request by Beatnik for withdrawal of its IPO. Spokeswoman for e-commerce division of office supply retailer Staples told us "it's dependant upon market conditions as to when we do go forward with [IPO]." Meanwhile, in SEC filing, Beatnik Pres.-CEO Lorraine Hariton asked that her company's \$63.25 million IPO be withdrawn because "current market conditions do not support a public offering... at this time." Beatnik, based in San Mateo, Cal., develops, markets and sells interactive audio products and services to other businesses and consumers. It was formed in 1996 by composer/musician Thomas Dolby Robertson, artist best known for hit 1980s song "She Blinded Me With Science." Late last month, company announced deal with N.Y.-based online music company MTVi Group that makes Beatnik featured technology solution for interactive audio on MTVi's network of Web sites, including MTV.com, SonicNet.com, VH1.com. MTVi is division of Viacom-owned MTV Networks.

**Mitsubishi** will supply 45", 50" and 60" conventional rear-projection TVs to Rent-a-Center (RAC), marking return to rent-to-own channel after several years' absence. Analog sets, which started shipping to 2,000 stores in April, will be limited to RAC, which had carried Mitsubishi product. Mitsubishi will fill 3rd spot in RAC's TV lineup that also includes Toshiba and Philips Magnavox models, Chmn.-CEO Ernest Talley said. RAC had carried Thomson's RCA sets up until year ago when it dropped line, he said. RAC stores are offering 50-60" Mitsubishi TVs on contracts with \$151 and \$179 monthly fee that includes free delivery and installation.

**BMG** last week became latest major music company to grant interactive radio license to ClickRadio, N.Y.-based company starting free digital radio service this month that allows listeners to customize music they hear through their computers. As part of agreement, ClickRadio has received license for entire BMG catalog, including music on labels Arista Nashville, Arista Records, BMG Classics, RCA Label Group Nashville, RCA Records, Windham Hill Group. ClickRadio recently received similar license from Universal Music (TVD April 24 p17).

**CDNow** has expanded its Custom Shop ([www.cdnow.com/customshop](http://www.cdnow.com/customshop)) that lets consumers pick songs for custom CD purchase. CDNow is offering more than 1,000 songs in 10 new collections that can be selected from 5 categories — big band, jazz, blues legends, country, R&B. Company said it "will continue to add more new songs and collections on a regular basis, and anticipates having many more collections to choose from by midsummer."

**Potential of streaming media** has caught attention of copy protection titan Macrovision, which has made \$1 million investment in RPK SecureMedia. Latter has developed Encrytonite and SecureMedia protection for content delivered over Internet. Other investors in \$8 million equity round included Sony, share not disclosed.

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**BARNES & NOBLE TO BUY FUNCO:** Month-long battle between Electronics Boutique (EB) and Barnes & Noble (B&N) to acquire Funco ended last week after EB declined to match \$24.75-per-share offer of B&N and Funco terminated its merger agreement with EB. B&N and Funco then jointly announced merger agreement under which B&N will acquire Funco in deal that will be equivalent of \$161.5 million.

In announcing its decision to not match B&N's offer, EB said: "Electronics Boutique indicated at the outset of its intended acquisition of Funco that it would not undertake any action that would dilute its earnings. Electronics Boutique believes its offers represented a fair price for Funco and the best potential for Electronics Boutique's shareholders."

Battle started in early April when Funco announced that it had received unsolicited letter from B&N's Babbage's Etc. chain in which latter said it was prepared to acquire Funco for \$135 million (\$21 per share), topping EB's initial offer of \$110 million (\$17.50 per share) (TVD April 10 p18). EB later matched \$21 offer (TVD April 24 p15), but B&N then made \$24.75-per-share counteroffer (TVD May 1 p20).

Just before EB announcement, Funco said another one of its shareholders, David Van Essen, had filed class action lawsuit against Funco and members of its board. Funco said suit accused company of breach of fiduciary duties by taking actions in connection with Funco's merger agreement with EB that were designed to halt any other offers and to deter higher offers from potential acquirers. Funco said Van Essen was looking to stop company from honoring termination fee provisions of EB's initial merger agreement, block merger with EB, require board to negotiate in good faith with Babbage's, pay costs and attorney fees incurred by lawsuit.

Unclear last week was whether or not Van Essen still planned to go forward with suit in light of EB's dropping out of acquisition battle. Funco didn't return call for comment by our Fri. deadline.

Funco said lawsuit was filed by same attorneys who had previously filed class action lawsuit by shareholder David Eckert. Earlier lawsuit was dismissed voluntarily by Eckert's attorneys on April 25, Funco said.

Commenting on latest lawsuit, Funco Pres. Stan Bodine said: "Given the notice of voluntary dismissal of the first lawsuit and Funco's overall sale process, we do not understand the basis for the Van Essen lawsuit." For one thing, B&N already had offered to pay fee for terminating EB merger agreement. Funco board denied allegations and said it "intends to defend the action vigorously."

Minneapolis-based Funco started out as exclusively previously owned game business, but later expanded mix to include new titles as well.

Separately, EB said in annual 10K filing that its EBWorld.com e-commerce Web site recorded 19.6 million visits in fiscal 2000, compared with 10.2 million year earlier. It said revenues from Web site were \$14.1 million, up from \$4.3 million in year. Marketing campaign conducted by EBWorld.com in 3rd and 4th quarters of last year helped drive traffic to Web site and ads "also drove sales at our stores through association with the Electronics Boutique brand name," EB said.

Company said in filing that "as foreign demand warrants, we intend to open international distribution centers to increase fulfillment efficiency" of its e-commerce Web site. "We also intend to expand aggressively our customer base through national media campaigns, advertising through Internet properties, such as America Online, MSN and Snowball.com and continued pursuit of strategic alliances with directories, search engines and content providers."

Retailer said its largest vendors last year were Electronic Arts, Nintendo, Sega and Sony, accounting for, respectively, 10.5%, 10.4%, 8.7% and 7.1% of its net purchases. EB's top 25 vendors accounted for 79% of what it bought last year.

EB also signed 2 deals, Reuters reported: (1) With MSN UK to become anchor partner on latter's shopping channel and give MSN users access to EB's Web site and online shopping service. (2) With interactive TV company Open that will give it presence in 3 million households.

**New Panasonic labs** in Princeton, N.J., and San Diego will conduct R&D on Internet Protocol technologies, company said. Princeton lab will focus on business applications in cooperation with Matsushita Communications, while San Diego thinktank targets wireless communications with Kyushu Matsushita affiliate. Each will operate under umbrella of Panasonic Technologies, company said.

**Fire-resistance standards** for TV sets are being challenged in Europe. Alliance for Consumer Fire Safety-Europe has demanded adoption of more stringent U.S. standards, British press reported. Group said TV fires dropped 73% in U.S. following introduction of flame-retardant cabinets decade ago, but increased at same time in Europe, where enclosure flammability test is more relaxed.

**Rogers Video Stores**, through partnership with NetActive, will begin offering PC games to consumers in Canada next month. Chain of 230 stores said agreement marks first time Canadians will have access to PC games in video stores. Games will be available to play for 5-day period that can be extended via Internet with credit card or by buying "e-tickets" at stores. Blockbuster is testing concept with NetActive in U.S.

"**Surrounded by Sound**" is theme of 109th Audio Engineering Society (AES) convention set for Sept. 22-25, L.A. Convention Center. AES Exec. Dir. Roger Furness said decision by convention committee on multichannel audio "is particularly timely" because 5.1 surround recording techniques "have made a dramatic impact on our industry."

**Independent lab** has certified Aiwa portable CD players as "joggable," company said. Measurements performed by Advanced Product Evaluation Laboratory, Bethel, Conn., found that 48 sec. buffer memory in Cross Trainer models XP-SP911 and XP-SR311 would prevent any interruption of music from shock or vibration in vertical or horizontal planes typical of motions induced during physical exercise.

#### THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥108 = \$1, except where noted.



**I-JAM AND MICROSOFT UNVEIL WIN-JAM:** I-Jam Multimedia and Microsoft last week announced first digital music player designed exclusively to support latter's proprietary Windows Media Audio (WMA) format for storing audio recordings.

Win-Jam ships in July at \$129.99 bundled with 15 MB card, USB cable for faster music transfer from PC to device, Microsoft's new Windows Media Player 7 software. I-Jam Pres. Doug Marrison told us last week Win-Jam also will come with prerecorded music card with songs from combination of independent and major labels.

"We've been working with Microsoft a good 6 months with this product," Marrison said. Secure downloading and digital rights management capability of WMA technology will help speed up record labels' desire to make wider selection of "good quality music" available through digital downloading, he said.

I-Jam, based in Schaumburg, Ill., also is looking to expand its distribution, Marrison told us, and retailers that will be carrying Win-Jam include Best Buy and Sears, new accounts for company. Device also will be sold online, he said.

Marrison told us there will be major ad campaign "in conjunction with Microsoft" that will kick off in June, just before units hit retail shelves. I-Jam also will be "part of a back-to-school mall tour" promotion with Microsoft that will start in Aug. Although he declined to say how much money I-Jam will be kicking in for campaign, he said "it'll be a major commitment."

I-Jam has also opened new Web site, [www.ijamworld.com](http://www.ijamworld.com), where Win-Jam was available for preordering last week at \$139.95 plus \$9.95 for shipping. Although company's official ship date is July, Web site said unit would be available at end of June.

Win-Jam will be provided in black, silver, transparent blue, transparent red, yellow, although only 2 colors offered at Web site last week were blue and red. Included with player will be carrying case, DC adapter jack, earphones, neck strap.

I-Jam also will ship IJ-830 digital music player for WMA format in July at about \$199 that also functions as portable CD player. IJ-828 version for MP3, unveiled at CES in Jan. (TVD Jan 17 p19), will ship in June at about \$149, Marrison said.

New devices from I-Jam join IJ-100 digital music player, currently selling for about \$179, and IJ-50 \$99 unit that Marrison said "just started shipping last month."

But company has canceled its plans to ship 2 other digital music devices that were unveiled at CES — IJ-90 model that also would function as voice recorder, and IJ-200 with built-in radio that was to handle multiple audio formats and perform voice recording. I-Jam also announced plan for IJ-888 DVD/MP3 player at CES although it didn't have model on display at its booth. It now has been dropped from company's plans, we were told.

Separately, Microsoft last week said it expanded its marketing alliance with Internet music company Atomic Pop. Under deal, Atomic Pop becomes featured music content

provider for beta version of Windows Media Player 7 and Microsoft's newly redesigned WindowsMedia.com audio and video guide.

Microsoft also conducted "Week of WindowsMedia.com" promotion in which it's showcasing exclusive video content, including never-before-seen footage from movie *Jaws*, through May 8. Web site is running giveaway throughout May in which 3 portable music devices will be awarded to consumers each day.

Adult DVD titles have been banned from U.K. video buff book *Total DVD*. Magazine said it no longer will run ads or reviews for soft or hardcore sex titles in order to foster "family-friendly" environment. "Sure, this will hurt us in the pocketbook," *Total DVD* publisher Steve May said. "But I'm sure all responsible movie studios will see the value to their own brands in our stance." That wasn't case in U.S. Once home video became mass market commodity, studios stopped consumer advertising in enthusiast publications, ultimately leading to demise of magazines such as *Video Review*.

New DVD trade group announced formation at recent DVD Summit in Dublin, Ireland. DVD Assn. Europe (DVDA-Europe) will be umbrella for developers of interactive DVD programming and liaison with similar parties worldwide, Edinburgh-based group said ([www.dvda.org](http://www.dvda.org)). Separately, U.K. DVD Committee announced 3 new members: Buena Vista Home Entertainment, Sanyo U.K. Sales, Twentieth Century Fox Home Entertainment.

Virtual PC software that enables consumers with Macintosh computers to run Windows 2000 is shipping at \$329. Software from Connectix, San Mateo, Cal., is on sale at its online store ([www.connectix.com](http://www.connectix.com)). Connectix said software also will be available at retail stores, through mail order catalogs, other online stores. Virtual PC versions for PC-DOS, Red Hat Linux, Windows 95 and Windows 98 were introduced earlier.

### **Consumer Electronics Personals**

Claude Frank, ex-Toshiba, named Samsung senior DVD/VCR mktg. mgr., replacing Mark Knox, who has established consulting firm engaged by N.Y.C.-based SAP America for marketing e-commerce solutions... Susan Johnston advanced to Columbia TriStar Home Video (CTHV) vp-mktg. & market development from exec. mktg. dir., CTHV Canada... Steven Apple leaves West Coast Entertainment to join Advanstar Communications as senior dir.-e-commerce, Entertainment & Mktg. Div... Frederic Hirsch, ex-MPA, joins Interactive Digital Software Assn. as senior vp-intellectual property enforcement... Rob van Oostenbrugge, Philips Digital Networks pres., elected to Boca Research board... Philip Morse, ex-Perkins Coie, joins Nintendo of America as human resources vp... Jay Haft retires as NCT Group chmn., will remain on board, succeeded by Michael Parrella, who retains CEO title; Irene Lebovics, senior vp, promoted to pres... Valerie Brown, ex-Planet Hollywood, named Music.com mktg. vp... Jim Noble, ex-General Motors, joins Warner Music Group as senior vp-chief information officer... Chet Huber, General Motors OnStar gen. mgr., named to General Magic board... Thomas Fogerty, ex-DecisionOne Corp., appointed Ravisent Technologies CFO.



## Financial Reports of TV-Electronics Companies

These are latest reports as obtained during past week. Dash indicates information not available. Amounts expressed in dollars. Parentheses denote loss.

| Company & Period                    | Revenues       | Net Earnings  | Per Share         |
|-------------------------------------|----------------|---------------|-------------------|
| <b>Acme Communications</b>          |                |               |                   |
| 2000-qtr. to Mar. 31                | 16,218,000     | (6,190,000)   | .37               |
| 1999-qtr. to Mar. 31                | 11,123,000     | (5,998,000)   | ---               |
| <b>Adaptec</b>                      |                |               |                   |
| 2000-year to Mar. 31                | 811,161,000    | 170,789,000   | 1.65 <sup>a</sup> |
| 1999-year to Mar. 31                | 692,441,000    | (13,293,000)  | ---               |
| 2000-qtr. to Mar. 31                | 213,057,000    | 36,417,000    | .35 <sup>b</sup>  |
| 1999-qtr. to Mar. 31                | 184,017,000    | 46,368,000    | .43 <sup>b</sup>  |
| <b>AT&amp;T</b>                     |                |               |                   |
| 2000-qtr. to Mar. 31                | 15,836,000,000 | 1,741,000,000 | .55               |
| 1999-qtr. to Mar. 31                | 14,096,000,000 | 1,076,000,000 | .39 <sup>b</sup>  |
| <b>Belo</b>                         |                |               |                   |
| 2000-qtr. to Mar. 31                | 364,498,000    | 15,393,000    | .13               |
| 1999-qtr. to Mar. 31                | 326,620,000    | 12,590,000    | .11               |
| <b>Boca Research</b>                |                |               |                   |
| 2000-qtr. to Mar. 31                | 4,655,000      | (2,395,000)   | ---               |
| 1999-qtr. to Mar. 31                | 10,701,000     | (3,806,000)   | ---               |
| <b>CDNow</b>                        |                |               |                   |
| 2000-qtr. to Mar. 31                | 43,583,149     | (37,813,496)  | ---               |
| 1999-qtr. to Mar. 31                | 21,930,361     | (19,103,549)  | ---               |
| <b>CDW Computer Centers</b>         |                |               |                   |
| 2000-qtr. to Mar. 31                | 863,988,000    | 35,291,000    | .82               |
| 1999-qtr. to Mar. 31                | 539,406,000    | 19,698,000    | .46 <sup>c</sup>  |
| <b>Chyron</b>                       |                |               |                   |
| 2000-qtr. to Mar. 31                | 14,809,000     | (1,834,000)   | ---               |
| 1999-qtr. to Mar. 31                | 14,998,000     | (1,850,000)   | ---               |
| <b>Clear Channel Communications</b> |                |               |                   |
| 2000-qtr. to Mar. 31                | 871,375,000    | (39,402,000)  | ---               |
| 1999-qtr. to Mar. 31                | 421,607,000    | (12,736,000)  | ---               |
| <b>Comcast</b>                      |                |               |                   |
| 2000-qtr. to Mar. 31                | 1,859,200,000  | (191,500,000) | ---               |
| 1999-qtr. to Mar. 31                | 1,374,000,000  | 81,000,000    | .10               |
| <b>Electronic Arts</b>              |                |               |                   |
| 2000-year to Mar. 31                | 1,420,011,000  | 116,751,000   | 1.86              |
| 1999-year to Mar. 31                | 1,221,863,000  | 72,872,000    | 1.20 <sup>b</sup> |
| 2000-qtr. to Mar. 31                | 294,313,000    | 3,432,000     | .05               |
| 1999-qtr. to Mar. 31                | 277,724,000    | 21,914,000    | .36               |
| <b>Gaylord Entertainment</b>        |                |               |                   |
| 2000-qtr. to Mar. 31                | 105,724,000    | (15,041,000)  | ---               |
| 1999-qtr. to Mar. 31                | 113,139,000    | 79,792,000    | 2.43 <sup>a</sup> |
| <b>General Magic</b>                |                |               |                   |
| 2000-qtr. to Mar. 31                | 2,596,000      | (12,063,000)  | ---               |
| 1999-qtr. to Mar. 31                | 155,000        | (13,717,000)  | ---               |
| <b>Granite Broadcasting</b>         |                |               |                   |
| 2000-qtr. to Mar. 31                | 33,339,000     | (8,811,000)   | ---               |
| 1999-qtr. to Mar. 31                | 33,875,000     | (6,424,000)   | ---               |
| <b>Gray Communications</b>          |                |               |                   |
| 2000-qtr. to Mar. 31                | 38,888,000     | (3,848,000)   | ---               |
| 1999-qtr. to Mar. 31                | 31,392,000     | (1,560,000)   | ---               |
| <b>Hauppauge Digital</b>            |                |               |                   |
| 2000-6 mo. to Mar. 31               | 41,568,846     | 1,733,619     | .20               |
| 1999-6 mo. to Mar. 31               | 29,569,767     | 1,818,203     | .21 <sup>c</sup>  |
| 2000-qtr. to Mar. 31                | 19,525,197     | 257,464       | .03               |
| 1999-qtr. to Mar. 31                | 14,512,768     | 865,552       | .10 <sup>d</sup>  |
| <b>Hearst-Argyle TV</b>             |                |               |                   |
| 2000-qtr. to Mar. 31                | 169,930,000    | 4,556,000     | .05               |
| 1999-qtr. to Mar. 31                | 113,424,000    | 2,829,000     | .04               |
| <b>Hollywood Entertainment</b>      |                |               |                   |
| 2000-qtr. to Mar. 31                | 335,322,000    | (12,136,000)  | ---               |
| 1999-qtr. to Mar. 31                | 266,529,000    | (4,221,000)   | ---               |
| <b>Imation</b>                      |                |               |                   |
| 2000-qtr. to Mar. 31                | 328,800,000    | 20,500,000    | .57               |
| 1999-qtr. to Mar. 31                | 402,000,000    | 6,100,000     | .16               |
| <b>Key Tronic</b>                   |                |               |                   |
| 2000-39 wk. to Apr. 1               | 117,402,000    | (5,352,000)   | ---               |
| 1999-40 wk. to Apr. 3               | 135,433,000    | 2,355,000     | .24               |
| 2000-13 wk. to Apr. 1               | 34,342,000     | (3,729,000)   | ---               |
| 1999-14 wk. to Apr. 3               | 45,155,000     | 1,002,000     | .10               |
| <b>Lee Enterprises</b>              |                |               |                   |
| 2000-6 mo. to Mar. 31               | 209,631,000    | 44,145,000    | 1.00              |
| 1999-6 mo. to Mar. 31               | 203,061,000    | 31,607,000    | .71               |
| 2000-qtr. to Mar. 31                | 100,973,000    | 13,601,000    | .31               |
| 1999-qtr. to Mar. 31                | 96,524,000     | 11,968,000    | .27               |

| Company & Period                    | Revenues       | Net Earnings  | Per Share         |
|-------------------------------------|----------------|---------------|-------------------|
| <b>Macrovision</b>                  |                |               |                   |
| 2000-qtr. to Mar. 31                | 12,726,000     | 4,376,000     | .11               |
| 1999-qtr. to Mar. 31                | 7,163,000      | 1,858,000     | .05 <sup>e</sup>  |
| <b>Merisel</b>                      |                |               |                   |
| 2000-qtr. to Mar. 31                | 1,166,764,000  | (13,447,000)  | ---               |
| 1999-qtr. to Mar. 31                | 1,254,717,000  | (20,509,000)  | ---               |
| <b>Midway Games</b>                 |                |               |                   |
| 2000-9 mo. to Mar. 31               | 309,141,000    | 18,694,000    | .49               |
| 1999-9 mo. to Mar. 31               | 295,330,000    | 21,553,000    | .58               |
| 2000-qtr. to Mar. 31                | 54,945,000     | (11,481,000)  | ---               |
| 1999-qtr. to Mar. 31                | 80,330,000     | 1,056,000     | .03               |
| <b>Movie Gallery</b>                |                |               |                   |
| 2000-13 wk. to Apr. 2               | 81,493,000     | 3,900,000     | .32               |
| 1999-13 wk. to Apr. 4               | 69,620,000     | 1,981,000     | .15 <sup>b</sup>  |
| <b>Multiple Zones International</b> |                |               |                   |
| 2000-qtr. to Mar. 31                | 124,622,000    | (505,000)     | ---               |
| 1999-qtr. to Mar. 31                | 135,092,000    | 343,000       | .03               |
| <b>Price Communications</b>         |                |               |                   |
| 2000-qtr. to Mar. 31                | 66,614,000     | 5,679,000     | .10               |
| 1999-qtr. to Mar. 31                | 56,961,000     | (3,307,000)   | ---               |
| <b>Recoton</b>                      |                |               |                   |
| 2000-qtr. to Mar. 31                | 145,463,000    | (2,624,000)   | ---               |
| 1999-qtr. to Mar. 31                | 143,906,000    | (1,464,000)   | ---               |
| <b>Rent-A-Center</b>                |                |               |                   |
| 2000-qtr. to Mar. 31                | 392,526,000    | 20,889,000    | .75               |
| 1999-qtr. to Mar. 31                | 344,697,000    | 12,027,000    | .40               |
| <b>Rimage</b>                       |                |               |                   |
| 2000-qtr. to Mar. 31                | 13,157,000     | 2,154,000     | .26 <sup>a</sup>  |
| 1999-qtr. to Mar. 31                | 8,652,000      | 1,095,000     | .14 <sup>c</sup>  |
| <b>Saga Communications</b>          |                |               |                   |
| 2000-qtr. to Mar. 31                | 22,042,000     | 720,000       | .04               |
| 1999-qtr. to Mar. 31                | 18,267,000     | 556,000       | .03               |
| <b>Scientific-Atlanta</b>           |                |               |                   |
| 2000-39 wk. to Mar. 31              | 1,162,800,000  | 96,700,000    | .61               |
| 1999-40 wk. to Mar. 31              | 888,200,000    | 55,000,000    | .36 <sup>c</sup>  |
| 2000-13 wk. to Mar. 31              | 440,700,000    | 38,100,000    | .24               |
| 1999-13 wk. to Mar. 31              | 320,000,000    | 20,800,000    | .13 <sup>e</sup>  |
| <b>Seagram</b>                      |                |               |                   |
| 2000-9 mo. to Mar. 31               | 11,998,000,000 | 168,000,000   | .39 <sup>a</sup>  |
| 1999-9 mo. to Mar. 31               | 8,789,000,000  | 739,000,000   | 2.00 <sup>b</sup> |
| 2000-qtr. to Mar. 31                | 3,375,000,000  | (265,000,000) | ---               |
| 1999-qtr. to Mar. 31                | 3,215,000,000  | (199,000,000) | ---               |
| <b>SmartDisk</b>                    |                |               |                   |
| 2000-qtr. to Mar. 31                | 17,383,000     | (504,000)     | ---               |
| 1999-qtr. to Mar. 31                | 5,507,000      | (1,966,000)   | ---               |
| <b>Ultralife Batteries</b>          |                |               |                   |
| 2000-9 mo. to Mar. 31               | 19,101,000     | (6,120,000)   | ---               |
| 1999-9 mo. to Mar. 31               | 14,976,000     | (4,988,000)   | ---               |
| 2000-qtr. to Mar. 31                | 6,199,000      | (1,205,000)   | ---               |
| 1999-qtr. to Mar. 31                | 5,594,000      | (2,053,000)   | ---               |
| <b>USA Networks</b>                 |                |               |                   |
| 2000-qtr. to Mar. 31                | 1,002,803,000  | (18,872,000)  | ---               |
| 1999-qtr. to Mar. 31                | 728,947,000    | 7,543,000     | .02 <sup>f</sup>  |
| <b>Walt Disney</b>                  |                |               |                   |
| 2000-6 mo. to Mar. 31               | 13,036,000,000 | 517,000,000   | .25 <sup>a</sup>  |
| 1999-6 mo. to Mar. 31               | 11,996,000,000 | 848,000,000   | .41 <sup>a</sup>  |
| 2000-qtr. to Mar. 31                | 6,206,000,000  | 161,000,000   | .08               |
| 1999-qtr. to Mar. 31                | 5,475,000,000  | 226,000,000   | .11               |
| <b>Western Digital</b>              |                |               |                   |
| 2000-39 wk. to Mar. 31              | 1,483,718,000  | (192,181,000) | ---               |
| 1999-39 wk. to Mar. 27              | 2,057,904,000  | (391,204,000) | ---               |
| 2000-13 wk. to Mar. 31              | 516,587,000    | (70,669,000)  | ---               |
| 1999-13 wk. to Mar. 27              | 668,456,000    | (114,293,000) | ---               |
| <b>Winstar Communications</b>       |                |               |                   |
| 2000-qtr. to Mar. 31                | 162,788,000    | (148,876,000) | ---               |
| 1999-qtr. to Mar. 31                | 88,093,000     | (152,912,000) | ---               |
| <b>Worldgate Communications</b>     |                |               |                   |
| 2000-qtr. to Mar. 31                | 1,573,000      | (10,833,000)  | ---               |
| 1999-qtr. to Mar. 31                | 549,000        | (6,197,000)   | ---               |
| <b>Young Broadcasting</b>           |                |               |                   |
| 2000-qtr. to Mar. 31                | 72,164,000     | 9,885,000     | .73 <sup>a</sup>  |
| 1999-qtr. to Mar. 31                | 63,247,000     | (7,743,000)   | ---               |
| <b>Zoom Telephonics</b>             |                |               |                   |
| 2000-qtr. to Mar. 31                | 13,618,000     | (941,000)     | ---               |
| 1999-qtr. to Mar. 31                | 11,387,000     | (690,000)     | ---               |

Notes: <sup>a</sup>Includes special credit. <sup>b</sup>After special charge. <sup>c</sup>Adjusted. <sup>d</sup>Includes special items. <sup>e</sup>Adjusted; after special charge. <sup>f</sup>Adjusted; includes special credit.





# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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## SUMMARY-INDEX OF WEEK'S NEWS

### Broadcast - Cable

**RETRANSMISSION DOMINATES NCTA:** Levin, Sachs call for new law. Daley, Hill staff less than enthusiastic. (P. 1)  
NCTA Notebook. (P. 6)

**DIGITAL MUST-CARRY STALLED:** FCC awaits market data from broadcasters, MSOs. Kennard not ready to mandate. (P. 2)

**DTH COMING FROM BELLSOUTH:** Service via GE Americom to include interactive TV, cover 64 million homes. (P. 3)

**STRICT TERMS SOUGHT FOR AOL-TW** in comments to FCC following flap with Disney, with Sinclair among filers. (P. 3)

**SENATE LPFM PLAN FAULTED:** McCain compromise knocked by both sides. Full-power stations could sue over interference. (P. 4)

**EMMIS DOUBLES IN LEE TV BUY:** Gets 8 network affiliates and 7 satellites with winning \$526.5 million bid. (P. 4)

**DIGITAL CABLE ROLLOUT URGED:** Movie channels, video-on-demand and cheap Internet access seen needed to compete with DBS. (P. 5)

**TIME WARNER-DISNEY BROUHAHA DOMINATES NCTA SHOW:** Cable's leaders spoke with one voice at NCTA convention in New Orleans May 8, calling for rewrite of retransmission consent statutes dating back to 1992 Cable Act. Speeches followed recent debacle in which Time Warner removed ABC from systems in 11 markets for 2 days only to suffer public uproar, stinging editorials and negative finding from FCC. Call for legislative change was issued by NCTA Pres. Robert Sachs, Time Warner Chmn.-CEO Gerald Levin, AT&T Chmn.-CEO Michael Armstrong. But cable crusade weakened somewhat throughout show, as Commerce Secy. William Daley said he thought it might be more practical to make effort next year, Hill staffers indicated little interest in tackling issue and FCC Chmn. Kennard warned cable operators not to black out broadcasters again.

"The time has come to reexamine whether the retransmission scheme really serves the public interest," Sachs told packed ballroom of cheering cable operators May 8. Referring indirectly to pressure that Disney has applied in its negotiations with Time Warner on carriage of new Disney networks, Sachs said: "Our friends in the broadcast industry don't understand this simple fact — cable consumers are unwilling to foot the bill for whatever price a broadcaster demands" for carriage of free, over-air signals.

Levin, denouncing retransmission statute as "bad public policy," asserted that "the law never should have permitted this sanction [where] a cable operator is no longer able to carry a signal" if it doesn't comply with broadcast-friendly rules. In veiled reference to Disney, which not only has proved tough negotiator on retransmission but has lobbied fiercely against proposed AOL-Time Warner merger, Levin complained that "a broadcaster decides to target a particular cable operator with almost messianic intensity and precludes any agreement between parties."

### Consumer Electronics

**MORE THAN MEETS THE EYE** in announcement that Pioneer-led coalition will promote DVD-RW acceptance. Thomson says it's not member, Philips plays wait and see. (P. 10)

**DVD PLAYER SUPPLY TO INCREASE** among largest vendors as global demand forecast tops 15 million. Parts shortage is feared. (P. 11)

**PLAYSTATION2 TO SHIP OCT. 26** in U.S. at \$299 with DVD-Video playback built in and minus external 8 MB memory card. (P. 12)

**BLOCKBUSTER, DIRECTV SIGN PACT** to co-brand latter's pay-per-view business and sell service through chain's 5,000 stores; Tandy stock takes hit. (P. 13)

**HITACHI MAKES HDTV PUSH** with 8 high-definition-ready models including 55W DLP-based unit, adds 52" LCD rear-projector. (P. 15)

**MAJOR AD CAMPAIGNS PLANNED** by Nintendo and Sega, companies say at E3. (P. 16)



But cable call for action may not produce results soon. After appearing on panel with MSO chiefs, Daley told reporters that "all of these issues are going to be looked at by the Congress," but probably not this year: "We've only got about 3 weeks left of the session." He said retransmission probably will be discussed during campaign, "and then hopefully partisanship diminishes" and issue can be addressed in next Congress. "Right now we have no formal position" at Commerce, he said.

Indeed, despite his rhetoric, Sachs told us NCTA won't draft legislation any time soon: "Like the Secretary said, it's a short session and there will be a new Congress." He said NCTA focus now is education campaign on retransmission. Moreover, in later panel, Comcast Pres. Brian Roberts warned cable operators that reopening legislation could be unpredictable. "If someone wants to rewrite the [retransmission] definition, it may not have as reasonable an outcome anymore," he said. "It's not the time to rewrite the [retransmission] rules necessarily."

Consensus of Republican and Democratic Hill staffers at convention was that there's little or no desire to reopen cable retransmission consent law, particularly when Congress only recently finished bruising debate on satellite retransmission in Satellite Home Viewer Improvement Act. As with other legislative issues, however, next year is considered new ball game. Panelists said limited time left in 106th Congress means only lean, targeted bills without partisan agenda are likely to pass, with 2 cited being extension of Internet tax moratorium and time limit on FCC merger reviews.

While recent Time Warner-Disney confrontation means "everyone [on Hill] wants to take a look" at retransmission, Senate Judiciary Counsel Shawn Bentley said "nobody wants to reopen cable [retransmission consent] rules... I don't see any evidence it's time to reopen those issues just yet." However, House Commerce Committee Majority Staff Dir. John Derderian countered that retransmission "can get awful hot awful quick," saying Chmn. Bliley (R-Va.) "would like to poke at this with a 10-foot stick." He said time is needed to determine how Congress should proceed, because issue otherwise is "ripe for someone pushing a point of view or trying to settle a score."

Meanwhile, walking fine line between harsh criticism of and friendly advice to cable industry, Kennard strongly advised MSOs never to black out TV stations in future retransmission disputes with broadcasters. Speaking at convention May 9, he urged cable operators and broadcasters to "act responsibly" to avoid consumer backlash that could lead to renewed govt. regulation of cable. Accusing both Time Warner and Disney of "playing a game of brinksmanship at the expense of consumers," he said their "classic conflict" has stirred fresh debate on cable operators' monopoly power. "I hope in the future these differences can be settled in boardrooms rather than on blank screens," he said.

Kennard, whose agency slapped Time Warner 2 weeks ago for pulling Disney's ABC network off cable systems in 11 markets, reiterated his position that federal govt. shouldn't intervene in private, contractual disputes. "I firmly believe that market-based solutions are the best and most efficient way to sort through [these issues] and I haven't changed," he said to applause. But he also warned that govt. might have to step in if cable operators turn off TV signals and deny consumers programming. "Ultimately, we have to focus on the wishes of consumers," he said.

**NO RUSH ON DIGITAL MUST-CARRY AT FCC:** Despite continuing open docket on proposed digital must-carry rules for cable operators, FCC is in no hurry to resolve controversial issue. Commission officials made that very clear at NCTA convention in New Orleans last week, saying they have no plans to establish carriage rules for local TV stations until they receive more market information from broadcasters and cable operators. Nor did they take opportunity at show to set timetable or deadline for deciding issue. Chmn. Kennard told attendees May 9: "My message is: Let's not rush to judgment. I believe it's putting the cart before the horse to expect the FCC to waltz into the marketplace and mandate full carriage" of local stations without more data.

Speaking later, FCC Cable Bureau Chief Deborah Lathen said agency officials still are waiting for broadcasters to produce "a comprehensive and cogent business plan" for using their new digital spectrum. Without that, she said, agency can't act: "The burden of proof does rest with broadcasters... We're looking to see how you're going to use it if you get it."

Aides to 5 commissioners said they couldn't predict when must-carry issue would be settled. They said agency must weigh such factors as whether broadcasters still are entitled to special privileges and whether cable bandwidth capacity is flexible enough to accommodate so many extra TV stations. "I think must-carry as an issue is a difficult proposition," said Marsha MacBride, aide to Comr. Powell. "It's hard to say exactly where and when."

On separate DTV issue, FCC staffers urged cable industry to wrap up its long-running negotiations with CE industry on DTV-cable equipment compatibility. Despite frequent claims by both industries that they were close to agreement on one of 2 unresolved issues — DTV set and set-top box labels — final deal remains elusive and Commission has begun



formal rulemaking for set labeling and copy protection technology licensing. "The question is: Will cable be part of the solution or part of the problem?" asked Office of Plans & Policy Chief Robert Pepper: "You keep telling me you're that close. Let's get it done and push it over the line."

Panel of FCC legal advisers indicated that, even with rulemaking process already under way, Commission probably would approve any final set-labeling agreement reached by cable and CE industries. They said agency is tackling issue reluctantly, after waiting years for 2 industries to resolve matter. "The chairman is a man of his word," said Kennard aide Karen Onyeije: "If you come up with reasonable labels, he'll accept it."

But 2 of 5 legal advisers warned that cable and consumer electronics industries may have opened can of worms by letting regulatory process begin. "Everybody here favors an industry agreement," Powell aide MacBride said. "But it's very difficult to predict where an NPRM could go." Rick Chessen, aide to Comr. Tristani, said it "would not be appropriate for us to sign off carte blanche" on any private agreement before reviewing it.

**BELLSOUTH PLANS DTH:** BellSouth (BS) signed agreement with GE Americom to start providing its Americast digital TV service over satellite receivers in less than year. Financial details weren't released, but BS said move would enable it to provide digital TV and data services to 14 million households in its service territory and another 50 million in neighboring states. Satellite service is to support 160 video channels, digital music and interactive TV guide by 2002, BS said. Pricing and program packages weren't disclosed.

BellSouth said it wanted to start own service instead of reselling DirecTV or EchoStar to control content, especially as set-top boxes become more intelligent, allowing services such as interactive TV. "It's a fundamental shift that we think we're going to take the lead in — in how people watch TV and what they use the TV for," BellSouth Entertainment Pres. Robert Frame said.

BS called deal "a substantial long-term agreement" with GE, but said it would have no "material effect" on revenue or earnings. It has signed up 120,000 customers for its Americast service since introduction in June 1998, spokesman said. But most subscribers receive 160 video channels over MMDS licenses, although some receive signal via fiber, especially in new housing communities, he said.

GE has slots for new satellite service and will launch satellite later this year dedicated to BellSouth, Frame said, with commercial rollout to begin early next year. GE will launch 2nd and 3rd satellites next year and service will meet must-carry rules and provide local programming to 90% of its customers, he said. Ku-band signal will use 20"x30" elliptical dish, although no manufacturer has been chosen, Frame said.

BellSouth has no easy task in competing with "entrenched incumbents" DirecTV and EchoStar, said Wall St. analyst William Kidd of C.E. Unterberg Towbin. Major problems could include "economics, less exclusive content and less channels" for subscribers who may not want to switch to "medium-power" service. PrimeStar is example of new service that failed, Kidd said: "Consumers want more channels and interactive capability."

DirecTV spokesman said BS had "lot of catching up to do [with] big players with a heck of a head start." He said DirecTV's 74% market awareness would be "difficult" to overcome. EchoStar spokeswoman said BellSouth entry into market would be "good" for satellite industry but would have no meaningful impact on company. Pegasus TV welcomed BellSouth into business but said it didn't know enough about new service to form opinion yet, spokeswoman said: "It's an unknown quality until we know more about product offering, price and how it's going to be packaged."

**TW-DISNEY FLAP DRAWS COMMENT:** Alarmed by Time Warner's recent blackout of ABC in 11 markets, several major broadcasters and telecom companies and various local officials urged FCC to impose strict conditions on proposed marriage of America Online and Time Warner. Most new petitioners didn't press federal govt. to block merger outright, but called for divestiture of key AOL-Time Warner and AT&T-MediaOne assets, open-access requirements, new program access rules, non-discriminatory treatment of unaffiliated content providers and ISPs. Many followed lead of Disney in arguing for "meaningful and enforceable conditions" before any approval of merger. Most also cited recent TW-Disney dispute as proof that company would abuse its market power if left unchecked by govt.

Disney filed one of longest and most aggressive comments, arguing for "catch-all prohibition against discrimination" as well as "series of specific, but not exhaustive, prohibitions of specific practices which clearly would have a discriminatory effect on unaffiliated content providers... It is far better to prevent the harm to competition from occurring by imposing conditions now than it is to wait for these practices to occur and then attempt to rectify the injury through case-by-case adjudications."

BellSouth called for govt. to sever all AOL-TW ties with AT&T-MediaOne and Excite@Home by forcing pending AT&T-MediaOne union to divest such key stakes and assets as Time Warner Entertainment, Liberty Media, Road Runner. "All of them must go and stay gone," company said, calling "each independently troublesome." BS also urged govt. to "impose binding conditions of truly open access" and require AOL-TW to "make its content, portals and applications available on a nondiscriminatory basis." It contended that "recent events have demonstrated the anticompetitive potential of an AOL/Time Warner combination."

Disney's reported lobbying campaign among local officials paid off most handsomely in Houston, where 5 City Council members wrote very similar letters to FCC calling for identical set of conditions on merger. All 5 urged FCC to require open access for all ISPs, nondiscriminatory treatment for independent TV and Web content providers and "no discriminatory treatment that undermines advertising opportunities." Houston was one of several major markets where TW pulled plug on ABC, prompting huge public outcry, scathing newspaper editorials, unfavorable FCC ruling.

**U.S. Appeals Court, D.C.,** denied FCC's request to put on hold NAB's appeal of new rules authorizing LPFMs until after agency rules on petitions for reconsideration. Oral argument before court is expected to be scheduled for Oct.



**McCain LPFM PLAN CRITICIZED:** NAB and public interest groups criticized compromise LPFM proposal by Senate Commerce Committee Chmn. McCain (R-Ariz.). He introduced bill to allow start of LPFM stations that don't interfere with full-power stations. His proposed FM Radio Act of 2000 would require National Academy of Sciences (NAS) to determine what stations cause harmful interference, McCain said, "and what the low-power station must do to alleviate it."

Bill would give full-power stations right to sue LPFM stations that cause harmful interference, with cost of suit to be borne by losing party. McCain said bill would provide "efficient and impartial means" to detect and resolve interference, while avoiding delaying start of LPFM service that wouldn't cause interference. McCain said bills in House and Senate would delay LPFM start until interference study is complete, but said that that "understandably angers the many parties who are anxious to apply for the new low-power licenses." To assure that FCC doesn't give secondary importance to full-power FM, McCain said, bill also would require Commission to set all rules for digital audio broadcasting by June 1, 2001.

Compromise isn't good enough for NAB, Pres. Edward Fritts said in letter to McCain. Fritts said Congress should make sure LPFM causes no new interference before new stations are licensed, rather than requiring broadcasters to go to court after interference begins. NAB also opposed giving NAS responsibility for determining whether harmful interference would occur, saying Academy has neither infrastructure nor communications experience to deal with "thousands of complaints." Requiring broadcasters to go to court to end any interference would be "lengthy and expensive," Fritts said, and FCC should be required to set interference protections for digital audio broadcasting before LPFM begins.

On other side, Alliance for Community Media said McCain bill "is designed to destroy LPFM." Exec. Dir. Bunnie Riedel said small nonprofits won't even apply for LPFM licenses for fear that "corporate broadcasters will hit them with frivolous lawsuits that they can't afford to defend." She said bill isn't necessary because FCC "already has a mechanism in place for ensuring noninterference... This bill is more evidence of Congress buckling to pressure from national, greedy, corporate broadcasting interests."

Meanwhile, FCC should suspend its efforts to start LPFM service, or at least modify rules to maintain existing interference safeguards, House Telecom Subcommittee Vice Chmn. Oxley (R-O.) said in letter to FCC Chmn. Kennard. Letter, following Commission decision to set LPFM filing window, said "clear... veto-proof House majority" supported bill (HR-3439) that would prohibit LPFM licensing if stations infringed on 3rd adjacent channel. "There is no significant support in the House of Representatives for implementation of the LPFM rule," Oxley said in letter co-signed by 3 other members.

**Pax TV signed its first joint sales agreement (JSA) with NBC affiliate other than network's owned stations.** WTMJ-TV (Ch. 4) Milwaukee entered JSA with Paxson's WPXE (Ch. 55) there under which WTMJ-TV will sell time on WPXE. "This is a great strategic alliance," said James Prather, pres. of WTMJ-TV owner Journal Bestg. "We have a history of stepping outside the box to forge this kind of business relationship." NBC has been pushing its affiliates to sign JSAs with Pax TV (32% owned by NBC) affiliates and last week agreed not to air its evening news same day on Pax stations as part of that effort.

**LEE TVs TO EMMIS FOR \$526.5 MILLION:** After several weeks of bidding by major TV groups for Lee Enterprise's TV stations, Emmis Communications submitted winning bid of \$526.5 million. In deal announced May 8, Emmis CEO Jeffrey Smulyan said purchase shows "Emmis believes in the future of over-the-air television, its impact in the future of local advertising dollars and the value of the digital spectrum."

Emmis will add Lee's 8 network affiliates (all in medium to small markets), plus 7 satellites, to 7 TV stations it already owns. Smulyan said Emmis also is "aggressively purchasing radio [stations] and will continue to do so. Buying radio remains our top priority."

Lee stations are KOIN (Ch. 6, CBS) Portland, Ore.; KRQE (Ch. 13, CBS) Albuquerque and 2 satellites; WSAZ-TV (Ch. 3, NBC) Huntington-Charleston, W.Va.; KSNW (Ch. 3, NBC) Wichita and 3 satellites; KGMB (Ch. 9, CBS) Honolulu and 2 satellites; KGUN (Ch. 9, ABC) Tucson; KMTV (Ch. 3, CBS) Omaha; KSNT (Ch. 27, NBC) Topeka. Last fall, Lee took major loss in compensation from CBS when affiliation contracts came up for renewal (CD Oct 21 p2).

Lee CEO Richard Gottlieb said company will focus on expanding its publishing, online and information services following exit from TV station ownership. Group owns 21 dailies and 80 weekly and specialized publications and recently bought 3 dailies and 15 other publications in Neb. and Wis.

In unrelated deal last week, Ackerley Group said it's buying KJEO (Ch. 47, CBS) Fresno from Fisher Bestg. for \$60 million. Purchase is part of Ackerley's strategy of acquiring TV station clusters in markets above top 50, COO Denis Curley said. Ackerley owns 3 other TVs, one low-power, in central Cal.

**Tribune Co.'s plan to acquire Times Mirror demonstrates why FCC needs to change its procedural rules on cross-ownership reviews,** FCC Chmn. Kennard told Sen. Hollings (D-S.C.) in May 3 letter. Because Telecom Act extended broadcast license term to 8 years, Tribune will be able to maintain "at least 3" local newspaper-TV station combinations — "combinations which our rules provide are contrary to the public interest" — until they come up for renewal in 6-7 years, Kennard said. Solution is to revise FCC rules that require agency to wait until station license is up for renewal before considering cross-ownership issues, he said. Kennard's comments were in answer to question submitted by Hollings after FCC chmn. appeared March 21 before Senate Appropriations Subcommittee. Hollings asked Kennard whether FCC would "close the procedural loophole in its rules" to assure that merger would be in compliance with cross-ownership rules. Kennard replied: "If the newspaper/broadcast cross-ownership provision is to remain a vital part of our ownership rules, it seems clear that the extended period of common ownership now permitted as a result of unrelated changes to broadcasters' license terms should be remedied." He promised Hollings to discuss with other commissioners how to "address this anomaly."

**NCTA convention in New Orleans broke attendance record for national cable show, topping 31,000 for first time.** NCTA Pres. Robert Sachs said convention drew 31,057 registrants through May 9, beating previous high of 30,593 in L.A. 4 years ago but still slightly lower than 31,206 at Western Cable Show in Dec. Total of 339 exhibitors took out 349,600 sq. ft. of space in New Orleans Convention Center.



**DIGITAL CABLE ROLLOUT PRESSED:** With DirecTV and EchoStar picking up more customers each year, cable operators must step up their digital cable deployments, they were warned at NCTA convention in New Orleans. "Cable has to make digital its core business, not a line extension," Encore Media Chmn. John Sie said.

Saying DBS has "5-year head start" in introducing digital service, Sie said cable should catch up by adding 3 digital cable subscribers for every 2 new DBS customers over next 5 years. That means, he said, that industry must add about 5 million digital viewers this year to keep up with DBS industry's projected gain of at least 3.5 million customers in 2000.

While Sie stressed movies, sports and other video services such as Encore's for digital platforms, other speakers emphasized cheap Internet access, video-on-demand (VOD), electronic program guides, interactive applications. "The real challenge for the industry is once you get the first 20% to 25%, how do you drive digital to 50%, 60%, 70%, 80% penetration?" Diva Systems CEO David Zucker asked.

WorldGate Communications Chmn. Hal Krisbergh said low-cost Internet access could be biggest driver for digital cable. Saying 75% of U.S. homes don't have analog or digital cable set-top and 2 of 3 homes still aren't hooked up to Internet, he said cheap Web service such as WorldGate offers could boost digital penetration significantly.

Zucker said VOD services such as his at Diva could make difference by offering more choice to cable subscribers than DBS customers have. He forecast that more than 75% of U.S. cable plant would be upgraded to 2-way by end of year: "DBS can't do VOD."

Among things that "tremendously" would help rollout of high-speed data service is retail sales of Data Over Cable Service Interface Specification (DOCSIS) modems, Comcast Pres. Steven Burke said. Part of retail sales effort involves process of self-installation, he said, and industry benefits if customers are able to take home DOCSIS modem and "80% of the time do the installation themselves." Comcast ended 1999 with 140,000 high-speed data customers, he said, and goal this year is to double that.

On digital rollout, Burke said Comcast is on run-rate of 12,000-15,000 boxes per week with penetration of 14-15% of subscriber base to which product is now marketed. Company's approach is to drive penetration as deep as possible and in "fairly short order we will have million set-top boxes," he said.

Cox Senior Vp-Operations Patrick Esser said key to company's digital success is continuing ramp-up of run-rates of new revenue-generating units (RGUs). Cox has 840,000 RGUs now with current run-rate of 14,000 per week, he said, and it happened because company expanded its footprint and built capacity in service and installation.

Richard Fickle, senior vp, AT&T Broadband HITS (Headend In The Sky), said interactive TV is area where technology is moving quickly and where cable has opportunity to "set ourselves apart," he said. He said company has 4 million customers at HITS set-top level, increase from 500,000 in 1998.

**STATIONS GET NCE BOOST:** Religious broadcasters would face no educational requirements to hold noncommercial TV or radio licenses, and neither would anyone else, under measure (HR-4201) approved by House Telecom Subcommittee at markup. Amended version introduced by Chmn. Tauzin (R-La.) and passed on partisan 11-5 vote would allow any non-profit to hold what's still called "noncommercial educational" (NCE) license if its primary purpose is "educational, instructional, cultural or religious." It's modification of bill introduced in response to FCC's aborted guidelines on what types of religious programming would be considered educational to meet requirement that 50% of NCE license programming be educational. Commission since has withdrawn that guidance under congressional fire.

New bill "goes beyond fixing the original problem" of FCC's setting content standards for NCE religious stations, APTS Vp-Policy Marilyn Mohrman-Gillis said. Saying measure would negate purpose of NCE license set-asides, Rep. Markey (D-Mass.) attempted to amend it by inserting "education" in 2 key clauses, but lost by same vote. Markey said purely religious broadcasters now could gain access to several favorable rules on NCE spectrum, including ability to avoid spectrum auctions. Rep. Sawyer (D-O.) said FCC "didn't use appropriate procedures" to set its guidelines, but bill would create "special exemption for religious broadcasters" from educational requirements.

Republicans insisted bill would do no more than maintain status quo by preventing FCC from setting arbitrary standards for what qualifies as "education." Rep. Pickering (R-Miss.) said: "This is not about changing current policy."

Bill also would free NCE licensees from possible requirement to provide free air time to political candidates or indeed follow any content rules not required of commercial broadcasters. It would reverse FCC rule requiring that its oversight of NCE licensees' programming be educational, preventing agency from imposing any quantitative requirement on programming. Underwriting rules were specifically exempted from changes. Rep. Largent (R-Okla.) agreed not to introduce amendment that would remove restrictions on public broadcasters' sale of enhanced underwriting, saying he didn't want to complicate message of bill. However, he said it was time for Congress to provide "way that PBS can stand on its own 2 feet."

In sweeping written decision, U.S. Dist. Court, Richmond, Va., Judge Richard Williams said open-access ordinance passed by Henrico County, Va., last Dec. violates both federal and state law. Upholding claims of AT&T and MediaOne Group that localities don't have legal authority to require open access in their cable franchise agreements, Williams said county ordinance requiring 80,000-subscriber system to carry multiple ISPs is "inconsistent" with 4 separate provisions of Communications Act and thus is preempted. He also ruled that ordinance is "invalid" under Va. law and granted summary judgment against it sought by 2 MSOs. Decision, expected to be appealed by Bell Atlantic, GTE and possibly county to 4th U.S. Appeals Court, Richmond, contrasts with preregulation ruling by different Dist. Court in similar, much better known Portland, Ore., case. NCTA hailed 11-page decision, with one official saying that Williams "accepted all the federal preemption arguments that the Portland judge had rejected." Hands Off Internet Pres. Christopher Wolf praised ruling, too, saying that judgment "underscores the irrationality of having localities try to regulate high-speed Internet access systems, such as cable lines."



**NCTA NOTEBOOK:** House Telecom Subcommittee Chmn. Tauzin (R-La.) praised audience at NCTA convention opening, saying "if cable has its way there will be no digital divide." He dismissed suggestion that govt. get involved, saying: "In a world of competition, consumers will choose winners and losers, not the bureaucrats in Washington." Referring to Time Warner's decision to block Disney's ABC network, Tauzin again deferred to consumers, saying they "want Mickey Mouse and Sylvester the Cat."

**Time Warner Vice Chmn.** Ted Turner created buzz with speech, but not with his usual outspokenness. Chmn. of convention, he read generic welcome speech from 2 teleprompters, not once going off script. When he left stage without single provocative statement, hall of cable operators buzzed with single complaint: "He was scripted!"

**Total of N. American cable modem subscribers** rose 900,000 (33%) to 2.7 million in first quarter, Kinetic Strategies said. In latest estimate, it said it counted 2 million cable modem customers in U.S. and 700,000 in Canada. Time Warner Cable led with 400,000 high-speed data subscribers, followed by AT&T with 294,000, MediaOne 278,000, Cox 259,770, Canada's Shaw Communications 235,000. Kinetic said N. American operators are installing more than 7,000 cable modems each day.

**Split in cable** between circuit-switched and IP telephony surfaced at several sessions. Time Warner Cable Pres. Glenn Britt said company has been successful with circuit-switched technology in Rochester, N.Y., but it's intrigued with IP and has decided to "wait and see" how technology develops. Bear, Stearns analyst Ray Katz said: "I'm a little skeptical of circuit-switched on an HFC [hybrid fiber-coaxial] plant. I worry about stranded capital down the road" if MSO switches to IP. Cox Communications Exec. Vp-CFO James Hayes defended ambitious rollout of circuit-switched plant. "It's very easy to sell the product" as its robustness equals that of Bells, he said, and he predicted Cox would achieve penetration rates as high as 40%. AT&T Broadband CEO Dan Somers forecast 400,000-500,000 phone customers by year-end, but acknowledged difficulties in deployment. Time Warner Cable CEO Joseph Collins said his company and AT&T still hadn't finalized telephony deal, saying "both companies have had a lot of things going on," such as MediaOne and AOL mergers.

**National Assn. of Minorities in Cable (NAMIC)** said it's recruiting organizations both in and out of industry to participate in Digital Bridge Alliance aimed at closing digital divide. Set to debut June 1, initiative will target African American, Hispanic and Asian American households to raise awareness of home computers and Internet access, emphasizing importance of being online.

**Bcst. Sales Academy** was formed by 3 large TV groups to provide 4-1/2-week training course for entry-level and recently hired sales persons who have some experience. Course will be this summer at Belo hq in Dallas. Belo is joined by Hearst-Argyle and LIN TV in funding Academy. Broadcast executive-lecturer Ron Steiner will head training course, with lecturers provided by U. of Tex., NAB, TvB, ad agencies, news media, Internet executives. Academy "supports our efforts to recruit and train minority candidates, which is critical to the growth of our local television stations and our industry as a whole," Belo TV Group Pres. Jack Sander said.

**KENNARD CHIDES CABLE:** Tackling open access, FCC Chmn. Kennard said Time Warner-Disney fight had raised new questions about cable's power to control broadband access to Internet. Speaking at NCTA convention in New Orleans May 9, he urged industry to "take the offensive" to restore public faith in its good intentions by following through on its open access pledges and agreeing to carry both small and large rival ISPs. "What began as a contractual dispute has ended up creating a specter of distrust," he said. "Unfortunately, it's called into question whether your industry can be trusted to be honest gatekeepers to the Internet, and that concerns me."

Kennard quipped that he views open access issue as "pain in the access because that's what it is to me." He advised cable industry not to be blinded by "short-term profit maximizing" or lose sight of its long-term goals by engaging in more public retransmission consent battles. "You'll never win this public policy debate in Washington, believe me," he said. "Make it clear that your industry won't deny choice again."

In later convention panel May 9, FCC Cable Bureau Chief Deborah Lathen drilled home point that cable operators must deliver on open access promises. Noting that "the Time Warner-Disney episode raised some demons that you didn't want to see raised," she said industry must move beyond its rhetoric and spell out specific commitments.

Comr. Powell, in luncheon talk at convention same day, decried attention issue has received and federal govt.'s proclivity to regulate TV. He said regulators pay far less attention to basic consumer needs such as groceries than to TV and that newspapers never write editorials against higher prices for cars or cheese.

**Bipartisan group** of members of Congress wrote to FCC Chmn. Kennard May 10 urging Commission to "move quickly to approve the AT&T-MediaOne merger" without onerous regulatory penalties and with sufficient time for company to divest any properties necessary to meet cable ownership cap (currently stayed due to court challenge). House Commerce Committee Chmn. Bliley (R-Va.), Senate Commerce Committee ranking Democrat Hollings (S.C.), Senate Appropriations Committee Chmn. Stevens (R-Alaska), Commerce Subcommittee Chmn. Gregg (R-N.H.), and Sen. Inouye (D-Hawaii) wrote that only exception to new competition brought by Telecom Act is "local residential telephone market," where "facilities-based competition... has yet to become a reality on a broad scale." Notably absent from letter were House Commerce Committee ranking Democrat Dingell (Mich.) and Telecom Subcommittee Chmn. Tauzin (R-La.), as well as Senate Commerce Committee Chmn. McCain (R-Ariz.).

**Local govts. want cable** to partner in providing advanced services to underserved areas, state regulators told NCTA panel, otherwise communities will find way to deliver them. While commending cable for providing broadband access to 65% of cities with populations of more than 250,000, they said Commerce Dept. found only 5% of towns with populations under 10,000 were served. Irma Dixon, chmn. of La. PSC, said companies could raise bonds and secure federal funds through partnerships with cities and could bypass franchise and other taxes. Some communities in La. are looking at "combining" with private entities to upgrade systems in both cable and DSL, she said, but for those that didn't want to partner with local govts. best model would be to deal with incremental costs to offer multiple services.



**CABLE COMPETITION WORRYING:** Cable stock prices and financial valuations have fallen considerably from last year's peak, at least partly because of concerns about industry's ability to compete against DBS and DSL, Wall St. analysts and bankers told NCTA convention in New Orleans last week. Financial experts said unexpectedly strong surges by DirecTV and EchoStar this year, heavy capital commitments by phone companies, threat of new cable overbuilders and disappointing revenue and cash flow growth for MSOs have dampened investor enthusiasm for cable. "When cable stocks reached their peak last year, it was based on the premise of revolutionary growth," said Richard Bilotti of Morgan Stanley Dean Witter. "The market is questioning whether the cable companies can hit those kind of double-digit revenue increases."

Wall Streeters also faulted most cable operators for not branding their services aggressively enough and battling programmers harder to keep price increases down. They urged MSOs to push ahead with rollouts of digital cable, high-speed data, interactive TV and other advanced services to stave off further inroads by rivals, and warned industry to fix its customer service problems. "In some sense, it's cable's to lose," said Tod Jacobs of J.P. Morgan. "But the easiest place to blow it is network quality."

Financial experts predicted current consolidation wave would continue, saying many cable operators were struggling with whether and how to grow bigger. "Many companies are at a strategic crossroads," said Daniel Richards of Morgan Stanley Dean Witter. Citing "enormous diseconomies in small scale," Laura Martin of Credit Suisse First Boston predicted only 3 major MSOs would be left in 5 years — proposed AT&T-MediaOne combination, AOL-Time Warner and one other that she declined to name. Martin also urged cable operators to focus on high-speed data, telephony and interactive services because they have lost their competitive edge in video to DBS.

Despite warnings, most financial experts sounded upbeat on cable future as long as industry doesn't become complacent. They said cable still possesses many advantages over its phone and satellite counterparts, including its huge base of video customers, early lead in introducing fast Internet access, greater potential for offering 2-way interactive services and ability to bundle voice, video and data in cheaper packages. Richards and Martin predicted that cable still could knock off satellite providers by offering low-cost bundles of multiple services. Richards said "churn will kill DBS" if cable succeeds in rolling out suite of advanced services.

Dennis Leibowitz of Donaldson, Lufkin & Jenrette said cable operators have continued to add customers despite robust subscriber gains by DBS industry and move into local-into-local service by satellites. He said MSOs are making steady strides in signing up digital video and high-speed data subscribers in face of DBS and DSL competition: "The bottom line is that the industry's prospects still look good."

Cable operators defended their performance, pointing to rapidly rising digital video and high-speed data penetration levels in last 2 years. Comcast Senior Vp-Treas. John Alchin said his company now expects to have 1.25 million digital cable and 350,000 data subscribers by end of year, up from earlier projections of one million and 300,000 respectively. He said Comcast has cut DBS penetration rates in half in areas where it has rolled out digital services. Mediacom Chmn. Rocco Commisso dismissed notion that small and midsize MSOs would disappear. Saying Mediacom has grown to 825,000 subscribers from

scratch just 4 years ago, he said it plans to buy cable systems with additional 100,000 customers this year and upgrade its plant to 60% digital-ready and 50% data-ready by end of year.

**Financials:** News Corp. profit increased 15% to \$193 million, before extraordinary items, in 3rd quarter ended March 31. Broadcast TV operating profit dropped to \$95 million from \$129 million, but cable networks had \$19 million profit, vs. \$20 million loss year ago. In Fox Entertainment Div., TV station profit dropped to \$133 million from \$150 million because previous period included Super Bowl, and Fox TV Network lost \$5 million, vs. \$1 million profit year ago... **Cablevision Systems** reduced loss to \$115.5 million in March 31 quarter from \$238.6 million loss year ago. Revenue grew to \$1.05 billion from \$933.7 million and operating profit was \$59.7 million, reversing \$107 million operating loss year ago. Cable system revenue increased 7% to \$432 million and operating profit 10% to \$193 million. Rainbow Media operating profit tripled to \$47 million and revenue rose 21.3% to \$143.5 million... **Cisco Systems** had \$1.03 billion pro forma net profit in 3rd quarter ended April 29, up from \$649 million year ago. Revenue rose to \$4.9 billion from \$3.2 billion. Pro forma figures are adjusted to eliminate \$488 million write-off of purchased in-process R&D, as well as \$156 million gain on investments.

**Two major MSOs** are seeking waivers of FCC rule requiring cable operators to provide separate security modules for digital cable and hybrid analog-digital set-top boxes sold in stores. AT&T and Charter Communications quietly filed separate requests for waivers in last week seeking FCC permission to miss July 1 deadline for offering point-of-deployment (POD) modules for hybrid boxes in retail outlets. In its request, Charter said it couldn't meet deadline for various cable systems with total of 392,000 subscribers, including large systems in Ft. Worth and Alhambra, Cal. AT&T, in request placed on public notice earlier this week, said it couldn't meet deadline for cable systems serving 1% of its 11.4 million subscribers. Cable executives said industry is on track to meet July 1 deadline for digital-box PODs and demonstrated them at NCTA convention in New Orleans earlier this week. But they argue that POD rules shouldn't apply to limited universe of analog-digital boxes because no manufacturers are building analog modules for those boxes. Comments on both waivers are due May 22, replies May 30.

**Internet routing and caching technology** potentially raises serious antitrust issues that should be investigated by FCC and FTC, chmn. and ranking minority member of Senate Antitrust Subcommittee said in letters to FCC Chmn. Kennard and FTC Chmn. Robert Pitofsky last week. Caching technology allows popular Web sites to be stored closer to end user, possibly at cable headend, to avoid Internet backbone delays. Some Cisco Systems routers allow cable systems to set higher or lower data speeds for different Web sites. Both technologies have potential procompetitive benefits, said Chmn. DeWine (R-O.) and ranking Democrat Kohl (Wis.), but both also could be used to "give preferential treatment to content owned by its affiliates." Use of those technologies has "potentially disturbing implications for the Internet" and for consumers, they said: "We urge you to examine this matter, not only in the context of the AOL/Time Warner merger, but as it affects the industry as a whole." CEOs of AOL and Time Warner, in letter to subcommittee, made "important commitments" to nondiscrimination in content delivery, DeWine and Kohl said, but senators believe issue still should be considered under FTC mandate to prevent unfair competition and FCC public interest standard.



**MICROSOFT, AOL PITCH CABLE:** Hankering for greater role in cable's broadband deployment, leading executives of America Online, Excite@Home and Microsoft sketched their visions of future at NCTA convention in New Orleans last week. In technological gee-whiz session, all 3 executives promoted partnerships with cable operators, stressing ability of high-speed, broadband connections to deliver services better and faster. All 3 also downplayed their influence as new-media conglomerates in Internet economy, saying speed to market will count for more than scale in future. "It's not victory to the biggest," Excite@Home CEO George Bell said, "it's victory to the fastest."

Microsoft CEO Steve Ballmer said he believes his company's interactive TV software will be in 15 million digital cable set-tops in next few years, thanks to deals already signed with such MSOs as AT&T in U.S. and Rogers Communications in Canada. He said Microsoft, which has invested \$7 billion in cable industry in last 3 years and has poured money into interactive TV for nearly 9 years, is focused on developing "a generic service platform feeding a broad range of devices" across "TV, PC and wireless space." He also dismissed speculation that Microsoft aspired to be large media company. "We're not a cable company, we're not a media company," he said. "We've recommitted to being a software company."

Despite govt. plan to split Microsoft into 2 independent entities, Ballmer vowed that "our company will not be broken up. That will not happen." In more humorous vein, he joked that biggest reason Microsoft wants to partner with cable is "we saw Court TV and we're really looking forward to Appeals Court TV."

Seeking to ease concerns about market power of proposed AOL-Time Warner monolith, AOL Pres. Robert Pittman said no company would completely dominate what he termed "Internet century... Customers always get what they want and no one company can provide it all. There is no control in this world. The Internet is too big and it's about freedom of access."

Pittman, who would be co-COO of proposed AOL-Time Warner, said open-access agreements with multiple ISPs could be big revenue generator for cable operators. He said ISPs, "and not just AOL," would make "perfect partners" for MSOs in marketing broadband services. "Open access maximizes ISP units, much like multipay did in the early 80s," he said. "It creates more Internet users for cable."

In response to growing consumer demand for broadband services, Bell said Excite@Home has raised its subscriber targets as much as 33%. Company, which reached 1.5 million subscribers at end of first quarter, now expects to close year with 3 million, up from earlier goal of 2.7 million. Excite@Home is shooting for 6 million subscribers by close of 2001 and 10 million by end of 2002, up from 5 million and 7.5 million earlier.

**Intel is investing \$200 million in network for streaming audio and video over Internet, it said.** Company also announced series of interconnection deals with other network providers, including Williams Communications and Cidera, to give it worldwide reach. Intel said it will build broadcast operations centers and "edge" servers located near viewers to avoid Internet bottlenecks. It said it already has several customers, including Nasdaq, and first operations center will open in Portland, Ore., in summer.

**FCC would acquire authority to collect \$5.8 million more in regulatory fees in FY 2001 under amendment included in agriculture appropriations bill (S-2536) approved by Senate Appropriations Committee.** Appropriation of \$24.2 million would be unchanged, but Commission would be allowed to collect \$191.6 million, up from \$185.8 million. Another clause in bill would allow FCC to use excess regulatory fees collected in FY 2000 for "agency priorities" despite congressional sentiment that it be required to return fees. Commission has said it needs extra funds for expenses such as moving to Portals. Also in bill, Commission on Online Child Protection, which is studying solutions to pornography issues, would gain its first funding. FCC would be barred from holding auctions where one or more applicants for contested spectrum holds noncommercial license, whether broadcasting on reserved or nonreserved spectrum. Clause specifically includes auxiliary radio boosters and TV translator stations. That would solve problem for public broadcasters, which have complained that FCC's recent decision to subject them to auctions when competing for commercial spectrum would make it impossible for them to fill in translator networks.

**House Telecom Subcommittee Chmn. Tauzin (R-La.)** sent letter to PBS Pres. Pat Mitchell expressing his concern over possible departure of PBS's public affairs show *National Desk*. In letter, he said: "It is my understanding that the *National Desk* was added to the PBS schedule in part as a balance to the *Frontline* series." Tauzin said he was hopeful that PBS programmers would make sure that replacement of *National Desk* is "suitable" — maintaining balance of left and right perspectives. *Frontline* isn't counterpart to *National Desk*, PBS spokesman said. He said no decision on *National Desk* had been made, but "we're in discussions with the producers" Whidbey Island Films of N. Hollywood. Spokesman said that if *National Desk* were discontinued there wouldn't be imbalance of programming with diverse perspectives. "Our programming represents a wide variety of viewpoints and always has," he said, citing Sept. 1999 survey by Opinion Research of Chicago and commissioned by PBS that showed that 79% of those polled believed PBS programming was balanced and 10% had opposite view. If *National Desk* were canceled, spokesman said, PBS wouldn't "seek a specific replacement. We don't categorize programs by political perspectives." It couldn't be learned when decision on show would be made.

**FCC Chmn. Kennard** said pending AT&T-MediaOne merger "is on the front burner" at Commission despite not making it onto agenda for agency's May 15 meeting. Saying he and other 4 commissioners are "actively engaged in working out final issues," he said he expects to resolve them soon. "I think we're talking about a matter of days," he told NCTA convention in New Orleans. Cable Bureau Chief Deborah Lathen echoed Kennard on later convention panel, saying merger review "will be done in a most expeditious way." She dismissed suggestion that FCC was waiting for Justice Dept. to complete its review of merger. "We're on our schedule," she said. "We don't time them together." Comr. Powell, also speaking at convention, said he hadn't signed off on merger approval but had no particular concerns about it right now. "I think we're close, I hope we're close," he said. Powell implied that he would resist any attempt to use FCC's public interest mandate to impose horizontal ownership caps on AT&T-MediaOne combination, saying he generally required "a very high burden of proof" for doing that.

**Rainbow/PUSH said it will work with New Markets Equity Fund to find telecom companies in underserved markets that need financing.** Principals of New Markets Fund, new fund based in Washington, include former NTIA Dir. Larry Irving.



## Personals

**Barry Thurston**, pres., Columbia TriStar TV Distribution, retires July 1... Tribune Co. changes: **David Hiller**, vp-development, Tribune Interactive, moves to pres.; **Hilary Schneider**, vp-Times Mirror and pres.-CEO Times Mirror Interactive, to senior vp & gen. mgr., Tribune Interactive; **Andrew Oleszczuk**, pres., Tribune Ventures, to senior vp-development; **Harry Amsden** appointed asst. controller, Tribune Co.; **Jane Bartsch**, ex-pres.-gen. mgr., Barnstable Bcstg., named vp-gen. mgr., Tribune Denver Radio... **Marc Nathanson**, reappointed and named chmn., Bcstg. Board of Govs... **Ken Kotara**, ex-Halliburton, named vp-finance, Belo.

**Bart Feder**, ex-KCBS-TV L.A., takes over news dept., KCOP L.A., Chris-Craft, replacing **Steve Cohen**, named gen. mgr. KTVX Salt Lake City... **Joseph Berwanger**, ex-CBS, named gen. mgr., WDIV Detroit... **Dave Ward** promoted to Emmis Communications vp-programming for WKCF Clermont, Fla., WVUE New Orleans, WALA-TV Mobile, WLUK-TV Green Bay, KHON-TV Honolulu, WTHI-TV Terre Haute, WFTX Cape Coral.

A&E TV Networks promotions: **Rosalind Carter** to senior vp-human resources, **Michael Peretz** to dir.-business development... **George Bell**, pres.-CEO, adds chmn., Excite@Home, succeeding **Tom Jermoluk**, who remains on board... **David Tolliver** advanced to senior vp, Media & Bcst. Div., Daniels & Assoc... **Clotilde Dillon**, ex-AP, named vp-diversity, MTV Networks... **Craig Enenstein** advanced to senior vp-business development & strategy, Liberty Digital... **Debra Hoyt** promoted to vp-human resources, Cox Communications... **John Malone**, chmn., Liberty Media, joins Katalyst board.

NCTA board additions: **Joseph Collins**, chmn.-CEO Time Warner Cable, as chmn.; **Jerold Kent**, pres.-CEO Charter Communications, secy.; **Daniel Somers**, pres.-CEO, AT&T, member; **Decker Anstrom**, CEO, Weather Channel, at-large programmer dir.; **Gary Shorman**, pres.-CEO Eagle Communications, rural/small system operator dir.

Appointments at FCC: **Marlene Dortch** as chief, equal employment opportunity staff, Mass Media Bureau; **Jaqueline Ruff** as assoc. chief, International Bureau's Telecom Div... **Andrew Russell**, ex-Andersen Consulting, named senior vp-media, CPB... **Wayne Godwin**, pres.-gen. mgr., WCET Cincinnati, appointed exec. vp-member affairs, PBS, effective June 5... **Walt Swanston**, ex-Unity, named project dir., diversity and education programs, RTNDA Foundation.

USA Digital Radio addition: **Patrick Walsh**, ex-McKinsey & Co., as vp-wireless data business development... XM Satellite appointments: **Matthew McGarvey** vp-controller, **Deborah Cook** dir.-revenue accounting, **Margaret Studt**, dir.-knowledge management, **Michael Morrison** dir.-partner payments... **Chris Travers**, ex-Metro Channels, appointed CEO, FutureTV, Americas.

USA Digital Radio said it acquired additional \$41 million in equity financing from group of investors including Allbritton, Beasley Bcst., Bonneville, Harris Corp., Regent Communications, Saga, several investment firms. Deals mean owners include 15 large radio groups operating 2,064 radio stations, as well as other media and technology companies. USA Digital Radio also said several other existing investors had provided additional funding.



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In highly unusual action, FCC will close part of its agenda meeting today (May 15) to receive report from its Enforcement Bureau on "pending common carrier investigations." Agency said item can be closed to public because it concerns "investigatory matters." Meeting will be attended by commissioners and staff, managing dir., FCC secy., gen. counsel and staff, Enforcement and Common Carrier Bureau chiefs and their staffs. Closed meeting will follow open meeting that includes only one item: Consideration of proposal to streamline Part 68 technical rules and registration process.



# Consumer Electronics

A Section of Television Digest with Consumer Electronics

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending April 28 and year to date:

|                     | APR. 22-<br>APR. 28 | 1999<br>WEEK | %<br>CHANGE | APR. 15-<br>APR. 21 | 17 WEEKS<br>2000 | 17 WEEKS<br>1999 | %<br>CHANGE |
|---------------------|---------------------|--------------|-------------|---------------------|------------------|------------------|-------------|
| TOTAL COLOR TV. (a) | 804,174             | 845,487      | - 4.9       | 501,175             | 8,649,799*       | 7,645,985        | + 13.1      |
| DIRECT-VIEW**       | 762,771             | 808,105      | - 5.6       | 481,303             | 8,235,271*       | 7,327,224        | + 12.4      |
| TV ONLY#....        | 594,389             | 656,226      | - 9.4       | 357,134             | 6,860,380        | 6,182,196        | + 11.0      |
| TV/VCR COMBO.       | 168,382*            | 151,879      | + 10.9      | 124,169             | 1,374,891*       | 1,145,028        | + 20.1      |
| PROJECTION...       | 41,403*             | 37,382       | + 10.8      | 19,872              | 414,528*         | 318,761          | + 30.0      |
| TOTAL VCR**....     | 1,023,727           | 1,052,714    | - 2.8       | 523,065             | 7,785,474*       | 7,065,127        | + 10.2      |
| HOME DECKS...       | 855,345             | 900,835      | - 5.0       | 398,896             | 6,410,583*       | 5,920,099        | + 8.3       |
| CAMCORDERS.....     | 204,058*            | 194,997      | + 4.6       | 87,787              | 1,590,330*       | 1,363,394        | + 16.6      |
| DVD PLAYERS....     | 241,357*            | 119,978      | +101.2      | 76,596*             | 1,592,817*       | 680,056          | +134.2      |

Direct-view TV 5-week moving average#: 2000-462,030; 1999-415,963 (up 11.1%).

Projection TV 5-week moving average: 2000-25,629; 1999-21,033 (up 21.9%).

VCR deck 5-week moving average: 2000-518,158\*; 1999-412,943 (up 25.5%).

TV/VCR 5-week moving average: 2000-113,382\*; 1999-93,451 (up 41.7%).

Camcorder 5-week moving average: 2000-132,398\*; 1999-120,253 (up 10.1%).

DVD player 5-week moving average: 2000-109,091\*; 1999-64,331 (up 69.6%).

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

**QUESTIONS OUTNUMBER ANSWERS IN DVD-RW ANNOUNCEMENT:** There was more than met the eye in last week's Tokyo announcement that 13 of world's largest hardware and media companies were banding together to promote products conforming to Pioneer-developed DVD-RW format. According to text of announcement provided to us, members of RW Products Promotion Initiative (RWPPi) include Fuji, Hitachi Maxell, Kenwood, LG, Mitsubishi Chemical, Onkyo, Pioneer, Pioneer Video, Sanyo, Sharp, Sony, TDK, Thomson. Samsung was listed parenthetically as RWPPi, which Pioneer spokeswoman said was indication that company was expected imminently to join.

Announcement said RWPPi members will work to gain "broad market acceptance" of DVD-RW products worldwide. RWPPi "coordination office" will be based at Pioneer hq in Meguro, Japan, and will seek participation from other hardware and disc manufacturing companies. First organizational RWPPi meeting is planned for June, with regular meetings expected thereafter.

News reports trumpeted RWPPi announcement as victory for Pioneer-led DVD-RW camp over rival formats DVD+RW and DVD-RAM. Sony executives here and abroad quashed speculative news accounts that interpreted company's membership in RWPPi as its abandonment of DVD+RW coalition led by Philips, but also including Thomson, which also was listed as RWPPi member. But Thomson spokesman in Indianapolis said listing was mistaken, that it is not in fact RWPPi member.

As for Sony, U.S. spokesman said company remains strong supporter of DVD+RW for data storage, but views support of DVD Forum-sanctioned DVD-RW as best means of expanding acceptance of DVD-Video format as whole. Spokesman said company's position hasn't changed — it believes ultra-high-capacity systems such as 20 GB rewritable DVD proposal being developed by Sony will be necessary to do justice to next-generation HDTV-quality optical disc recording. However, spokesman said Sony sees home for existing systems such as DVD-RW as means to facilitate



time-shift recording of over-air analog programming, as is envisioned for crop of DVD recorders planned for commercialization starting late this year.

Although news reports wrongly interpreted RWPPI announcement as show of muscle by Pioneer-led DVD-RW coalition, reality is that group's establishment could well mark necessary first step in unifying at least various mutually incompatible formats into single system for benefit of all. Evidence for that was apparent in Philips' conciliatory reaction to RWPPI statement, spokesman saying his company viewed it as "positive step" that group had pledged to study "recording and playback capability" issues between DVD-RW and "future recording formats such as +RW, etc." Philips spokesman said his company would take "wait-and-see" posture as to whether it would join RWPPI.

List was as surprising in terms of companies that were listed as members as for those that were not. Besides Sony and Thomson, which had been aligned with DVD+RW camp, Samsung has made strong overtures about coming first to market with DVD-RAM recorders. Moreover, Matsushita-affiliated JVC wasn't listed as RWPPI member, even though it has indicated strongly at recent trade shows about supporting DVD-RW hardware and software. JVC spokesman in Japan said company was developing recorder that could accommodate formats sanctioned by DVD Forum — which at present includes DVD-RAM, DVD-RW and write-once DVD-R, but not DVD+RW. Meanwhile, DVD-RAM companies Hitachi, Matsushita and Toshiba were largely silent on RWPPI development. Exception was Toshiba point man Koji Hase, who attended RWPPI news conference in Tokyo and said he welcomed group's pledge to work toward "smooth introduction" of DVD-RAM and DVD-R "when such products become available in the consumer market."

Hase told us he "would have been more comfortable" if RWPPI had adopted name more akin to "DVD Recordables Initiative," but said "this is not feasible" because organization will operate "outside the jurisdiction" of DVD Forum and thus isn't at liberty to adopt such title. However, Hase said "it may bring some usefulness" if RWPPI can address compatibility with DVD+RW, which isn't recognized by DVD Forum and thus is unlikely to be best body to unify mutually incompatible formats.

**DVD MAKERS VOW TO INCREASE PLAYER SUPPLY:** To meet DVD deck demand now forecast at 15 million-plus worldwide, largest Japanese manufacturers last week announced production increases for current fiscal year. Meanwhile, vendors already have begun to express alarm at shortages of generic components for DVD players and other CE devices.

Sony, seeking 30% share of DVD market, said it will double player production to 4 million this year. Panasonic parent Matsushita will come close, increasing output 50% to 3.6 million decks. Toshiba will almost double last year's production to 3 million, as will Pioneer, to 2.4 million. Comparable figures weren't available for other Japanese manufacturers, Chinese, Korean or Taiwanese vendors, or European heavyweights Philips and Thomson.

Market-by-market breakdown for player demand tends to fluctuate, but morning line puts U.S. first to dinner with forecast for 10 million players. Japan, with about half of population of U.S., is expected to absorb only one million players this year. Forecast is attributable to continuing lack of compelling movie titles there — and doesn't include 1.8 million DVD-capable PlayStation2 (PS2) videogame consoles Sony has sold to date or PS2 sales for rest of year. Depending on increasingly better software supply, DVD demand in Europe could hit 3 to 4 million, with U.K. accounting for about one million. China's Ministry of Information Industry this month projected domestic demand at 3 to 5 million DVD-Video players for 2000, up from one million sales in 1999. Supply situation is less clear, with Chinese manufacturers pushing to fill export pipeline.

Meanwhile, CE vendors are struggling with increasingly tight market for bare-bones components — capacitors, resistors, diodes and others — as suppliers shift production to meet ever-growing demand for cellular phones. Components shortage affects virtually all areas of CE market including rapidly growing segments such as DVD players and projection TV. Cellular phone sales are projected to hit 400 million worldwide this year.

"Everybody we know in the TV business is faced with a serious shortage of one passive component or another," CE executive told us. "If they're a big company, the problem doesn't seem to be as bad and they can find product, but if they're smaller it can be a difficult situation."

Shortage is starting to be felt only now, but supply could tighten further as demand increases for fall selling season. Some industry observers, though, expressed confidence that shortfall could be resolved by 4th quarter as component suppliers, largely in Taiwan, expand capacity. Taiwan's largest maker of resistors, Yageo, recently bought 2 components businesses from Philips for \$590.7 million.



**PLAYSTATION2 TO DEBUT IN U.S. OCT. 26 AT \$299:** Ending months of suspense, Sony Computer Entertainment America (SCEA) used news conference day before start of Electronic Entertainment Expo (E3) in L.A. last week to announce that its 128-bit PlayStation2 (PS2) would reach U.S. store shelves Oct. 26 at \$299.

But U.S. PS2 differs in some ways from original Japanese machine, which has sold 1.8 million units since March rollout. Most different aspect is that it will have DVD-Video playback built into standard hardware, eliminating need for external 8 MB card to view movies that had caused Sony headaches when console appeared in Japan and many customers complained cards were defective (TVD March 13 p11).

Memory card will be sold as \$34 accessory, and DVD functions can be upgraded by firmware issued on optical discs. But Sony didn't offer much-anticipated accessory remote control for DVD and CD functions. With current PS2, owners must use gamepad controller to play DVDs or music CDs — awkward arrangement that's been criticized by customers. However, Recoton subsidiary InterAct will market DVD Master Remote for PS2 at \$19.95. Kit includes tiny infrared receiver that plugs into console's gamepad controller port to take wireless commands from remote.

PS2 for U.S. market also will feature expansion bay in rear of machine for accessories such as Ethernet card for broadband connectivity as well as 3.5" hard disc storage drive. R&D Vp Phil Harrison reiterated SCEA's faith in broadband, saying PS2 will hasten mass market penetration of high-speed Internet access. He cited optimistic Yankee Group estimate that more than 70% of homes would have access to broadband connections by 2004.

SCEA will have more than 50 titles available for PS2 in 2000, including first party games *Dark Cloud*, *Gran Turismo 2000* and *NFL GameDay 2001*, as well as 3rd party games *Armored Core2* (from Agetec), *Street Fighter EX3* (Capcom), James Bond-themed *The World Is Not Enough* (Electronic Arts). First party games will cost \$49, with 3rd party titles expected to be slightly higher. SCEA expects another 56 titles between Jan. and March 2001, with another 80 in months after that.

While sub-\$300 price point will please retailers, many in industry believe stores will have hard time keeping PS2 in stock this holiday season. Speaking on eve of E3, SCEA Pres. Kaz Hirai said one million hardware systems would be available at start — same number that company had planned for Japan debut (TVD Sept 20/99 p14), although Sony wound up falling slightly short of that number, with only 980,000 shipped (TVD March 13 p18). He said company will ship additional 2 million PS2s to N. America by March, which is end of its fiscal year.

SCEA Sales Vp Jack Tretton said later that huge preorder campaign probably will mean most of first shipment will sell out as soon as it reaches shelves, providing almost immediate \$500 million boost to N. American retailers. All told, Tretton said, PS2 should net retailers \$1.5 billion in hardware, software and peripheral sales by March 31.

Summing up mood of retail channel, Steven Kleckner, senior vp at distributor ElectroSource, said: "It's a great price point and the perfect time to launch." While acknowledging there may be some frustration from consumers unable to get PS2 this year, he said shortages should only add to hype and "as long as they're able to get more product in January, February and March, they should be all right."

Sony also is planning to launch PS2 Oct. 26 in Europe, although pricing wasn't unavailable at our deadline. But British news report last week said console most likely would cost \$449 there.

Tretton also said at E3 that SCE would ship 8 million original PlayStation (PS) consoles worldwide in FY 2001 and U.S. subsidiary hopes to get as much of that allocation as possible. SCEA lost market share battle to N64 in March and April (TVD April 24 p15), largely because of severe shortages of PS hardware. Industry sources told us several major retailers have been sold out of Sony hardware in recent weeks, but Tretton said most stores would have ample supply again in June.

Still unclear is whether SCEA will cut price of PS below current \$99 at some point this year. Industry sources told us parent company is trying to reengineer console to reduce production costs.

Hirai said interactive entertainment industry overall should top \$7 billion in U.S. in calendar year 2000 and PS deserves much of credit for industry's growth. Life-to-date PS hardware sales are 27 million while software number is more than 230 million games since 1995 launch. Global sales to date are 72 million hardware and staggering 630 million software units. (For more details on E3 see separate reports, this issue.)



**BLOCKBUSTER AND DIRECTV JOIN FOR PPV:** Blockbuster (BB) will offer video pay-per-view (PPV) next year following agreement with satellite service DirecTV last week to co-brand with latter's existing pay-per-view business. As part of deal, BB also will sell DirecTV satellite products and service through its 5,000 stores.

Details are far from final, but Blockbuster said it would market DirecTV's 55-channel PPV service by early 2001 under co-branded Blockbuster/DirecTicket. Although average BB transaction is \$3.50, movies are expected to remain at DirecTicket's current \$2.99 — and maintain 60-day window between release in video stores and PPV premiere, BB spokesman told us. To promote DirecTV, Blockbuster will install kiosk displays in regional rollout to its stores starting in 3rd quarter, with store staff to start selling DirecTV in 4th quarter, spokesman said.

Deployment of copy protection for PPV to prevent home recording also hadn't been determined at time of announcement. DirecTV always has had ability to apply Macrovision spoiler to PPV movies at content owner's request. Protection isn't believed to have ever been invoked, though, possibly because theatrical and home video legs had run out by time of PPV release. BB spokesman told us copy protection for PPV titles would be among issues addressed in upcoming negotiations with studios.

Besides sharing PPV revenues, Blockbuster will receive activation fee and residuals for signing up DirecTV subscribers. Extra revenues could increase Blockbuster's earnings 5-15% annually, BB CEO John Antioco said. In teaming with DirecTV, Blockbuster will restore \$120-\$140 gross profit revenue per customer that previously was cut in half when users subscribed to satellite service — and value eventually will rise to \$215, Antioco said. "In the past, when a customer purchased a satellite service we kept them as an active member, but the end result was fewer movie rentals," Antioco said. "Now we'll continue to enjoy the customers' business by sharing in the PPV revenues we help generate."

DirecTV will fund installation of kiosks and hardware through video chain, while BB will pay incentive to store personnel selling service. DirecTV Mdsg. Pres. William Casamo said pact "put this display in front of our pure demographic." But agreement with BB also allows DirecTV to ward off rival EchoStar, which had been seeking pact with chain. "This also was about DirecTV wanting to keep EchoStar out of the suburbs," one analyst said.

DirecTicket service has met limited success since DirecTV rollout in Oct. 1994. Average buy is 1-2 movies per month each among 8.5 million subscribers, for \$525 million annual revenue — but Antioco said chain's involvement will increase figure "significantly." BB will mine its customer database to promote PPV, using e-mail and direct mail.

Although DirecTV now has PPV agreements with studios, new pacts must be negotiated for co-branded service, BB spokesman said. Also, BB will continue with video-on-demand (VOD) service planned for late this year with personal video recorder supplier TiVo, but eventually might integrate it with DirecTV, spokesman told us. At our deadline, it wasn't clear whether possible TiVo connection would require separate blessing from studios. DirecTV has separate pact with TiVo, and set-tops containing hard drive are scheduled to ship by 3rd quarter.

Unexpected casualty of BB-DirecTV pact was Tandy, whose stock fell 8.2% to close on May 9 at \$45.75, although it rebounded slightly next day. Stock declined after long-time supporter PaineWebber reduced Tandy shares to neutral from buy rating, citing what it called infringement on RadioShack's business. In fact, Antioco contended that BB stores, 75-80% of which are in metro markets, are "more conveniently located" and have "significantly more" square footage — 7,000 vs. 2,500 — than RadioShack outlets. But while BB has said 70% of U.S. households are within 10 min. of chain's stores, Tandy has claimed that 94% are within 5 min. of RadioShack.

While BB and RadioShack similarly benefit from sale of service, there are major differences in strategy. BB stores won't carry hardware except for equipment used in display, and will rely on DirecTV for fulfillment. Hardware supplier hasn't been selected, although Philips is said to be leading candidate. Tandy, meanwhile, stocks stores with RCA-brand DirecTV hardware. Tandy uses Amerilink subsidiary for majority of DirecTV installations, but BB will rely on DirecTV's Home Services Group.

Each chain sees DirecTV as key revenue generator. DirecTV revenues accounted for 7% of Tandy's \$4.1 billion sales for year ended Dec. 31. BB, meanwhile, projects that 6 million of its 42 million customers will add satellite service in next 5 years. "Even if we have 5% penetration over the next 10 years, it's a home run for us," Antioco said.

How BB will adapt to hardware sales is open question. Tandy Senior Vp David Edmondson said Tandy's sales staff will be better trained than BB's to market service that takes 40-60 min. to sell. Indeed, average BB customer spends only 12-14 min. in store, Antioco said. "One of the things they'll find is that this sale takes a little bit of time," Edmondson said in conference call with analysts. "Not only does it take somebody who is knowledgeable, but it also takes a cus-



tomers who are in a mode of where they'll take the time to listen to the story. When you've got everybody sitting at home waiting for the movie to start, it's probably not the best time."

Although BB and Tandy contended there's room for each to sell service without cannibalizing other's sales, Antioco seemed to outline strategy similar to RadioShack. BB stores, he said, will become "demonstration and sales vehicles for companies that want to get closer to the consumer." RadioShack has signed store-within-a-store deals with Compaq, Microsoft, Sprint and Thomson with same goal. BB has checkered history in selling hardware, having met limited success with Philips' CD-I player and later its DVD players. DirecTV also had failed experiment in selling service in Japan through 5,000 Cultural Convenience Club video stores. It divested DirecTV Japan to SkyPerfectTV earlier this year.

BB also plans to "become one of the largest distributors of satellite services in the country" as result of DirecTV agreement, Antioco said. RadioShack, which has been selling service since 1994, has long claimed similar distinction and says it has 30% market share.

Despite some similarities, Sanford Bernstein Senior Research Analyst Ursula Moran said, in "worst-case scenario" where BB captured "significant market share," impact on Tandy earnings would be 1-2¢ in 2000, 2-3¢ in 2001. "We think this scenario is unlikely," Moran said. "Best Buy, Circuit City and Tandy are the natural destination sites for consumer electronics hardware, with highly capable sales forces accustomed to selling technologically sophisticated products. We are skeptical that Blockbuster will be able to train its sales force to effectively compete in the hardware arena."

As BB seeks to expand business into multimedia services, Antioco denied chain was reducing its video roots. "Renting a video will continue to be the main focus of our business, and the customer that comes in and rents a video is going to be unobstructed to do that," Antioco said. "But the customer who is curious about an attractive looking display will be able to get more information."

Zenith and Pace will be among those in running to build IRD for BellSouth's (BS) proposed satellite service (TVD March 27 p12) that's scheduled to start in 2001 in 9 southeastern U.S. states, BS spokesman said. Both companies are current suppliers for existing Americast MMDS service that originated in 1996 (TVD Aug 26/96 p5) as consortium of BellSouth, GTE, SBC Communications, Walt Disney. New service, which will be available to 14 million BellSouth customers, will have 160 video channels and be competitive with cable rates at \$20-\$50, BS said. Americast's existing service has 160,000 customers including 120,000 with BS. Zenith has had discussions with BS on proposed service, but suppliers aren't expected to be named for several months, Zenith Network Systems Pres. William Leuhrs said. Despite Zenith's plans to introduce high-definition (HD) IRDs for DirecTV, Leuhrs said relationship with BS shouldn't pose conflict since latter's service targets retail. Among those competing to build 20"x30" dish for service is Channelmaster, which has submitted 3 designs including 65 cm elliptical version with integrated low-noise blocker (LNB), sources said. BS service will use GE Americom satellite scheduled to launch in Sept. Bird will have capacity to deliver service to another 50 million customers in regions adjacent to BS territory and RBOC will seek reseller agreements, BS spokesman said. Orbital slot for satellite hasn't been finalized, BS spokesman said.

Cablevision's Wiz reported \$18 million first-quarter loss despite 11% gain in revenue. Cablevision, which has overhauled chain's management and begun cross-training program aimed at boosting gross margins, continues to view Wiz as "primary distributor" for its cable modems and Sony digital set-top boxes that are due later this year, CEO James Dolan told analysts in conference call. Cablevision, which had 70,500 cable modem subscribers at quarter's end, plans to expand sale of product to 21 Wiz stores by year-end, Vice Chmn. William Bell said. Overall, Cablevision reported loss of 67¢ per share in quarter, down from \$1.57 year earlier as revenues increased to \$1.05 billion from \$934 million.

Best Buy (BB) said leases have now been signed for 15 stores that will open in N.Y.C. market in fall. BB Chmn.-CEO Richard Schulze told us last year that retail chain would make its N.Y.C. market debut this year after originally predicting entry wouldn't come until 2001 (TVD April 19/99 p16). Chain later revealed it had signed leases for 5 stores in market and planned up to 12 in Tri-State area by end of year (TVD Aug 23 p19) — at least 3 fewer stores than there will be based on last week's announcement. Stores in Bay Shore, Kingston, W. Nyack and Westbury — all in N.Y. — were first ones to be reported last April. Additional 6 N.Y. stores reported last week are in Levittown, Middletown, N.Y.C. (one each in Staten Island and Long Island City, Queens), Poughkeepsie, S. Setauket. Remaining 5 stores to open in market in fall are in N.J. — one each in E. Hanover, Secaucus, Totowa, Union, Woodbridge. BB said stores will be 45,000 sq. ft., except for 30,000 sq. ft. Kingston location. Stores are part of 50-55 outlets BB plans to open nationwide this year as it attempts to enter remaining major U.S. markets. Separately, Micron Electronics (ME) announced completion of pilot program that made micronpc.com computers available at 10 BB stores. ME said program is rolling out to 358 BB stores in U.S.

3DO posted its first full year of profitability. Redwood City, Cal., game maker last week reported income of \$205,000 for fiscal year 2000 ended March 31 vs. \$13.2 million loss year ago. Revenue for year was \$122.2 million, up from \$48 million. In 4th quarter, 3DO said, income jumped to \$11.5 million from \$2.6 million while revenue more than doubled, to \$47.3 million from \$23.2 million. CEO-Chmn. William (Trip) Hawkins attributed results to company's "focus on several key areas, including consistently launching new games that leverage our brand strategy, expanding onto all the major game platforms, [and] expanding our presence in markets outside the U.S., particularly throughout Europe." 3DO shipped record 26 new games in quarter for Nintendo Game Boy Color and 64, PC, Sony PlayStation. Company said it's developing more than 10 new games for Sony's PlayStation2.



**HITACHI MAKES HDTV PUSH:** Hitachi unveiled line of 8 high-definition-ready (HD) TVs including 55W model based on Texas Instruments' Digital Light Processing (DLP) technology that handles 720p.

Progressive scan line also features much-delayed 61W integrated HDTV with built-in DirecTV Plus IRD (\$5,999) that was scheduled for introduction year ago. It has 540p native resolution.

HD-ready line starts with 36" conventional set (\$2,199) that has 480p native and 800 lines of resolution in addition to advanced picture-in-picture, UltraBlack tube and 10 w speaker system. Line moves to 43" tabletop (\$2,199) that increases resolution to 1,000 lines and includes dual-tuner PIP as well as SRS surround sound. Three 53" rear-projection sets (\$2,699-\$3,999) are topped by widescreen model that continues with UltraFocus 6-element projection lens system and adds such features as Multiviewer 3-channel auto surf and Dolby Digital surround. Also in mix are 2 new 61" sets, with widescreen version (\$3,799) with same 60 w speaker system as 53W.

Expanding into new technologies is 55W DLP-based set that has 0.8" micromirror that delivers 1,280x720p resolution and provides 350 lumens, 500:1 contrast ratio. Set is expected to be delivered by year-end at \$9,999. TV will have Dolby Digital surround, 60 w speaker system, Digital Window Plus PIP menu, trilingual on-screen display. Weight wasn't available, but depth is 23-3/4", about same as many projection TVs. Also added to line was 52" LCD rear-projection set (\$4,999) first shown in 1999 (TVD Jan 11/99 p18). It has single 1.6" LCD panel with 800x600 native resolution, 300 lumens peak brightness, down from original 400 lumens, and 30 w speaker system with SRS. Hitachi also has 56W LCD rear-projection integrated HD set on drawing boards (TVD Nov 22 p13).

Missing from line was 42W plasma display with 1,024x1,024 resolution that had been subject of retail test earlier this year. Display, which has 800x600 resolution, was built by Hitachi-Fujitsu joint venture and is being sold in commercial market.

Eshewing smaller analog sizes, Hitachi starts TV line with 27" model at \$399, and steps to dual tuner piece at \$499. Category also include "PC-ready" unit with fine-pitch, 0.78 mm dot pitch tube at \$899. There are also two 32" models (\$699-\$799), two 36" (\$799-\$999), 43" tabletop (\$1,599) that uses SuperBright CRTs and standard 46" (\$1,699). At 50", Hitachi has 3 models (\$1,699-\$1,899), major differentiation being lines of resolution, which range 750-1,000. In between piece is 60" dual-tuner unit (\$1,999) that's paired with 61" Ultravision model (\$2,799).

In rest of video line, Hitachi features Ultravision DVD player/CD recorder with built-in Dolby Digital (\$799) and first DVD-RAM camcorder. DVD player/recorder features 2x DVD and CD-RW drives, 2 laser pickup (650 mm for DVD, 780 mm for CD and video CD) and 2x/4x digital zoom. Player/recorder anchors line that starts at \$229 for player with component video output and advances to \$299 for unit that adds Dolby Digital.

DVD-RAM camcorder, which is expected to be available by midyear at sub-\$2,000 price (TVD Jan 10 p23), will head 8-model line that also incorporates Sony's Digital 8 technology that allows for Hi8 recording on standard 8mm tape.

DVD-RAM camcorder had been configured to record up to 2 hours of video in standard mode (S-VHS quality) on 3.7 Gb DVD disc. Line is stripped of color eyepiece viewfinder, which has been replaced by 2.5-3" LCD screen. It also features 2 digital mm models (\$699-\$799), each with 1/4", 470,000-pixel CCD. Entry-level starts at \$399 for full-size VHS model with 270,000 pixels and 0.3 lux.

In VCRs, 7-unit line starts at \$79 for 4-head mono model with fluorescent clock display and runs to \$179. Interspersed are 4-head hi-fi models including "Skeleton" unit (\$109) with colored translucent cabinet.

**ReplayTV shipped 3,500 digital video recorders (DVRs)** in first quarter ended March 31, just before Matsushita's retail rollout of ShowStopper product, it said in SEC filing. In first quarter, ReplayTV's loss grew to \$22.3 million from \$3.49 million as total costs soared to \$23.5 million from \$3.46 million. Sales and marketing accounted for largest share of costs in growing to \$7.5 million from \$1.5 million. PVR sales totaled \$1.3 million, while manufacturing and distribution expenses were \$4.6 million, company said. ReplayTV has accumulated deficit of \$62.3 million, total capitalization of \$104.8 million. In April, ReplayTV entered into secured convertible debt purchase agreement with New Enterprise Assoc. VII, Institutional Ventures VII and 2 other stockholders, terms not disclosed. ReplayTV also granted Pres. Anthony Woods option to buy 275,000 shares that can be exercised starting Aug. 1 at rate of 1/12th of total number of shares per month. Directors Jeffrey Berg and Sky Dayton each received options in April for 200,000 shares that can be exercised at 1/3 of total as of April 28, 1/36th thereafter.

**Cobra Electronics**, crediting strong sales of 9-band radar detector and Family Radio Service (FRS) products, reported first-quarter income increased to \$628,000 from \$37,000 year earlier as sales rose 7.2% (see financial table). Gross margin jumped to 28.8% from 25.5% year ago on "richer mix" of new products, Chmn.-CEO James Bazet said in conference call with analysts. Cobra, which introduced FRS model with AM/FM tuner at CES, has expanded distribution of 2-way radios into Canada. It also is selling model in Europe under Private Mobil Radio (PMR) banner through network of 10 distributors in 26 countries, he said. New line of High Gear CB radio antennas, microphones and speakers has shipped — 1/3 of 31 SKUs, most of which will be delivered May-July. In addition to new products, Cobra will begin "full-time effort to seek some joint ventures and make acquisitions of products," Bazet said. Cobra also is planning "aggressive" e-commerce business strategy that will boost its online sales 30%, he said.

**Toshiba demonstrated** working prototype of its first Nuon DVD player — SD2300 — at E3 in L.A. last week. Toshiba said it will ship player in U.S. in 3rd quarter at \$399, although industry source told us he expects player to carry street price of \$299. Company had planned to ship player in spring but postponed it to 3rd quarter because of chip delays (TVD April 24 p15). Toshiba player was shown at booth of Nuon developer VM Labs, which also used show to announce Hasbro Interactive is supporting Nuon DVD player-based interactive platform and that company had selected PlanetWeb as browser for upcoming Internet enabled versions of system. Source close to VM told us first Nuon-enabled DVD player, from Samsung, will be arriving on retail shelves in coming weeks at \$399 although it carries \$499 SRP (TVD Dec 13 p21).



**AD CAMPAIGNS ANNOUNCED AT E3:** Hoping to counter hype surrounding new Sony PlayStation2 system at last week's Electronic Entertainment Expo (E3) (see separate report, this issue), Nintendo and Sega unveiled major multimillion-dollar ad campaigns designed to keep consumers focused on their current game platforms.

Nintendo of America (NOA) used its pre-E3 briefing to remind industry that 90% of game business this year will be on existing platforms. "Right now, if you are not focused on the current game systems you're really... missing the picture," NOA Exec. Vp Peter Main said.

NOA projects it will sell 3.5 million N64 hardware units in fiscal year, about one million lower than last year. However, it always has excelled with first and 2nd party software in downward portion of platform life cycle and this year is no exception. It will release 10-12 first and 2nd party N64 titles this year, including *The Legend of Zelda: Majora's Mask*, *Dinosaur Planet*, Disney-licensed *Mickey's Speedway USA*, *Mario Tennis*, *Conker's Bad Fur Day*, Goldeneye 007 sequel *Perfect Dark*. "This year is harvest time," NOA Pres. Minoru Arakawa said.

Other cause for NOA optimism this year is continued strong demand for Game Boy Color (GBC) portable system and popularity of Pokemon. Main said NOA postponed start of new Game Boy Advance (GBA) 32-bit system (TVD April 10 p19) because retailers said current 8-bit GBC still was going so strong. NOA said it would sell 8 million GBCs in FY 2001 along with 35 million pieces of software, generating \$1.6 billion in revenue.

NOA also has apparent gold mine in Pokemon license, which it predicts will generate \$3 billion in revenue in 2000, nearly double 1999 total. Highlight of GBC year will be Oct. 16 releases of *Pokemon Gold* and *Silver* Game Boy games, which NOA will back with \$15 million marketing campaign. It also will pour more than \$10 million each behind N64 *Legend of Zelda: Majora's Mask* and \$89.95 *Hey You Pikachu*, first N64 game featuring voice activation and bundled with microphone. All told, NOA will spend nearly \$250 million marketing products this year, up more than 20% from last fiscal year.

While it has been long known as console for younger audience, NOA is bringing out several Mature-rated titles — including *Perfect Dark* and *Conker's Bad Fur Day* — in attempt to lure older audience. Mktg. Vp George Harrison said he was unconcerned by reports Montgomery Ward and Sears would stop carrying M-rated games, saying Sears already has committed huge amount of advertising for May 22 debut of *Perfect Dark*.

Main spoke little of upcoming Dolphin home console, which has been delayed to first half 2001 in U.S. (TVD March 20 p12), and GBA, except that both are on track for 2001 U.S. bow. He did say, however, that IBM has completed development of 0.18 micron Dolphin processor and that more details of both new platforms would be available at SpaceWorld show in Japan in Aug.

Sega of America (SOA) announced it's working with Internet telephony company InnoMedia to allow Internet-based telephony over Dreamcast. Service begins in Japan in Aug., with worldwide rollout later this year. News reports in Japan said telephony venture will be owned 20% by Sega, 30% by Sega affiliate Isao, 50% by InnoMedia.

SOA also revealed it will offer \$50 rebate and free month of SegaNet ISP service for consumers who buy Dreamcast between June 4 and Aug. 1 this year. Rebate effectively lowers hardware cost to \$149. SOA earlier had announced new SegaNet ISP and \$200 rebate program for subscribers who sign up for 2 years of service (TVD April 10 p13).

After strong launch, Dreamcast market share has slipped to 12.5% for Q1. But SOA is hoping to turn that around with \$135 million ad campaign this year as well as wide range of new titles that will bring total number of games for platform to more than 100 — 16 of them for online play. As promised, Sega also showed line of Dreamcast peripherals, including Ethernet card, MP3 player, Sega Dreamcast Camera and Microphone. Also in line are colored controllers and visual memory units. Sega also showed DVD add-on for movie playback. Dreamcast DVD player is half the size of normal standalone player, but other details — such as price point and other features, remained sketchy.

Meanwhile, one company that was relatively quiet on console front at E3 was Microsoft, whose X-Box had spotlight at March's Game Developers Conference in San Jose, Cal. (TVD March 13 p11). This time, company had no major announcement to make regarding X-Box, although it did draw large crowds lined up to view demos.

**EMI Recorded Music (EMIRM)** last week became latest major music company to announce digital download delivery plan. Company said it will run digital download "trial" starting in July in which it will make more than 100 albums and 40 singles available as downloads at Web sites of major music retailers. EMI said that at start it will make music available exclusively in Microsoft's Windows Media format "to ensure that the consumer experience is as easy and straightforward as possible." Customers will be able to use downloads of EMI music on home computers to burn CD-Rs and transfer copies to portable devices, but company said it will allow only up to 2 "re-installs of a download onto consumer systems to cope with possible technical problems such as hard-drive failures." Although trial at outset will be available only in N. America, EMIRM said it expects to expand trial to other regions by end of year. EMIRM Pres.-CEO Ken Berry said "digital delivery will eventually become part of our standard release pattern." EMI Music Distribution Pres. Richard Cottrell called trial company's "first step in building the necessary framework and infrastructure for the digital future." EMI's announcement followed similar plans announced recently by BMG and Sony (TVD April 17 p18).

**Sears is weighing** introducing freestanding CE and appliance stores in bid to grab market share from competitors such as Best Buy and Home Depot, Chmn.-CEO Arthur Martinez told shareholders at annual meeting last week. "We have strong franchises in those [CE and major appliances] categories and we don't want to be outlet poor and we don't want to be distribution poor," Martinez said. New stores would be 12,000-15,000 sq. ft. and enable Sears to reach customers not served by its department stores in metro areas and dealer-owned outlets in rural markets, he said. Sears has tried to sell CE electronics as part of overall freestanding concept in past, but never as standalone operation. CE was key ingredient in Homelife stores that also carried furniture (TVD Oct 9/95 p13). Homelife format was slowed after 110 outlets were opened, only 2 of which sold CE (TVD Sept 16/96 p13). More recently it has occupied 8,000-10,000-sq.-ft. in Sears home decorating and design superstores and Great Indoors concept (TVD Nov 1 p16).



**REVENUES UP FOR ELECTRONIC ARTS:** Game maker Electronic Arts (EA) said it took in revenue of \$294.3 million in 4th quarter ended March 31, up from \$277.7 million year earlier. But EA, based in Redwood City, Cal., said profit tumbled to \$3.4 million from \$21.9 million, largely because of \$23.9 million loss taken in EA.com online business.

EA said pro forma income in quarter was \$10.8 million before \$10.7 million in pretax charges in acquisitions of Kesmai (TVD Nov 29 p13) and DreamWorks Interactive (TVD Feb 28 p16).

For year, EA reported revenue edged up to \$1.4 billion from \$1.2 billion. Loss associated with EA.com was \$20.9 million.

Despite EA.com losses, revenue for online segment in quarter saw increase to \$6.8 million from \$4.8 million.

Although profits were down overall, EA performance still was in stark contrast to competitors that recently posted losses they blamed largely on transition to new platforms (TVD April 24 p18).

Analysts have indicated that EA appears to be in better position to overcome current slowdown in game console sales, in part because of its heavy emphasis on PC games, which haven't been affected by transition to new consoles. Revenue has risen and remains profitable despite fact that it hasn't supported popular Game Boy handheld platform from Nintendo and has yet to back Sega's Dreamcast, which so far has seen sales near 2 million in N. America (TVD April 10 p13).

EA also broke down its revenue for quarter, saying N. America produced \$152.5 million and international market \$141.8 million. N. American and Asia Pacific sales were spurred by strong PC game results and expansion in number of new PC games company offered in quarter, while European sales were boosted by modest gains in PC and PlayStation (PS) game sales. But EA said it saw expected declines in its Nintendo 64 (N64) sales.

In last quarter, EA said it shipped 21 new titles — 10 for PC, 10 for PS, one for N64 — with best-selling ones including *Road Rash Jailbreak* for PS and PC game *The Sims*.

Commenting on what it expects this year, EA CEO-Chmn. Larry Probst said: "Looking ahead, we see the transition from the current slate of console platforms to next-generation technology presents a challenging market environment but we are very excited about the opportunities available on new systems like the PlayStation2." He said: "We continue to focus on being the leading 3rd party publisher on PlayStation2, with more than 20 [titles] currently in development." Company also is "intensifying our efforts on the PC platform."

Interplay reduced its first-quarter loss to \$5.5 million from \$8.3 million year ago for period ended March 31, but Irvine, Cal., game maker saw revenue drop to \$18.1 million from \$21.6 million.

Breaking down revenues, Interplay said 71.4% were from PC game sales, 16.8% from consoles, 11.8% from licensing, OEM, royalties. Like EA, Interplay hasn't been affected by new platform transitioning as much as various competitors because of its strength on PC game front.

Commenting on results, Interplay Chmn.-CEO Brian Fargo said: "We are already realizing momentum in our focus to increase our console business through our sales of *MDK 2* for the Sega Dreamcast." CFO-COO Manuel Marrero said it was company's "2nd consecutive quarter without transition and reorganization charges." He said company has "been successful in stabilizing our returns and allowances provisions and reducing our total operating expenses without reducing our product development expenditures, thus improving gross profit margins and operating results without affecting our product development efforts of future title releases." Company said gross profit margin was 47%, up from 42% last year.

Fargo said company has "significantly more major title releases scheduled for this year than we released last year, culminating with the release of the sequel to the one million unit-seller, *Baldur's Gate*." He said: "The completion of our recent equity transaction with Titus has significantly improved our financial position and will help to fund our development of next-generation console products."

On software front at E3 last week, Acclaim, Activision, Eidos, Electronic Arts, Fox Interactive, Hasbro Interactive, Interplay, Lego, Microsoft, Radica and Red Storm were among many companies that unveiled new interactive game lines. Lego also announced alliance with Steven Spielberg. Product being developed as part of that alliance is Lego Studios Steven Spielberg MovieMaker Set, shipping at \$179.99 in U.S. in Nov., then worldwide in 2001. Set, geared toward youths 8-16, includes PC movie camera, editing software made by Lego Media and Pinnacle Systems, assorted Lego props, book on making movies. Company said 7 more sets in Lego Studios line will ship in U.S. in Jan. 2001 and globally in April 2001. Lego said all proceeds from sales of MovieMaker will be donated to non-profit Starbright Foundation and Shoah Foundation.

Take-Two Interactive Software acquired 80.1% of Dallas-based game maker Gathering of Developers that it hadn't already owned in move to strengthen its PC publishing capabilities. Gathering will operate as subsidiary of N.Y.C.-based Take-Two. Gathering CEO Mike Wilson and Pres. Harry Miller will continue in posts for 5 and 3 years, respectively, as part of agreement with Take-Two. Gathering and Take-Two also began On Deck Interactive (ODI) publishing label that they said would offer "games from promising new development companies at a consumer friendly price point." ODI will be led by CEO Robert Westmoreland. Acquisition was completed in late April.

Creative Technology (CT) unveiled 2 speaker systems designed for PlayStation2 (PS2) at E3 — PlayWorks DTT2500 Digital and PS2000. Both carry CT's Cambridge SoundWorks brand name and are equipped with optical connection that enables them to be easily hooked up to videogame console. Creative said systems will ship in time to coincide with PS2 launch. Prices were unavailable at our deadline.

Pioneer said it plans to triple annual output for plasma display panels (PDP) to 150,000 units by Oct. 2001, expansion that could cut prices to 1/3 of current level. Pioneer's 50W PDP is priced at \$17,000-\$20,000. It will invest \$137.5 million in building PDP line at its Shizuoka Prefecture subsidiary. New line, which will have annual capacity of 100,000 units, also will enable Pioneer to combine PDP screen production and TV assembly in same plant.



**OFFICEMAX SHOWS LOSS:** OfficeMax, deep into selloff of PCs as it readies new Gateway program (TVD Feb 28 p12), reported \$2 million first-quarter loss against \$22 million profit year ago despite 14% gain in sales (see financial table). Same-store sales inched up 1%.

Chain ended quarter with \$35 million in PC inventory, CEO Michael Feuer told analysts in conference call, but it will "accelerate costs" to sell off existing IBM and Compaq models and close department by late July. Replacing current PC dept. will be Gateway kiosks, first of which have gone up in Pittsburgh area, he said. In quickening pace of rollout, OfficeMax will set up temporary modules to sell Gateway service until permanent displays are installed, Feuer said.

Loss in OfficeMax's PC business eased to \$1.9 million in quarter from \$7.3 million year ago as sales rose slightly to \$68.7 million from \$67.8 million. Average selling price fell 15%, it said. OfficeMax has gradually reduced its reliance on PC category on which it lost \$19 million in 1999, Feuer said.

Online business OfficeMax.com posted \$7.4 million loss, up from \$497,000 year ago, as sales jumped to \$26.1 million from \$4.4 million. Average order was 4 times greater than retail stores, Feuer said. Gross margin hit 26.2% against 25.3% in OfficeMax's core office supplies and business machines. Latter category reported profit fell to \$7.1 million from \$29.8 million year earlier while sales gained to \$1.2 billion from \$1.1 billion.

Feuer downplayed Mexican businessman Carlos Helu's recent purchase of 8% stake in OfficeMax, saying it was "private investment" and not precursor to acquisition of chain. OfficeMax adopted shareholder rights plan in March (TVD March 20 p14) limiting ownership by any group or person to 15% after Helu filed with SEC to buy up to 25%. He is part of Grupo Sanborns retail empire that bought 219-store CompUSA chain for \$797.7 million (TVD Jan 31 p14). "He felt the stock was undervalued," Feuer said, indicating Helu is likely to increase investment to 15%. "If anybody wants to buy the chain at the right price, that's fine, but what we didn't want to happen was have somebody take it over for \$6 or \$7 a share."

In wake of decline in earnings, OfficeMax has scaled back expansion plans to 50-75 stores this year from more than 100 in 1999. It also has limited 5,000-sq.-ft. OfficeMax PDQ express store format to 4 outlets as it moves focus "more toward bigger stores because we always go back and fill in with smaller ones," Feuer said. Chain at one time had big plans for PDQ including opening of 20-25 stores in 1998 (TVD Aug 18/97 p19).

OfficeMax also is weighing adding kiosks to some stores to sell electronics, Feuer said. It sold 13-19" Konka TVs in holiday season (TVD Oct 18 p14) but had disastrous results, returning \$5 million of \$6 million in inventory, according to recent report in *Wall St. Journal*.

In International market, OfficeMax is "in discussions" with Japanese joint venture partner Jusco on "future of the existing stores," according to annual 10K. Companies operate 6 super-stores and one PDQ in Japan, but don't plan to add new outlets this year because of "financial considerations and operational strategy changes" at Jusco. OfficeMax owns 19% of venture. In Mexico, it recently increased investment in joint venture with Grupo Oprimax to 51% and plans to open 9 full-sized outlets and one PDQ this year. It has 16 stores in Mexico.

**MP3.COM BOWS TO PRESSURE:** MP3.com said last week it would disable access to all major record label content at its Web site.

News came only days after U.S. Dist. Court, N.Y.C., Judge Jed Rakoff ruled in favor of RIAA in copyright infringement suit against MP3.com and called latter's infringement of major record labels' copyrights "clear" (TVD May 8 p17).

MP3.com said it was attempting to settle suit, which could prove ruinous to company because Copyright Act allows damages of up to \$150,000 per work infringed (TVD May 1 p8).

Meanwhile, **Napster** is facing trial for copyright infringement after U.S. Dist. Court, San Francisco, rejected its invocation of ISP privilege under Digital Millennium Copyright Act (DMCA). That suit also was brought by RIAA, but individual music artists including Metallica have sued Napster for its MP3 sharing program as well (TVD April 17 p16), which allows PC users to find and download desired music files on computers of other Napster users.

Napster said Metallica also sent it list naming 317,377 Napster users who allegedly infringed on Metallica copyrights and requested that company disable those users in compliance with DMCA takedown policies. Napster said: "We intend to fully comply with the DMCA and our policies. We will take down all users Metallica has alleged, under penalty of perjury, to be infringing." Company said it was directing all barred users to infringement notification page at [www.napster.com](http://www.napster.com).

Growing controversy over alleged online copyright infringement by MP3.com and Napster has led House Committee on Small Business to schedule hearing on issue May 24, CNet reported last week.

**Plus Corp. unveiled plans** for 2.9-lb. front Digital Light Processor (DLP) projector last week, stealing march from InFocus in race to introduce ever-lighter models. Plus model, which will be available in 1,024x768 and 800x600 resolutions, generates 800 lumens with 130 w bulb, has 800:1 contrast. Projector measures 7"x9" and is 1.9" thick. Model uses single 0.7" DLP manufactured by licensor Texas Instruments. Among potential customers for Plus's new projector is said to be Sharp, which also worked with company on sub-5-lb. unit year ago. InFocus took lead last year in shipping 4.8-lb. Dragonfly DLP projector, but has said it doesn't expect to have sub-3-lb. model for 12 months (TVD May 8 p13). Move to lighter models is expected to auger long-awaited push by projector makers into home theater market where Sharp has been only major LCD-based supplier.

**Eastman Kodak and Sanyo** have developed 5.5" organic light-emitting diode (OLED) containing 320x240 resolution, 150 lumens and 0.116x0.348 mm dot pitch. Display, which will target digital video cameras and personal digital assistants (PDAs) is 2.5 mm thick and weighs 5.5 g. Sanyo, which signed OLED licensing agreement with Kodak in 1999, also has developed 2.4" active and passive version with 852x222 and 120x60 resolutions, respectively. While Kodak and Sanyo said 5.5" is largest OLED manufactured to date, Universal Display Corp. has said it's working on 7.3" model... LG.Philips has started mass production of 10.4" low-temperature polysilicon TFT-LCD display that will target avionic applications at start, but later expand to CE market. Display has 1,024x768 resolution.



**RETAILERS STILL NEED REBATES:** As traditional ways of penetrating non-PC households appear to be exhausting themselves, retailers will continue to look to Internet service provider (ISP) rebates to help fund cost of new PC customer acquisitions this year, Sanford Bernstein (SB) analysts said in unveiling results of survey of 1,500 consumer households in Jan. and Feb.

SB Senior Research Analyst Ursula Moran said retailers also "need additional traffic drivers beyond just the PC." To that end, she said, "the digital product cycle is providing a nice way for them to do that." She said emphasis that many retailers have been placing on digital products "will only grow from here as digital television" sales start increasing.

Moran said "PC remains a very important" part of business for retailers such as Best Buy and Circuit City, where they represent, respectively, "almost 40%" and "30% of sales." But she said there's large number of consumers who don't intend to buy PC in next year.

Survey said that of current 49.5 million non-PC households, only 4.6 million (9%) are "very likely" to buy one this year, compared with 6.9 million (13%) year ago when there were 54.4 million non-PC households. Number one reason, at 63%, why those surveyed said they didn't want to buy PC is they didn't see need for one — which Moran pointed out is difficult for manufacturers or retailers to remedy as opposed to factor such as expensive prices.

While 7.9 million non-PC households bought computer in 1999, SB predicted number would drop to 7.1 million this year. But it said it expects number of PC households looking to replace or add PC to what they already have to jump to 17.9 million from 13.7 million year ago.

Survey also found that dramatically lower prices would be needed to convert most non-PC consumers. But numerous \$400 ISP rebates offered beginning in July 1999 (TVD Aug 2 p11) didn't noticeably accelerate first-time PC purchases in 2nd half of year, it said. Moran said "bulk of the first-time purchases actually happened in the first half" of last year. Analysts also said it was hard to tell how many digital cameras and other peripherals were sold as result of free PC and PC rebate offers in conjunction with ISPs. However, survey indicated rebates may have helped support average selling prices.

One reason why Moran expects rebate promotions to continue throughout year despite mixed results in 1999 is that most consumers polled who said they planned to buy PC this year didn't yet know where they would do so. Therefore, she said, ads promoting free PCs and other attractive rebates still continue to be seen as way to get customers into stores.

As for which retailers attracted most PC buyers in 1999, Moran said of top 3 "it's actually Circuit City who has improved its scores the most from '98 to '99, jumping to 13%, up from 5 that we recorded in 1998." Of other 2 top PC dealers, Best Buy dropped to 11% from 14% and Gateway to 13% from 18%.

Another SB analyst, Toni Sacconaghi, said that he "wouldn't be surprised to see more strategic relationships evolving between PC vendors and printer vendors in much like the subsidization model you're seeing with Internet service provision." Main reason, he said, is that "PC vendors want a piece of [the]

very lucrative [printer] cartridge laying down the road." Noting that in many cases "printers are essentially being given away for free," he said it seemed that "big gravy train" was in cartridges, which have "25% operating profit margins." He explained: "The whole business system is really predicated on getting [printers] out there because each printer on average [requires] 2.1 cartridges a year." Cartridge by itself has become more expensive, in many cases, than printer itself, especially in light of increased printer rebates, he said.

On digital photography front, Sacconaghi said survey revealed "purchase intention was actually quite high" among those surveyed — in fact, higher than PC purchase intention. Thirty-six percent of those surveyed said they were "very likely" or "somewhat likely" to buy digital camera in next year. Because of that, he expects "Christmas 2000 will be the year of the digital camera." What will only strengthen sales for category at that point is that "we'll probably have 4 megapixel cameras selling for \$400 in stores," he said.

Digital camera growth also stands to boost cartridge sales, Sacconaghi said: "We think singlehandedly digital camera sales could boost cartridge usage by almost 15% over the next 3 years."

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**Mexican billionaire** Carlos Slim Helu has invested \$52.8 million in CDNow for 9.2% stake in ailing online music retailer, SEC filing revealed. Filing said Helu is "currently engaged in discussions with [CDNow] regarding a possible additional investment in the company, although neither the amount, form or timing of such additional investment has been determined and there can be no assurance that any such additional investment will be made." News came only days after CDNow Pres.-CEO Jason Olim told analysts that company expected to sign "a merger or investment transaction by the end of the 2nd quarter" in June (TVD May 8 p15). Helu's investment and CDNow's optimistic forecast arrived amid growing concerns in financial community — and even by company's own independent public accountant (TVD April 3 p19) — about CDNow's future that started after Sony and Time Warner terminated planned merger of their Columbia House joint venture and CDNow (TVD March 20 p16).

**Japan govt.'s tight control** of industry is at odds with business environment powered by rapidly developing information technology, Sony Pres. Nobuyuki Idei said at Asia Society Hong Kong Center luncheon in Japan last week. "The Japanese government does not have a perception they regulate too much," AP quoted Idei as saying. "Drastic measures" are needed to deregulate Japan's transportation, construction and communications industries, said Idei, who declined to elaborate. At same time, Shin Tagaki, Sony's pres. in Mexico, warned Mexican Pres. Ernesto Zedillo that company would cut back its investments or leave country because of crime. Tagaki's remarks, at executive luncheon at presidential residence, followed kidnapping in April of 8-year-old daughter of Japanese executive in state of Morelos. News reports estimated that \$2 million ransom was paid for her release.

**More than 50,000 people** attended annual E3 show in L.A. last week. Interactive Digital Software Assn. (IDSA) Pres. Douglas Lowenstein said before show that industry effectively had weathered post-Columbine controversy over violence in videogames that overshadowed 1999 show and that this year would be more like business as usual.



**BLOCKBUSTER BACKS DVD RENTAL:** In conjunction with new technology initiatives in DVD and video-on-demand, Blockbuster will introduce new store format later this year, CEO John Antioco said in conference call on first-quarter earnings.

Beginning in 3rd quarter, Antioco said Blockbuster will “transition” to new store format that will reflect “growing importance of DVD and new technology.” Chain’s new technology initiatives include alliances with such companies as America Online and TiVo for video-on-demand and other services. With new format, he said, company will continue trend of building new stores up to 4,800-sq.-ft. range, down from previous 6,500.

One reason for new format is that DVD is “exploding” this year, with Blockbuster already seeing 7-8% of its business from DVD and expecting it to reach double-digit annualized rate “right after the holiday season,” Antioco said, when 12-15 million players could be in U.S. homes. From space standpoint, DVD rentals take up less room than video tapes, he said. He said transition from VHS to DVD won’t increase inventory level.

Citing DVD’s contribution to Buena Vista’s *The Sixth Sense* being what “should be the top rental title in our history,” Antioco said it “speaks to the growing acceptance of DVD as a rentable format.” In first 3 months of year Blockbuster alone rented almost as many DVDs as were sold in sellthrough outlets by all other retailers combined, he said.

Antioco reiterated that although revenue sharing is best purchasing model for Blockbuster for high-priced VHS tapes, relatively low price of DVDs makes revenue sharing still undesirable for discs. But as DVD penetration grows and it becomes “best interest” financially for rental window to be introduced, he said revenue sharing will be “attractive model.” He now believes that will take place “sometime next year,” although he said other retailers would like to prevent it.

Already in U.K., Fox is implementing test of rental pricing on DVD. Fox will give free DVD copies of *Fight Club* in June to retailers who buy VHS rental release of title this month — retail-priced DVD won’t be released until later in year and will have extra material that won’t appear in movie-only rental DVD. Fox said it will follow similar strategy with *Anna and the King* month later before moving to day-and-date VHS and DVD release for *The Beach*, both priced for rental, in Aug. As for whether test will expand to other countries, Fox International spokeswoman told us only that company will make plans “one market at a time.”

Despite uncertainty among others on whether Blockbuster can successfully bring new delivery methods into its fold, Antioco said it’s right vehicle. He said company’s “relationship with consumers” and 7,000-plus store worldwide distribution network “gives us an advantage in the world of electronic delivery.” Blockbuster will “try to leverage all of that” for future delivery, he said, as it continues to rent movies to consumers in-store. He said issues such as bandwidth and compression and digital rights management must be dealt with before studios will make deals for electronic delivery. But he said Blockbuster can offer studios value-added services for future delivery, such as in-store activity to support it.

**Mattel signed new multiyear licensing deal with Nickelodeon** that expands current agreement and makes it master toy licensee for all Nickelodeon entertainment properties. Products covered by new pact include games and infant/preschool items. Mattel also becomes master toy licensee for Nickelodeon’s international franchise properties, *Blue’s Clues* and *Rugrats*. In separate deal with Mattel Interactive, Nickelodeon renewed rights for *Blue’s Clues* videogames, *Rugrats* PC games, *Jimmy Neutron* and *Wild Thornberrys* games for all interactive platforms. Relationship between companies began in 1992, when Mattel received license only for Nickelodeon’s Gak. Separately, Mattel revealed in recent SEC filing that it gave severance package worth \$40 million to former CEO-Chmn. Jill Barad, who resigned in Feb. (TVD Feb 7 p21) amid financial woes created by troubled Learning Company software unit that company since has put up for sale (TVD April 17 p21). Mattel said Barad was given \$26.4 million in cash, amount 5 times greater than her base salary, but company also agreed to waive balance on \$3 million home loan she had taken out in 1994 and \$4.2 million loan from 1997. Company also offered her \$708,989 in retirement benefits, although she asked for guaranteed monthly installments of \$106,745 for 10 years instead. Mattel also said that until Barad accepts another full-time job, it will continue providing her with health insurance and other services. She agreed to provide company with consulting services for up to 40 hours per month until end of year, Mattel said.

**Infogrames signed exclusive publishing and distribution deal with Epic Games**, Raleigh company best known for developing such PC games as *Unreal Tournament*. As part of deal, Infogrames is getting worldwide Macintosh, PC and videogame console rights to *Unreal Tournament*, *Unreal 2* now being developed, option to publish *Unreal 3*. Further details weren’t available at our deadline last week. Infogrames recently started I-Stars publishing label in L.A. It said it already has key licensing partners such as Warner Brothers and will use I-Stars brand to aggressively seek out licensed book, film and TV properties to bring to game arena. Separately, Infogrames and GT Interactive Software (GTIS) said latter will adopt Infogrames name and its products will reflect name change. French game maker Infogrames Entertainment (IE) acquired majority stake in GTIS late last year as part of its move to gain greater presence in N. American market (TVD Dec 20 p18). Combined company formed by IE subsidiary Infogrames N. America and GTIS is known now as Infogrames Inc. GTIS recently announced that it had folded children’s game maker Humongous Entertainment (HE) into Infogrames fold. It also said HE Pres.-CEO Shelley Day and Creative Dir. Ron Gilbert were leaving to pursue new Internet venture.

**CustomDisc.com changed its name to imix.com** last week, move that it said was prompted by its expansion into additional areas of business. Just before name change, it unveiled industry’s first customized DVD, at outset called CustomDVD (TVD May 8 p14), but now known as imixDVD. Among company’s first deals on DVD front is one with Beverly Wilshire Filmworks/Telefilms International that gives imix.com exclusive access to more than 100 rarely seen films for custom DVDs.

**International Trade Commission (ITC)** revealed it was investigating whether Hitachi and Sega had engaged in unlawful importing as Mountain View, Cal.-based technology company Rambus recently alleged (TVD April 3 p20). But at our deadline it was unclear whether ITC had made decision yet.



**VOD FUTURE DEBATED:** As premium programmer Starz Encore and rental chain Blockbuster readied new spins on video-on-demand (VOD), it was unclear how deep was commitment they were receiving from movie studios.

Lack of clarity is due in part to studios' own plans to provide VOD services, speakers said at recent Kagan VOD Summit in N.Y.C. Indeed, Disney Chmn. Michael Eisner, at separate Schroder/Variety Big Picture Conference, outlined 5-point plan that included direct studio distribution of movies over Internet at price lower than sharing revenue with video stores.

Starz Encore so far has secured rights agreements with Sony Pictures and Disney's Buena Vista for both pay-per-view VOD and subscription VOD (S-VOD) services that will be marketed to cable and satellite operators. Blockbuster, which signed agreement with personal video recorder supplier TiVo earlier this year as part of VOD strategy, so far has gained only nonexclusive Internet streaming commitment from single studio — MGM — which doesn't involve TiVo.

"This is a big issue because all of the content providers say 'we're going to do this with our customers,'" TiVo Business Development Vp Morgan Guenther said. "What they're saying is that they don't need a middleman, but whether the studios execute on that remains to be seen. Historically they haven't. If they can do it, that's fine, but it won't be as robust a service unless Blockbuster gets the rights beyond the MGM library."

TiVo's agreement with Blockbuster is geared more to promotional ties than hardware sales since chain isn't expected to carry PVR, Guenther said. While many details of Blockbuster strategy, including pricing, haven't been finalized, chain is expected to charge subscription fee for service that will offer small selection of top movies each week, sources said.

Sony shipped 30 GB TiVo PVR in April and later will integrate features into TVs and combo product for DirecTV satellite service, sources said. TiVo currently has "slightly north of" 40,000 subscribers and will need to ship 500,000-one million units before "we can start leveraging the advertising," Guenther said. Company also is in discussions with Cisco on developing product for digital subscriber line (DSL) service, he said.

As TiVo seeks additional agreements, Starz Encore has been in "deep discussions" with company on S-VOD product for DirecTV, Chmn.-CEO John Sie said. Both Guenther and Eddy Hartenstein, then DirecTV president, said they had had discussions with Starz Encore, but nothing had been finalized. Starz has agreement with TiVo rival ReplayTV, which is expected to have PVR for EchoStar's Digital Sky Highway (DISH) satellite service. Starz is expected to offer S-VOD service with monthly fee in \$6 range for 60-80 movies.

"It's an interesting opportunity and, with TiVo capability, it makes all sorts of things possible," Hartenstein said. "We're looking at whatever ancillary rights are needed for such a service, but is it something that the consumer really wants and do you want to allocate the bandwidth?"

Other premium programmers were skeptical of S-VOD's chances in current market. "Is it going to happen? Sure," said Mark Greenberg, Showtime exec. vp-corp. strategy & communications. "But will it happen at the cost models that you want them to happen at? That remains to be seen."

Building VOD and PVR features into cable set-top boxes (STBs) also remains open for debate. While Motorola is expected to deliver STB with PVR technology by 4th quarter, Cablevision won't have feature at start in digital STB being developed by Sony, New Media Vp David Wicks said. Sony, which has contract to build digital STBs for Cablevision, is expected to ship 5,000 units by year-end as part of beta test due to begin in N.Y.C. area in fall, Cablevision Chmn. Charles Dolan said. Full deployment is scheduled for first half 2001, he said.

As Cablevision gears up for digital test, DirecTV will begin AOL TV service in 3rd quarter. While Hartenstein declined to disclose strategy for new service, current AOL subscribers are likely to get discount offer. Services also will be packaged in prices of \$10-\$15, he said. DirecTV probably will continue to subsidize hardware, although "we haven't decided where that discount will manifest itself," Hartenstein said.

Showtime has no immediate plans for S-VOD, but it's pushing high-definition (HD) programming. About 30% of prime-time lineup is available in HD with plan to move to 50% by midyear, Greenberg said. Showtime currently is delivering HD feed for EchoStar, but has yet to get agreement with DirecTV, which offers HBO. On cable front, Time Warner is carrying programming in Austin, El Paso and Waco as well as Raleigh and Tampa regions with 900,000 subscribers.

Activision reported \$52.9 million loss in 4th quarter ended March 31, reversing \$5 million profit last year ago. It attributed much of loss to pretax charges of \$70 million related to previously announced restructuring plan designed to help company transition to new game platforms. Minus restructuring cost, company earned \$1 million. Revenue for quarter dropped to \$103.8 million from \$115.3 million in year, although company said revenue was up slightly — to \$115.6 million — minus effect of restructuring charges. For year, company lost \$34.1 million compared with \$14.9 million profit year ago while revenue increased to \$572.2 million from \$436.5 million. Activision CEO-Chmn. Robert Kotick said company "was the only publisher to achieve top 10 status on all major platforms in calendar 1999." He attributed sales results "to our strong brands as well as the success of our cross-platform strategy." Kotick said: "We believe that the momentum we created this year will enable us to capitalize on the market opportunities presented by the next-generation console game systems and the Internet." He said that with "the benefits of our restructuring plan, we should be able to better leverage the revenue growth opportunities that we expect our industry to experience over the next 5 years." Activision expects net revenue in 2001 will be down 10%, excluding restructuring charges. It also projected that earnings per share would be down 30% because of increased spending for next-generation platforms and provisions for anticipated retail price declines.

EGames unveiled "Store-In-A-Store" category management display for retailers at E3 that's geared toward mass market consumers. New display for retail sales floor is designed to allow consumers to easily locate popular, value-priced Game Boy Color, PC and PlayStation titles.

#### THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥109 = \$1, except where noted.



## Financial Reports of TV-Electronics Companies

These are latest reports as obtained during past week. Dash indicates information not available. Amounts expressed in dollars. Parentheses denote loss.

| Company & Period                            | Revenues       | Net Earnings  | Per Share         |
|---|----------------|---------------|-------------------|
| <b>Activision</b>                           |                |               |                   |
| 2000-year to Mar. 31                        | 572,205,000    | (34,088,000)  | ---               |
| 1999-year to Mar. 31                        | 436,526,000    | 14,891,000    | .65               |
| 2000-qtr. to Mar. 31                        | 103,838,000    | (52,877,000)  | ---               |
| 1999-qtr. to Mar. 31                        | 115,266,000    | 5,032,000     | .22               |
| <b>Ampex</b>                                |                |               |                   |
| 2000-qtr. to Mar. 31                        | 6,955,000      | (6,713,000)   | ---               |
| 1999-qtr. to Mar. 31                        | 5,487,000      | (1,947,000)   | ---               |
| <b>Andrea Electronics</b>                   |                |               |                   |
| 2000-qtr. to Mar. 31                        | 3,201,484      | (2,484,621)   | ---               |
| 1999-qtr. to Mar. 31                        | 4,664,135      | (1,744,948)   | ---               |
| <b>Avid Technology</b>                      |                |               |                   |
| 2000-qtr. to Mar. 31                        | 108,696,000    | (19,464,000)  | ---               |
| 1999-qtr. to Mar. 31                        | 111,283,000    | (11,454,000)  | ---               |
| <b>Blonder Tongue</b>                       |                |               |                   |
| 2000-qtr. to Mar. 31                        | 21,180,000     | 1,581,000     | .21               |
| 1999-qtr. to Mar. 31                        | 13,756,000     | 443,000       | .05               |
| <b>British Sky Broadcasting<sup>b</sup></b> |                |               |                   |
| 2000-9 mo. to Mar. 31                       | 1,316,900,000  | (71,000,000)  | ---               |
| 1999-9 mo. to Mar. 31                       | 1,144,100,000  | 50,500,000    | ---               |
| 2000-qtr. to Mar. 31                        | 467,200,000    | (22,400,000)  | ---               |
| 1999-qtr. to Mar. 31                        | 391,100,000    | 11,700,000    | ---               |
| <b>Cablevision Systems</b>                  |                |               |                   |
| 2000-qtr. to Mar. 31                        | 1,048,224,000  | (115,495,000) | ---               |
| 1999-qtr. to Mar. 31                        | 933,708,000    | (238,647,000) | ---               |
| <b>CD Warehouse</b>                         |                |               |                   |
| 2000-qtr. to Mar. 31                        | 8,386,057      | (217,373)     | ---               |
| 1999-qtr. to Mar. 31                        | 6,463,903      | 68,872        | .02               |
| <b>Cobra Electronics</b>                    |                |               |                   |
| 2000-qtr. to Mar. 31                        | 21,299,000     | 628,000       | .10               |
| 1999-qtr. to Mar. 31                        | 19,874,000     | 37,000        | .01               |
| <b>Creative Computers</b>                   |                |               |                   |
| 2000-qtr. to Mar. 31                        | 238,457,000    | (6,847,000)   | ---               |
| 1999-qtr. to Mar. 31                        | 176,289,000    | (2,297,000)   | ---               |
| <b>8x8</b>                                  |                |               |                   |
| 2000-year to Mar. 31                        | 25,384,000     | (24,848,000)  | ---               |
| 1999-year to Mar. 31                        | 31,682,000     | (19,224,000)  | ---               |
| 2000-qtr. to Mar. 31                        | 6,542,000      | (9,438,000)   | ---               |
| 1999-qtr. to Mar. 31                        | 5,500,000      | (8,380,000)   | ---               |
| <b>Fuji<sup>c</sup></b>                     |                |               |                   |
| 2000-qtr. to Mar. 31                        | 1,400,000,000  | 84,900,000    | 164.97            |
| 1999-qtr. to Mar. 31                        | 1,440,000,000  | 71,540,000    | 139.02            |
| <b>Lernout &amp; Hauspie</b>                |                |               |                   |
| 2000-qtr. to Mar. 31                        | 110,694,000    | 16,447,000    | .26 <sup>d</sup>  |
| 1999-qtr. to Mar. 31                        | 70,708,000     | 11,064,000    | .19 <sup>d</sup>  |
| <b>Matsushita Electric<sup>e</sup></b>      |                |               |                   |
| 2000-qtr. to Mar. 31                        | 7,299,387,000  | 99,709,000    | 48.35             |
| 1999-qtr. to Mar. 31                        | 7,640,119,000  | 13,541,000    | 6.48              |
| <b>Nam Tai Electronics</b>                  |                |               |                   |
| 2000-qtr. to Mar. 31                        | 44,592,000     | 14,574,000    | 1.65              |
| 1999-qtr. to Mar. 31                        | 27,075,000     | 2,808,000     | .29               |
| <b>Navarre</b>                              |                |               |                   |
| 2000-year to Mar. 31                        | 285,165,000    | (7,785,000)   | ---               |
| 1999-year to Mar. 31                        | 210,386,000    | (27,670,000)  | ---               |
| 2000-qtr. to Mar. 31                        | 60,879,000     | (2,007,000)   | ---               |
| 1999-qtr. to Mar. 31                        | 27,705,000     | (22,282,000)  | ---               |
| <b>News Corp.<sup>a</sup></b>               |                |               |                   |
| 2000-9 mo. to Mar. 31                       | 10,254,000,000 | 1,142,000,000 | 1.12 <sup>d</sup> |
| 1999-9 mo. to Mar. 31                       | 10,318,000,000 | 688,000,000   | .69 <sup>a</sup>  |
| 2000-qtr. to Mar. 31                        | 3,238,000,000  | 300,000,000   | .29 <sup>d</sup>  |
| 1999-qtr. to Mar. 31                        | 3,096,000,000  | 97,000,000    | .09 <sup>a</sup>  |
| <b>OfficeMax</b>                            |                |               |                   |
| 2000-13 wk. to Apr. 22                      | 1,344,188,000  | (2,083,000)   | ---               |
| 1999-13 wk. to Apr. 24                      | 1,179,410,000  | 22,016,000    | .19               |
| <b>Paxon Communications</b>                 |                |               |                   |
| 2000-qtr. to Mar. 31                        | 78,456,000     | (54,054,000)  | ---               |
| 1999-qtr. to Mar. 31                        | 51,779,000     | (7,833,000)   | ---               |
| <b>Pixtech</b>                              |                |               |                   |
| 2000-qtr. to Mar. 31                        | 1,990,000      | (6,687,000)   | ---               |
| 1999-qtr. to Mar. 31                        | 2,161,000      | (5,377,000)   | ---               |

| Company & Period                 | Revenues      | Net Earnings  | Per Share |
|----------------------------------|---------------|---------------|-----------|
| <b>RCN Corp.</b>                 |               |               |           |
| 2000-qtr. to Mar. 31             | 71,257,000    | (138,121,000) | ---       |
| 1999-qtr. to Mar. 31             | 67,388,000    | (67,754,000)  | ---       |
| <b>Sanyo<sup>e</sup></b>         |               |               |           |
| 2000-qtr. to Mar. 31             | 1,940,000,000 | 21,690,000    | 11.48     |
| 1999-qtr. to Mar. 31             | 1,820,000,000 | (25,880,000)  | ---       |
| <b>3DO Co.</b>                   |               |               |           |
| 2000-year to Mar. 31             | 122,234,000   | 205,000       | .01       |
| 1999-year to Mar. 31             | 48,019,000    | (13,167,000)  | ---       |
| 2000-qtr. to Mar. 31             | 47,299,000    | 11,492,000    | .32       |
| 1999-qtr. to Mar. 31             | 23,190,000    | 2,552,000     | .10       |
| <b>Trans World Entertainment</b> |               |               |           |
| 2000-13 wk. to Apr. 29           | 310,100,000   | 8,900,000     | .18       |
| 1999-13 wk. to May 1             | 287,019,000   | (8,644,000)   | ---       |

Notes: <sup>a</sup>After special charge. <sup>b</sup>In British pounds. <sup>c</sup>In thousands of Japanese yen; except per share. <sup>d</sup>Includes special credit. <sup>e</sup>Results per ADR.

## Consumer Electronics Personals

Changes at Sony Japan, subject to shareholder approval June 29: Nobuyuki Idei would become corporate chmn. and remain CEO, replaced as pres. by Exec. Deputy Pres. Kunitake Ando, who would remain COO; Corporate Chmn. Norio Ohga would become chmn. of board... Kim Cox, Rentrak exec. vp-CFO, advanced to pres... Promoted at CEA: Donna Deutsch to dir., CES exhibitor services; Kirk Smallwood to CES senior national accounts mgr... Sony Exec. Vp Teruaki Aoki and Warner Home Video Pres. Warren Lieberfarb to be honored by Vision Fund of America June 8 in N.Y.C... Michael Shishkoff, Daewoo Electronics national sales mgr., promoted to sales vp... John Birmingham resigns as Smith Corona pres.-CEO, replaced by Martin Wilson, who remains CFO; Robert Boden, departs as interim COO, remains consultant... Patrick Watson, dir.-consumer licensing, DTS, advanced to vp-business development... Peter Kellogg, Spear, Leeds & Kellogg senior managing dir., named to Nam Tai Electronics board after buying 152,600 shares common himself, another one million through I.A.T. Reinsurance Syndicate... Santo Politi resigns as Blockbuster New Media Group pres., plans unknown... Merry Beth Hovey, Musicland ad dir., promoted to vp... Jay Agarwal, ex-Charles Schwab, joins Earjam.com as chief technology officer-engineering vp... Marcus Peterzell, ex-24/7 Mail, named pres., Hollywood.com's database unit, Baseline... Rich Cusolito appointed vp-West Coast sales, Technicolor Optical Media Services Group... Deborah Fulton, Midway Games senior counsel, promoted to vp, secy. & gen. counsel... James Adams, ex-Hasbro Interactive, joins Acclaim Entertainment as senior sales vp... David Fremed, ex-Marvel Enterprises, appointed CFO, Infogrames Inc... Stephen Lapinski, ex-Advanced Micro Devices, joins 3dfx Interactive as worldwide mktg. senior vp... Michael Pole, ex-Electronic Arts, named exec. vp, Activision worldwide studios... Geoffrey Mulligan, ex-Acclaim Entertainment, named CEO, Gamers.com. Kurt Keiser, ex-Siemens, named NEC information technology dir.

GameDealer.com revenue for first quarter managed to top its 4th-quarter holiday showing. Online game reseller said revenue for period was \$1.5 million, 2% ahead of 4th quarter and 384% improvement over year ago. GameDealer.com attributed improved result to on-time fulfillment and aggressive Frequent Buyer Program. Vp Marc Daniels said: "Our association with our parent company, UGO Networks, allows us to leverage a built-in community of frequent game buyers."





# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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**COURT UPHOLDS CABLE LIMITS:** Decision likely to affect AT&T-MediaOne merger. FCC lifts stay on ownership rules. (P. 6)

**BILL HELPS RELIGIOUS BROADCASTERS:** House Commerce Committee moves to block FCC content rules. Democrats opposed. (P. 6)

**DTV CALLED FAILURE, BIG SUCCESS:** DTV transition has been failure "by any measure" because only 34,000 fully capable DTV receivers have been sold to date, with majority of them probably in professional hands rather than consumers', Sinclair Bcst. told FCC in filing on its DTV biennial review (MM 00-39). Broadcasters and set makers, however, said current DTV system is working well and changing to COFDM modulation would cause undue delay.

Sinclair blamed DTV delay on reception problems, although others cited lack of programming or lack of cable carriage. Sinclair also said indoor reception problems would mean most consumers would choose cable or DBS, rather than over-the-air reception, which it said "would jeopardize the viability of free, diverse, multiple-voice, local over-the-air broadcast service" and give cable upper hand in carriage negotiations.

FCC shouldn't impose new DTV signal coverage requirements on broadcasters, but should establish DTV set standards and impose carriage requirements, broadcasters said in omnibus filing. Imposing new signal coverage requirements would be unfair to broadcasters who designed DTV business plans based on current rules, joint broadcaster filing said. They also said FCC should: (1) Adopt procedure to handle backlog of DTV applications, including setting cutoff date for new applications. (2) Delay date by which broadcasters must choose which channel will become permanent DTV channel. (3) Take more active role in DTV receiver and cable compatibility issues. Joint filing was by NAB, MSTV, ALTV, APTS, PBS, NBC, Disney, Chris-Craft, Tribune.

Current DTV standard "meets or exceeds consumer reception requirements," so FCC shouldn't consider COFDM modulation, CEA said. It said implementation issues are being quickly resolved by market, which will handle reception

### Consumer Electronics

**DVD LICENSE OBJECTIONS LIKELY** over DVD player with digital output that makes London debut this week. Picture quality was superb in demonstration we previewed. (P. 10)

**SHORTAGES PLAGUING 13-25" TV** owing to increased production of glass-guzzling wide- and flat screen sets. (P. 11)

**PANASONIC DVD-RAM VIDEO RECORDER** arrives in Japan June 30 at \$2,300. No word yet on U.S. availability. (P. 12)

**PLASMA FACES LCD CHALLENGE** in TV market as manufacturers gear up for limited number of 15-28" sets. Major launch in U.S. not expected for 2 years. (P. 12)

**ZENITH LOSS SHRINKS** in first quarter, but sales fall. (P. 14)

**SONY CONTINUES FIGHT** against PlayStation emulators from Bleem and Connectix. (P. 15)

**ROXY.COM CUTS 19 JOBS** in restructuring. KBkids.com among other dotcoms making cuts. (P. 16)



problems in way that's better than FCC would mandate — if Commission had congressional authority to mandate receiver standards. Considering different modulation would cause "needless delay" to transition, CEA said.

In unusual comment on broadcast issue, Microsoft endorsed COFDM modulation, saying it offered big advantage for mobile reception. Microsoft called terrestrial TV "a uniquely valuable resource that could become even more precious" with DTV. It said broadcasters can develop "a wealth of new services" using DTV data capabilities: "With the proper modulation technology, broadcasters could offer portable and mobile services that would enable television to join the portable revolution." It said, however, that VSB modulation "as it now exists... would foreclose development of many new applications and services." It did say that any FCC standards should be "as flexible and unrestrictive as possible" to allow for future innovation.

"Miracle chips" to improve DTV reception, promised last summer, still are years away, Sinclair said. "Certain chip manufacturers should be ashamed of themselves for making the unfounded statements they continue to make to the FCC and the broadcast industry," Sinclair CEO David Smith said: "They no longer have any credibility." He said "ironclad evidence continues to mount" that 8-VSB modulation for DTV won't provide adequate indoor reception with inexpensive antennas. Comments said there's "compelling reason" for FCC to abandon reliance solely on 8-VSB modulation since Sinclair-backed COFDM modulation performs better in some environments. There has been "tidal shift" toward broadcaster demand for reception on indoor antennas and for mobile reception, Smith said.

Despite Sinclair claims, NxtWave said it already had solved most of problems and rest will be fixed with 2nd-generation chip due at end of year. It also said VSB system has inherent mobile capability, using 2-tiered transmission system with same channel carrying more robust data for mobile reception plus standard HDTV video and audio. Pres. Matthew Miller said NxtWave doesn't immediately plan mobile product because customers haven't requested it, but said makers and broadcasters should agree on parameters for mobile reception, if desired. Zenith said current VSB modulation system has capability to be enhanced for mobile reception if broadcasters want it. VSB meets performance requirements set for it, Zenith said.

Several commenters said FCC needs to set rules that would allow on-channel signal boosters for DTV, which they said would make DTV signals more available. Engineer Merrill Weiss said such boosters "can offer solutions to a number of difficult system design problems that often can be resolved in no other way." ADC Telecommunications also said FCC should authorize "gap-filling" low-power DTV boosters to improve DTV signal coverage. Booster could be on same channel, ADC said, and mutual interference of main and booster signals is "manageable." Rules would have to distinguish between boosters and translators, filing said. Pappas Telecasting, which has supported COFDM in past, also supported DTV boosters in filing.

In other comments: (1) Zenith said some of current reception problems result from broadcasters' using lower power levels or antenna heights than they're allowed. It said some also use "incorrect technical parameters" that can cause jitter and other problems. (2) NPR said it supports reallocation of 8288 MHz for digital audio broadcasting, and FCC should move to keep broadcasters from choosing channels in that band for their permanent DTV channels. (3) Motorola and others said Commission needs to resolve closed-caption compatibility issues involving DTV, since failure to do so could mean less captioning would be available and much captioning equipment could become obsolete.

**TIME WARNER, DIRECTV SIGN RETRANSMISSION DEALS:** Snagging 3rd of 4 major broadcast networks, Time Warner Cable (TWC) signed long-term retransmission consent agreement with NBC May 17 that permits MSO to carry NBC's local TV stations, digital signals and cable networks through 2008. Eight-year, \$200 million-plus deal, which extends and expands upon TWC's existing retransmission contract with NBC, contrasted sharply with bitter feud between Time Warner and Walt Disney over retransmission rights to ABC and other Disney networks. With CBS and Fox already signed, it also left ABC as sole holdout among Big 4 networks in retransmission fight with TWC, potentially heightening pressure on Disney to work out deal.

Just day later, Time Warner and Disney apparently ended their bitter feud over cable carriage of ABC, Disney Channel and 2 new cable networks. Two companies said they reached agreement in principle on new retransmission consent pact, easily beating latest July 15 deadline. Time Warner Chmn. Gerald Levin announced agreement at company's annual meeting in N.Y.C. May 18, saying MSO concluded "handshake" deal with Disney but declining to elaborate. Source said Time Warner agreed to pay ABC \$1 billion over 6 years for carriage of its signals as part of retransmission deal but details are "still being worked out." Companies would neither confirm nor deny reports that deal excludes Disney's demands for nondiscriminatory treatment of its TV and Internet content on broadband pipes of proposed America Online-TW union. Announcement of signed deal was likely May 22, TW spokeswoman said.



Meanwhile, just 10 days before deadline for DBS retransmission deals to be finalized, DirecTV completed long-term umbrella agreement with Viacom-CBS on coverage that includes all major networks of combined entity. Fox, ABC and NBC all agreed to terms earlier with DirecTV. "CBS rounds out Big O&Os (locally owned and operated stations)," DirecTV spokesman said: "We've said all along that we were confident that we were going to be able to negotiate agreements that would benefit us and the networks."

Under NBC agreement, Time Warner will pay higher monthly carriage fees for both CNBC and MSNBC cable networks amounting to another 5¢ per subscriber per network, or more than \$100 million over 8-year term. MSO will also pay what it calls "Olympic surcharge" of at least 9¢ per subscriber per month — another \$100 million or more — for extensive Olympics coverage that both cable networks will carry, starting with this summer's Games in Sydney, Australia. But Time Warner spokesman said extra cost still was less than additional \$300 million that Disney has been seeking for its retransmission renewal.

Unlike Disney, which has been pushing Time Warner to add new Toon Disney and SoapNet cable networks to its basic service lineup and switch Disney Channel to basic from pay tier, NBC didn't foist new networks on MSO. NBC Cable Pres. David Zaslav said he hoped to hammer out separate carriage agreements with Time Warner for broadcaster's new CNBC2 and ValueVision networks soon. Also unlike Disney, NBC didn't broaden retransmission negotiations to cover Internet access, Web content and interactive TV applications, all supposed sticking points in Disney's talks with Time Warner. "I think we are concerned just like Disney is," Zaslav said, but "we saw this negotiation as really about the network and cable properties."

With Time Warner deal, NBC has now signed retransmission consent agreements with DirecTV and most major cable operators, including Adelphia Communications, AT&T, Charter, Cox, Insight. Zaslav said agreements cover more than 60 million TV homes. Still outstanding are Comcast, Cablevision Systems, Cable One and EchoStar.

While DirecTV boasted about its new local coverage agreements, DBS rival EchoStar was still scrambling to sign consent pacts. Facing May 29 deadline for deals, EchoStar negotiations with major networks are still "ongoing," according to industry sources. Only major known retransmission agreement is with Fox, part of settlement of lawsuit between EchoStar and News Corp. EchoStar spokeswoman said "no comments" would be made regarding retransmission deals "until all [contracts] are finalized." Spokeswoman said company would spell out progress this week.

Under Satellite Home Viewer Improvement Act (SHVIA) passed by Congress last Nov., DBS companies have until May 29 to sign retransmission deals or they must drop stations from lineups. DirecTV and EchoStar were given permission by SHVIA to carry signals free for 6 months while retransmission deals were being negotiated. Local broadcasts have been widely credited by industry analysts with recent DBS boom.

In making CBS announcement, DirecTV said deal with Viacom will provide "continued local coverage" to DirecTV subscribers in 16 major metropolitan areas across the nation, including Austin, Baltimore, Boston, Chicago, Dallas-Ft. Worth, Denver, Detroit, Green Bay, L.A., Miami, Minneapolis, N.Y.C., Philadelphia, Pittsburgh, San Francisco and Salt Lake City, where service won't be available until June. DirecTV and Viacom said retransmission contract is for stations in CBS TV Group, which covers 35% of U.S. TV homes. DirecTV said 12 additional markets will be added in June. Included in new cities will be Charlotte, Indianapolis, Milwaukee and Salt Lake, with 8 more markets to be announced later.

DirecTV said it added children's channels Nickelodeon Noggin and Children's TV Workshop from Viacom in Total Choice Package. Noggin will be available to viewers June 1. DirecTV also extended agreement to carry Viacom's MTV, Nickelodeon, VH1, TV Land, MTV2, and MTVS. Financial terms weren't disclosed, but spokesman said most of agreements are "carriage for carriage" deals, which include exchange of programming instead of money. DirecTV spokesman said it will carry SoapNet from ABC, Fox Sports World from Fox, extended Olympic coverage from NBC and Noggin from CBS as part of retransmission deals. DirecTV also announced it had signed multi-year agreement with Telemundo Network group to provide Spanish programming to subscribers.

**BELOW SURFACE AT NBC, ABC AFFILIATE MEETINGS:** Although issues of major concern to affiliates of NBC and ABC TV Networks didn't make it to agendas of separate meetings of 2 groups in N.Y.C. last week, there was much informal talk about same issues. Both groups' meetings were combined for first time with their networks' upfront sales presentations of fall schedules to national advertisers — with other networks also making their upfront presentations last week.

It wasn't "bash the network" at NBC affiliates' meeting in N.Y.C. May 14 — as was case in Las Vegas during NAB convention (TVD April 17 p9) at which NBC was roundly criticized for dealings with affiliates in general (most particularly huge cuts in compensation) and in particular announcement that it would rebroadcast evening news on Pax TV Net-



work within hour after it aired on NBC. That action since has been postponed by NBC (see below), major reason cited for affiliates' noncombative discussions in N.Y.C. Jack Sander of Belo Bcstg. was elected chmn. of affiliates' board, succeeding Alan Frank of Post Newsweek Stations.

NBC hosted outdoor reception for affiliates that evening, and May 15 invited them to upfront presentation of new fall schedule to advertisers. (Day before upfront presentation, NBC had signed 6 stars of popular and long-running show *Friends* to 2-year contracts at \$750,000 per star per episode, plus 1% of syndication profits from producer Warner Bros., in near-record \$40-million deal.) Affiliates and network executives didn't have usual separate closed meeting for stations to express their concerns.

Large group owner with NBC affiliates speculated that reason NBC dropped plans to put its *Evening News*, anchored by Tom Brokaw, on Pax TV starting May 1 within hour after it aired on NBC, was that he and other groups told network if that happened they would simply drop NBC's evening news. "They're asking me to promote my competitor and I'm just not going to do that," he told us. He said he was willing to pay NBC for advertising it wasn't able to carry in his markets.

Lawyer for several large groups took similar position, telling us he had advised client not to carry NBC's *Evening News* if same news was on Pax TV. NBC hadn't responded at our deadline to request for comment on major groups' threat to drop Brokaw.

Many of same TV groups are upset with ABC because that network is insisting on renegotiating affiliation contract when station changes hands, even though contract still has several years to run. "That's a clear violation of the spirit of the network-affiliate relationship," group executive told us. Network is "killing localism by trying to control everything from New York and Los Angeles," he said. "That's why we're opposed to increasing the ownership cap."

We're told ABC is only network insisting on rewriting contracts in this day of network's drastic cuts in compensation as affiliations expire although NBC made strong threats about affiliation in its unsuccessful efforts to acquire KRON-TV San Francisco (TVD Feb 28 p43). We're also told that ABC affiliates' board made "a pretty strong pitch" to network that to insist on contract changes when station is sold "was just dumb." Also at ABC meeting, Andrew Fisher of Cox Bcstg. made what we were told was well-received pitch for stations to become more actively involved on their own in Washington legislative and regulatory matters. His presentation was made on behalf of Network Affiliates' Station Assn.

"Whatever works in new world" of changing communications industries, "we're going to be doing it," ABC parent Disney Co. Chmn. Michael Eisner assured TV affiliates at closing session of their convention in N.Y. May 17. He and Disney Pres. Robert Iger (former CEO of ABC and to whom network still reports) said they were appearing before affiliates because of that changing world, with ABC's well-publicized dispute with Time Warner Cable prime example (see separate story).

Iger said new negotiations getting "our content on the air" is our number one priority," along with protecting retransmission consent. Eisner said cable, through its control of distribution facilities, still has upper hand over broadcasters in retransmission negotiations. Disney executives pledged that ABC would work more closely with its affiliates in future — promise several station executives called encouraging.

Asked by affiliate where industry will be in 5-10 years, Eisner responded: "Probably, we're going to want to own more stations" — major area of controversy between network and affiliates, with stations violently opposed to increase in 35% ownership cap. Iger predicted very slow rollout of DTV and said there would be little or no multiplexing by TV stations. Asked about stalled launch of planned ABC SoapNet channel (which has been strongly opposed by affiliates), ABC TV Network Pres. Alex Wallau conceded there's not sufficient national coverage to start channel successfully. He promised stations would be kept updated on network's effort to start channel offering same-day repurposing of daytime soaps.

**ELECTRONIC FILING 'DISASTER':** FCC's basic concept of electronic filing of applications and comments is good, say lawyers and others who use system regularly, but system needs tweaking. Dozens of parties we talked to cited lengthy delays in filing or getting access to electronic filing system, sometimes causing missed filing deadlines, occasional lost documents, and difficulties filing large documents.

"I'm a hopeful fan of electronic filing," said Andrew Schwartzman, pres. of Media Access Project, which does all of its filing electronically. "In concept, it is very good, but the implementation is spotty." He said Commission is plagued with computer problems that are broader than electronic filing, and electronic filing software "under the best of circumstances is awkward and cumbersome."

Problems with electronic filing have been real in past, but FCC is moving to solve them, said William Cline, dir.-Reference Information Center for FCC's Consumer Information Bureau. He told us biggest improvement was instal-



lation of new Sun 5000 server this month, replacing Sun 1000 that was "5 or 6 years old" and often overwhelmed by demand. Cline said old server's "reliability was suspect" and new unit is "much faster and more reliable." Though electronic filing has been used since Oct. 1998, it still accounts for only about 9% of all filings, with rest on paper, Cline said.

FCC also is making other changes to streamline process, Cline said. For example, downloads are in Acrobat format, which means large file size. Cline said FCC is switching to distilled version of Acrobat that will reduce file size by about 1/3, speeding transfers. Other changes will depend on FCC budget, he said, but Commission does plan to further automate process and add data fields for queries. Many of other problems are because people don't understand system or follow all instructions, Cline said: "For people who know how to use it, it works fine. We've tried to put some tips in the file, and most people like it that they can pull up proceedings quickly."

But lawyers for broadcast clients were highly critical of electronic filing, with Vincent Curtis of Fletcher, Heald & Hildreth calling system "a disaster waiting to happen." He and others complained sometimes they can't get on line for hours, system often breaks down halfway through and they are unable to pick up where they left off. Filings often get lost at Commission and/or aren't checked "for weeks or months," we were told. At recent National Translator Assn. meeting in Medford, Ore., FCC engineer reportedly set up demonstration of electronic filing — but demonstration didn't work.

Attorney George Borsari said: "In electronic auctions, there have been glitches. There always are unintended results." Main problem, he said, is that FCC engineers "have designed the system for their convenience, not the convenience of the applicants." Borsari said system often won't accept entire application.

Person responsible for electronic filing for one large law firm said: "[Cline] doesn't even use the system, so he doesn't know the problems." She said she doesn't believe larger server will solve volume problem, and said most other FCC efforts are "band aids." One of biggest problems, she said, is lack of customer support — she said basic guidelines that FCC makes available aren't comprehensive, and there's no comprehensive user manual. When FCC staffers are asked about problems, she said, "it's always our fault."

Law firm staffer said she used to be able to get paper copies of filings from FCC in about hour, but now it sometimes takes 3-4 hours to successfully download them. In past week, she said she tried repeatedly to file document electronically and in one case filing took 27 min. before her entire PC system crashed. One morning last week, she said she came to work at 7:30 a.m. to download document when system should be quiet, but all of FCC modems were busy: "Obviously there were a lot of frustrated people like me trying the same thing."

Debra Berlyn, exec. dir. of Competition Policy Institute, recalls instance several months ago when CPI missed deadline for filing comments because they couldn't get into FCC's electronic filing system. After trying all evening, CPI missed 7 p.m. paper deadline and ultimately late-night electronic deadline as well.

American Cable Assn. Pres. Matthew Polka said electronic filing system has worked fine 2 times he's used it recently, each time for posting comments on pending AOL-Time Warner merger. He was pleased to receive electronic confirmation "very quickly" both times. One thing that frustrated Polka is that FCC staff still required him to send paper copies of association filings so that they could be distributed to various agency offices. As result, he saved neither time nor paper. "It seemed kind of a waste" and "a little bit of a contradiction," he said.

One of problems is slowness of Internet and size of some of documents that must be filed, said David Siddall of Verner, Liipfert. He said he seldom files electronically because it takes too long and because his filings often have appendices that aren't stored electronically. One group asked FCC to accept large filings on discs instead of via Internet but was refused. Filers also have complained about difficulties submitted Word Perfect documents, even though FCC said they're acceptable.

Another issue is electronically accessing documents, particularly through FCC web site. Schwartzman said some filers believe there may be advantages to delaying availability of their filings on web site, so he believes they "game" process by filing on paper, which must be scanned in before it can be posted. Other officials acknowledged that FCC insiders may be filing on paper so opponents get access to their filings few days later. Cline said filings often are available on FCC web site within 2-3 days if they're filed electronically, but it's often 5-7 days if they're filed on paper. Few days when lawyers can see opponents' filings and opponents can't see theirs is advantage, officials acknowledged.

FCC also is relying too much on electronically posting documents, rather than making them available on paper, Schwartzman said: "Posting on the Electronic Comment Filing System is no substitute for meaningful public access to pleadings and documents. Many of my clients are on the wrong side of the digital divide. I'm very troubled by the trend toward the FCC acting like they only have to slap something on their web site and they have fulfilled their obligation to keep the public informed."



**COURT UPHOLDS CABLE LIMIT:** Handing govt. big victory, U.S. Appeals Court, D.C., unanimously upheld constitutionality of controversial law placing cable system and programming ownership limits on MSOs. Buoyed by ruling, FCC immediately lifted its self-imposed stay of its revised cable horizontal ownership rules, which ban MSOs from controlling more than 30% of combined cable and satellite TV market, and said cable operators must come into compliance in 6 months. Industry analysts predicted ruling would strengthen FCC ability to impose conditions on AT&T-MediaOne merger, expected to be approved by Commission and Dept. of Justice within days. Both AT&T and Time Warner, which challenged constitutionality of law, declined comment on decision.

While it upheld constitutionality of law establishing concept of limits, appeals court didn't uphold FCC limits themselves. In separate proceeding, court plans to hear oral argument on rules Oct. 17. In that case, both AT&T and Time Warner are challenging FCC's 30% horizontal ownership cap and 40% limit on channel slots that can be occupied by programmers in which cable system owns stake.

Nevertheless, FCC Chmn. Kennard lifted Commission's voluntary stay with short statement: "I am pleased that the court has validated laws that promote programming diversity and protect consumers against undue consolidation in the cable television marketplace." Comr. Tristani called ruling "a victory for consumers and their ability to receive a diversity of voices over cable." She praised Kennard move to enforce Commission's ownership rules as "something that the FCC could and should have done long ago."

Spokeswoman for Time Warner, which has now lost each of 15 legal challenges to provisions of 1992 Cable Act, said company "is in the process of reviewing the decision" and hadn't decided whether to appeal ruling to U.S. Supreme Court. She said there was no timetable for making decision. Spokeswoman for AT&T, which challenged ownership rules but not constitutionality of law, had no comment. But, noting that Commission recently granted Viacom-CBS union 12 months to come into compliance with broadcast network ownership limits and didn't set divestiture conditions, she argued that case should have no bearing on FCC's review of AT&T's purchase of MediaOne. "This court decision in no way affects our need for such a waiver, the FCC's long-standing policy of granting such waivers or its power to do so," she said.

Industry analysts disagreed, contending that ruling will give FCC more impetus to make AT&T, which would control up to 40% of multichannel video subscribers after acquiring MediaOne, divest key cable assets to come under 30% ownership cap. They also argued it will make it easier for Commission to impose 6-month grace period on AT&T divestitures, rather than 12 to 18 months that company has been seeking. Reportedly, commissioners are debating whether to give AT&T longer than standard 6-month compliance period. "The bottom line is it may make AT&T a cable seller," said analyst Scott Cleland of Legg Mason Precursor Group.

In its 10-page decision, court dismissed arguments by Time Warner that subscriber limits and channel occupancy provisions of 1992 Cable Act violate First Amendment protections of free speech by cable operators. Ruling, written by Judge Douglas Ginsburg, concluded that both provisions are content-neutral and advance important govt. interests. As U.S. Supreme Court did few years ago in upholding cable must-carry rules, court also found Congress to be justified in its concerns that cable operators could be "bottleneck" and increased cable concentration could be threat to both diversity and competition.

**BILL PROTECTS RELIGIOUS BROADCASTERS:** Despite FCC's reversal of its controversial move in Dec. to issue rules on educational content of noncommercial religious licensees, House Commerce Committee sought to block agency from future action by passing HR-4201 over strong Democratic opposition May 17. Bill passed on voice vote, but sole recorded vote — on amendment by Telecom Subcommittee ranking Democrat Markey (Mass.) to ensure that religious broadcasters still had educational obligation — failed on party-line 14-23 vote.

Controversy began when FCC, in Dec. 29 decision on transfer of noncommercial broadcaster WQEX Pittsburgh, clarified existing rules on what religious broadcaster must do to hold educational noncommercial license. Telecom Subcommittee Vice-Chmn. Oxley (R-O.) and others faulted language, saying some religious programming, such as live church service, wouldn't qualify. FCC vacated order in Jan. on 4-1 vote, but lone holdout, Comr. Tristani, testified before subcommittee that she still supports initial FCC action. Several Republicans cited her testimony as reason to press on with bill despite FCC decision to vacate, with Subcommittee Chmn. Tauzin (R-La.) saying: "Commissioner Tristani said: 'If I could do it, I'd do it again.'"

Full committee debated language proposed by Rep. Pickering (R-Miss.), substitute to Oxley's original bill, adopted by subcommittee, that was designed to incorporate Children's TV Act and avoid violations of Establishment Clause. Yet Markey and Commerce Committee ranking Democrat Dingell (Mich.) said bill still would violate Establishment Clause in that it could force FCC to choose between 2 religious broadcasters. Such action probably would prompt loser to take FCC to court for religious discrimination, Dingell said. Markey reintroduced earlier amendment, rejected by subcommittee, that would require all licensees to meet educational requirements, in part giving FCC criteria other than religious content to choose winner of noncommercial license. But amendment failed on party-line vote.

Before passage of bill, Oxley succeeded in having 2 amendments on public broadcasting adopted. First amendment, passed with little opposition, clarified that nothing in bill on noncommercial stations would interfere with public broadcasters' obligation to perform biennial audit and have community advisory boards. Second, which met with some concern from Markey but passed on voice vote, amended Sec. 396 (preserved in previous amendment) to require audits to include documentation that stations not swap member data without express permission of donor. Oxley acknowledged that he hadn't run amendment by public broadcasters but said he didn't anticipate any objections.

Some observers at markup noted tense body language of Tauzin and Oxley — seated beside each other in matching dark suits, white shirts and spotted yellow ties — along with some of legislative maneuvers at hearing as signs of escalating struggle for leadership of Commerce Committee in next Congress. One lobbyist said Oxley was trying to prove with amendments that "he's manly enough" to be chmn., while another said Tauzin was trying to show he was "in charge."

**Nielsen Media Research** said it will begin tracking local cable audiences in Hartford-New Haven market this month, with backing from AT&T Media Services. With move, Nielsen now will provide syndicated local cable reports in 5 markets, others being Houston, Philadelphia, Pittsburgh, San Antonio.



**NEWS CORP. PAINTS ROSY PICTURE:** Led by Chmn.-COO Peter Chernin, News Corp. executives May 16 presented optimistic picture for company's global future in Internet world. Appearing before New Media Workshop of more than 300 investors, analysts and reporters in N.Y.C., Chernin said News Corp. is "a company exploding" with growth opportunities that "are simply staggering," particularly in Asia. He said other companies may be planning similar worldwide systems but "we'll be the biggest" with "unprecedented global presence" and "the largest distribution platform in the world today [with] personalized media."

News Corp. is in process of consolidating its worldwide satellite direct-to-home systems, expected to be completed in 2 months. After that is finished, Chernin said, company will have "largest [content] distribution system in the world" and will feature such diverse offerings as in-home gambling and manufacturers' product coupons. News Corp. reportedly has been seeking equity partner for its consolidated satellite operations, but so far has been unsuccessful. Chernin said BSkyB in U.K. has 7 million subscribers, 3 million of them digital, while Premier satellite system in Germany has 1.4 digital boxes in homes. Only one home decoder will be required, with new boxes (containing memory capability) available by end of year; current digital boxes don't have that capability.

Consolidation of satellite systems "formalizes and systemizes" what has been ad hoc distribution and provides "significant cost savings," Chernin said, and will be in homes of more than 300 million people in 3 years. It will have "a highly branded content," he said, with "one-to-one relationship with our customers" providing any number of services. Alasdair MacLeod, managing dir. of News Corp.'s News Network, said "we will be everywhere" and big in e-commerce by providing "engines" for consumers and bringing together all the best in technology.

News Corp.'s role in Internet gambling was discussed by TV Guide Pres. Peter Boylan, who said company soon will partner with its TV Games Network to provide 24-hour, worldwide betting on horse racing. He said gaming is highly profitable for provider, with current subscribers wagering average of \$88 daily and with 10-15% of News Corp.'s proceeds going to cable and satellite systems.

Glowing picture of future of Internet couponing was painted by Chris Mixson, pres. of SmartSource iGroup, which operates NDS (80% owned by News Corp.) electronic couponing system. He said use of coupons last year saved consumers \$2 billion. He said NDS has 45% profit margin in coupons and 2.8 billion "smart cards" for electronic couponing will be issued to consumers this year. System, along with several others in interactive field, was demonstrated to attendees at end of half-day session.

Led by DirecTV, satellite TV accounted for 19% of combined satellite and cable TV market, Solomon-Wolff (SW) national survey said. In 1999, satellite TV had 5.6% share. DirecTV has 10.8% of market, which SW said has increased 93%. Partner S.J. Wolfe said survey showed satellite TV was becoming "mainstream alternative" to cable TV and was "no longer limited to a market of early adopters." He said 34.3% of satellite TV subscribers said they were "completely satisfied" with service, compared with 14.7% of cable customers.

**CLASSIC CHOOSES DTH:** Eschewing costly digital cable upgrades in its smallest markets, Classic Communications unveiled novel deal with WSNNet to pitch DBS-like satellite direct-to-home (DTH) service in nonmetro areas. Classic, which quietly has become 11th largest MSO in U.S. with 413,000 basic cable subscribers, said it will offer WSNNet's digital 200-channel-plus service in selected cable and uncabled markets in fall. Service, like AT&T's Hits-2-Home service also used by Classic, is aimed at cable systems with 500 subscribers or fewer, as well as isolated areas beyond MSO's current reach. "We view this as an alternative offering," said Classic Pres. Steven Seach: "This doesn't replace anything."

Seach said Classic, which signed similar digital carriage deal with DirecTV 2 years ago but recently dropped it, chose WSNNet because company allows MSO to market satellite service under its own brand. WSNNet will act as wholesaler, supplying standalone digital programming packages for about 2/3 of retail price. "It's a new and improved Primestar," Seach said, referring to defunct DBS service run by cable industry.

MSO plans to provide free 24" satellite dish to consumers, with programming packages available for \$24-\$36 per month. Customers also will pay undetermined one-time fee for installation. WSNNet, which has 750,000 customers, largely in apartment buildings and other multiple dwelling unit complexes, said it's working to sign up scores of cable operators in markets of 1,500 or fewer subscribers. Mark Sherman, exec. vp-business development, estimated there are 4-5 million subscribers in those smaller systems. "We think we can get one million-plus out of that market over the next couple of years," he said.

WSNNet is leasing 5 transponders on Loral Skynet's medium-powered Telstar VI bird to deliver service. Sherman said company intends to offer 2 basic national packages to consumers at set retail prices, 48-channel package for \$24.95 per month and 130-channel package for \$31.95.

**Fifty state broadcast associations** failed to meet "stringent standards" required for stay of FCC's new EEO rules, 3-judge panel of U.S. Appeals Court, D.C., ruled. However, on its own motion, court ordered expedited filing of pleadings and oral argument in appeal of rules, with dates to be announced later. Rules became effective April 18. Meanwhile, setting up another public policy battle with broadcast industry, NCTA is seeking to intervene on FCC's side in dispute over EEO rules for broadcasters and cable. NCTA filed petition with U.S. Appeals Court, D.C., seeking permission to submit amicus brief in support of new EEO regulations. New rules call for TV stations and cable systems to establish outreach programs to recruit women and minority workers and file periodic reports on their hiring results. They replace old requirements thrown out by federal court as unconstitutional in 1998. In its 3-page petition, NCTA said FCC regulations were likely to help companies hire diverse work force and weren't likely to be "unduly burdensome." NCTA also said rules "neither require nor pressure cable operators to make preferential hiring decisions."

In effort to influence members of Congress, NAB ran full-page color ad in Capitol Hill publication *Roll Call* trumpeting broadcast industry's claimed \$8.1 billion in public service contributions Aug. 1998-July 1999 (TVD April 10 p8). Ad had subhead: "more than the top 100 foundations gave away last year COMBINED" (with last word in very large type on separate line).



**PRIVACY DELAY POSSIBLE:** Bill to create commission on privacy (HR-4049) could duplicate existing work on issue and create cover for those seeking to block much-needed efforts to protect consumer privacy, critics charged at House Govt. Reform Subcommittee on Information & Technology hearing. Planned markup was postponed at request of key member of Congress, and Rep. Hutchinson (R-Ark.), co-sponsor of bill with Rep. Moran (D-Va.), was bothered by charges, which 2nd hearing on measure was meant to address. Despite delay in scheduling markup, sponsors remained upbeat, with Hutchinson saying he appreciated Chmn. Horn (R-Cal.) "scheduling these hearings so quickly."

"Those who oppose privacy reform would prefer to have Congress study the issue indefinitely rather than take action," said John Spotilla, administrator of Office of Regulatory Affairs in Office of Management & Budget (OMB), said. "In the Administration's view, such delay would be unwise." He said broad approach bill takes, ruling out no subject that commissioners could hear, could be harmful, and group needed "focused approach."

Supporting commission was Mass. Consumer Affairs & Business Regulation Gen. Counsel David Veator, who said there are "distinct advantages to taking a comprehensive approach to the array of complex privacy issues such as financial privacy, identity theft, medical privacy, biometrics, children's privacy, etc." He said "uniform approach to privacy" begun by federal govt. would make "interstate commerce easier for businesses" and would establish baseline standards for consumer protection.

Meanwhile, 16 of 42 members of FTC's Advisory Committee on Online Access & Security (ACOAS) issued separate statements about their privacy report. Unlike bitterly divided Advisory Commission on E-Commerce, members of ACOAS with widely disparate opinions praised one another for report all could sign. Rather than making single recommendation on consumer access to online information collected by companies, report suggested 4 broad options for regulators and self-regulators. Report was issued even as FTC was concluding its own report to Hill. In addition to ACOAS findings, that paper was expected to incorporate Commission's annual sweep of commercial Web site privacy policies.

**Telefonica subsidiary Terra Networks** finalized long-rumored \$12.5 billion takeover of Internet portal Lycos. Terra will pay \$97.55 per Lycos share using its own stock, colored at 1.433-2.15 Terra shares per Lycos share. Combined company, to be called Terra Lycos, will have pro forma FY 2000 revenue of \$500 million, companies said, with operations in 37 countries. Companies also said Terra entered into broad strategic relationship with Bertelsmann, which already has extensive partnership with Lycos in Europe.

**FCC set auction filing window** for LPTV, TV translator and Class A LPTV stations. Window, which opens July 31 and closes Aug. 4, is for filings for new CPs as well as for major changes in existing facilities. Filings are subject to geographic restrictions, but Commission said it will consider requests for waivers of such things as terrain shielding restraints.

**BSkyB added 2.3 million** digital subscribers in last 12 months and 190,000 regular subscribers in record 3rd quarter 1999 to push total to 3.4 million, company announced.

**New DBS service** offered by Bell South (BS) will be "limited," said satellite analyst William Kidd of C.E. Unterberg Towbin. He also said Blockbuster-DirecTV agreement (TVD May 15 p3) will help boost DirecTV coverage in rural areas and Hughes lawsuit against Gilat may have "merit." BS lacks "coverage and programming breadth" because EchoStar and DirecTV control CONUS DBS orbital slots, Kidd said, and BS signal will be restricted to eastern footprint and would have 250 channels, vs. 500 for DISH. Kidd said Blockbuster-DirecTV deal would improve market position for both companies. Blockbuster's 42 million customers and 5,000 retail outlets, including 1,000 stores in rural areas, give DirecTV access to 70% of public located within 10-min. drive of Blockbuster store. Blockbuster will be able to co-brand 55 DirecTV pay-per-view channels as "Blockbuster Direct Ticket" if it can sign subscribers. Hughes's patent infringement lawsuit originally was thought to be "slowdown tactic," Kidd said, but it revolves around "wide range of Hughes-patented technology, including architecture and communications processing" used in DirecPC.

**Public, educational and govt. (PEG)** channel providers have sought congressional intervention to protect them from what they see as inevitable "channel slamming" by cable operators likely to be subject to data must-carry demands of broadcasters. Alliance for Community Media, which represents more than 1,000 PEG access organizations, has written to 125 members of Senate and House Commerce and Judiciary committees, opposing must-carry provisions for data transmission "which would displace or 'slam' our public interest channels." Channel "slamming" is practice of cable operators' moving PEG access channels from their original assignment in channel lineup to location usually much higher on dial. Alliance Exec. Dir. Bunnie Riedel said in letter: "With the potential that 'must-carry' regulations will include not only broadcast but also data transmission, we know that access channels will be repeatedly 'slammed' in order to accommodate broadcast demands for multiple channels for data transmission."

**Although he seemed** bit confused about whether he has already voted on pending AT&T-MediaOne marriage, FCC Comr. Furchtgott-Roth expressed dismay May 18 that merger hasn't received Commission blessing yet, 10 months after original application was filed. Furchtgott-Roth said FCC should have approved merger months ago after examining proposed license transfers. Without addressing specific conditions likely to be applied to transaction, he argued that any antitrust and competition issues raised by merger should be left to Dept. of Justice and FTC. "There's absolutely no need for this agency to get involved in antitrust issues," he said. Because of fluid nature of process, Furchtgott-Roth said he wasn't sure if he had cast final vote on merger but confirmed it remains "on the floor," with changes still being made. Reportedly, commissioners are still debating whether to give AT&T 6 months to come into compliance with Commission's 30% cable horizontal ownership cap or up to 18 months as sought by MSO. Furchtgott-Roth declined comment.

**AT&T WorldNet Service** and TeleCruz Technologies announced agreement to incorporate former's Internet access service into TeleCruz's TV chipset technology. As result of deal, companies said TeleCruz-enabled TV sets featuring AT&T WorldNet package will go on sale in fall. Like Microsoft's WebTV Networks and soon-to-launch AOL TV service, WorldNet's TV service at start will rely on dial-up phone connections to reach Internet. TV viewers will use remote control or wireless keyboard to access Web. Terms weren't disclosed.



## Personals

As result of CBS-Viacom merger, Viacom Senior Vp **Carol Melton** will replace CBS Exec. Vp **Martin Franks** as network representative on NAB TV board... **Sheraton Kalouria**, ex-ABC, promoted to senior vp-daytime programs, NBC, replacing **Susan Lee**... **Susan Peters**, ex-GE, appointed exec. vp-employee relations, NBC.

**Robert Oswaks**, ex-Pearson, named exec. vp-mktg., Columbia TriStar TV Distribution... **Elisabet Blanco** named Cisneros TV Group senior vp-sales... Tribune Co. promotions: **Timothy Kennedy** to vp-development, **Lisa Wiersman** to vp-Tribune Ventures, **David Kniffin** to vp-N.Y. Div.... **Lisa Saffell**, ex-WDKY-TV Danville, Ky., named gen. mgr KSMO-TV Kansas City... **Henry Maldonado**, ex-WDIV Detroit, named vp-audience & sales programming and promotion, Post-Newsweek Stations.

**Katherine O'Hearn**, ex-ABC, named exec. vp, CNN Business News and exec. in charge, *Moneyline News Hour*... **Judy Harris**, ex-Binney & Smith Crayola Brand, appointed Discovery Communications senior vp-gen. mgr... **John Hartinger** promoted to vp-new media distribution, A&E TV Networks Interactive... Christian Bcstg. Network advancements: **Bob Hammer** to vp-bcst. operations; **Joel Palser** to vp-spiritual life & National Counseling Center.

**Bradley Dusto**, vp-chief technology officer, Comcast Cable, named to Liberate Technologies board... **Mary Meier**, ex-Capital Cable, appointed vp-mktg., Millenium Digital Media... **Tom Britt**, CEO-Channelseek.com, named vice-chmn., International Webcasting Assn.... **Frank Bongiorno**, Cox Interactive Media, promoted to technical dir.-site operations.

**Harmonic Data Systems (HDS)** announced debut of external satellite receiver **SatBox** to deliver high-speed Internet in direct-to-home (DTH) market. Announcement came at MediaCast 2000 May 16 in London. **SatBox** was designed so users can install it by connecting modem hardware to desktop PCS or laptop directly through USB port. Users don't have to open PCS to install card, as is necessary with internal PC modems. HDS also said Australian pay-TV provider **Austar** chose **CyberStream** end-to-end system from HDS as platform for high-speed Internet service. HDS said multimillion-dollar order includes **CyberStream** Data Gateway transmitters, which are being installed at up to 60 **Austar** satellite and MMDS headends on eastern seaboard. Purchase also includes "significant quantity" of **CyberStream** receiver devices.

**Paxson Communications** would be willing to move its high-channel stations (Ch. 60-69) to lower DTV channels immediately to help FCC's 700 MHz auction, Chmn. **Lowell Paxson** said in ex parte filing at Commission, but only if agency sets DTV must-carry rules. Paxson's other conditions include establishment of FCC policy for moving DTV allocations in that band and reimbursement for cost of moving to new channels. Paxson owns 19 of 138 analog stations in Ch. 60-69 and said he believes others would be willing to move under same conditions. He opposed govt.-mandated move and said FCC shouldn't even consider proposal by **Spectrum Exchange Group**. Paxson also said company's DTV station **WCPX** Chicago will send must-carry notifications to area cable systems within 10 days. If it doesn't get carriage, Paxson said, it will fight issue at FCC and in courts.



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**FCC Chmn. Kennard** hasn't changed position on DTV must-carry, despite statement by Paxson Chmn. **Lowell (Bud) Paxson** in N.Y.C. meeting May 17. Paxson had said Kennard indicated that DTV must-carry is sure thing for broadcasters, but Commission issued statement saying that he still needs additional information before making decision, including how broadcasters and cable are handling DTV, their business plans, steps that parties are taking to resolve carriage issues on their own. Spokesman said Kennard has made position plain in several speeches and "he has not changed this view."



# Consumer Electronics

A Section of Television Digest with Consumer Electronics

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending May 5 and year to date:

|                     | APR. 29-<br>MAY 5 | 1999<br>WEEK | %<br>CHANGE | APR. 22-<br>APR. 28 | 18 WEEKS<br>2000 | 18 WEEKS<br>1999 | %<br>CHANGE |
|---------------------|-------------------|--------------|-------------|---------------------|------------------|------------------|-------------|
| TOTAL COLOR TV. (a) | 284,284           | 247,058      | + 15.1      | 804,174             | 8,934,083*       | 7,893,043        | + 13.2      |
| DIRECT-VIEW**       | 275,290           | 239,728      | + 14.8      | 762,771             | 8,510,561*       | 7,566,952        | + 12.5      |
| TV ONLY#....        | 226,401           | 215,340      | + 5.1       | 594,389             | 7,086,781        | 6,397,536        | + 10.8      |
| TV/VCR COMBO.       | 48,889            | 24,388       | +100.5      | 168,382*            | 1,423,780*       | 1,169,416        | + 21.8      |
| PROJECTION...       | 8,994*            | 7,330        | + 22.7      | 41,403*             | 423,522*         | 326,091          | + 29.9      |
| TOTAL VCR**...      | 266,762           | 254,249      | + 4.9       | 1,023,727           | 8,052,236*       | 7,319,376        | + 10.0      |
| HOME DECKS...       | 217,873           | 229,861      | - 5.2       | 855,345             | 6,628,456*       | 6,149,960        | + 7.8       |
| CAMCORDERS.....     | 65,819            | 69,078       | - 4.7       | 204,058*            | 1,656,149*       | 1,432,472        | + 15.6      |
| DVD PLAYERS....     | 38,933*           | 36,475       | + 6.7       | 241,357*            | 1,631,750*       | 716,531          | +127.7      |

Direct-view TV 5-week moving average#: 2000-387,863 ; 1999-359,739 (up 7.8%).

Projection TV 5-week moving average: 2000-19,609 ; 1999-17,897 (up 9.6%).

VCR deck 5-week moving average: 2000-406,231 ; 1999-425,004 (down 4.4%).

TV/VCR 5-week moving average: 2000-92,384 ; 1999-70,224 (up 31.6%).

Camcorder 5-week moving average: 2000-106,642\*; 1999-105,072 (up 1.5%).

DVD player 5-week moving average: 2000-89,625\*; 1999-61,116 (up 46.6%).

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

**DVD PLAYER WITH DIGITAL OUTPUT MAKES DEBUT:** Next tempest-in-teapot for DVD licensing will likely boil over in London today after modified DVD players with serial digital interface (SDI) output make debut at DVD 2000 Forum there.

Modification was previewed in Dublin last month at DVD Summit, where attendees witnessed for first time astonishing picture capabilities of DVD format. But addition of SDI comes at risk of upsetting DVD licensing authorities, as digital output from players is prohibited in order to prevent pirates from acquiring studio film-quality master for illegal copying.

New system is optimized for display on digital projectors and plasma flat-panel monitors, and is brainchild of London-based Function Communications (44-207-795-3111, [www.function.uk.com](http://www.function.uk.com)). Technical Dir. David Garrett, ex-Ministry of Defence electronics engineer, 2 years ago developed custom chip that takes raw MPEG data from DVD disc or DTV tuner, then decodes it into fixed rate signal running at around 10 Mbps. On DVD, data rate continually varies between 3 and 10 Mbps, depending on picture content.

Using conventional DVD decks, Function retrofits chips and SDI output sockets to players so they can connect to SDI input on plasma screen or digital projector by coaxial cable. Because they are inherently digital, plasma displays and video projectors such as Texas Instruments' micromirror device work best when fed raw digital signal. Most have SDI input socket used by broadcasters to carry video at any data rate up to required 270 Mbps for uncompressed studio quality pictures. Citing one application for technology, Function claims up to 27 DVD players can be ganged together and their 10 Mbps outputs interleaved, to let single SDI cable deliver menu of different movies to hotel rooms or exhibition displays.

Garrett says Function has sold "hundreds" of modified terrestrial and satellite receivers to European broadcasters, including BBC, which use them to monitor and record broadcasts. But at Dublin DVD Summit, Garrett gave first public



demonstration of modified consumer DVD players, connected to SDI inputs of an Hitachi-Fujitsu plasma screen and NEC digital projector using TI micromirror with 1024x768 pixel resolution. Modified players included midline Pioneer model — and Wharfedale-brand cheapie that sells for \$269 through U.K. supermarket Tesco.

At Dublin show we attended, MGM and Technicolor provided DVD of James Bond movie *The World is Not Enough*. Bob Auger of Electric Switch DVD production company said the demonstration marked “the first time DVD is being seen as it is meant to be seen,” reminding audience that when studios deliver movies for DVD replication they come on professional D1-format digital tape. MGM title was played on modified Pioneer deck and displayed with NEC projector. At same conference, Big Picture’s *Speedway* and *Living Sea* DVDs were shown with modified Wharfedale player and 42" Hitachi-Fujitsu plasma monitor. “The people from MGM couldn’t wait to get their discs in the player,” Garrett told us. “We were running the equipment 24 hours a day because so many producers wanted to see what their discs looked like.”

Garrett concedes DVD-license loophole enabled demonstration to take place. “All the manufacturers of DVD players have signed an agreement not to provide a Firewire IEEE 1394 digital output. But there is no mention of SDI,” he said. “And Function is not a manufacturer anyway.”

Function is now assembling ultimate home cinema bundle. For \$15,000 customer gets modified Pioneer DVD player and 42" plasma screen complete with SDI leads ready to plug in. DVD player alone costs \$1,500. High cost is attributable to need to convert parallel bit stream in player to serial stream — not available in consumer players owing to DVD license and CSS encryption requirements. Garrett told us Function plans modifications for all DVD models and already has SDI output in works for Philips and Samsung players.

**SHORTAGES PLAGUE 13-25" TV IN BIG-SCREEN PUSH:** Suppliers are forecasting tight supply of commodity-driven 13-25" TVs for balance of year as industry pushes to expand lines of glass-guzzling wide-screen and flat-screen sets.

Pinch is especially severe in 13-19" where demand still is strong, but many TV tube suppliers have abandoned profitless category. At same time, CE industry’s move to expand selection of HD-ready wide-screen and flat-screen sets down to 20" has consumed already tight glass supply. Worldwide glass shortage has been estimated at 200,000 tons (TVD March 6 p11) and price erosion in 19-20" has forced suppliers Technoglas and Corning to pull back from category.

“Demand is strong and there are issues with CRT availability,” said James Sandusky, Samsung mktg. dir.-visual media products. Company’s factory in Tijuana, Mexico, has shifted some 19" TV tube production to similarly sized but more profitable PC monitors. “We’ve allocated everything out and given our people a fixed number for the balance of the year and they have to manage their businesses accordingly,” Sandusky told us.

Choice of 19-20" tube suppliers is fewer than in past. Toshiba abandoned category in U.S. and Zenith ceased manufacturing altogether after its sale to LG Electronics in Nov. Toshiba has referred some customers seeking 13-19" to its plant in Indonesia that still produces tubes, sources said. Extent of shortage is evidenced by CEA statistics that show 13" inventories fell to 425,000 at end of first quarter from 462,000 — even as sales increased to 1.7 million from 1.5 million. In 19-20", inventories rose to 562,000 in first quarter from 463,000 year earlier, while sales jumped to 1.7 million from 1.5 million. Similarly, 25-27" inventories rose to 645,000 from 489,000, but sales climbed to 2 million from 1.8 million. In 30-36", inventory was 201,000 vs. 146,000 as sales rose to 811,000 from 604,000.

Retailers say they have been told to forecast correctly or risk not receiving shipments. “People that weren’t ready to commit [to orders] by January are in trouble and if somebody gets a new customer at this stage it’s impossible to supply them,” Daewoo Electronics Senior Vp Daniel McGowan said.

With shortage expected to run through year-end, market appears prime for price increase, but few retailers or manufacturers give that much chance. In fact, vendor sources projected that 13-19" prices would drop another \$10 by holiday selling season.

“The prices just have not reflected any shortage,” ABC Warehouse Video Buyer Daniel Schuh said. Low-end 13-19" sets have been promotional vehicle of choice for many retailers. In 13", street prices have hit \$99, about \$9 above dealer cost, while 19" has slipped to \$129, roughly \$10-\$12 above cost, manufacturers and retailers said. In 20", demand remains at 250,000-350,000 sets per quarter, but even category leader Matsushita is returning to 25" screen size after absence of several years. “Premium-priced” model is designed, in part, to provide buffer for smaller sets, National TV Mktg. Mgr. Jonas Tanenbaum said.



As manufacturers and retailers scramble for available inventory in smaller sizes, push is being made in big-screen market. Matsushita will start assembly and tube production of 32-36" flat-screen sets in fall at Troy, O., plant for retail delivery by Oct., Tanenbaum told us. Samsung also is moving assembly of 32-36" TVs to Taylor-White's Five Rivers Mfg. plant in Greeneville, Tenn., by July from own facility in Mexico, which will begin 25-27" tube production originally scheduled for April, Sandusky said.

Matsushita also will enter 24" flat-screen derby later this year. Category was pioneered by Sony's Wega year ago and since has been joined by Aiwa at retail and Toshiba in tube-making. New Panasonic 24" will have premium features, including finer pitch tube, and carry price roughly double that of standard 25" (\$269-\$279), Tanenbaum said. "We have confidence there will be demand for this because it lends itself to the urban market and it gives us a broader line," he said.

As Daewoo adjusts to life under new owner Hanvit Bank, it again has postponed delivery of 30W (\$3,000) integrated HDTV to late summer from spring (TVD Feb 21 p14), McGowan said. New 30W, which was unveiled in early 1999 at \$5,000 and had been scheduled to ship last fall, features flat-screen tube with Invar shadow mask and 0.77 mm dot pitch. "When we missed last fall, it didn't really make any sense to bring it out in February," McGowan said. "So we're bidding our time and making sure we get it sold properly."

**PANASONIC DVD-RAM RECORDER DUE IN JAPAN JUNE 30:** Matsushita as expected took wraps off its anticipated 4.7-GB DVD-RAM home video recorder, announcing plans to market deck in Japan starting June 30 at about \$2,300.

U.S. marketing plans weren't discussed in Japanese market introduction announcement of DMR-E10-N recorder. Announcement text said overseas launch plans would be announced "in each region later." But timing and Japanese market pricing aren't inconsistent with plans vaguely alluded to at last Jan. CES in Las Vegas that Panasonic-branded DVD-RAM recorder would reach U.S. shores this summer at projected \$3,000. Announcement last week said DVD "will become an indispensable data storage medium for the digitally networked society of the 21st century." Although not specific, Matsushita said deck would provide "copy protection features that are demanded by the world's leading software content companies, and the data stored on it can easily be used with other equipment." It's presumed that first-generation DMR-E10-N, as with other DVD recorders subscribing to other rewritable platforms, will lack ability to make direct digital-to-digital dubs, except possibly for inclusion of "DV" input to accommodate direct dubbing of consumer camcorder footage.

Accompanying June 30 launch of DMR-E10-N recorder will be Panasonic-produced 4.7-GB discs at \$25 each. Planned for July introduction are internal and external PC DVD-RAM drives at \$687 and \$583, respectively, accompanied by 4.7-GB blank media for PC storage (\$21 for disc without caddy, \$25 with caddy). Double-capacity 9.4-GB disc for PC will be available Sept. 1 at \$35.

Matsushita announcement on DVD-RAM marketing plans came week after Pioneer, which supports mutually incompatible DVD-RW platform, announced formation of multi-company RW Products Promotion Initiative (RWPPi). Juxtaposition of 2 announcements was played up by news reports throughout world as breakout of all-out format war on DVD recordability. Although it's debatable whether DVD-RAM compatibility can be bridged with that of DVD-RW as easily as DVD-RW can be bridged with DVD+RW, avowed mission of RWPPi is to help bring about multi-platform compatibility.

**PLASMA FACES LCD CHALLENGE IN TV MARKET:** With pricing for plasma display panels stalled, LCD manufacturers are gearing up for push into TV market at sizes ranging 15-28".

Move to expand LCD production and shift technology into markets outside notebook PC business comes as plasma suppliers struggle to lower manufacturing costs that have kept finished products priced in \$10,000-\$15,000 range. Yet most LCD suppliers at Society for Information Display (SID) conference in Long Beach, Cal., last week conceded that first displays targeting TVs and Internet appliances — in addition to PC monitors and notebooks — will likely appear in Japan first before hitting U.S. in 2002.

Most aggressive position was taken by Sharp Electronics, which unveiled 12-28" LCD TVs, with smaller sizes containing 640x480 pixels resolution, 450 candelas brightness, 450:1 contrast ratio and 12 millisecc. response time, top-end model increasing to 1,280x768 resolution (\$10,000). Also joining fray is LG.Philips joint venture, which showed 20.1" module with 640x480 resolution, 500 lumens, 500:1 contrast and sub-25 millisecc. response time. New 20.1" is expected to begin volume production at new LG.Philips fabrication facility in S. Korea in 3rd quarter with module priced at \$1,000-\$2,000, which could yield finished product at \$3,000, Chief Mktg. Office Bruce Berkoff said. Module will be sold on OEM basis with Philips and LG subsidiary Zenith among possible customers. Zenith is considering 20.1" LCD TV for delivery in 2001, will ship 15.1" display this summer, spokesman said.



"HDTV is something that everybody is talking about, but isn't doing very much about, so we looked at what we could deliver today," David Barnes, market analysis dir. at Philips Components, said. "We felt that standard definition TV resolution is the proper entry point." While resolutions for PC LCD monitors continue to creep up into XGA (1,024x768), SXGA (1,280x1,024) and UXGA (1,600x1200), need isn't perceived as acute in consumer market, industry officials said. "We don't think this is a technology issue, but a manufacturing cost issue to try to deliver flat screen TV at a price point that the average person could afford," Barnes said.

But given combined price of LCD module and necessary TV components, product will likely remain at high-end of market for time being, industry officials said. Major break could be flood of new manufacturing capacity entering market this year from Japanese, Korean and Taiwanese suppliers who are expected to turn what had been LCD shortage into possible oversupply by year-end. New capacity could also result in price for core 15" LCD monitor falling to \$799 (\$550 for module) by 4th quarter from \$1,000 range year earlier, industry officials said.

"What you'll see is the prices dropping fairly quickly," said Compaq Product Mktg. Mgr. Scott Gray, who hinted that PC maker may return to LCD monitor market at retail if price hits \$899. "The closer we get to \$500, the more attractive it becomes."

Amid LCD TV push, manufacturers also are expanding size categories. LG.Philips showed core 15.1" display, but added 15.7" version with 1,280x1,024 resolution, 250 lumens and 250:1 contrast that is expected to be available in June — and hinted at possible 3rd screen size. Samsung, meanwhile, which is major supplier to Dell, unveiled 14.1", 15" and 16.5W with 1,400x1050 resolution, 150 lumens, 250:1 contrast and 40 millisc. response time. Latter was available in notebook and desktop versions with major difference being weight — 800 grams vs. 1,150 grams, respectively.

Samsung also is developing 40W LCD with 1,024x768 resolution for introduction in 2001-2002, using new fabrication facility scheduled to come on line in Sept., LCD R&D Vp Jun Souk said. Samsung currently markets 30W for airport applications. "The 17 inch LCDs will definitely remain our core business, but we feel there are niche applications for the other sizes," said Ho Sun, asst. LCD mktg. mgr. at Samsung, who listed desktop PC and portable workstation as possible applications for 17".

Sharp had 19.6" LCD with 1,600x1,200 resolution, 200 lumens and 300:1 contrast that will be delivered in 4th quarter. Toshiba even moved widescreen format to 7" and 5.8" polysilicon LCDs that provide 1,024x768 and 800x480 resolution respectively, and 120 lumens. Small widescreen panels will target handheld PC and navigation markets.

As industry adds LCDs with increasingly higher resolutions, PC operating systems (OS) are struggling to keep up, making reading some text difficult. "There is a desperate need for operating system level scaling but I have yet to see any," IDC analyst Robert O'Donnell said, referring to ability of OS to scale to handle differing resolutions. He noted that Compaq study revealed that in test, consumers couldn't read text on 21" monitor with 1,600x1,200 pixels and that resolution had to be reduced. "If consumers can't read it, they won't use it," he said. Toshiba executive maintained that while OS needs to be improved, "if you have more pixels to use, the picture will look better."

While LCD market is adding capacity, plasma makers are searching for ways to lower costs. Most visible was Plasmaco's 60W, which it developed for Matsushita, that uses soda lime glass instead of high strain version to lower glass cost to \$40 from \$400, Sales Dir. Jane Birk said. Cost savings also were made in switching to single scan drive electronics from dual scan and moving to "fence" electrode design from traditional 2-electrode. New concept is to make each front plate electrode with 3 opaque narrow (35 micrometer) electrodes that can allow light to easily pass, Plasmaco Pres. Larry Webber said. While Plasmaco isn't expected to deliver 60W until 2nd half 2001, Matsushita will have 50W for consumer market by fall with same 1,366x768 resolution and 550 lumens, but boosting contrast to 2,500:1, Birk said. New 50W will be priced around \$20,000, she said. Plasmaco also showed 37W that Matsushita will sell for commercial applications in U.S., but keep out of consumer market because of price competition from similarly sized direct-view CRTs, Birk said.

Elsewhere on plasma front, LG said it will deliver 60W in 2001, while Pioneer will continue with 50W that retained 1,024x768 resolution in boosting brightness year ago to 600 lumens from 400, and contrast to 350:1 from 250:1 (TVD June 14 p11). Pioneer Consumer Video Asst. Product Mgr. William Whalen declined comment on whether company would introduce smaller sizes stemming from joint venture with Philips.

"The major problem with these displays is not the image quality, but rather the cost," Weber said. "We're going to be competing not with the CRTs or liquid crystals, but the projection displays. But projection and flat panel displays will co-exist for a long time because projection will be the low cost alternative, while plasma provides the high quality option."



Much of focus at SID was on future technologies, but CRTs remain dominant technology with 85% worldwide marketshare, Stanford Resources Pres. Joseph Castellano said. Worldwide market for color TVs hit 130 million in 1999 valued at \$56 billion. By 2004, sales are expected to grow 4% annually to 155 million and 5% in dollars to \$76 billion, he said. CRTs also will account for 97.1% of sets sold this year, slipping to 96.2% by 2004. Second largest CRT market remains projection TV, with 1.4 million shipped in 1999 (\$3.9 billion) and category expected to rise to 2.2 million (\$5.9 billion) by 2004. HDTV-ready projection models will hit 187,000 in 2004 (\$1.1 billion), he said.

"The [CRT] volume speaks for itself and in principle you could argue that any of the technologies could be cheaper than CRTs, but it's a chicken and egg problem," Texas Instruments Electronics Technology Development Mgr. Peter van Kessel said. "You've got to get the volume, automate the process and get the costs down and it takes time to do that. We're changing rapidly in these alternative display technologies and the manufacturing technologies will evolve as well."

Yet, CRT competitors will make inroads. Plasma TVs, which have shipped in small numbers since coming on market in 1998, will reach 1.1 million sets (\$3.2 billion) in 2004. LCD TVs, meanwhile, will be dominated by active matrix technology and rise to 2.6 million sets (\$547 million) in same year.

In aspect ratios, widescreen sets are expected to grow to 17.3 million (\$29.3 billion) in 2004 from 8 million (\$12.4 billion) in last year, Castellano said. Although widescreen sales remain small in Japan and U.S., style accounted for 8.5% of TVs sold in Europe in 1999, proportion that will increase to 21.5% by 2004, he said. HDTV will represent 2% of CRT sets sold in N. America by 2004, same as Europe, while they will account for 10% of those in Japan.

**ZENITH SHRINKS LOSS:** Zenith Electronics, despite taking \$2.6 million restructuring charge, narrowed first quarter loss to \$20.8 million from \$25.1 million year earlier as sales dropped to \$140.4 million from \$150.6 million.

Charges included \$2.1 million for professional fees tied to sell off of assets and switch to new role as sales, marketing and R&D arm of parent LG Electronics, which purchased company last Nov. as part of bankruptcy reorganization, Zenith said in SEC filing. Another \$500,000 covered severance payments made in connection with transfer of Reynosa, Mexico manufacturing plant to LG. Zenith had \$9.2 million remaining in restructuring reserve as of March 31.

Zenith ended quarter with \$32.5 million negative working capital, down from \$52 million year ago, but hadn't tapped \$60 million credit facility supplied by LG.

CE segment posted \$9.9 million loss as sales fell to \$117.6 million from \$119.1. While TV sales increased, gain was undercut by dropping of OEM TV tube business, company said. Network systems, which produces set-top boxes, said profit narrowed to \$1.6 million from \$3.1 million as sales fell to \$22.8 million from \$31.5 million. Decline was tied to analog products being discontinued, Zenith said. Overall gross margin decreased to \$6.4 million from \$15.6 million on "decrease in volume and favorable pricing" in Network Systems and product delays, Zenith said.

Zenith is continuing to pursue sale of Network systems, which is among those in running for building set-top box for BellSouth's proposed satellite system. Zenith spokesman declined comment.

Receivables declined to \$74.4 million from \$99.9 million on Dec. 31, which was partly offset by \$14.6 million increase in inventories. Downturn in receivables was due to "significantly" lower sales during first quarter compared with 4th quarter, which resulted in rise in inventories, Zenith said.

Also during quarter, Zenith received \$3 million payment from Americast for which it supplied set-top boxes for

video-on-demand service. Zenith, which signed pact with Americast in 1996, restructured agreement with consortium in late 1998 to place \$7.5 million in escrow pending outcome of bankruptcy proceedings.

In transferring Reynosa facility to LG, Zenith increased amount of TVs, VCRs and TV/VCRs purchased from parent to \$76.3 million from \$2.9 million year earlier. Zenith's sales to LG and affiliates fell to \$900,000 from \$5.2 million. Sales to LG affiliate in Mexico dropped to \$400,000 from \$4.4 million, while those to operation in Canada slipped to \$400,000 from \$500,000. Slipping from Zenith balance sheet was \$600,000 in royalties LG paid company year ago in connection with agreement to direct ship products to its 2 largest customers — Circuit City and Sears.

**Handspring** plans to raise up to \$220 million by selling 10 million shares or about 8% of handheld PC developer as part of IPO. Stock will be priced at \$19-\$22 and about 125 million shares will be outstanding after IPO, according to SEC filing. In fiscal 3rd quarter ended April 1, Handspring reported loss widened to \$21.5 million from \$1.89 million year earlier as revenue rose to \$34.3 million from \$15.8 million in previous quarter, its first selling Visor handheld PC. Visor, which was designed by developers of Palm Pilot, has expansion slot to add features such as cellular phone and digital camera. When Handspring first filed for IPO March 31, it projected raising \$300 million, although company didn't disclose number of shares expected to be sold or their price... Sony is developing family of handheld PCs with features that will compete with other Palm Pilot licensees, CNET reported last week. Sony is said to be developing line of digital devices with that target wireless communications and capable of working with TVs and VCRs. First product is expected to be sub-\$200 model due this fall that will have color display, limited wireless Internet access and add-on storage, CNET reported quoting sources. At high-end of line is expected to be voice operated product with cellular phone capabilities. Sony signed licensing agreement with Palm Computing in Nov., has added separate pact with European Symbian consortium that includes handheld PC developer Psion.



**SONY BATTLE CONTINUES:** As shortages of PlayStation (PS) game console continue at U.S. retail stores, Sony's battle against Bleem and Connectix raged on last week as well.

Sony faced off against both companies, that sell emulator software enabling consumers to play PS games on computers, in court hearings last week related to separate lawsuits electronics giant filed against them charging copyright violations and other offenses. Week earlier, on 2nd day of E3, Sony filed its 2nd lawsuit against Bleem.

Hearing in Bleem case last week was described by Bleem spokeswoman as "minor motion hearing" to decide whether trial should be split up into 2 parts — one to determine liabilities, other to determine damages if necessary. Outcome of hearing was unknown at our Fri. deadline.

But ruling in Connectix case over its Virtual Game Station was blow against Sony. San Francisco Federal Court Judge Charles Legge dismissed all of Sony's copyright and trademark infringement claims against Connectix by throwing out 7 of 9 counts in suit. He said he would decide at some point over next 3 months whether he will review Sony's 2 remaining claims against Connectix — whether trade secrets are being compromised by Connectix and whether it has engaged in unfair competition. While first suit was filed by Sony back in Jan. 1999, Sony also filed separate patent infringement suit in Feb. this year that is only now getting under way, and for which hearing was scheduled on Fri. after our deadline.

Legge's decision didn't come as surprise to Sony Computer Entertainment America (SCEA), whose spokeswoman told us last week: "The judge had no choice but to rule for Connectix in light of the 9th circuit's copyright and trademark ruling."

As we reported in Feb., 9th Circuit U.S. Appeals Court, San Francisco, reversed and remanded preliminary injunction that had been placed on sale of Connectix's Virtual Game Station (TVD Feb 14 p13). In that decision, judge ruled: "The Virtual Game Station does not contain any of Sony's copyrighted material." He also said: "Connectix's reverse engineering of the Sony BIOS extracted from a Sony PlayStation console purchased by Connectix engineers is protected as a fair use," and he reversed "district's court finding that Connectix's Virtual Game Station has tarnished the Sony PlayStation mark."

Commenting on latest decision last week, Connectix CEO Roy McDonald told us: "I think it's a victory for consumer choice. That's what our product is about. It's letting people be able to use their games wherever they want to." He also told us he hoped that "Sony will give up" and "decide to settle with us" or even "decide to work with us." He added: "Our contention has always been that [Sony makes] money every time we sell our product."

But comments from Sony after judge's ruling arrived didn't indicate that it's planning to stop fighting any time soon. SCEA spokeswoman said: "We are prepared... to go forward on our misappropriations of trade secrets claims. The facts will show that Connectix did not fairly reverse engineer the PlayStation." She added that company also intends to go forward with separate patent suit.

Meanwhile, Sony has been fighting Bleem even before "Bleem for PC" started shipping in May 1999, filing first law-

suit in April 1999 and also filing temporary restraining orders and preliminary injunction to stop Bleem from reaching store shelves. Then, at E3 last year, Sony asked show management to shut down Bleem's booth. Bleem spokeswoman said company was forced to cease showing that product's ability to let customer play PS games on computer part-way through show.

Jonathan Hangartner, Bleem's lawyer, said he believes decision in Connectix case last week "all but disposes of Sony's copyright infringement, trademark dilution, reverse palming off and Digital Millennium Copyright Act claims against Bleem" as well. Although he said company hadn't yet seen transcript of Connectix hearing, he added: "Based on our understanding of the ruling at this point we strongly believe that we will see a similar result in our case," which is scheduled several months behind Connectix's.

Hangartner pointed out last week that first Sony lawsuit against Bleem didn't include patent infringement, which has now been added in 2nd suit — same method Sony used against Connectix. Sony has accused Bleem of violating 6 patents: 5,805,135; 5,793,376; 5,784,070; 5,708,637; 5,619,629; 5,285,275.

Last year, Bleem also filed countersuit charging Sony with antitrust violations. Hangartner said decision in that case won't come until decision is made in Sony's first suit against Bleem.

Bleem case has been further complicated by fact that company at this year's E3 announced it will start shipping "Bleem for Dreamcast" game packs early this summer at \$19.99 each that will allow owners of Sega's console to play PS titles with what Bleem described as improved resolution and features.

Each Bleem for Dreamcast pack will offer compatibility for 100 PS games and Bleem said support for over 400 PS titles are planned initially. Bleem also said it will announce specific game lists for individual packs in early June. Demos were given at this year's E3, but this time company wasn't forced to shut down.

Bleem CEO-Pres. David Herpolsheimer said he expected packs to help boost Dreamcast sales. He noted that with Sega's recently-announced rebate promotion that will essentially enable customers to get Sega console for free if they sign up for SegaNet ISP for 2 years (TVD April 10 p13), consumer will be able to "walk out of the store with a new Dreamcast, plus Bleem, and 4 best-selling PlayStation games for less than the cost of a new PlayStation."

As expected new Bleem product hasn't been welcomed by Sony, whose spokeswoman said patent infringement suit against Bleem covers new product as well as one for PC. She added: "We firmly assert that Bleem has infringed on intellectual property owned by Sony Computer Entertainment... and we will continue to pursue this action in court."

**Promotion** by online video retailer BigStar.com includes broadcast and Webcast of *The BigStar Show* over home shopping channel ValueVision's SnapTV network. Live, movie-themed weekly show will promote BigStar.com's catalog of 40,000 videos and DVDs, and will feature celebrity guests, product prizes and interactive contests. First show aired last week and will occupy 10-11 p.m. E.D.T. slot each Tues. Webcast can be viewed at [www.bigstar.com](http://www.bigstar.com) and [www.wtv.com](http://www.wtv.com).



**ROXY.COM ELIMINATES 19 JOBS:** Roxy.com eliminated 19 jobs as part of what Pres.-CEO Mike Jeans told us last week was restructuring at company designed to increase efficiency.

Positions eliminated weren't confined to specific division, Jeans said, pointing out that Bcstg. Vp Richard Sherwin "left on Friday [May 12] as part of the restructuring" and that position was eliminated. Chief Mktg. Officer Donna Driscoll left company in same week, but Jeans said "that's not related to this restructuring... Donna and I had talked several weeks ago and she had some other things that she wanted to pursue." Her exact plans, as well as Sherwin's, were unknown at our deadline, but Jeans said Driscoll would be "spending some time with her family right now."

Mktg. Vp John Carroll is now in charge of Roxy.com's marketing dept. although his title hasn't changed and company has no current plan to hire another Chief Mktg. Officer, Jeans said.

News about Roxy.com came only days after reports said KBkids.com had fired about 30% of its staff as part of deal to receive continued funding from Consolidated Stores, which owns about 80% of KB Toys's e-commerce division. CNet also reported that KBKids's board ousted company's CEO-founder, Srikant Srinivasan, last week. KBkids.com didn't return call for comment by our deadline.

Meanwhile, Toysmart spokeswoman last week told us her company is also "in the midst" of "restructuring." She was able to confirm that Chief Mktg. Officer Kel Kelly and Communications Dir. Patrick Rafter were no longer with company, but said more details of restructuring wouldn't be available until early this week. Disney bought majority stake in children's educational toy e-tailer last summer.

Industrywide job cuts haven't only been impacting e-tailers online. Internet search engine AltaVista also recently cut jobs, according to reports, one of which said about 40 workers were laid off in move to save money. AltaVista didn't return our call for comment.

Job losses come as increasing number of dotcom companies have also put off their initial public offerings (IPOs). In recent weeks, unfavorable market conditions was reason given for delayed IPO of Staples.com and request by Beatnik that its IPO be withdrawn (TVD May 8 p17). KBkids.com announced last month that it had postponed its IPO.

Meanwhile, Creative Technology has said that "in light of the uncertain market for Internet-related IPOs," CE e-tailing subsidiary Hifi.com has "decided to temporarily hold off plans for a public offering, although the company currently intends to reinstate the process pending more favorable market conditions."

Adding to current uncertainty about Internet companies on Wall St. was recent doomsday forecast by Forrester, which said in report that many of today's e-tailers will be driven out of business by 2001 (TVD April 24 p18).

Roxy.com's Jeans downplayed significance of job cuts there, saying it was "not really a major issue." He said company has "been growing very fast over the past couple of years" and recently looked around to "see where there was duplication of effort or where there was work that could be done more efficiently."

Roxy.com spokesman said job cuts at his company weren't related to any sort of stipulation made by investors when they recently agreed to supply e-tailer with \$25 million in 2nd round of private funding.

Investors in Roxy.com included Federated Dept. Stores, already equity partner of e-tailer, which invested new funds through subsidiary Fingerhut. Other new financing came from Atlantic Coastal Ventures, Paul Capital Partners, Triad Media Ventures. Meanwhile, funding provided by shopping network ValueVision International represented closing of its previously-announced plan to take minority equity stake in Roxy.com, first revealed in Jan. when companies also revealed they would be co-producing one-hour CE TV show (TVD Jan 10 p18). NBC Internet also invested in Roxy.com, whose deal for equity stake in e-tailer in exchange for online distribution and promotion was also first revealed in Jan.

Roxy.com said new funds would allow it to continue expanding both its on- and off-line direct response marketing initiatives, strengthen its balance sheet and possibly allow for future acquisitions, provide capital to operate company "into the foreseeable future."

Jeans said "as far as IPO is concerned, we plan to go public at some point." But echoing other Web companies, he said: "The current market climate isn't really very conducive to that." He added that company's main focus now is on "continuing to grow our sales" and "if the market's right for an IPO," we'll do it."

Fourth TV show Roxy.com is co-producing with ValueVision aired last week and Jean said "during the time period that the show is on, which is one hour, plus the one hour" after it goes off, there had been "measurable increase" in traffic at Roxy.com Web site. But he declined to say exactly how much of an increase that adds up to.

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**Announcement is possible** this week on U.S. marketing plans for line of Panasonic and Technics-branded DVD-Audio players, now that technical evaluation of new copy protection system has been completed, Gen. Mgr. Gene Kelsey told us. He declined to offer specifics on pricing or other issues, except to suggest that introduction timing would be consistent with June plans described by Matsushita last Dec. when it postponed product launch to develop new copy protection system in wake of reports that Norwegian hackers had broken Content Scrambling System (CSS) encryption codes. New product will be added to DVD-Audio mix here and in Europe — Panasonic-branded SC-HDA710 minicomponent shelf system shown to European audio journalists at technical seminar in Cannes. System will be priced to sell at \$1,150 in Europe, and joins previously announced "universal" component players to be sold under Technics and Panasonic brands in Europe starting Sept. at equivalent of \$1,150 and \$920, respectively.

**Portland is 9th market** that Kozmo.com has entered. Company, which delivers products in under hour, also serves Atlanta, Boston, Chicago, L.A., N.Y.C., San Francisco, Seattle, Washington, D.C. Amazon.com recently invested \$60 million in company for 31% stake (TVD April 10 p20). Companies also entered into 3-year strategic alliance in which Amazon.com will use Kozmo.com as one-hour delivery provider for select products. In filing IPO earlier this year, Kozmo.com said it planned to be in at least 10 new markets by end of year. Since filing, company has also stepped up its ad efforts.



**FUNCO SALES & PROFIT DOWN:** Funco posted drops in sales and profit last week for 4th quarter ended April 2, while Electronics Boutique (EB) reported improved revenue but slight downturn in income for its first quarter ended April 29.

Electronic games retailers' earnings reports were announced only 2 weeks after EB dropped out of contention to acquire Funco (TVD May 8 p18). As we reported, EB declined to match \$24.75-per-share offer of Barnes & Noble (B&N) and Funco terminated its merger agreement with EB. As it stands now, B&N is to acquire Funco in deal that will be equivalent of \$161.5 million and fold Funco into its Babbage's Etc. games division.

Minneapolis-based Funco said its sales dropped to \$54.8 million in past quarter from \$55.6 million same period year ago while income fell to \$1.2 million from \$3.3 million. For year, retail chain said it saw sales increase to \$252.7 million from \$206.7 million year ago while profit fell to \$6.7 million from \$9.7 million.

Funco attributed increased sales for year to increased number of stores, while blaming "overall industry slowdown" for drops in profit for year and quarter. Chain had 400 locations in 31 states at end of past quarter, compared to 312 in 23 states year ago. During past year, company opened 91 new stores while closing 3.

Meanwhile, West Chester, Pa.-based EB said its sales jumped to \$150.2 million in past quarter from \$122.7 million year ago. But chain said its income dropped slightly to \$2.4 million from \$2.9 million year ago.

EB said its revenue growth came through 11% comparable store sales increase and addition of 78 stores over past year. Retail chain attributed comparable store sales growth to videogame sales, as well as continued sales of Pokemon trading cards.

In conference call with analysts last week, EB Pres.-CEO Joseph Firestone said videogame sales were driven by Sega Dreamcast, Nintendo's Game Boy handheld game system and 64 console, "Budget PlayStation" titles. Company pointed out that there was shift from PC software to videogame software this year largely because of Dreamcast games. It said PS game sales were about flat while Nintendo saw about 21% sales boost largely because of one game — *Pokemon Stadium*.

Company said online division EBWorld.com exceeded its expectations with first quarter sales more than doubling to \$3.1 million from \$1.5 million year ago, it said. Chain added that it's finalizing number of new strategic alliances on online front.

Firestone commented that because company chose not to acquire Funco — which he said "would have been dilutive to our earnings" — EB "will now accelerate our strategy of opening new non-mall based stores." Chain had put its plans to expand non-mall store concept on hold, he said, because of possibility there may have been overlap with Funco stores. He added that EB now expects "to open 25 to 50 non-mall based stores" this year, bringing company's goal of new store openings to approximately 150 to 175 including 10 to 15 EBKids stores.

On PlayStation2 (PS2) front, EB Senior Mdsgr.-Distribution Vp Jeffrey Griffiths said he believes "this launch will have a

higher tie ratio than any previous launch in history." He added that EB had "already pre-sold more" PS2 consoles than it did during entire Dreamcast pre-order promotional period.

Although Griffiths said his company was "initially a little bit concerned about the fact that" PS2 is "being launched in late October rather than mid-September," he said it has changed its mind. EB, he said, now believes it will be able to get consistent allocation of PS2 through end of year because Sony said it would be basing how many units EB receives in its second shipment on how quickly retailer sells initial allocation and amount of software sold per console. Griffiths said company is confident that it will be able to sell PS2s quickly, as it did with Dreamcast. EB also said it's confident that PS2 will be arriving on time, on Oct. 26 as Sony said at Electronic Entertainment Expo (E3) (TVD May 15 p12), and that Sony will indeed make one million units available at start, as manufacturer also promised at E3.

Based on what EB saw at E3, company also said it feels Microsoft is further along with Xbox than it expected and, as result, EB now feels "much better" about that console's prospects.

Navarre sales jumped to \$60.9 million in 4th quarter ended March 31 from \$27.7 million same period year ago. For year, company posted \$285.2 million in sales compared to \$210.4 million year ago. But software distributor reported \$2 million loss for quarter and \$7.8 million loss for year, largely because of charges and losses associated with its stake in NetRadio and launch of digital distribution subsidiary eSplice. Losses, however, were less than year ago, when company posted \$22.3 million loss for 4th quarter and \$27.7 million loss for year. Navarre Chmn.-CEO Eric Paulson said he expects completion of reduction in company's equity investment in NetRadio by end of first quarter. Company said its computer products division saw double-digit growth last year, with net sales jumping 24% to \$186.5 million. Meanwhile, company reported 64% leap in music division sales, which were \$97.9 million for year. Navarre also said DVD category "continues to grow at a rapid pace." Company added: "This growth is expected to continue due to the combination of an ever expanding installed base of DVD players and strong studio releases." Navarre also said it plans to launch eSplice "digital superstore" in mid-June. Separately, Navarre and electronic game publisher Sound Source Interactive (SSI) said they signed deal giving Navarre rights to distribute SSI's entire line of titles in N. America.

Tandy Corp. shareholders last week approved renaming company RadioShack Corp., formally cutting links to storied Tandy family. Name change is aimed at catching attention of investors by putting RadioShack on shares instead of less well known Tandy, Pres.-CEO Leonard Roberts told shareholders. "RadioShack has huge brand equity in the American market and there really was very little association outside of Ft. Worth and Dallas between RadioShack and Tandy," Roberts said. Stock starts trading on N.Y. Stock Exchange on May 31 under ticker "RSH," Tandy officials said. Tandy started as Ft. Worth family leather shop in 1919 and went public in 1960 as leather crafts and hobby store chain. In 1963, family son Charles Tandy bought nearly bankrupt Boston-based chain with 9 stores named RadioShack. Tandy grew to include extensive CE manufacturing operations as well as variety of chains including Computer City, Incredible Universe, McDuff's and Video Concepts as well as RadioShack. During past 10 years company gradually closed or sold off all but 7,100-store RadioShack chain.



**WEB RADIO NETWORK LAUNCHED:** As TuneTo.com launched Version 1.0 of its "Listener-Powered Internet RadioSM" network last week, Redwood City, Cal., company's Pres. Tim Bratton told us that "the next step is getting this [technology] integrated into consumer electronics devices."

Bratton said company started beta testing online radio service in Sept. and has attracted 10,000 users. Free service allows users to select from multiple "channels." Play lists are selected based upon musical preferences of users each channel attracts.

Technology company uses is caching and streaming hybrid that it calls "metacasting." Music played through service is MP3-based MPEG audio at 128 kbps that Bratton said is "near-CD quality." Company claims its audio sounds "noticeably better than other streaming formats" and is more bandwidth efficient. Bratton said company has filed 5 patents for technology.

Bratton, ex-sales-mktg. vp at Spatializer Audio Labs, is now looking to sign similar sort of licensing agreements with CE manufacturers that he did in past to get Spatializer's 3D audio technology integrated into stereo equipment. He said TuneTo.com has "actually signed a deal" with one manufacturer already "but can't announce it" yet. Announcement will come "soon," he said, adding that company is looking to sign similar deals with "multiple manufacturers."

Devices that TuneTo.com envisions run gamut from stereo components to portable digital music players to portable telephones. Earliest we can expect to see first product is "probably September," Bratton said, noting that it will be "probably an interim product" of some sort. He added: "It'll be like a rack mount device and it will have some capability for playing MP3 [recordings] and some capability for getting your own MP3s in there." Company is looking to introduce MP3 jukebox/radio later that will have hard drive.

Privately-held company finished first round of investing in Jan., when it received \$2.6 million in funding from Whelan & Grady Capital Management/Encinal Partners and various individual "angel" investors. Bratton said company is now "working on our 2nd round" of investing.

He claimed company has rights to legally broadcast all commercially-available recordings, including entire catalogs of majors BMG, EMI, Sony, Universal, Warner. Company is also licensed and authorized by ASCAP and BMI and Bratton said TuneTo.com pays performance royalties when music is played at site.

Company's revenues come mainly through banner ads at its site, Bratton said, adding that company will start ad campaign consisting mostly of banner ads at other companies' Web sites "probably over the next few weeks." He declined to say how much company plans to spend on campaign, but he did say it won't be much at this point: "We'll see how effective it is." Primary way company is planning to distribute its radio network is through OEM deals.

TuneTo.com news arrived as Forrester issued report on "The Self-serve Audio Evolution," in which it predicted that "consumer demand for anytime, anywhere access to personalized audio experiences will slowly but steadily displace broadcast radio." Forrester forecast that by 2005, 41% of population

will be listening to personalized, on-demand audio content at least once each week.

He said that Web isn't currently cannibalizing radio listening or CD sales: "More than 75% of Net users buy about the same number of CDs since they began listening to music online. Net radio [so far] has little impact on broadcast radio listening." Report said: "For self-serve audio to succeed, 3 technologies will [have to] converge to create easy and ubiquitous access for consumers"; easy-to-use, intelligent tools that organize and recommend; devices that move Net audio throughout home; wireless Internet that frees users from PC.

**Toys R Us**, benefiting from \$200 million gain from IPO of Japanese subsidiary, posted increase in first quarter income to \$215 million from \$17 million year ago as sales rose to \$2.3 billion from \$2.1 billion. Minus IPO proceeds, Toys R Us earned \$15 million. Same store sales increased 2%. Sales of videogames/electronics, which accounted for 20% of revenues during quarter, suffered from shortage of Playstation hardware/software as industry prepared for arrival of 2nd generation console this fall, CEO John Eyler told analysts in conference call. Toysrus.com unit logged \$8 million in sales during first quarter, will hit \$140 million by year end, up from \$46 million, Eyler said. Online business' loss for year will grow to 30¢ from 22¢, but chain expects "reversal" in 2001, he said. To avoid shipping delays that plagued toysrus.com during most recent holiday season, chain has revamped Memphis, Tenn., warehouse and added 2 others in Cal. and Pa. that will give unit capability of handling 200,000 orders per day, Eyler said. Toys R Us also will overhaul C-3 store concept that it began implementing in 1998 to add more product demonstration areas including "Teen Tronics" section for telecommunications, music players and interactive toys, Eyler said. Section will be located within existing 3,000-sq.-ft. "Our Zone" video and PC games department, he said. Chain also will add product specialists that will be paid \$10-\$12 hourly wage who will be part of effort to improve customer service, which includes boosting store hours 25%, he said. New electronics section will be deployed in 170 stores by year-end and rolled out to remainder of chain in 2001 if it proves successful, he said. Overall, C-3 format is about "80-85% there", Eyler said noting that chain will attempt to boost in-stock rate to 90% from 64% and increase amount of products exclusive to chain during holiday season to 12-13% this year from 5% year ago, rising to 20% in 2001, he said.

**Indrema is latest company** to throw its hat in game console arena. Startup, founded earlier this year, said it will ship Indrema L600 Entertainment System in time for holiday season. Company said new system will include Gecko Web browser and will be able to store MP3 files, games and video via internal hard drive. Additional games and audio can be purchased and downloaded into console over Web, company said, adding that it selected Nvidia — same company supplying GPU for Microsoft's Xbox (TV D March 13 p12) — for its GPU. Indrema said L600 will have "modular graphics subsystem" that will allow user to switch GPU for new one that would offer next-generation technology. Console is based on Indrema's own OpenStream technology, which it described as open-sourced DRI-enabled video architecture for Linux operating system. Indrema CEO John Gildred said L600's GPU will also have "very advanced HDTV capabilities." But many questions were left open last week, including what sort of support system will get from game makers and pricing, although one report said it will cost \$299. Company said it plans to demonstrate pre-production unit in late summer.



**JVC ADDS SMALLER D-ILA:** JVC will unveil 0.7" version of its direct-drive image light amplifier (D-ILA) display chip at Infocomm in June along with roster of front projector licensees as it moves to boost challenge to Texas Instruments.

New 0.7" chip, which is expected to start production later this year, maintains 1,365x1,024 resolution and several hundred lumens, but could increase contrast to 1,000:1 or more, said Shintaro Nakagaki, gen. mgr. of JVC's Product Engineering Dept. JVC officials declined to disclose names of licensees, but goal is to bring D-ILA into lightweight projector market dominated by TI's Digital Light Processing (DLP) technology.

At same time, JVC also will introduce QXGA version of D-ILA chip for cinema applications where it also competes with TI. JVC's QXGA chip will move from current 1.2" size to 0.9" previously occupied by SXGA version, JVC Senior Engineering & Service Dir. Rod Sterling said.

In moving to smaller size, JVC also is adopting TI-like licensing strategy in which it supplies chip, but OEM customer builds projector. JVC previously provided licensees with finished product, strategy that resulted in little differentiation between models. TI also once provided engine, but has since required licensees to either build own or find supplier.

"The OEM projector didn't work to the level we would have liked and we were competing against ourselves," Sterling said. "Getting the chip out is the way to go because it opens up the market. To invest in the large scale manufacturing you need to get high volume."

JVC's D-ILA-based 61W rear projection set (TVD Sept 20 p18), which ships in Aug., currently contains 1.22" chip with 1,280x1,028 resolution and won't be affected by new chip design, Color TV Gen. Mgr. Michael Holmes said.

As JVC and later TI via Matsushita, Mitsubishi and Hitachi licensees roll out chip-based sets, manufacturers concede they're struggling with lamp life issue. While current TVs have virtually unlimited life span, lamps in front projectors run 2,000-4,000 hours, meaning consumers could be faced with changing out \$200-\$300 bulb after 1-2 years, industry officials said. Nakagaki conceded that lamp life of 20,000 hours is needed, but that current technology provides only up to 6,000.

"I think the consumer is going to go through a re-education process," said Larry Hornbeck, TI Fellow in technology development and inventor of DLP. "It's a trade off between having constant quality over a very long lifetime vs. a catastrophic event like a lamp burning out. These [projectors] are pre-aligned and you'll be able to plug the components in."

Hornbeck also voiced support for TI's decision to design DLP chips with 720p native resolution, maintaining that progressive format "wins every time" in test with 1080i "in terms of perceived sharpness." Formats are "numbers that have little to do with perceived sharpness," he said. "It is not the limiting resolution; that is important, but rather the shape of resolution as you go out to higher and higher spacial frequencies."

As TI licensees move DLP technology into rear projection, TI is shifting toward 14-micron production process for micromirrors from 17-micron that launched technology in 1996, company officials said. New 2.9-lb. DLP-based projector from

Plus Corp. is based on 0.7" 1,024x768 TI chip produced using 14-micron process, Electronic Technologies Development Mgr. Peter van Kessel said. Both manufacturing technologies will co-exist for several years as TI supplies chips for commercial and consumer applications, he said.

TI, along with JVC, is continuing push started year ago to replace traditional film projectors with chip-based models. TI currently has DLP projectors in 22 theaters worldwide, including 16 in U.S., Hornbeck said. About 4,600 movies have been shown using DLP projectors at rate of 5-7 per day, he said. Theater projectors, which are being produced by Barco and Christie, use 3-panel design to deliver 1,280x1,020 or better resolution and 12,000 lumens.

**Pixelworks** opened trading on Nasdaq Fri. at \$11-1/41, below \$12-\$14 IPO price. It rose to 12-5/16, before falling back to close at 10-57/64 on volume of 6.6 million shares. Display controller designer was seeking to raise \$57 million on sale of 5.8 million shares. It posted \$4.9 million loss for year ended Dec. 31, up from \$1.6 million year earlier as sales rose to \$12.8 million from \$978,000. Japanese distributor Tokyo Electronic Devices accounted for 55% of Pixelworks' revenue, Taiwan-based MicroMax, 24%. Pixelworks, meanwhile, is developing low-cost controller that would be minus frame rate conversion, enabling it to hit \$15 price, spokesman said. Pixelworks, which has line of 6 ImageProcessor controllers with outputs up to UXGA resolution and maximum input clock speeds of 105 MHz, currently starts pricing at \$25. Company also has released reference design combining its PW364, PW164 and PW165 controllers with TV tuner. Prototype, which had Philips tuner, adds software for volume control and channel selection to ImageProcessor that handles frame rate conversion and scaling... **Genesis Microchip**, meanwhile, introduced controller containing high-bandwidth digital content (HBDC) protection that will be priced at \$25 in volume, company said. Image processor is compatible with XGA and SXGA resolutions and has frame rate conversion... **Silicon Image** also will add HBDC to new controller this summer, company officials said. SI, which gained prominence in helping design digital visual interface (DVI) for PC monitors, will expand its technology into CE when it closes purchase of DVDO in June, company officials said... **Sage** will drop its line of Cheetah controllers by year-end to focus on Jaguar brand, Mktg. Dir. Pulin Desai said. Move will be made as Sage adds 4th generation of its controller technology this fall designed to improve sharpness of image, Pusai said. Jaguar line consists of 5 products with input resolutions ranging 1,024x768 to 1,920x1,200 at 75 Hz, while Cheetah had 2 units with support up to 1,280x1,024.

**Dai Nippon Printing (DNP)** has developed ultra high contrast screen (USC) for LCD and Digital Light Processing (DLP)-based rear projection TVs that lowers pitch to 0.14mm from 0.35mm. Screen has 48% transmittance, 4.8% reflectance, is 1.1mm thick. New screen was designed to overcome problems that double lenticular lens with black stripes screens encountered in displaying LCD/DLP projector's pixel structure, DNP said. Black lines typically interfered with lenticular lens, creating moire pattern, it said. Fine pitch lenticular lens was developed and higher contrast achieved to prevent moire. UCS screen has lenticular lens on incident side. While UCS screen is thicker than standard black stripe — 1.1mm vs. 0.5mm — diffusion characteristics aren't affected, DNP said. Screen thus operates independently from thickness. Mitsubishi is expected to deploy USC screen with new 65W DLP-based rear projection set due late this year, DNP Engineering Mgr. Hiroshi Sekiguchi said.



**OLED, POLYLED DISPLAYS:** Sanyo/Eastman Kodak's organic light-emitting diode (OLED) technology is squaring off against Philips/Uniax polymer-based version (PolyLED) in race to establish market as low-cost, low-power display for next generation cellular telephones and handheld PCs en route to moving to larger sizes.

Sanyo, which has licensing and development agreement with Eastman Kodak, caused stir at Society for Information Display conference last week with 5.5" OLED containing 320x240 resolution, 150 lumens brightness, 200:1 contrast and 30 Hz frame rate. Sanyo, which is building pilot production line in Japan, expects to bring 2.5" display to market in 2001 as viewfinder for digital cameras, followed by 5.5" in 2002, Kodak Research Assoc., John Burtis said. OLED also can replace LC might modulator in TFT display.

OLED boasts response time of less than millisecond and can be produced using same thin-film production technique as TFT-LCD. It's carved from 350mmx450mm mother glass which allows it to eventually scale to 14" display, Burtis said. PolyLED uses thick film process, but like OLED has power consumption "in tens of milliwatts" (5-20v) giving it sizeable advantage over existing TFT LCDs, said Nicholas Colaneri, new technology dir. at Uniax, which was recently purchased by DuPont and includes Philips among its investors.

While Uniax showed PolyLED in handheld PC configuration, Philips had it in cellular phone, first products are due in 2001, said Andrew Warnes, Philips global business development mgr. for PolyLED. PolyLED displays had 120 lumens and 120:1 contrast ratio and response time in "sub-millisecond" range, said Colaneri, whose company licenses technology from Cambridge U.

Major issue also will be price with both camps aiming at \$50 and \$25, prices currently commanded by comparable color and mono TFT-LCDs respectively, Warnes said.

OLED has early edge on PolyLED with Kodak licensee Pioneer having seeded market with mono displays for car stereo head units in 1998.

"This well could be a Beta vs. VHS war, but when the industry makes a decision it will decide hard on one technology or the other," Burtis said.

Market for OLEDs along with field emissive displays (FEDs) and light emitting diodes (LEDs) is projected to increase to \$2 billion by 2005 from \$1.4 billion in 1999, Stanford Resources Vp David Mentley said. "This [OLED] technology could succeed for many of the same reasons that integrated circuits took over the vacuum tube business because it merges physics with consumer applications," he said.

**Earnings from Berkshire Hathaway's** noninsurance businesses, including Nebraska Furniture Mart and R.C. Willey, fell 6% during first quarter to \$79 million from \$84 million despite 20% increase in revenues to \$1.55 billion from \$1.29 billion. Overall, Berkshire's income rose to \$807 million from \$541 million as revenues jumped to \$6.47 billion from \$5.44 billion.

Macrovision said it will make \$1.2 million Series C private equity investment in InterActual Technologies, which said it will use cash infusion to promote adoption of its PCfriendly interactive DVD technology in consumer electronics marketplace.

**Staples, crediting strong sales** of digital cameras, scanners and handheld PCs, reported first-quarter income in its retail and delivery business rose to \$63.3 million from \$52.4 million as sales increased 20% (see financial table). Same-store sales were up 10%. Gross margin inched up to 24% from 23.9% year earlier, but was held by "higher mix" of technology products (PCs, etc.) and higher prices for paper, CFO John Manning said in conference call with analysts. Sales in retail segment jumped 20% to \$1.7 billion as chain opened 69 stores, including 62 in N. America, with plans for another 108 new stores by fiscal year end. Sales of Handspring handheld PC, of which Staples is exclusive retailer, have "exceeded our expectations" and haven't "cannibalized" business of rival Palm Pilot, Pres.-COO Ronald Sargent said. Staples also saw "moderation" in decline of average selling price for PCs in quarter, he said. Staples opened 4th N. America warehouse in Terre Haute to serve 250 stores by year-end, will add 5th in southeast U.S. by 2001. Staples.com online business loss widened to \$23.4 million in quarter from \$2 million year earlier, while revenue soared to \$75.3 million from \$11.6 million and to \$43 million in 4th quarter. Repeat customers increased to 143,000 and accounted for 57% of revenue, against 82,000 and 56% in 4th quarter, CEO Thomas Sternberg said. Operating and selling expenses jumped to \$33.2 million from \$14 million in 4th quarter and development costs for revamp of site were \$7.7 million. Staples.com's average customer acquisition cost in quarter was \$140, with long-term goal of \$120, Sternberg said. As result of added costs, online gross margin fell to 19.6% from 20.3% in 4th quarter, company said. Growth rate of retail and delivery revenue, which had been running at 20%, has been affected in "negative way" by Staples.com, due largely to shift of chain's contract business to online e-commerce. About \$30 million of Staples.com's \$75 million in revenue were "transferred" from contract business, Sternberg said. Staples will add kiosks to retail stores to allow online sales, strategy it deployed in new store at Newark International Airport. Staples, which earlier pulled IPO for online operation, will "continue to evaluate market" to ensure business gets "valuation it deserves," Sternberg said. European retail revenue more than doubled to \$179 million from \$88 million as chain open 7 new stores and completed conversion of Sigma outlets in Germany that were acquired in 1999. It kept 13 Sigma stores, closed 2.

**Universal Display** reported first quarter loss soared to \$1.8 million from \$593,866 million as costs more than doubled to \$1.86 million. Revenues, generated by partner Princeton U.'s contract with Defense Advanced Research Project Agency (DARPA), fell to \$5,909 from \$117,233. Organic Light-Emitting Diode (OLED) developer's R&D expenses jumped to \$940,606 from \$341,708, while general and administrative costs increased to \$928,302 from \$389,480. Sharp rise in costs was tied to opening of 11,000-sq.-ft. R&D facility in Ewing, N.J., Universal said. Accumulated deficit stood at \$20.5 million as of March 31... **Bogen Communications**, despite strong sales of commercial audio and telco products, said first quarter income slipped to \$302,000 from \$471,000. Sales rose to \$16.3 million from \$12.5 million. Commercial audio, which includes New England Audio Resources and recently acquired Apogee, logged gain in revenues to \$4.2 million from \$2.7 million including about \$1 million from latter. Telco sales jumped to \$9.3 million from \$7.9 million. Overall gross profit slipped to 50.3% from 51.2% due largely to Apogee, Bogen said in SEC filing. Minus Apogee, gross profit rose to 52.4%. Selling, general and administrative (SG&A) expenses increased to \$6.4 million from \$4.4 million including \$527,000 in costs tied to Apogee acquisition, company said. SG&A also included \$300,000 in sales support tied to agreement with Lucent Technologies in late 1999, company said.



**XBOX SUCCESS QUESTIONED:** In time since Microsoft's announcement of its upcoming "Xbox" videogame console (TVD March 13 p11), some in industry have raised questions about software giant's chances for success with new platform.

But that didn't stop Microsoft from attracting much traffic at its Electronic Entertainment Expo (E3) booth earlier this month. Company said it wasn't initially planning to spotlight upcoming game console at show, but decided at last minute based on large amount of requests it received from game fans. Company itself said console was "still early in development." But Microsoft did unveil elaborate X-shaped theater at E3 to give short preview of what upcoming Xbox games will look like. Although company initially referred to console as "X-Box," it has since dropped hyphen from all press and publicity material about console.

At least one company has better feeling about Xbox since E3: Electronics Boutique (EB) last week said it feels Microsoft is further along with Xbox than it expected and, as result, EB now feels "much better" about that console's prospects.

But prior to E3, opinions seemed more pessimistic from certain quarters. Forrester Research's Jeremy Schwartz was among harshest critics with report *X-Box Spells Quicksand for Microsoft*, which said Microsoft, despite its "enormous resources, will fight a losing battle that will sap its other initiatives."

Labeling Xbox as nothing more than "basically a high-end PC," report said new platform would fail for various reasons, among them: (1) "Console gaming and PC gaming are different worlds." It said Microsoft would have hard time using its Windows experience to provide gamers with "ease-of-use, instant startup and minimal interface complexity" — factors it said gamers demand from console if not PC. (2) "Publishers won't jump to another platform yet." (3) "The Big 3 [Nintendo, Sega, Sony] own the console market."

Forrester report said "X-Box will drag Microsoft deeper into the mire" because, for one thing, company's entry into hardware business would jeopardize its relationships with its hardware licensees, including Compaq and Philips. Report concluded that Microsoft would be better off concentrating on Web devices — a "war it can win."

Microsoft 3rd Party Relations Dir. Kevin Bachus admitted company faced "a lot of challenges" but disputed much of report. He said it was too early for Microsoft to reveal certain features of console and report didn't give it "benefit of the doubt" on its not being scaled-down PC. Bachus said: "We're not building a PC. We're building a game console." Start-up time, he said, will be "under 10 seconds." Console also won't need to be upgraded, he said, reiterating what Microsoft Chmn. Bill Gates said when announcing console at recent Game Developers Conference.

Enthusiasm expressed by some game publishers in last few weeks raised at least some doubts about Forrester Report's contention that publishers wouldn't jump ship from competing platforms so easily.

Bachus also said he doubted Nintendo, Sega and Sony shares of market would be impossible to overcome. Saying that not one of those 3 ever has controlled console market, he said, "5 years ago we'd be talking about Sony" and doubts among many then that PlayStation would be able to overcome

Nintendo and Sega. PlayStation since has become No. 1-selling console.

Microsoft doesn't believe PlayStation2's getting to market before Xbox will hurt its chances, Bachus said, and he didn't think Nintendo's Dolphin would hold sales back either: "We think that Nintendo appeals to a different demographic.. It appeals to a younger audience."

Bachus also dispelled rumors that Sega's 2nd generation of Dreamcast down road would be Xbox console. He said Sega remains "a customer of ours." Although Sega Mktg. Communications Dir. Charles Bellfield recently told us company had indeed been in talks with Microsoft on Xbox, as rumors have suggested, Bachus indicated that Microsoft is more interested in Sega's becoming software partner for Xbox rather than hardware manufacturer: "We'd love to see Sega developing titles for Xbox."

Although Bachus said Xbox may not be brand on console when it ships, he said "product is going to come from Microsoft" rather than manufacturer with more hardware experience. However, he said other manufacturers, such as Thomson, would come out with Xbox products but they wouldn't include videogame consoles, and he doubted that they would be DVD players considering game console itself has DVD drive inside.

Forrester didn't raise issue of possible reluctance of many consumers to support Microsoft brand, but we visited various videogame buff sites where gamers had plenty of bad things to say about newcomer to console field. Bachus said most users don't tend to have same view as game buffs. However, he said even buffs have "a sort of grudging respect for Microsoft" in areas such as technology innovation. And he said success of Xbox ultimately would depend on quality of games themselves because all that most consumers want are "better games than we have today."

Meanwhile, analysts aren't only ones raising questions on Microsoft's chances. David Pomije, CEO of game retailer Funco, recently told us: "The Xbox, I think, should be labeled a 'Question mark-box' because we don't know what it's about and we don't [know] technical things [about it] now... and it's being driven from a PC company — a software company — so I would still ride the Sony pony."

Pomije also expressed more faith in Nintendo and Sega game systems than in Xbox. Of Sega, he said: "They have a long history in the arcade and the game business." Although Pomije said he thinks "they're not going to be all things to all people like the Sony PlayStation," he thinks "there's a niche [for Sega] there as long as they can get the software developers behind them." Of Nintendo, Pomije said: "People have kind of counted them out or discounted" Nintendo, but "one thing about Nintendo — they know games and game content." He said: "You can have advantages in technology but that doesn't necessitate that you're going to be one up on your competition."

#### THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥109 = \$1, except where noted.



## Consumer Electronics Personals

Larry Poor departs as Dolby Labs dir. of technology mktg., plans unannounced, no replacement named... **Yosuki Nakanishi** promoted to Hitachi Electronic Devices pres. from exec. vp, replacing **Kenichi Fukuzawa**, who shifts to pres. of Hitachi Electronic Devices Singapore... **Matthew Zavracky**, Kopin chief display technologist, adds vp-mktg. responsibilities... **Julie Nguyen**, ezlogin.com chmn., appointed to Sigma Designs board... **Howard Bailey**, ex-Quantum Effects Devices, named C-Cube Microsystems CFO... **Kel Kelly** resigns as Toysmart.com chief mktg. officer, plans unknown... **Srikant Srinvasan** departs as KBkids.com CEO... **Robert Cain** resigns as Pres.-CEO of video and music distributor Valley Media, plans unannounced; **Barnet Cohen**, founder and chmn., serves as interim CEO until replacement is chosen.

**Variety of breakthroughs** in laser pickup technology promises higher density DVDs and optical discs in short- and long-term. Most recently, Japan Science & Technology Corp. (JST) reported it has fashioned ultraviolet light-emitting diode (LED) with short, 380 nanometer (nm) wavelength from easy-to-handle ceramic materials. In comparison, red lasers used for DVDs and CDs have 650 and 780 nm wavelengths, respectively. Ultraviolet pickup with short wavelength heretofore was limited to costly and less stable gallium nitride LEDs. Other work on ultraviolet pickup comes from unlikely source — Tokyo Gas Co. Utility's Frontier Technology Lab said it succeeded in generating short, ultraviolet wavelengths by using synthetic diamonds produced from carbon in natural gas. Meanwhile, Hitachi's Central Research Lab said it has successfully focused 650 nm red laser onto 127 nm spot by passing beam through small aperture. Company said spot-beam theoretically can be reduced to 15 nm, thereby increasing DVD capacity several hundred times. Hitachi also said it has work-in-progress on perpendicular recording technique that could fit 4.7 GB capacity of 4.72" DVD onto 1" magnetic hard drive. Instead of arranging magnetic particles longitudinally to disc surface, more can be fit by orienting particles perpendicularly to disc.

**Internet Music Player (IMP)** from Earjam.com is now available for free at company's Web site. Software enables user to automatically "rip" and burn music from CDs using one-click process and allows unlimited encoding of music to Microsoft's Windows Media format. San Jose-based company also includes collection of free music with player and then provides daily feeds of personalized music selections and promotions from other online music sites. Company is selling \$29 "deluxe" version of software that adds unlimited MP3 encoding and special digital audio effects. Meanwhile, Listen.com and Earjam entered into strategic partnership in which latter is providing instant access to Listen.com's download directory via co-branded Web site. Listen.com also began \$15-\$20 million "Find Your Music" ad promotion — San Francisco-based Web music company's first major national ad campaign, which will include print, radio, TV, Internet. Campaign was created by FCB Worldwide. Interactive part of campaign will allow Listen.com visitors to mix their own custom music tracks.

**Musicmaker.com** will run direct response TV ad campaigns for its online music products in conjunction with direct marketing company Razor & Tie Direct. First campaign is for Musicmaker.com's exclusive custom CD *The Who Live: The Blues To the Bush*, which started shipping last month (TVD May 1 p16). Musicmaker.com said campaign will focus on key cable, national and syndicated TV outlets.

## Financial Reports of TV-Electronics Companies

These are latest reports as obtained during past week. Dash indicates information not available. Amounts expressed in dollars. Parentheses denote loss.

| Company & Period                  | Revenues       | Net Earnings  | Per Share        |
|-----------------------------------|----------------|---------------|------------------|
| <b>ACTV</b>                       |                |               |                  |
| 2000-qtr. to Mar. 31              | 840,237        | (4,661,018)   | ---              |
| 1999-qtr. to Mar. 31              | 400,794        | (7,380,471)   | ---              |
| <b>Adelphia Communications</b>    |                |               |                  |
| 2000-qtr. to Mar. 31              | 672,719,000    | (115,901,000) | ---              |
| 1999-qtr. to Mar. 31              | 201,604,000    | (50,288,000)  | ---              |
| <b>Analog Devices</b>             |                |               |                  |
| 2000-6 mo. to Apr. 29             | 1,071,272,000  | 215,059,000   | .61              |
| 1999-6 mo. to May 1               | 640,567,000    | 69,000,000    | .21 <sup>a</sup> |
| 2000-qtr. to Apr. 29              | 580,995,000    | 122,052,000   | .35              |
| 1999-qtr. to May 1                | 340,067,000    | 39,106,000    | .12 <sup>a</sup> |
| <b>Bogen Communications</b>       |                |               |                  |
| 2000-qtr. to Mar. 31              | 16,319,000     | 302,000       | .04              |
| 1999-qtr. to Mar. 31              | 12,522,000     | 471,000       | .07              |
| <b>Chyron<sup>b</sup></b>         |                |               |                  |
| 2000-qtr. to Mar. 31              | 14,809,000     | (2,244,000)   | ---              |
| 1999-qtr. to Mar. 31              | 14,998,000     | (1,850,000)   | ---              |
| <b>Electronics Boutique</b>       |                |               |                  |
| 2000-13 wk. to Apr. 29            | 150,151,000    | 2,403,000     | .11              |
| 1999-13 wk. to May 1              | 122,744,000    | 2,873,000     | .14              |
| <b>Energy Conversion Devices</b>  |                |               |                  |
| 2000-9 mo. to Mar. 31             | 21,827,000     | (11,350,000)  | ---              |
| 1999-9 mo. to Mar. 31             | 25,449,000     | (8,530,000)   | ---              |
| 2000-qtr. to Mar. 31              | 7,477,000      | (3,315,000)   | ---              |
| 1999-qtr. to Mar. 31              | 7,320,000      | (4,972,000)   | ---              |
| <b>Funco</b>                      |                |               |                  |
| 2000-year to Apr. 2               | 252,653,000    | 6,725,000     | 1.13             |
| 1999-year to Mar. 28              | 206,673,000    | 9,710,000     | 1.60             |
| 2000-13 wk. to Apr. 2             | 54,781,000     | 1,245,000     | .21              |
| 1999-13 wk. to Mar. 28            | 55,591,000     | 3,255,000     | .55              |
| <b>K-Tel International</b>        |                |               |                  |
| 2000-9 mo. to Mar. 31             | 47,386,000     | (4,643,000)   | ---              |
| 1999-9 mo. to Mar. 31             | 58,304,000     | (9,866,000)   | ---              |
| 2000-3 mo. to Mar. 31             | 12,885,000     | (5,574,000)   | ---              |
| 1999-3 mo. to Mar. 31             | 18,506,000     | (4,741,000)   | ---              |
| <b>Mitsui<sup>c</sup></b>         |                |               |                  |
| 2000-year to Mar. 31              | 11,190,000,000 | 16,770,000    | 10.59            |
| 1999-year to Mar. 31              | 10,660,000,000 | 3,790,000     | 2.39             |
| <b>NCT Group</b>                  |                |               |                  |
| 2000-qtr. to Mar. 31              | 4,500,000      | (2,500,000)   | ---              |
| 1999-qtr. to Mar. 31              | 4,200,000      | (1,500,000)   | ---              |
| <b>Newkidco International</b>     |                |               |                  |
| 2000-qtr. to Mar. 31              | 1,894,000      | (3,699,000)   | ---              |
| 1999-qtr. to Mar. 31              | 6,753,000      | 1,289,000     | .10 <sup>d</sup> |
| <b>Nvidia</b>                     |                |               |                  |
| 2000-qtr. to Mar. 31              | 148,483,000    | 18,287,000    | .58              |
| 1999-qtr. to Mar. 31              | 71,018,000     | 6,261,000     | .21              |
| <b>Pioneer<sup>e</sup></b>        |                |               |                  |
| 2000-year to Mar. 31              | 589,070,000    | 1,160,000     | 6.45             |
| 1999-year to Mar. 31              | 615,870,000    | 13,080,000    | 72.81            |
| <b>QSound Labs</b>                |                |               |                  |
| 2000-qtr. to Mar. 31              | 782,603        | (519,586)     | ---              |
| 1999-qtr. to Mar. 31              | 651,813        | 3,809         | ---              |
| <b>Sanyo Electric<sup>f</sup></b> |                |               |                  |
| 2000-year to Mar. 31              | 1,940,378,000  | 21,686,000    | ---              |
| 1999-year to Mar. 31              | 1,818,153,000  | (25,883,000)  | ---              |
| <b>Staples</b>                    |                |               |                  |
| 2000-13 wk. to Apr. 29            | 2,480,423,000  | 47,009,000    | .10              |
| 1999-13 wk. to May 1              | 2,060,374,000  | 50,314,000    | .11 <sup>f</sup> |
| <b>TDK<sup>g</sup></b>            |                |               |                  |
| 2000-year to Mar. 31              | 674,464,000    | 50,730,000    | ---              |
| 1999-year to Mar. 31              | 676,250,000    | 46,007,000    | ---              |
| <b>UniView Technologies</b>       |                |               |                  |
| 2000-9 mo. to Mar. 31             | 6,827,142      | (7,926,087)   | ---              |
| 1999-9 mo. to Mar. 31             | 9,256,336      | (4,467,442)   | ---              |
| 2000-qtr. to Mar. 31              | 1,885,894      | (2,396,118)   | ---              |
| 1999-qtr. to Mar. 31              | 2,510,921      | (2,469,048)   | ---              |
| <b>Zenith Electronics</b>         |                |               |                  |
| 2000-qtr. to Mar. 31              | 140,400,000    | (20,800,000)  | ---              |
| 1999-qtr. to Apr. 3               | 150,600,000    | (25,100,000)  | ---              |

Notes: <sup>a</sup>Adjusted. <sup>b</sup>Revised. <sup>c</sup>After special charge. <sup>d</sup>Includes special credit. <sup>e</sup>In thousands of Japanese yen except per share. <sup>f</sup>Historical basis.





# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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**DoJ CLEARS AT&T-MEDIAONE:** Requires divestiture of Road Runner by end of 2001. FCC approval awaited. (P. 2)

**PLAYBOY WINS IN SUPREME COURT:** Govt. didn't use least restrictive option in combating signal bleed, court rules in 5-4 decision. (P. 3)

**DTV LABEL AGREEMENT REACHED:** CEA and NCTA settle on 2 types of set labeling depending on 1394/5C plug, beating FCC deadline for comments. (P. 4)

**FRITTS SEEKING 5-YEAR DEAL:** Contract expected before NAB board meetings in June. May and Kennedy vying for radio chmn. post, could succeed Yager. (P. 4)

**OPEN ACCESS SETBACK:** Vt. rejects call to force open Adelphia, but Henrico County, Va., will appeal court ruling against its provisions. (P. 5)

**TIME WARNER, DISNEY SIGN LONG-TERM DEAL:** Settling their nasty, very public feud over retransmission consent rights, Time Warner and Disney signed long-term deal May 25 that will keep ABC on MSO's cable systems for another 6 years. In what seemed to be capitulation to Disney's demands, Time Warner also agreed to switch Disney Channel from pay to basic tier over next 3 years, extend, expand carriage of 4 ESPN networks and carry 2 fledgling Disney cable networks, Toon Disney and SoapNet. Time Warner also committed to carrying 2 more new cable channels, most likely in women's and children's areas.

Disney, ABC and Time Warner declined to disclose financial terms of agreement. But sources said Disney will receive about 30% more in compensation, or roughly extra \$300 million, than it would have under original \$1 billion deal that companies had negotiated in Dec. "We got the deal we wanted," Disney spokeswoman said. "We're very happy with the deal terms."

Despite Disney's concerns about fair treatment of its TV programming and Web content on interactive and Internet services of proposed America Online-Time Warner monolith, retransmission consent agreement covers only traditional cable services. While 2 companies said they will work together on public policy issues, Disney officials plan to keep fighting for strict conditions on AOL-Time Warner merger. Disney recently filed lengthy, aggressive comments on merger at FCC, calling for bans against discrimination and open-access requirements.

Besides carrying ABC for 6 more years, Time Warner will carry Disney Channel for nearly 7 more years and convert all of its premium Disney subscribers to basic service, giving cable network distribution lift. Under multiyear extension for ESPN channels, MSO pledged to boost ESPN2's distribution to same level as ESPN, increase ESPN Classic's distri-

### Consumer Electronics

**DIGITAL SET-LABELING DEAL ACHIEVED** for cable-compatible DTV sets, but copy protection issue is unresolved. (P. 10)

**WATERMARK CONTROVERSY SWIRLS** as Panasonic schedules July delivery of first DVD-Audio decks. Verance critics lobby successfully for AES workshop. (P. 11)

**INDREMA OUTLINES PLANS** for new Linux-based videogame console system. (P. 12)

**LOW-COST MICRODISPLAYS** emerge for digital camera and camcorders. (P. 13)

**CTHV'S CULBERG LEAPS TO VM LABS** to help interactive DVD system developer promote Nuon software with studios. (P. 15)

**SEGA PRESIDENT RESIGNS** as videogames company posts 3rd straight annual loss. Rival Nintendo's profits decline. (P. 16)

**MITSUBISHI PETITION DENIED** by U.S. Supreme Court in suit involving time base correction patent. (P. 16)



bution to more than 9 million homes and carry ESPNNews on all its digital systems. Time Warner also agreed to roll out SoapNet to 6 million subscribers over next 8 years and launch Toon Disney in undisclosed number of homes. "This agreement guarantees that our customers will continue to enjoy their favorite ABC shows and Disney and ESPN cable channels for many years to come," said Time Warner Cable Chmn. Joseph Collins.

Time Warner also said it would provide "an exclusive development period" for 2 additional cable channels now on Disney's drawing board. Disney/ABC Cable Networks Pres. Anne Sweeney is developing 2 networks, which means they are likely to be in women's or children's areas, not sports or news. As part of agreement, Time Warner agreed not to launch competing services to 2 new networks.

In related move last week, Time Warner announced long-term retransmission consent agreement with another NBC cable channel, ValueVision International, week after MSO signed umbrella retransmission deal with NBC and its major cable networks. Time Warner said it will distribute ValueVision, cable's 3rd largest shopping network, to another 5 million homes, increasing network's total reach to 39.8 million households. Terms weren't disclosed. TW joins Adelphia, Charter and Cox in signing new long-term deals with ValueVision.

**DOJ CLEARS AT&T-MEDIAONE MERGER:** AT&T entered into consent decree with Dept. of Justice May 25 that gives company antitrust clearance needed to close its pending merger with MediaOne. Decree requires AT&T to divest MediaOne's direct 25% stake in Road Runner no later than Dec. 31, 2001, but in interim it must keep management of ISP separate from rest of company. With decree, AT&T now needs only FCC approval, expected soon, to consummate its purchase of MediaOne.

Decree allows AT&T customers to continue to receive Road Runner service on transitional basis until June 2002 to avoid service disruptions for customers. After divestiture, AT&T may keep or acquire dedicated Road Runner assets or regional data centers used primarily for providing service to MediaOne customers and move MediaOne customers to Excite@Home service.

Until 2 years after divestiture, AT&T must obtain DoJ approval before entering into "certain agreements" with AOL-Time Warner on cable modem or residential broadband service, decree stipulates. Generally, prior consent would be required any time AT&T and proposed AOL-Time Warner union: (1) Wanted to jointly provide residential broadband service anywhere in U.S. (2) Agreed not to provide service in particular region. (3) Agreed to prevent either side from including particular feature in cable modem offerings. (4) Wanted to prevent either side from offering preferences to another provider of features or services included in cable modem offerings. Under that provision, DoJ will approve such agreements unless it determines that agreements would lessen competition between AT&T and AOL-TW in any market.

AT&T Gen. Counsel James Cicconi called decree "major milestone" in merger approval process and said company looked forward to closing deal as soon as possible. "The Road Runner divestiture is an obligation we always assumed we would face, and the decree proposes both a schedule and process that are fair and feasible." He said company will remain fully able to roll out new broadband capabilities before and after divestiture.

Cable industry observers debated whether consent decree would give AT&T increased leverage at FCC, which has been considering tougher divestiture conditions than DoJ. Broadband Intelligence Pres. Cynthia Brumfield argued that decree would strengthen AT&T's hand, boosting its case that it shouldn't be required to divest either its stake in Liberty Media and Rainbow Programming or MediaOne's 25% interest in Time Warner Entertainment. "AT&T obviously found more latitude to negotiate with Justice than they did with the FCC," she said. "That places pressure on the FCC to go up against Justice or approve the deal."

FCC spokeswoman dismissed that notion, saying recent U.S. Appeals Court, D.C., ruling upholding govt.'s right to impose ownership limits on cable operators strengthened her agency's hand. She also said FCC's "public interest" mandate is broader than DoJ's antitrust authority over media mergers. Decision by FCC is expected in next 2 weeks.

Industry analysts predicted that AT&T-MediaOne consent decree means end of Road Runner as independent entity, with controlling interest in broadband modem service sold to pending AOL-Time Warner union. Divestiture means AT&T must sell MediaOne's 25% direct stake in Road Runner to somebody else (although not MediaOne's indirect 9% stake in Road Runner through its Time Warner Entertainment holdings). Analysts said they expect buyer to be AOL-Time Warner, which already would hold largest stake in Road Runner after its own merger is consummated. That, in turn, would give AOL-Time Warner all of control it needs to fold Road Runner into its just-launched high-speed AOL Plus service.



"I think it just pushes Road Runner closer to being absorbed into the AOL infrastructure once their deal goes through," Brumfield said. "Road Runner as an entity is now pretty much at the mercy of their corporate owners, whoever they may be." High-speed cable ISP, which is nation's 2<sup>nd</sup> biggest broadband data player with more than 730,000 subscribers, also is owned by Microsoft and Compaq.

Time Warner, AT&T and Road Runner all declined comment on scenario. But Road Runner sought to portray AT&T divestiture as "an opportunity." Spokeswoman said cable ISP plans to pursue carriage on AT&T cable systems in upcoming sale discussions. "It gives us an opportunity to sit down with AT&T to negotiate nonexclusive affiliation agreements with all their cable systems," she said, noting that Dec. 31, 2001 deadline neatly coincides with end of Road Runner's exclusive carriage deals with Time Warner and MediaOne: "We'll begin exploring nonexclusive agreements sooner than we thought."

Spokesmen for AT&T, which now has exclusive deal with its largely owned Excite@Home venture, and Time Warner declined comment on Road Runner's new strategy. But observers noted that under consent decree with DoJ, AT&T will need govt. approval to make any kind of sweeping broadband deal with AOL-Time Warner until 2 years after divestiture.

**U.S. SUPREME COURT RULES FOR PLAYBOY:** In long-awaited ruling, U.S. Supreme Court concluded May 22 that govt. had violated First Amendment by requiring cable operators to limit sexually explicit networks to late-night hours if they don't fully scramble or block those channels for viewers who don't want them. By narrow 5-4 margin, divided high court upheld 1998 ruling by U.S. Dist. Court, Wilmington, Del., that such "content-based restriction on speech" is unconstitutional because govt. could advance its interests in "less restrictive ways." Decision effectively strikes down Sec. 505 of 1996 Telecom Act, which spells out choice of "time channeling" or scrambling requirements for cable systems. As result, it could boost distribution of such sex-oriented networks as Playboy TV and Spice, now in 11.7 million and 13.6 million premium cable homes, respectively.

Writing for majority, Justice Anthony Kennedy said govt. had not proved its case that less intrusive options couldn't work. He said another section of law calls for cable systems to offer targeted blocking technology to keep out unwanted channels on household-by-household basis if parents or other viewers complain. "When a plausible, less restrictive alternative is offered to a content-based speech restriction, it is the government's obligation to prove that the alternative will be ineffective to achieve its goals," he wrote. "The government has not met that burden here."

Nor, Kennedy said, did govt. establish that "signal bleeding" was "a pervasive, nationwide problem justifying its nationwide daytime speech ban." Instead of presenting much solid evidence, he said, govt. attorneys mainly offered "anecdote and supposition" that signal bleeding threatened to expose tens of millions of children to indecent programming against their parents' wishes. "Basic speech principles are at stake in this case," he wrote. "When the purpose and design of a statute is to regulate speech by reason of its content, special consideration or latitude is not accorded to the government merely because the law can somehow be described as a burden rather than outright suppression."

In separate dissenting opinions, Justices Stephen Breyer and Antonin Scalia countered that govt. had proved its case and had strong interest in restricting indecent programming that children could watch. Breyer charged that majority had not made "realistic assessment of the alternatives. It thereby threatens to leave Congress without power to help the millions of parents who do not want to expose their children to commercial pornography."

Dept. of Justice, which appealed lower court ruling to Supreme Court, declined comment on decision. FCC Chmn. Kennard used ruling as occasion to remind parents that they can "request that channels they find objectionable be blocked from their homes at no cost." He urged parents to "equip themselves with a V-chip" to block offensive programming.

Hogan & Hartson partner Robert Corn-Revere, who represented Playboy in case, said ruling should have implications for Internet too because of high court's reasoning that cable provides greater means of individual control than broadcast medium. "It champions the ultimate superiority of individual or user empowerment" over govt. control, he said. "It strengthens the argument for striking new efforts to regulate the Internet."

Not surprisingly, Playboy Entertainment Group, which owns both Playboy TV and Spice and challenged provision after law was passed, applauded Supreme Court ruling. "We have maintained all along that Section 505 was unconstitutional, unnecessary and impractical," Playboy Enterprises Chmn. Christie Hefner said. "We felt it was an intrusion on individual choice by the federal government."

New Frontier Media, another electronic distributor of adult programming, also hailed ruling. NCTA spokesman praised decision, too: "We're glad that the court understood that cable is protected speech."

Family Research Council denounced decision. "It's a sad day when the protection of children and consenting adults take a back seat to the profits of cable pornographers," said Jan LaRue, FRC senior dir. of legal studies. She said "the court's decision has reduced the government's least restrictive means to address the problem to doing nothing."

**DTV set sales** are expected to outstrip those of color TV, VCRs or DBS in first 3 years after introduction, CEA Pres. Gary Shapiro said. CEA is projecting DTV sales will reach 425,000 by end of year, completing 3-year introductory period. DBS sales in same period were 275,000, it said. Dollar value of DTV sales is expected to reach \$1.4 billion by end of year, more than combined dollar value of all color TVs, VCRs and DBS receivers in their first 3 years, Shapiro said: "These numbers are extraordinary for an introductory CE product. It's looking like DTV may turn out to be our biggest blockbuster yet."



**CEA AND NCTA AGREE ON LABELS:** Rushing to beat FCC's deadline for submitting comments on DTV-cable compatibility rulemaking, cable and CE industries finally reached formal agreement on digital set names. In joint announcement and letter to FCC Chmn. Kennard May 24, CEA and NCTA said they planned to label 2 basic types of sets either "Digital TV-Cable Interactive" or "Digital TV-Cable Connect," depending upon whether TV receivers have 1394/5C plug allowing full range of interactive services. They also pledged to keep negotiating to develop names for digital cable set-tops that would work with interactive DTV sets, punting on sticking point that held up deal for 2 months.

Kennard welcomed agreement, saying he was "pleased that the cable and consumer electronic industries are continuing to press forward with industry solutions to resolve outstanding issues regarding compatibility between cable television systems and digital television receivers, set-top boxes and other consumer electronics equipment." He said "final resolution of these issues will contribute significantly to the swift rollout" of digital TV to American public.

CEA and NCTA said "cable connect" DTV sets, without 1394 plug favored by cable interests, will be able to receive analog basic, digital basic and digital premium cable programming from digital cable systems. "Cable interactive" sets will offer those features, too, as well as such advanced services as impulse pay-per-view (PPV), video-on-demand (VOD), enhanced electronic program guides and data-enhanced programming channels, with digital cable box. All sets will be packaged with consumer brochures and manuals describing features and functions of both types. CEA said first digital TVs bearing new labels should hit stores by fall 2001.

FCC began formal rulemaking process on DTV set labels and copy protection technology April 13 after waiting years for cable and CE industries to settle issues (TVD April 17 p5). Agency officials, who encouraged industries to work out agreement, hope to issue final rules by late summer.

CEA and NCTA leaders hailed hard-fought deal as another big step toward DTV-cable compatibility. "Consumers will benefit from this agreement because they will know exactly what to look for when they purchase a new digital TV receiver," said NCTA Pres. Robert Sachs. "No longer will ambiguous terms like 'cable-ready' cause consumers confusion." CEA Pres. Gary Shapiro agreed, saying "consumers will have full access to the spectacular picture, sound and interactive features of digital television via their digital cable system."

Despite set-labeling deal, cable and CE industries still haven't agreed on what to call digital cable set-tops that work with advanced DTV sets. CEA has pressed for set-top labels as part of overall DTV-cable negotiations while NCTA has resisted push to include set-tops. But, in one-page letter to Kennard, they said they "expect to reach agreement" on issue in future.

About 230 kinescope reels (before videotape) of highly popular Milton Berle 1950s program on NBC are missing at network — and as result Berle has sued NBC for \$30 million. Suit charges that NBC gave away or misplaced bulky reels in violation of agreement whereby Berle and network shared ownership. NBC was unable to locate kinescopes after Berle suggested they be offered for sale on Internet. NBC said it's conducting internal search for kinescopes and was surprised comedian had filed suit.

**FRITTS SEEKING 5-YEAR DEAL:** New 5-year contract for NAB Pres. Edward Fritts, to replace current agreement of same length expiring this spring, is expected to be finalized before NAB board meetings June 13-14, according to Fritts and NAB Chmn. James Yager of Benedek Bcstg. We're told that no hitches are expected to develop.

Fritts operated under one-year agreements as pres. from 1982-1995, when he agreed to first contract for 5 years. That called for compensation of \$451,500 in first year of agreement (which rose to \$700,008 for fiscal year ended March 31, 1999, latest figure available), plus \$50,000 signing bonus, annual "health incentive" of \$25,000, automobile, other benefits. It also called for Fritts to receive annual consulting fee of \$25,000 until age 65 if contract was terminated by NAB.

Fritts resigned as NAB chmn. in spring of 1982 to seek presidency against nominating committee's choice Donald Thurston, also former NAB chmn. At special board meeting in Aug. in Chicago, Fritts won hotly contested race 24-20, getting all 6 of TV and radio network votes. At time, he owned 8 small radio stations (which were sold) in South.

Meanwhile, no major or new issues are expected to surface at board meetings in Washington, with possible exception of changes in NAB bylaws. On TV side, digital TV will be major focus — as has been case for most recent semiannual meetings. Decrying delays, "we're going to talk about what we can do to get the thing [DTV] jump-started," we were told. On radio side, source said, "there's nothing but updates" on such things as LPFM and FCC's new EEO rules. Both of those issues are now before U.S. Appeals Court, D.C. Bylaws Committee met yesterday (Thurs.) with composition of board under study. Combined boards now are authorized 61 members — many of whom are appointed to special seats, as opposed to being elected. That's up from 44 directors several years back.

Only race that has developed for NAB board leadership posts is for radio chmn., between Walter May, East Ky. Bcstg., and David Kennedy, Susquehanna Radio. Election is considered more significant than usual because winner is expected to succeed Yager as NAB chmn. in June 2001. Former Radio Chmn. John Dille, Federated Media, is unopposed for radio vice chmn., as are TV Chmn. Ben Tucker, Retlaw Bcstg., and Paul Karpowicz, LIN TV, who are seeking reelection.

**Congress entered** Memorial Day recess last week with FCC Comr. Ness still awaiting action in Senate on her renomination to Commission. Ness's term expired June 30, 1999, and her renomination must be approved before end of this Congress later this year or she loses her post. Senate Commerce Committee hasn't actively been holding markups. Before last one at which she could have been scheduled, Chmn. McCain (R-Ariz.) sent her long list of questions to answer (just as Ness was preparing for NAB convention in Las Vegas). When we inquired of Senate Commerce staff whether Ness would be included in that markup, they said she wouldn't because she had to answer questions. Commerce Committee hasn't indicated when its next markup will be, or whether Ness will be included.

**N. American Bcstrs. Assn.** said it's setting up Internet-based market for broadcast equipment. It said all types of equipment, from laptops to studio cameras, will be sold on Internet site to be operated in partnership with elcom.com — gskipworth@nabanet.com.



**OPEN ACCESS HIT; PEG GAINS:** Open access backers' dry spell in states continued last week as Vt. Public Services Board (PSB) rejected demands for opening Adelphia's cable lines to competing ISPs, and state legislature all but dumped access bill by adjourning without moving it to House floor. However, PSB ordered Adelphia to make available to public, educational and govt. (PEG) operators 10% of its total bandwidth, Internet access, storage space on servers and capital funding for making transition to digital programming. Also, Henrico County, Va., decided to appeal ruling by U.S. Dist. Court, Richmond, that nullified open access conditions in county's AT&T-MediaOne franchise transfer approval.

In granting Adelphia's franchise renewal application, Vt. PSB turned down requests by state Dept. of Public Services and City of Burlington that Adelphia be ordered to open its cable lines to multiple ISPs to compete with its affiliated ISP Power Link. Saying it found FCC's reasoning on issue "persuasive," PSB held that Internet access service, including Power Link, isn't equivalent to traditional TV broadcast services and therefore isn't video programming. However, PSB said MSO would be liable for fine of \$40,000 if it sought to restrict or interfere with ability of subscribers to access any Internet material.

Vt. joined swelling ranks of state legislatures immobilizing open access bills as it adjourned without acting on access bill. Net Compete Now (NCN) hailed Vt. for becoming 17th state "to decide in favor of consumers and to support competition in the current Internet marketplace."

But PSB gave push to PEG providers' national campaign for digital set-aside by cable operators, ordering Adelphia to make available to PEG operators 10% of its total bandwidth, Internet access, storage space on servers and capital funding for making transition to digital programming. Alliance for Community Media, representing more than 1,000 PEG organizations, welcomed decision as first step toward realizing national set-aside policy. Adelphia said it's studying legal challenge to ruling.

In designating 10% digital set-aside, agency said refusal to comply would trigger payment of \$10,000 per system per month from performance bond of \$1 million that company must post. PSB also directed company to provide statewide PEG access channel through interconnection bandwidth. But if statewide PEG access channel is provided through programming channel, agency said, Adelphia should offer it on all its cable systems.

In Va., Henrico County Board of Supervisors decided May 23 to appeal federal court ruling that its open access ordinance violated both federal and state law. County attorney said appeal probably would be filed before June 9. GTE and Bell Atlantic, which received court permission to intervene on county's side, filed separate appeals to 4th U.S. Appeals Court, Richmond, May 25.

Meanwhile, San Francisco Board of Supervisors was set to grapple with dueling open access ordinances with introduction of bill by Supervisor Michael Yaki that he said would "protect consumer interests" in providing cable modem access. Public Utilities and Deregulation Committee May 23 considered open access ordinance introduced last month by Board Pres. Tom Ammanno that would require city cable franchise holders, AT&T and, if approved, RCN Corp., to provide "nondiscrimi-

natory" broadband Internet access within 18 months. Yaki's bill would put off action until 2003, when Dept. of Telecom and Information Services would conduct survey to see if any cable operator with 30% of residential high-speed subscribers was hindering competition. If true, all cable operators would be subject to open access requirements.

Dealing another blow to access proponents, Ecom-Ohio backed cable's position on open access, saying in recent report that competition, not govt. intervention, would spur broadband deployment. Funded by state Dept. of Development and 18 companies, Ecom-Ohio commended cable industry for helping push state's cable-modem penetration rate to twice national average.

**FCC is moving ahead** with plan to broaden its electronic filing system to cover Cable Bureau in spite of complaints about delays, lost submissions and access problems by many lawyers and others who already use system (TVD May 22 p4). In rulemaking, Commission suggested offering cable operators option of filing forms, applications, registrations and notifications electronically in first quarter of 2001. Agency also proposed to require electronic filing eventually for cable, following undetermined transitional period during which electronic submissions would be optional, as it did earlier with wireless and mass media licenses. FCC contends that proposed new electronic filing system, known as Cable Operations and Licensing Systems (COALS), would increase "speed and efficiency" of application and filing process, make license and cable operational information "more accessible and usable" and cut cost and time of filing applications with and obtaining information from Cable Bureau. "Our objective in implementing COALS is to reduce costs to the Commission, cable operators and the public by making the filing and review process faster and simpler," FCC said. Despite problems with current electronic filing system reported by some private broadcast and cable attorneys, NCTA welcomed move. Dan Brenner, NCTA senior vp, law and regulatory policy, said existing system, while it still has some bugs, generally has worked well so far and represents big improvement over paper-only system of 5 years ago. "By and large, we like it," he said, saying group had recommended electronic filing to FCC. "The idea of moving to electronic filing makes perfect sense."

In long-awaited ruling, U.S. Appeals Court, N.Y.C., granted petition by FCC, saying "the FCC's licensing decisions are subject to the exclusive jurisdiction of the federal courts of appeal and outside the limited jurisdiction of the bankruptcy court." FCC Chmn. Kennard said in statement: "We are pleased that the Court has reaffirmed our regulatory role in licensing spectrum as well as our authority to insist upon timely payment as a licensing condition." Case involved NextWave, which is trying to keep C-block PCS licenses despite failure to make required payments. NextWave dismissed importance of Appeals Court ruling, saying that resolution of substantive issues has been left to U.S. Appeals Court, D.C.

**FCC doesn't plan** to schedule public interest forum June 12, despite rumors that it was going ahead with date even though it conflicted with NAB "Service to America Symposium." FCC Chief of Staff Kathy Brown said Commission was looking at several dates and one of them had been June 12. Agency staff began calling around to see whether participants were available and discovered conflict with NAB. "We'll find another date for ours," she said. "There was no Machiavellian thing going on here."



**SBC FILES AGAINST TW:** SBC filed complaints with FCC and Tex. PUC against Time Warner and Road Runner subsidiary, charging they had encouraged their employees to order DSL service from SBC in Houston and then cancel, using tactic to determine extent of SBC coverage there. SBC also said it should be included in Commission proceeding on AOL-Time Warner merger by illustrating TW's willingness to use "underhanded tactics" to boost its broadband business. House Telecom Subcommittee Chmn. Tauzin (R-La.) called TW's actions "amazing," and TW spokesman said incident was "unfortunate" and not corporate policy.

TW flyer offers Houston employees free Road Runner service or chance to win \$100 if they sign up for SBC's DSL service, receive confirmation letter, then cancel installation, SBC told FCC. Despite being shown flyer, TW attorney denied company employees engaged in bogus ordering campaign or activities with intent to burden SBC systems, he said in letter last week. So SBC took issue to FCC and Tex. PUC and asked state agency to prohibit TW and Road Runner from continuing activity and to pay costs incurred along with penalties.

SBC spokesman said company didn't know how many TW employees made bogus calls for DSL service, but TW spokesman said only about 20 calls were made as result of flyer. Campaign "was something that was not even known to the head of our Houston office and as soon as he found out about it, he ended it," spokesman said.

Tauzin strongly criticized TW at subcommittee hearing May 25, saying "this is an amazing story... We never guessed that kind of gaming could occur." He said along with creating extra work for SBC, resulting disconnects counted against carrier in statistics being kept as part of its application to gain long distance entry in Tex.

Tauzin's comments came in hearing on broadband legislation, mainly HR-2420, which would let Bell companies offer data services across LATA boundaries. Subcommittee members showed there still was strong difference of opinion in House on whether Telecom Act ban on interLATA service should be lifted for data services.

Supporters of data LATA legislation, including Tauzin, who is sponsor of HR-2420, said constraints on Bells could harm economic growth and hurt people in rural areas. Added Rep. Boucher (R-Va.), sponsor of similar bill: "Passage of this bill does not do violence to the 1996 Telecom Act." Ranking Committee Democrat Dingell (Mich.), other sponsor of HR-2420, complained that FCC is impeding rollout of new technology by not moving more quickly. He said he wonders what can be done to speed things up — "Impeach the FCC? Go over there and burn the building down?"

Opponents, including Committee Chmn. Bliley (R-Va.) said data market is growing on its own and Congress should leave Telecom Act alone. "The marketplace is responding to consumer demand," he said. "DSL is being rolled out. Who will win this race? Nobody knows and, frankly, I don't care. I intend on watching consumers and the marketplace work it out." Rep. Stearns (R-Fla.) warned that "all of us should be careful about whether we want to rewrite the Act. I think we should let this percolate for a while."

LPFM station applications may be filed electronically May 30-June 5, FCC Mass Media Bureau said. Notice also provides other guidance for filers — <http://www.fcc.gov/mmb>.

**ALPHASTAR ROLLS OUT:** AlphaStar International began 2-way Ku-band satellite broadband service last week for residential Internet users of wireless local access that will offer competition to DirecPC and Gilat-To-Home services. "We're a different service," Pres. Mahmoud Wahba said: "We're going to offer more bandwidth. When distribution is direct to home, you miss local content. Our service has caches in between."

Technology is based on hybrid 2-way Internet broadband network integrating global coverage of satellite with local access of wireless hubs that company said results in end-to-end all-wireless broadband service. AlphaStar said it will offer point-to-multipoint, 2-way high-speed Internet access up to 32 Mbps in increments or fractions of 2 Mbps. AlphaStar is one of 4 original direct-to-home (DTH) broadcasting networks, with DirecTV, EchoStar and PrimeStar as others.

Wahba said "hybrid technology" allows company using wireless service to "roll out services immediately" for urban, suburban and rural markets. He said firm has negotiated "several distribution agreements," but still needs additional deals with Wireless Tower Operators, ISPs, wireless and hand-held device manufacturers, cable MSOs, telecom companies, other strategic partners.

Meanwhile, AlphaStar and mPhase announced creation of mPhase TV joint venture to create global broadband TV distribution network. Network is to provide telcos with interactive TV and video content via hybrid model of satellites and standard copper wire. mPhase hopes to provide new medium to compete with cable and satellite TV. Subscribers will be able to download movies, videogames, songs, audio books or music video and receive digital TV programs on monthly subscription base or receive video-on-demand and pay-per-view options directly from local phone companies.

**FCC should undertake** "broad reexamination of the public interest standard and the license renewal process" because of what they said was declining standard of TV programming, 4 key Senators said in letter to FCC Chmn. Kennard. Commerce Committee Chmn. McCain (R-Ariz.), Govt. Affairs ranking member Lieberman (D-Conn.), Appropriations ranking member Byrd (D-W. Va.) and Commerce member Brownback (R-Kan.) said broadcast licenses are public trust and evidence "strongly suggests that many licensees, along with their network parents, are breaching this public trust, and harming rather than serving the public interest." Senators said that "ultimately" it's Congress's responsibility to take actions such as resurrecting voluntary broadcast code, "but we hope the Commission's inquiry will help begin that process." Kennard applauded senators' letter, saying "we will carefully review their recommendations and look forward to the ensuing dialog."

**Sign of times** — since FCC repealed rule prohibiting TV networks from owning programming they air in prime time: Disney is producer of 3 of ABC's 4 new programs for fall schedule; CBS has ownership interest in 5 of its 7 new series; NBC owns 5 of its 7 new shows; 20th Century Fox produced 4 of Fox TV's 7 new shows, and will have 19 shows in prime time on 6 networks combined in fall; WB produced 3 new shows for that network, plus 7 new shows for other networks, and will have 18 shows in fall, up from 14 for season just ended. Networks began upfront selling season this month and analysts predicted Big 4 would ring up more than \$7 billion in sales during summer, up about 10% from last year.



**WEB OBSCENITY CLAIMED:** Lead witness representing Dept. of Justice (DoJ) walked out of House Telecom Subcommittee hearing on obscenity May 23, refusing to testify. Much of focus of hearing was on Internet obscenity, although it was called to focus attention on what panel members charged was DoJ's lack of attention to all types of obscenity.

Alan Gershel, Deputy Asst. Attorney Gen.-Criminal Div., had been scheduled to testify first, but Chmn. Tauzin (R-La.) asked that he first listen to panel of witnesses discuss online obscenity and how Justice Dept. was failing to prosecute industry. He later was persuaded to return, but DoJ underwent barrage of criticism from members and witnesses. Hearing was largely at insistence of Rep. Largent (R-Okla.).

In his opening statement, Gershel mainly discussed DoJ's work in prosecuting child pornography cases. "If in fact this committee holds a hearing on child pornography, that testimony will be helpful," said Largent, who interrupted Gershel's testimony to point out that hearing was on obscenity. Largent noted that Congress had appropriated \$1 million to DoJ to pursue obscenity online, in addition to earmarking for child pornography, but Gershel said all of funding was targeted at child pornography.

Rep. Pickering (R-Miss.) said Gershel's testimony showed pedophilia is on rise. "One of the reasons I believe you have that dramatic increase is lax enforcement of obscenity" laws, Pickering said. Jan LaRue, senior dir.-legal studies for Family Research Council, said industry's rapid growth online "is primarily due to the failure of the Department of Justice to enforce federal obscenity laws." Robert Flores, vp-senior counsel for National Law Center for Children & Families, said in 4 years "not a single Internet-based obscenity case has been brought" by DoJ.

**Flying into new markets,** BET Holdings II Chmn. Robert Johnson plans to start nation's first big minority-owned airline by buying most of US Airways' routes at Reagan National Airport, Washington. Johnson, who said he intends to buy valuable airport slots with "personal funds," would start new airline as part of proposed \$11.6 billion acquisition of US Airways by United Airlines. Provisionally called DC Air, Johnson's spinoff would serve 44 cities with 122 daily departures. Board member of US Airways since 1988, Johnson would be chmn.-CEO of DC Air while remaining chmn. of BET. He reportedly plans to lease planes, crews, insurance and maintenance from another airline, probably United, and acquire management staff from US Airways affiliate Piedmont Airlines. There was no word on whether DC Air flights would carry BET programming.

**Agreement has been reached** by U. of Southern Cal. (USC), Minn. Public Radio (MPR) and Public Radio International (PRI), which filed suit against USC for selling Market Place Productions to MPR without its consent, PRI CEO Stephen Salyer said. "We reached an agreement for distribution," he said, saying 3 parties are working together for next 10 years to ensure that Market Place Productions, which produces *Market Place* and *The Savvy Traveler* shows on NPR member stations, has strong presence in public radio. Salyer told us 10-year agreement reflects "mutual confidence." He wouldn't comment on details, including financial aspects.

**Viacom said** it formally integrated Paramount and CBS TV station groups May 24, with both reporting to CBS TV CEO Leslie Moonves. Combined division has 35 stations, including 13 largest TV markets.

**Retailers accused** 2 major MSOs of trying to mislead FCC about their ability to meet Commission's July 1 deadline for providing separate point-of-deployment (POD) security modules for hybrid analog-digital set-top boxes sold in stores. Circuit City and CEA urged agency to deny POD waiver requests by AT&T and Charter. Both MSOs, supported by NCTA, are seeking waivers, arguing that no manufacturers are building analog modules for hybrid boxes and no retailers plan to sell them. But Circuit City and CEA say technology is available to produce security modules and cable operators always could rely on alternative means to meet requirements, such as duplicating their scrambled analog channels on digital tiers. "To complain that compliance is not possible because no equipment exists suggests that the cable industry lacks control over what equipment is available," Circuit City said. "That is patently incorrect. The pending waiver requests reflect an industry investment decision to ignore Commission rules, period." Saying that most MSOs will be able to meet FCC's deadline, CEA contended that "AT&T and Charter should not be excused from complying with the Commission's rules simply because a waiver provides them with the easiest solution to a temporary problem that could otherwise be cured by exercising other alternatives." CEA said it feared other MSOs would follow lead of AT&T and Charter if waivers were granted. NCTA supported move by MSOs to obtain waivers, saying no manufacturer plans to build analog PODs or hybrid host devices.

**Fox.com said** it plans to start TooHotForFox.com Internet channel, which it said "promises to break the boundaries of traditional television programming by providing a more provocative level." New channel will feature original programming that "is just too hot" for Fox TV Network, plus reality programming that has been aired, Fox.Com said. Channel will solicit "too hot" videos from Internet users and "the most outrageous and unique user contributed footage will be posted on the site," Fox said. Jon Richmond, pres. of News Digital Media (producer of Fox.Com), said Internet channel will "lead the charge in the delivery of edgy, exciting and interactive online entertainment." Start-up date for ad-supported venture wasn't announced.

**Cable Overbuilders:** WideOpenWest signed 15-year franchise agreement with Irving, Tex., to provide high-speed Internet, digital cable TV and telephone service to 78,000 households and small businesses. Franchise is company's 2nd in greater Dallas-Ft. Worth area after recent agreement with City of Grand Prairie. Company said it's in franchise discussions with 24 other communities in area... **Digital Access** received first local franchise to provide broadband service. Company said it obtained franchise from Lenexa, Kan., City Council May 17 to start wiring 40,000-resident city for phone service. Digital Access said it will continue negotiations with city for separate cable franchise.

**Ohio House passed** Fair Competition in Cable Act (SB 67) May 25. Sponsored by Sen. Jay Hottinger (R-Newark), bill sets guidelines for municipalities entering cable business. Municipal cable operators would be held to same franchise agreements as are applicable to their private counterparts. Measure also requires municipal cable operators to maintain fund to keep costs and expenses of cable operation separate. Municipalities can jointly own and operate headend equipment with other communities subject to guidelines for payment of proportional cost of joint ownership. Bill bars municipalities from passing emergency ordinance for construction of cable company. Bill moves to Gov. Bob Taft (R) for signature.

**Broadcast news** directors will participate in NAB Education Foundation panel on "Communities in Crisis" June 12 at Ronald Reagan Bldg. in D.C., NAB said — 202-429-5350.



**FCC EYES INTELSAT:** Intelsat must “redefine existing relationships with signatories and direct access users” as part of move to privatization, according to rulemaking set by FCC last week. In announcing proposed rules, Commission reiterated that Level 3 direct access would result in substantial benefits, including operational efficiencies and cost savings for U.S. customers such as TV networks accessing Intelsat satellites, exerting competitive pressure on other satellite operators and enabling U.S. service providers to be more competitive in global telecom market.

FCC wants companies to provide information on committed and uncommitted capacity on Intelsat on existing and planned satellites. Of interest is guaranteed and first refusal reservations held primarily by U.S. signatory Comsat. Commission said it would be “concerned if Comsat’s control of space segment capacity effectively denies users the benefits” of direct access or if Comsat moves to increase its “control of capacity to deny its availability”.

Orbit legislation requires authorized users to have nondiscriminatory access. Opponents wanted assurances U.S. companies would be able to compete with Comsat. If there’s dispute, agency wants direct access users to pursue commercial solutions to resolve situation with Comsat before seeking regulatory redress. FCC asked for possible solutions should problem arise.

**System to deliver HDTV via Internet protocol (IP) networks** will enter beta testing within 30 days, said William Reed, vp-mktg., streaming media company 2netFX. He said full commercial deployment could begin 90 days later, and 2netFX already is in talks with Disney, NASCAR, govt. and others to use it. Technology is designed for distribution over LANs, but Reed said it can be expanded to cable modems and DSL lines as soon as they can handle 20 Mbps data rate for HDTV. Technology, using equipment developed by 3Com and TeraLogic, carries MPEG-2 MP@HL video.

It’s “foolish” for countries to think they can control information through censorship of Internet content, FCC Chmn. Kennard said in speech at World Economic Forum in Washington. He said he has seen many attempts by nations to review and approve Web sites and “they’re fighting a losing battle.” He said it’s better to rely on industry and users to address concerns about Internet content, with govt. perhaps acting as facilitator.

**Michael Davies**, exec. producer of ABC’s hit program *Who Wants to Be a Millionaire*, will keynote June 14-17 PROMAX-Best. Design Assn. convention in New Orleans. His opening speech will be followed by panel of producers who will “tell all... what they really think about promotion and marketing,” said PROMAX Pres. Glynn Brailsford. He said new media, international and technology exhibitors are up from last year, which “reflects the trends in the business.” Pam Masters, BBC dir. of broadcasting, will receive Assn.’s Pinnacle Award June 16.

**AT&T** said it signed up its 2 millionth digital cable customer earlier this month in Crestwood, Ill., suburb of Chicago. Lucky subscribers, LaVerne and Dena Suchie, received free big-screen TV and free year of digital cable service. AT&T, which has 11.4 million cable subscribers overall, aims to have 2.5-3.5 million digital customers by end of year.

**Motorola** will provide ATSC-compliant DTV encoder to KERA-TV (Ch. 14, PBS) Dallas, under new agreement. Terms weren’t disclosed.

**In-band, on-channel** digital audio broadcasting (DAB) technology “appears to be headed in a direction that in the near future will benefit listeners with significantly better performance” than analog receivers, National Radio Systems Committee (NRSC) said following system evaluation. Report stopped short of saying unequivocally that USA Digital Radio technology is “significant advance” over analog, citing fact data weren’t available from many field and lab tests. In ex parte report filed with FCC, NRSC said it’s “optimistic that USADR is on the proper track” to develop DAB system “with the potential to significantly improve AM and FM radio broadcasting.”

**TiVo** signed Home & Garden TV (HGTV) as latest “network partner” for personalized, digital VCR service. TiVo will provide exclusive network showcase area for HGTV to promote its programming, as well as interactive promotion system that lets viewers record future programming from on-air promos.

**Jefferson Public Radio** said it plans to file suit against FCC next month. Jefferson Exec. Dir. Ronald Kramer said “we have a number of different issues we are concerned about” in Commission’s proposal to set criteria for resolving mutually exclusive non-commercial educational applications. Kramer said one major issue involves constitutionality of FCC’s treating state govts. differently within their borders than outside. Companies such as Jefferson, which has stations in Ore. and Cal., are treated one way when it comes to its stations in Ore. and another way for those in Cal., he said, and treatment should be same.

**Eutelsat** launched W4 satellite on Atlas 3 rocket provided by International Launch Services Wed. from Cape Canaveral. W4, equipped with 19 transponders, will be used for TV and Internet services in Russia and Africa.

**Calling Pegasus TV** application “sham filing with patently anticompetitive intent,” Northpoint asked FCC to dismiss April 18 request to operate terrestrial service that mirrors proposed service by Northpoint in 12.2-12.7 GHz band. Northpoint said Pegasus filed 15 months after cutoff deadline for applications in Ku-band, company lacks “credible public interest showing” and filing comes as Commission is in process of making final decision in Ku-band proceeding.

**European Union** should encourage national regulators to make spectrum available for digital audio broadcasting (DAB), broadcasters and manufacturers said at European Bcstg. Union (EBU)-sponsored meeting in Stockholm. EU also should encourage national regulators to set regulatory environment that would allow DAB, EBU group said. Group said new services, such as multimedia and interactivity, are necessary for success of DAB.

**Antenna maker** Andrew Corp. said it installed its first Stacker DTV antenna for Capitol Bcstg. at WRAL-DT and WRAZ-DT Raleigh. It includes top-mounted antenna for WRAL-DT, lower antenna for WRAZ-DT.

**Blue Zone Entertainment**, which provides Web services for broadcasters, joined N. American Bcstrs. Assn., group said. Blue Zone helps broadcasters make their content interactive for Internet.

**Eutelsat** and **Telia** will establish digital platform for TV and multimedia services using capacity on Eutelsat’s W-3 satellite. Bird will deliver digital TV, streaming media, broadband services and business TV to satellite and cable homes with digital multimedia content.



## Personals

Alan Braverman promoted to exec. vp-gen. counsel, ABC... Steven Jones named exec. producer, ABCNEWS.com... Cameron Blanchard ex-MSNBC, joins NBC Sports as dir.-communications... Preston Beckman, ex-NBC, named Fox Bcstg. exec. vp-strategic program planning.

David Lougee promoted to vp-gen. mgr., KING-TV/KONG-TV Seattle... Glenn Dryfoos named senior vp-gen. counsel, Cisneros TV Group... Clear Channel Communications/AMFM merger changes: Randy Michaels promoted to chmn.-CEO; Kenneth O'Keefe ex-AMFM Radio, named pres.-COO. Rich Cronin resigns as pres.-CEO, Fox Family Channels/Fox Kids Network... Maurice Paleau promoted to vp-development/evaluation, Discovery Networks International... Eric Ober ex-Food Network, named CEO, Vault.com... Richard Sheingold, Group W/USA Cable, named pres.-sales, USA Cable... Steven Cheskin promoted to senior vp-gen. mgr., Travel Channel.

Changes at Cox Communications: John Chestnutt promoted to regional vp, Cox Business Services; Bobby Amirshahi appointed dir.-communications; Adam Hamblett to vp-gen. mgr., ad sales, New England; Bridget Duff to dir., large markets; Mark Mustoe to dir., operations integration; Kerry Thomas to dir., customer acquisition/retention; Ann Jones ex-Turner Bcstg., joins as dir., portfolio/product development; Dena Malsom ex-BBDO South, named dir.-creative services/branding; Beth Sherman promoted to gen. mgr., CableRep Advertising... James Golden named senior vp-investor relations, Cablevision Systems... Digital Access personnel additions: Samuel Morris, ex-Lenfest Communications, as senior vp-gen. counsel; Josephine Young, ex-Nextlink, chief information officer.

Paul Redifer resigns as NAB Senate lobbyist to join Washington office of IBM... John Kamp, who is leaving in mid-June as senior vp-Washington, American Assn. of Ad Agencies, will become of counsel, Wiley, Rein & Fielding... Loretta Garcia ex-Dow, Lohnes & Albertson, joins Irwin, Campbell & Tannenwald as assoc... Pam Smith promoted to managing dir., NATPE... Brent Swift elected chmn., Film & TV Action Committee... AT&T Gen. Counsel James Cicconi and BET Chmn. Robert Johnson elected to Brookings Institution board.

FCC changes: Rick Chessen will resign as senior legal adviser to Comr. Tristani, mass media/cable issues, replaced in mid-June by William Friedman, ex-N.M. Organic Commodity Commission and counsel, N.M. Senate Judiciary Committee; Deborah Klein, Cable Bureau, appointed interim legal adviser... Former NTIA Dir. Larry Irving, interim CEO of UrbanMagic.com, elected to Covad board.

## Obituary

Robert L. Dudley, 80, died May 22 in San Francisco of heart failure after becoming ill in Istanbul, Turkey (he was flown home), while on world tour. He was Navy pilot in World War II, then became Northwest Airlines official in Philippines. Dudley moved to N.Y. in 1957, joining Meeker TV rep firm, which he bought in 1961 and followed that by purchasing Avery Knodel rep firm in 1978 and later started Independent TV Sales. He sold rep firms in 1984 and joined his brother Richard Dudley in buying WXMI Grand Rapids in 1989 and KTZZ-TV Seattle. They sold stations (now owned by Tribune Co.) in June 1998 and Robert Dudley formed RL Stables, which races thoroughbred horses. Survivors include wife, 3 daughters, son.



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**DirecTV signed retransmission consent agreements with 11 station groups, including Allbritton Communications, Capitol Bcstg., E.W. Scripps, Gannett Bcstg., McGraw Hill Bcstg., Media General, Meredith Bcstg., Post-Newsweek Stations, Sinclair Bcst., Sunbeam TV, Tribune Bcstg. DirecTV announced May 19 it had signed retransmission with 4 major networks — Fox, CBS, NBC and ABC. DirecTV currently offers local channels in 23 markets. It also said 3 national restaurant chains that represented 300 outlets had signed up for DBS. Buffalo Wild Wings, Chevys and Rio Bravo Fresh Mex and HMSHost Corp. brought number of restaurants with DirecTV service to 22.**



# Consumer Electronics

A Section of Television Digest with Consumer Electronics

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending May 12 and year to date:

|                     | MAY. 6-<br>MAY 12 | 1999<br>WEEK | %<br>CHANGE | APR. 29-<br>MAY. 5 | 19 WEEKS<br>2000 | 19 WEEKS<br>1999 | %<br>CHANGE |
|---------------------|-------------------|--------------|-------------|--------------------|------------------|------------------|-------------|
| TOTAL COLOR TV. (a) | 368,809           | 441,260      | - 16.4      | 284,284            | 9,302,892        | 8,334,303        | + 11.6      |
| DIRECT-VIEW**       | 355,879           | 431,080      | - 17.4      | 275,290            | 8,866,440        | 7,998,032        | + 10.9      |
| TV ONLY#....        | 294,164           | 381,946      | - 23.0      | 226,401            | 7,380,945        | 6,779,482        | + 8.9       |
| TV/VCR COMBO.       | 61,715            | 49,134       | + 25.6      | 48,889             | 1,485,495*       | 1,218,550        | + 21.9      |
| PROJECTION...       | 12,930*           | 10,180       | + 27.0      | 8,994*             | 436,452*         | 336,271          | + 29.8      |
| TOTAL VCR**...      | 330,246*          | 313,529      | + 5.3       | 266,762            | 8,382,482*       | 7,632,905        | + 9.8       |
| HOME DECKS...       | 268,531           | 264,395      | + 1.6       | 217,873            | 6,896,987*       | 6,414,355        | + 7.5       |
| CAMCORDERS.....     | 91,417*           | 71,610       | + 27.7      | 65,819             | 1,747,566*       | 1,504,082        | + 16.2      |
| DVD PLAYERS....     | 70,951*           | 30,712       | +131.0      | 38,933*            | 1,702,701*       | 747,243          | +127.9      |

Direct-view TV 5-week moving average#: 2000-397,687 ; 1999-386,424 (down 1.7%).

Projection TV 5-week moving average: 2000-20,215\*; 1999-17,791 (up 13.6%).

VCR deck 5-week moving average: 2000-407,283 ; 1999-430,516 (down 5.4%).

TV/VCR 5-week moving average: 2000-93,342\*; 1999-67,610 (up 38.0%).

Camcorder 5-week moving average: 2000-108,913\*; 1999-99,762 (up 9.2%).

DVD player 5-week moving average: 2000-94,497\*; 1999-61,018 (up 54.9%).

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

**DIGITAL SET-LABELING DEAL ACHIEVED:** Complying with FCC's deadline for comments on DTV-cable compatibility rulemaking, cable and CE industries finally reached formal agreement on digital set names. But contentious issue of digital copy protection remained unresolved, and MPAA's unmovable stance on subject had effect of throwing cold water on cable-CE deed.

In joint announcement and letter to FCC Chmn. Kennard last week, CEA and NCTA said they planned to label 2 basic types of sets either "Digital TV-Cable Interactive" or "Digital TV-Cable Connect," depending upon whether TV receivers have IEEE-1394 digital connector permitting full range of cable interactive services (see report, Bcst.-Cable section).

CEA and NCTA said "cable connect" DTV sets, without controversial 1394 link favored by cable interests, will be capable of receiving analog basic, digital basic and digital premium cable programming from any cable system that offers digital service. "Cable interactive" sets will offer those features, too, as well as such advanced services as impulse pay-per-view (PPV), video-on-demand (VOD), enhanced electronic program guides and data-enhanced programming channels, with digital cable box.

FCC began formal rulemaking process on DTV set labels and copy protection technology April 13 after waiting years for cable and CE industries to settle issues. Agency officials, who encouraged industries to work out agreement, hope to issue final rules by late summer. Despite set-labeling deal, cable and CE industries still haven't agreed on what to call digital cable set-tops that work with advanced DTV sets, but they said they "expect to reach agreement" on issue in future.

Copy protection technology licensing issue, which also involves movie studios and software developers, is far more contentious. NCTA and CEA submitted separate comments on issue May 24, as did MPAA. Sides have been battling over licensing terms for proposed 5C technology standard favored by some, with Hollywood generally supporting terms



that strictly limit number of copies of digital programming that consumers could make and with equipment makers favoring much more lenient copying terms.

CEA asked FCC to let consumers retain recording rights they have enjoyed in analog realm to new digital domain. "We are gratified that the Commission recognizes the critical importance of copy protection to the DTV transition," CEA Pres.-CEO Gary Shapiro said. "Even as technology changes, it is imperative that reasonable and customary consumer home video rights be preserved. Specifically, the Commission must be prepared to halt any attempt by the content industry to impose copy protection requirements that are falsely masquerading as conditional access measures."

MPAA's comments were unambiguous on need for copy protection to ensure supply of premium viewing content. Filing, by attorney Jon Baumgarten of Proskauer, Rose firm, said "it is clear that an absence of adequate and effective content protection must result in an environment where individual content owners will be substantially impeded in providing content and viewing options." Comments also said FCC can't regulate what content owners decide to put at risk, any level of acceptable risk, or cost and conditions of copy protection to content owners.

MPAA said it had 3 requirements for "effective content protection" in "cable-ready" DTV sets. Receiver must: (1) incorporate point-of-deployment (POD) security module that (2) employ encryption and authentication to protect content delivered from receiver's POD interface and (3) be subject to decryption/authentication licensing that imposes content protection obligations.

"Receiving devices that fail to meet any of these 3 conditions cannot reasonably be considered 'cable-ready' since they will most likely not receive important categories of programming," MPAA said. As for methods of copy protection, MPAA said those that meet its conditions include Digital Transmission Content Protection (DTCP) for IEEE-1394 connections, and High-bandwidth Digital Content Protection (HDCP) for Digital Visual Interface (DVI) for displays.

Resolution of copy protection and other issues must not be permitted to slow DTV transition, CEA said in comments filed with FCC. "The consumer electronics industry has worked for more than a decade to bring DTV technology to consumers and the transition is moving forward steadily," Shapiro said. "It is essential that we quickly resolve the remaining technical issues and keep the momentum going."

CEA also stressed accessibility of broadcasters' digital signals, including electronic program guides, to all digital cable customers. "We are asking the Commission to ensure that the broadcasters' digital signal delivered by cable to consumers is the entire digital signal with all its original attributes — including resolution and EPG data — regardless of the terms of cable carriage. Only in this way can we ensure that American cable consumers get the full benefit of DTV," Shapiro said.

**PANASONIC SETS JULY SHIPMENTS ON DVD-AUDIO:** New specifics, including breadth of possible software support, were scarce in Matsushita's expected announcement last week that first DVD-Audio "universal" players under Panasonic and Technics brands would start arriving on retail shelves in July.

July time frame is roughly consistent with that described by Matsushita last Dec. when it postponed DVD-Audio launch after Norwegian hackers poked holes in Content Scrambling System (CSS) encryption for DVD-Video. Under clamor from major record companies concerned that DVD-Audio's "CSS-2" derivative encryption system would be prone to same security holes, "4C" coalition of IBM, Intel, Matsushita and Toshiba used 6-month product introduction delay to develop new, more robust content protection based on Matsushita-developed "C2" encryption used for Secure Digital (SD) Memory Card platform promoted by Matsushita, SanDisk, Toshiba and dozens of other companies. Major record companies recently completed robustness testing on new encryption system, which is expected to be finalized soon by 4C under specification book called *Content Protection for Prerecorded Media* (CPPM).

It's believed that licensing rules on CPPM are still being negotiated and drafted, which may explain why major labels are remaining silent on DVD-Audio software release dates, even in wake of Panasonic's hardware introduction announcement last week. For example, Warner Music Senior Vp-Technology Jordan Rost, typifying other software executives, said last week he welcomed Panasonic's announcement but company had no marketing statements, including titles or release dates, at this time.

Matsushita said it will introduce Technics and Panasonic players in July at \$1,200 and \$1,000, respectively. It made no mention of software support, but said it expects "an enthusiastic acceptance" for DVD-Audio products, based on the capabilities of the new format and the phenomenal success of DVD-Video." Accompanying players will be line of pre-



viously announced Technics speakers and receivers that Matsushita said are “necessary to gain the full fidelity of the DVD-Audio format.” Also available in July will be \$2,000-list universal DVD-Audio car audio head unit with “distinctive” fold-out center channel speaker. Less specific were Panasonic’s plans to introduce universal DVD-Audio portables in fall. In same time frame, Panasonic said it would start marketing DVD-Audio “microcomponent” system, but didn’t disclose pricing. Similar system shown recently to European audio journalists was priced on same scale as Technics step-up standalone player for Sept. availability. Panasonic said system to be introduced in U.S. would have audio cassette deck, AM/FM tuner, pair of front speakers with built-in subwoofer. System will be marketed with optional multi-channel “package” that will include small 3-channel amplifier and center and surround speakers, but pricing wasn’t announced.

As Matsushita was revealing DVD-Audio marketing plans here and abroad, controversy swirled anew around Verance watermarking system that figures prominently in format’s content protection package. At issue is whether watermark can be made sufficiently robust to survive Internet-era tampering without degrading quality of music signal. Comparative “A-B-X” tests done last year as cooperative effort by 4C and major labels involved 25-30 “golden ears” listeners at studios in L.A., Nashville, N.Y.C. Verance engineers, 4C representatives and some label executives have defended sanctity of watermarking system and tests run to prove its robustness, but have conceded that audio transparency of any watermark system can’t be proved on blanket scale. 4C knows identities of studios and how many listeners participated at each location, but identities of golden ears are known only to music companies, which have refused to disclose details, and test listeners themselves were asked to sign nondisclosure agreements as condition of their participation.

Critics say they are made nervous by secretive nature of tests and revelations by 4C that 192 kHz samples — for expediency’s sake — weren’t tested for transparency. Most vocal pocket of recent opposition has been in British recording engineering community, which has expressed outrage at being shut out of testing process and has succeeded in convincing Audio Engineering Society (AES) to schedule workshop during Sept. convention in L.A. at which they’re certain to vent their spleen.

Prime mover in campaign is Tony Faulkner, veteran recording engineer at London-based studio Green Room Productions, who is set to chair workshop. Faulkner told us his aim is to broaden industry debate on pitfalls of Verance system, and said he hopes L.A. workshop “will force the topic into the open.”

Faulkner said he has been “trawling around” recording and audiophile communities in last 2 weeks to sample opinion on impact of watermarking on audio transparency, and “what I have unearthed is worrying.” He said he has been troubled that Verance listening test results haven’t been published, and “there seems to have been negligible consultation” of engineering and audiophile communities, especially outside U.S. Faulkner said: “I have close to 200 e-mails from anxious colleagues at all levels including [engineers at the] board level of record companies, and we are all worried that we might be railroaded into a technology which has not been analysed satisfactorily.”

Faulkner said “this smells to me like Copycode again, and I believe that the AES should create an opportunity to flush this subject out into the open.” Reference was to proposal by now-defunct CBS Technology Center to impose notch filter in digital audio signal as means of controlling serial copying of CDs onto DAT. Copycode went up in flames when industry-funded govt. study found that system not only degraded audio signal quality but also failed to thwart copying as intended. Faulkner said as result of concerns over transparency of Verance watermark, Telarc has become first independent label to proclaim publicly that it won’t use it in its recordings. Faulkner’s account couldn’t be confirmed with Telarc executives by our deadline.

**INDREMA TO BRING LINUX OS TO VIDEOGAME CONSOLES:** Hoping to become dark horse in upcoming videogame console battle, start-up Indrema announced plans to roll out \$299 Linux-based gaming system as early as this holiday season. Indrema said first product, L600, will be backed by 30 game titles, including *Quake 3 Arena*, *Unreal Tournament*, *Heavy Gear II* and *Sim City 2000* — all previously hits for PC. Indrema boldly predicted developer support would increase twentyfold in 2001.

Company will license Indrema Entertainment System (IES) technology to outside manufacturers and will bring out own branded product under OEM deal, founder-CEO John Gildred told us last week. He said flexible technology platform can be modified to include DVD movie playback, and suggested most products, including company’s own branded box, will support DVD movies.

IES also will support HDTV resolution up to 1080i through component video output, with future IES generations supporting HDTV input/output via IEEE 1394 connection. Gildred said future products using IES technology could even include built-in HDTV decode device. “Eighty percent of the chips are in our box already,” he said.



Indrema is banking its future on support of Linux operating system (OS), which has generated considerable interest in development community as more stable alternative to Microsoft's Windows OS. N.Y.C. and San Francisco-based Indrema will use DV Linux, OS specifically designed for multimedia applications targeted for TV.

IES games will be available either as DVD in traditional videogame retail channel or as download pack via online software distribution, Gildred said. Company still deciding on retail software packaging, but Gildred said it would be either DVD long box or jewel case. Software pricing will be very competitive with current gaming platforms, company said, and it hopes to bring out game that will be exclusive to IES platform.

Basic IES system will use x86-compatible CPU running at 600 MHz, 64 MB SDRAM, graphics chip from Nvidia, dedicated MPEG2 and AC3 encoder, 12 MB SDRAM for MPEG-2 processing, 4 USB peripheral ports, video-optimized hard drive of undetermined size. L600 also will come bundled with MP3 personal music system, Mozilla Web browser and e-mail system, game controller and major game title. Other features being discussed include discrete 4-channel Dolby Digital surround capability on future products. Gildred said company already is in talks with 4 major accessory manufacturers to bring out Indrema line of peripherals.

Indrema hopes to lure developers with low barriers to entry. Company says most developers can make games for IES very cost effectively using PC with Linux OS instead of proprietary development work station. Like other game platforms, Indrema will determine what games can be released for IES, collecting certification fee and royalty in most cases. But it also will have not-for-profit certification program in which no fees are assessed to publishers looking to release freeware products for system.

As impressive as technology looks on paper, real question is whether Indrema can line up support from publishers, retailers, replicators and peripheral makers as well as develop and execute comprehensive marketing and distribution strategy in very limited time frame. Several consumer publishing executives, who Indrema is likely to need at some point, knew nothing of system. And one industry insider, requesting anonymity, said: "We can't take a company that formed in January and plans to bring out a product by the end of the year remotely seriously."

But Gildred suggested full-scale launch isn't planned for this year. Instead, Indrema contemplates limited rollout aimed at premiere gamers and Linux gaming community. "I don't think our initial launch is something that's going to require a \$200 million campaign," he said. "We plan to initially build a strong relationship with early adopters so that when we have a mass market push next year, it won't be the first time people have heard of the Indrema brand."

Gildred said retail interest was strong at Electronic Entertainment Expo (E3) in L.A. earlier this month. "We're getting indications that the shelf space will not be a major issue. There's been a lot of great response to an entry such as this that doesn't only fall into the gaming space. It's also a console that can be used as an HDTV device and also as an audio/video peripheral."

As for debut timing, Dec. remains ideal target, Gildred told us. But he said company has been careful not to make final commitment to specific date. "It's either going to be spring 2001 or the end of this year," he said.

**MICRODISPLAY COSTS DROP:** Taking page from CE handbook, microdisplay manufacturers are racing to become low-cost suppliers for camcorders, digital cameras and cellular phones, forgoing, for now, front- and rear-projection market that once held promise.

March to lower prices and smaller sizes was in evidence at Society for Information Display (SID) conference in Long Beach, Cal., earlier this month as Colorado MicroDisplay (CM) and Displaytech unveiled 0.25" and 0.19" devices, respectively, to compete with Kopin's 0.24" in digital cameras and camcorders. Both CM and Displaytech plan to deliver display at \$25 in volume production of 10,000 units or more in effort to dislodge Kopin, which already supplies monochrome versions for camcorders to JVC and Matsushita.

All 3 display packages have 320x240 resolution, 100-150 lumens brightness, 100:1 contrast ratio, and promise total power consumption of less than 100 mw, key milestone in portable applications. Display itself in case of CM consumes 15 mw, company said. CM plans to ship evaluation kit (\$2,500) that includes 2 Mb flash memory, with samples in 3rd quarter and volume production to start in 4th quarter. Production source for displays hasn't been finalized, although Hanna Microdisplays, which assembles CM's 0.47", is said to be in running. Displaytech, which originally was to have 0.19" last fall but postponed delivery when camera makers slowed plans, will start volume production in Aug. at Miyota plant in Japan at 10,000-20,000 displays per month. It had planned production start for April (TVD April 3 p16).



Aggressive push into low-cost microdisplays for digital cameras and camcorders contrasts with relatively slow pace of projection TV. Displaytech, which is supplying 0.78" ferroelectric LCD (FLCD) panels for Samsung's 43W and 50W sets, has said it plans sample shipments of 0.85" with 1,280x1,024 pixels resolution, 500 lumens and 500:1 contrast by Aug. New 0.85" will target front projectors and monitors, with finished products expected in 12-18 months. Displaytech also showed 0.78" single-panel display that features more than 300 lumens and 200:1 contrast. Both panels are expected to be priced at less than \$300 in volume, company said. CM was silent on development plans, although in past it has hinted at 0.9" liquid crystal on silicon (LCOS) version with 1,280x1,024 resolution that would target front projectors. CM investor InFocus has said it plans to have low-cost, lightweight projector based on LCOS display within 12 months, but CM Mktg. Dir. Rainer Kuhn declined comment. Three-Five Systems, which has ties to InFocus, also is expected to start production on 0.78" display by 3rd quarter that will be heart of 25" rear-projection PC monitor being marketed by Samsung.

"We believe there are some minor impediments to having a very good projection product mostly in illumination and optics," Kuhn said. Indeed, Displaytech Senior Mktg. Dir. John Valiulis conceded that development and production processes for projection display have proved to be complex. Samsung recently postponed consumer delivery of FLCD-based sets to Sept. Projection displays are more expensive, \$500-\$550 in case of Three-Five model. "I think it's taking longer than anyone expected because you have signal processing, optics engines and other things to deal with," Valiulis said. "But the promise of it is even greater."

Kopin, meanwhile, has shelved plans for 0.38" display with 640x480 resolution (TVD May 24 p19) despite delivering sample quantities earlier this year (TVD Feb 21 p20), Mktg. Vp-Chief Display Technologist Matthew Zavracky said, citing cost concerns. Kopin has projected that it will have shipped one million of 0.24" CyberDisplay by June, 80% of them monochrome, he said.

"If you can't get it for a low cost, it's going to be a niche market," Zavracky said. "We backed off the 0.38" because it's too expensive for what everyone wants to pay."

Yet some microdisplay companies plan to pursue same digital camera and camcorder markets with higher end and 800x600 resolution display. InViso has shipped evaluation kit (\$6,500) for its 0.47" OptiScape microdisplay that delivers SVGA resolution with 250 lumens and 100:1 contrast (TVD March 6 p20), but will be priced around \$100 when it's available in 3rd quarter. InViso also will sell eShades electronic eyeglass product at \$500. "The sense we have gotten from camera manufacturers is that they want that higher resolution," InViso Pres.-CEO Joy Weiss said.

Also moving into higher resolution is Spatialight, which said it expects delivery of HD-grade 0.9" display in early fall with production at 10,000 per month by 4th quarter.

As U.S. start-ups battle for share of microdisplay market, they may soon face challenge from Japanese suppliers. Sanyo and Sony are said to have plans for microdisplays.

Most alluring to potential Japanese competitors is size of LCOS market, which is projected to increase to \$27.8 billion (\$23.7 billion active matrix, \$4.1 billion passive) from \$15.1 billion in 1999 (\$11.3 billion active, \$3.1 billion passive), Stanford Resources Vp David Mentley said.

"Hopefully we'll all be able to get enough designs in with companies so that we will be more difficult to dislodge," Weiss said. "This isn't an industry where you can move to mass production in 6 to 9 months."

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**Display Notes:** Three-Five Systems priced 2.1 million shares at \$55 last week in IPO projected to raise \$126.9 million (TVD May 1 p12). Underwriters Banc of America Securities, Needham & Co., ING Barings and J.C. Bradford & Co., have option to buy another 322,500 to cover over-allotments. Proceeds will be used to increase manufacturing capacity, fund development and for working capital. There will be 21.5 million shares outstanding after offering... Eastman Kodak and eMagin have extended cross-licensing agreement for organic light-emitting diode (OLED) technology for 2 years to 2002. Kodak has more than 50 patents covering OLED and has licensed Sanyo, Pioneer, others. Sanyo recently showed 2.5" and 5.5" OLEDs, with production on smaller size to begin in 2001... Spatialight said first-quarter loss widened to \$1.5 million from \$917,558 despite revenue rise to \$38,400 from \$31,500 largely on sales of developer kits. Selling, general and administrative expenses jumped to \$1.3 million from \$866,883 year ago. Spatialight ended quarter with \$4 million in cash and cash equivalents generated by issuing 1.8 million shares to existing shareholders. It had accumulated deficit of \$23.5 million as of March 31. Tony Romano and Magellan Entertainment filed suit against Spatialight in Cal. Superior Court, San Francisco, in quarter seeking 75,000 shares of common. Magellan alleged that it was hired by Spatialight in Jan. 1998 to boost awareness of company in exchange for stock. Spatialight denied allegations.



**COLUMBIA TRISTAR'S CULBERG LEAPS TO VM LABS:** In major coup for interactive entertainment platform maker VM Labs, company is expected to announce this week that Columbia TriStar Home Video (CTHV) Exec. Vp Paul Culberg is joining chip developer as COO, we have learned.

Details on upcoming announcement were sketchy at our Fri. deadline, as were reasons why home video industry veteran Culberg is departing CTHV to join relatively new DVD technology company. But move is expected to help VM Labs as it tries to better position its Nuon DVD movie players in home entertainment market.

In part because it was founded by former Atari executives, VM Labs has struggled with perception that Nuon is primarily game platform that also plays DVD movies, putting it in direct competition with Sony's PlayStation2. In fact, company is promoting Nuon as high-end DVD movie playback technology that also will appeal to very casual game consumer who likes games and other interactive software content but won't buy dedicated console. First Nuon enhanced DVD player, Samsung's DVD-N2000, is expected on shelves in coming weeks. Other major Nuon supporter, Toshiba, has said its first Nuon players will reach U.S. shelves in 3rd quarter.

Nuon hardware and software will be distributed through traditional CE and video retail channels instead of game stores. Nuon game and educational software will be packaged in gold-bordered long box and share shelf space with DVD movies.

Culberg brings wealth of experience to new role. Before his current position at CTHV, he was head of video at New World Entertainment. He also is current chmn. of DVD Entertainment Group. Culberg is expected to help VM Labs as it tries to convince Hollywood studios to add Nuon-enabled games and other enhancements to DVD movies.

**Is that Warren Lieberfarb in footrace to Patent Office?** Seems so, according to Time Warner Entertainment filing for international patents (EP 971 354/357) we found. Application lists Warner Home Video chieftain as one of 3 inventors of clever way to make one DVD movie play in many countries. Others are Warner technical gurus Christopher Cookson and Lewis Ostrover. Brainstorm concerns space-saving method for putting multiple language soundtracks on single disc. Although soundtrack on current DVDs mixes music, special effects and dialog, different countries need different languages. Warner invention exploits fact that most movies have continuous music and effects, with intermittent dialog and pregnant pauses. As described in patent application, new disc will have music and effects in only one track, and several dialog-only tracks in different languages. DVD player then mixes user's preferred language dialog with music and effects. Because dialog is recorded only when necessary, without pauses, that saves data space and enables one disc to carry dozen different language soundtracks.

**April video sales jumped 6% over same period last year**, according to figures released last week by CEA's eBrain Market Research. Shipments from manufacturers to dealers reached 4.9 million products in month, while first 4 months' total was 18.2 million — up 17% over 1999. DVD player sales in April exceeded 400,000 decks, putting rapidly growing digital category at 1.6 million for first 4 months of year. Largest percentage increase in April belongs to TV/VCR combinations, whose sales grew 26% in month, leaving year-to-date 20% higher than 1999 with shipments nearing 1.4 million combos so far this year. Direct-view analog TVs and analog projection TVs each gained 8% in month. Year-to-date sales for direct-view sets were up 11% to 6.9 million. Direct-view TVs 29" and larger now account for 15% of that figure, CEA said, and 1.1 million large-screen sets represent sales 31% higher than last year. TV sales were up 30% in year-to-date. Camcorder sales in first 4 months rose 17% to 1.6 million.

**NCT Group faces cash crunch and current funds** "will not be sufficient to sustain" company for next 12 months, it said in SEC filing. NCT, which markets noise cancellation headphones and Gekko flat-panel speakers, said loss widened in first quarter ended March 31 to \$2.5 million from \$1.5 million year earlier despite rise in revenue to \$4.5 million from \$4.1 million. Reserve for obsolete and slow-moving inventory rose to \$800,000 in quarter from \$300,000 year earlier and cumulative deficit stood at \$134 million. NCT had \$1.4 million in cash and cash equivalents at quarter's end, \$600,000 of which was restricted to rental and installation costs of subsidiary DistributedMedia.com's broadcast and billboard ad systems. NCT also filed complaint with American Arbitration Assn., Wilmington, Del., against car audio system supplier Top Source Automotive alleging breach of contract after 1998 deal to buy company for \$10 million collapsed. NCT's audio subsidiary missed May 28, 1999, deadline for closing acquisition and Onkyo purchased company last Sept. NCT Audio, which made \$1.4 million deposit on purchase in June 1998 and had 15% stake in Top Source, is seeking pro rata share of amount Onkyo paid.

**Recoton's InterAct Accessories business** had \$4 million first-quarter loss before taxes and expenses against \$3.8 million profit year earlier as sales shrank to \$36.8 million from \$50 million amid slowdown in videogames business, according to SEC filing. Gross margins on videogame accessories fell to 33.4% from 45.8%. Overall, Recoton, which has considered spinning off InterAct in past, reported loss grew to \$2.6 million from \$1.4 million as sales inched up to \$145.4 million from \$143.9 million. Audio Div., which includes Advent, Jensen and NHT brands, among others, reversed year-earlier \$4.6 million loss to post \$2.5 million profit as sales jumped to \$56.2 million from \$47.5 million. Gross margin increased to 32.4% from 30.3% on increased sales of mobile audio products and restructuring that centralized European management in Germany, company said. CE Accessories group reported income rose to \$5.8 million from \$4.1 million as sales jumped to \$52.5 million from \$46.4 million.



**SEGA PRESIDENT RESIGNS:** Sega Enterprises Pres. Shoichiro Irimajiri resigned Fri. after company posted 3rd straight annual loss despite 27% jump in sales. At same time, rival Nintendo reported 34.7% slide in profit for year ended March 31 as impact of stronger yen more than offset robust sales of Pokemon software.

Sega posted group loss of \$398.1 million for year ended March, little changed from year ago and in line with analysts' projections following company's profit warning in Feb. Loss came despite increase in sales to \$3.13 billion from \$2.46 billion tied largely to start of sales of Dreamcast 128-bit system in U.S. Sega sold 3.8 million Dreamcast consoles in international markets since launch last fall, but heavy advertising costs cut into profit, company said. Sega shipped 1.1 million Dreamcast consoles in Japan in latest fiscal year vs. 2.14 million Sony PlayStation and 1.41 million PlayStation2 machines, companies said.

For fiscal year started April 1, Sega forecast \$13.8 million net profit on sales of \$3.11 billion.

To revive company, Sega Chmn. Isao Ohkawa, who replaces Irimajiri June 1, said company will focus on "Internet-related services by using Dreamcast."

Analysts remained skeptical. "Sega has to come up with something more drastic to return to profit... such as a withdrawal from the home game machine hardware business," Kokusai Securities analyst Hirotohi Murakami told *Reuters*. "Otherwise, the company is likely to stay in the red."

Nintendo, suffering slack sales of N64 console, said group sales fell 7.4% (see financial table). It had forecast 46.3% jump in profit to \$759.2 million with sales increasing 1.8% to \$5 billion. Analysts had projected \$555.5 million profit.

As N64 sales weakened, Game Boy handheld systems moved up to account for 44% of total revenues on 34% increase in sales to 17.45 million units worldwide vs. 13.27 million year earlier. Game Boy software sales rose 61% to 67.71 million units on strength of Pokemon software, which sold 19.11 million units worldwide. Based on strong Game Boy sales, Nintendo Gen. Mgr. Hiroshi Imanishi said company will boost annual production to 2.5 million units by year-end from current 1.5 million.

Nintendo also appeared to be hedging its bets on launch late this year in Japan of new 128 bit Dolphin videogame system. Sales forecast for current fiscal year doesn't include Dolphin, said Imanishi, who indicated that company would release details of launch plans in Aug. Analysts speculated that Dolphin's introduction in Japan may be postponed to March. "That would not cause huge damage because it is anticipated the company will do well this year with its attractive software lineups for Nintendo 64 and Game Boy," one analyst said. Unclear was what impact delay in Japan introduction would have on U.S. plans. Nintendo earlier this year postponed N. American launch to first half 2001 (TVD March 20 p12).

Nintendo's delay in Dolphin debut has given edge to Sony, which plans to ship PlayStation2 starting Oct. 26 (TVD May 15 p12).

**MITSUBISHI PETITION DENIED:** U.S. Supreme Court denied Mitsubishi Electric's petition asking it reverse lower court ruling that "impermissibly impaired" right to jury trial.

Mitsubishi, which had sued in late 1995 alleging that Ampex infringed on patents for time base corrector, argued that U.S. Appeals Court, D.C., erred in upholding 1997 jury verdict. Ampex, which had sued Mitsubishi for allegedly infringing on picture-in-picture patents, was awarded \$8.1 million (TVD April 14/97 p13).

Appeals Court held that Mitsubishi, by failing "press the argument for the separate theories of liability," didn't "preserve its objection to the form of the verdict." U.S. Dist. Court, D.C., had rejected Mitsubishi's request for specific verdict form and instead gave jury general version that didn't cover separate "theories of indefiniteness, anticipation and obviousness," Mitsubishi said.

"No federal court has ever held, as the Federal Circuit did here, that a party can 'waive' the legal standard for interpreting a general verdict by not objecting to the court's use of the general verdict form," Mitsubishi said.

Mitsubishi contended that earlier Supreme Court ruling supported finding that "the verdict is subject to reversal unless each one of multiple claims or defenses were properly before the jury."

At same time, Mitsubishi also sued SanDisk's Japanese subsidiary in Tokyo Dist. Court charging that it infringed on 3 patents covering mechanical construction of memory cards built with separate connector. Mitsubishi also sought injunction to halt sale of SanDisk CompactFlash and flash ATA memory cards in Japan.

SanDisk CEO Eli Harari said company had been in "discussions" with Mitsubishi on cross-licensing agreement and suit is "intended to secure for them a cross-license for our valuable portfolio of patents." SanDisk will "vigorously defend" its "intellectual property rights," he said.

**Sony will spend \$18.7 million to upgrade LCD production line at Sony Kokubu in Kagoshima prefecture.** Capital investment is aimed to quadruple production of high numerical aperture (HNA) LCD panels by Oct. in response to growing demand from data projector manufacturers. HNA-LCD uses quartz glass substrate instead of conventional glass substrate.

**RadioShack** company-owned stores shrank to 5,052 at end of first quarter March 31 from 5,087 at year-end 1999, decline that spokesman attributed to "normal attrition." Company-owned outlets had risen to 5,087 from 5,039 in 1998. During first quarter, number of dealer/franchise stores slipped to 2,091 from 2,099, dropping chainwide total to 7,143 from 7,186.

**Red Storm Entertainment** will start distributing its own products, game maker based in Morrisville, N.C., said. Company said it selected Sykes Enterprises to assist it with manufacturing and supply chain functions of new titles released in N. America as of June 1. Previously released N. American titles will continue to be distributed by SouthPeak Interactive through year-end.



**CIRCUIT CITY FILES APPEAL:** U.S. Supreme Court has granted Circuit City's petition that it review appeals court decision that rejected policy requiring job applicants to sign binding arbitration agreement to cover all disputes with company.

At heart of case is how broadly to apply an exception to coverage under Federal Arbitration Act (FAA), which sets rules for arbitration proceedings. Exclusion to coverage under act is limited to workers who move goods across state lines.

Former Circuit employee Saint Clair Adams, who was hired by chain in 1995, challenged arbitration agreement in filing suit in Cal. Superior Court 2 years later for "variety of employment-related legal claims," according to petition. U.S. Dist. Court, San Francisco, granted Circuit motion in 1998, blocking state court action and requiring arbitration. But 9th U.S. Appeals Court, San Francisco, reversed decision in finding section of act "must be read broadly to exclude coverage of all contracts of employment."

Circuit City argued that arbitration requirement was "separate, standalone agreement" that was part of application process, not employment contract. "The arbitration agreement specifically disclaims any status as an employment contract," it said. Circuit City said 9th Circuit's decision "stands alone" in finding that act's exclusion covers all employment contracts. "The more logical view is that in drafting the FAA Section One exclusion, Congress had in mind specific transportation workers (seamen, railroad and other workers involved in interstate commerce) for whom special arbitration legislation already existed," Circuit City said.

Scott Kronland, attorney for Adams, said while 9th Circuit ruling may conflict with other findings, it more accurately reflects intent of Congress. States "should be able to adopt reasonable regulations to protect employees," Kronland told *Wall St. Journal*.

Adams' suit, which was filed in Oct. 1995, came at critical time for Circuit City. Chain was sued month later by group of current and former employees who charged it had discriminated against blacks in promotions (TVD Nov 6/95 p15). Jury later awarded close to \$300,000 to 2 former employees (TVD Dec 9/96 p15), but company appealed.

**Brandwise.com**, e-commerce service that counted Neb. Furniture Mart and P.C. Richards among its participating dealers (TVD Nov 1 p20), will shut down its consumer operations. Brandwise's CEO Kathy Misunas told *Wall St. Journal* Fri. that investors, including Hearst, Whirlpool and Boston Consulting Group, had decided to stop funding company's losses. Originally, investors had hoped it would be profitable by 2002. Brandwise was launched in Oct. 1999 as an aid to consumers looking for information on a vast array of consumer appliances. It also allowed consumers to make purchases on line. Largest investor was Hearst, and spokeswoman told *Journal* that while company believes in Brandwise concept. "the business model was not going to be successful in today's marketplace."

**European CE manufacturer Vestel** is selling DVD player that uses software-based CineMaster DVD decoder from Raviscent Technologies in combination with STMicroelectronics Sti5505 single-chip DVD processor. Companies said use of software decoder gives Universum-brand deck same AV performance at half cost of other players.

**Napster**, embroiled in copyright suit with Recording Industry Assoc. of America (RIAA), received \$15 million infusion last week from venture capital firm Hummer Winboldt (HW) and changed management. HW partner Hank Barry replaced Eileen Richardson as interim CEO... **RealNetworks** started new version of AV programs, wrapping them into single package with easier controls and guides to find everything from music to movies on Web. Real Entertainment Suite will include new version of RealPlayer for receiving AV streamed over Internet and update of RealJukebox, which allows users to organize and play songs downloaded from Internet or recorded from CD. Third leg is RealDownload, new software that makes it easier to download music from Web. RealPlayer adds Internet radio tuner with links to 2,500 stations and updated tool that automatically notifies users of new songs, movies, downloads, news. Users also can change way player looks on screen — design also included in most recent version of Microsoft's Windows Media Player 7 — while RealJukebox has new interface with links that can activate other features with click of mouse. Basic Real Entertainment Suite, found on RealNetworks' Web site, is free, but plus version with better sound quality, equalization tools and more customization is \$49. New software comes as RealNetworks faces challenge from Microsoft and MusicMatch and also just months after it licensed former's audio technology for RealJukebox. Microsoft introduced Windows Media Player 7 in April as all-in-one digital AV player (TVD April 10 p22) and has added version for WebTV.

**Toysmart.com** ceased operations last week following resignations of top executives (TVD May 22 p16). Shutdown spelled end for e-commerce company that in 1998 holiday season was 2nd largest online retailer of toys with sales of \$10 million. Toysmart told 170 employees of shutdown May 19 and retained Boston-based Recovery Group to locate buyers for site's assets. Disney purchased \$45 million stake in Toysmart last year (TVD Aug 30 p18), but e-tailer had worked through money by year-end in 4th-quarter marketing push and was searching for additional funding. It had planned IPO for 2nd quarter. From beginning it was unclear how Disney and Toysmart would fit together. Toysmart specialized in selling educational toys, while Disney is best know for its stable of characters from Donald Duck to Winnie the Pooh. Speculation was that unless Toysmart carried more Disney merchandise — it accounted for less than 1% of e-tailer's sales — no additional funding would be available. Toysmart also was e-tail partner with Disney's Go.com, which had similar agreements with direct competitor SmarterKids.com as well as Toys "R" Us and eToys. Toysmart attracted 1.5 million visitors in Dec., 4th behind eToys (5.5 million), Toys "R" Us (4.4 million) and SmarterKids (2 million), according to Media Metrix.

**Copy-protected flash memory** suitable for portable music applications will be released this summer by Hitachi. Company said memory card, HB288016SMI, incorporates copyright protection technology called UDAC-MB co-developed with Fujitsu and Sanyo. Capacity is 128 MB and cards come in 7 colors. Chip uses 0.25-micron process and incorporates Hitachi's Super-H RISC microcontroller. Card operates on 2.7-3.6V and reads and writes data at 3Mbps and 14Mbps, respectively. Hitachi said it will begin shipping samples in Aug., produce 50,000 units per month during the rest of year, then boost output to 500,000 monthly in 2001. Sample, OEM and retail prices weren't disclosed.

**Simulated home aquarium** from Sega goes on market June 20 in Japan. Gamemaker said Fish Life system (\$4,569) features 15" LCD touch-screen display with realistic graphic simulation of fish swimming in tank. When display is touched, fish appear to react. System also includes microphone, CD-ROM drive, modem.



**GILAT DEMOS IN RADIOSHACK:** Gilat-to-Home (GTH) will launch demonstrations Aug. 1 of its satellite-based high-speed Internet access service through 3,000 RadioShack stores, growing to 5,000 by commercial rollout in Oct., Investor Relations Vp Diane VanBeber said.

GTH service will be marketed first as \$200-\$300 add-in card that will be packaged with mid to high-end Compaq PCs sold through RadioShack, company has said. Goal is to shift to set-top box (\$399) by mid-2000 and largely discontinue add-in card, VanBeber said. Programming will carry \$55-\$60 monthly fee (TVD March 20 p18). High-speed service will debut as Microsoft, which is investor in Gilat, opens store-within-a-store format at RadioShack.

While Gilat service will be marketed through RadioShack, it also will be sold through EchoStar dealers in rural markets, VanBeber said. EchoStar spokesman wasn't available for comment and RadioShack spokesman declined comment.

Add-in card and later set-top box will be sold with 24"x36" dish that will contain 3 LNBs — 2 for EchoStar's Digital Sky Highway (DISH) service and 1 for GTH. Service will be supplied from transponders aboard medium-power GE Americom satellites located in orbital slots adjacent to EchoStar birds at 110° W.

Despite launch, GTH's goals remain modest with 25,000 units expected to be installed by year-end, VanBeber said. GTH is projecting one million subscribers in U.S. by 2002-2003, 2.7 million by 2005, she said. About 2,000 units capable of receiving GTH are expected to be installed by June as part of test involving Microsoft, PriceWaterhouseCoopers and Anderson Consulting employees, growing to 10,000 by late Sept., VanBeber said. GTH has raised \$275 million to date via \$150 million debt offering in Israel, \$50 million investments from Microsoft and EchoStar, \$25 million from investment firm, VanBeber said. Money raised will fund service through 800,000 subscribers, she said.

In seeking supplier for set-box, GTH is in discussions with 2-3 potential partners and will make final decision in first half 2000, VanBeber said. GTH and Microsoft will subsidize hardware through rebates and other promotions at start. Sales of about 225,000 units will be required to "get our costs below the price point of the unit itself," VanBeber said.

GTH will focus on U.S. this year, but will be "talking about partners" for Europe and Latin America by year-end, she said.

Despite plans for consumer business, GTH will rely on very small aperture terminal (VSAT) commercial business for majority of its revenues, she said. It claimed 51% share of VSAT market in 1999 against 48% for rival Hughes Electronics and counts U.S. Postal Service, Rite Aid and Accent Health Systems among its customers. Gilat is projecting 35% annual earnings per share growth and gross margins of 33% during each of next 3 years. Gross margin in Gilat's core VSAT business will be in 42-43% range, but will driven down by price-sensitive consumer business, VanBeber said.

As GTH gears up for U.S., it will face competition from Hughes, which plans to introduce 2-way DirecPC service in fall, and reincarnated AlphaStar, which began 2-way Ku-band service last week (see related story Bcst./Cable section).

AlphaStar service combines Ku-band satellite with local access of wireless hubs. It offers point-to-multipoint Internet access at speeds up to 32 Mbps. Service is priced at \$29.95-\$300 and antenna will be sold for \$200. AlphaStar went dark as direct-to-home satellite service 3 years ago (TVD Aug 11/97 p14), but emerged earlier this year as broadband joint venture with mPhase TV (TVD March 27 p12). Champion Holdings purchased AlphaStar and Tee-Comm Distribution assets out of bankruptcy for \$72 million (TVD Dec 22/97 p18).

"There are rural areas where people will not have a high-speed Internet alternative and where cable and DSL (digital subscriber line) will never build," Merrill Lynch Research Vp William Pitkin said. "These areas are very willing to pay prices like \$200-\$400 for a modem and \$50-\$70 for a subscription." Analysts have estimated market that will be unserved by either cable modems or DSL at 20-27 million households.

**Ultimate Electronics (UE)**, crediting strong sales of digital products, reported first quarter income soared to \$1.5 million from \$320,000 year ago as sales increased 21% (see financial table) on 18% rise in same store sales. Gross profit margin rose to 31.3% from 29.6%. Digital products accounted for more than 30% of revenues, helping boost average selling price of TVs to more than \$900 from mid-\$600 year ago, Pres.-COO David Workman told analysts in conference call. UE will further expand TV line-up with Hitachi, addition that should help prevent digital TV shortage that hampered industry last fall, he said. In other categories, digital camcorders accounted for 73.7% of camcorder sales during quarter, up from 59.6% year earlier and raising average sale price \$34 to \$800, he said. DVD sales rose 80% from year ago and average sale was \$380 against industry's \$240, Workman said. VCRs remain strong seller, but at lower price, said Workman noting that chain's 1999 unit sales topped previous year's with decline in dollar volume. UE also has transferred PCs to Minneapolis market in opening Woodbury, Minn., store to replace smaller version in Maplewood. UE, which entered Minneapolis area in acquiring Audio King, had previous limited PCs to home Colo. market. Chain also will carry Hughes Network System's DirecPC high-speed satellite-based Internet access service in 2nd half and is weighing 2nd broadband offering as well, Workman said. UE remains on pace to open 2 stores in Phoenix market by mid-year, but has scaled back plans for 4th quarter to 2 outlets from 3, CFO Alan Kessock said. Another 4 stores are slated for Phoenix in 2001 and UE will add 4-8 outlets in 1-2 other markets, Kessock said. New stores are projected to hit \$12 million sales after first 12 months, \$15 million after 3 years, CEO Edward McIntire said. "We are investigating multiple markets and are in lease negotiations in some," Kessock said.

**Sega may be using its Pico interactive technology** in device shipping next year that will be called "Dreamcast Junior." Online report said Sega Chmn. Isao Okawa, who also is chmn. of company's majority shareholder, CSK, announced device would offer network capability. Whether device will be handheld videogame machine like Nintendo Game Boy was unclear. But Sega of America Mktg. Communications Dir. Charles Bellfield told us there was no plan to ship product in U.S. and said Okawa did little more than give "off-the-cuff comment" about device in Japan. Sega introduced interactive Pico system — which it called "computer that thinks it's a toy" — in 1994. Laptop computer-like device for young children plugged into TV or VCR.



**SMITH CORONA SALE, BANKRUPTCY:** Smith Corona (SC) signed deal to sell its assets to Carolina Wholesale Office Machine last week for \$6 million as it filed for bankruptcy protection for 2nd time in 5 years.

Sale, which could be completed within 60-90 days pending bankruptcy court approval, includes venerable brand as well as inventories of typewriters and related accessories, ink-jet cartridges, PC headsets, licensing agreement with Office Depot.

While sale is far from certain — indeed SC spokeswoman said company received additional expressions of interest following May 22 bankruptcy filing in U.S. Bankruptcy Court, Wilmington, Del. — it appears history as standalone company is over, industry sources said. Indeed, Carolina Wholesale said it would operate SC, which at one point was owned by Hanson PLC, as division. But Finance Vp Robert Pinion declined comment on how many of SC's remaining 43 employees would be hired or whether 27,400-sq.-ft. hq in Cortland, N.Y., and 77,000-sq.-ft. warehouse/office in San Diego would be retained. In bankruptcy filing, SC listed \$12.3 million in assets, \$14.3 million in debts. Top 5 creditors were Pension Benefit Guarantee Corp. (\$4.6 million), U.S. Assemblies San Diego Inc. (\$1.5 million), Blue Cross/Blue Shield of Central N.Y. (\$316,220), IRS (\$149,252), Entolo (\$135,875).

To fund operations until sale, SC said it reached agreement with Congress Financial to maintain existing \$5 million credit facility to serve as debtor-in-possession (DIP) financing subject to inventory and receivables. SC also will fund business via \$455,000 in cash and cash equivalents available at end of 2nd fiscal quarter.

"This will ensure a continued supply of Smith Corona typewriters and suppliers," said Pinion, whose privately held company has been wholesale distributor of SC products for 25 years and has annual sales of more than \$50 million. While market for typewriters has "plateaued" in U.S., sales remain strong in S. America and Europe, Pinion said. In addition to SC, Charlotte-based Carolina Wholesale also is distributor for Brother, Canon, Hewlett-Packard, Sharp.

Likely sale of SC is most recent chapter in history of company that veered from crisis to crisis for much of 1990s. Indeed, SC had weighed selling out to Grande Holdings (TVD July 27/98 p13), but later that year brought in new management headed by ex-Sony Exec. John Bermingham, who departed earlier this month. SC sold manufacturing business in 1997.

SC had string successes including first portable electric typewriter in 1957 and followed it changeable ribbon cartridges (1973) and electronic version (1979). SC introduced first word processor in 1985, but was swept under by tidal wave of PCs, category it entered in ill-fated venture with Acer in 1991. SC first filed for bankruptcy protection in 1995, emerged as independent company 2 years later.

Carolina is likely to keep SC's channels of distribution including rival wholesale distributors United Stationers and S.P. Richards as well as Wal-Mart, which accounted for 27% of \$43.7 million in annual revenue for year-end June 30, 1999.

Not included in sale will be SC's pending lawsuit against Tele-Art, which it accused of breach of contract and supplying it with defective telecom products in 1997-1998. SC had sought \$13.5 million, but isn't likely to pursue case in light of bankruptcy, spokeswoman said.

**Hastings Entertainment** was seeking hearing before Nasdaq's Listing Qualifications Dept. at week's end as it sought to avoid delisting for failing to file annual report in "timely manner." Hastings was to be delisted effective May 30, unless 10-K was filed by May 25. Annual report hadn't been filed at week's end. CFO Gaines Godfrey said 143-store chain had made "significant progress" in putting together 10-K, but that audit and accounting adjustments needed to be completed. Annual report will be filed in "next few weeks," Godfrey said. Hastings has been subject of shareholder suits in recent months following disclosure that it will take noncash charge to restate earnings for first 3 quarters of fiscal 1999 and "probably for the prior 4 fiscal years" (TVD March 27 p18)... **West Coast Entertainment (WCE)** is seeking extension from SEC on filing 10-K as it seeks to complete merger with Video City. WCE projected "significant change" in 4th quarter and year-end results due to writedown of goodwill and revised debt agreement. Video City, which first proposed merger with WCE last Aug. (TVD Aug 9 p16), has said it will close some WCE stores under management agreement it struck with 326-store chain earlier this year (TVD April 10 p21). Proposed merger, which has been extended several times, is expected to close by Aug. 31.

**EGames** reported sales drop and net loss for 3rd quarter ended March 31. Langhorne, Pa.-based software game maker said sales were \$1.9 million in quarter, down from \$2.5 million year ago, while loss was \$797,480 vs. \$75,254 profit. It attributed results to higher-than-expected product returns in its new drug and food distribution channels combined with what it said were "challenging business conditions in the consumer entertainment software marketplace." EGames also said its entry into new distribution channels resulted in higher selling, general and administrative expenses from increased promotional cost. But Pres.-CEO Jerry Klein said: "With a solid year of experience in these markets, we believe that we now have a more accurate picture of the product needs of those retail partners and will adjust our future shipping volumes and estimates for return provisions accordingly." Calling branded browser promotion program and store within a store strategies 2 of its "key growth initiatives," Klein said they are "potential sources of new revenue streams and [are] terrific branding opportunities."

**Sony** is developing PDA to run Palm operating system (OS) and provide connectivity with company's own Memory Stick flash storage. Set for release in fall, PDA will be positioned as company's core mobile equipment along with cellular phones, Sony said. Plans call for organizing software developers to spread use of Palm OS platform in Japan.

#### THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥108 = \$1, except where noted.



## Consumer Electronics Personals

Paul Culberg, ex-Columbia TriStar, joins VM Labs as COO... Hideaki (Don) Iwatani becomes chmn.-CEO, Matsushita Electric Corp. of America (MECA) in late June, succeeding Yoshinori Kobe, who returns to Japan to become adviser to Matsushita corporate parent; Hideatsu (Andy) Takani succeeds Iwatani as Panasonic pres... Shoichiro Irimajiri to resign as Sega Enterprises pres. effective June 1, will remain vice chmn. and be replaced by Chmn. Isao Ohkawa... Daniel Infanti leaves as Sharp vp-strategic mktg. & communications to join ActBig.com as chief mktg. officer... Mark Balsama appointed national mktg. mgr., Panasonic Communications Systems Div... Steven Lee, ex-Canorus, named Best Buy vp for emerging consumer solutions... Napster investor Hank Barry named interim CEO, replacing Eileen Richardson, plans unknown... David Stebbings leaves as RIAA senior vp-technology, plans unannounced... Mauricio Greene, ex-Aureal, joins TuneTo.com as dir. of OEM business development... Steven Miller resigns as eMachines CFO to join sports e-commerce site swell.com... Steven Negri named DVDEmpire.com mktg. dir... Robert Eckert, ex-Kraft, named Mattel CEO-chmn., replacing Jill Barad... Sandra Gibson and Eric Smith, Corel executive corp. services vp and vp-gen.- counsel, resign, plans unknown...

Office Depot (OD) shares dropped to year-low Fri. after retailer said 2nd quarter earnings would fall 4-6¢ short of Wall St.'s 24¢ estimates. Shares opened Fri. at 7-7/8, fell to 52-week low of 6-7/8, closed at 7-5/8. Sales in all categories were "soft" during quarter, but technology sector was particularly hard hit, Chmn.-CEO David Fuente told analysts in tape-recorded statement. Fuente blamed earnings shortfall on weak currency in Europe and on performance of its stores in "highly competitive" markets. To shore up earnings, chain will focus on opening outlets in "less competitive" markets or in those "where we have a strong position," Fuente said. Following news, Sanford Bernstein analyst Ursula Moran lowered her projected year-end earnings for OD to 90-95¢ from \$1.07. "People were surprised by this," Moran said. While OD executives had projected 5% same store sales gain for quarter 2 weeks ago, figure will likely now shrink below 2%, she said... Carlos Helu has increased stake in OfficeMax to 11.7% (13.2 million shares) from 8% earlier this year, according to SEC filing. Helu is part of Grupo Sanborns retail empire that bought 219-store CompUSA chain earlier this year for \$797.7 million (TVD Jan 31 p14). OfficeMax adopted shareholders rights plan in March limiting ownership by any group or person to 15% (TVD March 20 p14) and has said it expected Helu's ownership to approach limit (TVD May 15 p18).

Spatializer Audio Labs (SAL) has issued warrants for 125,000 shares to I.N. Assoc. as part of settlement of lawsuit latter filed against former subsidiary MultiDisc Technologies, company said in SEC filing. I.N. Assoc. sued MultiDisc, which SAL purchased from Home Theater Products International in 1996, alleging breach of contract and fraud (TVD Aug 16 p17) and sought \$499,953. Warrants originally were issued to I.N. Assoc. SAL shut down MultiDisc after subsidiary failed to bring its CD/DVD server product to market and is seeking buyer for assets (TVD Sept 28/98 p13).

Pioneer will begin manufacturing optic pickup devices in China in bid to double production year-on-year to 7 million in fiscal 2000. Company also will raise DVD-ROM drive production in China and have it account for more than 50% of its total DVD-ROM drive production. Plans also call for increasing output of DVD video players at its Malaysian subsidiary Pioneer Technologies.

## Financial Reports of TV-Electronics Companies

These are latest reports as obtained during past week. Dash indicates information not available. Amounts expressed in dollars. Parentheses denote loss.

| Company & Period                 | Revenues    | Net Earnings | Per Share        |
|----------------------------------|-------------|--------------|------------------|
| <b>Boston Acoustics</b>          |             |              |                  |
| 2000-year to Mar. 25             | 107,997,650 | 6,646,517    | 1.32             |
| 1999-year to Mar. 27             | 117,968,407 | 11,264,426   | 2.26             |
| 2000-13 wk. to Mar. 25           | 26,905,754  | 1,034,555    | .21              |
| 1999-13 wk. to Mar. 27           | 32,812,468  | 2,729,055    | .55              |
| <b>Nintendo*</b>                 |             |              |                  |
| 2000-year to Mar. 31             | 530,670,000 | 56,060,000   | 395.73           |
| 1999-year to Mar. 31             | 572,840,000 | 85,820,000   | 605.77           |
| <b>Noodle Kidoodle</b>           |             |              |                  |
| 2000-13 wk. to Apr. 29           | 24,072,000  | (2,476,000)  | --               |
| 1999-13 wk. to May 1             | 22,890,000  | (1,368,000)  | --               |
| <b>Pumatech</b>                  |             |              |                  |
| 2000-9 mo. to Apr. 30            | 21,787,000  | (3,454,000)  | -- <sup>b</sup>  |
| 1999-9 mo. to Apr. 30            | 14,777,000  | (4,351,000)  | -- <sup>b</sup>  |
| 2000-qtr. to Apr. 30             | 8,014,000   | (2,402,000)  | -- <sup>b</sup>  |
| 1999-qtr. to Apr. 30             | 5,370,000   | (343,000)    | -- <sup>b</sup>  |
| <b>Rentrak</b>                   |             |              |                  |
| 2000-year to Mar. 31             | 113,384,220 | 3,424,806    | .33 <sup>c</sup> |
| 1999-year to Mar. 31             | 123,787,390 | 2,042,506    | .19 <sup>b</sup> |
| 2000-qtr. to Mar. 31             | 29,506,518  | 193,149      | .02 <sup>c</sup> |
| 1999-qtr. to Mar. 31             | 30,991,951  | 1,024,067    | .10 <sup>b</sup> |
| <b>3DFX Interactive</b>          |             |              |                  |
| 2000-qtr. to Apr. 30             | 108,578,000 | (12,431,000) | --               |
| 1999-qtr. to Apr. 30             | 40,444,000  | (2,184,000)  | --               |
| <b>Ultimate Electronics</b>      |             |              |                  |
| 2000-qtr. to Apr. 30             | 95,006,000  | 1,554,000    | .15 <sup>b</sup> |
| 1999-qtr. to Apr. 30             | 80,303,000  | 320,000      | .04              |
| <b>Valley Media</b>              |             |              |                  |
| 2000-year to Apr. 1              | 891,526,000 | (4,604,000)  | --               |
| 1999-53 wk. to Apr. 3            | 888,966,000 | 4,429,000    | .89 <sup>b</sup> |
| 2000-qtr. to Apr. 1              | 206,060,000 | (5,240,000)  | --               |
| 1999-14 wk. to Apr. 3            | 257,864,000 | 1,240,000    | .24              |
| <b>ValueVision International</b> |             |              |                  |
| 2000-qtr. to Apr. 30             | 81,001,000  | 3,180,000    | .08              |
| 1999-qtr. to Apr. 30             | 53,142,000  | 6,368,000    | .24 <sup>c</sup> |
| <b>Video Display</b>             |             |              |                  |
| 2000-year to Feb. 28             | 63,838,000  | 705,000      | .18 <sup>d</sup> |
| 1999-year to Feb. 28             | 58,889,000  | 1,122,000    | .28              |
| 2000-qtr. to Feb. 28             | 16,041,000  | (169,000)    | -- <sup>b</sup>  |
| 1999-qtr. to Feb. 28             | 16,229,000  | (986,000)    | --               |
| <b>Zany Brainy</b>               |             |              |                  |
| 2000-13 wk. to Apr. 29           | 39,363,000  | (5,050,000)  | --               |
| 1999-13 wk. to May 1             | 40,577,000  | (1,378,000)  | --               |

Notes: \*In thousands of Japanese yen except per share. <sup>b</sup>After special charge. <sup>c</sup>Includes special credit. <sup>d</sup>Includes special items.

**BestBuy.com relaunch** will apparently not happen by end of company's first quarter — which comes at end of this month — as was originally announced at CES (TVD Jan 10 p14). But spokeswoman for company and its parent, retail chain Best Buy, told us last week that relaunch will still come "near" company's original target. She said BestBuy.com Pres. John Walden indicated earlier this month that relaunch will happen in "next 30 to 45 days," which will likely mean it will happen early in company's 2<sup>nd</sup> quarter. Company isn't looking at development as "delay," she said, adding there hasn't been any specific issue that's been holding relaunch up. "We just want to make sure that it's done right... that there's not going to be major problems," she said. At least one analyst won't be looking at new timing as cause for concern. Sanford Bernstein Senior Research Analyst Ursula Moran told us earlier this month: "I don't care if they don't do it in May. The important thing is that they do it right. If you get it out there and it's wrong, that's a huge problem" (TVD May 8 p16). As we have reported, BestBuy.com will be including CE products for first time when it relaunched. Separately, BestBuy.com announced earlier this month that it signed on its first 2 digital distribution service providers for music downloads: Liquid Audio and Supertracks.