



# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

AUGUST 7, 2000

VOL. 40, NO. 32

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**CABLE MODEMS LEAD BUT DSL IS GAINING:** Modem shortage hurts cable operators while Bells cut service prices. (P. 6)

**FCC POSTPONES 700 MHz AUCTION FOR 6 MONTHS:** One day before first filing forms were due in 700 MHz auction, FCC delayed Ch. 60-69 bidding for 6 months to allow more time for issues involving incumbent analog broadcasters to be resolved. Delay until March 6 fell short of one-year postponement that group of wireless carriers and equipment-makers sought last month from Commission but did provide additional time that Congress and carriers had urged. One of several issues that has haunted this auction is uncertainty as to when Ch. 60-69 will be vacated by broadcasters, as result of rather slow adoption of DTV by stations and consumers. Comrs. Furchtgott-Roth and Tristani dissented.

Decision moves back filing deadline for Form 175 until Feb. 2, with upfront payment deadline now set for Feb. 16 and bidding preference form deadline Feb. 20. Mock auction will be held March 1 and 2.

"Certainly, we would rather have a 6-month delay" than none at all, wireless industry source said. "It would give us 6 more months to at least start the process of negotiating with the broadcasters." Among factors making 2nd postponement important was fact that reply comments on further notice on mechanisms for clearing Ch. 60-69 spectrum were to be due after start of proposed auction, source said. Larger issue has been how to expedite discussions between incumbent analog broadcasters who will be exiting spectrum contingent on making transition to digital TV by 2006. Commission last month issued further notice of proposed rulemaking to seek comments on plan to facilitate band-clearing.

FCC Chmn. Kennard said delay was "necessary as a matter of sound spectrum management and is consistent with a balanced reading of all our statutory obligations." He referred to Sec. 309(j) of Communications Act, which stipulates that FCC must ensure bidders have adequate time to develop business plans, assess market conditions and evaluate equipment availability for services. Kennard said FCC wasn't aware of any industry representative or congressional member who opposed request for delay. His statement acknowledged Sec. 309 was at odds with legislative mandate that funds

### Consumer Electronics

**DVD RECORDER SHIPS THIS MONTH** at \$4,000 from Panasonic. Deck lacks digital video jacks owing to copyright concerns. (P. 9)

**PHILIPS TO REPLACE** integrated HDTV 64W set with similar HDTV-ready model in bow to competition and slow sales. (P. 10)

**RTO INDUSTRY CUTS BACK CE GOODS** as it boosts PC and furniture rentals. DVD and Dolby Digital receivers make inroads. (P. 10)

**INDUSTRY ON PACE TO TOP** 8.5 million DVD player shipments this year based on 109.9% rise in first 6 months, CEA reports. (P. 12)

**NAPSTER-LIKE GAME SERVICE BOWS**, allows users to swap software copied from videogames. (P. 13)

**TIVO PRODUCT SHORTAGES** expected in fall despite increases in production by contract manufacturer. (P. 14)



from auction be placed in Treasury by end of fiscal year Sept. 30. "Although the Commission takes congressional deadlines very seriously, upon weighing the statutory obligations of the Consolidated Appropriations Act of 2000 against those in our charter statute, the Communications Act, the action taken today is appropriately tailored to balance our responsibilities in a manner that best serves the public interest."

Dissenting, Furchtgott-Roth and Tristani said in joint statement that delay was "in stark disregard of the agency's statutory obligation" to ensure that auction proceeds were given to Treasury by Sept. 30. "Our auction design rules and issues raised in the Commission's further notice are no basis for abandoning this statutory deadline," they wrote. "As Commissioners, we are sworn to uphold the law. Today we are obligated to object to this direct violation of our governing statute."

"By exercising its authority over spectrum management, the Commission has gone a long way to ensure that this spectrum, a scarce national resource, can be put to its highest and best use when it is auctioned next year," AT&T Wireless Senior Vp Gregory Landis said. CTIA Pres. Thomas Wheeler also cited opportunity to "coordinate the myriad of issues" involving spectrum block, particularly shift to DTV by 2006. "Wireless services need spectrum," Wheeler said, "but Congress cannot treat the sale of spectrum as a quick fix for budget shortfalls, and instead must work toward a coherent national spectrum policy in which we plan for new technology and our national bandwidth needs 2, 5 and 10 years down the road." Verizon Wireless Pres. Denny Strigl said he hoped "the Commission will use this time wisely to develop a strategy for making the spectrum more usable. The problems we have seen in this process can hopefully be avoided in the future by adopting a long-term comprehensive spectrum management policy."

**BIDS WEIGHED FOR SBC AND VERIZON CABLE UNITS:** Major cable operators and new broadband service providers (BSPs) are exploring purchase of cable overbuild systems put up for sale recently by SBC and Verizon. Sources told us several prospective buyers were looking at video systems being shopped separately by Bells, with interest particularly high among new broadband players developing fiber-rich systems around U.S. Bell officials and industry observers, in fact, consider such leading broadband providers as RCN Corp. as biggest contenders for systems and RCN reportedly has made at least one offer for SBC's systems. "I think we really feel interest will come definitely from the overbuilders and the existing people in this business," said Verizon Entertainment Pres. Richard Beville, whose unit includes former Bell Atlantic Video and GTE Media Ventures units. He recently hired Goldman, Sachs to market properties.

Privately, several broadband providers expressed strong interest in cable overbuild systems. Covering such major metro areas as Chicago, Cleveland, Columbus, Detroit, Honolulu and Tampa, SBC and Verizon systems have collective total of 420,000 subscribers and offer instant entry into attractive urban markets, especially in Midwest. Some systems, such as Verizon's in Clearwater and in Ventura County, Cal., offer digital video and high-speed data as well as analog cable. There's also value of cable franchise rights, 115 of them held by SBC alone. "Someone will want them," said broadband executive. "The pluses are the existing networks with customers."

But observers say hybrid fiber-coaxial (HFC) systems, while only few years old, no longer are state-of-art because of new fiber-to-curb and fiber-to-home systems being built by broadband providers to carry bundled voice, video and data. Verizon officials admit they put their old GTE Media Ventures systems in Cal., Fla. and Hawaii up for sale at least partly because they were "video overlay" operations, not integrated networks. "They're encumbered by legacy technology and legacy systems," said Western Integrated Networks (WIN) CEO James Vaughn, whose company is building broadband systems in Cal. and Tex. "They're up to par with any upgraded cable systems but they're only video."

Prospective buyers also complain that overbuild systems such as SBC's, which have been on block longer than Verizon's, are being marketed as total package. While interested in some markets, they're not drawn to others. "I'm interested in pieces," another broadband executive said, "but they don't seem to be shopping it that way."

Other possible buyers aren't interested because they own rival cable systems in SBC and Verizon video markets. Time Warner (TW), which competes against telco cable overbuilds in Columbus, Honolulu and Tampa areas, said it didn't plan to pursue those systems, if only to shut them down. "We're not involved in any discussions with either of them at this time," TW spokeswoman said. Spokeswoman for AT&T, which competes against overbuild systems in Cal., Chicago and Detroit, declined comment.

RCN also downplayed interest in telco systems, at least publicly, because they're set up mainly for video. But it didn't rule out purchases, either. "If the networks don't fit our criteria, we won't do it," RCN spokeswoman said.

SBC, which has 290,000 video subscribers among former Ameritech New Media properties, and Verizon, which has 130,000 video customers, are seeking upward of \$4,000 per subscriber for their systems. If asking prices are met, sys-



tems could fetch up to \$1.2 billion for SBC and \$600 million for Verizon. Sources said SBC already had rejected offer of nearly \$4,000 per subscriber from RCN, biggest broadband firm with 217,000 video customers on its new fiber networks. "They're [SBC] definitely looking for 10 figures," said 3rd broadband executive.

SBC, which also has 30,000-subscriber cable overbuild system in Conn. that it's likely to sell later, declined comment on price and other sale terms of Ameritech systems. Spokesman said SBC was exploring several options, including selling systems and continuing to operate them. If it sells, he said, SBC is seeking buyer committed to operating systems, smooth transition to new owner, preservation of competition and consumer choice. But one observer said he wouldn't be surprised to see SBC shutter systems. "They'd rather write it off than invite competition in their markets," he said.

**VIACOM, DISNEY EARNINGS UP:** Viacom reported 64% surge in revenue in 2nd quarter ended June 30, thanks partly to its takeover of CBS, but it had large operating and net losses because of merger-related charges. Viacom, which closed on \$30 billion purchase of CBS in early May, said revenue jumped to \$4.9 billion in quarter from \$3.0 billion year ago. But it had \$278.2 million operating loss, \$495.6 million net loss and much lower operating cash flow of \$273 million in quarter because of \$698 million in pretax charges related to CBS acquisition.

Viacom said its TV, cable networks and Infinity Bcstg. divisions showed greatest growth, with all 3 posting large double-digit gains in revenue and operating cash flow. TV division, now consisting of CBS, UPN (now Paramount) and TV production and syndication, reported 147% increase in revenues to \$1.3 billion and 105% surge in operating cash flow to \$183 million. Cable Networks unit, which now includes TNN and CMT as well as MTV, VH1, Nickelodeon and Showtime, posted 34% jump in revenues to \$946 million and 53% in operating cash flow to \$335 million.

Disney reported double-digit jumps in operating income and net income on 9% increase in overall revenue for its 3rd quarter ended June 30, thanks largely to strong results from its broadcasting and cable networks. Excluding its retained interest in Walt Disney Internet Group, Disney said pro forma operating income rose 20% to \$1.2 billion and net income surged 48% to \$633 million on \$6 billion in revenues. Company's media network division, which includes ABC, ESPN, Disney Channel and stakes in Lifetime TV, A&E TV, History Channel and E! Entertainment TV, led with 20% increase in revenue to \$2.3 billion and 36% climb in operating income to \$662 million. Disney credited unit gains to strong ad growth at ABC and cable networks and increased cable affiliate revenues.

Revenue of GO.com, Disney's Internet subsidiary, rose 10% to \$86.3 million in 3rd quarter, but operating loss soared to \$83.2 million this year from \$48.2 million year ago, increase Disney attributed to stepped-up spending on Web site technology and infrastructure, new products and enhanced existing Web sites. Net loss was \$272 million vs. \$251.5 million year ago. Meanwhile, GO.com changed its name to Walt Disney Internet Group.

Belo board authorized buyback of up to 25 million of company's common shares. CEO Robert Decherd said Belo is "very focused on pursuing strategies that have the potential to enhance shareholder value" and stock repurchase "at current trading prices represents one of the most compelling investment alternatives available." Board also declared dividend of 7¢ per share, effective Sept. 1 for holders of record Aug. 11.

Despite continued heavy losses, Charter Communications reported strong boost in operating cash flow in 2nd

quarter ended June 30 on healthy rise in revenue. Charter, nation's 3rd largest MSO with 6.2 million basic cable customers, said operating cash flow increased to \$373.2 million, up 16.4% from pro forma results year ago. Revenue grew 9.8% to \$794.8 million but company had net loss of \$196.8 million (89¢ per share), in spring quarter. Charter said it added more than 40,000 basic cable subscribers through internal growth, 150,000 digital video customers, 26,400 high-speed data subscribers. Company also said it had accelerated its upgrade program and now expected to have 70% of its cable systems overhauled by end of year.

EchoStar (DISH) said 2nd-quarter net loss widened to \$132.8 million from \$76.1 million loss year ago on revenue of \$646.1 million, up from \$350.2 million. Company also said it had added 445,000 net subscribers to end quarter with 4.3 million, 34% increase in year. First-half subscriber growth was up 37% from 1999. It said it had captured 56% of net new DBS TV subscribers in 2000.

In other financial results: **Infinity Bcstg.** had \$115 million profit in quarter ended June 30, up from \$100 million year ago. Revenue grew to \$975 million from \$597 million because of acquisitions, and cash flow climbed 73% to \$458 million. Radio revenue was up 20% to \$555 million and outdoor ads to \$169 million from \$31 million... **Radio Unica** lost \$6.8 million in 2nd quarter ended June 30, improvement on \$9.4 million loss year ago. Revenue increased to \$7.7 million from \$4.6 million... **Radio One** profit skyrocketed to \$5.6 million in 2nd quarter ended June 30 from \$254,000 profit year ago as revenue grew to \$37.2 million from \$24.1 million.

**Republican convention** in Philadelphia was first to be broadcast in HDTV, organizers said. Ironically, technical work was provided by Japan's NHK Bcstg. Comcast also had presence at convention, not surprisingly, as it was held in Comcast-Spectacor's First Union Center. Throughout convention hall kiosks were wired for Internet with high-speed modem service from Comcast. Delegates could sign up for free accounts giving them access to latest happenings at convention, GOP officials said. That and other special wiring needs led local power company PECO Energy to upgrade its arena offering to 30 Mw from 7.5 Mw, convention organizers said.

**New EchoStar customers** can receive free ESPN College Football GamePlan package until Sept. 30 that usually costs \$99. Current customers can purchase package for \$89 until Aug. 31, when price rises to \$99. DBS customers also have option of buying service each Sat. for \$11.95. ESPN GamePlan delivers 12 college football games from major conferences each week. EchoStar also announced Everything Pak that offers DISH subscribers Top 150 programming package and 4 premium movie channels for \$69.99.



**DTV-ONLY MUST-CARRY STIRS CLASH:** Bid by new DTV-only station to gain cable must-carry status drew strong reaction from cable and broadcast industries Aug. 4 as NCTA, NAB, MSTV and possibly others filed dueling comments over petition at FCC. Trade groups battled over campaign by Guenter Marksteiner, who has permit for yet-to-launch WHDT-DT (Ch. 59) in Stuart, Fla., to obtain declaratory ruling that DTV-only station seeking carriage of single video programming channel is entitled to mandatory carriage of that channel. Case, which is likely to have must-carry implications for DBS providers too, will be first to be considered by Commission involving rights of DTV station with no analog signal. FCC Cable Bureau is in charge of review.

In 7-page petition filed June 21 by law firm Fletcher, Heald & Hildreth, station owner argued that must-carry status is needed to ensure that such "vanguard stations" stay alive at "a time when DTV receivers are still rare." With digital sets in very few homes, petition contended, WHDT "is essentially dependent on cable carriage to reach viewers, and thus to obtain the advertising necessary to survive." Yet cable operators will likely not carry new station unless required to do so, it continued, because it's "a potential competitor for advertising revenue."

Marksteiner's petition also argued that favorable ruling by FCC would help fulfill "Commission's mandate of encouraging DTV transmissions." In addition, it said its digital signal will be "the functional equivalent in every way of the signal from a traditional analog station," qualifying it for mandatory carriage. "We're not attempting to re-fight the battle over whether must-carry is constitutional," said attorney Paul Feldman, representing Marksteiner. "This is a very narrow request."

NCTA, however, took strong exception to WHDT petition in comments filed late Aug. 4. In 11-page submission to FCC, cable trade organization argued that mandatory carriage of DTV-only station "would do absolutely nothing to promote" continued availability of existing broadcast stations to viewers who depend on over-air reception. Nor, NCTA contended, would favorable ruling by FCC "promote the purchase of digital television sets or hasten the transition from analog to digital broadcasting."

Instead, NCTA said, favorable ruling "would require cable operators to carry a broadcast station whose only over-the-air signal is a digital signal, at a time when virtually no viewers are capable of receiving and viewing such a signal." Group argued that such result would be unfair to "hundreds of cable programming services" that have no guarantee of cable carriage and "would validate a gimmick of obtaining a digital license for a service received over the air by virtually nobody, in order to jump to the head of the programming line with a right to analog placement." To require mandatory carriage of new DTV-only station, it continued, would be inconsistent with First Amendment rights of cable operators and programmers, legislative intent of Congress and sound public policy.

In its filing, NAB urged Cable Bureau to rule in WHDT's favor. Noting that station's "survival might very well hinge on early and certain cable carriage," broadcasters group argued that petition should be granted because of "scant audience" with DTV sets. It also said carriage burden on cable operator would be "truly de minimus and no greater than that presented by ana-

log signals." In addition, NAB said, must-carry status would promote "the governmental interest in the advancement of the DTV transition."

MSTV planned to file comments late Aug. 4 supporting Marksteiner's petition for declaratory ruling. But filing came too late for our deadline.

**Low-power FM continued** to be debated on Capitol Hill even as FCC began receiving 2nd round of applications. Senate Commerce Committee Chmn. McCain (R-Ariz.) July 27 again demonstrated his support for FCC program by introducing with Sen. Kerrey (D-Neb.) S-2989, which he said would provide "a fairer result" in rectifying desires of potential licensees with concern by incumbents over interference than proposals that would seek to block service. Legislation (HR-3439) by House Commerce Committee Vice Chmn. Oxley (R-O.), already passed by House, would require independent testing, which McCain said "understandably angers the many parties who are anxious to apply for the new low-power licenses." S-2989 would trust Commission to determine "which [low-power] stations are causing such interference and what the low-power station must do to alleviate it as the expert agency with the experience and engineering resources required to make such determinations," McCain said. Kerrey echoed that notion, saying FCC "has decades-long experience dealing with FM spectrum issues, and they have conducted extensive testing to ensure that these new stations will not cause interference." He said that if incumbent station did feel interfered with, it could file complaint with FCC, but would have to pay "frivolous complaint" penalty of proceeding costs and punitive damages if Commission believed filing was solely to impede low-power transmission. Meanwhile, 5 senators and 6 representatives wrote Chmn. Kennard July 27 saying "it would be imprudent for the Commission to move forward with the licensing of low-power FM stations at this time" given Hill concerns on interference. "A mountain of technical evidence exists which shows that low-power FM stations create significant signal interference, and we are perplexed at the Commission's decision not to conduct its own field testing," they wrote, and at FCC's "persistence in pursuing the licensing" of LPFM stations. Letter was signed by Oxley, House Commerce Committee ranking Democrat Dingell (Mich.), Telecom Subcommittee Chmn. Tauzin (R-La.), House Appropriations Commerce Subcommittee Chmn. Rogers (R-Ky.), Reps. Dicks (D-Wash.) and Frost (D-Tex.), Senate Commerce Committee ranking Democrat Hollings (S.C.), Communications Subcommittee Chmn. Burns (R-Mont.), Senate Appropriations Commerce Subcommittee Chmn. Gregg (R-N.H.), Senate Minority Whip Reid (D-Nev.), Sen. Grams (R-Minn.). In addition, Senate Judiciary Committee ranking Democrat Leahy (Vt.) sent separate letter to Kennard agreeing that low-power stations could benefit local communities but saying Vt. broadcasters were concerned about license awards without FCC's "doing an effective test beforehand." "Once you have approved a station and local investments have been made it will be difficult for you to withdraw that license at a later date," Leahy warned in suggesting delay: "As we found out in the satellite home viewer area, predictive or theoretical tests often lead to results that are inaccurate some of the time."

**Anne Sweeney**, pres., Disney/ABC Cable Networks, will keynote Aug. 26-29 AWRT convention, Regal Biltmore Hotel, L.A. Other speakers include Mindy Herman of E! Networks, Betty Cohen of Cartoon Networks, Deborah McDermott of Young Bestg.



**TW SIGNS JUNO FOR MULTIPLE ISP TRIAL:** Scrambling to ease regulators' and lawmakers' concerns about its proposed merger with AOL, Time Warner (TW) unveiled preliminary deal with Juno Online Services July 31 to offer Juno's Internet access service over MSO's cable broadband lines. Binding letter of intent, first signed by TW with independent ISP, will allow Juno to join technical trial of multiple ISPs that TW and AOL started in Columbus, O., month ago. Juno and TW aim to extend carriage to all of MSO's systems once test is concluded and TW has ended its exclusive contract with Road Runner, high-speed cable ISP that it co-owns and largely controls. "The timetable is as quick as possible," TW spokesman said.

Spokesman said free technical trial with 100 cable modem users, which also involves Road Runner, AOL and AOL's CompuServe service, will be expanded soon to include other independent ISPs. He declined to name other companies, but list presumably includes EarthLink, nation's 2nd largest ISP after AOL. "There will be other binding agreements," he said.

Spokeswoman for Juno, nation's 3rd largest ISP with 3 million active accounts, said her company expected to sign "full-blown" contract with TW in next few weeks and start on first cable systems before end of year. But she cautioned that rollout timetable was dependent upon TW's restructuring Road Runner venture with its 3 other major partners — AT&T, Compaq and Microsoft — so it could end their exclusive carriage deal sooner than Dec. 2001 expiration.

Spokeswoman for Road Runner, which expects to reach one million customers later this month, declined comment on restructuring talks between TW and its partners. She said only that talks could take anywhere from 2 months to one year. "We're just waiting to see what unfolds," she said. "It's a Time Warner issue."

Under preliminary pact, TW and Juno will share subscription fees from high-speed Juno Express online service, although they declined to say how. They plan to market Juno Express to their customers and package and price it on their own. TW will handle customer installations. "It's similar to our deal with Road Runner," TW spokesman said.

With agreement, Juno now will be testing multiple ISP carriage with nation's 2 largest MSOs, AT&T and TW. In June, AT&T announced plans to conduct 6-month technical trial on its Boulder, Colo., cable system with 10 ISPs, including AOL, Juno, EarthLink, its own Excite@Home and WorldNet services, starting in fall (TVD June 12 p5). Juno, which also has DBS carriage deal with Hughes Network Systems, declined comment on talks with other MSOs or DBS providers.

Move came just days after AOL and TW, already facing strong regulatory and congressional pressure to live up to their open access promises, found themselves under tough scrutiny from FCC comrs. (TVD July 31 p3). At FCC public hearing on merger July 27, Chmn. Kennard and Comr. Tristani particularly pressed top TW and AOL officials on when MSO would open its cable systems to rival ISPs. TW CEO Gerald Levin said he hoped to do so by end of year but offered no guarantees.

**DiracTV Latin America** added Casa Club TV to its programming offer. Casa Club TV is first panregional channel in Spanish and Portuguese dedicated to home and lifestyle.

At least 14 members of Congress have written letters to federal regulatory agencies expressing strong concerns about proposed merger of AOL and Time Warner (TW), thanks largely to aggressive lobbying campaign by Disney for strict merger conditions. In letters to FTC and FCC that were strikingly similar, 12 senators and 2 House members generally urged 2 agencies to protect competition and consumer choice by tightly restricting AOL-TW's ability to discriminate against unaffiliated video programmers, Internet content providers, ISPs. Most letters called on 2 agencies to impose open access mandates on TW's cable systems, ensure that interactive TV developed as open medium and force AOL to make its popular instant messaging system interoperable with other ISPs' systems. In one notable addition, Reps. Wynn (D-Md.) and Rush (D-Ill.) asked FTC to explore ways to give minority-owned companies "greater opportunities to participate" in interactive TV through merger conditions and possible asset divestitures. Interestingly, more legislators wrote to FTC than to FCC, which is far more visible and usually heaviest lobbied agency on communications industry mergers. Industry analysts attributed that to widespread belief that FTC, not FCC, would be tougher, more influential agency in merger review. In meantime, Disney Exec. Vp Preston Padden sent new, 4-page letter to FCC Chmn. Kennard Aug. 1, pledging to keep up its crusade against merger no matter what. Responding to questions posed by Kennard and other commissioners at July 27 FCC public forum on merger, Padden denied again that Disney was using opposition to deal to gain leverage over TW in commercial negotiations, noting that his company already had concluded long-term business deal with TW for carriage of its cable and broadcast networks. Padden also said Disney was "absolutely aligned with the nation's leading consumer groups" on consumer choice issues.

In response to bill (S-2989) that would allow FCC to determine which LPFM stations cause interference to full-powered stations, NPR Pres. Kevin Klose said "that mechanism is a step toward protecting public radio." He said NPR strongly agreed with Senate Commerce Committee Chmn. McCain (R-Ariz.) that "low-power FM is a secondary service which, by law, must cure any interference caused to any primary, full-power service." However, NPR urged Senate to consider requiring field tests of LPFM stations before they were licensed on 3<sup>rd</sup> adjacent channels. Bill would put burden of proof on full-power station to prove to Commission that LPFM station would cause interference. "Further provisions also need to be put in place to protect radio reading services for the blind that serve more than a million regular listeners and translators now serving millions of Americans in rural areas," Klose said. "It takes a balanced approach by providing for immediate LPFM licensing while safeguarding existing stations from interference and requiring further testing."

**RTNDA is seeking** comments on 4<sup>th</sup> draft of new "Code of Ethics and Professional Conduct" that will be presented to members for approval at Sept. 13-16 convention in Minneapolis. Draft is available on Internet at [www.rtna.org](http://www.rtna.org). and comments should be sent to Ethics Task Force Chmn. Brian Trauring, WATE-TV Knoxville, at [briantrauring@aol.com](mailto:briantrauring@aol.com). Proposed code deletes all references to broadcasting, instead uses phrase "professional electronic journalists" to include Internet reporters. RTNDA Chmn. Robert Garcia of CNN Radio said Task Force had concluded: "It is not up to RTNDA or the government to scold, sanction or reprimand journalists. Ultimately, the standards we hold and the ethics we practice" will be measured by "public trust and the respect of our colleagues."



**CABLE MODEMS LEAD BUT DSL IS GAINING:** Despite cable operators' continued dominance in nascent high-speed data market, broadband competition is emerging as Baby Bells aggressively roll out DSL products and chop monthly service prices to match their cable rivals. Hampered by equipment shortages, MSOs again signed up more Internet access customers than Bells in 2nd quarter but gap narrowed greatly, and DSL growth rate far exceeded that of cable modems. In fact, leading cable modem purveyor Excite@Home actually added 10% fewer subscribers in 2nd quarter than in first quarter, marking first drop in its quarterly growth numbers.

As result, some analysts believe DSL may catch or pass cable modems in several years. Even those still bullish on cable modems see DSL gaining faster than anticipated. "DSL is going gangbusters," said Broadband Intelligence Pres. Cynthia Brumfield. "In the short run, DSL is certainly making up for lost time."

Bells, especially SBC, jump-started DSL sales in 2nd quarter to 869,000 subscribers, adding 336,000 to grow 63% over first quarter. Cable operators picked up 416,000 data customers to close period with 2.27 million, 22% growth rate. While cable still controls more than 2/3 of high-speed data market, late-starting Bells are showing faster growth in early years than cable operators did. "Right now, cable still has the upper hand," said Bruce Kasrel, analyst at Forrester Research. "By the end of next year, it should start to be more of a fair fight."

Citing increasingly competitive broadband market, Kasrel said Bells already had dropped price of basic DSL service to \$40 monthly from \$50 to match cable modem charges. But he said cable companies remained more adept at branding and bundling data service with other products, ranging from basic cable to telephone and digital video services. MSOs usually can offer high-speed data to all their customers, while Bells have large swathes of their territories that are not DSL-enabled, he said.

Bells' installations of DSL are starting to catch up to forecasts made late last year, Insight Research Project Mgr. Christopher Whitely said. SBC has been very aggressive lately, including in Cal., but BellSouth and Verizon have lagged. Whitely said bigger problem for DSL versus cable is installation process, with self-installation systems still not ready for prime time. Insight projected DSL would be in 13 million homes by 2005, compared with 14 million cable modems.

On cable side, such major MSOs as Time Warner Cable still are aggressively signing up new customers, but others are not growing nearly as fast because of unexpected parts shortages at Motorola and other modem makers. In its 2nd-quarter earnings report, for example, Excite@Home blamed 10% drop in growth on "a temporary interruption in the supply of cable modems." Owned largely by AT&T, Comcast and Cox, Excite@Home added 300,000 subscribers in 2nd quarter, down from 330,000 in first quarter, to end first half of year with 1.8 million users.

Brumfield said growing broadband market of more than 3 million homes and businesses generally was dividing into 2 markets — one for consumers and one for small and home-based firms. While cable operators command residential market for high-speed data, she said, Bells control business

market and now are making inroads in residential market as well. "Cable doesn't compete in the small business market," she said, and downtown areas tend not to be wired for cable: "It's really DSL's game to win or lose."

"Midcourse change" to new DTV technology "could lead to lengthy and unacceptable delays in the DTV transition process and could undermine the service replication and interference goals," FCC Chmn. Kennard said in letters to NAB Pres. Edward Fritts and MSTV Pres. Margita White. Referring to plans to test COFDM modulation for DTV, as well as current VSB modulation, Kennard said any revisions in DTV standard would require modifying DTV table of allotments, which "could result in years of delay." He said he didn't oppose "re-confirming" VSB modulation or efforts to improve VSB reception, but "these efforts should be focused on performance attributes that are relevant to digital television broadcasting and are consistent with the goals established by the Commission." He said efforts should ensure that no changes were needed in table of allotments and any changes would meet goal of service area replication and interference minimization. DTV tests aren't intended to expand use of DTV for data or "look at COFDM technology," Fritts and White said in response. "The purpose of our testing is to determine whether the shortfalls in DTV receiver performance are due to flaws in the implementation of the standard or in the standard itself, determine if improvements can be made in either or both and, if not, assess whether COFDM would be a suitable additional or replacement technology." They said they were committed to "expediting the transition," so they were testing COFDM at same time as VSB modulation. They said no data tests were being conducted: "Furthermore, we have no intention, and see no need, to seek fundamental or wholesale changes in the DTV Table of Allotments."

AT&T put off planned introduction of adult pay-per-view service, The Hot Network, in Ia. and several western border towns in Ill. Aug. 1 after drawing fire from family advocacy and antipornography groups. Decision wasn't influenced by pressure from advocacy groups, spokeswoman for AT&T Broadband in Ia. told us, but was outcome of planned "reevaluation" of programming content of service. Debut of service is being delayed 60 days, she said, confirming "brief" meeting with Chuck Hurley, representative of Ia. Family Planning Center. Former state legislator, Hurley had started campaign against cable operator, citing harm that service allegedly would cause. Saying company was "not forced" by campaign, spokeswoman pointed out only 2 of more than 500,000 cable customers in Ia. had cancelled service because of decision to carry hard-core adult movie service. Spokesman for AT&T Broadband couldn't identify other areas where service was being delayed, saying such decisions were being made at local level. AT&T spokeswoman in Utah said she had no knowledge of reports that service was being delayed in that state pending reevaluation of programming content.

Cable Ad Bureau (CAB) released study concluding that cable networks matched broadcast networks in commercial effectiveness in prime-time viewing hours. Nationwide telephone survey of 17,200 adults, conducted by Nielsen for CAB, found "essentially no statistical difference" between cable and broadcast viewers on verified recall of commercials and attentiveness to prime-time programming. Study also said about as many cable viewers stayed tuned during commercial breaks as did broadcast viewers, disputing notion that cable viewers were more likely to surf among channels to avoid commercials.



**FCC SEES GROWTH IN ADVANCED SERVICES:** FCC approved separate reports to Congress Aug. 3 that showed big boosts in advanced, wireless and high-speed data subscribers, including for cable modems. Neither report had any big surprises, although several commissioners complained that advanced services segment wasn't based on specific enough data.

Agency said deployment of advanced services into homes and small businesses had risen threefold in year, although total still was very small — one million subscribers at end of 1999, up from 375,000 at end of 1998. FCC defined advanced services as those with speeds of at least 200 kbps in both directions. Agency also looked at another category, "high-speed" services, which it defined as more than 200 kbps in at least one direction. Summary of report, issued at FCC's meeting, said overall those 2 categories had 2.8 million subscribers, including 1.8 million residential and small business customers. Full report won't be issued for week or 2.

FCC survey showed that 84% of residential subscribers used cable modems rather than DSL or other high-speed services, down slightly from 93% year ago. While not mentioning cable's good showing, NCTA Pres. Robert Sachs said report provided "very strong evidence that the competitive marketplace is working successfully to assure rapid deployment of broadband technology." He said report's finding of increased broadband competition proves "wisdom of the Commission's policy of regulatory restraint."

Report said 59% of zip codes covering 91% of country had at least one subscriber to advanced service. Zip codes with no subscribers tended to be rural or low-population areas, leading Commission to conclude such services hadn't been rolled out there or people couldn't afford them. Report found high-speed subscribers in only 42% of zip codes with low average household income but in 90% of areas with high income.

Several commissioners were unhappy about what they considered lack of specificity in results. For example, study focuses on where subscribers were located but didn't indicate how many persons in country actually had access to advanced services in first place. Even though particular zip code might include some advanced services subscribers, commissioners said such services might not be available throughout that zip code.

Comr. Tristani was most critical of report, saying FCC should make it clearer to Congress that rural and poor areas still weren't being served. Report did emphasize that more work was needed to encourage deployment in those areas but she said it "does not sufficiently state the at-risk status of these populations." Tristani also criticized lack of adequate data to provide clear picture of deployment situation. FCC Chmn. Kennard said he shared her concerns "that our zip code data are so general that they may overstate the level of deployment."

iAdvance coalition said FCC report "may be based on a flawed or limited methodology." Martin Machowsky, iAdvance exec. dir., said agency should have outlined "an aggressive program to make sure all Americans have access to the broadband Internet" rather than adopting "statistical accounting of the availability of high-speed services."

**Advanced TV Systems Committee** announced tutorials on DTV Program & System Information Protocol and Data Bcast. Standards, Nov. 1-2 at Ritz-Carlton Pentagon City in Arlington, Va. — [www.atsc.org](http://www.atsc.org).

After months of legal haggling, Motorola finally received approval from U.S. Bankruptcy Court, N.Y.C., to de-orbit 66 Iridium satellites it had operated for last 5 months while new buyer was sought for bankrupt satellite telephone system. Company announced decision July 31 after Iridium withdrew motion to halt decision when would-be buyer Castle Harlan Investment (CHI) withdrew \$50 million bid after marketing research and due diligence said it found system wasn't financially viable to merit investment. Motorola had been asked to keep operating satellites while Iridium attempted to work out deal with potential investors that would have purchased 66 low orbiting satellites, last major asset owned by bankrupt company. Motorola said it would keep operating satellites at least until Aug. 9 to allow for any last-min. rescue. Venture Partners (VP) and HotJump had made offers, but neither was considered viable buyer by court, which rejected their bids, including \$50 million offer from VP. Motorola spokesman said company had completed de-orbiting plan, but couldn't discuss specifics until schedule had been finalized. Motorola, which owned 19% of Iridium, has paid \$10.1 million per month to keep satellites operating, according to source. In filing with court, Motorola called cellular phone leader Craig McCaw "only credible alternative," despite fact McCaw's Eagle River Investment Group decided against buying assets last March after making \$600 million offer.

**European Community (EC)** said FCC's 1996 DTV standard decision had prevented European standard-based DTV technology from entering U.S. market. EC's annual report on international trade barriers cited "growing calls" in U.S. for multiple modulation standards to be allowed to enter American market. "If the FCC were to ignore market demand, it would be in contradiction with the calls for technological neutrality and market-driven approaches that the U.S. government has been making in other communications fields," EC said. Wide-ranging report contended U.S. didn't meet some of its own market-access policies. In particular, EC raised concerns about Commission's licensing of satellite operations, saying European companies faced "serious problems" entering U.S. market and FCC policies lacked transparency required by U.S.'s World Trade Organization basic telecom service commitments. FCC spokeswoman said: "Competition is good for all consumers. We remain determined to ensure a level playing field for all providers."

**Office of National Drug Control Policy (ONDCP)**, federal program to fight use of drugs by teenagers, has received more than 265,000 free matching public service announcements valued at \$148 million, General Accounting Office (GAO) said in quarterly report to Congress. Under terms of 5-year, \$1-billion program started in Dec. 1997, ONDCP is required to seek such matching spots in return for paid radio-TV announcements. In 1998-1999, GAO said ONDCP purchased time and space from 2,991 "media vendors." Since July 1998, paid antidrug spots have been running in 102 markets and campaign has "had some positive effects," GAO told Congress. ONDCP has received more than \$71.7 million in nontime contributions, such as development and production costs, from TV networks and other media groups.

**Technology allowing HDTV** to be transmitted over Internet was demonstrated July 31 at Herring on Hollywood event in L.A., developer HDTV Solutions Inc. said. HDTV-over-IP prototype runs over industry-standard Ethernet LAN, using 3Com networking equipment and specialized server.



## Personals

Bravo Networks appointments: **Bruce Levinson**, ex-Fox Channels Group, as dir.-affiliate sales & mktg., southern region; **Joanne Ceraso**, ex-TV Guide, eastern regional sales mgr.; **Barbara Karawacki**, ex-The Box Network, and **Richard Baudo**, ex-Fox Sports Net, central regional sales mgrs.; **Michael Sullivan**, ex-MediaOne, and **Rosanna Ruey**, ex-Takes On, western regional sales mgrs.

Cox changes: **Maritza Pichon** resigns as CFO, Cox Radio, succeeded by **Neil Johnston**, vp-development, Cox Bcstg.; **Connie Wharton** promoted to vp-gen. mgr., W. Tex., Cox Communications; **Curtis Bull**, ex-Cable & Wireless USA, appointed vp-national accounts, Cox Business Services; **Neil Johnston**, promoted to CFO, Cox Radio.

Marc Musicus, ex-Telemundo Network Group, named vp-sales for eastern region for Game Show Network... **Robert Adelman** promoted to Fox Cable Networks regional dir.-affiliate sales & mktg... **Michael Mohamad** promoted to senior vp-mktg., A&E Network... **Terry Bird** advanced to dir.-accounting, A&E... **Steven Shipowitz** advanced to vp, CNN Airport News... **Chuck Saftler** promoted to senior vp-programming, FX... **Libby Goldschmid**, ex-Coca-Cola, joins The Weather Channel as dir.-consumer mktg... **Eileen Begg**, ex-N.Y. Road Runners Club, named dir.-online ad sales, Showtime Networks.

**Geoffrey Ribar**, ex-Packard Bell NEC, named CFO, iBEAM Bcstg. Group... **Terry London** resigns as pres.-CEO, Gaylord Entertainment... News Corp. appointments: **Tom Rothman** and **Jim Gianopoulos** to co-chmn., Fox Filmed Entertainment... **Andy Wright** promoted to gen. counsel, Satellite Bcstg. & Communications Assn.

**Mary Beth Richards**, appointed interim deputy chief of FCC Common Carrier Bureau... **Brent Muckridge**, ex-MediaOne, named Informio dir.-finance & administration... Elected to Cisco Systems board: **Jerry Yang**, co-founder-CEO, Yahoo; **Larry Carter**, CFO, Cisco.

**Starz Encore** said it shifted premium movie services on Galaxy 7 and Galaxy 6 to Galaxy 9. Feeds will simulcast on Galaxy 9 Aug. 15-31. Shift will affect only channels for Starz Encore subscribers with TVRO satellite equipment in Ku- or C-band.

## Obituary

**Bruce Ennis**, 60, prominent First Amendment lawyer who had represented several broadcast clients before courts, died July 29 in Boston, where he had been taken from his vacation home on Martha's Vineyard. He had leukemia and Legionnaire's Disease. Partner in Washington office of Jenner & Block, he handled more than 250 cases before U.S. Supreme Court and was named one of country's 100 most influential lawyers by *National Law Journal*. Graduate of U. of Chicago Law School, he argued must-carry case twice before Supreme Court, winning 5-4 on 2<sup>nd</sup> go-round. Ennis also represented ABC in Food Lion grocery case involving use of secret cameras and American Library Assn. in successful appeal of 1997 law that made it crime to provide indecent material to minors over Internet. He wrote extensively on First Amendment issues. His wife, 2 sons survive.



WARREN COMMUNICATIONS NEWS Television & Media Intelligence News Service

## TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

(ISSN 0497-1515)

PUBLISHED BY WARREN COMMUNICATIONS NEWS, INC.

This Newsletter is available electronically via Predicasts, Nexis, Dow Jones Interactive and Infonautics and also may be received via email.

Warren Communications News, Inc. is publisher of Audio Week, Cable & Station Coverage Atlas, Communications Daily, Consumer Multimedia Report, FCC Report, Local Competition Report, Long Distance Competition Report, Mobile Communications Report, Public Broadcasting Report, Satellite Week, State Telephone Regulation Report, Telco Business Report, Television & Cable Action Update, Television and Cable Factbook, Television Digest with Consumer Electronics, Video Week, Warren's Cable Regulation Monitor, Washington Telecom Newswire, Daily Document Service, and other special publications.

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**NBC-owned TV stations** will begin offering streaming video versions of their daily newscasts in fall via their Web sites, network announced. Stations will use technology developed by broadband provider The Feedroom, in which NBC agreed to take minority equity stake, terms undisclosed. NBC TV Stations Group Pres. Jay Ireland said streaming video "marks the next step" for TV stations. Meanwhile, Tribune Ventures said it had invested in FeedRoom and agreed to provide news and information content to streaming media company from its broadcast stations. Terms weren't disclosed.



# Consumer Electronics

A Section of Television Digest with Consumer Electronics

## STATE OF THE INDUSTRY

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

	JULY 15- JULY 21	1999 WEEK	% CHANGE	JULY 8- JULY 14	29 WEEKS 2000	29 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	494,484	548,372	- 9.8	427,629	14,715,079	13,421,650	+ 9.6
DIRECT-VIEW**	474,248	530,281	- 10.6	409,202	14,072,328	12,907,747	+ 9.0
TV ONLY#....	392,936	416,507	- 5.7	343,456	11,667,548	10,868,644	+ 7.4
TV/VCR COMBO.	81,312	113,774	- 28.5	65,746*	2,404,780*	2,039,103	+ 17.9
PROJECTION...	20,236	18,091	+ 11.9	18,427*	642,751*	513,903	+ 25.1
TOTAL VCR**...	479,683	462,426	+ 3.7	234,406	13,352,210*	12,449,339	+ 7.3
HOME DECKS...	398,371	348,652	+ 14.3	168,660	10,947,430*	10,410,236	+ 5.2
CAMCORDERS.....	99,179	79,526	+ 24.7	80,237	2,854,831*	2,355,248	+ 21.2
DVD PLAYERS....	117,949*	62,280	+ 89.4	77,254*	2,941,734*	1,422,036	+106.9

Direct-view TV 5-week moving average#: 2000-418,105; 1999-425,827 (down 1.8%).

Projection TV 5-week moving average: 2000-20,160\*; 1999-19,137 (up 5.3%).

VCR deck 5-week moving average: 2000-380,173; 1999-458,552 (down 17.1%).

TV/VCR 5-week moving average: 2000-84,048; 1999-91,590 (down 8.2%).

Camcorder 5-week moving average: 2000-106,708\*; 1999-84,821 (up 25.8%).

DVD player 5-week moving average: 2000-118,238\*; 1999-74,588 (up 58.5%).

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

**PANASONIC TO SELL DVD RECORDER THIS MONTH:** Retail demonstrations began last week of rewritable DVD-RAM home video recorder that Panasonic will offer for \$3,999.99 later this month in U.S. Matsushita subsidiary thus becomes first backer of DVD-RAM (random access memory) rewritable DVD format to put DVD recorder within reach of consumers, beating co-developers Hitachi and Toshiba and rival formats to market. Pioneer remains mum on delivery date for its DVD-RW deck, and as we reported in July 10 issue DVD+RW recorders from Philips and RCA parent Thomson won't be available until mid-2001.

Besides deck's price and \$34.99 sticker for 4.7 GB blank, new aspects of its operation were revealed at briefing and demonstration last week. New DMR-E10 will have 4 recording modes that balance resolution against recording time, Panasonic Gen. Mgr.-DVD Rusty Osterstock told us. Deck also has dubbing feature that improves quality of tapes recorded in VHS or S-VHS formats, especially older or deteriorated ones.

Hybrid Variable Bit Rate varies compression, using Visibility Modulated Technology to allocate bits as needed for critical areas in scene, such as person's face compared with background objects. One-hour XP mode uses 10 Mbps rate to yield studio-quality video recording, Osterstock said. That would exceed resolution of prerecorded DVD movies, which use average 4 Mbps rate, he said. SP modes gives 2-hour recording at resolution better than S-VHS and, at 5 Mbps, comparable with prerecorded DVD. Maximum recording time for disc is 4 hours using LP mode at 2.5 Mbps for quality better than analog VHS. FR (Flexible Recording) mode automatically varies bit rate between 2.5 and 10 Mbps to adjust for time-shift recording up to 4 hours.

DVR-E10 has features that improve analog input source — deck has no digital video inputs or outputs because of continuing concerns about digital recording of copyrighted content. They include time-base corrector that removes jitter from source, 3D Y/C circuitry that splits luminance and color signals to minimize dot-crawl and color smearing, and digital noise reduction that adds further improvement on playback. Process was impressive in demo we witnessed when



used to make DVD dub of 22-year-old VHS recording, but limited to video resolution. Despite presence of Dolby Digital 2-channel encoder, deck doesn't improve quality of source's soundtrack.

Other features of Panasonic recorder include progressive scan from component video output and DVD, Video CD and music CD playback. Caddy isn't needed to play or record 4.7 GB DVD-RAM discs, but will be for upcoming double-sided 9.4 GB blanks, Osterstock said. For time being, DVD-RAM recordings aren't playback compatible with DVD-Video decks. But Panasonic will begin delivering DVD players modified to handle DVD-RAM sometime next year, Osterstock told us. Players will require modifications to circuitry, firmware, laser pickup.

Panasonic expects industry to move 10,000 DVD-RAM recorders in U.S. over rest of year, Osterstock said. Forecast increases to 80,000 next year, 300,000 in 2002, one million 2003. Figures don't include DVD Multi recorders that bridge DVD-RAM and DVD-RW formats, or DVD-Audio recorders.

**PHILIPS TO REPLACE 64W HDTV WITH HD-READY MODEL:** Philips will replace 64W HDTV with similarly featured HD-ready model in Oct. in bow to competition and slow sales of unit, sources said.

Model 64PH9905, introduced year ago at \$10,000, will drop to \$7,999 as result of company's removing HD decoder module that typically carried \$1,200-\$1,400 cost, sources said. Set, which has been assembled at Five Rivers Electronic Innovations factory in Greeneville, Tenn., will keep previous features including 1080i/1920 resolution, 9" Hitachi-sourced CRTs, Dolby Digital, built-in 120 w amplifier, Pronto remote, component input.

New price will make set more competitive with other HD-ready models, some of which with 7" CRTs have hit \$3,000-\$5,000. Integrated 64W was more of niche item in market where "99.1% of the business is being done by HD-ready product," said Philips Projection TV Vp-Gen. Mgr. Michael Leese. Company also is shipping 55W and 60W HD-ready sets with 7" CRTs in fall. Unclear was what impact Philips decision would have on Zenith, which also sells 64W with 9" CRTs, but with 20 w amplifier. Zenith spokesman wasn't available for comment.

"It [Philips' 64W HDTV] was a really good piece, but the sales movement wasn't all that great," video buyer at mid-west chain said. "It was more of an image piece and it wasn't about the value of that set."

Integrated HDTV market has been slow despite banner year for projection TVs, whose sales to dealers have been up 50%. HD-ready sets have largely dominated high-end market, pushing down on analog business that's confined in most sizes to less than \$2,000.

**RTO INDUSTRY CUTS BACK CE PRODUCTS:** Rent-to-own dealers are reducing reliance on one-time staple CE products as they broaden merchandise mix to include PCs and more profitable furniture.

While CE accounted for 50% of RTO unit sales 4-5 years ago, figure has declined to 40%. Dealers are shedding 13-19" TVs in favor of big-screen and projection models and dumping 2-head and 4-head mono VCRs for 4-head hi-fi and DVD, industry leaders said at Assn. of Progressive Rental Organizations (APRO) convention in Nashville last week.

Indeed, while TVs, VCRs and stereos continued to be top 3 products on rent in 1999, their share of RTO market has fallen steadily in last several years, APRO said in annual statistical survey. TVs accounted for 11.9% (821,066 units) of products on rent in 1999, down from 12.6% previous year and 13.9% in 1997. VCRs slid to 5.5% (381,771) from 6.9% and 7.3% and stereo to 7.2% (498,566) from 7.9% and 8%. PCs rose to 3.2% (220,690) from 1.2% and 0.08%, while sofas, loveseats and upholstered chairs were at 10.2% (705,727). Overall, RTO sales increased to \$4.7 billion in 1999 from \$4.4 billion year earlier.

"Many of us are putting less emphasis on consumer electronics because we realize our greatest opportunity for growth is furniture," Cleek's RTO John Cleek said. "Everybody has several TVs and you can buy a \$99 VCR so there is a lot less perceived value there."

Part of reason for CE's eroding grip on RTO is falling retail prices. As VCRs continue steady march to prices below \$100, there's less need to rent product, RTO dealers said. Same also may hold true for DVD players, which are expected to hit \$99 in promotions in upcoming holiday selling season. DVD players typically are rented for \$8.99-\$11.99 weekly based on 12-month contract, with 4-head mono VCRs in \$6.99 range or \$9.99 for 4-head hi-fi packaged with 20" TV, both on 78-week contracts. Rent-Way chain recently even advertised Sensory Science's Go-Video dual deck VCR with \$12.99 weekly fee.



"With anything that's under \$100 you don't need financing because that is within the disposable income of our demographic customer," said Robert Fishman, pres. of 12-store Rentown in Plantsville, Conn. Yet while CE is declining in terms of unit sales, it's climbing in dollars because RTO market is moving toward higher margin products such as 30" and up direct-view and 46-64" projection, Philips RTO Gen. Mgr. Kenneth Gay said. Big screen can go from \$12.99 weekly fee for 25-27" to \$24.99 for 32" on 12-month contract. Projection has ranged from \$27.99 for 50" to \$39 or more for 60" on standard length 36-month contract, dealers said. "You just have to find CE products that have better quality and features if you want to remain in the business," said Stewart Libby, pres. Of RenTown in Presque Isle, Me.

CE companies showed digital TVs as well as host of other new technologies including WebTV and TiVo personal video recorder (PVR), but most conceded that rental business for those models was several years away. "As it starts to take a foothold in retail, it's still to early for rent-to-own, but it's time to start the process," Rainbow Rentals CEO Wayland Russell said. "We don't have to make those gambles [on new technologies]. Our science can be a lot more exact and a lot less maverick."

Other alternative for RTO dealers has become PCs, which many chains shunned only 2 years ago. Some chains such as Rainbow Rentals have built business to account for 20% of its revenues, while others are nearing 10%. BDI Distributing is continuing to push Compaq PCs and has gained widespread acceptance among RTO dealers, while Alliance Computing Technologies signed agreement with Hewlett-Packard earlier this year to handle its Brio models. Meanwhile, Dell has started direct sales to RTO dealers, while Gateway formed alliance with Rent-Way. High-end PCs including those like HP model with 566 MHz Intel Celeron processor, 64 MB RAM, 4.3 GB hard drive, 40x CD-ROM drive, 56-kbps modem, typically rent for \$25-\$40 per week on 12-24 month contracts, although some dealers may hit \$11.99 for unit with Pentium 133 MHz or 486 processor, dealers said. Alliance previously had distributed PCs under Mitac brand, but agreement ended in April when Mitac chose to return to OEM market, said Sales & Mktg. Mgr. Frederick Dehring. For Internet access, many RTO dealers said they were providing service free, although in case of Compaq, models were preloaded with Net Zero.

"Our customers recognize brands, but what they want to know is, will it do what I need done?" said Mamie Salazar-Harper, pres. of Fiesta Rent-to-Own. RTO customers' needs remain related to desktop PCs, although Laguna Distributors, which recently merged with BDI, offers Toshiba laptop models. "Because a lot of people get the PCs for their kids, I think desktops are always going to dominate in RTO, and laptops will always be something of a bonus," BDI executive said.

As PCs seek to gain foothold in RTO industry, so are new brands. Konka, which has gained widespread distribution at retail, is selling product through BDI and so far has signed 500-store Aaron Rents as major customer. Rental line ranges from 13" mono (\$93.95 dealer cost), 27" flat screen (\$503) and \$32 conventional (\$452) TVs to DVD player (\$165) and 13" TV/DVD combo (\$264). Also seeking shelf space is Sega's Dreamcast, which BDI expects to ship in volume to RTO dealers by first quarter 2001. RTO market has been dominated by Sony Playstation and Nintendo N64, which are distributed by Fla. State Games and rent for \$9.99 per week.

On technology front, Dolby Digital increasingly is replacing Doly Pro Logic in pattern similar to retail, dealers said. Techwood is shipping Dolby Digital receiver as part of home theater package that contains 5-disc DVD changer and cabinet with 500 w speaker system (\$1,000 cost). Latter consists of built-in front speakers with 12" woofer, 1.5" tweeter and 5" midrange along with rear and center channel speakers. Minus changer, which is available separately (\$250), system cost is \$800, Techwood said.

As RTO industry sorts through product changes, consolidation that ravaged industry for several years appears to have eased. While Rent-a-Center (RAC) has purchased 58 stores since start of year, and Rainbow Rentals announced deal last week to buy 3 stores from First America Rentals (FAR) for around \$800,000, once-common 100-store-plus acquisitions are becoming rare. Only 130-store Ace Rent-to-Own is said to be in sights of major RTO chains. FAR has slimmed to 21 stores Ga. from 34, after selling 3 in Anderson and Spartanberg, S.C. to Rainbow, which will merge one with existing location, Russell said. FAR also has sold 3 outlets to RAC and 4 to its ColorTyme subsidiary. In Canada, RTO Enterprises has cut back to 132 stores from 142, but plans to renew growth after failing to find U.S. buyer, industry sources said. "The industry has gotten out of that [rapid consolidation] for the time being and I don't think you'll see the multiples of payouts that you did a few years ago," said Larry Sutton, who sold his Champion RTO chain to former Home Choice several years ago and reentered business with 2 Fla. outlets under Rentquest banner earlier this year. "The [multiple of annual revenues] number has come way down."

\* \* \* \* \*

**APRO NOTES:** Aaron Rents continues to remain outside membership ranks of APRO despite apparent truce in comparison ad battle it waged with competitors year ago. Its "Do the Math" ad campaign that compared its prices for TVs and other products with those of Rent-a-Center (RAC) appeared to have been toned down, dealers said. "It seems to have died down and Aaron's was just trying to distinguish itself from the other dealers out there," APRO Gen. Counsel Edward Winn said... **APRO convention** drew 1,200 attendees including 110 companies, about even with year ago... **Eric Estrada**, star of 1970s TV series *Chips*, isn't collaring criminals any more, but he's rep for exhibitor Smoke Signal Communications, which sells prepaid phone service.



**DVD ON PACE TO EXCEED 8.5 MILLION DECKS THIS YEAR:** Industry finished 2000's first 6 months by recording shipments of 2,700,939 DVD players to dealers, CEA reported. That's 109.9% increase from 1,286,480 shipped to retail in Jan.-June 1999 and puts industry on pace to finish year with "sell-in" volume of 8,547,000 machines.

Estimate is well above CEA's consensus forecast at last Jan. CES that industry would finish year at 6,590,000 machines shipped. But final figure of 8,547,000 would prove disappointing to those who had predicted that shipments as high as 12 million players would be attainable this year. Projection still could carry water, as DVD growth rate through year's first 6 months doesn't take into account bounce that would come from 4th-quarter holiday demand. However, DVD format started year with weekly and monthly percentage growth rates in low 200s, and rates since have slackened, not because public has cooled to DVD phenomenon but because scarcity in chips and other raw components has hindered production output. In DVD's first explosive year of 1999, industry finished with shipments up 277.3% from year earlier, and at 26-week mark had bested 1998's volume by 365.5%.

Still, prevailing view among key observers is that industry will sell as many DVD players in 4th-quarter holiday season as manufacturers can produce. For example, standalone DVD player shipments will hit 22 million worldwide this year, 300% increase over 1999, according to Strategy Analytics (SA) research group. Retail revenues in U.S., Europe and Japan will reach \$7 billion, up 220%, group said. Conclusions are presented in study *World DVD Planning Report*, which also concludes that DVD will become standard home video format within 5 years, largely replacing VHS cassettes. DVD movie shipments this year will reach nearly 400 million discs this year, SA said, and will reach 2.3 billion annually by 2005, worth \$44 billion.

Including other DVD formats such as videogames, DVD-ROM and DVD-Audio, shipments will reach 3.7 billion by 2005, worth nearly \$100 billion, study predicted. Report showed that rising hardware sales were being offset by falling prices, with Chinese-sourced players in particular having noticeable impact. "The content industry will ultimately benefit the most from DVD's success," said David Mercer, SA senior analyst. "Manufacturers will continue to suffer from falling prices and declining margins, but DVD's superiority will tempt many consumers to buy more video and to replace their existing VHS collections." Overall consumer sales of DVD devices, including standalone DVD-Video players, DVD-ROM drives for PC and others such as DVD-Audio or DVD recorders were projected to reach 46 million this year — 21 million in U.S. and 17 million in Europe.

Basic DVD players will account for 2/3 of set-top shipments in 2000, rest being DVD games consoles, SA forecast. U.S. leads way, with expected sales of 9 million players, followed by Europe with 4.9 million. By end of 2000, 14% of U.S. and 5% of European homes will own at least one TV-based DVD player, SA said. In addition, many homes are acquiring DVD-capable PCs, so overall household access to DVD is 25% in the U.S. and 14% in Europe — Strategy Analytics, 781-235-6550, [www.strategyanalytics.com](http://www.strategyanalytics.com).

**DVDPlanet.com**, e-commerce subsidiary of Image Entertainment, signed 2-year cross-marketing agreement with WSR Publishing under which DVDPlanet would have exclusive "Buy It Now" links for DVD software on Widescreen Review Web site. Widescreen Review editorial content also will be featured on DVDPlanet.com site.

**Olympus will ship D-490 Zoom digital still camera (DSC)** with 2.11 megapixel CCD resolution at \$499 on Aug. 15, it said last week. New camera also has 3x optical zoom lens and QuickTime movie capability. It will ship with 8 MB SmartMedia removable card.

**Rainbow Rentals opened upgraded Web site** that it said would enhance online ordering capability of Rainbow merchandise. Company said enhancements include zip code-based store locator and expanded section on investor information.

**Konica is doubling number of digital still cameras (DSCs)** it sells at OEM to Hewlett-Packard (HP) to 700,000 for year ending March 2001, Reuters said. HP has been selling Konica-made DSCs in U.S. and Europe under HP brand since 1997, report said. Konica currently supplies HP with 2 models and will add new one later this year.

**New Joystick Junkie e-commerce Web site** selling new and used videogames is joint venture of interactive entertainment developer Hecklers Entertainment and video game/accessory supplier GTR Group's ZapYou.com e-commerce division. Web site — [www.joystickjunkie.com](http://www.joystickjunkie.com) — sells games for all platforms, including Game Boy Color, Nintendo 64, Sega Dreamcast, Sony PlayStation.

**Creative Technology is shipping Video Blaster WebCam Go Plus** at \$149.99. Like Webcam Go introduced in 1999, Webcam Go Plus is Web camera that can take photos when detached from PC. Company said new model has increased image quality and memory over its predecessor and adds on voice recording capability. Creative said new camera has 8 MB of built-in memory that allows user to take more than 280 photos in 640x480 resolution or more than 400 at 320x240.

**Borders Vision opened at retailer's Web site**, [www.borders.com](http://www.borders.com). Interactive section, created in conjunction with technology company Centerseat, features free streamed video programming in books, movies, music, 3 other "channels." Ann Arbor, Mich.-based retailer said programs, some of which have e-commerce components, would be updated frequently.



**NAPSTER-LIKE GAME SERVICE DEBUTS:** Yet another legal fight over copyright protection may be brewing after opening of new Web site called Swapoo that offers Napster-like service allowing users to swap software that has been copied from videogames.

"Public beta" version of swapping service, formerly known as RomNet (no relation to the company RomNet Support Services), began last week at Web site, <http://romnet.zophar.net>. Interactive Digital Software Assn. (IDSA) and Sega were among members of game-maker camp who quickly blasted service.

Swapoo's founder, Jeffrey Freeman, didn't return calls by our Fri. deadline to explain how service works or clarify other issues involving it. One report indicated that code for games, copied from game cartridge's ROM chip, can be downloaded to Zip disk, then transferred to PC's hard drive. To play game on PC, user also needs to download game-platform emulator, such as Ultra64 High Level Emulator for N64 ([www.ultrahle.com](http://www.ultrahle.com)). Minimum requirements for PC include 233 MHz Pentium II powerplant, 32 MB of RAM, Voodoo1-based 3dfx graphics card.

Although some games on site are amateur-developed freeware, others available for swapping to date include titles for Sega's Genesis and Nintendo's Game Boy, Nintendo 64, Super Nintendo.

In interest of copyright, there was notice on Web site last week that said: "You may not download a ROM unless you own the game itself! By logging into Swapoo you agree to share all ROMs on your computer (and all must be legal to transfer)." But it was unclear at our deadline just how carefully those who run site actually monitor its users and what — if any — actions will be taken against those who ignore notice.

Availability of copied videogames online isn't new, but in past usually has been limited to downloads of vintage games from defunct console platforms that are playable on PC with program that emulates operation of older videogame hardware. Owners of copyrights to older games contend copies are unauthorized and illegal, and game buffs counter they have no choice but to use copies because original cartridges no longer are available for purchase. What's different about Swapoo — besides availability of current games on system — is its peer-to-peer structure that lets users search one another's PCs for copies, much as Napster, Gnutella, Freenet and other swapping services do. Even use of emulators to play games on PC is dicey legal issue: Sony has sued emulator-makers Bleep and Connectix over products that let PCs mimic its PlayStation console.

Nintendo spokesman didn't return call for comment by our deadline.

IDSA issued statement last week saying it was "concerned about any technology that facilitates the piracy of copyrighted works." IDSA hadn't indicated by our deadline whether it was starting legal action against Swapoo, but it said: "We will continue our efforts to combat piracy of all types."

Meanwhile, Sega of America Dir. of Mktg. Communications Charles Bellfield told us his company "will be going after

this site and many others as well" as part of Sega's continuing war against pirates. He called new service yet another sign that pirating "is becoming an endemic issue" and said proliferation of such Web sites would hurt not only game maker's content, but consumers as well. In general, he said, pirated copies of videogames often are "poor versions" that only "diminish the consumer experience."

Comparing Napster and Swapoo, Bellfield said he saw latter as greater evil. He said there was at least grain of truth to Napster claim that users of that service could hear particular song, test it to see if they liked it, then possibly buy CD it's from at store. He also said that under Audio Home Recording Act, consumers are allowed to make one copy of their CD. But he said same things can't be said in defense of Swapoo and duplication of videogames, contending there's "no justification for this service whatsoever."

Sega also said last week it was teaming with Amazon.com in effort to thwart sale of pirated Dreamcast discs on Amazon's auction and zShops sites. Sega said interactive entertainment industry lost more than \$3.2 billion to pirates in 1998, not including millions lost to Internet piracy. Of pirates in general, Bellfield said "a stand needs to be taken against these parasites."

Sega and other game companies sued Yahoo in spring to halt sale of pirated software at its Web site (TVD April 10 p18). Last month, Sega said it had shut down more than 60 Web sites it called "illegal" and 125 auction sites that it said were trafficking in pirated Dreamcast games (TVD July 24 p18). Announcement came after news that Dreamcast copy protection system had been hacked by pirate group calling itself "Utopia" (TVD July 10 p15). Bellfield told us last week that Sega had "already closed well over 200 Web sites and auction sites" dealing in pirated games.

Liquid Audio reported climbed to \$3.5 million revenue in 2nd quarter ended June 30 from \$745,000 year ago and \$3 million in first quarter 2000. But company, which recently was tapped by EMI to provide software and services for record company's digital download trial (TVD July 24 p20), also had \$7.7 million loss (-35¢ per share). Redwood City, Cal., company had reported \$6.1 million loss (-29¢) year ago and \$6.5 million loss (-30¢) in first quarter 2000. In conference call with analysts last week, Liquid Audio Pres.-CEO Gerry Kearby said: "As of June 30, Liquid Audio's distribution platform was used by over 9,800 artists and 1,500 labels to promote and sell a catalog of 80,000 songs to over 900 music and retail Web sites." He said retailers that had signed deals with Liquid already include Amazon.com, Barnes & Noble, Best Buy, CDNow, Musicland, Tower Records, Virgin Jamcast. Kearby said "much of our 2nd-quarter momentum was focused on international expansion." Liquid formed new business development affiliates in China and Europe in quarter. It also created software for kiosks to be set up in stores that will allow consumers to create custom CDs and preview and buy singles. He said company "will have retail applications [for U.S. kiosks] up and running here in the 2nd half of 2000." It started deployment of kiosks in music stores in Austria, Germany and Singapore in last quarter, he said.

3dfx Interactive said it completed merger with 3D graphics technology developer GigaPixel after deal was approved by 3dfx shareholders at annual meeting.



**SHORTAGES HIT TIVO PRODUCT:** TiVo-based personal video recorders (PVR) will be in short supply in fall despite move by contract manufacturer to increase production of Sony and Philips models.

TiVo PVRs have been hit by combination of parts shortage that has struck virtually all CE product categories and rising demand as companies ready promotional campaigns for fall. TiVo has said it will spend additional \$50 million on promotions in fall while Philips is expected to include product in 4th-quarter ad campaign, sources said.

While TiVo CEO Michael Ramsay conceded that PVRs were in short supply this summer, he said production would increase in 3rd quarter and come closer to meeting demand (TVD July 31 p12). But Philips executive said he had advised retailers to "load up" on product for fall in advance of expected shortages. Philips is expected to ship new 20 GB PVR (\$299) to 1,500 Wal-Mart stores in fall, he said.

"Even though we're able to step up production based on anticipated demand, the actual demand that is coming back from the street level is exceeding our estimates so I expect the inventory supplies will be tight for the year," Sony Senior Vp Michael Fidler said. "It's a good thing because I think retailers were trying get a handle on what the potential for this business was and I think they were underestimating it going into the first products."

Despite Philips' \$299 product, Fidler said Sony had no plans meet entry-level price. "For people that are buying into it [TiVo] at this point, price is not their primary motivator," he said. SCI Systems assembles PVR for Philips and Sony, although latter expects to build 2nd-generation product, he said.

Already tight TiVo inventories are likely to be strained further by program that cable operator Comcast will run in Cherry Hill, N.J., where it has 200,000 customers. It's expected to provide free hardware and installation, but TiVo will charge \$15-\$20 for service. Cox is running smaller test with TiVo in Las Vegas. ReplayTV, meanwhile, is conducting test with Comcast in Burlington County, N.J., also involving 200,000 customers. Hardware is being leased to customers at \$11.95 per month, with installation free. ReplayTV charges \$9.95 per month for service.

"We are looking at these as attempts to gain information from customers about how they will react to the products," Comcast spokeswoman said, but she declined comment on whether cable operator eventually would choose single service or how long ReplayTV test would run.

**Best Buy added Whirlpool's KitchenAid appliances** to product mix just week after rival Circuit City abandoned category (TVD July 31 p11). BB will carry KitchenAid freestanding ranges, side-by-side and top-mounted refrigerators, over-the-range microwave ovens and dishwashers priced at \$499-\$1,800. KitchenAid represents major expansion of Whirlpool's ties with BB, which have been restored in last few years. Major appliance vendor parted ways with BB in mid-1990s as retailer's financial woes mounted, but returned as balance sheet improved. Major appliances accounted for 8% of BB's \$12 billion in revenues in fiscal 2000.

**SONY DELAYS PS2 ROLLOUT IN EUROPE:** Sony said last week that European rollout of its PlayStation2 (PS2) had been delayed until Nov. 24. Next-generation videogame system was to be launched in U.K. Oct. 26 — same day as its scheduled debut in U.S.

Company also for first time revealed official European pricing. It said PS2 will be about \$446 (£299) in U.K., \$412 (2,990 francs) in France and \$402 (869 Deutschmarks) in Germany, vs. \$299 in U.S.

Sony Computer Entertainment Europe (SCEE) said delay was caused by "unprecedented consumer demand for PlayStation2 in Japan." It said last week it had shipped 3 million PS2 units in Japan since start there March 4.

Before official announcement last week, reports said Sony had decided to hold off on European launch to make sure company met its target of "620,000 pieces" at outset in U.S. Once it does, it will begin production for Europe, reports said. But unit figure cited for U.S. market added note of confusion about plans in light of fact that Sony Computer Entertainment America (SCEA) Pres. Kaz Hirai said in May, one day before kickoff of Electronic Entertainment Expo (E3), that company planned to ship one million units at start (TVD May 15 p12).

Whether SCEA had changed its U.S. plan was unclear at our deadline and spokeswoman didn't return call for comment.

SCEA Pres. Chris Deering said "revised launch date allows us to provide increased quantities" when system is rolled out in Europe. But just how many units it now plans to ship in Europe was unclear last week. Deering said: "We will be shipping many times the number of [original] PlayStation units when [that platform] was released in September 1995." That translates to more than 600,000.

News of delay in U.K. came only 2 weeks after word that Sony had modified its controversial preorder plan for Britain after concerns were raised by dealers (TVD July 24 p16). Most prominent change in preorder plan was that its kickoff was being moved to Sept. 7 from Aug. 14. Whether preorder date had been changed again also was unclear last week.

**Warrantech will close Stamford, Conn.,** hq by late Sept. and move to Euless, Tex., in most recent cost-saving measure taken in effort to boost sagging finances. Company employs 25 in Stamford, 700 overall. Extended service contract provider, which has been based in Stamford since 1989, once occupied 20,462 sq. ft. But it closed 6,683-sq.-ft. section in Nov. and now will shut remaining 13,779 sq. ft. Lease expires in March 2005, company said in to SEC filing. It will merge hq staff into 2 facilities occupying 77,000 sq. ft. in Euless that house call center, consumer products and automotive businesses. Warrantech also has offices in Bedford, Tex., and Puerto Rico. Warrantech said in proxy for annual meeting that CEO Joel San Antonio's annual salary rose to \$627,725 in fiscal year ended March 31 from \$590,430 year earlier. He also was granted options for 400,000 shares at \$3.37, received \$1,600 bonus and \$101,368 for automobile allowance, life insurance and payout of accrued vacation. San Antonio remains company's top shareholder with 3.2 million shares (20.8% of those outstanding), followed by co-founders and board members William Tweed (1.8 million, 12.1%) and Jeffrey White (1.5 million, 10.3%).



**FIVE RIVERS STARTS PRODUCTION:** Five Rivers Electronic Innovations last week started pilot production of 25-36" TVs for Samsung, while Philips completed transfer of 25-27" sets to its plant in Mexico. Full production of Samsung models is expected by midmonth, Five Rivers said.

Taylor-White Co. unit, which had been assembling sets for Philips since 1997, now will shift some of its focus to Samsung, which in long term could account for 30-35% of Greeneville, Tenn., plant's production, Five Rivers Pres.-CEO Thomas Hopson said. Factory is running at 60% of its 2-million-unit annual capacity on 9 production lines, he said.

Sales are expected to be \$600 million this year, down slightly from year ago. "Gross dollars will be down this year, but that's not what you keep the plant open with," Taylor-White Chmn. Charles White said. "It's how many labor hours you turn."

Philips, which sold 1.2-million-sq.-ft. plant to Taylor-White in 1997 (TVD May 12/97 p17), currently accounts for 70% of Five Rivers' revenues. As condition of sale, Philips agreed to have sets manufactured at Five Rivers for 3 years, pact that expires next June (TVD July 3 p15). While Five Rivers had "verbal discussions" with Philips on possible extension, no contract has been signed, Hopson said. Plant continues to produce 46-55" analog and 55W-64W digital high-definition (HD)-ready sets for Philips.

Addition of Samsung production will help offset loss of Philips direct-view production, Hopson said. Five Rivers has built 52-61" analog and digital sets, with latter sold under Tantus brand. Projection sets use 7" Matsushita tubes. In direct-view, 32-36" are assembled with Toshiba tubes for sale under Samsung brand, while 25-27" is being built under specialty marketing agreement in which sets will carry Samtron name. Samsung is manufacturing 25-27" tubes at Tijuana, Mexico, plant. Samsung, which originally used Samtron on PC monitors, has used name in past for low-end goods. Year ago it also put Curtis Mathes brand on 19" sold through Kmart.

Other major customer is Sensory Science (SS), which has 36" Loewe TV assembled at plant with Thomson tube and is considering expanding agreement to include other sizes and products, SS Vp Paul Frederickson said. Another option is moving "higher volume production" of Cal. Audio Labs products to plant. Action won't likely be taken before 2001 and Cal. Audio models may include products such as DVD players or A/V receivers, but not loudspeakers or amplifiers, Frederickson said. Cal. Audio products currently are assembled at SS Blue Lake, Cal., hq. "We're very happy with Five Rivers and plan to do more TVs there in the future," he said. Loewe now produces 30W-32" sets in Germany.

Among brands rounding out Five Rivers' production are 25-36" Zenith console sets and 32" Matsushita tubes fitted with yokes containing electronics and shipped to OEM customers Sanyo in Forest City, Ark., and Thomson in Juarez, Mexico. Matsushita produces 32" tubes at Troy, O., factory.

Still idle at Five Rivers is assembly line originally built to handle Philips videophone. Product was scrapped after proposed merger of communications unit with Lucent collapsed in 1997. Line was switched to Philips WebTV set-top boxes, with production to Mexico in Aug. 1999, company said.

Some 100,000 sq. ft. of Five River's facility is used by Creative Moldings Div., which builds plastic TV cabinets for 25-36" Samsung TVs and 27" Toshiba set. It also provides plastic for shadow mask in 32" Zenith console. Distribution Services Div. provides warehousing and shipping for variety of Philips products, including 13" TVs and VCRs.

Taylor-White's J.C. Cabinet Co., which was created from former Philips plant in Jefferson City, Tenn., continues to provide some products for Five Rivers. But main thrust is in kitchen cabinet doors for mobile home business. Proposed line of A/V furniture (TVD Aug 25/97 p10) never materialized, Hopson said.

**RadioShack (RS) has signed 10-year agreement with Verizon** to be its national cellular telephone service provider. Verizon, created from melding of GTE, Bell Atlantic, Vodafone AirTouch and Primeco networks, will provide RS with 70-75% coverage by Nov. Verizon, which has 25.2 million customers, had supplied service in 40% of RS markets. RS has been working in recent months to consolidate cellular service delivered by 42 different providers (TVD July 31 p15). Verizon will occupy 8' space alongside Sprint PCS service in 3,700 RS stores. While RS officials declined to disclose cellular providers that will be replaced, Verizon will give chain new service in Atlanta and Chicago, strongholds of BellSouth and SBC Communications, respectively. New venture also is expected to boost RS residuals that had been projected at \$100 million for year, \$250 million by 2004. While 70% of RS's cellular sales previously were covered by residual, new pact brings figure "north of" 90%, RS CEO Leonard Roberts said. RS declined to release revised figure, saying cable alliance is expected before year-end would increase residuals further. RS didn't identify hardware provider for Verizon, although Audiovox has been one of telco's leading suppliers. As RS unveiled alliance, Verizon also apparently had reached agreement to sell wireless properties in Chicago and Cincinnati for \$1.4 billion to investment consortium BGV that includes Arlington Capital, Greenleaf Ridge and management of former Triton Cellular Partners.

**Sylvania brand 32" TVs will debut in 2001 as Funai moves line to larger sizes.** Funai, which licenses brand from Osram-Sylvania, currently caps line at 27", but is feeling pressure of digital marketplace, sources familiar with plans said. "The transition to digital is going to press the issue, especially with the emergence of widescreen and flatscreen" source said. "They are definitely going to have larger sizes, but the question is, do they deliver it in 2001 or 2002?" Funai also is said to be weighing introduction of projection TVs, source said. It will expand Sylvania DVD offering with 5-disc changer that ships in Sept. at \$249. Sylvania also has 13-19" TV/DVD player combo products. Funai typically has positioned Sylvania brand slightly above its Symphonic products, with difference being \$10 in VCRs and \$20 in TV/VCR combos. Sylvania also has found home for low-end brand at some specialty chains such as Ultimate Electronics and Good Guys. Funai also sells products under own name, but has largely limited distribution to Target. It also returned to Assn. of Progressive Rental Organization (APRO) show in Nashville last week with Sylvania product after several years' absence.

**Consumers can sample music clips before buying CDs or cassettes on 800.com** after agreement with DiscoverMusic.com. Latter has U.S. music licensing deals with BMG, Universal and Warner and worldwide with EMI.



**SENSORY SCIENCE EARNINGS FALL:** Sensory Science reported first-quarter loss soared to \$4.38 million from \$437,000 year earlier as sales of dual-deck VCRs plunged 24% despite \$900,000 in price protection allowances. Overall sales fell to \$10.6 million from \$14.1 million year earlier.

Sales and marketing costs jumped to \$2.8 million from \$1.5 million year earlier as SS also took 2nd round of price cuts for Loewe line of digital TVs. SS's loss of 31¢ per share in quarter was well above 14¢ loss warning it posted in mid-June and gross margins collapsed to 12% from 20% previous quarter. SS projected 20% margins in future, but said it wouldn't achieve desired 24%.

Price reductions on Loewe TVs were \$500-\$800 across 5-model line, cutting high-end 36" to \$3,900 from \$4,500 and entry-level 32" to \$2,100 from \$2,600, Senior Mktg. Vp Paul Frederickson said. Earlier price reductions in March were in \$500 range. In expanding line, SS will introduce 38" model at CEDIA show in Sept., he said.

Defending dual-deck strategy, CEO Roger Hackett told analysts in conference that price reductions were "one-time seasonal" move and "not a financial trend." Nevertheless, he said company "may have a changing VCR model" due to sharp declines in prices for single-deck units, most of which now sell for less than \$100. Earlier this year, SS said it hoped to offset single deck prices with \$199 dual deck that Thomson is selling under RCA brand. Thomson introduced stacked version of dual deck last week for sale through RadioShack. "We tried to hold the [dual-deck] prices too long and the market penalized us," CFO Thomas Linnen said.

In wake of downturn, SS hired investment firm Gerard Klauer Matison to "help us in evaluating and structuring various opportunities in the future" including "assisting us in raising the proper capital," Hackett said. "We are exploring all opportunities to enhance shareholder value," he said. SS will seek additional partnerships in future, although it decline to disclose details.

SS also is betting new DVD player/VCR product (\$399) will help reverse dual-deck fortunes. Demand for deck is likely to exceed supply this year, company said. On strength of combo product, it projected 20% sales growth in each of next 3 quarters to end year at \$86 million vs. \$72 million year ago.

In potential boost to revenues, SS plans to introduce media appliance platform at Intel Developers' Forum later this month. Company declined to release details, including whether it would be designed around Intel chip, but did say it would contain Linux-based operating system. Proposed convergence platform will combine "functionality" of DVD, CD, personal video recorders (PVR) and Internet access, Corp. Development Vp Edward Brachocki told analysts. Platform "will be of interest to service and content providers," although not as direct competitor to WebTV or America Online's AOLTV, he said. Technology is likely to evolve into line of products and involve licensing agreements, Frederickson said.

In quarter, Cal. Audio Div. turned profit in reporting record sales and said it should add \$1 million to bottom line, company said. Gross margins are running 35-40%. SS's various operating divisions, including Cal. Audio, also have been restructured to report own profit and loss statements, Fredrickson said.

**BLOCKBUSTER LOSS NARROWS:** Blockbuster, which reported rising rental revenues and merchandise sales, narrowed 2nd-quarter loss to \$27.9 million from \$39.9 million. Revenue rose to \$1.21 billion from \$1.04 billion year earlier on 11% gain in same-store sales.

Rental revenue increased to \$1 billion from \$887.3 million and merchandise sales to \$162 million from \$131 million. Gross margin slipped to 59% from 61.9% year ago on increase in revenue sharing and higher sales of merchandise, which carry 20% margins, Chmn.-CEO John Antioco told analysts in conference call. Video segment lost \$17.6 million and New Media, including Blockbuster.com, lost \$10.3 million.

Overall cost of sales surged to \$501.4 million in quarter from \$396.4 million year ago as chain continued to push Blockbuster.com online business. It currently offers short-form movies, but plans eventually to add feature-length films and enable customers to order online. Revenue of New Media business, which includes Blockbuster.com, was \$250,000.

Blockbuster plans to open 400 stores worldwide in current fiscal year, down from 700 year ago, and will add another 300 in 2001, Antioco said. Company has 32% share of video rental market in U.S., where 70-75% of homes are within 10 min. of store, he said. "We don't need to open as many stores based on the competitive landscape," he said. It had 7,376 company-owned and franchised stores worldwide at quarter's end, including 4,100 in U.S.

Blockbuster forecast same-store sales increases in "mid-single digit" range in 3rd quarter, but sharp rise in 4th quarter with video release of *Perfect Storm*, *Gladiators*, *X-Men* and others, Antioco said.

In starting DirecTV joint venture in fall, Antioco said chain didn't "plan to be the cheapest in the business," but declined to disclose promotional plans, which are expected get under way next month. Blockbuster is funding training of store personnel and installation of DirecTV kiosks, so "economics" of joint venture "should not negatively impact" 3rd or 4th quarter earnings and will be offset by residuals, Antioco said. Blockbuster will sell DirecTV's 55-channel pay-per-view (PPV), which recently rose \$1 to \$3.99 (TVD July 31 p18), while satellite service handles hardware fulfillment.

Blockbuster also remains in "active discussions" with TiVo on PPV service that is targeted for year-end introduction. Playing into TiVo strategy is Blockbuster's recent agreement with Enron for latter to provide fiber lines for PPV that eventually could handle "thousands" of movies, Antioco said. Enron network will be "last-mile agnostic," meaning that home can connect to service via cable modem, digital subscriber line (DSL) or satellite.

Despite prevalence of DVD software, category will remain outside Blockbuster's revenue-sharing agreements with studios. "At some point in time we will go into revenue sharing with DVD, but right now it is not advantageous for us," Antioco said.

**Newest members** of Home Theater Specialists of America (HTSA) buying group are Sound Waves, 7-store chain based in Dayton, and Hippo's, single-store retailer in Albany, N.Y. Total HTSA membership now numbers 47 retail accounts.



**CREATIVE POSTS GAINS:** Creative Technology posted income of \$37.4 million (43¢ per share) in 4th quarter and \$181 million (\$2.09) for year ended June 30 as sales soared on Singapore company's continued strength in soundcard category and gains in audio systems sales.

Creative had \$14.7 million profit in same quarter year ago and \$115 million profit in year. Results topped analyst expectations.

Revenue in past quarter was \$307.7 million, up from \$275.1 million, while revenue for year edged up to \$1.34 billion from \$1.29 billion.

In conference call with analysts last week, Creative Labs Pres. Craig McHugh said company continued to expand its audio systems business in quarter. Result, he said, was that category represented 47% of total revenue, up from 40% year earlier. He said "audio systems revenue, including speakers, increased by \$35 million — or 32% — above the same quarter last year." Excluding speakers, he said, audio category "posted a 31% increase over the 4th quarter of last year."

Speaker category alone represented 11% of company's total sales in period, up from 9% year ago, McHugh said, as speaker sales improved 36%.

In past quarter, Creative Labs also entered set-top game category with speaker systems designed for Sony's PlayStation2 (PS2) next-generation videogame console. Speakers already were on sale in Japan and McHugh said they would start shipping in U.S. and Europe at same time as PS2 is introduced there.

McHugh said company had seen significant increase in "the demand for downloadable digital audio," helped, he said, by publicity on Napster and digital downloading of various music companies.

In same conference call, Creative CEO-Chmn. Sim Wong Hoo said company had seen component shortages coming and deliberately made effort to increase inventory.

While company remains world's largest manufacturer of soundcards, Chief Technology Officer Hock Leow said it also plans to introduce major new home digital audio products every 6 months. He said it expects to unveil affordable speaker system in Sept., new category of audio system in first half 2001, product for mass market in 2nd quarter 2001, "whole new audio architecture that will enable better rendering of audio playback," surround sound and voice recognition in 2002.

Three days before conference call, Creative unveiled Nomad Jukebox, digital audio player that can store up to 6 GB of multiple audio file formats, including MP3 and WAV. Company said it expected player to bring in \$100 million in sales in first year.

**RadioShack reported** July sales rose to \$337.9 million from \$298.5 million year earlier on 12% gain in same-store sales... **Future Shop** said sales in July jumped 16% to \$120.9 million from \$104.1 million year ago on 17% rise in same-store sales.

**BARNES & NOBLE.COM POSTS LOSS:** Barnes & Noble.com said its sales jumped 77% in 2nd quarter ended June 30 to \$67.43 million from \$38.18 million in same period year ago. But e-tailer, whose majority owners are Barnes & Noble and Bertelsmann AG, said its loss excluding special items grew to \$39.97 million (-27¢ per share) from \$21.95 million (-17¢) year earlier.

Loss was worse than -18¢ loss that First Call/Thomson Financial said Wall St. analysts had expected and sent its shares tumbling.

Barnes & Noble.com also said its operating loss for quarter expanded to \$51.66 from \$25.28 million year ago.

In conference call with analysts last week, Barnes & Noble.com CFO Marie Toulantis blamed company's wider-than-expected loss on various factors, including cash company spent in quarter to start its new video and ebook "stores," as well as "seasonal slowdown." She said: "We anticipate that our expenses will be higher than forecast for the balance of the year due to the number of new initiatives we have already discussed, as well as some yet-to-be-announced programs."

But Toulantis said: "We believe that all together the short-term costs associated with these 2nd-quarter accomplishments will yield substantial return on our investments." She said company's "sales forecast for 2000 of approximately \$335-\$350 million is achievable. We expect to make up for the 2nd-quarter sales shortfall in the 3rd and 4th quarters as the impact of our new features and expanded offerings are realized." Toulantis also said "we still expect to reach profitability in 2002."

In same conference call, Barnes & Noble.com Vice Chmn. Steve Riggio said company "is committed to delivering an operating profit within 24 months." He said company has "\$350 million in the bank and no debt."

Company didn't announce how much of its sales were from its music and software "stores." Software store sells PC and videogames, as well as nongame computer software. Barnes & Noble.com spokesman hadn't returned call for comment by our deadline last week.

Barnes & Noble also sells games through its Babbage's Etc. electronic game division both online and at brick-and-mortar stores. It also recently acquired electronic game retailer Funco for \$161.5 million after topping merger offer from Electronics Boutique (TVD May 8 p18).

**Sanyo will overhaul** Fisher rack and shelf systems to further integrate DVD players and changers along with CD-RW decks, National Account Mgr. Charles Mason said. Pricing hasn't been set, but new line will be introduced at CES in Jan., he said. Among products being considered is DVD/CD player/AM/FM radio integrated with 150 w speaker system with virtual Dolby Pro Logic surround that includes 12" powered subwoofer, 5" midrange and 3" tweeter. Equipment is housed in 2 tower-like pieces placed atop single speaker stand. Product is due in April, price not set, Mason said. As it revamps audio line, Sanyo also is tailoring it to rent-to-own market, adding such features as speakers hardwired to central unit of shelf system.



**LANSONIC UNVEILS DAS:** Lansonix unveiled DAS-750 Digital Audio Server (DAS), component that company said could store hours of songs recorded from CDs or MP3 music from computer and for home networking of music.

Lansonix Business Development Mgr. Paul Salvo said DAS-750 was designed for either traditional stereo user who usually listened to music in one room on home stereo or audiophile who wanted access to all of music throughout home or office.

Salvo called DAS network more economic solution for home stereo networking than traditional whole-house distribution system. Added benefit of Lansonix unit's multi-user Ethernet network capability, he said, is that it allows several people to listen to different music in different rooms once it's connected by computer to Local Area Network (LAN) network, whereas typical whole-house system lets only user listen to same music throughout house. Two or more DAS units can be connected and controlled across LAN to allow audio equipment in one room to be played out through DAS unit in another room.

Lansonix, division of Burlington, Mass.-based Digital Voice Systems, is offering DAS in 4 configurations — DAS-750-0 discless unit at \$695 that functions as controller playback station and 3 hard-drive-based servers with varying amounts of storage capacity: DAS-750-20 with 20 GB internal drive at \$995 that company said could play 345 hours of music; DAS-750-60 with 60 GB internal drive at \$1,495, 1,050 hours; DAS-750-120 with 2 x 60 GB internal drive at \$1,995, 2,100 hours.

Unit plays all MP1, MP2, MP3 digital audio file formats, but Salvo said it records in MP2 and WAV formats. When asked why company chose MP2 recording format, he said it was "so that we could do the digital audio streaming a lot faster and a lot more seamless." Although unit doesn't support other formats, Salvo said: "We do have a feature built into all of our devices, which is an upgrade feature... so that you can just simply go to our Web page and download the upgrade" if there is one at later time.

Salvo said company at outset is selling DAS direct to consumers only online via company's Web site, [www.lansonix.com](http://www.lansonix.com). Although he said "we haven't established any retail outlets just yet," he said: "We'll be looking [for and] actively pursuing brick-and-mortar-type distribution." He said company had taken preorders online and shipments were slated to start at end of last month.

**Glitch at Amazon.com** Web site recently allowed at least some consumers to buy items at drastically reduced prices, reports said. Word came shortly after triple shot of bad news for company, including that company's pres.-COO, Joseph Galli, had resigned to become CEO of VerticalNet; Web site had 40-min. outage; company reported results for 2nd quarter ended June 30 that were seen by analysts as mixed bag at best (TVD July 31 p14). Company's share prices tumbled after its results for quarter were announced, and Amazon last week even granted employees new, higher stock options as result, reports said. Separately, reports last week indicated that Amazon now was looking to expand into Japan, although only thing it plans there immediately is opening of service center. Amazon spokesman didn't return call for comment by our Fri. deadline.

**CDNOW POSTS \$22.6 MILLION LOSS:** After revealing it had entered into definitive merger agreement in which German media giant Bertelsmann would buy it for \$117 million (TVD July 24 p18), CDNow reported \$22.6 million loss for 2nd quarter ended June 30.

Loss was improvement over \$31.7 million loss Web music retailer posted for same period year ago. But CDNow's \$34 million in sales for 2nd quarter were only small increase over \$33.2 million year ago.

Although it had \$34.6 million in revenue in 2nd quarter year ago, CDNow said it reclassified amount to include promotional coupons, which it previously had been counting as sales and marketing expense, much to chagrin of some in analyst community.

CDNow said it added 270,000 new customers in 2nd quarter, increasing total unique customers to 4 million. It also said 72% of sales were repeat purchases by existing customer base.

Company said it "exceeded the objectives of its new operating plan, which was instituted in March 2000 to cut operating expenses by at least \$12 million per quarter and reduce customer acquisition costs by as much as 50%." CDNow Pres.-CEO Jason Olim said in May that company was looking to cut new customer acquisition cost to "less than \$20 each" from \$38 (TVD May 8 p15). In announcing results, company said it actually managed to bring that cost down 57%, to \$16 per customer in 2nd quarter.

On merger front, CDNow said its tender offer with Bertelsmann began July 26 and is to expire Aug. 22 at midnight. CDNow said it expected transaction would close in fall. If deal is finalized, CDNow will become part of Bertelsmann's e-Commerce Group (BeCG).

Despite merger deal, analysts remained uncertain about CDNow's future. Forrester Research, for one, said Bertelsmann had bought "a fading star at a cheap price." It said that "in order to keep this star alight," Bertelsmann must "save CDNow's reputation as a cutting-edge music source" in U.S., "use CDNow as the platform for developing digital formats" and new business models, "bring CDNow's global offerings up to par" in Asia and Europe.

**Ultimate Electronics** reported 2nd-quarter sales soared 21% to \$101.8 million from \$83.9 million year earlier on 33% rise in projection TV revenues. Latter now accounts for 65% of chain's TV sales, Ultimate said. In quarter, it sold 2,883 high-definition (HD) and HD-ready sets, it said. DVD player sales increased 65% in quarter and represented 5% of total revenues. On strength of sales, Ultimate said it would exceed analysts' estimates of earnings of 17¢ per share in fiscal 2001. Ultimate has opened 2 stores in Phoenix and plans 6 more there in next 18 months.

**Replicator Technicolor** said it would double its worldwide DVD capacity to 150 million discs from 75 million by fall by adding 17 production lines at plants in U.S. and 8 lines in Europe. Technicolor said move was spurred by growing popularity of DVD-Video and impending introduction later this year and early 2000 of 3 new DVD-based videogame platforms — Microsoft X-box, Nintendo Dolphin, Sony Playstation 2.



**Universal Music Group** said last week it would test commercial downloads of music from its catalog using its own "bluematter" format. Tracks are to be made available at various affiliate Web sites, including Launch.com, Music.com, EMusic's RollingStone.com. Company said it would begin tracks available soon on additional Web sites, including BestBuy.com and GetMusic.com site that it runs with BMG. Tracks that were to be made available included ones from George Benson, Blink 182, Marvin Gaye, Live, 98 Degrees, Luciano Pavarotti, Smash Mouth.

**Digital Leisure (DL)** shipped videogame *Kingdom II: Shadoan* in versions for DVD-ROM and DVD-Video. Canadian interactive title publisher said game, sequel to *Thayer's Quest*, features animation of more than 70,000 hand-painted cells and offers 5.1, 6-channel DTS sound mix. DL said Parental Guidance Mode allows parents to adjust level of cartoonish fighting and essentially change game to PG from G. Game was designed by Rick Dyer, co-creator of DL's *Dragon's Lair* and *Space Ace*. Separately, DL is saying at its Web site, www.digitalleisure.com, that controversial Apex AD600A is only DVD player that currently plays DVD-Video versions of its titles without pauses at decision points throughout games. Apex AD600A until recently could defeat Macrovision copy protection and regional coding.

**SRSWOWcast.com** announced lineup of original streaming media programming that will be available when its Web site makes debut. Santa Ana, Cal., company, subsidiary of SRS Labs, said content would be mix of original programming and exclusive Internet broadcasting of shows previously seen on cable and network TV. At outset, Web site will offer 3 original shows that company said would focus on entertainment, psychology, weather. Shows are being created for Web using Microsoft's Windows Media audio and video technologies, SRSWOWcast.com said. Site also functions as e-commerce destination where public can buy hardware and software.

**Audiohighway.com** signed strategic alliance with Warner Music Group (WMG) that includes latter's taking small equity stake in Cupertino, Cal., online media company. Amount WMG is investing wasn't announced. Deal includes nonexclusive licensing agreement under which Audiohighway.com will pay WMG for right to stream WMG-controlled music videos from its Web site in U.S. Videos will be integrated into Audiohighway.com's My JukeBox service at Web site that provides users with point-and-click method of creating streamed music programming.

**Philips** appointed Electrograph Systems as national distributor for its FlatTV and LCD flat-panel monitor product lines in professional A/V channel. Philips Consumer Electronics Sales Dir. Randy McMullin said: "This channel is a very important part of our business and Electrograph will be an excellent partner in helping us achieve our business and sales goals." Electrograph is subsidiary of Manchester Equipment Co.

**RioPort** closed \$31.5 million 2nd financing round. New investors were EMC, Mitsubishi, Quantum Technology Ventures. First-round investors Oak Investment Partners, S3 and Vulcan Ventures also supplied additional funding. RioPort said it would use at least some of new funding to continue building its Pulse One Service that provides record labels with "digital one-step" process for securely delivering their music content to consumers via RioPort's e-tailer network.

## Consumer Electronics Personals

**Michael Malcy**, ex-Sharp Labs, named vp-Samsung Electronics Product Innovation Lab... **Connie Fuhrman**, BestBuy.com fulfillment vp, and **Scott Bauhofer**, vp-gen. mgr., promoted to senior vps... **William Chardvoine** appointed Activision exec. vp & CFO, having served as interim CFO for last 6 months... **Richard Rabins** resigns as NewKidCo International CEO, will remain consultant, succeeded as CEO by **Henry Kaplan**; CFO **Steven Schneider** becomes COO... **Andy Wright** promoted vp-govt. affairs & gen. counsel, Satellite Bcstg. & Communications Assn. (SBCA).

**Ian Shiers** promoted to Polaroid senior vp-worldwide sales & mktg... **James Chwartacky** resigns as ATI Technologies CFO, plans unknown... Re-elected to Assn. Of Progressive Rental Organizations (APRO) board for 2-year term: **John Cleek**, Cleek's Rent-to-Own; **Ronald DeMoss**, Rent-Way; **Mamie Salazar-Harper**, Fiesta Rent-to-Own; **Gary McDougal**, American Rentals. New Members: **Brad Dennison**, Rent-a-Center; **Lyn Leach**, Ace Furniture & TV; **Michael Viveiros**, Rainbow Rentals; **Amy Zeller**, City Rentals.

**JVC** won its long court battle with Caribbean Wholesales & Service (CWS), manufacturer's former Puerto Rican distributor. U.S. Dist. Court in Manhattan granted JVC motion for summary judgment, dismissing complaint brought by CWS more than 7 years ago. Manufacturer said CWS accused it of violating Puerto Rico Dealer's Contract Act, commonly known as Law 75, by selling products direct to former customer of distributor. Case was started in U.S. Dist. Court, Puerto Rico, but was transferred to N.Y. JVC also filed breach of contract claim against CWS for failure to meet minimum purchase requirements under last Distributor Agreement between companies. Dismissing CWS claim, court held that JVC had right under nonexclusive agreement with CWS, as matter of law, to sell products direct to former CWS customer, manufacturer said. Sanctions were also imposed on CWS attorney for arguing that JVC motion for summary judgment was frivolous. Commenting on court's decision, JVC Gen. Counsel Harvey Mitnick said: "JVC was optimistic that the action would be resolved in our favor and naturally we are pleased with the ruling."

**Digital Video Systems (DVS)** is "exploring possibility" of settling patent infringement suit filed against it and OEM customer Konka, it said in SEC filing. LaserDynamics sued DVS and Konka in U.S. Dist. Court, Dallas, in May alleging that former's DVD loader violated its patents on technology. DVS supplies loader for Konka DVD players. While DVS said it had filed response "contesting the validity of the patents," settlement also was being considered. DVS disclosed suit as it reported \$900,000 profit in fiscal year ended March 31, reversing \$18.8 million loss year earlier as sales rose to \$60.7 million from \$17.1 million. DVS, which assembles DVD-ROM drives and loaders in China in joint venture with Shanghai Industrial Investment, projected worldwide DVD player sales of 12 million this year, rising to 26 million in 2002. DVS, which once specialized in engines for video CD players, entered DVD business several years ago when it bought former Hyundai operation in S. Korea.

### THIS WEEK'S YEN RATE

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



## Financial Reports of TV-Electronics Companies

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

Company & Period	Revenues	Net Earnings	Per Share
<b>Acme Communications</b>			
2000-6 mo. to June 30	35,387,000	(10,375,000)	---
1999-6 mo. to June 30	35,387,000	(15,391,000)	---
2000-qtr. to June 30	19,169,000	(4,185,000)	---
1999-qtr. to June 30	15,512,000	(16,121,000)	---
<b>Activision</b>			
2000-qtr. to June 30	84,558,000	(5,179,000)	---
1999-qtr. to June 30	84,142,000	(4,575,000)	---
<b>Ampex</b>			
2000-6 mo. to June 30	14,020,000	(14,405,000)	---
1999-6 mo. to June 30	19,129,000	(2,928,000)	---
2000-qtr. to June 30	7,065,000	(7,692,000)	---
1999-qtr. to June 30	13,642,000	(981,000)	---
<b>Blockbuster</b>			
2000-6 mo. to June 30	2,425,500,000	(32,000,000)	---
1999-6 mo. to June 30	2,154,700,000	(43,300,000)	---
2000-qtr. to June 30	1,214,400,000	(27,900,000)	---
1999-qtr. to June 30	1,041,700,000	(39,900,000)	---
<b>CDNow</b>			
2000-6 mo. to June 30	77,600,841	(60,103,429)	---
1999-6 mo. to June 30	55,098,317	(50,823,827)	---
2000-qtr. to June 30	34,017,692	(22,626,458)	---
1999-qtr. to June 30	33,167,956	(31,720,277)	---
<b>Chyron</b>			
2000-6 mo. to June 30	30,824,000	(4,155,000)	---
1999-6 mo. to June 30	31,197,000	(27,028,000)	---
2000-qtr. to June 30	16,015,000	(1,911,000)	---
1999-qtr. to June 30	16,199,000	(25,178,000)	---
<b>Cohu</b>			
2000-6 mo. to June 30	159,190,000	23,037,000	1.14
1999-6 mo. to June 30	72,997,000	6,261,000	.32 <sup>c</sup>
2000-qtr. to June 30	86,723,000	13,114,000	.65
1999-qtr. to June 30	43,471,000	4,870,000	.25 <sup>c</sup>
<b>Cox Communications</b>			
2000-6 mo. to June 30	1,658,823,000	1,158,745,000	1.92 <sup>a</sup>
1999-6 mo. to June 30	1,008,425,000	757,012,000	1.36 <sup>a</sup>
2000-qtr. to June 30	878,972,000	91,229,000	.15 <sup>a</sup>
1999-qtr. to June 30	509,879,000	505,833,000	.91 <sup>a</sup>
<b>Creative Technologies</b>			
2000-year to June 30	1,343,604,000	181,012,000	2.21
1999-year to June 30	1,296,537,000	115,082,000	1.28
2000-qtr. to June 30	307,715,000	37,403,000	.46
1999-qtr. to June 30	275,134,000	14,736,000	.17
<b>Digital Video Systems</b>			
2000-year to Mar. 31	60,292,000	861,000	.20 <sup>a</sup>
1999-year to Mar. 31	17,111,000	(18,832,000)	---
<b>Echostar Communications</b>			
2000-6 mo. to June 30	1,211,850,000	(317,990,000)	---
1999-6 mo. to June 30	659,242,000	(448,460,000)	---
2000-qtr. to June 30	646,129,000	(132,860,000)	---
1999-qtr. to June 30	350,217,000	(76,129,000)	---
<b>Egghead.com</b>			
2000-6 mo. to June 30	273,775,000	(42,720,000)	---
1999-6 mo. to June 30	232,056,000	(40,691,000)	---
2000-qtr. to June 30	125,992,000	(17,661,000)	---
1999-qtr. to June 30	121,953,000	(22,356,000)	---
<b>Granite Broadcasting</b>			
2000-6 mo. to June 30	70,915,000	(9,453,000)	---
1999-6 mo. to June 30	74,800,000	(7,377,000)	---
2000-qtr. to June 30	37,576,000	(2,425,000)	---
1999-qtr. to June 30	40,925,000	(953,000)	---
<b>Gray Communications</b>			
2000-6 mo. to June 30	82,296,000	(5,219,000)	---
1999-6 mo. to June 30	66,421,000	(2,641,000)	---
2000-qtr. to June 30	43,408,000	(1,371,000)	---
1999-qtr. to June 30	35,029,000	(1,081,000)	---
<b>Image Entertainment</b>			
2000-qtr. to June 30	23,722,000	1,315,000	.08
1999-qtr. to June 30	1,800,000	(714,000)	---
<b>Ingram Micro</b>			
2000-26 wk. to July 1	15,091,409,000	129,376,000	.87 <sup>a</sup>
1999-26 wk. to July 3	13,530,088,000	92,593,000	.63 <sup>b</sup>
2000-13 wk. to July 1	7,295,059,000	33,243,000	.22 <sup>a</sup>
1999-13 wk. to July 3	6,804,813,000	50,339,000	.34 <sup>b</sup>

Company & Period	Revenues	Net Earnings	Per Share
<b>InterTrust Technologies</b>			
2000-6 mo. to June 30	3,014,000	(26,468,000)	---
1999-6 mo. to June 30	486,000	(11,411,000)	---
2000-qtr. to June 30	1,667,000	(10,842,000)	---
1999-qtr. to June 30	254,000	(6,210,000)	---
<b>Kimball International</b>			
2000-year to June 30	1,200,945,000	48,462,000	1.19
1999-year to June 30	1,106,967,000	59,725,000	1.46
2000-qtr. to June 30	318,773,000	13,125,000	.33
1999-qtr. to June 30	274,187,000	17,038,000	.42
<b>Kopin</b>			
2000-6 mo. to July 1	44,134,407	6,087,917	.10
1999-6 mo. to July 3	15,343,997	352,390	.01 <sup>c</sup>
2000-qtr. to July 1	24,394,644	3,815,175	.06
1999-qtr. to July 3	8,614,401	146,523	---
<b>Liquid Audio Infograms</b>			
2000-6 mo. to June 30	6,449,000	(14,242,000)	---
1999-6 mo. to June 30	1,276,000	(10,215,000)	---
2000-qtr. to June 30	3,454,000	(7,718,000)	---
1999-qtr. to June 30	745,000	(6,072,000)	---
<b>Macrovision</b>			
2000-6 mo. to June 30	26,246,000	9,928,000	.24
1999-6 mo. to June 30	15,220,000	1,258,000	.03 <sup>d</sup>
2000-qtr. to June 30	13,520,000	5,552,000	.13
1999-qtr. to June 30	8,057,000	(600,000)	---
<b>Nucentrix Broadband Networks</b>			
2000-6 mo. to June 30	32,141,000	(9,173,000)	---
2000-qtr. to June 30	15,818,000	(7,149,000)	---
<b>Price Communications</b>			
2000-6 mo. to June 30	137,719,000	13,467,000	.24
1999-6 mo. to June 30	121,200,000	(2,573,000)	---
2000-qtr. to June 30	71,105,000	7,788,000	.14
1999-qtr. to June 30	64,609,000	734,000	.02 <sup>c</sup>
<b>SCI Systems</b>			
2000-year to June 30	8,343,000,000	196,700,000	1.36
1999-year to June 30	6,711,000,000	137,800,000	1.11 <sup>c</sup>
2000-qtr. to June 30	2,306,000,000	57,000,000	.39
1999-qtr. to June 30	1,802,000,000	42,800,000	.32 <sup>c</sup>
<b>Scientific-Atlanta</b>			
2000-year to June 30	1,715,400,000	155,800,000	.99
1999-53 wk. to July 2	1,243,500,000	102,300,000	.67 <sup>c</sup>
2000-13 wk. to June 30	552,600,000	59,100,000	.37
1999-13 wk. to July 2	355,200,000	47,300,000	.31 <sup>c</sup>
<b>Sensory Science</b>			
2000-qtr. to June 30	10,683,000	(4,387,000)	---
1999-qtr. to June 30	14,136,184	(436,730)	---
<b>Sinclair Broadcast Group</b>			
2000-6 mo. to June 30	383,455,000	(611,000)	---
1999-6 mo. to June 30	417,788,000	(311,000)	---
2000-qtr. to June 30	207,607,000	1,209,000	---
1999-qtr. to June 30	228,003,000	1,304,000	---
<b>S3</b>			
2000-6 mo. to June 30	297,539,000	455,985,000	5.19 <sup>a</sup>
1999-6 mo. to June 30	101,553,000	(12,779,000)	---
2000-qtr. to June 30	135,820,000	(36,258,000)	---
1999-qtr. to June 30	57,253,000	1,100,000	.02 <sup>a</sup>
<b>Viacom</b>			
2000-6 mo. to June 30	7,938,300,000	(879,900,000)	---
1999-6 mo. to June 30	5,954,400,000	104,200,000	.13 <sup>a</sup>
2000-qtr. to June 30	4,912,500,000	(495,600,000)	---
1999-qtr. to June 30	3,003,300,000	59,300,000	.09
<b>Videonics</b>			
2000-6 mo. to June 30	5,991,000	(816,000)	---
1999-6 mo. to June 30	7,059,000	(1,644,000)	---
2000-qtr. to June 30	2,932,000	(496,000)	---
1999-qtr. to June 30	3,394,000	(821,000)	---
<b>Walt Disney</b>			
2000-9 mo. to June 30	19,000,000,000	957,000,000	.73 <sup>a</sup>
1999-9 mo. to June 30	17,485,000,000	1,215,000,000	.59 <sup>a</sup>
2000-qtr. to June 30	5,964,000,000	440,000,000	.21 <sup>a</sup>
1999-qtr. to June 30	5,489,000,000	368,000,000	.18
<b>Winstar Communications</b>			
2000-6 mo. to June 30	339,076,000	(437,961,000)	---
1999-6 mo. to June 30	184,598,000	(315,490,000)	---
2000-qtr. to June 30	176,288,000	(289,085,000)	---
1999-qtr. to June 30	96,505,000	(162,578,000)	---

Notes: <sup>a</sup>Includes special credit. <sup>b</sup>After special charge. <sup>c</sup>Adjusted. <sup>d</sup>After special charge; adjusted. <sup>e</sup>Includes special item. <sup>f</sup>Comparative results not available.





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# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

AUGUST 14, 2000

VOL. 40, NO. 33

## SUMMARY-INDEX OF WEEK'S NEWS

### Broadcast - Cable

**GORE-LIEBERMAN TICKET FAVORS MORE TV REGULATION**, according to candidate statements and proposed Democratic platform. Lieberman particularly vocal on content issues. (P. 1)

**NAB REJECTS HILL PLEAS FOR NEW TV CODE:** Broadcast leaders privately rule out new industry code on program standards, sex, violence and language. (P. 2)

**TIVO, REPLAY LAUNCH CABLE-PVR TRIALS** as they gear up for first big holiday season for personal video recorders. Time Warner, Comcast, Cox dabble with PVRs. (P. 4)

**CABLEVISION PLANS RAINBOW TRACKING STOCK** to boost value of its national and regional sports networks. NBC to boost Rainbow stake to 34%. (P. 5)

**STATE ASSNS. APPEAL NEW EEO RULES:** Groups call them unconstitutional and "scheme that impermissibly pressures stations." Church of Christ backs FCC. (P. 5)

**DEMOCRATS FAVOR MORE TV CONTENT CONTROLS:** While broadcasters will face "new challenges" whichever party wins White House in Nov. — as NAB TV Chmn. Ben Tucker of Fisher Bestg. put it — they are likely to be much more "challenging" if Gore-Lieberman ticket is successful, according to just about all TV executives who would speak. To buttress their position, they cited new Democratic platform planks that would restore fairness doctrine, mandate free time for political candidates and insist on more self-restraint by industry on violent and sexually explicit programming. They also pointed to well-documented views of Vice President Gore and his running mate, Sen. Lieberman (D-Conn.). "Lieberman has been on these issues for a long time and I don't see him changing," said veteran Washington lobbyist.

Lieberman is perhaps best known in communications circles for his attacks on what he has regarded as indecent content, especially on TV. "He's not what I would call a raving civil libertarian," said Progress & Freedom Foundation Pres. Jeffrey Eisenach. Notably, Lieberman has long fought for V-chip and other content controls, and more recently urged FCC to consider "resurrecting" old broadcast industry code of conduct. He complained about "gross inflation of sex and vulgarity on free, over-the-air television."

One lobbyist predicted Lieberman's constant criticisms of offensive TV programming could become issue in Presidential campaign. Indeed, Lieberman appears to be intensifying his crusade against "glut of sex and violence on prime-time TV" since his selection as Gore's running mate early last week. In article headlined "Crude, Rude and Lewd" scheduled to run in upcoming issue of *Blueprint*, Lieberman urges parents to call FCC and complain about offensive programming. At same time, Parents TV Council, which has Lieberman on board, applauded his selection as Vice Presidential candidate. Chmn. Brent Bozell said choice showed Gore "has joined the fight to clean up television."

Under Gore Administration, lobbyists predicted FCC would be much more regulatory minded. Gore himself repeatedly has called for free broadcast time for candidates as part of licensee's public interest obligation. Gore also lent his

### Consumer Electronics

**TOSHIBA EXPANDS DTV LINE** to 14 models and plans set-top boxes combining decoder with video recorder. DVD-Audio player added. (P. 11)

**HARMAN ADDS MP3 DECODING** to A/V receivers, CD-R decks and DVD changers, weighs licensing agreement for JVC's D-ILA technology. (P. 13)

**VM LABS SCALES BACK GAMES** expected to be available by year-end to 15 from 20, will ship developers' kit to movie studios by month's end. (P. 14)

**SOUND ADVICE BUYS SHOWCASE** stores in Phoenix, plans to continue chain's store-within-a-store format at Sears' Great Indoors. (P. 14)

**AMAZON.COM AND TOYSRUS.COM LINK** to create new on-line store for videogames and toys. (P. 15)

**INTERPLAY REDUCES LOSS** for 2nd quarter but revenue drops off. (P. 15)



name to Gore Commission on DTV, which concluded that broadcasters should meet public interest obligations in return for receiving free digital spectrum from govt.

Then there's Democratic FCC Comr. Tristani, who reportedly decided not to return to her native N.M. to run for Congress at urging of Clinton Administration. Many in Washington expect her to be named FCC chmn. if Gore is elected, although lobbyist told us "that's not a done deal."

Last month Tristani spoke out against violent TV programming, warning that it "has a harmful and noxious impact on our children. Entertainment violence is polluting the minds of our children. We don't need 50 years of studies — like we had on smoking — to know that entertainment violence has a toxic effect." She called on "entertainment industry, and particularly the broadcasting industry, to stop violating the minds of our children."

In her statement, responding to study by several health groups, Tristani said she would ask FCC Chmn. Kennard to schedule hearing on televised "violence and the public interest obligations of broadcasters." Turning to radio, Tristani repeatedly has urged stricter radio ownership rules.

Proposed Democratic platform states that "the very first piece of legislation that a President Al Gore" will send to Congress is political campaign reform as proposed in McCain-Feingold bill — "and he will fight for it until it becomes the law of the land. Then he will go even further — much further. He will insist on tough new lobbying reform, publicly guaranteed TV time for debates... and a crackdown on special issue ads." On issue of TV content, proposed platform states: "The entertainment industry must accept more responsibility and exercise more self restraint" by strictly enforcing movie ratings and "by determining whether the ratings systems are allowing too many children to be exposed to too much violence and cruelty."

NAB's biggest concern if Bush-Cheney GOP ticket won would be effort to relax 35% TV ownership cap, we're told — move that, on other hand, would make Big 4 TV networks very happy. Assn.'s opposition to raising cap has been cited by NBC and Fox as major reason for their withdrawal from NAB. However, broadcasters tell us they expect FCC under Bush Administration would be much more friendly than if Democrats were to retain control of White House — citing Lieberman's views on programming as one reason. But, in either scenario, "our issues just aren't of major importance to either candidate," broadcast lobbyist told us.

On plus side for TV industry, said Disney-ABC chief lobbyist Preston Padden, is that "assuring protection for intellectual property on cyberspace appears to be on the radar screens of both candidates." Proposed Democratic platform has full paragraph on copyright protection on Internet, suggesting that last-min. lobbying by Hollywood studios and other copyright holders paid off. "We must ensure that sound patent and copyright laws motivate our inventors and creators," it said, and "we must work to build support for strong intellectual property laws among the community of nations, including in trade agreements." Prospective platform promises to "take all steps necessary to ensure effective enforcement of those laws — at home and abroad — to ensure that others do not steal intellectual property through piracy and other forms of theft."

Similarly, recently adopted Republican platform promised to "protect the technology industry from modern-day pirates at home and abroad: both those who violate copyright and those who loot by litigation."

Both parties included extensive Internet focus in their platforms, with Democrats pledging to "launch a new crusade... to move toward full Internet access in every home, for every family, all across the United States," while Republicans backed Internet filtering bills. Both parties supported privacy protections without backing specific measures, and weighed in on other Internet issues such as security.

**DEMOCRAT PLEAS FOR NEW TV CODE FALL ON DEAF EARS AT NAB:** If the Democratic ticket of Vice President Gore and Sen. Lieberman (D-Conn.) succeeds in campaign for White House, efforts to force or persuade broadcasters to reinstate voluntary code on programming content were seen sure to intensify. Dozen or more members of Congress from both sides of aisle, with Lieberman often in forefront, have called repeatedly for TV industry to protect children by adopting code on content covering such matters as sex, violence, language.

However, after dozens of personal and telephone contacts with TV executives — including several on NAB TV board — not a single one said they would advocate new code on program standards. As one put it: "That idea doesn't have as much chance as a snowball in hell does of surviving." (Note: NAB Pres. Edward Fritts, who was NAB chmn. in 1982 when federal court ruled that time standards within TV Code were antitrust violation, and Chmn. James Yager failed to return several phone calls and other attempts to reach them in connection with this article.) To date, no member of Congress has gone so far as to recommend legislation on issue, but that "very likely could happen" under a Gore-Lieberman Administration, congressional staffer told us.



Democratic platform to be adopted at this week's convention in L.A. includes plank stating that existing ratings systems "are allowing too many children to be exposed to too much violence and cruelty" and that many parents aren't "aware of the resources available to them, such as the V-chip technology..." Democratic National Committee said plank was written before addition to ticket last week of Lieberman, who has fought for V-chip and other content controls, and more recently urged FCC to consider "resurrecting" old broadcast industry code of conduct. He complained about "gross inflation of sex and vulgarity on free, over-the-air television." Lieberman only intensified his crusade following his selection as running mate. In article headlined "Crude, Rude and Lewd" to run in upcoming issue of *Blueprint*, Lieberman urges parents to call FCC and complain.

Gore "has joined the fight to clean up television," Parents TV Council (PTC) Chmn. Brent Bozell said after selection of Lieberman, who's on PTC board. However, Morality in Media said Gore still hasn't proven he's serious about content fight. "What is really important is not what a Vice Presidential candidate thinks and says, but what the next President will say and do," Pres. Robert Peters said. He asked whether the next President would "appoint FCC commissioners who are too busy deregulating the communications industry to fulfill their statutory responsibility to enforce the broadcast indecency law? Will the next President pay occasional lip service to the importance of decency and civility in the media while continually courting the Hollywood elite to raise megabucks?"

It was in area of advertising time standards alone that NAB and its TV Code got into trouble with federal govt., with Justice Dept. (JD) filing successful antitrust suit against restrictions placed on advertising. Suit was filed in June 1979, and on March 3, 1982, U.S. Dist. Judge Harold Greene (who was immersed in AT&T antitrust case at time) surprised broadcasters and Justice with order declaring limits on TV commercials violated antitrust laws — even before judge had taken any testimony in case. All other portions of Code were left intact, and NAB later chose not to pursue appeal it had filed in U.S. Appeals Court, D.C., by signing consent decree with Justice. Radio Code also was dismantled at time and as result nearly 3 dozen persons lost their jobs — including Code Dir. Jerry Lansner. NAB stopped enforcing all provisions of Radio and TV Codes soon after Greene's March 3 order and both Codes were formally abandoned in Nov. 1982 after judge signed consent decree. Major reason NAB didn't pursue appeal, its leadership said at time, was cost — Assn. had spent more than \$200,000 fighting antitrust suit. Combined Codes had annual budget of more than \$1 million. Another reason for dropping Codes, we're told, was NAB's fear additional suits attacking other provisions of TV Code would be filed.

Last (and 21<sup>st</sup>) edition of TV Code was published in Jan. 1980 while JD suit was pending in Judge Greene's court. It had very clear provisions on time standards, but contained only broad provisions on sex, violence and language. For instance, on violence, Code simply said, "details of violence should avoid the excessive, the gratuitous and the instructional. The use of violence for its own sake [is] not permitted." Treatment of crimes "should always convey their social and human effects" and "presentation of techniques of crime in such detail as to be instructional or invite imitation shall be avoided." On subject of sex, TV Code said simply that "material with sexual connotations shall not be treated exploitatively or irresponsibly. Costuming and movements of all performers shall be handled in a similar fashion." Code said "narcotic addiction shall not be presented except as a destructive habit" and use of illegal drugs "shall not be encouraged or shown as socially acceptable."

No station or network ever was questioned about lack of compliance with above "very benign" provisions, we were told by Howard Bell, TV Code dir. in 1960s who closely followed its provisions later as pres. of American Ad Federation. In today's arguments, NAB is quick to point out that its "Statement of Principles" on programming issues adopted in 1990 includes much stronger language on sex and violence than did Code. However, statement also says: "There will be no interpretation on enforcement of these principles by NAB or others" and they aren't intended "to establish new criteria for programming decisions."

On subjects of obscenity and profanity, Code said "subscribers shall not broadcast any material which they determine to be obscene, profane or indecent. Above and beyond the requirements of law, broadcasters must consider the family atmosphere in which many of their programs are viewed. There shall be no graphic portrayal of sexual acts by sight or sound. The portrayal of implied sexual acts must be essential to the plot and presented in a responsible and tasteful manner." In section on children, Code said: "In their totality, programs should contribute to the sound, balanced development of children to help them achieve a sense of the world at large..." In TV Code's 40-year history, only one station (KIMA-TV Yakima, Wash.) ever was thrown out of NAB for any reason other than failure to pay annual dues. At that time, KIMA-TV refused to stop airing commercials for Preparation H before 10 p.m., with Code prohibiting advertising of such personal products before that time.

According to Bell, principal purpose of Code was to protect public. As indication of that, he pointed to huge increase in clutter during commercial breaks, area regulated by Code, and fact that nonprogram time (including commercials, promotions and public service announcements) has increased dramatically. In prime time, Code limited nonprogram matter to 9 min., 30 sec. per hour on TV network affiliates; in all other time periods, nonprogram matter per hour was limited to 16 min.



**TIVO, REPLAY LAUNCH CABLE-PVR TRIALS:** Preparing for first big holiday season for personal video recorder (PVR) category, TiVo and ReplayTV are enlisting major cable MSOs to offer their enhanced VCR services to consumers. In last month, Replay has signed up both Time Warner Cable and Comcast Cable for one-market trials or initial deployments while Silicon Valley rival TiVo has landed Cox Communications and Comcast. Sources say other large MSOs are weighing tests too as both TiVo and Replay seek to broaden their distribution beyond major retail chains. Jim Hollingsworth, Replay senior vp-sales and marketing, said he "wouldn't be surprised to see several more initial deployments or trials" by cable operators by end of year.

In most ambitious move, Comcast will begin joint cable-PVR service soon in 2 separate N.J. markets, one in conjunction with TiVo and other with Replay. Comcast, nation's 3rd largest MSO with stakes in both TiVo and Replay, will offer free PVR set-tops to cable subscribers in both Cherry Hill and Burlington County, adjacent N.J., areas, and charge them extra monthly leasing fee for service. MSO also will provide free installation of digital boxes and handle all maintenance and billing, splitting revenues with its respective PVR partners. PVR service, which allows viewers to pause, replay, rewind, fast-forward and otherwise time-shift even live TV programs, will cost \$11.95 per month with Replay boxes in 45,000-customer Burlington County system and \$18.95 per month with TiVo set-tops in 220,000-subscriber Cherry Hill system.

"We really need to evaluate this," said Bob Beyers, Comcast dir. of business development. Among other things, he said, MSO executives want to learn how much "stress and strain" PVR services place on cable systems' operations. Comcast officials also want to see whether consumers prefer leasing PVRs like cable set-tops or buying them outright and whether PVR features drive subscribers to use cable services more heavily, Beyers said. With both market trials scheduled to start by end of Aug., he said he hoped to start seeing research data in 2-3 months and up to 1% market penetration by end of year.

While Comcast plunged ahead with actual commercial rollouts in 2 systems, Time Warner and Cox were proceeding more cautiously with single-market technical or operational trials. In Time Warner's case, for example, MSO soon will offer free Replay units and free monthly service to 500 cable subscribers in Chatsworth, Cal., system outside L.A. Plans call for trial, due to begin later this month, to run at least 6 months. Like several other major MSOs, Time Warner owns stake in Replay.

One big unanswered question is how popular PVR set-top boxes will be for cable subscribers who already have cable set-tops in their homes. While industry officials and analysts alike expect PVR service to be very popular eventually, they're far from sure that consumers want to fuss with multiple set-tops hooked up to each TV receiver. "There's a clutter factor," said Laurence Bloom, dir. of research and consulting for TechTrends, which forecasts limited market for PVRs until they become integrated into other consumer electronics devices. "Consumers don't want more than one set-top box."

Well aware of problem, cable operators, set-top box manufacturers and PVR officials aim to build integrated cable-PVR boxes sometime in future. But, with long lead time needed to

develop such sophisticated digital set-tops, they acknowledge that no integrated box is likely for at least another 12 to 18 months. "'We're hoping for one in 2002," said Edward Lichty, TiVo dir. of business development.

Surge in cable interest in PVRs comes as TiVo and Replay gear up splashy promotional drives for fall with their respective set-top box manufacturers — TiVo with Sony and Philips, Replay with Panasonic. Both already have begun national ad campaigns, cut prices and added recording capacity and other features to their digital set-top boxes. In most recent competitive move, Replay introduced \$100 rebate for its 2 new Panasonic models last week, effectively cutting their prices to \$399 and \$499, respectively.

Greater MSO interest also comes as PVR market leader TiVo, with 51,000 subscribers, works feverishly to develop joint satellite TV-PVR set-top boxes with DBS market leader DirecTV. TiVo and DirecTV plan to introduce joint set-tops, produced by both Sony and Philips, in stores in Oct. Digital boxes, featuring up to 35 hours of recording capacity on hard drives, will sell for \$399 and be backed by heavy marketing campaign from DirecTV. "We didn't want to sit on the sidelines while these guys spend hundreds of thousands of dollars plugging DirecTV boxes," Beyers said.

Cable push into PVR market comes too as enhanced VCR capabilities make their way into other consumer electronics devices, including TV sets and personal computers. Microsoft, whose advanced, joint WebTV-satellite TV set-tops with EchoStar already offer some PVR features, also is plunging in heavily with new joint DBS-PVR box with DirecTV. Like TiVo-DirecTV boxes, new RCA-made Ultimate TV boxes are to debut in stores in fall. "We're seeing a growing number of devices," said Bloom, who projects that PVRs will be in 200,000 U.S. homes by year-end and more than 3 million by 2003.

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**Sources inside and outside FCC** are predicting agency will take no action to break its 2-2 tie vote on retention of political broadcasting and personal attack rules before Sept. 29 deadline set by U.S. Court of Appeals, D.C. Rules are last vestige of now-defunct fairness doctrine, which Commission repealed in 1987. RTNDA and NAB have been trying to get rules thrown out as unconstitutional ever since, and case has been back and forth between Appeals Court and FCC several times. In their latest filing (TVD July 10 p4), associations accused Commission of stalling after court year ago told FCC it hadn't submitted sufficient justification for retaining rules. In latest petition, NAB and RTNDA asked court to order FCC to issue verdict in 90 days. Instead, court said it would hold request "in abeyance through Sept. 29, 2000. If the Commission has not acted by that date, petitioners may... seek whatever action they deem appropriate from the court." If that happens, which now seems likely, associations are expected to ask court to vacate rules. FCC Chmn. Kennard recused himself from participating because he worked on fairness issues while NAB staffer and in private practice. Comrs. Tristani and Ness voted to retain rules, Comrs. Furchtgott-Roth and Powell to repeal them.

**Fox Bcstg.** is latest network to announce its intention to implement diversity initiatives throughout all of its divisions with appointment Aug. 10 of Mitsy Wilson, ex-Times-Mirror, to newly created position of senior vp-diversity development.



**RAINBOW TRACKING STOCK SET:** In long-awaited move, Cablevision Systems filed preliminary proxy with SEC Aug. 9 to create separate tracking stock for its national and non-N.Y., regional programming assets. Cablevision, 7th largest MSO with 3.5 million basic subscribers, said it would set up Rainbow Media Group (RMG) tracking issue to enable investors to follow economic performance of its Rainbow Media Holdings unit's national programming networks, including American Movie Classics (AMC), Bravo, Independent Film Channel, MuchMusic USA, Romance Classics. New tracker also will cover Rainbow's 50% stake in national Fox Sports Net service and 6 Fox regional sports channels in San Francisco, Chicago, Cincinnati, Fla., New England and Cleveland, as well as Rainbow's new digital programming incubator, Sterling Digital. But it won't encompass Rainbow's N.Y. networks, which include Madison Sq. Garden (MSG) Network, Fox Sports Net New York, News 12 Networks, MetroChannels.

Rainbow, owned 74% by Cablevision and 26% by NBC, is big revenue generator for MSO, last year accounting for one-third of Cablevision's \$3.9 billion in revenue. More recently, in company's 2nd quarter ended June 30, Rainbow produced \$348 million in pro forma revenue, up 13.2% from year-ago period, on strong growth in subscribers, affiliate fees and ad receipts for AMC, Bravo, MSG Network.

Cablevision CEO James Dolan said MSO would retain its N.Y. programming holdings to spur its forthcoming rollout of digital cable services in metro area. In addition to "being great programming assets," he said, they "allow us to further our digital strategy without running into problems of cross-ownership." MSO plans to switch all of its 2.8 million basic cable subscribers over to Sony digital cable set-tops over 3 years, starting next spring. Besides its cable systems and networks, Cablevision owns Madison Sq. Garden, 3 pro sports teams, Radio City Music Hall and The Wiz consumer electronics retail chain in N.Y. area.

Move by Cablevision is one of first by major MSOs to boost their stock values by separating their content holdings from their distribution assets. With cable stocks falling in recent months, MSO executives have been seeking ways to spark investor interest. In conference call with analysts Aug. 9 in which they also announced company's 2nd-quarter earnings, Cablevision executives said they hoped new issue would do just that.

Under plan outlined in proxy, which still must be approved by Cablevision's board and shareholders, new RMG entity would be controlled by Cablevision founder Charles Dolan and his son James. NBC would get 34% share in RMG. Cablevision shareholders would receive one RMG share for every 2 shares of Cablevision stock they hold. New issue is to be listed on N.Y. Stock Exchange in 4th quarter.

In earnings results, Cablevision reported year-to-year gain of 13% in overall revenues to \$988 million for 2nd quarter ended June 30 and 14% in adjusted operating cash flow to \$250.5 million. MSO said it added 18,350 high-speed data customers to end first half with 93,350. It now expects to add at least 100,000 data subscribers in 2nd half, putting its year-end total over 200,000, up 50,000 from earlier projections.

**Young Bcstg.** reported net revenue of \$74.9 million in 2nd quarter ended June 30, up 1.6%, with broadcast cash flow up 3% to \$34 million.

**STATE ASSNS. APPEAL NEW EEO RULES:** Appealing newly adopted FCC affirmative action and EEO rules Aug. 4, all 50 state broadcast associations charged that FCC and Justice Dept. "paint a misleading picture... pretending they are simply 'race-neutral outreach' requirements." In filing with U.S. Appeals Court, D.C., associations said that combined with other FCC requirements, "the Commission has created a scheme [EEO rules] that impermissibly pressures stations to hire more minorities and women because of their supposed effects on program diversity."

United Church of Christ (UCC) filed in support of new rules, telling court that "all the arguments and [previous] court rulings demonstrate that targeted recruitment remains constitutional and efficacious" for equal opportunities for minorities. UCC disputed broadcasters' arguments that new rules — adopted earlier this year by FCC — required "targeted recruitment" by broadcasters, as was case with original EEO rules declared unconstitutional in April 1998 by same Appeals Court.

Contrary to govt.'s "suggestions" in its brief to court, Congress "has never found — nor could it find — that the broadcast industry as a whole was an historical race 'discriminator,'" state groups told court. Indeed, they said, "entire contention" by govt. that Congress "required" FCC to promulgate rules "is based on fanciful supposition." They said govt.'s claim that new rules merely require broadcasters to make "broad" and "inclusive" minority recruitment efforts was "plainly false." State broadcasters told court that, under 1998 decision in *Mo. Lutheran Church* case when old rules were declared unconstitutional, FCC "had no reasonable basis for reimposing rules with more regulatory burdens than ever before."

Court had been asked by state associations in June to "reverse and vacate new rules and to stay their implementation" until court had issued its decision (TVD June 26 p8). While court refused to grant stay, it ordered expedited hearing and briefing schedule. Oral argument has not yet been scheduled.

**CBS announced formal restructuring and executive assignments** for its group of 35 owned TV stations, including Viacom-owned Paramount Group as result of Viacom's takeover of CBS. John Severino, pres. of CBS Stations, retains that title with combined group. Other group executives include CBS Spot Sales Pres. Greg Schaefer as head of sales; WCBS-TV News Dir. Joel Cheatwood also will be exec. vp-news for TV stations; John Mocuiski, exec. vp-programming and mktg.; Vp-Human Resources John Moran will manage compensation, employee relations and personnel issues; Anton Guitano, senior vp-finance; Martin Messinger, senior vp-deputy gen. counsel. CBS stations are located in 18 of top 20 markets and include duopolies in Philadelphia, Boston, Dallas, Detroit, Miami, Pittsburgh.

**Paxson could gain \$12 billion from wireless carriers** in return for removing its stations from Ch. 60-69 spectrum in advance of transition to digital TV in 2006, *Wall St. Journal* reported Aug. 11. But company disputed amount, dismissing report that Chmn. Lowell (Bud) Paxson gave that figure for his 19 stations occupying 700 MHz band on which wireless carriers will bid in March auction. Paxson said company hadn't put price tag on clearing band and hadn't received offers from potential bidders. Paxson shares rose 28.6% on American Stock Exchange Aug. 11 to close at \$13-3/16.



**FCC URGES COURT TO AVOID OPEN ACCESS:** In friend-of-court brief filed Aug. 10, FCC urged 4th U.S. Appeals Court, Richmond, to uphold lower court ruling against local open access mandates on cable operators but avoid setting national policy on greater open access issue. Apparently fearing that 4th Circuit judges might issue broader ruling on open access, just as their counterparts on 9th U.S. Appeals Court, San Francisco, did in June in Portland, Ore., case, FCC attorneys called on Richmond appellate court to decide only whether local govt. could require open access when reviewing franchise transfer application. "This case presents a single, narrow question: Whether a local franchising authority may condition the transfer of a cable franchise on the provision of open access to the cable modem platform," brief said.

FCC, which backs lower court ruling against open access mandates, recommended that 4th Circuit go no further than narrow issue because "this court does not need to resolve that dispute -- on which the future of regulation (or nonregulation) in this area will turn -- to decide the actual question in this case." Govt. lawyers warned that any attempt by appeals court to tackle larger regulatory issue "could have profound and largely unforeseen consequence in a variety of regulatory contexts," thereby complicating Commission's efforts to set national policy on open access. They asked court to let agency decide whether cable-delivered Internet access should be regulated as cable service, telecom service, information service or some combination of latter 2. "The FCC has not itself resolved that exceptionally complex dispute, although it may well do so in the near future," brief said.

FCC Chmn. Kennard recently pledged that Commission would start undetermined administrative proceeding soon to explore whether cable Internet service qualified as telecom service, as 9th Circuit ruled in Portland case 2 months ago. Case in 4th Circuit stems from U.S. Dist. Court, Richmond, decision in early May that both federal and Va. statutes blocked Henrico County from requiring AT&T to open its Richmond-area cable system to rival ISPs while it took over 80,000-subscriber system from MediaOne. Both Henrico and Verizon Communications are appealing that decision to 4th Circuit.

Henrico County officials declined to comment Aug. 11, saying that they still were reviewing FCC's filing. County Attorney Joseph Rapisarda said county was in "midst of preparing" reply brief that would be submitted this month.

**Rumors flew early last week** that FCC was close to approval of Clear Channel Communications' (CCC) purchase of AMFM Inc. for \$23.5 billion. At weekend, we were told staff had made editorial changes and final order was being circulated among commissioners. It also was reported that majority of commissioners already had voted to approve merger, which had been expected once Justice Dept. okayed AMFM deal after setting strict conditions July 20 (TVD July 24 p5). It wasn't clear at weekend what additional conditions, if any, FCC might attach to merger approval. Under consent decree signed with Justice Dept. 3 weeks ago, CCC is required to shed 99 radio stations in 27 markets at estimated value of \$3.4 billion to meet agency's antitrust concerns. Justice also filed objections to CCC's acquisition of AMFM's interest in Lamar Advertising billboard company.

**Clarification:** NPR Pres.-CEO Kevin Klose was referring to low-power FM bill HR-3439, not S-2989, when he said: "It takes a balanced approach by providing for immediate LPMF licensing while safeguarding existing stations from interference" (TVD Aug 7 p5).

Nearly dozen broadcast and cable concerns filed conflicting comments at FCC on bid by new DTV-only station to gain cable must-carry status. Industry trade groups, local broadcasters, TV networks and cable programmers are fighting over effort by Guenter Marksteiner, who has permit for yet-to-launch WHDT-DT (Ch. 59) Stuart, Fla., for declaratory ruling that DTV-only station was entitled to mandatory cable carriage of single video channel (TVD Aug. 7 p4). Of 11 commenters, KM Communications, Marantha, MSTV, Pappas, Paxson and Sonshine Family TV joined NAB in supporting Marksteiner's request, restating most of NAB's arguments that cable must-carry status was necessary for station's survival and favorable ruling would promote nation's transition to digital TV. On other side, C-SPAN, International Cable Channels and consortium of A&E TV, BET, Courtroom TV and Ovation joined NCTA in opposing petition, repeating most of NCTA's contentions that new station hadn't earned right to mandatory carriage and warning that favorable ruling unfairly would hurt rival cable channels. Notably, though, no comments were filed by Adelphia Communications and Comcast, 2 cable operators in W. Palm Beach that would be affected most immediately by declaratory ruling. Reply comments are due Aug. 18.

**Big 3 TV networks** (ABC, NBC, CBS) gross revenues from time sales for 2<sup>nd</sup> quarter were up 17.4% to \$1.53 billion over same quarter 1999, Bcst. Cable Financial Management Assn. (BCFM) reported. Prime time and sports were major contributors to "dramatic increase," said BCFM Pres. Buz Buzogany in citing NCAA basketball championships on CBS and ABC's hit show *Who Wants to Be a Millionaire*. He predicted "strong pattern of growth will continue" into 3<sup>rd</sup> quarter, partly because of ratings success of CBS's *Survivor* and *Big Brother*. Meanwhile, TV Bureau of Advertising (TvB) increased its projections for national spot TV sales at stations because of stronger-than-predicted results for first half of year. TvB now says growth for year should be 12-14% to \$12.3 billion, raising its projection from 8-10%.

**International Olympic Committee** (IOC) reversed earlier decision and said it now would permit NBC to air highlights on delayed basis from Summer Games in Sydney, Australia, on nbcolympics.com Web site. Video will include portions of competition already carried by NBC and/or its cable channels and will be available only to Internet users in U.S., Michael Payne of IOC said. IOC's objection to Internet coverage had been based on fact Web wasn't limited by geography, as is case with TV signals, and Olympic rights are sold on exclusive basis in individual countries.

**In rare action by court**, Lucas County (O.) Judge Ronald Bowman signed order under which WSPD(AM) Toledo, owned by Clear Channel Communications subsidiary Jacor Communications, agreed not to air news items taken directly from *Toledo Blade* without giving credit to newspaper as source. *Blade* Gen. Counsel Fritz Byers said it was unclear degree to which Bowman's order established legal precedent, but consent decree does provide model for settling similar disputes between broadcasters and newspapers.

**Westwood One and VH1** announced they planned to introduce VH1 Radio Network Oct. 1. Under exclusive 3-year deal, VH1 will develop radio network for Westwood One designed for both Hot AC and rock stations, featuring cable network's audio cuts, news and information, show preps, documentary programs, live concert simulcasts. Both companies are units of Viacom, as result of Viacom's recent takeover of Westwood One parent Infinity Bcstg. as part of its larger purchase of CBS.



**U.S. STING HITS DBS CARDS:** DirecTV praised 22-month federal sting operation that broke up scheme under which viewers illegally gained DBS services through black market purchase of smart cards that provide access to satellite channels. Joint investigation by U.S. Customs and Dept. of Justice involved operation in which govt. sold thousands of counterfeit cards for \$325-\$425 through underground Web site. Sting netted \$500,000 and resulted in 11 arrests in 4 cities, including 4 persons who already had pleaded guilty to violating DirecTV's intellectual property rights. With probe continuing, no suspects have been tried yet.

"Buying and selling counterfeit products and services like satellite TV access service cost legitimate businesses and ultimately the consumer millions of dollars each year," Attorney Gen. Janet Reno said. Customs Comr. Raymond Kelly said "cyberpirates" illegally using cards "will pay in a way they hadn't considered."

"Operation Smartcard.net" targeted people who bought counterfeit satellite TV access cards for free monthly service. Customs began looking into scheme after noticing large increase in seizures of pirated or counterfeit DBS access cards being smuggled into U.S. from Canada.

In separate investigation, FBI in L.A. announced arrest Aug. 9 of 9 suspects accused of being involved in unauthorized programming and sale of counterfeit DirecTV access cards. Six other suspects still were being sought in connection with indictments returned Aug. 4 by federal grand jury in L.A.

DirecTV Vp-Signal Integrity Larry Rissler said indictments and charges showed company took signal piracy seriously. "The enforcement actions underscore the importance of protecting the intellectual property rights of DirecTV and our program providers," he said. Rissler said DirecTV would continue to "vigorously pursue individuals" involved in DBS signal theft. Industry source said "quirk" in DirecTV security system when it began in 1994 made signal theft possible with cards.

Signal theft has plagued cable industry, but until announcement of sting operation had not been thought to be problem in U.S. DBS industry, source said. It has been source of contention in Bahamas, where satellite signals routinely are decrypted by pirates (TVD March 13 p5). DirecTV rival EchoStar said it would have no comment on FBI probe because its policy "prohibits discussion" of security issues.

Customs officials said signal theft costs DBS industry \$6.2 million in revenue annually. Similar to cable set-top boxes, cards can be used to select TV channels received by individual dish. Undercover agents sold counterfeit access cards they called "Eurocards" through Internet site created by Customs agents to track down illegal users.

When Internet site was shut down in June 1999, 3,195 cards had been sold to dealers and 382 to individuals for total of \$516,000. Money was deposited in U.S. Treasury. Month later DirecTV used electronic countermeasures to void all pirated cards sold through sting Web site.

**XM Satellite Radio** closed on \$235 million financing announced in July to complete funding for commercial start of radio service. Transaction includes deal with American Honda Motor, which joins Clear Channel Communications, DirecTV Enterprises, General Motors and Motient Corp. as strategic partners.

**AT&T IN BIG CABLE MODEM ORDER:** Despite recent slowdown in high-speed data growth, AT&T Broadband will buy record 700,000 RCA-brand high-speed cable modems from Thomson Multimedia over next 2 years, companies said Aug. 9. While price wasn't disclosed, RCA cable modems typically sell for just below \$200 wholesale, making pact worth up to \$140 million. "It's a very significant deal," said spokesman for Thomson Multimedia, now one of leading suppliers of interoperable cable modems after late start in market. "It's an indication that broadband will be a very big deal."

AT&T Broadband, first major MSO to buy RCA cable modems from Thomson last year, will purchase 2nd-generation digital devices this time. MSO said its huge order would boost competition among cable modem makers, increase product innovation, lower costs and spur rollout of high-speed data and other digital services. Spokeswoman said deal also was part of its ambitious plan to reach 1.1 million data customers by end of year. "We want to be able to vary our suppliers," she said.

With 689,000 cable modem customers at end of 2nd quarter, thanks partly to its recent takeover of MediaOne, AT&T Broadband now is leading purveyor of high-speed data services in U.S. and commands nearly one-third of burgeoning cable modem market. But customer growth for both AT&T and MediaOne fell sharply in 2nd quarter, as it did for other major MSOs in spring quarter, partly because of parts shortages at Motorola and other leading vendors and partly because of greater competition from DSL. "There's been a lot of frustration on supply issues," said Broadband Intelligence Pres. Cynthia Brumfield, who tracks cable modem and DSL issues. "It gave the opportunity for other companies [manufacturers] to come in."

Largely as result of big order, Thomson said it would boost its production capacity for digital cable modems to more than 1.5 million units next year. "Our goal is to be a Top 3 player by the end of next year," said Tony Watters, Thomson dir.-mktg., broadband products. Besides supplying modems to AT&T, Thomson provides devices to such other MSOs as Adelphia Communications, Charter Communications and Comcast and sells them to consumers through Circuit City and other retailers.

**EchoStar is without insurance** for 3 satellites because of pending litigation with its insurance carrier involving another bird. In-orbit insurance on EchoStars 1, 2 and 3 expired July 25, the company said in a 10-Q filing with SEC. EchoStar said it had not been able to obtain insurance on "reasonable terms" because carriers had "colluded and conspired to boycott us until we accept their offer" of settlement for EchoStar 4. EchoStar has filed lawsuit against insurers in U.S. Dist. Court, Denver. New EchoStars 5 and 6 satellites have insurance, company said. CEO Charles Ergen said company could operate with minimum of 2 satellites. Dispute centers on \$219.3 million claim EchoStar filed to recover damages and losses because of problems with EchoStar 4. Insurance carriers have offered \$88 million, but EchoStar wants full value of bird.

**FCC denied EchoStar** petition for reconsideration on proposal that sought to place all of DISH public interest programming on satellite that didn't serve entire U.S. Commission had turned down original proposal. In Dec. 27 filing, EchoStar argued that ruling was in error, but agency disagreed in order issued Aug. 9. FCC said EchoStar appeal had failed to present sufficient reasons to warrant reconsideration of March order.



**NTIA TO TEST UWB DEVICES:** NTIA released draft Aug. 10 of testing plan for potential interference from ultra-wideband (UWB) devices to GPS receivers, although completion of study by FCC deadline depends on FAA's kicking in \$600,000 in supplemental funding. NTIA Administrator Gregory Rohde said FAA had committed in letter to Rep. Wolf (R-Va.) to release funding for research, which otherwise would not be completed until year-end.

NTIA plans to publish draft measurement plan in several days and will set 15-day comment period, Rohde said. While status of FAA's commitment to releasing funding wasn't clear at our deadline, agency had called meeting Aug. 10 to discuss testing protocol, source said.

Earlier in year, NTIA released similar test plan for potential impact of interference on spectrum outside of GPS band from UWB transmission systems. Time Domain also has been conducting research on interference. NTIA plans to publish test plan for potential GPS interference from UWB devices in *Federal Register* shortly.

Timing of funding from FAA wasn't entirely clear. Sources said Sen. Shelby (R-Ala.) had raised concerns about money's being released for NTIA testing. In notice of proposed rulemaking released last spring (TVD May 11 p3), FAA Office of Engineering & Technology set Oct. 30 as date for receiving research results in areas such as potential interference between UWB devices and other applications already operating in or around that frequency. Rohde said at Aug. 9 media briefing that without additional funding from FAA, NTIA research more likely would be completed by end of Dec. NTIA has provided \$500,000 to conduct tests and received another \$400,000 from Inter-Agency GPS Executive Board to help with work. If additional funding is provided by FAA "and is received quickly, we hope to accelerate this time frame to get data back hopefully by late October," Rohde said.

Additional funding from FAA essentially would allow NTIA to put staff in "double shifts" on GPS part of testing. Rohde said he was "personally pressing our engineers pretty much to the wall on this. I think the ultra-wideband devices are an incredibly important technology for us to develop." He said acceleration of late Dec. timeline was important because of tight time frames that FCC faced in its own evaluation of issue.

Senate version of supplemental appropriations bill for this fiscal year originally included language requiring FAA to take \$600,000 of existing funds and reprogram them to UWB studies, Capitol Hill source said. Senate ultimately stripped that language in conference along with other items as part of effort to streamline legislation to facilitate its passage, source said. With understanding that language was deleted because of procedural rather than substantive policy concerns, agreement was made at staff level to ask FAA to release money from available funds on its own authorization.

**NBC Internet (NBCi)** said it was "streamlining our cost structure in effort to become more competitive" in dismissing 20% (170) of its 850 employees. San Francisco-based Internet company was formed last fall in combination with Snap.com and Xoom.com and last month reported 2<sup>nd</sup>-quarter loss was larger than expected. NBCi said it would shift emphasis to more direct marketing from Internet advertising.

**PEGASUS, DIRECTV IN MARKETING PACT:** Pegasus and DirecTV reached agreement last week on revenue-sharing and incentive payment plan for marketing and sales of DBS service by retailers and distributors in rural areas. Companies also said they had developed "one-bill solution" for all existing and prospective Pegasus customers in bid to expand reach of DBS services to customers outside urban markets.

"Seamless" agreement announced Aug. 10 is compromise effort by companies to make it easier and more profitable for retailers and distributors to market DirecTV service in rural areas primarily covered by Pegasus, largest DBS provider in rural communities and major reseller of DirecTV. Disputes on payments to retailers and distributors have been focus of lawsuits involving DirecTV, National Rural Telecommunications Cooperative (NRTC) and NRTC member Pegasus. Agreement was "widely supported" by investors and analysts, industry source said. "It's a key element if DirecTV wants to tap deeper" into rural areas. Pegasus owns more than 66% of rural DBS market.

Pegasus CEO Mark Pagon said agreement "reflects renewed commitment" by companies to offer service to consumers. While it doesn't "settle the outstanding litigation," he said, it's important step forward. DirecTV Pres.-Merchandising Bill Casamo said deal had "significant benefits" for customers and companies and established "incentive payment program" that had been major "source of frustration" for dealers.

Plan calls for Pegasus to reimburse DirecTV for certain costs from activation of new Pegasus customers by DirecTV's national and regional retailers. In return, DirecTV will reimburse Pegasus for activation costs of new DirecTV customers by independent retailers in Pegasus Retail Network. New deal expands Pegasus right to provide DirecTV video services. It will retain 10%-20% of all revenues associated with incremental services except for DirecTV Para Todos, from which it will retain 80% of revenue.

Meanwhile, Pegasus announced net revenue increased \$69.9 million in 2nd quarter to \$143.7 million but net loss jumped \$23.7 million to \$72.3 million. For 6 months ending June 30, company had revenue of \$247.7 million, up \$107.7 million (77%) over same 1999 period, but net loss widened by \$30.2 million to \$124.8 million. Pegasus also announced deal with MetaTV to develop Web portal designed to deliver interactive TV and TV-centric Internet services to DBS subscribers in rural areas. MetaTV will design, develop, maintain and host ITV portal for Pegasus using MetaTV Universal Portal Platform. MetaTV also will allow Pegasus portal to run on top of Liberate's interactive TV software.

**In wake of preliminary injunction** issued last week by U.S. Dist. Court, Richmond, in *PSINet v. Chapman*, which blocked Va.'s law against selling, renting, loaning or knowingly displaying Internet pornography to minors, state said it hadn't decided whether to appeal injunction or request full trial on law's constitutionality. State probably will appeal injunction, said Crystal Roberts, legal policy analyst for Family Research Council. If appealed, she said, it would go to 4th U.S. Appeals Court, also in Richmond, where she said there was good chance of getting decision reversed. Law would have imposed severe restrictions on Internet content by criminalizing information that's constitutionally protected but deemed "harmful to minors," said People For The American Way, co-counsel for plaintiffs in case.



**Comcast reported** double-digit increases in its consolidated revenue and operating cash flow in 2nd quarter ended June 30, but much lower net income. Comcast, which recently passed Charter Communications to become nation's 3rd largest MSO with 7.1 million basic cable subscribers, generated \$1.9 billion in consolidated revenue in spring quarter, up 23.4% from year ago, as operating cash flow rose 31.8% to \$602.8 million. It credited surge in both categories partly to recent takeovers of Jones Intercable and Lenfest Communications and partly to internal growth. On pro forma basis, company reported increases of 10.7% and 13.7% in consolidated revenues and operating cash flow, respectively, excluding charges for its new domestic and international business telephony ventures. Comcast said it posted \$180.1 million (19¢ per share) net income for quarter. That's down from \$816.4 million (\$1.01) in 1999, when it received \$1.5 billion breakup fee from its unsuccessful bid for MediaOne. Comcast said its cable division, by far its biggest unit, added 173,000 digital video and 42,000 high-speed data customers to end quarter with 943,000 and 237,000 total subscribers, respectively. Cable unit registered 10.2% increase in pro forma revenue to \$1 billion and 11% boost in pro forma operating cash flow to \$467.5 million.

**Cal. appeals court** overturned lower court and ruled that cable operators' passthrough of franchise fee on late payments in excess of statutory delinquency cap violated state consumer protection statute. State Court of Appeals, 2nd Dist. (L.A.), rejected argument of MediaOne of L.A. that 24 cents it charged delinquent customers on late fee of \$4.75 constituted 2 separate fees — late fee and franchise fee. Court overturned trial court decision that MediaOne's \$4.99 late fee imposed on Darren Manibog, MediaOne subscriber, consisted of \$4.75 delinquency fee and 5% franchise fee and that federal law allowed MediaOne to pass it through to consumers. Ruling for MediaOne, trial court also had held that state consumer protection statute didn't prevent company from passing through franchise fee in addition to \$4.75 delinquency fee because law didn't "expressly state" that \$4.75 late fee limit was inclusive of franchise fee. Court of Appeals said that although state statute provided that delinquency fee could exceed \$4.75 if FCC expressly required late fees to be fully included when setting benchmark rates, that exception was inapplicable in this case. Appeals Court held that state statute "does not prevent MediaOne from passing through franchise fees, but prevents it from charging a delinquency fee in excess of \$4.75, inclusive of any franchise fee." Federal law neither limits delinquency fee nor prohibits states from doing so, court said, so there was no conflict with federal law.

**Time Warner Cable** ordered another 350,000 digital cable set-top boxes from Pioneer New Media Technologies, with option to buy at least 150,000 more later this year. Time Warner, which already had bought more than 400,000 Voyager digital set-tops from Pioneer, also gained right to use Pioneer's Passport navigational software on all its digital boxes. Under its previous deal with Pioneer, Time Warner could use Passport software only on Pioneer's digital set-tops.

**Giving credit** to its partnership with NBC and increased advertising on Pax TV Network, Paxson Communications reported revenue in 2<sup>nd</sup> quarter ended June 30 increased 35.1% to \$78.2 million over same period last year. Revenue for first half of year of \$156.6 million was up 42.8%. Said Paxson Pres. Jeff Sagansky: "Our partnership with NBC [TVD July 240 p6] is starting to yield real benefits on many fronts."

**NTIA sent questionnaire** to 195 minority station owners in what its parent Commerce Dept. called "an unprecedented nationwide survey... as part of the Clinton-Gore Administration effort to help reverse a decline" in minority ownership of broadcast stations. "Protecting diversity of media ownership is a top priority of the Administration and is important to our nation's future," Commerce Secy. Norman Mineta said in announcing survey. Added NTIA Dir. Gregory Rohde: "Consolidation of traditional broadcasting has raised concerns about the ability of minority populations to have a voice in the media... It is critically important that we hear first hand from minority broadcasters on their perspective [about] ownership opportunities for minority entrepreneurs." Survey is outgrowth of NTIA seminar last month on ownership diversity (TVD July 24 p4). Results of survey will be published as part of NTIA report due in fall.

**Communications industry** was fastest-growing sector of U.S. economy in 1994-1999 period, according to annual survey by Veronis, Suhler & Assoc.(VSA). However, report predicted that TV revenues would increase 25% in 1999-2004 — only about half projected growth rate for U.S. advertising in all media. Over next 5 years, TV advertising is expected to increase 4.6% annually to \$48.2 billion from \$38.6 billion, compared with 5.6% growth rate in last 5 years. Internet advertising will pace industry growth (25% of total for all media) over next 5 years, VSA predicted, with compound annual growth rate of 8.6% more than quadrupling total to \$24.4 billion by 2004. By that point, VSA estimated, TV ad revenues will total \$48.2 billion (\$28.8 billion stations, \$19.4 billion networks), radio \$26.6 billion, cable and satellite TV \$21 billion, consumer magazines \$16.4 billion. Total ad spending is expected to grow at annual rate of 8.6% over next 5 years to \$249 billion in 2004. In 1999, total ad spending in all media increased 9.1% to \$165 billion, with \$4.6 billion of total (up 140.6%) on Internet, VSA predicted.

**Digital Access**, one of more than dozen new broadband service providers, picked up its first cable franchise (in Wis.) and also qualified for CLEC status in same state. Company, which plans to build fiber-rich broadband systems in Indianapolis, Kansas City, Milwaukee and Nashville markets, signed 15-year franchise agreement with village of Butler in Milwaukee suburbs, giving it access to 1,000 homes. At nearly same time, Wis. PSC granted company CLEC status, allowing it to offer local and long distance phone service throughout state. Digital Access plans to build \$250 million, 3,000-mile fiber network in southeastern Wis., enabling it to serve 300,000 homes and businesses in Milwaukee area, starting early next year.

**Arlington County (Va.)** Board of Supervisors approved cable franchise agreement with Starpower Communications to provide competitive, bundled services to more than 90,000 households. With that approval, company said, it now is authorized to overbuild network to cover more than 600,000 households in Washington metropolitan area, including Montgomery County and Gaithersburg, Md.; Falls Church, Va.; D.C. Starpower, joint venture of Pepco Communications and RCN Corp., is seeking additional franchise agreements covering more than 900,000 households in Fairfax County, Va., and Md. counties of Prince George's and Baltimore.

**British Independent TV Commission (ITC)** revoked license of Babylon Blue satellite channel for failure to pay fine in March for violating ITC Program Code in film *The Black Tie Affair*. Company had been given 28 days to pay penalty, but failed to do so.



## Personals

NBC Entertainment promotions: **Angela Bromstad** to vp-drama development; **Larry Hancock** to vp-comedy development... Primedia appointments: **Bruce Gamache**, ex-Digital Entertainment Network, as pres.; **Marc Krigsman**, ex-Fox Channels Group, exec. vp-content; **Tara Maitra**, ex-NBC, senior vp-operations... **Horst Stipp** promoted to vp-primary & strategic research, NBC... **Jeffrey Schneider**, ex-William Morris Agency, named vp-media relations, ABC News... **Sue Schwartz** succeeds retiring **Bill Miller** as vp-gen. mgr., Belo's KTVK (Ind.) and KASW (WB), Phoenix.

Charter Communications promotions: **Dave Barford** to exec. vp-COO; **Kent Kalkwarf** to exec. vp-CFO... **Lee Whitmore** advanced to vp-education, Cablevision Systems... **David Pugliese**, ex-Global Crossing, named vp-sales & new product mgmt., Cox Communications... **Gary Millis** promoted to vp-business alliances, Cox Interactive Media.

**John Michaeli**, ex-Paxson, named vp-worldwide PR, OpenTV... Open TV promotions: **Debbie Coutant** to senior vp-platform group; **Jean-Rene Menand** to vp-platform architecture... **Hugh MacEachern**, ex-Charter Communications, named pres., FS Multimedia... **Emily Hoffnar** appointed FCC liaison to agency's Local & State Govt. Advisory Committee, replacing **Rosalind Allen**, who left Commission to join **Arnold & Porter**.

**Voters in Denver and Boulder** approved cable franchise agreements with broadband provider **WideOpenWest**, allowing company to construct and operate new competitive broadband networks. Company said addition of Denver and Boulder with 243,000 and 41,000 homes, respectively, increases total of homes **WideOpenWest** has under franchise agreements in Colo. to more than 500,000. Unlike most other communities, city charters of both Denver and Boulder require public approval of all cable TV franchises. Company said construction of network would begin immediately and it expected to serve first customer early next year.

**Broadband service provider Digital Access** received its 2nd cable franchise in Wis. from village of **Hales Corner**, which approved 15-year agreement. Company said it would build network to provide 3,600 homes and businesses with competitive bundled services including cable TV, local and long distance telephone, high-speed Internet access. **Digital Access** said network eventually would serve 300,000 homes and businesses in Southeastern Wis. and company would invest \$250 million to build 3,000 mile, 870 MHz network, with fiber delivered to neighborhood nodes of 75 homes on average. Village of **Butler** granted **Digital Access** its first Wis. franchise 2 weeks ago.

**American Broadband** of Burlington, Mass., received cable franchises from R.I. Div. of Public Utilities and Baltimore County (Md.) Council to provide competitive broadband services. Company said it was first to receive competitive cable franchise in R.I. covering 650,000 households in state and proposed to begin work immediately to build \$170 million state-of-art network. In Baltimore, company has 90 days to reach agreement on terms of franchise. Targeting medium-sized markets, **American Broadband** said it had applications pending in several other eastern U.S. cities.



WARREN COMMUNICATIONS NEWS Television & Media Intelligence www.warren-news.com

## TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

(ISSN 0497-1515)

**PUBLISHED BY WARREN COMMUNICATIONS NEWS, INC.**

This Newsletter is available electronically via Predicasts, Nexis, Dow Jones Interactive and Infonautics and also may be received via email.

Warren Communications News, Inc. is publisher of Audio Week, Cable & Station Coverage Atlas, Communications Daily, Consumer Multimedia Report, FCC Report, Local Competition Report, Long Distance Competition Report, Mobile Communications Report, Public Broadcasting Report, Satellite Week, State Telephone Regulation Report, Telco Business Report, Television & Cable Action Update, Television and Cable Factbook, Television Digest with Consumer Electronics, Video Week, Warren's Cable Regulation Monitor, Washington Telecom Newswire, Daily Document Service, and other special publications.

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**France Telecom** said it would sell its 49.9% stake in **Noos**, major French cable operator with 737,000 cable, phone and high-speed Internet subscribers, to partnership of **NTL** and **Morgan Stanley Dean Witter Private Equity**. **NTL** will pay \$627 million for 27% of **Noos** and will receive 2 seats on its board while **Morgan Stanley** will acquire 22.9% and also receive 2 seats. **Suez Lyonnaise des Eaux**, **France Telecom's** partner in **Noos**, will retain its 50.1% of venture and 5 board seats. Companies said they expected to close deal by end of year.



# Consumer Electronics

A Section of Television Digest with Consumer Electronics

## STATE OF THE INDUSTRY

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

	JULY 22- JULY 28	1999 WEEK	% CHANGE	JULY 15- JULY 21	30 WEEKS 2000	30 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	893,516	1,037,450	- 13.9	494,484	15,608,595*	14,459,100	+ 7.9
DIRECT-VIEW**	858,589	991,585	- 13.4	474,248	14,930,917*	13,899,332	+ 7.4
TV ONLY#....	685,879	780,460	- 12.1	392,936	12,353,427	11,649,104	+ 6.0
TV/VCR COMBO.	172,710	211,125	- 18.2	81,312	2,577,490*	2,250,228	+ 14.5
PROJECTION...	34,927	45,865	- 23.8	20,236	677,678*	559,768	+ 21.1
TOTAL VCR**...	1,033,844	1,010,645	+ 2.3	479,683	14,386,054*	13,459,984	+ 6.9
HOME DECKS...	861,134	799,520	+ 7.7	398,371	11,808,564*	11,209,756	+ 5.3
CAMCORDERS.....	202,730	168,762	+ 20.1	99,179	3,057,561*	2,524,010	+ 21.1
DVD PLAYERS....	296,658*	189,595	+ 56.5	117,949*	3,238,392*	1,611,631	+100.9

Direct-view TV 5-week moving average#: 2000--475,048; 1999--484,043 (down 1.9%).

Projection TV 5-week moving average: 2000--23,612; 1999--24,450 (down 3.4%).

VCR deck 5-week moving average: 2000--479,275; 1999--520,478 (down 7.9%).

TV/VCR 5-week moving average: 2000--101,266; 1999--118,048 (down 14.2%).

Camcorder 5-week moving average: 2000--126,401; 1999--97,630 (up 29.5%).

DVD player 5-week moving average: 2000--159,434\*; 1999--94,117 (up 69.4%).

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

**TOSHIBA EXPANDS DTV LINE, READIES DVD-AUDIO:** To strengthen its position in DTV race, Toshiba said last week it would expand HDTV and HD-ready line to 14 models from 10 and might add set-top boxes (STBs) next year that combine decoding with personal video recorder or Internet access. Toshiba also unveiled its first DVD-Audio player (\$1,999) as high-end piece in 10-model line and pledged to bring product to market in 4th quarter despite expected dearth of titles.

In increasing HD-ready lineup, Toshiba added Cinema Series 43" projection TV (\$2,799) and 34W direct-view (\$4,499), while retaining integrated TheaterWide 65W (\$8,499) that combines decoder with DirecTV receiver. Company scrapped plans for 30W after finding lack of demand for product in U.S., Asst. Mktg. Vp Scott Ramirez said at dealer show in Carlsbad, Cal., last week. It also boosted entry point of HD-ready line to \$2,699 from \$1,999 year earlier by introducing 36" SuperTube set with new FST "pure" flat-screen tube that replaces slightly curved FST Perfect version that had been standard-bearer for several years.

Toshiba's Lebanon, Tenn., factory was expected to start TV set production this month along new line assembling HD-ready 50"-65W sets, Ramirez said. New 40-43" TVs will be assembled on existing line. He said goal was to avoid repeat of year ago, when industry suffered severe shortage of DTVs because of lack of production capacity. "We will be able to increase production 100% from a year ago and we're prepared to meet the demand of both our retailers and the consumer," Ramirez said.

Rest of HD-ready line includes 56W (\$4,499), reprise of screen size that was announced as integrated model year ago but never shipped. Other models are 40W (\$2,999), 50" (\$3,299), 55" (2 models, \$3,199-3,299), 61" (\$3,499), 61W (\$3,799). Prices on some HD-ready sets were up \$200-\$300 as features such as Intelligent Digital Scan Conversion (IDSC) were upgraded. IDSC-II contains additional memory enabling sets to upconvert 480i signal to 480p and double amount of horizontal pixels displayed.



HD-ready sets continue use of PowerFocus lens that's designed to boost brightness and sharpness. Added technologies included vector progressive scanning, which is designed to enable set to eliminate jagged lines caused by motion. Advanced digital noise reduction also was included to limit picture noise.

HD-ready sets are likely to be supplemented next year by STB decoders, possibly including those combined with PVRs or Internet access technologies, Ramirez said. Toshiba currently offers HD decoders in 65W projection set and expects to have DirecTV combo model in Sept. "We're trying to decide what combination of players we should put together and what will sell," he said. "We will have a line with steps in it."

In flat screen, Toshiba unveiled 6 sets — 32" and 36" (\$1,299-\$2,699) with "pure" flat screen that replaces 2R tube used in pair of 36" models in 1999. Toshiba earlier this year postponed production of flat-screen tubes at Horseheads, N.Y., plant to April 2001. It also moved flat-screen concept to 20" TV/VCR combo (\$449) that has 4-head hi-fi VCR and trilingual on-screen display.

In analog lineup, Toshiba has cut prices on direct-view. Low-end 36" fell to \$999 from \$1,099 year ago and 32" to \$599 from \$699. Company kept presence in 27" with 5 models (\$399-\$529), but top end declined to \$749. New 13" (\$199) and 19" (2 models, \$239-\$269), remain same as year ago.

As it seeks to move beyond CRTs, Toshiba will focus on Canon joint venture, which is developing surface-conduction electron-emitter (SCEE) displays (SEDs) that promise to add another competitor to flat-panel market. While Toshiba has marketed Matsushita-sourced 42W plasma panel for commercial applications, it said it had no immediate plans for consumer model. Instead, it will focus on bringing SED into high end of TV line by 2002, Ramirez said. SEDs use SCEE cathode plate with electron emitters that are distributed in amount equal to number of pixels in display. As currently configured, SED has 500 lumens brightness, 1,000:1 contrast ratio and draws 140 w of power vs. 250-300 w required for plasma panel. It also requires driving voltage in 12-16 range, substantially less than plasma. "To what extent you need to charge is the difference between SED and plasma," Toshiba Product Planning Vp Yoshiaki Uchiyama said.

On DVD side, Toshiba will introduce DVD-Audio player in fall regardless of how much software is available, company said. Product Management Dir. Craig Eggers said DVD-Audio universal player probably would be available in "soft launch" in fall, with full availability in 2001 first half. Record labels now are evaluating Toshiba's DVD-Audio player, he said. Among those committed to introducing DVD-Audio titles are BMG, Sony Music and Warner Music, he said. "The licensing agreements are starting to circulate now," Eggers said. "There is a learning curve associated with authoring this stuff and it takes a little bit more than most people expected." DVD-Audio player and separate, progressive scan DVD-Video model (\$1,199) feature HDCD decoding and CD-R compatibility, although former adds 24 bit/192 kHz DAC, step up from 10 bit/54 kHz. Audio player also adds 3-D digital noise reduction frame-buffer technology. Others models include 5-DVD changer (\$499) and Nuon-based player (see separate report, this issue). Toshiba introduced its first portable DVD player (\$1,499) that has 5.8" TFT LCD screen with 800x480 progressive scan resolution and is compatible with DVD-ROM titles.

Toshiba was less specific on recordable DVD plans. It remains "solidly in DVD-RAM" camp and will have product next year, Eggers said. Toshiba is among backers of DVD-Multi plan announced in June by DVD Forum that would ensure playback compatibility between recordings made on DVD-RAM and Pioneer-championed DVD-RW decks. Company also is weighing introduction of TV/DVD player combo product, although ship date hasn't been set, company said. To promote DVD, Toshiba will start joint effort in Sept. packaging \$15-\$50 rebate offer for its DVD players on 11 million cases of Pepsi. Promotion runs through Dec. 30, redemption until Jan. 21.

Major thrust for Toshiba in future will be building Secure Digital (SD) Memory Card venture with SanDisk and Matsushita into storage alliance that compete's with Sony's Memory Stick, Uchiyama said. Toshiba introduced 64 MB SD as flash memory storage for new MP3 player (\$499), which also will be packaged with separate 64 MB card. It has shipped MP3 player in Japan based on Liquid Audio delivery system, although it was unclear whether similar arrangement was in place for U.S. Device allows users to access music from Internet in either MP3 or AAC format, new technology that cuts download times. Player is being built by Japanese supplier, Uchiyama said, but he declined to identify manufacturer. Toshiba said it would move to expand SD technology to digital cameras, possibly by spring, and later STBs and DVD.

\* \* \* \* \*

As Toshiba unveils new products, it has cut distribution to slightly under 200 dealers representing 3,000 storefronts, down from original target of 250, National Field Sales Vp Richard Calacci said. Included in figure is drop in Cinema Series dealers to 80 from 92. Toshiba said goal remained for it to be one of top 3 brands in each of retailers that carry its products, and company will unveil new program targeting custom installers at CEDIA show in Indianapolis in Sept., Calacci said. "When we went into this, we picked partners that were willing to support us across the line," he said, and



Toshiba increasingly will emphasize cross-marketing of products such as STB decoders with DTVs. "I want to broaden my merchandise mix within our distribution base so that a customer can come in and have a breadth of products at a retail location," Calacci said. At same time, Toshiba took wraps off e-commerce policy in unveiling first set of authorized dealers including, among others, Abt Electronics, 800.com, Sears, Stereo Advantage, Tweeter and Van's. Online sales will exclude Toshiba's Cinema Series products and company has no plans sell products from its own Web site such as Sony does on SonyStyle.com, Calacci said.

**HARMAN ADDS MP3 DECODING:** Harman Kardon (HK) has added MP3 decoding technology to new line of A/V receivers, DVD changers and CD-R decks as it embarks on convergence strategy that will be expand further in 2001, company said. At same time, HK is in discussions with JVC and LG Electronics on deploying respective Digital Image Light-Amplifier (D-ILA) and plasma technologies with its high-end Madrigal Imaging brand, Pres. Gina Harman said.

New A/V receivers (\$499-\$999) combine MP3 and Dolby Digital/DTS decoding. All receivers have new Cirrus Logic 24 bit/192 kHz DSPs and DACs, Logic 7 that reproduces 2-channel recording through multichannel speaker system and Vmax surround sound processing. Top-end model has 70 w x 2 power and HDCD decoding. MP3 decoding is accomplished by using receivers' on-screen display to switch coaxial port to output for connection to player. Receivers also are packaged with EzSet remote, which contains 8 bit processor that's designed to allow user to calibrate multichannel system by automatically setting speaker levels.

On DVD front, HK introduced new version of 5-disc changer (\$649), adding MP3 and HDCD decoding features. Step-down changer is stripped of MP3 at \$549. New line continues HK's strategy of marketing DVD changers in U.S., while single play models also are offered abroad. HK has used similar strategy in moving away from standalone Dolby Digital decoding decks toward combining with DTS and other technologies. "The receiver offers such a tremendous value and you can't replace that in components," HK Product Mgr. Rick Jordan said.

HK said it would remain on sidelines for DVD audio and recorders for time being. "DVD audio is going to be a great addition, but we have so many other things that we need to market and pay attention to," Jordan said. HK also will ship new dual-well CD-R decks in fall at \$549-\$699. Models keep 4x recording speed, add MP3.

As it heralds convergence strategy, HK has parted ways with Microsoft, which jointly developed Take Control touch-screen remote with company (TVD Sept 14/98 p15) as means of handling most A/V products as well as lighting and blinds. "That was a joint marketing agreement developed at a certain point in time and Microsoft's agenda was a little different than it is now," Jordan said. "On these convergence devices there is so much technology and we need to have the type of product that fits into the other things that we do."

In adding new line, HK also is discontinuing Festival series that once included system combining Dolby Pro Logic processor, 7-disc CD changer, AM/FM tuner and 5 satellite speakers. "It's a series that has run its course and there won't be any new models," Jordan said.

While HK reentered video business with Madrigal last fall with projectors priced at \$45,000 and \$65,000 (TVD Sept 27 p17), goal is to expand line to 7 products over next 18 months, Harmon said. Projectors employed 8" and 9" Matsushita-sourced CRTs to obtain maximum 1,200x1,600 resolution and 12-13 ft. lamberts.

While plans haven't been finalized, HK has had discussions with JVC on licensing D-ILA technology for front projector. D-ILA technology to date has been limited largely to commercial applications, although JVC's CE Div. has introduced 61" rear-projection set. JVC is readying 0.5" version of D-ILA chip for introduction in 2001 with 1,024x768 resolution, 550 lumens and 1,000:1 contrast ratio. While D-ILA projectors have been priced around \$19,000, Madrigal has been limited to high-end. "We have to look at the other technologies that are out there and what is a reasonable way to step from \$50,000 or \$60,000 to something less," Harman said.

HK also is considering sourcing plasma display from LG Electronics, which has shown 60" prototype. Move into plasma would be expansion of HK's ties to LG that began earlier this year with introduction of JBL SoundGear minisystems.

**Clarification:** Philips' new 64W high-definition (HD)-ready TV will be priced at \$7,999, not existing integrated 64W HDTV. Latter will continue in line while inventories remain... **ReplayTV** doesn't charge for its service, while TiVo has \$9.95 monthly fee.

**Shockwave.com** claimed top spot in PC Data's list of 10 most visited gaming Web sites in week ended Aug. 5. Rounding out top 10 were: Uproar.com, zone.com, station.com, won.net, mplayer.com, blizzard.com, wizards.com, freearcade.com, swirve.com.



**VM LABS SCALES BACK GAMES:** VM Labs has scaled back number of interactive game titles that will be available by year-end for Nuon-equipped DVD players to 15 from 20, Mktg. Vp Gregory LaBrec said.

Samsung, which shipped product at \$499 earlier this year, now is packaging Eidos Interactive's *Ballistic* with its player. Samsung player started at \$499, but quickly fell to \$399, \$349 in some ads. Another 3-4 games will be available at debut of Toshiba player (\$399) in mid-Sept., LaBrec said.

Among titles expected to be out in fall are Eclipse Software's *Iron Soldier 3*, Miracle Design's *Merlin*, Tak Ltd.'s *FreeFall 3050*, Fungus Amungus's *Amaze*, Hasbro's *Tempest 3000*. Titles, which also may include versions of Hasbro's *Life* and *Monopoly*, will be \$24-\$29.

"We are not going to get a lot of 3rd party support until we have an installed base," LaBrec said in noting difficulty in securing both development agreements and retail distribution for titles. "We took our best shot and we've funded some of the initial development." DB Interactive will distribute games.

Toshiba hasn't decided whether it will package game with DVD player, but has revamped remote to feature 8-way compass design instead of earlier 4-way version, Product Management Dir. Craig Eggers said. New design allows users to move cursor diagonally, he said. While Thomson at one time weighed developing Nuon-based product and said technology fit "perfectly into our short- and long-term plans" (TVD June 1/98 p12), it now is "leaning toward doing our own thing" in adding interactivity to DVD player, spokesman said. Nuon's scalable architecture is based on 128 bit processor that replaces current MPEG decoder chips.

Despite comparisons with Sony's upcoming Playstation2, Nuon-based player is "taking a whole other angle," Eggers said. VM Labs is giving developers "the ability to put extra pulling content on the disc without doing a whole lot of extra postproduction work," he said.

VM Labs also is continuing negotiations with film studios on including interactive material with DVD discs. While VM Labs has yet to sign any agreements, it plans to deliver development tools for its platform to movie studios by month's end. It showed prototype version of MGM's *Stigmata* last week at Toshiba line show in Carlsbad, Cal., that included director's commentary. Goal is to have limited number of titles available by year's end, LaBrec said. To provide Internet access, VM Labs is weighing peripheral for introduction later this year that would attach to DVD players.

VM Labs also is positioning its 128 bit media processor as potential decoder for high-definition (HD) broadcasts. It currently can handle 480p, but eventually will have 1080i capability, sources said.

**JVC expanded hours** of its toll-free customer service telephone line serving East Coast and Midwest regions of U.S. Service now is available through midnight weekdays and 9 a.m.-10 p.m. on weekends for total of extra 61 hours per week. Source One, Bloomfield, N.J. company that now handles JVC's product inquiries, also will respond to callers 9 a.m.-10 p.m. on holidays, except Christmas Day, July 4, Labor Day, Thanksgiving.

**SOUND ADVICE BUYS SHOWCASE:** Sound Advice (SA) reached tentative agreement to buy Showcase last week in first move in strategy to expand outside Fla. base. Terms weren't disclosed although purchase is largely cash, SA said.

SA, which operates 24 stores in Fla., acquires 2 Showcase outlets in Phoenix and has plans for third there by year-end, said Exec. Vp Michael Blumberg, whose chain had been in talks with Showcase for 4 months. In purchase, SA also inherits 600-sq.-ft. home automation/home theater store-within-a-store format that Showcase operates in leased space in Sears' upscale Great Indoors outlets in Dallas and Scottsdale.

Chains, both members of PRO Buying Group, share many similarities including store size — 15,000-17,000 sq. ft. — and product mix. Showcase doesn't have car stereo, but has strong custom installation business. Latter category accounts for 20-25% of SA's annual revenue, Blumberg said.

Acquisition of Showcase is another leg in SA's plans to expand to metro markets using a variety of formats. In some regions, such as Detroit where Great Indoors is scheduled for fall opening, SA may buy some custom installers and add Bang & Olufsen (B&O) outlets. SA operates B&O stores under licensing agreement and is likely to use Detroit to expand format that merges high-end boutique with Electronics Environment (EE) concept. SA opened first 3,900-sq.-ft. EE store earlier this year (TVD May 8 p13) as showroom-only format that adjoined 1,500-sq.-ft. B&O store. SA probably will replicate format in Detroit, then add several B&O-only outlets, Blumberg said.

SA plans to retain Showcase name and its Pres. Michael Hagg to run chain, Blumberg said. Showcase deal will put SA on collision course with fellow PRO Group member Ultimate Electronics, which opened its first stores in Phoenix earlier this year.

**OfficeMax reported** \$24.1 million 2nd-quarter loss after \$2.4 million profit year earlier as it cleared out PC inventory in forming new alliance with Gateway. Sales increased 11% on 3% rise in same-store sales. OfficeMax.com, which has been combined with chain's direct sales business, had \$3.3 million loss as sales jumped to \$26.2 million from \$5.3 million year ago. Customer acquisition costs were less than \$100, company said. Online business is projected to turn profit in 2002, CEO Michael Feuer said. Gateway store-within-a-store format has been installed in 300 OfficeMax stores with another 700 outlets to get temporary display in fall, he said. Early returns indicated peripheral sales increased at stores with Gateway display, Feuer said. Chain has cleared out old inventory and made transition to Gateway, which is leasing space from OfficeMax. Retailer also has made transition to new SAP software that automates administrative functions and could result in "some reduction in head count" at corporate level, Feuer said.

**Harvey Electronics**, crediting success of "aggressive advertising" campaign in summer months, said 3rd-quarter sales rose 63.6% to \$7.9 million from \$3 million year earlier on 57.5% same-store sales gain. In 9 months ended July 29, sales soared 61% to \$26.3 million on 51% rise in same-store sales. HE plans to start Web site (TVD July 3 p19) in late Sept. that "supplements, not supplants" its stores and has started construction on Bang & Olufsen store in Greenwich, Conn.



**AMAZON.COM, TOYSRUS.COM SIGN DEAL:** New co-branded online store selling videogames and toys will be opened by Amazon.com and Toysrus.com in fall as part of strategic alliance they announced last week.

Toysrus.com and majority shareholder, Toys "R" Us, will handle inventory and Amazon.com will operate customer service, order fulfillment and site development for new store, companies said. Amazon will house its own inventory as well as Toysrus.com's at its 7 U.S. distribution centers.

Ten-year agreement also allows for global expansion and will see companies start co-branded baby products store in first half of 2001 as well. Companies said Amazon.com will be compensated through combination of periodic fixed payments, per-unit payments and single-digit percentage of revenue. Amazon.com also will receive warrants entitling it to acquire 5% of Toysrus.com.

Amazon.com CEO Jeff Bezos told reporters and analysts last week that agreement could "increase the selection for [Amazon] customers" because Toysrus.com offers more SKUs in those categories, with various products being exclusives that Amazon.com otherwise wouldn't be able to carry. Bezos and Toys "R" Us CEO John Eyler said relationship would allow both companies to achieve profitability faster than they would have on their own. Eyler predicted Toysrus.com now would be able to achieve profitability in 4th quarter of 2001 and have profitable year in 2002.

Bezos and Eyler said co-branded site will be accessible either by going to toys and videogames section at Amazon.com or by going to Toysrus.com.

Store will take advantage of what each company sees as its strong points, they said. Toysrus.com was among handful of e-tailers that received bad publicity last holiday season when it was unable to deliver many products that consumers had ordered on time. Eyler said his company has build up its infrastructure since then, but deal would boost customer service for his customers.

Bezos admitted: "We aspire to have the merchandise skills of a Toys 'R' Us [but] it would be foolish to believe we have them today." He said that while Amazon.com had "very, very good" merchandising skills in books, that wasn't necessarily true for other categories such as toys and videogames.

Separately, Amazon.com didn't return our call to comment on report that customers upset over e-tailer's response to recent pricing mistake at site have complained to FTC. As we reported (TVD Aug 7 p18), late last month, various consumers were able to order products that were listed at Web site at reduced prices because of glitch. But Amazon.com caught mistake after items were bought and apparently asked those customers to pay full prices on them — something that didn't go over very well with at least some of them.

**XM Satellite Radio** said last week it closed on \$235 million financing deal with Honda it had announced in July. Company said deal marked end of its funding before commercial start of nationwide satellite radio service in first half 2001. Honda joins Clear Channel Communications, DirecTV, General Motors and Motient as key strategic investors in XM.

**INTERPLAY REPORTS REDUCED LOSS:** Game maker Interplay posted reduced loss for 2nd quarter ended June 30, but Irvine, Cal.-based company said revenue decreased.

Company said net loss for period was \$1.90 million (-6¢ per share) compared with \$6.92 million (-33¢) year ago as revenue fell to \$24.92 million from \$29.43 million.

Interplay said it reduced operating loss in quarter to \$1.2 million from \$4.4 million year earlier and improved capital position to \$5 million from negative \$7 million at end of 1999. Gross margin improved to 54% from 40%.

Interplay CEO-Chmn. Brian Fargo said: "We are extremely pleased that we have continued to reduce our operating losses as we proceed on our plan to return Interplay to profitability." He said company was able to achieve "the best operating results in 8 quarters without the benefit of a major hit title like the potential of *Baldur's Gate II* or a Sony PlayStation2 [PS2] title." Fargo said sales growth in last quarter was driven by titles including *Icwind Dale*, *MDK2*, *Star Trek Klingon Academy*.

In conference call with analysts last week, Fargo said company had shipped 4 major titles so far this year and planned to move another 8 in 2nd half, including *Giants*, *Sacrifice*, *Star Trek New Worlds*, *Star Trek: Starfleet Command II*, *Virtual Pool III*. It also will ship *Baldur's Gate* sequel this quarter, adding that it had sold more than one million units of title's predecessor. Fargo said he also was confident company would be able to ship at least one title for PS2 for holiday season. While company plans to ship PS2 racing game tentatively called *Wild Racing*, it has another game in works that also may move this year. Other upcoming PS2 titles include *Run Like Hell*, Fargo said. He said company "will be supporting the X-box when it comes out," as well as Nintendo's Dolphin.

Fargo said company was able to achieve "near break-even results" in quarter, with the best results coming in summer despite the fact that it generally is slowest time of year. He said Interplay was "less affected by the [continuing] console transition" in industry because most of its revenue was coming from PC titles at this point.

In same conference call, Interplay COO-CFO Manuel Marrero broke down company's revenue in last quarter, saying 61.1% came from PC games, 17.2% from console games, 21.7% from OEM, royalties and licensing. N. America represented 51.2% of total revenue, international sales 27.1% and OEM, royalty and licensing 21.7%, Marrero said.

**Movie Gallery** reported 2nd-quarter income rose to \$1.9 million from \$679,000 year ago on strong sales of new and previously viewed titles. Revenue jumped 18.1% to \$77.3 million on 8.5% gain in same-store sales. Improved earnings came despite "continued weakness" in videogames side of its business as industry awaits new generations of game machines from Nintendo and Sony, Movie Gallery Chmn.-CEO Joe Malugen said. Sony is scheduled to launch its PlayStation2 console Oct. 26 and Nintendo to release details of Dolphin later this month in Japan. "Consumers have been reluctant to invest in new game decks, and software providers are waiting on games for the new platforms, and that has contributed to a slowdown," Malugen said.



**EA.COM DEBUT STILL ON TARGET:** Electronic Arts (EA) said start of its EA.com online gaming and e-commerce business was on track for going live in next few months. Web site currently is in "closed beta" stage and will move to "open beta" in weeks before going live, it said.

EA provided status of rollout in conference call with analysts to discuss first-quarter results. EA said loss grew to \$38.6 million as revenue declined to \$154.8 million. EA Exec. Vp-CFO Stan McKee attributed downbeat report largely to "the overall market" being "slow in the first quarter, as it is every year." He said it was "probably a little worse than usual because it's coming right before the shipment of PlayStation2 in October." Contributing to slow market, he said, was fact that "PlayStation has been out of stock for months although there's been a trickling of product into the market in the last month or 2."

McKee said games that had been selling best could be grouped in "budget" category, including those priced below \$30. EA's push into online arena also has hurt bottom line. Loss for EA.com itself in quarter widened to \$15.8 million before pretax goodwill from \$2.7 million loss year earlier, but it already was bringing in higher revenue — to \$8.8 million from \$4.4 million. Company again said it was planning to take EA.com business public eventually, probably in 2001 first half.

EA released relatively few titles in latest quarter — only 4 for PC, one for PlayStation in Europe, one for PlayStation2 in Japan. First PlayStation2 game was *FIFA Soccer World Championship*, which McKee said "is continuing to sell well" in Japan. EA achieved its biggest boost in quarter from sales of *The Sims* for PC, which had started shipping in last fiscal year.

Company's 2 new platforms — PlayStation2 in Japan and EA.com — accounted for 12% of revenue in quarter, McKee said. He said he viewed that as "a pretty amazing figure when you look at the newness of those platforms." He said that despite slowness in quarter, there were positive signs, noting that "sellthrough in the market was probably better than what we expected from a market standpoint."

**Emachines will carry low-priced PC strategy to Europe.** Company last week signed agreement with Dixons Group to sell its PCs through 850 Currys, Dixons and PC World stores in Finland, Norway, Portugal, Spain, Sweden, U.K. Dixons also will be exclusive supplier of eMachines PCs to other retailers in European countries where it doesn't have stores. Dixons will handle warranties, logistics and technical support. Emachines, which made name selling PCs in U.S. without monitors for \$399, gains major European distribution through Dixons, which has 60% of total retail demand in U.K., eMachines Pres.-CEO Stephen Dukker said. Company, which projects gaining 15-20% of U.K. market within year, expects deal to add to sales and profits by 4th quarter. Its PCs go on sale in Europe this week. Agreement comes at critical time for eMachines, which posted \$47.4 million 2nd quarter loss (TVD July 31 p17) from slowing demand for PCs in U.S... PeoplePC last week dropped IPO. Free PC purveyor, which has racked up \$173 million in losses since founding year ago, had been expected to sell 11.5 million shares at \$12-\$14. PeoplePC, which charges \$24.95 monthly fee for service, reported \$66 million loss from founding March 2, 1999, through Dec. 31. It lost another \$107 million in first 6 months of this year on \$18 million in revenue. PeoplePC signed agreements earlier this year to supply Ford Motor and Delta Airlines employees with PCs. Both companies took financial stake in PeoplePC.

**ReplayTV took wraps off new MyRePlayTV software** last week that allows user to remotely set parameters on personal video recorder using PC. New feature will be part of general ReplayTV 3.0 software upgrade that will be downloaded to PVRs in Oct., Senior Sales & Mktg. James Hollingsworth said. While new software allows user to set recording times and other features of PVR, it doesn't connect directly to machine. Instead, PC uses browser to connect to ReplayTV server that then relays information to PVR during daily 3-5 a.m. update, Hollingsworth said. Log in to server requires personal identification, password and PVR's serial number. Service eventually will allow user to set time that server connects with PVR and ReplayTV also considering enabling multiple dial-ups, he said. MyRePlayTV is central to upgrade that also will include changes in Replay Zone section and extensions of current features, Hollingsworth said. On hardware front, EchoStar and Sharp Electronics, both investors in ReplayTV, have yet to commit to introducing product this year, but Hollingsworth said company would proceed with plans for introducing satellite-based video-on-demand service by year-end. ReplayTV reached agreement with Starz Encore earlier this year to supply programming, but has yet to get satellite distribution deal. "The pricing and specific offer haven't been developed yet, but none of the satellite agreements are exclusive," Hollingsworth said in indicating willingness to work with DirecTV despite its agreement with rival TiVo... TiVo started promotion last week offering \$100 off its service through Sept. 30. TiVo offers option of one-time \$199 "lifetime" payment. Promotion also coincided with TiVo's giving personal video recorders (PVR) to each member of U.S. Olympic swim team.

**Ubi Soft (US)** reported consolidated sales of \$23 million (150 million French francs) in its first quarter, 31.7% improvement over same quarter year ago. Paris-based game maker said sales were driven by titles including Disney's *Dinosaur* for Game Boy Color, which US said did particularly well in U.S., where it started shipping in May to coincide with release of film of same name. US said other titles that performed well were *Dukes of Hazard — Racing for Home* for PlayStation and *Arcatera, EverQuest: The Ruins of Kunark* and *Taxi 2* for PC. Company said it released 25 new titles between April and June. Despite market transition, US said it was targeting 25% growth in sales and profit for current year. It also said it acquired Milan-based distributor 3D Planet in move that it said would enable it "to increase its penetration of the Italian market and strengthen its European distribution activities." US said it "continues to look at possibilities for future medium-sized acquisitions."

**Thomson Multimedia** last week announced formation of new business segment called Digital Media Solutions that it said would provide key infrastructure products and services to entertainment and media industries. Thomson also said it signed letter of intent to acquire Singingfish.com, privately held Seattle streaming media search service company. Explaining why his company decided to by Singingfish.com, Thomson Vp Don Vassel said: "As digital content distribution grows in importance, we believe it will be critical for companies to master key technologies that let consumers easily find valuable audio and video content that they want to watch and enjoy. Singingfish.com has developed technology that helps search engines identify streamed content, a valuable asset for future broadband multimedia networks." Companies said Singingfish.com's service also allows users to search for downloadable media files such as MP3 music.



**GAME MAKERS' SALES DROP:** Results reported by cross-section of game makers included sales declines by Acclaim, Hasbro, Mattel, THQ.

Acclaim posted revenue of \$4.8 million for 3rd quarter ended May 31 — huge drop from \$80 million N.Y.-based electronic game developer/publisher announced in same period year ago. It also reported \$49.7 million loss compared with essentially break-even results in same 1999 period.

In conference call with analysts, Acclaim Exec. Vp William Sorenson said it was “a generally slow quarter for us.” He put much of blame on “continued significant price erosion” overall in market, caused in large part by continuing industry transition to new platforms as well as “2 important products” slipping into the 4th quarter.” Delayed Acclaim games were *Fur Fighters* for PC and Sega Dreamcast and *Vanishing Point* for Dreamcast and Sony PlayStation (PS).

Sorenson said company took steps in quarter to reduce expenses, among them consolidating its London operations into one entity and cutting staff, although he didn't give number of jobs eliminated.

As for upcoming months, Sorenson said: “Overall the company, we believe, is poised to take advantage of the growth opportunities we see coming forward. We anticipate that the market will continue to be turbulent, but we believe with our continued focus on expense monitoring and reduction that we will be able to achieve results going forward that are dramatically improved over this year's results.”

Acclaim Pres.-CEO Gregory Fischbach said “we plan to have 2 PlayStation2 titles available near the launch of the hardware system [Oct. 26] and we're looking at a very buoyant year beginning in the late spring-early summer” of 2001.

THQ sales dropped to \$32.4 million in 2nd quarter ended June 30 from \$51.6 million year ago. Electronic game developer/publisher based in Calabasas, Cal., said it lost \$7.8 million after \$3.9 million profit year earlier.

Like Acclaim, THQ blamed results largely on overall slow market caused by transition to new platforms. But THQ said loss was smaller than anticipated. In conference call with analysts, THQ CFO Fred Gysi said “improvement was due to stronger-than-expected” sales of company's *WWF Smackdown* title in Europe — U.K. in particular — “and also lower-than-forecast selling and product development expenses.”

Gysi said “gross profit margin was actually higher this year” than last — 54% vs. 48% — thanks largely to THQ's boosting its PS offerings this year, moving away from Nintendo 64 titles that had offered lower margins in 1999.

THQ Pres.-CEO Brian Farrell, like Acclaim's executives, said he was looking forward to debuts of new platforms. He said he expected first PlayStation2 (PS2) title his company that would ship would be *Summoner* “at or near the launch of hardware. We expect to have about 10 products within the first year of launch of the PlayStation2.”

Hasbro and Mattel, 2 largest U.S. toy makers, had similarly slow results. Hasbro said it had \$778.4 million revenue in 2nd quarter ended July 2, down from \$874.6 million year ago, as

profit tumbled to \$6.5 million from \$32.3 million. It said drops were caused by declining interest in its Furby and *Star Wars* products, which were among its top performers in 1999. Hasbro also said earnings included pretax charge of \$5 million attributed to its Games.com online game initiative, which CEO-Chmn. Alan Hassenfeld said “is on track for a soft launch... in September.”

Hasbro Interactive should receive boost from debuts of 15-20 PC game titles in 3rd quarter, including *Grand Prix 3*, of which “over a half a million units” were to ship late in July, Hassenfeld said. He said company's Tiger Div. would follow up its Poo-Chi interactive robotic puppy — one of Hasbro's best-selling items in last quarter — with Meow-Chi interactive robot cat. Super Poo-Chi is scheduled for 4th-quarter shipment and additional animals are coming in future, he said.

Mattel sales rose to \$817.8 million in 2nd quarter ended June 30 from \$802.3 million year earlier. Income from continuing operations jumped to \$6 million from \$211 million loss year ago when it was saddled with troubled Learning Co. that's currently up for sale.

**Pegasus Communications**, citing costs of integrating acquisition of former rival Golden Sky, said 2nd-quarter loss surged to \$72.3 million from \$48.6 million as revenue nearly doubled to \$143.6 million. DirecTV distributor added 54,510 subscribers to end quarter at 1.2 million, while churn fell to 3.4% from 5.7% year earlier. Average revenue per subscriber rose 3% to \$43.11 and acquisition costs dropped to \$347 from \$378. Pegasus has completed first phase of Golden Sky integration in adding 500 dealers to company's territories and plans to sign on another 500 in next 2-3 months, CEO Marshall Pagon said. Pegasus also reached agreement with DirecTV parent Hughes Electronics on revenue sharing and incentive pact last week that will give its customers full range of DirecTV programming. DirecTV previously had handled premium channels such as HBO through contracts it acquired in buying U.S. Satellite Bestg. (USSB) in 1999. Addition of premium services would have boosted Pegasus' average monthly revenue per subscriber to \$50 in 2nd quarter, Pagon said. Dispute on payments under franchise agreements remains subject of legal battle between Pegasus and DirecTV, which is pending. Pegasus is weighing leasing transponder space to deliver local-into-local programming in 10-20 markets and remains on target for fall start of satellite-based Internet access service under DirecPC banner (TVD July 24 p11). It also is planning “TV-centric” interactive service and signed deal with MetaTV last week. MetaTV operates portal for interactive TV that connects network operators, such as cable and broadcast networks, with Internet consumer services like e-businesses that offer shopping and banking. New services are expected to increase subscriber acquisition costs in 3rd quarter to \$475.

**Dreamcast game *World Series Baseball 2K1*** was top-selling videogame in July, PC Data reported. Only other Dreamcast title in top 10 last month was Capcom's *Marvel vs. Capcom 2*, in 10th place. Only one PlayStation game made it to list — Sony's *Legend of Dragoon* (6th). Games for Nintendo platforms had other 7 places in top 10, with *Star Wars Episode I: Racer* for Nintendo 64 (N64) in 2nd place, *Pokemon Yellow: Pikachu Edition* for Game Boy (GB) 3rd, *Perfect Dark* for N64 4th, *Kirby: The Crystal Shards* for N64 5th, *Pokemon Trading Card Game* for GB Color 7th and Activision's *Tony Hawk's Pro Skater* for N64 and GB Color in 8th and 9th.



**NASA DEVELOPS VIDEO STABILIZER:** Technology to improve poorly shot video has been developed by scientists by NASA. Video Image Stabilization & Registration (VISAR) removes handshake and unwanted zoom and tilt motion while making fuzzy pictures look sharp. System could be applied to professional and consumer camcorders as price of signal processing comes down.

VISAR works by dissecting each of images in motion sequence and rebuilding them in constant position and size. David Hathaway and Paul Meyer were working for FBI trying to clean up shaky 13-sec. video of bomb that exploded at night during 1996 Olympic Games in Atlanta. They broke each of 400 picture frames down into several hundred thousand component picture points or pixels, isolated rectangular patches that had constant pixel patterns and summed patterns from several different frames. That reinforced wanted image while reducing random noise. At same time, whole image was moved to keep target pattern at fixed position on screen, thus removing effect of handheld camera shake.

NASA now has refined technique to keep patterns of constant size as well as position. That corrects for accidental zooming, where videographer has pressed wrong button to move between wide angle and telephoto imaging, or tilted camcorder by mistake. NASA is offering VISAR to police, who can use it to recognize license plate numbers or faces in crowd accidentally captured on home video footage. VISAR also can sharpen medical ultrasound scans or calculate tornado wind speeds by tracking objects trapped in twister.

Prototype system works on Windows PC, taking 15 sec. to analyze each frame. As computer speeds increase, processing time will be reduced. Goal is for real-time processing so VISAR can be built into consumer camcorders. Although some camcorders now have stabilization circuitry, they work either mechanically through gyroscopic servos or electronically by comparing successive image scans and compensating for exaggerated shake. In either case, there's no chance to correct errors once recorded on tape, whereas videographers can use VISAR at leisure after shooting.

Swapoo founder Jeffrey Freeman told us last week that his controversial Web site, on which we reported last week (TVD Aug 7 p13), was moving away from its focus on swapping of ROM titles from videogame and now was targeting "any file type much like an FTP program but using the Napster model." He said: "We do currently have a system in place for users who abuse the service" and swap copyrighted work, but he didn't clarify what system was. Freeman added: "We are currently discussing the feasibility of... a filter" that would accomplish that. Meanwhile, visit to his Web site last week revealed that it had changed its address to swapoo.zophar.net from romnet.zophar.net. As we reported, service earlier had changed name to Swapoo from RomNet. Service and Web site name changes came because RomNet also happens to be name of nonaffiliated, Boston-based CD-ROM technical support company. That company — RomNet Support Services (RNSS), to be precise — is subsidiary of holding company Carnegie International Corp. RNSS Pres. Nick Gentile told us last week: "I called [Swapoo] and I told them there was an infringement on my trade name and they were quick to work with me." He said he asked Swapoo to take all references to name "RomNet" out of site and "I'm satisfied at this point." When asked whether he was planning any type of legal action against Swapoo, he said: "Not at this time."

**MORE GAMES COMING FOR MAC:** Microsoft Games Vp Ed Fries reassured Macintosh users who may have been concerned software giant's acquisition of Bungie Software (TVD July 10 p9) was sign that various games never would make their way to Mac platform.

Fries said Microsoft intended to make wide variety of games available to Macintosh users, including eagerly awaited *Halo* from Bungie Software Products. Bungie CEO and co-founder Alex Seropian gave demonstration of *Halo*. Microsoft said version of *Halo* also would ship eventually for its Xbox platform.

Microsoft also said it would form game publishing alliance with new startup company headed by MacSoft founder Peter Tamte, also former Apple worldwide consumer mktg. dir. and Bungie exec. vp., as pipeline to provide more Microsoft games to Mac platform.

Microsoft said it expected first titles for Mac to include strategy game *Age of Empires II: The Age of Kings* and new versions of *Flight Simulator* and *Links*. Ship dates weren't announced.

**Toshiba plans to introduce LCD front projector at under \$2,500 in 2001** as it seeks to expand market for product that it so far has confined to commercial applications. Final specs haven't been set, although projector is likely to have three 0.7" LCD panels now available from Epson and Sony, National Sales & Mktg. Dir. Sam Malik said. Also on drawing boards is front projector with 3 widescreen LCD panels that will ship in spring, pricing not set. Model would contain 1,000 lumens, 400:1 contrast and 120 w UHP lamp with 2,000-hour life. Sony currently has widescreen model for commercial market with three 1.35" panels with 1,068x480-pixel resolution. In making first push into consumer market, Toshiba will deliver 7.9-lb. projector in fall with three 0.9" Epson-sourced panels, 300:1 contrast, 550 lumens, \$4,995 price. Device was first shown at Cedia last fall (TVD Sept 27 p11), but delivery was postponed as Toshiba added shielding required to gain Class B certification from FCC. Class B is designed to prevent RF emissions from interfering with other items in home. Toshiba also has scrapped multicolored projector line it showed at Infocomm in June (TVD June 19 p10) after building just 15 models, Malik said. "The biggest thing was how do you forecast which ones to build, and some dealers said it could create an inventory nightmare," Malik said. Projector, which was priced at \$6,495 for delivery this month, was available in blue, green, gold, red and silver.

**U.K. consumer groups have blasted Sony's pricing for PlayStation2 (PS2),** British press said. As we reported (TVD Aug 7 p14), Sony Computer Entertainment Europe (SCEE) said PS2 would carry £299 (\$446) price tag in U.K. at rollout there Nov. 24. Consumer groups are pointing out there that U.K. pricing is far above \$299 price tag it will carry when it ships in U.S. Oct. 26, *Daily Mail* said, and general feeling among groups is that Sony is merely out to take U.K. consumers to cleaners and is charging them as much as it feels they will spend for next-generation game system. Although Sony Computer Entertainment's U.K. spokesman didn't return call by our Fri. deadline for comment, report quoted him as saying costs of selling, marketing and distributing equipment in U.S. were much less than in Europe and sales tax also was much higher in the U.K. He said: "There are also different logistical costs."



Nintendo will spotlight its next-generation Game Boy Advance handheld system and Dolphin videogame console at its annual Space World preview in Chiba, Japan, Aug. 25-27. Dolphin will be shown for first time on eve of show. Although it appears company will be offering game footage and technical demonstrations, it was unclear whether Nintendo actually would have working console there, and if so, allow attendees to play games. Nintendo also will provide details on its Mobile Systems GB device for connecting Game Boy hardware to mobile phones, Reuters reported. Meanwhile, Nintendo issued list of titles for current N64 console and Game Boy Color (GBC) handheld that it will show at Space World, along with titles of upcoming next-generation handheld, Game Boy Advance (GBA). List includes 4 games for N64 that are coming from Nintendo's licensees, 10 games for N64 from Nintendo, 45 games for GBC from licensees and 7 from Nintendo, 3 games for GBA from licensees and 4 games from Nintendo.

Recoton narrowed 2nd-quarter loss to \$2.7 million from \$7.8 million year ago despite decline in sales to \$136.6 million from \$141.7 million due partly to slowdown in videogames accessories, Pres. Robert Borchardt said. Recoton underwent major restructuring year ago in combining mobile and home audio businesses and suffered sharp drop in video and PC game accessories (TVD Aug 23 p16). Sales at Recoton's videogame subsidiary InterAct were down \$15 million in first 6 months of year, largely as result of downturn in overall market that's poised for next generation Sony, Nintendo and Microsoft hardware, he said. In effort to boost sales, InterAct will ship 14-15 accessories (\$9.99-\$79) in fall for Sony PlayStation2, including controllers, racing wheels, memory cards, RF switches and remote controls for DVD segment of product, Borchardt said. Recoton also has developed accessories for Nintendo's 32-bit Game Boy Advance handheld and due to ship in spring. Recoton's quarterly sales lacked pro audio businesses that were phased out in Italy and U.K., he said. In other business segments, Recoton "enjoyed solid growth" in sales of A/V accessories including wireless and digitally compatible products, Borchardt said.

Palm Inc. introduced low-end M100 (\$149) with 4 MB memory and cut price on IIc and VII handheld PCs to \$399 from \$449. M100 is Palm's first handheld to come in choice of 5 casing colors such as silver and metallic blue, which are priced at \$19.95 each. Device matches opening price of rival Handspring and is designed to attract younger customers. Palm also offered upgraded VII that increases memory to 8 MB from 2 MB and increased number of Web clipping applications to 400 from 200 available for free download from Palm.net. Increased memory brings Palm into league of Microsoft Windows CE-based devices, which contain up to 24 MB. Palm will sell limited edition Palm Vx through Web site in champagne gold and light metallic blue colors (\$399)... Handspring, meanwhile, began affiliate program that will offer Web sites promoting Visor products 10% referral fee if consumers buy device through its location. Promotion, with 5% fee for repeat customers, runs through Dec. 31. Initial referral fee drops to 8% after Dec. 31.

Franklin Electronic Publishers (FEP), having shed money-losing Rex handheld PC business, reversed year-earlier \$8.6 million first-quarter loss to post \$433,000 profit despite decline in sales to \$16.9 million from \$19.7 million. Sales of Rolodex organizers increased to \$16.8 million from \$15.8 million. FEP also turned profit despite \$222,000 in costs related to development of new eBookman product due later this year. In reporting loss year ago, FEP took \$1.1 million charge including inventory write-downs related to Rex and Rocket eBook. FEP sold Rex to Xircom last fall and discontinued Rocket eBook distribution agreement.

## Consumer Electronics Personals

Odie Donald, DirecTV pres., named to MyShoppingCenter.com board... Harry Bowman, ex-Stiffel Co., elected to Kimball International board... David Sadler, Merisel consultant, appointed pres.-CEO, replacing Dwight Steffenson, resigned, plans unknown... Walter Amaral resigns as S3 CFO, succeeded by Vp-Corp. Controller William McFarland on interim basis... Howard Moore, toy industry consultant and ex-Toys "R" Us, joins Singing Machine board... Jalil Shaikh, Silicon Image operations vp, promoted to exec. vp-operations & information technology... Mark Gilman, Blockbuster exec. vp-chief development officer, promoted to New Media Div. pres... Thomas Liebermann, ex-Advanced Frequency Products and Kaye Instruments, appointed MobileToys.com chmn.-CEO... Named to Game Developers Conference 2001 advisory board: Hal Barwood, LucasArts; Louis Castle, Westwood Studios; Mark DeLoura, Game Developer; Alex Dunne, Gamasutra.com; Julian Eggebrecht, Factor 5; Ron Gilbert and Chris Hecker, Definition Six; Elaine Hodgson, Incredible Technologies; Roger Holzberg, Walt Disney Imagineering; Rob Huebner, Nihilistic Software; Cyrus Lum, Inevitable Entertainment; Dale Mauk, Hypnos Entertainment; Mark Miller, IA-Sig; Peter Molyneux, Lionhead Studios; David Perry, Shiny Entertainment; Jason Rubin, Naughty Dog; Jez San, Argonaut Games; Alan Yu, CMP Game Media Group... Alfred Verrecchia, Hasbro CFO, advanced to pres.-COO, succeeding Herbert Baum, who joins Dial Corp.; George Volankis, international senior vp, promoted to exec. vp.; Brian Goldner, Tiger COO, becomes head of Hasbro's U.S. Toy Group; David Medhurst, Tiger International managing dir., promoted to Tiger COO... Thomas Cashman, ex-Dedicated Microcomputers Group and one-time Sensormatic vp, named Sensormatic Video Systems senior vp-gen. mgr., replacing Ron Nieman, resigned, plans unknown... Sarah Buxton, ex-Virgin Interactive Group, named Infogrames N. America mktg. vp... Debbie Coutant, OpenTV platform vp, promoted to senior vp; Jean-Rene Menand, platform architecture dir., advanced to vp.

Havas Interactive (HI) said its revenue for first half of this year jumped to \$228.58 million (1.652 billion French Francs) — 33% increase over same period a year ago. Company said it saw improved sales in all 3 of its categories — games, education and productivity software, noting that sales were strong in U.S., as well as in Europe, where sales increased 74% from same period year ago, and Asia Pacific region, where sales increased 58%. HI also said it is continuing to gain strength in online space, noting that its Flipside.com Web site attracted 4.8 million unique visitors in June, according to MediaMetrix. HI is subsidiary of Havas (Vivendi Group) and parent company of Blizzard Entertainment, Coktel, Knowledge Adventure and Sierra.

Next Game Developers Conference is scheduled for March 20-24, 2001, San Jose Convention Center.

## THIS WEEK'S YEN RATE

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



## Financial Reports of TV-Electronics Companies

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

Company & Period	Revenues	Net Earnings	Per Share
<b>Avnet</b>			
2000-52 wk. to June 30	9,172,205,000	145,141,000	3.53*
1999-53 wk. to June 30	6,350,042,000	174,457,000	4.90 <sup>b</sup>
2000-13 wk. to June 30	2,728,941,000	66,557,000	1.51 <sup>b</sup>
1999-13 wk. to June 30	1,642,311,000	106,529,000	3.03
<b>Blonder-Tongue Laboratories</b>			
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
<b>BMC Industries</b>			
2000-6 mo. to June 30	182,988,000	7,776,000	.28
1999-6 mo. to June 30	177,984,000	8,198,000	.30
2000-qtr. to June 30	94,237,000	5,475,000	.20
1999-qtr. to June 30	93,339,000	5,007,000	.18
<b>Boca Research</b>			
2000-6 mo. to June 30	8,092,000	(12,055,000)	---
1999-6 mo. to June 30	19,448,000	(8,641,000)	---
2000-qtr. to June 30	3,437,000	(9,660,000)	---
1999-qtr. to June 30	8,747,000	(4,835,000)	---
<b>Bogen Communications</b>			
2000-6 mo. to June 30	33,541,000	1,174,000	.14
1999-6 mo. to June 30	26,283,000	1,606,000	.24
2000-qtr. to June 30	17,222,000	872,000	.09
1999-qtr. to June 30	13,761,000	1,135,000	.17
<b>Cablevision Systems</b>			
2000-6 mo. to June 30	2,129,801,000	(287,243,000)	---
1999-6 mo. to June 30	1,880,017,000	(406,494,000)	---
2000-qtr. to June 30	1,081,577,000	(171,748,000)	---
1999-qtr. to June 30	946,309,000	(167,847,000)	---
<b>Canon</b>			
2000-6 mo. to June 30	814,170	43,530	49.93
1999-6 mo. to June 30	735,380	31,170	35.81
<b>Comcast</b>			
2000-6 mo. to June 30	3,851,000,000	(3,800,000)	---
1999-6 mo. to June 30	2,995,900,000	905,000,000	1.20*
2000-qtr. to June 30	1,912,100,000	187,700,000	.20*
1999-qtr. to June 30	1,549,200,000	824,000,000	1.10*
<b>Concord Camera</b>			
2000-year to July 1	173,158,034	19,598,567	.89
1999-year to June 30	118,418,074	7,708,483	.35
2000-13 wk. to July 1	54,680,687	9,068,961	.41
1999-13 wk. to June 30	34,812,899	2,772,029	.13
<b>Cree Research</b>			
2000-year to June 25	108,562,000	30,520,000	.87
1999-year to June 27	62,401,000	12,438,000	.41
2000-13 wk. to June 25	33,359,000	11,357,000	.30
1999-13 wk. to June 27	18,345,000	4,012,000	.12
<b>eMachines</b>			
2000-6 mo. to July 1	374,316,000	(72,060,000)	---
1999-6 mo. to June 30	351,313,000	(3,909,000)	---
2000-qtr. to July 1	124,476,000	(62,510,000)	---
1999-qtr. to June 30	213,879,000	(3,037,000)	---
<b>Emerson Radio</b>			
2000-13 wk. to June 30	81,827,000	3,045,000	.07
1999-13 wk. to July 2	43,447,000	415,000	.01
<b>Franklin Electronic Publishers</b>			
2000-qtr. to June 30	16,923,000	433,000	.05
1999-qtr. to June 30	19,746,000	(8,607,000)	---
<b>General Magic</b>			
2000-6 mo. to June 30	4,858,000	(21,135,000)	---
1999-6 mo. to June 30	335,000	(26,745,000)	---
2000-qtr. to June 30	2,262,000	(9,072,000)	---
1999-qtr. to June 30	180,000	(13,028,000)	---
<b>Hollywood Entertainment</b>			
2000-6 mo. to June 30	657,958,000	(75,207,000)	---
1999-6 mo. to June 30	516,897,000	(12,550,000)	---
2000-qtr. to June 30	322,636,000	(63,044,000)	---
1999-qtr. to June 30	250,368,000	(8,329,000)	---
<b>Meredith</b>			
2000-year to June 30	1,097,165,000	71,030,000	1.38*
1999-year to June 30	1,036,122,000	89,657,000	1.72 <sup>b</sup>
2000-qtr. to June 30	283,689,000	2,732,000	.06*
1999-qtr. to June 30	270,240,000	23,336,000	.45
<b>Microvision</b>			
2000-6 mo. to June 30	3,285,000	(12,005,600)	---
1999-6 mo. to June 30	3,694,500	(7,180,700)	---
2000-qtr. to June 30	1,176,000	(6,932,400)	---
1999-qtr. to June 30	1,392,900	(5,178,700)	---

Company & Period	Revenues	Net Earnings	Per Share
<b>Movie Gallery</b>			
2000-26 wk. to July 2	158,838,000	5,835,000	.49
1999-26 wk. to July 4	135,130,000	2,660,000	.30 <sup>d</sup>
2000-13 wk. to July 2	77,345,000	1,935,000	.17
1999-13 wk. to July 4	65,510,000	679,000	.05
<b>OfficeMax</b>			
2000-26 wk. to July 22	2,422,968,000	(26,197,000)	---
1999-26 wk. to July 24	2,149,873,000	24,443,000	.21
2000-13 wk. to July 22	1,078,780,000	(24,114,000)	---
1999-13 wk. to July 24	970,463,000	2,427,000	.02
<b>Paxson Communications</b>			
2000-6 mo. to June 30	156,607,000	(88,710,000)	---
1999-6 mo. to June 30	109,634,000	(72,738,000)	---
2000-qtr. to June 30	78,151,000	(34,656,000)	---
1999-qtr. to June 30	57,855,000	(64,905,000)	---
<b>QSound Labs</b>			
2000-6 mo. to June 30	1,956,736	(1,618,274)	---
1999-6 mo. to June 30	1,372,878	(298,252)	---
2000-qtr. to June 30	1,174,133	(1,098,688)	---
1999-qtr. to June 30	717,732	(302,061)	---
<b>Recoton</b>			
2000-6 mo. to June 30	282,141,000	(5,417,000)	---
1999-6 mo. to June 30	285,704,000	(9,255,000)	---
2000-qtr. to June 30	136,678,000	(2,793,000)	---
1999-qtr. to June 30	141,798,000	(7,791,000)	---
<b>SmartDisk</b>			
2000-6 mo. to June 30	48,312,000	(4,774,000)	---
1999-6 mo. to June 30	13,993,000	(2,156,000)	---
2000-qtr. to June 30	30,928,000	(4,272,000)	---
1999-qtr. to June 30	8,485,000	(190,000)	---
<b>SRS Labs</b>			
2000-6 mo. to June 30	13,783,758	(8,448,409)	---
1999-6 mo. to June 30	15,846,969	(1,491,235)	---
2000-qtr. to June 30	6,593,206	(4,107,362)	---
1999-qtr. to June 30	8,192,399	5,875	---
<b>Trans World Entertainment</b>			
2000-26 wk. to July 29	595,600,000	15,700,000	.32
1999-26 wk. to July 31	564,300,000	(2,900,000)	---
2000-13 wk. to July 29	285,500,000	6,700,000	.14
1999-13 wk. to July 31	277,300,000	5,700,000	.11
<b>Ultralife Batteries</b>			
2000-year to June 30	24,514,000	(10,242,000)	---
1999-year to June 30	21,064,000	(7,085,000)	---
2000-qtr. to June 30	5,413,000	(4,122,000)	---
1999-qtr. to June 30	6,088,000	(2,097,000)	---
<b>Verizon Communications</b>			
2000-6 mo. to June 30	31,336,000,000	6,464,000,000	2.35*
1999-6 mo. to June 30	28,274,000,000	3,984,000,000	1.44*
2000-qtr. to June 30	16,787,000,000	4,907,000,000	1.79
1999-qtr. to June 30	14,513,000,000	1,942,000,000	.70*
<b>Wells-Gardner Electronics</b>			
2000-6 mo. to June 30	26,908,000	729,000	.15 <sup>b</sup>
1999-6 mo. to June 30	20,241,000	159,000	.04
2000-qtr. to June 30	14,009,000	133,000	.03
1999-qtr. to June 30	11,034,000	405,000	.09
<b>Western Digital</b>			
2000-year to June 30	1,957,580,000	(188,016,000)	---
1999-53 wk. to June 25	2,767,206,000	(492,690,000)	---
2000-13 wk. to June 30	473,862,000	4,165,000	.03
1999-14 wk. to June 25	709,302,000	(101,486,000)	---
<b>Young Broadcasting</b>			
2000-6 mo. to June 30	147,091,000	10,619,000	.78 <sup>b</sup>
1999-6 mo. to June 30	136,951,000	(5,137,000)	---
2000-qtr. to June 30	74,927,000	734,000	.05
1999-qtr. to June 30	73,704,000	2,606,000	.19
<b>Zoom Telephonics</b>			
2000-6 mo. to June 30	26,874,000	(1,878,000)	---
1999-6 mo. to June 30	27,225,000	(1,409,000)	---
2000-qtr. to June 30	13,256,000	(937,000)	---
1999-qtr. to June 30	15,838,000	(719,000)	---

Notes: \*After special change. <sup>b</sup>Includes special credit. <sup>c</sup>Results in millions of yen except per share. <sup>d</sup>Includes extra item.

Electronic Arts (EA) said it would ship James Bond game *007 Racing* for Sony's PlayStation late this year. Redwood City, Cal.-based company said title was part of previously announced exclusive, multiyear worldwide licensing deal with MGM Interactive, Danjaq, Eon Productions. Danjaq is owned by family of Albert Broccoli, producer of most James Bond films. Eon is affiliate of Danjaq's. U.K.-based Eutechnyx is developing Bond game for EA.





# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

AUGUST 21, 2000

VOL. 40, NO. 34

## SUMMARY-INDEX OF WEEK'S NEWS

### Broadcast - Cable

**NEWS CORP. BUYS CHRIS-CRAFT TV STATIONS**, pulling them from Viacom's grasp, adding 10 to 23 Fox already owns. Market duopolies planned. UPN status uncertain. (P. 1)

**TV, WIRELESS CLASH OVER BAND AUCTION**, filing dueling comments on FCC's plans to clear Ch. 60-69 band of analog TV stations for wireless users. (P. 2)

**TOUGH FIGHT AGAINST HOLLINGS BILL** expected when Congress returns in Sept. Bill would ban foreign govts. from owning more than 25% of U.S. telecom companies. (P. 4)

**ANALYSTS SEE DIRECTV GROWTH SLOWING** as DBS market leader comes under fire from cable operators and EchoStar. Stock price falls, promotional costs soar. (P. 5)

**AT&T BUYS DIGITAL SET-TOPS FROM PHILIPS**: MSO seeks to spread wealth to new box makers and prepare for retail sale of cable set-tops. Motorola deal also extended. (P. 6)

**NEWS CORP. BUYS CHRIS-CRAFT TV STATIONS, BEATING VIACOM**: News Corp's Fox TV is adding 10 TV stations to 23 it already owns in \$5.35 billion cash and stock (about 18 times cash flow) purchase of Chris-Craft Industries (CC) and its majority owned subsidiaries BHC Communications and United TV. Purchase will increase Fox's penetration of U.S. TV homes to 40.5% — well above FCC maximum of 35% for single owner — and Fox officials said they would try to solve that problem by swapping stations to form duopolies rather than selling stations outright.

Agreement on sale of CC stations to News Corp. was reached late Aug 15, Fox officials told security analysts in Aug. 16 conference call, and deal was announced just 2 days after Viacom withdrew from bidding for stations when told CC had received better offer. News Corp. and Fox TV are paying \$2.13 billion cash, rest in 73 million American Deposit Receipts (ADRs) representing 292 million News Corp. non-voting preferred shares. If transaction doesn't close by Aug. 31, 2001, CC holders will receive additional \$1 per share and if it isn't consummated within 15 months either party may pull out of agreement.

Deal — which was “the right deal... at the right price at the right time,” according to News Corp. Pres. Peter Chernin — gives Fox TV duopolies in N.Y., L.A., Phoenix and Salt Lake City, 13 stations in top 10 markets and 20 in top 20. Salt Lake City duopoly isn't likely to be retained, Fox officials told analysts, while other duopolies will be sought by swapping stations in larger markets. (Note: Under FCC ownership cap, duopolies count only once against 35% maximum.) Another problem Fox will face at FCC is newspaper crossownership ban since News Corp. owns N.Y. Post, will be adding WWOR-TV, and Fox currently is permitted to own WNYW there under waiver of rule.

### Consumer Electronics

**THOMSON EMPHASIZES DIGITAL** products and services as growth engine; extends PVRs, MP3, Web access through lines. (P. 10)

**COURT BARS DeCSS FROM WEB** in ruling that posting code that cracks DVD copy protection violates copyright law. Appeal planned. (P. 11)

**SONY HOLDS PSONE TO \$99** despite flirting with rise on redesigned PlayStation. U.S. could see 2 million PS2s by holidays. (P. 12)

**ZENITH 2ND-QUARTER LOSS NARROWS** to \$7.4 million from \$20.9 million despite \$3.2 million in restructuring charges. (P. 13)

**WALKMAN GOES MP3** as Sony prepares to bring venerable brand into digital era in fall. New handheld PC named Personal Entertainment Organizer (PEO). (P. 13)



News Corp. Chmn. Rupert Murdoch said addition of CC stations gives “News Corp. and Fox TV Stations a scarce commodity in a highly profitable industry... This unique opportunity to increase ratings and revenues through top-market duopolies should quickly deliver substantially increased profits.” In addition to 4 duopoly markets, CC stations are in Baltimore, Minneapolis-St. Paul, Orlando, Portland, Ore., San Antonio, San Francisco. Stations include 6 VHF, 4 UHF, 8 UPN affiliates, one ABC and one NBC. UPN affiliation contracts expire in Jan., and Fox officials told analysts UPN stations could be expected to seek agreements with different networks — although probably not Fox, which already has affiliations in all markets involved. That led to speculation that Viacom would shut down its money-losing 2nd network, but Viacom and CBS had no comment. Loss of CC stations would drop UPN penetration to 67% from 87% of U.S. household.

CC and Viacom co-founded UPN TV Network 5 years ago as equal partners and that partnership has been described as stormy from very beginning. Viacom bought out CC last spring for \$5 million — very small percentage of losses co-owners had sustained in operating fledgling network — in buy-or-sell agreement. In approving Viacom’s \$30 billion acquisition of CBS, which closed last spring (TVD May 8 p3), FCC began proceeding that would waive 2-network rule to permit Viacom to retain UPN.

In phone conference with analysts, News Corp.-Fox executives repeated several times that CC stations, particularly in N.Y. and L.A., had been “underperforming” in relation to market share and return on sales. Fox, they said, could be expected to turn around those “very low profit” stations very quickly. As for what will happen to UPN, Chernin said: “I’m not sure what will happen... That’s a better question for Viacom.” As for switch of CC affiliations from UPN, “we have numerous ways to go,” analysts were told, with “unmatched distribution platform” created by combination of Fox stations with CC, duopolies and “synergy” from Fox cable sports networks (2 in L.A. area). “Because it’s what the seller wanted,” was response when analyst asked why purchase was made by News Corp. instead of Fox TV (which will operate CC stations after deal closes).

Deal would give News Corp. “undue influence in major markets,” many of which don’t have any minority representation, Al Sharpton, head of National Action Network (NAN), charged after meeting with FCC officials Aug. 16. It would be “stretch of FCC regulation” for agency to give News Corp waiver required for acquisition and would go against Commission’s responsibility to “protect the public from receiving news from one source,” Sharpton said in news conference outside FCC hq. He said deal also was alarming because of what he characterized as News Corp.’s right-wing editorial slant and its exclusionary hiring practices, especially in Salt Lake City and N.Y. where minorities already are under-represented. In Del. Chancery Court, Wilmington, 8 stockholders of BHC Communications, C-C and United TV filed separate suits in effort to stop sale. C-C said suits were “without merit and they intend to contest them vigorously.”

Meanwhile, News Corp. said its TV network and stations made strong contribution to its 4th quarter, which showed revenue up 18% to \$3.9 billion, with after-tax profit down 14% to \$184 million (18¢ per share). TV Group posted operating income of \$241 million (up 13%), with profit up 4%. Loss of \$53 million was reported by Filmed Entertainment Div., led by poor performance of animated movie *Titan A.E.*

**TV AND WIRELESS CLASH OVER SPECTRUM CLEARANCE:** Broadcasters and wireless carriers filed dueling comments with FCC last week on Commission’s plan to clear Ch. 60-69 band of analog TV stations to make way for wireless users. Broadcasters urged FCC to embrace voluntary methods of band-clearing as part of 700 MHz auction now set for March and used comments to chide Commission for inaction on digital must-carry. At same time, several wireless companies called on FCC to bar broadcasters from gaining windfall by refusing to participate in coordinated clearing process. Both sides seek certainty before auction and DTV deadlines.

FCC issued further rulemaking in late June on voluntary clearance of 700 MHz band by incumbent UHF broadcast-ers and whether those stations should be permitted to share spectrum in time and/or bits (TVD June 26 p4). Since then, it has delayed auction twice (it’s now scheduled March 6) citing unusually complex issues involving highly coveted spectrum (TVD Aug 7 p1).

Pax TV pointed to spectrum auctions just concluded in Germany that raised nearly \$50 billion. With spectrum to be auctioned in U.S. reaching 3 times as many people, auctions “could turn out to be an absolute bonanza for the U.S. Treasury,” Chmn. Lowell Paxson said. But, he said, those potential proceeds to U.S. and “continuation of the information revolution... are in grave jeopardy unless the FCC acts now to take down the roadblocks.” Those roadblocks include no digital must-carry, “a build-out deadline mandate that ignores the unavailability of towers, transmitters and antennas,” plus fact “there are virtually no digital receivers being purchased” in U.S.



USA Bcstg., which owns 8 TV stations in spectrum to be cleared for nonbroadcast users, told Commission it should "reject any mandatory proposals for participating in the band-clearing process" and instead "should provide incumbent broadcasters... broad flexibility" to enter into voluntary "clearing arrangements." Also, USA said, Commission should "clearly and promptly address critical uncertainties that are slowing the digital transition" — such as must-carry. Broadcasters' digital transition costs are being "exacerbated by the uncertainty surrounding the DTV transition," USA said.

NAB said that even if voluntary clearing of Ch. 60-69 didn't result in TV stations' moving from those channels, "mandatory clearing" of broadcasters from band "would be contrary to congressional intent and the public interest if, as a result, existing analog TV service is lost to consumers." NAB also opposed any temporary relocation of dislocated stations to analog Ch. 52-58 as "stop-gap measures, at best," because those channels also are subject to future licensing for nonbroadcast services.

MSTV said major problem with DTV transition was "that there are too many obstacles between [digital] signals and the consumers who must access them [by buying DTV receivers] in order to reduce reliance on analog television." There's no way to relocate Ch. 60-69 stations during transition "without a heavy service penalty," MSTV said. "That penalty should be borne only by those stations who [voluntarily] agree to absorb it and should not be allowed to impact" on stations that aren't parties to voluntary relocation agreements. Association also said FCC should state "that it will not allow any new interference to existing or planned" DTV operations. Plus, MSTV said, adoption of cable must-carry rules is "long overdue."

Shop At Home told Commission that mandatory early switch of its 3 stations in that band "will have profound [negative] financial implications." Therefore, Shop At Home said, it "strongly encourages" Commission to sanction "a private, voluntary secondary auction to clear the 60s spectrum... Any mechanism that provides for early departure by a licensee from its spectrum must be voluntary and market-oriented." And, because of lack of DTV receivers in consumers' hands, any "band-clearing process" established by Commission "must be given full digital [must] carriage rights," Shop At Home said.

Entravision Holdings, licensee of 11 TV stations, told FCC it was "concerned that in this rush to provide spectrum for wireless purposes and to secure funds for the Treasury, the Commission is ignoring free, over-the-air television." Entravision also questioned agency's authority "to engage itself in a private auction mechanism designed solely to benefit certain classes of participants."

On wireless side, Verizon Wireless said public interest portions of Telecom Act supported FCC's writing rule in which TV station could be ordered to change its channel of operation. "The Commission should remain mindful of the fundamental fact that unless a clear path is found to clearing a substantial number of broadcast stations from the 700 MHz band, this spectrum could remain unusable for a long time," Verizon said. Carrier lauded FCC conclusion that it would adopt presumption in favor of approving requests for voluntary industry band-clearing arrangements. But it said it "believes that the Commission must do more to facilitate the voluntary band-clearing process."

Specifically, Verizon said it favored coordinated secondary auction process to clear 700 MHz band instead of separate negotiations in each market where incumbents occupy that frequency. Company urged FCC to adopt regulatory safeguards so that one incumbent holdout couldn't reap substantial financial rewards by not participating in voluntary coordinated process. Citing Sec. 303 of Telecom Act, carrier said there was "ample authority for the Commission to adopt a limited relocation rule." In that context, FCC has power to make public interest finding to craft rule under which broadcaster "can be ordered to change its channel," it said.

Spectrum Exchange, which is developing private market mechanism to address interference issues, told FCC that private company rather than govt. should run secondary auction. "Generally speaking, it is inappropriate for public agencies to perform jobs that can be done reasonably by the private sector," it said. Spectrum Exchange and investment bank Allen & Co. are planning secondary auction for band-clearing rights, which would be linked to actual FCC spectrum auction.

AT&T submitted plan to FCC for complying with agency's safeguards to keep MSO corporate executives away from its programming assets, such as Liberty Media and Rainbow Programming. Confidential filing, required by Commission as part of its approval of MediaOne merger 2 months ago, apparently spells out AT&T's efforts to maintain firewall between its corporate offices and programming units. AT&T picked Marilyn Wasser, vp-law and corporate secy., to be its corporate compliance officer.

Overbuilder WideOpenWest (WOW) won another cable franchise in Tex. as Ft. Worth authorized it to build fiber broadband network to provide competitive cable TV, high-speed Internet access and telephone services to city's 215,000 households. Company already has franchises in suburban Grand Prairie and Irving and is negotiating with 20 other communities in state, including Dallas. WOW said it now has franchise agreements in place to serve more than million potential homes in Ariz., Colo., Mo. and Tex. and expects to sign up first customers early next year.



**FOREIGN OWNERSHIP STIRS BATTLE:** Fight is brewing over measure to limit foreign govt. ownership of U.S. telecom companies (S-2793) when Congress returns in Sept. Bill opponents are gearing up for likely tough battle because sponsor Sen. Hollings (S.C.) has attached it to Commerce-Justice Appropriations bill (HR-4690), which has cleared full Appropriations Committee, and it will be difficult to alter bill against his will. Hollings is ranking Democrat on both Commerce-Justice Appropriations Subcommittee and Commerce Committee.

Bill would bar transfer of broadcast or telecom licenses regulated under Communications Act to companies in which foreign govts. hold more than 25% stakes. That would apply immediately to Deutsche Telekom's pending \$51 billion takeover of wireless carrier VoiceStream. It was unclear whether measure would block NTT's acquisition of Verio, which recently survived fight with FBI. European Union already has said bill could violate some World Trade Organization (WTO) provisions, and some free traders predicted it could cause "full-blown telecom trade war," in words of Heritage Foundation analyst Adam Thierer. He predicted Europe would follow with "retaliatory strike" on U.S. carrier, starting "classic tit-for-tat" exchange.

"Just because of the nature of the legislative beast," Hollings rider "could somehow sneak its way through," said Thierer, who now rates measure as most likely piece of major telecom legislation to pass this year. Proactive work is required to remove it, he said, and "plenty of people in Congress... don't like the idea of a foreign-owned carrier coming in and acquiring an American company." Measure "has an increasing chance of going through," Precursor Group analyst Rudy Baca agreed.

Persuading Hollings to drop provision could require some show of force, and spokeswoman for Senate Commerce Committee Chmn. McCain (R-Ariz.) promised McCain wouldn't be afraid to use his clout. McCain has been leading opponent, both because he supports free trade and telecom deregulation and because Hollings circumvented usual Commerce Committee process by moving his bill via appropriations. "McCain has made it clear to the leadership that he will object on a motion to proceed on the bill," said spokeswoman. She said he would use all parliamentary moves allowed in Senate, which generally gives great power to individual lawmakers.

Also working behind scenes is Clinton Administration, which has publicly opposed bill and floated possibility of veto. Veto is "virtual certainty," Baca said. He said free trade is "a core issue for this Administration... One thing [Clinton] proudly claims passage of is NAFTA and the WTO agreement. It's part of his legacy — he'll want to protect it." However, veto would force Administration to oppose many prominent Senate Democrats just before Presidential election. Among sponsors are Minority Leader Daschle (S.D.) and Sens. Rockefeller (D-W.Va.) and Dorgan (D-N.D.). Former U.S. Trade Representative attorney Laura Sherman recently said Administration "doesn't have the will to fight it." Baca predicted Administration officials would ask Hollings to avert confrontation and work through normal legislative process.

One source said White House has found itself in delicate position of not wanting to publicly fight Hollings, who has backed Administration on important issues. As result, Clinton officials have expressed concerns quietly to Hollings to avoid

playing up irony of Democratic administration siding with Republican McCain against Democratic senator.

Issue will get airing before House Telecom Subcommittee at hearing Sept. 7. While it's not clear who will testify, we're told Hollings is likely to be invited. House has companion bill (HR-4903) backed by ranking Commerce Committee Democrat Dingell (Mich.) and ranking Subcommittee Democrat Markey (Mass.).

Hollings's standalone bill is unlikely to move because it would have to pass McCain's committee first, said Sherman, attorney with Paul, Weiss, Rifkin & Garrison. She said Commerce-Justice appropriations bill could well be wrapped into omnibus appropriations package rather than moving on its own, but even then, "I would never underestimate the ability of Senator Hollings" to add his language to omnibus vehicle too. Meanwhile, White House has been seeking allies between McCain and like-minded members in House to keep tabs on similar language that might move, she said.

In followup to earlier inquiries to AOL and Time Warner (TW) on their pending merger, FCC Cable Bureau is seeking more details about AOL-TW's plans to integrate cable and online services. Specifically, 7-page letter seeks more information on merged company's plans to offer interactive TV services, open TW's cable lines to rival ISPs, grant competitors access to AOL's popular instant messaging (IM) system, provide high-speed Internet access over DSL lines, sign telephone and online carriage deals with AT&T. Most notably, 3rd in series of Cable Bureau letters asked: (1) Whether AOL-TW would favor affiliated programming services on its AOL TV interactive service and electronic programming guide. (2) For details on AOL's deals with DSL providers to offer high-speed AOL Plus service over phone lines. (3) For companies to supply more information about their negotiations with AT&T to provide AOL's online service to AT&T Broadband cable subscribers and AT&T phone service to TW cable subscribers. Separately, in quarterly SEC filing, TW revealed that it could take one-time charge of \$200-\$300 million to cover costs of restructuring its Road Runner high-speed data venture with AT&T. Under consent order it signed with Dept. of Justice, AT&T must divest its stake in Road Runner as part of its recent takeover of MediaOne Group.

Having satisfied objections of Justice Dept. and FCC by agreeing to spin off 122 radio stations in 37 markets — many of them to minority buyers — Clear Channel Communications (CCC) now is free to close on its \$23.5 billion purchase of AMFM Inc. and its 400-plus radio stations. Final approval came from FCC Aug. 15, 3 weeks after CCC's signing of consent decree to gain approval of Justice Dept. (TVD July 24 p5). Deal involves "a very complex series of transactions, all interrelated," and date for closure hasn't been set, CCC spokesman said. Deal, announced 10 months ago (TVD Oct 11 p9), had been awaiting approval by 2 agencies. FCC final order won't be released for several days, Commission official said, and separate concurring statements from commissioners are expected.

CBS affiliate WTVR-TV Richmond, Va., is first to sign up for electronic meter service that Nielsen Media Research plans to begin there in Oct. 2001. Nation's 60th largest TV market with 474,610 TV homes, Richmond-Petersburg will become Nielsen's 53rd metered market and expand Nielsen's coverage to 67.7% of U.S. households.



**ANALYSTS SEE DIRECTV GROWTH SLOWING:** Future slowdown in subscriber sales and sagging stock prices face DirecTV as it struggles to find permanent place in media landscape, industry analysts said Aug. 16. DBS market king also has become target of cable MSOs such as AT&T Broadband, Comcast, Cox Communications and Time Warner seeking to win back customers lost to DBS providers. "A lot of people want to knock them off their perch," analyst said. Nasty legal fight with DBS rival EchoStar, which filed antitrust suit against DirecTV, also looms.

Despite DirecTV's boundless optimism about finding new subscribers and revenue streams by starting interactive broadband services in tandem with AOL, Blockbuster, Microsoft, National Football League and TiVo in fall, repercussions of "price-based promotions" to boost dish sales will lead soon to "diminishing returns," said satellite analyst William Kidd, managing dir., C.E. Unterberg Towbin. He said weaker consumer market for satellite dishes had led to "drastic increase" in 2nd-half marketing costs for DirecTV, which already is spending \$510 for each new customer. "When you do that, promotions work less and less," he said. "You can't get much cheaper than free."

On plus side, DirecTV, spurred by opportunity to beam local TV stations into home markets for first time, steadily has pushed itself up pay TV ladder to trail only cable giants AT&T and Time Warner in customer counts. It recently topped 8.5 million and said it expected to become first DBS provider to reach 10 million by end of year. Some analysts predicted that 6-year-old DirecTV, which is close to turning its first profit, could pass even 2 biggest MSOs by 2005.

DirecTV's \$4 billion revenue now accounts for more than 64% of \$7.5 billion generated by parent Hughes Electronics, itself unit of auto giant General Motors. Irony of predicament is that Wall St. once viewed DirecTV as star because of soaring subscriber growth that now has slowed dramatically, source said. Rosy forecasts are being scaled back after DirecTV admitted last month that it might fall short of revenue goals for year. With subscriber growth slowing, rural markets near saturation and delays in launches of interactive TV and high-speed data services with AOL, company is facing "important challenge" that will play pivotal role in its future, industry source said.

DirecTV spokesman said public shouldn't be swayed by couple of disappointing months and it would be fairer to judge results on long-term basis.

Looming in background are reports that GM is actively seeking buyer for DirecTV. Analysts believe DirecTV could fetch \$50 billion in open market sale. Hughes Senior Vp and DirecTV founder Eddy Hartenstein recently admitted such reports weren't entirely untrue. "Almost everyone has come talking to us," he said. "I would like to see DirecTV become larger. We're looking into all of those kinds of things." Spokesman said company wouldn't comment on extent of talks with possible suitors, but said no deal was imminent.

Selling DirecTV seems to be viable option if company wants to expand its role beyond digital video and sound to offer high-speed data, interactive TV and other broadband services to subscribers. "It makes a lot of sense," industry analyst said. "They have a lot of great assets that could be invaluable to another company." Kidd said sale would come to pass eventually, but it wouldn't "happen any time soon." He said DirecTV's

most valuable asset was its subscriber base. "Someone is going to want a satellite footprint," he said. "There are very few distinctive platforms."

Kidd said there was little cause for concern even if company wasn't growing at rate some had forecast. "The future looks good" for DirecTV, he said, but "if you are looking for the growth of 2000 to continue until perpetuity, you are going to be disappointed." He said DBS business would experience usual "peaks and valleys," along with natural deceleration, but DirecTV customer base still would grow at pace of 2-3 million annually before topping off at 20 million.

**WorldCom said last week** it planned to file applications with FCC to provide 2-way MMDS in more than 60 markets, including Boston, Pittsburgh, San Antonio. Aug. 14 marked opening of Commission's first filing window for companies to submit applications to provide 2-way services. Among other cities in WorldCom's first filing round are Buffalo, Jackson, Miss., Memphis, Norfolk, Providence. "Our applications move us one step closer to market launch," said John Stupka, WorldCom pres.-wireless solutions. WorldCom CEO Bernard Ebbers had announced plan to apply for 2-way services authorization in speech last month to Wireless Communications Assn. Company is conducting MMDS trials in 5 cities and has set commercial debut for later this year. WorldCom plans eventually to seek licenses in all 160 markets where it holds MMDS licenses. Stupka said Memphis would serve as "model market" for its MMDS offering of broadband fixed wireless service.

**Moody's lowered debt rating** for Adelphia Communications, nation's 6th largest MSO, and various subsidiaries. It said it cut rating for debt issued by Adelphia because of "heightened credit risk for all classes of securities issued by the company." Moody's blamed higher credit risk on Adelphia's aggressive acquisition strategy and heavy reliance on debt financing, saying company "has placed notably greater financial strain on its balance sheet over the past year." But Moody's confirmed Adelphia's overall Ba3 senior implied rating, pointing to "the ongoing strength of the company's operating performance," improvements expected from technological upgrades and attractive markets with good demographics.

**Hearst-Argyle TV** announced "long-term" retransmission consent agreement with Time Warner Aug. 14 after more than 7 months of negotiations and several contract extensions. Agreement covers broadcaster's TV stations in dozen TW markets. Parties declined to disclose terms of agreement but issues such as cash compensation and carriage of Hearst-Argyle's cable channel Lifetime were known to be key negotiating points. Hearst-Argyle said of 17.5 million TV households reached by its stations, 3.4 million are served by TW cable systems. With agreement, Hearst-Argyle said it had concluded retransmission contracts with all major MSOs except Comcast.

**Nielsen Media Research** signed deal with TiVo to gauge use of latter's personal video recording (PVR) service. Nielsen will use its software metering technology to measure TiVo set-top boxes in former's meter samples of TV households. Deal seems designed to make TiVo service more attractive to advertising community, which is greatly concerned about impact of time-shifting devices on viewing of ad-supported TV programming. Separately, TiVo signed deal with BBC to promote latter's programming on TiVo's service when it starts in U.K. later this year.



**AT&T BUYS PHILIPS BOXES:** Seeking to spur competition among cable set-top box (STB) manufacturers and to gear up for retail sale of boxes, AT&T Broadband signed big order with Philips Electronics for advanced digital cable boxes last week. Nonexclusive deal calls for Philips to supply AT&T with at least one million digital boxes over 3 years, starting next year and for 2 companies to form "a new business alliance" to boost "the competitive retail marketplace" for advanced STBs, key goal for AT&T. "I'm very passionate about retail," said Tony Werner, AT&T Broadband chief technology officer, in Aug. 14 call with reporters and analysts. "It drives me nuts that cable doesn't have a presence there."

New advanced STBs from Philips will offer such possible features as personal video recording, high-speed Internet access over TV, electronic commerce, video-on-demand, other interactive services, easy interoperability with DVD players. "They've [STBs] got such a powerful processing platform," said Chuck Kaplan, Philips vp-gen. mgr., N. American cable. "The net effect is that the set-top box is transformed into a home entertainment center." Companies declined to disclose prices but boxes could cost upward of \$500-\$600 apiece, placing total order in \$500-\$600 million range.

With Philips order, AT&T will make major switch from its total reliance on Motorola for STBs, just as it did with cable modems 2 weeks ago when it signed big deal with Thomson Multimedia (TVD Aug. 14 p7). MediaOne Group, large MSO recently taken over by AT&T, had ordered earlier generation of digital set-tops from Philips and had started deploying them, but AT&T never had. Philips, like Sony, Thomson and other major CE manufacturers, is using cable's move into digital interoperable devices to break industry duopoly of Motorola and Scientific-Atlanta. "I think there'll be more [manufacturers] over time," AT&T's Werner said.

However, Motorola quickly moved to maintain its dominance in cable set-top and modem markets by signing extended, broadened deals with AT&T Broadband for both types of equipment. In contract also announced Aug. 14, Motorola will continue to supply more than 50% of digital cable set-tops to AT&T through end of 2003, or roughly 1-2 million each year, for \$300-\$600 per box. "The commitment is that we will be the majority supplier," said Geoff Roman, corporate vp, Motorola Broadband Communications Sector. Pact also calls for Motorola to supply AT&T with 700,000 interoperable cable modems over next 18 months, identical to MSO's Thomson deal.

In its announcements with Philips and Motorola, AT&T also revealed that it would delay its widely heralded plan to start interactive TV service in up to 3 markets this year. Instead, Werner said, nation's leading MSO will conduct interactive pilot in single, undisclosed market in fall and begin commercial deployments in 2001. He disputed notion that Microsoft, AT&T's main supplier of interactive software, was backing away from TV market despite company's software delays. "I think our relationship is unwavering with Microsoft," he said. "I believe they are still fairly committed to their set-top strategy."

On cable telephony front, AT&T and Motorola disclosed plan to develop voice-over-IP service. It calls for AT&T Broadband to begin testing Motorola's Switched IP access technology in up to 3 or 4 major markets in fall, then roll out service

commercially in 2 markets next year. AT&T is conducting lab tests of IP telephony technology with Motorola, which also is testing service quietly with other major MSOs. "We're bullish on voice-over-IP in the long run," Werner said.

**Satellite technology** is rapidly becoming choice of companies seeking to avoid Internet bottleneck for sending video and music to PC users. With Internet music stations gaining popularity with online users, delivery over clogged wireline system has frustrated listeners, whose signals often are interrupted by stuttering or stopping. Satellites are becoming increasingly popular solution because music signals can bypass busy ground systems by going directly to satellite and back down through network to listener. Viacom's MTV Networks and Penguin Radio are just 2 of several programmers using satellite service. For instance, MTV, which has 18 Web sites, beams music signals over Internet using satellites. Bear, Stearns analyst predicted \$48 billion market for streaming media by 2010. He said market was just \$1.3 billion today, with only 30% of Internet traffic being delivered by 3rd party service providers such as iBeam or Cidera. IBeam has signed up 250 content providers since it started offering service 9 months ago at average cost of \$4,600 monthly. Company still is in red, reporting 2nd-quarter loss of \$33.1 million on revenue of \$3.4 million, but prospects are brighter because of new offering, iBeam CEO Peter Desnoes said. Intelsat and PanAmSat reportedly also are set to enter Web distribution market.

**FCC Cable Bureau granted 10 MSOs** more time to start offering point-of-deployment (POD) security modules for hybrid analog-digital cable set-top boxes in selected markets. But Commission didn't give cable operators as much time as they sought in all their systems, ordering several systems to provide PODs to subscribers this fall and many to do so by next spring. In 11-page order issued by Cable Bureau Deputy Chief William Johnson Aug. 15, Adelphia Communications, AT&T Broadband, Cable America, Cablevision Systems, Charter Communications, Cox Communications, GCI Cable, Insight Communications, Mediacom Communications and Time Warner Cable all received at least partial extensions of agency's July 1 deadline for supplying PODs to customers. However, order stipulated that most systems must comply in year or less to speed move of cable set-tops to retail stores. Action followed unusual scolding of MSOs by Cable Bureau Chief Deborah Lathen, who, in late June order granting temporary 6-week waivers to MSOs, expressed strong doubts about "good faith" and "commitment" of petitioners to meeting POD requirements. (TVD July 10 p6).

**Viacom has offered to buy** from public holders remaining shares of Infinity Bcstg. it doesn't own for \$15.2 billion by swapping 0.564 shares of Viacom Class B common stock for each outstanding Infinity share. Viacom, which holds 100% of Infinity's Class B stock but none of radio broadcaster's Class A, said its offering price was 13.6% premium over Class A price of \$35.25 per share at close Aug. 14. In response, Infinity said its board had formed special committee of independent directors to review proposal. Infinity said special committee, consisting of Bruce Gordon and Jeffrey Sherman, expected to hire independent legal counsel and financial advisers to aid in its review.

**Media General announced** last week it would create Interactive Media Div. to boost its prospects in interactive TV and Internet businesses. Company said new unit, scheduled to start in Jan., would focus on business strategy, product development, interactive media operations.



**ZDTV CONDUCTS MAKEOVER, CHANGES NAME:** Just over 2 years after it started with big budget but little cable carriage, ZDTV is attempting huge makeover by changing name, greatly expanding original programming, starting first national marketing campaign and signing cable distribution deals with several major MSOs. Young cable network, begun by Ziff Davis but then bought by Paul Allen's Vulcan Ventures in \$320 million deal in Jan., is trying to reposition itself as broader "digital life-style" TV channel after focusing first on shows about computers and Internet. Despite fierce competition from such other technology content players as CNET, ZDTV also is seeking to build presence on Internet as leading online destination for technology news and information.

Renamed techtv, network intends to expand 6-hour original programming block 50% over 12-18 months by adding 3 more hours per day of technology news, product reviews, advice, finance and entertainment shows. Plans call for starting several new daily and weekly programs, beginning later this month with AudioFile, weekly half-hour series covering music technology. "In the beginning, nobody figured out how to present programming about technology," techtv Chmn. Larry Wangberg said. "I think we've figured out how to do that."

Under new name, techtv is shooting for much greater carriage in cable and satellite TV homes by aggressively pursuing both analog and digital cable distribution deals. Now in 19 million cable and DBS homes, network seeks to reach 20 million in fall, 23 million by end of year and 30 million by fall 2001. It plans to announce expanded carriage deals today (Aug. 21) with AT&T Broadband, Time Warner Cable and Allen-owned Charter Communications accounting for more than one million of those homes. In 2 notable market rollouts, AT&T will introduce network in San Francisco next month and Time Warner will do so in N.Y. at about same time. To support those and other market launches in Baltimore, Dallas and Detroit, techtv intends to stage marketing blitz on TV, in print and online in fall.

Key issue for techtv is analog vs. digital cable distribution, as it is for most other young networks. Although techtv is offered now mainly on lower cost analog cable lineups, network executives expect most of their new carriage to come on more expensive digital tiers, potentially limiting their reach. Both AT&T in San Francisco and Time Warner in N.Y., for instance, will carry techtv as higher priced digital network. However, its officials believe they also can pick up more analog distribution. "I think we're in the best position to grab a majority of what is left," techtv Exec. Vp-COO Joseph Gillespie said.

Like other emerging cable networks, techtv faces stiff competition from potpourri of recent market entrants and other more established players, including Oxygen, Odyssey and newer channels from Discovery Communications, Disney, ESPN, MTV Networks and Rainbow Programming, to name some. Techtv also is far from being profitable, with new cable networks usually needing at least 40 million homes to break even. But executives insisted they weren't worried because no other channels competed directly with theirs. "We're the owner in this category," Wangberg said. "We see this as being one of the networks that will have universal carriage in time."

Techtv is seeking to boost exposure on Internet through new content and technology distribution deal with major Web portal Go2Net. Under agreement, techtv will be pri-

mary content provider in technology category for Go2 Net, which draws more than 12 million unique users per month to its network of sites. As part of deal, Go2Net's MetaCrawler search engine will become exclusive search engine for techtv's Web site, which attracts about 750,000 unique users per month.

In 2 new friend-of-court briefs, Hands Off The Internet and OpenNet Coalition submitted dueling findings on open access question to 4th U.S. Appeals Court, Richmond, Va. Like NCTA and 5 state cable associations earlier (TVD Aug 14 p6), Hands Off The Internet argued that "forced access" mandate of Henrico County, Va., ran afoul of national policy of broadband "unregulation" that encouraged deployment, investment and competition in emerging high-speed data market. Filing also contended that "disparate local broadband regulation" would undercut national policy, hamper broadband market and impose high technical and operational costs on cable operators. In contrary filing, OpenNet Coalition brief called on 4th Circuit to follow example of 9th U.S. Appeals Court, San Francisco, in declaring cable-Internet to be telecom service. It urged appellate court to overrule lower court's finding that high-speed data was cable service and treat cable-modem service as identical to DSL service over phone lines. "The service provided by MediaOne/AT&T is, in fact, essentially the same as local telephone company-provided high-speed data transmission (DSL) service and therefore, under the Communications Act, they are both properly defined as telecommunications services subject to specified regulations," group argued. OpenNet contended that open access mandates would "permit independent or unaffiliated ISPs to compete on a level playing field with cable-affiliated ISPs, and prevent MediaOne/AT&T and other cable companies from leveraging their control over the wire into an unfair advantage in the ISP market." Verizon and Henrico County also plan to submit reply briefs in case, with oral argument set for Sept. 27.

Media have fared well in appeals of losing jury trials involving First Amendment issues before Supreme Court and appellate courts, according to 20-year study (through 1999) by Libel Defense Center. In contrast, verdicts in favor of media seldom are reversed, with media victories as defendants upheld in 89.7% of cases. Only 27.8% of time have plaintiffs' victories in lower courts been upheld on liability and damages when appealed by media, study reported. In last 20 years, plaintiffs who are public officials or public figures "face nearly insurmountable odds" on appeal from media victory, Center said, with verdicts for media affirmed 89.7% of time. Findings "are solid evidence that appellate courts are substantial guarantors of free speech and free press rights in media cases," Center Exec. Dir. Sandra Baron. Supreme Court has granted certiorari in only 15 of 327 libel and privacy cases during period studied, with 23 appeals denied in most recent term of court (which ended in June), only one accepted. That case, *Bartnicki v. Vopper*, involves broadcast of portion of recording of telephone conversation without permission. Court's decision, expected in fall, "will be of enormous interest and importance," Center said.

DirecTV said it signed revenue-sharing agreement with National Rural Telecom Coop (NRTC) that will allow company to market programming services to customers living in NRTC communities. Move is viewed as important step for DirecTV in its attempt to improve numbers in rural areas, industry source said. DirecTV signed similar agreement with reseller Pegasus (TVD Aug 14 p8).



**VERIZON'S OPEN ACCESS CRUSADE:** Despite losing another battle to open cable lines to competing ISPs, Verizon Communications said it intends to keep fighting for open access mandates on cable operators. Verizon, whose antitrust suit against AT&T, Comcast and Excite@Home in U.S. Dist. Court, Pittsburgh, ended earlier this month when all 4 parties agreed to dismiss case, said it would continue pressuring cable industry through FCC, NTIA, other federal agencies, courts, state legislatures. "This is by no means a closed issue," Verizon spokeswoman said.

Verizon, whose GTE unit had led quest for open access mandates and filed Pittsburgh suit last Oct., is focused particularly on FCC and other federal agencies now that Commission Chmn. Kennard plans to conduct administrative proceeding on cable-delivered Internet access. While FCC officials haven't yet spelled out what type of proceeding they would conduct, open access advocates are pressing them to declare cable-Internet service to be "telecom service" and regulate it accordingly. In Portland, Ore., decision 2 months ago, 9th U.S. Appeals Court, San Francisco, ruled that cable-Internet service did qualify as telecom service, theoretically making cable operators in western states subject to interconnection and other requirements.

In wake of 9th Circuit decision, Verizon also is pushing 4th U.S. Appeals Court, Richmond, Va., to make similar broad ruling. Phone company, whose GTE and Bell Atlantic units both filed in support of local cable regulators earlier in case, submitted reply brief in Henrico County, Va., open access dispute last week, with oral argument scheduled for Sept. 27.

Week earlier, FCC submitted friend-of-court brief urging 4th Circuit to uphold lower court ruling against local open access mandates and to avoid setting national policy on greater open access issue (TVD Aug. 14 p6). NCTA also filed amicus brief, calling on appellate court to uphold earlier U.S. Dist. Court, Richmond, decision that federal and state law blocked Henrico County from imposing open access requirements.

Verizon, AT&T, Comcast, Excite@Home and their attorneys declined to discuss settlement of Pittsburgh suit. In terse 2-page filing with U.S. Dist. Court there Aug. 4, all 4 agreed that GTE's suit would be "dismissed with prejudice," meaning that antitrust charges couldn't be brought again. Each company also agreed to cover its own legal costs, which is typical in such cases.

While Verizon spokeswoman insisted "we're happy with the way it was settled," cable companies clearly were triumphant. Spokesman for AT&T said MSO "conceded nothing in this suit" and agreed only not to pursue Verizon for legal costs. Spokeswoman for Comcast, calling antitrust suit "a transparent effort by GTE to derail high-speed Internet competition from the cable industry," said company was "grateful that it has been dismissed."

David Armstrong, Pittsburgh attorney who represented Comcast, said Verizon effectively lost case early on when court refused its request to speed up usually lengthy discovery process and go to trial quickly. At normal pace, antitrust case wasn't slated to go to trial until sometime next year, delaying resolution of issues and potentially costing each party millions of dollars in legal fees, he said. "They [Verizon] lost interest over time, especially when the bills began to roll in," said Armstrong, of Dickie, McCamey & Chilcote.

**EXCITE@HOME, CABLEVISION SETTLE:** Heading off nasty showdown in court next month, Excite@Home and its 3 main MSO owners — AT&T, Comcast and Cox Communications — and Cablevision Systems dropped their dueling lawsuits against each other Aug. 17. In so doing, parties cleared way for sweeping restructuring of Excite@Home that would give AT&T unchallenged voting control of cable industry's leading high-speed data venture. Settlement also cleared way for Excite@Home to extend its distribution deals with its 3 main partners for at least another 4 years while providing Comcast and Cox with option to end exclusive carriage of data service and terminate entire distribution deal by June 2001, one year early (TVD April 3 p8).

As part of resolution of legal case, Cablevision agreed to dismiss its claims against Excite@Home and its 3 main MSO backers and Excite@Home agreed to dismiss its counter-claims against Cablevision, all filed in Del. Chancery Court, Wilmington, in late June and early July. But they didn't settle all issues. Instead, they agreed to conduct private negotiations on Cablevision's bid to gain warrant options and buyout terms similar to lucrative ones that Comcast and Cox received from AT&T in return for ceding control of venture.

As smaller partner in Excite@Home, Cablevision had argued that it was entitled to treatment similar to that accorded Cox and Comcast. "Cablevision wants an exit strategy where it gets the same kind of benefits that Comcast and Cox got," said Broadband Intelligence Pres. Cynthia Brumfield. However, other 3 MSOs and Excite@Home had said no, arguing that Cablevision had breached its contract with venture partners by not offering data service exclusively in its cable systems (TVD July 10 p6).

Both sides declined comment on negotiations, which are believed to have started in earnest. In terse statements, they merely said they had taken issue out of court. "We're looking forward to reaching an amicable resolution of the matter," Cablevision spokeswoman said.

But industry observers suspected that Excite@Home and its 3 main partners already had assured Cablevision that they would sweeten pot for MSO. Venture partners clearly hoped to entice Cablevision, which has rolled out Excite@Home to only fraction of its 93,350 data subscribers in N.Y. metro area, to extend service to its entire broadband customer base. "They [Cablevision] obviously got some reassurances of something," Brumfield said. "What that something is, isn't clear."

**Speculation continued** to intensify last week on how AT&T would reverse its declining fortunes on Wall St. Latest possibility surfaced Aug. 18 with *Wall St. Journal* report that AT&T Chmn. Michael Armstrong and BT CEO Peter Bonfield had been informally discussing possible merger, prospect that both companies disavowed later that day. Companies already have international Concert joint venture. Another possibility mulled by industry observers in last several months was that AT&T might spin off its consumer long distance operations into separate vehicle such as tracking stock. *N.Y. Times* also reported last week that Liberty Media Chmn. John Malone might stage leveraged buyout of company's consumer long distance business, which has seen disappointing results in last year, reflecting fate of competitors such as WorldCom.



## Personals

**Jimmy Steal** advanced to regional vp-programming, Emmis Bcstg... **George Toulas**, ex-AMFM, appointed senior vp, Salem Communications... **Elyse Massa**, ex-WTVX, UPN Ft. Pierce-Vero Beach, appointed local sales mgr., WBZL Miami... **Peter Aronson**, ex-Warner Bros. TV, named pres., Regency TV... **Bruce Evans** promoted to vp-current series, NBC Entertainment... **Walter DeHaven**, ex-WSBK-TV Boston, named vp-gen. mgr., WBBM-TV Chicago.

Cox Communications promotions: **Christopher Bowick** to senior vp-technology development, Hugh McCarley to vp-engineering technology, **John Hildebrand** to vp-multimedia technology, **Robin Sangston** to vp-asst. gen. counsel, **Mark Williams** to vp-operations engineering, **Dallas Clement** to senior vp-strategy & development... **Richard Sverdlack** appointed senior vp, Comcast Cable's newly restructured ad sales dept... **Chris Caffrey**, ex-Phillips Consumer Communications, joins Comcast Cable as vp-retail sales for online division... **Eileen Naughton** named vp-investor relations, Time Warner.

Advanced at Starz Encore's Creative Service Dept.: **Kathy Schofield** to group dir.-mktg. & creative services, **Kirk Dalton** to art dir... **John Wilcox**, vice chmn., Georgeson Shareholder Communications, elected to ACTV board; other ACTV appointments: **Joseph Dwyer**, ex-Winstar, as exec. vp-CEO; **William Frank**, ex-Cognitive Arts, as exec. vp; **Christopher Cline** promoted to exec. vp-new business development... **Alex Stevens**, ex-Discovery Channel, joins Mixed Signals Technology as vp-production & interactive operations... **Bill Fitzgerald**, ex-AT&T Broadband, appointed senior vp, Liberty Media, and chmn., Liberty Livewire... **Ovie Cowles**, ex-Falcon Cable TV, named vp-affiliate ad sales, Fox Family Channel... **Wendy McCoy**, promoted to vp-mktg., Outdoor Life Network.

**Joe Foote**, ex-Southern Ill. U., appointed dir., Walter Cronkite School of Journalism & Telecommunication, Ariz. State U... Crown Castle changes: **Steven Schmitt**, ex-Marconi PLC, named chief information officer; **Jerry Vogl** promoted to vp-new business integration.

**Anne Paxson**, partner in Washington law firm Borsari & Paxson, elected to board of Federal Communications Consulting Engineers.

**RCN Corp.** said it received regulatory approval to build high-capacity broadband network in Burlingame, Cal., to provide bundled phone, cable and Internet services. Competitive cable franchise follows similar approvals by Beverly Hills and Gardena 6 weeks ago. Targeting most densely populated residential markets, company is offering its bundled service to northern Cal. communities of Daly City, S. San Francisco and San Mateo and is building network in Redwood City. In L.A., RCN is constructing system in alliance with Southern Cal. Edison. So far, RCN has designed or built 4,300 fiber miles of its high-capacity network in Cal., company said.

**European Hot Telecom** unit of DirecPC and UnitedScreens will start point-of-purchase audiovisual communications and ad service at 800 gas and convenience stores in Germany. Drivers pumping gas will be entertained by TV screens advertising new products and providing news, weather and traffic information. New service will be available in 4th quarter.



## TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

(ISSN 0497-1515)

**PUBLISHED BY WARREN COMMUNICATIONS NEWS, INC.**

This Newsletter is available electronically via Predicasts, Nexis, Dow Jones Interactive and Infonautics and also may be received via email.

Warren Communications News, Inc. is publisher of Audio Week, Cable & Station Coverage Atlas, Communications Daily, Consumer Multimedia Report, FCC Report, Local Competition Report, Long Distance Competition Report, Mobile Communications Report, Public Broadcasting Report, Satellite Week, State Telephone Regulation Report, Telco Business Report, Television & Cable Action Update, Television and Cable Factbook, Television Digest with Consumer Electronics, Video Week, Warren's Cable Regulation Monitor, Washington Telecom Newswire, Daily Document Service, and other special publications.

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**"Women at the Top: A New Era"** is theme of Aug. 26-29 convention of AWRT, Regal Biltmore Hotel, L.A. Speakers include FCC Comr. Ness, TvB's Ave Butensky, *Early Show* co-anchor Jane Clayson, Young Bcstg.'s Deborah McDermott, ATAS Chmn. Meryl Marshall, XM Satellite Radio's Lee Abrams, E! Networks' Mindy Herman, Cartoon Networks' Betty Cohen, iBlast's Ken Solomon, Disney/ABC's Anne Sweeney. Emmis Bcstg. CEO Jeff Smulyan and TV host Leeza Gibbons will receive AWRT's Silver Satellite Award at Aug. 26 dinner.



# Consumer Electronics

A Section of Television Digest with Consumer Electronics

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Aug.4 and year to date:

	JULY 29- AUG. 04	1999 WEEK	% CHANGE	JULY 22- JULY 28	31 WEEKS 2000	31 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	434,580	332,410	+ 30.7	893,516	16,043,175	14,791,510	+ 8.5
DIRECT-VIEW**	419,180	371,852	+ 31.9	858,589	15,350,097	14,217,184	+ 8.1
TV ONLY#....	362,416	279,109	+ 29.8	685,879	12,715,843	11,928,213	+ 6.6
TV/VCR COMBO.	56,764	38,743	+ 46.5	172,710	2,634,254*	2,288,971	+ 15.1
PROJECTION...	15,400	14,558	+ 5.8	34,927	693,078*	574,326	+ 20.7
TOTAL VCR**...	446,670	222,662	+100.6	1,033,844	14,832,724*	13,682,646	+ 8.4
HOME DECKS...	389,906	183,919	+112.0	861,134	12,198,470*	11,393,675	+ 7.1
CAMCORDERS.....	73,177	49,884	+ 46.7	202,730	3,130,738*	2,573,894	+ 21.6
DVD PLAYERS....	132,307*	39,990	+230.9	296,658*	3,370,699*	1,651,621	+104.1

Direct-view TV 5-week moving average#: 2000-395,432; 1999-412,932 (down 4.2%).

Projection TV 5-week moving average: 2000-19,829; 1999-20,724 (down 4.3%).

VCR deck 5-week moving average: 2000-410,122\*; 1999-371,843 (up 10.3%).

TV/VCR 5-week moving average: 2000-82,274; 1999-91,742 (down 10.3%).

Camcorder 5-week moving average: 2000-103,359; 1999-84,942 (up 21.7%).

DVD player 5-week moving average: 2000-133,952\*; 1999-73,028 (up 83.4%).

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

**GROWTH WILL COME FROM DIGITAL AND SERVICES — THOMSON:** Extent to which digital technologies and services will dominate future direction of Thomson Multimedia was underscored at line showing last week in Indianapolis, where RCA parent for first time skipped over presentation of core analog products such as VCRs and TVs. However, Thomson executives had plenty to say about DTV, in expressing firm commitment to ATSC system and disappointment over dearth of compelling HDTV programming from broadcasters — and product postponements by other CE vendors.

"I'm beginning to feel like we're in this all alone," said James Meyer, COO-senior exec. vp. "At a time when our respective industries should be joining hands to make the most of this incredible transition, we're seeing way too much infighting and finger pointing," he said, alluding to squabbles over ATSC modulation, cable compatibility, programming commitments.

"It's like we're all dressed up with nowhere to go," Meyer said. "The really compelling programming isn't available in HDTV. Some networks have abandoned their local affiliates, many of whom have sunk millions into this transition. Some broadcast groups have thrown out just about every excuse in the book for why they haven't made the leap."

Thomson reaffirmed commitment to HDTV with broad line of DTV models and announcement that it would sponsor HDTV broadcasts of NFL Super Bowl and 4 AFC playoff games this winter on CBS. HDTV sets with integral decoders for terrestrial ATSC and DirecTV satellite HDTV include 34W and 38W direct-view models, 61W and 65W rear projection. Thomson brands also will offer 9 high-resolution digital monitors with 4:3 aspect ratio from 27" to 61" that can be paired with \$649 DTC-100 set-top decoder to view terrestrial and satellite DTV feeds. Line also includes 42W flat plasma digital monitor (\$11,999) with SD resolution. Vic Theobalds, vp-TV product management, said industry had shipped 155,000 DTV sets year-to-date compared with 400,000 forecast, "although we feel this is fully attainable."



Although Thomson didn't take time to show analog products, that business remains strong, Senior Vp Michael O'Hara said. High-end TV sales increased 10% in first half compared with 1999 period, O'Hara said. But he said Thomson was "gravely concerned" about VCR market despite high demand because of severe components shortage that increases manufacturing costs and further squeezes margins in category that has seen sharp drop in retail prices.

New digital products and addition of digital features to existing products was recurring theme in comments by Thomson top brass. Products and services getting limelight, some previously announced, included DirecTV receiver with built-in 35-hour hard disc recorder for Microsoft's still-unpriced Ultimate TV time-shifting service, and Digital Media Manager that also uses hard disc to store and organize A/V content, including MP3 music files.

In fact, digital audio received unprecedented attention from video market-share leader. Thomson, which developed MP3 audio compression format with Fraunhofer Institute, expanded MP3 decoding to portable CD player, bookshelf stereo with 5-CD changer, and Digital Media Manager. Company also will field 2 new MP3 portables — 2nd-generation Lyra with built-in FM tuner and matchbox-size K@zoo at entry-level \$149. First CD-RW dual-drive dubbing deck also enters RCA audio line this month, and CD dubbing will be incorporated in bookshelf stereos next year, executives said.

Internet radio is another digital obsession for Thomson, which pledged to stake out early lead in category with platform licensed from 3Com-owned Kerbango that can tune in 5,000 Internet broadcasters operating worldwide. First Kerbango radio won't need PC to connect to Internet radio, but does so directly through broadband modem. Next-generation tabletop radio will have dial-up connection, company said. Kerbango Internet radio will be incorporated in Digital Media Manager and other products next year, including Dolby Digital AV receivers, bookshelf stereos and, eventually, clock radios.

Thomson digital audio line will even extend to voice-dictation recorders this year, including 4-hour model (\$99) and entry-level \$59 model with 90 min. capacity.

In digital video, Thomson will reenter Mini-DV camcorder segment and add 2 digital still cameras to current line. Prototype DSC won't need PC for processing images at all, but has built-in modem to upload pictures for processing, archiving or e-mailing through fulfillment service to be announced in near future. Electronic books and "bookstore" in conjunction with Gemstar also will make debut this year as latest venture to combine digital products with revenue-generating services. Like forthcoming DSC, e-books won't need PC to communicate with Web-based bookstore service. Line will include monochrome and color LCD e-books. Gemstar, which formed e-book alliance with Thomson earlier this year (TVD March 20 p22), entered business with acquisitions of SoftBook Press and NuvoMedia. Latter 2 marketed product under SoftBook Reader and Rocket eBook brands. Thomson has 6.4% stake in Gemstar.

New DVD line extends parental control with "Scene Snip" feature in 2 of 4 new models and adds MP3 playback in top-priced deck. Function enables viewers to delete scenes they deem inappropriate — up to 6 segments of any length. Two top-shelf DVD players (\$349-\$399) have memory to retain cut-out points from up to 20 discs. Deleted scenes can't be accessed unless user enters password, which is retained in nonvolatile memory so its function can't be circumvented by cutting off power to players. Thomson-made line also includes entry-level \$299 model and 5-DVD changer at \$499. Single GE-brand model at \$249 is sourced, said Larry McKinney, vp-worldwide DVD product management. He also said Thomson remains committed to DVD+RW format DVD recorder and will deliver first deck next year. Meanwhile, Thomson has dropped plans to use Nuon interactive gaming platform for DVDs (TVD Aug 14 p14), but is considering Microsoft's Xbox platform as optional build-in. Thomson is providing Microsoft with optical disc drive technology and key components for Xbox console due in fall 2001 (TVD July 24 p17).

**JUDGE BARS DeCSS SOFTWARE:** Federal judge dismissed as "baseless" claims that computer code is protected by First Amendment in ruling that hacker publication 2600.com couldn't publish DeCSS software program used to decode Content Scrambling System (CSS) on DVDs.

U.S. Dist. Judge Lewis Kaplan, N.Y.C., held that posting DeCSS code or linking to direct downloads of program violated copyright law because it was unauthorized means for breaking copy protection. "Computer code is not purely expressive any more than the assassination of a political figure is purely a political statement," Kaplan wrote. "The Constitution is a framework for building a just and democratic society. It is not a suicide pact."

Kaplan also rejected free speech advocates' arguments that barring hyperlinks — means for linking to sites that host DeCSS — blocked free expression. "To the extent that the defendants have linked to sites that automatically commence



the process of downloading DeCSS upon a user being transferred by defendants' hyperlinks, there can be no serious question," Kaplan said. "The defendants are engaged in the functional equivalent of transferring DeCSS code to the user themselves."

Judge drew sharp distinction between links to Web pages that contain information other than DeCSS and those that provide decryption software. Because defendants had linked to direct downloads, their actions represented "trafficking" of DeCSS under Digital Millennium Copyright Act of 1998 (DMCA) and were illegal, he said. Kaplan rejected defendants' claim that they were allowed to work with DeCSS under clause of DMCA that made exception for cryptographic researchers, saying that Eric Corley, who published 2600.com, didn't meet qualifications.

Corley had linked to other Web sites in hosting DeCSS even after Kaplan had issued preliminary injunction blocking him from posting code. DeCSS, originally created by Norwegian programmer to allow PC users running Linux to play copy protected DVDs, has been centerpiece in debate over definition of online video piracy. DivX, popular technology for compressing films and distributing them on line, cited DeCSS as useful tool for decrypting DVDs, fact that Motion Picture Assn. of America latched onto in suing Corley and others for copyright infringement. Kaplan said DeCSS was written as Windows program and that no matter why it was created, it violated DMCA.

MPAA officials said they had expected ruling, feeling they had powerful case from outset. But Martin Garbus, attorney for Corley, said he would file appeal and said Kaplan had misinterpreted First Amendment as it applied to Internet. If Kaplan's ruling stands, it will "cripple" free exchange of information on Internet and interfere with "free linking" that is central to medium, Garbus said.

\* \* \* \* \*

As Kaplan was issuing decision, Chinese govt. officials said they had busted first illegal DVD production lines found in China. Two DVD lines were among 7 that also were used to manufacture pirated video CDs (VCDs), Chinese officials told *China Daily* (CD). Crackdown on factory in Guangdong Province in July yielded \$7.2 million in pirated VCDs, CD said, and 36 people were arrested. Chinese govt. awarded 5 work units and 14 individuals \$73,500 for their role in crackdown on factory, CD said. China, long hotbed for pirated videogames, PC software and video, is attacking problem in effort to protect intellectual property rights to ensure strong video market, Wang Maolin, ministry-level dir. of working group for eliminating pornography and other illegal publications, told CD.

**SONY HOLDS PRICE ON REDESIGNED PLAYSTATION:** After briefly flirting with idea of going back up price ladder with new version of original PlayStation (PS One), Sony Computer Entertainment America (SCEA) confirmed PS One would continue at \$99 when it's introduced Sept. 19.

"We were contemplating bringing it out at a higher price and it is a little bit more of a premium in Japan, but here it will be \$99," SCEA Sales VP Jack Tretton told us last week. He said debut of smaller, more portable PS One would be backed by print advertising and in-store POP campaign, but SCEA wouldn't be delivering new messages about redesigned system. "I think it's fairly self-explanatory," he said. "We're not making any claims of performance. It's a different look and it's a little bit more portable, but we're not introducing new technology to the consumer."

SCEA has spent summer playing inventory catch-up after hardware shortages in April and May left most retailers completely sold out of original PS One. "We were down to less than 100,000 PlayStations across North America," Tretton told us. "Since then, we've been bringing in about 300,000 pieces a month in June, July and August, but it is selling through as quickly as we can bring it in. So we really haven't been able to get the field inventory much above 200,000."

Although shortages are continuing concern to retailers, Tretton said it also was testament to 32-bit console that was about to enter its 6th year on U.S. shelves — especially considering that successor, PS2, now is nearing fall rollout. Tretton also indicated that supply of PS One would be steady this holiday, and that he expected most retailers would be completely sold out of old PS One and carrying only new model by Nov.

As for PS2, Tretton said company's goal remains one million at start and 3 million by end of fiscal year March 31. But he said SCEA was optimistic it could have 2 million consoles through channel by Christmas. "Japan knows that there's a window of opportunity here and great demand, so they're trying to crank up production as much as possible," he said. "But the configuration of the unit does change with the disc drive bay, so the cabinet is different, and any type of manufacturing changes can alter production."



**ZENITH 2ND-QUARTER LOSS NARROWS:** Zenith Electronics narrowed 2nd-quarter loss to \$7.4 million from \$20.9 million despite \$3.2 million restructuring charge largely for severance for engineering and hq job cuts. Sales fell to \$136.9 million from \$191.9 million.

About \$2.9 million of charge covered severance at Glenview, Ill., hq and "closure and transfer" of manufacturing facilities in Mexico. As result of job cuts, sales, general and administrative costs declined to \$17.6 million from \$23.3 million year ago. Balance of charge was for professional fees in sale of manufacturing assets including plants in Juarez and Chihuahua, Mexico. Separately, Zenith parent LG Electronics (LGE) cut "low hundred" of jobs at assembly plant in Reynosa, Mexico, as part of "effort to improve efficiencies" there, source said. LGE inherited factory in buying Zenith last fall (TVD Nov 15 p15) in bankruptcy reorganization plan.

Sales of CE products dropped to \$120.3 million from \$130 million year ago, but were up from \$117.6 million in first quarter. Network Systems business that consists of satellite and cable set-top boxes that since has been sold to Motorola had sales of \$16.6 million, down from \$25.3 million year earlier and \$22.8 million in first quarter. Sales to LGE of TV tubes, yokes and subassemblies, remnants of Zenith's manufacturing business, plunged to \$500,000 from \$7.9 million year ago but gross margin rose to 9.1% from 8.8%.

Under new agreement, Zenith received \$2.9 million over 6 months for engineering and research services provided to LGE for "certain projects," it said in SEC filing. It also paid LGE \$1.3 million for 2 months ended June 30 for salaries and repair and parts warranty services for its products.

Zenith bought \$118 million in TVs, VCRs and TV/VCRs from LGE, up from \$16.8 million year earlier when Zenith operated Reynosa facility, SEC filing said. Zenith purchased another \$4.5 million in parts from LGE.

U.S. Dist. Court, Wilmington, Del., dismissed lawsuit filed by Nordhoff Investments equity holders' committee that challenged its reorganization plan, Zenith said. Committee has appealed decision. Zenith shareholder Robert Utne had asked bankruptcy court for permission to file suit last fall (TVD Oct 18 p17), alleging that LGE's "domination of self-dealing" board allowed it to "control and fix the terms of the agreements" between companies.

Company also is expected finalize plans by early fall for moving hq to new location in Chicago area, spokesman said. It has been based in Glenview, Ill., since 1970s.

**Radica Games**, taking \$10.2 million in one-time charges for layoffs, inventory and bad debts, posted \$17.3 million 2nd-quarter loss vs. \$2.2 million year ago as sales sank to \$12.4 million from \$23.8 million. Charges included \$4.3 million against inventory, \$2.7 million for receivables and customer returns in slowdown in U.S. market for handheld games; \$1.8 million and \$1.4 million for license royalty minimums and layoffs, respectively. Radica said it had \$6.3 million gross loss, against \$10 million profit year earlier, as it suffered "soft sales" of handheld products. Radica, best known for its *Bass Fishin* PC games, is banking future on Plug & Play TV games that use XaviX chip technology (TVD Feb 7 p18).

**WALKMAN GOES MP3:** Sony's venerable Walkman brand, which created new category of portable analog music players in 1980s, will move to digital age in fall as part of new line of MP3 players, Sony Electronics Pres. Fujio Nishida said. Sony also will move into Internet devices and cellular phones, he said.

New MP3 Walkman line, due later this year, will be based on Sony's Memory Stick (MS) storage medium. Also under development is player that uses MiniDisc format while incorporating DAC chip for loading MP3 files from PC, Nishida said. "We have to revitalize that Walkman brand," Nishida was quoted by CNET as saying in media briefing in San Francisco. "It's such a huge asset, like Trinitron," he said referring to company's CRT brand.

Sony also unveiled Info Stick device that will fit into MS slot to transfer data wirelessly to another product using Bluetooth standard. Info Stick will be available in 2001.

While Sony had abandoned cellular phone market in U.S., that may change in coming years as 3rd-generation handsets enter market with wireless Internet access, said Nishida, who didn't provide details.

Nishida also said handheld PC, due later in fall based on Palm operating system, will be called PEO for Personal Entertainment Organizer. Handheld is expected to be priced at \$200 and allows for wireless Internet access and one- and 2-way paging (TVD July 3 p18).

**Kozmo.com** postponed plans for IPO last week as reports circulated that it was in talks to buy rival Urbanfetch.com. Kozmo delayed IPO until early 2001 as it laid off 30-40 employees at N.Y.C. hq on top of 275 jobs it had cut from field dispatch service. Kozmo, which had proposed raising \$150 million (TVD April 10 p20), said postponing IPO would allow it to "focus on profitability," something that has proved elusive for many Internet companies. Kozmo counts Amazon.com (\$60 million) and Starbucks (\$25 million) among its investors. Reports of discussions with Urbanfetch surfaced on Industry Standard Web site, which reported that deal could be reached as soon as this week. Kozmo, which operates in 11 cities, and Urbanfetch, which has presence in N.Y.C. and London, haven't had harmonious relationship. Kozmo filed suit in 1999 in alleging that Urbanfetch had copied its business model and case was settled out of court for undisclosed sum. Companies do have complementary strategies, with Kozmo having agreement to supply books, music and toys to Amazon's customers while Urbanfetch delivers packages for Sony Corp. and N.Y. law firm Skadden, Arps, Slate, Meagher & Flom.

**Antennas America (AA)** reported \$136,791 2nd-quarter loss, reversing year-earlier \$5,618 profit. Sales increased to \$2.9 million from \$1.1 million. Gross margin slid to 18% from 27% as sales included "higher percentage" of low-cost local TV antennas that AA built for Thomson's RCA brand under contract that ended in Jan. In first 6 months of year, AA gained \$2.9 million in gross proceeds from private placement.

#### THIS WEEK'S YEN RATE

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



**HARMAN EARNINGS RISE:** Harman International said it had 23% gain in 4th-quarter income on 6% rise in sales despite negative shift in currency exchange.

Currency had negative impact on sales (-\$22 million), gross profit (-\$5 million) and operating income (-\$1.2 million), CFO Frank Meredith told analysts in conference call.

Improved earnings came after year in which Harman underwent major restructuring of international consumer business including closing of 5 of 6 warehouses, restaffing and cutting inventory in Europe and Asia by \$60 million, Chmn. Sidney Harman said. International consumer operations lost \$20 million in quarter and Harman is switching to mode in which distributors will order product on as-needed basis rather than warehousing it, he said.

Consumer Systems Group, which includes home and car audio as well OEM car business, had operating income of slightly more than \$30 million as sales rose to \$304.5 million from \$270.4 million year earlier, but down from \$308.7 million in 3rd quarter. Professional Group sales increased to \$139.9 million from \$123.6 million.

Harman projected 15-20% growth in earnings per share (EPS) for current fiscal year and remained "comfortable" with analyst estimates of \$4.75 for year, CEO Bernard Girod said. EPS growth will accelerate to 20-25% in 2002-2003, he said.

Key component of consumer systems group was OEM PC speaker business, which generated slightly under \$100 million in sales on operating profit "approaching" overall corporate average of \$35 million, company said. Apple, Dell and Compaq remained key customers.

In OEM car business, Harman will introduce Traffic Online Pro navigation product in U.S. with BMW in spring. Device currently is available under Becker brand in Europe. Harman also has received "major commitments" for its telematics system for connecting to Internet and other multimedia applications from Audi, BMW, Mercedes, Porsche and Renault, Harman said.

Harman is continuing to push Mark Levinson brand for car audio where it has agreement to supply Toyota's Lexus vehicles. It recently opened amplifier plant for brand in Franklin, Ky., and has reconfigured Northridge, Cal., facility to produce loudspeakers. In restructuring Northridge factory, Harman has moved wood production for loudspeaker to plant in Juarez, Mexico, that opened in July, Meredith said. It also is adding automotive OEM plants in Germany, Hungary and S. Africa and PC speaker facility in China that will open in first half 2001, he said.

On professional side, sales of AKG microphones were slightly under \$100 million and product has been selected for use in voice recognition portion of General Motors' OnStar system. Harman also is divesting itself of 2 business units including Studer, which lost \$3 million in 4th quarter, Meredith said.

In shifting to consumer market, Harman's Infinity brand in readying 3-store Circuit City test in Sept. of its flat-panel speakers, Brand Mgr. Eli Harary said. Infinity had set test for year ago, but postponed it as Circuit readied new store CE-only for-

mat. FPS-1000 speakers, which have 1" tweeter and 5.25" driver, are priced at \$599.

Infinity added Entra speakers that have same 6.5" woofer as higher end Intermezzo models but shrink tweeter to 3/4" from 1". Line includes 2-way bookshelf (\$299), floorstanding (\$249 each) and center channel (\$199 each) speakers and 10", 150 w subwoofer (\$349). Series also includes Ceramic Metal Matrix Diaphragm (CMMD) driver technology.

New stepup is Modulus home theater system (\$1,699) that ships in fall with four 2-way satellite loudspeakers with 4" woofer and 1" CMMD tweeter, center channel and 12" subwoofer with built-in 250 w amplifier. It uses Room Adaptive Bass Optimization System (RABOS) circuitry that uses parametric equalization along with handheld sound level meter and calibration CD to correct room resonance peaks. Technology was introduced year ago (TVD Sept 13 p17).

In adding new products, Infinity has achieved goal of distribution through more than 60% of 90 dealers it targeted year ago representing 175 storefronts, Harary said. It has 60 dealers with 125 storefronts, he said.

JBL in fall will ship new HT series ranging from short vertical speakers with 1" tweeter and 5.25" woofer at \$450 each to \$2,000 for THX-certified 12" powered subwoofer with 1,000 w amplifier. Five HT models carry THX certification. JBL also added high-end Synthesis speaker package featuring dual 15" subwoofers, 24 bit surround processor/system controller and 1,050 w power (\$109,500). New system was developed jointly with Owens Corning and Theo Kalomirakis Theaters. Synthesis line, which debuted in 1996, added \$10,000 package year ago (TVD Aug 23 p17).

**Display Notes:** Kopin's CyberDisplay microdisplays accounted for 17.7% of company's \$44.1 million in revenue in 6 months ended July 1, up from 10.2% year earlier, it said in to SEC filing. Among customers for Cyberdisplay are JVC and Matsushita, which have installed them as camcorder viewfinders... **Universal Display (UD)**, blaming increased R&D costs, reported 2nd-quarter loss grew to \$2.1 million from \$1.6 million year ago as revenue rose to \$126,746 from \$69,732. UD, which is developing organic light emitting diode (OLED) technology under agreement with Stanford U. and Princeton U., said R&D costs soared to \$1.4 million from \$509,732 year ago. Revenue included \$80,000 milestone payment from National Science Foundation and \$38,634 from Small Business Innovation Research contract with U.S. Army... **Spatialight**, also facing rising costs, reported 2nd-quarter loss deepened to \$1.9 million from \$1.3 million year earlier. Revenue, largely sales of 5th-generation developer kits for its Liquid Crystal on Silicon (LCOS) displays, increased to \$16,710 from \$10,000 year earlier. At same time, selling general and administrative expenses jumped to \$890,000 from \$485,000 and R&D to \$774,000 from \$413,000.

**PeoplePC stock slid** below IPO price in first day of trading Aug. 16 to \$8-5/6. Company, which briefly suspended IPO earlier this month (TVD Aug 14 p16), sold 8.5 million of its shares at \$10 in raising \$85 million. PeoplePC first sought to raise \$160 million through sale of 11.5 million shares at \$12-\$14. It cut size of deal Aug. 11 after delaying pricing Aug. 9. PeoplePC supplies customers with PC, unlimited Internet access, e-mail account and personal Web site for \$24.95 monthly fee.



**COMPAQ UNVEILS IPAQ LINE:** Compaq unveiled iPaq line of products last week that extends its reach beyond PCs and into realm of digital music and wireless e-mail.

Most significant of devices was Internet appliance designed to provide customers with simple access to Microsoft's MSN online service. iPaq Home Internet Appliance will compete against range of similarly featured MSN Companion devices expected later this year from Acer, eMachines, Philips Electronics, Thomson Multimedia and Turkish manufacturer Vestal. Compaq will beat to market Internet appliance being developed by AOL and Gateway based on Linux operating system with Transmeta's Crusoe (TVD July 3 p21) low-power processor.

Compaq also unveiled Samsung-built digital audio player (\$249), versions of Research in Motion's wireless e-mail device and 2-way pager (\$399, \$499) and wireless connection hub (\$499) based on Home RF 2.4 GHz technology.

"Our goal is to deliver simpler, practical devices that complement our traditional PC products," said Michael Winkler, senior vp-gen. mgr.-commercial personal computing group.

New Internet appliance, manufactured by Compaq's notebook supplier Arema, is scaled-down PC with 10.1" LCD monitor that delivers 800x600 resolution. It contains Advanced Micro Devices' 266 MHz K6 processor, 32 MB RAM and 16 MB of flash with upgradeable operating system. It has 56 kbps modem, but will be upgradeable to DSL through peripheral in Oct.-Nov. Device is priced at \$599, but Microsoft has added \$400 rebate with 3-year subscription to MSN, effectively dropping price to \$199. MSN carries \$21.95 monthly fee. For 2 years consumer receives \$200 off, \$100 in 3rd year. Optional are JBL speakers and Epson Stylus 740 printer (\$99), latter being only printer certified to run with unit.

iPaq appliance can display range of e-mail attachments including Microsoft Word documents and Excel spreadsheets, but it can't handle Web sites that use Java programming language or A/V files created with RealNetworks technology.

Compaq has licensed Be Inc. Stinger operating system (OS) (TVD Jan 3/99 p15) for Internet appliances, but will stick with Microsoft in U.S. and use former in Europe, it said. Compaq has long been proponent of providing direct Internet access for its PCs, including desktop keyboard sold with its Presario models that directly launched user to shopping and search engines (TVD June 15/98 p15).

Major shift for Compaq saw introduction of digital audio player with slot for two 32 MB SanDisk MultiMedia cards, backlit LCD, bass and treble buttons, compatibility with MP3, Windows Media and AAC. It currently uses Rioport's Media Device Manager 2.0, but eventually will add range of others including Liquid Audio, Internet Mktg. Mgr. Jon Ruder said. It also has one-touch link to CMGI's iCast entertainment Web site.

Compaq will ship portable player in fall but has scrapped earlier plan for car cassette version and may add jukebox model later, said Michael Larson, senior vp-gen. mgr.-consumer products group. "The goal here is to have a family of products," he said in alluding to additions to line expected by middle of first half 2001.

Compaq will sell version of RIM's Blackberry pager and e-mail unit. Larger e-mail device, which runs on internal lithium ion battery, has 32-bit processor and 5 MB of flash memory. Pager drops to 4 MB flash and uses BellSouth network that covers 93% of U.S. Monthly fee is \$39 with one-year commitment to service. RIM is manufacturing product in factory near Toronto and despite its ties to Palm, Compaq has no plans for products based on that OS.

To link products, Compaq will market iPaq Connection Point based on Home RF wireless technology and with WatchGuard Technologies' LiveSecurity service. Latter provides URL tracking, content screening and Web site blocking for \$49 annual fee. Connection Point has 2 MB memory, 56 kbps modem, range of 150'. Device will be compatible with S3's Home-Free RF transceiver that Compaq has bundled with PCs in past.

New products represent expansion of iPaq line that debuted last fall with Internet access device and grew with start of PocketPC handheld in April. Smaller PocketPC, which uses Microsoft OS, will become Compaq's focus for handhelds as it phases out, by year-end, Aero model that was built around Windows CE software. "You'll see a variety of devices beyond the color PocketPC of today that are lighter and cheaper," Winkler said. "There will be a constant progression similar to that in PCs with more memory, faster processor and lower prices."

In moving outside traditional desktop and laptop business, Compaq is seeking revenue-sharing agreement, with RIM and CMGI being most recent. Non-PC products account for 20% of company's annual revenue and Compaq will continue to extend into categories that are "naturally complementary and used in conjunction with PCs," Larson said.

Compaq will continue to pursue broadband strategy for its Presario desktop PCs, but as option, as not built-in feature, Larson said. Compaq unveiled PCs featuring built-in cable and digital subscriber line modems in Nov. 1998, but strategy since has shifted to offering them as options with configure-to-order or direct sales, he said. Compaq also had bundling agreement with Hughes Network Systems' for DirecPC Internet satellite Internet access service (TVD April 19/99 p19). "To put that kind of hardware into a PC [cable and DSL modems] didn't make sense since the service wasn't available throughout the country," Larson said. Compaq is investor in Transmeta, but has no immediate plans to build Crusoe chip into notebook PCs. Sony last week joined IBM in announcing plans for Crusoe-based notebooks. "We don't follow either of them as a matter of course and our objective is to see if it can provide a clearly superior alternative for our customers," said Winkler, who said any Crusoe-based products probably would focus on "thin and light" notebook PC category.

**Electronic Arts** said it was awarded exclusive worldwide interactive rights to develop, publish and distribute PC and videogames based on *Harry Potter* books. It also has won rights to publish and distribute online games based on popular kids' series. Financial terms of deal with Warner Bros. Consumer Products weren't disclosed. Agreement includes rights to publish games based on all 4 current Potter books, as well as Warner movie version of *Harry Potter and the Sorcerer's Stone* and any subsequent Potter films distributed during agreement.



**HEILIG-MEYERS FILES CH. 11:** As Heilig-Meyers (HM) seeks to reorganize under bankruptcy protection, it will compete increasingly on price in CE as it loosens reliance on lending business and tightens credit policies, sources close to Richmond, Va., chain said.

HM, which has targeted customers who often borrow from company to buy furniture, appliances and CE, said it would close 302 stores, including all 81 in Cal. Closings come on top of shutdown of HE's 33-outlet Berrios chain in P.R. in April. It will keep 569 stores open. Group of lenders led by FleetBoston Financial has agreed to provide HM with \$215 million in debtor-in-possession financing.

CE accounted for 8% of HM's \$2.2 billion in revenue in fiscal 2000. JVC, Panasonic, RCA and Sony are among major brands. CE companies had cut off shipments in recent weeks, but resumed following bankruptcy filing, source said.

"Chances are they're going to have to change their strategies on things like CE because they're going to have to be more competitive to deal with a more credit-worthy customer," source said. "It's going to be a pretty major change for them because the they may not be able to finance the very low-scoring credit applicants in the future."

As result of filing, HM is likely to "accent home theater more in the future," source said. Strategy involves merchandising CE products with furniture, latter of which accounts for 65% of chain's revenues, source said, but brand mix won't change. HM has tested to CE/furniture format at 4 stores in Las Vegas, source said.

HM downfall appeared tied to affliction that struck many subprime lenders in which too much competition lowered credit standards and more consumers defaulted on loans. HM also went on ill-fated buying binge in mid-1990s in acquiring Rhodes furniture chain (105 stores), J. McMahan's (20), RoomStore (10), Mattress Discounters (169), Bedding Expert (54), Self-Service Furniture Co. (23). Rhodes was sold off in 1999.

At same time, e-commerce pioneer Value America (VA) filed for bankruptcy protection and eliminated 185 jobs. VA, which at one time sold everything from caviar and furniture to CE products and PCs, narrowed vendor list to 25 from 450 in cutting 325 jobs late last year (TVD Jan 3 p14). It listed \$21.8 million in debt, \$62.7 million in assets. Top unsecured creditor was distributor Ingram Micro (\$1.1 million) with Tech Data (\$610,570), Sony (\$462,880), Hewlett-Packard (\$459,932), New Age (\$534,797) and D&H Distributing (\$25,933) among others. IBM once accounted for 35% of VA's annual revenue, but since has left retail business.

P.C. Richard & Son signed long-term agreement with EchoStar last week to carry its Digital Sky Highway (DISH) service, giving satellite company important ally in N.Y.C. market. EchoStar, which has distribution with handful major retailers including Sears, Target and Tweeter Home Entertainment, has sought N.Y.C.-area retailer since collapse of earlier agreement with Wiz. P.C. Richard, which operates 42 stores in N.Y. and N.J., will start selling DISH product Sept. 1. EchoStar struggle to win distribution is subject of antitrust suit it filed earlier this year accusing Hughes Electronics' DirecTV unit of using "undisclosed direct payments" to retailers to convince them not to offer DISH service (TVD Feb 7 p10).

**NINTENDO PROJECTS 10 MILLION:** Looks like Nintendo of America (NOA) will continue to ride Pikachu and rest of Pokemon gang this fall as NOA Marketing Vice President George Harrison said 100,000 units of upcoming Pokemon Gold and Silver Game Boy titles have been preordered even before advertising campaign kicks in. Harrison told us last week that company expects to sell 10 millions Pokemon Gold and Silver by end of holidays this year.

Pokemon primarily has benefitted portable Game Boy, Harrison said, along with some boost for N64 system as well. He explained adjustment of its N64 holiday lineup, moving *The Legend of Zelda: Majora's Mask* up and substituting *Banjo Tooie* for controversial *Conker's Bad Fur Day* as key Thanksgiving release.

"We moved Zelda up so we can drop it right on top of the launch of PS2 and let people know that they don't necessarily have to buy a \$299 machine to get the best games," Harrison told us. As for *Conker* — game that combines cute character with racy adult-skewing humor — Harrison said, "we just felt it wasn't a holiday type of product." Instead NOA will use more kid-friendly *Banjo-Tooie* as Thanksgiving product to kick off 5-week blitz until Christmas.

While retailers were concerned about N64's legs last holiday as inventory levels swelled at chains around country, system has held its own thus far this year, in part due to shortages of Sony PlayStation and slowing sales of Sega Dreamcast. Harrison said sales of N64 were up slight 1% in 2000 as first-half releases such as *Pokemon Stadium* and *Perfect Dark* as well introduction of Funtastic Colors hardware SKUs have injected new life into platform.

As result, NOA ruled out N64 price cut this year, Harrison said. "There doesn't seem to be a need at this point. Price drops to \$79 don't seem to have a lot of effect. We're happy at \$99 and we're moving enough units."

N64 marketing focus in 2nd half will be on NOA's core younger audience, which partly explains shifting *Conker* out of holiday. "We're going to sell hardware, but we're going to focus on maximizing software sales," Harrison told us. "There's a lot of N64 owners out there and while it's not getting dramatically younger, it is slightly younger when you get to the later adopters."

Even as it prepares for key holiday selling season, NOA is laying groundwork for 2001 launch of Dolphin next-generation console. Harrison said upcoming Space World show in Tokyo will have some demonstrations of Dolphin in action but won't have playable versions of new machine on show floor.

**Beleaguered Ora Electronics** continues to seek revolving credit facility and may lack funds to meet "liquidity requirements" after Aug. 31, it said in SEC filing. Without financing, Ora said it "may be compelled" to file for bankruptcy protection. It also missed deadline for long-term restructuring earlier this year (TVD March 27 p16) and more recently Ruth Cooper, wife of founder Gershon Cooper, sold 3.9 million shares to Stax Inc., giving latter 56% ownership of accessories maker (TVD June 26 p13). Ora had \$5.9 million operating loss for fiscal year ended March 31.



**GILAT EARNINGS UP:** Gilat Satellite Networks (GS), despite strong sales of VSAT equipment, said 2nd-quarter income declined to \$9.1 million from \$12 million but sales climbed 46% (see financial table). Selling, general and administrative costs rose to \$22.5 million from \$16.6 million as company prepared for fall debut of Gilat-to-Home (GTH) satellite-based Internet access service.

GTH, which plans to start service in U.S. in Oct., has 5,000 units installed as add-on cards in PCs, including 3,000 at RadioShack stores where it's being demonstrated as part of nationwide test. Goal is to have 15,000-20,000 subscribers by year-end and 250,000-300,000 by end of 2001, Chmn.-CEO Yoel Gat told analysts in conference call. Service, which will carry \$69 monthly fee at start, will be sold first through RadioShack and EchoStar dealers, where it will be packaged with Compaq and Dell PCs, respectively (TVD July 24 p11). Sales of demonstration units to Spacenet, which is installing system at RadioShack and services to GTH, represented less than 20% of GS's total revenues in quarter, Gat said.

First test with 100 users in June revealed software glitches with Internet and "some issues" with rain fade that caused service to fail, Gat said. Early data revealed that 13-15% of users were logged onto network in peak periods, which appeared to run 1:30-3:30 p.m. in addition to expected 6-9 p.m., Gat said. GTH is likely to deliver data at 150 kbps in peak hours, although higher speeds are likely to be available as part of premium service, he said. GTH expects usage to peak at 11% when consumer service is available.

Gilat is leasing transponder space to deliver service and expects cost to be \$12-\$20 per subscriber at start, with goal of eventually hitting less than \$5, Gat said. Single transponder is expected to serve 7,000-8,000 subscribers, analysts said. "We're pretty confident and I think we know where we're headed," Gat said. "We've done enough testing to understand our assumptions."

While GTH service will use medium-power GE Americom satellites at start, plan is to switch to Ka-band bird by 2002 as part of strategy to be industry's low-cost provider, Gat said. GE Americom's satellites are adjacent to EchoStar's at 110° W, enabling Digital Sky Highway (DISH) subscribers to receive service (TVD May 29 p18) by deploying antenna with 3 LNBs.

**Staples, hit by flat sales** at N. American retail stores and operating loss at online business, reported 2nd-quarter earnings fell 19%, but still managed to beat analysts' consensus estimates. Staples reported earnings of 10¢ per share vs. analysts' projection of 9¢. Overall, sales rose 20% (see financial table) on 10% gain in same-store sales. Staples.com reported \$29.8 million operating loss on sales of \$95.7 million, 513% deeper than year ago. Customer acquisition costs were \$126 million with goal of hitting \$120-\$125 range by year-end, company said. Sales at N. American outlets were flat at \$1.3 billion as chain suffered from "underperforming" stores in Tex., Pres.-COO Ronald Sargent told analysts in conference call. Staples entered Dallas and Orlando markets in quarter. Handheld PCs were "red hot" with 149% increase on same-store basis, he said. Notebook PCs were up 45%, but average selling price fell 33% to \$869 from \$1,293, Sargent said. Direct sales jumped 12% to \$197 million. Staples' European operation lost \$11.1 million in quarter despite revenue rise to \$148 million from \$79 million. Same-store sales were up 18% in Europe.

**Toys "R" Us**, blaming lack of hot-selling toys and costs of online business, reported 2nd-quarter profit fell to \$3 million from \$12 million year earlier as sales slipped to \$2 billion from \$2.2 billion. Same-store sales edged up only 1%. Minus costs of Toysrus.com, earnings increased to \$16 million from \$15 million year earlier. Despite decline in profit, CEO John Eyler was optimistic, saying that slow-selling videogames category would stage comeback with delivery of Sony's PlayStation2 (PS2) in Oct. Sony is projected to ship 2 million units in U.S. through year-end, and Eyler said Toy "R" Us would receive "major share" of available consoles. While PS2 software was slow seller in Japan at start because console was sold largely as low-end DVD player, Eyler predicted "fairly robust portfolio" of titles in U.S. as "strong companion" to hardware. Toy "R" Us expects to have converted 165 stores by year-end to new C-3 format that combines core business with Kids "R" Us format. It also is testing new format in 17 stores that provides "concept presentation" of products as opposed "linear feet," Eyler said. In testing new strategy, Toys "R" is dedicating 'R Zone section of C-3 format to videogames and adding separate teentronics section that carries boom boxes, portable e-mail devices and other products, Eyler said. C-3 originally combined PC and videogames with electronics (TVD Nov 9/98 p14) and new teentronics section is 18-24 months "away from having full impact" on sales, he said. C-3 format was successor to earlier Concept 2000 store revamping (TVD Nov 24/97 p16). In online business, Eyler projected that conversion to new venture with Amazon.com (TVD Aug 14 p15) would cost 25-30¢ per share and that it would post 35-40¢ loss for year. Loss is projected to drop to 25¢ in 2001 and unit could break even in following year, he said. Within 3-5 years, online business will achieve profit margins on par with 5-8% generated by bricks-and-mortar operation, he said. Despite new Amazon.com alliance, Toys "R" Us maintains "excellent relationship" with Softbank, which invested \$57 million in Toysrus.com in Feb., CFO Louis Lipschitz said. "They were with us all the way" on Amazon.com, he said. Toys "R" Us also will add \$100-\$200 million in inventory for holiday in effort to avoid product shortages that plagued it year ago. Goal is to be in-stock on more than 90% of items vs. 64% year ago, Eyler said.

**Microprocessor start-up Transmeta** filed last week to raise \$200 million in IPO. Transmeta, which so far has gained design wins for its low-power Crusoe chip for IBM, NEC, and Sony notebook PCs and Gateway Internet appliance, hasn't priced offering. Institutional Venture Partners owns 7.3 million of Transmeta shares, followed by Paul Allen's Vulcan Ventures (4 million) and Transmeta CEO David Ditzel (2.2 million). SEC filing revealed that Transmeta licensed technology to IBM and Toshiba in 1997, which would have allowed companies to build own processors based on Crusoe technology. Licensing revenue from IBM and Toshiba constituted bulk of Transmeta's revenue in 1999. However, it later bought rights back, paying IBM \$33 million and 600,000 shares and Toshiba 600,000 shares. Among other investors is Compaq.

**Sound Source Interactive (SSI)** said it would be running exclusive cross-promotion with Fran's Healthy Helpings frozen foods starting this month. Latter company will be offering 2 free Berenstain Bears CD-ROMs from Sound Source's "Life's Little Lessons" series to consumers with 2 Fran's proofs of purchases. Calabasas, Cal.-based Sound Source also said it was gearing up for its entrance into handheld videogame market with *Extreme Sports with the Berenstain Bears* for Game Boy Color.



## Financial Reports of TV-Electronics Companies

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

Company & Period	Revenues	Net Earnings	Per Share
<b>Adelphia Communications</b>			
2000-6 mo. to June 30	1,376,844,000	(172,404,000)	---
1999-6 mo. to June 30	420,390,000	(84,572,000)	---
2000-qtr. to June 30	704,125,000	(70,909,000)	---
1999-qtr. to June 30	218,786,000	(40,784,000)	---
<b>Analog Devices</b>			
2000-39 wk. to July 29	1,771,930,000	407,260,000	1.15
1999-39 wk. to July 31	1,019,343,000	123,601,000	.37 <sup>c</sup>
2000-13 wk. to July 29	700,658,000	192,201,000	.54
1999-13 wk. to July 31	378,776,000	54,601,000	.16 <sup>d</sup>
<b>Brilliant Digital Entertainment</b>			
2000-6 mo. to June 30	560,000	(8,669,000)	---
1999-6 mo. to June 30	334,000	(4,112,000)	---
2000-qtr. to June 30	316,000	(4,452,000)	---
1999-qtr. to June 30	127,000	(2,221,000)	---
<b>C-corr.net</b>			
2000-53 wk. to June 30	281,135,000	15,524,000	.52 <sup>e</sup>
1999-52 wk. to June 26	202,168,000	(307,000)	---
2000-14 wk. to June 30	79,537,000	5,432,000	.16 <sup>e</sup>
1999-13 wk. to June 26	67,167,000	1,458,000	.06 <sup>d</sup>
<b>CD Warehouse</b>			
2000-6 mo. to June 30	16,409,155	(600,034)	---
1999-6 mo. to June 30	14,121,513	(75,216)	---
2000-qtr. to June 30	8,023,098	(382,661)	---
1999-qtr. to June 30	7,684,610	(144,088)	---
<b>Digital Video Systems</b>			
2000-qtr. to June 30	22,755,000	486,000	.11
1999-qtr. to June 30	6,355,000	(1,380,000)	---
<b>Electronics Boutique</b>			
2000-26 wk. to July 29	276,857,000	397,000	.02 <sup>e</sup>
1999-26 wk. to July 31	236,700,000	3,422,000	.17
2000-13 wk. to July 29	125,782,000	(2,006,000)	---
1999-13 wk. to July 31	113,095,000	549,000	.03
<b>EMCEE Broadcast Products</b>			
2000-qtr. to June 30	1,680,281	(274,155)	---
1999-qtr. to June 30	812,425	(300,327)	---
<b>Gilat Satellite Networks</b>			
2000-6 mo. to June 30	194,547,000	15,638,000	.72
1999-6 mo. to June 30	140,498,000	20,102,000	1.01
2000-qtr. to June 30	108,603,000	9,120,000	.41
1999-qtr. to June 30	74,376,000	12,086,000	.58
<b>Harmon International Industries</b>			
2000-year to June 30	1,677,939,000	72,838,000	4.23
1999-year to June 30	1,500,135,000	11,723,000	.66 <sup>e</sup>
2000-qtr. to June 30	446,409,000	23,320,000	1.37
1999-qtr. to June 30	421,817,000	20,977,000	1.18
<b>InterTAN</b>			
2000-year to June 30	482,218,000	25,120,000	.85
1999-year to June 30	500,050,000	(24,645,000)	---
2000-qtr. to June 30	102,444,000	4,745,000	.16
1999-qtr. to June 30	91,761,000	3,108,000	.12 <sup>d</sup>
<b>Nam Tai Electronics</b>			
2000-6 mo. to June 30	95,132,000	18,188,000	2.05 <sup>e</sup>
1999-6 mo. to June 30	69,211,000	7,491,000	.79 <sup>e</sup>
2000-qtr. to June 30	50,540,000	3,614,000	.41 <sup>e</sup>
1999-qtr. to June 30	42,136,000	4,683,000	.51 <sup>e</sup>
<b>Radica Games</b>			
2000-6 mo. to June 30	29,151,000	(19,548,000)	---
1999-6 mo. to June 30	41,662,000	5,359,000	.29
2000-qtr. to June 30	12,429,000	(17,356,000)	---
1999-qtr. to June 30	23,756,000	2,205,000	.12
<b>Spatialight</b>			
2000-6 mo. to June 30	55,110,000	(3,574,603)	---
1999-6 mo. to June 30	41,500,000	(2,263,558)	---
2000-qtr. to June 30	16,710,000	(1,985,862)	---
1999-qtr. to June 30	10,000,000	(1,346,000)	---
<b>Staples</b>			
2000-26 wk. to July 29	4,757,083,000	86,726,000	.20 <sup>e</sup>
1999-26 wk. to July 31	3,912,176,000	103,058,000	.22
2000-13 wk. to July 29	2,201,297,000	42,559,000	.10
1999-13 wk. to July 31	1,840,110,000	52,744,000	.11
<b>Ultralife Batteries</b>			
2000-year to June 30	24,514,000	(10,242,000)	---
1999-year to June 30	21,064,000	(7,085,000)	---
2000-qtr. to June 30	5,413,000	(4,122,000)	---
1999-qtr. to June 30	6,088,000	(2,097,000)	---

Company & Period	Revenues	Net Earnings	Per Share
<b>Universal Display</b>			
2000-6 mo. to June 30	(3,960,608)	14,810,829	---
1999-6 mo. to June 30	(2,271,860)	12,391,929	---
2000-qtr. to June 30	(2,152,080)	15,043,310	---
1999-qtr. to June 30	(1,677,994)	12,228,972	---
<b>Zenith Electronics</b>			
2000-6 mo. to June 30	254,500,000	(28,300,000)	---
1999-6 mo. to July 3	311,000,000	(46,000,000)	---
2000-qtr. to June 30	136,900,000	(7,500,000)	---
1999-qtr. to July 3	191,900,000	(20,900,000)	---

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

## Consumer Electronics Personals

**Kathryn Wolfe**, Zenith senior vp, promoted to Zenith Sales pres., filling post vacant since **William Sims'** departure earlier in year; **Woo-Hyun Paik** resigns from Zenith board... **Bruce Leichtman**, ex-Yankee Group, joins Vividon as vp-corp. strategy... **Chris Caffrey**, ex-Phillips Consumer Communications, named Comcast Cable vp-retail sales, Online Div... **Mark Rayner**, Datron airborne antenna products mgr., promoted to airborne products dir. for subsidiary Transco... **Daniel Miller**, ex-Whirlpool, appointed Kimball International exec. vp & pres., Kimball Office Group, replacing **John Thyen**, who remains senior exec. vp-strategic mktg... **Sandy Colony**, ex-Road Runner, joins Gilat-to-Home as corp. communications vp.

**Kenneth Weller**, ex-Best Buy, named pres., Good Guys... **Hans-Eckhard Helm**, ex-Misco, appointed managing dir., Office Depot International Div... **Gerard Agolia**, ex-Lantis Eyewear, named Acclaim Entertainment CFO... **Arthur Levinson**, Genetech chmn., elected to Apple Computer board... **Kathy Schofield**, Starz Encore creative services dir., promoted to dir., mktg. & creative services group; **Kirk Dalton**, senior designer, advanced to art dir.

**Sensory Science** is expected to unveil Intel processor-based Extreme DiGital Entertainment (EDGE) platform (TVD Aug 7 p16) for multimedia applications at chip makers' Developers' Forum in San Jose this week. Edge, built on modular software architecture, is designed for HDTV, DVD, PVR, audio jukebox, games and Internet applications. It's based on Linux operating system and can be upgraded in field to incorporate software from Codecs. Edge also accommodates range of connection options including USB and IEEE-1394. Media platform is expected to evolve into line of products and will involve licensing agreements, company has said. New software platform comes as SS struggles with core video business. It lost \$4.38 million first quarter as sales of dual-deck VCRs plunged 24%.

**Macrovision** said its SafeDisc PC CD-ROM copy protection technology now has been licensed to more than 100 mastering and replication facilities worldwide. It said major interactive software publishers that use SafeDisc include Eidos, Electronic Arts, Havas, Infogrames, Microsoft. Macrovision said more than 50 million CD-ROMs have been copy protected with SafeDisc since its introduction in late 1998.

**Gemstar-TV Guide International** said first-quarter income doubled on 40% rise in sales (see financial table). Results excluded TV Guide, which Gemstar acquired for \$14.9 billion after quarter ended.





# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

AUGUST 28, 2000

VOL. 40, NO. 35

## SUMMARY-INDEX OF WEEK'S NEWS

### Broadcast - Cable

**LIEBERMAN BLASTS TV** again, citing parental complaints about sex, violence. Media Coalition study doubts link between TV, real violence. Kennard reply imminent. (P. 1)

**TV, CABLE FIGHT OVER DTV:** Cable says must-carry for digital-only station violates First Amendment. NAB, MSTV say carriage is required, deny 'viewership quota.' (P. 2)

**PAY-TV WAR ACCELERATES:** DBS, cable start new marketing blitzes in battle for subscribers. DirecTV spending millions. Cable offers free services. (P. 3)

**CABLE FINALLY OFFERS VoD,** seeking edge over DBS. At least 7 top MSOs plan deployments in biggest markets. Costs drop dramatically. (P. 4)

**AOL-TW HEATS UP:** Pressure builds as decision approaches. Helms urges access mandates. Disney seeks confidential documents. (P. 5)

**'CRUDE, RUDE AND LEWD' TV PROGRAMMING HIT BY LIEBERMAN:** Democratic Vice Presidential candidate Sen. Lieberman (Conn.) labels TV programming "crude, rude and lewd" in article on "how to stop the glut of sex and violence on prime-time TV" in fall issue of quarterly *The New Democrat Blueprint*. Magazine is published by Democratic Leadership Council, of which Lieberman is chmn., and article was written before he received party's nomination for Vice President. Meanwhile, Media Coalition issued study "debunking the myth that there is a causal link between violence depicted in the media and real-life violence."

In his article, Lieberman's advice was "don't watch violent, vulgar or degrading" programs and for parents to complain to FCC when they encounter such programming. Responding to what he said were parents' complaints that that didn't do any good, he said it did because TV stations had "a legal obligation" to operate in public interest. In letter written last May — but marked "received" by FCC July 7 (TVD July 17 p4) — Lieberman said he and 3 other senators (including Commerce Committee Chmn. McCain [R-Ariz.]) wrote "voicing our concerns about the degrading of the public interest standard. We asked a simple yet provocative question: Is the public interest being served by the glut of crud currently on the air?" (FCC official said Chmn. Kennard hadn't responded to senators' letter but response should be sent in few days.)

Matters are even worse when it comes to televised sexual content, Lieberman wrote in *Blueprint*. "There has been an explosion of rude, crude and lewd material in prime time... In 10 years, the amount of sexual material in prime time has increased by more than 300%, while the use of crude language increased more than 500% [and] the sexual references and behaviors have become far more graphic and explicit. Even worse, they are usually shown without moral content or social guideposts... with little consideration of consequences or connection to love or marriage." Lieberman is one of more than dozen members of Congress who have called for return of voluntary code and of family viewing hour (TVD Aug 14 p2).

### Consumer Electronics

**HDTV DEFINITIONS ACCORD NEAR** from CEA. Committee this week will rule that set makers disclose resolution in letterbox area of 4:3 "HD-ready" displays. (P. 9)

**NINTENDO GAMECUBE LACKS DVD-VIDEO:** Instead, next-generation game console uses proprietary 1.5 GB, 3" optical disc system from Matsushita. New Game Boy handheld unveiled. (P. 10)

**OPTIMISM ABOUNDS AT IRMA DVD SEMINAR:** Most praise DVD as fast becoming as ubiquitous as VCR. But copy protection remains dark cloud. (P. 11)

**PIONEER DRAWS DVD PLANS** aimed at building U.S. market share to 20%. DVD-RW recorder scheduled in U.S. by year-end. (P. 13)

**MITSUBISHI UNVEILS 65W DLP SET** that's expected to ship this week as price rises to \$15,000 from \$10,000. (P. 14)



Vice Presidential candidate wrote in article that “the denials and excuses we routinely hear for the industry raise serious doubts about the seriousness of many broadcasters in fulfilling their legal obligation to serve the public interest... Many licensees, along with their network parents, are breaching this public trust and harming rather than serving the public interest.”

In L.A. Times interview published Aug. 18 (day after Democratic convention ended), Lieberman said as Vice President he would continue to press industry for tougher program standards on sex, violence and language. But, he said, “we don’t want to get into governmental censorship and that’s why we keep appealing to the entertainment industry to self-regulate.”

Media Coalition said its study, *Shooting the Messenger: Why Censorship Won’t Stop Violence*, demonstrated that while research indicated there were various causes for street violence, none was linked directly to media violence. Report “analyzes and synthesizes dozens of studies [and] shatters current assumptions that scapegoat the media for the complicated, multifaceted causes of violence.” While public access to media has grown tremendously in period studied, “violent crime has fallen to its lowest level in nearly 30 years,” Coalition said. Coalition, First Amendment advocacy organization, is supported by 10 groups, including Video Software Dealers Assn. and Interactive Digital Software Assn. — [www.mediacoalition.org](http://www.mediacoalition.org).

**BROADCAST, CABLE FIGHT OVER DTV:** Feud over bid by new Fla. digital-only TV station to gain cable must-carry status heated up as cable and broadcast groups battled over nation’s DTV transition, First Amendment rights of cable operators and carriage rights of new analog and digital TV stations. Not surprisingly, both industries also used FCC filings to push their positions on broader cable must-carry rules, digital must-carry, other policy issues. NCTA even took jibe at broadcasters for resisting calls to provide free air time for political candidates while NAB pounced on cable for building incompatible digital set-tops.

Case before FCC Cable Bureau involves petition for declaratory ruling from Guenter Marksteiner, who has construction permit for yet-to-launch WHDT-DT (Ch. 59) in Stuart, Fla. In petition, Marksteiner asks Commission to rule that DTV-only station qualifies for mandatory cable carriage of single video channel. He filed petition in late June, hoping to start station in Palm Beach market as early as this fall (TVD Aug 7 p4).

In particular, commenters clashed over whether new digital stations were entitled to same mandatory carriage rights as older analog stations switching to digital. Rejecting broadcasters’ arguments, NCTA contended that new DTV stations weren’t entitled to same rights because federal must-carry rules are designed only “to ensure the continued availability to over-the-air viewers of the stations that they [already] watch.” Until day comes that “digital signals are receivable by over-the-air viewers at the end of the [DTV] transition,” NCTA said, “there is not even an arguable basis for fostering and protecting digital-only broadcasters by giving them priority status over cable programmers.”

NCTA also disputed broadcasters’ contention that mandatory cable carriage of DTV-only stations would impose only “de minimis” burden on cable operators and programmers. Even if burden were no greater than that presented by analog signals, “such guaranteed carriage extracts a serious First Amendment price,” group said, quoting from Supreme Court opinion on cable must-carry by Justice Stephen Breyer that “this ‘price’ amounts to a suppression of speech.” Comparing must-carry with political free time issue, NCTA said it was “hard to imagine any intrusion on the editorial discretion of broadcasters, however slight, that NAB would view as a de minimis burden.”

In separate replies, NAB and MSTV rejected such claims. Both argued that Communications Act required cable systems to carry any TV station, whether analog or digital, old or new. They also contended Supreme Court had upheld right of DTV stations to mandatory carriage when it found must-carry to be constitutional. “There has never been a viewership quota that triggers the must-carry requirement,” MSTV said. “A qualified local commercial broadcast station has must-carry rights even if... no one watches its programming.”

MSTV and NAB also disputed NCTA argument that denial of must-carry status for WHDT-DT wouldn’t hurt nation’s DTV transition. In fact, NAB put much of blame for delayed DTV conversion on cable’s shoulders. “Despite broadcasters’ accelerated rollout of digital television, relatively few of the 149 DTV stations currently broadcasting a digital signal have been successful in obtaining retransmission consent agreements on cable systems,” NAB said. “Instead, the cable industry has time and again shown its reluctance to an over-the-air digital broadcast transition by refusing to carry signals until the end of the transition, by building set-top boxes that are incompatible with today’s DTV receivers and now by refuting their carriage obligations to a DTV-only broadcaster.”



In separate replies, Comcast and Adelphia, 2 MSOs serving affected Palm Beach market, argued that: (1) Communications Act doesn't provide for mandatory carriage of DTV stations. (2) FCC hasn't decided whether DTV stations are entitled to cable must-carry status. (3) Favorable ruling on station's petition would violate First Amendment rights of cable operators and programmers. (4) Granting petition "would do nothing to accelerate the transition to digital broadcasting or serve the public interest." ACA also said that giving must-carry rights to digital-only stations "would significantly burden smaller and independent cable systems," which it said are "channel-locked" more frequently than larger, upgraded systems.

In his reply, Marksteiner dismissed arguments by cable operators and programmers that DTV-only must-carry would force systems to drop cable networks. Saying that "there is not a single piece of evidence in this proceeding that carriage of a DTV-only station will require dropping a cable programming service," he said "it is just as likely that carriage of such stations will be accomplished not through substitution for an existing programming service, but rather through the use of the rapidly increasing channel capacity of cable systems, or by placement on unused channels." In any event, Marksteiner concluded, "the issue has already been decided by Congress and the Supreme Court — broadcast stations have a statutory right to carriage, and nonbroadcast cable programming services do not."

**DBS, CABLE STEP UP PAY-TV WAR:** While consumers still are deciding which service is better, DBS-cable battle for subscribers is heating up. Both DBS providers and MSO are unveiling broadband services that include high-speed data, video-on-demand, personal video recording (PVR), other interactive offerings, bundled bills. Companies in each industry have targeted customers of rivals in marketing blitzes to gain larger slice of pay-TV pie. "As they say on the streets, right now it's all about the Benjamins [\$100 bills]," analyst said. "There is a sense of urgency to compete and roll out new services in the marketplace that we haven't seen in a long time."

DBS providers are pursuing number of strategies to score with consumers. EchoStar offers subscribers free installation and equipment if they can show cable bill. DirecTV is spending millions of dollars hyping 3 months of free service and National Football League premium programming package.

Cable operators have struck back, targeting DBS subscribers by offering their own free services. In Denver and Salt Lake City, for instance, AT&T Broadband recently used offer of free cable installation and \$200 programming credit to woo DBS customers willing to let MSO haul dishes away. AT&T, which also realigned its digital cable packages to make them more uniform nationally and, not too coincidentally, resemble DirecTV's packages, now proudly stores 2,000 repossessed dishes in warehouses, source said: "They are like prizes of war."

Cable and DBS analysts differ over which industry has overall advantage, saying each has edge in some areas. "It comes down to personal needs and preference," analyst said. "Whatever floats your boat." DBS providers claim advantage because of cable's reputation for poor customer service and quality. They also cite DBS's general ability to offer more channels and clearer pictures and sound (except when it rains).

In their raids, MSOs stress DBS customers' problems obtaining repairs and higher overall cost of satellite TV service. They also emphasize additional DBS cost of adding such features as 2nd in-home receiver. "All that has to happen with satellite is for a signal to go out," AT&T Broadband spokesman said. "There's no one to call. You don't hear about it, but there are a lot of satellite customers who aren't 100% satisfied."

Public seems divided. DirecTV said it now gains 70% of new customers from cable, but some analysts warned that DBS

growth was slowing. DBS still trails cable badly in war of numbers but gap is narrowing. Collectively, DirecTV (8.5 million) and EchoStar (5.2 million) have almost 14 million subscribers, as opposed to cable's 68.5 million. AT&T tops U.S. pay-TV ranks with 15.9 million, followed by Time Warner's 12.3 million. DirecTV is 3rd, trailed by Comcast (8.3 million), Charter (6.2 million), Cox (6.2 million), Adelphia (5.4 million), EchoStar.

In competition for digital video subscribers, DBS gained nearly 1.9 million new customers in year's first half, while MSOs said they switched 2.2 million subscribers to digital service. DBS firms maintain lead in that area but cable is starting to catch up with 7 million digital customers. Some analysts projected that cable would reach 10 million by year-end. "You are going to see satellite do well this year through 2002, but after that, it really comes into doubt," said Carmel Group CEO Jimmy Schaeffler, who studies DBS industry. In "most cases," he said, digital cable would "compete very well" with DBS.

Broadband services seem to be ultimate battleground for pay-TV rivals. Cable operators believe rollouts of high-speed Internet, video-on-demand and IP telephony services, coupled with addition of more programming channels, will turn tide away from DBS companies. But big problem is that many cable operators haven't upgraded all their systems yet, leaving their subscribers vulnerable to aggressive sales pitches by DBS companies. One analyst termed AT&T prime example of vulnerable MSO because it doesn't have "good reputation" with customers and many systems are in "dire need of upgrading."

**Former FCC Chmn.** Reed Hundt joined Internet "revolution," making his recent book available free online, he said. Hundt said *You Say You Want A Revolution: A Story of Information Age Politics* "is now available free in cyberremainder form" on his Web site — [www.reedhundt.com/book](http://www.reedhundt.com/book) — "if you don't mind downloading 100,000 words." Book, which spokeswoman said had sold about 7,100 copies, remained available from such retailers as Amazon.com, where Hundt said it still was number 2 on Washington-area bestseller list, but said he was making it available online because "the Internet changes everything."

**FCC set 2nd filing window** Aug. 28-Sept. 1 for LPFM applications in Conn., Ill., Kan., Mich., Minn., Miss., Nev., N.H., P.R., Va., Wyo. First window closed June 8 — [www.fcc.gov/lpfm](http://www.fcc.gov/lpfm).



**CABLE FINALLY OFFERS VoD:** Seeking to establish edge over DBS providers and other video rivals, embattled MSOs finally are starting to introduce long-awaited video-on-demand (VoD) service to cable subscribers. Nearly 6 years after Time Warner Cable unveiled its Full Service Network in Orlando, and more than 3 years after it scuttled that interactive TV experiment, TW and most other large cable operators are either quietly testing VoD or deploying interactive service commercially in their biggest markets. Many more rollouts are slated for next year, when industry executives and analysts expect 2-way VoD to start proving itself. "It's a good business," said Lynn Elander, Cox Communications vp-video product management. "People want it."

Of 8 largest MSOs in U.S., TW, Charter Communications and Insight Communications already have introduced VoD in total of 7 cable markets, including TW in Austin, Honolulu and Tampa Bay, Charter in Atlanta, Insight in Columbus, O. Plans call for list to expand greatly in fall, when rollouts are scheduled by Charter in L.A., AT&T Broadband in Atlanta, Cox in San Diego and Phoenix, Cablevision Systems on Long Island and Comcast in Baltimore and Washington suburbs. "Every one of the Big 8 cable operators will be deploying VoD by the end of this year or sometime next year," Diva Systems CEO David Zucker said. His company is one of several vendors providing VoD hardware, software and services to cable systems. In Canada, top MSO Rogers Communications is gearing up service in Ottawa and Toronto.

But VoD's economic viability remains in doubt, despite some promising buy rates in cable trials and early, limited commercial pilots. Cable operators and industry vendors still are testing to find right product mix of first-run movies, library titles and other video offerings for PPV and subscription service. They also are not yet sure how many titles to offer to compete with DBS firms' scores of PPV channels and average Blockbuster store's 10,000 videotapes. "How much choice is too much choice?" asked Elander, who worries about "overwhelming consumers."

Industry officials and analysts said cable operators were rolling out VoD now in direct response to fierce competition from DBS providers DirecTV and EchoStar. With nearly 14 million subscribers between them and with DBS industry target of 20 million not far off, DirecTV and EchoStar have been luring away cable's most lucrative customers by offering more channels, clearer picture and sound, more movies and sports, greater pay-per-view (PPV) offerings. In fact, analysts such as Dylan Brooks of Jupiter Communications estimate that satellite providers now generate more revenue from PPV movies than all cable operators combined. But, unlike cable, DBS can't offer such 2-way services as VoD because of technological limitations. "VoD is something that satellite cannot offer," Diva's Zucker said. "It's one of the few things that cable can offer that satellite cannot."

VoD also finally is emerging as viable service because expense of providing it has dropped substantially in last few years. Industry vendors said cost of delivering single video stream to eligible homes had dropped to no more than \$350 to \$400 today from \$10,000 less than decade ago, thanks to advances in computer technology. Ed Delaney, SeaChange International marketing and business development vp, predicted cost would fall below \$300 per stream next year: "The price is right."

Massive cable plant upgrades and growing deployment of sophisticated digital cable set-top boxes have paved way as

well, making it relatively cheap to offer VoD to customers along with digital video and high-speed data. Elander calculated it now costs as little as \$70 extra per home passed to provide VoD capability. "Who knows where it will be in another year?" she said. "The incremental cost to do VoD is dramatically lower."

As result, such vendors as Diva, SeaChange, Concurrent Computer and nCube are scrambling to sign up cable operators for their systems. Each hopes to emerge as market leader well before 2005, when analysts estimate more than 25 million cable viewers will subscribe to VoD services and industry will generate more than \$3 billion in revenues. "We look at the top 25 cable markets [introducing VoD] in the next 24 months," Concurrent's Xtreme Div. Pres. Jack Bryant said. "We'd certainly like to be in... at least 40% of those markets over next 12 to 18 months." At SeaChange, Delaney was even more ambitious: "We're targeting 50 cities worldwide by the end of 2001."

**FCC Comr. Ness** is in line for recess appointment in fall if she isn't confirmed for another term before Congress adjourns, several sources told us last week. Sources said White House probably would act in Oct., shortly after Congress adjourns but before Nov. election, because election introduces new "risk factors," as one former White House official termed it. White House "prefers" to see Ness confirmed for new term by Senate, rather than making recess appointment, and still is hopeful that will happen, White House Personnel Dir. Robert Nash said. He said if Ness isn't confirmed before Senate adjourns, "we'll figure out what to do." Nash said White House considered it very important to have "full contingent" of 5 commissioners at FCC. She's waited for more than year (her term expired June 30, 1999), he said, and "she should be confirmed." One source said recess appointments often come in pairs "to lessen backlash" and prominent Senate Republican has told us Ness could be used as "bargaining chip" (TVD May 1 p1). For example, her appointment might be paired with one that Republicans seek, although it wouldn't necessarily be another FCC appointment. Former White House official said such recess appointments aren't given lightly because "often Congress exacts a price." Although Commerce Committee Chmn. McCain (R-Ariz.) has said he doesn't favor more than one term for political appointees, he said in March that he planned to schedule Ness for vote (TVD March 27 p3), presumably giving her good chance of having nomination reported out of Senate. However, nomination still is tied up in McCain's committee. Several industry officials said they liked working with Ness, even though she didn't always vote their way. "Our people think she does her homework, understands the issues and tries to be fair," said spokesman for one telecom company. "Susan has done a great job," said an executive for another company who is close to Administration. "My sense is there's every plan to give her a recess appointment," he said. "The reality is that the Administration is committed to not having a split Commission" with 2 Democrats and 2 Republicans, executive said. "Telecommunications is too important." Ness has made it clear she would like to stay on Commission. Without confirmation or recess reappointment she will lose job by end of year. At least one Hill source said White House hadn't discussed Ness situation with Senate Republicans or Democrats. Term of Republican Comr. Furchtgott-Roth ended June 30, but White House has taken no action. Sources said Furchtgott-Roth "hasn't foreclosed" idea of remaining at agency although he doesn't plan to "focus" on it until after election.



**AOL-TW HEATS UP:** As Oct. decision date for AOL takeover of Time Warner (TW) nears, both sides increased their pressure on federal agencies last week. Sen. Helms (R-N.C.) became latest lawmaker to weigh in on deal, urging FCC and FTC to consider open access mandates in reviewing their proposed union. In identical Aug. 17 letters to FCC Chmn. Kennard and FTC Chmn. Robert Pitofsky, Helms said he had heard from "a number of citizens whom I respect who have expressed grave concerns to me" about merger.

Warning that "a potential negative impact" of deal would be "the ability of this combined company to 'wall off' all other content providers and thereby control the information pipelines of the Internet, television and electronic commerce," Helms called for agencies to ensure that "nondiscriminatory open access" to Internet would continue. Helms attached letter from WTVD Raleigh-Durham Pres.-Gen. Mgr. Bruce Gordon expressing concerns about merger. In his 2-page letter, Gordon cited alleged monopoly power abuses by both companies and warned of "the potential for AOL-Time Warner to discriminate against 'little guys,' such as local television stations." He called on FCC and FTC to condition their approval of merger on "a legally meaningful — in other words, binding — principle of nondiscriminatory open access." WTVD is owned by Disney-ABC.

Meanwhile, Disney was seeking copies of confidential business documents submitted to federal regulators by AOL and TW to support merger. In recent filings with FCC, one of Disney's Washington law firms, Verner, Liipfert, Bernhard, McPherson & Hand, requested "complete set" of documents from both merger partners, saying papers appear to address issues of content and distribution. Disney said confidential documents, filed earlier this year with FCC, apparently discuss business possibilities available to 2 companies and could have impact on rival firms that provide programming to cable subscribers. Disney, which has sought aggressively to block takeover or at least have FCC and FTC attach strict conditions to it, wants voluntary open access and nondiscriminatory programming commitments by AOL and TW to be made binding and verifiable. Verner Liipfert partner Lawrence Sidman and Howrey, Simon, Arnold & White attorney James Olson submitted signed acknowledgments of confidentiality. Besides 2 law firms, letters said documents would be shared with Disney-ABC Washington Vp Marsha McBride. Disney legal move came shortly after representatives of AT&T and 2 of its law firms — Sidley & Austin and Wachtell, Lipton, Rosen & Katz — requested similar copies of confidential AOL-TW business documents for review.

Joining campaign led by Disney and BellSouth, cable overbuilder RCN Inc. urged FCC to condition approval of deal on separation of merged entity's TV programming and cable pipelines or, at least, on stricter program access rules. In ex parte filing with FCC, RCN said it "shares Disney's concerns about the effects of the proposed merger on the programming marketplace and endorses Disney's recommendations." RCN said it "knows only too well how tenaciously Time Warner fights to delay or diminish competitive entry."

**StarGuide Digital Networks** was selected by Jones Best. Programming to provide next-generation, satellite-based distribution equipment for its radio programming. Under multiyear agreement, Jones will use StarGuide technology and equipment to transmit its original satellite-delivered radio programming to affiliates throughout U.S.

**Illustrative of division** among open access advocates over classification of cable modem service, Verizon in filing in 4th U.S. Appeals Court, Richmond, Va., said Road Runner service provided by AT&T/MediaOne is telecom service subject to common carrier regulation. In contrast to stand of Henrico County, Va., in defending its open access ordinance, Verizon sought to draw parallel with DSL service, saying cable modem service is "cable service" and pointing out that FCC had "already made a determination that high-speed, 2-way transmission of Internet traffic by telephone wires" is telecom service. "If that is true," it said, "under the principles of competitive and technological neutrality that run through the [Communications] Act, the same high-speed, 2-way transmission service, carrying the same Internet data, cannot be anything other than a 'telecommunications service' when provided by a cable operator." Either FCC is wrong about DSL being telecom service, Verizon said, or MediaOne already was providing telecom service before Henrico County ordinance was enacted. Both Verizon and Henrico County are seeking to overturn ruling by U.S. Dist. Court, Richmond, that federal and state law barred Henrico County from forcing AT&T/MediaOne to open its cable system to multiple ISPs.

**Founder of rival e-music start-up** accused Napster of misleading federal court by claiming it couldn't distinguish between legal and illegal online file-sharing. Ths-Music.com's Jay Fenello said he wrote open letter to Napster, RIAA and "the courts" after his "multiple" attempts to discuss issue with Napster resulted in "diddly." Napster spokeswoman had no comment. Meanwhile, in brief in 9th U.S. Appeals Court, San Francisco, Napster repeated its contention that it merely was ISP that couldn't be held liable for contributory and vicarious copyright violations because it was unable to control or differentiate between infringing and noninfringing activities. (Further details can be found in *Warren's Washington Internet Daily*. For free trial subscription call 202-872-9200, ext. 203.)

**Dept. of Defense (DoD)** approved Boeing's \$3.75 billion purchase of Hughes Electronics satellite business. Pentagon informed FTC that it had no objections to deal that would make Boeing world's largest manufacturer of commercial satellites. "Thumbs up" from DoD keeps Boeing on pace to close on acquisition of Hughes satellite entity by mid-to-late Sept., spokeswoman said. However, major regulatory hurdles remain — European Union and FTC have yet to issue approval needed for deal to close.

**After 40 years** in public broadcasting, 13 as pres.-CEO of APTS, David Brugger said Aug. 22 he was stepping down to spend more time with his family. He said he would continue as consultant, family schedule permitting. His contract with APTS ends Dec. 31. "I just need to get control of my own time and not be encumbered by the day-to-day work of this job and be with my family," Brugger said.

**Thompson's RCA brand** and CBS announced TV set manufacturer would underwrite cost through advertising for network's HDTV coverage of Super Bowl XXXV Jan. 28, plus 4 AFC playoff games starting Dec. 31. CBS said it expected 41 affiliates, covering 45% of U.S. TV homes, to carry high-definition transmission of 5 games. Financial arrangements weren't announced.

**FCBA will host** "Communications Law 101" seminar Oct. 19-20 for attorneys, corporate regulatory personnel and others new to communications law. Sessions will be held at FCC hq and Grand Hyatt Hotel, Washington — 202-293-4000.



**BROADBAND POLICY DEBATED:** There's no way FCC can apply cable open access standards to AOL-Time Warner (TW) and other MSOs when companies themselves don't know their capabilities for carrying competing ISPs, TW CEO Gerald Levin said last week at Progress & Freedom Foundation's Aspen Summit 2000 conference. He defended TW's commitment to creating open access without federal regulation.

Market for cable-delivered Internet access is evolving along same lines as did market for first cable networks, which had exclusive programming deals with cable systems, Levin said. He said industry's exclusive contracts with Excite@Home and Road Runner made sense to guarantee return on investment when technology was unproven, but industry now is beginning to understand that open access would bring greater penetration and profit margins. Levin said that realization began at end of last year, even before AOL-TW deal was announced in Jan.

Nonetheless, "no one has actually done it," Levin said of opening cable systems to multiple ISPs, and FCC shouldn't mandate open access unless tests such as TW's in Columbus, O., can prove it works: "Our own engineers don't know how virtual routers will work, or how many ISPs we can handle." When asked whether other MSO had same commitment to open access as AOL-TW, Levin said "someone's got to demonstrate" policy's business virtues, such as higher profit margins and better prospects against DSL. Then, he said, others will follow quickly.

Another summit speaker, Verizon Exec. Vp William Barr, lay fault for delayed broadband rollout squarely on shoulders of FCC for what he charged was way it implemented local phone competition provisions of 1996 Telecom Act. He blamed Commission particularly for its continued regulation of Bell companies in high-speed data provision.

"The greatest danger to competition... is regulators," Barr said, lingering on FCC's implementation of unbundling rules and failure to reform universal service. Barr accused agency of being "phonecentric," obsessed with outdated commitment to local phone competition at expense of developing industries. Commission should focus on creating "intermodal" rivalry among phone, cable, wireless and other industries rather than trying to force phone competition, he said. Instead, Barr said, "the FCC says cable is a good monopoly, because it can compete with local phone companies," and therefore doesn't burden it with regulations, while the phone industry remains "a bad monopoly."

FCC policies were defended by Office of Plans & Policy Chief Robert Pepper, who often found himself in hostile environment. He said fiber miles had more than doubled each year along with increases in speed, and real bottleneck lay locally, not in Internet backbone. However, Manhattan Institute's Peter Huber said that was "junk economics" because rest of Internet economy had been growing even faster. Huber said Commission had "gone to the ends of the Earth... to call cable Internet service a nothing" because it can't fit in either category. Intel Communications Policy Dir. Peter Pitsch said high-tech firms favored greater competition between phone and cable companies and wanted FCC to relieve Bells of data line rules.

Consumer electronics executives saw problem more in terms of difficulty of buying and installing cable and DSL modems, contrasting frequent need for truck rolls with PC industry's ability to sell ready-to-go hardware. Such self-provision is

"further ahead in cable" than in DSL because of industry's ability to cooperate on standard-setting, Liberate Technologies Senior Vp David Limp said. CEA Pres. Gary Shapiro said consumers were "being overwhelmed. Most don't know what's in the stores today." He also zeroed in on overzealous copyright enforcement, saying copyright owners now could "shape and shut down" technology.

Addressing AOL-TW union, Levin said "I don't think there are any regulatory issues" raised by deal. He said TW and AOL might have chosen to structure it as TW purchase of AOL and avoided FCC oversight, were it not for goodwill costs that would have resulted. He said deal wouldn't combine overlapping businesses and questioned recent emphasis by FCC and FTC on interactive TV and instant messaging, because neither area yet was money-maker. By contrast, local franchise reviews, which in AT&T's takeovers of TCI and MediaOne often were contentious and "which I thought would be the most difficult," are "basically done," Levin said. He said FCC probably was beyond its expertise in trying to apply public interest standard to AOL-TW, and "I would prefer a more collaborative process."

Levin also took mild jabs at his own industry: (1) He called for high-tech businesses to become involved in public policy debates that aren't tailored simply to their narrow interests. (2) He said record labels should approach MP3 phenomenon not with panic but as opportunity to "create a new business," probably on subscription model. Despite legal crackdowns and new encryption standards, some theft will continue, Levin said, but such problems haven't kept cable business from being lucrative.

**BET Holdings** said it would seek dismissal of lawsuit filed against it by its former chief financial officer, Dwight Crawford, and would "pursue appropriate legal action" against him. Calling suit "mean-spirited and scurrilous," BET said Crawford's allegations that top company executives had evaded taxes and misused corporate funds were "frivolous and without merit" and described him as "a disgruntled former employee." In wrongful-termination suit filed in D.C. Superior Court Aug. 16, Crawford charged he was fired in Jan. because he refused to go along with company's allegedly illegal financial practices. Seeking \$21 million in damages, he accused senior company executives, including BET Chmn. Robert Johnson, of routinely using corporate funds and credit cards to cover their personal expenses. Among other things, suit also charged that BET falsely reported \$6 million payment to Johnson and company stakeholder Liberty Media as salary rather than dividend. BET executives declined to address specific charges. In terse statement, BET said Crawford had filed complaint after he and company officials had failed to agree on financial terms of his severance deal.

**Rep. Gillmor (R-O.)** is expected to introduce FCC reform bill before end of session that would be "place holder" to get dialog going for next session, aide to House Telecom Subcommittee Chmn. Tauzin (R-La.) said. Gillmor's chief of staff wasn't available to comment, but Tauzin aide Ken Johnson said it would be more comprehensive than FCC merger review bill (HR-4019) that's pending in House. Gillmor is head of House task force on FCC reform. Johnson said Subcommittee still was "hopeful" that merger review bill by Rep. Pickering (R-Miss.) would clear House before adjournment. "We're going to put on a full-court press," he said. Merger reform is only issue remaining from earlier House attacks on agency's structure and operations.



**Mayors of 9 cities** who have filed lawsuits against gun industry have written 2 broadcasters and cable network seeking air time to respond to arms industry ads claiming cities' "patriotism and personal integrity" had been attacked. Mayors have threatened to file formal complaint with FCC under agency's personal attack rule if their request isn't complied with. They said ads by National Shooting Sports Foundation (NSSF) "wrongly" accuse big city mayors of stripping Americans of right to bear arms. "Most deplorable of all, the ads deliberately make these charges against a visual background depicting a 'big city mayor' desecrating the American flag," they said. Mayors want response ad to be voiced by actor Martin Sheen, saying sponsors of ad chose narrator's voice to resemble actor, and to be carried by broadcasters and cable network. Broadcasters cited for running ads are CBS-owned KYW-TV and NBC-owned WCAU Philadelphia and Time Warner subsidiary CNN. Signatories to letter include Bridgeport Mayor Joseph Ganim, who also is co-chmn. of U.S. Conference of Mayors Gun Violence Task Force, Atlanta Mayor William Campbell, St. Louis Mayor Clarence Harmon, Wilmington (Del.) Mayor James Sills.

**Frustrated over delay** in receiving permits to upgrade its network to provide advanced telecom services in San Jose, AT&T has threatened to sue city if issues "aren't resolved" by Aug. 28. AT&T Broadband spokesman said company had waited 9 months for permits to build digital network to provide cable modem and telephone services, but "the bureaucracy is not letting us move fast." At issue is fiber backbone that AT&T purchased from Pac Bell. City reportedly is holding up permits, contending that AT&T doesn't have valid franchise for Pac Bell network and is insisting that company get fresh franchise for entire city. AT&T spokesman declined to specify points of dispute, and city attorney didn't return calls for comment. Spokesman said AT&T had to step up pressure on city in view of mounting pressure from customers for @Home service. Pac Bell was rolling out DSL service as part of Project Pronto, he said, and "we are at a competitive disadvantage" because no action was being taken on permit applications.

**As part of settlement** of class action lawsuit, AT&T Broadband announced restructuring of its late fees on unpaid customer bills in 17 states. Company also is offering customers credits against flat \$5 late fee payments made in last 4 years. Covering 5.8 million customers, settlement will reduce flat \$5 late fee to \$2.95 for bills unpaid for 30 days and additional \$2 on bills unpaid after 45 days. AT&T Broadband spokeswoman couldn't estimate company's financial liability as result of settlement.

**Erasing MediaOne's name** from media landscape, AT&T rolled out its AT&T Broadband brand in MediaOne markets around U.S. Two months after completing purchase of MediaOne, AT&T said it was rebranding MediaOne systems in Atlanta, Boston, Cleveland, Jacksonville, L.A., Minneapolis-St. Paul, southern Fla., Richmond and Fresno and Stockton, Cal. In addition, AT&T said it was changing all existing AT&T Cable Services systems over to AT&T Broadband name. MSO is unveiling new brand names for its core service packages, including AT&T Cable for basic cable, AT&T Digital Cable for digital video, AT&T Digital Phone for cable telephony, AT&T Road Runner for high-speed data. AT&T said it expects to end year with more than 2.8 million digital video, 500,000 cable telephony and one million high-speed data customers.

**NFL will offer** audio simulcasting of games over Internet, starting Sept. 3. Simulcast will cover 227 of season's 247 games at [www.nfl.com](http://www.nfl.com).

**FCC hasn't received** any formal complaints so far in congressional and Presidential campaigns, according to political programming head Robert Baker, but Republicans have been successful in getting TV stations in Ark. and Ky. and cable systems in N.J. to stop carrying spots paid for with "soft" money. Spots in question, paid for by Democratic Congressional Campaign Committee (DCCC), attacked voting records on education of Reps. Fletcher (R-Ky.), Dickey (R-Ark.) and former Rep. Zimmer (R-N.J.), who is seeking his former House seat. TV stations are subject to libel suits for false claims in commercials that aren't directly paid for by candidate's campaign. In Ky. race, Republicans were able to show charges against Fletcher were untrue, Lexington station official said; DCCC said it would submit revised spot without false claims. Under federal law, ads paid for directly by candidates can't be censored or refused by stations even if allegations are false. Meanwhile, Republican Bush-Cheney ticket persuaded Republican National Committee to recall soft money spot using 6-year-old NBC tape of Vice President Gore answering questions about President Clinton's ethics without stating that tape predated Monica Lewinsky affair. Commercial already had been sent to more than 350 TV stations and was scheduled to begin appearing Aug. 24.

**Mitsubishi will sponsor** CBS's HDTV coverage of U.S. Open Tennis Championships from N.Y. Sept. 8-10. CBS said it would produce 18 hours of tournament in 1080i. While Mitsubishi had said earlier it wouldn't underwrite conversion of CBS prime-time programming to HD as it did last fall, it now is targeting sports and special events with ad buys, official said. Thomson recently signed agreement with CBS to sponsor HD broadcasts of NFL Super Bowl and 4 playoff games. CBS said it planned to broadcast up to 20 hours of HD programming per week in fall and saw shift from underwriting-based funding to ad model. "We will be close to having every one of our prime-time series produced in HD," official said. Thirty-one of CBS' owned and affiliated stations are broadcasting in digital, covering 45% of U.S. households, network said.

**PaineWebber (PW)** upped its projection for "windfall political spending" on TV spot ads in 2000 Presidential election year to \$1 billion from \$760 million, accounting for 6.1% of ad spending on TV stations. On average for last 20 years, political ads have accounted for only 1.5% of TV spot revenue, PW said. Stations with local news leadership, those in Presidential "swing states" and in states with contested congressional and gubernatorial elections will benefit most, PW said. Next year, PW said, "we are anticipating a 2001 revenue hangover" and national spot ads "will be sluggish," with local spot expected to grow 8-9%. Among group owners, PW has placed "buy" label on stocks of Clear Channel, Emmis, Infinity, Scripps and Tribune; "attractive" for Belo, Cox Radio, HBC, Hearst-Argyle, Sinclair.

**RespondTV, infrastructure and applications provider** for enhanced TV services, bought rival AccelerateTV for undisclosed amount. RespondTV said it would incorporate AccelerateTV's products to offer customers "fully integrated suite of enhanced TV infrastructure and applications that supports enhanced broadcast and TV portals, including shopping and information services." Merged company plans to market technology to both cable operators and DBS providers.

**KROR(FM) Hastings, Neb.,** faces \$6,000 fine for broadcasting indecent material, FCC Enforcement Bureau said. Figure was reduced from original \$7,000 because of station's prior compliance record.



## Personals

Kathy Ramsey promoted to NAB senior vp-govt. relations, will be liaison to state broadcast associations; Lori Holy moves to legislative counsel/lobbyist from NAB Legal Dept... Dennis FitzSimons, Tribune Bcstg., named vice chmn., TV Operators Caucus; David Barrett, Hearst-Argyle TV, elected treas.; James Keelor, Cosmos Bcstg., remains chmn. for another term... Anthony Cassara, ex-Paramount Stations Group, named exec. vp, Chartwell Partners... BMI board changes: Kenneth Elkins, Pulitzer Bcstg., St. Louis, elected chmn., succeeding broadcasting veteran Philip Jones; IBM Pres. Frances Preston, Jones and David Sherman, ABC, reelected to board... Kenneth Lowe advanced to pres.-CEO, E.W. Scripps.

USA TV Group changes: Neil Strum promoted to exec. vp-business & legal affairs; Kathy Bartlett to vp-business administration; Juliana Carnessale to senior vp, Studios USA TV; Monica Harris, ex-VH1 Music First, named vp-business affairs, Studio USA TV; James Brock vp-business affairs, resigns to pursue other opportunities... Kurt Wimmer, partner in law firm Covington & Burling (C&B), moves to London Sept. 1 as managing partner of firm's office there with 25 lawyers; his clients NBC and CBS TV affiliates' associations will be taken over by C&B partner Jonathan Blake... Bruce Drake appointed vp-news & information, National Public Radio.

Lee Schroeder promoted to vp-govt. & regulatory strategy, Cablevision... Comcast promotions: Steven Burch to pres.-Mid-Atlantic Div., Michael Doyle to pres.-East-West Div., John Ridall to pres.-Southern Div., David Scott to pres.-Midwest Div... Cox Interactive Media changes: Stephen Becker named vp-field operations; promoted to regional gen. mgrs., George deGolian, Keith Greer, John Triplett, Tim Williamson... Dave Ems, ex-BlueStar Communications, named vp-procurement, High Speed Access; Cynthia Carpenter promoted to vp-mktg.

Francisco Montero, ex-head of FCC Office of Communications Business Opportunities, named partner in Shaw, Pittman, Potts & Trowbridge law firm... Michelle Russo, public affairs specialist in FCC Cable Bureau, is taking leave of absence to work for Gore campaign consultant QRS.

Shelby Bryant resigns as chmn.-CEO, ICG Communications, succeeded by Carl Vogel, ex-Liberty... Phil Murphy, ex-Sony Music Entertainment, named senior vp-international, RealNetworks... Jordan Sollitto advanced to chief mktg. officer, Warner Bros. Online and Entertainment... Sean Brushett, ex-Cox Communications, named vp-mktg., Thomcast Communications.

"America's patience with gratuitous violence on her airwaves is perilously thin," FCC Comr. Tristani told CBS Pres. Leslie Moonves in letter protesting network carriage of graphic of picture of Republican candidate George Bush with words "snipers wanted." Tristani said graphic on *Late Late Show with Craig Kilborn* prompted letters to FCC from "many Americans." She acknowledged that "perhaps there is no government solution for bad taste or the thoughtless broadcast of misguided humor," but said "calls for voluntary codes of conduct are changing to calls for enforceable regulatory standards. I urge CBS to meaningfully respond to these citizens and use this incident to assess its public interest obligations."



## TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

(ISSN 0497-1515)

PUBLISHED BY WARREN COMMUNICATIONS NEWS, INC.

This Newsletter is available electronically via Predicasts, Nexis, Dow Jones Interactive and Infonautics and also may be received via email.

Warren Communications News, Inc. is publisher of Audio Week, Cable & Station Coverage Atlas, Communications Daily, Consumer Multimedia Report, FCC Report, Local Competition Report, Long Distance Competition Report, Mobile Communications Report, Public Broadcasting Report, Satellite Week, State Telephone Regulation Report, Telco Business Report, Television & Cable Action Update, Television and Cable Factbook, Television Digest with Consumer Electronics, Video Week, Warren's Cable Regulation Monitor, Washington Telecom Newswire, Daily Document Service, and other special publications.

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**AT&T Broadband and Time Warner Cable** announced agreement to swap cable systems in Tex. AT&T would trade systems with 82,000 subscribers in Corpus Christi area to Texas Cable Partners, joint venture of AT&T and Time Warner that's managed by latter. AT&T also would pay undisclosed amount of cash to Texas Cable Partners. In return, Time Warner would trade cable systems serving total of 98,000 subscribers, mainly in Dallas suburbs.

**Two more DTV stations** are on air, increasing total to 151, NAB said. Latest are KPTV Portland, Ore., and WSNS Chicago.



# Consumer Electronics

A Section of Television Digest with Consumer Electronics

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Aug.11 and year to date:

	AUG. 5- AUG. 11	1999 WEEK	% CHANGE	JULY 29- AUG. 4	32 WEEKS 2000	32 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	483,253	411,616	+ 17.4	434,580	16,526,428*	14,203,126	+ 16.4
DIRECT-VIEW**	462,938	393,541	+ 17.6	419,180	15,813,035	13,610,725	+ 16.2
TV ONLY#....	395,500	338,672	+ 16.8	362,416	13,111,343	12,266,885	+ 6.9
TV/VCR COMBO.	67,438*	54,869	+ 22.9	56,764	2,701,692*	2,343,840	+ 15.3
PROJECTION...	20,315*	18,075	+ 12.4	15,400	713,393*	592,401	+ 20.4
TOTAL VCR**...	443,142	348,577	+ 27.1	446,670	15,275,866*	14,031,223	+ 8.9
HOME DECKS...	375,704	293,708	+ 27.9	389,906	12,574,174*	11,687,383	+ 7.6
CAMCORDERS.....	74,499	59,279	+ 25.7	73,177	3,205,237*	2,633,173	+ 21.7
DVD PLAYERS....	110,046*	32,159	+242.2	132,307*	3,480,745*	1,683,780	+106.7

Direct-view TV 5-week moving average#: 2000-436,037; 1999-435,551 (up 0.1%).

Projection TV 5-week moving average: 2000-21,861; 1999-22,580 (down 3.2%).

VCR deck 5-week moving average: 2000-438,755\*; 1999-383,079 (up 14.5%).

TV/VCR 5-week moving average: 2000-88,794; 1999-95,574 (down 7.1%).

Camcorder 5-week moving average: 2000-105,964; 1999-83,733 (up 26.5%).

DVD player 5-week moving average: 2000-146,843\*; 1999-71,029 (up 106.7%).

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

**PANEL NEARS ACCORD ON HDTV DISPLAY DEFINITIONS:** CEA committee on DTV definitions appears near accord that will recommend set manufacturers issue specification sheets disclosing resolution that their HD-ready sets are capable of displaying, sources close to group said.

Committee, expected to meet this week in teleconference, has approved urging vendors to disclose resolution that 4:3 aspect ratio set can display in letterbox format if it is less than 1080i, sources said. "There will be a very detailed disclosure required," one source said. Definitions also will set 720p as minimum standard for HDTV resolution. Technical working group had recommended establishing minimum standard for resolution.

New definition will cover all HD transmitted in either 16:9 and 4:3 ratios, sources said. Committee had split in Dec. when earlier vote excluded some 4:3 aspect ratio HD-ready sets from falling within definition.

Vote on new definitions wasn't unanimous, but was sufficient to ensure two-thirds of 14-member committee needed for approval. In recent vote, Mitsubishi, Philips, Proton and Sony opposed changes, while DirecTV abstained, sources said. "There were some that opposed the changes because they felt that other companies would abuse the requirements regardless," source said. Goal, source said, is to present revised definitions at CEDIA show in Indianapolis next week, source said.

Controversy over what qualifies as HD stemmed from interpretation of CEA's definition of "complete product/system" and whether it was meant to apply to separate monitors or only to DTVs with integrated decoder. CEA's HDTV definition required resolution of 1080i or 720p lines or greater and capability of displaying 16:9 aspect ratio image at those levels. Committee had voted to extend or clarify definition so as to apply to 4:3 monitors labeled DTV-ready or upgradeable. Such monitors sold by Hitachi and Toshiba scan 1080i lines on entire screen. But when 16:9 program is displayed in letterbox area, resolution of image drops 25% to 810i.



Companies that approved definitions said more work remained, including setting standards for new display technologies such as plasma. "There is room for further clarification down the road because CRTs are measured in scan lines and plasma displays are not," said one committee member, maintaining that plasma display with 720 vertical pixels could be viewed as equivalent of CRT with 720 scan lines of resolution.

**NINTENDO'S GAMECUBE RAISES QUESTIONS:** After months of secrecy, Nintendo finally unveiled key details on its next-generation video console — now officially called Gamecube. But nonstandard nature of its optical disc drive raised questions, some still unanswered at our Fri. deadline. First public display of Gamecube came at Spaceworld 2000 show in Tokyo last week, where Nintendo also took wraps off its Game Boy Advance (GBA) handheld machine.

One thing that's obvious is that Gamecube won't play DVD-Video movie discs. Although company had been saying for months that its next-generation console would incorporate DVD drive by Matsushita, Nintendo said last week that Gamecube actually uses 8 cm (3.1") proprietary 1.5 GB optical disc from Matsushita.

Company isn't calling device DVD drive at present even though it uses Matsushita's DVD technology, Nintendo spokeswoman told us. Indeed, news release and specification sheet Nintendo issued don't describe drive as DVD-based either. Specs merely call it "8 cm Nintendo Gamecube Disc based on Matsushita's Optical Disc Technology." Nintendo spokeswoman said Gamecube won't play DVD movies because drive accommodates only discs that measure 8 cm. But she couldn't tell us whether it would be able to play non-Gamecube-based 8 cm discs, such as those to be used in DVD-RAM camcorders coming from Hitachi and others. DVD-Video standard includes smaller disc format.

Matsushita's take on disc technology echoed Nintendo's. At our Fri. deadline, Matsushita spokesman in U.S. told us it wasn't DVD-Video. He said: "Essentially the drive in Gamecube was developed by MEI [Matsushita Electronic Industries] but it is not, of course, the DVD format. It's an optical disc drive especially designed for this game machine and MEI also developed a new type of 8 cm optical disc media for game software for Gamecube." Spokesman was unable to provide further details on Gamecube's optical technology or other parameters, some of which are similar to M2 videogame system that Matsushita developed in 1997, then shelved.

Whether drive has other aspects that differentiate it from DVD-Video was unclear. Nintendo didn't release specs on laser's wavelength, disc's rotational speed, track pitch or pit size. Meanwhile, Nintendo said Gamecube's data transfer rate was 16-25 Mbps, compared with variable bit-rate of 2-10 Mbps for DVD-Video, presumably because Gamecube disc spins at faster-than-DVD speed, although that detail couldn't be confirmed at our deadline.

Also unclear was relative image quality of Gamecube compared with DVD-based Sony PlayStation2 (PS2) and Microsoft X-Box consoles. Nintendo said that "instead of going for the highest possible performance, which does not contribute to software development, our idea was to create a developer-friendly next generation TV game machine that maintained above-standard capabilities."

Gamecube will use copyright protection technology from Matsushita to prevent illegal duplication, Nintendo said. Console is so named because it has compact design that measures only 6" x 6" x 4.3".

Gamecube and GBA handheld are designed to work together, Nintendo announced at Spaceworld. It said portable GBA could be plugged directly into console, enabling player to use it as discreet controller to direct action on Gamecube. Nintendo said games could be created to allow data transfer in either direction between machines, enabling software designers to develop games to be played on either device.

Nintendo said Gamecube would make debut in Japan in July 2001 and in N. America 3 months later — exactly one year after scheduled Oct. N. American PS2 start and about same time as expected rollout of X-Box. Pricing for Gamecube wasn't announced.

Gamecube uses 405 MHz "Gekko" Power PC processor from IBM and graphics "co-processor" from Thornhill, Ontario-based ATI Technologies with Mosys 1-T SRAM memory embedded directly onto chip. Console will ship with 40 MB of memory, expandable with optional memory cards, including SD Memory championed by Matsushita, SanDisk, Toshiba. Although Gamecube and GBA can be linked to Internet, modems will be optional, unlike Sega Dreamcast. Nintendo will offer 56 kbps dial-up modem for console using technology from Conexant Systems; broadband adapter also is planned as option.

Other accessories for console will include Wavebird wireless RF controller, 2 Digicard slots for either 4 MB Digicard flash memory cards or 64 MB SD-Digicard adapter, and digital video cable using "standardized D Terminal



which is compatible with the advanced digital broadcasting environment.” Company also will offer additional ethernet card for future broadband use, also as part of agreement with Conexant. Pricing for accessories wasn’t announced.

Nintendo said GBA would ship in Japan in March and in N. America and Europe next July — somewhat later than had been announced. Next-generation handheld had been expected by end of this year. Company said GBA would cost ¥9,800 (about \$92) in Japan, but didn’t give N. American and European pricing.

GBA will be powered by 32 bit processor developed by British company ARM, Ltd. Nintendo said GBA screen size would be 50% larger than Game Boy Color (GBC) and screen resolution would be 60% improvement through new reflective TFT color LCD that uses high-contrast white panel. New handheld machine also will feature processor that company said runs 17 times faster than GBC’s and can display 32,000 colors simultaneously.

Company demonstrated 10 GBA titles at Spaceworld, including *Mario Kart Advance*.

Reaction to Nintendo’s announcement was mixed last week. Some analysts liked fact that company was positioning its Gamecube as lower priced, less complex alternative to PS2 and was targeting lower age group and exclusively at game players compared with Sony’s plan to position PS2 as central home entertainment device with wide variety of applications. Gamecube apparently will be easier for developers to create titles for than PS2, which would make 3rd party game makers happy. But there was concern that Nintendo’s late shipping date — for Gamecube, in particular — might affect its ability to compete against PS2 and X-box. Day after Nintendo unveiled details last week, Nintendo’s shares slipped on Japanese market 3.3% to ¥18,600 per share (\$169).

Full Matsushita role in Gamecube remains mystery — but Gamecube bears uncanny resemblance to M2 interactive gaming system Matsushita developed in 1997 with technology purchased from 3DO in 1995. Matsushita abandoned plans to market dedicated game console based on M2 in 1997, but said it was continuing development. Sources told us then that Matsushita was considering 2nd attempt at rollout timed for 2000.

M2 console’s high cost was among reasons it was scratched. At time, M2 was DVD-ROM based 64 bit system capable of decoding high-resolution MPEG video, with expansion slot for modem or networking card. But pair of Power PC processors used to drive console would have put retail sticker near \$800 and thus not competitive with \$149 platforms current at time, sources said.

Matsushita had considered building technology into DVD players, PCs, set-top boxes. It even had software arm, Panasonic Wondertainment, developing entertainment titles. Some 3rd party designers also were given development tools to create games, but were reluctant to invest resources without firm hardware commitment from Matsushita. Sources among developers praised quality of M2, but said games developed for it were hard to port over to other platforms, making it difficult to recoup development costs.

Separately, Nintendo said it would host Pokemon 2000 World Championship in Sydney, Australia, Sept. 20-22, with videogame players from around world playing *Pokemon Stadium* against one another on Nintendo 64 console. One contestant will be chosen from each of 8 countries taking part.

**OPTIMISM ABOUNDS AT IRMA DVD SEMINAR:** Back-patting abounded at DVD Entertainment 2000 conference sponsored in L.A. last week by International Recording Media Assn. (IRMA) as panelist after panelist touted DVD’s success and said despite issues involving copy protection, hardware shortages and long and sometimes costly authoring and production process, format was well on its way to becoming as ubiquitous as VCR.

IRMA Exec. Dir. Charles Van Horn told conference in introductory speech that DVD was reviving interest in home video in general, with VCR sales up 7% thus far this year. He said IRMA study predicted 500 million DVD discs would be manufactured this year, rising to 2.7 billion by 2004. Study also forecast DVD-enabled devices would be in 175 million homes worldwide by 2004 as international growth would drop U.S. market share to under 40% in 2004 from 63% this year.

Best Buy Mdsg. Vp Joe Pagano said DVD sections of his chain’s stores had undergone 8 expansions since format debut and now matched videocassettes in terms of software unit sales. Because of higher prices, DVD movie revenues at Best Buy now outpace those of videocassettes by 2-1 margin, he said, adding that DVD software-to-hardware “tie” ratio is 16-1. Pagano said that among pleasant hardware surprises were strong sales of portable DVD players and car units.



Pagano said DVD-vs.-VHS software sales were skewing along gender lines, with higher income males flocking to new format. He said DVD movies seemed to be affecting PC CD-ROM software sales as consumers opted to spend their leisure time with films rather than PC games. Pagano and Jason Kilar, gen. mgr., Amazon.com's DVD and Video Div., said there was surprisingly little overlap between DVD and VCR audiences, with Kilar adding: "Once people go to DVD, there's no reason to buy VCR again." He said Amazon recently revamped its site, separating DVD and VCR software sections, but said Amazon.com expected to continue carrying VHS videos for at least 10 years.

Given timing of IRMA seminar, conference could have served as projected coming-out party for 4th-quarter debut of DVD-Audio format. But while Paul Bishow, Universal Music Group's format launch director, touted benefits of new multichannel audio technology, he gave no timetable on when first titles would be released, saying there were numerous unresolved and unidentified issues. In panel on multichannel music, studio executive Bobby Owsinski, Surround Assoc., said one issue had been that labels had not been able to come to royalty agreements with artists, whose original contracts didn't cover multichannel releases. But he cited other issues as well, such as doubling of production costs to convert to multichannel recordings, relative instability of tools used for 96 kHz, 24 bit conversion until recently, and challenge of watermarking and copyright protection. Still, Owsinski and other panelists were optimistic about prospects, with Owsinski even going so far as to say that DVD-Audio and multichannel music could be artillery in recording industry's war against MP3 and free Internet music. "With MP3, it's not possible to do multichannel," he said.

In panel discussion on DVD marketing, Peter Staddon, senior mktg. vp, 20th Century Fox Home Entertainment, said public had big appetite for new discs regardless of when film was made originally. He said: "The line between catalog and new releases is blurring and it's our job to exploit that." Janet Wheeler, exec. dir.-retail mktg., Columbia TriStar Home Video, said company had been very aggressive in releasing product for large, small and specially targeted audiences. "The Internet helps us a lot," she said. "With a gay and lesbian film, for example, it really helps to use the Web to go after that audience."

Despite retail enthusiasm about DVD format, Staddon said some older and specialty movie titles still struggled to get shelf space. Panelists also noted long lead times required for DVD production, which they said put increasing pressure on home video divisions wanting to get titles out to home within 6-9 months of theatrical release. For example, Wheeler said content for *The Patriot* DVD had to be completed and ready for authoring even before movie reached theaters in July to hit holiday launch target. But she said studios were recognizing consumer interest in added features for DVD and were taking time to do it right. "We've been doing prep work on *Men in Black* for well over a year," she said, and content for that title had to be turned in as long ago as Feb. for release not slated until Sept. 5.

One development that left marketing panelists unmoved was rollout of DVD-18. Several said consumers simply perceived more value in 2- or 3-disc set than single DVD-18, even though content was same. Panelists also cited Sony PlayStation2 as major reason for optimism about format in coming years. Pagano said PS2 would trigger continued surge in family film sales as younger audience was introduced to DVD in their bedrooms. Amazon's Kilar said company already was planning aggressive cross-promotion between game and DVD sections of its Web site, including direct market e-mails to PlayStation2 purchasers reminding them of machine's DVD movie-playing ability.

But Murray Allen, Electronic Arts (EA) vp-postproduction, testing and technical support, said most new games available for PlayStation2 and other next-generation systems would remain CD- rather than DVD-based for immediate future. While DVD offers developers host of new options, including enhanced 5.1 audio, "on the fly" video and ability to include developer comments and additional material, he said business model for DVD games wasn't viable yet. Citing costs and difficulties of producing EA's first and only DVD-ROM, port of full-motion videogame *Wing Commander IV*, Allen said it still could be 18 months before EA began to bring out DVD-based games. Among factors he cited for industry caution were high costs of blank media needed during continual testing of games, lingering questions about standards, especially on PC side, as well as aesthetic issues such as where consumer would be playing games — living room, bedroom or den.

Only dark cloud cited on DVD horizon was continuing issue of copy protection. On content security panel, several speakers conceded that Content Scrambling System (CSS) encryption was more prone to hacking than they had believed it to be. They said intelligence reports from China indicated that pirates were beginning to produce large quantities of perfectly copied and packaged titles. IBM's Alan Bell, who co-chairs multi-industry Copy Protection Technical Working Group, touted "4C" refinements in DVD encryption that he said would make content protection "far more advanced" than under present CSS system. Bell said: "Unlike CSS, it does not rely on a single universal secret. Instead it dies the death of 1,000 blows."

Macrovision's Carol Flaherty, who until her recent appointment as vp-business development served as company's senior vp for video copy protection, hailed watermarking as long-term DVD solution. But she said industry must do more



to overcome widespread perception — justified in many circles — that watermark isn't completely transparent on final video or audio image.

**PIONEER HAS AGGRESSIVE PLANS FOR DVD MARKET-SHARE:** Not satisfied with 10% share of U.S. DVD market, Pioneer Electronics will roll out new products and promotions here to match its 20% piece of worldwide DVD market. That was message from Susumu Kotani, newly appointed pres.-COO of Pioneer Electronics U.S.A. at N.Y. news briefing last week.

Besides recently announced DVD decks with progressive scan output at midrange and high-end price points, Pioneer will extend digital video format to wide variety of products, Kotani said. Those include portables, combos such as DVD/TVs and set-tops with DVD and hard disc video recorders. Company also will integrate DVD in audio and home theater systems, car navigation and entertainment systems, Kotani said.

Rewritable DVD-RW deck will be leveraged to extend consumer awareness of Pioneer brand in home and car audio to home video, Kotani said. Significantly, Pioneer executives said DVD-RW recordings will be playback compatible with installed base of DVD-Video players when company unveils rewritable deck here — possibly by year-end. In past, Pioneer has said only that DVD-RW recordings would play on its own DVD-Video machines to be introduced in future. "Ideally, the formats should be one from the consumer's point of view," Kotani said. "Our biggest concern is the copy-right issue and backward compatibility."

"The DVD market is growing rapidly, so we can expand quickly" Kotani said. As for pricing pressure exerted especially at entry level by Chinese DVD makers, Pioneer will differentiate brand with advanced features such as progressive scan output, meanwhile investing heavily in DVD production to reduce costs. "We are quite confident we can achieve our market share goals despite price pressures because our quality is high," Kotani said.

Pioneer's growth will be driven by digital products such as DVD, plasma TV and rear-projection HDTV, Kotani said. Despite slow rollout of HDTV-quality broadcasts, Pioneer won't back off from DTV products, he said. Consumers already have been exposed to high-quality digital video from DVD and satellite and will want high-resolution displays, he said. "So, we are confident and will aggressively promote DTV. We can't ignore DVD's installed base, so as a manufacturer we must give the consumer the tools to enjoy those pictures."

Pioneer won't return to selling analog TVs, category dropped when DTV emerged, but will focus entirely on plasma and HDTV, Kotani said. "We are very successful and convinced our decision was right," he said, predicting that "high-resolution" segment of TV market should reach 400,000-500,000 sets sold this year. "We can differentiate ourselves from competitors in that area," he said.

In other product categories, Pioneer will add MP3 decoding to home and car audio products, possibly even in Audio CD recorders — segment where Pioneer was early leader and will continue to expand, Kotani said. In satellite digital radio, company is working on first-generation autosound receiver with delivery timed to coincide with May broadcast launch, he said. Pioneer also is following developments in terrestrial IBOC digital radio, he said. "We're the market leader, so we've got to look at everything carefully. The question is, when will digital radio become a significant business," he said, alluding to concerns that consumers might resist subscription fee satellite radio service.

**Sony is attempting** to raise \$1.40 billion in bond market to help finance its PlayStation2 rollout, Japanese reports said Fri. Earlier in week reports said Sony planned to boost its PS2 console output to one million each month starting in Sept. from current 400,000 a month based at least in part on expected demand for game *DragonQuest VII* from Enix. But Sony Computer Entertainment Europe (SCEE) spokeswoman told us Thurs. she hadn't yet heard anything to that effect and SCE America spokeswoman didn't return call for comment by our Fri. deadline. Separately, SCEE spokeswoman last week denied that SCEE Pres. Chris Deering said PS2 price cut could come in Europe in early 2001, as one publication had reported earlier in week. She said Deering's comments had been "completely taken out of context" as he merely had said it was in Sony's interest eventually to drop pricing to expand consumer base for platform. But spokeswoman said Deering had "absolutely not" said price cut could take place as soon as early 2001.

**Video City (VC)**, hampered by Fleet Retail Finance's decision to accelerate debt repayment, filed for bankruptcy protection late last week. Action throws into doubt planned merger with West Coast Entertainment (WCE) that's scheduled to close by Aug. 31. VC, which has been managing 225 WCE stores, has filed motion in Suffolk County (Mass.) Court to vacate court order obtained by Fleet that required all cash and cash receipts be turned over to financial firm, VC said. Court ruled that Fleet should release funds to cover payroll, but hasn't decided VC's motion to block firm from access to chain's cash flow. Fleet's move created "severe cash crisis" at VC and chain has filed suit seeking \$25 million damages for what it alleged was fraud and breach of contract. VC will "seek to proceed" with planned merger with WCE, which has been extended several times (TVD May 29 p19) since being announced year ago (TVD Aug 9 p16). VC operates 74 stores under own name and 225 WCE outlets. At time of proposed merger, WCE had 326 stores.



**MITSUBISHI UNVEILS DLP SET:** Mitsubishi was expected to ship industry's first Digital Light Processing (DLP)-based TV to Paul's TV in Cal. this week as it raised price to \$15,000 from \$10,000.

Mitsubishi's 65W, being assembled at plant in Mexico will be available in limited quantities throughout fall and will target fewer than 100 dealers, Sales & Mktg. Vp Max Wassinger said. Set has single Texas Instruments-developed 0.7" widescreen DLP with 1,280x720p resolution, 550 lumens, 400-500:1 contrast ratio.

Increase in price was driven largely by cost of components that, in addition to DLP, include lens and light engine designed and built by Mitsubishi, Mktg. Dir. Robert Perry said. Goal eventually is to drive cost of DLP-sets to \$3,000-\$4,000 range, which "is possible without changing very much about what we do," TI DLP Product Mgr. Dale Zimmerman said.

"You've got to be in the \$3,000-\$4,000 range before you can start to think about significant volumes," Zimmerman said. "In order to get there you have to stop thinking of DLP as one product and more of as a line."

Indeed, as TI unveils new widescreen DLP chip, it's working on smaller version that would shrink fabrication process to 12 microns from 13.8 and display to 0.65", Zimmerman said. New display, which could be available as prototype by June and enter production in 2002, also increases tilt angle of micromirror to 12° from 10° to increase brightness and/or contrast ratio, he said. Despite shortage of DLP chips that roiled front-projector market in 1999 (TVD July 5/99 p17) and earlier this year, Zimmerman was confident TI would have sufficient supply, saying that production had pulled even with demand in recent weeks.

As Mitsubishi readied DLP plans, Matsushita was scheduled to start production of 52W version in early Sept. at plant near Osaka, Japan, TV Gen. Mgr. William Mannion said. To speed delivery to market, Matsushita is weighing air shipping first models, he said, and he has pegged deliveries at "hundreds" for fall. Like Mitsubishi, Matsushita will target around 100 dealers, but has priced model at \$12,500 (\$13,000 with optional base). Hitachi plans to ship 55W by mid-Sept. at \$12,000, Exec. Vp Gary Bennett said.

"The costs are a little higher than everyone expected and it's a question of the amount of volume you generate and the amount of chips you have to buy," Bennett said.

While Matsushita also markets 50W plasma display, technologies won't conflict in near term because of difference in price, Mannion said. Matsushita's 50W is in \$20,000 range, although company also offers 42W and 37" plasma displays for professional applications. Hitachi also carries smaller plasma sizes.

"If it turns out that plasma catches up to DLP and DLP doesn't follow a similar price curve, then you run into a situation where you start to compete," Mannion said. "It's a customer with some money who is going to put this into their house and when there is a \$7,000 difference it's very easy to pick DLP. But as you start to get closer in price, the sexiness of a flat panel starts to really become apparent."

Dealers we polled said they were unlikely to carry all 3 DLP sets. "There's going to be some differences between the sets, but how many \$13,000 TVs do you want on the floor?"

asked Ultimate Electronics Pres. David Workman, whose chain will carry Matsushita and Mitsubishi models. "It goes more toward who do you want to support with this technology?"

As it started rollout of DLP set, Mitsubishi also was weighing possible return to plasma market, Product Development Mgr. Martin Zanfino said. Mitsubishi has developed 46" and 50" plasma prototypes and has had 53 engineers working on projection since early 1999. "We have to work on getting the yield up and we know that we have to eventually be in the plasma business again," Zanfino said.

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Mitsubishi, which used CBS-TV studio last week to introduce DLP-based TV, will sponsor network's HD coverage of semifinals and finals of U.S. Open Tennis Championships Sept. 8-10. CBS said it would produce 18 hours of tournament in 1080i. While Mitsubishi earlier had said it wouldn't underwrite conversion of CBS prime-time programming to HD (TVD May 8 p14) as it did last fall, it now is targeting sports and special events with advertising buys, Perry said. Thomson recently signed agreement with CBS to sponsor HD broadcasts of NFL Super Bowl and 4 AFC playoff games (TVD Aug 21 p10). CBS said it plans to broadcast up to 20 hours of HD programming per week in fall and sees shift from underwriting-based funding to advertising model: "We will be close to having every one of our prime-time series' produced in HD." Thirty-one of CBS's owned and affiliated stations are broadcasting in digital, covering 45% of U.S. households, network said.

Microsoft said its WebTV was refocusing business in wake of planned launch of Ultimate TV service as it made break with previous Internet access strategy that attracted fewer than one million subscribers. Many of WebTV's features are being incorporated in Ultimate TV and company is licensing its software to cable companies that want to develop own interactive services, Microsoft said. WebTV also developed Solo2 chip, manufactured by Toshiba, that is at heart of Ultimate TV set-top boxes (STB). Microsoft plans to license chip to other semiconductor and STB manufacturers. Fate of standalone WebTV STB, which was introduced with service in 1996, appeared sealed earlier this year when Thomson and Sony both introduced Ultimate TV products. Sony and Philips were original WebTV licensees. Mitsubishi has dropped its standalone WebTV STB, with Product Development Mgr. Martin Zanfino saying, "The standalone set-top box wasn't a good business for us." He said Mitsubishi instead was weighing integrating personal video recorder (PVR) technology into products.

Zoran reached agreement last week to buy video chip firm Nogatech for \$169.8 million. Acquisition will broaden Zoran's offering of chips used in digital CE products, mobile devices, Internet appliances. Nogatech makes chips for PCs that compress digital video images and create connections between video products and PCs. Zoran supplies chips and software for DVD players, digital cameras and wireless speakers. Zoran said it expects to issue 2.7 million shares for all shares outstanding and options of Nogatech. Zoran will hire all of Nogatech's 40 employees and keep R&D facility near Tel Aviv. Nogatech had \$46 million in cash reserves that will be added to Zoran's \$150 million.

In latest sign that 2 megapixel digital still camera pricing is continuing to drop, Epson cut cost of its PhotoPC 800 to \$499 last week. It had been \$599.



**SHARP HALTS TV ASSEMBLY IN U.S.:** Sharp Electronics will shut down TV assembly plant in Memphis and shift production to Mexico as it moves to cut costs in face of price erosion.

In wake of plant closing, which is expected to be complete by year-end, Sharp will eliminate 318 jobs in Memphis, leaving factory with slightly more than 700 employees to assemble microwave ovens of 1 cu. ft. and up and copier toner. Job cuts will occur gradually, with departing employees receiving severance, health coverage and outplacement assistance, Sharp said. Layoffs will start in Oct.

Sharp's 250,000-sq.-ft. TV plant, which started production in 1979 (TVD Dec 4/78 p11), assembled 19-36" sets across 4 lines using sourced tubes. Sharp, which always has been in commodity-driven portion of TV business, has suffered in recent years as prices plunged, with top-end 36" falling well below \$1,000 and 19" under \$100. Future uses for plant, which had 800,000-unit annual capacity, haven't been decided, spokesman said.

Sharp will continue assembling larger convection and over-the-range microwaves at 200,000-sq.-ft. plant, while those under 1.0 cu. ft. remain in Thailand, company said. Factory, which started microwave assembly in 1980, produces half of Sharp's requirements for U.S. market with million-unit annual capacity. Sharp has separate 50,000-sq.-ft. facility in Memphis for toner with annual capacity of 240 tons and 150,000-sq.-ft. metal stamping plant that supplies microwave operation, spokesman said.

Rosalito Beach, Mexico, plant currently assembles 13" TVs and vacuum cleaners and will expand to add TV production lines.

Move is most recent in series of cost-cutting actions Sharp has taken this year. It also follows trend in TV industry of moving assembly to Mexico. Thomson and Philips have shifted significant portions of assembly south of border, leaving Sony (New Stanton, Pa.), Toshiba (Lebanon, Tenn.) and contract manufacturer Five Rivers Innovations (Greeneville, Tenn.) among few that still handle set production in U.S.

In earlier action, Sharp cut 30 jobs at Mahwah, N.J., hq in realignment that brought audio, video and home appliance sales under single organization headed by Exec. Vp Doug Kushima. Consumer Electronics Group (CEG) will handle Sharp's top 100 national and regional retailers, while dealers with under \$50,000 in sales of Sharp products will be turned over to national distributors.

**Just-released patents** of British Sky Bcstg. could have unexpected implications for DTV sets and even analog TVs now sold in U.S. and worldwide. Applications dating back to 1995 (European Patent Nos. 999-702/703/704) claim monopoly on basic methods for transmitting program schedule information along with telecasts, to let viewers select show by title or picture instead of by channel. Patents describe onscreen graphic menu that lets viewer use remote control to select and switch programs. Patents also describe how remote-control selection can trigger telephone modem built into TV set to transmit pay-per-view selection. Onscreen menu can act as advance-programmed tuner/timer to turn on selected show when it airs for viewing or time-shift recording, patents said.

**DREAMCAST PRICE TO DROP:** Sega Dreamcast videogame console price is expected to drop this week, sources said. Word followed troubling if not surprising news from Sega Enterprises that Dreamcast sales in U.S. and Europe were falling short of expectations.

While declining to provide specific sales figures, Tokyo-based parent company blamed lack of new software for disappointing performance in 2 key regions, but said sales in Japan were in line with company's expectations.

Sega sold 4.65 million Dreamcast consoles worldwide in fiscal year that ended March 31 — just off target of 4.9 million. For current fiscal year, company said it hoped to sell 4.7 million consoles — 2.5 million in U.S., 1.2 million in Europe, one million in Japan.

But it would be "difficult" to reach last year's figures because "the pace is now slowing down," Sega spokesman said. So far, parent hasn't revised its 2001 sales target, counting on games such as *Phantasy Star Online* and *Shenmue* to boost Dreamcast sales in U.S. for upcoming holiday season.

Permanent price drop from current \$199 MSRP could help Dreamcast in U.S. Sega of America (SOA) has been running summer \$50 rebate program that effectively lowers price to \$149. Although SOA spokesman said he was unaware of any new price changes, several sources told us Dreamcast retail price would be cut to \$149 once rebate program ended. "It's a done deal," one retail source said, while another told us Dreamcast price drop would be announced Aug. 31 and appear in newspaper circulars over Labor Day weekend. Still unclear was how that would affect Sega's plans to offer \$200 rebate to consumers who bought Dreamcast and signed up for SegaNet online service for 128 bit console.

**Ultimate Electronics** expects to sign leases in 60-90 days by which chain will enter additional markets in 2001, Pres. David Workman said. He declined to identify potential markets, but said they would be within 750-mile radius of chain's Colo. distribution center, which is designed to handle up to \$700-\$800 million in annual sales. Chain also plans to expand in Phoenix area, where it opened 2 stores in July and has plans for 6 more, Workman said. As UE outlined expansion strategy, it reported 2nd-quarter income soared to \$2.2 million from \$1.1 million year earlier on 21% rise in sales (see financial table). Same-store sales were up 15% as gross margin increased to 32.4% from 30.9%. Selling, general and administrative expenses increased to \$29.4 million from \$23.4 million, largely because of \$725,000 for preopening costs for stores in Phoenix. HDTV sales jumped 400% and DVD was up 62%. Digital camcorders accounted for 70% of category's overall sales, up 10% from year earlier. Overall, digital products were 30% of revenues... **Harvey Electronics (HE)** signed 3-year extension of credit agreement with Paragon Capital increasing line to \$3.5 million from \$3.3 million. New pact expires Oct. 1, 2003. HE projected annual sales would exceed \$30 million in fiscal 2000, Paragon said.

**3M has acquired** Optical Coating Laboratories Inc.'s (OCLI) GlareGuard and GlareDefender aftermarket PC monitor antiglare filter business, terms not disclosed. OCLI at one time also sold antiglare screen for projection TVs, although it wasn't clear whether product was included in purchase.



**NVIDIA POSTS GAINS:** Nvidia reported better-than-expected earnings last week for its 2001 2nd quarter ended July 30.

Santa Clara, Cal., semiconductor company, which was tapped to design Graphic Processing Unit (GPU) and Multimedia and Communications Processor (MCP) chipset for Microsoft's upcoming X-Box videogame console (TVD March 13 p12), said its income soared to \$22.5 million (28¢ per share) from \$6.7 million (9¢) in same period year ago.

Analysts had expected company to post earnings of 26¢ per share. Meanwhile, revenue jumped to \$170.4 million from \$78 million in year.

In conference call with analysts last week, Nvidia Hardware Engineering Vp/Co-founder Chris Malachowsky said company's "income increased significantly in Q2 due primarily to the receipt of \$200 million from Microsoft in April of last quarter." That money, she said, was "an advance related to the X-Box contract."

In same conference call, Nvidia Pres.-CEO Jen-Hsun Huang said development of X-Box "is on track and moving rapidly toward completion." He said X-Box GPU "leverages the core technology of [Nvidia's] next major architecture, NV20" and it's "being designed by a development team which now numbers over 200 software and hardware engineers." Huang said X-Box "will incorporate never-before-seen 3D technologies and it's being designed to accommodate broadband media. It will be the core of our living room and Internet appliance strategy."

Indrema recently announced its upcoming Linux-based L600 Entertainment System, due to ship in time for holiday season (TVD May 22 p18), also will incorporate Nvidia GPU. But Nvidia executives didn't talk about Indrema relationship last week and Nvidia spokesman didn't return call by our Fri. deadline to tell us status of that project.

Last quarter was busy one for Nvidia, which started shipping GeForce2 GTS GPU in May, followed in June by GeForce2 MX, which Huang called first GPU for mainstream PC market. Company also is shipping GeForce2 Ultra, which Huang said was "the most powerful GPU ever built." He said Ultra "has nearly 3 times the pixel processing rate of our closest competitor." Company said it also had success with its TNT2 processors in last quarter.

Malachowsky said: "Our Q2 product revenue was derived approximately equally from our TNT2 product family and our GeForce family of processors." While 71% of Nvidia's sales in quarter came from Asia, 14% were in U.S. and 15% in Europe, compared with first quarter, when breakdown was 74%, 10%, 16%, she said.

Gross margins in 2nd quarter were flat from first quarter this year at 37.4%, Malachowsky said, and company expects 3rd quarter to be about same. But, she said: "We expect revenue to increase by approximately 12 to 15% in Q3 as compared to Q2." She said company was "targeting strong growth for the fiscal year in total" and "we expect revenue for fiscal 2001 to increase at least 100% from fiscal 2000."

Nvidia's 2 biggest OEM customers are Compaq and Dell, Huang said, and Compaq is likely to be largest by end of year. Each represents more than 10% of total sales, he said, with Nvidia's other top customers being Fujitsu, Hewlett-Packard, IBM, Siemens.

**SALES FALLOUT FROM PS2 SEEN:** Will PlayStation2 hype affect videogame console business in coming weeks? While no one doubts this will be among most exciting holiday selling periods in videogaming history, opinions differed on when and how impending debut of PS2 would affect retailers and publishers in short term.

Peter Kozicz, pres.-CEO of GTR Group (formerly Games Trader), said he already has seen some slowdown in market as retailers began clearing out shelf space and hoarding their open-to-buy money in anticipation of PS2's arrival.

"It's been going on probably for over a quarter now," said Kozicz, head of company that sells previously played and remanufactured software as well as peripherals through its Mad Catz subsidiary. "I think there'll be some pickup in the market with back-to-school and then the arrival of the new PlayStation model will help. But I think we'll be relatively quiet until late October."

Capcom Pres. Bill Gardner disagreed, saying "I think September's going to be fine." He said hype over new Sony model would lure curious prospects into stores for early information in coming weeks, more than offsetting consumers who opted to save their money for PS2.

But Kozicz pointed out that PS2 is considerable investment. "You know with the hardware, along with some games, movies and accessories, most consumers won't be walking out of the store for under \$400 or \$500." That's lot of money for relatively young demographic and it's likely to have some impact on gaming market in early Nov., he said. Gardner suggested that there might not be much of market for software in first weeks after PS2 hits shelves, but said that after Thanksgiving most consumers would have replenished their pockets.

Meanwhile, Sony doesn't expect PS2 sales to cannibalize DVD player market in U.S., as has happened in Japan. At recent news briefing in San Francisco, Sony Electronics Pres. Fujio Nishida said Japanese market was different from U.S. because DVD players still carried premium prices there compared with rampant discounting in U.S.

More than 50% of Japanese consumers over 30 who bought PS2 did so primarily because of its DVD-Video capability, Nishida said. DVD players in Japan are priced at \$400 and up and PS2 sells for equivalent of \$375, while in U.S. entry-level players dipped below \$199 last year, now go for as little as \$139, and are expected to hit \$99 in promotions this holiday season.

**Rent-Way said it would meet analysts' earnings for 4th quarter and year ending Sept. 30.** Statement came in response to stock decline Aug. 24, when shares closed down \$4-1/2 at \$24, off 52-week high of \$32-1/4. Company said it expected to post 4th quarter earnings of 46¢ per share vs. 41¢ year earlier, and full-year earnings of \$1.83 against \$1.26. It had rebounded Aug. 25 to close up 9/16¢ at \$24-9/16... **Rent-a-Center (RAC)** issued statement saying it remained in line with consensus estimates of \$2.58 and \$2.97 for fiscal 2000 and 2001, respectively. RAC projected it would post "double-digit" increase in same-store sales in 3rd quarter. It plans to open 40-50 stores in rest of fiscal year and expand 10-15% annually starting in fiscal 2001, Chmn.-CEO Ernest Talley said. RAC operates 2,114 stores in 50 states. It closed up \$4-1/8 on Fri. at \$32-1/8.



**RENTRAK LOSES ROUND** Dissident Rentrak shareholders won early round in proxy fight for control of company when federal judge issued temporary injunction barring top executives from leveraging newly acquired shares.

In Portland, Ore., U.S. Dist. Judge Ancer Haggerty ruled that Rentrak CEO Ronald Berger and CFO Kim Fox couldn't use 1.66 million shares to help fend off proxy battle being waged by shareholder group Committee for the Achievement of Rentrak Excellence (CARE). Haggerty held that shares can't be used until jury decided their status — not likely before Sept. 19 annual meeting. If shares had been allowed, Rentrak management would have controlled more than 30% of stockholder votes, and even without them it has 22%. Berger is top holder with 1.7 million shares, 14.9% of those outstanding, while CARE as group controls 1.1 million (9.1%).

In wake of decision, Rentrak filed motion seeking to require that CARE post bond that would cover costs if distributor wins court case. Haggerty set Sept. 8 hearing on motion.

Central to case has been \$6.6 million and \$1.4 million promissory notes that Berger and Fox, respectively, signed with company earlier this year to fund purchase of stock. While Rentrak has said loans were made to compensate executives for their work, shareholders have argued stock purchases were being made to provide more votes against CARE's slate of directors at annual meeting (TVD July 31 p18).

"There is no doubt that the CARE group raised some serious questions" about purpose of loans, Haggerty said. "There would be no purpose for the loan program if it was not to protect against a proxy fight." Shareholder Paul Rosenbaum, who owns 250,000 shares and organized CARE in spring, said he was "pleased," by ruling, but declined further comment.

In SEC filing, CARE revealed that Rosenbaum became concerned last fall that Rentrak management was not "acting in the best interests" of company and sought meeting with Berger and financial consultant Jackson Hole Advisers to discuss distributor's business prospects and goals. Rosenbaum "expressed concern" in meeting with executives on decline in pay-per-transaction (PPT) revenues and company's inability to complete spinoff or IPO of 3PF.com, distributor for several on-line businesses.

CARE had pushed for creation of independent board for 3PF and addition of 2 independent members to Rentrak board. Berger also was to be fired or given 90-day leave to allow new board to review operations, CARE said.

In filing, CARE raised several issues including "fiscal soundness" of \$18 million retailer financing program that Rentrak started in 1992. CARE said that as of March 31, 2000, amounts outstanding under program had fallen to \$6.9 million from \$14 million year earlier, largely as result of distributor's writing off \$5.1 million. Reserves were \$5.7 million vs. \$9.6 million year ago. Of \$14 million extended under program, \$11 million had either been written off or reserved as potential write-off as of March 31, CARE said.

CARE also questioned "independent judgment" of Rentrak board, saying some members had financial ties to company. Stephen Roberts received more than \$142,000 for consulting services in fiscal 2000 and his company stands to gain \$200,000

"upon completion of certain strategic dispositions" of Rentrak assets, CARE said. Fellow board member Pradeep Batra is pres. of Unique Business Systems, which has contract with Rentrak, while Compensation Committee member Skipper Baumgarten is CEO of American Contractors Indemnity, which counts Berger among its board members, CARE said.

Board member Takaaki Kusaka also is pres. of Rentrak Japan, of which Berger is chmn., while William LeVine loaned Rentrak \$4 million in Nov. 1999 in exchange for 14,814 shares of 3PF stock at \$6.75 per share. Rentrak repaid loan in Jan. LeVine also extended \$3 million line of credit to Rentrak subsidiary Blowout Video in Aug. 1999 in exchange for receiving \$30,000 commitment fee and \$12,500 in closing costs. Five Rentrak executives and board members exercised stock options June 8-16, just days before original date for annual meeting, CARE said, suggesting that group was seeking to "prevent itself from being replaced" by buying additional voting shares.

Rentrak also was alleged to have sought Rosenbaum's assistance in keeping fulfillment contract with e-tailer Cyberian Outpost (CO). Rosenbaum was "long-time acquaintance" of CO Pres.-CEO Robert Bowman and offered to contact him, CARE said. In effort to keep CO business, which it eventually lost, Rentrak offered to pay Rosenbaum \$250,000, plus \$7,500 per month for consulting services over 3 years if CO agreed by March 1, 2000, to use 3PF for minimum of one year, CARE said. Rosenbaum and Bowman met with 3PF Pres. William Polich in Jan., but agreement wasn't reached.

In Rentrak proxy for annual meeting, Berger's salary in fiscal 2000 rose to \$429,353 from \$405,540 year earlier. He also received \$2,264 bonus and options for 260,943 shares. CFO Cox was paid \$191,029, up from \$181,136, \$85,000 bonus, 32,623 in stock options. After Berger, Walt Disney Co. is 2nd largest stockholder with 1.5 million shares (11.16% of those outstanding), followed by CARE, 1.1 million (9.1%); Masuda, 1 million (8.44%); Rentrak Japan, 614,000 (5%).

**Report on user traffic at Web's controversial Gnutella network** indicated that only small percentage of those who use file-swapping service actually were sharing any files, thereby defeating entire point of service. Researchers Eytan Adar and Bernardo Huberman of Xerox Palo Alto Research Center in Cal. said sampling of messages on network over 24 hours showed that 70% of users weren't sharing files and 90% of them weren't answering questions posed to them. Report also said "free riding is distributed evenly between domains, so that no one group contributes significantly more than others, and that peers that volunteer to share files are not necessarily those who have desirable ones." Researchers argued that "free riding leads to degradation of the system performance and adds vulnerability to [it]." Report said: "If this trend continues, copyright issues might become moot compared to the possible collapse of such systems." Gnutella is similar to Napster file-swapping service, but has no single database with some form of central control, thus making it harder to trace people who may be swapping pirated files.

**Take-Two Interactive Software** said it expected to "meet or exceed" First Call/Thomson Financial's estimate for its 3rd quarter ended July 31. First Call said it expected N.Y.C.-based game maker to earn 11¢ per share. Take-Two said it would report its results by end of month.



**BMG DOWNLOADS COMING NEXT MONTH:** In latest sign that major record labels are trying seriously to step up their efforts in online music space, BMG plans to begin its digital download service next month, spokeswoman told us last week.

Company will start selling tracks from such artists as Whitney Houston and Santana at prices ranging from \$1.98 to \$3.49 for individual songs and \$9.98 to \$16.98 for full-length albums, spokesman said. Music will be available for downloading via BMG's retail affiliates.

Company apparently also is open to some form of subscription business model, which is what many in industry have been saying is most sensible way for record companies to go in digital arena. However, BMG seemed to be ruling out — for now, anyway — type of service that would provide consumers “all-you-can-eat” for flat monthly fee business model.

BMG said last week that it would use hosting and content delivery services of Digital Island (DI) for its digital music distribution service. As part of deal — financial terms not disclosed — BMG will host music in DI's secure data centers. It said once customer buys tracks or full album, DI's Footprint Content Delivery service will reduce time it takes to download large files by caching music on servers, which will be located in close proximity to customer.

Meanwhile, digital music distribution was focus of speech by Bertelsmann CEO Thomas Middelhoff at PopKomm conference in Cologne, Germany, last week. Although he said “potential of the Internet for music and for music companies is tremendous,” he said music industry had made 3 basic mistakes so far on digital distribution front: (1) “The music industry grossly underestimated the profound effect of the Internet and the speed at which it would develop.” (2) Companies' marketing departments didn't put enough thought into “how we can retain the young, Internet-savvy music fans as customers,” (3) Industry didn't react to rising popularity of MP3 file format and controversial Web music service Napster.

Middelhoff said industry failed to see MP3 and Napster as “a wake-up call” and instead of “reacting with a full speed ahead strategy it... responded with defensive posturing and distancing — especially on an international level.” Although he said it still was important for music companies to protect intellectual property rights, “We need a balance between the legal tactics and the technological activities in the sense of innovations.”

Although Middelhoff didn't indicate that his company was looking to stop its legal dispute with Napster, he had some kind words for Napster and its founder, Shawn Fenning, who he said had been pioneer in music industry in much same way as Amazon.com founder Jeff Bezos had been pioneer in book industry: “Let's be honest. Despite all the dangers, Napster is pretty cool, an excellent music brand transporting the following characteristics: High quality, free delivery of music directly into your home, simple use, global selection from the repertory of all labels, prompt service and uncoupled program selection.”

Middelhoff called “file-sharing as a system... a great idea,” but he said Fenning's mistake was “not having developed a complementary system for the protection of intellectual property rights and combining the two.”

Although Napster CEO Hank Barry said his company has been looking to settle its legal battle with music companies (TVD July 31 p16), it had yet to announce any agreements with them or RIAA as of Fri. Whether some of Middlehoff's complements of Napster indicate that BMG may be open to some sort of deal was unclear last week. Bertelsmann and BMG spokeswomen declined comments on Napster.

Separately, Bertelsmann announced last week that it had received early termination of antitrust review waiting period from German Cartel Office clearing way for it to go ahead with acquisition of CDNow. Bertelsmann also filed tender offer statement with SEC last week in which it revealed that CDNow deal, originally valued at \$117 million (TVD July 24 p18), had dropped to \$99 million. Tender offer and subsequent merger are to be financed with proceeds from 3 existing credit facilities of Bertelsmann, German media giant said.

Meanwhile, CDNow spokeswoman declined comment on Fri. on class action suit filed against company in U.S. Dist. Court, Philadelphia, last week. Law firm handling case — Abbey, Gardy & Squitieri — said it was doing so on behalf of shareholders who purchased CDNow common stock Jan. 28-March 28, as well as those who owned CDNow stock July 26 through Aug. 22 close of Bertelsmann's tender offer. Complaint charged CDNow and certain officers and directors with violations of federal securities laws. Among specific allegations was that defendants had failed to reveal on or before Jan. 28 that CDNow's outside auditor, Arthur Andersen, had advised management (TVD April 3 p19) of “substantial doubt about [CDNow's] ability to continue as a going concern.”

**The Outernet**, planned entertainment chain that will combine arcade with Internet access, will install onsite CD burning systems to allow users to create customized discs drawn from library of MP3 music as well as PC and videogames. Outernet plans to open first 50,000-sq.-ft. facility in Apple Valley, Minn., in Oct., will add locations in Chicago, Dallas and N.Y.C. by year-end, said Business Development & Mktg. Vp Paul Uhlemann. At start, Outernet said, its facilities will have access to thousands of MP3 files as well as games and other software. Pricing for customized CDs hasn't been set, but it's using 3rd party fulfillment company to negotiate rights for software and music, Uhlemann said. Outernet locations will have touch-screen kiosks for creating customized discs, retail store, arcade section featuring simulation games and area for browsing Internet, he said, and will serve as test bed for new games. Outernet is privately funded division created from merger earlier this year of Advanced Duplicating & Printing (ADP) and Color Techniques... **Roxy.com's** Everything Wireless Web site has signed agreement to sell Northpoint Communications' digital subscriber line (DSL) service. Phoenix Networks is ISP for Northpoint. Consumer service is priced at \$39/month for 784 kbps download, 392 kbps return. Business version is \$124-\$389 for speeds up to 1.5 mbps... **Hifi.com** has started Asian version of CE e-commerce business targeting Singapore. Site will carry products from affiliated company Cambridge SoundWorks as well as parent Creative Technology, Harman Kardon and its JBL and Infinity brands, JVC, Marantz, Samsung, Sony.

**Correction:** Report on new Toshiba DVD players (TVD Aug 14 p12) should have said \$1,999 DVD-Audio player and \$1,199 DVD-video model have 24 bit/192 kHz audio DAC, upgrade from 24 bit/96 kHz, and 10 bit/54 MHz video DAC, upgrade from 10 bit/27 MHz.



**MIDWAY REPORTS LOSS:** Midway Games, saying it has continued to be hurt by industry's transition to new videogame platforms and declining demand for coin-operated games, reported loss increased in its 4th quarter ended June 30.

Chicago-based game maker said loss in last quarter widened to \$30.74 million (82¢ per share) from \$15.41 million (40¢) in same period year ago. For year, company loss was \$12.04 million, reversing \$6.15 million profit in 1999. Midway said it had revenue of \$24.72 million in last quarter, down from \$56.47 million year earlier, and for year dropped to \$333.87 million from \$351.80 million.

Midway Pres.-CEO Neil Nicastro was blunt in conference call with analysts last week, calling results "very disappointing." He blamed not only industry's transition and "weak demand in the coin-operating game industry," but quality of games that Midway offered. Saying that "Midway has released few hit games during the last 6 months," he added: "Most of the games Midway has released over the last several months have been mediocre. This result is a function of both bad luck and bad decisions."

But Nicastro said: "We will no longer accept product that is below average and we've recently canceled a number of games that were slated to be introduced this year because they don't meet our new standards." Going forward, he said, company will be focusing its efforts only on "A-plus titles."

What also stands to help Midway, Nicastro said, is debut of Sony's PlayStation2 (PS2) game console in U.S. Oct. 26. But he said industry's game platform transition still "will most likely last into next summer." After that, he said, rollouts of new game systems from Microsoft and Nintendo — all of which Midway plans to support — "will usher in a period where software sales are expected to break all existing records." He said: "Midway stands ready to reap its share."

Nicastro said that in current fiscal year, Midway expected to ship 4 PS2 titles and 15 next year. Titles for PS2 this year will include *Ready 2 Rumble*, to ship in time for PS2's start. He and other Midway executives said in conference call that they were especially excited about that title, saying it offered certain secret features they couldn't yet discuss and because they had heard from retailers that number of new apparently is shrinking to fewer than 15. Sony Computer Entertainment America spokeswoman didn't return our call for comment by our Fri. deadline.

Midway said it planned to ship in first quarter of fiscal year 4 for PlayStation (PS), 2 for Nintendo 64 (N64), 2 for Sega's Dreamcast and one for Nintendo's Game Boy Color (GBC), and in 2<sup>nd</sup> quarter, 5 for PS, 3 for N64, 3 for Dreamcast, 2 for GBC and one for PS2.

Company also is moving to boost its presence in online space. Midway Exec. Vp Michael Ribero said "anchor" of strategy in that arena was to sign up already established major destination gaming company as partner: "We were very, very close to consummating a transaction with a major player and in the 11th hour that deal... fell apart." Ribero didn't identify company but said: "We are continuing to pursue a major destination gaming transaction." He didn't indicate when he believed that might happen.

As part of its online push, company also opened new Midway.com Web site one week before releasing its results that al-

lows gamers to play classic Midway games online. In next few months, Ribero said, company intends to expand its games to other sites.

Company also is testing Midway Tournament Network in which its amusement games are linked through Web and gamers compete against one another for money and other prizes, Nicastro said: "We're finalizing development of what we hope to be a killer application and expect to roll out the network before the end of the calendar year."

**B&K Components**, best known for its high-end A/V receivers and amplifiers, will add DVD player to line next year, National Sales Mgr. Brad Paulsen said. While features haven't been set, player will be priced in \$1,000-\$1,200 range and will target B&K's 300 dealers, he said. "It will be in a similar vein," Paulsen said, referring to B&K's other products: "It will have some usable value in it, not just magical capacitors or something. We're looking at what we can add that will give a value to our product besides performance." B&K also is likely to extend high-end range of its A/V receivers and amplifiers into \$5,000-\$6,000 category, Paulsen said, citing dealer demand for such product. B&K line currently tops out at \$3,498 for new AVR 307 A/V receiver that has 7-channel amplifier capable of handling THX, 6.1, 7.1 and EX Surround plus Dolby Digital, Pro Logic and DTS. In addition to adding new surround technologies, AVR 307 replaces year-old AVR 207 by boosting power to 150 w per channel from 105 w and signal-to-noise ratio to 95 dB from 90 dB. Step-down piece is AVR 305 (\$2,998), which has same features as 307 but drops to 5-channel amplifier. Rounding out THX-equipped line is Reference 30 preamp/tuner processor (\$2,798) that replaces Reference 10 and 20 models, but retains same features including 5 Hz - 150 kHz frequency response and 89 dB line level. Preamp/tuner also has Motorola's DSP chip that increases processing speed to 120 MIPS from 100 MIPS year ago. Low end of 15-component line is anchored by ST260 amplifier (\$498), direct replacement for ST1200. Model has 5-45 kHz frequency response, 60 w power rating and 95 dB signal-to-noise ratio... Motorola, which has been B&K supplier for 5 years, will introduce new DSP in Sept. that increases processing speed to 150 MIPS from 120 MIPS, Mktg. Development Mgr. Terry Shultz said. It will be priced around \$15 in shipments of 100,000, he said.

**Texas Instruments (TI)** Fri. completed \$6.1 billion acquisition of DAC chipmaker Burr-Brown (TVD June 26 p15). TI will issue 1.3 shares of its common stock for each outstanding share of Burr-Brown common or about 88 million shares. Distribution is expected to be completed by late Sept. Burr-Brown bolsters TI's position as largest single analog chipmaker with 10% worldwide market share. TI said it expected deal to be immaterial to earnings in 2000 and 2001, accretive after that. Burr-Brown will add \$300 million in analog chip sales to TI's \$2.8 billion, analysts said. TI's total revenues last year were \$9.5 billion.

#### THIS WEEK'S YEN RATE

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



## Consumer Electronics Personals

**Simon Kang**, ex-Zenith, named pres., LG Electronics USA, succeeding Johnny Koo, who returns to S. Korea... **Leo Delaney**, ex-Mitsubishi and industry consultant, joins Hitachi as mktg. dir.; **Martin Weinstein**, ex-Hitachi TV product mgr., appointed Sony PC monitor product mgr... Promotions at Boston Acoustics: **Moses Gabbey**, engineering vp, to pres.-COO; **Robert Spaner**, sales & mktg. vp., to exec. vp... **David Keller**, Escient Convergence Corp. pres., named pres. of subsidiary Tom Doherty Inc., which changes named to Escient Solutions... **Larry Kenswil**, Universal Music's eLabs pres., elected to ReplayTV board... **William Scranton**, ex-Pa. lieut. gov., joins Musicmaker.com board... **Sia Hashemi**, ex-Sharp Microelectronics, named InterTrade Systems operations & information systems vp... **Ranjit Singh**, ContentGuard COO, appointed to Ultralife Batteries board... **Shawn McGhee**, Office Depot N. American retail stores pres., resigns, plans unknown; **Robert Keller**, Office Depot exec. sales vp, promoted to pres., Business Services Group; **Rolf van Kaldekerken**, ex-European Operations exec. vp, advanced to pres... **James Dismukes**, ex-Gateway, and **Robert Oakes**, ex-independent consultant, name Valley Media vps of mktg. & sales and administration, respectively... **Gaston Bastiaens** resigns as Lernout & Hauspie CEO, replaced by company's medical unit pres., **John Duerden**... **George Moore**, ex-IBM, appointed Solectron Corp. vp & pres.-Americas region... **Phillip Murphy**, ex-Sony Music Entertainment, joins RealNetworks as senior international vp... **Michael Windsor**, OglivlyInteractive Worldwide pres., elected to iBeam board... **Roger Shiffman**, Tiger Electronics pres., appointed to Hollywood.com advisory board... Promotions at Paramount Home Entertainment: **Joceyln Estrada** and **Deanna Lee** to dir.-sellthrough mktg. and dir. rental mktg., respectively.

**ReplayTV** postponed IPO last week, citing "market conditions," but plans to announce new alliances in 30-45 days that would allow it to return to public markets in early 2001, Senior Sales & Mktg. Vp James Hollingsworth said. ReplayTV had priced 8.5 million share IPO at \$13-\$15 (TVD March 6 p17), but Hollingsworth declined comment on possible new offering. He also declined comment on whether new alliances would involve equity position in company or whether existing investors would expand current stakes. Among current investors are EchoStar, Excite@Home, Sega and Sharp Electronics. ReplayTV also started 6-month test with Comcast in Burlington County, N.J., market last week using 30-hour personal video recorder being supplied by Flextronics with Quantum hard drive. Comcast will promote service via direct mail, bill inserts, informercial. ReplayTV also has agreement with Time-Warner for test involving 500 subscribers in Chatsworth, Cal., although "software work" is needed on PVR to accommodate digital cable system's pay-per-view and parental control features, Hollingsworth said. While none of ReplayTV's investors have announced product plans, Sega and Excite@Home represent "long term" projects, he said. Also still in flux is start date for trial of satellite-based video-on-demand service being proposed by Starz Encore and ReplayTV. Companies are working to "define architecture" of proposed service that's expected to make formal bow in 2001, Hollingsworth said. ReplayTV plans to introduce new MyReplayTV software as part of upgrade that's expected to be downloaded Oct. 2. MyReplayTV allows user to remotely set parameters on PVR using PC. User will be able to set recording time and other features via ReplayTV server, which replays information to PVR via daily 2-5 a.m. update. Feature that will allow user to set time that server connects to PVR is expected to be available by year-end, Hollingsworth 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
<b>Flextronics International</b>			
2000-qtr. to June 30	2,285,732,000	(369,063,000)	---
1999-qtr. to June 30	956,367,000	28,002,000	.19 <sup>b</sup>
<b>Handleman</b>			
2000-13 wk. to July 29	231,435,000	1,742,000	.06
1999-13 wk. to July 31	226,357,000	682,000	.02
<b>Merisel</b>			
2000-6 mo. to June 30	2,091,608,000	(30,345,000)	---
1999-6 mo. to June 30	2,521,819,000	(23,493,000)	---
2000-qtr. to June 30	924,844,000	(16,898,000)	---
1999-qtr. to June 30	1,266,622,000	(2,984,000)	---
<b>Midway Games</b>			
2000-year to June 30	333,865,000	(12,041,000)	---
1999-year to June 30	351,795,000	6,147,000	.16 <sup>a</sup>
2000-qtr. to June 30	24,724,000	(30,735,000)	---
1999-qtr. to June 30	56,465,000	(15,406,000)	---
<b>News Corp.*</b>			
2000-year to June 30	14,151,000,000	1,213,000,000	1.18 <sup>a</sup>
1999-year to June 30	13,585,000,000	678,000,000	.67 <sup>a</sup>
2000-qtr. to June 30	3,897,000,000	71,000,000	.06 <sup>a</sup>
1999-qtr. to June 30	3,267,000,000	(10,000,000)	---
<b>Nvidia Corp.</b>			
2000-26 wk. to July 30	318,881,000	40,809,000	.64
1999-26 wk. to Aug. 1	149,035,000	12,947,000	.22
2000-13 wk. to July 30	170,398,000	22,522,000	.35
1999-13 wk. to Aug. 1	78,017,000	6,686,000	.11
<b>Philips Electronics<sup>f</sup></b>			
2000-6 mo. to June 30	17,484,000,000	4,744,000,000	---
1999-6 mo. to June 30	14,135,000,000	740,000,000	---
2000-qtr. to June 30	9,155,000,000	3,604,000,000	---
1999-qtr. to June 30	7,298,000,000	271,000,000	---
<b>Puma Technology</b>			
2000-year to July 31	30,813,000	(22,199,000)	---
1999-year to July 31	20,723,000	(5,828,000)	---
2000-qtr. to July 31	9,026,000	(5,146,000)	---
1999-qtr. to July 31	5,946,000	(239,000)	---
<b>Take-Two Interactive</b>			
2000-9 mo. to July 31	264,398,385	11,589,839	.43 <sup>a</sup>
1999-9 mo. to July 31	184,008,455	7,163,832	.34
2000-qtr. to July 31	71,472,587	3,448,971	.12 <sup>a</sup>
1999-qtr. to July 31	63,562,470	2,707,824	.12
<b>Ultimate Electronics</b>			
2000-6 mo. to July 31	196,984,000	3,810,000	.35 <sup>a</sup>
1999-6 mo. to July 31	162,363,000	1,454,000	.18
2000-qtr. to July 31	101,978,000	2,256,000	.21
1999-qtr. to July 31	83,965,000	1,134,000	.14
<b>Valuevision</b>			
2000-6 mo. to July 31	166,679,000	6,416,000	.16 <sup>a</sup>
1999-6 mo. to July 31	111,016,000	7,416,000	.26 <sup>d</sup>
2000-qtr. to July 31	85,677,000	3,236,000	.08 <sup>a</sup>
1999-qtr. to July 31	57,875,000	1,048,000	.03 <sup>d</sup>
<b>World Wrestling</b>			
2000-qtr. to July 28	101,861,000	15,239,000	.22
1999-qtr. to July 28	76,222,000	12,499,000	.22 <sup>a</sup>

Notes: \*After special change. <sup>b</sup>Adjusted. <sup>c</sup>Includes special items. <sup>d</sup>Includes special credit. <sup>e</sup>Per ADR. <sup>f</sup>In euros. <sup>g</sup>Pro forma.

**Hollywood Entertainment** reported \$6.5 million income (14¢ per diluted share) on \$310.66 million sales for its Hollywood Video (HV) division in 2nd quarter ended June 30. For year-ago period, revenue was \$241.98 million and profit \$9.4 million (20¢). Retailer said same-store sales grew 7%. In quarter, company shut down its Reel.com e-commerce business, which wasn't included in its HV results. Hollywood Entertainment Chmn.-CEO Mark Wattles said: "With the record-breaking growth of DVD and the upcoming release of Sony PlayStation2, we believe we will be able to continue the momentum of our business for the foreseeable future."