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NAB TOPS NCTA IN GIVING BUT CABLE OUTPACES BROADCASTERS: Continued clash of political agendas of cable and broadcast industries has played out over last 4 years in form of political giving, according to study by *Television Digest*. In latest election cycle, NAB has reclaimed its lead over NCTA in hard-money donations to key telecom members of Congress, but cable industry in general has been more generous than have broadcasters. Satellite industry and Hollywood production houses trail far behind. In some cases, pending mergers appeared to spur increases in giving.

Analysis focused on hard-money (i.e., direct) donations to leaders of House and Senate Commerce Committees — Senate Chmn. McCain (R-Ariz.) and ranking Democrat Hollings (S.C.), Communications Subcommittee Chmn. Burns (R-Mont.) (Hollings is subcommittee ranking member as well), House Chmn. Bliley (R-Va.) and ranking Democrat Dingell (Mich.), Telecom Subcommittee Chmn. Tauzin (R-La.), Vice Chmn. Oxley (R-O.) and ranking Democrat Markey (Mass.). Donations were tallied for 1997-1998 and 1999-2000 election cycles, each through first quarter of 2nd year. Analysis included 75 companies and associations from 8 separate telecom sectors — IXCs, LECs, wireless, broadcasting, cable, Hollywood/production studios, satellite, Internet.

"Giving money directly to the candidate is the first preference" of donors, said Kent Cooper, former asst. staff dir. for disclosure at Federal Election Commission. He said "ultimate goal" of any political donor is "to gain a chit" with individual politician, and hard-money donations are best way to do that.

Viacom and CBS saw largest percentage increase in giving between election cycles of all companies in our survey, jumping 246% to \$49,527 from \$14,300. Viacom drove giving, with \$41,827 in this cycle (up whopping 564%) while

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FORMAT WAR SEEN CERTAIN for DVD recorders that ship in fall, but new plan would bridge DVD-RAM and DVD-RW types. (P. 12)

SOFTWARE DEARTH STILL AT ISSUE as Matsushita marks arrival of first DVD-Audio decks. Worldwide sales of 75 million decks in 2005 predicted. (P. 13)

VIDEO QUALITY IS CRUDE at showing of high-capacity Fluorescent Multilayer Disc in London, but Hollywood is said to be impressed with technology. (P. 14)

FIVE RIVERS CONTRACT APPROVED by employees in first vote since parent Taylor-White bought sprawling Greeneville, Tenn., factory from Philips. (P. 15)

SATELLITE CONTENT SPREADS as Wink crosses platforms to add EchoStar. Sony and Hughes expected to join Philips with Wink/DirecTV product. (P. 16)

CD-R BASED MAVICA JOINS SONY DSC LINE as competitors introduce their own new digital cameras at PC Expo in N.Y.C. (P. 17)

CBS donations actually declined 4% to \$7,700 from \$8,000. Lockheed Martin-Comsat donations rose 110% to \$45,630. Major obstacle to their merger wasn't regulatory but statutory, as Burns and Bliley pushed through satellite privatization bill allowing corporate entity to own more than 49% of Comsat. Lockheed Martin gave \$33,600, up 120% from \$15,250, while Comsat rose 85% to \$12,030 from \$6,500.

Combined AOL and Time Warner contributions rose 71% to \$49,450. Time Warner has increased its giving slightly, up 15% to \$33,450 from \$29,000, while big boost came from AOL, from 0 in 1997-1998 to \$16,000 so far this cycle. However, it's unclear how much of that was related to AOL's friendly takeover of Time Warner, as AOL has just begun to give politically and some of its donations were made before announcement of merger. AT&T-MediaOne, meanwhile, rose 51% to \$50,950. AT&T was by far larger giver of 2, with \$47,950, up 67% from \$28,750. MediaOne, while known for strong lobbying office in Washington, gives far less in donations, and through first quarter of 2000 it gave \$3,000, down 39% from \$4,900. Less high-profile merger, Motorola-General Instrument (GI), has corresponded with 30% decline to \$10,800. Motorola's \$9,800 this cycle is down 6% from \$10,446, while GI has dropped 60% to \$2,000 from \$5,000. However, their merger went off smoothly and never faced serious regulatory scrutiny, unlike most of others in this study.

Cable currently is 2nd in giving in 2000 election cycle of 8 industries examined, edging out 1998 No. 2 broadcasting. Cable so far has given \$186,149, up 41% from \$132,431. Viacom (which recently acquired CBS, whose donations are listed separately) has given \$41,827, up 580% from \$6,300. Time Warner has given \$33,450, up 15% from \$29,000. Other cable donors: (1) NCTA, \$20,047, up 16% from \$17,271. (2) Comcast, \$18,800, up 53% from \$12,250. (3) TCI (before takeover by AT&T), \$12,600, down 59% from \$30,810. Decline represents in large part fact that it ceased to be independent company during election cycle, and AT&T's giving thus increased. (4) News Corp. (much of Fox Network's donations are listed separately), \$11,500, down 2% from \$11,250. (5) Cablevision Systems, \$9,000, up 29% from \$7,000. (6) Adelphia, \$6,525, up 0.3% from \$6,500.

Broadcasting has slipped to No. 3 from No. 2 in current election cycle, although there's still time to retake lead over cable. Still, giving by nearly every major broadcaster is down. Overall, that sector has given \$133,900 so far this cycle, down less than 1% from \$134,524. NAB currently leads givers with \$26,000, up 82% from \$14,250, although it may be overtaken by network or 2 because some companies prefer giving late in cycle. Other donors: (1) Disney (also with studio and cable interests), \$21,200, down 29% from \$29,800. (2) GE (owner of NBC and various cable networks, as well as satellites), \$18,000, down 16% from \$21,500. (3) Pax TV, \$15,500, down 42% from \$26,500. (4) Sinclair, \$11,500, up 171% from \$4,250. (5) CBS, \$7,700, down 4% from \$8,000. (6) Fox, \$7,500, down 60% from \$18,724.

Satellite sector contributions grew 44% to \$99,680 from \$69,211 but remained in 6th place and were passed by new-media companies. Leading satellite sector was Lockheed Martin with \$33,600, up 120% from \$15,250. Other satellite donors: (1) EchoStar, \$27,850, up 505% from \$4,600. EchoStar had been lobbying on Satellite Home Viewer Act legislation. (2) Loral, \$10,200, down 59% from \$25,000, losing No. 1 spot. (3) Hughes, \$6,000, down 26% from \$8,111.

While Hollywood is known for its soft money donations, particularly to Democratic National Committee, its association and studios haven't given much to Commerce Committee leaders, Democrat or Republican — \$25,162 thus far this cycle, up 18% from \$21,250. Leading donor in that sector was MPAA with \$9,162, up 67% from \$5,500. Other givers: (1) Universal Studios, \$6,000, down 25% from \$8,000. (2) Sony Pictures Entertainment, \$4,250, up 42% from \$3,000. (3) MGM Studios, \$3,000, up 200% from \$1,000.

Top 20 corporate telecom givers were dominated by Bell and long distance companies, but some mass media companies also made list. Highest ranked was Viacom at 5th, followed by Time Warner at 11th, EchoStar 12th, Disney 13th, News Corp. (with Fox) 15th, Comcast 16th, GE 17th, Paxson 20th.

NAB's total of \$26,000 was 82% increase over \$14,250 in 1997-1998 cycle, when it was No. 2. Surge in giving allowed it to pass NCTA for No. 1 spot, which has given \$20,047 so far this year, up 16% from \$17,271 when it led associations. High-profile MPAA was 5th in this cycle with \$9,162, up 67% from \$5,500 last cycle when it was 6th.

Reliance on individual contributions over PAC donations is far more common among associations than it is with corporations. Of 17 associations in our analysis, all gave in some form in one or both cycles, but in 1999-2000 8 declined to give via PAC, and in 1997-1998 10 chose not to do so. Individuals are limited to \$1,000 per election cycle, so choosing not to form PAC or give donations via PAC can inhibit one's ability to give. For example, of NAB's \$26,000, all but \$2,000 was PAC donations, and NCTA followed same model, giving via PAC and in-kind contributions \$18,797 of its \$20,047.

MPAA Pres. Jack Valenti leads givers in 1999-2000 cycle to date, with personal donations of \$4,000. He has given \$2,000 to McCain and \$1,000 each to Dingell and Markey. SBCA Pres. Charles Hewitt gave \$2,000 to McCain. NAB Pres. Edward Fritts and Exec. Vp James May gave \$1,000 each to Markey. NCTA Pres. Robert Sachs has yet to give in this cycle.

McCain's presidential bid drew attention of number of mass media companies, with Viacom giving \$26,770, EchoStar \$13,850. Among broadcasters, GE gave \$8,250, News Corp. \$7,500, Paxson and Univision \$7,000 each, with Sinclair Bcstg. most generous station owner with \$8,500. Cable segment was led by Cablevision Systems (\$8,000), followed by TCI (\$7,000), Comcast (\$5,500), Adelphia (\$5,025), Time Warner (\$4,500), and Jones International (\$4,000). Following EchoStar's generosity in satellite sector were Lockheed Martin (\$8,700) and Comsat (\$6,000).

Broadcast industry gave \$17,500 to former broadcaster Burns, down 13% from \$20,000 but still enough to outpace other members. NAB led giving with \$5,000. Cable gave \$19,000, just short of their total to Oxley and up 171% from \$7,000. Time Warner was most generous with \$8,000. Satellite industry gave sponsor of satellite privatization bill \$21,280, up 255% from \$6,000. Direct beneficiary of bill, Lockheed Martin, gave most at \$14,250. Hollywood studios gave \$3,000, up from 0 in 1998, with \$1,000 each from MPAA, Universal Studios and MGM Studios.

Oxley and Tauzin are in heated race to become next chmn. of House Commerce Committee, and mass media companies are hedging their bets by funding both candidates. Broadcasters have given \$12,000 to Tauzin and \$8,500 to Oxley, while Oxley has raised \$20,199 from cable industry, Tauzin \$19,576. Satellite community favored Tauzin \$9,000 to \$3,000, while Hollywood preferred Oxley \$5,000 to \$3,000.

Markey was only candidate in our study not to take PAC donations, policy he has had since 1984. However, his campaign staff acknowledged encouraging donations from corporate employees, and as result Markey far outpaced other members in individual fund-raising. Satellite industry was most generous of mass media-related industries, giving \$15,150, up 152% from \$6,000. Broadcasters gave \$14,750, up \$195% from \$5,000, while cable was just behind at \$12,500, up 150% from \$5,000. Companies with most generous executives included EchoStar (\$10,500), Paxson (\$4,000), Court TV (\$4,000), AT&T (\$3,900), Disney (\$3,000), Time Warner (\$3,000) and Excite@Home (\$3,000).

This analysis was restricted to hard-money donations made directly to candidates, as it's easier to trace whose influence is being sought in that manner than soft-money donations made to parties or interest groups. Along with PAC donations, it included review of nearly 50,000 individual donations over 4 years. Donations to reelection campaigns were recorded, as well as to politician PACs, notably Bliley's Fund for a Responsible Future, Tauzin's Bayou Leadership PAC, Oxley's Leadership PAC 2000, and Burns's Friends of the Big Sky. While prodigious givers, law firms weren't included in analysis because it was impossible to determine intent of donations (for example, firm might give to Bliley on phone or cable matter, or on nontelecom issue such as electricity deregulation). Figures came from reports filed by campaigns with Federal Election Commission, which were posted online by nonprofit group FECInfo (www.tray.com/fecinfo).

DTV TESTING METHODOLOGY QUESTIONED AND DEFENDED: Latest round of testing of competing DTV systems may not end dispute between backers of U.S. system, which is based on VSB modulation, and European system, using COFDM modulation, recent exchange of letters indicates. Side-by-side testing of systems by group organized by MSTV and NAB is to begin within month, but set-makers believe test methodology will favor COFDM, they said in letter to MSTV. Broadcasters fired back letter saying testing would be fair.

Dispute emerged as standards-setting process for mobile DTV and other advanced DTV services was begun by Advanced TV Systems Committee (ATSC) in unanimous vote of its Exec. Committee June 27. Timetable for setting standard wasn't clear, but Exec. Dir. Mark Richer told us group hoped to issue RFP for mobile technology by end of year. He said process was on "fast track" because mobility "has the industry's attention at the moment... There is a realization that some broadcasters are looking for more flexibility in their service offerings. That's the impetus for this." First step in process will be to "understand what the market wants" from standard, Richer said, then use that requirement as basis for RFP. He said "a lot of companies have a lot of ideas" on how to provide new DTV services, so it may take time to "sift through" proposals. Initiative builds on work of ATSC task force on RF performance, ATSC said, and will operate in parallel with that group, which is studying such factors as ability of receivers to receive existing DTV standard.

DTV test procedures "fall far short" of being "objective and impartial," CEA Pres. Gary Shapiro said in letter. He said planned procedures "suggest a bias in favor of COFDM." It's "particularly troubling" that COFDM working group will have sole responsibility for comparing performance of 2 systems, Shapiro said. He also raised concerns about fairness of data rate and power levels used in tests, as well as other technical details. "DTV receiver manufacturers want to

restore the common basis for our various industries to move into the digital future together," Shapiro said: "There is no legitimate reason why our respective technical experts should not be able to agree on a fair and objective test plan."

Despite set-makers' claim of bias in favor of COFDM, "nothing could be further from the truth," MSTV Pres. Margita White and NAB Pres. Edward Fritts said in letter June 29 to Shapiro. They said group had "gone to great lengths to ensure that the project tests are conducted in an absolutely neutral and scientific fashion." They said methodology had been reviewed and supported by engineers backing both VSB and COFDM.

Among set makers concerns were: (1) Treating inherent digital-into-digital interference characteristics of each modulation system fairly. Set-makers said VSB's characteristics meant it could operate at higher power level, which translated into wider coverage area, without major interference. They said COFDM systems should have to operate at lower power level to match interference characteristics, rather than making VSB match COFDM characteristics. (2) COFDM should have to match VSB data rate, which would make COFDM signal less robust. VSB data rate is 19.39 Mbps, vs. 17.5 Mbps for COFDM. Set-makers said 2K version of COFDM had run at 19.33 Mbps, which would allow fair comparison of signal performance characteristics.

Only matching power levels and data rates would allow tests to be fair, manufacturer official told us: "If it's fair, they're going to lose." He said most of debate to date had been only about multipath conditions that limit indoor DTV reception, particularly in urban areas. Other key factors — in which set-makers said VSB excelled — were interference and coverage area, official said.

"We don't want to go to war if we can get fair testing," set-maker official said. "We have had discussions with MSTV, and we want to have more before the final parameters are set. We're trying to work things out, to collaborate if we can." He said set-makers generally supported testing done by FCC Office of Engineering & Technology, which supported VSB. They also continued to say that technology for better indoor reception, as well as mobile reception, was "in the pipeline."

Broadcasters rejected concerns about power levels, saying accepted testing practices called for eliminating variables. COFDM will be tested at same power level as VSB, they said, but any additional interference will be measured and measurements can be used to determine how much COFDM power would have to be cut to comply with FCC Table of Allotments.

Among other issues raised by set-makers: (1) They said COFDM transmissions couldn't comply with FCC emission masks, but broadcasters said that could be handled through filtering. (2) They said DTV tests should be done in environment including NTSC, but broadcasters said that wasn't possible but could be included in 2nd round of tests. (3) Broadcasters agreed to use "best-in-class" antennas, as requested by set-makers. (4) Broadcasters said reception measurement sites would be divided nearly equally between those in urban areas and those near edge of service area.

MSTV and NAB said data rate wasn't issue, since only version of COFDM that produces 19.8 Mbps data rate, compared with 19.4 Mbps for VSB, would be used in actual comparison. They said lower data rate would be used only to determine "the incremental improvement in robustness when the data rate decreases" and whether further testing was justified.

Testing is to be done over 6-month period, and broadcasters said it was intended to independently evaluate performance of latest generation DTV receivers as well as to "investigate potential improvements and modifications of the VSB standard." Performance of COFDM will be compared to VSB. MSTV and NAB said they issued request for proposals in May.

Set-makers already have provided significant amount of equipment to be used in tests, officials acknowledged, but letter appeared to indicate fear that manufacturer support could end. "While we hope that equipment manufacturers will participate in the project, it is the television broadcast industry itself that ultimately must take responsibility for ensuring the future vitality of its service."

ABC and NBC Raise Concerns About DTV Performance

FCC should "not rush to a conclusion" on whether current DTV standard is adequate, NBC and ABC owner Disney said in latest round of comments on Commission's DTV review (00-39). Networks said "ineffective implementation" of DTV standard, rather than any potential delay, was biggest potential threat to transition from analog. They said biggest problems were poor multipath performance in urban areas and lack of mobility: "Our real-world experience in receiving the 8-VSB signal from our DTV stations... is that this method of transmission does not provide reliable reception to our viewers." They said that set and chip makers were promising improved performance, but "we are concerned as to the

length of time it will take to make these improvements and whether sufficient improvement can ever be made to solve the indoor reception problem." FCC should keep issue open until latest round of industry testing is completed late this year, NBC and Disney said. However, VSB developer Zenith said VSB provided better opportunity for stations to match their NTSC coverage area, submitting study by engineer Jules Cohen confirming VSB's superior coverage area. Study said "millions of viewers" would lose service if competing COFDM modulation system were used. "America is already on the best path to a swift transition," Zenith said. "In light of the refinements in 8-VSB receiver performance... and the significant progress made in the transition thus far, reopening the debate... would only needlessly disrupt the transition's growing momentum." In other comments: (1) Computer & Communications Industry Assn. said it couldn't comment on competing modulation systems, but FCC should assure as much flexibility as possible. (2) Advanced TV Technology Center submitted report saying its 2-year-old on-channel-repeater technology "should work." (3) NCTA said NAB's claim that cable should "pitch in" on DTV transition was based on "false premise" that broadcasters were passive actors in process when they instead "instigated" DTV. Cable's role "is not to guarantee the broadcasters' investment in the transition to digital broadcasting," NCTA said. It pointed out that cable already had invested \$31 billion in upgrading its infrastructure since 1996, without subsidies.

Set-makers submitted to FCC report by Cohen that said switch to COFDM modulation would mean significantly fewer DTV stations could be fit into U.S. spectrum and there would be sharp drop in number of people who could receive DTV. Based on results of Brazilian tests of VSB and COFDM, Cohen studied impact of COFDM modulation in crowded N.Y.C. market. He said adding 3 COFDM stations in N.Y.C. would mean nearly 1.4 million fewer people in metropolitan area could receive DTV.

Meanwhile, NAB said WCYB-TV Bristol, Va., launched DTV service, becoming 135th DTV station in U.S.

Kennard Warns Against COFDM Shift

FCC Chmn. Kennard exhorted broadcasters to move forward more quickly and stop battling over competing digital transmission standards. Speaking to reporters June 30, he said he was worried that possible change to COFDM from VSB "could introduce years' of delay" in already lagging DTV rollout. "Yes, it's a threat," he said. "We don't want to introduce anything to introduce more delay and confusion to the process."

Noting that some unnamed broadcasters had asked him to delay rollout, Kennard said he found that unfathomable at time when other industries were quickly trying to switch to digital. "You ought to be racing to go digital," he said he urged those broadcasters. "I really think it's important for the television industry to get on with it. We can't afford to let the analog TV industry lag behind."

While COFDM standard might be better technology for transmission of mobile communications, Kennard said, idea was to optimize DTV technology for fixed broadcast service. He noted that issue of technical standard already had been "exhaustively decided and studied" before VSB system was adopted. "Before we make that leap, I think the broadcast industry as a whole has to grapple with the issue of how long this transition is going to take," he said. "I'm just reluctant to change horses this far down stream."

Robert Pepper, head of FCC's Office of Plans & Policy, said he still hadn't seen any systematic studies showing how much interference COFDM transmissions would cause for current NTSC analog signals. "We've asked for research," he said. "We've seen nothing on it." Pepper also said COFDM wasn't designed for indoor reception in Europe, but for use with outdoor antenna. "It's not an indoor antenna technology in the U.K.," he said.

Broadcaster efforts to educate consumers will be key to success of DTV in Australia, Communications Minister Richard Alston said following Parliament approval of DTV legislation June 29. Bill means DTV broadcasting in Australia will start Jan. 1 in urban areas, and by Jan. 1, 2004, in rest of country. Other provisions include: (1) Analog broadcasting must continue until end of 2008. (2) Stations, within 2 years after DTV launch, must carry at least 20 hours of HDTV programming per week. (3) No new commercial licenses will be issued until 2007. (4) Commercial broadcasters can't multicast except in limited circumstances, but Australia Bctg. Corp. and SBS can. (5) DTV spectrum can be used for datacasting, but use of data for competitive video services is limited. (6) Broadcasters must caption all prime-time programming.

Orbcomm will downsize by cutting staff 20%, laying off 112 employees and curtailing production of satellites, Chmn. Scott Webster said June 30. He told us move wouldn't have major impact on direction of privately held subsidiary of Teleglobe and fledgling Orbital Sciences. Orbital Sciences owns 35% stake, Teleglobe is dominant partner with undisclosed stake. Webster said company was "growing rapidly" and there was need to "back up" and evaluate size, expense rate to protect funding sources. He said company could begin stepping up operations again in 3-6 months. Orbcomm stopped development of 15 satellites that were in "production pipeline" over next 2 years, Webster said. He said decision was "easy" because 35 birds in orbit were performing. New satellites aren't "critical" to effort to "add capacity" or "enhance services," Webster said.

OPEN ACCESS COMING TO FCC: FCC Chmn. Kennard said Commission soon will begin administrative proceeding to decide whether high-speed data over cable lines is cable or telecom service. Following June 22 ruling by 9th U.S. Appeals Court, San Francisco, that cable-delivered Internet access qualifies as telecom service, Kennard said it was time for Commission to tackle issue.

Speaking to reporters Fri., Kennard said FCC would open administrative proceeding in 3rd quarter and "create a forum for deciding this issue." Noting that Commission never had addressed cable-vs.-telecom issue, he said it would gather market information, develop public record and establish framework for regulating or not regulating cable-Internet service. Although he set no deadlines, he pledged that FCC, facing possible flood of interconnection petitions from ISPs in areas covered by appellate court ruling, would act quickly to reduce marketplace "uncertainty" about govt. policy.

While in favor of open access, Kennard stressed he still believed that govt. should let "nascent" broadband market develop and not force cable operators to offer multiple ISPs on their systems. "I have not changed my position," he said, calling it "far preferable to let the marketplace decide." Even if Commission decided that cable-delivered Internet access was telecom service, he said, it wouldn't necessarily impose open access mandates on cable systems. "Calling this a telecom service doesn't mean it invokes all the traditional telephone regulations," he said. "It just sets up a framework."

Leading ISPs, local cable regulators and other open access proponents welcomed move as step toward federal open access mandates while AT&T and NCTA called on Commission to stay course and avoid intervention. "We're glad the FCC is taking some action," said spokeswoman for OpenNet Coalition.

In Portland, Ore., city whose attempt to regulate AT&T's broadband lines led to 9th Circuit decision, Marshall Runkel, asst. to City Commissioner Erik Sten, said: "The bottom line for Portland is that it's great they [FCC] are doing it. It would have been better if the FCC had taken up the issue 18 months ago because it would have saved us a lot of time, energy and money."

AT&T spokesman said "clarification from the FCC would be expected and welcomed" in light of 9th Circuit's ruling and "the way some are trying to spin the decision." He said MSO expected "to be able to show that the FCC's current policy of choosing not to regulate Internet by imposing forced cable access conditions on a nascent market is entirely correct."

Meanwhile, Kennard said he asked agency's Inspector Gen. to investigate leaks, saying he was "particularly concerned about a nonpublic document stolen from this agency." He cited draft order on AT&T-Media One merger that was leaked to news media. Draft had been prepared by Cable Bureau and later was modified by commissioners to make it less restrictive. He said he also asked Gen. Counsel's Office to tighten procedures for handling draft documents. Kennard said it was violation of FCC rules for anyone — including industry representatives — to pass on internal Commission documents and anyone who deals with agency "should know that."

FCC scheduled en banc public hearing on proposed AOL-Time Warner merger July 27, 1 p.m.-5p.m. All 5 commissioners are expected to attend. List of panelists will be announced later.

VIEWER STANDARD AT FCC: Satellite home delivery systems and TV industry continued their argument last week in FCC inquiry (00-90) into how to determine what homes within predicted coverage area of given station are eligible to subscribe to satellite signals. In passing Satellite Home Viewer Improvement Act last year, Congress directed FCC to make recommendations on whether existing Grade B standard should be changed (TVD Nov 22 p2). Definitely yes, said NAB, MSTV and TV network affiliate associations (Big 4), while satellite systems argued that several modifications are necessary.

While MSTV charged "political and economic interests" are behind challenge to Grade B intensity standard, EchoStar told Commission "current standard is hopelessly out of date" because it's based on tests of picture quality "that are almost a half-century old and do not reflect the expectations of today's consumers in this digital era." Moreover, EchoStar said, it relies "on planning factors that are no longer (assuming they ever were) accurate." FCC recommendations to Congress must include such factors as clutter loss, signal degradation, terrain, buildings and other "land cover variations," EchoStar said: "The time has come for the rhetoric to stop and a standard appropriate for the digital age to be implemented."

Satellite Bcstg. & Communications Assn. (SBCA) said Grade B standard means "millions of American consumers who cannot receive a viewable television picture over the air are denied access to network programming via satellite." As result of new technology, Grade B standard is "obsolete," SBCA said. Natural Rural Telecom Co-Op asked FCC to recommend that Congress replace "outdated" Grade B standard, saying it was never intended for use in evaluating picture quality.

On broadcasters' side, MSTV said technical evidence developed over several decades "demonstrates the continued viability" of Grade B standard as "the best measure for determining acceptable over-the-air television service." Assn. said improvements in technology and TV sets have kept pace with viewer expectations and "there are no new technical data to support modification or replacement" of Grade B standard. NAB said that since satellite delivery now is available to more than 50% of U.S. TV households, "there is no reason to override basic principles of localism and copyright by allowing importation of duplicative distant network stations to still more households in local-to-local markets."

Big 4 TV networks said there's no reason for FCC to recommend any changes in its "well-established, longstanding and time-tested Grade B standard." In fact, they said, "it would be foolhardy" to propose any change in light of fact that standard has been "carefully examined... on numerous occasions" with conclusion that no changes were needed. Affiliates said that as for coming digital era, "any recommendation at this time would be premature" since changeover from analog isn't scheduled to take place until 2006.

WorldCom-Sprint merger was in jeopardy last week as U.S. Dept. of Justice filed suit to block it, and companies followed up by withdrawing from European Union merger review process. Companies wouldn't comment on ramifications of EU withdrawal beyond saying in tersely worded statement that "if, in the future, the parties decide to proceed with the merger, they will make such notifications as are appropriate under European merger laws."

GROUPS PRESS FTC ON AT&T's TWE STAKE: Following setbacks at FCC, consumer groups asked FTC June 26 to force AT&T to divest its minority holding in Time Warner Entertainment (TWE). Action targeted both AT&T-MediaOne and AOL-Time Warner deals. In 5-page letter to FTC Chmn. Robert Pitofsky, Consumers Union (CU) charged that AT&T's 25.5% stake in TWE, inherited from MediaOne, violated govt.'s 1997 consent decree covering purchase of Turner Bcstg. by Time Warner. Under order, FTC required TCI to strictly limit its ownership and voting interests in Time Warner because of concerns about cable concentration. "We are claiming this [TWE stake] violates both the intent and language of the consent decree," said Gene Kimmelman, co-dir. of Consumers Union Washington office.

AT&T, which closed on its \$44 billion purchase of MediaOne 3 weeks ago, quickly dismissed challenge. "Our merger is in compliance with the FTC decree and we see no reason to change it after the fact," spokesman said. FTC spokesman declined comment. Agency, which already has asserted itself aggressively in govt. review of AOL-Time Warner merger, didn't impose preconditions on AT&T-MediaOne deal, unlike FCC and Dept. of Justice.

In letter to FTC, CU argued that unless ownership links between 2 companies were cut, AT&T-MediaOne and AOL-Time Warner would have "incentive to disadvantage programmers who compete with TWE and Time Warner because AT&T will receive an economic benefit from carrying TWE's program networks and from not carrying competing programming." In addition, group contended, "AT&T might discourage TWE from distributing on comparable terms its valuable programming to AT&T's MVPD [multichannel video programming distributors] competitors, particularly cable overbuilders in AT&T's territories." CU said links violate FTC's Time Warner-Turner consent decree, crafted to eliminate anticompetitive incentives by forcing TCI to limit its stake in Time Warner. "There is a mutuality of interests in favoring each other's assets," Kimmelman said.

CU move came after FCC in approving AT&T-MediaOne merger with conditions, gave AT&T choice of selling its TWE stake, spinning off Liberty Media and other programming holdings or shedding cable systems with 9.7 million subscribers to meet govt.'s cable ownership limits. CU and other consumer groups fought unsuccessfully for order requiring AT&T to sell TWE, arguing that all ownership links between AT&T and Time Warner, nation's 2 largest MSOs, should be cut. But FCC opted to let AT&T choose one of 3 options and gave it nearly year to complete task, allowing MSO to consummate MediaOne deal. "My hope is this will be the fastest challenge," said Kimmelman, whose organization and allies still plan to contest FCC's approval in agency administrative proceedings and courts.

FTC filing also came 3 days after FCC expanded its probe of AOL-Time Warner merger. In 9-page letter sent to both companies June 23, FCC Cable Bureau Deputy Chief Royce Dickens sought details on: (1) New AOLTV interactive service. (2) New AOLTV set-top box. (3) AOL's carriage agreements with Time Warner and DirecTV. (4) AOL's plans to offer fast Internet access over cable, satellite, DSL and wireless platforms. (5) Possible integration of AOL's broadband service and Road Runner. (6) Any exclusive deals that AOL and Time Warner have with Internet content providers. (7) New services and companies that partners plan to produce. (8) Ownership stakes that they have in other companies. (9) AOL's plans for TiVo. (10) Companies' plans to open Time Warner's cable systems to competing ISPs and place AOL on other MSOs' systems. AOL and Time Warner must reply by July 17.

PORLAND SHIFTS OPEN-ACCESS TACK: Defusing potential legal battle over 9th U.S. Appeals Court, San Francisco, ruling classifying cable modem service as telecom service, Portland, Ore., official said city didn't intend to stop AT&T from rolling out high-speed data service. But official, who requested anonymity, said city would send letter to AT&T soon arguing that company needed to obtain telecom franchise to offer @Home service. Meanwhile, Excite@Home spokesman confirmed installation of first data customers.

As franchise fee, Portland will seek 5% of what Excite@Home will pay AT&T for its cable lines, official said, and city has started informal talks with company. City won't try to stop AT&T from providing broadband services, "which it could have done 18 months ago on a closed platform pending the outcome of an appeal," he said. Agreement with AT&T will form basis for calculating franchise fees for other broadband companies providing Internet service, he said. While AT&T is "circumspect on franchise fee issue," he said, "we are looking for ways to work this thing through with AT&T. We would much rather negotiate than fight."

AT&T countered that it didn't need Portland's approval to offer high-speed data. "We are quite confident that we do not need a telecom franchise or a telecom license to provide the service [Excite@Home]," spokeswoman said.

Meanwhile, in first fallout of 9th Circuit ruling, ISP Brand X Internet, Santa Monica, sought interconnection agreement with AT&T/MediaOne. Under June 23 proposal to MediaOne, Brand X Pres. James Pickrell said ISP would be offered as alternative to Road Runner for cable customers. While MediaOne would be paid for access to lines and other services, Brand X would be allowed to connect to MediaOne network by colocating routers and other equipment at MediaOne headend and routing traffic back to Brand X network center in Marina del Rey.

Other sales, technical and financial provisions include: (1) All customers who call MediaOne for cable Internet should be informed about choice of ISPs. (2) MediaOne will create Web page listing alternative ISPs. (3) Commission for Brand X signups from MediaOne will be negotiated. (4) MediaOne customers who select Brand X won't have their traffic routed through Road Runner or filtered or run through proxy. (5) Brand X customers on MediaOne lines would pay MSO line fee that would be same for all ISPs, including Road Runner. (6) MediaOne would agree not to subsidize or bundle services.

Pickrell, who was joined by Thomas Dorsey, pres. of L.A.-based SanPedro.com in making proposal, said they were seeking interconnection because "Internet over cable is a telecommunication service." He said proposal would let MediaOne boost its profits by cutting in-house ISP costs and drawing new customers. AT&T spokesman said company hadn't received Pickrell proposal and couldn't comment on it.

Internet Partners Inc. (IPI), regional ISP serving Portland area, sought interconnection agreement from AT&T June 29 to serve latter's subscribers. In letter to AT&T, IPI Pres. Robert Guariniello said that under proposal AT&T would provide broadband facility and IPI would provide Internet service on cable lines. Seeking billing system similar to that used by U S West and GTE, he said AT&T would charge customers fee for use of cable wires and IPI would charge them fee for Internet service. IPI wants interconnection rates within 30 days and technical specifications within 60 days.

FCC FACES CUTS: FCC's public affairs office is latest department to see its salary budget capped by frustrated House members, when full House July 26 approved move by Rep. Stearns (R-Fla.) to reduce its spending to \$640,000 from more than \$1.1 million in salaries alone. Item was amendment to Commerce-State-Justice (CSJ) appropriations bill (HR-4690), which passed 214-195. That bill already contained budget cap appropriators had set for FCC's Office of Legislative & Intergovernmental Affairs.

It would be "devastating" for FCC if Senate agreed to House's stiff cuts in agency's budget, Kennard said June 30. He said Commission would have to downsize just when it needs "resources and brain power." For example, he said, agency couldn't finish developing its electronic filing system. He said he has had several conversations with members of Senate to "explain the issue."

"I need to remind the chairman of the FCC [that] the role of the agency is to implement and administer our nation's telecommunications law, not to increase headlines," Stearns said. Of media relations, he asked: "Do they need almost 20 people... to send out press releases and to sell the FCC?" He said each of 7 bureaus had its own press staff, and each commissioner had press contacts as well. "The American taxpayer is paying 4 people an average salary of \$77,349," he said, "another 4 people at \$98,743 and one person is making almost \$131,000 a year."

House Appropriations CSJ Subcommittee Chmn. Rogers (R-Ky.) acknowledged that "many in this chamber questioned the involvement of the FCC in our debate over" low-power FM, tying that effort to Commission's Office of Media Relations as way of supporting amendment. But Rep. Serrano (D-N.Y.) said low-power debate was only reason amendment's supporters were pushing it. "Let's face it," he said: "The FCC is in a lot of trouble with some people these days because of the work they are doing on low-power FM stations, and for that they are paying a big price."

HR-4690 awaits action on Senate version of CSJ before conference can be held, and Administration is expected to fight to increase numbers for telecom agencies. As HR-4690 stands now, FCC would receive \$207 million, \$29 million less than Administration requested. Senate is expected to be less draconian.

Meanwhile, House Telecom Subcommittee Vice Chmn. Oxley (R-O.) succeeded July 27 in including amendment in bill passed by subcommittee to incorporate his measure (HR-4712) seeking limits on FCC lobbying.

Bill approved by subcommittee was HR-4019 by Rep. Pickering (R-Miss.) that would place time limit on FCC's reviewing of mergers and was amended to prevent conditions from being placed on any one company that don't apply to entire industry. Bill has been crafted in bipartisan manner but addition of Oxley amendment was seen by at least one member as possibly harming bill's chance of ultimate passage. However, Pickering said after markup that with many more stages left before bill became law, it was premature to presume what language might or might not be in final bill.

Oxley said amendment still would permit commissioners to state their opinions, but instead was targeted at what he called "improper" activities of FCC staff.

HR-4019 had relatively smooth markup as Republicans and Democrats took turns criticizing merger review process at FCC.

Chmn. Tauzin (R-La.) and others said Telecom Act was intended to take away broad merger review authority from FCC, but currently FCC employs "random, ad hoc [review] system... imprudently broad and capricious." House Commerce Committee ranking Democrat Dingell (Mich.) said he too supported bill even if it had some "deficiencies." He said FCC's "curious sort of ad hoc regulatory treatment... smells bad."

"A strong case can be made" for considering excessive violence obscene, FCC Comr. Tristani said in speech to Annenberg Center conference on children and media in Washington last week. She maintained that obscene speech can be regulated more strictly than protected speech. Before Civil War, she said, law made no distinction between sexual content and violent content in definition of obscenity, and even after that many states included violence in material that could be banned. As result, Tristani said, Supreme Court should revisit obscenity definitions and "extend it to include obscenely violent images that reach children... I can anticipate many of the objections to expanding the definition of obscenity to include obscenely violent speech, but I don't think any of them will carry the day." It's "irresponsible to declare victory or defeat" for V-chip after only 6 months, Tristani said: "These things take time. The evidence for the use of the V-chip so far is actually positive." She said one recent study showed that 1/3 of homes that have V-chip actually use it. On lack of FCC enforcement on indecency complaints, Tristani said First Amendment is important, but should be balanced against "the compelling interest in protecting our children from indecent and harmful material." She said even libel and slander complaints don't face same FCC procedural hurdles as do indecency complaints. House Telecom Subcommittee ranking Democrat Markey (Mass.) gave optimistic spin to Annenberg study, as it suggested 14 million homes now have V-chip and 7 million are using it: "If that is indeed the case, the V-chip is already a great success." "[W]e should not be disappointed that millions of families are not using the V-chip yet," he said, because sets were not required to include them until Jan. and "tens of millions of families have children living at home who are above the age where parents are most concerned about what is being watched."

NTIA Dir. Gregory Rhode said June 30 agency planned to host July 18 roundtable in Washington on minority ownership of media and ways to preserve diversity in rapidly changing broadcast industry. He said roundtable would "explore ways to promote diversity," including improving prospects for minorities to buy stations and compete effectively, and would focus on whether trends described in 1998 NTIA report were continuing to affect minority ownership adversely. Time and place for discussion haven't been decided and invitations are just being sent. But participants will include group owners, financiers, policymakers and members of academic community, NTIA said.

Young Bcstg. said it closed on \$823 million purchase of KRON-TV San Francisco, plus 51% of news cable channel Bay TV. Young acquired station after bidding war with NBC, among others, and will take station independent after NBC affiliation contract expires Dec. 31, 2001, because, it said, NBC conditions to continue affiliation were "totally unacceptable." Network since has made deal to affiliate with Granite Bcstg.'s KNTV San Jose in reverse compensation deal. Dino Dinovitz, former Hearst executive, has been appointed KRON-TV vp-gen. mgr., succeeding Amy McCombs. Young also said its board had authorized buyback in open market of up to \$30 million of company's Class A common shares.

STREAMING STILL CATCHING UP: Internet isn't ready to replace traditional distribution methods, such as broadcast, cable and satellite, speakers said at Emediatainment conference in L.A. last week. Several speakers said consumers still would want someone to "program" their entertainment, regardless of whether they were watching it on a TV set or Web. "People want other people to make the decision on what's good," said Warner Bros. New Media Exec. Vp Kevin Tsujihara.

Key to Web delivery of entertainment content is high-speed broadband connections, speakers said. Forrester Research analyst Josh Bernoff predicted 36.4 million U.S. homes would have broadband connections by 2003, primarily cable modems and DSL. But others said long-form live video remained unsatisfactory even on broadband connection. Downloading 90-sec. trailer for upcoming film *Lord of the Rings* takes 15 min. on T1 line and resulting clip is choppy, with poor resolution.

That means that animation, chat, games and horoscopes will be types of entertainment content — much of it leveraged from other properties — that will dominate online for foreseeable future, several speakers said. "We're going to work with the network to leverage TV properties that sit on both platforms," said Andrew Shortland, entertainment vp for NBCi, network's interactive arm.

As for whether online entertainment ever will generate TV-sized audiences, Shortland said online audiences never would consolidate around one type or channel of content. Instead, he said: "The market is hyper-niches and it becomes a strategy of generating as many niche audiences as possible."

One lesson is that massive offline marketing and ad efforts don't necessarily drive viewership to online sites, said Richard Wolpert, CEO of Check Out Entertainment Network. He said Disney's Go Network had seen little increase in traffic despite spending millions in recent years on TV and other offline ads. Noting that Yahoo! and AOL dominate portals and Ebay, Priceline and Amazon are clear leaders in e-commerce, Tsujihara suggested online entertainment may coalesce soon around handful of sites. Most speakers said at some point entertainment sites would become profitable through use of ads, sponsorships, licensing and e-commerce. "The models are very straightforward," said David Grant, pres.-Fox TV Studios. "It's just going to take time to scale."

FCC revoked Ka-band spectrum licenses of PanAmSat, Morning Star Satellite Corp. and NetSat 28 after determining companies had failed to meet "implementation milestones" by May 1998 deadline. PanAmSat Vp Kalpak Gude called decision "surprising." NetSat 28 COO Alfred Hansen said it was "shocking." Morning Star wasn't available for comment by our deadline. Industry sources said given FCC's past history of moving slowly to implement new orders, decision would "shake up industry" and show Commission "means business." PanAmSat is best known of companies losing licenses, with "dominant position" in Latin American market, industry analyst said. FCC said companies had failed to sign "noncontingent construction contract" by deadline to start construction of satellite systems proposed in license applications. PanAmSat attempted to modify Ka-band application to permit use of intersatellite links for system. Commission rejected request, saying it was "without merit."

LIBERTY, UNITED GLOBAL SWAP STAKES: In complex cash-and-stock deal worth at least \$3.3 billion, Liberty Media will gain major stake in UnitedGlobalCom, large international MSO, in return for most of Liberty's international distribution and programming assets. Under agreement announced June 26, Liberty, which already held small minority stake in UnitedGlobal, will become its largest shareholder with more than 75.3 million shares and overall 38% stake. Liberty also will gain 72% voting interest in UnitedGlobal and 4 seats on MSO's 12-member board, although UnitedGlobal will retain voting control of company. In addition, UnitedGlobal will pay Liberty \$200 million in cash.

As result of deal, Liberty will play big role in UnitedGlobal, which has been expanding rapidly in Europe, Latin America, Australia, New Zealand. Now operating in 23 countries outside U.S., UnitedGlobal's broadband cable systems already pass more than 18 million homes and businesses and count 9.8 million video subscribers, 401,000 telephony access lines, 191,000 high-speed data customers. "We have often stated Liberty's goal of creating scale in the business of broadband distribution," Liberty Pres. Robert Bennett said. "This transaction is a unique opportunity for us to greatly expand the scale of UGC's operations."

For its part, UnitedGlobal will gain ownership of or rights to Liberty's sizable stakes in broadband distributors and programmers around world. List includes: (1) Telewest Communications, large U.K. MSO. (2) Cablevision S.A. of Argentina. (3) Several regional programming services in Latin America. (4) Liberty Cablevision of Puerto Rico. (5) Grupo Portatel, Mexican wireless provider. (6) Digital Latin America, satellite joint venture with Hicks, Muse & Tate and Motorola. (7) Programming and other broadband interests in Australia, Japan and U.S. UnitedGlobal said agreement, expected to close in fall, would expand its distribution reach to nearly 26 million homes passed in 26 countries and make it largest MSO in Latin America. UnitedGlobal Pres. Michael Fries said MSO would consolidate its Latin American assets into regional holding company, as it already had done in Europe and Australia, and raise funds for expansion through IPO soon.

Fifty top broadcast officials from World Bcstg. Union (WBU), representing 8 international associations, concluded 2-day summit in Lucerne, Switzerland, June 29 with focus on digital era. In so doing, group adopted several "policy points." WBU called for "common and open systems for all new audio-visual services." Internet isn't threat to over-air broadcasting, WBU said, "but rather an exciting and welcome opportunity." It said it also would explore solutions to copyright and signal privacy problems and "attaches great importance" to working through World Intellectual Property Organization to guarantee broadcasters' rights. N. American Bcstrs. Assn. (NABA) will host next WBU general assembly in Feb. 2002. Also meeting in Lucerne last week, members of European Bcstg. Union (EBU) adopted declaration that "committed themselves to embracing new technology, particularly online services, in order to guarantee cultural diversity and broad access to information in the digital era."

Citicasters-owned WXTB(FM) Clearwater, Fla., faces \$23,000 fine for repeated violations of indecency rules, FCC said in forfeiture order. Commission rejected Citicaster claim that specific indecency guidelines were needed, saying Commission actions over years had "amply illustrated what broadcasters may and may not do."

America Online and Time Warner submitted detailed response to FCC's first questions about their proposed merger, 4 days before Commission's June 30 deadline and just 3 days after agency sent companies 2nd set of questions. Joint response offered few new revelations about 2 companies' business investments, plans, deals. Most notably, AOL said its \$1.5 billion investment in General Motors subsidiary Hughes Electronics, parent of DirecTV, ultimately could give it up to 64.6 million shares (6.9%) of GMH. But AOL said its voting interest in Hughes would be just 4.8% because GMH stock represents only 67.7% of Hughes' economic value. As result, AOL said, its Hughes stake would fall below 5% threshold for attribution under FCC's cable horizontal ownership rules. That's key issue because some merger critics have called for govt. to make AOL divest its DirecTV stake. AOL also defended its policy of not permitting its members to exchange instant messages with unaffiliated IM users until its proposed interoperability standards are adopted. Time Warner said it plans to roll out residential telephony services in up to 15 markets by end of 2001, including Atlanta, Chicago, Denver, L.A./Orange County. Despite AOL's heavy investment and interest in telephony services, Time Warner said it "does not anticipate" that its deployment plans will be affected by merger.

USA Video Interactive and Inetcable.com established technology partnership for design and delivery of streaming broadcast video and live TV by Internet. Contract calls for USA Video Interactive to design system that incorporates multicast video encoding, archiving and delivery as well as video-on-demand utilizing USA Video Interactive technology and equipment via Inetcable.com's satellite network platform to ISPs and other global users. At outset, USA Video Interactive will provide 100 satellite uplink Internet channels and at least 4,500 satellite downlink systems over next 3 years. Service begins this summer.

Fourteen music labels filed copyright infringement suit against MP3Board, seeking injunction against site. "Defendant is certainly aware of the illegal nature of its Web site," said the suit, filed in U.S. Dist. Court, N.Y.C. Suit said MP3Board offers free recordings that draw visitors to site and attract ads and investment dollars. Internet piracy is threatening development of the increasing number of legitimate online music sellers and distribution sites, it said.

ICTV signed deal with ACTV to place latter's enhanced TV software, HyperTV, on ICTV's interactive TV platform in digital cable set-top boxes. ICTV will integrate HyperTV into its interactive TV software, allowing cable subscribers to access Web content specially synchronized with TV programs. Deal came day after ICTV signed separate agreement with Motorola to install ICTV's broadband interactive TV browser on Motorola's line of digital cable set-tops. Motorola will offer ICTV system in its DCT-1000, DCT-1200 and DCT-2000 set-tops. Financial terms of both deals weren't disclosed.

Two more MSOs are seeking waivers of FCC rule requiring cable operators to provide separate security modules for hybrid analog-digital set-top boxes that will be sold in stores. MediaOne Group and Cox Communications, following lead of AT&T, Charter Communications and Insight Communications, filed requests for waivers recently, seeking govt. permission to miss July 1 deadline for offering point-of-deployment (POD) modules in hybrid boxes in selected markets. Public comments on MediaOne and Cox waivers are due July 12, replies July 24.

Preparing for its pending merger with America Online, Time Warner unveiled plans to build huge new corporate hq for combined companies at Columbus Circle in N.Y.C. Proposed AOL Time Warner Center, multi-use complex consisting of twin towers encompassing 2.7 million sq. ft. on western side of circle, would house corporate offices for AOL-Time Warner and Turner Bcst. Sales, newsrooms, studios and related broadcast facilities for CNN, CNNfn, CNN Interactive and NY1 News programming operations. Complex also would feature luxury residential condominiums, 5-star Mandarin Oriental Hotel, specialty stores, entertainment restaurants and 1,100-seat jazz concert hall for nearby Lincoln Center. Time Warner's hq building now is 8 blocks south of Columbus Circle in Rockefeller Center while AOL's hq is in Dulles, Va.

Smacking down USA Networks, World Wrestling Federation Entertainment (WWFE) won its fight to move its 4 popular wrestling shows from USA to 2 Viacom cable networks. Del. state court ruled that USA Networks failed to match competing offer by Viacom to carry programs, paving way for WWFE to consummate broad 5-year deal with Viacom. As result, USA, cable's top-ranked network, will lose its 2 most popular shows and 2 other highly watched programs to Viacom's MTV and TNN networks. Viacom also will carry games of WWFE's new XFL extreme football league on TNN and new TV drama series, syndicated radio programs and wrestling specials on its various TV and radio outlets. Viacom also will take 3% equity stake in WWFE.

"**The U.S. may lose** its lead in broadband technology because of the slowness of the federal government to act," Global Crossing CEO Leo Hindery told Broadband Year 2000 Conference in San Jose June 28. Hindery, former pres. of TCI, said: "I wish you could go to Asia and Northern Europe and see how good broadband can be." He accused regulatory agencies of being afraid "to help the strong succeed and the weak die... We are so far behind it is pitiful."

In one-sentence order, Okla. Supreme Court let stand lower court ban on cameras and microphones from upcoming state trial of Terry Nichols, who was convicted in Denver federal court of conspiracy in 1995 bombing of govt. building in Oklahoma City. Court TV and 6 Okla. TV stations had appealed lower court ruling and their attorney said no decision had been made on whether to ask 10th U.S. Appeals Court in Denver to overturn ban on cameras.

FCC granted New Skies petition for 6-month extension of July 1 deadline to conduct IPO. Lockheed Martin and Inmarsat supported request in comments to FCC. Intelsat spinoff had cited "volatile" market conditions in requesting delay. Commission noted that company had cited "tremendously adverse conditions" facing most companies that have attempted to conclude public offerings and IPOs in past 2 months. PanAmSat had opposed extension.

EchoStar signed retransmission consent agreement for 18 Belo TV stations and 2 operated under local marketing agreements. Stations include WFAA-TV (ABC) Dallas-Ft. Worth, KHOU-TV (CBS) Houston, KING-TV (NBC) Seattle, KMOV (CBS) St. Louis, KGW (NBC) Portland, Ore., WCNC-TV (NBC) Charlotte, KTVK (Ind.) Phoenix. Belo's other major network affiliated stations will be available to consumers when EchoStar begins satellite services in markets where DISH service is available. Remaining stations will be available after Jan. 2002.

Personals

Alex Wallau, acting pres., ABC TV, promoted to pres., succeeding **Patricia Fili-Krushel**... Changes at CBS Sports: **Rob Correa** promoted to senior vp-programming, **Michael Aresco** named senior vp-programming... **Ted Frank** promoted to NBC Entertainment senior vp-current series and program scheduling... Hispanic TV Media Network additions: **Luis Estrada**, ex-Univision, as vp-creative services; **Francisco Cuevas**, ex-Univision, as network art dir... **Randall Barone**, formerly *Oprah Winfrey Show*, joins ABC Daytime as dir.-reality programming.

Paul Dinovitz, ex-KCRA-TV Sacramento and KQCA Stockton-Sacramento, named vp-gen. mgr., Young Bcstg's KRON-TV San Francisco and BayTV cable news channel... **Vanessa Oubre** promoted to vp-TV research, Emmis TV... **Andrew Wallace**, Univision's KMEX-TV L.A., moves to gen. sales mgr., co-owned WGBO Joliet, Ill.

Ken Schwab appointed senior vp-programming, acquisitions and new media, TNT... **Seth Winter** ex-WRBW Orlando, joins MSNBC as vp-cable ad sales, eastern region... **Sharon Frazier** promoted to vp-gen. mgr., CableRep Advertising... **James Perry** appointed vp-sales & business development, Nickelodeon... **Tony Dunaif** named vp-business development, MTV & VH1... **David Ellen** ex-Cablevision Systems, named vp-gen. mgr., Eureka Broadband... Discovery Networks promotions: **Bruce Leikowitz** to senior vp-national advertising sales, **Ben Price** to senior vp-national advertising sales.

MTVi additions: **Sarah Cohen**, ex-Food Network, as vp-programming & production, MTV.com; **Quincy McCoy**, ex-Gavin, as vp-music & radio programming, Sonicnet.com; **Joe Ortiz** promoted to vp-mktg. & promotions, MTVi; **John Vaccaro** advanced to vp-technology management & infrastructure, MTVi; **Matt Melucci** promoted to managing editor, sonicnet.com... **Jeff Redden** advanced to gen. mgr., Cox CableRep Advertising.

Robert Wiesenthal, ex-CSFB Technology Group, named exec. vp-chief strategy officer, Sony Broadband Entertainment... **Leonard Spilka**, ex-King World, appointed MediaOnDemand exec. vp-CFO... Video Networks advances **Floyd Christofferson** to COO, **Wanda Saed** to chief people officer, **John Wilson** to senior vp-business development, **Jim McCallum** to senior vp-advertising... **Stephen Brenner**, ex-USA Networks, named CEO, In Demand... **Christopher Wofford**, ex-Donaldson, Lufkin & Jenrette, appointed **Excite@Home** senior vp-corp. development... **Chris Pfaff** named chief communications officer, GeoVideo Networks.

Comcast ordered 350,000 advanced digital cable set-top boxes from Pace Micro Technology, broadening MSO's list of set-top providers beyond Motorola and Scientific-Atlanta. Under 3-year contract, Pace will supply Comcast with at least 300,000 digital interactive set-tops featuring DigiCipher II conditional access technology, integrated cable modem and option to include hard disc drive for personal video recorder (PVR) services. New Pace box also will support Microsoft TV and Liberate Technologies interactive TV software and provide optional capability for HDTV. Comcast is 2nd major MSO to order digital boxes from U.K.-based Pace, which earlier won order for 750,000 advanced units from Time Warner.



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Telcos and cable companies will be able to own local multipoint distributions service (LMDS) licenses, effective June 30, FCC ruled. Commission said it's in public interest to allow license eligibility restriction, which was adopted in 1997, to sunset then, saying that wouldn't have any significant impact on competition. In fact, FCC said, open eligibility could promote service availability in rural areas. FCC Comr. Furchtgott-Roth issued concurring statement saying decision means "the American people will finally have their first opportunity to see the full potential of the LMDS market." He said, however, decision comes "far too late."

WRH

Consumer Electronics

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

STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending June 16 and year to date:

	JUNE 10- JUNE 16	1999 WEEK	% CHANGE	JUNE 3- JUNE 9	24 WEEKS 2000	24 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	563,889*	422,332	+ 33.5	534,924	12,103,316	10,738,882	+ 12.7
DIRECT-VIEW**	545,069*	408,248	+ 33.5	518,485	11,561,563	10,320,662	+ 12.0
TV ONLY#....	482,283*	345,913	+ 39.4	457,690	9,577,025	8,739,507	+ 9.6
TV/VCR COMBO.	62,786*	62,335	+ 0.7	60,795*	1,984,538*	1,581,155	+ 25.5
PROJECTION...	18,820*	14,084	+ 33.6	16,439*	541,753*	418,220	+ 29.5
TOTAL VCR**...	277,986	340,099	- 18.3	320,855*	11,031,101*	9,698,633	+ 13.7
HOME DECKS...	215,200	277,764	- 22.5	260,060*	9,046,563*	8,117,478	+ 11.4
CAMCORDERS.....	101,299	60,513	+ 67.4	109,519	2,321,289*	1,931,143	+ 20.2
DVD PLAYERS....	85,374*	37,576	+127.2	83,497*	2,350,546*	1,049,098	+124.1

Direct-view TV 5-week moving average#: 2000-439,216; 1999-392,005 (up 12.0%).

Projection TV 5-week moving average: 2000-21,060*; 1999-16,390 (up 28.5%).

VCR deck 5-week moving average: 2000-429,915*; 1999-72,521 (up 37.6%).

TV/VCR 5-week moving average: 2000-114,745; 1999-85,412 (up 34.3%).

Camcorder 5-week moving average: 2000-129,569*; 1999-60,371 (up 114.6%).

DVD player 5-week moving average: 2000-126,684*; 1999-58,998 (up 114.7%).

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

NO COMPROMISE SEEN FOR DVD RECORDER FORMATS: Only miracle or case of cold feet can avert format war between incompatible DVD-RAM and DVD+RW recorders scheduled to ship in fall, based on comments of respective proponents at last week's PC Expo in N.Y. But number of combatant formats has diminished with announcement of DVD Multi plan that would ensure playback compatibility between recordings made on DVD-RAM and Pioneer-championed DVD-RW decks.

DVD Multi, bridge plan proposed by DVD Forum, was announced at joint news conference of DVD-RAM backers Hitachi, Panasonic, Toshiba. In March 13th issue, we first revealed details and rationale for compromise plan, then code-named DVD-3. At PC Expo, plan was presented by Alan Bell, dir. of IBM Research's Digital Media Standards. He also has been serving as co-chmn. of multi-industry Copyright Protection Technical Working Group (CPTWG) and chaired ad hoc committee to develop DVD Multi Plan.

CE and PC devices with DVD Multi logo will arrive early next year, Bell said. Modifications to achieve cross-platform compatibility included changes in laser servo system, disc's rotation speed, surface writing area of discs and deck's firmware, Bell and others said. To get logo and license, DVD player or recorder must be able to read discs recorded in DVD-RAM or DVD-RW formats that DVD Forum has sanctioned as standards. As for DVD Multi DVD-RAM and DVD-RW recorders, Bell said they would write data in their "native" format.

Potential for greater compatibility between those formats was indicated in White Paper circulated by DVD Forum. For CE and PC applications, paper said "DVD Multi Recorders will be able to write on DVD-RAM, DVD-RW and DVD-R discs." In accompanying charts, individual formats weren't even mentioned, but were referred to as "DVD-Video Recording." In March, sources familiar with DVD Multi plan and required technical modifications told us it was possible to design single deck that would record in both formats — although they said market viability of such hybrid was questionable.

DVD-RAM proponents didn't give away much in plans or timetables for new products. However, Panasonic executive stressed that emergence of DVD Multi didn't mean company wouldn't introduce dedicated DVD-RAM devices — and that they probably would precede any DVD Multi offerings. Panasonic was to begin selling DVD-RAM deck in Japan last Fri. at about \$2,300 with 4.7 GB blank disc at \$25. Deck could reach U.S. in fall at about \$3,000, we're told. Other key revelation about DVD-RAM format was that caddy no longer was necessary for recording in CE or PC drives, although blanks in protective cartridge would be offered for users wanting extra level of protection.

Although DVD-RAM group sidestepped questions on DVD+RW rivals, irony is that that should be playable in DVD Multi hardware. At PC Expo, Philips for 3rd time since last Aug. gave demonstration to back its claim that DVD+RW recording was backward-compatible for playback in DVD-Video and DVD-ROM equipment. "We applaud any compatibility effort," said John Spofford, gen. mgr. of Hewlett-Packard's Colorado Personal Storage Solutions. "But the DVD Multi logo is not needed, as we are compatible with the installed base of 140 million DVD drives that will exist in 2001."

As for prospects of DVD+RW's becoming DVD Forum standard, format's backers thought its blessing was irrelevant. "We're not looking to be recognized by the DVD Forum," said Robert Van Eijk, gen. mgr. of Philips Optical Storage-N. America. Spofford seconded point. "With this format, the burden of compatibility was put on the writer, not the readers which have been shipping for many years now," he said, allusion to need to modify DVD players to read DVD-RAM and DVD-RW formats. DVD+RW consortium said Compatibility Verification Initiative was under way with Philips to test any manufacturer's DVD hardware for ability to play DVD+RW.

Philips is on track to deliver home DVD+RW deck in fall at price comparable with first-generation DVD-Video players, Van Eijk said. Although not consortium member, Thomson also plans to deliver DVD+RW in same time frame and price range, spokesman told us last week. Meanwhile, consortium member Sony was standing pat on decision to back DVD+RW for PC use, but not for home video recording.

PANASONIC DELIVERS FIRST DVD-AUDIO DECKS: There's worldwide potential to sell 5 million

DVD-Audio-capable DVD decks in first full calendar year of introduction in 2001, with growth possible to 75 million decks by 2005, Matsushita executives told N.Y.C. news conference last week. Event was to trumpet shipment of first Panasonic and Technics DVD-Audio players to shelves of major retailers and to mark 30th birthday of Technics brand.

Introduction seemed likely to spark bevy of hardware introductions from other DVD-Audio player makers. Immediately after Panasonic announcement, Denon said it would ship its DVD-3300 deck this month at \$1,200 list. Good Guys and other accounts also hopped on DVD-Audio bandwagon to exploit July 4 weekend promotional activities, saying it would carry Panasonic and Technics DVD-Audio decks at all locations starting July 1.

Despite last week's hoopla, DVD-Audio questions abound, including still-unknown state of software availability. Technics machines will be packaged with 2 Matsushita and Warner DVD-Audio "sampler" discs. Warner Music Exec. Vp Jordan Rost was on hand at Matsushita conference to praise DVD-Audio as "quantum leap" forward in sound quality over existing CD and to hail "unprecedented cooperation" between music and consumer electronics industries in designing new carrier that optimizes DVD's basic 4.7 GB capacity for multichannel audio. However, Rost said Warner Music wasn't prepared yet to announce slate of DVD-Audio titles or release dates, but promised at least gradual software ramp-up starting in 4th quarter. Noting that Panasonic was planning range of different DVD-Audio product configurations, including car players, portables and shelf systems, Rost said such diversity of product would be "critical" to format's early success and would be marketing advantage that industries didn't have at CD launch in 1983 when only standalone home decks were available.

In addition to Panasonic and Technics component DVD decks available this month at \$1,000 and \$1,200, respectively, other Panasonic-branded DVD-Audio products will include: (1) SCH-DA710 minisystem available in Nov. at \$1,600 (with optional multichannel amplifier and speaker package at \$500). (2) DVD-PA65 ultraslim portable available in Oct. at \$700, with derivative DVD-LA85 with 7" LCD screen at \$1,600. (3) CQ-DVR909U car DVD A/V receiver available this summer at \$2,000. (4) RP-HD100 DVD-Audio-ready headphones, pricing and availability to be announced. Panasonic said it would promote lineup with series of 2nd-half print ads in major magazines, including 4th-quarter pullout listing software availability. Also planned is 9-city series of "listening parties," including tie-ins with local retailers.

In bringing DVD-Audio to market this month, Panasonic roughly is living up to schedule it promised 6 months ago when it scrapped hardware debut immediately after basic DVD encryption system was cracked by Norwegian hackers. Final version of Content Protection for Prerecorded Media (CPPM) rules on DVD-Audio still was in draft form, which might explain why record labels were reluctant to discuss actual launch dates. Matsushita executive Ted Abe said CPPM

used much more "robust and secure" cryptology than was available to DVD-Audio format 6 months ago, and new specifications featured new "tamper-resistant" key-renewable mechanism that would guard sanctity of CPPM even if encryption keys were "compromised," as was done on basic DVD protections last fall.

FMD VIDEO IMAGES APPEAR CRUDE IN DEMONSTRATION: Fluorescent Multilayer Disc (FMD) with claimed capacities up to 100 GB was demonstrated by U.S. developer Constellation 3D (C3D) in London last week, where viewers said quality of video from DVD-size disc was primitive.

Event followed presentation to Hollywood studios week earlier in Burbank. Studios attending were Disney, Fox, Lucasfilm, Paramount, Warner and representative of Steven Spielberg. Hollywood executives were "impressed," said Patrick Maloney, C3D senior vp-business development. "The studios are telling us that this Digital Cinema Disc is what they want for the secure distribution of films. We are working with Lucasfilm and Disney but nothing is signed yet," he told us.

As we have reported, FMD looks like 4.72" CD or DVD but is transparent. Disc is made by pressing 10 plastic films each 15 micrometers thick and laminating them onto substrate to provide multiple layers for data-bearing pits. C3D fills pits with fluorescent dye that emits light when struck by tightly focused laser beam. Pits in layers above and below don't fluoresce because they are struck by unfocused and therefore weaker light. Fluorescent light is incoherent and of wavelength slightly different from laser, so sensor in player can distinguish light emitted by pits from laser light that has reflected and diffused. Laser in player switches focus to read different layers, one after another.

Although FMD shown in Burbank and London had 40 GB capacity, C3D claimed technology eventually could accommodate up to 100 layers with terabyte capacity, with 150-year archival lifespan and 10 million read cycles. FMD is incompatible with existing CD and DVD players, but FMD players could be made to play existing software. C3D said slight and inexpensive modification to current CD and DVD decks could enable them to play FMD too.

At London FMD debut, press was joined by entertainment industry, including BBC Archives and Sonic Solutions. Color video on DVD-size FMD wasn't digital, but used analog recording system derived from old Laser Disc (LD) format. For demonstration in London with audio content, FMD used pit geometry of CD.

Demonstration video disc spun at 35 revolutions per sec. Despite claimed 100 Mbps data transfer rate, witnesses said pictures were poor, blurred with noise and blemished by dropouts and breakup. Color at best was very weak — initial pictures were B&W only, with color not emerging until modified LD player warmed up. Switching among 5 layers on FMD caused complete breakup for many seconds, while focus and tracking were tweaked manually and to make player settle down. Because program material was same on each layer, only indication of which layer was being played came from LED readout on player.

Maloney attributed poor picture quality to noisy master source, but couldn't explain why C3D didn't use clean source material for important demonstration. He conceded that player was "crude prototype" and that "the color comes as it warms up." Maloney said there would be private demonstrations of multilayer DVD digital video in Sept., write-once discs in Nov., rewritable discs next summer. Write-once disc uses material that's switched between fluorescent and nonfluorescent states.

Claims for what system can do in future flowed thick and fast at London meeting, but technical explanations skated over details. Ex-BBC engineer at demonstration of analog LD video on FMD likened quality to early days of magnetic videotape. Maloney said C3D had spent \$15 million over 6 years, current development budget is \$8 million yearly and "we would like to spend \$20 million over the coming year". Financing comes from "wealthy angel investors and some venture capital — private money and banks," he said. C3D went public in April 1998. Tom Lipiec, ex-R&D coordinator on pro side of Lucas THX, recently joined C3D as company's Hollywood representative.

Rayovac unionized employees at Fennimore, Wis., alkaline battery plant last week approved new 5-year contract, terms not disclosed. It replaces 3-year pact that expired March 15, Rayovac spokesman said. Fennimore plant, which also makes Rayovac Renewal rechargeable alkaline batteries, has 534 employees, 450 of whom are represented by Teamsters Union Local 695 of Madison. Employees had rejected pact June 13 by 13 votes, but "education" campaign by union and addition of 60 workers who didn't vote first time turned tide, Rayovac spokesman said.

Consumer intentions on buying TV sets rose in June from May, according to preliminary data in Conference Board monthly survey. Of 5,000 households polled, 8.6% said they planned to buy TV set in next 6 months, vs. 7.9% in May, 7.3% in April, 6.8% in June 1999. Consumer Confidence Index fell 6 points in June from April, Conference Board saying: "While latest signals suggest that U.S. economic activity should decelerate in coming months, consumers are not expecting this record-breaking economic expansion to end any time soon."

FIVE RIVERS CONTRACT APPROVED: Employees at Five Rivers Electronic Innovations approved new 3-year contract in first vote since parent Taylor-White purchased sprawling Greeneville, Tenn., factory from Philips 3 years ago.

Workers, members of International Union of Electronic, Electrical, Salaried, Machine and Furniture Local 796, backed agreement in 215-85 vote. Pact, which covers 514 employees, provides for 3% annual wage increase and requires that 401K funding be made more frequently.

Sticking point, as it had been during negotiations with Philips 3 years ago, was cost of health care insurance. Under accord, cost of name brand prescriptions to employees will increase to \$25 from \$15 in first year, \$30 in 3rd year. Premiums increase \$2.50 per week in first year, \$5 in 2nd year, \$7.50 in 3rd.

Taylor-White CEO Thomas Hopson said agreement sends "strong message to our customers that they don't have to worry about getting their televisions assembled in Greene County (Tenn.)." Pact "ensures that Five Rivers will be here another 3 years, and we will continue to grow the business against stiff competition," he said.

Local 796 Pres. Mickey Brown called contract "a good proposal" and said union "brought the best package we could to the employees for their approval."

Still remaining as issue is whether Philips will continue having sets built at plant. It has extended 3-year-old agreement, which expired earlier this year, through year-end, spokeswoman said, declining comment on plans for 2001. Philips recently moved to transfer TV tube production to new complex in central Mexico from Ottawa, O., starting with 25-27" in 2001 (TVD May 8 p10). It assembles small screens at Juarez, Mexico factory. As part of agreement to sell plant to Taylor-White in 1997, Philips committed to having it assemble some of its sets. Taylor-White since has added Samsung and Sensory Science, among others, as customers.

As Five Rivers workers were approving new contract, Circuit Systems of Tenn., which bought printed circuit board (PCB) facility from Philips in 1997, was shutting down operations. Circuit, which employed 106 at plant, was closed as part of restructuring by Ill.-based parent that has shaved \$400,000 from monthly payroll costs. Circuit reported \$3.1 million loss in first 9 months of fiscal 2001 against \$421,000 profit year earlier.

Philips opened \$15 million plant in 1991, but sold it to Circuit 6 years later in restructuring that included sale of Greeneville plant and moving of hq to Atlanta from Knoxville.

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National Record Mart (NRM) will hire investment banking firm to explore strategic alternatives. NRM spokesman said company didn't favor particular alternative and hadn't made any decisions. NRM, which operates 176 stores, said 4th-quarter loss climbed to \$7.7 million from \$1.8 million year earlier as sales inched up to \$32.9 million from \$31.4 million. Same-store sales fell 3.4%. Chain, which has hq in Carnegie, Pa., has 60,000-sq.-ft. warehouse that it has said could handle up to 350 stores. It has bought series of small chains in last 2 years including Record Den, DJK Records, Tempo and Happy Town, last of which includes 2 locations in Guam. Consolidation in retail and distribution industries has prevented "company of our size" from generating "a reasonable rate of return," CEO William Teitelbaum said.

Franklin Electronic Publishers (FEP), one of early distributors of NuvoMedia's Rocket eBook, is returning to market with own model. eBookman will ship in fall in 8 and 16 Mb configurations at \$129-\$229, high-end and midpriced (\$179) models adding backlight. Device has 5" LCD with 200x240 resolution, MultiMedia Card expansion slot, 32-bit, 24 MHz Risc processor, USB port. eBookman doesn't have built-in modem, but can access one through USB port, said Chief Technology Officer Peter Yianilos, who led development of original Bookman product in late 1980s. Touch panel unit uses proprietary copyright protection and features EBM2000 operating system that controls launching of programs and scrolling, he said. Audio subsystem consists of 13-bit DAC that operates at 24 kHz. First eBookman applications will consist of music and audio book players, organizer suite, voice recorder. FEP carried Rocket eBook briefly in 1999, but eventually wrote off inventory. Unit generated sales of \$1.8 million, but was hampered by \$300 price. NuvoMedia since has since been acquired by Gemstar. "We learned a lot from that experience because the screen was just too big," Yianilos said. "It has to be pocket-size." eBookman also will have Microsoft Reader and Pumatech's synchronization software to link to PCs. Separately, FEP narrowed 4th-quarter loss to \$525,000 from \$21.4 million year ago despite 6% drop in revenue (see financial table). Downturn in revenue was result largely of sale of Rex Companion to Xircom. For year, FEP reversed year-earlier \$30.1 million loss to post \$2.6 million profit, mainly on strength of \$8 million from sale of Rex to Xircom (TVD Oct 4 p21). FEP, which also sells Bookman electronic books and Rolodex organizers, is developing 2000 Physicians' Desk Reference (PDR) for CD-ROM as well as Palm, Handspring Visor and Windows CE handheld PCs.

PlayStation2 (PS2) consoles may not be making their way to U.K. retail shelves by Christmas this year, British news reports said last week. Sony Computer Entertainment (SCE) instead is rolling out PS2 exclusively via consumer preorder-only plan in conjunction with retailers, reports said. Thus, each console shipped into U.K., possibly through Christmas, will be earmarked for specific customer who has preordered it, report said. Move represents dramatic change in philosophy for Sony, although it wasn't clear at our deadline whether manufacturer was planning same plan for U.S. market. Sony Computer Entertainment America (SCEA) spokeswoman didn't return calls for comment by our Fri. deadline. U.K. preorder campaign is scheduled to kick off Aug. 14, reports said, and 3rd party distributor Centresoft has been tapped to handle process. If SCE decided on same strategy for U.S., it would be contrary to what American retailers have said they had been told. SCEA Sales Vp Jack Tretton did say, however, at Electronic Entertainment Expo (E3) in May that huge preorder campaign probably would mean most of first shipment would sell out as soon as it reached U.S. retail shelves (TVD May 15 p12). SCE said at E3 that PS2 would launch in U.K. Oct. 26 — same day as U.S. debut (TVD May 15 p12). Although SCE announced \$299 PS2 price for U.S., it had yet to announce U.K. pricing as of last week. Separately, British press report said Sony did little to reassure retailers about razor-thin margins on PS2. Report quoted Sony as indicating that "only when huge numbers of games and peripherals are sold to a high installed base will we see the mix of margins we want."

Electronic game retailers are calling for standardization in PC game packaging. Interactive Entertainment Merchants Assn. (IEMA) said it plans to make formal announcement of its position at annual conference — Executive Summit in Orlando July 19-21.

SATELLITE CONTENT SPREADS: Wink Communications' agreement to bring its enhanced broadcast technology to EchoStar's Digital Sky Highway (DISH) satellite system by mid-2001 signaled growing trend among content providers to expand across satellite platforms.

While EchoStar and DirecTV once sought separate pacts with likes of Wink, OpenTV and WebTV technology developers increasingly are following path blazed by HBO, Showtime and others that long have provided programming for both companies.

"When we look at content it's almost better if it grows across platforms because it creates a broader acceptance in the marketplace," DirecTV Advanced Products Dir. Laura O'Donnell said. Both DirecTV and EchoStar are "content hungry," said Wink Senior Vp Allan Thygesen, whose company is supplying technology for combo DirecTV IRD being built by Thomson (TVD Jan 11/99 p22). Under EchoStar pact, Wink's technology will be integrated with OpenTV's interactive platform that's expected deployed shortly. Wink software will be added to DISH IRD via software download in 2001, Thygesen said.

Delivery of Wink/DirecTV IRD, originally set for midyear, has slipped to Sept. and Thygesen conceded that integration of technologies was moving slower than expected, but said other companies would join lineup soon. Sony and Hughes Network Systems are expected to have Wink-enabled IRDs product, sources said. However, Zenith has pushed back delivery of Wink-based TVs until 2001, sources said.

"I think you're going to see a lot more of this [introducing technology for both platforms] because there is a pretty small number of players that have field-proven systems that you can deploy," Thygesen said. Indeed, O'Donnell said Thomson is expected to ship set-top box (STB) combining DirecTV with WebTV technology later this year, product that will be "really be very different" from TiVo device.

Yet while DirecTV is taking hands-off approach with content, hardware is different matter. "The hardware is treated a little differently," O'Donnell said. "It's not that we require exclusivity, but most of our manufacturers find it's better to work in a more targeted fashion because they see efficiencies in that." Philips is only manufacturer building IRDs for EchoStar and DirecTV.

Philips also is to ship IRD that combines DirecTV with TiVo personal video recorder (PVR) technology by Oct. at \$399. Product, with 30 GB hard drive, boosts PowerPC processor speed to 76 MHz from 54 MHz, has 32 MB DRAM and advanced electronic program guide that holds up to 14 days of data vs. 2 days in current models. Upgraded processors will be built into high-end DirecTV IRDs, O'Donnell said. "We're interested in embedding the [TiVo] technology as widely as possible," TiVo Chief Technology Officer James Barton said. Along those lines, TiVo signed agreement with Thomson to build combo product for British Sky Bctg. (BskyB) satellite service and has begun test with Cox involving "several hundred" cable customers in Las Vegas. TiVo also is expected to begin test with Comcast using Philips-built set-top box (STB). It also extended agreement with Quantum, which supplies hard drives for PVRs, through 2002.

TiVo is expected to introduce PVR combined with America Online (AOL) AOLTV service in 2001 as part of planned \$200 million investment by Internet company. Philips Mktg. Vp Mi-

chael Lang declined comment on whether company would build product but said it would be "logical extension." Philips is manufacturing DirecTV/AOLTV device. Goal is to introduce model combining DirecTV, AOLTV and TiVo, although product would move into "area that's beyond just video," O'Donnell said. "The major issues will be nature of what AOLTV is going to be and how streaming media is going to be implemented into a seamless product," Barton said.

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Investment in TiVo could result in AOL's eventually owning up to 20 million shares of PVR developer, it said in SEC filing. AOL currently owns 480,307 shares (1.3%). Its \$200 million investment is based on maximum share price of \$35 and company has option of canceling plan if stock falls below \$10, it said in SEC filing. If share at closing is less than \$30, agreement will cover 6.6 million shares. All of AOL's preferred shares also convert to TiVo common if price exceeds \$30 for 18 of 20 consecutive trading days. About \$100 million of investment will be placed in escrow. If AOLTV/TiVo hardware has been deployed by Dec. 31, 2001, and AOL hasn't breached agreement, then TiVo is required to repurchase some stock. But if service isn't launched by deadline, TiVo can use \$100 million under terms of agreement, filing said.

RCA Internet radio will make debut later this year following agreement parent Thomson announced last week to license Kerbango Tuning Service from Cupertino, Cal., startup of same name. In separate development, Kerbango was acquired last week by 3Com, Santa Clara, Cal., \$80 million cash. RCA-parent Thomson said Kerbango license would enable it to offer line of home audio products that used Internet to access streaming media files and deliver thousands of new radio channels to home listeners through PCs. First RCA product, called AM/FM/IM (Internet Modulation) radio, connects to PC through ethernet link on tabletop radio and is targeted at consumers with broadband DSL or digital cable modem access to Web. RCA Internet radio also features conventional AM/FM reception for over-air broadcasts. Later version of Internet radio will have dial-up modem, Thomson said. Price hasn't been set, but Kerbango Pres. James Gable told us in Jan. that tabletop could see \$300. Thomson said it also planned to offer Internet Radio feature in RS2539 bookshelf audio system and RCA Digital Media Manager announced at recent MP3 Summit. RCA Digital Media Manager is home AV jukebox with hard disc drive that company says can store more than 2,000 songs in MP3 format. Built-in software enables consumers to compress CD music in MP3 format on drive, build playlists and sort by artist, album or genre. Device connects to TV set and includes electronic program guide to display titles and cover art for CDs and DVDs. Separately, as 3Com acquired Kerbango, Washington-based Internet radio pioneer Penguin Radio received undisclosed equity investment from Internet Partnership Group. Penguin is developing \$200-\$250 device that will tune radio from Internet, then pipe it to home stereo system.

In response to shakeout among online retailers, San Francisco-based Web shopping portal Ebates.com announced plan it hoped would encourage consumers to keep buying from e-tailers. Ebates.com said it would reimburse members for any charges incurred through its portal if product they ordered didn't ship because participating retailer went out of business. Among many e-tailers featured at www.ebates.com are BarnesandNoble.com, CDNow, Outpost.com, Toysrus.com. Ebates.com offers rebates of up to 25% on every purchase made through its portal.

SONY BOWS CD-R BASED MAVICA: CD-R based Mavica digital still camera (DSC) was unveiled by Sony, along with Picture Park Digital Picture Filing System and new Mini DV camcorder — palm-sized DCR-PC5, now shipping at \$1,499. At same time, Sony's competitors introduced their own new DSC lines at PC Expo in N.Y.C. last week.

MVC-CD1000 with 156 MB and 3" CD-R will become Sony's top-of-line Mavica when it ships in Aug. at \$1,300. Camera offers 2.1 megapixel resolution and either TIFF or MPEG modes. Company said each CD-R disc will be able to hold as many as 160 1,600 x 1,200 images, which can be recorded using JPEG compression or TIFF in UXGA, SXGA, XGA and VGA image sizes. Camera also has 10x optical zoom and 20x digital zoom.

Sony DSC & Peripherals Product Mgr. Mark Weir told us company was looking at CD-R-based model as "extension of Mavica" and wasn't sign that company was moving away from floppy discs for DSC storage. He said: "We are still very much committed to floppy disc media."

Weir said Sony selected CD-R for much same reason floppy disc was — most people who own computer today can use it because they have CD or CD-R drive in addition to floppy drive. When asked whether company had plan to make recordable DVD-based Mavica in future, Weir said that wouldn't be possibility for Sony until base of PC users with DVD drives was like one for CD and floppy disc.

Sony said CD-R format increases storage capacity over what was offered with floppy, enables faster image processing, decreases image recording time.

MVC-CD1000 also has built-in pop-up flash, 2.5" LCD, LCD color viewfinder. It will ship with 5 one-time writeable CD-Rs and software including Photo Suite.

Also shipping in Aug. is Picture Park, compact device that helps digital photographer archive, organize, display and transfer images from CompactFlash, Memory Stick, SmartMedia and other types of storage media to CD-R or CD-RW without having to be hooked up to PC. DPF-P7D with LCD screen will be \$1,000, while DPF-P7 without LCD will be \$700. Weir said one of key advantages of Picture Park is that it can be connected directly to TV with cables that are included. User can create slide show including text and voice annotation for images.

While Sony continues to maintain No. 1 market share for DSCs in terms of dollars and units, competitors such as Kodak, which by most accounts is No. 2 in market share — are out to cut down on Sony's lead. But none of Sony's competitors offered any indication last week that they had any plans to introduce floppy disc-based DSCs any time soon, preferring instead to stick with CompactFlash and SmartMedia for most part.

Kodak introduced 2 models in May and Digital & Applied Imaging Vp-Worldwide Mktg. Communications Dir. Nancy Carr said it planned to unveil more models in fall in time for holiday-selling season.

Continuing trend among manufacturers at Photo Marketing Assn. (PMA) show in Feb. (TVD Feb 14 p11), Kodak is eyeing "lower price points" to stay competitive.

Another trend from PMA also continued at PC Expo last week — more 3.1 megapixel DSCs priced below \$1,000.

Kodak DSCs unveiled at PC Expo were DC4800 3.1 megapixel camera shipping in mid-July at \$899 and DC5000 2 megapixel model shipping now at \$699. Carr said latter was company's first model that had been "ruggedized for outdoor extreme work and play." DC5000's exterior is padded and all doors have tight seals and locks. In addition, controls are oversized so user can operate it more easily while wearing gloves.

Also last week, Kodak made variety of announcements on Internet photo finishing front, including: (1) It started its new Print@Kodak photo finishing service as Kodak made equity investment — its first in online photo processing company — in privately held Snapfish. (2) Kodak and CVS began co-branded online photo service at www.cvs.com. (3) Canadian retailer Future Shop announced launch of online and in-store Future Photo digital imaging and photo finishing service in conjunction with Kodak.

Elsewhere at PC Expo, 2 new DSCs from Casio featured 2.11 megapixel CCDs and swivel lens mechanisms. While QV-2300UXPlus consumer model featuring 3x optical zoom and 4x digital zoom ships in July at \$799.99, QV-2800UX with 8x optical zoom and 4x digital zoom ships in Sept. for vertical market at \$699.99.

Toshiba unveiled PDR-M60 2.3 megapixel camera shipping in July at \$499. Company also announced it had cut price of its 2 megapixel PDR-M4 to \$399.

Ricoh showed 3.34 megapixel RDC-7 and 2.14 megapixel RDC-6000.

Nikon and Olympus didn't introduce new DSCs at PC Expo, but once again put spotlights, respectively, on their Coolpix 990 3.34 megapixel camera and C-3000 and C-3030 Zoom 3.3 megapixel cameras — each of which had bowed at PMA. Finally, Minolta once again showcased Dimage 2300 2.3 megapixel unit that debuted at COMDEX.

Telegen creditors will receive \$1.3 million under bankruptcy reorganization approved by U.S. Bankruptcy Court, San Francisco, last week. Another \$680,000 will be paid to holders of administrative priority claims, it said. Reorganization also provides for 1-16 reverse split of existing Telegen common and company expects to gain \$7 million from closing of offering begun last Dec. (TVD Nov 15 p13). Telegen signed agreement last fall on \$14.3 million debt/stock offering with WMS Financial Planners and Pacific West Securities. Pres.-CEO Jessica Stevens said court confirmation allows Telegen to "move forward toward commercialization" of its high-gain emissive display (HGED) technology. Company will form Telegen Display Corp. subsidiary this month to lead development of HGED, which is designed as low-cost alternative to LCDs, plasma and field-emissive display (FED) technologies for 5-40" flat panels. Telegen has demonstrated 10.4" HGED in past, but became mired in lawsuit filed by IPC Corp., which alleged that company "concealed material facts" about original business plan (TVD May 4/98 p21). To expand business, Telegen will regain assets of communications business that it sold in 1998 and buy eTraxx, which is developing high-speed wireless delivery system for digital data.

PALM CHOOSES SD FORMAT: Palm Inc., in surprising move, last week tapped Secure Digital (SD) technology for its expansion card, bypassing formats championed by licensees Handspring and Sony.

In choosing SD, technology established by SanDisk, Toshiba and Matsushita and with backing of 90 companies, Palm passed on both Handspring's Springboard and Sony's Memory Stick formats. Latter, which is aimed at same digital devices, camcorders and PCs, has been locked in battle with SD and so far has won support of 58 member companies.

Palm Senior Product Mktg. Dir. John Cooke said decision was based largely on SD's small "form factor," which is size of postage stamp. SD card, 32mm x 24mm wide and 2.1mm thick, supports 32 and 64 Mb storage and has data transfer rate of up to 10 sec. First SD-based Palm products are due in early 2001, company said at PC Expo in N.Y.C. last week.

Sony spokeswoman declined comment. Sony showed mock-up of Palm-based PDA that's scheduled to ship this fall, but not working prototype or product details. Sony, which signed licensing agreement with Palm last Nov., is expected to price its first model at under \$200 and gradually expand technology to include wireless Internet access, one- and 2-way paging and ability to "communicate" with other CE products, sources said. First models are expected to have limited Internet access, add-on storage based on Memory Stick, color screen (TVD May 22 p14).

Handsprint, which NPD Intelect said took 25% of retail market in May despite limiting sales to its own Web site, and Amazon.com, Best Buy, J&R Computer World, CompUSA and Staples, declined comment on Palm's SD plans. "I think it bodes quite well for expanding the platform, but I don't know that there had been any discussions regarding Springboard for Palm," Handspring Product Mktg. Mgr. Frank Romero said. Cooke argued that Handspring faced limitations because of size of Springboard device.

Yet while Handspring was noncommittal on Palm's SD strategy, it was trying to match its licensor blow-for-blow despite falling short thus far in distribution and number of developers creating software for platform. Palm, which launched Pilot in 1996, said it's sold through thousands of store fronts in U.S. and recently increased to 350 in Japan. It also had 82,000 developers at end of fiscal 4th quarter June 2, up from 29,000 at year-end 1999. Handspring recently started sales in Japan through Eiden, Ikeshop, T. Zone, Yodobashi Camera. It has 3,000 developers signed on, but has had some defections, including JP Systems, which since has taken its one-touch Messaging system to Palm platform. S3's Diamond Rio group also had been expected to develop MP3 module for Handspring Visor, but didn't have product last week.

Instead, InnoGear rolled out MiniJam MP3 player (\$199) for Handspring that's expected to ship this month. Device is available in 32 and 64 Mb configurations and supports Multi-Media card expansion slot. Handspring also has 2 global positioning system (GPS) software providers, GeoDiscovery's Geode software joining Microsoft's Quo Vadis HandyGPS. Symbol Technologies also signed on as Handspring's first Springboard licensee and will use technology for its core bar code scanning and wireless local area network businesses.

Almost lost in Handspring-Palm clamor were new Pocket PC handhelds based on Microsoft's Windows CE 3.0. Products

have sizeable price gap — \$200-\$300 — between Handspring and Palm Pilots in \$149-\$249 range, but continued to highlight faster processing power — Hitachi 133 MHz vs. 16 or 24 MHz. Pocket PCs also maintain edge in resolution 240x 320 vs. 160x160. But hardware support appears to be dwindling, with only Compaq, Casio and Hewlett-Packard (HP) showing models. While Microsoft once had stable of 7 hardware providers, Everex, LG Electronics and Philips have left in last year.

"Palm can do very well for contact and calendar information, but Windows CE have Microsoft Word Excel and Pocket Internet Explorer," said HP Wireless Strategic Mktg. Mgr. Christopher Yien, whose company continues to carry larger Jordana handheld introduced year ago. "You just can do a lot more with Windows CE."

Windows CE platform also has bigger onboard memory in its handhelds (16-24 MB), while Palm and Handspring models top out at 8 MB. However, Handspring and Palm can make up onboard memory disparity via expansion slot, Romero said. "I think that 8 Mb of memory is a significant amount to start with and then you can expand it with add-on cards," he said.

Despite differences, handheld PC manufacturers agree that wireless technology and Internet access represent future of industry. Palm CEO Carl Yankowski has said that all Pilot products will have Internet access by year-end. Platforms also are likely to spread to cellular phones, pagers and other devices. Indeed, Palm shareholders Nokia and Motorola are expected to introduce cellular phones and pagers, respectively, based on handheld PC maker's software.

As handheld PC platforms evolve, Sharp's Wizard organizer keeps expanding storage capacity. Company introduced 770PC that ships this summer with 3 MB memory, up from 1 MB, and \$99 price. Device has 40-character, 8-line screen, docking station for connection to PC serial port and is packaged with Day-Timer Organizer 2000 software. Additional software is available via mywizard.com web site, which contains 400 programs. It measures 6.4"x 3.2"x0.8" and weighs 7.8 oz.

Sharp, Windows CE licensee that didn't display new products, is expected to introduce new Mobilon line later this year, sources said. Sharp declined comment on plans and it was unclear whether it would continue with Windows CE-based products.

Smith Corona (SC) will become 49%-owned by thermal printer supplier Pubco under proposed bankruptcy reorganization plan. Cleveland-based company would buy 49% of stock in reorganized SC, remaining 51% distributed to creditors. Purchase would be based on value of SC inventories and receivables at time deal closes, which is expected by year-end. Pubco emerged as potential buyer for SC after Carolina Wholesale Office Machine offered \$6 million for assets in connection with SC's bankruptcy filing (TVD May 29 p19). SC Pres.-CEO Martin Wilson said Pubco deal would provide "more value to satisfy creditor claims." SC plans to submit formal reorganization plan by late summer outlining strategy, including whether it will maintain separate sales force and hq in Cortland, N.Y., spokeswoman said. Pubco, which provides printer supplies to 12,000 accounts, was founded in 1958 and has 275 employees. It also manufactures, assembles and distributes products for construction, mining and utilities industries. It reported income last year rose to \$9.2 million from \$7.3 million despite sales decline to \$67.3 million from \$68.6 million.

HARVEY UNVEILS E-COMMERCE PLAN: Harvey Electronics will open new Web site in fall offering customers in metro N.Y. market online sales option for first time. Site will replace current one that doesn't have e-commerce function, Lyndhurst, N.J.-based retailer said last week.

Harvey Pres. Franklin Karp told us e-commerce site will function as "9th store," although company said online sales transactions would be "secondary goal of the site" behind method to drive more customer traffic to its brick-and-mortar locations. Although some customers may want to buy product online without seeing it first, Karp said that in general "we know that our customers want to see, hear, feel and touch [products] before making purchasing decisions."

Consumers will be able to reserve products from local Harvey location and schedule in-home or in-store consultation. Karp said customers "absolutely" would have option of returning items they had purchased by mail or at one of Harvey's brick-and-mortar locations.

Although Karp said Harvey had yet to receive online authorization from all manufacturers, it already was authorized to sell products from at its brick-and-mortar stores, he told us company was "in the process of going through that right now." Among manufacturers from which Harvey had yet to receive Internet authorization as of last week was Sony, he said.

Dealer currently operates 2 Harvey stores in Manhattan and 4 suburban locations: Greenwich, Conn.; Long Island, N.Y.; Mt. Kisco, N.Y.; Paramus, N.J. Harvey also operates Bang & Olufsen (B&O) store in Manhattan and will open 2nd such outlet — this time in Greenwich — in Sept.

Karp earlier this year told us that Web site — www.harveyonline.com — would be expanded "into an active e-commerce site" as early as 2nd quarter (TVD March 20 p17).

Other enhanced features of new Web site will include video tour of complete Harvey custom installation transaction, from first point of contact in retail showroom through final in-home installation. "Build-to-suit" feature will let consumers configure their own home theaters via customized online product recommendations based on such information as budget, location, room size.

Harvey said it planned "significant increase in advertising" in conjunction with e-commerce venture. Ads will include print, radio and TV and will serve to benefit retailer's brick-and-mortar locations as well, it said.

Karp also told us last week that Harvey intended to remain part of GetPlugged.com network of specialty CE dealers even after Harvey Web site resumes.

This isn't first time Harvey has attempted to enter e-commerce waters: Proposed merger that would have joined Harvey and CoolAudio.com was terminated earlier this year (TVD Feb 14 p15). It also has agreements with e-Town and eBay.

Activision will aggressively step up licensing activities, Santa Monica-based game-maker said last week, but it didn't announce any specific plans.

AMAZON.COM'S FUTURE QUESTIONED: Even Amazon.com hasn't been immune to growing lack of faith in dotcom companies among analysts and investors.

While analysts Henry Blodget of Merrill Lynch and Mary Meeker of Morgan Stanley Dean Witter said they didn't expect Amazon's revenues to improve much in upcoming quarters, Lehman Bros. analyst Ravi Suria called e-tailer's credit "extremely weak and deteriorating" and said Amazon could run out of money by mid-2001.

But Amazon.com CEO Jeff Bezos disputed Suria's comments — although he didn't mention Lehman analyst by name — in Q&A segment of his keynote at PC Expo in N.Y.C. last week. Bezos called Suria's report — which Suria told CBS MarketWatch was based on Amazon's own SEC filings — "incorrect" and complained that analyst wrote it "without even calling me."

Although Bezos once again declined to say just when he expected his company to turn profit, he said Amazon "has a billion dollars in cash" and doesn't expect to have problem getting additional funding if necessary. While company's U.S. book business achieved profitability in 4th quarter 1999, Bezos said he expected Amazon's combined U.S. book/music/video business "to be profitable" by end of 2000.

But word that Meeker, who previously had included Amazon on short list of stocks she liked, now was questioning whether Amazon has what it takes to survive growing purge of dotcom companies took some in industry by surprise.

Amazon shares hit year low right after analysts's comments, but rebounded last week.

As for overall dotcom arena, Bezos said companies with good ideas would continue to find funding this year, while ones that don't would have trouble — reversing trend of last year when "every idea received backing" regardless of how bad it was.

Bezos said: "I think there are going to be thousands and thousands of winners online. I think there are going to be thousands and thousands of failures online." That, he said, is not necessarily bad thing for industry.

Napster is filing legal brief this week in U.S. Dist. Court, San Francisco, in latest effort to stop its song-swapping Web site from being shut down, Reuters reported. Recording Industry Assn. (RIAA) in June filed motion for preliminary injunction against Napster in which it sought to remove all songs owned by RIAA members from Napster's service until legal decision was reached. Although *Wall St. Journal* reported Napster had been in talks with record labels to resolve copyright infringement lawsuits brought against it, RIAA spokeswoman told us it still planned on "going to court July 26," when hearing is scheduled (TVD June 26 p18). Napster service allows PC users to find and download desired MP3 music files from PCs of other Napster users.

THIS WEEK'S YEN RATE

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

MORE BAD NEWS FOR DOTCOMS: E-commerce field continued to show signs of trouble in June as CDNow board member resigned amid word from troubled music retailer that it still hadn't found investment or merger partner, Reel.com exited field, KBkids.com withdrew planned \$210 million IPO. EMusic.com said it was cutting 20% of staff and reports indicated one-hour delivery e-tailer Kozmo.com had postponed its IPO and laid off 24 employees at its Manhattan hq.

CDNow, Web music company based in Ft. Washington, Pa., said last week it was "continuing its discussions with multiple parties to secure an investor or merger transaction and is working towards completing a transaction in the next several weeks." Company said it had "not agreed on terms with any party, including a price for an investment or acquisition of all or part of the securities of CDNow," adding: "There can be no assurance that an offer will be received from any of these groups or that a transaction will be consummated at any time, or what the terms of an agreement might be."

CDNow CEO Jason Olim earlier had expressed confidence company would find funding "by the end of the 2nd quarter" (TVD May 8 p15). Future of company has been questioned ever since Sony and Time Warner terminated planned merger of their Columbia House joint venture and CDNow (TVD March 20 p16).

Company also said Patrick Kerins resigned from board. Kerins, managing dir., Grotech Capital Group, joined CDNow board in 1997 representing Grotech, one of original CDNow investors. CDNow indicated his resignation wasn't related to company's financial troubles, but rather because of his commitments to other boards where he has investments.

Situation was even bleaker for Reel.com as Hollywood Entertainment CEO-Chmn. Mark Wattles said his company was closing down e-commerce part of its business because while "revenue, customer traffic and customer satisfaction have all been very strong... the business model of rapid customer acquisition required large losses and significant cash funding." He said: "As a result of the major declines in the value of publicly traded e-commerce companies, we have been unable to obtain outside financing for Reel and do not believe it is in the best interests of Hollywood's banks, bondholders and shareholders to continue funding Reel from Hollywood's strong video store cash flow."

Hollywood said it expected after-tax loss of \$25 million in quitting e-commerce business, but said it expected to return to overall profitability soon via its Hollywood Video brick-and-mortar business. CFO David Martin said: "For the past 18 months, large losses related to infrastructure investments in Reel.com have completely overshadowed the strong profits and cash flow from our nearly 1,800 Hollywood Video superstores."

Company said it entered into agreement with Buy.com, which now will handle e-commerce services for consumers who visit Reel.com Web site. Hollywood said Reel.com site will continue to function as source of information content, but it was unclear exactly how it planned to do that in light of reports that indicated Hollywood had laid off entire Reel.com staff of 200. Hollywood Entertainment spokesman hadn't returned call by our deadline.

Hollywood said it expected to absorb "Reel on Demand" and other video-on-demand (VoD) efforts at Reel. but it was

unclear what impact decision to leave e-commerce field would have on ability to deliver VoD. Wattles late last year told Motion Picture Production & Finance conference in L.A. that his company's eggs weren't all in brick-and-mortar basket and that it was positioning Reel.com as its vehicle for alternative delivery business, which it expected to rise in next few years (TVD Nov 29 p12). He also said company planned to install 1,500 Reel.com kiosks at its stores.

KBkids.com CFO Michael Wagner said in letter to SEC that his company wanted to withdraw IPO it filed Jan. 27. He said "we believe that withdrawal" of IPO "at the time is consistent with the public interest and the protection of investors."

News came only month after word that KBkids.com had fired 30% of staff as part of deal to receive continued funding from Consolidated Stores, which owns 80% of KB Toys e-commerce division (TVD May 22 p16). At same time came word that KBkids.com had ousted its CEO-founder, Srikant Srinivasan.

Last week brought more potentially bad news for KBkids.com: Consolidated said it was cutting KB Toys business off from its operations and said Toy Div. would be classified as discontinued operation as of 2nd quarter. Consolidated said separation of toy business should be complete in 6-12 months.

When KBkids.com filed for IPO, it said it planned to use proceeds for capital expenditures and general corporate purposes, including marketing, operating expenses, working capital needs.

EMusic.com said it was cutting 20% of its staff under plan to reduce costs. It said it expected to post revenue growth but loss per-share lower than Wall St. estimates for quarter ending June 30. Other cost-cutting moves will include reductions in marketing spending and other operational savings, company said.

Finally, Kozmo.com spokesman hadn't returner call by our Fri. deadline to comment on reports that it had pulled its IPO and cut staffing. When Kozmo.com filed IPO earlier this year, it said it expected to raise \$150 million (TVD April 10 p20). In filing, Kozmo.com also confirmed reports that Amazon.com had taken 31% stake in company and invested \$60 million in it.

■ ■ ■

Palm Inc. reported sharp gain in 4th-quarter profit to \$12.4 million from \$6.8 million year earlier as it successfully dodged parts shortage. Palm sales more than doubled to \$350.2 million. Results came as Palm navigated first quarter as publicly traded company following spinoff from 3Com and coped with shortages of LCDs and flash memory. Palm sold 1.1 million devices in quarter at average price of \$260, CFO Judy Bruner said. Sales were led by color Palm Pilot IIIC, she said. Device category, which includes handhelds as well as accessories, had \$342.4 million in revenue, 98% of total. Licensing revenues, which include those from Sony and others, totaled \$3.4 million in, while content/access hit \$4.4 million. Content includes Palm.net service, which offers stock quotes and sports scores in various price packages. It has 100,000 subscribers, Bruner said. Gross margins slid to 39.1% from 43.6% in 3rd quarter due to lower prices and higher warranty costs tied to discovery of faulty memory chip in some Palm IIIC, Palm IIIXe and Palm Vx models produced between Oct. 1999 and May. Palm is supplying software patch to fix problem, Bruner said. Palm also found "hairline crack" on back casing of some Palm IIIC models, Bruner said. Also affecting gross margin were higher component costs including those for flash memory, Bruner said.

800.COM DELAYS IPO — FOR NOW: CE e-tailer 800.com sent letter to SEC week ago asking to withdraw IPO it had filed in March (TVD March 27 p20).

800.com Pres.-CEO Gregory Drew said in letter that company wanted to put off going public temporarily because it "believes that terms obtainable in the marketplace at this time are not sufficiently attractive to proceed with the sale of the shares."

But Drew told us that he wasn't ruling out effort to go public later this year if market conditions changed. Company also might opt to look for additional round of private funding in interim, he said.

Picture Drew painted of company's current situation didn't seem as bleak as ones of competitors in online space. For one thing, Drew said 800.com has "a pretty stable gross margin picture." He said it had "perfectly adequate cash" on hand to last it at least until end of fiscal year March 31, 2001. Company also is on "consistent path to profitability," which he said should happen "by the end of next year." Also, unlike companies such as KBkids.com and Kozmo.com, Drew said 800.com hadn't fired or laid off any employees.

800.com could be profitable at any point if it so chose, Drew said, but instead was opting to concentrate on building its infrastructure and brand, which still require significant investments.

When 800.com filed IPO, it didn't know market was going to start "to go south" within weeks, Drew said. When it began to see "that there were 2 [dotcoms] a week" going out of business, he said it started reevaluating its position on going forward with IPO. He said: "We found ourselves being guilty by association because a lot of dotcom companies were having trouble." 800.com was "feeling pretty lucky in that we actually have choices," he said.

Drew declined to give update on specific current financial situation, citing SEC rules. In filing IPO, 800.com revealed that it had \$13.5 million in sales in 3rd quarter ended Dec. 31, 1999 — up from \$1.2 million year earlier. But it said it lost \$22.3 million in same quarter after \$3.9 million loss year earlier. For 9 months, 800.com had sales of \$23.7 million, up from \$1.3 million in year, but loss widened to \$35.7 million from \$5 million. E-tailer also said it lost \$12 million last year and had accumulated deficit of \$47.8 million since Dec. 31.

While 800.com currently doesn't have major ad campaign, Drew said action on that front could be expected as holiday season gets closer.

800.com recently opened Pioneer (TVD June 5 p16) and Sony (TVD April 24 p16) stores within its Web site after receiving authorization from both manufacturers. 800.com Senior Mdsgr. Vp Frank Sadowski told us: "We don't have any specific additional authorizations to announce at this time, but we are expecting to have more than one significant announcement... within the next 30 days."

SmartDisk has dropped 4.2-million share secondary stock offering because of "adverse market conditions," it said in SEC filing. Company had proposed raising \$140 million through offering to help fund 4th-quarter debut of FlashTrax adapter that enables MP3-compressed music downloaded from Internet to be played through existing cassette transport (TVD March 27 p15).

Transmeta formally took wraps off new Crusoe low-power microprocessor designed to compete with Intel's Pentium and Advanced Micro Device (AMD) K6 in laptop PCs and Internet appliances. IBM, which is building chip, already has unveiled ThinkPad 240 (\$1,900) running on chip. Other OEM partners include Hitachi and NEC. Not among first backers is Hewlett-Packard, which had been testing prototypes since Jan. but found that "customers are still very comfortable with our Intel-based products," said Anthony McMahon, HP's N. American business mgr. for OmniBook laptop PCs. Crusoe will be designed into laptops costing \$1,900-\$2,400 that are expected to ship in fall. Crusoe chips — TM5400 and TM3200 — run at 500-700 MHz and 333-400 MHz for laptops and Internet appliances, respectively. Transmeta said products with its chips would use less than 1 w of power, extending enabling battery life up to 8 hours from 6-10 w and 4 hours common with many Intel-based models. It also has designed IC with long-run software technology that makes dynamic adjustments in chip's clock speeds at any point based on data being processed. "It allows the machine to dynamically adjust the speed of the CPU while it's running, so basically you're never running at a faster speed than what you need to perform a specific function," Platform Mktg. Mgr. Rahul Patel said. Transmeta will have competition. Intel recently showed 600 MHz Pentium III SpeedStop processor that consumed average of 2 w of power while playing DVD movie, although overall system used 15 w. AMD also has PowerNow technology that shifts among 6 processor speeds of 200-500 MHz depending on power requirements.

Revenues dropped as losses increased in 4th quarter and year for Infogrames, Inc. N.Y.-based company, previously known as GT Interactive Software. Infogrames, said revenues for quarter ended March 31 were \$61.1 million, down from \$93.5 million year ago. Company posted \$140.6 million loss for quarter compared with \$90.8 million loss last year. Loss included charges for restructuring and reorganization of company. For year, it reported revenue of \$375.6 million, down from \$572.3 million, as loss widened to \$320.7 million from \$70.8 million year ago. Excluding restructuring charges, loss would have been \$6.6 million for quarter, compared with \$54.8 million excluding similar charges, and \$101.7 million for year, compared with \$32.6 million. Commenting on results, CEO-Chmn. Bruno Bonnell said: "Although we have seen a slowdown in top and bottom line results we believe we are on the right track to improve the company's performance." Day before results were announced, GT Interactive said it started trading on Nasdaq as Infogrames Inc. Company also announced 1-5 reverse stock split, which it had disclosed earlier in filing with SEC. Company started trading on post-split basis on June 27.

Amazon.com added enhanced features last week to zShops section of its e-commerce Web site, where other retailers sell their products to consumers. Among new zShops features is "merchant storefronts," which Amazon said allows zShop retailers to customize their online storefronts by incorporating their own branding, custom colors, logos. Other features include "specialty shops," which enables consumers to browse through selected retailers selling particular product category, and "zShops Favorites," which will be listed on zShops home page to tell consumers what most popular items are.

Expansion of DVD output for Europe was announced by Bertelsmann-owned replicator Sonopress. It said it would add 8 replication lines to factory in Gutersloh, Germany, by year end, enabling plant to produce 140,000 DVDs daily. Together with replication facilities in Ireland and Spain, daily output for Sonopress will reach 170,000 discs.

Consumer Electronics Personals

Akira Ochida retires as pres. of JVC Americas Corp. after 37 years with company; successor is **Katsuhiko Hattori**, who advances from JVC Americas vp... **Intel Pres.-CEO Craig Barrett** to give technology keynote speech Jan. 5 at CES, Las Vegas... **Laura O'Donnell**, DirecTV satellite receiver systems dir., promoted to advanced products dir... **Hugh Martin**, ONI Systems CEO, elected to ReplayTV board... **Norman Goldberg**, ex-Fortunoff, joins The Wiz as COO... Promoted at Image Entertainment: **David Borschell** to COO from senior vp-sales, mktg. & operations; **Barry Gordon** to vp-sales from dir. of business development... **Mark Mendelsohn**, ex-Curtco, joins KnowledgeLink as vp, e-mktg... **John Johnsen**, ex-Vergence Technology and onetime NHT, joins Parasound as dir. of sales... **Kenneth Shewitz**, ex-IBnet.com, named exec. vp-CFO, NCT Group's DistributedMedia.com subsidiary... **John Sullivan**, Toys "R" Us vp, shifts to ToysRus.com mdsg. vp-gen. mgr.; **Edward Roth**, ex-NPD, named research vp; **Greg Ahearn**, ex-OddzOn Products, mktg. & business develop vp... **Gayle Pomerantz**, ex-Visby Mktg. Group, named pres., Warrantech's Home Services Co... **Robert Wisenthal**, ex-Credit Suisse First Boston, appointed Sony Broadband Entertainment chief strategy officer... **Pradeep Jotwani**, Hewlett-Packard Consumer Business acting pres., promoted to pres., replacing **Antonio Perez**, resigned... **Michael DeNeffe** advanced to NEC vp-mktg... **Naoki Ayata**, ex-Canon Optical Products Operations deputy dir., promoted to Semiconductor Equipment Div. vp-gen. mgr... **Greg Goldstein**, ex-Inkworks, named Activision brand development-licensing vp.

Valley Media laid off 170 employees in major restructuring in face of sagging finances. VM had 2,400 employees at year-end and said it plans to reduce work force to 1,700, mostly through attrition. Hardest hit will be Woodland, Cal., hq/distribution center where 100 will be laid off. Also affected will be 330,000-sq.-ft. distribution facility in Louisville. VM recently relocated 110,000-sq.-ft. Cal. distribution center to larger 260,000-sq.-ft. facility and opened another that opened in Ky. in 1999. VM, which has more than 200 retail customers including Amazon.com, Buy.com and CDNow, lost \$4.6 million in fiscal year ended April 1, against \$4.4 million profit year earlier... **Video City** completed integration of systems with those of West Coast Entertainment, first leg in merger expected to be completed by late Aug. Still to be finalized is sale of some West Coast stores to satisfy \$20 million debt chain owed banks (TVD April 10 p21). Video City has 76 stores and West Coast 236 plus 90 franchised locations. Deal had been expected to close by year-end 1999.

Zoran board member George Haber said he wouldn't stand for reelection, charging that Pres.-CEO Levy Gerzberg "is incapable to decently run" company, according to SEC filing. In letter to SEC dated June 19, Haber said it would be "to the benefit of all shareholders" that Gerzberg be replaced. Haber, CEO of Gigapixel, wasn't available to elaborate on comments, but said in letter that decision to quit board was "based on discussions we had during our last board meeting" in May. DVD software decoder maker countered that other board members "strongly disagree" with Haber's position and said his comments were prompted by exclusion from slate of nominees "rather than by any legitimate concern regarding Dr. Gerzberg's qualifications," SEC filing showed. Gerzberg remains "very effective" CEO and Haber's "inability or unwillingness to work with him has been detrimental to the effective management of the company," Zoran said.

Financial Reports of TV-Electronics Companies

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

Company & Period	Revenues	Net Earnings	Per Share
ATI Technologies 2000-9 mo. to May 31	1,081,799,000	(24,126,000)	.45 ^a
1999-9 mo. to May 31	926,607,000	90,362,000	.45 ^a
2000-qtr. to May 31	288,212,000	(128,786,000)	.-- ^a
1999-qtr. to May 31	302,039,000	18,578,000	.09 ^a
Liberate Technology 2000-year to May 31	28,017,000	(80,771,000)	.-- ^a
1999-year to May 31	17,313,000	(33,053,000)	.-- ^a
2000-qtr. to May 31	9,124,000	(37,004,000)	.-- ^a
1999-qtr. to May 31	5,123,000	(11,136,000)	.-- ^a
Franklin Electronic Publishers 2000-year to Mar. 31	96,422,000	2,676,000	.34 ^b
1999-year to Mar. 31	103,793,000	(30,191,000)	.-- ^a
2000-qtr. to Mar. 31	15,155,000	(525,000)	.-- ^a
1999-qtr. to Mar. 31	16,161,000	(21,417,000)	.-- ^a
Infogrames 2000-year to Mar. 31	375,569,000	(320,721,000)	.-- ^a
1999-year to Mar. 31	572,342,000	(70,838,000)	.-- ^a
2000-qtr. to Mar. 31	61,091,000	(140,624,000)	.-- ^a
1999-qtr. to Mar. 31	93,497,000	(90,782,000)	.-- ^a
Palm 2000-year to June 2	1,057,597,000	45,910,000	.09 ^a
1999-year to June 2	563,525,000	29,628,000	.06 ^a
2000-qtr. to June 2	350,245,000	12,437,000	.02 ^a
1999-qtr. to June 2	174,334,000	6,844,000	.01

Notes: ^aAfter special charge. ^bIncludes special credit. ^cPro forma.

Webvan and **HomeGrocer.com** entered into definitive merger agreement last week. Webvan Group, based in Foster City, Cal., will acquire HomeGrocer.com in stock-for-stock transaction valued at \$1.2 billion. Combined company will operate under Webvan Group name. Webvan, which delivers wide variety of products to customers within half hour, added electronics, DVD/VHS and videogames to its product mix last month (TVD June 26 p18). Merger could extend Webvan's market reach beyond current Atlanta, Sacramento and San Francisco into total of 13 U.S. metro areas by end of 2000, including Baltimore; Bergen County, N.J.; Chicago; Dallas; D.C.; L.A.; Orange County, Cal.; Portland, Ore.; San Diego; Seattle. Merger also gives Webvan relationship with Amazon.com, which recently bought 35% stake in Kirkland, Wash.-based HomeGrocer.com for \$42.5 million. Nature of Webvan relationship with Amazon.com remained unclear last week, as was what impact it would have on Amazon's current relationship with Kozmo.com, in which it invested \$60 million and took 31% stake earlier this year (TVD April 10 p20). Amazon.com also announced 3-year agreement in which Kozmo.com will be one-hour delivery provider for books, music, toys. At time deal was announced, however, Amazon.com made it clear that it wasn't exclusive arrangement.

Among concerns Forrester Research said it has about Seagram Universal-Vivendi merger is that cultural differences among staff managers of each may slow innovation and expansion. Forrester analyst Carsten Schmidt said in report that companies' "vision of creating a world-leading new media company will fail" for variety of other reasons as well. Heading list of reasons is that Vivendi's European mobile phone service, Pan-European digital TV network and other businesses would only "water down Seagram" and its Universal film, music and TV businesses. He warned that "companies like Amazon.com or MGM/UA must make sure that their deals with these new distribution/content firms give them equal rights with in-house content groups."



TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

JULY 10, 2000

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SUMMARY-INDEX OF WEEK'S NEWS

Broadcast - Cable

QUETZAL/CCP INVESTS in Internet. Most money to broadcast, most deals to Web. Mix criticized by NABOB. (P. 1)

COPYRIGHT AGREEMENT reached by cable, rights holders. Small boost for distant network signals and superstations would be first in 15 years. (P. 2)

FCC UPGRADING FILING: Electronic systems subject to budget. Action plan set to resolve user concerns. (P. 2)

SONY CASE MAY HELP NAPSTER counter copyright suit, expert says. VCR showed legal copying possible, online firm says. (P. 4)

FCC SETS ENG RULES: Broadcasters to lose spectrum gradually, but little opposition is seen. Mobile satellite services see opportunities. (P. 5)

LATHEN CHIDES MSOS on bids to delay cable security modules. Large number of waiver bids calls commitment into question, she says. (P. 6)

QUETZAL MADE ONE RADIO, 3 INTERNET INVESTMENTS: Investment fund established by broadcasters' commitment of \$175 million in cash equity to help increase minority ownership of communications properties has made 4 investments totaling \$42.5 million in its first quarter of operation, according to Reginald Hollinger, managing dir. of Quetzal/Chase Capital Partners (CCP). However, only one of those investments has been in broadcasting, with 3 others going to start-up Internet companies, leading to criticism by James Winston, pres. of National Assn. of Black Owned Bcstrs. (NABOB), and other minority broadcasters. But Hollinger told us that Quetzal (pronounced kate-zal) couldn't be "pi-geonholed" as for broadcasting investments only and that it had "accomplished exactly what our mandate requires."

While only one Quetzal/CCP investment has been in TV-radio, \$30 million for Cincinnati-based and African-American owned Blue Chip Bcstg. (19 radio stations), it has more than double amount invested in 3 Internet companies. In each case, Quetzal/CCP official is on board of company receiving money, with Hollinger saying: "We're not looking to be passive investors... We want to play an active role." He refused to say what percentage of Blue Chip (headed by Ross Love) Quetzal acquired for its \$30 million.

Latest Quetzal/CCP investment, and by far its smallest at \$1 million, was made last week in Obsidiana Internet, start-up firm directed toward Hispanic women. Lauren Tyler, who joined Quetzal/CCP in May, is on Obsidiana board. Other investments, both announced May 22: (1) \$7.5 million in Urban Box Office Networks, N.Y. (2) \$4 million in Hookt.com, N.Y.-based entertainment portal dedicated to "the hip-hop music genre and life-style." Hollinger said Quetzal/CCP had several other possible investments under consideration, including telecom companies that he didn't identify. Other officials of investment firm include Rachel Lam (who formerly served in Office of the Pres. at Time Warner) and Clarence Zachery.

Consumer Electronics

DVD RECORDER CLAIMS CLARIFIED: DVD Multi decks will record in DVD-RAM and DVD-RW formats. Philips says DVD+RW won't arrive until mid-2001, not this 4th quarter. (P. 10)

TOSHIBA ATTACKS RIVALS on progressive scan DVD technology using frame memory, arguing it creates 'unwarranted picture artifacts' in display. (P. 11)

MARANTZ READIES 64W HDTV for fall delivery at \$12,000, will have 55W-60W HD-ready sets in switching to all-digital lineup. (P. 12)

SONY AMENDS PATENT SUIT against PlayStation emulator maker Connectix. (P. 13)

MP3 PLAYER FIELD GROWS as Dell enters CE arena as Archos, Iomega, Philips and S3 unveil new devices. (P. 13)

SONY'S PS2 PREORDER PLAN BLASTED by independent U.K. retailers. (P. 14)

2-TV DIGEST

Winston told us that Quetzal/CCP criteria for investments were "very troubling," saying they didn't meet needs of blacks who wanted to acquire stations: "We have concerns that the investment model that Quetzal is using is not going to result in an increase in minority ownership" of broadcast stations. Hollinger countered that Winston's complaint was to some extent untrue... We never said it was going to be a broadcasting-only [fund]. Some groups, for whatever reason, to some extent quibbled with our results."

When investment firm, originally named Prism Fund (which had to be changed because of copyright considerations), was announced last fall at NAB news conference, founding executives talked about increasing minority ownership in broadcasting only, and other communications media weren't mentioned in their prepared statements (TVD Nov 8 p4). NAB news release said fund was "designed to increase ownership of over-the-air television and radio stations by minorities and women." Mel Karmazin of CBS and Lowry Mays, Clear Channel CEO, were prime movers behind fund-raising, with former saying at news conference that through fund "we are underscoring our industry's commitment to diversity" in ownership. Mays said fund "is just one of the initiatives the broadcasting industry will introduce to expand ownership of broadcast licenses by minorities and women." Asked Fri. for comment, NAB Senior Vp Dennis Wharton said: "The goal was to bring more minorities and women into the ownership ranks of media — including broadcasting. We believe Chase, which is solely responsible for managing the fund, is well on its way to accomplishing that objective."

DRAFT AGREEMENT WOULD RAISE CABLE COPYRIGHT FEES: Settling potentially lengthy and expensive legal dispute, cable industry and TV program rights holders have agreed to boost copyright fees that cable operators pay to carry distant network signals and superstations. In joint petition quietly filed with U.S. Copyright Office June 30, NCTA, NAB, MPAA, ASCAP, public broadcasters, sports interests, NPR and several other program suppliers submitted draft 5-year accord generally calling for cable operators to pay slightly more to cable royalty pool, which totaled just over \$100 million last year. Estimates of increase range from 0.1% to 11%, depending upon individual cable operator. Increase, which would take effect July 1, would be first for cable industry since 1985.

Even though individual cable system rates could rise as much as 11%, negotiators said overall impact would be smaller because accord also would reclassify cable operators by 3 sizes. Pact would lump more systems than before in 2 smaller categories, effectively limiting increase for them. Larger systems generally pay highest copyright fees but fewer systems now would qualify as larger.

Draft agreement comes less than 6 months after MPAA, other program producers and sports rights holders filed separate petitions with Copyright Office seeking larger increase in cable copyright rates. Despite basic cable rates that have climbed faster than general inflation rate for years, copyright holders have complained that they haven't shared in bounty because their rates have been fixed. "Royalty rates haven't kept pace with inflation," said Robert Garrett, attorney with Arnold & Porter representing sports interests. "We thought there ought to be bigger increases while the cable guys thought there ought to be smaller or no increases."

Once Copyright Office started formal proceeding to set new cable copyright rates in late Feb., parties began negotiations. They reached agreement June 30 after Copyright Office had granted 2 temporary extensions of negotiation period, allowing them to forestall appointment of special govt. arbitration panel to establish new rates. Gina Giuffreda, Copyright Arbitration Royalty Panel (CARP) specialist with Copyright Office, said her agency would put draft agreement on public notice soon and then probably give public 30-60 days for comment. Little opposition is expected because all 11 parties with major stakes in issue have signed off on it.

FCC SAYS ELECTRONIC FILING UPGRADE IS PROGRESSING: FCC plans to install 3 more servers by early Aug. to improve its electronic filing systems (EFS) and is beginning to develop master plan for improving EFS, largely in response to *Television Digest* report that users believe current system often is slow and unreliable (TVD May 22 p4), senior officials said. "Many of these were things we were going to be doing anyway, but that really got the attention of the folks on the eighth floor," said one. Commission had been touted as being govt. leader in adopting information technology and making its filing systems accessible to public, apparently prompting quicker reaction to complaints.

In earlier report, dozens of EFS users said that, while they generally believed electronic filing was major improvement, bugs in system were causing many to avoid using it or to use backup systems, increasing workload instead of decreasing it. Attorney at one major law firm called EFS "a disaster waiting to happen." Others talked about missing filing deadlines and lengthy delays caused by system bugs. Users also complained of lack of technical support and other is-

sues. EFS includes Electronic Comment Filing System and dozen other Commission systems for filing license applications and other documents.

Improvements in EFS will depend on budget, officials said. FCC had asked that its information technology (IT) budget be nearly doubled this year to more than \$22 million, but House-initiated cuts meant agency ended up with only about \$15 million. In addition to delaying planned upgrades, budget had to cover cost of preparing for Y2K, official said: "We pretty much had to gut ourselves at the worst possible time." Agency is expected to request significant IT budget increase this year to add contract staff for technical support and system upgrades. By one estimate, FCC may need \$5 million for EFS system upgrades in 2001, and possibly double that in 2002. FCC officials said there had been little Capitol Hill opposition to IT budget specifically, but cuts had been imposed overall on Commission for other reasons. One official also pointed out that FCC was generating more revenue from user fees than it was spending, so money should be available for EFS.

FCC developed immediate action plan for EFS within 2 weeks of article, following series of meetings involving all Commission bureaus, including list of 8 specific actions to be completed by early Aug. Among most important actions is beginning process of evaluating and making recommendations for upgrading or even redesigning EFS. Key, said Ronald Stone, FCC chief information officer, is to determine whether EFS needs major overhaul or whether significant improvements can be made by just "tweaking" system. Agency is almost ready to seek bids for outside contractor to do evaluation, which could take about 90 days, Stone said.

Action plan also calls for continuing deployment of already planned infrastructure improvements. In addition to server installed in May, 3 more servers are to be deployed this summer. Agency also just completed major Internet firewall and switch replacement, and 2 more firewalls will be replaced this summer. Another step calls for developing monthly management report on system performance and issues, including such things as number of filings, complaints, outages (including duration), system performance, loading issues.

FCC plan calls for setting design for help desk for EFS, project Commission originally had hoped to complete this year before funding cut. Planning process, to be completed this summer, includes establishing what help desk would require, then determining how to pay for it. Agency would like to set up desk by end of year, but it was unclear whether funding would be available and whether contractors could be hired and trained by then, senior official said. By one rough estimate, extending technical support desk to 10 p.m. each work day would require 4-7 additional staffers at cost of \$300,000-\$400,000 per year. FCC also would like to add EFS infrastructure support staff in central office and each bureau to keep system operational, Stone said, at estimated cost of "couple of million dollars" per year.

Other steps in action plan include: (1) Displaying EFS system status reports on FCC Web page. Reports are to show which segments of EFS might be down, what's wrong and how long outage is likely to be. Display also would include links to other system information, such as upcoming enhancements, e-mail contacts, usage instructions, system statistics. (2) Establishing best practices document for EFS system. (3) Developing plans for next-generation filing systems and support, to be part of FY 2002 budget submission process. (4) Planning demonstration and Q&A session for public. Demonstration is to be part of "comprehensive outreach plan" to public, senior official said: "We want people to use this, so we understand that we have to explain it." Forum probably will be in late Aug. or early Sept., and be intended to provide information to users about EFS as well as to solicit feedback.

Although it's not formally in action plan, FCC also is developing system for staffers to come into hq after normal work hours to fix outages that occur after hours, official said. Details aren't final, but it would include telephone "tree" to assure that proper individuals are contacted about need for repair and that authorization is given.

FCC is asking more than 800 randomly selected cable operators for updated pricing information. Price survey, due by Aug. 15, seeks monthly charges for basic service tier and cable programming services tiers (CPSTs) for July 1, 1999, and July 1, 2000. It also asks for monthly equipment charges, installation fees, disconnect and reconnect charges, and tier change fees for those 2 dates, among other things. As have previous Commission pricing surveys, questionnaire splits cable operators into 2 groups — systems in 352 franchise areas facing effective competition and others in 460 franchise areas not facing such competition. FCC will use information for its next annual cable pricing report, expected by next spring.

USTA Pres. Roy Neel will make long-expected move to Vice President Gore's presidential election campaign Sept. 1, USTA spokesman confirmed. Neel is taking leave of absence from USTA and plans to return to association after Nov. election. Spokesman said USTA will hire interim executive to step in during Neel's absence. Before joining USTA, Neel was President Clinton's deputy chief of staff and, before that, Gore's chief of staff as Vice President and in Senate. Meanwhile, Michael Rubin, ex-aide to Sen. Brownback (R-Kan.), becomes USTA govt. relations vp replacing Timothy McGivern, who left in April to start his own consultancy. Rubin joined USTA in 1998 as dir.-govt. relations.

SONY CASE MAY HELP NAPSTER: Precedent of Sony VCR case could give Napster chance of convincing court that its Internet music downloading technology doesn't violate copyrights of music artists and publishers, one copyright expert believes. Case is similar to the 1970s struggle between Sony and movie industry, when Hollywood alleged VCRs were tools of copyright infringement, said Michael Meurer, assoc. prof. of law at Boston U. In that case, Supreme Court agreed with Sony that VCR had practical use. Next hearing in case is July 26 before Judge Marilyn Patel, U.S. Dist. Court, San Francisco.

Meurer said Napster had chance of winning copyright infringement suit based on its arguments filed last week because many music groups that weren't signed by record labels used Napster as distributor. Napster said that what it was doing was legal under federal Audio Home Recording Act (AHRA). It also said sales of copyrighted music were increasing, not declining, because CD buyers now were "sampling" through Napster before buying.

Recording Industry Assn. of America, (RIAA), National Music Publishers Assn. and several musicians are seeking injunction to close down Napster, saying it violates copyrights and deprives them of income. RIAA Gen. Counsel Cary Sherman said: "Whether or not it is lawful for users to share music one-on-one, it's entirely different from a commercial entity which creates a business that induces users to do that... Napster cannot hide behind what consumers might be able to do individually and on their own to build its commercial business."

Napster lawyers cited 1984 Sony case. Recording industry itself has "engaged in the practice of copyright misuse," it claimed. It said that Sony, which supports suit against Napster, markets VAIO Music Clip, portable listening device that plays MP3 files, "regardless of whether the files were made with the authorization of the copyright holders. While Sony Music now claims that Napster is harming its bottom line, Sony Electronics is seeking to profit from the vast number of MP3s currently available on the Internet." (Additional details in *Warren's Washington Internet Daily*. For free trial subscription call 202-872-9202, ext. 205).

Walking fine line in growing cable-CE rift over DTV set labels, CEA urged FCC to accept its May 24 deal with NCTA as "a good-faith effort" to settle labeling dispute but not mandatory agreement (TVD June 19 p1). In long-awaited letter to FCC, CEA Pres. Gary Shapiro characterized set-labeling pact as "an important first step in the ongoing process of categorizing current and future products and describing how they will work with cable services." But, he said, "we recognize that for legal and practical reasons, trade associations cannot impose mandatory labeling requirements upon their members or third parties." Citing strong opposition to pact's labels by group of retailers led by Circuit City, Shapiro said "we are mindful of the need for retailer support in order for any labeling system to be effectively implemented in the marketplace." Yet he said CEA "also remains eager to work" with cable industry and other parties to build on "framework" established with NCTA and reach agreement on labels, open standards and operating practices for digital set-top boxes and integrated DTV receivers. Shapiro said CEA officials will meet soon with their cable and retail counterparts and set up timetable for "the expeditious completion of a comprehensive labeling program."

Internet Ad Bureau (IAB) released set of voluntary privacy guidelines for its members. Although it said policies of each member will vary according to its needs, new guidelines establish minimum acceptable standards. They require IAB members to adopt, implement and clearly post their privacy policy along with details on data they collect from visitors to site. Users must be able to choose how some of their information is used and be able to opt out in some cases. Policy also must say why personal information is being collected, how it will be used and what security procedures organization will follow to protect data. If personal data are being sent to European countries, site must be in compliance with Dept. of Commerce Safe Harbor Principles.

Diane Blair, 61, CPB board member, died of cancer at her home in Fayetteville, Ark., June 26. President Clinton appointed Blair to board in 1993 and reappointed her to 2nd 5-year term in 1998 that would have ended in 2004. She was chmn. 1997-1998, vice chmn. 1996-1997 and chmn. of Board's Education Committee 1995-1996. She earlier served for 12 years as commissioner of Ark. Educational TV Network. Blair did 2-year stint, 1986-1988, as chmn. of then Gov. Clinton's Task Force on Satellite TV Instruction and his Education Task Force 1973-1977. Blair was emeritus prof. of political science at U. of Ark., where she taught for 30 years. Graduate of Cornell U. in 1959 and U. of Ark. in 1967, Blair is survived by husband, 5 children.

Law firm Skadden, Arps, Slate, Measgher & Flom is first to exceed \$1 billion in annual gross revenue, making it top revenue producer in annual *American Lawyer* list of top 100 firms. Ranking of other firms with communications clients: (1) Jones, Day, Reavis & Pogue 3rd with \$595 million gross revenue. (2) Latham & Watkins, 4th with \$581.5 million. (3) Sidley & Austin, 9th, \$446 million. (4) McDermott, Will & Emery, 10th, \$444.5 million. (5) Kirkland & Ellis, 16th, \$410 million. *American Lawyer* also ranked firms by profits per partner: (1) Skadden, Arps 8th with \$1.6 million; (2) Kirkland & Ellis 9th, \$1.34 million; (3) Willkie, Farr & Gallagher, 14th, \$1.2 million; (4) Paul, Weiss, Rifkind, Wharton & Garrison, 15th, \$1.05 million. In another category, Covington & Burling chalked up most pro bono hours of any law firm.

EchoStar will ask independent arbitrator to resolve dispute with insurers over their nonpayment of \$219 million claim for problems that kept EchoStar 4 from reaching full power after launch in May 1998. Both sides agreed to present arguments to American Arbitration Assn. in N.Y., but no date for hearing has been set. Company claims satellite was "total loss" after one of its solar panels failed to deploy after spacecraft reached orbit, meaning satellite "lacked power" to operate at full capacity. Insurers have offered \$88 million or full amount in exchange for ownership of satellite, but EchoStar has rejected both plans, industry source said.

FCC is stalling on adopting new personal attack and political editorializing rules, RTNDA and NAB told U.S. Appeals Court, D.C. They called on court to order Commission to act within 3 months or vacate existing rules. Court last Aug. ruled FCC had provided insufficient justification for its current rules and ordered it reconsider them "expeditiously." RTNDA and NAB have been challenging them as violation of free speech protection of First Amendment ever since fairness doctrine was repealed. Assns. said quick action was important with presidential election approaching.

FCC SETS ENG RULES: FCC said new Mobile Satellite Service (MSS) licensees can use portion of spectrum used for electronic newsgathering (ENG) for satellite operations, finalizing reallocation of 2 GHz spectrum for Broadcast Auxiliary Service (BAS) at 2025-2110 MHz. Commission also established rules under which incumbent BAS and Fixed Services (FS) microwave licenses could be relocated from 2 GHz spectrum. Decision begins process of reducing size of ENG channels to 12 MHz from 18 MHz.

Commission allocated 85 MHz for BAS, saying those will be able to provide 6 channels of 12 MHz and one of 13 for operations in 2 GHz BAS band. FCC said it agreed with NAB and MSTA that BSS licenses share and occupy all 7 channels in TV markets. It said 7 BAS channels would allow TV broadcasters to cover breaking news events, sports, weather and other on-location events. BST, video production company, had opposed decision, but agency said that while decision may work hardship on BST and other specialized users, improved equipment and techniques for transmitting video signals will allow BAS band of 7 channels that should be sufficient for large majority of BAS users.

Commission said it was concerned about impact of decision on BAS, especially its future deployment. Terrestrial transmitters can't be high-density systems and government space operations services are prohibited from constraining deployment of TV BAS, cable TV relay service and local TV transmission service, agency said. FCC said future rule changes will be coordinated with NTIA.

FCC adopted 2-phased plan for relocation policy. In Phase 1, first MSS entrants will be responsible for clearing 18 MHz of spectrum at 1990-2008 MHz. Phase 1 BAS band will consist of one channel of 15 MHz and 6 channels of 14.5 MHz. It will operate as long as 18 MHz of spectrum are sufficient for MSS operations. In Phase 2 BAS band will be narrowed to final configuration of 7 channels in 2025-2110 MHz band. Agency said first MSS licensees will be required to complete Phase 1 in only 30 largest TV markets. When new MSS licensees start, FCC will forbid use of current BAS Ch. 1 (1990-2008) in markets where BAS hasn't been relocated. MSS licensees will be required to complete subsequent Phase 1 relocation in next 70 TV markets within 3 years of date they begin operations. Commission said plan is best way to minimize potential for disruption of service and provide orderly transition.



FCC should start cable open access proceeding immediately, U.S. Internet Industry Assn. (USIIA) told Commission. USIIA Exec. Dir. Dave McClure said his filing was based on "clear and lucid reading of the law as it exists right now" following 9th U.S. Appeals Court, San Francisco, decision that cable Internet service is telecom service. He said petition calls for FCC, if it wants to continue to forbear from regulating cable Internet services, to give reasons why so doing would help competition, as required in Telecom Act for telecom services. FCC was told in Telecom Act "to create competition, not to sit on its hands and wait until it happens all by itself," McClure said. Although FCC Chmn. Kennard has said Commission intends to open some sort of proceeding on issues, McClure said, Kennard "cleverly avoided saying exactly what year that would be... If we wait for the chairman simply to open a proceeding, many of us will be retired or dead... This forces them to acknowledge our petition."

European Parliament rejected safe harbor data privacy agreement European Commission (EC) had negotiated with U.S., potentially throwing into doubt ability of U.S. companies to pass data back and forth with their European counterparts. It wasn't clear what next step would be, since this was said to be first time Parliament had rejected deal negotiated by EC. Agreement, passed by EC in May, was set of principles that would allow U.S. companies to fulfill Europe's relatively tough privacy directive. Many in Parliament had felt agreement leaned too much toward U.S.'s self-regulatory privacy schemes and gave EC little enforcement power over violators.

How radio can survive Internet broadband revolution will be major topic at Sept. 20-23 NAB Radio Show in San Francisco. N.C.-based Coleman research firm will release study of listeners who currently have broadband access and how radio industry can embrace new options provided by Internet. Study says that by end of year 6 million U.S. households will have broadband Internet capability, growing to more than 30 million by 2004. FCC Comrs. Furchtgott-Roth and Powell will be in San Francisco, with several Commission staffers also planning to attend.

FCC Cable Bureau issued new inflation adjustment factor for cable operators seeking to raise nonexternal cost portion of their rates. New quarterly adjustment factor, based on changes in Gross National Product Price Index over first quarter, amounts to annual inflation rate of 3%. Rate is highest since FCC began releasing quarterly inflation factors in mid-1995. Cable operators can use factor when filling out FCC Form 1240.

Pa. Gov. Thomas Ridge (R) signed telecom security bill that adds teeth to state cable signal antitheft law. Pa. Cable TV Assn. (PCTA) started education campaign for cable operators and municipal officials to take advantage of new law that takes effect Aug. 21. "We reminded municipal officials that they are losing a nickel for every dollar we lose to theft," PCTA spokesman said.

Pax TV said it signed joint sales agreements with NBC owned stations in 4 largest U.S. markets — N.Y., L.A., Chicago, Philadelphia — raising to 18 number of markets where NBC (which owns 32% of Pax TV) now will provide sales and marketing services for Pax stations.

Broadcast data service Wavexpress will use DTV spectrum of some Clear Channel stations under new agreement. First stage in rollout will begin July 17 at WKRC-TV (Ch. 12, CBS) Cincinnati, companies said. Wavexpress, joint venture of Sarnoff and Wave Systems Corp., said its technology allows delivery of movies, music, news, software and computer games to home PCs via portion of DTV spectrum.

FCC is seeking comments on proposal for must-carry for DTV-only station in Fla. Guenter Marksteiner, who has permit for WHDT-DT (Ch. 59) Stuart, Fla., said Commission should rule that station that doesn't have analog signal should be guaranteed cable carriage, subject to normal conditions. Comments are due Aug. 4, replies Aug. 18.

WLMA(AM) Greenwood, S.C., faces \$12,000 fine for violation of FCC antenna structure rules, FCC Enforcement Bureau said in order.

FCC CHIDES MSOs ON PODs: FCC Cable Bureau Chief Deborah Lathen scolded growing number of large MSOs seeking waivers of govt. rule requiring cable operators to provide separate security modules for hybrid analog-digital cable set-top boxes by July 1. In strongly worded FCC order released June 30, Lathen said "we seriously question" whether waiver petitions lodged by 8 MSOs in last 2 months "can be considered to be filed in 'good faith,'" particularly considering that FCC adopted rule 2 years ago and its regulations require period of public comment and reply on such petitions. She also expressed doubts whether "the commitments made in the petitions can be relied upon" because requests were filed "at such a late date and without any indication that the rules will be complied with pending action on the requests."

Despite those doubts, Lathen granted group of 8 MSOs 45 days' relief, until mid-Aug., from any FCC enforcement actions while agency weighs waivers. She said public interest would be "best served" by forgoing enforcement "until the Commission has the opportunity to make a thorough evaluation of the waiver requests, collect additional information, if necessary, and take final action." But, in both 3-page order and in meeting with officials of 5 MSOs, she showed her distaste with waiver requests and stressed that Commission takes DTV transition very seriously.

Lathen's action came as 3 more MSOs — Adelphia, Cablevision Systems and GCI Cable — sought permission to miss July 1 deadline for offering point-of-deployment (POD) security modules for hybrid set-top boxes in selected markets. They joined growing ranks of large cable operators seeking emergency waivers (TVD July 3 p10), which already included AT&T, Charter, Cox, Insight, MediaOne (while not yet part of AT&T). Public comments on latest 3 waiver requests are due July 20, replies July 31.

With addition of Adelphia and Cablevision, 7 of top 9 MSOs now are looking for POD relief in at least several markets. Cable operators generally argue that their requests cover only small portions of their customer bases and that no CE manufacturers are building analog modules for hybrid cable boxes. But critics, led by CEA and Circuit City, charged that other technological alternatives were available and that cable operators simply were ignoring FCC rules.

Escalating its legal battle with Cablevision Systems, Excite@Home filed countersuit June 30 seeking to terminate its contract with MSO and cancel 21 million Excite@Home stock warrants that Cablevision holds. Lawsuit, in Del. Chancery Court, Wilmington, was in response to breach-of-contract suit filed last month by Cablevision that sought to block AT&T from consolidating its control of Excite@Home. In that suit, Cablevision charged that Excite@Home and its 3 main MSO backers — AT&T, Comcast and Cox Communications — illegally amended Excite@Home shareholder agreement without Cablevision's consent. As compensation, Cablevision demanded buyout terms similar to lucrative ones that Comcast and Cox received from AT&T or negotiated end of its contract. In countersuit, Excite@Home argued that Cablevision first broke its part of deal by not offering Excite@Home's high-speed data service exclusively to its subscribers. As alternative remedy, it asked court for monetary damages and order mandating that Cablevision carry the service exclusively. "Our overall goal is to resolve our differences," Excite@Home spokeswoman said. Dispute will head to trial in early Sept. unless settlement is reached, as some industry analysts expect.

MODEM DISPUTES LIKELY: National Assn. of Telecom Officers & Advisers (NATOA) warned that ruling by 9th U.S. Appeals Court, San Francisco, classifying Internet service over cable modems as telecom service could generate additional disputes over rights of local franchising authorities. Decision could lead to interpretations that provision of high-speed Internet access would fall outside cable franchise, it said.

Listing preliminary concerns over ruling, which NATOA said its board still was reviewing, Assn. said court's language could be interpreted by some in cable industry "to somehow limit or restrict the rights of local governments to thoroughly review the transfer of a cable system." Court also didn't address public service obligations agreed to by cable operators such as customer service requirements and provision of high-speed Internet access to schools, libraries and other institutions through FCC social contracts or through agreements with franchising authorities.

In letter to city, NATOA said it was concerned about assumption that use of right-of-way for provision of cable high-speed Internet access was outside scope of Title 6 franchise rights and obligations. That would affect revenue of local govts. that have contracted with their cable operators to pay franchise fees for providing cable modem service. Also of concern was ruling's impact on communities that aren't permitted or equipped to franchise telecom services. "Given the gravity of the Ninth Circuit Court decision, we ask that you bear in mind its impact on communities other than Portland (Ore.), and the needs and concerns of local governments across the country," letter said.

Concerned about lagging rollout of DTV, FCC is seeking fresh ways to accelerate nation's digital transition. In order and proposed rulemaking notice on voluntary clearance of 700 MHz band by incumbent UHF broadcasters, Commission asked whether it should allow incumbent broadcasters on TV Ch. 59-69 and 700 MHz new service providers to share spectrum in time and/or bits. Agency argued that proposal would preserve broadcast service while also letting new providers start offering service. It also contended such "sharing arrangements" could help broadcasters make more rapid transition to digital service. In addition, FCC asked whether it should allow broadcasters to share DTV facilities and spectrum during transition period. Commission said proposal would help clear "in-core channels for relocation of television operations on out-of-core channels." In order, FCC rejected 2 arguments by NAB: (1) That it shouldn't use Dec. 31, 2006, target date for completing DTV transition as standard for setting new 8-year licenses for 700 MHz spectrum use. (2) That accelerated clearance of incumbent broadcasters would run counter to Congress's intent on DTV transition. Finally, FCC reiterated that it would tackle issue of digital must-carry obligations for cable operators in separate, later proceeding.

KNTV San Jose dropped its ABC affiliation and will operate as independent until Jan. 1, 2002 — when it's scheduled to replace KRON-TV San Francisco as NBC affiliate for Bay Area. Granite-owned KNTV said it would air some WB TV network programming and increase its local news to 8 hours daily from 4 hours, with "a heavy emphasis" on technology and business news. Station also is expanding news staff to 115 from 70 and will establish news bureaus in Oakland, Palo Alto and San Francisco, Pres.-Gen. Mgr. Robert Franklin said.

PORLAND DRAFTS OMNIBUS FRANCHISE: With issue of open access to cable broadband lines now in FCC's hands, Portland, Ore., is "leaning against" appeal of ruling by 9th U.S. Appeals Court, San Francisco, that localities have no authority to mandate carriage of multiple ISPs by cable operators, city official said. But decision, which also reclassified cable-delivered Internet access as telecom service, had Portland officials scrambling to redraft pending franchise agreements for 2 cable overbuilders.

Marshall Runkel, asst. to City Comr. Erik Sten, said franchise agreements for Wide Open West (WOW) and Western Integrated Networks (WIN), which were in final stages of drafting, had to be changed to reflect court ruling. New franchise would be omnibus license for cable/telecom services, instead of separate cable and telecom sections, he said. Basic revision involved way gross revenue was calculated, with fee of 5% of cable revenue from carriage of ISPs to be included.

That was "gap" city was seeking to fill, Runkel said, and it could mean windfall for most cities with telecom franchises. However, there was downside, with public access providers facing loss of extra 3% of gross revenue that cable operators were required to pay for community service. Until 9th Circuit ruling, public, educational and govt. (PEG) providers were hoping to get slice of fees from cable data services, he said.

Four companies have sought franchises from Portland to provide cable services to rival incumbent AT&T. Of those, RCN Corp. had made it clear from outset that it planned to provide telephone services and its draft franchise agreement already included telecom franchise clause, Runkel said. As for AT&T, he said its franchise agreement also needed to be changed but company had "disputed it's a telephone service and informally indicated that they do not need a telephone franchise." All 4 prospective competitors have stated their intention of carrying multiple ISPs.

Welcoming clarification provided by court on cable Internet services, RCN Senior Vp-Govt. Affairs Scott Burnside said its franchise fee structure wouldn't be affected in Portland because it had decided to combine cable and telephone services. In addition to Ore., court decision will affect RCN's operations in Wash. and Cal., he said.

Runkel indicated that informal discussions with AT&T started in wake of court ruling had failed: "We are not talking at this point." He said city hoped to complete franchise agreements for competitors by July 19.

San Francisco Telecom Commission also was analyzing court ruling to see whether it should make changes in draft cable franchise of overbuilder RCN, spokesman said. He said San Francisco, unlike Portland, faced tricky situation because it was preempted from regulating telephone companies. Public Utilities & Deregulation Commission has scheduled hearing on RCN's application July 18.

President Clinton said he intends to nominate retired Reader's Digest Editor-in-Chief Kenneth Tomlinson to CPB board. Senate Commerce Committee confirmation hearing is scheduled for July 12. Committee is expected to vote on renominations of CPB Chmn. Frank Cruz and board member Catherine Anderson and nomination of Ernest Wilson, dir. of U. of Md.'s Center for International Development & Conflict Management.

RAINBOW BEATS VERIZON ON PROGRAMMING: In long-overdue action, FCC ruled in favor of Rainbow Media Holdings in video programming complaint filed against 2 units of Verizon (formerly Bell Atlantic) 3 years ago. In order released July 6, FCC Enforcement Bureau Chief David Solomon held that Bell Atlantic-N.J. and Bell Atlantic Network Services divisions engaged in "unjust and unreasonable practices that wrongfully denied Rainbow the ability to provide video programming" to subscribers of their now-defunct video dial tone system in Dover Township, N.J. Solomon ordered Verizon to refund Rainbow's \$345,600 deposit for reserving channels on Baby Bell's cable overbuild system and pay more than 3 years of interest.

Rainbow filed complaint with FCC in early 1997, after reserving 192 channels on 300-channel system in 1995 and fruitlessly trying for nearly 2 years to license interface software from Bell Atlantic to access system. Despite Rainbow's efforts, Dover system started in Jan. 1996 with programming provided only by Futurevision of America, competing video programmer closely affiliated with BA. Futurevision, which controlled 96 channels on platform, also developed interface software for Bell Atlantic system, which shut down at close of 1998 after signing up as many as 3,000 subscribers.

In 11-page order, Solomon stressed that Bell Atlantic repeatedly pledged to make interface software available to Rainbow and all other potential programmers in 1994 and 1995 but never did so. He said Futurevision refused to license its software to Rainbow unless cable programmer agreed to let its rival carry Rainbow's video offerings. Solomon rejected BA argument that Rainbow could have developed its own interface software from available generic technical specifications. "By the time Rainbow realized that Bell Atlantic would not live up to its promises, it was too late (and too expensive) for Rainbow to develop its own interface software before the Dover Township system began operations," he wrote, noting that it took Futurevision more than 2 years and \$300,000 to create its software.

Rainbow, owned mainly by Cablevision Systems, welcomed order. "We are very pleased that the FCC has validated Rainbow's position on this issue by requiring Bell Atlantic to refund, with interest, our channel deposit for their now defunct video dial tone system," spokeswoman said. Verizon spokeswoman declined comment, saying executives were studying order. FCC declined comment on why enforcement order took so long.

CanWest Global Communications received Canadian govt. approval to buy 8 TV stations of Western International Communications (WIC) for \$800 million (Canadian). In return for CRTC approval to purchase stations in Calgary, Edmonton, Hamilton, Vancouver and elsewhere, CanWest will sell its interests in 2 stations, one each in Montreal and Vancouver. In same deal, CanWest also bought Montreal multilingual station and 50% stake in ROBTv, Canadian business news and information channel. With acquisition of 8 WIC stations, CanWest said its combined revenue for fiscal year ending Aug. 31 would reach \$1.1 billion, up 20% in year. Company also said it expected its broadcast operating profit for fiscal 2000 to rise 10% to \$290 million.

EchoStar announced addition of 3 channels — Fox movie channel, Golf Channel and Soap Net — to its Top 150 Programming Package.

U.S. Appeals Court, D.C., in ruling released July 7, upheld FCC's key decisions in establishing DTV channel allotment tables (98-1106). Court said Commission hadn't acted arbitrarily in decisions: (1) Granting 2nd channel to those whose CPs had been approved, but not to those whose applications were pending. (2) Replicating 1997 service areas. (3) Continuing VHF service area advantage over UHF. (4) Making individual channel allocation decisions. Court said FCC's overall decisions reflected compromises as well as congressional mandates: "Even if the compromises reflected in the challenged FCC decisions were not always Solomonic in their wisdom, they were not required to be. Given the relevant statutory directives and regulations, and the competing interests of the various broadcasters and viewers concerns use of limited spectrum, the FCC reasonably and permissibly interpreted its obligations in allocating the valuable public resource that is broadcast spectrum." Court said, for example, that FCC wasn't required to go through new license application process in order to award DTV licenses, since Congress had defined clearly that existing licensees were only ones eligible for new licenses. Appeal had been filed by Community TV Inc., Pappas Telecasting, Pa. Telecasters Assn., Minority TV Project.

Allowing LPTV stations to retain their channel allotments permanently if they offer digital data service "could have very serious... consequences for public safety radio communications," Assn. of Public Safety Communications Officials (APCO) Pres. Joe Hanna said in letter to Senate Communications Subcommittee Chmn. Burns (R-Mont.). Hanna said public safety communicators can't fully use Ch. 63-64 and 68-69 until broadcasters leave them, and Burns bill (S-2454) would "endanger that transition." APCO said failing to exclude LPTV stations from bill might have been oversight, and measure should be amended. Even allowing LPTV stations to maintain digital data operations on Ch. 2-59 could disrupt DTV transition, APCO said, including making it more difficult for full-power stations to move from Ch. 60-69 to core channels.

AT&T and Charter Communications called off their pending swap of cable systems serving more than 1.3 million subscribers in 10 states. AT&T and Charter, nation's largest and 3rd largest MSOs, respectively, said they ended discussions on trades after signing letter of intent in Dec. Expressing disappointment with failure of negotiations, companies said they "were unable to agree on the mix of assets and the values associated with those assets." Under tentative pact, Charter would have traded systems in Ft. Worth, Cal., Conn., Ky., Mass. and Tenn. serving total of 632,000 customers for AT&T Broadband systems in St. Louis area, Birmingham, Ala., Ga. and Ill. with total of 704,000. Both companies said they would continue to upgrade affected systems but declined comment on whether they still might try to trade or sell properties.

Aerospace Industries Assn. said it supported House International Relations Committee legislation that would waive congressional notification of commercial satellite exports to certain countries. Congress has recognized that shift of satellite licensing to State Dept. from Commerce Dept. may have cost American companies 40% of commercial satellite market. That has led some in Congress to seek to find ways to decrease licensing time significantly.

Matsushita, Sony and Toshiba will cooperate on standards for storing data and content that have been datacast as part of Japanese DTV signal, they said. Japanese DTV service is to begin in Dec.

Personals

Lauren (Pete) Belvin, majority counsel to Senate Commerce Committee and former FCC staffer, joins Wilkinson, Barker, Knauer & Quinn law firm in Sept. as partner... **Susan Eid**, ex-MediaOne Group, named legal adviser to FCC Comr. Powell.

Ted Frank, promoted to senior vp-current series & program scheduling, NBC Entertainment... **Scott Fain** named vp, bcstg.-legal, ABC... **David Gutierrez**, ex-Metro Networks, appointed regional dir.-engineering, S. Tex. region, Hispanic TV Network. . **Marci Burdick**, ex-news dir., KYTV Springfield, Mo., and former RTNDA chmn., named pres.-gen. mgr., co-owned (Schurz Communications) WAGT Augusta, Ga.; current RTNDA Chmn. **Robert Garcia** promoted to vp-CNNRadio, Atlanta.

Steve Vest, ex-News Corp. Washington vp, named vp-congressional affairs, NCTA... **Sharon Brown**, ex-Liberty Digital, appointed chief mktg. officer, OpenTV... **Timothy Rooney**, Bleakley, Platt, & Schmidt, elected to Cablevision board... **Michael Weisbarth**, ex-MLW Productions, named vp-drama, A&E... **Sharon Brown**, ex-Liberty Digital, joins OpenTV as chief mktg. officer... **Kevin Connor** promoted to dir.-finance & administration, Tribune's WGN Cable... **Alicia Spurling** advanced to dir.-material distribution & logistics, Cox Communications.

Marcelino Ford-Livene, ex-FCC Office of Plans & Policy, named dir.-business development, iBlast Networks... **Michael Wilbur**, ex-Road Runner, appointed CFO, Wavexpress... **Salil Munjal**, ex-Torys, named vp-gen. counsel, Leitch Technology... **Arne Wessberg**, head of YLE and pres., Eurosport, elected pres., European Bcstg. Union.

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Still seeking FCC International Bureau approval of its proposed joint DBS venture with Loral, Cablevision Systems' Rainbow Media Holdings is lobbying commissioners for help. Ex parte filing recently released by agency reveals that Cablevision Chmn. Charles Dolan met last month with Comrs. Furchtgott-Roth, Ness, Powell and Tristani as well as Kathryn Brown, chief of staff to Chmn. Kennard. Dolan also wrote followup letters to all 5, expressing appreciation for their consideration of issue. Known as RLDBS, joint venture is seeking 2-year extension of Loral's expired rights to 11 DBS frequencies at 61.5° W orbital slot so it can launch local broadcast-cable programming package in many big U.S. markets. EchoStar, which holds rights to most of frequencies at 61.5° slot and already operates satellite there, and Kelly Bcstg. oppose petition.

Microsoft agreed to limit its investment in U.K. cable operator Telewest Communications to ease European Commission (EC) concerns about its plans to take controlling stake. Microsoft, which originally intended to take control of Telewest in partnership with AT&T's Liberty Media Group, said it still would buy 23.7% of large British MSO for \$3 billion. However, it told EC it would break all structural links with Liberty and give up "any rights which would have given it decisive influence over decisions at Telewest," EC said. As result, EC, which had opened in-depth probe into deal, said it no longer was concerned about Microsoft's involvement with Telewest. Microsoft said it now hoped to consummate deal very soon.

Obituaries

Ray Scherer, 81, retired NBC newsman and RCA official, died July 1 of cancer at his home in Washington. After receiving master's degree in international relations from U. of Chicago shortly after World War II, he was reporter for *Ft. Wayne Journal* and in 1947 joined NBC bureau in Washington as news writer. He quickly advanced to senior NBC correspondent covering Truman Administration and was one of first to provide live TV reports from inside White House. In 1969, Scherer transferred to Europe as head of NBC's London bureau, returning to Washington 4 years later to cover Watergate scandal. In 1975, he shifted to NBC parent RCA as head of Washington office, where he remained until retiring in 1986. He co-authored book *The Unsilent Revolution*, which covered technological changes in TV industry. Wife, daughter, son survive.

Wayne Cornils, 64, veteran radio association executive who was affectionately known as "Radio Wayne," died July 5 after long battle with cancer. He began radio career while in high school as weekend disc jockey and later worked in several station positions, including gen. mgr. Cornils joined NAB in 1976 as dir. of radio membership, leaving as senior vp in 1983 to move to Radio Ad Bureau (RAB), where he worked 1983-1989 and from 1991 until his death. In between stints at RAB, he was with Transtar Radio Networks. While pres.-gen. mgr. of KFXD(AM) Boise, Cornils was on NAB radio board and was chmn. of Small-Market Radio Committee. Son, 2 daughters survive.

Daniel T. Pecaro, 74, retired pres.-CEO of WGN Continental Bctg. (now Tribune Bctg.), died June 23 in Maywood, Ill., of cancer. He spent his entire broadcast career with WGN Continental, joining traffic department of WGN-AM Chicago in 1954. He held several programming jobs in radio before moving to WGN-TV in 1962 as program mgr. Pecaro was promoted to WGN-TV gen. mgr. in April 1967 and was elected pres.-CEO of parent company in May 1975 and held that position until retiring in 1981. He was on boards of NAB, NATPE and TV Bureau of Advertising. After serving in Navy in World War II, he graduated from DePaul U. (of which he was life trustee) in 1950 and taught and coached in Chicago public schools before joining WGN-AM. Survivors include 2 sons.

NAB position on DTV receiver compatibility was endorsed by N. American Bctrs. Assn. (NABA), which includes NAB as key member. NABA said FCC should require all sets 13" or larger to be capable of receiving DTV signals, mandate interoperability of DTV sets with cable and VCRs, set minimum DTV set performance standards. It acknowledged that requirements might increase cost of DTV sets, but said increase would be temporary. Meanwhile, NAB said KSWB-TV (Ch. 69, WB) San Diego had started DTV service on Ch. 19, meaning 136 stations in 50 markets now are providing DTV.

On-screen text in broadcast ads must continue to meet minimum standards, even when transmitted in wide-screen format, British Independent TV Commission (ITC) said last week. ITC said "squeeze" effect could result in text appearing smaller when widescreen ads were converted for standard analog broadcasts, and some text at edge of picture could be lost when widescreen ads were converted for standard aspect ratio. Broadcasters must assure that all text is visible on all sets and meets minimum of 14 TV lines height, ITC said.

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Mediacom Communications continued its acquisition spree, completing its purchase of Spirit Lake (Ia.) Cable TV for \$10.8 million. Cable system will add another 5,000 subscribers to Mediacom's total, boosting its reach to 820,000 in 23 states.

Clear Channel Communications (CCC) continued actively buying radio stations last week, signing 2 deals for 10 stations in Tex. and N.D. at total cost of \$52.8 million. CCC said it was acquiring 4 FMs and 2 AMs in Fargo for \$46.3 million from Thomas and James Ingstad. In Wichita Falls, CCC is paying Apex Bctg. \$6.5 million for one AM station, 3 FMs.

Consumer Electronics

A Section of Television Digest with Consumer Electronics

STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending June 23 and year to date:

	JUNE 16- JUNE 23	1999 WEEK	% CHANGE	JUNE 10- JUNE 16	25 WEEKS 2000	25 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	505,454	587,514	- 14.1	563,889*	12,608,770	11,326,396	+ 11.3
DIRECT-VIEW**	487,787	568,215	- 14.2	545,069*	12,049,350	10,888,877	+ 10.7
TV ONLY#....	401,163	489,383	- 18.0	482,283*	9,978,188	9,228,890	+ 8.1
TV/VCR COMBO.	86,624	78,832	+ 9.9	62,786*	2,071,162*	1,659,987	+ 24.8
PROJECTION...	17,667	19,299	- 8.5	18,820*	559,420*	437,519	+ 27.9
TOTAL VCR**....	452,251*	568,722	- 20.5	277,986	11,483,352*	10,267,355	+ 11.8
HOME DECKS...	365,627	489,890	- 25.4	215,200	9,412,190*	8,607,368	+ 9.4
CAMCORDERS.....	104,268	104,719	- 0.4	101,299	2,425,557*	2,035,862	+ 19.1
DVD PLAYERS....	90,678	91,948	- 1.4	85,374*	2,441,224*	1,141,046	+113.9

Direct-view TV 5-week moving average#: 2000-447,359; 1999-422,711 (up 5.8%).

Projection TV 5-week moving average: 2000-21,326*; 1999-18,140 (up 17.6%).

VCR deck 5-week moving average: 2000-404,025*; 1999-372,414 (up 8.5%).

TV/VCR 5-week moving average: 2000-101,791; 1999-77,991 (up 30.5%).

Camcorder 5-week moving average: 2000-117,678; 1999-88,874 (up 32.4%).

DVD player 5-week moving average: 2000-131,085*; 1999-67,770 (up 93.4%).

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

CLAIMS FOR DVD RECORDERS CLARIFIED: DVD+RW decks won't reach consumers until mid-2001, top Philips executive told us last week, contradicting launch dates cited week earlier at PC Expo briefing. Meanwhile, DVD Forum cleared up some confusion over capabilities of DVD Multi recorders described at same show in N.Y. and reported in our July 3 issue.

Although Philips will deliver DVD+RW prototypes to dealers and reviewers by year-end, production models won't be available for sale to consumers until middle of next year, said Adri Baan, pres.-CEO, Philips Consumer Electronics. At Comdex last Nov., Baan had said Philips would roll out consumer DVD+RW recorder in Europe and U.S. late this year at price comparable with first DVD-Video players. That timetable was confirmed at PC Expo news conference by Robert Van Eijk, gen. mgr., Philips Optical Storage-N. America.

Philips is confident DVD+RW will prevail over rival formats because of recordings' backward compatibility with installed base of DVD-Video players, Baan told us last week. "We believe consumers will see the benefit of guaranteed backward compatibility with the existing pack of DVD players and DVD-ROM drives. By the time +RW is launched there will be... 25 million consumer players," he said. Hewlett-Packard earlier said DVD installed base would be 140 million by year-end 2001 — figure that includes DVD-ROM drives for PCs.

"We will guarantee playback compatibility, and campaign to get this message across," Baan told us. "But consumers will figure it out anyway. I'm confident in their judgment." He played down prospects of format war with at least one rival platform — Pioneer's DVD-RW. "This is not like VHS and Beta, where the 2 formats were completely different. There is not that much difference between +RW and -RW. We have talked to Pioneer about this," he said. "Be clear — I am not wavering. We believe consumers will want +RW. It's the logical transition. So, we are offering it. But whatever happens, there is no risk to us."

DVD-RAM and DVD-RW formats already have bridged differences in DVD Multi plan from DVD Forum, as revealed at DVD-RAM news conference at PC Expo. CE and PC devices with DVD Multi logo will arrive early next year.

To get logo and license, DVD player or recorder must be able to read discs recorded in DVD-RAM or DVD-RW formats that DVD Forum has sanctioned as standards. But confusion emerged over capabilities of DVD Multi recorders.

At PC Expo, IBM's Alan Bell said decks would write data in their "native" format — taken to mean that DVD-RAM-based DVD Multi deck would read DVD-RW discs but write only to DVD-RAM blanks. Meanwhile, White Paper by DVD Forum seemed to indicate DVD Multi decks could write in either format. For CE and PC applications, paper said "DVD Multi Recorders will be able to write on DVD-RAM, DVD-RW and DVD-R discs." In our March 13 issue, sources familiar with DVD Multi plan — then code-named DVD-3" — told us it was possible to design single deck that would record in both formats.

That seems to be case, according to information we received from last week from Koji Hase, Toshiba executive who is acting chmn. of DVD Forum. He said "native" format was meant to describe physical format of blank disc inserted in DVD Multi recorder. "That means when a DVD Multi drive receives a DVD disc, it recognizes the kind of disc and, as such, reads or records on the disc according to the recognized physical format," Hase said. He pointed out that DVD Multi is hardware specification for cross-format compatibility and doesn't apply to software. As for DVD Forum's use of term "DVD-Video Recording" instead of citing DVD-RAM and DVD-RW in its literature, Hase said term referred to application of recording video on DVDs, and DVD Forum defines DVD-RAM and DVD-RW as formats to be used for recording.

TOSHIBA ATTACKS RIVAL PROGRESSIVE SCAN DVD DECKS: Frame memory technology, championed as less costly route to offer progressive scan DVD players, adds "unwarranted picture artifacts" to display in bypassing "3:2 pulldown" conversion of 24-frame-per-sec. (fps) film-based content, Toshiba said in report comparing technologies to retailers.

Frame memory players use line-doubler to accomplish same task handled by pulldown conversion, but at lower cost. Such technology has enabled Pioneer to introduce progressive scan DVD player at \$349, setting low-end benchmark that also is expected to get competition from Matsushita, sources said. Matsushita officials weren't available for comment, but sources indicated player would be timed to coincide with delivery of Pioneer product later this month.

Toshiba didn't criticize competitors directly in report, but instead took issue with what it said were "visible NTSC artifacts" in picture when DVD player employing line-doubling frame memory was handling fast motion or scenes with "high degree of complexity."

To avoid artifacts, Toshiba SD5109 typifies high-end progressive scan decks that use "3:2" pulldown, working in digital domain to process already interlaced fields of each frame. To conserve storage space on DVDs, film-based content is stored at its "native" 24 fps format, creating disparity with 30-fps NTSC displays. To correct that situation, processor in Toshiba player first combines picture information from Fields A and B to create image identical to Frame 1 of 24, then reproduces image 3 times. Processor next combines Fields A and B from frame 2 of 24, and reproduces them twice.

Toshiba said net result is 60 full-frame images output each sec., compatible with NTSC set with 480-line progressive scan display. Company said its progressive scan player also was quicker to recognize 24-frame flags in digital stream that denoted film-based content, thereby enabling device to reset itself when movie frames were dropped in editing process (content that originates from NTSC video is stored on DVD at 30 fps rate). Finally, conversion from digital to analog for display is performed with 54 MHz processor to filter video noise.

"This is a key characteristic that distinguishes the SD5109 from even the most high-performance analog-based line doublers in the market," Toshiba said. Models with line doubler "neglect the importance of honoring 3:2 conversion of 24-frame film-based content" and can add more elements to display, Toshiba said.

Among other claimed advantages of Toshiba players is use of super sub alias filtering and uniform response analog filter that enable them to process entire video signal, company said. Digital-to-analog converter's 54 MHz processor speed also "deters introduction of video noise by extending it beyond the on-board signal processors," it said.

Toshiba hasn't taken position on Pioneer player that employs frame memory technology because "we haven't seen their product," said Craig Eggers, Toshiba dir.-DVD and Home Theater Audio Product Planning. Instead, he said, "the concern is to sell what it considers high-end, high-quality progressive scan products to our dealers, the types that match the performance of their HD-ready TV sets." He said there was "no dispute between Toshiba and Pioneer" and that company's goal was to sell its players with enhancements that "further improve the image to deliver what we believe to be the finest progressive scan image in the industry."

Pioneer officials weren't available for comment, but DVD Mktg. Mgr. Stokely Marco previously had rejected criticism of low-priced progressive scan DVD players. Pioneer's approach was to appeal to consumers with varied budgets and that "proof of the pudding" was picture quality, Stokely said in our June 26 issue.

But retailer who saw side-by-side comparison of Pioneer low-end progressive scan player and top-shelf Elite model told us there was noticeable difference in picture quality. He said: "I don't think the average consumer will notice the difference, but the higher-end consumer will. On a sales floor that can speak to the difference, it's something that definitely has a visible difference. When people are paying \$4,000 for an HDTV or \$2,500 for an SDTV, they're going to want a better quality product and they'll listen to why they should buy a \$599 progressive scan DVD player vs. \$349."

Toshiba was early proponent of progressive scan DVD in unveiling plans for product in 1998. But introduction was slowed while company worked with Copy Protection Technical Working Group to resolve issues that arose over player that delivered progressive scan without from component video output without copy protection. Copy protection was extended to later players with component video outputs.

Lack of standards for progressive scan could slow plans for product introductions, other DVD vendors said. Hitachi had planned to ship model this fall at \$599, but postponed delivery to Jan.-Feb. as it sorted through pros and cons of competing technologies, Exec. Vp Gary Bennett said. "We took it off the drawing boards because of the information that we heard" on low-priced Pioneer piece, he said. "We thought our player was going to be uncompetitive, but by the time we found what the competition was really using it was too late" for 2000 introduction. New progressive scan model "will be priced at whatever the market dictates," Bennett said.

JVC Consumer Video Gen. Mgr. Jerry Barbera voiced support for 3:2 pulldown technology that company will employ with DVD audio player that's scheduled for fall introduction at \$899. "I would think that the 3:2 pulldown method is what is going to be prevalent," he said. "I understand what they're trying to get to a cost-effective price point, but 3:2 is a little more true system and that will be the overall winner."

MARANTZ READIES HDTV Marantz will complete transition to all-digital TV lineup with delivery of 64W HDTV and 2 HD-ready sets in Sept., Mktg. Dir. Mark Stein said.

New 64W, which will carry \$12,000 price, is upgraded version of model that has been sold by parent Philips. It has 9" CRT and will be packaged with LCD-based RC5000 remote, Stein said. Marantz also will ship 55W and 60W HD-ready sets, prices not set.

Marantz's move to all-digital line comes just 3 years after it entered rear-projection TV business with 54" (\$3,800) and 60" (\$4,500) models (TVD Sept 8/97 p10).

"That's sort of where the world is headed, particularly if you are in the higher end of the category and you have to be cutting edge," Stein said.

Rounding out HD lineup will be 42W plasma display with Fujitsu-sourced panel with 1,024x1,024 resolution. Marantz previously bought 42W panel from NEC (TVD July 13/98 p17) and still was weighing introduction of latter's 50W, Stein said.

Marantz also has shipped 300-disc DVD changer based on Pioneer drive (\$1,500) and plans sell new, lighter version of front projector based on Texas Instruments' Digital Light Processing (DLP) technology.

Sony said it would merge Digital Imaging & Displays and PC Peripherals Divs. at new San Diego hq this summer, move that will affect 200-250 employees. Digital Imaging is based at Sony's Park Ridge, N.J., U.S. hq, while other group is in San Jose. Combining of units brings together digital camera and PC products that sell through many of same retail channels.

Gemstar International's proposed \$7.72 billion purchase of TV Guide (TVD Oct 11 p15) has missed closing deadline, raising speculation that U.S. Justice Dept. may challenge acquisition. Gemstar and TV Guide announced planned merger last fall and originally faced March 31 deadline for completing deal. Gemstar shareholders have approved purchase (TVD March 20 p18), but Justice is reviewing whether combining of 2 largest distributors of electronic program guides (EPGs) will hurt competition. Gemstar and TV Guide officials weren't available for comment, but former's CEO Henry Yuen has said he's confident of completing acquisition. Gemstar has largely focused its EPG efforts on CE market including VCRs, TVs and satellite IRDs, while TV Guide has targeted cable boxes. Speculation on fate of merger was touched off by TV Guide's shares trading at \$36 last week, 16% less than what value would be if acquisition closed last week. Proposed merger combines companies that were once bitter rivals that waged 6-year legal battle over program guide patents when TV Guide was known as United Video Satellite (UVS). UVS waged unsuccessful takeover battle for Gemstar in 1998 (TVD July 20/98 p19). Gemstar stock ended week at 63-3/16, down 1-15/16 from previous close on volume of 3 million shares. TV Guide closed at 34-15/16, down 1-5/16 on volume of one million shares.

Ritek is latest company to sign licensing agreement with Eastman Kodak for latter's organic light-emitting diode (OLED) technology. Royalty-bearing agreement covers passive monochrome and multicolor displays for cellular phones, handheld PCs, high-end toys/games. Ritek, which specializes in storage media for DVD and CD, started OLED development 2 years ago and will manufacture displays. Kodak, which holds 50 OLED-related patents, has licensed eMagin, Nippon Pioneer, Sanyo, Seiki, TDK. Kodak and Sanyo recently showed both 2.5" and 5.5" OLEDs that are expected to start production in 2001 and 2002, respectively (TVD May 22 p20).

SONY AMENDS PATENT SUIT: Sony voluntarily dismissed patent suit against PlayStation (PS) emulator maker Connectix, but quickly refiled amended version.

Sony Computer Entertainment America (SCEA) spokeswoman didn't return calls by our Fri. deadline to clarify why company amended suit and what nature of changes were. One report said Sony offered vague explanation that it was following judge's advice to avoid "procedural issues that may have been appealable" in case.

Connectix CEO Roy McDonald told us that Sony withdrew patent suit, which originally included 11 claims, one day before hearing on Connectix motion to dismiss case was to be held. Scheduled hearing before Judge Charles Legge in U.S. Dist. Court, San Francisco, then was canceled, McDonald said, and amended version included "had 6 of the original claims."

Although McDonald told us he hadn't yet seen revised suit first-hand, he said he was told that patent claims on audio issues had been taken out, but he was unable to tell us exactly what those claims were. Left in, he said, were video claims dealing with playback and brightness.

Commenting — prematurely, as it turned out — on Sony's decision to drop patent claims before he learned that suit had been amended and refiled, McDonald said: "While we recognize that Sony may still attempt to bring some of these claims back before the court at a later date, this represents the 3rd victory in a row for Connectix in this case. We hope that at some point Sony will recognize the merits of cooperating with us and giving added flexibility to consumers and fans of the PlayStation. It is time for them to withdraw entirely from their course of filing baseless litigation that the courts must dismiss."

Although McDonald told us he "wasn't surprised that [Sony] dropped" patent claims, he added: "I was surprised that they essentially refiled them in essentially the same form" as in original.

McDonald said Sony's refiling essentially moved case "several steps backward" because new hearing had yet to be scheduled and judge had yet to be assigned to handle it.

San Mateo-based Connectix manufactures Virtual Game Station (VGS) software that allows consumers to play many Sony PlayStation (PS) games on Pentium II- or III-equipped PCs and Macintosh G3 and G4 computers. Day after software started shipping in Jan. 1999, Sony filed first of 2 suits against Connectix charging it with copyright and other violations.

Earlier this year, Legge reversed and remanded preliminary injunction that had been placed on sale of VGS (TVD Feb 14 p13), and later dismissed all of Sony's copyright and trademark infringement claims against Connectix by throwing out 7 of 9 counts in first suit (TVD May 22 p15). Legge has yet to issue decision on remaining 2 counts in first suit — whether trade secrets were being compromised by Connectix and whether it had engaged in unfair competition. Hearing on those 2 counts is scheduled for Sept. 1, McDonald said.

Patent infringement suit was filed separately by Sony Feb. 14.

As battle with Connectix continued, Sony still was in legal battle with Bleem, which makes another PS emulator.

DELL ENTERS CE ARENA: Computer maker Dell is jumping into CE arena with home Digital Audio Receiver shipping in Aug. that allows user to listen to music stored on PC in same room or in other rooms via existing phone lines. Meanwhile, Archos, Iomega, Philips and S3 are among other companies that have unveiled new digital audio players.

Dell said its receiver — initially, anyway — will be available only direct from it via www.gigabuys.com Web site at \$199 for consumers also buying Dell Dimension computer system configured with home phone-line networking card. Dell is selling receiver separately for \$249.

Receiver will allow user to search, sort and play PC music collection by album, artist, genre, play list or title, Dell said. It has integrated amplifier and comes with remote control.

Dell receiver supports Microsoft Windows Media Audio and MP3 files and uses S3 Rio Audio technology. In fact, receiver shares same basic design as S3's own Rio Receiver, which was shown last month. It's shipping this summer at \$299 with internal PCI card or \$249 without it.

S3's new digital music device line also includes portable Rio 600 that started shipping last month with 32 MB of memory at \$169.95. Player comes preloaded with music from *Mission: Impossible 2* soundtrack as part of deal S3 signed with Disney's Hollywood Records. S3 is also coming out with higher end Rio 800, report said, and S3 also is planning to introduce devices for cars.

New from Philips are eXpanium personal MP3-CD player at \$199 and FW-M55 MP3-CD mini system at \$299, which manufacturer said are first entries in new series of audio players that merge CD technology with compressed digital audio technology. Both are shipping this summer. eXpanium supports digital audio files ranging from 32 to 320 Kbps, Philips said, and features more than 5 times faster shock recovery than standard electronic skip protection systems. Company said device can play up to 10 hours of portable music. In conjunction with eXpanium launch, Philips ran contest through July 7 at its www.expanium.philips.com Web site and said 50 people who won drawing would get free eXpanium.

FW-M55 mini system from Philips has 100 w and can play up to 30 hours of continuous MP3 music when using 3-CD carousel, Philips said.

Separately, Irvine, Cal.-based Archos is shipping portable 6 GB MP3 Mini Jukebox 6000 in Sept. at \$399. It said unit, which comes with USB interface, can play up to 6,000 min. of music.

First branded MP3 digital audio player from Iomega will be palm-sized device that uses company's own low-cost Clik discs for storage. Company said each 40 MB disc costs \$10 and can hold equivalent of 40 min. of 12 songs at "near CD quality." CompactFlash cards used in competitors' products generally cost \$80-\$100 for 32 MB card.

Iomega didn't announce model number of player, when it will ship or pricing, but said it would "be competitively priced." Player will be sold at retail as well as direct from company's www.iomegadirect.com Web site.

PS2 PREORDER PLAN CAUSES UPROAR: U.K. independent electronic game retailers denounced Sony's recently announced (TVD July 3 p15) preorder-only plan for PlayStation2 (PS2) videogame console launch.

Independent retailers objected to Sony's plan on various levels, according to British press reports that indicated that at least some dealers felt Sony was trying to push indies out of equation so it could concentrate on larger accounts — which Sony denies. Complaints included fact that retailers would have to provide Sony with full list of names and addresses of customers who wanted console before any machines would be shipped.

Among other concerns raised by dealers: (1) Retailer wouldn't be able to exchange damaged console for another one because store wouldn't have any in stock. (2) Some consumers would order PS2s from multiple stores to make sure they get one. (3) Some retailers would encourage every customer to "preorder" PS2 whether or not individual actually intended to buy one just to have extra stock in store.

Independent dealer complaints were further set off, according to one report, by Sony presentation June 30 at which retailers weren't allowed to ask questions and weren't actually shown PS2s.

Sony was standing by its preorder plan. Sony Computer Entertainment (SCE) U.K. spokesman told us last week that its entire point from start has been "based on fairness." He said rollouts of new game console platforms usually involve stocking problems in which there aren't enough machines to go around at start — especially for many independent dealers.

While independent were complaining, larger retailers such as Electronics Boutique didn't seem upset — something SCE U.K. spokesman called "ironic." He said: "For the first time ever... a company is trying to proactively manage the situation" and make sure that no dealer is favored when receiving stock, regardless of how large or small dealer is.

Spokesman also said some of main complaints didn't have much merit because Sony was planning to monitor preorder process carefully to make sure that each order was legitimate. As for how damaged PS2s would be dealt with, he said it would be in same way as original PS system — Sony, not retailers, would be responsible for replacing system. He also said it was in best interests of dealers to get deposit from customers who preordered system, which would provide dealers with revenues 3 months before official launch date of PS2. However, he conceded that Sony couldn't force dealers to take deposits. Therefore, it seemed possible there could be instances in which customers who didn't actually intend to buy PS2 would fill out preorder form merely as favor to dealer who was looking to nab additional stock.

Commenting on anger aroused by presentation to dealers, SCE U.K. spokesman said it was Sony's intention from start to have followup meetings with dealers and not have long Q&A period at that time. But he said: "Maybe, in retrospect, if it upset people... that's regrettable. That wasn't our intention." Since presentation, however, he said Sony has started meeting with dealers, but larger accounts, not independents. Sony doesn't have plan to meet one-on-one with independent dealers and

is leaving that up to 3rd party distributor Centresoft, which is handling preorder campaign, he said. Whether or not Sony winds up meeting with independent dealers depends on "how the mechanism proceeds," he said.

Although Sony has yet to announce pricing for PS2 in U.K., spokesman said that "should happen relatively soon" and company was "driving to do that" to help retailers, who obviously needed that information before preorder campaign kicked off Aug. 14.

Meanwhile, U.S. retailers apparently won't be faced with same preorder plan when console launches here Oct. 26 at \$299 (TVD May 15 p12). SCE America spokeswoman told us last week that "we haven't made any information about our presell plans public yet, but hope to do so soon." However, she said, "Due to the nature of our business in North America, we are not planning to institute a corporate presell program. Certain accounts and major retailers have already begun, or will begin, their own presell programs. These decisions are made on an account-by-account basis."

Image Entertainment agreed to pay \$250,000 to One Stop Recovery to settle lawsuit stemming from Alliance Entertainment's 1999 bankruptcy filing, distributor said in 10K. One Stop, which served as trustee in case, had sued Image alleging that Alliance transferred \$1.7 million in payments and goods to distributor in 90-day period that preceded bankruptcy filing. Image has taken \$300,000 charge to cover legal fees and settlement, which is expected to be finalized later this month, company said. In separate action, Image said it would receive \$899,000 as part settlement of breach-of-contract suit it filed against LEI Partners in June 1997. Image also had sued outside legal counsel in 1998 for legal malpractice in connection with deal in which company sold business segment to LEI in 1990. LEI and Image later became locked in dispute over 2 promissory notes executed in connection with sale. As it reached legal settlements, Image said it had postponed start of fulfillment service for its DVDPlanet.com Web site until late Sept. Service, which will operate out of Image's existing 76,000-sq.-ft. warehouse in Las Vegas, has encountered "software programming issues" related to order processing system's inability to support electronic data interchange (EDI). In meantime, DVDPlanet will handle orders at its Westminster, Cal., hq/warehouse. DVDPlanet was formed from remnants of kencranes.com business that Image purchased in 1999 for \$2.9 million cash and 258,370 shares of common. Kencranes.com had been one of Image's largest customers, accounting for \$5.8 million in sales in fiscal year ended March 31, 1999. DVD sales through Image's Internet/mailorder business increased to \$7.4 million in fiscal 2000 from \$4.8 million year earlier. Overall, DVD represented 86% of Image's \$83.6 million in sales in year, laser discs 9%, VHS/CD 4.5%.

Eidos was in talks with French videogame giant Infogrames Entertainment (IE) last week on latter's possibly acquiring it in all-share transaction for equivalent of \$1.1 billion, Reuters reported. News sent IE's shares tumbling. Although British press report said Eidos and IE had indeed begun talks and "acquisition of Eidos is possible, even likely," it said IE wouldn't pay as much as \$10.50 per share for company as some reports had suggested. As we reported, there have been reports for weeks about struggling U.K. computer game maker's wooing companies including Infogrames, Havas Interactive, Microsoft (TVD June 26 p13).

COMPUTER RENAISSANCE SALE: Grow Biz International has signed letter of intent to sell Computer Renaissance (CR) chain to franchisee Hollis Technologies for \$3 million in deal expected to close in Aug.

CR, which operates 209 stores across U.S. and Canada, specializes in selling used PCs, accessories and software and had \$145 million in sales in 1999. Chain peaked at 247 outlets in U.S. (224) and Canada (23) in 1998, but closed 38 in last year. Majority of stores were franchised, with Grow Biz owning locations in Ann Arbor, Fargo, N.D., Minneapolis.

Grow Biz, which has sold off 137-store Disc Go Round and 67-store It's About Games in last 2 years, moved to shed CR because "it would take some additional investment to get it to the level that we would expect," CFO David Osdoba said. "Given where we are at with the company, we didn't feel we could make that investment and believed that it was best if we sold it to somebody that could, so we could concentrate on the concepts that are remaining." Grow Biz operates 596-store Play It Again Sports and 224-store Once Upon a Child, among others, and has no immediate plans to sell remaining chains, Osdoba said.

Jack Hollis, whose company owned 5 CR franchised stores in Fla., said he was "looking forward to working closely with all of our franchisees to build a strong national system." He said he wouldn't make any "immediate or significant changes," but probably would move some of CR's Minneapolis-based buying staff to his company's Lakeland, Fla., hq.

Grow Biz bought CR in 1993 for \$672,000 and gradually had expanded it. But CR's concept of selling used PCs suffered as prices for some new models tumbled below \$500 after rebate. "It certainly has impacted the concept, but we still see it as a viable business," Osdoba said. Grow Biz had weighed refurbishing leased PCs and providing warehouse services for franchisees as means of increasing CR revenue, he said.

Former West Coast Entertainment (WCE) Pres.-CEO Kyle Standley will receive \$2.9 million over 7 years as part of agreement to merge chain with Video City (VC), WCE said in SEC filing. Chmn. Ralph Standley will get \$1.2 million and CFO Richard Kelly \$500,000. Payments, required even if VC doesn't compete merger, are not to exceed \$800,000 per year, documents said. WCE also said it had written off \$199,394 and \$148,344 loans made to Kyle and Ralph Standley, respectively, as "uncollectible." Kyle Standley was paid \$330,000 salary in fiscal 2000, Ralph Standley \$200,000. VC and WCE face Aug. 31 deadline for completing merger proposed year ago that would create chain with more than 200 stores. VC and WCE completed integration of computer systems in June (TVD July 3 p22), but still must shed undetermined number of WCE stores to satisfy \$20 million debt chain owed banks.

Sony, Matsushita and Toshiba have formed rare alliance in effort to build market in Japan for interactive TV services. Companies also forged agreement in June on standard format for digital TV set-top boxes. Three companies will develop copy protection, data storage and pay-per-view technology for TVs equipped with hard drives that could provide next generation in DBS services, company officials said. Hitachi also will join group to work toward creating open e-business platform for link broadcast services in Japan with Internet.

HACKERS CRACK DREAMCAST CODE: Copy protection scheme for Sega's Dreamcast videogame has been hacked by pirates.

Reports said hacker group known as "Utopia" released file on Web late last month that could be burned onto CD-ROM. When CD-ROM is loaded into Dreamcast's memory, videogame console reportedly can then read other CD-ROMs. Utopia and another hacker group also issued pirated game files online that could be recorded onto CD-ROMs and played on altered Dreamcasts as well, AP reported.

Commenting on situation, U.S. Sega spokeswoman said: "We feel that this is an issue that has been substantially dealt with. We have made all the requisite, necessary changes to our tool kit and we are taking this issue extremely seriously. We're working with all appropriate state and government agencies, and anybody that we find pirating our system will definitely be prosecuted to the fullest extent of the law."

As example of how serious company takes pirating, she pointed to "recent lawsuit that Sega joined in on behalf of Nintendo and with EA in which we [and other companies] all joined to stop Yahoo from selling pirated software on their site" (TVD April 10 p18). AP reported that Sega issued statement in Japan in which company also said piracy wouldn't affect its business materially.

Meanwhile, competitor Nintendo also continued to combat piracy. Online report last week said company "shut down a major piracy operation in the Asia-Pacific region."

Separately, Sega has chosen smart cards supplied by Schlumberger for use in amusement arcades throughout Japan, Reuters said.

Emerson Radio's new 3-year licensing agreement with Daewoo Electronics calls for minimum annual royalty payment of \$4.5 million, it said in 10K. Emerson and Daewoo switched from marketing pact to royalty bearing agreement last fall (TVD Nov 22 p18) that also sets minimum production quotas of 3 million VCRs and 2 million TVs. New arrangement should provide boost for Emerson's licensing revenue, which fell to \$3.1 million in fiscal 2000 from \$3.6 million year earlier. Daewoo, which supplies TVs and VCRs for Emerson, built 30% of its products in fiscal year ended March 31, while new supplier Avatar made 17%. Tonic Electronics share of production plunged to 11% from 32%, while Imarflex accounted for 13% (12%). Wal-Mart and Target accounted for 55% and 21%, respectively, of Emerson Radio's \$204.9 million in revenue for fiscal year vs. 52% and 24% year ago. Barclays Bank and another unidentified institution received combined 11.1 million shares of Emerson stock as part of settlement of lawsuit that carved up 29.2 million shares held by CEO Geoffrey Jurick. He retains 9.9 million, while former business partner Donald Stelling gets 8.2 million. Settlement, reached in June (TVD June 19 p14), ended 7-year legal battle that pitted Jurick against Stelling, who as part of Fidena Investments had provided funding that pulled Emerson out of bankruptcy in 1993. Under agreement, Emerson repurchased 7 million shares from Barclays for \$6 million in May and has one-year option to buy remaining 4.1 million for \$5.5 million. Emerson also has license to sell products based on Hello Kitty character, although details, including marketing plans, weren't available.

RECORD COMPANIES MUST CHANGE—POLL: Latest report to contradict claims of record industry that Napster is hurting their business came from Forrester Research, which said “music labels must change their tune.”

Forrester report by analyst Ekaterina Walsh said findings showed that MP3 downloads among 16-22-year-olds did not inhibit and in some cases even stimulated more CD purchases. Study said that more than 5 million wired consumers in that age bracket had downloaded Napster’s file-sharing software on their computers and one-third of them used Napster almost every time they logged onto Web.

While 55% of 6,000 young consumers surveyed in May said Napster hadn’t affected their CD purchases, 25% said they now bought more CDs, only 20% believed they bought fewer CDs than before.

Forrester said research indicated that decrease in CD sales by small retailers near college campuses in last year wasn’t caused by Napster but by consumers’ transferring average \$208 of their annual music spending to online dealers such as Amazon.com and CDNow.

Record companies, report said, needed to learn that many consumers were insisting that they be given ability to sample music before they spent money on it — something Napster was allowing them to do.

Forrester suggested that “instead of filing lawsuits, record labels should treat Napster as a viral marketing network and look for online revenue generators.” Report said: “Online young consumers already know what the music industry has failed to see: CDs aren’t going away because of MP3s. Rather than paying for downloads, most young Net surfers think recording artists should be rewarded through CD sales, concert tickets and promotional materials. In fact, Napster-ites are 15% to 18% more likely than others to suggest these traditional channels.”

Some of report’s comments echoed those of MP3.com CEO-Chmn. Michael Robertson, who recently called online music space “an absolute disaster,” saying record and other companies needed to change their philosophies in order to succeed.

Comments came in Robertson’s keynote speech at Streaming Media East conference in N.Y. He said most opportunities online today lay in products such as voice, music and video because they could be fully delivered digitally to customer, but he said: “There is a certain paradox now. If you look out on the online music space, to be honest with you, it’s a disaster. I mean an absolute disaster. No one has shown they can make any money. Most of the companies have very tiny, tiny, tiny bits of revenue.”

Robertson said problem so far had been that most companies had “taken a much too traditional approach” when they went online. In terms of selling music, he said what worked in retail music world and CD packaged goods world didn’t work online and companies needed to come to terms with that.

One of biggest mistakes, he said, was music companies’ emphasis on selling downloadable \$3 songs online instead of full-length \$16 CD, where more money could be made. He said there had been fundamental changes in consumer experience

because of growing shift to online music. In online space, he said, consumers were looking more and more for service bundled with content: “I think what we’re looking at is really a shift from the packaged good [business] model... to a service model.” He implied that those who didn’t change their business models were doomed to fail.

Turning to topic that had hounded him and his company for months, Robertson said: “We’re going to be debating copyright issues for many years because you have an old copyright law and they’re trying to apply the digital world to it.” He then poked fun at judges, particularly one presiding over copyright lawsuit record companies filed against MP3.com that his company lost, when he quipped that copyright issue “boils down to some guy in a dress and whatever he decides.”

Robertson also drew laughs when he joked about ailing online music retailer CDNow and, later, country music fans. Of CDNow, he said: “We joke around that CDNow is really false advertising. It’s not really CDNow. It should be CDIn4days.com. You don’t get it now. You get it in 4 days.” On country music fans, he said: “We’re not sure how popular our MP3.com Web site is with country music listeners because not many mobile homes are wired for the Internet.”

Sensory Science (SS) will sell \$250,000 in restricted stock in Emusic.com it bought in 1999, it said in annual 10K. Investment, which is convertible to 102,000 shares of common, had market value of \$631,250 as of March 31, it said. SS acquired shares year ago (TVD June 7/99 p19) under marketing agreement with Emusic, then known as GoodNoise, in which it packaged RaveMP media player with CD-ROM containing link to Internet company’s Web site. SS also made \$161,002 restricted purchase of shares of private Korean company Mpman in 1999. Loewe Opta reimbursed Sensory \$4.2 million for development and marketing costs in 2000 fiscal year related to line of 30-36" high-definition-ready TVs. SS, which started Loewe line in 1998, has incurred \$1.7 million in fees related to exclusive right to market and distribute direct-view TVs under German company’s brand, it said in 10K. Separately, Sam’s Club was Sensory’s top customer in fiscal 2000, accounting for 13% of its \$72.1 million in sales, down from 18% year earlier. Circuit City represented 12% of sales, same as year ago, while QVC was 11%, up from 10%. Revenues at all 3 retailers were largely related to dual-deck VCRs... **Samsung** accounted for 10% of Genesis Microchip’s \$53.3 million in revenue in fiscal 2000. Samsung installed GM’s digital video processing integrated circuit in its flat-panel displays.

Rent-Way (RW) has increased stake in prepaid local telephone service provider dPi Teleconnect to 70% from 49% and has invested \$7.5 million in company since making first purchase in Jan. RW, which operates 1,109 rent-to-own stores, is selling dPi service through 200 outlets. Dpi generated sales of \$1.5 million in RW’s 2nd quarter in boosting subscribers to 25,000 from 14,000 in quarter (TVD April 24 p19). It since has grown to more than 34,000 subscribers, RW said... **Rent-a-Center (RAC)** said it had signed agreement with Chase Securities for \$125 million bank facility to fund opening of 100-150 stores this year. It said \$89 million of proceeds will be used to repay tranche of existing credit agreement. RAC has 2,092 stores... **Rainbow Rentals** closed on \$2.45 million purchase from Rev. Inc. of 9 Zoom Rent-to-Own stores in Richmond and Tidewater, Va. Rainbow said it would close 2 outlets in Richmond and Virginia Beach later this month in combining operations with remaining locations.

RENTRAK SETS MEETING: As Rentrak agreed to address concerns of dissident shareholders at Aug. 21 annual meeting, it disclosed that CEO Ronald Berger had reduced stake in company.

Committee for Achievement of Rentrak Excellence (CARE) had pushed for June 30 special meeting, but relented after Rentrak board agreed to take up issues in Aug. Among them were replacing Berger and board with rival slate and spinning off or selling 3PF.com e-commerce distribution business. Shareholders will vote on 2 separate sets of proxies at annual meeting.

Rentrak said Berger had cut stake in distributor to 1.68 million shares (14.24% of outstanding common) from 1.96 million (16.24%) Dec. 31. Fate of 280,000 shares wasn't clear and Investor Relations Vp Richard Nida couldn't be reached for comment.

Disclosure came as CARE added 2 more members to expand group to 9. Thomas Cousins, executive with U.S. Bancorp Piper Jaffray, who controls 65,000 shares, and David Rosencrantz (6,000), urologist, signed on.

Separate SEC filing detailed stock acquisitions of shareholder and CARE member Paul Rosenbaum, who has been critical of company. He borrowed \$406,000 through account with Prudential Securities to purchase or hold Rentrak stock, filing said. Rosenbaum has bought 89,000 shares from 4 investors since Aug. 1999 in amounts of 9,000-30,300. Overall, he now owns 250,530 and is largest shareholder in CARE group. Among other CARE members Mark Brown (75,000 shares) and Gordon Reck (67,000) have borrowed \$138,000 and \$75,800 from First Union and A.G. Edwards, respectively, to buy stock. CARE has total of 527,680 shares.

"I believe in the stock and I expect to make money on it and obviously expect to bring value to shareholders — that's why I'm in here," Rosenbaum said. "I have faith in the product and the delivery system, I just lost faith in the management."

Rentrak has filed suit in U.S. Dist. Court, Portland, Ore., to block CARE from waging proxy battle for control of company. It alleged in suit that CARE made "false and misleading solicitations" to other shareholders.

Separately, Rentrak said in annual 10K that retailer financing program, which distributor created in 1992 to provide funding for video retailers, had invested or loaned \$6.9 million and had \$5.7 million in reserves as of March vs. \$14 million and \$9.6 million year earlier.

Rentrak also is weighing selling or shutting down joint venture with Columbus Holdings and Rentrak Japan it began in Feb. 1998 that was designed to expand its pay-per-transaction distribution business into U.K. Rentrak bought Columbus's 67% stake in March 1999, but year later business hadn't generated income and Rentrak wrote off \$222,000 investment, it said in 10K.

Distributor replaced existing \$7.5 million credit agreement with \$12 million pact in May. Berger also executed \$6.6 million promissory note with Rentrak dated June 16 under which remaining principal balance is due one year after he leaves company unless there's change in company's ownership. CFO Kim

Cox signed similar agreement on \$1.4 million note. Sales Vp Christopher Cox and Product Development Vp Marty Brown have amended employment agreements to detail severance agreement should management change.

Overall, Rentrak's annual income rose to \$3 million in year ended March 31 from \$2.7 million despite decline in sales to \$119.1 million from \$125.5 million. Minus \$2.3 million gain on sale of 80 of one-time subsidiary BlowOut Entertainment's 100 locations to Movie Gallery, income was \$1 million. PPT business reversed year-earlier \$1 million loss to post \$2 million profit despite drop in sales to \$94.1 million from \$106.9 million. 3PF.com had \$1.1 million loss vs. \$862,257 profit year earlier, while sales rose to \$11.6 million from \$10.5 million.

Tweeter Home Entertainment, crediting strong sales of digital products, reported 3rd-quarter revenue rose to \$95.3 million from \$59.7 million year earlier. Digital products accounted for 25% of overall revenue with digital TVs representing 11% of that vs. 3.1% year ago, CFO Joseph McGuire said. DVD player share rose to 5.1% from 4.4%. Same-store sales were up 16% despite 11.5% decline at recent acquisition Dow Stereo/Video and 0.6% improvement at United Audio. Dow and 8-store Home Entertainment in Tex. will switch to Tweeter name effective July 17, although Bryn Mawr, HiFi Buys and United Audio will remain same. Sales downturn at Dow, which Tweeter acquired year ago, had been expected as chain switched to more high-end mix of products, McGuire said, with goal of turning profit within 18 months of purchase. "Dow was the most challenged in terms of how it was perceived by local consumers," McGuire said. Name change was prompted by focus groups in last 2 months that indicated consumers noticed difference in Dow before and after acquisition, he said. Tweeter also is negotiating acquisition of chain similar in scale to earlier purchases with target of completion by Aug.-Sept., McGuire said, declining to identify retailer. Tweeter plans to open another 8 stores by fiscal year-end in Sept.

RadioShack (RS) reported June same-store sales rose 13%, chain's strongest jump since March. Sales increased 14% to \$331.3 million from \$290.5 million, gain that RS attributed strong performances in all CE categories... **Future Shop (FS)** said June same-store sales surged 15% to \$152.5 million from \$135.4 million year earlier on introduction of Family Radio Service 2-way radios and GE Profile appliances at its stores. FS also started sales of DVD software from Web site and opened 2 stores in Quebec... **Musicland**, blaming slow sales of software, said June same-store sales slid 2.1%. Total sales dipped 0.9% to \$152.3 million from \$153.6 million. In 26 weeks ended July 1, sales increased 4% to \$818.4 million on 2.9% same-store gain... **Intertan**, which operates stores under RS and Tandy banners in Australia and Canada, said sales increased 10.5% in June to \$33.8 million on 13.3% gain in same-store sales. Overall sales jumped 17.4% in Canada, but fell 5.1% in Australia due to "constraining impact" of country's upcoming Goods and Services Tax, Intertan said. Same-store sales were up 16.1% in Canada, 6.9% in Australia.

Latest retailer to receive Sony authorization to sell its CE products — camcorders and digital still cameras (DSCs) — online is B&H Photo Video, N.Y.C. Addition brought total of dealers authorized to sell Sony electronics online on national basis up to 17 as of last week. Although other retailers are authorized to sell Sony products online within their own market areas, only 17 in list on Sony's Web site are okayed for national sales, spokesman told us.

BIGSTAR WEIGHS CHANGES: BigStar.com is “reviewing” weekly TV program it developed with ValueVision (TVD May 22 p12) after finding that while show provided e-tailer with additional e-mail addresses, it also carried higher customer acquisition costs, Chief Technology Officer Frederic Bien said.

The BigStar Show, which was broadcast and Webcast over ValueVision’s SnapTV network, promoted e-tailer’s DVD and video catalog, but also sought to sell items that appeared in movies as part of latter’s e-commerce strategy. Bien declined comment on plans for program. “Every type of product has a preferred channel of distribution and here videos were getting caught between computers and jewelry,” Bien said. BigStar sold 1.4 million shares of common to ValueVision in Dec., raising \$9.95 million.

BigStar also has trimmed engineering staff to 10 from 13 and is “passing all of our projects through the finance department” as part of fiscal belt tightening, Bien said. Changes follow shutdown of rival Reel.com earlier this month. “We’ve taken a hard line to reduce our engineering costs now that the site is up and running,” Bien said.

Company also is more closely monitoring promotion that offered \$20 coupons on video purchases. While program was designed for new buyers, existing customers also used it, resulting in many paying “\$5 instead of \$15” for video. Resolving problem cut monthly costs by \$200,000, Bien said.

DVD and videocassettes, which accounted for 56% and 44% of \$13 million in sales in year ended Dec. 31, will remain focus of business, despite earlier plans to stream feature-length movies from Web site, Bien said. BigStar has 13 feature-length films in library along with 8,000 movie trailers, Bien said. “The trailers bring people to our site, but they don’t generate a lot of money,” he said.

BigStar also will continue to market Broadband Theater as means of supplying movies via high-speed Internet connections, although less than 10% of its customers use service. BigStar has alliances with AOL, which has 2% stake in company, and Earthlink Network.

In seeking to generate additional revenue, BigStar is weighing either spinning off direct marketing software business or making it core strategy, Bien said. Internally developed software creates personalized and targeted e-mails based on demographic data provided by users. BigStar has database of 2 million e-mail addresses and is considering marketing it to other companies, Bien said. “I could see where BigStar becomes the laboratory for the direct marketing business,” he said.

NEC will transfer production of low-end LCD projectors to China in Aug. It said move would enable it to make projectors “more cost-competitive.” It’s targeting 15% share of worldwide LCD projector market by 2002. Plant will start production at 3,000 per month, focusing on units priced at less than \$6,500. Shift came as NEC also announced creation of \$5.68 billion investment fund for mergers and acquisitions and said it would seek listing of shares on N.Y. Stock Exchange within 3 years... Ionics said it had received \$1 billion contract from Philips to manufacture 10 million PC disc drives annually. Production starts in Aug., reaching full capacity in 2002, company said. Ionics, unit of Singapore-based Ionics Circuits, will invest \$50 million in plant and hire 3,000 employees.

EB EXPECTS LOSS: Electronics Boutique (EB) said it expected to report 2nd-quarter loss of \$2.5-\$3.1 million, including \$900,000 loss from its EBWorld.com e-commerce business. Electronic game retail chain had \$500,000 profit in same period year ago.

But it said it would have net gain of \$1.1 million from termination fee in proposed Funco acquisition. As we reported, Barnes & Noble wound up buying Funco in deal worth \$161.5 million (TVD May 8 p18).

EB said 2nd quarter traditionally was its weakest. Although total sales were expected to top last year’s 2nd quarter, EB said same-store sales would be less this year largely because of shift in consumer demand caused by upcoming debut of Sony PlayStation2 videogame console in N. America Oct. 26.

Commenting on results, EB Pres.-CEO Joseph Firestone said: “We sense that consumers are slowing their purchases in anticipation of the release of the PlayStation2 this fall and we expect 3rd- and 4th-quarter sales will be quite robust.”

“We believe that annual same-store sales will achieve positive growth over last year’s strong positive results,” he said. “The near-term impact of this shift in demand has been a lower desire for existing console systems and a relatively soft release schedule of new titles for those systems.” He expressed optimism that “the videogame industry will transition to the next generation of console systems much faster than any previous system introduction due to pent-up demand and a greater level of hardware and software product availability.”

EB said it expected total revenues for year to be \$890-\$910 million.

AOL signed deal with InterTrust Technologies that makes latter’s MetaTrust Utility “preferred” digital rights management (DRM) system across AOL’s brands and properties. Move represented AOL’s first step in providing secure digital music downloads online to public. First implementation of technology is with InterTrust plug-in for AOL’s Winamp digital music player. Later this year, AOL also will distribute InterTrust’s client software on promotional CDs with AOL version 6.0. InterTrust CEO-Chmn. Victor Shear said deal “represents one of InterTrust’s most significant relationships to date and should speed distribution, adoption and use of the MetaTrust Utility.” InterTrust already has signed deals to provide DRM solutions for 2 of 5 major record companies — BMG and Universal. Deal with AOL brings InterTrust step closer to locking up 2 more music companies because of AOL’s proposed merger with Time Warner (TVD Jan 17 p16) and Warner Music’s with EMI (TVD Jan 31 p11). Separately, AOL Moviefone said it expanded agreement with Palm to deliver enhanced movie information and tickets to future handheld devices that use Palm.Net Wireless Communication Service.

THIS WEEK'S YEN RATE

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

MICROSOFT BUYS GAME MAKER: Microsoft said it had acquired privately held Chicago-based game maker Bungie Software Products in deal said to be worth \$50 million.

Acquisition gives Microsoft exclusive distribution and publishing rights to such games as upcoming sci-fi title *Halo* as it prepares to start Xbox videogame console in N. America in fall 2001 (TVD March 13 p12). Bungie now will operate as division of Microsoft Games and will develop games for Xbox.

Microsoft also said it had entered into strategic alliance with Take-Two Interactive Software's Broadband Studios (BBS) to distribute select Microsoft computer games that will be broadcast over BBS's PowerPlay Network. Companies said they also "agreed to investigate the opportunity to license an existing Microsoft property for the basis of an online game channel for the PowerPlay Network."

Take-Two, which acquired BBS subsidiary in March (TVD March 20 p20), owns 20% controlling stake in Bungie.

Deals arrived at same time as report that Bryan Lee had left Columbia Pictures, where he had been business affairs exec. vp, to help lead Xbox team at Microsoft.

Separately, Microsoft shares jumped after judge handling its antitrust case stayed set of restrictions he had imposed on company until appeals process was finished. U.S. Dist. Judge, D.C., Thomas Jackson also sent Microsoft's appeal directly to U.S. Supreme Court. He had ruled earlier that Microsoft be split in 2.

What, if any, impact Microsoft split would have on upcoming Xbox videogame console remained unclear. Microsoft spokeswoman said: "At this time, it's really inappropriate to discuss the effects" ruling could have on Xbox.

Appeals process could drag on for months — even longer than year, industry sources have said. If Microsoft lost appeal and were forced to break up into 2 companies, it was assumed Xbox would fall under applications business.

Forrester Research senior analyst Jeremy Schwartz told us, "I think it's a little early to tell" what impact would be on Xbox if Microsoft indeed were to be broken in 2. But he said if split happened, "there's not the same stature of company behind the product that there was before from the consumer perspective. I don't know what that means from a marketing dollars point of view... But obviously there's going to be a potential situation where the perception from consumers [may be] that it's not coming from the same kind of company that it was coming from before."

Schwartz said Microsoft "may not be able to draw on the same resources and deep pockets" as it can now to help support Xbox rollout: "If you look at Microsoft right now, they can shuffle marketing dollars from one piece of Microsoft to another pretty dynamically to support some kind of product launch. [But] they can't do that when they're clearly split up into 2 companies."

In addition to impact of split on Microsoft's software and videogame business, variety of other businesses could be affected. For example, digital music arena could be hit because of Microsoft's heavily utilized Windows Media format.

Also unclear was effect on Microsoft's relationships with manufacturers including Thomson and retailers such as RadioShack. Microsoft owns 7% of Thomson. Thomson spokesman declined comment.

Meanwhile, support for Xbox platform continued to expand. British press report said game maker Koei, best known for games including *WinBack* for N64 and *Kessen* for PS2, announced it would start developing titles for Xbox.

Infogrames Entertainment said it signed agreement to acquire Paradigm Entertainment, Dallas company that develops interactive 3D videogames and related technologies. Paradigm will become subsidiary of French game giant Infogrames. Infogrames said acquisition would enable it to strengthen its lineup of "triple A" titles and would involve exchange of as many as 700,000 Infogrames Entertainment shares. Paradigm already had been developing games for Nintendo 64 console, but companies said it was "actively involved" in game development for next-generation consoles including Microsoft's Xbox, Nintendo's Dolphin, Sony's PlayStation2 (PS2). Games for which Paradigm is best known for developing include *Beetle Adventure Racing*, *F-1 World Grand Prix*, *Looney Tunes: Duck Dodgers*, *Pilot Wings 64*. Infogrames CEO-Chmn. Bruno Bonell said: "Infogrames' U.S. strategy moving forward is to increase the percentage of titles developed internally, focus on high-quality titles and lead next-generation console publishing. Paradigm's 80-plus person development team will propel us toward these goals with their proven track record of quality content and technological prowess."

eMotion completed \$34 million mezzanine round of financing, Vienna, Va., digital media management company said last week. GE Capital and Chartwell Capital Investors headed latest round of financing with EMC, Enron, National Geographic, Saudi International Bank, Sun Microsystems and Veritas Software as other investors. Eastman Kodak, which already had provided financing for eMotion, made additional investment as well, along with other investors from first round. Companies didn't disclose specific amount each one invested. eMotion said it would use new financing to support further development and integration of its software products, expand existing Application Service Provider (ASP) offerings, help company expand internationally. eMotion Pres.-CEO Bob Griffin said in conference call with reporters that company first intended to raise only \$20 million in mezzanine round, but ramped up figure because of higher-than-expected interest among investors. He said that even with \$34 million, eMotion "had to turn several people down."

Assn. of Select TV & Appliance Retailers (ASTAR) missed its unofficial July 1 deadline for completing roster of 10 members, but remained optimistic it would achieve goal this month, said Video Only Pres. Peter Edwards, who has led effort to form group. ASTAR is believed to have commitments from half-dozen dealers, although their identities hadn't been released. It was awaiting replies from 7-8 others. ASTAR, which grew from Video Only and Queen City departures from NATM Buying Group earlier this year, is likely to consist of independent dealers and members of other organizations. Still to be decided, pending completion of membership roster, is where group will be based and who will head it. ASTAR has discussed Chicago hq and hiring former NATM Exec. Dir. Saul Gold, but no final decisions have been made.

Consumer Electronics Personals

Michael Burney resigns as Spatialight CEO, replaced by board member **Robert Olins** on interim basis... **Johan Sandberg**, ex-Lotus, named gen. mgr., Symbian's Sweden office... **Bruce Leasure**, ex-Solectron, named SCI Systems corp. mktg. & sales vp... **Michael Goodman**, ex-Mattel, joins KB Gear Interactive as senior domestic & international sales vp... **Hosea Belcher**, ex-20th Century Fox Home Entertainment, joins Artisan Home Entertainment as senior vp-mktg.

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S3 and VIA Technologies said regulatory approval of their planned graphic joint venture had been delayed by recent changes in Taiwan govt. Companies said govt. indicated Taiwan company VIA could submit additional information and companies could choose to modify deal structure. Transfer of S3's graphics assets to joint venture had been expected to be finished by this month. Companies didn't venture guess on when they expected plan to be approved by govt. now. As we reported, S3 was seeking to sell its PC graphics chip business to joint venture with VIA for \$323 million in cash and securities (TVD April 17 p20). Commenting on delay, S3 CEO-Chmn. Ken Potashner said: "We believe that the new Taiwan government should be taking positions supporting high-tech partnerships between Taiwan and global corporations, and we hope that the new Taiwan government will not cause harm to U.S. or international corporations." S3 and VIA said they planned to work with new govt. to achieve support for venture.

Case Logic will be acquired by Denver-based investment firm KRG Capital Partners from parent Hagemeyer, terms not disclosed. Sale is expected to be completed by late this month. Case Logic Vp-CFO Mark DeOrio said KRG plans to "grow the business aggressively" in next 4-5 years through acquisitions of other companies and product line extensions, but he declined to give details. Case Logic, which sells hardware and software storage products for CE and PCs, will double size of Longmont, Colo., hq/warehouse in next year to 260,000 sq. ft., DeOrio said. Warehouse portion, which supplies U.S. market, will double to 200,000 sq. ft., he said. Case Logic will retain current 185 employees as well as separate hq/warehouse for European market near Brussels, Belgium. Hagemeyer purchased Case Logic, which was founded in 1984, in 1991. Sale is Hagemeyer's most recent action since moving last fall to shed its consumer operations in bid to focus on business-to-business segment. Several groups have been sold, although Gran Prix, which markets low-end CE products in U.S., remains part of company.

Audiovox has formed separate electronics subsidiary that will focus on mobile business as well personal and portable home stereo, MP3 and DVD players and home theater systems. Audiovox Electronics will remain based in Hauppauge, N.Y., and be headed by Pres.-CEO Patrick Lavelle, who directed former division as senior vp. Electronics accounted for about 20% of Audiovox's \$1.1 billion in sales in 1999, cellular phones representing remainder. Audiovox is expected to introduce new line of DVD players this fall.

Movie Trader and founder Jeffrey Clark will reenter used CD and DVD business after reaching agreement with CD Warehouse, which purchased assets of business in 1999. Clark will be barred from competing with CD stores within San Diego County, Cal., and within 2-mile radius of locations in Huntington Beach and Irvine, Cal., CD said in SEC filing. Noncompete agreement expires in 2004. CD also granted Clark right to use CD Exchange name.

Latest retailer to advertise PlayStation2 (PS2) software imports flagrantly despite fact that Sony doesn't officially debut next-generation videogame platform in U.S. until Oct. 26 is RedOctane.com, Sunnyvale, Cal. Company was renting all 27 PS2 titles available in Japan at its Web site as of July 4 holiday weekend. Sony Computer Entertainment America spokeswoman didn't return call to comment on what, if anything, company could do to prevent retailers from renting or selling PS2 titles in U.S. before official debut. RedOctane.com, formerly WebGameZone.com, charges \$4.99 for 10-day rental per title, but said subscribers to its G3 and G1 Unlimited game rental programs could rent PS2 titles at no extra charge. Subscribers to G1 program can select any game from 515 in its catalog and keep it as long as they like for \$9.95 per month with no shipping charges. As with online DVD rental services, consumers can send games back to company in preaddressed and prepaid envelope when they are finished with them.

Sony began 2nd stage of its ImageStation online digital imaging Web site. For first time, consumers now can add MPEG video to their online digital picture albums under Sony's partnership with Vingage, company that links video transcoding technologies with database-driven video servers. ImageStation members are given unlimited still image storage with free membership and Sony said they would be allowed to store up to 15 min. of MPEG video free. It also said it had signed strategic relationships with online photo printing service provider Ofoto and with Zing, which is providing infrastructure for new enhanced ImageStation Web site, www.imagestation.com. ImageStation announcements were made at PC Expo in N.Y.C., where Sony also unveiled CD-R-based Mavica digital still camera (DSC), Mini DV camcorder, Picture Park Digital Picture Filing System. ImageStation was founded in 1998 to provide basic online service for Mavica customers.

Market research company InsightExpress (IE) said survey of 300 adult Web consumers June 19 indicated majority didn't believe Napster or its users were guilty of copyright infringement. Actual published numbers provided by company suggested reverse actually was true, but IE spokesman clarified them for us. He said survey revealed only 12.6% of overall online community felt Napster was guilty, 24.6% felt it wasn't guilty and 62.8% were in middle. Results also revealed, he said, that only 11.3% said Napster users were guilty, 52.8% felt they weren't guilty, 35.8% were in middle. IE said Napster quickly had captured nearly 20% of download market, and 52% of online community already was familiar with Napster. Survey said 19% of online community and music downloaders and 28% of Napster users said Napster-like sites would decrease their book, music and video purchases, while 60% of online community and Napster users and 64% of music downloaders were unwilling to pay for downloading music.

Brilliant Digital Entertainment will use portion of proceeds from proposed 4.5 million share shelf offering to fund acquisitions of products, businesses and technologies, it said in SEC filing last week. Brilliant has no immediate plans to offer shares, but filing allows it to access funds from capital markets and strategic partners if necessary, CFO Michael Ozen said. Brilliant has securities purchase agreement for St. Annes Investments to buy up to \$6 million of shares of common at discount to prevailing market price, although no purchases have been made. Brilliant, which markets Multipath Movie DVD titles with links to Internet, also develops and distributes interactive programming containing e-commerce features for Web, broadband, TV.



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

GRADE B USEFULNESS CHALLENGED: In comments to FCC, satellite interests call standard for determining if homes are underserved 'outdated and inadequate.' NAB calls position 'frivolous.' (P. 1)

FCC CUTS TV-RADIO FEES: Rates for broadcast, radio and cable go down for FY 2001 despite overall 7.7% increase in regulatory fees. (P. 2)

McCAIN PUSHES LPFM: Chides NPR at hearing on CPB board nominees for opposing FCC plan for new service. Witnesses say public broadcasters back concept. (P. 3)

RETAILERS LACK DIGITAL SET-TOPS: FCC's July 1 deadline for separate security functions has passed with no market benefit due to box shortage. (P. 3)

GOVT. NOT SCRIPT DOCTOR, White House drug czar tells House subcommittee in probe on give-back of PSAs when antidrug messages appear in programming. (P. 4)

DIVISION ON OPEN ACCESS: Observers split on how FCC will proceed. (P. 5)

SATELLITE SIGNALS DEBATED IN COMMENTS TO FCC: Sharply divided reply comments were received by FCC last week on whether agency should recommend to Congress that use of Grade B contours be changed in determining whether homes within those contours are underserved under Satellite Home Viewer Act (SHVA). National Rural Telecom Coop (NRTC), in argument supported by EchoStar, said Grade B standard was "outdated and inadequate" — position NAB called "frivolous." Supporting NAB's arguments were affiliate associations of Big 4 TV networks.

Responding to earlier comments (TVD July 3 p 3), NRTC called for "alteration of the antiquated" Grade B standard that has been in place since 1942 — long before there were satellite TV signals into homes: "Congress clearly recognized that the Grade B standard may well be out of date and inadequate for purposes of determining eligibility to receive distant network signals by satellite." At very least, NRTC said, FCC should conduct independent study to determine viewer expectations, without which "millions of rural viewers will remain unserved... under the outmoded Grade B standard."

EchoStar said "several necessary modifications" were needed in Grade B standard, which was "based on an entirely different environment of TV reception and demographics that existed half a century ago." Broadcasters today are raising arguments against changing standard that EchoStar said Congress already has rejected or that "bear no relevance to the issues" related to inquiry (Doc. 00-90). EchoStar and others advocating change have "demonstrated in considerable detail" need for change "and the Commission must make that recommendation to Congress," EchoStar said.

NAB argued that none of direct-to-home satellite companies had "made any showing" that they couldn't comply with program protection rules: "Indeed, all of the satellite carriers are today implementing similar program exclusivity rules

Consumer Electronics

CACHEVISION HAS 'BOLD' GOAL to become dominant OEM supplier in HDD storage, Seagate and Thomson say of their 50-50 joint venture. (P. 9)

SINGLE UNIFIED IBOC DAB SYSTEM to emerge from merger of rivals Lucent Digital Radio and USA Digital Radio. They say newly formed iBiquity will speed IBOC adoption. (P. 10)

MATSUSHITA CREATES E-COMMERCE ARM in Japan to market its products and services online. (P. 11)

E-COMMERCE, VIOLENT GAMES to be top concerns at IEMA Executive Summit in Orlando this week. (P. 11)

'MUCH TO BE OPTIMISTIC ABOUT', VSDA's Andersen says at annual convention in Las Vegas. (P. 12)

KODAK COMMITTED TO DIGITAL: CEO Carp says imaging giant will ride digital products to \$24 billion by 2005. (P. 13)

GAME DEVELOPER DROPS PLAYSTATION2 for Microsoft's Xbox. (P. 13)

imposed by sports leagues." Commenting on DirecTV proposal that Commission replace Grade B standard with postal zip codes, NAB said such a change must include "strong safeguards to prevent the very real danger that... report of incorrect zip codes becomes a way to evade geographic restrictions." That situation already exists in Canada, Assn. said.

Network affiliates said inquiry record to date "unequivocally demonstrates there is no valid engineering data" that would warrant increasing FCC's "long-standing and time-tested Grade B values... The increased Grade B values that the satellite industry advocates... are not and cannot be supported on any scientific or empirical basis." TV viewers currently receiving Grade B intensity signal actually are getting picture quality 2 grades better "than they are theoretically predicted to receive," affiliates said. If satellite requests were granted, affiliates said, localism would be destroyed, conversion of analog stations to digital would be delayed and it would "eviscerate the property rights that [TV] network affiliates hold in their copyrighted programming."

COMMISSION CUTS TV-RADIO REGULATORY FEES: Despite overall 7.7% increase in FCC regulatory fees, radio and TV stations' and cable systems' annual payments for fiscal year starting Oct. 1 were reduced. New fee schedule, released by Commission last week, is designed to collect \$185.8 million next year and fees generally were raised on other services in order to increase amount raised as mandated by Congress.

Fees are designed to cover FCC's costs for enforcement, policy and rulemaking, international and user information activities. Agency said Congress still is considering raising collection total for FY 2000 by additional 3% and that it would adjust schedule accordingly if that happens.

TV stations generally received 3% drop in fees, with cable system fees dropping 1 cent per subscriber — from 48 cents to 47 cents. Major market TV stations received largest reduction dollarwise for FY 2000, with fees for VHF TV stations in top 10 markets reduced from \$41,225 to \$39,550, while UHFs in same markets will pay \$15,075, down from \$15,550. VHFs in markets above top 100 will pay \$3,300 fee next year (down \$100), with UHF fee in those markets dropping \$50 to \$1,150. Fees for Class A AM stations in largest markets were reduced \$800 to \$3,600, with Class A AMs serving fewer than 20,000 potential listeners dipping from \$430 to \$400. Fees for FM stations in all size markets were reduced \$25-\$50.

FCC told Sunbelt Communications and Ruby Mountain Bcstg. that Nielsen rating "is the only consistent source the Commission has for determining which market a station serves." Companies had argued that small TV stations located near large designated market areas (DMAs) were assessed too high a fee because Nielsen ratings included them in DMA even though they didn't serve households there.

Amount of fee increase varies by industry. For example, CTIA complained that wireless industry would have 42% increase overall, but FCC said it spent more to regulate that industry than others. Noting that general 7.7% fee increase represented "aggregate amount that we must collect rather than the increases for specific industries," Commission said it spent more than \$30 million to handle wireless regulatory matters in current fiscal year. It reduced figure to \$25 million for fee purposes, ending up charging commercial wireless companies 30 cents per subscriber.

For first time, Comsat will be subject to regulatory fees for its Intelsat satellites. Comsat had argued that geostationary space station fee didn't apply to Intelsat stations because they weren't licensed by FCC and were non-U.S. facilities. On another satellite issue, agency suggested that Motorola seek waiver or reduction in fees if it felt its rates unfairly reflected regulatory costs that Iridium incurred before it went bankrupt.

Comr. Furchtgott-Roth dissented in part from order, saying 2 parts of it bothered him: (1) He was troubled because fees increased yearly without "any corresponding increase in the services provided to these licensees." (2) He disagreed with assessment of fees on Comsat for Intelsat satellite system.

NAB task force on digital TV will hold its first face-to-face meeting in Washington July 20 for what was described as "broad-ranging" discussion of problems facing broadcasters in transition to DTV. Chaired by Mark McCarthy of Belo, task force is intended as "umbrella group to form NAB policy on big topics" involving transition, NAB official said. Subjects up for discussion include digital must-carry, spectrum auctions, receivers, pace of transition, COFDM standard being pushed by Sinclair Bcstg. and others.

NBC-owned WNBC N.Y. will begin producing original newscast — using WNBC anchors and reporters — for live presentation on Paxson's WPXN-TV N.Y., effective July 17. On same day, WPXN-TV will begin repeating WNBC's 11 p.m. newscast at 11:30 p.m. Similar news deals are expected soon at other NBC-owned TV stations in markets where Paxson also owns stations, companies said. NBC (which owns 32% of Paxson TV) recently signed local marketing agreements with Pax TV stations in 4 largest U.S. markets.

McCAIN GRILLS CPB NOMINEES ON LPFM: After acknowledging "fine" job CPB board has done in past, Sen. McCain (R-Ariz) questioned 4 board nominees on low-power FM (LPFM), urging them to ask NPR to reexamine its position. At Senate Commerce Committee hearing July 12, Frank Cruz, pres. of Cruz & Assoc., and Katherine Anderson, CFO, Team Washington, who have been renominated for CPB board, responded favorably to McCain's bill, which would let LPFM stations operate unless there were proof they were causing interference to public or commercial radio stations. First-time nominees Ernest Wilson, dir., Center for International Development & Conflict Management, U. of Md., and Kenneth Tomlinson, pres.-dir., National Sporting Library, Middleburg, Va., gave no responses. Nominees received support from committee members, including Senate Majority Leader Lott (R-Miss).

LPFM gives churches and minorities opportunities to set up small broadcasting facilities, producing chances they normally wouldn't have, McCain said. NAB says LPFM will cause interference, but he said his bill would require proof of interference before LPFM station could be shut down. "Much to my surprise," he said, "NPR came out against my legislation and LPFM." With public broadcasters concerned about diversity, "I would hope that you [CPB board] would encourage NPR to re-examine its position," he said.

"I couldn't agree with you more," Cruz said. "I think your legislation is a way to address the concern" about interference. But he said there was real problem about interference and CPB supports 66 minority-owned radio stations. Anderson said she applauded McCain's bill in theory. Even Sen. Rockefeller (D-W. Va.) was in favor, saying "I think it's a very good solution."

"Like Senator McCain, NPR supports the idea of LPFM," NPR said later. "We are in support of more diversity on the airwaves. However, our member stations have concerns about interference" so NPR would like to see more testing before it's implemented. NPR said it supported HR-3439, which House passed in April, and hoped Senate would consider that bill. Measure provides for further field testing and would allow some LPFM stations to be licensed, but under 3rd adjacent interference protection, NPR said.

Rockefeller grilled nominees on fact that public broadcasting viewers and listeners were low percentage of total audience. "One of the things that troubles me, as a lover of classical music," he said, is continued small number of public radio listeners to classical music. Rockefeller said low figure was "very, very disturbing." Acknowledging he might be wrong about number who watch or listen to PTV or radio, he asked nominees how board could fight trend besides providing funding.

Citing 8 stations dedicated to classical music, Cruz said CPB helped by funding them for several projects that improved operations. He cited report showing 82% of viewers believe PBS still is as important as in past. Public TV is safe haven for children, Cruz said.

Despite questioning, CPB nominees received support from both parties. Lott, referring to past public broadcasting problems with list selling, said, "I think progress has been made" and gave his support for all 4 nominees. McCain said he believed all were qualified to serve on CPB board and said he had long-term relationship with Tomlinson.

NO DIGITAL SET-TOPS TO SELL: Despite concerted govt. efforts to spur new retail market for competitive digital cable set-tops over last 2 years, retailers still have no boxes on their shelves to sell to consumers. None of major consumer electronics chains apparently has ordered digital cable set-tops from box equipment makers and no manufacturer has produced any interoperable digital boxes for retail sale. As result, govt.'s July 1 deadline for cable industry to separate signal-security functions from channel-selection functions on digital boxes, which was seen as crucial to making set-tops ready for retail sale, has come and gone with no impact on consumers. "There are no hosts [set-top boxes] available from anybody," said Ken Klaer, Scientific-Atlanta (SA) vp-gen. mgr., mktg. and business development. "We're all struggling with how to make this work."

Digital box impasse came as cable industry trumpeted its ability to meet FCC's July 1 deadline for producing point-of-deployment (POD) security modules for digital cable set-tops, making them theoretically ready for retail sale. Under guidelines developed by CableLabs, working security modules for set-tops have been produced by Motorola and SA, industry's 2 main suppliers. Both equipment makers said they had received orders for thousands of PODs from major MSOs, particularly AT&T and Comcast, in anticipation of market demand and have started shipping them. But neither has seen any orders for PODs or digital boxes from retailers. "There doesn't appear to be any urgency [for filling POD orders] because there aren't any orders for host boxes," said spokeswoman for Motorola, which plans to fill existing POD orders by mid-Aug.

Cable and CE executives blamed each other for lack of retail set-top boxes. Main issue seemed to be retailers' concern that any digital boxes they offered would be inferior to set-tops leased and sold by cable operators as they continually upgraded services. In comments filed at FCC, Circuit City and others complained that cable industry's OpenCable specifications for competitive digital boxes were incomplete and years behind schedule. CE interests charge that OpenCable standards unfairly favor cable operators' digital set-tops. They also complain that cable's proposed copy protection licensing terms for digital boxes would severely restrict consumers' rights to tape popular programming at home. "It's a massive obstacle," said Michael Petricone, CEA vp-technology policy, referring to proposed copy protection license.

FCC officials said they were concerned about retail set-top stalemate but didn't know what to do about it. They said they might investigate retailers' charges that cable industry had violated govt. rules with OpenCable specifications. They also continued proposed rulemaking on DTV set labels and copy protection technology, now due to be concluded in Sept. or Oct. "I don't know what the answer is," Deputy Cable Bureau Chief William Johnson said. "These things are a matter of concern but it's not our job to force the market."

■ ■ ■

Comcast won transfer of Montgomery County, Md., cable franchise without strong open access requirements. As expected, Montgomery County Council unanimously approved new agreement with Comcast, permitting MSO to take over franchise formerly held by Prime Cable. But Council didn't approve immediate open access mandates, merely requiring Comcast to make sure upgraded system could carry multiple ISPs if open access were required in future. Control of Cable TV Montgomery system, which serves 209,000 subscribers, helps Comcast consolidate its holdings in Washington-Baltimore area.

DRUG CZAR DENIES CHANGING TV SCRIPTS: Controversy over whether White House Office of National Drug Policy (ONDCP) reviewed TV scripts before they were aired continued July 11 when agency's Dir. Barry McCaffrey told House Govt. Reform Drug Policy Subcommittee that "there was not government manipulation of scripts." He called news reports of such reviews "completely overstated" and "inaccurate." However, in Feb. ONDCP Deputy Dir. Donald Vereen had told House Telecom Subcommittee Chmn. Tauzin (R-La.) that networks believed they were submitting scripts for review in exchange for getting back pro bono time they then could sell, but in fact submissions merely were for "technical review." McCaffrey termed it important that ONDCP work with broadcasters to make sure messages inserted in shows were effective and reflected agency's antidrug focus.

Controversy has continued over multimillion-dollar ONDCP media effort, raising bipartisan concern at hearing that coincided with 2-year mark of 5-year campaign. McCaffrey and 2 researchers testifying on campaign's progress so far also took hits for ONDCP's use of tracking "cookies" on its Web site and inability to show causation between media campaign and decrease in youth drug use.

"We clearly cannot get any involvement in the creative process" at TV networks, McCaffrey said: "We don't want to be involved in program review." He said idea that White House was using govt. money "to manipulate *Manchurian Candidate*-style American minds is laughable." Replying to questioning by Rep. Mica (R-Fla.), McCaffrey said "there will be no decision by Ogilvy Mather," ONDCP's ad agency, on whether network could reclaim PSA time "until after [program has] been aired." He said policy was spelled out in new guidelines under review by broadcasters, while insisting it always had been ONDCP policy.

Testifying later, however, Dan Forbes, freelance journalist who broke story in Salon.com, cited several White House officials who he said acknowledged reviewing scripts, in particular WB's *Smart Guy*, NBC's *ER*, CBS's *Chicago Hope*, Fox's *Beverly Hills 90210*, ABC's *The Drew Carey Show*. He said ad time that networks received in return for content insertions was valued at just under \$25 million. Forbes also suggested possible criminal actions, including: (1) Networks' breaking "payola" laws by receiving considerations from ONDCP without broadcasting that fact. (2) McCaffrey's breaking law, as Cabinet-rank official, by appearing on Fox's *America's Most Wanted* without first notifying Congress.

Bipartisan group of members felt ONDCP's relationship with broadcasters was more troubling than pro bono issue. Rep. Souder (R-Ind.) said "apparently it's okay for liberals to insert their messages" in TV programming but conservatives are reviled when they point out objectionable content. Noting that ONDCP tracks programming with antidrug messages after it airs them to give back pro bono time, Souder said "we need a report card for bad messages coming through the media." Rep. Schakowsky (D-Ill.) said "we should be monitoring the TV and movies." "It may be my imagination," she said, "but there seem to be more and more movies showing people smoking, associated with being cool."

As for ONDCP's use of Internet cookies, McCaffrey said "there is zero possibility that cookies being used by ONDCP could be tied to an individual person." Agency has been under fire for last month for using cookies on its Web site to track visitors, including how long they stay and what pages they visit.

However, McCaffrey said cookies are placed on Web surfer's computer merely so ONDCP can better track effectiveness of its spending of congressional money.

Subcommittee members expressed frustration that after 2 years, ONDCP couldn't show that its multimillion-dollar media campaign had reduced illegal drugs, in particular methamphetamine. Mica pointed out that first 2 surveys by analysis firm Westat under \$35 million contract from ONDCP used baseline different from 3rd survey currently analyzing ONDCP performance, making it difficult to track progress. Forbes suggested Ogilvy Mather was receiving at least \$18 million annually for overhead and salary alone, although he said he couldn't reveal his sources or "heads would roll." Mica and Rep. Cummings (D-Md.) griped that media campaign didn't reach sufficiently into specific neighborhoods and ethnic groups. McCaffrey conceded latter point, saying ONDCP was working more closely with community groups.

Four senators have written FCC requesting that broadcasters' license renewal process be examined due to increased sexual and violent content. Commerce Committee Chmn. McCain (R-Ariz.), Appropriations Committee ranking Democrat Byrd (W.Va.) and Sens. Brownback (R-Kan.) and Lieberman (D-Conn.) wrote Chmn. Kennard and 4 commissioners that "the time has come for the Commission to engage in a broad reexamination of the public interest standard and the license renewal process... and whether the standard of service we expect of broadcasters needs to be clarified." Senators said FCC should conduct examination as part of its notice of inquiry (NoI) begun in Dec. on public interest obligations of broadcasters in digital age. They sought comment on "resurrecting an industry-adopted code of conduct to protect against the further erosion of broadcasting standards and to provide a broader platform for self-regulation," with specific reference to former NAB TV Code, which was thrown out by court. "We would also like you to review and rearticulate the Commission's indecency standard," senators wrote, saying "a case could be made that portions of some programs are so offensive that they meet the Commission's legal standard for indecency." "The denials and excuses we routinely hear today from the [broadcast] industry raise serious questions about the commitment of many broadcasters to serve the public interest."

Nearly 30% of TV stations currently aren't capable of transmitting secondary audio program (SAP) channel and would require upgrades if FCC were to require descriptive video service (DVS), NAB said in ex parte filing at Commission. Based on survey of top-4 network affiliate stations in 50 largest markets, NAB said even among stations capable of SAP, "overwhelming majority" would have to make other modifications such as upgrading studio-transmitter links to provide DVS. Average cost per station was estimated at \$161,459, NAB said. FCC earlier had projected cost at \$5,000-\$25,000. "The Commission must seriously consider whether it is appropriate to require networks and stations to incur these costs to rebuild their analog equipment at a time when the Commission has mandated an ambitious schedule for these same entities to construct digital facilities and transition to digital television transmissions," NAB Gen. Counsel Jack Goodman said.

DirecTV said it began offering BET Movies channel July 14 in select premium packages starting with Total Choice Starz. DirecTV also said it surpassed one million active, paying subscribers at end of 2nd quarter in Latin America and Caribbean.

ANALYSTS SPLIT ON FCC OPEN ACCESS: Two weeks after FCC Chmn. Kennard said his agency would start administrative proceeding soon on cable open access issue, industry analysts were at odds over what Commission would do. Some expected FCC to impose some type of common carrier regulation on cable broadband lines while others believed agency would continue its laissez-faire policy. But all agreed that FCC now would move to assert its power over cable-delivered Internet access to prevent states, counties, cities and courts from regulating service, as Portland, Ore., Henrico County, Va., Broward County, Fla., and others have tried in last 2 years. "The FCC is now on the hot seat," wrote Precursor Group CEO Scott Cleland in client memo, citing recent 9th U.S. Appeals Court, San Francisco, ruling that cable Internet qualified as telecom service.

U.S. Internet Industry Assn. (USIIA) filed 13-page petition with FCC July 7 (TVD July 10 p5), urging agency to: (1) Issue declaratory ruling confirming its authority over interstate and international telecom carriers offering Internet service over cable. (2) Start rulemaking for setting appropriate tariffs for carriage of multiple ISPs on cable broadband lines. In policy advisory to its 400 members, USIIA argued that it had "created a box that should, barring unforeseen politics, lead to a mandate for open competition in cable Internet." Group said FCC must find cable Internet to be telecom service or give up its power to regulate service. Once agency concluded that, USIIA said, it must impose some kind of common carrier regulation or risk violating Telecom Act, angering Congress and sparking lawsuits by other telecom firms.

USIIA also said FCC couldn't forbear on open access issue "without first meeting the legal requirement to show how doing nothing will increase competition." Group contended it "will be virtually impossible" for Commission to prove that, given that Dept. of Justice (DoJ) is forcing AT&T to shed MediaOne's stake in Road Runner because of antitrust concerns about emerging broadband market.

Cleland called it "unlikely" that FCC would be able to forbear completely from common carrier regulation, saying it would be "tough" both legally and politically to do so. Citing DoJ's action in AT&T-MediaOne merger, too, he said Road Runner order "would appear to make it difficult for the FCC to rule there is no risk here of discrimination or any need to protect consumers." He said that if Commission spared cable operators, "all other broadband providers, including incumbent telcos, would want equal deregulation as part of a national broadband policy."

But at least 2 Wall St. analysts disagreed. In reports to investors, Bear, Stearns analyst Raymond Katz and Bank of America Securities analyst Douglas Shapiro predicted FCC would continue to avoid regulating cable high-speed data service. Both argued that even if Commission concluded that cable-delivered Internet access was telecom service, agency simply would forbear from regulating it and allow broadband market to develop further. They cited Kennard's repeated statements that he preferred to let market forces rule.

Shapiro and Katz also predicted that FCC would start only notice of inquiry (NOI) on open access issue, not more immediate rulemaking. Katz said Commission had "stated its preference for a new broadband oversight structure" that "would treat broadband the same across all carriers." Shapiro suggested that agency would "simply establish a more formal framework for monitoring the deployment of broadband, such as an annual report [not unlike annual report on cable competition], and not set any formal rules." He

said there would be "a lengthy court battle" if FCC "pursued anything close to common carrier regulation."

NCTA and AT&T agreed with Shapiro and Katz. "I suggest they [USIIA] read the Portland decision over again," NCTA Gen. Counsel Neal Goldberg said. "If they can't see that the FCC hasn't acted, they're missing something." AT&T spokeswoman said USIIA's petition wasn't "the right vehicle for addressing issues raised by the 9th Circuit decision" and "the FCC's policy has worked well and remains appropriate."

FCC is weighing at least 3 options for moving on open access proceeding promised by Chmn. Kennard June 30, said Cable Services Bureau Chief Deborah Lathen. Speaking at New England Cable TV Assn. convention July 12, she said agency could start formal rulemaking on open access, seek information through notice of inquiry, or study legal issues in context of petition filed by U.S. Internet Industry Assn. last week.

Cable overbuilder MPhase Technologies, which is developing satellite-delivered digital TV service carried over telephone DSL lines, signed agreements with almost 20 cable networks and local broadcast stations to test signals of new service. With testing agreements, mPhase plans to offer at least 54 programming channels to 400 beta subscribers in summer trial with Hart Telephone in Hartwell, Ga. If trial goes well, mPhase Pres. Ronald Durando said he aimed to sign programmers to cable-style affiliation agreements within 90 days. Durando said he intends to start competitive video service commercially in several domestic and international markets by next spring. Plan also calls for mPhase to offer high-speed Internet access and traditional phone service over DSL lines in bundle with video service, similar to new breed of broadband service providers. Programmers signing test agreements include local NBC and Fox affiliates, A&E, BBC, BET, Comedy Central, CourtTV, C-SPAN, Discovery, Encore Media, ESPN, Golf Channel, Great American Country, International Channel Networks, Scripps, TVN Entertainment, Weather Channel. With intention of doubling channel lineup, Durando said he also was talking with HBO, MTV Networks and USA Networks, among others.

PrimeTime 24 is entitled to its day in court to air charges that broadcasters violated antitrust laws, 2nd U.S. Appeals Court, N.Y., ruled. Three-judge panel unanimously overturned lower court decision dismissing PrimeTime's complaint without hearing evidence on charges of collusion against Big 4 TV networks, their affiliates, NAB. Case now goes back to U.S. Dist. Court, Manhattan, for hearing. At issue are provisions of Satellite Home Viewer Act (SHVA) and which home owners within Grade B coverage area of local stations are eligible to subscribe to satellite service because they don't receive viewable signal from local station. NAB said it was "disappointed" by Appeals Court decision, saying it had "nothing to do with the substance of PrimeTime 24's allegations, which are false and totally without merit."

Two competing proponents of in-band, on-channel (IBOC) digital audio broadcasting (DAB), Lucent Digital Radio (LDR) and USA Digital Radio (USADR), said they would merge into single unified system to be called iBiquity Digital Corp. Companies said they expected to close merger in 30-60 days, pending regulatory approvals. (See separate story, Consumer Electronics section).

Cox Radio said it closed on \$125 million purchase of 4 radio stations from Marlin Bctg., but it's keeping only WTMI(FM) Miami. Other 3 stations — WCCC-AM-FM Hartford and WBOQ(FM) Gloucester, Mass. — were sold back to Marlin principals for \$25 million.

WUTC DISCLOSES AT&T DEAL: AT&T agreed to drop its opposition to the Qwest-US West merger in 14-state USW region if companies pledged not to support any state or local petitions for open access by Internet service providers to AT&T's cable modem platforms within region, according to documents revealed by Wash. Utilities & Transportation Commission (WUTC). Deal was among 8 side agreements made by Quest-USW to placate opponents to their merger and get them to drop their objections to deal. Merger ultimately closed June 30.

Despite deals, WUTC refused to let companies withdraw from case, saying its review was too far along to discount their opposition. In order issued June 19 that didn't come to light until last week, WUTC required Qwest to disclose deal with AT&T as part of state agency's merger approval conditions. AT&T had sought confidential treatment for its April 24 agreement, but WUTC said agreement wasn't legally entitled to confidentiality.

Under agreement, Qwest and USW agreed to not to initiate or participate in any state or local open access activities in 14-state USW region before Sept. 2001 and to withdraw immediately from all pending state and local legislative, judicial or regulatory proceedings involving cable open access. AT&T in turn agreed to withdraw from state merger review proceedings and any related proceedings involving divestiture of Qwest's interLATA long distance operations in USW region. Deal applied only to state and local activity; Qwest and USW could participate in federal-level open access activities and AT&T in federal-level activities involving Qwest-USW merger.

Other deals involved Covad Communications, Level 3 Communications, McLeod USA, MetroNet, NextLink, Rhythms Links, SBC Telecom.

In supplemental merger order, WUTC criticized all deal-making intervenors for "abdicate their responsibilities to be good corporate citizens in favor of pursuing their own narrow commercial interests. Such conduct threatens to undermine the integrity and credibility of our adjudicatory processes."

Financials: Strong ratings and cable growth helped boost NBC revenue 10% to just under \$2 billion in 2nd quarter ended June 30, parent GE said. NBC operating profit was up 17% to \$635 million. Overall GE's revenue was up 20% to \$32.9 billion and profit up 20% to \$3.4 billion... Cash flow of **Media General's** Bcst. Div. nearly doubled to \$26.1 million in 2nd quarter ended June 25, company said. Broadcast operating profit jumped to \$20.7 million from \$11.2 million and revenue to \$73.5 million from \$44.1 million, in part because of acquisition of Spartan Communications... **E.W. Scripps** TV cash flow climbed 19% to \$32.9 million in quarter ended June 30 and revenue was up 7.2% to \$87.5 million. Cable network cash flow soared 76% to \$25.2 million.

After 40 years with **Belo**, Bcst. Div., Pres. Ward Huey announced his retirement, effective Dec. 31. He also will leave Belo board, but will continue as trustee of Belo Corp. Foundation. TV Group Pres. Jack Sander will replace Huey, retaining current title and adding exec. vp-media operations for Belo. Sandor, current chmn. of NBC TV affiliates and member of NAB TV board, also will become member of Belo's 6-person Management Committee Jan. 1.

RecordTV took the offensive in responding to the MPAA's copyright infringement lawsuit against it. Web site filed counterclaim in U.S. Dist. Court, L.A., asking court to give it right to stream both local and distant broadcast signals and possibly become cable system eligible for statutory retransmission license. RecordTV, which has been shut down since MPAA filed suit in June, accused MPAA and its members of monopolistic practices. It said it had tried to reach deal with MPAA and its members, and was "prepared to pay for content and/or a license for such content," but "such attempts have been rebuffed." RecordTV said MPAA was "attempting to establish dominance over emerging technology to prevent the development of Internet resources for independent creators and distributors of film." Comparing itself with VCR, RecordTV said viewers had fair use right to personal copy of TV programs over Internet, and all recordings it made were "legitimate extensions of legal rights in directions made available by new technology." In argument similar to MP3.com's (which ultimately was found wanting by judge), it said its content could be accessed only by verified users who could prove they had off-line access to content and merely wanted help moving it online. MPAA didn't comment. Its response is due in about 3 weeks. (Details in *Warren's Washington Internet Daily*, for free trial subscription call 202-872-9202, ext. 203).

Despite cancellation of large cable system swap between AT&T and Charter, industry observers still expected MSOs to exchange at least some of systems to boost their operational efficiencies. In particular, they said they looked for Charter to trade systems or use cash or stock to acquire AT&T systems in St. Louis, Charter's home market, as well as L.A., in next few months. Under original deal, Charter was to have obtained AT&T's St. Louis system as part of much bigger trade involving cable systems serving more than 1.3 million subscribers in 10 states. *L.A. Times* said 2-part transaction also called for AT&T to sell Charter its large L.A. system, serving more than 500,000 subscribers, which AT&T inherited from MediaOne last month. AT&T and Charter, nation's largest and 3rd largest MSOs, respectively, called off deal July 6 in dispute over value of assets, with Charter arguing that its systems were worth more than AT&T's because of upgrades being carried out (TVD July 10 p8).

FCC approved 3 new independent members of **Liberty** Media's board, as required under agency's conditions for okaying AT&T's purchase with MediaOne. Cable Services Bureau Chief Deborah Lathen approved AT&T's appointment of Harold Handler, tax attorney with Simpson, Thacher & Bartlett; Frank Macchiarola, pres. of St. Francis College and former N.Y.C. schools chancellor; Michael Ricks, former financial executive with MediaOne. New Liberty dirs., with no current ties to AT&T, take place of 3 AT&T executives on board: AT&T Broadband CEO Daniel Somers; AT&T Wireless Group Chmn.-CEO John Zeglis; John Petrill, exec. vp-corporate strategy & business development. Because of concerns about AT&T's holding too much control over programming market, FCC required MSO to replace its 3 members on Liberty's board at least until company divests enough cable holdings to meet govt.'s horizontal cable ownership cap.

BSkyB is reported set to take control of Open interactive-TV service in Britain. Company is expected to raise stake in deal said to be valued at \$2.3 billion. If deal is agreed to, sources said, BSkyB would acquire stakes in HSBC Holdings and Matsushita while British Telecom's stake might be reduced.

WorldCom, Sprint and Nucentrix Broadband Networks reached broader technical agreement on MMDS spectrum management last week with eye on Aug. FCC filing deadline for 2-way services. Sprint Broadband Wireless Group Pres. Tim Sutton unveiled pact at Wireless Communications Assn. (WCA) conference in New Orleans. While FCC has set stringent technical standards to prevent interference between MMDS licensees that embark on 2-way services such as broadband Internet applications, industry had anticipated that voluntary spectrum management agreements would be used instead. Agreement of 3 largest MMDS operators involves 80% of MMDS coverage areas. Original accord was reached by wireless cable companies before WorldCom and Sprint consolidation last year.

CEA is simply trying to divert attention from basic issue of VSB vs. CPFD modulation for DTV with its claim that Sinclair Bcst. hopes to profit from modulation change, Sinclair said in FCC filing. CEA had said that 1/3 of Acrodyne Communications that Sinclair bought in Jan. 1999 would increase in value if modulation dispute created demand for more analog transmitters. Sinclair, which has been leading push to reconsider COFDM, said it began its opposition to VSB in early 1998, long before it invested in Acrodyne. CEA's "blatant distortion can only be intended to divert the Commission's attention from the merits of the DTV modulation issue," Sinclair said.

Requiring LPTV stations to protect all full-power TV station applicants, as well as existing stations, would violate intent of Community Bcstrs. Protection Act, Community Bcstrs. Assn. (CBA) said in FCC filing. CBA said such protection "would impose a degree of uncertainty and spectrum inefficiency not found among other primary service providers." CBA also disputed Warner Bros. claim that applications for LPTV Class A status were limited to 30-day, instead of 6-month, filing window.

Board of Commissioners of Collier County, Fla., voted to hire outside counsel to consider "advisability" of filing federal lawsuit challenging some provisions in recently enacted Fla. Communications Services Tax Simplification Act (SB 1338). Spokesman for county attorney said provisions related to cable franchising were "unconstitutional impairment" of county's contractual rights. Under act, board said, franchise fees cable operators are paying directly to county on quarterly basis now would have to be sent to State Dept. of Revenue and rerouted to county.

Cox Bcstg. said it was buying NBC affiliates WJAC-TV (Ch. 6) Johnstown, Pa., and WTOV-TV (Ch. 9) Steubenville, O.-Wheeling, W. Va., from Sunrise TV, price not announced. John Howell, vp-gen. mgr. of Cox's WPXI (Ch. 11, NBC) Pittsburgh, also will have management responsibility for WJAC-TV and WTOV-TV after sale is finalized, Cox said. In unrelated transaction, Saga Communications said it was buying 2 AM stations and 2 FMs in Ithaca, N.Y., from Eagle Bcstg. for \$13 million. Blackburn & Co. was broker.

AT&T will use RespondTV technology and services to support interactive TV advertising and electronic commerce on its next generation of advanced digital cable set-tops. Under agreement, AT&T will integrate RespondTV's interactive software into its new digital boxes, scheduled to start rolling out later this year. Terms weren't announced.

Viacom/CBS's Infinity Bcstg. said it was buying WMC-AM-FM Memphis from Raycom Media for \$75.5 million.

Upcoming auction of 700 MHz spectrum which is encumbered with Ch. 59-69 broadcasters until digital TV transition date of 2006, could pose spectrum opportunity for fixed wireless providers, who may be able to work around incumbents more easily than can mobile wireless providers, FCC Wireless Bureau Chief Thomas Sugrue told Wireless Communications Assn. convention in New Orleans last week. While mobile wireless operators need uniform footprint in given market to provide coverage, fixed wireless operators can use some of spectrum in market such as Dallas or Houston as they build out their businesses. He showed map of markets where Ch. 59-69 broadcasters now operate, noting that some parts of country, such as Pacific Northwest, have relatively few, while Northeast has clusters.

LPFM shouldn't be allowed to affect audio reading services for blind, International Assn. of Audio Information Services (IAAIS) said. Group, which represents independent reading services, said it supported concept of LPFM, but "not the current FCC plan that fails to address the potential service interruption danger... There seems to be a tremendous rush by the FCC to open this new class of radio station without careful regard for what works now." LPFM may cause so much interference that it's impossible to provide "meaningful service" for reading-impaired, IAAIS said. Group said some FCC officials had indicated that few users of reading services would be affected, but IAAIS said "one case is too many."

Television.com said it has agreements with more than 35 broadcast and cable networks for beta testing of its plan to carry promos and links on its TV portal site. Beta phase began July 3, with official public launch Aug. 16. Participants include American Movie Classics, Animal Planet, BET, BET on Jazz, Bloomberg TV, Bravo, Court TV, C-SPAN, Discovery and Discovery Health, Do It Yourself, Food Network, Goodlife TV, Great American Country, History Channel, Home & Garden TV, Home Shopping Network, Independent Film Channel, Learning Channel, Movie Channel, MuchMusic, NBC, Odyssey, Outdoor Channel, Outdoor Life, Pax TV, Romance Classics, Sci Fi Channel, Showtime, Speedvision, Sundance Channel, Starz/Encore, Travel Channel, Trinity Bcstg. Network, USA Network, Weather Channel, ZDTV.

DirecTV said it picked up 142,000 net customers in June, setting new record for month. With that addition, DBS provider said it gained 857,000 customers in first half of year, up 28% from last year's pace. DirecTV said it also moved 140,000 medium-power Primestar customers to high-power service, bringing its total number of Primestar conversions to nearly 1.8 million. DirecTV, which separately added Lifetime Movie Network to its programming lineup, said it now has 8.7 million customers.

DG Systems, digital distributor of commercials to TV stations, and privately held StarGuide Networks are merging in tax-free stock transaction, companies announced July 10. StarGuide provides audio and digital services to broadcast industry. Both companies (which had combined 1999 revenue of \$61.8 million) are principally owned by Scott Ginsburg, who will own 35% of new company. Value of transaction wasn't announced.

EchoStar signed retransmission consent agreement with Chris-Craft, allowing DBS operator to resume carrying stations in N.Y. and Salt Lake City that were dropped in May because of dispute. Terms weren't disclosed.

Personals

Christopher Conti promoted to senior vp-drama development, NBC Entertainment... **Regina DiMartino** advanced to senior vp-mktg. & promotion, ABC Daytime... **Bill Suffa** named senior vp-Capital Management, Clear Channel... **Bill Marcus**, ex-Fusient, appointed senior vp-sales mgr., Telepictures Distribution... **Alan Daniels** advanced to senior vp-mktg., Columbia TriStar TV Distribution... **Phil Martzoff** promoted to senior vp-national sales mgr., Studios USA Domestic TV... **Patrick Parish** promoted to dir.-Southwestern Div., Warner Bros. Domestic Telepictures Distribution... Named dirs.-business affairs at CBS News: **Mavis Fowler**, **Harold Leibowitz**, **Chris Andaya**... **Carole Smith**, ex-ABC, appointed vp-network research, Univision.

Craig (Skip) Goldberg promoted to senior counsel, Time Warner Cable... **Bob Thompson** advanced to pres., Fox Sports Cable Networks... **Rodd Feingold** promoted to senior vp-physical production, Fox Family Worldwide... **John Kelly**, **ex-Excite@Home**, named senior vp-national sales, NBC Cable Networks... Shop At Home Network appointments: **Tim Engle**, pres.-COO; **Ron Cook**, senior vp-sports & collectibles operations; **Marshall Karr**, senior vp-jewelry & life-style operations; **Bob Miller**, vp-enterprise technology; **Cynthia Tipton**, vp-sales & mktg.; **Linda Ford**, exec. vp-communications & human resources; **Shane Seymour**, vp-customer experience; **Debbie Seigenthaler**, vp-database mktg.; **Ariane Amiri**, ex-Metro-Media China, dir.-investor relations... Cox Communications changes: **John Price**, ex-AT&T, named dir., Multiple Dwelling Unit Strategy; **Lynne Elander** promoted to vp-video product mgmt.

Robin Broitman, ex-Interactive Insights Group, joins Discoveryhealth.com as senior vp-gen. mgr... Comedy Central promotions: **Lee Barden** to vp-financial planning & finance, **Liz Mahaffey** to vp-programming research... Mallard Cablevision appointments: **Ron Pitcock**, ex-HSA, as senior vp-chief, advanced technology; **Dewayne Lipp**, ex-Motorola, vp-chief technical officer; **Tom Soulsby**, ex-High Speed Access, senior vp-western region; **William Chain**, ex-Prime Cable, senior vp-eastern region; **Richard Ebersole**, ex-Outdoor Communications, vp-chief financial officer; **Ann Cherrette**, ex-Ga. Municipal Assn., vp-programming & mktg... **Mark McEachen**, ex-Hughes Electronics, named exec. vp-CFO, **Excite@home**... **Filemon Lopez** promoted to pres., Comcast U., Comcast Cable... **Fran Mallace** advanced to vp-gen. mgr., CableRep Advertising... **Marcia Chacona** promoted to vp-program scheduling, Showtime Networks.

Peter Ausnit, ex-Prudential Volpe, joins Deutsche Banc Alex. Brown as senior research analyst-enhanced TV & new media sector... **John Potter** named vp-local sales & mktg., Clear Channel's Web Services Group... Clear Channel CEO **Lowry Mays**, will deliver keynote address at Minority Media & Telecom Council's Annual Public Policy Luncheon July 20.

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List of MSOs seeking waivers of govt. rule requiring cable operators to provide separate security modules for hybrid analog-digital cable set-top boxes has dwindled by one. MediaOne Group, now part of AT&T, withdrew its waiver petition from FCC because it had completed technical upgrade of system where it sought waiver. With upgrade, MSO said, it now could offer duplicate carriage of scrambled analog programming on system's digital tier. MediaOne's withdrawal reduced number of MSOs seeking waivers of point-of-deployment (POD) security module requirements to 10.



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Gemstar International Group closed on its \$14.2 billion purchase of TV Guide after clearing antitrust review by Dept. of Justice. With stock-swap deal, combined company, known as Gemstar-TV Guide International, will dominate cable and VCR market for electronic program guides. News Corp. and Liberty Media, which co-owned TV Guide, each will own 20% of merged company, while Gemstar-TV Guide Chmn. Henry Yuen and rest of top management will hold combined 10% stake in publicly traded firm. Peter Boylan, Joseph Kiener and Elsie Leung will be co-pres.-COOs of company and comprise new office of chief exec. along with Yuen.

Consumer Electronics

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

STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending June 30 and year to date:

	JUNE 24- JUNE 30	1999 WEEK	% CHANGE	JUNE 16- JUNE 23	26 WEEKS 2000	26 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	946,534	838,127	+ 12.9	505,454	13,555,504	12,164,523	+ 11.4
DIRECT-VIEW**	912,219	804,938	+ 13.3	487,787	12,961,569	11,693,815	+ 10.8
TV ONLY#....	760,497	634,665	+ 19.8	401,163	10,738,685	9,863,555	+ 8.9
TV/VCR COMBO.	151,722	170,273	- 10.9	86,624	2,222,884*	1,830,260	+ 21.5
PROJECTION...	34,315*	33,189	+ 4.0	17,667	593,935*	470,708	+ 26.2
TOTAL VCR**....	887,390*	1,097,367	- 20.5	452,251*	12,370,742*	11,364,722	+ 8.9
HOME DECKS...	735,668	927,094	- 20.6	365,627	10,147,858*	9,534,462	+ 6.4
CAMCORDERS.....	188,384	113,324	+ 66.2	104,268	2,613,941*	2,149,186	+ 21.6
DVD PLAYERS....	259,715*	145,434	+ 78.6	90,678	2,700,939*	1,286,480	+109.9

Direct-view TV 5-week moving average#: 2000-491,330; 1999-402,631 (up 20.0%).

Projection TV 5-week moving average: 2000-21,704; 1999-17,008 (up 27.6%).

VCR deck 5-week moving average: 2000-380,571; 1999-413,858 (down 8.0%).

TV/VCR 5-week moving average: 2000-88,027; 1999-74,134 (up 18.7%).

Camcorder 5-week moving average: 2000-118,879; 1999-73,819 (up 61.0%).

DVD player 5-week moving average: 2000-130,937*; 1999-65,334 (up 100.4%).

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

AMBITIOUS GOALS SEEN FOR SEAGATE-THOMSON VENTURE: New 50-50 joint venture announced last week by Seagate and Thomson Multimedia (TMM) has "bold" goal to become "dominant" worldwide OEM supplier of "home network entertainment storage systems," executives told reporters in conference call.

TMM Senior Exec. Vp Frank Dangeard said CacheVision would help TMM build "3rd key component" in hard disc drive (HDD) storage modules alongside tubes and optical pickups where TMM enjoys number one or number 2 world leadership position. He said there was "very clear objective" for CacheVision to reach \$400-\$500 million in overall sales of HDD storage modules for consumer market after 3rd year of operation. He said business-to-business CacheVision would be targeted toward large "upstream" OEM customers representing who's who list of CE companies. Dangeard said CacheVision had "in our view because of the partnership we've established an extremely strong position upfront and will we believe contribute very significantly" to TMM display and components business. TMM will be committing "tens of millions of dollars to this business," Dangeard said, but he wouldn't disclose specific financial terms.

Tom Mulvaney, Seagate senior vp-Internet applications, told reporters that "substantial" reduction in storage costs per gigabyte was helping to fuel "revolution" in market in which Cachevision would compete. Combining lower storage costs with new technological features such as electronic program guides is helping to add "functionality" for average consumer, he said. As result, he said, typical home anywhere in world in several years will be "ripe" with new generation of "storage-centric devices" that CacheVision "is playing into."

Seagate currently is world's top supplier of HDDs in consumer marketplace, Mulvaney said, and it's hoped that CacheVision participation can only raise company's profile in that arena. He said Seagate's Consumer Solutions Group (CSG) would be integrated into CacheVision for "world-class design and manufacturing services," and said Richard Johnson, formerly CSG vp, had been appointed CacheVision pres.-CEO. Seagate also will give CacheVision access to its HDD intellectual property portfolio and venture will be given priority customer status.

Johnson said CacheVision mission statement had "bold" goal of becoming "the dominant worldwide supplier of home network entertainment storage systems." Company, with hq in San Jose, will have 20 employees at start, drawn from TMM and Seagate. Johnson said CacheVision would be making "key hires" in next few months, including technology experts "who are well known in our industry." He said "development partnerships" also would be announced soon with "key technology leaders" that would be "vehicle" for CacheVision as "small startup" to leverage technologies needed to bring products to market more quickly. First products, HDD storage modules for personal media recording in set-top boxes and integrated TV sets, will be announced in Oct., he said, with CacheVision's first customers soon thereafter and finished goods based on CacheVision components expected to be on display at Jan. CES in Las Vegas.

Responding to reporter's question, Dangeard said CacheVision's relation with personal video recorder (PVR) suppliers Replay and TiVo would be "complementary, not competitive." He said TMM recently teamed with DirecTV and Microsoft in announcing plans to market HDD-based recorders for AOL-TiVo alliance (TVD June 19 p11).

Asked what would differentiate CacheVision products from those of HDD competitors, Johnson said that while rival might build more "functionality" into units for specific applications, CacheVision would come to market "as a CE company." He said: "The fact that we have 2 richly endowed parents to help us with that course will give us a time-to-market benefit over others that might be approaching that marketplace." He said CacheVision also would have competitive "edge" in solving product implementation problems "more cost-effectively." He predicted CacheVision would outdo competitors in supplying necessary "software-intensive" interfaces with CE content, but declined to elaborate pending product announcements planned for 4th quarter.

UNIFIED IBOC DAB SYSTEM TO EMERGE FROM LUCENT-USADR UNION: Capping years of speculation, 2 remaining competing proponents of in-band, on-channel (IBOC) digital audio broadcasting (DAB) Lucent Digital Radio (LDR) and USA Digital Radio(USADR), announced plans to merge into single unified system to be called iBiquity Digital Corp. Companies said they expected to close merger within 30-60 days, pending regulatory approvals that will be applied for this week.

Single iBiquity entity will maintain dual hq in Columbia, Md., (where USADR is based), and Warren, N.J., (LDR hq), and will have combined work force of 84 employees. LDR Pres.-CEO Suren Pai and his USADR counterpart Robert Struble have been appointed iBiquity co-chmn., and Struble will serve as pres.-CEO of combined venture. Pai described marriage of IBOC rivals as "a merger of equals," but financial terms weren't disclosed. He and Struble said not only did they not expect work force reductions as result of merger, but it was likely iBiquity would need to add staff as move to commercialize system picked up intensity.

Pai and Struble said 3 goals of newly merged entity were: (1) Creating smoother path to standards-setting process at FCC, where DAB rulemaking was begun late last year. (2) Expediting commercial rollout of IBOC. (3) Providing "revolutionary" radio listening experience for consumers. Besides agreement to use LDR's Perceptual Audio Coding (PAC) codec, other technical attributes remained to be worked out after merger agreement is completed, companies said. Struble said unified system would use "the best of the best" attributes of each individual system, with features chosen on their performance merits without regard to corporate ego. He said: "We will pick the best of the best regardless of where it came from to give a really super system and one that we think will be better than both of the systems individually." Struble said that by "combining the individual strengths of 2 leading developers of digital radio technology, we have formed an organization that will achieve dramatically more than what either of us may have achieved alone."

Unified system also means that iBiquity "is offering the FCC our IBOC solution as the U.S. standard," Struble said. "This is a great way to move the process forward and to get the entire industry to the point where we will have the best, most commercially viable standard for digital AM and FM radio." Pai said that over long term, it was possible that merger would reduce IBOC commercialization timetable by full year, following short-term delays that would be necessary as 2 systems were combined.

Companies said iBiquity audio and data technology ultimately could find application in range of wireless devices, including cellphones and PDAs, but first priority would be commercialization of AM and FM DAB broadcast system and consumer receivers. Struble said stations' transition to IBOC would be accelerated next year as result of merger, with commercialization of first receivers possible late in 2001 or early 2002. Noting that satellite digital audio radio services (DARS) providers Sirius and XM would use same PAC codecs as iBiquity, Pai said "longer term vision" would be to design all-encompassing cost-effective receiver that would speed consumer adoption.

In wake of merger, Pai said role of National Radio Systems Committee (NRSC) would change from that of comparative evaluation of competing systems to "working with us cooperatively in assessing and validating the performance of a single unified proposal that we intend to come forward with." Pai said "dialog" with NRSC would be required after

merger closed "to determine how we move forward." Struble said preliminary reaction to merger among NRSC officers contacted on eve of public announcement had "been nothing but enthusiastic" to merger.

Agreement was hailed universally by receiver makers that long had argued that unification of IBOC proposals into single standard was main prerequisite to potential for wide acceptance of technology in consumer markets. For example, Bob Law, Kenwood vp-sales & mktg., whose company had been long-standing USADR receiver supporter, praised merger development as "a positive step" in effort to commercialize IBOC DAB more rapidly. Senior officials at CEA and NAB, which jointly administer NRSC, were briefed on eve of announcement and reacted positively to merger. CEA Pres. Gary Shapiro said of iBiquity that "this is a powerful combination of resources and now we can continue the revolutionary transition from an analog to a digital world." NAB Pres. Edward Fritts said "it's encouraging that these 2 companies are combining resources to develop terrestrial digital quality radio for the consuming public."

System unification, and particularly partners' pledge to draw together best attributes of individual systems, could carry weight with those who have expressed doubts about IBOC's viability in U.S. For example, despite CEA's immediate praise of iBiquity merger agreement last week, trade group has been open critic of IBOC, in part on ground that consumers had shown increasing appetite for multichannel A/V equipment that stereo-only iBiquity wouldn't deliver for several years. In wake of last week's announcement, Shapiro softened his IBOC criticisms somewhat, saying market would decide which technologies gained acceptance and which didn't. Biggest gain from merger, he said, will be that it will "avoid some of the acrimony" between competing systems and maximize effort to find best possible technologically sound IBOC system.

MATSUSHITA FORMS WEB SUBSIDIARY: New subsidiary is being created by Matsushita in Japan in Oct. to sell electronics and services online direct to consumers.

Manufacturer said new subsidiary, LifeVit.com, will sell 500-600 products online at debut. Products will be picked from National and Panasonic-branded items, company said.

Matsushita said site would include product information and menu of services for helping consumers develop new lifestyles. It also is offering consumers communication and consulting services via Web site, which will include link to company's nationwide network of retail stores.

Web site will be divided into one national site and variety of regional sites. National site will serve as access entrance for consumers throughout Japan and then will refer them to regional site to place order.

Company said each regional site will offer its own information on products, related services, retailer information. Consumers will be able to check specific stores online to see if they have products they want. Local stores then will deliver products ordered, install them, provide other related services. Consumers also will be given option of paying via Matsushita site or Web site of participating store linked to site. Company said it expected about 7,000 retail stores would participate.

Manufacturer earlier this year announced formation of Matsushita Network Marketing subsidiary to sell select products online direct to consumers via "Pana Sense" e-commerce Web site, www.sense.panasonic.co.jp (TVD April 17 p21). But most of company's appliances and CE products weren't made part of mix at that site, which instead has been selling merchandise including headphones, music and video software, PC peripherals.

Matsushita also has U.S. e-commerce site, Panasonic Select Direct, which still sells only select products including CE accessories, PC peripherals, personal care products. U.S. Matsushita spokesman told us Fri. that company had no current plan to expand mix in U.S. to include electronics.

IEMA HOLDS EXECUTIVE SUMMIT: E-commerce's impact on game retailing and violence in interactive media are among topics to be taken up at Executive Summit of Interactive Entertainment Merchants Assn. (IEMA) in Orlando this week.

As we reported (TVD July 3 p15), IEMA also will make formal announcement on its position on standardization of computer games at conference. It said it had been exploring issue for more than 6 months and already was talking with game publishers on issue — dialog it planned to continue at session.

Commenting on its position late last month, IEMA Pres. Hal Halpin said: "It is our intention to reduce the overall size of the PC game box to just over the footprint of a DVD box, creating a set size for games as a media. Just as the other 2 sectors of entertainment [movies and music] have their own identifiable format, games need to stand apart from other products on the shelf."

Halpin said packaging that IEMA wants as standard is "more environmentally friendly" than current packaging, and it also is "cheaper to manufacture and ship" and "makes for enhanced merchandising at the store level."

More than 50 retailers and game makers are expected to be represented at conference. Retailers will include mix of discounters, electronic game specialty dealers, e-tailers, mass merchants and toy and video dealers. Expected to attend are executives from Amazon.com, Babbage's, Best Buy, Blockbuster, Buy.com, Circuit City, Comp USA, Electronics Boutique, Funco, Game Dealer, Half.com, Hastings, Kmart, Meijer, Office Max, Sam's Club, ShopKo, Target, Toys "R" Us and Toysrus.com, Urbanfetch, Wal-Mart, Wherehouse.

Game publishers expected include Acclaim, Activision, Disney, Eidos, Fox Interactive, Havas, Infogrames, Interplay, Mattel, Microsoft, Nintendo, Take-Two.

Despite concerns of some analysts on Amazon.com's finances (TVD July 3 p19), e-tailer still is planning to expand its overseas distribution network and begin offering new services, *Financial Times* reported after interviewing Amazon.com CEO Jeff Bezos.

DVD GROWTH OFFSETS CONCERNS: Cautious optimism was general mood of 19th annual Video Software Dealers Assn. (VSDA) convention in Las Vegas last week as continued growth of DVD format, general health of videocassette rental market and solid 2nd-half release schedule offset concerns over arrival of new technologies and business models that threaten traditional movie retailers.

In state of association address, VSDA Pres. Bo Andersen said that despite tumult of last few years, which included advent of revenue sharing for major chains, arrival of DVD, demise of Divx and potential threat to brick-and-mortar stores from both e-commerce and digital delivery, "we have much to be optimistic about." Noting that 60 million viewers rent movies regularly, he said: "There is no reason that cannot continue for the better part of the decade."

Andersen also touted VSDA board efforts to test revenue-sharing programs for independents, saying: "The single greatest advantage held by chains over independents electing to use revenue sharing is the technical ability to report the required data for all studio products. Data tracking for all studios' releases made available immediately will help level the competitive playing field today."

Although he somewhat downplayed new technologies that deliver movies to consumers' homes by citing lowering of projected pay-per-view (PPV) buy rates by industry observers, Andersen still urged retailers to back organization's effort to preserve PPV windows. He also unveiled VSDA's \$1 million ad campaign aimed at getting consumers back into video stores. "Don't Just Sit There. Rent Something" campaign will kick off in Jan. with 15-sec. TV and radio spots.

In pointed but humorous keynote address, Artisan Entertainment CEO Amir Malin suggested major Hollywood studios were "dinosaurs" with bloated management, staff and film budgets that needed to adapt to more economical model in order to survive. "The filmed entertainment industry has become a byword for waste," he said. Artisan, formerly LIVE Entertainment, generated \$400 million in revenue and \$40 million in earnings in 1999, primarily on strong catalog lineup and unexpected success of low-budget films such as *The Blair Witch Project*.

VSDA also honored Warner Home Video Pres. Warren Lieberfarb and Columbia Tri-Star Pres. Benjamin Feingold as its co-persons of year. As 2 of industry's biggest proponents of DVD, their awards helped underline what was theme of this year's convention — continuing rise of format. Andersen said DVD player penetration rate was nearing 10% of U.S. homes. Warner Home Video Vp Stephen Nickerson said installed base of players alone should reach 13.5 million by year-end, and that didn't include more than million Sony PlayStation (PS2) consoles and 15-20 million DVD-ROM-equipped PCs that will be in homes. VSDA-sponsored survey found that DVD last year accounted for 5-10% of movie rental business and 16.2% (\$1.5 billion) of home video sellthrough.

Numbers in 2000 are expected to be even more impressive. Statistics released by DVD Entertainment Group said 65 million DVD movies were shipped to retail in first half of 2000, 250% more than same 1999 period. Total of DVD discs shipped life-to-date could reach 230 million by year-end, group said. Meanwhile, total rental market had only modest growth in first half, with revenue up modest 0.5% to \$4.25 billion.

DVD also received rave reviews from movie directors including George Romero, John Landis and David Zucker, who took turns praising new format and calling for more older films to be released on DVD.

Show attendees expressed hope that Oct. arrival of Sony's PS2, which plays both games and DVD movies, could enable many movie stores to position themselves as single destination for consumers looking for multiple home entertainment options.

DreamWorks Home Entertainment announced that Oscar winner *American Beauty* would arrive on DVD Oct. 24, with prebook of Sept. 11. Disc will carry \$26.99 MSRP, with recently released VHS version being repriced for sell-through at \$24.99 on same date. DVD version will feature commentary by director Sam Mendes and screenwriter Alan Ball and will support both DTS and Dolby Digital sound formats.

Other key upcoming releases include New Line Home Video's *Magnolia* (VHS, July 25, 2-disc DVD Aug. 29) and *Frequency* (VHS/DVD Dec. 4), Universal Studios Home Video release of Orson Welles's 1958 classic *Touch of Evil* (VHS/DVD Oct. 31), USA Home Video's *Where the Money Is* (Oct. 24).

VM Labs said first DVD players using its Nuon enhancement technology would ship to retailers by end of month. Samsung's DVD-N2000 will carry MSRP of \$399. While being marketed primarily as multifeatured DVD player, DVD-N2000 will come bundled with game controller and sampler disc featuring Nuon interactive games. Among first retailers to commit to Nuon is high-end A/V dealer Cambridge Soundworks, although VM Labs Mktg. Vp Greg LaBrec said his company was working with Samsung and Toshiba, which plans to ship in 3rd quarter at \$299, to get Nuon enhanced players throughout CE channel. VM Labs is backing debut at start with print campaign in trade press, followed by ads in consumer audio/video publications.

Although *Good Guys* is expected to post 3rd-quarter loss "substantially lower" than \$8.1-million loss in same period year earlier, company no longer expects to be profitable for fiscal 2000, it said last week in reporting 3rd-quarter overall sales decline. Sales fell 6.9% to \$195.9 million from \$210.5 million, which *Good Guys* said had been expected because of chain's earlier elimination of low-margin PCs and home office products and "deemphasis" of entry-level offerings. However, *Good Guys* accentuated positive in report, saying overall sales and of continuing categories rose 4% and same-store sales of continuing categories 3%. It said sales in quarter improved month to month, with June achieving best gross-margin performance and same-store sales results for continuing categories since 1994.

CEA is simply trying to divert attention from basic issue of VSB vs. COFDM modulation for DTV with its claim that Sinclair Best. hopes to profit from modulation change, Sinclair said in FCC filing. CEA had said that 1/3 of Acrodyne Communications that Sinclair bought in Jan. 1999 would increase in value if modulation dispute created demand for more analog transmitters. Sinclair, which has been leading push to reconsider COFDM, said it began its opposition to VSB in early 1998, long before it invested in Acrodyne. CEA's "blatant distortion can only be intended to divert the Commission's attention from the merits of the DTV modulation issue," Sinclair said.

KODAK COMMITTED TO DIGITAL: Photo giant Eastman Kodak will ride digital products to \$24 billion revenue by 2005 from \$14 billion last year, CEO Dan Carp said at annual investors meeting in N.Y.

Among areas where Kodak will concentrate are continued growth in China, now its 2nd largest market, Carp said. Other goal is to almost quadruple revenue from consumer digital imaging to 42% by 2005 from 11% in 1999, he said. Father Yellow is pursuing top spot in online photo-finishing market, he said.

Kodak has tremendous potential in China, Carp said, because only 15% of households there have ever taken photograph, yet nation now is 2nd strongest market for Kodak worldwide. It expects consumer film sales to hold steady in U.S., with major growth overseas.

Carp said digital still camera (DSC) business showed gain. Kodak now holds No. 2 market share in consumer DSCs with 26%, he said, after leader Sony with 42%. Kodak conceded it had slipped at end of 1999, but said it had surged lately on success of new DC215 — DSC that Carp referred to as "number one-selling digital camera in the U.S. today."

Kodak executives hinted strongly that company would pursue partnerships aggressively in emerging online photo-finishing marketplace. Its recent announcement that it would partner with photo.com giant Shutterfly by supplying photo-finishing could ignite series of alliances in that area despite what Carp admitted could be "a potentially rough ride" owing to volatility in that market.

"We will not be timid in this area despite what could be early financial drains. We will be a winner in this market eventually," Carp said of online processing. He demonstrated Kodak's move to set itself apart in online photo-sharing wars by presenting its latest offering — ability to have digital images turned into ready-made album pages with pictures printed directly onto each side of album page.

Only 4% of 60 million film rolls processed by U.S. consumers each year are being scanned or digitized for Internet sharing purposes, Kodak said, and it hopes to double that percentage in next couple of years. To do so, it's developing business model that allows consumers to print their digital images without first having to go through PC, which is critical factor. Carp said Kodak is working with several manufacturers to develop set-top box that would permit that. Several CE giants such as Panasonic, Sharp and Sony have hinted at development of such device in recent months.

Sony Computer Entertainment (SCE) may opt to outsource production of its PlayStation2 (PS2) videogame console — perhaps to Taiwan game maker, Reuters reported last week. Tokyo report quoted SCE spokesman as saying: "We are seriously considering asking other manufacturers to produce our 32-bit PlayStation consoles to reduce costs." SCE spokesman in vague comment said: "Many Japanese makers have shifted their production or procurement base to cost-effective areas such as Taiwan." Details of outsourcing plan were unavailable at our Fri. deadline. Sony Computer Entertainment America spokeswoman told us last week: "I really do not have any additional information on this issue."

GAME DEVELOPER DROPS PS2: After diverting much attention away from Sony's PlayStation2 (PS2) at Game Developers Conference in March (TVD March 13 p11) with announcement about its upcoming Xbox, Microsoft scored another coup last week, albeit arguably minor one. This time, game developer Funcom announced that its Dublin, Ireland, studio now would focus resources on making titles for Xbox and "will no longer pursue the PlayStation2 development cycle."

Funcom currently develops PlayStation (PS) and PC games at Dublin studio, while Internet and PC games are created at its Oslo, Norway, location. Most recent PS games developed by Funcom were *Championship Motocross* and *Speed Freaks/Speed Punks*.

Explaining decision, Funcom Pres. Andre Backen said: "After evaluating the PlayStation2 and the Xbox technology for several months we have taken the strategic decision to go for Microsoft's new gaming console." He said: "We believe that Xbox has significant market potential due to both cutting-edge technology and Microsoft's marketing muscle. And on top of that, exploiting the new technology [will] reduce our development cycle [by] several months, which also cuts development costs [by] approximately 20%."

Backen called company's need to transfer its resources to Xbox "only a matter of small organizational adjustments." Funcom said it would continue developing games for Internet and PC.

Commenting on Funcom's decision, Sony Computer Entertainment U.K. spokesman told us: "Frankly, whilst it is sad if a respected developer makes such a decision, they are only one of a very large number of developers embracing PS2." He added: "It wouldn't be a case of finding someone to replace them. We already have a huge portfolio of well-respected developers/3rd party publishers in place — from Namco, Squaresoft, through Eidos, Infogrames, Activision, up to the world's biggest, Electronic Arts."

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"Millenium Group" coalition of Digimarc, Macrovision and Philips announced plans to propose digital watermark and play-control system for DVD recorders and other digital video recording devices. System is built around so-called "Wobbletrack" method of replicating authentic DVD discs. Combining Wobbletrack with system's copy-control watermark will prevent playback of pirate discs, companies said. Proposal also will provide copy-once watermark for applications in which single copy of video program will be allowed. Pending adoption of comprehensive copy protection system for DVD recorders, first-generation devices due late this year will be restricted to making analog copies only, such as time-shift recordings of off-air TV programs. Exception will be ability to dub footage off home digital camcorder through dedicated DV inputs. Macrovision Chmn.-CEO John Ryan said Millennium proposal would be offered with patent indemnification guarantees that he said would promote acceptance among hardware and content communities.

Twenty-three Japanese companies agreed to cooperate in developing Linux-based operating systems for digital electronic products including car navigation systems and mobile phones, Reuters reported last week. Companies working together for standards include Fujitsu, Hitachi, Mitsubishi, NEC, Sony. Report said Matsushita had shown interest in joining.

AMAZON TESTS 'TRUSTED BRANDS': Amazon Auctions is conducting test of Trusted Brands Program (TBP) at Amazon.com Web site, where brand-name merchandise and liquidations are auctioned off by other retailers at low starting bids.

Amazon Auctions Gen. Mgr. Jeff Blackburn told us pilot program, which began in mid-May, will run "for about 3 months."

TBP area of site features retailers Service Merchandise and Gear.com, although Blackburn told us program actually kicked off with Amazon.com as first merchant in Jan.

Products being auctioned off from Service Merchandise through program in recent weeks have included Magnavox AZ1000 portable CD boombox and GE DVD player.

Blackburn said one of most popular auction features has been Amazon Payments that allows bidders to pay sellers by credit card, which he said eliminates "cumbersome" process of paying by check or money order — norm at most auction sites online. It also allows customers to receive items they have won in auction more quickly, he said, with 70% of sellers now opting for feature.

Blackburn said Amazon "launched [Payments] in October and it's grown very rapidly." Technology fell into its hands after it acquired Accept.com, which created system.

On auctioned items overall, he said, Amazon charges seller 10¢ to list product, then makes commission on back end of 1%-5% of final purchase price. Some consumers are hesitant to buy auctioned items, fearing product might not be shipped to them after they send payment. But Blackburn said customers not receiving what they have paid for is "a well-contained problem" that probably represents only "a small fraction... 1% of sales." Credit card payment option may be keeping number of such problems low.

Blackburn said books continued to be his best seller, but Amazon Auctions has been "really, really strong in music and video" as well as in computers and consumer electronics.

As for pirated auctions, he said Amazon has "a zero tolerance policy. We've actually taken that really seriously from day one. It's one of those problems that if you don't get on top of right away, you kind of become known as a place where those things can happen."

Blackburn admitted site wasn't "perfect 100% of the time" in catching pirated items promptly, but said it had "strong fraud investigations team" that worked with industry organizations such as Interactive Digital Software Assn. (IDSA), MPAA and Software & Information Industry Assn. (SIIA) that he said "help us make sure that the content of our site is legal." He said: "There's certain genres of content that people try again and again and again [to auction off] and we have mechanisms that find those and we have people that contact them and we take them down. Sellers that violate us don't get a chance to come back."

SIIA recently praised Amazon's efforts when it issued report saying it found 91% of computer software auctioned online March 3-April 3 to be pirated, but only one infringing item at Amazon.com (TVD April 24 p19).

ZMARKET.COM EYES MORE FINANCING: As online consumer product distributor ZMarket.com continues to try to expand its client base, it's looking for additional round of financing "probably [in] early fall," Chmn. Boris Reznik told us.

Reznik said its plan "calls for an IPO within 18 months from March [2000]." Although, like most Web companies, ZMarket.com is in what he called "postrevenue, preprofit" stage, he said "we are going to be profitable before we go public." He expects to reach "break-even" point by time it files IPO.

ZMarket.com received first "angel" (noninstitutional) funding in Dec. and completed first institutional round of funding in April, when Upstart Capital provided Alameda, Cal., company with \$1 million, Reznik said. As part of deal, Upstart Capital Managing Partner Michael Spindler, former Apple Computer CEO, joined ZMarket.com's board.

Company provides manufacturers with e-channel sales, marketing, fulfillment programs. Reznik said it "came about to really help the supplier to manage its channel of distribution. We provide the supplier with the ability to manage all of [its multiple] channels."

It recently started BuyerPortal 2.0 at its Web site, which serves as product sourcing, merchandising, fulfillment and information resource for its members. BuyerPortal 3.0 is expected to begin soon, although company didn't provide date.

Although products represented at site include electronics from Casio, RCA and Sharp, ZMarket.com has yet to make direct relationship with them or other major CE companies. Most of customers now are distributors, including Impact Merchandising, Livermore, Cal., and TCL Sales & Distribution, Canoga Park, Cal.

However, company early in June said it had signed deal with Superior Communications, wireless phone accessories manufacturer based in Covina, Cal. It also signed agreement for Merisel to provide fulfillment for its BuyerPortal (TVD May 1 p13).

Webvan Group said revenue surged to \$28.3 million in 2nd quarter ended June 30 from \$383,000 year earlier. Company had reported \$16.3 million in revenue for first quarter this year. But loss worsened to \$74.4 million in 2nd quarter from \$23.4 million year ago. Webvan, Foster City, Cal., company that delivers wide variety of products to customers within half hour, recently entered into definitive merger with competitor HomeGrocer.com (TVD July 3 p22). Webvan added DVD/VHS, electronics and videogames to product mix last month (TVD June 26 p18) and plans to be in 13 U.S. metro areas by end of year.

After month of negotiations, talks between Web music storage company Myplay and Yahoo apparently ended with latter deciding not to acquire or make investment in Myplay, reports said last week. *Wall St. Journal* had reported in early June that Yahoo was considering acquisition of Myplay in deal expected to cost \$200 million (TVD June 5 p18). Neither Myplay or Yahoo would comment on reports. Myplay service allows consumers to store their digital music collections in virtual "lockers" online, then gain access to those tunes from anywhere around world via Web.

ON-DEMAND GAME SERVICE EXPANDS: SelectPlay on-demand CD-ROM game service that was rolled out in select markets last fall (TVD Oct 18 p14) was tapped as one of first content services offered to customers of U S West.net and U S West MegaBit Services Digital Subscriber Line.

As result, U S West customers now can use SelectPlay service via carrier's Online Avenue broadband portal destination site USW opened recently in Denver.

Game service, targeted at families with broadband access, provides unlimited plays of up to 75 interactive educational and videogame CD-ROM titles each month for \$9.95. Customers also have option of receiving new titles for 48-hour play at \$3.95.

SelectPlay was created by Media Station, multimedia company with offices in Ann Arbor and San Francisco that's known mostly for role in developing interactive games for Disney Interactive, Hasbro, other companies. But Media Station Senior Vp-Chief Mktg. Officer Allan McLennan told us it was "not building content any more" and was "phasing that [part of its business] out" this year to concentrate on SelectPlay.

Media Station's other broadband carrier partners in venture have included AT&T, Broadwing, Cablevision, Comcast, Sprint. McLennan said SelectPlay was tested first in Orlando in Oct. as part of Sprint's DSL rollout there. Number of market trials has begun to rise slowly. He said it entered "a commercial launch with Sprint marketwide on May 1." As of that point, he said, SelectPlay was available via Sprint's DSL service in Charlottesville, Las Vegas, Orlando, Tallahassee. He said service also would begin in conjunction with U S West and Time Warner Cable broadband debuts.

So far, McLennan said, company has been "averaging right around 12%" take rate in markets where SelectPlay has been tested. He said number of subscribers was "growing because more and more families are becoming aware of this in the markets that we're in."

Target is to "have over 50,000 subscribers" for SelectPlay by end of 2001, McLennan said, and he sees service as method to grow market for on-demand entertainment overall as well as for broadband.

McLennan said Media Station had signed licensing agreements not only with software publishers for which it had developed titles but also with publishers it hadn't dealt with before, including GT Interactive and Humongous Entertainment. Other publishers that have licensed Media Station to use their titles include Havas Interactive and Learning Co.

Subscribers get parental control capability so they can decide type of titles their children can receive. McLennan said if parent wants to allow kids to receive educational title but not games, service offers ability to do that.

SelectPlay uses proprietary MediaRemote technology that delivers virtual device driver to subscriber and Bandwidth Manager that company said increases number of simultaneous game-playing sessions that service can support. It said MediaRemote technology had copy protection system used by titles' developers and subscriber couldn't play any title without being connected to SelectPlay server, which provided "key" that unlocked CD-ROM.

Although Media Station is focusing on CD-ROM titles now, McLennan said, "this technology will play DVDs and CD audio as well as DVD movies, but we're not stepping into that space" yet. He said technology also would be able to work in conjunction with set-top boxes in future.

Media Station is privately held company with only 65 employees. It has received funding from Mich. investors through its 8 years in business, but McLennan said it had "yet to fund SelectPlay with investors at this time," although it wasn't ruling that out in future. He said company had been "approached" by "basically the who's who in the cable industry and the investment community" and was "looking at that kind of investment opportunity."

Microsoft stepped up efforts last week to gain in interactive game arena with acquisition of Kansas-based online game developer NetGames USA. Microsoft said acquisition would enhance competitiveness of games at its Zone.com Web site. Software giant said it would add technology developed by NetGames to select retail games being developed, including *MechWarrior 4: Vengeance*, shipping in holiday season. Microsoft said NetGames's ngStats technology improves score-reporting features, including real-time scores and rankings, for retail games played on Web. Acquisition will give Microsoft team of NetGames developers, who it said, would lead effort to incorporate new technologies into Microsoft's PC games and integrate ngStats technology into its software development kit for PC game developers. Microsoft also said NetGames team would work on evolving technology for variety of other platforms, including Microsoft's own Xbox game console, scheduled to ship in fall 2001. NetGames acquisition came after Microsoft revealed that it had acquired Chicago-based game maker Bungie Software Products, giving it exclusive distribution and publishing rights to titles including upcoming *Halo* (TVD July 10 p19).

"Technological collaboration" for developing DVD-RW recorders and other next-generation digital products was announced in Japan by Pioneer and Sharp. Agreement to form Digital Media Project includes plan to pool best of each company's individual technologies to increase development efficiency, shorten development time and build more competitiveness into finished goods, they said. For example, they said, Pioneer's DVD-RW technology will be combined with Sharp's semiconductor laser and video processing technologies to develop next-generation recording equipment, presumably including high-capacity DVD recorders for HDTV-quality playback. Companies said they would work through RW Products Promotion Initiative (of which both are members) to promote "quick diffusion" of DVD-RW products in consumer market. Joint development of personal video recorders (PVRs) combining hard-disc recording with DVD-RW also is covered under partnership agreement, companies said. Moreover, Sharp's one-bit amplifier technology will be combined with Pioneer's audio know-how on development of range of future digital audio products, including general audio gear, hi-fi components, MiniDisc portables.

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

Mitchell Witten, ex-Pioneer and onetime Infinity and Faroudja Labs, joins Sonance as vp-product planning & design...**Darren Gill**, ex-Putumayo World Music, appointed Musicmaker.com senior mktg. vp, replacing **Bill Crowley**, who becomes senior sales development vp; **Daniel Levi**, ex-MTV Networks, named international senior mktg. vp; **Jason Janego** named affiliate mktg. dir... **Richard Johnson**, formerly vp, Seagate Consumer Solutions Group, appointed pres.-CEO of CacheVision, new Seagate-Thomson 50-50 joint venture... **Danny Kopels** named vp, GRB Entertainment's new Digital Product Div... **Joni Saphir**, PR mgr., Pioneer USA, joins **Wilson McHenry**, Pioneer's PR agency, in L.A... **Michael McFarren**, ex-Bellerophon, named Value America senior vp-engineering... **Robert Bicevskis**, ex-ATI Technologies, appointed vp-engineering, Genesis Microchip

Future looked bleak for yet another dotcom company as netcaster FasTV.com laid off 79 employees, Reuters said. Only remaining paid employee is Pres.-CFO Tim Winter, it said, and volunteer staff of 6 was maintaining site as Winter attempted to find buyer or investment partners. FasTV.com is service that allows Web user to search throughout Internet for music videos, trailers, other video clips. Although it had signed content deals with such companies as American Film Institute, Bloomberg, CNN, MGM, Miramax, New Line Cinema and Reuters, report quoted Winter saying that "well ran dry" and main investor had cut off additional funding.

Dolphin may not be name of Nintendo's upcoming next-generation videogame console after all. Online report last week said new system now will be called "Star Cube" instead. Nintendo spokesman didn't return call by our Fri. deadline to comment. Nintendo announced in March that it was holding off launch of new console until first half of 2001 (TVD March 20 p12). It originally had planned to ship system, which will have Matsushita-designed DVD drive, this year.

Nearly 65 million DVD movies and music videos were shipped in first half of 2000, more than 2-1/2 times as many as in Jan.-June 1999, DVD Entertainment Group announced at VSDA convention last week in Las Vegas. Cumulative software shipments have reached 190 million since format's March 1997 debut, Group said, and based on current growth rates, would exceed 230 million this year, representing more than \$4 billion in retail revenue. Group said statistics were compiled by Ernst & Young.

Plans to boost output of DVD-ROM drives sevenfold were announced by Matsushita Kotobuki, which said it would expand production to 700,000 drives per month by year-end from present 100,000. Plans also call for threefold increase in production capacity of rewritable and write-once CD drives to 300,000 per month. Expanded output will come at Matsushita-Kotobuki plants outside Japan to exploit better currency exchange rates.

Annual Macworld conference/expo will be held at Javits Center in N.Y.C. July 18-21. Exhibitors are expected to include Canon, Epson, Fujitsu, Harman, Hewlett-Packard, IBM, I-Jam, Kodak, Mattel Microsoft, Mitsubishi, SanDisk, 3dfx. Latter is hosting Mac "gaming zone" at show where game developers will be demonstrating titles using 3dfx's Voodoo5 5500 PCI graphics accelerator. Developers taking part in 3dfx demo area will include Aspyr, Blizzard, Gathering of Developers, Graphic Simulations, MacSoft.

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
Burr-Brown 2000-6 mo. to July 1 1999-6 mo. to July 1 2000-qtr. to July 1 1999-qtr. to July 1	194,069,000 129,217,000 103,515,000 68,210,000	41,805,000 17,769,000 23,308,000 10,305,000	.75 .32 ^a .41 .19 ^a
Gannett 2000-26 wk. to June 25 1999-26 wk. to June 28 2000-13 wk. to June 25 1999-13 wk. to June 28	2,854,643,000 2,465,557,000 1,490,200,000 1,279,618,000	1,215,916,000 455,863,000 265,762,000 276,970,000	4.52 1.63 ^b 1.01 .99 ^b
General Electric 2000-6 mo. to June 30 1999-6 mo. to June 30 2000-qtr. to June 30 1999-qtr. to June 30	62,858,000,000 51,575,000,000 32,862,000,000 27,410,000,000	5,970,000,000 4,975,000,000 3,378,000,000 2,820,000,000	.60 .51 .34 .29
Media General 2000-26 wk. to June 25 1999-26 wk. to June 27 2000-13 wk. to June 25 1999-13 wk. to June 27	439,623,000 391,365,000 240,428,000 199,554,000	38,256,000 27,762,000 23,894,000 16,456,000	1.54 ^c 1.04 .99 ^c .62
Motorola 2000-6 mo. to July 1 1999-6 mo. to July 1 2000-qtr. to July 1 1999-qtr. to July 1	18,023,000,000 15,766,000,000 9,255,000,000 8,030,000,000	652,000,000 454,000,000 204,000,000 255,000,000	.30 ^d .22 ^d .09 ^d .12 ^d
National Record Mart 2000-year to Mar. 25 1999-year to Mar. 27 2000-13 wk. to Mar. 25 1999-13 wk. to Mar. 27	142,644,670 129,902,083 32,906,331 31,383,558	(8,072,180) (1,691,341) (7,378,435) (1,835,503)	— — — —
New York Times 2000-6 mo. to June 30 1999-6 mo. to June 30 2000-qtr. to June 30 1999-qtr. to June 30	1,728,520,000 1,518,443,000 885,588,000 779,385,000	184,801,000 144,873,000 101,738,000 83,463,000	1.08 .81 ^d .60 .47 ^d
Office Depot 2000-26 wk. to June 24 1999-26 wk. to June 26 2000-13 wk. to June 24 1999-13 wk. to June 26	5,694,101,000 4,965,887,000 2,630,848,000 2,343,036,000	166,973,000 174,692,000 57,937,000 74,116,000	.52 ^d .47 ^d .18 ^d .20 ^d
Phoenix Gold International 2000-9 mo. to June 30 1999-9 mo. to June 30 2000-qtr. to June 30 1999-qtr. to June 30	20,460,959 20,320,979 7,056,124 7,454,978	816,087 701,956 363,504 335,901	.27 .21 .12 .10
E. W. Scripps 2000-6 mo. to June 30 1999-6 mo. to June 30 2000-qtr. to June 30 1999-qtr. to June 30	850,083,000 767,545,000 439,224,000 391,285,000	79,224,000 76,232,000 45,620,000 44,231,000	1.00 ^d .96 ^b .58 ^d .56 ^b
Three Five Systems 2000-6 mo. to June 30 1999-6 mo. to June 30 2000-qtr. to June 30 1999-qtr. to June 30	84,088,000 54,644,000 44,926,000 31,600,000	7,956,000 398,000 4,369,000 1,040,000	.41 .03 ^a .22 .07 ^a
TriStar 2000-39 wk. to May 27 1999-39 wk. to May 29 2000-13 wk. to May 27 1999-13 wk. to May 29	12,011,000 13,436,000 39,099,000 41,951,000	133,000 10,000 340,000 (276,000)	— — — —

Notes: ^aAdjusted. ^bInclude special credit. ^cInclude special item. ^dAfter special charge. ^eAfter special charge; adjusted.

Agreement to cooperate on ad and marketing services was announced by Blockbuster and Earful of Books, Austin-based chain of audiobooks-only retail superstores. Under agreement, Earful will use support services from Blockbuster's Mktg. Solutions subsidiary for grand opening and ongoing ad and marketing services in retail markets shared by both companies. First markets affected will be Mission Viejo, Cal., Redmond, Wash., Roanoke, Va. and Rockville, Md., with future activities planned for Atlanta, Boston, Chicago, L.A., Miami, N.Y.C., Philadelphia, Phoenix, San Francisco.



TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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Broadcast - Cable

NBC APPEALS CAP ON OWNERSHIP: Files in U.S. Appeals Court, D.C., opposing FCC's 'antiquated yardstick' using potential rather than actual audience. (P. 1)

BIG 4 FACING VIDEO DESCRIPTION for analog requirement from FCC, along with cable and satellite systems with more than 50,000 subscribers. Closed-captioning capability mandated for DTV sets. (P. 2)

AOL-TW SPLIT SOUGHT BY DISNEY: FCC staff urged to force spinoff of TV programming and Internet content by MSO and ISP. (P. 3)

DIVERSITY OF MEDIA OWNERSHIP threatened by 'consolidation, convergence and [lack of] capital,' Rohde tells conference that deals with tax certificates. (P. 4)

NBC STAKE BOOSTS PAX: Sagansky sees 32.7% investment fueling further news, sports and entertainment integration. (P. 5)

PAXSON TO OPTIMIZE DTV: DTV spectrum offers more than HDTV and simple datacasting, Grossman says. (P. 6)

NBC APPEALS FCC OWNERSHIP CAP: NBC appeal of FCC retention of network ownership cap is focusing on "antiquated yardstick" that Commission uses to gauge audience reach, Exec. Vp-Gen. Counsel Richard Cotton said. Ownership limits (TVD June 5 p1) are based on potential audience reach, rather than actual audience. NBC filed its appeal of rules July 20 in U.S. Appeals Court, D.C. Fox already has appealed caps; ABC and CBS haven't announced their plans.

In interview, Cotton called basis for ownership cap "ludicrous" and said it was "indefensible and almost inexplicable." Asked why NBC didn't wait for other broadcasters to join appeal, Cotton said "we feel so strongly about this that we wanted our own appeal to tightly focus on this issue. We wanted to highlight it on a laser-like basis."

Although NBC's notice of appeal includes no details, Cotton compared ownership cap basis with determining that General Motors had 100% of U.S. car market because its dealers potentially could reach 100% of drivers: "That defies common sense." He said no other medium, or any other industry, was regulated based on potential rather than actual reach.

NBC-owned stations' actual viewing is less than 10% of national audience, Cotton said: "That level of market share has never been considered to be dangerous to competition." He said cable, DBS and other broadcast rivals are regulated based on actual, rather than potential, viewing.

Freeing networks to own more stations would be in public interest, Cotton said, because failing to do so gives competitive advantage to cable and others that can reach larger audience. He said competitors have opportunity to achieve

Consumer Electronics

SATELLITE BROADBAND STRATEGY dominates SBCA show in Las Vegas. HDTV is low-key presence at event. (P. 11)

SONY CREATES DIVISION to open SonyStyle.com Web site combining direct sales to consumers with interactive content and services. (P. 13)

SATELLITE HDTV FACES DELAYS as Hughes Network Systems postpones delivery of DirecTV/HD decoder IRDs for Toshiba and Mitsubishi to Sept. (P. 15)

SONY MODIFIES PS2 PREORDER PLAN in U.K. after protests from dealers. (P. 16)

TOWER LEASES GOOD GUYS SPACE for sale of CD and DVD software starting with test in Las Vegas. (P. 16)

CIRCUIT CITY TO CARRY MACS AGAIN after 2-year absence. (P. 17)

MICROSOFT, THOMSON IN X-BOX DEAL that calls for manufacturer to provide optical disc drive and key components for upcoming game console. (P. 17)

greater economies of scale, giving them “regulatory advantage” over broadcast. As result, Cotton said, “some weaker broadcasters could potentially disappear,” hurting public by decreasing diversity of video choice. He also said ownership cap fails to take into account changing video marketplace.

FCC ADOPTS VIDEO DESCRIPTION RULES FOR ANALOG: Before packed meeting room July 21, including many persons with disabilities, FCC adopted new rules designed to help such individuals in TV and telecom areas. Commission decreed that beginning April 2002, Big 4 TV networks, TV stations in top 25 markets and cable and satellite systems with more than 50,000 subscribers must provide video descriptions in analog programming for minimum of 4 hours weekly. Enhanced signal will be transmitted on station’s secondary audio programming (SAP) channel. Among other provisions of new rule:

(1) For cable and satellite systems, it would apply to top 5-rated networks as determined by Nielsen. (2) For all TV stations, regardless of their market size, they will be required to “pass through” any video description they receive from network — but only if station in smaller markets has “the technical capability necessary to do so.” Experience gained in top 25 markets will “guide the industry, the public and the Commission” as to whether rule should be expanded to require stations in smaller markets and cable and satellite systems with fewer than 50,000 subscribers to also originate video descriptions of on-screen action. FCC said it “expects ultimately” to apply same rules to digital transmissions.

In finalizing rulemaking started year ago, Commission said it had studied issue for nearly 5 years — including issuing 3 public notices and filing 2 reports with Congress. That record, agency said, “demonstrates the importance of video description to persons with visual disabilities and that the Commission has the statutory authority to adopt video description rules.” While Republican Comrs. Furchtgott-Roth and Powell concurred in adoption of new rules, they also took issue with whether agency has authority to adopt them. Commission’s steps were taken to commemorate 10th anniversary of Americans with Disabilities Act (ADA), but Furchtgott-Roth said law doesn’t authorize FCC to require video descriptions. Powell said that while rule was adopted “for a very commendable purpose, the Commission is once again expanding its reach beyond a specific statutory provision by availing itself of ancillary jurisdiction” under provisions of Communications Act. In defending rule, Chmn. Kennard said video descriptions should become “as ubiquitous as closed-captioning.” He said requiring video descriptions was “about making sure the virtual world is available to all Americans.”

Broadcast and cable interests were critical of FCC’s action, with NAB estimating it would cost station up to \$160,000 to install equipment necessary to provide video captioning. On cable side, NCTA spokesman said: “We think this is an area best left to industry efforts, not government regulation.”

In separate action, with Furchtgott-Roth again questioning agency’s authority, Commission amended its rules to require DTV set-makers to build in closed-captioning capability. Action assures that assistance for hearing impaired will “continue to be available to consumers” during transition from analog to digital, agency said. That capability already is required for analog receivers 13” and larger under law passed by Congress in 1990. New requirement for manufacturers of DTV sets becomes effective July 1, 2002. Rule also requires that cable and satellite systems “transmit captions in a format that will be understandable to the decoder circuitry” built into sets.

Ceridian Corp. said it plans to spin off radio ratings subsidiary Arbitron into separate, publicly held company by end of year. Deal is contingent on favorable tax ruling from IRS, Ceridian said. Arbitron Pres. Stephen Morris would become CEO after spinoff, which would place company in “a better position to pursue strategic alliances, partnerships and acquisitions,” he said. Ceridian reported net earnings of \$32.2 million (22 cents per share) in quarter ended June 30 on revenue of \$343.8 million. Arbitron had 1999 revenue of \$215 million, with most of that coming from radio industry.

U.S. radio ad monthly revenue topped \$2 billion for first time in May, according to figures compiled by Radio Ad Bureau (RAB), which increased its estimate for full year 2000 to \$20.33 billion, up 15% over 1999. RAB Pres. Gary Fries said markets of all sizes reported “double-digit increases” in May, with largest gains in biggest markets, along with “significant growth in even the smallest markets.” Industry first topped \$1 billion in monthly billings in May 1994.

Telecom Industry Assn. (TIA) wrote Senate Finance Committee ranking Democrat Moynihan (N.Y.) to support his S-2698, which backs universal broadband deployment. Bill, introduced last month, would offer tax credits to all broadband providers to spur rollouts to underserved areas. TIA Pres. Matthew Flanigan said his organization “believes that full competition and minimal government intervention” is formula for new-technology development, and “in a perfect world, legislation such as this would not be needed.” He said “the free market, however, is not producing the rollout of broadband services as quickly as we all would like,” and praised S-2698 for targeting deficient areas without reopening Telecom Act.

Flares from largest solar storm since 1989 caused at least one commercial communications satellite operator to lose transponder and affected many others, said NOAA Space Scientist David Speich with Space Environmental Center in Boulder, Colo. He said he didn’t know which bird lost transponder. Intelsat and DirecTV spokesman said none of their satellites had problems.

DISNEY PUSHES AOL-TW SPLIT: Renewing their offensive against proposed merger of America Online (AOL) and Time Warner (TW), Walt Disney executives called on govt. to split AOL-TW's vast content and distribution assets into 2 separate companies. In recent meetings with and letters to FCC staffers, Disney proposed that AOL-TW be forced to spin off its cable networks and other TV programming and Internet content holdings from its cable systems and online services as basic condition of merger approval. Now, pressing their case further, Disney executives intend to spell out split-up plan to Commission this week, in time for its July 27 public hearing on AOL-TW union. "We'll be filing a detailed proposal," said Preston Padden, exec. vp-govt. relations for Disney.

Besides drastic content and distribution split, Padden said Disney would suggest "a menu of [other] possible remedies" to FCC, including secondary measures "involving behavioral oversight to prevent discriminatory conduct" by AOL-TW. He declined to elaborate other than to say that proposals "all [are] rooted in existing laws and regulations." He said "whole focus" of regulatory maneuvers is to protect consumers. "We're in this because of our own self-interest but it's completely consistent with the interests of consumers," he said.

Padden and other Disney officials based their new proposals on their charge that AOL-TW would own "bottleneck distribution facilities and content" through its control of: (1) Cable systems passing more than 20 million homes. (2) Online service reaching more than 50% of U.S. residential subscribers. (3) Huge TV and motion picture library. (4) More than dozen top cable networks. (5) Cable set-top box equipment and software. (6) Dominant online instant messaging service. (7) 80% of most popular music licensed by film and TV producers. (8) "Sticky" online applications such as chat rooms, buddy lists, e-mail. In testimony before House Judiciary Committee July 18, Padden called that combination "an unprecedented concentration of content, bottleneck pipelines, sticky applications and operating systems" and contended that "unlimited and unfettered consumer choice in interactive television content and services" must be assured. "Bill Gates on his best day never dreamed of having this much power," Padden told us.

Miffed Time Warner executives, who had dismissed Disney's latest maneuvers as "silly" and "absurd" earlier last week, took similar tack July 20. "Disney's proposal is absurd," spokesman said. "There is absolutely no basis for any conditions of this sort on this merger." Privately, Time Warner officials noted that Disney wasn't one to talk since it owns its own major distribution pipeline in ABC and produces 69% of prime-time programming now running on that network.

FCC spokeswoman declined comment on new Disney-TW imbroglio. In last dispute between companies over TW's carriage of ABC and other Disney programming on its cable systems, Commission eventually intervened after TW pulled ABC off its systems in 11 markets for nearly 2 days.

Latest battle comes after Disney had sought for months to negotiate how its future interactive TV services would be carried on AOL-TW cable systems and online services. In recent letters to TW executives, Disney pushed for "certain basic non-discrimination assurances" on channel position, Web page placement, navigation, menu placement, return path functional-

ity, customer interface, caching and overall consumer availability and prominence. In response, TW Pres. Richard Parsons proposed "a [joint] public statement on the principles we hold in common."

Despite such concerns about AOL-TW merger, FCC Comr. Furchtgott-Roth lashed out at agency's plan to hold en banc public hearing on proposed union this week. Speaking to reporters July 19, he argued that public hearing would merely delay merger review without shedding light on license transfer issues central to FCC's statutory authority over big media deals. He called hearing big waste of "valuable staff time" and questioned why AOL-TW merger, unlike most license transfers weighed by Commission, deserved such treatment. "I'm very skeptical of the value of this hearing," he said. "I find nothing transparent about holding a public witch trial."

Furchtgott-Roth charged that rare public forum, scheduled to be attended by all 5 commissioners, top executives of both companies and slew of observers, would "create a media circus" and amount to "a public humiliation" of AOL Chmn. Steve Case and Time Warner Chmn. Gerald Levin. Noting that such issues as cable open access and online instant messaging were likely to be prominent at hearing, he contended that Commission was straying far from its core mission: "I think this is symptomatic of this agency's devoting a lot of staff resources to delaying license transfers on issues that have nothing to do with license transfers."

Furchtgott-Roth contended that AOL-Time Warner's application should have been approved or rejected months ago, or within 90 days as he said federal law requires. He lamented application of tougher public interest standard to merger, saying Commission routinely acted on tens of thousands of license transfers without resorting to such measures. "There's nothing in the statute that says 'treat biggest differently,'" he said. "We cannot have a different public interest standard for Time Warner than for Jeb's hardware store."

Furchtgott-Roth also criticized what he termed FCC's attempts to act as antitrust enforcer in AOL-Time Warner, AT&T-MediaOne, WorldCom-Sprint and other big media/telecom mergers. He cited NextMedia, which is seeking to buy radio licenses in Erie, Pa., as example of firms stalled at FCC for months because of agency's hyper concerns about competition. "We are not the 3rd antitrust agency of this government," he said.

Given all this, Furchtgott-Roth said, he might have advised Time Warner to purchase AOL, rather than other way around. If companies had structured deal that way, he said, FCC wouldn't have authority to review merger because AOL doesn't hold any public spectrum licenses. While companies may view FCC as "a minor annoyance," he said, "this agency can and probably will impose a lot of conditions on the transfer," including open access and instant messaging mandates.

Questioned about FCC Chmn. Kennard's plans to start agency proceeding on open access, Furchtgott-Roth said he favored issuing notice of inquiry (NOI) to gather information. He said he saw no reason for larger notice of proposed rulemaking (NPRM) because he wasn't sure how to proceed yet. Although he tends to disagree with recent appellate court ruling that cable Internet is telecom service, he said, FCC should seize initiative now and spell out exactly what telecom service is.

TAX CERTIFICATES BIG CONCERN: Major threats to minority ownership of media properties may be "consolidation, convergence and [lack of] capital," NTIA Dir. Gregory Rohde said at opening of agency's day-long conference on media diversity in Washington last week. But, a top issue seen by panelists was return of tax certificates in sale of stations to minorities, saying that would be of great help.

David Honig of Minority Media & Telecom Council said 50% of minority-owned stations came about because of tax certificates, which Congress abolished in 1995 appropriations bill. Citing court ruling that FCC's long-held EEO rules were unconstitutional, he said many "race-neutral policies" have been abolished because they tended to favor minorities. "The enormous burden of past discrimination in broadcasting is hard to overcome," Honig said. NAB Vp-Human Resources Dwight Ellis said Assn. "has been very supportive of minority ownership over the years."

Ex-FCC Comr. Tyrone Brown said tax certificate policy was "very important symbolically" because it caused station sellers to seek out minorities as buyers. He said efforts were progressing, with Rep. Rangel (D-N.Y.), ranking minority member of House Ways & Means Committee, and other members of Congress seeking legislation to restore policy as law. Brown and others said key to their success may be whether Democrats gain control of Congress in fall elections. However, member of audience pointed out Democrat, President Clinton, failed to use his line-item veto and signed into law measure passed by Republican-controlled Congress abolishing tax certificates.

Black station-owner Edwin Edwards said "ownership is much more than programming... It's power." He said "the money is out there, but finding the right property is the problem" and what stations are available for minorities are in small markets. Edwards is principal owner of Glencairn Ltd., which owns 7 TV stations. Kade Twist of Benton Foundation Communications Policy Program said, "Ownership allows us to tell our stories." Lyle Banks, head of Banks Bestg., said that because of industry consolidation, it was very hard for company his size to find stations to buy, particularly in top 75 markets. Relaxation of FCC ownership rules "closed another door of opportunity" to minorities, he said. James Winston, pres. of National Assn. of Black Owned Bcstrs., said "money has always and continues to be tight" for minorities seeking to buy stations. Venture capital firms require business plans that don't "fit the model" of typical minority firm, he said.

Member of audience asked Rohde why, if mergers and consolidations were hurting minority ownership, NTIA didn't oppose such applications at FCC. Rohde said that area generally falls under purview of Justice Dept. and its antitrust jurisdiction. But, he said: "You raise a very good point.. It's something we have to be sensitive to."

Antoinette Bush of Northpoint Technology said she had "good news and bad news" for minorities — with convergence overall resulting in decline of minority owners. She said FCC ownership and duopoly policies had helped, citing required spinoff of radio stations in Clear Channel acquisition of AMFM. Honig said that of 110 stations sold by Clear Channel, 46 went to minorities. Bush said minorities were facing same problems in cable as in broadcasting. Said Santa Clara U. Law Prof. Allen Hammond: "You can't look at broadcasting as an

isolated industry anymore." To Edwards's comment that if minorities can "conquer employment, we can conquer ownership," Jenell Trigg of Fleischman & Walsh law firm responded: "It's still very much an old boy's network, a white boy's network."

Native Americans "have too much been left way behind" in broadcasting, said Jacqueline Kong, pres. of HotPopTV.com. "I don't want to see us left out of [Internet] technology as well." She said several times that "I'm looking for partners" in Internet venture: "The idea is to lower the risk." Of Internet, Rohde said "we're talking about a very low-cost medium here." Worldspace Corp. CEO Noah Samara said his company had invested \$1.1 billion in start-up of digital audio satellite service. "The problem is not one of poverty" in seeking financing but a lack of providing information to venture capitalists, he said.

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Pegasus Communications said it signed 3 agreements and closed on sale of its stake in broadcast towers. In deal with Internet connectivity provider ZipLink, Pegasus said it would be able to offer dial-up Internet access to subscribers via ZipLink's 800 points of presence. Company said agreement is part of strategic relationship that will enable it to offer interactive TV, broadband Internet access and advanced digital services to consumers. In 2nd agreement, Pegasus said it would acquire from DirecTV subscriber lists for all remaining Primestar by DirecTV customers in Pegasus territories that hadn't converted to DirecTV high-power platform. Pegasus will pay DirecTV one-time fee of \$300 per converted customer and will be responsible for all costs associated with converting former Primestar by DirecTV customers within its territory. Under 3rd agreement with Hughes Network System, Pegasus will be able to offer high-speed Internet access by satellite via "Pegasus Broadband powered by DirecPC" to rural and underserved households served by Pegasus and Pegasus Retail Network. Service will begin in 4th quarter. Finally, Pegasus said it sold its interest in 11 broadcast towers to SpectraSite Broadcast Group for \$37 million. Under agreement, SpectraSite will lease existing tower facilities and will build several new digital TV towers for use by Pegasus Broadcast TV.

Legislation requiring cable companies to allow access to their cable infrastructure by multiple ISPs isn't likely to pass in this Congress, Judiciary Committee Chmn. Hyde (R-Ill.) said, despite hearing on issue July 18. He said he didn't believe "we have sufficient support within the committee to move forward on these bills today," but said he remained open to idea "if sufficient support develops" and said "a number of members remain undecided" on measures. Questioned frequently about open access in hearing, FCC Chmn. Kennard said Commission would move more aggressively on issue in light of recent ruling by 9th U.S. Appeals Court, San Francisco, that cable Internet is telecom service that should be regulated on national level. He said he still wasn't sure what type of proceeding FCC would conduct, but he repeatedly stressed that his own views supporting laissez-faire approach hadn't changed. "The cable broadband pipe is a new pipe, a new network," he said. "We ought to be careful about dropping legacy regulations on a new pipe."

Online gambling ban failed on House floor July 17, 245-159, despite receiving more than 60% of vote. Full 2/3 was necessary for passage under suspension of rules. HR-3125 by Rep. Goodlatte (R-Va.) was opposed by mix of Republicans and Democrats. Goodlatte said majority voting in favor of bill should convince House leadership to call up HR-3125 under conventional rules "so that it may pass."

PAX SEES NBC GAINS: NBC's investment in Paxson Communications already is paying huge dividends for fledgling family-oriented network and Paxson CEO Jeff Sagansky indicated further integration of news, sports and entertainment content was planned on both local and national level. He spoke at presentation for TV critics last week. NBC, meanwhile, offered little news beyond assessment that network was doing well and had high hopes for fall season.

Since NBC bought 32.7% of Paxson last Sept., network has been porting content over to Pax TV with strong results. Quiz show *Twenty One*, which is shared with NBC, immediately doubled ratings in its time period for Pax. Pax also ran NBC original movies as 2nd run and saw rating rise 60%. Sagansky touted network's overall health, saying Pax's prime-time viewership has grown 61% in 2 years since debut, including 15% in last year: "Last season we were the only network... to increase our audience of our target 25-to-54 [ages] on every single night of the week."

Sagansky said that in 11 NBC owned markets, Pax was time-shifting early and late local news for rebroadcast. He said that in N.Y. and other soon-to-be-announced markets, Pax was working with local NBC station to produce original live half-hour newscast for Pax station in area.

While NBC affiliates have objected to Pax's having NBC content and stars such as Tom Brokaw in any capacity, Sagansky said those affiliate concerns were being resolved. "When this happened we didn't have very many of our JSAs [joint sales agreements] in place," he said. "As we do that and the NBC stations benefit economically from the Pax relationship I think their outlook on Pax is going to change. I know that we'll be sharing a lot more of programming, both news, sports and entertainment."

Sagansky said company was using NBC as platform for launching new Pax programming. Upcoming original drama series *Mysterious Ways* will run 6 episodes on NBC before shifting to Pax in Aug. But partnership with NBC will extend beyond TV. Paxson Communications has indicated it would work with NBC to be aggressive in using digital spectrum for datacasting and other opportunities (see separate story, this issue).

Most questions to NBC officials centered on network's relatively slow move toward reality programming following success of ABC's *Who Wants to Be a Millionaire* and CBS's *Survivor*. NBC executives said they had been pitched more than 100 proposed shows with *Survivor*-like theme, but hadn't formally signed up any.

NBC West Coast Pres. Scott Sassa touted network's 17% rise in number of minorities in front of camera and further gains behind camera, insisting network was boosting diversity, not because of outside pressure but "because we think it is good business for us." Comments came on heels of new study on diversity on network TV that found characters of color not as well developed as those of whites. Study by San Francisco advocacy group Children Now also said different races interacted on air socially and professionally, but rarely romantically. Last year, NAACP and other minority groups criticized networks for 26 new dramas and comedies devoid of major minority characters.

NBC commitment to special programming, including Summer Olympics, baseball playoffs and Presidential debates, means much of fall schedule won't air regularly until at least late Oct. NBC En-

tertainment Pres. Garth Ancier said network was unsure how that would affect traditional programming, but did express concern over new shows debuting during Nov. sweeps.

Network said it would join with NBC Interactive in new Internet-based contest tied to network's *Saturday Night Movie*. Ancier said details of quiz-based contest still were being worked out, but viewers could go to www.NBCi.com site to answer questions based on that week's film. While it should help pull traffic for NBCi, Ancier said network consciously was trying not to make movie-related contest so compelling that it would lure viewers away from movie broadcast for long periods. He said while NBC had experimented with online component for prime-time game show *Twenty-One*, it still was trying to figure out how best to use Internet while keeping traditional broadcast viewership its main concern.

Sassa said that while NBC was in 3rd place in terms of delivering viewers, it tied ABC in upfront advertising sales with \$2.4 billion, \$700 million ahead of CBS. He said upfront ad commitment was highest in network history: "We have a very high-quality audience because we have high-quality shows." Sassa also said industry changed dramatically because of technology and competition: "What people are willing to watch on TV and watch in movies is going to be different. And technology, through the Internet, through videogames, has maybe changed more people's view on that."

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"That's dead wrong," Clear Channel Communications (CCC) Chmn. Lowry Mays said of charges that radio station ownership consolidation had resulted in less diversity in programming: "Never has there been more diversity than now." Speaking July 19 at Minority Media & Telecom Council public policy lunch, he cited diversity created by CCC purchase in Houston, along with ownership diversity in its acquisition of AMFM Inc. Of 110 radio stations spun off in latter deal, he said, 46 were sold to minorities — leading to diversity in both ownership and programming. Diversity in ownership, programming and employment is "critically important," he said. "It's been an important part of my career." In AMFM deal, he said, "we did everything we could" to sell stations to minorities, but as industry "we need to do more," including: (1) Leading fight for return of tax certificate in sale of station to minorities (see separate story, this issue). (2) Providing more access to capital for minorities. (3) Urging mainstream broadcasting to "go out of the way to bring minorities into the loop."

Format pioneer Fox TV urged caution in rush to reality TV bandwagon at TV Critics tour in Pasadena last week, with Fox Entertainment TV Chmn. Sandy Grushow calling on TV industry to police itself in ensuring that programs don't cross line on what's appropriate. "It is incumbent that we are assessing the risk both for the audience and for our network," Grushow said. Following controversy over *Who Wants to Marry a Millionaire* earlier this year, Grushow said network hired PriceWaterhouseCoopers to conduct risk management assessment of all new reality programming and specials. He said network's previous flirtation with "shockumentary" programming such as *When Animals Attack* had hurt company's brand and bottom line: "There's no money in the marketplace for those types of shows." As result, Fox new lineup is full of traditional scripted half-hour comedies and dramas, save for long-standing reality shows *Cops* and *America's Most Wanted* and new show *American High*, which documents real-life Chicago area high school.

PAXSON TO OPTIMIZE DTV: DTV spectrum will provide almost unlimited opportunities for broadcasters, not just HDTV and simple datacasting, said Seth Grossman, who was promoted last week to Paxson exec. vp-chief strategic officer. Company said Grossman's main job will be figuring out how to maximize value of Paxson's national digital spectrum footprint. He will be replaced as Paxson CFO by Tom Severson, who joins from Sinclair Bcst.

Paxson has "unique opportunity" to use digital assets for several reasons, Grossman told us: (1) It has "unique" access to NBC assets, including NBC staffers and programming. (2) It's unique in owning 69 broadcast TV stations reaching 60-65% of U.S. households, making it possible to use multicasting to launch new TV networks. (3) It's flexible about other uses of digital spectrum for telecom and other purposes such as downloading electronic games. "There are a lot of new opportunities for wireless distribution out there," Grossman said. "We want to make sure we have the infrastructure in place and be ready when it plays itself out." He said one of keys would be ability of TV signal to be received remotely and by mobile.

HDTV may not be high priority for Paxson, given its typical programming, which isn't always suited to high definition, Grossman said. He didn't dismiss HDTV completely, saying move in that direction would be "driven by the market. It's always a possibility, but the reality is that it would probably be a more compelling benefit to our audience to use it for multicasting or new data services."

Multicasting new types of programming, possibly using resources of NBC, is one major possibility, Grossman said. Other video or data services also are possible, he said.

In shorter term, Paxson is looking at potential benefits of auction of TV Ch. 60-69 for company, Grossman said. As result of auction, scheduled for Sept., it expects to receive offers from winning bidders to vacate channels early, he said, generally in form of cash. Paxson has 18-20 stations in those channels, he said, of estimated 120 nationwide.

Stations are likely to be willing to vacate spectrum early only if they are guaranteed cable carriage for their remaining DTV channels, Grossman said. Paxson has been pressing FCC for DTV must-carry, and he said "it behooves the Commission to make this a win-win."

New satellite must-carry legislation is "unconstitutional," has "lots of holes" in it and eventually will be overturned by U.S. Supreme Court, Carmel Group CEO Jimmy Schaeffler told Satellite Bcstg. & Communications convention Education Forum on Local-into-Local (LIL) last week. He said law, scheduled to take effect in Jan. 2002, probably will be overturned because it violates spirit of business, particularly if Tex. Gov. George Bush wins Presidency and has chance to appoint 2 members to high court. Schaeffler said current retransmission contracts are "short term" and must be renegotiated regularly, giving rise to other problems if broadcasters decide to demand more money.

EchoStar said Dish Network reached 10-million viewer mark, serving 4 million homes. Company also said it would reduce retail price for Model 2712 Dish 500 satellite TV systems to \$99 from \$169, effective Aug. 1.

ABC TOUTS 'MILLIONAIRE': ABC kicked off major networks' portion of TV Critics Assn. summer tour last week by offering little beyond reports that *Who Wants to Be a Millionaire* continued to do well. There was no mention of issues such as NAACP's call for having more minorities involved in TV, nor of controversy over counting in-programming content as part of public service requirements.

Success of *Millionaire* and its presence 4 nights a week this fall left little room for new programming, and ABC will have only 4 new shows. ABC Entertainment TV Group Co-Chmn. Lloyd Braun said focusing launch marketing on fewer shows gives them better chance of succeeding and dismissed suggestion that with all 4 new shows produced by Disney's Touchstone Productions, network had become one-studio shop.

Braun also rejected suggestions that success of *Millionaire* and CBS's *Survivor* was part of new "reality trend" that would hurt traditional scripted 30- and 60-min. comedy and drama series. "In the last 14 months, there have been 2 shows that have done extraordinarily well and surprised everybody," he said. "We don't believe that means everyone in America is clamoring for more reality." ABC has several new reality shows in works, including *The Mole* and *The Runner*.

Trend of scheduling original programming in summer seems to be catching on with other networks, Braun said. "I think for everybody the notion of summer being a time of burning off inventory and managing just cost as best you can is over," he said. "We're all in this now for performance 52 weeks out of the year, and I think unfortunately the other networks have now also seen that the summer can be a very valuable time to do that." Braun said WB followed ABC's lead when it repurposed *Once and Again* series on cable network Lifetime by putting some of its own shows on cable: "I think that there's obviously affiliate issues meshed in with all of it. It's complicated."

In interview, Larry Hyams, vp-prime-time audience analysis, said HDTV hadn't had any impact on prime time because audience still was far too small to be registered with Nielsen.

DTV set owners "overwhelmingly" are satisfied with performance of their sets but dissatisfied with amount of HDTV programming available, according to survey by National Consumers League (NCL). NCL Pres. Linda Golodner said survey by Opinion Research Corp. was partly in response to claims that set owners were dissatisfied with current DTV standard: "Our survey shows that the assertions are groundless. We found that consumers were overwhelmingly satisfied with their HDTVs." In survey, 77% said they were "very satisfied" with picture quality and 19% "satisfied;" 89% were satisfied with audio quality. More than half of those surveyed said they were dissatisfied with amount of HDTV programming. On issue of DTV reception, 80% said they were satisfied and only 4% said they would like better reception. Survey was conducted May 31-June 14 involving 200 DTV owners, derived from list of 1,100 acquired from retailers and manufacturers.

Citing controversy over U.S. DTV standard, as well as software problems, Chinese TV maker Konka USA Ltd. said it would delay delivery of its line of HDTV sets. Exec. Vp Wendy Wu said sets probably would be available to consumers early next year.

SBCA SHOW FOCUSES ON DBS GROWTH: With controversy over must-carry legislation, future role of broadband technology, continued industry growth and shadow of NAB as backdrop, Satellite Bcstg. & Communications Assn. (SBCA) held convention here last week showcasing new DBS services. Gathering drew record 5,000 exhibitors and retailers.

SBCA Pres. Charles Hewitt told us "one of the things that is going to come out of this conference is the important role satellite Internet service is going to play in the future growth of the industry." He said that last year Teledesic and Spaceway were only satellite Internet companies at convention, while this year there were at least 8. Congress is under "false impression" that companies must be "subsidized" to provide Internet service to rural areas, Hewitt said, but "just the opposite is true. By the end of the year, rural areas will be served better than urban areas." He said satellite-vs.-cable battle was looming, with DBS providers taking "big leap forward" by going head-to-head with cable operators in urban areas.

Must-carry requirements that would force DBS companies to provide all local stations to public are "antiquated and wasteful," Hewitt said. He said govt. shouldn't subsidize companies that should be competing in open marketplace and consumers shouldn't be penalized by paying higher prices for services. He said influence of NAB on legislation was obvious. Last year, he said, NAB and NCTA Political Action Committee (PAC) contributed more than \$700,000 to politicians, compared with \$10,000 by SBCA. Contributions through PACs "do make a big difference," he said, and raising more money is area he would like SBCA to "improve" because its PACs have "long way to go" before becoming effective.

"Complex" nature of different services and technology has created need for improved customer service and in-home DBS installers to help consumers with problems, Hewitt said. "Installations are more complex now than they were 10 years ago. It's very important that consumers know how to use the equipment." He said SBCA would be looking to form alliances with companies such as FatPipe U, which aims to meet industry personnel demand by training satellite and cable installers.

Saying he had been thrust into "eye of a perfect storm" because of "impressive wave of new products that are going to sweep DBS consumers," DirecTV Pres. Odie Donald held first face-to-face meeting with press at convention since succeeding Eddy Hartenstein in April. "This is the most exciting and fun business I've ever been involved with," said Donald, former BellSouth executive. Hartenstein said Donald had made "good transition in steering DirecTV around the rocks and trolls of business" since taking helm of company that former built.

With company pushing toward 10 million subscribers on back of strong NFL promotional campaign and professional installations costing \$49 or less, Donald wants to ride tide of growing DBS popularity into record sales and growth by moving consumers away from cable. Company wants to keep monthly churn rate under 1.5% and cap subscriber acquisition costs at \$525, he said: "Our research shows there is a lot of passion for NFL football. I see a lot of daylight to run to by the end of the year."

Donald said cable companies were "loading up" for "Holy War" against DBS. He said major focus of DirecTV would be customer service. New Re-DirecTV campaign is aimed at "providing our customers with best possible experience," he said.

Donald said he also would be working with Ty Howard Foundation and SBCA to bring more diversity to business.

Free cable access to Internet will be offered by WorldGate for one year to 4th grade students in 11 schools in Conn., Ill., La. and Ohio in fall, House Telecom Subcommittee Chmn. Tauzin (R-La.) announced. Program, called WISH TV, will help bridge digital divide, he said. Other participants included FCC Chmn. Kennard and ranking Subcommittee Democrat Markey (Mass.). WISH TV will enable children to get Internet access over standard TV, using wireless keyboard and cable converter and cable connection (free for students). Motorola said it would donate 1,500 SURFview cable converter boxes to students. Scientific-Atlanta also will donate set-top boxes to 4 schools in Newtown, Conn., it said. WorldGate is considering offering WISH TV in China, India, Mexico and Singapore, Chmn. Hal Krisbergh said.

MPAA and RIAA filed suit in U.S. Dist. Court in Manhattan against Scour.com July 20, accusing Web site of theft of copyrighted movies and music and trafficking in stolen works. "This lawsuit is about stealing," MPAA Pres. Jack Valenti said. "It isn't a debate about the value of technology — we all know that it's valuable... What we can't allow to happen is for people to take this great new technology and use it to steal." Kevin Bain, counsel for MPAA and RIAA, said: "The issues are very similar to those in the Napster case." Scour offers video content that Valenti said was of good quality while Napster doesn't. "Scour is Napster with movies," he said. Scour complaint doesn't specify amount of damages RIAA and MPAA are seeking. (Details in Warren's *Washington Internet Daily*. For free trial subscription call 202-872-9202, ext. 203)

House Judiciary Committee Chmn. Hyde (R-Ill.) sent letter to FCC Chmn. Kennard requesting formal review of cable industry rate increases. Hyde, whose suburban Chicago constituents recently were hit with 9.5% increase in basic cable service rates by AT&T Broadband, urged FCC to undertake "study of the state of competition in the cable industry" and determine whether AT&T's increases were justified. In separate letter, Hyde asked AT&T to provide explanations for recent rate increases across nation, broken down by community. FCC spokeswoman said agency was reviewing Hyde's letter and "considering his request." NCTA spokesman said cable rate boosts now are averaging 5% around country and have been falling for 2 years. He also said MSOs have been hurt by "double-digit increases in programming and labor costs."

USTA Pres. Roy Neel renewed his year-old call for FCC to "open up a convergence docket" on competing services offered by phone companies, cable operators, DBS providers and wireless companies, in wake of recent ruling by 9th U.S. Appeals Court, San Francisco, that cable-delivered Internet access is telecom service. Speaking to reporters July 20, Neel urged Commission to go beyond its planned cable open access proceeding and "deal with convergence in a real and effective way." While expressing doubts that FCC would conduct such a broad-reaching docket, he argued that it should examine its widely differing regulatory regimes for phone companies and cable operators offering similar data and voice services.

Four more stations have begun DTV broadcasting, increasing total to 147 in 51 markets (63.76% of U.S. households), NAB said. New stations are KMSP Minneapolis, KWHY L.A., WFSB Hartford, WSPA Greenville, S.C.

BLOCKBUSTER, ENRON TRY Mod WITH TELCOS:

Blockbuster, Enron Broadband and several phone companies joined forces July 19 to offer movies over DSL lines directly to consumers. Enron and Blockbuster signed 20-year exclusive deal to provide movies-on-demand (MoD) service and teamed up with Qwest, SBC, Verizon and others to stream video entertainment over phone lines. Many details of venture remained sketchy, including cost, deployment, development of new set-top boxes. But telcos and Blockbuster, which has similar deal with DirecTV, said they saw movies-on-demand as key to promoting DSL.

Broadband Intelligence Pres. Cynthia Brumfield said service could pose major threat to pay-per-view (PPV) and video-on-demand (VoD) operations of cable operators and DBS providers. She said participating phone companies cover most major markets in U.S., so "this is a pretty substantial move on their part." But she said VDSL technology "has some way to go" before it can be rolled out across nation economically.

Enron-Blockbuster deal comes as cable operators start their own fledgling efforts to enter potentially lucrative VoD market. In latest move July 18, Time Warner Cable announced free 6-month trial with ReplayTV of personal video recorder (PVR) service for cable subscribers in L.A. suburbs, starting next month. As part of test, which sources said at start would involve hundreds of Time Warner subscribers in Chatsworth, Cal., customers will receive slightly modified ReplayTV set-top box that will control both their TV sets and cable set-tops. Spokesman for Replay, which is partly owned by Time Warner, other MSOs and cable set-top makers, said this was first of several planned trials with cable operators. ReplayTV also is believed to be developing integrated set-top box with cable equipment providers, as is rival TiVo.

In Enron-Blockbuster venture, companies envision servers holding 400-500 movie titles placed at hubs adjoining telephone networks across U.S. Movie signals would stream over phone lines at about 1.5 Mbps and be decoded by set-top boxes that would contain buffers for limited storage but not hard discs, they said. Single high-resolution movie contains 8 gigabits of data. Consumers would lease or purchase set-top box, and DSL line would be split between TV and computer. Cost of movies would be small premium over Blockbuster's current rental prices. "We believe the application is going to be the killer application" for DSL, Blockbuster New Media Pres. Mark Gilman said.

Companies acknowledged that 1.5 Mbps stream would eat up large portion of current DSL offerings. Analyst Gary Arlen said "the 1.5 Mbps is a challenge, but not an insurmountable challenge," because ILECs are working toward building 8-10 Mbps DSL service. Other obstacles, he said, include recouping costs for set-top boxes (key issue also for cable industry) and trying to market service nationally over DSL lines when technology is available in only some areas: "I think there are pieces of this that may work, but implementing this will be a challenge."

Enron, which will encode and manage entertainment streams over its global network, said venture was platform-neutral and companies would let cable operators and satellite providers carry their movies-on-demand service too. Blockbuster also will resell DSL service through its retail

chain. Each telco will hold technical trials of service in Nov., although no specific markets have been chosen, and commercial tests will follow. Verizon sees movie service as one of many that can be delivered over DSL lines, spokeswoman said. Other companies involved include Covad, ReFlex, Telus.

TIME WARNER TESTS OPEN ACCESS: Seeking to mollify regulatory concerns about their proposed merger, Time Warner (TW) and America Online (AOL) have started trial of several ISPs on cable broadband lines in Columbus, O., and plan to expand it. TW Cable spokesman said technical test began quietly several weeks ago and would be enlarged soon to encompass independent ISPs, presumably including EarthLink and Juno Online Services. Test with 100 users, first public trial of cable open access in nation by major MSO, already features Time Warner's Road Runner and AOL's CompuServe service.

Duration of free trial, which involves 50 TW Cable and 50 CompuServe employees in Columbus, hasn't been set. TW is using virtual router connected to its cable headend and DHCP server to send packets of data to appropriate ISP. Spokesman said MSO wouldn't test pricing models or content delivery or extend technical trial to other cable systems right now.

Speaking with analysts last week, TW CEO Gerald Levin said his company and AOL settled on open access "template" agreement that would give AOL and other ISPs access to TW cable lines. Companies also hope to use that template to gain access to other MSOs' cable lines. But Levin and other TW officials declined to provide details. TW spokesman said pricing arrangements would be worked out after his company signed carriage deals with other ISPs with which it already had begun discussions.

Levin also said TW started talks with its 3 other major partners in Road Runner — AT&T, Compaq and Microsoft — on restructuring high-speed cable ISP venture so TW could end its current exclusive deals with Road Runner sooner than Dec. 2001. With Dept. of Justice (DoJ) requiring AT&T to divest its stake in Road Runner because of its acquisition of MediaOne, TW plans to use that ownership switch in effort to force change in Road Runner contract, spokesman said. He said company hoped to complete restructuring and elimination of exclusivity clause by end of year.

Despite changes in Road Runner contract and continued speculation that it would be folded into AOL after merger, TW intends to keep Road Runner as separate high-speed data service, spokesman said. "We're very committed to Road Runner," he said. "Road Runner is a tremendously successful business. We expect it to continue to be." Spokeswoman for Road Runner, which just topped 900,000-subscriber mark, couldn't be reached for comment.

TW developments came as such other leading MSOs as AT&T Broadband and Charter Communications prepared to begin their own technical trials of multiple ISP carriage in fall. Analysts expect other MSOs to follow their model in coming months, albeit not quite as publicly. "The heat is really on AT&T and Time Warner because of their recent acquisitions," Broadband Intelligence Pres. Cynthia Brumfield said. But, she said, "I think every single cable operator is looking into it."

CISCO SIGNS COMCAST DEAL: Seeking to extend its reach in TV market, Cisco Systems announced separate deals to invest \$100 million in Liberate Technologies and provide Comcast with routers and other key equipment for IP telephony, video-on-demand (VoD), high-speed Internet access, other new broadband cable services. Cisco said deals reflect its desire to increase and formalize its presence as MSOs switch to open technical standards and expand into interactive TV and nonvideo services. "This is a little more far-reaching than UBRs [Universal Broadband Routers]," said John Mattson, acting marketing dir. for Cisco's cable business unit, referring to Comcast deal. Terms weren't disclosed.

Under binding 3-year agreement with Comcast, Cisco will be preferred supplier of UBR7200 series Universal Broadband Routers to MSO, allowing Comcast to provide fast cable-modem service to more cable subscribers and eventually offer high-speed access to multiple ISPs. Comcast has pledged to carry rival ISPs on its high-speed lines when its exclusive contract with its incumbent provider, Excite@Home, expires. Cisco already is working with Charter and other MSOs to allow open access.

Besides providing broadband routers to Comcast, Cisco will be MSO's primary supplier of dial-access servers, wide-area network (WAN) switches and core routing equipment. Comcast said that will allow it to develop such new cable services as IP telephony, streaming media, unified messaging, VoD.

Cisco also announced it would invest \$100 million in Liberate, one of leading developers of interactive TV software. Companies said they would integrate Cisco's technology into Liberate's client and server software and work together to deliver interactive services over IP-based networks both inside and outside cable industry, using open technical standards. Cisco will get nearly 3.9% stake in Liberate, making it 3rd largest backer of software developer behind Oracle and America Online.

Pace Micro Technology will provide BellSouth Entertainment with digital set-top boxes, marking phone company's entrance into satellite direct-to-home business. With first order for 200,000 set-top boxes over 12 months, BellSouth plans to offer its own video and data services over satellite throughout its 9-state, 14-million home market. With set-top boxes, it will offer broadcast video, e-mail, Internet services. Satellite boxes are expected to be delivered next year, with service beginning in top markets by April. BellSouth wouldn't disclose cost of boxes.

Definitive asset purchase agreement was signed between Motorola Broadband Communications Sector and Zenith Electronics, value not disclosed. Wireless phone company will procure Zenith's Network Systems Div. with plans to integrate it into its Satellite & Broadcast Network Systems business unit. Completion of acquisition is subject to customary closing conditions and regulatory approvals, expected in 3rd quarter.

BSkyB increased its stake in interactive TV service company Open to 80.1% from 32.5%, acquiring 20% of Open held by HSBC for \$336.15 million and 15% from Matsushita for \$252.49 million. BSkyB will pay additional \$112.5 million and \$83.66 million to HSBC and Matsushita, respectively, under undisclosed conditions. Rest of shares will come from BT, which has 32.5% stake that will be reduced to 19.9%.

Obituaries

Retired Sen. John O. Pastore (D-R.I.), 93, died July 15 of kidney failure at nursing home in N. Kingstown, R.I. He also had Parkinson's disease and dementia. He was first elected to 2-year Senate term in 1950. He retired from Senate in 1976, where for most of those 26 years he was chmn. of Communications Subcommittee of Commerce Committee. Pastore, who was in R.I. House and served 2 terms as gov., also was member of Senate Appropriations Committee (chmn. of subcommittee controlling FCC budget). He was one of first congressional critics of televised sex and violence and was instrumental in convincing National Football League to waive its local blackout of sold-out games. In 1946, Pastore authored book *The Story of Communications From Beacon Light to Telstar*. He received law degree in 1932 from Boston's Northeastern U. by attending night classes at Providence YMCA. "He was a classic, old-fashioned New Deal liberal," wrote his biographer Ruth Morgenthaler. Wife, son, 2 daughters survive.

Christie R. Basham, 68, news exec. at CBS, NBC and PBS in career spanning 40 years, died of brain cancer July 15 at her Washington home. Reporter for *Washington Star*, she switched to TV in 1957 as researcher for David Brinkley at NBC, where she remained for 19 years, becoming Washington news dir. She then spent 4 years at CBS News, first as producer of morning and evening news, then as northeast bureau mgr. based in N.Y. She also was exec. producer of news and public affairs at WETA Washington before returning to NBC in 1982. After retiring from NBC, Basham was consultant to several TV documentaries, including *Catch-22* on Learning Channel and *Ira's People* on Court TV.

Financials: **Time Warner** reported operating income fell to \$1.3 billion from \$2.01 billion in year-ago quarter because of one-time gains last year and heavy litigation expenses and tax charges this year. Cable networks division showed strongest growth, posting 15% increase in operating income to \$422 million in quarter. WB Network reduced loss to \$21 million from \$30 million loss year ago, and Time Warner Digital Media had \$55 million loss. Time Warner Cable unit, which showed 13% increase in normalized operating income to \$462 million, closed quarter with 889,000 digital cable and 573,000 high-speed data customers... **Tribune** broadcast operating profit jumped 34% in 2nd quarter ended June 30 to record \$142 million and revenue was up 20% to \$418 million. Biggest gain was 27% in TV, mainly because of improvements at WB affiliate stations. Parent company's net profit was \$37.8 million, down from \$880.7 million year ago when company showed \$1 billion gain on reclassification of investments... **United TV** profit increased 15% to record \$15.3 million in 2nd quarter and revenue to \$60 million from \$53.4 million... Strong sales of DirecTV service and equipment contributed to 39.6% increase in revenue for 2nd quarter ended June 30, **Hughes** said, along with increased sales by PanAmSat... **Cable ISP Excite@Home** ran up pro forma loss of \$45.3 million on \$157.6 million in revenue, compared with loss of \$4.6 million on \$100.4 million revenue year ago. Excite@Home reported much larger actual loss of \$668.3 million for period, due largely to \$625.8 million in goodwill amortization and other special charges... **Lee Enterprises** had \$20.2 million profit in 3rd quarter ended June 30, vs. \$19.4 million year ago. Revenue increased to \$109.9 million from \$105.2 million.

Personals

NBC promotions: **Sari Greenberg** and **Elizabeth Newell** to vp-corporate & transactions law... **Ed Wilson** resigns as pres.-COO, CBS Enterprises, effective Aug. 15... **Michael McCarthy** promoted to senior exec. vp, Belo... **Mark Hianik** advanced to vp-ass. gen. counsel & asst. secy., Tribune Co... Journal Bcast. Group: actions: **Sandra Graver** to vp-controller, TV; **Bill Lutzen** to vp-controller, radio... **Henry Price**, ex-WBBM-TV Chicago, named pres.-gen. mgr., WXII-TV Winston-Salem... **Lee Armstrong**, ex-WHIO-TV (Dayton), appointed gen. mgr., WSOC-TV Charlotte-WAXN-TV Kannapolis, N.C... **Mark Howarth**, ex-Bain & Co., named CEO, National Mobile TV.

AMFM Chicago station appointments: **Erik Hellum** regional sales vp-western region, to senior vp-sales; **Marv Dyson**, vp-gen. mgr., WGCI-FM/AM, to gen. mgr., WVAZ-FM; **Terry Hardin**, vp-gen. mgr., WLIT, to gen. mgr., WNUA-FM; **Carmen Lewis** to mkt. controller, Chicago Station Group; **Sharon Williams** to mkt. research dir.; **Kirby Kaden** to lead development of platform-based revenue streams, Clear Channel's Internet arm... **Marv Nyren**, vp-gen. mgr., KKFR-FM (Phoenix), appointed vp-gen. mgr., KKFR-FM & KKLT-FM Phoenix... **Deborah Stewart** promoted to vp-programming, digital networks & advanced TV, Discovery Networks... **Art Vomvas** advanced to dir.-financial planning, A&E Networks... Bravo Group promotions: **Meg Bernot-Rodriguez** to senior vp-managing partner, **Linda de Jesus** to senior vp-managing partner.

Rod Schrock, pres.-CEO, AltaVista, elected to Cox Communications board... **Lucy Spiegel** promoted to vp, CNN... **Allyson Davis**, ex-Fox Sports Net, joins L90 as vp-corporate mktg... **Robert Evanko**, ex-New Medium Communications, named regional vp-affiliate sales & mktg., Fox Cable Networks... **Mircho Davidov**, ex-Hughes Network Systems, becomes senior vp-engineering, Sirius Satellite Radio... **iSKY** appointments: **Erwin Hudson**, ex-Space Systems/Loral, as vp-space systems; **Barbara Brannen**, ex-Qwest Communications, vp-human resources; **David Bukovinsky**, ex-CableLabs, vp-program mgmt; **Tony Gonsalves**, ex-eOutlets.com, vp-consumer mktg.

Michael McDonnell, ex-PriceWaterhouseCoopers, named CFO, EchoStar... **David Weir**, ex-Salon.com, appointed vp-network programming, Excite@home... **Millennium Digital Media** appointments: **Ray Schulz**, ex-GLA International, as senior vp & chief technical officer; **David Harwood**, ex-AT&T Broadband, to vp-gen. mgr., central region... **Craig Frances**, ex-idealab, named COO, dotTV... **Alex Maghen**, ex-MTVi Group, appointed chief technology officer, Launch Media.

Road Runner said it added 182,000 customers in 2nd quarter, giving it total of 912,000. It said it now passes more than 17.4 million homes, mostly in Time Warner Cable and AT&T Broadband regions. Road Runner, which expects to hook up its one-millionth customer next month, said it plans to introduce its cable modem service in Green Bay, Wis., and Liberty, N.Y., in 3rd quarter.

Clear Channel Communications is paying Sunburst Media \$57 million for 13 radio stations — 6 in Abilene, Tex.; 5 in Springfield, Mo.; 2 in Bryan-College Station, Tex. Salomon Smith Barney was broker.



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Comcast opened hard-wired interconnect in Philadelphia, permitting advertisers to reach cable subscribers through single point of entry. Known as **Comcast MarketLink** Philadelphia, new hard interconnect can reach 2.2 million cable homes in broad swath of mid-Atlantic region stretching from N.J. shore to Harrisburg, Pa., and from Dover, Del., to Trenton, N.J. Comcast said cable interconnect, designed to be up and running in time for Republican National Convention in Philadelphia next weeks, will be 3rd largest in U.S., trailing only N.Y. Interconnect and Adlink in L.A.

Consumer Electronics

A Section of Television Digest with Consumer Electronics

STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending July 7 and year to date:

	JULY 1- JULY 7	1999 WEEK	% CHANGE	JUNE 24- JUNE 30	27 WEEKS 2000	27 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	237,462	270,080	- 12.1	946,534	13,792,966	12,434,603	+ 10.9
DIRECT-VIEW**	227,309	261,287	+ 13.0	912,219	13,188,878	11,955,102	+ 10.3
TV ONLY#....	192,471	225,577	- 14.7	760,497	10,931,156	10,089,132	+ 8.3
TV/VCR COMBO.	34,838	35,710	- 2.4	151,722	2,257,722*	1,865,970	+ 21.0
PROJECTION...	10,153	8,793	+ 15.5	34,315*	604,088*	479,501	+ 26.0
TOTAL VCR**....	267,379	273,236	- 2.1	887,390*	12,638,121*	11,637,958	+ 8.6
HOME DECKS...	232,541	237,526	- 2.1	735,668	10,380,399*	9,771,988	+ 6.2
CAMCORDERS.....	61,474	65,321	- 5.9	188,384	2,675,415*	2,214,507	+ 20.8
DVD PLAYERS....	45,592*	42,154	+ 8.2	295,715*	2,746,531*	1,328,634	+106.7

Direct-view TV 5-week moving average#: 2000-458,821; 1999-400,325 (up 14.6%).

Projection TV 5-week moving average: 2000-19,479*; 1999-16,859 (up 15.5%).

VCR deck 5-week moving average: 2000-361,819; 1999-430,585 (down 16.1%).

TV/VCR 5-week moving average: 2000-79,353*; 1999-76,633 (up 3.5%).

Camcorder 5-week moving average: 2000-112,989; 1999-80,426 (up 40.5%).

DVD player 5-week moving average: 2000-112,971*; 1999-69,064 (up 63.6%).

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

SATELLITE BROADBAND STRATEGY DOMINATES SBCA: Video-centric satellite industry is moving quickly to embrace 2-way broadband delivery of data, interactive and multimedia programming in effort to emerge as viable competitor to cable modem and digital subscriber line technologies, company executives said at Satellite Bcstg. & Communications Assn. (SBCA) show in Las Vegas last week. Meanwhile, HDTV, which had high profile at SBCA year ago, had low-key presence as lack of programming continued to hamper expansion of technology (see related story this issue).

Leading charge in effort to diversify programming are industry titans DirecTV and EchoStar, with latter's CEO Charles Ergen predicting that data could surpass video as "major revenue play" within 4-5 years. Tellus Ventures Pres. Stephen Blum said: "It's all about data, interactive and multimedia, and TV has become just a baseline service that's a given. Once you get to 500 channels, where do you go to from there? You're starting to see the answers in the half-dozen or so guys that want to provide other services."

Indeed, most services remain in nascent stage. Gilat-to-Home (GTH) is promising to deliver Internet access to EchoStar customers starting in fall, but still is working out number of subscribers that can be served by single transponder, EchoStar Senior Vp Mark Jackson said. Gilat is expected to lease 8-10 transponders aboard GE Americom medium-power satellite at 101° W and have demonstrations available through 3,000 RadioShack stores in Aug., combining add-on cards with Compaq PCs. Nearly 1,000 EchoStar retailers that are participating in beta test for service will be stocked with Dell Pentium III 500 MHz PCs that will be sold to consumers at \$599 with 2-year commitment to buy Gilat service that will cost \$69 per month. PCs will be packaged with 2 add-on cards for Gilat service at start, with external modem to be added in early 2001, company said. Program also will carry \$400 chargeback for retailers if consumers break contract, Gilat said. Strategy is change from original plan of selling \$200-\$300 add-on cards (TVD May 29 p18). Gilat, along with investor Microsoft, will heavily subsidize hardware, which is said to carry \$1,000 production cost, industry sources said.

Hughes Network Systems (HNS) is readying 2-way DirecPC high-speed service that will ship in 4th quarter both as standalone and in bundle with DirecTV. Pricing hasn't been set, but will be "competitive" with DSL and cable, company said. HNS's one-way DirecPC service has been available for desktop PCs for 4 years, but has attracted just 140,000 subscribers worldwide, 60,000 of them in U.S., company said. "We've learned a lot and DirecPC, as it was originally conceived, may have been a little bit ahead of its time," DirecPC National Account Mktg. Dir. Samuel Baumel said.

Carrying DirecPC banner will be Pegasus Communications, which will begin one-way service in fall but will move to 2-way by early 2001, CEO Marshall Pagon said. In choosing DirecPC, Pegasus, which is DirecTV distributor in rural markets, is bypassing product that will ship in fall under Philips brand that combines America Online's AOLTV with DirecTV (\$399). Both DirecPC and GTH are expected to deliver downloads at 400-500 kbps, with return at 256 kbps. Download speed could slip to 150-200 kbps in peak usage periods. Cable typically operates in 600-700 kbps range, DSL in 400-500 kbps.

"The concept of building a browser component that lights up to a Pegasus service as opposed to AOL is a natural for us and provides more revenue from the consumer," Pegasus Development Corp Vp Christopher Walczak said. Pegasus Broadband Powered by DirecPC service will offer one-way "PC-centric" service at start with 56 kbps dial-up return path, but will move to 2-way in 2001, Pagon said. Ziplink will provide dial-up access for Pegasus. But "TV-centric" version offering e-mail, chat and interactive games also will be available using same HNS-built IRD containing 300 Mips processor and 32 MB memory.

Further in future, promising maximum downstream speeds of 1.5 Mbps, is proposed iSky Ka-band satellite service expected to launch for EchoStar's Digital Sky Highway (DISH) in late 2001. It will operate from Space Systems Loral-built satellite at 109.2° W containing 41 spot beams each providing 300-mile coverage in U.S. and Canada, iSky Business Development & Mktg. Vp Bradley Greenwald said. Second satellite, Telesat Anik-2, will fly in late 2002 to 111.1° W slot to add coverage for Latin America, he said. Birds, which will launch from Arianspace facility in Kourou, will have combined capacity for 2 million subscribers, Greenwald said. iSky will develop standalone set-top box, but will outsource production and expects to sign branding agreement with CE manufacturer in 3-4 months, Greenwald said. Goal is to have hardware priced at \$199, with service sold in packages with \$29-\$39 monthly charge for 500 kbps and 1.5 Mbps respectively, he said. iSky completed 2nd round of funding last week in raising \$137 million, including \$50 million from EchoStar.

Despite iSky and GTH being developed for EchoStar platform, executives of companies said services would be able to co-exist. While iSky will own operate own satellites, GTH plans to lease transponder space and doesn't rule out seeking deal with iSky, Sales & Mktg. Vp David Shiff said.

Emerging satellite-based Internet access and data services will target rural areas that industry sees as regions un-tapped by DSL and cable modems that will allow providers to work kinks out of technology before they enter more competitive markets. About 30% of U.S. households are in rural markets, where 55% are DBS subscribers, Pagon said. "Where we will be is in vast stretches of the American landscape that have no broadband services," Shiff said. "At the end of the day we will be a few dollars more than a cable modem so we don't want to go head-to-head with those guys. We're going to leverage our technologies (multicast and streamcasts) over the long term to do some things you can't do with cable."

Almost lost in shuffle were America Online's AOLTV and Microsoft WebTV's UltimateTV services that are girding for showdown in fall. Philips, which is building AOLTV/DirecTV combo product, remains lone brand, while Sony joined Thomson in supporting WebTV UltimateTV/DirecTV platform. Latter product will contain 40 GB hard drive with capacity for 35 hours of digital video and 250 Mips processor. Thomson is pricing device at \$399, \$449 with satellite dish. Sony will sell combo product at \$450 with keyboard. Both units have 2 tuners and 2 USB ports that are capable of being upgraded via software to offer DSL, Microsoft said. Yet while Thomson and Sony spoke of adding DSL and/or cable technologies in addition to satellite-based broadband services, neither has plans for AOLTV. David Spomer, Thomson vp-digital decoder product management, said: "There is no exclusivity arrangement with any one of our companies, but at the end of the day we are working on a lot of stuff so with that in mind we're trying to narrow our focus to make sure we do what we say we're going to do."

Also grabbing share of interactive spotlight was Wink Communications, whose enhanced broadcast technology has been added to DirecTV IRDs that will be sold in fall by Philips, Samsung and Sony (\$200-\$300) in addition to Thomson. Products have 512K of flash memory for Wink. Thomson is projected to build 2 million Wink-enabled IRDs by end of year, significant expansion for technology that currently has installed base of 750,000 in cable set-top boxes. Thomson boxes will be activated via software download in 3rd quarter from DirecTV satellite at 101° W. Wink, which is said to

have revenue-sharing agreement with Sony, among others, currently delivers 2,500 hours per week of enhanced programming. It plans to have content from 20-30 programmers for DirecTV service, Wink CE Business Development Vp Reed Spiegel said. Thomson has built Wink into 5 IRDs with retail prices of \$99-\$249. DirecTV deals represent CE revival for Wink, which originally installed service via module in step-up direct-view sets from Toshiba, but met limited success.

SONY CREATES U.S. E-COMMERCE DIVISION: Sony Electronics formed e-commerce business division in what company said was its first step to becoming major Web player in broadband era.

Initial focus of subsidiary, which spokesman told us last week had yet to be given official name, is on opening of new SonyStyle.com Web site for U.S. market that contains mix of interactive content, e-commerce capabilities and services. News drew mixed reaction from Sony's retail base.

Although Sony had planned "soft launch" of beta version of Web site without fanfare for July 17, minor technical problems delayed debut "until sometime the week of the 24th [of July]," spokesman told us. Company said it planned "hard launch," backed by ad campaign, in fall, but didn't name month it was targeting. Web site will be accessible to consumers directly at www.sonystyle.com or through Sony Electronics' home page, www.sel.sony.com.

Sony started similar SonyStyle.com Web sites in Hong Kong and Japan earlier this year. Although it has been selling select Sony products online direct to consumers in U.S. via Sony Direct, product mix up to now has been limited mostly to its Vaio PCs and computer peripherals. SonyStyle.com will represent first time that manufacturer will be selling its core CE products direct to consumers in U.S.

Company said about 600 Sony products would be available for sale immediately during beta phase. But Robert Ashcroft, pres. of Sony's new e-commerce division, told reporters in news conference that company intends to increase that number to its full 2,000 or so products "over time." Company said nearly all of its consumer A/V and PC products eventually would be made available for sale at site. Ashcroft said: "The rate at which we'll do that will be a business decision based on the amount of our ability to forecast our ability to get the warehousing and the delivery right." He declined to say what products would be available at site at start and which wouldn't, although he said music downloads would be included at start through Sony's Musicclub, with pricing of downloads not yet decided.

Company also plans to introduce Sony-branded Internet service provider (ISP) service. Ashcroft said: "We would expect that to be available by the hard launch." Although it will "be a Sony-branded ISP," he said, "we're not going into the network business," so company will have ISP partner in that arena. Who that partner will be hadn't been announced by our deadline and Ashcroft said Sony also had yet to decide on name for ISP. He said consumers wouldn't have to sign up for Sony ISP in order to access Web site, with company seeking only to make sure that customer who buys Sony product has method of connecting to SonyStyle.com if that individual doesn't already have ISP.

Sony also intends portal for complementary services later this year, Ashcroft said. He said that although e-commerce would be major function of site, company was using SonyStyle.com as "platform for connected devices" and online destination where consumers could go for information about all of Sony's content and products. Growing digital world has created more need for Sony to have direct relationship with its customers, he said. Although site was designed to help Sony become major broadband player, Ashcroft also said company sees need to balance broadband functionality with narrowband because "broadband isn't here today" for most consumers. He said: "The reality is that it's a narrowband world out there with a lot of broadband potential." He said most Internet users today have 56K connection or less.

SonyStyle.com isn't first manufacturer's Web site created to sell CE products direct to consumers in U.S.: Thomson opened revamped RCA.com Web site last year with e-commerce features (TVD Oct 18 p11). When that site was announced, Thomson Senior Vp Michael O'Hara said company still thought "significant portion of [its overall] sales are going to continue to happen at retail. We think that many consumers that want to learn about HDTV or digital television... are going to first research the sale and the technology on the site and then they're going to go to their local Best Buy, Circuit City or RadioShack store and actually end up doing the purchase there." Thomson's announcement still angered some retailers — most prominently Circuit City, which complained it hadn't been informed about RCA.com before official announcement.

Ashcroft's take on what percentage of visitors to his company's site actually would be buying from it compared with how many would be using it only for information was markedly different from O'Hara's. Ashcroft said: "I don't know. We'll be delighted either way."

Sony does, however, face "some challenges" with its plan, Ashcroft admitted. For one thing, he said Sony wanted to avoid "channel conflict" with dealers: "We value [dealers] highly and we wanted to find and we strenuously sought to find in the concept of the site a win-win" situation. "We are hopeful that they will see it the way we do and that it's a definite win-win."

Executive of regional specialty CE dealer that carries Sony products told us last week that SonyStyle.com start "doesn't worry me one bit" in and of itself. "My only concern about this site," he said, is that other manufacturers may look at SonyStyle.com and decide to do same thing, especially if most dealers don't complain too loudly. He said Sony was one of few manufacturers — Bose perhaps being another — that could do something like this. "Sony is a very unusual brand and they have a very unusual position in the market," he said. He believes most of "their distribution is going to live with it." Dealer said he didn't see SonyStyle.com as competition for his company. For one thing, he said, "they will never violate their own advertised pricing" policy.

But executive of another Sony dealer said news of SonyStyle.com was "certainly disappointing" and manufacturer's Web site "certainly represents competition" — especially for his company's e-commerce business. He said: "Every storefront selling Sony products is a competitor," whether it's online or off, including Sony's own brick-and-mortar stores. Best Buy and Circuit City declined comment.

Sony will be competing with dealers not only on products, but on warranties and other services as well, which SonyStyle.com also will be offering. Ashcroft said Web site would have dealer locator with list of authorized online Sony Web dealers, which already had been included through Sony Direct. Company said Sony.com would remain in place as corporate information destination, as would other associated Sony sites. But Ashcroft said: "What we do need to do in light of this launch is rationalize some of the navigation." For instance, he said some of products that up to now have been sold via Sony Direct "will be transferred" to SonyStyle.com. SonyStyle.com also will offer links to other Sony-affiliated sites.

Creation of Web site is certainly major undertaking for company, but Sony didn't reveal expected cost of SonyStyle.com investment.

Despite fact that timing of SonyStyle.com rollout is roughly same as one for U.S. start of Sony's PlayStation2 (PS2) next-generation videogame console, Ashcroft said "there are many happy coincidences." Although he suggested that PS2 would play little role at SonyStyle.com, he said there would be link at site to PlayStation.com. Sony Computer Entertainment said last year that it planned to use PS2 as platform for Internet-based electronic distribution of digital content via broadband networking in 2001 (TVD Sept 20 p14).

EchoStar and DirecTV continue to expand delivery of local-into-local programming via satellite, but may be nearing end of first phase. DirecTV, which has service in 27 markets, plans to expand that to 36 by Oct., when it will halt growth pending start of spot beam satellite in late 2001, Hughes Senior Exec. Vp Eddy Hartenstein said. Spot beam bird will allow DirecTV to deliver local channels to "four dozen more" markets, he said. EchoStar, meanwhile, has local service in 30 markets after reaching agreement with Chris-Craft in 2 regions. Still missing are Landmark's local news channel in Nashville and Weather Channel, Chmn. Charles Ergen said. Both companies sharply criticized must-carry rule for satellite proposed to take effect in 2002. Companies are proposing "most-carry" option to avoid carrying "duplicative" channels, Hartenstein said. "A satellite provider's obligation to carry duplicative stations must be limited and we must be able to use compression and other technologies to meet the carriage requirements," he said.

Konka USA, citing software problems and what it said were technical standard concerns by FCC, postponed delivery of 30W and 34W HDTVs until 2001. Konka's sets, featuring flat-faced tube, side-mounted speakers, 40 w internal amplifier and Dolby Digital surround, had been expected to be priced in \$3,000 range. Konka decision follows similar move by Sony earlier this year to postpone delivery of integrated sets until copyright protection issues were resolved. "We're trying very hard to make sure our HDTVs are up to the standard required by the FCC," Exec. Vp Wendy Wu said.

Microsoft posted jumps in income and revenue for year and 4th quarter last week. Company said revenues were \$23 billion for year, up from \$19.7 billion year ago, and profit was \$9.4 billion, up from \$7.8 billion. For 4th quarter ended June 30, Microsoft reported revenue of \$5.8 billion — slight increase over \$5.76 billion year earlier, while income was \$2.4 billion, compared with \$2.2 billion. Microsoft CFO John Connors said biggest factors helping performance were sales in Asia region, which he said "rebounded nicely," and consumer business, which he said "experienced a significant increase in revenue." Connors said that "although we remain guarded in the near term about business PC growth rates," Microsoft was confident its new products provided "tremendous opportunity." Despite gains, company's shares dropped more than 6% to \$73.50, its lowest level in month, after it released results.

June was biggest sales month to date for DTV sets, with 26,750 sold to dealers in month, CEA reported. As result, total set sales for 2000's first 6 months were 129,438 vs. 121,226 in all of 1999. In addition, 17,671 DTV set-tops were sold to dealers in 2000's first half, CEA said.

THIS WEEK'S YEN RATE

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

SATELLITE HD FACES DELAYS: Hughes Network Systems again postponed delivery of DirecTV/high-definition TV IRD for Toshiba and Mitsubishi to Sept. as satellite industry struggles with dearth of HD programming.

Toshiba and Mitsubishi, which had expected combo product by midyear, were dealt another setback as HNS refined advanced program guide, sources said. Device also had been delayed as companies sought assurances that 8-VSB tuner was "robust enough to handle HD signals in all parts of the country," source said.

HNS National Accounts Mktg. Mgr. Samuel Baumel declined to detail reasons for delay or identify OEM customers, but said that "whenever you're dealing with a high-tech product you're dealing with a lot of elements." While delays weren't "appreciated" they were "part of the landscape and the bottom line is [that] we will be out with our product in plenty of time for 4th-quarter sales," he said.

Postponement keeps Thomson as only supplier to have DirecTV/HD product on market, at \$649. RCA combo sales have been slow and device has "settled in" at high-end of DirecTV line, said David Spomer, vp-digital decoder product development. Thomson has shipped VGA/HDTV component video adapter (\$129) designed to make RCA HD set-top boxes (STBs) compatible with competitors' sets. Previously IRD/HD decoder could be used only with Thomson TVs. Meanwhile, Sony introduced HD-capable STB that will be delivered in Nov. at \$700. SAT-HD100 DirecTV Plus receiver has output select button that allows user to toggle and select 480i composite, 480i and 1080i component and 1080i VGA. Sony earlier this year postponed delivery of integrated HD decoders, but indicated it would show interim products.

EchoStar responded to competition with \$499 decoder HD/Digital Sky Highway (DISH) IRD. It's EchoStar's first integrated HD product and follows adapter it introduced year ago at \$349. It also comes as EchoStar seeks to expand HD programming lineup that currently includes Showtime and HBO beamed from satellite at 61.5° W. Likely programming addition will be pay-per-view in fall, Senior Satellite Services Vp Mark Jackson said. EchoStar plans to keep HD programming at 61.5° W, but will move it to 119° W if demand increases.

"We're excited about HDTV, but it's going a lot slower than anyone anticipated," EchoStar Chmn. Charles Ergen said. "It's really been a lack of programming."

To that end, Showtime and HBO remain only satellite programmers to deliver HD, although Discovery Channel is seen as next likely candidate. HBO transmits about 60% of monthly lineup or 90 titles in HD, with rest upconverted, Mktg. Mgr. Frank Robinson said. It will achieve goal of 70-80% of lineup in HD by year-end (TVD July 26 p7), he said. HBO HD content is beamed from 119° W for DirecTV and is packaged as part of Total Choice Premium (\$89.99 per month) and Total Choice Silver packages (\$47.99-\$72.99) (TVD July 26 p7). HBO added Dolby Digital 5.1 multichannel audio July 1.

Showtime provides 30% of prime-time programming in HD with another 43% upconverted, DBS Account Vp Taylor Adams said. Showtime supplies HD programming for EchoStar as part of 10-channel Showtime Unlimited package (\$10.99 per month) and for Motorola's 4DTV C-band service. It's still negotiating with DirecTV on HD programming package.

"We're committed to it [HD], but it's a very expensive process and we're still waiting for the industry to determine which way it wants to go," Robinson said.

Rent-Way 3rd-quarter earnings rose to \$11.5 million from \$8.1 million year earlier and sales jumped to \$152.1 million from \$121.9 million year earlier as rent-to-own chain started rollout of Gateway PC program. Same-store sales increased 4.8% overall, including 7.1% at core RW outlets and 2.8% at Home Choice, chain it acquired in 1998. RW had rented 12,500 Gateway Astro PCs for average of \$22 per week in first 40 days ended July 19, CEO William Morgenstern said. RW sold 1,050 Gateway PCs in quarter, although revenues were "heavily weighted" toward 250, he said. Number of Gateway PCs on rent varied from 50-60 for stores that received models first to 5-10 for latecomers. Gateway kiosks have been installed in 600-700 outlets on way to 850 by formal start in Sept., Morgenstern said. While chain had anticipated 50% return rate on Dell and Compaq PCs that were on rent when Gateway was introduced, figure so far has been 30%, he said. RW is renting Gateway PCs bundled with gateway.net Internet access in \$19.99 and \$24.95 per week bundles with 15-month contract. Goal is to have 100 Gateway machines on rent per store by mid-2001, Morgenstern said. Gateway cost was half-cent per share in quarter, but will increase to 6-10¢ by fall when multimedia ad campaign, partly funded by manufacturer co-op money, begins. RW's 70%-owned dPi Teleconnect prepaid phone business lost \$200,000 in quarter on \$4 million in revenue. About 1,200 agents, including 610-620 RW stores, are selling service, company said. Target is 820 RW outlets by late Aug.

Corning, crediting strong demand for its optical fiber and flat-panel display glass, said 2nd-quarter income rose 14% on 58% increase in sales (see financial table). Excluding charges and costs associated with acquisitions, Corning income hit \$271.1 million vs. \$136.5 million year ago. Gross margin increased to 42% from 38.4%. Sales of telecom products, including optical fiber and components, climbed 80% to \$2.1 billion as income more than doubled to \$282 million from \$135 million. Information display glass revenues were up 30% overall to \$403.5 million from \$311.7 million, while income jumped to \$101.4 million from \$47.7 million. Display revenues were dragged down, in part, by TV CRT business, which was flat both in revenues and income and includes joint ventures with Asahi Glass and Samsung, CFO James Flaws told analysts. "This should improve this year and we will see the positive impact of flat glass," Flaws said. U.S. Precision Lens subsidiary, which supplies lens for projection TVs, posted 50% gain in revenues and "more than that" in income, Flaws said. Revenue of Samsung Corning Precision Glass, which supplies LCD glass, gained 70%, Flaws said.

Video Display Corp., blaming sharp declines in sales of data display and commercial monitors, reported first-quarter income dropped to \$240,000 from \$345,000 year earlier as sales slipped to \$16.6 million from \$17.5 million. Gross profit declined to \$5.1 million from \$5.6 million. Quarter included \$1.3 million in sales from recently acquired Lexel Imaging Systems. Sales of Video Display's CRT and components group dropped 5.2% to \$12.6 million from \$12.8 million, while wholesale electronic parts plunged 15% to \$3.9 million. Gross margin for CRTs rose to 31.2% from 29.2% year earlier, while electronic parts fell to 30.7% from 39.1%. In CRT business, sales of data displays fell \$1.5 million, followed by drops of \$978,000 and \$621,000 in commercial monitors and entertainment products, respectively. Latter includes reconditioned TV tubes. Component sales gained \$208,000.

SONY MODIFIES PS2 PREORDER PLAN: After outcry among its dealers, Sony has modified its controversial preorder plan for PlayStation2 (PS2) launch in U.K., we learned last week.

Sony Computer Entertainment (SCE) U.K. spokesman told us company "modified our scheme to kind of counter some of the issues" raised by retailers.

As we reported (TVD July 3 p15), SCE — in dramatic change in its philosophy — had announced it would roll PS2 out in U.K. exclusively via consumer preorder-only plan in conjunction with dealers. That would mean each store would only get exact number of videogame consoles that consumers at that particular store had preordered. Dealers quickly started complaining that plan was flawed on various levels — especially among Sony's independent dealers, who expressed feeling that manufacturer was trying to push them out of way in favor of bigger accounts (TVD July 10 p14).

SCE U.K. spokesman said last week company still believes its initial preorder plan represented fairest way to make sure that no retailer was favored over another and found it ironic that independent dealers were among most vocal critics. "We were surprised they were as vocal about complaining" as they were, he said, but added that some of Sony's larger accounts had expressed concerns as well.

He called new plan "hybrid" combining elements of preorder proposal and traditional method of distribution. Although consumers will still be able to preorder PS2, he said allocation of consoles will probably be closer to SCE's traditional distribution method — which means larger accounts will likely be able to get more PS2s than their smaller competitors, he said.

Only real change in SCE's plan that stands to impact consumers, spokesman said, is that kickoff of preorder campaign has been moved from Aug. 14 to Sept. 7. Company decided to make that change because at least some retailers were concerned "about the amount of time they had" to prepare for PS2 launch. It was unclear at our Fri. deadline what retailer reaction was to amended plan.

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Knowyourstuff.com is name of new Web-based service designed to provide CE manufacturer Internet-based product training lessons to retailers. Company based in Morristown, N.J., which has signed up Future Shop and is negotiating with Sears Canada, will set up individual retail sites linked to its home page that will contain individual 15-30-min. training lessons written for store-level personnel, Exec. CE Vp Daniel McGowan said. Manufacturers will design product training program and transfer it to retail sites tied to knowyourstuff.com home page, latter charging fee of \$500 per lesson. Internet company is in early stages of discussions with CE manufacturers and has yet to sign agreement, said McGowan, who started at knowyourstuff.com earlier this month. Year-old company operates similar service for sporting goods industry.

Jaws has become 6th DVD title distributed by Universal Studios Home Video (USHV) to ship more than million copies, studio said. Other USHV-distributed titles to reach that milestone are *The Mummy*, *American Pie*, *End of Days*, *Galaxy Quest*, *Saving Private Ryan*. USHV said no other studio has 6 titles shipped in excess of million copies.

TOWER LEASES GOOD GUYS SPACE: Good Guys will test leasing 3,000 sq. ft. within its Las Vegas stores to Tower Records for sale of CD and DVD software as part of continued effort to revamp retail format.

Tower 2 format will debut at two 30,000-sq.-ft. GG stores in Las Vegas in Aug. with goal of expanding concept 25% in each quarter starting in early 2001, GG spokeswoman said. Rollout to 79 GG stores could be completed in 12-18 months, she said.

New software section, which will occupy former site of personal electronics and home office products, will have 5-member Tower staff and operate independently of GG store with own checkout area. Software dept. will have 18,000 CDs and 5,000 video titles including DVDs and prerecorded video cassettes, Tower spokeswoman said.

GG will receive annual lease payment, although long-term impact on earnings wasn't clear. GG has been seeking software partner since last fall and will consider lease arrangement for other "complementary" categories such as PCs and related products, spokeswoman said. About 200,000 sq. ft. of space will be available for lease in GG stores in Cal., Nev., Ore., Wash.

New Tower format is expansion of chain's tight relationship with GG. It started 60,000-sq.-ft. Wow concept with GG as joint venture in Las Vegas in 1994 and since has opened 5 stores. Chains will continue to operate Wow format, but don't plan to expand it, GG spokeswoman said. Tower also has several stores near GG outlets and its founder Russell Solomon is member of CE retailer's board.

Tower CEO Michael Solomon said agreement with GG was "ideal opportunity" to expand "our reach and revenue base without assuming the additional expense and overhead associated with opening a new, independent location." Tower has 183 company-owned stores and 61 franchised outlets in 7 countries.

GG has undergone major restructuring since founder Ronald Unkefer returned as CEO last July. It jettisoned home office products including money-losing PCs and disbanded personal electronics dept. In attempt to boost margins, GG has added upscale brands including Loewes and Nakamichi TVs.

It also introduced plans for partly owned goodguys.com online business that has been postponed from 2nd quarter to "in time for the Christmas season," spokeswoman said. It has begun staffing process for Portland, Ore.-based business, but has yet to hire CEO. Chief Information Officer Marcus Nucci is interim CEO.

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Tweeter Home Entertainment reported 3rd-quarter profit soared 115.2% to \$2.09 million from year-earlier \$969,000 as sales jumped 59.7% to \$95.26 million from \$59.65 million. Same-store sales rose 20.5%, excluding results at recently acquired Dow Stereo/Video and United Audio Centers chains. Pres.-CEO Jeffrey Stone said Tweeter had strong sales in quarter "of all things digital, and we believe this will continue in the months ahead as we look to the holiday selling season." He said substantial quarterly improvement from year earlier was result of "strong top-line performance," continued margin strength "and good leverage of our expenses."

CIRCUIT CITY TO CARRY MACS: Circuit City (CC) once again will be carrying select Apple computers starting next month, companies announced last week at Macworld Expo in N.Y.C.

Agreement will boost national retail presence of Apple, whose products currently aren't being carried by CC or Best Buy.

CC spokesman told us last week that chain left Apple business in early 1998 because "at the time, we had limited retail space available" and Apple computers represented "very small part of our sales." But he said there now is "additional space in our stores," in part because of exit of Packard Bell from CC's product mix.

But at least for now, only iMac and iBook computers will be carried by CC. Chain has no current plan to carry Apple's new Power Mac G4s and hadn't made decision on new G4 Cube as of last week, spokesman said. He said he expected stores "should be fully stocked" with iMacs "well before Labor Day."

Companies said CC stores also will spotlight Apple's complete desktop video solution. Stores will display DV camcorders connected to Apple's new iMac DV computers that are installed with company's iMovie software. CC also will highlight Apple's AirPort wireless networking system for cable-free Web access.

News of Apple's returning to CC was one of 3 main factors that Sanford Bernstein (SB) analysts said led them to boost CC earnings estimates to \$1.99 per share from \$1.95 for this year and to \$2.35 from \$2.30 for 2001. SB also said it based its improved forecasts on recent store visits and discussion with CC management. In report issued last week, SB said 3 factors taken together "provide evidence that new CEO Alan McCollough is committed to increase shareholder value and he sees improving the sales productivity and profitability of the Circuit City stores as the best way to do that." SB said it expected CC "to improve its profitability at a strong double-digit rate this year."

Best Buy spokeswoman told us last week that retail chain dropped Apple computers from its product mix because her company "could not come up with a profitable" system of carrying "the multiple colors" that Apple had been requiring it to keep in stock. Although she said Best Buy and Apple "continued to discuss options," no agreement has been reached and "for now, we are not carrying" Apple's computers.

Microsoft launched Windows Media Technologies 7 (WMT7) open platform for broadband Internet delivery of digital media last week. Microsoft said WMT7 provides near-VHS quality video at 400 Kbps and near-DVD quality video at 700 Kbps, along with CD-quality audio and secure content distribution functions. Platform includes latest version of its customizable player for consumers, Windows Media Player 7, which helps Web users organize and play downloaded or streamed digital media. Availability of latest player coincided with start of EMI download program making more than 100 full-length albums and singles available for sale to consumers in Windows Media format (see separate report, this issue).

THOMSON MAKES XBOX DEAL: Thomson Multimedia will provide Microsoft with optical disc drive technology and key components for upcoming Xbox videogame console, French multimedia company said last week.

As part of deal, Thomson will provide Microsoft with DVD-ROM drives and MPEG 2 video compression technology for console, which is to ship in fall 2001. Thomson said 4-year agreement would "result in millions of DVD-ROM drive sales over the life of the project."

Thomson Multimedia Chmn. Thierry Breton said: "This agreement further extends our strategic relationships with Microsoft and will allow us to maximize our extensive experience in technology development and the manufacture of leading-edge interactive video products."

To fulfill agreement, Thomson said it would "leverage the experience of its various operating divisions including Displays & Components and Multimedia Products."

When Thomson announced it was endorsing Xbox platform, it didn't specifically define its role in bringing platform to consumers (TVD March 13 p11). Thomson spokesman at time told us company was "endorsing the Xbox platform and we think there are some new development opportunities for us." Endorsement of Xbox platform, he said, didn't necessarily mean Thomson would play role in manufacture of console itself.

Pace Micro Technology signed agreement to supply set-top boxes (STB) for BellSouth's proposed 70-channel regional satellite system scheduled for mid-2001. Contract is to supply 200,000 IRDs in first 12 months. Pace expects to have prototype available within 6 months, with production to start in U.K. and gradually shift to contract manufacturer Flextronics in Mexico, New Business Development Vp Neil Jones said. STB will have 170 Mips processor, 8 MB SDRAM, 4 MB flash, he said. Pace had been secondary supplier for MMDS Americast system that BellSouth is likely to phase out in Atlanta, Birmingham, Miami, Nashville, New Orleans, Orlando. BellSouth is expected to focus on packaging telephone with satellite services through direct sales, but hasn't formally unveiled marketing plans. It also may sell service through BellSouth Mobility stores, sources said. While BellSouth didn't attend Satellite Bctg. & Communications Assn. (SBCA) show in Las Vegas last week, its presence was felt. Odie Donald, DirecTV pres. and former BellSouth executive, said he had "grave concerns" about strategy and said RBOC would be "better off following the lead of the other RBOCs with respect to DirecTV." Bell Atlantic and SBC Communications sell DirecTV service in their regions.

DTV set owners are overwhelmingly happy with audio and picture quality of sets in their homes, said survey of 200 respondents conducted May 31-June 14 for National Consumers League. Sample was derived from list of 1,100 DTV set owners that League compiled from retailers and manufacturers and supplied to Opinion Research Corp., which conducted survey. It found that 3 of every 4 polled said they were "very satisfied" with set's video quality, while 89% gave similarly high marks to audio quality. However, League said more than half were dissatisfied with dearth of DTV programming and nearly 25% said they hoped DTV products soon would command lower prices.

MOTOROLA'S 4DTV TO SHIP: Motorola will ship new 4DTV receiver for C-band satellite market in Sept. at \$1,299 in first major move since acquiring product's developer General Instrument (GI). At same time, it confirmed that delivery of digital sidecar device (\$350) designed to hook to existing C-band receivers and convert analog signals to digital had been postponed to Jan. from Sept.

New digital/analog 4DTV receiver has increased processing speed and memory, which moves to single, 2 MB chip from two, 1 MB ICs in earlier model, Motorola Senior 4DTV Sales Rep Karl Crumpacker said. It also doubles favorite channel capacity to 4, he said. With arrival new IRD, price on existing 3-year-old model has been cut to \$849 from \$1,000 and is likely to be included in consumer buyback program in 2001, he said.

Delays in delivery of digital sidecar, originally set for shipment in mid-1999, is tied to need to finalize software, which is "95% there," source close to Motorola said. Sidecar will be beta tested in Oct.-Nov. and ship in Jan., company said. Device is key to digital transition of C-band market that currently has 1.45 million subscribers. Device is designed to attach to analog Videocipher IRD from GI, Uniden, Houston Trakker or any other C-band brand and convert analog Videocipher programming to Digicipher-2 digital.

"The biggest problem we had with the sidecar is we had to make it work with as many analog systems as were out there," Crumpacker said. "The hard part also was we had to bring this in at \$350." Sidecar and new IRD are being assembled at GI plant in S. Korea, he said.

In acquiring GI, Motorola inherited company that was dominant force in C-band market where it had near monopoly on modules needed for IRDs. Its grip on market loosened as DirecTV, EchoStar and others promising smaller dishes and lower prices emerged starting in mid-1990s. 4DTV service still requires 7.5-10' satellite dish. Motorola has kept GI's channel authorization center in San Diego in merging operations with its broadband communications business.

Although C-band market is dwindling, Motorola believes it can sustain business with 350,000-400,000 Digicipher subscribers, Crumpacker said. 4DTV has about 100,000 subscribers that receive 550-600 channels, including 300 digital from more than 30 C-band satellites, he said.

Motorola moved to further strengthen satellite business in signing agreement last week to buy Zenith's Network Systems Div., terms not disclosed. Network Systems, which has been on block since Zenith began reorganization year ago that resulted in its becoming LG Electronics subsidiary, numbers News Corp.'s Sky Latin America and Sky New Zealand among its major customers. It was lead supplier to MMDS-based Americast system, which is expected to shut down with BellSouth's decision to start regional satellite network.

Network Systems also supplied cable set-top boxes and was among first manufacturers when it was formed in 1979. It produced 10 million analog cable boxes before making switch to digital. Division employs 100, most of whom are expected to remain in Chicago area, and had sales of \$100 million in fiscal year ended March 31. As part of acquisition, Motorola also inherits contract manufacturing agreement with STMC, which bought Network Systems' plant in Mexico in 1999.

BERTELSMANN TO ACQUIRE CDNOW: Troubled online music dealer CDNow finally found major acquisition or investment partner it had been seeking for 1st 4 months. It said last week that Bertelsmann entered into definitive merger agreement under which German media giant would acquire CDNow in all-cash deal valued at \$117 million (\$3 per share).

As part of deal, CDNow will continue to operate under its same brand name once transaction closes, but it will become subsidiary of Bertelsmann e-Commerce Group (BeCG) formed earlier this year, companies said. BeCG said its objective was "to build the leading global community and commerce network across all technologies and platforms while providing an unmatched consumer experience around all forms of media and entertainment." CDNow will be BeCG's primary vehicle for music commerce across online, mobile and broadband platforms as well as for digital downloading and streaming, companies said.

CDNow also will work in conjunction with Bertelsmann's BMG Entertainment-Universal Music Group online music joint venture, GetMusic, to feature latter's content at CDNow Web site, www.cdnow.com.

Bertelsmann will make tender offer for all CDNow common stock for \$3 per share, then plans to finalize "2nd step merger" in which all CDNow shareholders will receive same cash price in tender offer, companies said. They expect deal to be completed in fall.

Commenting last week, CDNow Pres.-CEO Jason Olim said: "Our agreement with Bertelsmann represents a successful conclusion to our extensive search for a merger partner."

CDNow said its board unanimously approved deal. Olim and his brother, Matthew — CDNow's co-founders — agreed to tender their 5.8 million shares, which represent 17% of those outstanding.

Payback of loans effectively will sever ties between CDNow and Sony and Time Warner, CDNow spokeswoman told us.

Bertelsmann and CDNow said latter would remain headquartered in Ft. Washington, Pa., and they expected CDNow management team would remain with company. They said Jason Olim would report to BeCG Pres.-CEO Andreas Schmidt.

Sega has shut down more than 60 Web sites it called "illegal" and 125 auction sites that it said were trafficking in pirated Dreamcast videogames as part of its continuing war on Internet pirates. Company also said it was working closely with Amazon.com, eBay, Excite, Lycos and Yahoo to shut down auctions of persons attempting to sell illegal games and pirated boot discs. Sega Pres.-COO Peter Moore last week called pirates "parasites that hurt" game industry: "This is just the first step in an even bigger action the company will undertake to stop this problem." As we reported, Dreamcast's copy protection scheme was hacked recently by pirate group calling itself "Utopia" (TVD July 10 p15). Sega of America spokeswoman was unable to tell us whether Utopia group was among those involved in crackdown. Fact that Yahoo was among companies Sega mentioned as cooperating with it was substantial turnaround in companies' relationship. Before Utopia incident, Sega and other game companies had sued Yahoo to halt sale of pirated software at its Web site (TVD April 10 p18).

Consumer Electronics Personals

Ted Green, ex-Onkyo, appointed exec. dir., The Advantage Group (TAG), which serves distributors and reps in custom installation industry; he succeeds onetime Hi-Fi Buys executive **Walter Liederman**, who left to pursue other interests ... **Robert Ashcroft**, ex-Convergys European gen. mgr., named pres., new Sony Electronics e-commerce division; **Michael Tive**, ex-Sony Online Entertainment mktg. dir., promoted to mktg. vp of new unit... **Bill Cimino**, ex-Medical Society of Va., appointed Circuit City communications-media relations mgr., replacing **Morgan Stewart**, who joins New Orleans-based utility company Entergy... **Ronald Alper**, ex-CompUSA and Fry's Electronics, named Goodguys.com mdsg. vp... **Kenneth Zerbe**, ex-Apple Computer, appointed CFO, VM labs... **David Feunte** resigns as Office Depot CEO, will remain nonexecutive chmn., succeeded by International Div. Pres. **Bruce Nelson**.

Daniel McGowan, ex-Toshiba and Daewoo, named exec. CE vp, online start-up knowyourstuff.com... Newly elected CEDIA dirs.: **Buzz Jensen**, Buzz Jensen's Sound Advice, Phoenix; **Jeff Hoover**, Audio Advisors, W. Palm Beach; **Mitchell Klein**, Media Systems, Boston; **Andy Wilcox**, Pro Line Integrated Systems, Highland Park, Ill.; **Richard Stoerger**, Audio Design Assoc., White Plains, N.Y... **Phil Jackson** becomes pres., Paramount Home Entertainment International, July 31, succeeding **Paul Miller**, who is leaving July 28 to pursue new interests... **Michael McDonnell**, ex-PricewaterhouseCoopers, joins EchoStar as CFO, replacing **Steven Schaver**, named international pres. in April... **Ronald Sobel**, ex-ASCAP, appointed pres., AudioTrack... **Paul Eibeler**, ex-Microsoft and Acclaim, named pres., Take-Two Interactive Software, replacing **Barry Rutcofsky**, who becomes dir. and co-chmn., position previously held by **Anthony Williams**, who is relocating to U.K. for personal reasons but will remain a Take-Two dir.; **James David**, ex-Universal-Motown Records, named CFO, succeeding **Larry Muller**, who shifts to COO.

Mircho Davidov, ex-Hughes Network Systems, joins Sirius Satellite Radio as vp-engineering, replacing co-founder **Robert Briskman**, who will retire in Oct... **David Braxton**, ex-American Express, named ToysRus.com vp-customer service... **Kerry Hunnewell**, ex-Disney, appointed senior vp-strategy & business operations, ReplayTV... **Martin Cassey**, ex-TAG McLaren Audio, joins NXT as gen. mgr., Technology Transfer Dept... Appointed at Infogrames: **Jason Bell**, ex-Electronic Arts, as senior vp-publishing, N. American operations; **Alyssa Padia**, ex-Sony Computer Entertainment in London, as senior vp-corporate evolution... **Michael Wagner**, KBkids.com vp-CFO, promoted to senior vp-COO... **Richard Selvage**, ex-IBM and onetime Skypix, named Dotcast pres. and member of board... **Terrence Montgomery**, ex-Global Crossing, appointed dir., digital cinema business development, GeoVideo Networks... **Joseph Park** resigns as Kozmo.com CEO, but remains chmn., replaced by CFO **Gerry Burda**.

Blockbuster is extending its presence in Central America with agreements to open first franchised stores in Costa Rica, Dominican Republic, Honduras, Nicaragua. It said last week it had entered into development agreements with Video de Centroamerica, S.A. — company closely affiliated with Blockbuster Panama franchisee Grupo Mizbe — to develop stores in those countries starting this year. First Costa Rican stores are expected to open this year and those in other countries next year. Blockbuster said 25 stores are planned to open in 4 countries by 2004.

EchoStar, which had delayed debut of DVD player/IRD for year, will ship combo model in fall at \$399 under EchoStar and JVC brands, with latter said to be providing final quality control check. EchoStar also continues committed to IRD/WebTV model despite introduction of latter's technology in combination with DirecTV service, Senior Vp Mark Jackson said. EchoStar is likely to offer new hard-drive-based products in 2001 with 30 GB or more storage, he said. ReplayTV, in which EchoStar is investor, is among those that will be part of hard drive strategy, he said. "ReplayTV's value will be as an add-on to the platform," Jackson said. EchoStar also has had discussions with DSL providers Covad and Northpoint Communications on bundling agreement, he said, but program isn't likely before 2001. On promotions front, EchoStar slashed price on model 2712 IRD to \$99 from \$169 and will offer new subscribers to America's Top 100 or 150 programming packages 3 free months of premium movie service. EchoStar-6 satellite, which was launched from Cape Canaveral to 148° W on July 14, will become operational in 30-45 days, Jackson said. New 32-transponder bird will be tested at 148° W and later moved to 119° W, rather than planned 110° W, to replace EchoStar-1. Latter will return to 148° W. EchoStar-6 will offer enhanced services and increase channel capacity in Alaska and Hawaii.

Hughes Network Systems won contract to supply DirecTV IRDs for demonstration kiosks that are expected be installed in Blockbuster stores by late Aug., DirecTV said. New co-branded pay-per-view (PPV), which will feature 55 channels, is expected in 4th quarter. At same time, DirecTV is expected to increase price of PPV to \$3.99 from \$2.99. DirecTV increased price of programming packages \$2 earlier this year citing increased costs. Co-branded PPV service has received signoff from studios. Kiosks, which will be similar in appearance to those Blockbuster has installed for Sony Playstation, will have "soft launch" in Aug. and be available in 4,000 BestBuy stores in Sept. Company also said it wasn't concerned about BB's signing of 20-year exclusive agreement with Enron last week to deliver movies video-on-demand (VoD) via high-speed telephone lines in U.S. and Europe late this year. Indeed, Blockbuster had unveiled plans for VoD service in Jan. in announcing agreement with TiVo to provide personal video recorder (PVR) technology. Enron, which has built coast-to-coast fiber network mainly to service corporate customers, will provide backbone of system. It will encode 300-500 movies at start, 7,000-8,000 long-term. Movies will be streamed to local telecom companies, which will deliver them to consumers' homes via digital subscriber line (DSL).

Sierra Imaging (SI) and Shutterfly, Redwood Shores, Cal., signed agreement that allows latter to offer special pared-down version of SI's Image Expert digital photo management software to Shutterfly's online photo service customers. SI, Scotts Valley, Cal., became subsidiary of Conexant, Newport Beach, Cal., semiconductor company last month. Shutterfly Smart Upload Software is available free this month. But SI also is selling more fully featured version of software at its own Web site as download. Image Expert software is being bundled with products including Epson's PhotoPC 3000Z digital still camera (DSC) and Stylus Photo 875DC inkjet photo printer, Hewlett-Packard Jornada 540 Series Color Pocket PC, Kodak DC80 DSC.

Sales of DTV and digital cable set-tops with Dolby Digital have surpassed 10 million units worldwide, Dolby Labs said. It said total of installed products with Dolby Digital now exceeds 57 million.

Financial Reports of TV-Electronics Companies

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

Company & Period	Revenues	Net Earnings	Per Share
Acclaim Entertainment 2000-9 mo. to May 31	171,937,000	(68,217,000)	---
1999-9 mo. to May 31	320,535,000	24,906,000	.46*
2000-qtr. to May 31	4,842,000	(49,675,000)	---
1999-qtr. to May 31	80,047,000	99,000	---
Adaptec 2000-qtr. to June 30	183,427,000	21,648,000	.21
1999-qtr. to June 30	192,378,000	50,540,000	.49
America Online 2000-year to June 30	6,886,000,000	1,232,000,000	.54 ^b
1999-year to June 30	4,804,000,000	754,000,000	.36 ^c
2000-qtr. to June 30	1,929,000,000	338,000,000	.15*
1999-qtr. to June 30	1,384,000,000	157,000,000	.07 ^c
Apple Computer 2000-9 mo. to July 1	6,113,000,000	616,000,000	1.90 ^b
1999-9 mo. to July 1	4,798,000,000	490,000,000	1.77 ^c
2000-qtr. to July 1	1,825,000,000	200,000,000	.62 ^b
1999-qtr. to July 1	1,558,000,000	203,000,000	.70 ^c
Boston Acoustics 2000-13 wk. to June 24	22,823,028	1,149,484	.23
1999-13 wk. to June 26	21,845,332	1,139,443	.23
Corning 2000-6 mo. to June 30	3,184,200,000	226,100,000	.82*
1999-6 mo. to June 30	2,148,000,000	223,500,000	.88
2000-qtr. to June 30	1,802,500,000	149,200,000	.53*
1999-qtr. to June 30	1,141,000,000	131,000,000	.51
C-Phone 2000-qtr. to May 31	381,409	(483,693)	---
1999-qtr. to May 31	385,870	(986,329)	---
Kodak 2000-qtr. to June 30	3,750,000,000	506,000,000	1.62
1999-qtr. to June 30	3,610,000,000	491,000,000	1.52
Koss 2000-year to June 30	34,874,972	4,953,461	1.95
1999-year to June 30	33,188,174	4,318,189	1.41
2000-qtr. to June 30	9,609,371	1,527,987	.64
1999-qtr. to June 30	8,090,616	1,186,955	.42
Lee Enterprises 2000-9 mo. to June 30	319,585,000	64,318,000	1.46
1999-9 mo. to June 30	308,224,000	51,051,000	1.15
2000-qtr. to June 30	109,925,000	20,173,000	.46
1999-qtr. to June 30	105,163,000	19,444,000	.44
Media General ^d 2000-26 wk. to June 25	383,757,000	24,000,000	.96 ^b
1999-26 wk. to June 27	339,875,000	27,762,000	1.04
2000-13 wk. to June 25	211,299,000	9,638,000	.40 ^b
1999-13 wk. to June 27	174,911,000	16,456,000	.62
Musicland 2000-6 mo. to June 30	818,307,000	3,758,000	.12
1999-6 mo. to June 30	782,856,000	2,873,000	.08
2000-qtr. to June 30	402,486,000	1,714,000	.05
1999-qtr. to June 30	381,059,000	1,499,000	.04
Navarre 2000-qtr. to June 30	55,166,000	(2,121,000)	---
1999-qtr. to June 30	57,751,000	(2,604,000)	---
Pixelworks 2000-6 mo. to June 30	19,187,000	(4,570,000)	---
1999-6 mo. to June 30	2,465,000	(2,336,000)	---
2000-qtr. to June 30	12,123,000	590,000	.03
1999-qtr. to June 30	1,849,000	(1,391,000)	---
Polaroid 2000-6 mo. to July 2	891,200,000	25,200,000	.56
1999-6 mo. to July 2	865,800,000	(16,000,000)	---
2000-qtr. to July 2	487,800,000	26,600,000	.59
1999-qtr. to July 2	486,800,000	14,800,000	.33
Rambus 2000-9 mo. to June 30	45,403,000	(159,752,000)	---
1999-9 mo. to June 30	31,065,000	6,065,000	.07*
2000-qtr. to June 30	17,760,000	4,624,000	.05
1999-qtr. to June 30	10,632,000	2,001,000	.02*
Raytheon 2000-6 mo. to July 2	8,355,000,000	(132,000,000)	---
1999-6 mo. to July 2	10,105,000,000	495,000,000	1.47
2000-qtr. to July 2	4,124,000,000	49,000,000	.14
1999-qtr. to July 2	4,565,000,000	290,000,000	.87

Company & Period	Revenues	Net Earnings	Per Share
SandDisk 2000-6 mo. to June 30	253,318,000	243,539,000	3.66 ^b
1999-6 mo. to June 30	96,685,000	10,017,000	.19*
2000-qtr. to June 30	143,949,000	24,268,000	.36
1999-qtr. to June 30	52,549,000	5,694,000	.11*
Silicon Image 2000-6 mo. to June 30	22,514,000	(3,387,000)	---
1999-6 mo. to June 30	8,281,000	(3,909,000)	---
2000-qtr. to June 30	12,410,000	(1,574,000)	---
1999-qtr. to June 30	4,220,000	(2,279,000)	---
Time Warner 2000-6 mo. to June 30	13,644,000,000	(469,000,000)	---
1999-6 mo. to June 30	12,622,000,000	731,000,000	.56 ^b
2000-qtr. to June 30	7,080,000,000	75,000,000	.05*
1999-qtr. to June 30	6,531,000,000	593,000,000	.46 ^b
Tribune 2000-26 wk. to June 25	2,049,062,000	105,447,000	.40 ^b
1999-26 wk. to June 27	1,399,355,000	1,223,767,000	5.12 ^c
2000-13 wk. to June 25	1,334,825,000	37,809,000	.13 ^b
1999-13 wk. to June 27	743,717,000	880,721,000	3.70 ^c
Tweeter Home Entertainment 2000-9 mo. to June 30	307,570,000	12,914,000	.78
1999-9 mo. to June 30	208,674,000	6,966,000	.50*
2000-qtr. to June 30	95,264,000	2,085,000	.12
1999-qtr. to June 30	59,653,000	969,000	.07*
United Television 2000-6 mo. to June 30	113,950,000	24,384,000	2.57
1999-6 mo. to June 30	98,388,000	21,305,000	2.26
2000-qtr. to June 30	60,011,000	15,250,000	1.60
1999-qtr. to June 30	53,427,000	13,237,000	1.41
Univision Communications 2000-6 mo. to June 30	412,600,000	54,300,000	.53
1999-6 mo. to June 30	310,500,000	27,300,000	.29
2000-qtr. to June 30	231,100,000	33,500,000	.33
1999-qtr. to June 30	172,400,000	20,600,000	.22
Video Display 2000-qtr. to May 31	16,620,000	240,000	.06
1999-qtr. to May 31	17,526,000	354,000	.09

Notes: *After special charge. ^bIncludes special credit. ^cIncludes special credit; adjusted. ^dRevised by company. ^eAdjusted.

EMI made more than 100 full-length albums and singles from its catalog available for sale via various online music retailers in Microsoft's Windows Media format last week. Retailers taking part in large-scale download program include HMV and Virgin. Music released by EMI represented widest variety of downloadable albums and singles available from top recording acts and major labels to date. Recording artists in EMI's initial release included some of its all-time biggest acts. Day after download program was announced, EMI announced that 20 David Bowie titles were added to list. Pricing of downloads is comparable with retail stores. EMI music files have restrictions written into their software codes that limit number of times consumer can make copies of them. Record company is using Microsoft's copyright management software. EMI said it also was making music available in Liquid Audio's secure format. Other digital service providers being used by EMI are Amplified and Supertracks.

Sony Music Entertainment said as "part of an ongoing effort to maximize organizational effectiveness," it's laying off 500 of its 13,500 employees worldwide. It said it was "redirecting its resources on a worldwide basis to more effectively and efficiently transition the company to meet the new challenges brought about as the industry continues to evolve."

Many U.S. consumers had their first chance to see games on new PlayStation2 (PS2) videogame console July 22 when Sony Computer Entertainment America (SCEA) sponsored demonstrations at Hard Rock Café Rockfest at Chicago Motor Speedway. Demonstrations were given in company's "Touring Attraction," 68' custom-designed tractor-trailer. PS2's N. American launch is scheduled for Oct. 26.



TELEVISION DIGEST WITH CONSUMER ELECTRONICS

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AOL-TW SCRUTINIZED: Kennard unsure of Disney's motives for opposition. Open access promised. NBC proposes conditions. (P. 3)

NBC BACKS COFDM in letter to Tauzin, says 8-VSB modulation doesn't work in 'real world.' (P. 5)

UPN TO BECOME PARAMOUNT, it says at critics tour. Sixth night added due to XFL football games. (P. 5)

HILL CALLS FOR NEW NAB CODE: Four health organizations insist on causal link between media violence and child aggression. (P. 6)

NETWORK PROGRAMMING REVIVES while Internet also grows, Moonves suggests at critics' tour. (P. 6)

TAUZIN DEMANDS HDTV AS SLOW DTV ROLLOUT IS QUESTIONED: It would be a "deal-breaker" if broadcasters think they can sell off digital spectrum for advanced services and not provide a large amount of HDTV, House Telecom Subcommittee Chmn. Tauzin (R-La.) said at conclusion of related hearing July 25. One focus of hearing was DTV modulation debate between U.S. standard 8-VSB and Sinclair Bcstg.'s choice, COFDM. Doubtful return of analog spectrum by 2006 also was of concern. Tauzin assembled panel of witnesses representing FCC, broadcasters, retailers and consumer electronics manufacturers, all of whom managed to point fingers elsewhere in laying blame for DTV rollout delays. It led Tauzin to say there was "a blame game going on." Rep. Stearns (R-Fla.) proposed tax law changes to speed rollout.

"What is definitely a deal-breaker would be for broadcasters to lease off or sell off [DTV] spectrum and profit from the sale or lease of it," Tauzin warned. Also "not in the deal," he said, would be "for broadcasters not to show the American public HDTV" because there wasn't enough capacity left in 6 MHz channel to provide it. "Any broadcasters who did that, I think, would run a risk of Congress revisiting the deal and reclaiming spectrum."

"The deal was that the 6 MHz of digital spectrum was to be used for digital transmission including HDTV and that the broadcasters could use it for ancillary services," Tauzin said: "Now I don't know who's in the room representing any broadcaster who thinks they can provide digital television with that 6 MHz without giving Americans a chance to look at HDTV. But my understanding of the deal was that Americans were going to see it." No one on panel could answer whether 1080i could be delivered in less than 6 MHz.

Committee members questioned why they still were holding hearings discussing DTV's future instead of its present. Said Commerce Committee Chmn. Bliley (R-Va.): "At the beginning of this Congress, I hoped we would not have to hold a hearing on HDTV... Sadly, that did not turn out to be the case."

Consumer Electronics

DVD REGIONAL CODING DOOMED by Internet and emerging technologies, CEA's Shapiro predicts. He says Web will alter balance of power among current video outlets. (P. 9)

PLAYSTATION2 COSTS BLAMED in part for putting Sony in red. Matsushita posts higher profits. (P. 10)

CIRCUIT CITY TO CUT 1,000 JOBS and dump major appliances in bid to bolster sagging earnings. (P. 11)

TIVO LOSS WIDENS to \$29.4 million from 6.1 million year earlier as revenue rises to \$719,000 from \$8,000, PVR production to increase. (P. 12)

C-CUBE READIES NEW DVD CHIP to increase processing speed and further integrate features. Thomson buys stake. (P. 13)

SEARS.COM ADDS ELECTRONICS and 4 other categories. (P. 13)

Sinclair Vp-Corp. Relations Mark Hyman reiterated company's failed request to FCC for authorization of 2nd modulation standard, COFDM. He played for committee videotape taken July 14 in its hearing room showing clear indoor reception of COFDM broadcast from WRC Washington's digital tower in Georgetown. However, when trying to pick up 3 separate 8-VSB broadcasts, RCA indoor antenna received signal for first station but quickly lost it when antenna was moved and signal couldn't be returned, picked up 2nd signal but could turn antenna in only 20° arc, failed to pick up 3rd entirely. In each case antenna had to be pointed in different direction. Hyman called 8-VSB "a virtual impossibility for consumers."

Committee members quickly saw live demonstration rebutting Sinclair. Using indoor DTV antenna that had been placed in committee room window, CEA Pres. Gary Shapiro surfed through 3 separate 8-VSB digital channels effortlessly without having to move antenna. He said Sinclair was "not interested in free over-the-air television," repeatedly suggesting company was backing COFDM because it worked better with mobile data services and because delay benefited its analog business.

"Sinclair has not sold, leased, given away or otherwise promised any of its digital signal," Hyman insisted. "Having said that," he added, "I'd be ashamed and embarrassed as a businessman if I didn't look at every way I could to better serve my communities." He said company's sole focus now is winning battle for COFDM. Bliley expressed concern that "some broadcasters would rather use the spectrum which Congress gave to them for free, to offer datacasting and other wireless-type services." FCC has authority to assess fees on such advanced services so as not to give broadcasters advantage over providers that had to pay for spectrum, and Bliley proposed that fees "be pegged to the price paid for 3G licenses in Britain," record-shattering auction that would produce fees here far higher than many have been contemplating for DTV ancillary services. "If the FCC sets the value too low," Bliley said, "then the FCC should expect to see a request to appear before this committee for a discussion."

Most witnesses backed 8-VSB, in part arguing that it would be detrimental to DTV rollout to change course now and would leave consumers already owning DTV sets stranded with outdated technology. One witness supporting Sinclair was David Novak, vp for Pace Micro Technology, who cited use of COFDM in U.K. Britain has 750,000 homes with DTV sets that he said when compared with U.S. rollout would mean this country should have 5 million sets. He attributed success to COFDM, which is standard in all DTV countries (more than 30) except U.S., Canada and S. Korea. Novak said: "8-VSB has huge problems" with indoor reception and line-of-sight, and "if you stick with 8-VSB, I think you will become an island. The rest of the world is clearly moving on to COFDM." He predicted transition to COFDM could be accomplished in U.S. in 9 months. However, other witnesses pointed out that U.K. uses different model, by not providing HDTV and by using pay service with free set-top boxes.

"They're both really fine systems," FCC Office of Engineering & Technology Chief Dale Hatfield said of 8-VSB and COFDM, but he said each involved trade-offs. In response to question, he said COFDM provided better mobile coverage, but said that wasn't among criteria when FCC was reviewing standards. Hatfield also addressed interference that some have said COFDM might cause in big cities such as N.Y. While Hyman insisted that broadcasters would find means of avoiding increased interference with COFDM, Hatfield said that probably would mean reducing power, thus suffering signal loss in outlying areas, already problem for COFDM.

"It seems likely the [broadcast] industry will not meet the FCC's timetable" of 85% penetration by 2006, Tauzin said, and his position met little argument from other members. Reasons for that failure varied, however. Subcommittee ranking Democrat Markey (Mass.) said it was because broadcasters killed amendment of his years ago that would have required digital converters in all TV sets sold. Vice Chmn. Oxley (R-O.) seemed to question broadcasters' hopes for DTV must-carry. "Digital must-carry is an idea whose time has not yet come," he said, and "I'm not sure there's a role for the federal government." He said it was "a little ironic that our broadcaster friends are insisting on maximum flexibility [in spectrum use] but demanding mandates on set-top cable boxes and set manufacturers."

FCC Cable Bureau Chief Deborah Lathen told Tauzin that despite launching DTV must-carry rulemaking in July 1998, Commission wasn't likely to act this year. She said Bureau had to meet Nov. deadline for implementing Satellite Home Viewer Improvement Act provisions dealing with analog carriage, "so I think we feel that at that time we'll be able to look at both digital and to look at the analog from the satellite perspective and to harmonize those two proceedings." Chmn. Kennard has said publicly he's in no hurry to complete rulemaking.

"The [DTV] transition is actually doing very well," Shapiro said, and "consumers are buying DTV product in record numbers." Still, while praising CBS and PBS, he said "the broadcast industry is lagging behind in this transition. It's unfortunate and surprising." He said most DTV programming "is simply upconverted analog," and in fact during live demonstration one channel was showing over-air Sally Jesse Raphael program on rebellious teenagers and boot camps. "Broadcasters are ahead of schedule in rolling out digital service," countered LIN TV CEO Gary Chapman. However,

he said "huge obstacles lie in the path of consumer acceptance of HDTV," and "unless the FCC moves quickly the public will be denied" such service. He called for adoption of digital must-carry, requirement of interoperable hardware in VCRs, minimum performance levels for DTV sets. "Our goal is to expedite the transition, not to disrupt it," he said. Hyman, meanwhile, blamed set makers: "A \$1,500 to \$2,000 device is pretty expensive for the lunchpail-carrying portion of the population."

Stearns echoed Tauzin's concerns about rollout and felt he had solution. "I think most of us would agree," Stearns said, "if you give them a tax depreciation acceleration or a tax credit for the development of their high-definition television as well as you give that to producers of HDTV I think the market would explode much like we do for some other industries." "I think the reason you're not going ahead," he said, "is because of the huge capital expense and you're not sure the public are going to buy it. The TV's \$10,000." Proposal was greeted with enthusiasm by witnesses.

KENNARD GRILLS DISNEY ON AOL-TW OPPOSITION: FCC Chmn. Kennard appeared to question Disney-ABC's motives in asking that stringent conditions be imposed on approval of merger, or so it seemed at agency public forum July 27. He told Disney Exec. Vp Preston Padden that Commission didn't "like to see our processes used as leverage" in private negotiations. Chmn. asked whether, if Disney struck deal with TW ending their long-standing cable carriage dispute, its objections would be withdrawn.

Not a chance, responded Padden: "We couldn't possibly be here seeking leverage... We have raised a host of public policy issues... We are here because of our specific history with these companies... We are here because of this specific merger." To which TW Pres. Richard Parsons responded: "Money. That's all it is" on Disney's part.

Allowing Time Warner and AOL to merge without stringent conditions could hamstring future of TV and Internet, Disney said in 85-page ex parte filing with FCC July 25. Disney said Internet, TV and broadband would merge into new medium it called "Interactive TV," but AOL-TW deal could stall that. Interactive TV "is likely to demonstrate explosive creativity and innovation if permitted to develop in an open and competitive fashion," Disney said, but it "will almost certainly fall short of its remarkable potential if it is controlled by a vertically integrated gatekeeper with the ability and incentive to exclude competition and restrict consumer choice."

Parsons said Disney was complaining to FCC because TW wouldn't accede to Disney demand that TW provide Disney cable channels with "parity with all our [TW] services... What Disney wanted was in effect to require us to discriminate" by agreeing to carry all Disney channels without regard to others. "We have not asked for any kind of preferential anything," responded Padden. Answering question by Comr. Ness, Parsons said TW would be happy to make "negotiated arrangements" with Disney "but that's not what they want."

AOL Interactive Services Group Pres. Barry Schuler said "I'm a little confused" by Disney's argument about lack of return path for cable signals to originator because AOL approached cable and TV networks to "work with us and they [Disney] turned us down... I'm not sure where they're coming from... We have been absolutely consistent all the way through." Major problem with interoperability, he said, is providing built-in security to stymie "others out there figuring how to break it [security measures]." Padden said "we have not said no" to AOL on its standalone box, but "caution flag went up" because of AOL's activities and expectation that Disney soon would ask AOL for more information. As for Disney's concern about return path, Padden said newest generation of cable boxes doesn't even include cable modem to accommodate return path.

Asked by FCC Chmn. Kennard when active open access platform could be expected, given skepticism about nonbinding industry agreements and technical trials, TW CEO Gerald Levin first said he hoped to have it by end of year. But when pressed for timetable by Comr. Tristani, he said he was confident that "we can make them available faster than anyone else in the industry." Levin said AOL/TW had made commitment to open access not merely as result of regulatory compulsions but because "multiple ISPs are necessary for our business model."

AOL CEO Steve Case said open access was important because "our credibility is on the line. We need to demonstrate this, and we will." Levin said there would be no limits on number of ISPs, whether national or regional, carried by company. But when asked whether technology would be made available to other cable companies, he said, "we are not a technical company."

Mark Cooper, dir.-research, Consumer Federation of America (CFA), said FCC must follow direction of 9th U.S. Appeals Court, San Francisco, and "guarantee customers open and nondiscriminatory access to the high-speed Internet." Commission also should follow lead of Dept. of Justice and order AOL/TW to divest its interest in competing broadband distribution and programming companies, he said.

Steven Weed, vice chmn. of American Cable Assn. (ACA), expressed concern about impact AOL-TW merger would have on small cable systems, saying merged companies could make demands that "would threaten the public interest in a viable smaller cable industry and stifle investment in broadband network development" in small markets and rural areas. ACA members have made "solid progress in closing the digital divide" in smaller markets, he said, and "if unchecked, the postmerger AOL would have the power to derail this progress."

In opening statement, Case said AOL-TW merger was all about "helping to lead a 2nd Internet revolution that reaches as many people, as quickly as possible." Contending that interactive TV had yet to become widely used product, he said broadcasters and programmers have had little incentive to develop interactive content without audience, and service providers have had difficulty creating audience without compelling interactive content. "The merger of AOL and TW would go a long way toward ending this 'chicken-and-egg' problem," Case said.

Kennard said issues involved in merger were: (1) Would it deliver on promises made, including accelerated broadband deployment, innovative services, continued commitment to multiple broadband platforms? (2) Would it usher in anticipated convergence of Internet with TV? (3) Would it, as others contend, potentially impair competitive consumer-driven evolution of technologies? "We should also scrutinize what effect this merger would have in closing the digital divide," he said. Calling AOL-TW deal particularly challenging to review, Comr. Powell said Commission was faced with merger that was born "from a revolution that is in its infancy, and the merger's great promise and possible dangers rest principally in the future."

Comr. Furchtgott-Roth said he couldn't support Commission's review for 3 reasons: (1) Agency doesn't have statutory authority to do so. (2) Agency's process lacks transparency despite "unprecedented" public hearing. (3) Hearing serves no purpose other than to provide forum for criticism of merger and for parties in turn to plead for Commission's approval.

NBC in filing urged FCC to condition proposed AOL-Time Warner merger on "meaningful, enforceable" commitment by merged entity to provide nondiscriminatory access in terms of carriage, features, capabilities and services to unaffiliated content providers. NBC said Commission should: (1) Require merged entity to transmit broadcasters' content to viewers in unaltered form and to refrain from any discrimination in features, capabilities or services provided to unaffiliated content providers. (2) Require nondiscrimination in placement of programming on broadband provider's front screen. (3) Prohibit AOL-TW from interfering with viewer's ability to "conveniently" access programming individual chose by requiring viewer to return to front screen every time set-top box was turned on.

There's serious need for govt. and industry money to provide quality educational TV and online services for America's next generation, speakers, including FCC Chmn. Kennard, told Stanford U. workshop on developing quality content for youth. "There is no federal funding today for studies," said Ellen Wartella of U. of Tex. College of Communication. "We know a lot about how children use modern technology in class, but there are few studies about how they use videogames and other technology." Geoffrey Cowan of U. of Southern Cal. Annenberg School of Communication, said PBS funds and federal grants for research would be useful. Kennard said in keynote that "I probably get 100 letters a week from angry parents. They want control of what their children are seeing, but we have got to get over the mindset of government providing censors. We don't have the resources." Kennard said: "I've heard your calls for government assistance. Many Washington people look on this community [Silicon Valley] as one that doesn't want government involvement. This is an era of surpluses. If you want help, you will have my support."

CTIA, Wireless Data Forum and Nielsen-affiliated NetRatings formed Wireless Audience Measurement Council to address wireless Internet ads on issues such as privacy, multiple network architectures, multiple end-user devices. First meeting of council will take place Oct. 18 at Wireless IT conference in Santa Clara, Cal. Organizers said their agenda was how to define metrics to help quantify wireless Web use for advertisers.

U.S. and Mexico reached hard-fought agreement on coordination and use of frequencies by satellite digital audio radio services (DARS) and terrestrial systems such as Wireless Communications Services (WCS) in border area. Bilateral pact ends more than 2 years of negotiations. FCC and U.S. State Dept. called accord "major step toward establishing long-term stability" for DARS, WCS, other terrestrial systems. FCC Chmn. Kennard said, "It is critical to the long-term viability of DARS, WCS and other communications systems in both countries." In final throes of talks, sides had reached compromise that would give Mexican satellite DARS operators access to 6 MHz from U.S. WCS bands and another 8 MHz from middle of satellite DARS band. Agreement terms include: (1) Satellite DARS operators may include repeaters to fill in but not extend their service areas. (2) Satellite DARS service of one country may not be offered for sale in other country. Each country has agreed to remove outstanding objections before ITU on pending satellite notifications.

CableLabs said it re-qualified Motorola for its cable modem termination system (CMTS) after further testing. CMTS qualification process parallels CableLabs Certified, another CableLabs-managed process that certifies cable modems for retail sale. CMTS qualification involves interoperability, stability, conformance to specification, manageability of product. Arris Interactive, Broadband Access Systems, Cisco Systems and 3Com have received qualified status for CMTS, CableLabs said.

NBC QUESTIONS DTV: Current DTV standard "does not provide reliable reception to our viewers," based on "real world experience," NBC CEO Robert Wright said in letter to House Telecom Subcommittee Chmn. Tauzin (R-La.). He said even latest version tested in Brazil was "disappointing" and network was "seriously concerned about the length of time it will take to make sufficient improvement to resolve urban and indoor reception problems."

Wright said systems such as COFDM provided "adequate indoor and urban DTV reception" and could provide mobile reception. He acknowledged that COFDM modulation might not provide same station coverage area as current VSB-based system, but there were "remedies that can be implemented." Time is of essence in DTV transition, Wright acknowledged, but "close scrutiny by congressional committees" plus "rigorous testing" are needed to find correct solution: "Without reception certainty, we can expect poor consumer response to digital television, thereby delaying for years the overall analog to digital TV transition."

Potential delay also is important for FCC's planned auction of freed-up analog TV channels, Cellular Telecom Industry Assn. Pres. Thomas Wheeler said, repeating request that FCC postpone 700 MHz auction. "We are right down to the short strokes here," he told reporters, saying he was "hopeful" that Commission would delay Sept. 6 start date of Ch. 60-69 auction. "There is very strong support on the Hill," he said. FCC has faced congressional mandate that proceeds from Ch. 60-69 bidding be placed in U.S. Treasury by end of fiscal year Sept. 30. Although date would be put in jeopardy by Sept. 6 auction, congressional leaders have given tacit consent for delay. Delay would allow FCC more time to set auction rules, although Wheeler wasn't specific on how he would like to see Commission facilitate exit strategy for incumbent broadcasters, saying he wouldn't want to rule out possible alternatives.

Broadcasters have "best of both worlds," Wheeler said. They have analog spectrum they don't have to give up unless certain "impossible tests" are met, specifically that 85% of analog customers transition to DTV, he said. Broadcasters already have been given digital spectrum free and can charge wireless carriers for leaving analog spectrum earlier, Wheeler said. While position of broadcasters on issue isn't "immoveable," their lobby wasn't to be underestimated, he said. Asked about possibility that Congress might come up with solution, he said: "One should never underestimate the power of the broadcast lobby. [NAB's] Eddie Fritts and Jim May are very good at what they do."

While 3-month postponement of 700 MHz auctions would be in public interest, any delay beyond that would "severely hamper construction deadlines for DTV facilities," Paxson Communications Pres. Lowell Paxson wrote FCC Chmn. Kennard. Paxson said delaying auctions until Dec. "is more than sufficient for the prospective bidders [who] are experienced auction participants with extensive staffs and numerous outside experts to advise them." Paxson, which owns 19 of 138 TV stations operating on Ch. 59-69, said it was willing to cooperate in clearing band for other users by negotiating private agreements with auction winners. But, licensee said, delaying 700 MHz auctions "until the middle of next year will make the May 2002 conversion [to DTV] simply impossible to meet."

Meanwhile, latest station to begin DTV broadcasting is in smallest market so far — WGEM-TV Quincy, Ill.-Hannibal, Mo. (161st market), NAB said. Assn. said 148 stations in 52 markets are offering DTV, reaching 63.87% of U.S. TV households.

UPN CHANGES NAME: UPN will change its name to The Paramount Network, effective Jan. 1, CEO Dean Valentine said at TV critics tour in Pasadena last week. "A lot of our affiliates from the very beginning thought there was tremendous equity in the Paramount name," he said, "and of course we weren't able to because of the nature of the ownership. So we're giving our affiliates something that they've really asked for, for a long time, and I think it more accurately reflects who we are."

Network also said it temporarily would be adding 6th broadcast night early next year as it carries Sun. broadcasts of new XFL football league, which is being developed by wrestling impresario Vince McMahon. While CBS and UPN have same parent, Valentine said CBS has encouraged young network to do what it can to become profitable in spite of CBS's owning rights to some of NFL fall football broadcasts. Valentine said network was looking to add permanent 6th night, once it has solidified other nights.

Echoing comments by CBS CEO Leslie Moonves, Valentine said he has had early discussions with CBS on partnerships on content of programming. Referring to being able to carry parts of NCAA basketball tournament, Valentine said: "I'd love to have the NCAA. But, as a general strategy, the idea of repurposing reruns from CBS over to UPN is probably not a good idea for our affiliates. It decreases their value. As much as we can work with CBS to increase our bottom line and to help them help us [we'll do]."

Buoyed primarily by addition of WWF Smackdown! wrestling show, Valentine said network's revenue from upfront ad market rose 45% over last year, although deal gives WWF control over most of ads on show, so Smackdown! hadn't added much to bottom line. But he did say it had raised value of affiliated stations and overall value of network.

Valentine avoided talk of network's finances or when UPN expected to break even, but did say that, with help of wrestling, "we're clearly seeing more light at the end of the financial tunnel."

WB Network CEO Jamie Kellner conceded he may have underestimated loss of Chicago-based superstation WGN and told TV critics network had revised business projections and now wouldn't reach break-even until 2001-2002 season. Without going into details, WB executives said young network had disappointing 1999-2000 season and Kellner said WB might have erred in adding 6th night of programming last year in light of loss of WGN. But Kellner said WB now had almost fully made up viewers lost from WGN. He said network's continued focus on 12-34 demographic was paying dividends with advertisers and earlier this summer had most successful "up-front" market in its brief history, with higher CPM (cost per 1,000 viewers) than ever before.

LPTV stations valued at more than \$380 million have been sold in last 3 years, broker John Kompas said. Kompas, who maintains LPTV trading database, said 13% of 260 station sales in last 3 years have been for more than \$1 million, including \$13.2 million in Washington, \$12 million each for stations in Phoenix and Tucson, and \$10 million in N.Y.C. "None of these numbers represents the increased value expected when stations start receiving their Class A licenses," Kompas said.

NAB TV CODE RETURN SOUGHT: Sen. Brownback (R-Kan.) called on broadcast industry to revive long-abandoned NAB Code on program content at summit he organized on media violence July 26. Leaders of 4 major public health organizations co-signed statement saying there was professional medical consensus that media violence was harmful to children's health, well-being, development.

While Rep. Roemer (D-Ind.) praised 27-0 passage in Indianapolis July 14 of legislation to protect children from harmful videogames, Brownback said "we are not here to dictate to Hollywood what they can or cannot do, that's not the role of Congress." However, he said he did hope consensus of public health community could turn public opinion against media violence in same way tobacco has been under fire in recent years after decades of little or no policy concerns.

"The objective of the summit today is to point out the unanimity of a causal connection" between media violence and increased violence in our society, Brownback said in explaining why Congress was unlikely to get legislation at this time. He said causation "has been challenged for some period of time by the entertainment industry... we hope to put to rest that issue."

Joint statement citing 5 decades of scientific studies linking media violence with social ills, particularly harm to children, was signed by American Academy of Child & Adolescent Psychiatry Pres. Clarice Kestenbaum, American Academy of Pediatrics Pres. Donald Cook, American Psychological Assn. Deputy CEO Michael Honaker, American Medical Assn. Exec. Vp Ratcliffe Anderson.

"The average American child spends as much as 28 hours a week watching television," statement said, and effects on children of violence depicted "are measurable and long-lasting. Moreover, prolonged viewing of media violence can lead to emotional desensitization toward violence in real life."

Sen. Conrad (D-N.D.) said there now was "an opportunity to do something about [media violence]." On the other hand, he said, "we all understand the First Amendment right to write what they [broadcasters and motion picture producers] want." Roemer predicted more municipalities might act as did Indianapolis if they saw federal govt. remaining idle. Sen. Byrd (D-W.Va.) gave no hint of legislative approach, but said "reducing the violence paraded before America's children in the guise of entertainment is an important task."

"The entertainment industry has been very powerful in fighting" any effort to address media violence, Brownback said. He said that despite numerous studies, "I don't know if we have a consensus in this country" as to its level of harm in same manner as now exists for tobacco, although he saw nothing unreasonable with comparison. He said broadcast industry "used to have a code of conduct, which set a floor below which they would not go. For a long period of time that worked very well." Code was thrown out by U.S. Appeals Court, D.C., several years ago and broadcasters didn't appeal. Brownback called on broadcasters to "start negotiations with themselves and with the country" to bring code back. NAB had no comment.

DirecTV began offering local broadcast network channels July 28 in Charlotte, Indianapolis and Milwaukee, increasing total of metropolitan markets to 30. Channel package is priced at \$5.99 monthly.

NEW SHOWS BOOST NETWORKS: CBS TV CEO Leslie Moonves said success of shows such as *Survivor*, *West Wing* and *Who Wants to Be a Millionaire* not only have revived traditional network programming but also have spurred traffic to other media such as Internet. "This season also shattered a couple of television myths," obviously pleased Moonves told TV critics in Pasadena last week: "For the first time since 1993, network television [viewing] hasn't declined. And for the first time since before the people meters, HUT [households using TVs] levels are up during the summer."

Moonves defended CBS use of "reality" programming such as *Survivor* and *Big Brother*, saying huge younger viewership was justifying network's faith in them. He said both shows had boosted other parts of CBS lineup. But, he said, "this does not signal a change in our programming strategy. We have always said over and over again, our goal was to get younger while maintaining our strength in our core audience, which remains adults 25-54. But at the same time, we want to experiment. We want to try things."

Both *Survivor* and *Big Brother* Web sites have generated tremendous Internet traffic, prompting Moonves to say: "For the first time, we have used network television to drive other media. AOL shut down the first night *Big Brother* was on the air. That's a pretty remarkable thing when you think about it."

Moonves said network was charging \$500,000 for some 30-sec. ads for *Survivor*'s Aug. 23 final episode and finally was getting movie ads, which traditionally are given to shows with young demographics. CBS faith in long-term viability of format is evident and Moonves said *Survivor II*, to be filmed in fall in Australian outback, will air in Jan., with first episode to follow network's carriage of Super Bowl XXXV.

CBS has had preliminary discussions on relationship with UPN, now part of Viacom-CBS family (see separate story), but Moonves said both networks' fall schedules were set. Comparing CBS/UPN relationship with NBC's dealings with Pax, he said: "I'd say Pax and NBC is a little bit further down the road than we are with UPN. And, obviously, UPN is in a different status than the Pax network is."

CBS News was criticized for allowing *The Early Show* news reader Julie Chen to do exit interviews on *Big Brother*, which critics claimed blurred line between news and entertainment. CBS News Pres. Andrew Heyward said Chen's participation on *Big Brother* was more mainstream than many activities that go on under news banner.

Following his appearance, Moonves commented briefly on progress of digital TV, saying it had been somewhat slower ramp-up for HDTV than he had expected. "In certain ways, I am [satisfied with progress]," he said. "In certain ways it's not as fast as I would like. We're continuing creatively to do all that we can to make it better and better and better. But it's still very much in its infancy."

Pa. Superior Court ruled constitutional state Tenants Right to Cable TV Act that gave "eminent domain" power to cable TV operators to allow them access to apartment buildings. Court upheld trial court's dismissal of constitutional challenge to Act by owner of apartment complexes in Radnor Twp. As result of decision, Adelphia was granted access to apartment complexes to provide cable service.

NORTHPOINT AND DBS FIGHT: Closing arguments in what lawyer called FCC spectrum "trial of century" matching incumbent DBS users against new terrestrial service Northpoint (NP) continues, with sides "cleverly spinning" positions for media before "bitter" and "contentious" battle over spectrum in 12.2-12.7 GHz comes to "suspenseful" end with highly anticipated decision expected from Commission in fall. "This is their final volley," NP CEO Sophia Collier said: "We want to share and compromise." Satellite Betsg & Communications Assn. (SBCA) Pres. Charles Hewitt said there was no room for "compromise" at this late hour as long as interference was issue.

Backed by SBCA, rivals DirecTV and EchoStar released results of independent test that "clearly shows harmful interference" to DBS consumers. Results of test from proposed Northpoint site in Oxon Hill, Md., were filed with FCC. Tests replicated Northpoint system by using same equipment and power levels. NP said DBS industry was "afraid of competition" from low-cost TV and Internet service seeking license and was attempting to delay proceedings with complaints. NP also accused DirecTV and EchoStar of using "test to failure" results because companies "didn't understand" new technology being developed.

Both sides agreed major issue is determining "interference zone" around 14,000 NP towers. DBS said tests showed levels would increase outages 122% in affected areas, to about 4 hours per month. In places such as Seattle where DBS operates at lower power level because of rain, it said numbers would increase to 250%. Collier called claim of 4 hours of interference "totally inaccurate." At worst, NP said its system would affect no more than 1% of DBS customers in areas at issue. Collier said company was so confident its technology was interference-free that NP would offer new dish to any DBS customer who suffered from harmful interference.

DirecTV Communications Engineering Vp James Butterworth described NP wireless cable as service that "just changed frequency band" at which it broadcasts. "They have just increased their problems. It's not a competitive issue. It's an issue of reducing quality of service to consumers."

Collier said it came down to battle between old technology and new technology. She described DBS technology as obsolete and said NP would be able to provide service to consumers cheaper and better, offering 3rd alternative to DBS and cable systems.

"Without effective protection of intellectual property in the new economy, creative promise of the Internet could be stifled," Peter Chernin, CEO of News Corp. and Fox Entertainment Group, told lunch sponsored by Center for National Policy: "The answer depends on every sector's taking responsibility — from government to ISPs and computer manufacturers, to the media, industry, to consumers themselves." "First we have to strengthen the law" because Digital Millennium Copyright Act isn't sufficient for today's technology, Chernin said. Principles that should be included in new copyright law are: (1) Content creators must be permitted to take appropriate steps, such as watermarks, digital labels and other copyright protection measures. (2) Law must ensure that every broadband and network device, including PCs, respects and responds to these measures. (3) Downloading copyrighted work off Internet is infringement and should be respected "by every medium of communications and commerce." (4) "The U.S. must insist that other countries bring their intellectual property protection infrastructure up to modern standards." Chernin has become visible proponent of intellectual property protection recently.

Congress almost certainly will be forced to become involved with Internet copyright issues as result of Napster court decision last week, industry officials predicted. Billy Pitts, MP3.com's new exec. vp-govt. relations, said: "This will end up on the [Capitol] Hill because John Q. Citizen will demand to know what his rights are. We need an Internet bill of rights." Another industry official, while acknowledging that young Napster users typically weren't politically active, said that if even 1% of them wrote to Congress it would produce flood of mail. Pitts compared public reaction with that when direct broadcast satellite users were cut off from some TV programming: "If Congress thought it got mail on that, they ain't seen nothing yet." At least some industries probably will support legislation to ease Internet access to copyrighted materials, CEA Pres. Gary Shapiro indicated in Media Institute speech. He said court decisions such as Napster were "clarion calls for new regulations" because consumers won't agree to have their access limited and competing industries don't want their business opportunities cut off. Anthony Lupo, attorney who has represented both copyright holders and Internet interests, said music industry itself should find way to make content commercially available. But he said record industry was "so caught up in the battle" against Napster and others that "they haven't had time to analyze the possibilities. They say they'll focus on that later. Right now, they're just into damage control." Napster case may not be defining legal precedent for Internet file sharing, Lupo said. He said it included "some bad facts" that might have generated decision different from what might come in future Internet file-sharing case. (Details in *Warren's Washington Internet Daily*. For free trial subscription call 202-872-9200, ext. 203).

Affiliated Regional Communications (ARC), affiliate of Fox Sports Net and Fox Cable Networks Group, filed suit in Del. Chancery Court in effort to prevent Viacom's sale of Home Team Sports (HTS) and Midwest Sports Channel to Comcast Corp. as part of carriage agreement. ARC said Viacom had breached its fiduciary and contractual duties to it as limited partner of HTS. Fox Cable Networks CEO Jeff Shell said that as founding partner of HTS, "our minority interest carries certain protective rights." One of rights is that should majority partner decide to sell, he said, "we can also sell our interest for the same consideration." "Unfortunately, Viacom chose to ignore its obligations as our majority partner," Shell said, "and traded its interest for unique and invaluable assets beneficial to them alone."

FCC imposed maximum allowable fine of \$55,000 on MediaOne of Metropolitan Detroit for excess signal leakage in its Oak Park, Mich., system Aug. 9-10. Agency investigation followed complaint by U.S. Air Force Rescue Coordination Center of interference to international distress and safety frequency, 121.5 MHz, allocated for use by distress beacons. Commission said Aug. 9 investigation found that MediaOne's system was leaking 1,416 microvolts per meter, well in excess of agency's signal leakage standard of 20 microvolts. Although MediaOne complied with FCC staff directive and eliminated excessive leakage, corrective action didn't relieve it of liability or forfeiture, Commission said.

Insight Communications and AT&T formally signed agreement to deliver phone services to former's 1.5 million customers primarily in Ill., Ind., Ky., Ohio. In first such operating agreement with cable operator, AT&T will be local exchange carrier installing and maintaining switching equipment and Insight will provide access to its upgraded cable infrastructure.

Personals

NBC Pres. **Robert Wright** also named GE vice chmn., exec. officer and member of corporate exec. office, retains NBC position... **Andrew Darrow**, ex-Simitar Entertainment, appointed vp, NBC Entertainment... **Billy Pitts**, ex-ABC Washington vp, named exec. vp-govt. relations, MP3.com... **James Rowe**, ex-NBC and ex-Chlopak, Leonard, Schechter & Assoc., appointed vp-public policy counsel, Walker Digital... **Julius Genachowski** promoted to USA Networks senior vp-gen. counsel, from same position at USA Bcstg... **Bruce Baker**, Cox Bcstg., elected chmn., ABC TV affiliates' board, to fill unexpired term of Pat Scott, retiring as pres. of Fisher Bcstg... **Christopher Gerondale**, ex-DreamWorks, named vp-research, Paramount TV Group.

Michael Mohamad promoted to senior vp-mktg., A&E Network... **Thomas Forst** advanced to regional vp-ad sales, Cox... **Charles Warfield**, ex-AMFM, named pres.-COO, Inner City Bcstg... **Paul Marszalek**, ex-KFOG(AM) San Francisco, appointed vp-music programming, VH1.

LIN TV CEO **Gary Chapman** appointed MSTV chmn., succeeding **Pat Scott**, who recently retired as pres.-CEO, Fisher Bcstg... Former NAB Radio Board Vice Chmn. **William Poole** retires as gen. mgr., WFLS-AM-FM and WYSK(FM) Fredericksburg, Va... **Pamela Williams** will resign as Women & Telecommunications Foundation exec. dir. Dec. 31 to become principal of a Chicago-based association management company... **Walt Ciciora**, founder-exec. vp-chief technical officer, EnCamera Sciences, elected chmn., Society of Cable & Telecom Engineers (SCTE).

Steven Rickrode promoted to dir.-financial management audits, Office of Inspector Gen., FCC; **Ora Lou Sizemore** retires after 33 years with FCC, last 16 in Office of Legislative & Intergovernmental Affairs... FCC International Bureau Asst. Chief **Peter Pappas** is leaving to open Washington office for Pappas (no relation) Telecasting of Fresno, Cal.

Pat Doyle named corp. vp-controller & chief accounting officer, Hughes Electronics; **Mike Gaines** appointed corp. vp-finance and acting treas.; **Ken Heintz** becomes corp. vp-mergers & acquisitions... **Kevin Smith**, ex-Arbitron New Media, joins Wink Communications as senior vp-gen. mgr., research & targeting operations... **Brad Bedford**, vp-Asian Mktg., appointed vp-sales, Arbitron's Infostream.

—

“**Vast majority**” of ad-supported cable networks’ prime-time programming this year is original content, Cable Ad Bureau (CAB) survey reported. Shows produced by cable networks constituted 75% of all their prime-time programming hours, said survey that looked at CAB member cable networks’ average weekly percentage of live, nonlive and repeat original cable programming in prime time as well as percentage of 3rd party-produced repeats. Ad-supported cable networks will invest projected \$6.5 billion in programming in 2000, double amount in 1995, CAB said.

Rainbow Media Holdings, subsidiary of Cablevision Systems Corp., said it raised its ownership stake in MuchMusic USA to 100% by acquiring Chum Ltd.’s 50% interest in network. Rainbow has owned 50% of MuchMusic USA and has managed network since its start in 1994.



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Cumulus Media and **Clear Channel Communications** (CCC) restructured their radio station deals to comply with Justice Dept. conditions in agency's approval of CCC's pending acquisition of AMFM Inc. Under new arrangement, to be accomplished in 2 stages: (1) Cumulus is acquiring 7 CCC stations in 3 markets, with CCC in turn purchasing 25 stations from Cumulus in 5 markets, plus paying Cumulus \$91 million. (2) Cumulus will sell 30 additional stations in another 5 markets to CCC for \$75 million. Cumulus said proceeds would be applied toward other station acquisitions.

Consumer Electronics

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STATE OF THE INDUSTRY

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

	JULY 8- JULY 14	1999 WEEK	% CHANGE	JULY 1- JULY 7	28 WEEKS 2000	28 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	427,629	438,675	- 2.5	237,462	14,220,595	12,873,278	+ 10.5
DIRECT-VIEW**	409,202	422,364	- 3.1	227,309	13,598,080	12,377,466	+ 9.9
TV ONLY#....	343,456	363,005	- 5.4	192,471	11,274,612	10,452,137	+ 7.9
TV/VCR COMBO.	65,746*	59,359	+ 10.8	34,838	2,323,468*	1,925,329	+ 20.7
PROJECTION...	18,427*	16,311	+ 13.0	10,153	622,515*	495,812	+ 25.6
TOTAL VCR**....	234,406	348,955	- 32.8	267,379	12,872,527*	11,986,913	+ 7.4
HOME DECKS...	168,660	289,596	- 41.8	232,541	10,549,059*	10,061,584	+ 4.8
CAMCORDERS.....	80,237	61,215	+ 31.1	61,474	2,755,652*	2,275,722	+ 21.1
DVD PLAYERS....	77,254*	31,122	+148.2	45,592*	2,823,785*	1,359,756	+107.7

Direct-view TV 5-week moving average#: 2000-435,974; 1999-411,709 (up 5.9%).

Projection TV 5-week moving average: 2000-19,876*; 1999-18,335 (up 8.4%).

VCR deck 5-week moving average: 2000-343,539; 1999-444,374 (down 22.7%).

TV/VCR 5-week moving average: 2000-80,343; 1999-81,302 (down 1.2%).

Camcorder 5-week moving average: 2000-107,132*; 1999-81,018 (up 32.2%).

DVD player 5-week moving average: 2000-111,723*; 1999-69,647 (up 60.4%).

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

SHAPIRO SAYS WEB WILL SHIFT VIDEO BALANCE OF POWER: Doomsday for DVD regional coding is near from technological juggernauts such as broadband Internet, which also will threaten traditional broadcast and cable media but not destroy them. Thus spake CEA Chmn.-Pres. Gary Shapiro at Media Institute lunch July 27 at which he also took slap-shot at copyright extensions recently legislated that he said were in favor of Hollywood and other entertainment content owners. Shapiro's contention that DVD regional coding would "crumble and disappear" brought sharp rebuke from DVD's chief architect, Warner Home Video Pres. Warren Lieberfarb, who told us "it's a shame that Gary Shapiro has not taken the time to understand the way motion pictures are distributed globally."

Ability to distribute even full HDTV on Internet is "just a few years away" and then "the Internet will do to cable what cable did to broadcast — offer more choices," Shapiro said. "The Internet not only threatens traditional media, but also has low barriers to entry. You don't need spectrum. You don't need a large investment. Every American can be a First Amendment publisher." Shapiro also predicted that Napster court decision would put pressure on Congress to act on Internet copyright issues (see separate story, this issue).

Incumbent video providers are likely to try to limit new media through lawsuits or legislation, Shapiro predicted, but they "should be resisted. We cannot allow concerns about threats to established industries to be a compelling public policy justification to restrict a technology with infinite substantial noninfringing uses."

Regional coding for movies vanish because reasons for it to exist no longer are valid and because new technologies make them impossible to enforce, Shapiro said. "While DVD manufacturers and motion picture companies agreed to regional encoding in good faith, these technology restrictions are increasingly not working in the global marketplace where DVDs are easily bought and sold across international lines," he said. "Indeed, the underlying rationale for regional coding will soon no longer exist. The purpose of such encoding is to give Americans an earlier window on DVD, thus protecting the gradual theatrical release around the world."

But regional code plan has backfired overseas owing to wide availability of machines able to play Region 1 U.S. discs purchased over Internet or otherwise. Ultimately, though, new movie-distribution methods will cause demise of staggered theatrical and home video release dates, Shapiro said. "As Hollywood is shifting rapidly to electronic cinema with its extraordinary savings in creation and distribution costs, simultaneous worldwide theatrical release is more likely to occur, thus negating the very reason for regional encoding."

Lieberfarb said "the important reasons for regional coding are reflective of theatrical release patterns, ownership rights, language considerations and censorship requirements, to name a few. Ironically, some of Mr. Shapiro's members are currently working with us and other members of the motion picture industry not only to enforce the current regional coding technology, but to improve it."

How content owners use Internet will evolve, Shapiro said, predicting "pay-per-play" for Internet "will fail" but new forms of payment to copyright owners will emerge. "Some copyright owners have seemingly embraced the Internet while clearly forcing consumers' passive-aggressive behavior," he said. "The worst example by a rights holder is a record company charging consumers \$3 to download one song when they can buy the entire CD for a few dollars more or download the track elsewhere for free."

Copyright law will change in new media age, Shapiro forecast. He said legislators would cut recently extended copyright terms (now 100 years) closer to time patent is valid (20 years). Content owners recently won copyright extensions that, for example, enable them to continue "repurposing" chestnuts such as Disney's Mickey Mouse for future new-media applications.

Broadband Internet also means that regulation will diminish in broadcast and cable worlds, Shapiro predicted, because there no longer will be compelling public interest rationale for such rules: "This transition to less regulation may be resisted, even by those regulated... But the breadth and inevitability of the Internet and alternative media options make regulation rather spurious, once the process of removing entrenched bottlenecks... is complete."

PLAYSTATION2 START-UP COSTS HELP PUSH SONY INTO RED: High startup costs for PlayStation2 and significant declines in U.S. and European sales of PlayStation hardware and software from key parts shortages helped push Sony into red for first quarter ended June 30. Company also said it was hard hit on bottom line by \$968 million onetime charge from U.S. accounting rules changes that affected its motion picture business.

Sony reported net loss of \$841 million (\$1 = ¥103) on 5.4% sales increase to \$14.87 billion. Operating income plunged 20.1% and pretax income 8.6%. On local currency basis, however, sales rose 17% and operating income jumped 124% on higher sales in electronics, pictures, insurance and other businesses. Games revenue was flat and music business revenue declined 23.2% to \$1.24 billion on higher yen, soft market conditions in some international regions, poor timing of new releases.

In electronics, sales jumped 11% to \$11.17 billion and operating income soared nearly threefold to \$526 million. TV sales climbed 14.8% to \$1.54 billion, video equipment increased 4.4% to \$2.33 billion, audio fell 0.8% to \$2.01 billion. Regionally, sales in Japan rebounded 19% to \$5.28 billion, while sales in "other areas" were up 13.3% to \$2.57 billion. However, sales in U.S. were off 1.5% to \$4.08 billion and European sales dropped 9.9% to \$2.95 billion. Sales decline in U.S. was blamed partly on discontinuation of Sony's cellular business.

Sony's game business posted operating loss of \$153 million. In Japan, overall game sales rose significantly on higher PlayStation2 hardware and software revenues that more than offset first-generation PlayStation declines. But in U.S. and Europe, lack of PlayStation2 invigorator caused game sales to fall significantly. Worldwide PlayStation hardware shipments plummeted 84.2% in quarter to 630,000 consoles compared with 3.98 million in same year-earlier quarter. Cumulative PlayStation hardware shipments reached 3.55 million consoles at close of June 30 quarter. Some 20 million pieces of PlayStation software units were shipped in quarter, down from 32 million year ago, resulting in cumulative software shipments of 650 million through June 30. As for PlayStation2, Sony said it shipped 1.13 million consoles in quarter and cumulative total of 2.54 million through June 30. PlayStation2 software shipments reached 1.7 million units in quarter and cumulatively 4.6 million as of June 30.

Sony's forecast for fiscal year ending March 31 is for net income to plummet 92% as sales increase 8% and operating and pretax income decline 4%. To bolster its electronics business, Sony said it would establish "platform" subsidiary next April in Japan for designing and producing finished products. It also will seek to boost efficiency in production of semiconductors and other components at plants inside and outside Japan. Sony said that in Aug. it planned to merge bat-

tery and electronic components manufacturing subsidiaries into combined group charged with improving quality of advanced batteries required for next-generation digital equipment.

Meanwhile, Matsushita said consolidated first-quarter sales edged up 1% to \$16.72 billion (\$1 = ¥106). Consumer sales rose 3% to \$6.48 million, but video and audio equipment sales fell 3% on weak sales of TV sets and VCRs in Japan. Profit gained 48% to \$200 million, with improvement attributed to rise in sales and companywide effort to reduce production costs.

CIRCUIT DUMPS APPLIANCES: Circuit City, in move to bolster sagging earnings, said it would drop major appliances and cut 1,000 jobs.

To leave appliance business, which accounted for 14% (\$10.60 billion) in revenue in fiscal 2000, it will close 6 distribution centers by year-end and 2 more in next 12 months.

In eliminating major appliances, Circuit cut short test of appliance-only stores it started in March. Chain said it had signed just 3 leases for concept and didn't include category in any new stores opened this year. Circuit CEO Alan McCollough cited "significant degradation" of appliance business "the magnitude and speed" of which "we've never seen before." Circuit was hit in spring by slow sales of air conditioners in Northeast and Midwest U.S. and increased competition in category from Home Depot, Lowe's, Sears, McCollough said. While same-store sales in 2nd quarter are expected to post "high-single-digit" overall gain, major appliances were "substantially negative," he said.

As result of decision, Circuit said 2nd-quarter per-share earnings were likely to fall to 32¢ from 35¢ year earlier, well below Wall St. analysts' 43¢ projections. An expected, \$10 million decline in major appliance sales coupled with \$30 million in pretax restructuring cut earnings 9¢. First signs of Circuit's changing major appliance strategy emerged in spring with development of new CE-only format being tested in stores in Jacksonville area and picked up speed as sales slowed in May (TVD June 19 p13).

Major appliances will be replaced by "take with" items such as videogames and PC software, PC peripherals and accessories, cellular phones and digital imaging products. Products formerly were in home office dept., but now will move into what had been 3,000-3,500 sq. ft. for major appliances. Partial remodelling of stores to accommodate change will start immediately and be completed by Nov., said McCullough, because switch can be made in week. Cash registers also will be added to new section, he said.

More extensive revamping or relocation of stores to put greater emphasis on CE and PC products will start in Jan., encompassing 100-150 outlets in 2001, McCollough said. Costs will be \$2.5 million per store as Circuit creates standard 20,000 sq. ft. of selling space, he said. New format will increase space dedicated to CE to 70% of total square footage, although figure will be lower at older stores, he said. Existing Circuit stores will be remodeled over next 3 years, McCollough said. Circuit projected 30% increase in sales at remodeled stores.

"The one thing we will be when we are done is focused on running a consumer electronics business and no other business" McCollough said. "It's also a large expansion of the game business, which is a standalone category that we participated in only a minor way." Indeed, entertainment software accounted for

11% (\$1.2 billion) of fiscal 2000 revenues vs. 21% (\$2.4 billion) at Best Buy, research firm Sanford Bernstein reported. At same time, A/V sales at Circuit totaled \$4.9 billion, against \$3.5 billion at Best Buy, Bernstein said.

New strategy also is departure from Circuit's roots. "We tried to give customers the best of both worlds," McCollough said, "but appliances end up taking a lot of space in the stores and they turn generally at a slower rate.

New format also will draw Circuit closer to rival Best Buy, which revamped stores several years ago to increase focus on digital products, bolster games business and create greater number of "take with" products, analysts said. Circuit, unlike Best Buy, has been "deficient" in carrying commodity-type products and will increase offerings to "drive more people through the stores," he said. Move could enable Circuit to close sales per square foot gap with Best Buy, Bernstein said. Circuit, which had total of 18.9 million sq. ft. of space as of Feb. 2000, devoted 9 million to selling space. As result, it averaged \$555 in sales per sq. ft., while Best Buy was at \$863, Bernstein said. "They [Circuit] realized they had to increase productivity and the only way to do that is get rid of the categories that aren't productive and expand those that are," Bernstein analyst Ursula Moran said.

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EMusic.com loss expanded to \$76 million in year ended June 30 from \$15.1 million loss year ago (see financial table). Revenue for year was \$6.5 million, up from \$92,000. In 4th quarter, online downloadable music retailer based in Redwood City, Cal., said loss more than doubled to \$25.7 million from \$10.9 million year earlier, while revenue for quarter climbed to \$3.8 million from \$51,000. Three days before reporting results last week, company announced at Jupiter's annual Plug In Online Music Forum in N.Y.C. start of "EMusic Unlimited" subscription service. Service allows consumers to download as much licensed music as they want from EMusic's catalog of 125,000 MP3s for monthly charge that helps financially compensate musicians and record labels for recordings downloaded. EMusic said that after each quarter it would split after-cost revenue from subscription fees with artist and label partners that would be distributed based on percentage of their music downloads during period. Company has 3-tier pricing policy for service in which consumer can opt to pay \$9.99 per month for year subscription, \$14.99 per month for 3-month subscription, \$19.99 for one-month subscription. Hewlett-Packard already has bought \$3 million of subscriptions for consumers who buy its CD-writers through March 31. EMusic labeled service "legitimate alternative to Napster."

Latest DV camcorder from Canon is Elura 2MC, pocket-size unit that comes with 8 MB multimedia card. Camcorder has 10x optical zoom lens and 40x digital zoom. It ships in Sept. at \$1,799. Elura 2 minus multimedia card ships one month later at \$1,599.

TIVO LOSS WIDENS, REVENUES RISE: TiVo, citing increased costs of expanded distribution, said loss jumped to \$29.4 million in 2nd quarter from \$6.1 million year earlier as revenue rose to \$719,000 from \$8,000.

Personal video recorder (PVR) technology marketer added 16,400 subscribers in quarter, same as previous quarter, and has 51,000 overall. Most of revenue was from subscriptions, although small percentage came from partial payment from Pfizer for ad and content distribution agreement with iFilm, CFO David Courtney told analysts in declining to release exact figure. He said 55% of subscribers have chosen lifetime one-time payment of \$199 for service, generating \$5.8 million in revenue vs. \$3.7 million in first quarter.

Operating expenses jumped to \$31.9 million from \$26.2 million and sales and marketing costs to \$11.4 million from \$9.2 million. TiVo will boost promotions by allocating another \$50 million in 2nd half for in-store training and demonstrations, portion of which will be funded by AOL's \$200 million investment in company that's expected to be finalized by mid-Aug.

Increased expenses came as TiVo-based Sony PVR expanded distribution to 4,000 storefronts in quarter, although CEO Michael Ramsay conceded "overall inventory in the channel was low." As result, Philips and Sony are increasing PVR production that should solve shortfall in current quarter, he said. Subsidies, which TiVo pays manufacturers to help keep PVR prices low, rose 18% to \$5.3 million, Courtney said. Philips is marketing 20 GB PVR at \$299 while Sony counters with 30 GB model at \$399.

"We have reached a point where the price will stay pretty stable through the holiday season," Ramsay said.

Citing recent tie-in with Thomson for branded PVR for British Sky Bctg. (BskyB) service in U.K., Ramsay expressed hope similar deal could be struck in U.S. "We hope to expand our relationship with them over time to include the U.S.," he said. Thomson recently introduced combo DirecTV/WebTV IRD in U.S. with 40 GB hard drive.

Per-subscriber acquisition costs declined 26% from first quarter as TiVo reduced telephone charges by providing local access.

TiVo also formally unveiled agreement with Comcast under which cable operator will sell service to 200,000 customers in Cherry Hill, N.J. Ramsay said he expected service would generate \$15-\$20 in per-subscriber revenue. New 30 GB PVR will be offered free by Comcast, which is handling billing and installation, he said. TiVo also has smaller trial under way with Cox Communications in Las Vegas.

With additional combo products pending with DirecTV and AOL's AOLTV, range of revenue models is likely to emerge "depending on the degree of service and integration," Ramsay said. AOL combo product is due next year, while DirecTV piece has been postponed to early Oct. from late summer. Volume production is expected to begin in 3rd quarter, retail sales in 4th quarter, Ramsay said. "There are no practical issues that need to be resolved and the final test phase won't have an impact on 2001-and-beyond plans," he said.

TiVo also started *TiVo Takes* show in quarter that provides previews of week's upcoming programs. Ramsay said 35% of TiVo subscribers are watching program. Company also is re-

packaging Showcase that is marketed to networks and is based on subscriber volume also to be sold with iPreview, he said.

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N.J. is emerging as ground zero for PVR/cable tests. As TiVo unveiled plans for Cherry Hill, N.J., ReplayTV was announcing agreement to lease its PVRs to Comcast customers in adjacent Burlington County as part of trial that starts in late Aug. PVRs will be leased to customers at \$11.95 per month, including free installation. TiVo CEO Michael Ramsay remains company's largest individual stockholder with 2.7 million shares (7.2% of those outstanding), while Chief Technology Officer James Barton has 1.7 million (4.5%), company said in proxy filed with SEC for annual meeting. Ramsay drew \$218,750 salary in 1999, up from \$150,000 year earlier, \$22,000 bonus and options for 650,000 shares. His salary increases to \$300,000 this year. Barton was paid \$195,833, up from \$148,000, and granted options for 100,000 shares. Largest shareholders were Institutional Venture Partners, 4.2 million (11.1%), and New Enterprise Assoc., 4.1 million (11%), followed by DirecTV, 3.3 million (8.9%), Sony, 2.6 million (7%), Philips, 1.3 million (3.6%), Discovery Channel, 740,461 (2%).

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Rent-a-Center (RAC), benefiting from \$22.4 million reimbursement from settlement fund for 3 class action suits in N.J., said 2nd-quarter income increased to \$34.6 million from \$13.8 million year earlier on 11.6% gain in sales (see financial table). Same-store sales rose 12.2%. RAC reached agreement in late 1998 to pay \$60 million to plaintiffs in N.J. to settle 3 separate class action suits. Largest settlement — \$48.5 million — involved Dawn Robinson, who had been awarded \$90 million after trial judge found RAC violated state consumer fraud laws (TVD Sept 22/97 p16). Minus one-time gain, RAC income was \$22.9 million. RAC, which operates 2,111 stores, has acquired 54 outlets since start of fiscal year, including 18 since July 1, and closed or consolidated 18 of them, CFO Robert Davis told analysts in conference call. In quarter, RAC bought 28 stores, consolidated 9. Chain plans to open 5-10 outlets in 3rd quarter and 40-50 in 4th quarter through mix of acquisitions and new stores, but with "greater concentration on latter," Davis said. Central Rents and former Renter's Choice (RC) outlets averaged sales of \$60,000 per month in quarter, while Thorn RAC stores, which RC bought in 1998, were at \$62,000. Same-store sales were up 20% at CR, 14% at Thorn, 6% at RC. On product side, RAC said it had added 6,000 subscribers to RentaCenter.com Internet access service since launch in June (TVD May 1 p14). RAC has projected having 70,000-75,000 Internet access accounts by year-end, each paying \$5.99 per week... **Rainbow Rentals** countered RAC service by signing distribution agreement with Net Zero last week that will provide its customers with free Internet access. Net Zero software will be preinstalled in Dell and Compaq PCs that also will have link to Rainbow Web site. Rainbow, which operates 109 stores, had 13,000 PCs on rent at end of 2nd quarter, accounting for 20.3% of \$22.4 million in revenue. Rainbow reported 10.2% gain in 2nd-quarter income as same-store sales rose 3.7%. Gross margin slipped to 11.7% from 12.1% as Rainbow opened 6 new stores and closed 2 acquired from Zoom Rent-to-Own (RTO) in Va. Average rental rate was \$82 at core Rainbow stores, \$76.49 at 13-store Blue Ribbon chain purchased in 1999. Rainbow also began promotion in June offering JVC and Sanyo Fisher 3-CD changer shelf systems at \$9.99 per week in effort to drive customer traffic in slow summer months... **Aaron Rents** posted 5% gain in 2nd quarter income on 14% rise in revenue. Rental purchase revenue, including amount generated by company-owned and franchised stores, jumped 27% to \$114.4 million from \$90 million. Company-owned outlets logged 21% increase to \$77.5 million.

C-CUBE READIES NEW DVD CHIP: C-Cube Microsystems will introduce 5th-generation ZiVa DVD decoder chip in fall that promises to boost processor speed and further integrate features, Senior Mktg. Dir. Patrick Henry said.

Henry declined to release specs, but said processor would be greater than 100 MHz that's benchmark for ZiVa-4 model, but less than 200 MHz. It will be priced slightly higher than ZiVa-4, which is in \$10-\$12 range in volume, he said.

Overall, DVD player unit sales will hit 18-19 million worldwide this year, including 9-10 million in U.S., with majority being playback-only, Henry said. Portable DVD players should sell 1-2 million but DVD-Audio and recordable models will have only minor impact, he said. With prices in \$500-\$1,000 range, DVD recorders will generate "modest volumes" of sales through 2001, with change occurring when price hits \$350 in 2002, Henry said, quoting DVD vendors.

"In 2002-2003, recordability will just be a layered feature over and above DVD playback," Henry said. "There will still be DVD playback out there just like there is CD audio out there now, but we see a significant opportunity to convert to a recordable world both in the set-tops and DVD players over time." DVD-Video players will have "a decent treadmill" of 4-5 years before merger with recordability is complete, he said.

In seeking share of DVD recorder market, C-Cube will market DVxplore MPEG-2 single-chip codec in fall, Henry said. Chip, priced in \$30 range in volume, is in production with JVC and NEC for D-VHS and optical disc recorders. Samsung demonstrated DVxplore-based DVD-RAM recorder last fall and plans to ship model in 4th quarter.

For personal video recorders (PVRs) C-Cube has developed DVxcel codec that integrates separate bitstream input/output ports for connections to peripherals. C-Cube expects to have "multiple design wins" for DVxcel in fall, but "nonvolume production" in terms of availability, Henry said. "We have the capability to do hundreds of thousands if we turn the switch on, but in the codec space the volumes are still very modest," he said.

While C-Cube jointly developed PVR reference platform with Western Digital last fall (TVD Sept 27 p14), alliance is nonexclusive and C-Cube is "working with other people" as well, he said. Indeed, Thomson purchased 1% equity in C-Cube earlier this year and 2% in performance-based warrants that vest over 7 years, but can accelerate based on increased levels of business, Henry said. C-Cube investment would appear to mesh with Thomson-Seagate CacheVision joint venture that will develop hard disc drive storage modules (TVD July 17 p9) for PVR market, among others.

As C-Cube moves its focus to DVD, PVR and codecs, it will reduce reliance on video CD (VCD) business to 20% of overall revenue by 2002, Henry said. VCD had accounted for 80% of annual sales, he said. C-Cube continues to be supplier to Chinese manufacturers of VCD and super VCD (SVCD) players, almost all of which are sold in Asia. China market for optical disc-based players is projected to hit 20 million this year, including 4-5 million DVD players, he said. Rest is split 60-40 between VCD and SVCD players, respectively, which have succeeded in slowing transition to DVD in China by offering lower prices. VCD and SVCD players are \$50 and \$80, respectively, in China, while DVD is in \$150-\$200 range, he said. C-Cube had projected that China market would switch to SVCD within 6-9 months, with DVD gaining upper hand in 2-3 years (TVD Aug 24/98 p12).

SEARS.COM ADDS ELECTRONICS: Revamped e-commerce Web site was opened by Sears last week offering electronics and 4 other new categories.

Sears.com was launched in 1996 but functioned only as information resource for customers. Company gradually added e-commerce capabilities, but up until last week Web site's categories were confined to appliances, lawn and garden equipment, parts, tools. Sears also said it enhanced navigation, personalization and search features at site.

Categories in electronics section include cameras and camcorders, car electronics, home audio, home theater, portable electronics, video including DVD players and TVs. Manufacturers at Web site include Acoustic Research, Aiwa, Bose, Hitachi, JVC, Kenwood, Panasonic, Philips, Pioneer, Sharp, Sony, Thomson, Toshiba, Yamaha.

Unclear at our Fri. deadline was which of those suppliers had given Sears.com official authorization other than Panasonic, Pioneer and Sony and which, if any, manufacturers whose lines are carried at Sears brick-and-mortar stores have granted Sears.com authorization.

Sears.com, like such competing e-tailers as Crutchfield.com and 800.com, includes vehicle selector to help consumers figure out what 12-v equipment will fit best in their cars.

Electronics section of Web site also includes videogame hardware, software, accessories. Site is selling all current major game hardware platforms: Nintendo's Game Boy and N64, Sega Dreamcast, Sony PlayStation. Fifty-five games that were offered last week included titles from Activision, Crave, Eidos, Electronic Arts, Konami, Midway, Namco, Nintendo, Sega, Sony, THQ, VLM.

Everything bought at Web site can be returned to Sears brick-and-mortar stores, company said.

Web site announcement came 4 days after Sears reported net income climbed to \$388 million in 2nd quarter ended July 1, up 17.2% over \$331 million year ago. In announcing results, CEO-Chmn. Arthur Martinez said Sears "continued to see strong momentum in our hardlines business led by appliances and electronics."

Four days before announcing settlement of copyright infringement suit with EMI, MP3.com said it lost \$177.1 million in 2nd quarter ended June 30. Web music company had \$18.1 million loss year earlier. Revenue for quarter was \$20.2 million, up from \$1.9 million in year and \$17.5 million in first quarter this year. It said approved artists at its Web site jumped to more than 81,000 in 2nd quarter and number of songs to 515,000. Number of songs delivered to consumers either for playing or saving leaped to more than 100.4 million, up from 74.5 million in first quarter, it said. But company also said average unique daily visitors to Web site fell slightly off, to 565,000 from 575,000 in first quarter. MP3.com attributed decline to its removal of major label content from its controversial My.MP3.com service. It announced in May that it was disabling access to all major record label content at its site after U.S. Dist. Court, N.Y.C., Judge Jed Rakoff ruled in favor of RIAA in copyright infringement suit (TVD May 15 p18).

AMAZON.COM POSTS LOSS AGAIN: Bad news arrived for Amazon.com on 3 fronts last week: Over span of only 2 days, Pres.-COO Joseph Galli resigned to become CEO of VerticalNet, e-tailer's Web site had 40-min. outage and results for 2nd quarter ended June 30 were seen by analysts as mixed bag at best.

Not surprisingly, Amazon once again reported loss — this time of \$317.2 million, compared with \$138 million loss for same period year ago (see financial table). Loss translated to 33¢ per share, slightly better than 35¢-per-share loss expected by First Call/Thomson Financial Sales.

Amazon's sales once again were up — to \$577.9 million from \$314.4 million year ago, but short of analyst expectations. First Call/Thomson Financial had expected Amazon to report sales of \$585 million.

Significant among areas in which Amazon fell short was its core book/music/video category. Although sales in category jumped 38% in year and Amazon posted pro forma operating profit of \$10.1 million, reversing \$11.1 million loss last year, sales dropped 4% to \$385.3 million from in first quarter this year.

Analysts at Lehman Bros. and elsewhere continued to express concerns about Amazon, continuing trend that became prominent month ago (TVD July 3 p19).

Amazon did its best to put positive spin on results. It said customer accounts in quarter increased 2.5 million to more than 22.5 million while repeat customers represented 78% of orders, improvement from 70% in same 1999 period.

Amazon.com CFO Warren Jenson said company had "a cash balance of \$908 million" and "we expect to end the year [with] roughly \$1 billion in cash."

Company's European sales also continued to rise in quarter, it said, with total sales outside U.S., including exports from U.S., representing 23% of overall sales. Amazon.co.uk and Amazon.de sales were \$73 million, up from \$31 million year earlier and European sites now have more than 3 million customers, up from 800,000. In last month, Amazon.co.uk added software and videogames stores to its site, while Amazon.de added videogames.



Polaroid and Olympus jointly announced introduction last week of C-11 Zoom digital camera with built-in instant photo printer. They said camera offers 1,600x1,200 resolution and comes with 2" LCD monitor and 8 MB SmartMedia removable memory card. Camera's built-in print engine uses combination of proprietary print mechanism and Polaroid advanced instant 500 film. It will ship in Oct. at \$799. Less than week earlier, Polaroid in reporting results of 2nd quarter ended June 27, said it had earnings of \$26.6 million, up from \$14.8 million year ago. Revenue was up slightly to \$487.8 million from \$486.8 million. Company said its best-selling cameras in quarter included PhotoMax digital units. Products it expects to ship in 2nd half include I-Zone Webster, handheld device that instantly digitizes I-Zone pictures directly into PC; Digital 2300Z 2.3 megapixel camera with 2x optical zoom, shipping in Nov. at \$399.95; PhotoMax Modem Camera that instantly downloads photos to Web via phone line; digital photo printer; MP3 digital camera with 640x480 resolution and MP3 storage with playback capability.

Samsung said it further delayed introduction of TVs based on Displaytech's ferroelectric LCD (FLCD) technology and postponed shipment of DirecTV/high-definition (HD) decoder IRDs to 2001. Debut of FLCD-based 50W and 43W rear-projection TVs has been postponed 3 times as Samsung works to improve color purity and contrast. Targets have been 300 lumens and 200:1 contrast ratio. Sets contain 3, 0.78" LCDs and were scheduled for delivery for sales starting in Sept. (TVD May 8 p11) While sets won't be available for purchase, Samsung will ship about 300 models for demonstration, starting with "25ish" in Sept., said James Sandusky, mktg. dir. for visual media products. Rest will be rolled out to high-end dealers in Oct.-Dec. with sales beginning in first quarter 2001, he said. Yet to be determined is whether demonstration product will be 50W or 43W model, he said. Despite delay, Samsung's interest in FLCD technology remains "undiminished," Sandusky said. "We wanted to make sure the technology would perform absolutely perfectly rather than shipping it and having to make an in-line change," he said. At same time, Samsung's plans for DirecTV/HD product have been shelved to mid-2001 as company works to resolve what Sandusky termed "software coding issues." Samsung plans to build device in S. Korea. Indeed, delivery of DirecTV/HD IRD has proved troublesome for other vendors. Hughes Network Systems postponed shipment of models to OEM customers Mitsubishi and Toshiba to Sept. from July as it sought to finalize advanced program guide and 8-VSB tuner (TVD July 24 p15).

Thomson bottom line and revenue in first half continued on upswing established since RCA parent became independent of French govt. control. Now-publicly-owned Thomson Multimedia reported net earnings of 84 million Euros (\$80 million at exchange rate of \$0.95 to Euro) for first 6 months of 2000 — 2.1% of 4.1 billion Euros revenue. Revenue increased 45% over 2.8 billion Euros in 1999 period, while net profit nearly tripled from 31 million Euros. Thomson said that excluding newly consolidated revenues from Atlinks, residential phone company jointly owned with Alcatel, group's revenue increased 39.9%. It also said currency exchange rates favored revenue, which would have increased 32.6% if based on rates prevailing year ago. By categories, consumer products accounted for 3.14 billion Euros of Thomson's revenue — increase of 45.8%. Company said digital products such as satellite set-tops drove consumer category and represented 30% of revenue. Tubes and OEM components such as optical pickups brought in 769 million Euros, up 43.9%. Thomson's New Media Services group posted its first revenue — 1 million Euros — but increased expenses to establish business caused operating loss of 33 million Euros. Revenue from patents and licensing reached 154 million Euros, up 33.7%.

Musicbank signed 3-year licensing agreement with Universal Music Group (UMG) that will allow consumers who use Musicbank's soon-to-launch online service ability to have secure, on-demand streaming access to CDs they own that are from UMG's catalog. As part of deal, UMG made equity investment in San Francisco-based Musicbank, although amount wasn't disclosed. Musicbank earlier signed similar licensing deal with BMG Entertainment as well as retail agreement with Virgin Megastores. Earlier this month, Musicbank said it secured \$20.1 million in funding from Atlas Venture, Bertelsmann Ventures (BV), Bonaventure Investments. BV is independent venture capital arm of media giant Bertelsmann, BMG's parent. Musicbank, founded in 1999 by Pres.-CEO Michael Downing and Chmn. Pierce Ledbetter, is planning to begin service in fall. It said it would provide basic streaming at no cost to consumers, although Downing said it also was "exploring subscription models."

RADIOSHACK EARNINGS RISE: RadioShack (RS), crediting strong sales of PCs, personal electronics and parts and accessories, reported 2nd-quarter income rose 27% on 15% increase in sales. Same-store sales were up 9%.

Chain rebounded after posting 7% same-store gains in April and May (down sharply from 18% and 19%, respectively, year earlier) to hit 15% in June said. RS's Amerilink installation business reported \$36 million in sales, including \$19 million outside and \$14 million internal. It averaged 16,000 installations per week, CFO Dwain Hughes said.

Gross margin slipped slightly to 52.1% from 52.8% as RS continued to sell off private label Optimus brand A/V products in advance of opening of RCA Digital Entertainment Centers in June. It said 20% of Optimus inventory remained at end of first quarter (TVD May 1 p13).

Overall, A/V sales rose 50%, although gross margins was in mid-30% range, same as first quarter, Hughes said. CEO Leonard Roberts told analysts in conference call early results on RCA store-within-a-store concept were "very good" and "exceeded our expectations. We think we can see some share gains even if we can't be the dominant player" in A/V, he said. PC sales were up 25% in dollars and 35% in units, while parts, batteries and accessories gained 6%. Unit sales of communications products increased in "single digits" and wireless products in "low teens," Hughes said, but prepaid wireless business fell in "double digits."

RS gained \$26 million in residuals from wireless business in quarter, Hughes said, and remained in line with goal of \$100 million by year-end. Roberts said overall residuals, which include wireless and Microsoft store-within-a-store format that begins in Aug.-Sept., were projected to hit \$250 million by 2005. To consolidate wireless business, RS plans to sign agreement with single national cellular carrier by year-end in model similar to one with Sprint PCS. It has 42 separate cellular carriers. It also expects to have residual-based alliance with cable company by year-end, Roberts said.

Microsoft, which has added less than 1% to RS same-store sales to date, expects to have multiple programs in place by Sept., Roberts said. Among these will be discount on signup for Microsoft Network (MSN) Internet access service and \$400 rebate program for PCs, he said. New RadioShack.com Web site featuring Microsoft technologies will go on line in late Sept.-early Oct., Roberts said.

Good Guys narrowed 3rd-quarter loss to \$2.97 million from \$8.13 million year earlier but sales slipped to \$195.9 million from \$210.4 million on 3% gain in same-store sales. Sales of continuing categories rose 4% and gross margin to 29.2% from 26%. GG eliminated personal electronics dept. after cutting 315 jobs earlier in year (TVD March 27 p14) and dropping home office products last fall.

However, results fell below analyst projections. Earlier in year, Morgan Keegan's David Childe had cut year-end earnings estimate to 6¢ loss from 14¢ profit.

Swing in GG performance appeared to be linked to ad strategy, Childe said. When chain has advertised heavily, as it did in late 1999, "the comps are decidedly positive," he said, but

when ad spending was "up only marginally, results were decidedly negative."

Childe also projected GG's year-end selling, general and administrative expenses at \$196 million, up from \$193 million. Increase would come despite cuts including \$8 million in corporate general and administrative expenses, he said. Among measures that haven't been implemented is GG's planned sublease of Brisbane, Cal., hq that could produce \$2 million in savings, Childe said.

On up side, analysts noted that GG had saved \$7-\$8 million in renegotiating ad contracts with 30 newspapers. New ad strategy also includes airing TV commercials for 2-3 consecutive weeks each quarter, move that boosted same-store sales 5% in May and 7% in June. Return on "these marginal ad expenses" could be 5-10 times cost, possibly yielding \$35-\$70 million in incremental sales, Childe said.

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Cypress Semiconductor (CS) agreed last week to buy display developer Silicon Light Machines (SLM) for \$170.2 million in stock deal expected to close by Sept. SLM, which has worked for 6 years developing grating light valve technology first patented at Stanford U., will become CS subsidiary. It will shift focus toward CS's telecom business in developing optical components for fiber networks using aspects of its technology including filtering and attenuating of light, company said. At same time, SLM's recent licensing agreement with Sony, allows it to "hand off" display business to CE manufacturer, Mktg. Mgr. Robert Corrigan said. Sony will build GLV technology into front projectors and high-definition rear-projection TVs. "There is a lot of work we will be doing with and for Sony, but we will be more in the background," Corrigan said. "We needed to have a graceful handoff to a capable partner." Licensing deal with Sony and sale to CS weren't directly related, Corrigan conceded that while market for displays was large, "opportunities for a small company to make a return for its shareholders by selling components into it" are not, he said. SLM will be subsidiary at start but CS will weigh spinning off group in coming years, Corrigan said. SLM has agreement with Evans & Sutherland to develop GLV technology for flight simulations.

Samsung and MusicMatch are collaborating on all-in-one digital music solution for Macintosh computer users. First phase of their plan calls for Samsung to integrate new version of MusicMatch's Jukebox software into its complete line of Yepp digital audio devices. Companies said they also were co-developing plug-in for Mac to enable those using MusicMatch Jukebox for Mac to easily download individual tracks and custom play lists of their music to Yepps. Earlier this month, MusicMatch also announced deal with Supertracks to deliver all-in-one digital music solution for online music retailers that are allowing customers to download and play secure major label music content.

247Showroom.com is developing e-commerce Web sites for individual retailers who are members of MARTA Cooperative of America buying group by holiday season, Springboro, O., Web company said. Retailers who already have joined 247Showroom.com's network of Web sites include American Appliance, Cowboy Maloney's Electric City, DaSears, Rosa's. Mitsubishi also chose 247Showroom.com to develop its online retail sales associate training program (TVD Feb 21 p18).

NAPSTER FACES FOES AT FORUM: Two days before U.S. Dist. Court Judge Marilyn Patel, L.A., ordered Napster to shut down file-swapping service at its Web site last week, CEO Hank Barry faced executives from 2 of his biggest foes at Jupiter's Plug.In Online Music Forum in N.Y.C.

Barry told reporters that company has "had discussions" with major record companies to settle copyright disputes "all the way along [and] all that is continuing." But comments by Time Warner Pres. Richard Parsons and Universal Music Group eLabs Pres. Larry Kenswil about Napster indicated agreements between their companies and controversial Web site were unlikely anytime soon.

Parsons, in keynote, said Napster's and other companies' claims that they were "merely acting as matchmakers among Web music fans who want to exchange digital music files already in their possession" are "a little like a hijacker claiming he is doing nothing more than acting as an intermediary for the transfer of property from one owner to another." He said he's confident that "sooner, rather than later, the legislatures and the courts are going to [come down] forcefully and definitively on this issue and make it clear that ripping off music is the same crime whether it occurs in a retail store or on a PC."

Parsons drew applause after loosely paraphrasing inaugural address of President Kennedy, saying: "The music industry will pay any price, bear any burden, meet any hardship, support any friend and oppose any foe to protect the integrity of their copyrights and the copyrights of their artists." He said Napster's criticism of music companies' stand on copyright infringement smacked of hypocrisy because latter's own Web site has copyright clause at bottom of its own home Web page suggesting it would protect its own copyrighted material.

When asked in Q&A why Warner continued to maintain that it was being hurt by Napster in light of recent report by Jupiter analysts that indicated users of song-swapping Web service were 45% more likely to increase their music spending, Parsons said: "It's kind of like saying that it'll be all right for me to steal your car if all I did was take it someplace to get it washed."

Warner and other major labels have "been asleep at the switch" on online music issue, he admitted, but he said: "We're asleep no longer." He said Warner recognized Web's growth potential. It has taken company long time to become active in online distribution of music, he said, because "playing by the rules," including coming up with effective digital rights management system, "takes time." He said presence in online arena would be growing in coming months and by 4th quarter, Warner and EMI, if that proposed merger wins go-ahead, will have major digital download service. AOL-Warner, he said, will experiment with various types of business models online including "pay-per-play." He indicated that once proposed AOL-Warner merger agreement is given green light, company will be creating "digital dashboard" online that will help consumers find all music throughout Web, not just Warner's music.

In panel that included Napster's Barry, Universal's Kenswil quoted from Bob Dylan song *Like a Rolling Stone* to criticize those who claim that record companies should provide free music and stop being so concerned about collecting royalties on copyrighted recordings. He said: "When you ain't got nothing, you've got nothing to lose."

While its talks with major record labels apparently have gone nowhere, Napster has had more success with 2 other companies. It said it signed R&D deal with Liquid Audio, but Barry offered only vague explanation of what agreement means, saying that Liquid was offering "a consulting service" to help Napster "look at MP3 in new ways."

Meanwhile, Barry and Island Records founder Chris Blackwell signed alliance. They told reporters that MP3 version of song by new artist Elwood, *Sundown*, from Blackwell's new Palm Entertainment Music label would be made available to Napster's users for sharing. Song also was to be promoted prominently on Napster site. Companies said there also would be link at Napster's site to Web site of Palm's online division, *sputnik7.com*, where consumers would be able to buy song.

Fates of Liquid Audio and Blackwell deals, in light of ruling against Napster, were unclear at our Fri. deadline.

Pace Micro Technology will join personal video recorder (PVR) market in U.S. with 40 GB model it's developing for Comcast for mid-2001 delivery, Pace America Pres. Neil Gaydon said. Device, which will be compatible with Motorola cable system, stems from agreement Pace signed earlier this year to build set-top boxes for Comcast. Set-top box (STB) will bring Pace into competition with TiVo and ReplayTV, both of which are preparing to launch on Comcast systems in N.J. (see related story this issue). Main difference between Pace PVR and rivals will be conditional access, Gaydon said. Pace also has agreement with Time Warner to build non-PVR digital STBs, first of which are expected to ship for Scientific Atlanta system late this year, Gaydon said. At same time, he said Pace stands ready to deliver COFDM tuners should FCC approve technology as competitor to 8-VSB. Pace has shipped million COFDM tuners in U.K. that sell for \$300-\$400, and product could be used for mobile applications in U.S. "There is probably room for the 2 technologies in the U.S., but whether it will confuse the consumer isn't clear," Gaydon said. "Choice is a good thing." While Pace has signed agreement to develop IRD for BellSouth proposed regional satellite system, it isn't likely to sign similar agreements with DirecTV or EchoStar, both of whom already have manufacturing pacts in place, he said. BellSouth is said to be designing step-up IRD for system that would include digital subscriber line (DSL) technology as return path. Pace has DSL experience, having designed video DSL (VDSL) product for U.K. and submitted model for testing at U.S. telecoms, Gaydon said.

Sony will be selling PlayStation2 (PS2) direct to European consumers from its *playstation-europe.com* Web site, British report said last week. Report said e-commerce section would be added to site on or near Sept. 7, date of kickoff of Sony's PS2 preorder campaign (TVD July 24 p16). But Sony Computer Entertainment U.K. spokesman told us last week that company had yet to make decision. He said it "is examining very thoroughly" e-commerce issue but "at this point in time we are not prepared to disclose any further details about our e-commerce strategy" in U.K. or other "PAL territories."

THIS WEEK'S YEN RATE

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

HUGHES ELECTRONICS CUTS LOSS: Hughes Electronics reduced 2nd-quarter loss to \$69.1 million from \$97 million year earlier and warned analysts that DirecTV subscriber acquisition costs would rise in 2nd half as new services and promotions were rolled out (see financial table). Sales rose to \$1.8 billion from \$1.3 billion year ago.

Acquisition costs are projected to increase to \$525 per subscriber in 2nd half from \$490 in first 6 months as DirecTV pushes "more aggressive consumer offers," Hughes Senior Exec. Vp Eddy Hartenstein said in conference call with analysts. Among them is \$49 for system installation that runs through Aug. 2 and possible renewal of free installation offer it used in first half. Free programming package will be offered new subscribers to DirecTV's NFL Sunday Ticket. For year, subscriber acquisition costs are projected at \$510, up from \$500 year earlier, Hartenstein said. However, cost could near \$600 for new Internet services such as one combining DirecTV with America Online's (AOL) AOLTV that debuts this fall, he said. AOLTV cost is expected to be offset by DirecTV's using portion of \$1.5 billion AOL invested in Hughes in 1999, analysts said. At least \$900 million of investment was to be allocated for DirecTV, including \$150 million in marketing aimed at inducing AOL members to subscribe to satellite TV (TVD June 28/99 p6).

"It's not going to be a 'one-size-fits-all' strategy for all platforms," Hartenstein said. "An increase [in subscriber acquisition costs] is quite conceivable, but we could get an extra \$7 to \$12 in margin from that."

As result of higher costs and cost-cutting efforts at retail, some of which still are being negotiated with dealers, DirecTV expects to report \$100-\$150 million in earnings before interest, taxes, depreciation and amortization (EBITDA) for 2000, down from earlier projection of \$400 million, Hartenstein said. DirecTV's EBITDA for its own territories will be \$170-\$180 million, but figure will be lowered by \$100-\$150 million projected for NRTC-operated regions, Hartenstein said. Addition of 200,000-300,000 net new subscribers in 2nd half will generate \$50-\$75 million in EBITDA, he said. For Hughes in total, CFO Roxanne Austin said earnings would drop to \$500 million, \$300 million below earlier estimates.

New promotions are needed as DirecTV drives to reach projected 9.5-10 million subscribers by year-end, Hartenstein said. It currently has 8.7 million. Revenue per subscriber rose 50¢ in 2nd quarter to \$58.50, while monthly churn was 1.5%, improvement on 1.7% in previous quarter.

DirecTV also moved up target for converting 70% of 1.6 million former Primestar customers to DirecTV to Sept.-Oct. from year-end, Hartenstein said. DirecTV bought Primestar assets in 1999 (TVD Jan 25/99 p11).

At Hughes Network Systems (HNS), new combined AOLTV Plus/DirecPC service, originally expected by midyear (TVD April 24 p20) has been postponed to fall.

Originally conceived as one-way service, HNS said it was negotiating with AOL to switch to 2-way. New service could be key for DirecPC, which has been disappointment in attracting only 112,000 subscribers since debut in 1998. Pricing of AOLTV Plus/DirecPC product wasn't available, although HNS Chmn.-CEO Pradman Kaul conceded production costs would

be "significantly below" \$1,000 and "competitive" with digital subscriber line (DSL) and cable modem services. DirecPC 2-way offering is seen as precursor to Spaceway satellite-based Internet service that's expected to be available in 2002.

HNS also has overcome shortage of DirecTV IRDs that plagued industry in 1999 (TVD June 7/99 p10) with current inventories at 2 weeks, Kaul said. "There is absolutely no shortage and we can respond on demand to reasonable requests," he said, noting that HNS recently had produced 10,000 IRDs for Bell Atlantic. "The inventory levels allow us to ensure a smooth flow of production."

Hughes declined to release subscriber figures for sales agreements with Bell Atlantic and SBC, but said phone companies would take DirecTV regionwide by fall.

DirecTV has begun local-into-local service in 27 markets, plans to add 8 more within 60 days, Hartenstein said. It has achieved 58-60% "take" rate among new subscribers, but remains at 38-40% with existing customers.

DirecTV's Galaxy Latin America (GLA) reported negative \$40.4 million in EBITDA vs. \$38.4 million year earlier. It has completed consolidation of operations in Brazil and Mexico and recently topped one million customer mark, Chmn. Kevin McGrath said.

EMachines, taking major hit for unsold retailer inventories, reported 2nd-quarter loss dropped to \$47.4 million from \$2.9 million year earlier as revenue fell to \$124.9 million from \$213.9 million. EMachines blamed setbacks on overall slowdown in PC retail market. "The lower-end consumer basically checked out of the market based on the uncertainties in the economy," EMachines CEO Stephen Dukker said. EMachines was forced to discount PCs as sales stagnated in quarter, but Dukker said inventory position had improved. Channel inventory was cut to 3½ weeks as of last week from 7 weeks in early June, he said. But inventory cut was driven largely by price, he said. EMachines unit shipments were down 29% in quarter to 326,000 and average selling price dropped to \$501 from \$566 year earlier. To offset decline in PC sales, EMachines is expanding strategy to include revenue from Internet services business. It's scheduled to release Internet appliance based on Microsoft's MSN Web Companion design in fall. However, Internet business revenue dipped \$200,000 to \$3.2 million.

Consumer intentions on buying TV sets fell significantly in July from June, according to preliminary data in Conference Board monthly survey. Of 5,000 households polled, 6.8% said they planned to buy TV set in next 6 months, vs. 8.4% in June, 7.9% in May, 8% in July 1999. Consumer Confidence Index rebounded in July following 6-point decline in June, Conference Board saying: "Consumers are not only optimistic about current conditions, but their expectations for the next 6 months signal continued low unemployment and minimal inflationary pressures."

DTV product sales now account for almost 2/3 of big-screen TV business at 8-store Ken Crane's retail chain, Dir. Tom Campbell told House Telecom Subcommittee at hearing on DTV last week (see report, Best-Cable section). Over 2 years since DTV launch, chain has moved 2,900 DTV sets and 403 set-top receivers, Campbell said.

RENTRAK EARNINGS FALL: Rentrak, citing costs at e-commerce distribution subsidiary 3PF.com, said first-quarter income dipped to \$1 million from \$1.2 million year earlier as revenues slid to \$30.3 million from \$31 million (see financial table).

Minus 3PF, Rentrak posted \$1.6 million profit on revenue of \$26.8 million as gross margin grew to 27% from 20%. 3PF loss expanded in quarter to 5¢ from 2¢ per share year earlier despite 23% rise in revenue to \$4.3 million. 3PF, which handles distribution for e-commerce companies including CDNow, is nearing capacity at its existing 320,000-sq.-ft. warehouse and will add another 120,000 sq. ft. by year-end, company said. 3PF, which is being considered for spinoff from Rentrak, is projected to turn profit by 4th fiscal quarter, Chmn.-CEO William Polich said. 3PF had \$3.1 million in operating costs in quarter.

Rentrak released financial results, as Chmn.-CEO Ronald Berger received sharp criticism in conference call with investors for stewardship of company and \$6.6 million promissory note he executed in May. CFO Kim Cox signed similar \$1.4 million note. Berger, who founded company in 1977, said notes were designed to allow him to increase stake in Rentrak and received board approval. Several other board members and executives made stock cash purchases in June of 8,000-25,000 shares, filing at SEC showed. "I am a little mystified if you are concerned by a program in which the company's 2 most senior executives indicate their loyalty and confidence," Berger said. Notes don't violate securities regulations, he said.

Berger has been pressed in recent months by dissident shareholder group Committee for Achievement of Rentrak Excellence (CARE), which plans proxy battle at annual meeting later this year in attempt to force his ouster. Group of 11 investors filed suit in July alleging that board's approval of loans to Berger and Fox were made to ensure they would have more shares to vote in proxy fight. Suit, in U.S. Dist. Court, Portland, Ore., also charged that Rentrak violated SEC rule by lending Cox and Berger money at value greater than market value of stocks they bought. Action also was rejoinder to suit Rentrak filed against CARE in June accusing group of making "false and misleading solicitations" in effort to win support in proxy battle.

As for sales, Rentrak's recent DVD distribution agreement with MGM represents "significant milestone" toward establishing pay-per-transaction (PPT) business for format, Berger said. DVD currently accounts for less than 1% of Rentrak's PPT revenue in U.S., with most involving prerecorded videocassettes. But in Japan, where subsidiary has pacts with Sony and Disney, DVD represents 6.2% of revenue, Berger said. PPT also should gain boost from Rentrak's recent agreement to provide software and data collection services to VSDA for industry group's 4-month test of revenue sharing program in fall. Test, involving 50 dealers and 8 movie studios, is based on terms similar to those granted major chains.

On legal front, Roadrunner and Movie Buff video chains dropped separate antitrust suits it filed against Rentrak, leaving Video Update as lone pending case. Rentrak reached settlement with Hollywood Video earlier this year.

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DirecTV will increase price \$2 on core programming packages effective Sept. 1 to 8.5 million customers activated before May 25. Pay-per-view fee will rise \$1 to \$3.99 (TVD July 24 p19). DirecTV cited increased programming costs for \$2 boost for new customers earlier this year.

BMC Industries reported 2nd-quarter earnings rose 11% despite 25% drop in PC monitor mask sales stemming from "temporary loss of volume" from single customer. Overall sales increased 3%. BMC Chmn.-CEO Paul Burke said company expected to restore volume with customer in 2nd half and would seek to add business to prevent similar problems in future. Sharp drop in PC monitor business was offset by TV masks with sales of 30" and up and 24-29" increasing 40% and 9%, respectively. Overall entertainment mask sales were up 10%. In quarter, BMC signed agreement to supply masks to Thomson Multimedia for 38W and 34W direct-view HDTVs.

DirecTV plans to shut down medium-power Primestar service by Oct. as it reaches goal of converting 70% (1.6 million) of former rival's subscribers to its service, Hughes Electronics Senior Exec. Vp Eddy Hartenstein said. He said 435,000 former Primestar subscribers remain to be converted, and agreement DirecTV signed Pegasus Communications earlier this month would help in process. Pegasus will pay DirecTV \$300 fee for each conversion, boosting per-subscriber acquisition cost for Primestar to \$700-\$750, CEO Marshall Pagon said. Some 65,000-75,000 of those subscribers reside in Pegasus territories, he said. And 250,000 Primestar customers were in Pegasus regions when conversion process started. DirecTV has steadily added ex-Primestar customers to its roster since buying assets of one-time competitor in 1999.

Boca Research (BR) is changing name to Inprimus as it shifts business focus to design services and software technology and moves away from PC modems that gave company its start. BR once was leading provider of PC modems and acquired rival Global Village for \$10 million in 1998 in bid to expand business (TVD June 1/98 p17). It also made brief venture into custom manufacturing when it agreed to build RCA set-top boxes for ill-fated NetChannel service (TVD Oct 20/97 p7) that later folded (TVD May 4/98 p11). Name change, which must be approved by shareholders, follows BR's forming of Inprimus Technologies subsidiary in Feb. to target interactive and Internet-based appliances.

Slightly more than 10% of Direct's 8.7 million subscribers have purchased Dolby Digital-equipped IRAS, said David Spomer, vp-digital decoder product management at Thomson. Spomer conceded that Direct and Thomson had "higher expectations" for sales of technology, but said it was "content driven." Indeed, while Showtime had been providing Dolby Digital 5.1 for satellite feeds for some time, HBO only joined fray in July. CE industry sold 100,000 IRDs with audio technology in 1998 and had reached 120,000 by mid-1999 (TVD July 26/99 p12). Thomson has single IRD with Dolby Digital technology and recently added it to UltimateTV Direct/WebTV combo product that sells for \$449.

NetFlix.com joined growing list of dotcoms that have asked to have IPO withdrawn because of unfavorable market conditions. In letter to SEC, NetFlix.com CFO Barry McCarthy said: "The company believes that terms that could be obtained in the public marketplace at this time are not sufficiently attractive to warrant proceeding with the public sale of the common stock." He said IPO was discretionary and he didn't believe completing discretionary financing on potentially unfavorable terms would be in best interests of company and stockholders. NetFlix.com originally filed IPO April 18, saying it was seeking more than \$86 million, mainly for general corporate purposes (TVD April 24 p17).

MUSICMAKER.COM UNVEILS NEW SITE: New, enhanced Web site was opened by Musicmaker.com last week as Web music retailer posted increased sales and steeper loss for 2nd quarter ended June 30.

Web site now includes editorial content and allows consumers to search for music by genre. Musicmaker.com Pres.-CEO Raju Puthukarai said company is backing relaunch of Web site with print ads "in over 30 million copies of leading upscale magazines" in first leg of direct-to-consumer national campaign. Effort also will include direct response marketing, Musicmaker.com said.

In 2nd quarter, company said it spent \$1.8 million on ad and marketing activities alone, including sponsorships of tours by Jimmy Page/Black Crowes and The Who, recording artists who have been running exclusive custom CD compilation promotions in conjunction with Musicmaker.com. Expenses also again included price of acquiring music for custom CDs and downloads. Overall sales and marketing expenses for quarter were \$5.3 million, up from \$875,679 in year.

Expenses contributed to \$14.6 million loss in quarter, major increase from \$3.6 million.

Musicmaker.com said sales jumped to \$1.2 million in quarter from \$47,671 last year. It said sales included \$1.1 million in direct-to-consumer business and \$98,000 from special market/premium business segment. Consumer business increased 40% from \$777,000 in first quarter this year. It said number of custom CDs it shipped in 2nd quarter leaped to more than 105,000 from 63,000 in first quarter.

But 2nd-quarter sales were considerable drop from \$3.1 million in first quarter. Significant factor was that company saw dropoff in special market sales from first quarter, when it had \$1.9 million in revenue via CDNow-Pizza Hut custom CD promotion and was paid \$250,000 by Microsoft as fee for digitizing Musicmaker.com's songs into Windows Media audio format.

In brief conference call with analysts last week, company didn't bring up and wasn't asked about status of music from EMI being made available at its Web site.

Pace at which EMI, at least at start, was making its music available to Musicmaker.com led to class action lawsuit being filed against it by disgruntled investors (TVD March 6 p20), followed by what Musicmaker.com described as 2 related "follow-on actions" (TVD May 1 p16). In March, lawyer handling class action suit told us that one of main concerns of his clients was that EMI had yet to provide Musicmaker.com songs from top-name artists such as Frank Sinatra despite fact that EMI has stake in online retailer.

As of last week, various songs from EMI were available at Musicmaker.com's Web site from artists including Sinatra and Blondie, although most of EMI's full catalog had yet to be made available. But Musicmaker.com Global Mktg. Pres. Larry Lieberman told us last week that much more was coming.

Lieberman said: "The latest [music] acquisitions from [EMI] are really focused on the areas where they've got the deepest repertoires — EMI Classics and Blue Note," which largely translates to classical music and jazz. But he said pop and rock music is coming as well from artists considered to have "the most exciting repertoires" — such as Sinatra — tending to be coming first.

Lieberman said EMI also was making effort to provide pop music in alphabetical order starting with letter "A," which he said accounts for why Blondie's music already has been included.

Lieberman didn't say how many CDs or tracks from EMI were available as of last week because "we don't break it out to EMI and non-EMI." He said only that Musicmaker.com had "over 150,000 tracks" overall available for custom CD compilations and "about 60,000 tracks that are not from EMI for download."

Lieberman said Musicmaker.com had "just entered into an agreement with Liquid Audio that will enable us to offer all of the albums and singles that EMI has announced" (TVD July 24 p20) it's making available for downloading through online retailers. This, he said, will "take a couple of weeks" and EMI downloads probably won't be available at Musicmaker.com for downloading until "the very end of the summer."

All Lieberman would say as to status of lawsuit was "the lawyers are handling it" and "it is what it is."

Zany Brainy has completed \$40 million purchase of one-time rival Noodle Kidoodle (NK) (TVD May 8 15), creating 171-store chain in 34 states specializing in education-oriented toys including software and electronic learning aids (ELAs). Existing 60 NK stores will be converted to ZB banner. ZB, which with NK acquisition has \$370 million in annual revenues, will open another 18 stores by year-end in effort to bolster presence in Fla., Mich., N.Y. and Tex. markets. ZB's purchase of NK capped discussions between chains that dated to 1996, but were rekindled only last fall (TVD June 5 p19).

Consumer Electronics Personals

David Easterly, Cox Enterprises pres.-COO, resigns from MP3.com board... **Thomas Wan**, SRS Labs vp-dir. and CEO of subsidiary ValenceTech, resigns, remains consultant... **William Wicker** and **James Metzger**, Texaco senior vp and vp-chief technology officer, respectively, elected to Energy Conversion Devices board... Promoted at KnowledgeLink: **Peter Barry** to vp, chief information architect, **Howard Diamond** to vp-sales... Promoted to RadioShack senior vps: **Robert Kilinski**, vp-strategic services; **Roger McInnis**, vp-N. American mfg. & logistics operations; **Edmond Chan**, vp-Far East operations... **Mitchell Fadel**, Rent-a-Center (RAC) subsidiary ColorTyme pres.-CEO, promoted to RAC pres., replacing **Dowell Arnette**, who remains exec. vp... **Andy Giancamilli**, Kmart pres., shifts to COO, succeeding **Donald Keeble**, who retires... **Joseph Galli** resigns as Amazon.com COO to become VerticalNet CEO... **Jeffrey Sheahan** named Egghead.com CEO, replacing **Jerry Kaplan**, who becomes co-chmn... **Thomas Foliard**, Circuit City CarMax mdsg. vp, promoted to senior vp-store operations... **Barry Goldstein**, Office Depot CFO, to retire... MusicMatch appointments: **Daniel DeNigris**, ex-Genesis Software, as vp-content development & label relations; **Jodie LeVitus-Francisco**, ex-Billboard, sales vp; **Jonathan Gear**, ex-Microsoft, mktg. vp... **James Ackerman**, ex-British Interactive Bestg., named pres.-COO. OpenTV... **Julian Jannus**, MGM Worldwide TV Group on-air & online mktg. exec. dir., promoted to senior vp, MGM.com... **Michael Burger**, Zilog vp-worldwide sales, advanced to field programmable microcontroller business senior vp-gen. mgr. effective Sept. 1, replaced by **Thomas Vanderheyden**, vp-distribution... **Kevin Smith**, ex-Arbitron New Media, named Wink Communications senior vp-gen. mgr., research & targeting... **Neal Goldman**, Polaroid Law & Patent Div. vp-chief counsel, promoted to senior vp-gen. counsel.

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
Ackerley Group			
2000-6 mo. to June 30	155,700,000	163,000,000	4.67 ^a
1999-6 mo. to June 30	139,100,000	11,700,000	.37 ^a
2000-qtr. to June 30	73,400,000	(2,300,000)	— ^b
1999-qtr. to June 30	71,400,000	15,600,000	.49 ^a
Amazon.com			
2000-6 mo. to June 30	1,151,765,000	(625,609,000)	— ^b
1999-6 mo. to June 30	608,010,000	(199,675,000)	— ^b
2000-qtr. to June 30	577,876,000	(317,184,000)	— ^b
1999-qtr. to June 30	314,377,000	(138,008,000)	— ^b
Belo			
2000-6 mo. to June 30	776,736,000	47,652,000	.40
1999-6 mo. to June 30	693,522,000	92,353,000	.78 ^a
2000-qtr. to June 30	412,238,000	32,259,000	.27
1999-qtr. to June 30	366,902,000	79,763,000	.68 ^a
Blonder Tongue			
2000-6 mo. to June 30	39,242,000	3,333,000	.44
1999-6 mo. to June 30	28,412,000	776,000	.09
2000-qtr. to June 30	18,062,000	1,752,000	.23
1999-qtr. to June 30	14,656,000	333,000	.04
British Sky Broadcasting^a			
2000-year to June 30	1,847,000,000	(2,715,000,000)	— ^b
1999-year to June 30	1,545,000,000	(285,100,000)	— ^b
2000-qtr. to June 30	530,100,000	(200,500,000)	— ^b
1999-qtr. to June 30	400,900,000	(335,600,000)	— ^b
Cidco			
2000-6 mo. to June 30	37,986,000	(2,500,000)	— ^d
1999-6 mo. to June 30	94,303,000	3,591,000	.26
2000-qtr. to June 30	21,505,000	7,880,000	.57 ^b
1999-qtr. to June 30	47,101,000	2,049,000	.15
Clear Channel Communications			
2000-6 mo. to June 30	1,748,414,000	(8,167,000)	— ^c
1999-6 mo. to June 30	994,478,000	93,764,000	.33 ^a
2000-qtr. to June 30	965,875,000	31,235,000	.09
1999-qtr. to June 30	617,691,000	106,500,000	.35 ^a
Cobra Electronics			
2000-6 mo. to June 30	57,146,000	2,286,000	.37
1999-6 mo. to June 30	46,087,000	870,000	.14
2000-qtr. to June 30	35,847,000	1,658,000	.27
1999-qtr. to June 30	26,213,000	833,000	.14
Compaq Computer			
2000-6 mo. to June 30	19,640,000,000	712,000,000	.42
1999-6 mo. to June 30	18,839,000,000	97,000,000	.07
2000-qtr. to June 30	10,127,000,000	387,000,000	.22
1999-qtr. to June 30	9,420,000,000	(184,000,000)	— ^c
Comsat			
2000-6 mo. to June 30	340,200,000	27,600,000	.52 ^b
1999-6 mo. to June 30	300,400,000	24,000,000	.46 ^a
2000-qtr. to June 30	168,800,000	6,600,000	.12 ^b
1999-qtr. to June 30	155,900,000	12,000,000	.23 ^a
Datron Systems			
2000-qtr. to June 30	13,354,000,000	(327,000,000)	— ^c
1999-qtr. to June 30	13,523,000,000	52,000,000	.02
Eight by Eight			
2000-qtr. to June 30	5,823,000	(3,225,000)	— ^c
1999-qtr. to June 30	5,894,000	(11,738,000)	— ^b
EMusic			
2000-qtr. to June 30	3,772,000	(25,684,000)	— ^c
1999-qtr. to June 30	51,000	(10,877,000)	— ^b
Energizer			
2000-qtr. to June 30	408,800,000,000	23,200,000,000	.24
1999-qtr. to June 30	399,200,000,000	11,800,000,000	.12 ^b
Gaylord Entertainment			
2000-6 mo. to June 30	234,452,000	(29,284,000)	— ^c
1999-6 mo. to June 30	241,501,000	80,450,000	2.45 ^a
2000-qtr. to June 30	128,728,000	(14,243,000)	— ^c
1999-qtr. to June 30	128,362,000	658,000	.02
Grupo Elektra			
2000-qtr. to June 30	352,000,000	2,000,000	— ^c
1999-qtr. to June 30	309,000,000	26,000,000	.22 ^a
Hughes Electronics			
2000-6 mo. to June 30	3,540,100	(151,000,000)	— ^c
1999-6 mo. to June 30	2,234,500	(24,600,000)	— ^c
2000-qtr. to June 30	1,837,000	(69,100,000)	— ^c
1999-qtr. to June 30	1,316,100	(97,600,000)	— ^c
Ibeam Broadcasting^a			
2000-6 mo. to June 30	3,912,000,000	(54,435,000,000)	— ^c
2000-qtr. to June 30	3,380,000,000	(33,080,000,000)	— ^c

Company & Period	Revenues	Net Earnings	Per Share
Imation			
2000-6 mo. to June 30	637,900,000,000	34,300,000,000	.97 ^a
1999-6 mo. to June 30	695,400,000,000	18,800,000,000	.49 ^a
2000-qtr. to June 30	309,100,000,000	13,800,000,000	.39 ^a
1999-qtr. to June 30	354,200,000,000	12,700,000,000	.34 ^a
Kopin			
2000-6 mo. to July 1	44,134,407	6,087,917	.00
1999-6 mo. to July 3	15,343,997	352,390	.10
2000-qtr. to July 1	24,394,644	3,815,175	.01
1999-qtr. to July 3	8,614,401	146,523	.06
Labtec			
2000-qtr. to June 30	24,088,400	388,900,000	.10
1999-qtr. to June 30	15,512,300	(548,200,000)	— ^c
Logitech International			
2000-qtr. to June 30	141,416,000	4,985,500	1.20 ^a
1999-qtr. to June 30	121,068,000	588,000	.15 ^a
Matsushita^b			
2000-qtr. to June 30	1,770,000,000	9,400,000,000	
1999-qtr. to June 30	1,760,000,000	9,550,000,000	
Nokia^a			
2000-6 mo. to June 30	13,517,000,000	1,842,000,000	
1999-6 mo. to June 30	8,363,000,000	1,086,000,000	
2000-qtr. to June 30	6,980,000,000	951,000,000	
1999-qtr. to June 30	4,493,000,000	581,000,000	
Rayovac			
2000-9 mo. to July 2	509,400,000	25,600,000	.93
1999-9 mo. to July 2	392,000,000	19,200,000	.70 ^b
2000-qtr. to July 2	152,000,000	8,100,000	.29
1999-qtr. to July 2	120,400,000	6,200,000	.22 ^b
Rent-A-Center			
2000-6 mo. to June 30	784,771,000	55,510,510	2.07 ^a
1999-6 mo. to June 30	696,118,000	25,918,000	.87
2000-qtr. to June 30	392,245,000	34,621,000	1.32 ^a
1999-qtr. to June 30	351,421,000	13,891,000	.47
Rentrak			
2000-qtr. to June 30	30,284,947	1,045,919	.10
1999-qtr. to June 30	30,995,070	3,612,988	.35
Rimage			
2000-6 mo. to June 30	26,569,000	4,635,000	.56 ^b
1999-6 mo. to June 30	18,535,000	2,512,000	.32 ^b
2000-qtr. to June 30	13,377,000	2,481,000	.30
1999-qtr. to June 30	9,893,000	1,416,000	.18 ^b
Silicon Storage Technology			
2000-6 mo. to June 30	165,500,000	30,280,000	1.10
1999-6 mo. to June 30	41,319,000	(10,619,000)	— ^b
2000-3 mo. to June 30	102,076,000	22,536,000	.76
1999-3 mo. to June 30	22,991,000	(3,630,000)	— ^b
Sony Corp.			
2000-qtr. to June 30	1,561,762,000	(88,293,000)	— ^c
1999-qtr. to June 30	1,482,252,000	18,427,000	22.50 ^a
STMicroelectronics			
2000-6 mo. to July 1	3,579,500,000	574,900,000	.65
1999-6 mo. to July 3	2,303,900,000	227,600,000	.27
2000-3 mo. to July 1	1,877,300,000	336,500,000	.38
1999-3 mo. to July 3	1,190,600,000	122,500,000	.14
Texas Instruments			
2000-6 mo. to June 30	5,497,000,000	1,705,000,000	1.04 ^a
1999-6 mo. to June 30	4,477,000,000	586,000,000	.37 ^k
2000-qtr. to June 30	2,843,000,000	1,278,000,000	.78 ^a
1999-qtr. to June 30	2,395,000,000	330,000,000	.21 ^k
3DO			
2000-3 mo. to June 30	7,856,000	(26,262,000)	— ^c
1999-3 mo. to June 30	13,072,000	(6,773,000)	— ^c
TRW			
2000-6 mo. to June 30	9,040,700,000	408,800,000	3.33 ^a
1999-6 mo. to June 30	7,882,300,000	111,400,000	.92 ^b
2000-qtr. to June 30	4,475,400,000	199,500,000	1.62 ^a
1999-qtr. to June 30	4,785,400,000	139,800,000	1.16 ^b
USA Networks			
2000-6 mo. to June 30	2,100,880,000	(47,427,000)	— ^b
1999-6 mo. to June 30	1,506,376,000	(2,173,000)	— ^b
2000-qtr. to June 30	1,098,077,000	(28,555,000)	— ^b
1999-qtr. to June 30	777,429,000	(9,716,000)	— ^b
Universal Electronics			
2000-6 mo. to June 30	50,955,000	3,179,000	.23
1999-6 mo. to June 30	43,699,000	1,649,000	.13 ^a
2000-qtr. to June 30	28,291,000	2,144,000	.16
1999-qtr. to June 30	22,757,000	1,199,000	.09 ^a

Notes: ^aIncludes special credit. ^bAfter special charge. ^cIn British pounds. ^dIncludes special items. ^ePer ADS. ^fComparable results unavailable. ^gAdjusted. ^hIn thousands of Japanese yen. ⁱIn euros. ^jAdjusted; includes special credit. ^kAdjusted; after special charge.