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AOL AND TW OUTLINE MERGER GOALS IN FCC FILINGS: AOL and Time Warner (TW) in several new filings with FCC spelled out their plans to offer open access on cable lines, sign deals with DSL providers, recruit interactive TV programmers and develop online music business, expanding on earlier statements and hoping to favorably influence regulators. While filings produced few surprises, they appeared to confirm AOL as lead partner in merger. They also showed both companies and AT&T have made little progress in reaching accord on TW's offering AT&T local phone service and AT&T's carrying AOL online service on their respective cable lines.

In fact, in their 33-page response to latest series of questions from FCC Cable Bureau (TVD Aug 21 p4), AOL and TW both said they hadn't held any serious negotiations recently with AT&T on offering telco's residential phone service to TW cable subscribers. Despite industry expectations that such talks would be proceeding in earnest by now, AOL said it and AT&T "are not engaged in any discussions regarding the provision of local telephone service." For its part, TW said, "no material discussions have taken place" with AT&T in last 2 months other than on possible joint marketing deals in several cable markets.

As for AT&T's offering AOL online service in its cable markets, AOL said it "continues to seek an agreement" with its former archrival and "is presently engaged in preliminary discussions with AT&T to determine what the terms and structure of a viable deal might be." AOL said it also was "reviewing and analyzing documentation" related to AT&T's planned 6-month trial of multiple ISPs in Boulder, Colo., in fall. Apparently deferring to its partner, TW said it had "had no material discussions with AT&T regarding the carriage of AOL's ISP service on AT&T's cable systems," which now offer Excite@Home's cable modem service exclusively.

Addressing questions about their own open access plans, AOL and TW said in separate FCC filings that TW "is continuing its discussions with AOL and numerous other ISPs" about offering multiple ISPs over MSO's broadband cable

Consumer Electronics

ZENITH, PHILIPS SHUFFLE EXECUTIVES as Woods and Boonstra announce planned departures and restructuring of companies nears completion. (P. 8)

FCC APPROVES HOME NETWORKING technology, allowing wireless 2.4 GHz systems to use wider channels to send data, audio, video. (P. 9)

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PIONEER TO EXPAND PLASMA display panel assembly capacity at Japan plant by year-end 2001. Fujitsu readies 32W. (P. 12)

ECHOSTAR SUBPOENAS ISSUED to dealers as part of anti-trust suit against DirecTV, coincides with signing of new retail pacts. (P. 13)

lines. TW, which recently announced deal with Juno Online Services to offer that ISP over its high-speed lines, said it "hopes soon to have additional commercially negotiated agreements to announce." MSO said it "has commenced discussions with its partners regarding the restructuring of the Road Runner partnership agreement" that it hoped would lead to "an early termination" of exclusivity provisions in Road Runner contracts. Also noting technical and operational trial of multiple ISP carriage that TW recently started in Columbus, O., AOL and TW said they "are fostering a marketplace solution to the open access debate" and already had "acted as a catalyst to encourage other cable operators to provide ISP choice to consumers."

On plans to offer high-speed Internet access over phone lines, companies said "AOL is continuing to pursue contracts with other DSL providers but has not yet consummated any new agreements" since TW deal was announced more than 7 months ago. Thanks to existing DSL distribution contracts with SBC and Verizon, AOL-TW said, AOL already had deals in place that would allow it to reach "approximately 65% of the U.S." AOL said it was "optimistic that Verizon's acquisition of NorthPoint would facilitate a commercially attractive arrangement" that would expand AOL's DSL footprint further. It also said it was continuing to pursue distribution deals with wireless phone and satellite providers.

On interactive TV front, partners said AOL was "just beginning to enter into agreements with video programming networks" on creating content for new AOLTV service and "the specific economic relationships" with programmers "will undoubtedly evolve over time." In separate letter to FCC, companies said agreements "may set forth limitations" on content providers, including prohibiting them from promoting AOL rivals within providers' "customized AOLTV interactive content." But, AOL-TW said any programmer "can offer both its video programming and associated interactive content over the AOLTV platform even if it chooses not to partner with or enter into any agreement with AOL." They said AOLTV did "not negotiate or sell channel positioning on its program guide" nor "make channel positioning decisions based on the ownership" of programmer.

As for online music services, AOL and TW said they expected merger "to speed the advent of digital downloading and personal online music libraries that serve all creators and distributors — and, ultimately, consumers." Combined into single entity, they said, they "will be better positioned to develop and deploy the easy-to-use, affordable and secure technologies needed to move online music distribution to the next level." They also said merged company would be well-suited to develop technologies for online distribution of other services, including books and video-on-demand, while compensating copyright holders fairly.

European antitrust regulators are taking tough look at AOL's proposed takeover of TW, *Wall St. Journal* said, and European Commission (EC) issued confidential statement of objections to deal that spelled out regulators' numerous antitrust concerns. Paper said EC was most concerned that companies would dominate online delivery of music, especially after TW's proposed acquisition of EMI Group closed.

TV POLITICAL COVERAGE HIT BY ALLIANCE: TV stations are "profiteering on democracy" through sale of time to candidates while offering paucity of free time in return, said Paul Taylor, exec. dir. of Alliance for Better Campaigns. He expressed "surprise and disappointment" at what he termed "poor response" to Alliance's proposal that TV stations offer limited amount of free time for "candidate discourse."

Less than 2% of U.S. TV stations (about 30) have agreed to Alliance's request that they provide 5 min. of free time daily — starting 30 days before Nov. 7 general elections — to political campaigns, Taylor said. Only Scripps-Howard, Hearst-Argyle and Capitol Bctg. stations have made full commitments to Alliance plan, he said, while several other groups have made partial commitments.

Because of that poor response, in mid-Sept. Alliance plans ad campaign for public support at cost "in the low 6 figures." It will include small number of paid spots, Web page detailing just what broadcasters have and haven't done in political arena, and spelling out money spent on political spots in some areas of country. Alliance is financed by 5 non-profit foundations.

Meanwhile, Gore and Bush campaigns were debating where, how and when to hold televised debates in fall. Gore has accepted proposal of nonpartisan Commission on Presidential Debates for 3 face-to-face meetings with Bush and one debate for Vice Presidential candidates. Bush hadn't agreed to Commission's proposal and spokesman said his campaign officials met with cable and TV networks last week and planned to meet with debate Commission Sept. 1. "We're going to complete all the meetings and then take a look at all the various invitations [reportedly some 4 dozen]," campaign official Ari Fleischer said.

Bush, asked on CNN last week whether he would debate Gore, responded: "I intend to, you bet. We are in the process now of discussing the times with the different networks. I look forward to the debates, I do." Debate Commission has proposed Oct. 3 debate in Boston, Oct. 11 in Winston-Salem, Oct. 17 in St. Louis, with Vice Presidential debate Oct. 5 in Danville, Ky. All would be 90 min., with major networks expected to carry them live. Commission has sponsored all Presidential debates, starting in 1988. As for debate over debates, "it happens every 4 years," Taylor told us.

PTV STATIONS SEEK DTV FUNDS: Gap in obtaining state funds for DTV conversion continues to spread between public stations that are part of state networks and stations independent from state-affiliated entities. While state networks such as in Ark., Ky. and Md. receive funding from their state govts., community licensees as in Alaska, Colo. and Mich. receive little or no financial assistance to help with transition to digital by FCC's June 2003 deadline. Despite state funding shortcomings, however, community, university and state network PTV license holders all said they most likely would meet FCC deadline and would be beaming digital signals by 2003.

Disparities in state financial support to respective PTV stations can be seen across U.S. and funds are coming in all sorts of ways — through bonds, referendums, installments. Md. legislature has given state network of PTV stations \$19.35 million to date via annual appropriations. "By fall 2003 [we] expect to be totally digitally converted," Md. PTV Senior Vp-COO Robert Sestili said, and that includes everything from towers and antennas to production and facilities.

While U. of N.C.'s 11 stations received \$1.1 million from state in 1998 for engineering planning, they haven't received any digital conversion funds since then because state lost lawsuit and was hit by natural disasters. But \$3.1 billion bond, which includes \$65 million for PTV digital plans, will be on state ballot in Nov. That money, if voters approve, will cover everything, said U. of N.C. Center for PTV Dir.-Mktg. & Communications Steve Volstad. Problem is that money may not come in time for stations to meet FCC deadline, he said.

In slightly similar situation is Neb. Educational Telecommunications (NET), state network of stations. To pay for conversion, state is giving stations \$28.5 million over 10-year period, but in form of tax-exempt bonds to be issued by entity created by state and NET. "We'll actually have about \$23 million," NET Gen. Mgr. Rod Bates said, after deducting cost of bonds.

Having received just \$300,000, KAKM Anchorage Gen. Mgr. Susan Reed said, "we do plan to go back to the legislators," including for stations in state that hadn't asked for funds. In fact, KAKM, community station that gets 7% of its income from state, was only one in Alaska to request and receive digital transition aid. Meanwhile, Tenn. has no money to help its multiple community stations because of its economy, which is lagging nation. "We have our appropriations for general operations support but nothing for digital conversion," WDCN Nashville Exec. Vp-Gen. Mgr. Steve Bass said. Same goes for Hawaii PTV, which in July changed to community licensee from state.

Attitudes of state governors affect funding for digital conversion, such as in Ark. and Mich. Ark. Educational TV Network Exec. Dir. Susan Howarth said, "The state has actually authorized \$7 million as Phase 1 funding for digital TV, and the governor [Mike Huckabee, R] has released \$3.7 million and promised to work with legislators for an additional \$7 million in

the upcoming legislative session. He's pretty much committed \$14 million."

That's in contrast to Mich., where legislature passed bills giving funds to PTV broadcasters to help with digital transition. "The governor [John Engler, R] vetoed the money," WTVS Detroit Pres.-Gen. Mgr. Steve Antoniotti said, deleting \$15 million for DTV conversion in spite of state's almost \$200 million surplus. Stations will have to start legislative process all over again with next session in hope of convincing Engler not to veto any digital conversion funds. Knowing perspective of Engler, Antoniotti said, "we'll probably have to dip into our reserves to meet the FCC deadline."

Many PTV broadcasters will be back before legislatures lobbying for digital conversion funds in upcoming sessions. Some have been successful and others haven't, but most fall in middle, having received some assistance but not enough. Judy Stone, before leaving post as gen. mgr. of Ala. Public TV Aug. 25, said, "We told the state we needed \$10 million total from the state." However, state network of stations received \$2 million for FY 2000 and \$2.5 million for FY 2001. She said Ala. Public TV would be heading back to legislature next year for more digital aid.

In Tucson, KUAT-TV and KUAS-TV Dir.-Gen. Mgr. Jack Parris said that in last 2 legislative sessions, "we have not been successful" in gaining state support for university licensees. However, he said, "we are going to go back to state legislators in January." Each station in past had asked Ariz. for \$2.5 million, he said: "We're not sure what we'll ask for in January, but most likely \$2.5 million again." In Cal., 14 community and university PTV stations are waiting for Gov. Gray Davis (D) to sign bill appropriating \$5 million to them.

Despite having received no state funding, KRMA-TV Denver Pres.-Gen Mgr. James Morgese said "digital conversion is going okay." Like majority of PTV stations in country, it's working on capital campaigns to make up for digital funding shortcomings not covered by state. KERA-TV Dallas, WHRO-TV Hampton-Norfolk, Va., N.M. stations and WGBH-TV Boston are involved in capital campaigns. And most all stations have applied for NTIA grants through Public Telecommunications Facilities Program. NTIA will hand out grants later this month.

There's "no principled basis" for not admitting TV cameras into federal courtrooms, RTNDA board member David Busick of KCCI-TV Des Moines will tell Senate Judiciary Subcommittee hearing Sept. 6. In written testimony, he said tests of cameras in courts have been "resounding success," and technological advances make them even less intrusive. There's clear First Amendment right for public to be in courtrooms, Busick said, and "the electronic media have become an increasingly important surrogate for the public." Legislation proposes 3-year pilot program that would give judges, rather than trial participants, right to decide whether cameras would be allowed. Congress and courts would review policy after pilot.

DBS SHOWS DIVERSITY: DBS operators DirecTV and EchoStar have turned to traditional sources of public interest programming along with new networks in effort to meet FCC rule requiring DBS carriers to reserve 4% of channels for public interest programming. Since Commission adopted rules requiring DBS operators to set aside channel capacity, there has been debate about best way to ensure compliance and serve public interest. Some policymakers suggested new programming should be required while others said traditional public programming networks would serve public interest.

Public programming offerings by DBS companies are different from cable and network TV. Among DBS offerings are Free Speech TV (FSTV), Hispanic Information Telecommunications Network (HITN) and WorldLink TV. DirecTV public programs also include Eternal Word TV (EWTV), Good Samaritan Network and Trinity Bcstg. (TB), Brigham Young U., C-SPAN, NASA TV, Northern Ariz U./U. House, PBS You, Research Channel. DirecTV has 9 noncommercial networks. On DISH TV, EchoStar provides Clara Vision, EWTV, Inspirational Life, NASA TV, PBS You, StarNet and TB.

WorldLink TV is one of first nationwide satellite-only public affairs networks. It carries international news, documentaries, drama, world music and videos. FSTV offers works from independent film and video artists, activist organizations, community-based media groups. Programs include biweekly series "Queer TV," which features broad range of independent cinema and TV programs by and about gays, lesbians and transgender people. FSTV also distributes 4 hours of programming on 50 public access channels on cable systems.

Members of public interest community are "disappointed" that FCC ruling has allowed DBS operators to select public interest channels, giving them quasi-editorial control, Media Access Project Deputy Dir. Cheryl Leanza said. She pointed to EchoStar practice of limiting public interest programmers to 3-month contracts: "The tragic part is that there are no new voices on the air." EchoStar Govt. Relations Dir. Karen Watson said DISH TV was "more than meeting" FCC requirement with offerings on 15 channels. "We're complying with the law and we're fairly proud of some of the offerings we have."

Clear Channel Communications (CCC) and AMFM Inc. are now one very large radio broadcasting company, having closed Aug. 30 on \$23.8 billion deal announced nearly 11 months ago (TVD Oct 8 p9). Surviving company CCC had to clear many regulatory hurdles at Justice Dept. and FCC — with final okay given by Justice day earlier when it accepted AMFM's agreement to sell its 29% stake in outdoor ad firm Lamar Advertising. Justice also required merged company to spin off more than 100 radio stations, of which 46 went to minority buyers (TVD July 24 p5). Under agreement with Justice, CCC still must sell 14 stations in 5 markets within 150 days, as closure was held last week on many of stations spun off by CCC. Viacom's Infinity Bcstg. was largest purchaser of stations spun off with 18; other radio groups buying CCC-AMFM stations included Chase Radio Partners, Cox Radio, Cumulus Media, El Dorado Communications, Inner City Bcstg., Radio One, Salem Communications. New CCC will own and/or operate more than 900 U.S. radio stations (plus several dozen overseas), 19 TV stations, more than 700,000 outdoor advertising displays (through Eller Media) in 40 countries. Kenneth O'Keefe, CEO of AMFM, joins CCC as pres.-COO of Radio Div.

NAPSTER REVIEW POSSIBLE: If Napster wins in court, it could mean rethinking part of Digital Millennium Copyright Act (DMCA), U.S. Register of Copyrights Marybeth Peters said in interview with our affiliated *Warren's Washington Internet Daily*. If Napster persuades federal court it's not liable for copyright infringement, she said, act would have to be examined "very carefully." Napster and its kin, Peters said, were "not part of the calibration" of 1998 law: "We weren't that visionary."

Webcasting is having bigger impact on business models than on law, Peters said: "I just actually see the Web as another means of distribution." However, she said, global nature of Webcasting means that whole structure of international treaties becomes "much more critical. And I think there's a need for more global dialog on what the rules of the road should be." In meantime, she said, "I don't see that at this point in time we need to totally overhaul everything."

Copyright Office is about to issue decisions in 2 closely watched actions, Peters said: (1) Wrangle between RIAA and NAB over whether broadcasters owe royalties for streaming signals in cyberspace. (2) Digital Media Assn. request for rulemaking on definition of Webcasting "service." "My crystal ball says there will probably be" copyright arbitration royalty panel in broadcasting case, Peters predicted.

These are "very, very interesting times," Peters said, saying that she sometimes feels like she's "sitting on top of a volcano." Internet and other issues are bringing Copyright Office into higher profile on politicians' radar, she acknowledged. (Full text of interview is in *Warren's Washington Internet Daily*. For free copy or trial subscription, call 202-872-9200, ext. 203.)

Several million U.S. viewers living within Grade B coverage range of Canadian TV stations will be able to watch portions of Summer Olympics live from Australia later this month, courtesy of Canadian Bcstg. Corp. (CBC). Since most major events will take place in midnight-8 a.m. Eastern Time period, U.S. rights holder NBC and its cable affiliates plan only taped coverage — hours after most events have been held. Many U.S. viewers can get nearby Canadian stations with regular home TV antennas, while others can receive them via cable or satellite. Owners of large C-band dishes far from Canadian border, including many bars in U.S., also will be able to pick up games live, with estimates of 2 million such installations. CBC official said network won't concentrate only on Canadian athletes: "If people in Seattle or Buffalo want to watch immediately, they can turn to us."

Describing NAB as "World Trade Organization" of broadcasting, activist groups are calling for demonstrations at NAB Radio Show in San Francisco Sept. 20-23. Protests are being organized by Media Democracy Now coalition, which includes such groups as Fairness & Accuracy in Reporting and former radio pirates. Key issues cited include LPFM, campaign finance reform, public service obligations. No reliable estimates were available on likely protestor attendance. NAB had no comment.

Rogers Communications said it will buy controlling stake in Toronto Blue Jays from Interbrew SA, subject to Major League Baseball and regulatory approvals. Rogers, Canada's largest cable operator, will pay \$112 million for 80% of Blue Jays, issuing new stock to cover half of purchase price.

AT&T AND BELLS STEP UP DATA BATTLE: AT&T Broadband, SBC Communications and Verizon Communications are cutting monthly prices or planning to offer temporary discounts and free service to consumers and businesses this fall in sign of increasingly fierce competition for high-speed data users. AT&T, nation's leading cable modem player, and SBC and Verizon, 2 leading DSL providers, are making moves to boost their customer totals quickly as young broadband market rapidly grows past 3-million subscriber mark. All 3 companies also are trying to meet their ambitious year-end subscriber targets to avoid disappointing Wall St.

In 2 latest moves, SBC is offering several months of free DSL service in one Bell promotion, while Verizon will announce its own DSL price cuts and offers of free equipment today (Tues.). They join AT&T Broadband, which quietly is gearing up to unveil range of 50% discounts and several months of free service in its cable modem markets next month. As result, Internet users should have choice of cable and telco data promotions this fall in many large markets, including Boston, Chicago, Dallas, Hartford, Pittsburgh, Richmond, San Francisco.

On cable side, AT&T plans to offer variety of discounted and free high-speed Internet access in its 17 cable modem markets, starting Oct. 1. AT&T Broadband spokeswoman said 4 offers would range from 2 or 3 months of free service to up to 6 months at \$19.95 per month, half MSO's regular rate. All new customers also will receive free installation of cable modems. MSO spokeswoman said AT&T hadn't decided where to offer each deal. "It will be on a market-by-market basis," she said, with company weighing such factors as local cable modem take rates and competitive data offers.

AT&T, which owns controlling stake in Excite@Home and recently picked up more than 330,000 Road Runner subscribers when it took over MediaOne Group, aims to promote offers in both its Excite@Home and Road Runner regions, AT&T Broadband spokeswoman said. Cable operator, which closed first half of year with 690,000 cable modem subscribers, is gunning to reach 1.1 million data customers by end of year. "It's [the campaign] an acquisition tool," spokeswoman said.

Industry analysts said they expected to see more such price wars as cable operators, phone companies, wireless carriers and DBS providers battle over high-speed data market. They expect temporary free marketing offers such as AT&T's forthcoming deals to become more common, especially as cable operators start providing Internet access through TV set-top boxes as well as PCs. Among other things, analysts also predicted that broadband data players increasingly would offer free long-term service, at least at somewhat lower than top transmission speeds. "I think it's inevitable as the competition really heats up," Broadband Intelligence Pres. Cynthia Brumfield said.

In conjunction with 30th annual legislative conference of Congressional Black Caucus, Black Bcstrs. Alliance (BBA) will host its first annual conference on minority media ownership Sept. 13, Monarch Hotel, Washington. Titled "Millennium Madness: Survival in the Age of Broadcast Consolidation," conference will be 8:30 a.m.-2 p.m. and will feature lunch address by NAACP Pres. Kweisi Mfume. Newly appointed diversity vps of Big 4 networks have been invited to participate. BBA said session was intended as follow-up to minority ownership conference hosted by NTIA earlier this summer.

MMDS, MSS JOCKEY FOR 3G: MMDS licensees — including WorldCom and Sprint — urged FCC to dismiss Satellite Industry Assn. (SIA) petition asking that frequency in 2500 MHz band be set aside for mobile satellite service (MSS). At same time, MMDS and Instructional TV Fixed Service (ITFS) operators recommended that agency look more broadly at issues raised by CTIA in parallel petition asking that Commission issue rulings on how to allocate spectrum for next-generation services following decisions at World Radio Conference (WRC) in June. Combined comment period on separate petitions by SIA and CTIA on next-generation spectrum needs pits differing capacity considerations of former wireless cable industry, now fixed and mobile wireless providers, against those of satellite industry.

AT&T called "premature" FCC's suggestion in previous spectrum policy statement that it would consider setting aside for wireless use 1710-1755 MHz band paired with 2110-2150 and 2160-2165 MHz bands. "It is unlikely that other countries would adopt this pairing in the short term because the 1710-1755 MHz band is currently used by some 2nd-generation systems, paired with 1805-1850 MHz." AT&T also reiterated concern expressed by larger carriers that FCC should lift spectrum cap of 45 MHz for most areas and 55 MHz in rural markets.

Not surprisingly, Wireless Communications Assn. (WCA) said FCC should dismiss SIA petition and criticized SIA for what it said was failure to address issue of incumbents already offering service in those bands: "Interested parties thus cannot tell whether SIA intends to share the targeted spectrum with MDS/ITFS incumbents on a co-primary basis, whether it intends to share the spectrum but demote MDS/ITFS incumbents to secondary status or whether it intends to relocate MDS/ITFS incumbents from the spectrum altogether." Relocation of incumbent users "is hardly a trivial matter," WCA said. Threatening existing MMDS users would delay rollout of those services, placing operators at competitive disadvantage to cable operators and LECs that are deploying high-speed broadband offerings, group said.

In win for Compaq, Motorola and Proxim, FCC altered its Part 15 rules for unlicensed spectrum last week to permit spread spectrum devices in 2.4 GHz band to use wider frequency hopping channels. Chmn. Kennard lauded action as "a reasonable engineering compromise," although Comrs. Ness and Furchtgott-Roth issued statement calling agency's initial regulatory flexibility analysis "unquestionably terse." Rules allow spread spectrum devices to operate on at least 15 nonoverlapping channels, with bandwidths up to 5 MHz wide. FCC said that would usher in new high-speed wireless communications for residential uses, including wireless local area computer networks and wireless cable modems. Action marks victory for companies such as Proxim, which have backed changes to allow frequency-hopping devices to operate in wider bandwidths. But high-profile group of companies including Apple, Ericsson, Lucent and Nokia urged agency to not make changes, raising concerns about interference with existing Part 15 devices, including Bluetooth applications.

TV leads other media as "your best source of information about the Presidential campaign," according to survey of 1,020 adults by Scripps Howard News Service and Ohio U. TV news was favored by 46% of respondents, daily newspapers 25%, radio news 12%, news magazines 8%, Internet 8%. Ads on TV received zero votes.

House Telecom Subcommittee will hold hearing Thurs. on foreign govt. ownership of U.S. telecom companies, including long list of Clinton Administration witnesses and others that have expressed opposition to legislation (S-2793) by Sen. Hollings (D-S.C.). Administration, which earlier this summer expressed concern about thrust of Hollings language, has no fewer than 4 witnesses. Opponents also include unusual alliance of CWA and U.S. Chamber of Commerce. Hollings will be among dozen witnesses scheduled to testify. His language also has been attached to Commerce-Justice Appropriations bill (HR-4690). His bill would bar transfer of broadcast or telecom licenses regulated under Communications Act to companies with more than 25% ownership by foreign govt. Witness list released Fri. included Deputy Asst. Attorney Gen. Kevin DiGregory, FBI Gen. Counsel Larry Parkinson, FCC Chmn. Kennard, Asst. U.S. Trade Representative Richard Fisher.

AT&T said it would offer free local phone service over its cable lines until Jan. 31 to customers in 10 major markets, including Chicago, Dallas, Denver and the San Francisco area. Company started marketing service Sept. 1, and some plans also include free long distance, it said. AT&T is trying to ramp up sales to reach its own forecast of at least 500,000 local phone customers over cable lines by year-end, spokesman said, copying model used by AOL and others to attract new subscribers with free limited-time offer and retain them as paying customers. SBC, ILEC that's home to many markets where AT&T is offering free service, had no complaints about offer but said service demonstrated that local phone network was open to competition, spokesman said: "If there's any doubt that the local service market is open, this [offer] should erase it."

Opportunities for women in media are blossoming, FCC Comr. Ness said in speech last week to AWRT convention in L.A., but current statistics still are disappointing. Citing data collected for her by Annenberg School, Ness said: (1) Although women make up 46% of work force, they're only 5% of top executives of communications companies. (2) Women have only 9% of media board seats and 16% of board seats at media and telecom associations. (3) Women are underrepresented at media conferences. (4) Even among dot.com firms, women are only 4% of board members and 6% of top executives. (5) Not one of 20 top executives of merged AOL-Time Warner will be female. (6) None of 25 largest U.S. media conglomerates is headed by woman. However, Ness said women were making strides, including FCC's recent decision to collect gender information for its study of broadcast ownership and President Clinton's Executive Order urging govt. agencies to give at least 5% of procurement contracts to women. Ness also cited such developments as start of Springboard 2000 to encourage female entrepreneurs and new "CEO college" for female broadcasters.

Internet gambling bill (HR-3125) is one of few communications-related measures expected to come to House floor in waning days of 106th Congress, aside from those wrapped into appropriations bills. Spokeswoman for House Majority Leader Armey (R-Tex.) said it tentatively was scheduled for week of Sept. 11. She could think of no other major communications bill before House, except possibly conference reports on rural satellites and any others Senate might pass.

TVData Technologies, supplier of TV program listings and editorial information in U.S. and 20 other countries, said it has acquired Knight Ridder's *Cable Connection* magazine. *Cable Connection* publishes more than 40 editions of program guides for cable operators including Charter, Cox, Time Warner.

Open access mandates violate First Amendment and allowing govt. to determine what "speech the networks must carry is a dangerous precedent," Cato Institute study said. Noting that 9th U.S. Court of Appeals, San Francisco, had not addressed First Amendment issue in Portland, Ore., open access case, study concluded that since bandwidth was finite, ISPs took up space that otherwise could be used by cable operators to disseminate content of their own. Study said open access advocates couldn't make "good case" that new broadband networks justified antitrust-style intervention and couldn't get around fact that First Amendment barred govt. from "dictating which voices" should be carried on networks. Saying broader concern was how access debate was changing culture of Internet, study found that Internet companies, like more established media, now were "seeking to influence politicians through Washington-based associations, government relations departments and political action committees. Anyone who thinks this process will benefit the Internet need only examine the history of broadcasting and cable regulations to see how regulators can deform the marketplace."

L.A. City Attorney is delaying report on "legal status" of city to regulate cable-delivered Internet service until there's decision on Henrico County, Va., appeal in 4th U.S. Appeals Court, Richmond, of overturn of its open access ordinance by district court, aide to L.A. City Councilman Alex Padilla said. Padilla had sought report from attorney in wake of 9th U.S. Appeals Court, San Francisco, decision barring Portland, Ore., from mandating open access on cable operators and classifying cable modem service as telecom service. Padilla, who is chmn. of city's Information Technology Committee, had delayed introduction of open access legislation pending legal review of 9th Circuit decision. Bill is to be introduced Sept. 6 but further action is likely to be put off until attorney's report, aide said.

MTV Networks plans return to Japan with new partner after 2-year hiatus, Viacom unit announced. MTV Networks said it signed deal with JapanMedia Group, company started earlier this year by H&Q Asia Pacific. New 24-hour, ad-supported, Japanese-language music channel will replace Vibe, music network controlled by JapanMedia that now reaches 2.8 million cable and satellite homes. MTV Networks said MTV Japan would feature original Japanese programming targeting 16-to-34-year-olds as well as standard MTV fare. Move comes 2 years after MTV withdrew from lucrative Japanese market, world's 2nd largest in music sales and TV ad revenue, because of disagreements with its then partner, CE company Pioneer.

AT&T Broadband and Insight Communications said they signed definitive agreements for previously announced expansion of joint cable venture, Insight Midwest. MSOs will add 537,000 cable customers to Insight Midwest, nearly doubling its size, with AT&T contributing 350,000 and Insight 187,000. Venture, in which each MSO has 50% stake, will continue to be managed by Insight.

Reconfiguring tower industry, SpectraSite signed \$1.3 billion agreement for SBC to lease its 3,900 towers. SBC also is contracting with SpectraSite, which has been No. 3 player in tower outsourcing market, to build 800 towers over 5 years. In selecting SpectraSite, SBC chose outsourcing company different from its pending wireless venture partner BellSouth, which tapped Crown Castle International for similar lease deal last year. SpectraSite said pact, which involves at least 4,700 towers over 5 years, gives it largest tower portfolio in top 50 U.S. markets, putting it in same league as industry leaders Crown Castle and American Tower.

Personals

Diana Wilkin, ex-KSAS-TV Wichita, appointed senior vp-network distribution, Fox Bctg... **Leah Cain** named vp-midwest syndication sales, Paramount Advertiser Services... **Erik Storey**, ex-Von Zerneck-Sertner Films, named vp-movies and miniseries, NBC Studios... **Danielle Greene** appointed vp-alternative development & current programing, UPN.

Jim Major retires as vp-gen. mgr., WFTS-TV Tampa... **Julie Akins**, ex-KDRV-TV, Medford, Ore., named news dir., KTNV Las Vegas... **Dan Foreman**, ex-WNBC-TV, moves to news dir., WABC-TV N.Y... **Gary Weiss**, ex-Sinclair Bct., named vp-gen. mgr., Raleigh/Durham stations, Radio One... Changes at Clear Channel: **Brian Purdy** named vp-gen. mgr., KLOK(FM), KKRW FM), KTBZ(FM); **Marc McCoy**, gen. mgr.-vp, KTRH(AM), KPRC(AM), KBME(AM).

CPB changes: **Carole Florman**, ex-Dept. of Justice, named vp-communications; **David Guhse**, vp-govt. relations, will leave at end of 106th Congress but will continue to be adviser while exploring possibility of establishing govt. relations consulting practice... Veteran Tex. broadcaster **Clint Culp** joins Radio Ad Bureau's Dallas office as vp-stations... FCC Chmn. **Kennard** has been added as speaker Sept. 14 at convention of National Assn. of Black Owned Bctrs., Washington Hilton Hotel.

Appointments at CNN News Group: **Philip Kent** as pres.-COO, **Eason Jordan** pres.-newsgathering and chief news executive, **Jim Walton** pres-CNN Networks/USA, **Chris Cramer** pres.-CNN Networks/International... **Misty Skedgell** named vp-PR, TBS Superstation and Turner South... **Michael Sakin** appointed Fox Cable Networks senior vp-advertising sales, FX and National Geographic Channel U.S... **Thomas Tyner** named senior vp-corporate communications, Fox Cable Networks Group and Fox TV Studios... **Jola Harris** becomes vp-affiliate mktg. entertainment, Fox Cable Networks Group... **A.B. Cruz** named vp-corporate affairs and entertainment, BET Holdings II.

Changes at Cablevision Systems: **Victor Rodriguez**, ex-BDO Stoy Hayward International, named dir.-media relations for Internet services; **Samantha Lugo**, ex-ABC News, appointed dir.-corporate communications... **Megan Hookey** resigns as managing dir., Cable in the Classroom, effective at end of year... **Ed Murray** becomes dir.-network content, Cox Interactive Media... **Ed Burakowski**, ex-Ovation, named vp-strategic sales, NDS Americas.

Anthony Bush, ex-U. of Rochester (N.Y.), named acting chief, FCC's Office of Communications & Business Opportunities... **Susan George** appointed vp-interactive TV sales, SeaChange International... **Kurt Hoffman** named COO, iBeam Bctg.

Beleaguered 8-VSB modulation system for DTV in U.S. has technical help coming — from Japan. Tokyo-based Pioneer Electronics said it developed new 8-VSB demodulation algorithm with adaptive equalizer that eliminates short delay and dynamic multipath that afflicts ATSC reception by indoor antennas. Company said it had developed trial LSIC for field tests to validate lab results. It also stressed importance of stable 8-VSB reception for DTV datacasting, especially to PCs, PDAs and other portable devices. Timetable for testing and chip fabrication wasn't disclosed.

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Screenwriter **Joe Eszterhas** has asked Democratic Vice Presidential candidate Sen. Lieberman (D-Conn.) to participate in "dialog" on candidate's complaints about sex and violence in TV and movies. In back-page ad in Daily Variety, responding to candidate's attacks on TV content (TVD Aug 28), Eszterhas said Lieberman's position "frightens me" and Hollywood shouldn't support Democratic ticket "just because [it] agrees with us about other issues." He said entertainment industry shouldn't let Lieberman "dodge" issue of creative freedom.

Consumer Electronics

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STATE OF THE INDUSTRY

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

	AUG. 12- AUG. 18	1999 WEEK	% CHANGE	AUG. 04- AUG. 11	33 WEEKS 2000	33 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	582,383	586,088	- 0.6	483,253	17,108,811*	15,789,214	+ 8.4
DIRECT-VIEW**	563,060	566,979	- 0.7	462,938	16,376,095*	15,177,704	+ 7.9
TV ONLY#....	492,817	475,104	+ 3.7	395,500	13,604,160	12,741,989	+ 6.8
TV/VCR COMBO.	70,243*	91,875	- 23.5	67,438*	2,771,935*	2,435,715	+ 13.8
PROJECTION...	19,323*	19,109	+ 1.1	20,315*	732,716*	611,510	+ 19.8
TOTAL VCR**...	355,697	459,826	- 22.6	443,142	15,631,563*	14,491,049	+ 7.9
HOME DECKS...	285,454	367,951	- 22.4	375,704	12,859,628*	12,055,334	+ 6.7
CAMCORDERS....	85,238	66,354	+ 28.5	74,499	3,290,475*	2,699,527	+ 21.9
DVD PLAYERS....	124,124*	31,512	+293.9	110,046*	3,604,869*	1,715,292	+110.2

Direct-view TV 5-week moving average#: 2000-465,910 ; 1999-457,970 (up 1.7%).

Projection TV 5-week moving average: 2000-22,040 ; 1999-23,140 (down 4.8%).

VCR deck 5-week moving average: 2000-462,114*; 1999-398,750 (up 15.9%).

TV/VCR 5-week moving average: 2000-89,693 ; 1999-102,077 (down 12.1%).

Camcorder 5-week moving average: 2000-106,965 ; 1999-84,761 (up 26.2%).

DVD player 5-week moving average: 2000-156,217*; 1999-71,107 (up 119.7%).

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

ZENITH AND PHILIPS SHUFFLE MANAGEMENT: Top executives at Zenith and Philips announced departures last week amid signs that companies were nearing completion of major restructurings that included reshuffling of management and closing, selling and/or moving factories.

Philips Electronics said Pres. Cor Boonstra, who presided over company's divestment of noncore and underperforming businesses, will resign in April and be succeeded by Gerard Kleisterlee, head of its Components Div. To prepare Kleisterlee, who started in Philips' Medical Systems Div. in 1974, for new job, Philips also created COO position that he assumed effective Sept. 1. Selection of Kleisterlee as pres. led to immediate resignation of Adri Baan, one of candidates for position and close Boonstra associate. Baan most recently was Philips Consumer Electronics pres.

Boonstra's tenure was marked by effort to refocus Philips on its 5 profitable core businesses — CE, semiconductors, components, lighting, medical systems. In targeting what he considered core categories, he moved Philips to sell its 75% stake in entertainment group PolyGram and merge Origin information technology services unit with France's Atos. During his tenure, Philips formed 50-50 LCD manufacturing joint venture with LG Electronics — LG.Philips — in 1999 and unveiled plans earlier this year to gradually move large portion of TV tube production and assembly to Mexico (TVD May 8 p10) from Ottawa and Five Rivers Electronic Innovations in Greeneville, Tenn., respectively. Even as news of Boonstra's pending departure was released, Philips was said to be in talks with LG on separate joint venture for computer display tubes (CDTs) (see separate report this issue). On management front, Boonstra also created new reporting structure that shifted profit-and-loss responsibility to regional business groups and away from product operation (TVD June 26 p13). In process, U.S. business was given oversight for Canada and Mexico.

At Zenith, Ian Woods resigned to return to Australia after 9 months in CEO slot and was replaced by Tokjoo Lee, who most recently served as pres. of LG-IBM joint venture that makes PCs and related products for S. Korean

market. Lee also had stint as senior vp at LG Electronics' U.S. div., when group, then known as Goldstar, sold A/V products. It halted sales of Goldstar A/V gear in U.S. in 1996.

Woods replaced Jeffrey Gannon last Nov. after LG bought Zenith as part of prepackaged bankruptcy reorganization plan that saw latter emerge as subsidiary. LG purchased 57% stake in Zenith in 1995. Woods oversaw part of Zenith's transformation to sales and marketing organization from CE manufacturer and also helped engineer sale of Network Systems Div. earlier this year. As part of restructuring, Zenith closed tube plant in Melrose Park, Ill., and assembly facility in Juarez that later was sold to Kimball International. Zenith also spent most of this year searching for successor to Zenith Sales Co. Pres. William Sims before last month picking Kathryn Wolfe, who had been serving in position on interim basis. As CEO, Lee will oversee sales and marketing organization based in Ill., but with cadre of OEM sources.

Woods, who also served as senior vp at LG during Zenith's restructuring with an office in Ill., said he felt time was right for him to leave "now that Zenith's strategic direction has been defined." That new direction has been defined inside company, but has yet to become clear to public, Zenith spokesman conceded in declining comment on specific strategies. In part, LG has pushed to move Zenith away from low-end CE business and toward becoming step-up brand, transformation that Zenith itself has attempted for years, but without much success.

As part of new strategy, Zenith will introduce its first Digital Light Processing (DLP)-based front projector and 15" LCD monitor at CEDIA show in Indianapolis this week. New monitor ships this month at \$2,000 featuring 1,024x768 resolution, 200:1 contrast ratio and comb filter, but requires set-top decoder for HD signal. Zenith's single-chip DLP projector (\$8,000) is slightly larger at 9.9-lb. than 6.4-lb. model it sells in professional market (\$6,995), but features 700 lumens, 230:1 contrast ratio, 150 w lamp with 2,000-hour life and built-in 10 w speaker. At high end, Zenith is supplementing lower priced PRO900 (\$12,500) with Barco-built PRO1200X front projector (\$30,000) that has 8" CRTs, 1,920x1,280 resolution, 1,250 lumens, 60-300" image size, ProVerge automatic convergence system, adaptive digital comb filter. At same time, Zenith is phasing out PRO880 and 881 projectors.

FCC APPROVES WIRELESS HOME-NETWORK SYSTEMS: In win for CE and PC makers, FCC altered its Part 15 rules for unlicensed spectrum last week to permit spread spectrum devices in 2.4 GHz band to use wider frequency hopping channels. Ruling clears way for vendors to offer wireless home networking systems with enough bandwidth to route audio, video and data around home — as has been demonstrated in prototype products such as Panasonic's Microcast, first shown at Comdex in Nov. 1996.

FCC Chmn. Kennard lauded action as "a reasonable engineering compromise" although Comrs. Ness and Furchtgott-Roth issued statement calling agency's initial regulatory flexibility analysis "unquestionably terse." Rules allow spread spectrum devices to operate on at least 15 nonoverlapping channels, with bandwidths up to 5 MHz wide. FCC said that would usher in new high-speed wireless communications for residential uses.

Action marks win for CE and PC companies such as Compaq, Microsoft, Motorola, Proxim and other members of Home RF Working Group, which have backed changes to allow frequency hopping devices to operate in wider bandwidths. Group was formed in March 1998 and has 86 members, including CE vendors Casio, Clarion, Hitachi, LG Electronics, Matsushita, Philips, RadioShack, Samsung and Sharp, and had expected to offer first Shared Wireless Access Protocol (SWAP) hardware late last year. But SWAP was opposed by high-profile group of companies including Apple, Ericsson, Lucent and Nokia, which urged FCC not to make changes. Opponents raised concerns about interference to existing Part 15 devices, including Bluetooth applications.

Among key changes between original proposal last year and one that FCC approved unanimously Aug. 22 but didn't announce until Aug. 31, was reduction in permitted output power, Office of Engineering & Technology engineer said. Notice of proposed rulemaking (NPRM) had suggested output power limit of 200 mw, but FCC order reduced figure to 125 mw. NPRM also proposed allowing 75 overlapping channels of 5 MHz each, but that was lowered to 15 nonoverlapping channels to address potential interference concerns, source said. Minimum of 15 hopping channels span total of 75 MHz. Narrowband spread spectrum devices operating in band have been able to use minimum of 75 nonoverlapping channels with bandwidth no greater than 1 MHz.

Systems spread their energy by changing center frequency of modulated frequency. "Spreading" reduces power density of signal at any frequency over transmitted bandwidth to reduce probability of creating interference to other signals in band. FCC said "any technical constraints to higher data speeds using wider bandwidths can be overcome by appropriate equipment design."

Kennard stressed Commission's balancing of competing interests. Changes "will permit the introduction of wide band frequency hopping technology that will lead to new and innovative devices," he wrote. "At the same time, we have adjusted the proposal to mitigate any adverse impact on other Part 15 devices." Order will pave way for new high-speed data devices for businesses and consumers, including transmission of CD-quality audio and video streams from PCs to portable devices, he said. Availability of SWAP technology doesn't exclude other methods for networking products in home, such as IEEE-1394 based systems, AC power-line and telephone wiring, infrared.

Rulemaking sparked flurry of 80 supporting comments and ex parte filings and 40 filings in opposition, with latter arguing that wide band frequency hopping systems could use overlapping hopping channels. Opponents included Wireless Ethernet Compatibility Alliance, which has Intersil and Lucent as members. Some critics backed alternative proposal that would limit bandwidth of wideband frequency hopping systems to 4 MHz, create minimum of 20 hopping channels and limit output power to 65 mw. In order, FCC said: "We find that the analyses submitted by the opponents greatly overstate the risk of interference to other Part 15 devices, including existing frequency hopping and direct sequence spread spectrum systems." Order also said technical analyses submitted by opponents hadn't taken into consideration some factors that would mitigate interference. "We believe that further analyses or studies would be counterproductive because it is unlikely to yield any more definitive information and will lead to delay in the availability of new technology that has clear potential benefits for consumers," order said.

In separate joint statement, Furchtgott-Roth and Ness said they were "concerned about the effect these changes will have on spread spectrum devices already in the hands of consumers." However, they said they recognized effort by FCC engineers in last year to assess interference claims and adjust proposal to balance promise of new device against interference potential for existing uses. Furchtgott-Roth and Ness also acknowledged Small Business Administration (SBA) and congressional concerns about "lack of specificity" in agency's initial statement on regulatory flexibility. "Going forward, we believe the Commission should recommit itself to a close examination of the issues raised by the Regulatory Flexibility Act," they wrote. "We have a statutory obligation to do so."

Industry source who opposed proposal said, "The FCC did little real technical analysis here and just split the baby. Unfortunately, sometimes that leads to nothing but dead babies. The HomeRF group only got half the power it sought and less spectrum than it wanted. Even so, they got more than they deserved and we anticipate challenging the ruling on appeal."

Besides comments on potential interference, item drew concern from Capitol Hill on regulatory flexibility analysis. Senate Small Business Committee Chmn. Bond (R-Mo.) and ranking Democrat Kerry (Mass.) told Kennard in Aug. 8 letter they didn't believe rulemaking met statutory requirements of Regulatory Flexibility Act. They said analysis "does not meet Congress's intention" on impact of regulation on small business. Senators said proposal failed to fully examine impact on small businesses that buy and operate such equipment. Docket "appears to raise serious concerns that devices approved under the rule could cause interference with similar devices already operating — and likely to be purchased in the near future by small businesses," they wrote. Bond and Kerry asked FCC to submit revised flexibility analysis by Sept. 15 that would meet all requirements. House Small Business Committee Chmn. Talent (R-Mo.) agreed with senators' concerns and sought same information from FCC.

SBA's Office of Advocacy also had raised concerns on Part 15 rule to Commission. Calling regulatory analysis "wholly inadequate," SBA told FCC that regulatory analysis didn't estimate how many small businesses would be affected by rule and what recordkeeping requirements would be. Office told Commission in Aug. 18 letter that "proper" regulatory analysis would have examined impact of increased interference on small manufacturers of spread spectrum devices. Order discussed in greater detail than original proposal potential implications for smaller businesses. Full-blown regulatory analysis was conducted in response to comments, it said. Alternatives to proposed rules weren't discussed in regulatory analysis because "we believed that the proposed rules would have had a positive effect on small businesses," order said.

Proxim CEO David King told reporters in conference call that lobbying group that advocated changes included companies such as Motorola and Siemens, which had interest in Bluetooth and other competing technologies that use narrowband spread spectrum systems. King and others said decision would allow introduction of platform that would put broadband applications into every corner of home, including streaming videos, MP3-based audio, up to 8 phone lines and high-speed data services. Limit of 100 mw is typical for power outputs of most existing wireless LAN technology, King said. That output level allows technology to be scaled across corporate or college campuses but not to larger distances, such as across town, he said. "We will issue full quality voice — not voice over IP or some modified version of 802.11b," he said, referring to competing wireless standard. Consumer units are to be available at price points below \$100 per unit, King said. "We're talking about interference immunity to not only Bluetooth, but lots of other sources of interference."

FIRST-HALF CD SHIPMENTS AT ALL-TIME HIGH — RIAA: Fears that growing prevalence of Internet downloads would dent sales of packaged music proved somewhat unfounded in 2000's first 6 months, with CD albums reaching all-time high for Jan.-June period, RIAA said in midyear shipments report released last week.

Trade group credited "impressive number of first-quarter release successes" by young artists such as Britney Spears, 'N Sync and Eminem for 6% jump in unit shipments of full-length CDs to 420 million from 396.2 million in Jan.-June year earlier. Dollar volume grew even more impressively, 9.9% to \$5.68 billion from \$5.17 billion. RIAA said that increases suggested that "consumer demand for music in the form of a CD remains the mainstay."

Reality is that album-length CD hasn't become recording industry's mainstay so much as its livelihood as far as packaged music business is concerned. Format accounted for 85.9% of units shipped in this year's first half compared with 79.1% year earlier. CD became even more dominant as share of total dollar volume — 91.7% vs. 86.9%. Overall industry shipments fell 2.4% in units to 488.7 million from 501 million as result of declines in all configurations except CDs and DVD music videos. In fact, DVD music videos rode coattails of DVD-Video boom to exceed 1.4 million units in first half. RIAA Pres.-CEO Hilary Rosen said: "Despite the excitement felt by music lovers and record companies alike over the positive potential of the Internet, for the time being, loyalty to the physical product remains, as is evident by these midyear shipment numbers."

However, album-length cassettes continued driving toward oblivion, falling 31.5% in units and 37.1% in dollars. RIAA tried putting format's best foot forward, saying cassettes "still remain an important part of the music market." However, cassette albums at midyear comprised only 8.4% of total unit shipments of full-length recordings, down from 12.4% year earlier. Moreover, cassette singles could be extinct within year at current 89% rate of decline.

Here's RIAA breakdown of midyear industry shipments (units and dollars in millions):

Product	Jan.-June 2000		Jan.-June 1999		% Chg.	
	units	dollars	units	dollars	units	dollars
CD albums.....	420.0	\$5,681.2	396.2	\$5,171.7	+ 6.0	+ 9.9
CD singles.....	19.4	77.4	29.8	120.4	-34.9	-35.7
Cassette albums....	38.6	303.2	56.3	482.0	-31.5	-37.1
Cassette singles....	1.0	3.5	8.8	30.3	-89.1	-88.6
Vinyl albums.....	1.0	12.4	1.4	14.0	-30.7	-10.8
Vinyl singles.....	2.3	12.5	2.8	14.8	-16.5	-16.0
DVD music videos....	1.4	35.2	0.8	23.1	+71.3	+52.4
Music videos.....	5.1	68.6	4.8	96.3	+ 6.3	+28.8
TOTALS.....	488.7	\$6,194.0	501.0	\$5,952.5	- 2.4	+ 4.1

Rex Stores, blaming what it called "disastrous" quarter for appliance business, said 2nd-quarter income fell to \$3.98 million from \$4.09 million year ago as sales slid to \$101.6 million from \$107.7. Same-store sales declined 13%. Appliances accounted for 20% of revenue in quarter, down from 40% year ago as air conditioner sales plunged more than 60%. "It was an unseasonably cold summer and appliances did not do well," Chmn.-CEO Stuart Rose told analysts in conference call. He said warm temperatures year earlier drove up air conditioner sales. "Appliances are very, very weak and I don't expect it to get any better in the 3rd quarter," said Rose, who predicted turnaround in 4th quarter as Circuit City and Roberds complete close-out sales and leave appliance business. Meanwhile, big-screen TVs are "where we are getting huge gains in proportion to the rest of our business," Rose said. Rex managed to limit earnings damage by receiving \$1.55 million from Carolina Light & Power as down payment on sale of 9% interest in synthetic fuel limited partnership. As result, Rex will receive \$2.25 million per quarter in contingent cash payments vs. \$1.23 million previously, CFO Douglas Bruggeman said. Rex invested \$3 million in 2 synthetic fuel partnerships in 1998. Rex also authorized repurchase of additional one million shares. It has about 160,000 shares remaining from earlier 2 million share authorization.

To survive in age of retail consolidation, smaller, independent dealers must help consumers "test drive" ever-growing array of CE products, JVC Exec. Vp-COO Harry Elias told Marta and Nationwide buying groups at separate meetings in Las Vegas. "When we do this, customers see the difference," he said. "They realize they want and need an experienced salesperson to speak with them and teach them the differences between the growing lists of products." Emergence of DVD, HDTV and other digital products has bred consumers that "do their homework" in advance of making purchase, underscoring need for experienced sales staff, Elias said. Tied to arrival of new products is need for dealers to "tighten their relationships" with key vendors, such as JVC and others that offer range of digital products, he said.

Cidco's sales of Caller ID service and units plunged in 2nd quarter to \$15.6 million from \$47.1 million as Ameritech merger with SBC Communications resulted in "significantly lower demand," Cidco said. MailStation Internet appliance had \$5.8 million in revenue on sales of 42,000 units in 2nd quarter. Cidco added 8,500 MailStation subscribers to end quarter with 17,400. MailStation represented 21% of total \$21.5 million in 2nd-quarter revenue. MailStation enables user to access Internet for e-mail and Yahoo services.

PIONEER TO EXPAND PLASMA: Pioneer will expand plasma display panel (PDP) assembly facility in Shizuoka, Japan, by year-end 2001 and has no plans to cut current \$20,000 price for its 50W display. Addition to Shizuoka factory will more than double size of plant, said Pioneer Mktg. Mgr. Matthew Dever, who declined to disclose projected increase in capacity. Facility, which operates 2 lines, assembles PDPs using glass produced at Pioneer's Kofu, Japan, plant.

Dever rejected rumors that Pioneer would drop price on 50W to \$15,000 from \$20,000. Current 50W has 1,024x768 resolution, 600 candelas and 350:1 contrast ratio. Price strategy may hinge on shipment of Panasonic's 50W, which has XGA resolution and retails in \$18,000-\$20,000 range. Pioneer reduced price on 50W to \$18,999 from \$25,000 in 1999 (TVD March 29/99 p14) as it closed out first-generation product. Sharp also has started shipping 50W sourced from Pioneer.

"There is no need from our standpoint to take the market down and we see XGA as what everyone should be shooting for as far as consumer applications for high-definition," Dever said. "If Pioneer were to move down in price what would happen to 42W which is at \$14,000 to \$15,000? We're not out to be the first one to make that kind of a move."

At same time, Fujitsu Hitachi joint venture unveiled 32W and 37W PDPs featuring Alternative Lighting of Surfaces (ALiS) technology, with former being weighed for entry into U.S. market, Fujitsu National Mktg. Mgr. Michael Gleason said. Fujitsu currently markets ALiS-based 42W in U.S. and new 32W is likely to ship in 2nd quarter 2001 at \$9,000-\$10,000, he said. Unclear was whether Hitachi also would market 32W or 37W for U.S. market. It currently sells 4:3 version of 37" in U.S. Hitachi and Fujitsu formed joint venture in 1998.

Both 32W and 37W features 650 lumens, 250:1 contrast ratio and display 16.77 million colors. But 32W display has fewer pixels at 852x1,024 owing to smaller size than 37W, which has 1,024x1,024.

PDPs will be produced at new Fujitsu Hitachi facility in Miyazaki Prefecture in Japan and is expected to begin pilot runs of 32W and 37W in Jan., with commercial shipments to follow in April. Initial monthly capacity will be 30,000 PDPs, rate that will increase to 60,000 by 2002, Fujitsu said.

As Fujitsu readies new sizes, LG Electronics is expected to start preproduction of 40W and 60W PDPs at plant in Gumi, S. Korea, late this year, with full production in first half next year. LG will sell 40W and 60W under own brand for commercial applications, but switch to subsidiary Zenith for consumer market, sources said. Zenith spokesman declined comment on display strategy, but said company would show 40W and 60W at CEDIA this week. LG had planned to ship 40W in U.S. in June (TVD Nov 22 p13) with 60W in 2001. Smaller 40W has 640x480 resolution, 900 candelas, 1,000:1 contrast, while 60W has 1,365x760, 550:1 and 550 lumens.

* * * * *

As LG readies production of plasma, it is said to be weighing 50-50 manufacturing joint venture with Philips for computer display tubes (CDTs), Asian press reports said. Source close to LG acknowledged companies have had talks in past on CDT venture, but was unaware of recent rekindling of discussions. Philips officials weren't available for comment. LG and Philips

have joint manufacturing history, having formed LG.Philips in 1999 for LCDs... Fujitsu slashed line of LCD projectors to single model from 3. New projector will ship in Oct. featuring three 1.3" LCD panels, 1,024x768 resolution, 2,800 lumens and 250:1 contrast, price not set.

Microsoft unveiled list of 18 development studios last week that it said would be creating exclusive games for its upcoming Xbox console. Announcement came on eve of European Computer Trade Show in London. Studios that will be creating Xbox games under Microsoft label are Artificial Mind & Movement, Boss Game Studios, Climax Group, Digital Illusions, High Voltage Software, Know Wonder Digital MediaWorks, Kodiak Interactive Software Studios, Lionhead Satellites, Meyer/Glass Interactive, Pipeworks Software, Pseudo Interactive, Rainbow Studios, Stormfront Studios, Totally Games, Tremor Entertainment, Universal Interactive Studios (UIS), VR-1 Entertainment. Explaining why his company decided to back Xbox, Lionhead Pres. Peter Molyneux said there were "2 key reasons: Its revolutionary technology is the best to come to market, and Xbox is the only game console based on an architecture we are already familiar with." While Kodiak is best known for its *WCW Mayhem* game series for publisher Electronic Arts (EA), Rainbow achieved prominence for its *Motocross Madness* titles, Stormfront is best known for creating *NASCAR* games and *Madden Football* that are published by EA, and UIS has made such games as *Crash Bandicoot* and *Spyro the Dragon*. Xbox's U.S. debut is slated for fall 2001 (TVD March 13 p12).

Enhanced Definition TV (EDTV) is name of new digital TV category that will slip between HDTV and standard definition (SDTV), CEA said last week. EDTVs will be sets with higher resolution display than SDTV, CEA said. "With new definitions and logos for monitors and tuners, consumers and retailers will now be able to distinguish sets with integrated DTV tuners from monitors and tuners sold separately," CEA said. New definitions include those governing sets, monitors and tuners. New EDTV definitions include those for set that has built-in ATSC decoder, 480p or higher resolution and can handle Dolby Digital audio. EDTV monitor must have minimum 480p resolution, while EDTV tuner decodes all ATSC Table 3 video formats and can output 720p, 1080i/p, 480p. SDTV will be applied to sets that can receive ATSC transmissions and decode video formats, but have resolution below that of EDTV. SDTV tuner will be applied to models that output 3 video formats as NTSC. HDTV model will have resolution of 720p, 1080i or higher, be capable of displaying 16:9 picture and handling Dolby Digital audio. New definitions also confirmed our report last week that HDTV displays were required to have minimum 720p resolution and that manufacturers disclose number of active scan lines for HD in 16:9 letter box area of display (TVD Aug 28 p9).

3DO received \$20 million in financing from Chmn.-CEO William (Trip) Hawkins as it sought to bolster working capital to "exploit growth opportunities" in Sony's PlayStation2 and Internet, company said. Terms of agreement, finalized Aug. 23 but not released until filing at SEC last week, call for Hawkins to buy separate \$2 million and \$18 million promissory notes from 3DO that are convertible to common stock at \$6.93 per share. Hawkins, who owns 11.6 million shares of 3DO common (27.4% of those outstanding), has separate warrant to buy 432,432 shares at \$20 and options to purchase 1.7 million at \$3.45.

ECHOSTAR SUBPOENAS ISSUED: As H.H. Gregg, P.C. Richard and Bradlees signed on to carry IRDs for EchoStar's DISH network, retailers also received subpoenas in satellite company's antitrust suit against DirecTV.

While there were no indications that timing of subpoenas and new dealer agreements was anything more than coincidental, dealers said they were broad in scope and sought copies of DirecTV contracts. Subpoenas were mailed to retailers by EchoStar attorneys in last few weeks as part of discovery phase of antitrust suit satellite service provider filed against DirecTV in Feb. EchoStar alleged that DirecTV had promised better terms and threatened to cut off service to dealers that didn't sign exclusive agreements.

Addition of H.H. Gregg (33 stores), P.C. Richard (42) and Bradlees (105) was major coups for EchoStar which has struggled to win retail distribution since beginning service in 1995. Sears, which has filed separate suit against DirecTV, and Target, have been EchoStar's biggest customers.

Reasons for sudden surge of retail support for EchoStar have been unclear. Gregg, Richard and EchoStar officials weren't available for comment. But JVC Exec. Vp-COO Harry Elias, whose chain is selling branded DISH IRDs to Gregg and Richard, said advertising funds were increased to give product greater visibility. He declined to quantify amount of increase. Richard is expected break first print ads promoting product by midmonth, he said. Bradlees is expected to carry EchoStar branded product.

"We're coming up with some good programs and they're trying to sell both" services, Elias said.

Success of chains in selling both products remains to be seen. DirecTV in past has provided market development funds to exclusive retailers in amounts that made it unprofitable to carry both brands, dealers said. Selling single DBS brand also was less confusing for consumers and store sales staff, retailers said. "If you are selling both brands you might end up splitting the pot," dealer said.

While Gregg carries clout within NATM, 12-member buying group isn't expected to switch allegiances, Exec. Dir. William Trawick. Gregg is said to have contacted other NATM members about carrying EchoStar product. At least one NATM member — Sight 'n Sound — already carries EchoStar and another — BrandsMart — has sold it in past. NATM members were said to have been caught by surprise by Gregg's decision as well as its absence from DirecTV dealer meeting in Aspen, Colo., in late Aug.

"There is nothing going on within the group to push business either way," Trawick said. "This is just an individual choice that [H.H. Gregg Pres.] Jerry Throgmartin felt was right for his company and this was not a NATM move."

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Satellite Notes: Hughes Network Systems (HNS) is expected to deliver much-delayed DirecTV/HD decoder set-top box (STB) (TVD July 24 p17) to OEM customers Mitsubishi and Toshiba by Sept. 20, with retail street date of Oct. 1, retailers said. HNS is said to be readying 30-32" dish for new DirecPC 2-way Internet access service that's expected to launch in 4th quarter, sources said. It will be priced around \$300, deal-

ers said. HNS, Mitsubishi and Toshiba officials weren't available for comment... BellSouth chose Liberate Technologies to provide operating system software for its proposed satellite service that's scheduled to begin in 2001. BellSouth selected Pace Micro Technology in July to provide IRD for service (TVD July 31 p16). Liberate also has contract to produce software for Pegasus Communications' satellite-based Internet access service due in fall (TVD March 6 p17).

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Best Buy stock took major hit last week after 2nd-quarter same-store sales fell short of Wall St. projections. Stock plunged \$9 to close at \$62 Aug. 31, but rebounded to end week at \$64.25. BB had modest 5.1% gain in same-store sales in 2nd quarter but Wall St. expectations had ranged as high as 8%. Overall sales grew 18% to record \$3.1 billion as company added 32 more stores and prepared for entry this month into N.Y.C. market. BB executives had projected same-store sales in "mid-single-digit" range, so 5.1% gain was "not all that bad vs. formal guidance," said analyst who had projected 7% increase. Shortfall was result largely of major appliance sales that fell 2% and dragged down overall revenues, analysts said. Other areas of softness, they said, included music software, category hampered by lack of strong releases. Downturn in appliances and BB rival Circuit City's recent decision to drop category prompted speculation that Minn. retailer could choose similar path. "It doesn't seem to be central to what they are doing," analyst said... **Whirlpool** said Circuit City's departure from major appliance business was partly to blame in warning that its 3rd quarter earnings would fall well short of Wall St. estimates. Appliance maker said it expected 3rd-quarter earnings to be 95¢-\$1.05 per share, below \$1.52 that analysts had projected. Whirlpool said it would lose 90-120 days of expected shipments to Circuit — 250,000-300,000 units. Circuit moved in late July to drop major appliances and convert to CE-only format that's expected to be in place chainwide by Nov.

Expected "Black Friday" DVD blowout with \$99 players came early — and from unexpected quarter. Circuit City last week ran 3-day special going into Labor Day weekend advertising DVD players at \$99.99 after \$30 mail-in rebate from retailer. Brands and models weren't specified and varied according to store, but Circuit had already carried Apex Digital AD500 Oritron DVD100 at \$129.99 on eve of Aug. 31-Sept. 2 promotion. Sub-\$100 DVD pricing hadn't been expected until Nov. with Wal-Mart's annual "Black Friday" blowout on day after Thanksgiving. As we have reported, Wal-Mart has preorder for quarter-million Oritron DVD-100s for "Black Friday" period — and could have similar orders with other vendors. Best Buy also is believed to be readying \$99 DVD promotion for 4th quarter, with players sourced from Hong Kong-based OEM Total Technology. Last week's Circuit City promotion isn't first time DVD hardware has dipped below \$100 this year. CompUSA ran April 9-10 in-store promotion on Raite AVPhile 711, offering \$90 mail-in rebate on \$189.99 Taiwan-made deck.

Movie and CE industries rank high among top 15 TV advertisers, survey by TV Bureau of Advertising said last week. Movies ranked 10th in top 75 markets, with spending for national spot ads increasing 17.7% to \$179.4 million in Jan.-June from same period last year. In local TV spot advertising, home electronics and video stores were 5th despite 8.6% drop in spending to \$134.8 million. PC and office supply stores increased spending 5% to \$35.8 million for local spot, ranking 14th. In national TV ads, PCs and software rose 32.1% to \$99.4 million, ranking 13th.

NATM STARTS NEW WEB SITE: NATM Buying Corp. this week will unveil new Web site allowing members to forecast inventory requirements online.

NATMcorp.com site will be introduced to group's 12 retailers at meeting in Atlanta as part of effort to tighten up forecasting requirements that govern its agreements with core suppliers such as Sony, Thomson, Toshiba, Whirlpool. Members will be asked to supply vendors with 6-month inventory forecasts online and have 60-day lock-in period on purchase orders. Development of site, which is expected to continue in fall, is being partly funded by vendors, Exec. Dir. William Trawick said.

Site will have opening page with news from CE and major appliance industries and other general data and password-protected "back room" that allows for product forecasts and other confidential communications between retailers and vendors. Online forecasting appears to address major complaint among vendors in past that NATM members' projections didn't always match purchase orders. Among companies that already have supplied product sheets and pricing data are Thomson, Toshiba, Whirlpool. NATM hasn't reached final agreement with Sony.

"We're not going to ask members to forecast everything that we buy, but they will have to for certain core suppliers," Thrice said. "In the past we've had problems that the purchase orders were sometimes less than the forecasts. This will allow for firm orders."

In forecasting, retailers will fill out form listing vendors' products. Information then is sent as XML file to vendors' servers where it can be downloaded, said Eric Agren, dir. of dealer programs at Chicago-based JG Sullivan Interactive, which designed and will manage NATMcorp.com Web site. Weekly report section on site will enable NATM members to check progress in matching predicted figures, said Agren, whose company also has worked Marta and Associate Volume Buyers groups.

Site also will be linked to members' and vendors' Web sites, but won't feature e-commerce, Thrice said. "I don't think that NATM means anything as an e-commerce site," he said, noting site's links to members' e-commerce businesses.

NATM also is serving as testbed for XML-based forecasting system that Sullivan is pushing as possible industry standard, said Agren, who formerly operated major appliance store in Portland, Me.

"This tool now allows us to act more as one member" Thrice said. "It brings us together as a unit, which has never been out there in the past."

Djangos.com acquired 6-store L.A. area independent music chain Moby Disc Records. Djangos.com, based in Portland, Ore., is click-and-mortar retailer of used and new CDs, DVDs, VHS tapes. Djangos.com said acquisition of Moby increased its co-branded retail stores to 19 and added more than 70,000 products to its inventory. Company, named after jazz guitarist Django Reinhardt, also operates in-store, Web-connected kiosks that it said provides consumers with access to more than one million titles.

SONY UNVEILS PALM HANDHELD: Sony showed new Communication Link for Information Entertainment (Clie) handheld PC last week, first in what it expects to be line of Palm-based devices that will be expanded within 2 years to include audio and streaming video capabilities.

Clie, which ships this month at \$399, offers few obvious enhancements over existing products. But Sony said platform would add increasingly sophisticated A/V features as line grows via Memory Stick slot. While it originally planned to have color screen, it chose mono with 160x160 resolution at start because of shortages of displays and components that have hampered handheld industry this year. Color model is expected to ship in first half 2001 with \$50-\$100 premium over mono.

Existing model is packaged with 8 MB Memory Stick and has 8 MB internal memory. It also has Sony-specific features such as Picture Gear Pocket Software that allows users to add photo images to address lists. Handheld eventually will be linked to Sony's digital photo Image Station Web site and allow playback of video at up to 15 frames per sec. (fps).

Sony's immediate goal is to add audio features, something that will require new version of Palm operating system and faster processor, Sony Product Mgr. Ty Takayanagi said. Current Motorola 20 MHZ processor must be increased to at least 200 MHZ for audio applications such as MP3, he said. Faster processor also would help boost video to 30 fps, speed more suitable for streaming video from Internet, Takayanagi said. Sony also will sort through new battery technologies, including polymer-based versions to replace lithium ion rechargeable, whose run time for audio would be less than current 15-day benchmark, company said.

In taking page from Handspring, Sony showed dozen prototype add-on modules, including digital camera, microphone, GPS and Bluetooth wireless connector. Last is available now for Clie in Japan. Pricing hasn't been set, but will be "competitive" with Handspring modules, Takayanagi said. "We're going to keep the main unit very basic and add features," he said.

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Handheld PCs like Palm main face same threat of virus attacks that millions of desktop PCs endure each year, Finnish antivirus group said last week. Fear was reinforced when virus-like program, Trojan, was released accidentally and was believed to have infected some handhelds. Swedish software developer said he accidentally released Liberty Crack, which enters handheld PCs like Palm and Handspring. Finnish company F-Secure said virus entered handhelds disguised as shareware for Nintendo Game Boy title *Liberty*, but damage to handhelds was minimal.

Hewlett-Packard (HP) unveiled new line of CD-RW drives that started shipping Sept. 1. Full line offers MusicMatch Jukebox software that allows consumers to file digital music tracks and convert them from MP3 files to WAV files to be played on CD players. Line includes high-end 9510i and 9600si internal drives (\$229 each), 8230e (\$199) and 9600se (\$249) external drives, midpriced 9350i internal drive (\$189), entry-level 9150i internal drive (\$169).

Partnership of Sony Computer Entertainment America (SCEA) and NFL Experience on Tour festival was announced last week. NFL festival is being held at various U.S. cities through Feb. 18. As part of NFL sponsorship deal, SCEA will be allowing public to demonstrate PS2 at more than 30 interactive kiosks.

M2 NOT IN GAMECUBE — MATSUSHITA: Two questions on upcoming Gamecube next-generation console's optical disc technology were clarified by Matsushita last week. First, although proprietary disc technology being used in Nintendo's Gamecube bears some resemblance to Matsushita's M2 technology, U.S. Matsushita spokesman told us: "I can say for certain that M2 technology is not incorporated into the Gamecube."

As we pointed out (TVD Aug 28 p10), Matsushita, which is supplying Nintendo with Gamecube's drive and proprietary 8 cm optical disc media, had purchased M2 technology from 3DO in 1995 with intention of developing videogame system around it. But manufacturer said in 1997 it had changed its mind and had conceded console market to Nintendo, Sega, Sony.

Other issue clarified by Matsushita last week related to Gamecube disc drive's capabilities. Right after details were announced late last month, Nintendo spokeswoman told us next-generation console would not be able to play DVD-Video movies at least in part because system's drive could accommodate only 8 cm disc. But Matsushita and Nintendo at outset were unable to tell us whether machine would be able to play 8 cm DVD discs that would be coming in future. DVD format specifications, after all, do include smaller disc size. Already, for example, DVD-RAM camcorders using 8 cm discs are set to be introduced by Hitachi and others.

Last week, Matsushita spokesman said: "If we don't know what types of systems [will be coming out in the future], we can't really comment on it. But it's important to keep in mind that the system in Gamecube is not compatible with DVD. It's not a DVD system, so if these systems [use] DVD discs they would not be compatible with the drive in the Gamecube."

Among other questions remaining at our Fri. deadline were what specs are for Gamecube laser's wavelength, disc's rotational speed, track pitch, pit size.

Forrester Research Senior Analyst Jeremy Schwartz pointed out that Nintendo had yet to clarify various other issues on new platform as well. For one thing, he said: "It's not [yet] obvious what Nintendo's strategy is as far as multiplayer gaming online for this device." He said: "I think one of the issues is [what] the expectation of consumers will be as a result of Dreamcast and SegaNet," online ISP and online gaming service that is making its official debut Sept. 7. By time Gamecube appears in Oct. 2001, Schwartz said, he expects many consumers are likely to expect some sort of multiplayer online gaming ability from Nintendo's console.

In addition to obvious significant issue of pricing, which Nintendo still hasn't announced for Gamecube, Schwartz said it also didn't clarify what precisely it meant when it said Gamecube accessories would include "a variety of high-speed ports." He said one question was: "Can this [console] put out a high-definition video image?"

While Schwartz, like other analysts, said Nintendo was going after more exclusive game-playing consumer with Gamecube than was Sony with its PlayStation2 (PS2), he said lack of DVD drive could have impact on Nintendo's ability to attain large installed base. He said: "I expect that the inclusion of a DVD drive in PlayStation2 is going to help adoption of the platform, especially in the early stages, because I think families will look upon it as being another reason to buy the platform — a 2nd DVD drive."

Regardless of questions Schwartz may have about Gamecube, however, he said he still expected that Sony would be console market leader while Nintendo would battle it out with Microsoft's Xbox for No. 2 position: "There's reasons why either one can be the winner for the No. 2 spot: Nintendo has the very strong brand, character brand, a recognized name and can bring a lot to the table. You can't underestimate Nintendo in terms of what they can pull out of their hat... In contrast, Microsoft has a pretty interesting-looking platform, but they don't have any experience in the console games area. They don't have the properties of their own, so they're going to be dependant on 3rd party publishers to provide properties. This is a new area for them."

Nintendo's proprietary game franchises include, of course, its very successful Pokemon titles, which have been among top-selling electronic games industrywide for past year and continue to help drive sales of company's current Game Boy handheld machines. But Nintendo also controls handful of other popular franchises, including Donkey Kong, Mario Bros. and Legend of Zelda, that are expected to make their way to its next-generation platforms, along with Pokemon.

Gerard Klauer Mattison Research Analyst Edward Williams also said Nintendo had some factors in its corner despite delayed shipping schedule and lack of DVD-Video compatibility. He said: "I think that the Gamecube launch date is certainly not going to help [Nintendo] relative to the PS2." But he was quick to add: "The quality of the product and proprietary games that Nintendo has will be very helpful."

Williams also said it "should be helpful for the Gamecube going forward to be integrated with the Game Boy Advance." He was referring to Nintendo's saying portable device could be plugged directly into console, enabling person to use it as discreet controller to direct action on Gamecube.

New Good Guys Pres. Kenneth Weller will receive \$400,000 annual salary plus incentive bonus of up to 100% of base pay in fiscal year starting Oct. 1, company said in SEC filing. Weller, who left executive job at Best Buy to return to Good Guys (GG), also was granted options on one million shares that vest at 33-1/3% in each of next 3 years and warrants to buy 500,000 shares of restricted stock starting Sept. 1, filing said. He will establish office in Minneapolis with expense cap at \$3,000 per month. Weller was among those who bought stock as part of recent \$9.36 million private placement that also included GG board and management. Investors purchased 2 million restricted shares at \$4.64 and another one million warrants. As part of placement, GG Chmn.-CEO Ronald Unkefer bought 646,468 shares and 323,234 warrants for \$2.9 million, while board members John Martin, chmn. of Easyriders restaurant chain, and Joseph Schell, ex-NationsBank Montgomery Securities, each purchased 215,289 shares and 107,444 warrants for \$999,998. Board member and ex-Thomson executive Joseph Clayton, currently Global Crossing vice chmn., bought 20,000 shares and 10,000 warrants for \$92,812.

Rent-a-Center (RAC) last week defended itself against sex discrimination suit filed in U.S. Dist. Court, St. Louis. Class action suit, filed on behalf of former female employees and job applicants, alleged discrimination based on gender. RAC said its "policies and practices" don't discriminate against women and it will "vigorously defend itself" against suit.

SEGA DREAMCAST PRICE CUT: As we predicted (TVD Aug 28 p15), Sega of America said last week it had dropped U.S. price of its Dreamcast \$50 to \$149.95 in move it said was designed to widen installed base of its videogame console. Canadian price dropped to \$229.95.

Sega had been running \$50 rebate program during summer that effectively had lowered price to \$149.95 anyway. But many in industry had said actual drop in MSRP pricing would help spur sales, which Sega itself said last month had been disappointing in recent months even in U.S., where Dreamcast had found most success since platform's start. Price change came as Sony was preparing to bow its PlayStation2 (PS2) at \$299 in U.S. Oct. 26.

Price cut, along with impending start of SegaNet high-speed gaming network and ISP on Sept. 7, leaves Sega "well-positioned to meet its goal of having an installed base of 5 million in North America by March 2001," company said last week.

Sega of America Dreamcast Pres.-COO Peter Main said: "We are confident that our combination of great hardware, unsurpassed title lineup and the industry's first-ever online console gaming network will prove irresistible to consumers, especially those who may be frustrated by the lack of availability of other game systems this fall." Sega spokesman was unable to tell us how many Dreamcasts had sold through to date in N. America, but said it was "about 2.1 million" in U.S. alone as of last week.

While Nintendo's Gamecube and Microsoft's Xbox consoles aren't due to arrive until next fall, supplies of Sony's first-generation PlayStation have been low for months (although company said it would be rolling out its smaller "PS one" console this month) and many in industry expected that supplies for PS2 wouldn't be able to meet demand in U.S. this year.

Retailers and game makers alike were among those who applauded Sega's price cut. Electronics Boutique Videogames Merchandising Vp Peter Roithmayr said price change and SegaNet debut would ensure strong sales of console over holiday season. He said: "Sega is bringing an additional level of choice to the category that will benefit consumers and the industry alike."

Babbage's Etc. Pres.-COO Dan DeMatteo said "we are very excited" about price cut, noting that Sega's \$50 rebate "doubled sales" this summer. He predicted new MSRP "will have an even greater effect" and said "the Dreamcast is a real bargain at that price." He added: "The only 128 bit system on the market is selling for only \$50 more than a 32-bit system."

Price cut changed somewhat Sega's plan, announced in April, that called for company to give \$200 rebate as well as free Dreamcast keyboard to customers who buy console and they sign up for 2 years of SegaNet service at \$21.95 per month (TVD April 10 p13). Sega instead will be offering customers \$150 rebate with free keyboard when they sign up for 18 months of SegaNet service.

Sega said those who buy Dreamcast at new price will be eligible to receive 50 free hours of online service on SegaNet. It also said shipments of first console online multiplayer games for Dreamcast were "imminent." Spokesman said "about a dozen" titles would be available at SegaNet debut, including first party games *Quake 3 Arena* and *Sega Sports NFL2K1*, and "about 2 dozen" games by year-end. Other titles company plans to ship include *Phantasy Star Online* and *Sega Sports NBA 2K1*.

SONY ACQUIRES RTIME: In latest step to gain strength in broadband arena, Sony Computer Entertainment America (SCEA) said last week it had acquired RTIME, privately held company that provides products and services to support real-time interactivity on Web and broadband networks.

As part of deal (financial terms not revealed) RTIME becomes wholly owned subsidiary of SCEA that still will operate under RTIME brand name. RTIME's day-to-day operations will continue to be run by current management team but under direction of SCEA Product Development Vp Shuhei Yoshida.

SCEA said acquisition gave it "access to the various technologies, products and services developed by RTIME, including the RTIME Interactive Networking Engine, a scalable, high-performance networking package for real-time interactivity for games and other multi-user applications." It said RTIME would be working with it to build common "back-end" technology for future broadband games and services via its PlayStation2 (PS2) next-generation videogame console.

Separately, SCEA spokeswoman responded last week to rumor (TVD Aug 28 p19) that number of PS2 games to be available at platform's U.S. debut Oct. 26 was shrinking to fewer than 15: "SCEA has never announced the scope of its launch lineup for PlayStation2. Because of this, I believe that it may be premature to state that our launch library is shrinking. We will stand by our statement, at E3, that we will have upwards of 40 PlayStation2 titles available on the market between October 26 and Christmas."

To be precise, SCEA said at E3 that it would have more than 50 titles available for PS2 in 2000, including first party games *Dark Cloud* and *Gran Turismo 2000*, as well as 3rd party titles *Armored Core 2* from Agetec, *Street Fighter EX3* from Capcom and James Bond-themed *The World is Not Enough* from Electronic Arts (TVD May 15 p12). SCEA also said at E3 that it expected to have another 56 titles between Jan. and March 2001, with another 80 in months after that.

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New buying group hangs in balance as it awaits responses from 8-9 potential members, officials said. Proposed Assn. of Select TV & Appliance Retailers (ASTAR) has commitments from 8-9 dealers, but should have 10 to go forward, said Video Only Pres. Peter Edwards, who is leading push to form ASTAR. "I don't think there are enough members for it to work right now," he said. "The maybes are kind of hanging us up. What you have here is fear of change from these guys." Indeed, many potential members attended separate Marta and Nationwide buying group meetings in Las Vegas in late Aug. and were to contact ASTAR afterward, Edwards said. He had said earlier that ASTAR wouldn't target members of existing buying groups (TVD April 10 p11). If consensus hasn't been reached by Oct. 1, Edwards said proposed group would attempt to meet at CES in Las Vegas in Jan. to gauge interest. Video Only and Queen City, both former NATM members that were ousted from buying group earlier this year, have led charge to form new group.

Bertelsmann e-Commerce Group said last week that acquisition of music e-tailer CDNow had been completed. As result, CDNow has officially been merged into German media giant Bertelsmann's e-commerce subsidiary. Merger followed completion of tender offer by Bertelsmann for all outstanding shares of CDNow. Deal was announced in July (TVD July 24 p18).

GAME SALES TO REACH \$13.8 BILLION: Interactive game sales will grow at 21.7% annual rate and should reach \$13.8 billion in 2004, N.Y. merchant bank Veronis Suhler (VS) forecast in its annual communications industry report.

Interactive gaming is "the smallest but fastest-growing segment" of communications industry, increasing 25.7% to \$5.2 billion in 1999, VS said. Sales were driven largely by Sega Dreamcast debut and growth of multiplayer Internet gaming.

Console videogame software spending jumped 24.4% to \$3.8 billion in 1999, topping 1998's 14.6% growth, VS said. Games sold increased 48.5% to 109.9 million but average price dropped 16.3%, to \$34.91. VS predicted compound annual spending on console software would reach 18.7% through 2004, but compound annual growth for game sales would drop to 17.8%, compared with 22.4% over last 5 years.

On hardware side, 15.5 million consoles were sold last year, according to research compiled by VS, EIA, NPD Group, PC Data, Publishing & Media Group. At average price of \$149.55 per console, including peripherals, industrywide sales hit \$2.32 billion — 20.9% over 1998.

Although many in game industry have expressed doubts in recent few months that Sega and its Dreamcast would represent major source of competition once Sony's PlayStation2 (PS2), Microsoft's Xbox and Nintendo's Gamecube join console field, VS said it expected Dreamcast and PS2 to "drive sales in this market over the next several years."

Nintendo led market last year in software volume and revenue shares, with 25.1% and 25.4%, respectively, trailed by Electronic Arts (EA), with 10.7% share of games sold and 11.6% revenue share; Sony, with 9.9% and 7.7%; Midway, with 4.7% and 5.1%; Acclaim, with 4.3% and 4.7%; THQ, with 4.2% and 4.4%; 989 Studios, with 4% and 4.3%; Namco, with 3.9% and 3.3%; Activision, with 3.8% and 4%; Hasbro Interactive (HI), with 2.9% and 2.1%. Together, those top 10 game makers had 73.5% of all games sold and 72.6% of revenue industrywide.

As other reports have shown, Nintendo's *Pokemon* videogames led industry in 1999. VS said top 4 titles of year were *Pokemon Yellow*, *Pokemon Blue*, *Pokemon Red* and *Pokemon Pinball*, while *Pokemon Snap* placed 7th in top 10. *Donkey Kong 64* and *Super Smash Brothers* for Nintendo 64 console were 5th and 8th, respectively, meaning 6 of top 10 selling titles last year were from Nintendo. Rounding out top 10 were Sony's *Gran Turismo* for PlayStation (PS) in 6th place, Square-EA's *Final Fantasy VIII* for PS in 9th, GT Interactive's *Driver* for PS in 10th.

On PC side, game and entertainment software spending climbed 29.4% to \$1.4 billion last year, compared with 10.5% rise to \$1.1 billion in 1998, VS said, highest rate in that category since 1994. Game sales rose to 61.3 million last year from 46 million in 1998.

Havas Interactive led PC game category last year with 16.6% share of sales and 15.6% of revenues, VS said. EA followed with 13.1% and 14.3% and HI with 12.5% and 12.3%. Rounding out top 10 PC software publishers were: Mattel Interactive, with 11.1% and 9.9%; GT Interactive, 7% and 5.4%; Activision, 6.2% and 5.1%; Microsoft, 5.4% and 8.1%; Interplay, 3.5% and 4%; Valusoft, 2.4% and 1.1%; LucasArts, 2% and 3.2%.

Together, top 10 companies had 79.8% of industry sales and 79% of revenues. HI's *MP Roller Coaster Tycoon* was top-selling computer title, followed by EA's *SimCity 3000*, Disney's *Who Wants to Be a Millionaire*, Microsoft's *Age of Empires II: Age of Kings*, Havas's *Starcraft* and *Half-Life*, EA's *Command & Conquer 2: Tiberian Sun*, Microsoft's *Flight Simulator*, HI's *Frogger*, Interplay's *Baldur's Gate*.

VS said it expected computer game and entertainment software market to reach \$4.9 billion in 2004, growing at compound annual rate of 28.6%, up from 24.7% over 1994-1999 period.

Former Nvidia engineer was charged last week with insider trading in connection with allegedly gaining \$446,724 profit on sale of stock shortly before company announced agreement to develop 3D computer graphics and multimedia systems for Microsoft's Xbox video game console. Manu Shrivastava, who is charged with securities and wire fraud, is accused of buying call options in early March as Nvidia employees were informed via internal e-mail of pending agreement with Microsoft but before information was released to public. SEC rules bar purchase or sale of stock based on "material information" known by company's board or employees, but not by public. Shrivastava allegedly purchased contracts March 6, day after Nvidia had signed agreement with Microsoft. As rumors of Microsoft contract swirled March 7-9, Nvidia stock soared 71.4% to close at \$100.30 March 9, SEC said, and another 17.6% to \$118 March 10, when Microsoft announced agreement. Shrivastava allegedly sold his 100 call options in 3-day period ending March 10. Neither he nor Nvidia spokesman was available for comment. SEC is seeking Shrivastava's profits and interest as well as penalty of 3 times amount of profits. Single count of securities fraud carries up to 10 years in prison, wire fraud 5 years. Shrivastava also faces fines of up to \$500,000 if convicted on both counts.

Interactive Imagination (II), new Seattle-based game company, made its debut at Wizard of the Coast's GenCon gaming event in Milwaukee. II — whose executives come from such companies as Nintendo and SquareSoft — also announced line of "Magi-Nation" role-playing game (RPG) products. II Pres.-CEO Rich Silveira said Magi-Nation franchise was aimed at "those RPG fans who have outgrown the childish nature of some fantasy games and who are intimidated by the complex game play of others." Company said it planned to ship Magi-Nation for Game Boy Color in late Dec. or early Jan. and version of title for Game Boy Advance next spring, when that platform is rolled out. II's Magi-Nation line also includes books and "Magi-Nation Duel" collectible card game shipping in Oct.

Ampcast.com started royalty program and digital video encoding and distribution service for music artists. Company based in Mystic, Conn., has Web site that acts as online community of radio stations and music artists and fans. Ampcast.com also said it has become content partner of Listen.com, whose Web site features guide to online music.

THIS WEEK'S YEN RATE

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

Consumer Electronics Personals

Gerald Kleisterlee, Philips Components pres., appointed pres. of Royal Philips Electronics effective April 30, succeeding **Cor Boonstra**, and will add COO title Sept. 1, 2001; **Adri Baan** to step down as Philips Consumer Electronics CEO March 29, will remain adviser... **Steve Morris**, ex-Payless Shoesource, appointed Best Buy mdsg. planning vp... **Dona Flamme**, ex-Micrel Semiconductor, named vp-gen. mgr., Kodak's new Image Sensor Solution Div.; **Christopher McNiffe**, ex-8x8, becomes Div.'s vp-mktg. & sales; **Alan Sabanosh**, ex-GMT Microelectronics, joins as operations dir... **Edward Burakowski**, ex-Ovation, joins NDS as strategic sales vp... **Omid Milani**, NEC Flat Panel Displays Div. senior mgr., advanced to asst. gen. mgr. for displays and energy devices, Strategic Business Operations.... **Kevin Burns**, ex-Westinghouse, named Solelectron senior vp-chief materials officer... **Kenneth Mallernee**, ex-M&H Properties, appointed Aaron Rents corp. real estate counsel.

Sony's 'PS one' console will bow in U.K. Sept. 29 at £79.99 (about \$120), and 75,000 units will be arriving there alone, Sony Computer Entertainment U.K. (SCE U.K.) spokesman said last week. He pointed out that Sept. 29 is 5 years to day that company revealed original PlayStation (PS) system. While some original PS stock remains in U.K., he said, that "will dwindle" as PS one takes its place. Although he said company "will eventually" be spending more marketing power backing its PlayStation2 (PS2), it will be targeting PS one at "technophiles" who like to have all newest systems. U.K. pricing on PS one is same as current PS, spokesman said, compared with \$99 price PS one will carry when it ships in U.S. this month (TVD Aug 21 p12). Sony Computer Entertainment Europe (SCEE) spokeswoman couldn't be reached by our Fri. deadline to provide details for other European countries. Meanwhile, British press report said SCEE was denying rumors that European PS2 launch could be delayed until 2001. SCE U.K. spokesman declined comment. Also on PS2 front, he said his company — in U.K., anyway — will be allowing rentals of standard PS2 software.

R.C. Willey will open first store in Henderson, Nev. by mid-2001 as part of strategy that calls for adding 2 more in Las Vegas area, Vp Steve Child said. New 110,000-sq.-ft. store is projected to generate \$100 million in annual sales and will include 20,000-sq.-ft. for CE/major appliances, he said. Chain will "dramatically expand presentation" of projection TVs in store while reducing space allocated for categories such as portable audio and accessories, Child said. Selection of major appliances also will be increased, with store carrying 100 SKUs of refrigerators vs. 80 in existing outlets and 110-120 laundry products against current 75-80, he said. "There's going to a little more product, but most of the space is wider aisles and more terminals to allow us to process more customers with greater efficiency," he said. Store will be chain's 8th following one in Boise. Willey owner Warren Buffet and his Berkshire Hathaway Group, which bought chain in 1995 (TVD May 29/95 p19), has projected sales of \$1 billion within 10 years.

Gathering of developers and Internet service Gigex.com announced availability of demonstrator for *Kiss Psycho Circus: The Nightmare Child* PC game. Those who download it can register for "Final Farewell Sweepstakes" and chance to win backstage passes, lodging, tickets to upcoming Kiss concert. Version of game for Sega's Dreamcast is to ship in late Sept.

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
Beamscope* 2000-qtr. to June 30 1999-qtr. to June 30	103,067 109,608	(20,709) (3,112)	— —
Eidos Interactive^b 2000-qtr. to June 30 1999-qtr. to June 30	16,798,000 16,810,000	(15,328,000) (14,034,000)	— —
Hastings Entertainment 2000-qtr. to July 31 1999-qtr. to July 31	107,100,000 102,400,000	(2,289,000) 862,000	— .07 ^c
MGI Software^a 2000-6 mo. to July 31 1999-6 mo. to July 31 2000-qtr. to July 31 1999-qtr. to July 31	22,170,000 9,824,000 11,299,000 5,427,000	(11,764,000) (6,174,000) (6,135,000) (4,306,000)	— — — —
NewKidco 2000-6 mo. to June 30 1999-6 mo. to June 30 2000-qtr. to June 30 1999-qtr. to June 30	3,667,000 7,806,000 1,773,000 1,053,000	(10,395,000) 896,000 (6,696,000) (393,000)	— .07 — —
Rex Stores 2000-6 mo. to July 31 1999-6 mo. to July 31 2000-qtr. to July 31 1999-qtr. to July 31	208,792,000 206,795,000 101,609,000 107,739,000	7,226,000 6,185,000 3,980,000 4,098,000	1.06 .83 .61 .54
Seachange International^a 2000-6 mo. to July 31 2000-qtr. to July 31	47,903,000 25,567,000	861,000 512,000	.04 .02
Shop at Home 2000-year to June 30 1999-year to June 30	200,062,000 151,966,000	(13,493,000) (3,304,000)	— —
3DFX Interactive 2000-6 mo. to July 31 1999-6 mo. to July 31 2000-qtr. to July 31 1999-qtr. to July 31	175,567,000 145,280,000 66,989,000 104,836,000	(112,927,000) (13,783,000) (100,496,000) (11,599,000)	— — — —

Notes: *In Canadian dollars. ^bIn British pounds. ^cRestated. ^dIncludes special credit. *Comparable results not available.

Advanced Audio Coding (AAC) format was tapped last week by BMG and Universal Music Group for each company's digital music delivery programs. AAC is latest audio codec to be standardized by International Organization for Standardization (ISO) as part of Motion Pictures Experts Group (MPEG) specification. Format was developed and standardized by companies including AT&T, Dolby Laboratories, Fraunhofer, Sony. Companies that back it say format provides higher quality audio than MP3 and requires 30% less storage space and bandwidth. They say AAC also is compatible with all digital rights management, encryption and watermarking solutions available today. AAC also received support last week from digital media solution provider Loudeye, which said it had implemented AAC at its Digital Media Centers and made it available immediately to customers so they could add it to their digital media strategies and business plans.

EMusic.com signed click-and-brick music distribution partnership with independent record label TTV Records. Companies will make available albums from select EMusic.com-signed artists through traditional retail stores at same time as their release online at EMusic.com for download or purchase. EMusic.com, Redwood City, Cal., also signed deal with Supertracks making latter its exclusive digital services provider. Terms weren't disclosed. EMusic.com said it expected agreement to bring it more than \$1 million of digital music download revenue.



TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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SUMMARY-INDEX OF WEEK'S NEWS

Broadcast - Cable

DTV LABELING RULES being finalized by FCC. Agency impatient with lack of industry agreement, rejects claims of lack of authority. (P. 1)

AOL-TW CONDITIONS EMERGING in week of Washington maneuvering. Open access and AT&T conditions seen likely. Hughes divestiture possible. (P. 2)

SPANISH NETWORK PLANNED by Pappas and TV Azteca. Third Hispanic net to bow next year, plans more station buys. (P. 3)

CABLE ACCESS INQUIRY to start this week. FCC still reluctant to require systems to open to competing ISPs. (P. 4)

SENATE VERSION OF LPFM compromise introduced, similar to one passed by House. McCain not likely to move it in committee. (P. 5)

MP3.COM NO PRECEDENT for Napster case, lawyers say. Technologies called too different. Observers push for acceptable music downloading. (P. 5)

FCC READYING DTV SET LABELING, COPY PROTECTION LICENSING RULES: Finally running out of patience with warring cable, consumer electronics (CE), content and computer software industries, FCC plans to choose labels for new DTV sets and spell out guidelines for digital copy protection licensing terms at its meeting Sept. 14, agency staffers said. They said Commission also intended to split 2 remaining DTV-cable compatibility issues into separate concerns, placing set labels under purview of Office of Plans & Policy and folding copy protection issue into navigational devices docket of Cable Bureau. In so doing, agency officials indicated, FCC would reject arguments by CE retailers, manufacturers and other critics that it lacked statutory authority to regulate copy protection technology. "We'll do a declaratory ruling," Cable Bureau Deputy Chief William Johnson said.

Commission, which started rulemaking on 2 key DTV-cable compatibility issues in April (TVD April 17 p5), will act after watching industries battle all summer over proper labeling of digital TV receivers and set-tops and over copy protection standards. Move will come 3 months after much-trumpeted NCTA-CEA agreement on DTV set labels unraveled because of strong opposition from Circuit City and other CE retailers (TVD June 19 p1). "We're going to address both issues," agency official said.

At our deadline, it remained unclear exactly what FCC would do at agenda meeting. Citing sunshine notice requirements, Commission officials declined to discuss their draft reports and orders on DTV-cable compatibility last week. But staffers and other sources made it clear that agency would adopt at least some labels for DTV sets, resolving long-running dispute between cable and CE industries over how to describe different types of digital receivers. "We will be choosing some labels," one official said. "We're not out to cause confusion."

FCC officials declined to say whether they would adopt DTV set names agreed upon by NCTA and CEA in late May but then rejected by CE retailers. Those labels — "Digital TV-Cable Connect" for digital sets without 1394 connectors

Consumer Electronics

PHILIPS DVD+RW DECK DELAYED FULL YEAR, company says at CEDIA Expo. It plans multichannel SACD deck for late 2000 at \$2,000. (P. 9)

FIRST ES-BRANDED DVD PLAYER tops Sony introductions at CEDIA Expo. Progressive scan deck joins more SACD products. (P. 10)

CIRCUIT CITY WARNS that 2nd-quarter earnings will be less than forecast. Sales results posted. (P. 11)

KOZMO.COM EXPANDS in 4 of its markets amid discrimination claim. (P. 12)

E TOYS TO LAUNCH NEW WEB SITE next month. (P. 13)

BABBAGE'S ETC. GEARS UP for holiday season. (P. 14)

EB POSTS 2ND-QUARTER LOSS of \$2 million as it suffers from drop in Pokemon card interest and costs of failed Funco bid. (P. 15)

and "Digital TV-Cable Interactive" for more advanced sets with 1394 plugs — have been attacked by CE retailers, broadcasters and satellite TV providers as misleading or unfairly cable-centric. But staffers indicated proposed labels and ensuing debate around them would serve as basis for their choices. "The theory is to create language so people who purchase sets won't have to go through the literature to figure it out," Johnson said.

Cable negotiators said they hoped Commission would adopt labels agreed upon by NCTA and CEA. "We're looking forward to seeing what they'll do," NCTA Gen. Counsel Neal Goldberg said. He said his "lingering fear" was that FCC, seeing no real consensus among industries on labels, would fall back on "cable-ready" standby that cable industry dislikes.

Spokesman for CEA, which has tried to walk fine line between NCTA and its rebellious retailers on DTV labels, said his group still wanted to reach agreement with both retail and cable interests before FCC acted. He said group also hoped to convince Commission that industry consensus would develop eventually. "I would hope they [Commission] would look at what we've done as a model," he said. "We all wish this could come to a conclusion and move forward.... We don't want to be held hostage to them [retailers] but we do need to be sensitive to their concerns."

Goldberg said NCTA also had hoped to work out deal with CEA. But, after waiting months to hear back from his CE counterparts, he said he wasn't too optimistic that would happen before Sept. 14. "We have not heard anything from them," he said. "I'm just sitting here with a signature on an agreement and wondering if it was written in invisible ink."

On copy protection front, FCC officials and other sources said, agency intends to provide guidance on cable industry's draft DFAST technology license covering flow of digital content through cable set-top boxes. Although it's not yet known what that guidance will be, it appears Commission will spell out what areas DFAST and similar licenses can and can't cover. In last few weeks, cable, CE and content industries have battled fiercely over DFAST terms and conditions in ex parte filings with and presentations to FCC commissioners and staffers, inundating agency with paperwork.

In latest filing Sept. 6, for instance, MPAA Exec. Vp Fritz Attaway delivered one-page letter to all 5 commissioners, their legal advisers and agency staffers arguing that strict limits on viewer copying of digital programming "will benefit consumers" by encouraging content owners to develop and distribute DTV shows and movies. MPAA letter opposed letter filed day earlier by Circuit City. In another recent move, Home Recording Rights Coalition, group related to CE retailers, took out large ad in *USA Today* calling on consumers to oppose strict DTV copying limits favored by cable and content industries because rules could classify routine home recording as "theft of service."

Finally, FCC plans to issue long-awaited notice of inquiry on navigational device rules and fold copy protection issue into it this week. In that notice, Commission will ask whether it should move up deadline for banning proprietary cable set-top boxes from market. CEA wants deadline moved up from current Jan. 1, 2005, date to Jan. 1, 2002, while NCTA favors keeping longer time frame for transition to interoperable boxes.

AOL-TW FACES OPEN ACCESS, DIVESTITURES: AOL and Time Warner (TW) face likely imposition of open access mandates to gain federal regulatory approval of their merger this fall, cable industry observers said last week. They believe antitrust enforcers also may require TW to break its links to AT&T, including AT&T's minority stakes in TW and Time Warner Entertainment (TWE) subsidiary. They also said AOL could be forced to divest its \$1.5 billion investment in DirecTV parent Hughes Electronics. Those expectations followed flurry of news reports that FTC staff attorneys were preparing to block AOL-TW deal unless companies agreed to open access mandates and other conditions.

Many industry observers said stories appeared to be part of campaign by FTC and FCC staffers to force AOL-TW's hand. Campaign comes after recent meetings between AOL and TW executives on one side and FTC and FCC officials on other in which regulators spelled out their objections to merger and company executives balked. It also comes after European Commission (EC) officials outlined similar antitrust problems in confidential statement of objections. "It's called turning the heat up," Precursor Group CEO Scott Cleland said. "This is eyeball-to-eyeball time to see who blinks first."

As might be expected, biggest concern of regulators seemed to be holding AOL-TW to its commitment of carrying multiple ISPs on its high-speed cable lines, observers said. Although companies agreed to open up their lines to rival ISPs and TW signed carriage deal with Juno Online Services, regulators have asked how voluntary open access policy would be carried out, verified and enforced. "The FTC has raised serious issues," said Mark Cooper, research dir. of Consumer Federation of America, which wants open access mandates. "There's a lot of blood on the floor, but we are getting there."

Antitrust enforcers also appeared concerned about breaking remaining ties between AT&T and TW, nation's 2 leading MSOs. Observers saw regulators setting tough conditions on dealings between companies, virtually forcing AT&T to shed its separate minority stakes in TW and TWE. Antitrust officials already have taken that tack with Road Runner in AT&T-MediaOne deal, requiring AT&T to sell its inherited minority stake in high-speed cable ISP that TW co-owns. "The government wants them [AT&T and TW] to be competitors," Cleland said.

Spokesmen for both FTC and FCC declined comment on their separate but coordinated reviews of AOL-TW merger. But both indicated that their agencies still were on target to wrap up their reviews by mid-Oct. EC is aiming to complete its review by late Oct.

TW spokesman insisted that merger review was moving along smoothly. "Our conversations with the agencies reviewing our merger are proceeding well and have been constructive," he said. "We are on track to close in the fall." AOL officials concurred.

Despite some reports that Congress had been briefed on FTC's actions, leading members of House Telecom Subcommittee, which will hold hearing soon on merger, said they learned of staff conclusions from newspaper reports. "They have not been keeping us in the loop on this," said Ken Johnson, spokesman for Subcommittee Chmn. Tazin (R-La.). He said if reports were meant to put added pressure on lawmakers to ask tough questions about competition issues at hearing, they hadn't succeeded: "All these arguments are pretty much yesterday's news... The FTC is not breaking any new ground." Spokesman for ranking Democrat Markey (Mass.) said FTC was "on the right track. They agree with us" on need for openness. He said he expected FTC findings to come up at upcoming hearing.

SPANISH NETWORK PLANNED: Pappas Telecasting will partner with TV Azteca to start 3rd Spanish-language TV network for U.S. market, they announced. Core of new network will be 3 TV stations currently owned by Pappas and 7 under contract, but companies said they expected to acquire more in next 2 years. Officials of new Azteca America Network (AAN), including Chmn.-CEO Harry Pappas and TV Azteca Chmn. Ricardo Salinas, are to be in Washington Sept. 11-12 for introductory meetings at FCC, Capitol Hill and White House to prepare ground for when network begins acquisitions.

Network will be at disadvantage with incumbents Univision, which has 80% of Hispanic TV viewing in U.S., and Telemundo, officials acknowledged. It will be able to reach only about 45% of U.S. Hispanic households at debut in 2nd quarter of 2001, including stations in Bakersfield, Cal., Dallas-Ft. Worth, El Paso, Fresno, Houston, L.A., Miami, Phoenix, Sacramento, San Diego, San Francisco. Companies said they expected station acquisitions to increase audience coverage to 65% in 2002, with capital cost of purchases to be financed largely out of network cash flow.

In return for contributing 10 stations to venture, Pappas will control 80% of network. TV Azteca contributes 20-year license for its Mexican programming (with 10-year renewal option) in return for license fees and 20% ownership. Salinas said deal would provide "many times more economic benefits" than syndicating its shows in U.S. In addition to TV Azteca programming, Pappas said network planned "numerous local and national new initiatives," as well as extensive coverage of Mexican soccer.

Network will have Dallas hq, with programming and ads fed to stations via IBM Digital Media Distributor automation system. Executives are to include COO Stuart Livingston, ex-Univision, Telemundo and Galavision.

Comcast reached agreement with NBC for carriage of latter's Olympic Games coverage on CNBC and MSNBC, terms not announced.

NAB's DTV task force meets 2nd time Sept. 13 at association hq with goal of working toward broadcaster consensus on issues such as DTV modulation, DTV-cable interoperability, FCC auctions of broadcast spectrum and DTV must-carry, Chmn. Michael McCarthy said. Issues are "thorny," said McCarthy, Belo senior exec. vp, and there's no firm timetable for decision. Some in industry are hoping for consensus on some issues, such as modulation, as early as NAB board meeting in Jan., but it's not clear whether latest round of testing will be done in time for that. DTV transition issues are made more difficult by number of players involved, McCarthy said, including broadcasters, consumer electronics companies, govt., Hollywood. Even broadcasters sometimes are divided depending on stations' market size or progress to date in transition, he acknowledged: "We're just really getting started." DTV task force is operating independently of NAB/MSTV group overseeing latest round of DTV testing, but McCarthy said results of tests "obviously will be keenly reviewed" by task force.

Sen. Leahy (D-Vt.) opposed call by Senate Majority Leader Lott (R-Miss.) for unanimous consent to go to conference on Rural TV Loan bill that has been languishing since different versions were passed by Senate and House in spring. There has been widespread concern that bill could die because no conferees have been named and there are just days left in 106th Congress. Floor exchange between Leahy and Lott was first sign that issue may yet be resolved before session ends. Leahy said bill's best chance of getting through this year was through avoiding conference. Senate could reach agreement with House "in the time it takes to get the conferees together," Leahy said. He said he was "concerned" conference would "delay process" until end of year, resulting in no action. Leahy said Lott and Senate Minority Leader Daschle (D-S.D.) should call meeting to "resolve issue" and "send clean bill" to House without "wasting time." Leahy predicted bill would be passed "very quickly."

Hearst-Argyle TV stations will make available at least 5 min. of air time nightly during campaign to candidates, company said. Program, involving 24 TV stations, is to take effect in Oct. Time is to be available during nightly newscasts.

FCC TO BEGIN CABLE OPEN ACCESS INQUIRY: Still veering away from imposing open access mandates on cable operators, FCC intends to release less immediate notice of inquiry (NOI) at its Sept. 14 agenda meeting on whether cable systems should give competing ISPs access to their high-speed data pipes. Agency officials said proposed NOI would ask broad series of neutral, detailed questions for cable operators, rivals, public interest advocates and other parties. "It's supposed to ask every question you ever thought about," Cable Bureau Deputy Chief William Johnson said. "It's supposed to be pretty straight forward."

Indeed, in sunshine notice for meeting, Commission said its NOI generally would consider "issues surrounding high-speed services provided to subscribers over different technologies and to determine what legal and policy framework should apply to high-speed cable access technologies." Move will come less than 3 months after FCC Chmn. Kennard announced Commission finally would tackle thorny regulatory issue this quarter (TVD July 3 p6). It also will come as FCC and FTC, under pressure from lawmakers, public interest groups and rival companies, weigh setting conditions on proposed AOL takeover of Time Warner (TW) that would force combined company to open its high-speed cable lines to competing ISPs (see separate story, this issue).

In Sept. 8 move by lawmakers, 2 longtime open access advocates in Congress told FTC and FCC that regulators reviewing AOL-TW deal shouldn't impose open access mandates on combined company. Instead, Internet Caucus Co-Chmn. Reps. Goodlatte (R-Va.) and Boucher (D-Va.) called on FCC to conduct comprehensive rulemaking on open access, covering all broadband transmission technologies and all companies, not just cable operators. That's similar approach to one contemplated by their bills (HR-1685, HR-1686), which they acknowledged have little chance of moving this year. "While we believe that our legislation is preferable to regulatory action," they wrote 2 agencies, "it has become clear that Congress is unlikely to act on our legislation in the remaining days of the 106th Congress."

"I'm encouraged" at FCC's action, Boucher told us following speech at Schwab Capital Markets conference in Washington Sept. 8, "and I hope it leads to a rulemaking." Noting that he and Goodlatte generally have advocated "regulatory parity" between companies and industries, Boucher argued that imposing open access solely on AOL-TW would place the merged companies at crippling "competitive disadvantage." In their letter, the lawmakers said unless FCC is "prepared to eventually apply similar conditions to all providers of high speed Internet service, we urge both commissions to refrain from imposing such conditions until a formal rulemaking can be completed... The ends of open access do not justify the means of applying it one company at a time."

Boucher-Goodlatte initiative is latest signal that open access debate has shifted dramatically since beginning of year from whether cable systems should carry multiple ISPs on their high-speed data pipes to when, where and how they should carry them. In another sign of this tectonic shift Sept. 8, American Civil Liberties Union (ACLU) issued call to its most active members, urging them to fight for open access. "The cable market will soon be dominated by two companies that already decide which television stations their cable subscribers can see," ACLU said in its e-mail missive. "We are now beginning to see troubling signs that they intend to become just as selec-

tive in terms of Internet content." Group called on its members to write to AT&T, AOL, the FCC and the FTC.

However, in spite of numerous calls for open access mandates, observers think FCC will keep resisting temptation to regulate cable-delivered Internet access. Instead, they believe, it will continue its existing laissez-faire policy on cable broadband market as long as possible. Allowing usual time for public comments and replies and possible drafting of proposed rules, no further action by agency is expected for at least year. "The FCC is not going to do much," said industry analyst who declined to be identified. "Why would they do so now, 2 months before the election?"

Cable lobbyists, who have fended off open access mandates so far, also said they expected FCC to merely ask series of general questions in NOI, not start recommending any regulations. They noted that Kennard, while general supporter of open access, repeatedly had stated his intention to let broadband market develop unfettered by govt. restrictions. NCTA Gen. Counsel Neal Goldberg said, "I expect it'll be an open-ended notice, covering the waterfront. It looks like they want to ask more questions than propose answers."

Public interest advocates, who have pushed hard for open access mandates, seemed resigned to much tamer NOI. But they expressed hope that FCC, acting in response to June ruling by 9th U.S. Appeals Court, San Francisco, that cable-delivered Internet was telecom service that ought to be regulated on national level, finally could be coming around on issue. They also were pressing Commission to spell out in detail what open access would mean and how it would be carried out, verified and enforced. "We'll see what the notice of inquiry looks like," said Mark Cooper, research dir. of Consumer Federation of America. "We'll see what the time frame is."

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This will be last Olympics in which TV network can limit Internet access, analyst James Grady of Giga Information Group predicted. NBC effectively has banned all Internet distribution of video from Games worldwide until after it's shown to American audiences on prime-time TV, Grady said, but others are questioning whether TV rights holders also get Internet distribution rights, since Internet streaming wasn't considered when Olympics TV rights agreements were signed. Grady said there was "no legal precedent" for such limits and there would be "a whole new environment" by Winter Olympics in 2 years. Among changes he predicted were: (1) Broadcast and Internet rights would be separated. (2) Broadcasters would have to change their strategies since Internet video would be available in competition to broadcast. Meanwhile, new AOL survey predicted that record number of sports fans would use Web to get Olympics information this month. Survey said 73% of Internet users planned to use Web to get Olympics information. However, it noted that 75% of Web users didn't want to see results on Internet before they watched events on TV. As result, AOL said it would offer users of its Web site option to access only delayed results.

FCC should clarify that Class A LPTV stations that convert to DTV will be "permitted to offer telecommunications service of any nature," Telecom Services Inc. said in ex parte filing at Commission. Filing said LPTV stations should have same telecom rights as full-power stations because there are no "technical or other reasons" not to. TSI is developing ancillary services to be delivered via DTV signal.

LPFM BILL INTRODUCED: Senate debate over low-power FM (LPFM) kicked into gear last week when group led by Sen. Grams (R-Minn.) introduced bill (S-3020) that's similar to compromise measure (HR-3439) by Rep. Oxley (R-O.) that cleared House. Like measure that won easy 274-110 passage in House, new bill would allow some LPFM but would severely curtail program by preventing licenses within 3rd-adjacent channel to incumbent broadcasters. NAB and NPR cheered bill's introduction, with NAB calling it "reasonable compromise." Other Senate measure on issue, S-2068 by Sen. Gregg (R-N.H.), calls for complete ban, as did Oxley's before being amended to gain broader support.

Standing in bill's way is Senate Commerce Committee Chmn. McCain (R-Ariz.), who has his own bill (S-2989) that would allow LPFM to continue but would provide complaint process for stations hit by interference. "McCain likes his bill, he will continue to pursue it," spokeswoman said: "He feels it is a fair approach." Grams's bill, introduced with 6 co-sponsors, has been referred to McCain's committee, so without his support it would have to go straight to floor — distinct possibility if leadership wants it enough. One Hill source suggested point of Senate introduction was to showcase bill and gather co-sponsors for inclusion in omnibus spending measure. "We're hopeful" of passage, Grams spokesman said. "This is the same bill that passed the House overwhelmingly."

Grams's bill would call for independent testing of interference caused by 3rd-adjacent channel broadcasting in 9 radio markets. FCC would submit report to Congress analyzing results and would need congressional approval before expanding program. Bill also retroactively would invalidate licenses given out by FCC so far unless licensees could comply with changes. It would ban license applications from former pirate stations.

NPR provided politically friendly face for bill on House side, keeping it from appearing to be backed only by big broadcast special interests, and Senate sponsors appeared to be following similar path. Grams attached 3 letters to his bill, from Minn. Public Radio, state Services for Blind and International Assn. of Audio Information Services. Letters say LPFM could cause crippling interference for radio reading services for blind.

Senate should require FCC to force broadcast networks to offer "reasonable amount" of free or reduced-rate air time to political candidates, Sen. Torricelli (D-N.J.) said in speech Sept. 6 on Senate floor. He said political ads accounted for 9.2% of TV ad revenue this year, vs. 3% in 1992. Since amount of ad time is going up while news time devoted to political coverage shrinks, Torricelli said, viewers are 10 times more likely to see political ads than political news. Even if currently proposed campaign reform were enacted, he said, "the pressure for increased expenditures [on political ads] would not abate," so even more extensive reform was needed. Torricelli also said broadcast lobbyists, notably NAB, had opposed reform, making them "a principal component of this problem."

FCC will act on 3 key broadcast issues at Sept. 14 meeting: (1) Possible extension of requirement that TV broadcasters file children's TV programming reports. (2) TV broadcasters' obligation to serve children as they transition to DTV. (3) Proposal to "standardize and enhance" information provided by broadcasters on how they serve public interest.

ONLINE PRECEDENT UNLIKELY: Napster and MP3.com cases are so different that adverse decision in one isn't likely to affect outcome of other, copyright lawyers said. While both file-sharing dot-coms have in common technology that allows easy access to music on Internet — and that raises copyright issues — their operations are fundamentally different, intellectual property lawyer William Frankel said following U.S. Dist. Court, N.Y., decision that MP3.com was liable for millions of dollars in damages for copyright violations. MP3.com copies and stores virtual albums in its database, while Napster, with no storage, allows consumers to swap music with each other.

Napster is more of distribution issue, said e-commerce attorney Anthony Lupo. Because no copying is involved, he said, question whether company is guilty of infringement is "much tougher" than with MP3.com, which "actually downloaded" copyrighted material. One of main contrasts between cases is issue of direct vs. indirect infringement, Napster lawyer Jonathan Schiller said. Napster argued it wasn't liable for contributory infringement because its customers weren't direct infringers — that is, they didn't use music they downloaded for commercial purposes — and because of doctrine of fair use. On other hand, he said, purported direct infringer in MP3.com case was company itself. "There's a world of difference," he said.

If both MP3.com and Napster ultimately lose, Lupo said, online music "will go underground." If recording industry wants to avoid further go-rounds with Napster progenies, he said, it should broker agreements now that would safeguard copyright owners and generate revenue stream, until there's technology to halt unauthorized copying. Universal Music Group declined to comment, citing its pending litigation against MP3.com. RIAA wasn't available for comment.

ASCAP board ratified new music licensing agreement reached with Justice Dept., modifying 50-year-old consent decree. Main changes are easing ASCAP membership restrictions and streamlining license rate proceedings, ASCAP Chmn. Marilyn Bergman said. Latest version eliminates regulations on ASCAP membership, which are unlike those imposed on other licensing groups, she said. ASCAP expects new agreement to cut down litigation by clarifying some terms, as well as speeding processing of litigation involving ASCAP license fees. New order also includes section on Internet — www.ascap.com.

Law enforcement agents posing as journalists "endanger journalists who risk their lives in hostile environments," RTNDA said in letters to Attorney Gen. Janet Reno and FBI Dir. Louis Freeh. Letters were response to reports that agents posed as news photographers to take pictures of demonstrators in Ida. RTNDA Pres. Barbara Cochran also said posing "damages the credibility of news organizations that depend on their independence from government agencies."

Percentage of Americans who have listened to radio online has tripled since 1998 to more than 25%, Arbitron/Edison Internet study found. Study also said 34 million (15% of total) had viewed video online. "Webcasting is rapidly approaching critical mass," Arbitron Gen. Mgr. Bill Rose said. Details of report are to be released at NAB Radio Conference Sept. 21.

New FCC broadcast ownership report forms are available for use, Commission said. Forms, approved by Office of Management & Budget, are for both commercial and noncommercial stations.

HUGHES SEEKS TO SALVAGE SATELLITES: Technical problems with Hughes-made HS-601 satellites may jeopardize operation of at least several satellites now in orbit. Hughes official wouldn't disclose number of satellites at risk, saying it was proprietary information, but admitted 5 of 70 it built had problems. Model is top-selling satellite built by Hughes. "This is a problem we have been heavily analyzing, but it will deal with a finite number of satellites that were built in the early 1990s," official said.

Failure of Satmex's Solidaridad 1 satellite Aug. 27 put focus on problem with 2 onboard computers, or spacecraft control processors, when they stopped working and caused loss of service, industry source said. Manufacturers equip spacecraft with 2 or more backup systems and Solidaridad 1 had been operating with backup processor since April 1999, when primary unit stopped working. Bird died when both of backup processors stopped operating. Source said malfunction was "strikingly similar" to problems with 4 other spacecraft with same design. Hughes and Satmex officials have stopped short of blaming processors, both saying they hadn't completed investigations into cause of failure.

Satellites still at risk are equipped with tin-plated relays to control flow of electricity in dual spacecraft control processors that sources said could cause failure because of short circuits in relays. That has been cited by experts as "most likely" cause of Solidaridad 1 failure. HS-601 models use tin relay switches. Hughes has determined switches are prone to buildup of crystals, called tin whiskers, that can disable processor with short circuits. If processor stops working, satellites can't maintain orientation in space, preventing antennas from pointing toward Earth.

Undetermined number of HS-601 satellites built before mid-1997 are equipped with suspect tin-plated switches, Hughes said. At least one of 5 spacecraft, PanAmSat Galaxy 4, was lost in May 1998 when both processors gave out, but one of failures was caused by undetermined problem, industry official said. DirecTV DBS-1, PanAmSat PAS-4 and Galaxy 7 also malfunctioned in orbit, knowledgeable industry source said. Hughes wouldn't confirm 5th satellite. Source said each bird lost processor and now was operating with help of backup system, making satellites vulnerable to failure.

Hughes fixed problem with tin-plated relay switches in later satellites by using nickel, which it said it believed eliminated chance for crystal growth that caused short circuits. Nevertheless, widespread concern still exists over older satellites with problem-laden tin-plated relays. Spokesman for Brockbank Insurance Services, among underwriters of Solidaridad 1, said entire fleet of HS-601s built without new nickel plate was in jeopardy. Spokesman said insurance underwriter was "very concerned" about processor problem, and "failure" of Solidaridad 1 reinforced belief that major problem still existed. He said "recurring" problems would force company to raise premiums and sharply reduce length of in-orbit insurance policies in future.

PanAmSat spokesman said company had taken steps to prevent loss of service from satellites with tin-plated relays, although no problems had surfaced in routine monitoring tests. Spokesman said Galaxy 7 had been replaced by Galaxy 11, launched in 1999. He said company was unsure whether it would use HS-601 model again. PAS 1R scheduled for launch in Oct. is new 702 model. "When necessary, we are using different types of satellites," he said.

HUGHES ON MARKET?: GM is close to decision on possible sale of DirecTV. GM Vp Harry Pearce has acknowledged holding discussions about Hughes Electronics (HE) that includes DirecTV unit with number of suitors, including potential partners and prospective buyers. Pearce said final decision could come within "few months." GE spokeswoman said company indicated in May that it was stepping up consideration of divesting HE: "We are examining all of our options. There is no definitive timetable other than it's now a matter of months and not years."

Decision to entertain offers for HE was reversal of position for GM and Pearce, who said last year he wanted to hold on to HE to help consolidate evolving technology and new communication features GM planned to put in cars. "What we would expect is a spin-out of Hughes, but not someone acquiring Hughes," said analyst William Kidd of C.E. Unterberg Towbin: "That would benefit their shareholders. We don't want to see acquisition prior to its being spun out."

Sources said HE had talked with News Corp. Chmn. Rupert Murdoch, rumored earlier this year to have interest, and Walt Disney Co. on possible sale. Officials wouldn't confirm or deny speculation about buyers, but Pearce did say company "expects a substantial premium" for HE if it's sold. DirecTV spokesman said company couldn't comment on "rumor" or "speculation."

While it still has 3 months to decide how to proceed, AT&T is more likely than ever to shed its minority interest in Time Warner Entertainment (TWE) to meet FCC's conditions for approval of its recent MediaOne acquisition, cable industry observers said. AT&T also has option of spinning off its Liberty Media and Rainbow Media programming properties or selling cable systems with nearly 10 million subscribers to satisfy FCC. But observers said it probably would divest its 25.5% stake in TWE because of federal antitrust regulators' strong concerns about ties between AT&T and TWE parent Time Warner, nation's 2 biggest MSOs. AT&T, which has until mid-Dec. to choose one of 3 options, now holds stakes in Time Warner through both TWE and Liberty Media and co-owns high-speed cable ISP Road Runner with Time Warner. "I think they're going to have to divest the TWE stake," Precursor Group CEO Scott Cleland said. "The government wants them [AT&T and Time Warner] to be competitors." Analysts also said FTC's concerns about AT&T-Time Warner links should strengthen AT&T's hand in negotiations with its fellow MSO because Time Warner, seeking regulatory approval of its merger with AOL, now has compelling reason to buy back TWE stake of former MediaOne. AT&T reportedly explored selling its TWE stake back to Time Warner but found little interest on TW's part. Janney Montgomery Scott analyst Anna-Maria Kovacs said in report to clients that "because resolving the AOL-Time Warner-Excite@Home relationship is key to Time Warner, we believe that AT&T now has significant bargaining power in its negotiations with Time Warner on the restructuring of TWE." She said "Time Warner may find it hard to merge with AOL without AT&T's help in fixing the Road Runner and Excite@Home problems. To that extent, Time Warner-AOL's problems are likely to be helpful to AT&T." Spokesmen for both AT&T and Time Warner declined comment.

Hearst-Argyle TV said it will buy WHUR-TV (Ch. 9, ABC) Manchester, N.H., for \$185 million. Most of cost will be funded through previously announced sale of 3 Phoenix radio stations. Transaction is expected to close in first quarter.

EchoStar said it signed long-term carriage agreement with Odyssey network and partnership with Pueblo Corp. to provide TV programming to Hispanic community. Agreement calls for Odyssey to be offered to DISH network subscribers at no extra cost. Company also said it was adding WLOS (ABC), WSPA-TV (CBS) and WHNS (Fox) in Greenville-Spartanburg-Asheville-Anderson market and WCPO-TV (ABC), WKRC-TV (CBS), both Cincinnati, and WXIX-TV (Fox) Cincinnati-Newport in Cincinnati. Meanwhile, EchoStar accused FCC of failing to follow congressional mandate in establishing rules for predicting signal strength of local TV stations at individual locations. EchoStar asked FCC to review Individual Location Longley-Rice model for availability and unavailability of local TV signals that determine which DBS subscribers are eligible for distant network signals. It said in filing that agency "compounded" its failure by "unjustifiably" depending on study provided by broadcast supporters that it never placed in public record. Company said FCC also neglected to address proconsumer alternatives to avoid making unserved consumers endure potentially long process before obtaining distant signals.

Internet streaming audio service was started in 11 cities — Atlanta, Boston, Chicago, Dallas, Detroit, L.A., N.Y., Philadelphia, San Francisco, Seattle and Washington — by FMcities.com, company announced. In each city, FMcities.com is offering package of local and national news and information, along with 50 Internet-only radio stations. Local information includes traffic reports, weather, TV listings, news. Company promised no ads until Nov.

AT&T Broadband said it exceeded 300,000 cable telephony subscribers after adding more than 40,000 local phone customers in Aug. AT&T Broadband Pres. Daniel Somers said MSO, which is installing more than 1,800 new customers each day, is on track to meet year-end goal of 500,000-650,000 cable telephony subscribers.

ReplayTV said it soon will start shipping new personal video recorder (PVR) model that could store up to 60 hours of TV programming on its hard drive, twice recording capacity of existing PVRs. Company said new model, ReplayTV 3060, would be available at \$799 through toll-free numbers and retail Web sites. Replay is offering \$100 rebate to customers who order set-top box before Oct. 1.

RnetHealth.com said it added more than 2 million cable households to Recovery Network's subscriber totals so far this year. With addition of 15 cable systems in Atlanta, Chicago, Grand Rapids, St. Paul and other markets, Recovery Network said it now had more than 8.1 million subscribers.

Streaming media company BroadcastAmerica added 43 U.S. radio stations to its Internet package, increasing its total to more than 680 stations. Newest additions include 41 Regent Communications stations.

CBS will add interactive content to drama and comedy series programming under new agreement with Microsoft's WebTV. Specific programs to be affected this season are to be announced later, CBS said, but about 500 hours of programming are to be involved.

PanAmSat signed contracts with 25 broadcasters, programmers and news agencies in 24 countries to transmit coverage of 2000 Olympic Games from Sydney. PanAmSat said it offered both rights holders and nonrights holders production and transmission facilities along with ability to uplink live coverage directly from remote locations throughout Australia via mobile transmission units. Meanwhile, Intelsat said it would transmit TV feeds from Sydney for NBC, BBC, TVE of Spain, ZDF of Germany and RAI of Italy. Eight satellites will be used to transmit games to 100 channels, it said.

Transactions: **Clear Channel Communications** said it would offer \$1.5 billion of bonds to finance redemption of AMFM debt... **Cox Radio** said it completed previously announced acquisition of Midwestern Bcstg., owner of WALR(FM) Atlanta and 3 other stations, for \$280 million... Entercom-Ticker bought FM stations WOLX, WZYM and WMMM Madison, Wis., from Woodward Communications for \$14.6 million, broker Blackburn & Co. said... **AC Acquisitions** acquired WACA(AM) Washington, D.C., for \$2.5 million, broker Blackburn & Co. said.

Over last 12 months, Internet users demonstrated growing preference for high-speed Internet access through their local exchange carrier rather than through cable or ISP, said new study from Strategis Group. Segment of customers preferring cable as their Internet access provider increased slightly to 24% from 19.8% and percentage preferring ISP access service stayed relatively stable at 28.9% in June 2000 against 27.1% in June 1999.

Two high-ranking FCC staffers — Office of Legislative & Intergovernmental Affairs Dir. Sheryl Wilkerson and Office of Media Relations (OMR) Dir. Joy Howell — left Commission to work for Vice President Gore's campaign for President, agency said. Assoc. OMR Dir. Linda Paris was named acting OMR dir. and Jay Heimbach, legal adviser to Cable Bureau chief, acting OLIA dir.

Cablevision Systems announced deals with Source Media and Liberate Technologies to introduce advanced electronic program guide and potentially other interactive TV services to cable subscribers in Boston market. Source Media will supply its interactive program guide, SourceGuide, through its SourceSuite joint venture with Insight Communications. Terms weren't disclosed.

International Launch Services said it successfully launched Sirius 2 digital audio radio services satellite Sept. 5 from Baikonur on Proton booster under guidance of combined Russian-U.S. team.

Kirch PayTV said it sold its remaining 3.1% stake in BSkyB for \$864.8 million. Kirch had bought 4.3% stake in BSkyB in Dec. when latter purchased 24% of Kirch.

Radio ad revenue jumped 11% in July, mainly because of local ad sales, Radio Ad Bureau said. Pres. Gary Fries predicted "steady" ad revenue figures for rest of year.

DirecTV will provide NBC coverage of 2000 Summer Olympic Games in Sydney, Australia, to commercial passengers on JetBlue Airways and Legend Airlines.

Personals

Marvin Goldsmith named executive vp, ABC Bcast. Group... Ed Wilson, ex-CBS, appointed pres.-enterprises and syndication, NBC... Laverne McKinnon named CBS dir.-drama development... Laurie Younger appointed vp-CFO, ABC... Donald Brown, ex-Pappas Telecasting, named general mgr.-San Antonio operations, Hispanic TV Network... Elected to ALTV board: Kevin O'Brien, exec. vp, Cox TV Independent Group and vp-gen. mgr., KTVU San Francisco; Al DeVane, gen. mgr., WPWR-TV Chicago, and pres., Newsweb Bcstg... Tim Link, ex-AMFM, appointed dir.-sales Wichita Operations, Journal Bcst. Group... Stephen Carter, ex-J. Walter Thompson U.K. Group, named COO, NTL.

Changes at CTAM: Leslie Ellis named senior technology adviser, Walter Ciciora senior technology instructor... Wilson Flannery, ex-Columbia Tristar Home Video, appointed dir.-affiliate management, Fox Cable Networks Group... Heather Thomas, ex-ESPN, named dir.-creative services, Fox Cable Networks... Kevin Gordon, ex-JVC America's Corp., appointed dir.-partnership mktg. and promotions, Showtime Networks... Erin Breen named Bravo Networks dir.-trade & consumer mktg... Michael Salgado becomes vp-gen. mgr., Las Vegas CableRep Advertising, Cox Communications.

Peg Murphy, ex-NBC, named partner and dir.-N.Y. office, NeoCarta Ventures... Wendy Winks, ex-Universal Studios, appointed vp-corporate mktg. and partnerships, television.com.

EchoStar CEO Charles Ergen said he would bid for satellite rights to NFL football once league's contract with rival DirecTV runs out in 2002. DirecTV paid undisclosed amount for exclusive DBS rights to carry league games and carriage has been primary reason for its recent subscription surge.

EchoStar said attorney David Boies, who represented U.S. in antitrust battle with Microsoft, would handle its antitrust lawsuit against rival DirecTV. Boies, partner in Armonk, N.Y., firm of Boies, Schiller & Flexner, will be lead attorney on case, EchoStar spokeswoman said, working with Wade Welch of T. Wade Welch & Assoc. of Houston.

ABC and CBS won't broadcast Presidential debates originating on CNN and NBC, they announced Sept. 5. Tex. Gov. George Bush had proposed that 2 of debates be prime-time version of NBC's *Meet the Press* and edition of CNN's *Larry King Live*. Gore campaign is pressing for 3-debate structure proposed by Presidential Debate Commission.

Society of Cable Telecom Engineers asked for comments on its proposed new video standard for digital cable network architecture and delivery of emergency alert information, with Sept. 15 deadline.

WXXA-TV Albany, N.Y., will use Sundance Digital software for its planned multichannel operation, companies said. In addition to Fox programming on broadcast channel, Clear Channel station is transmitting cable-only UPN affiliate.

Clear Channel agreed to buy 5 Sioux City, Ia., radio stations from Radioworks Inc. for undisclosed price, companies said. AM stations are KMNS and KWSL and FMs are KSFT, KSEZ, KGLI.



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Inmarsat Ventures and Live-Inflight Video Entertainment announced AIRIA joint venture to provide live TV, news, sports and entertainment to long-haul airline passengers in 3rd quarter. At outset, AIRIA will enable airlines to receive live world news TV from BBC World and live sport channel carrying international sports events designed by Trans World International. AIRIA said it would add channels, content and broadband data services in future to meet passenger demand. Inflight service will use Inmarsat satellites and satcom antennas that are installed in 76% of modern long-haul aircraft.

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STATE OF THE INDUSTRY

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

	AUG. 19- AUG. 25	1999 WEEK	% CHANGE	AUG. 12- AUG. 18	34 WEEKS 2000	34 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	814,637	996,790	- 18.3	582,383	17,923,448*	16,786,004	+ 6.8
DIRECT-VIEW**	776,836	958,208	- 18.9	563,060	17,152,931*	16,135,912	+ 6.3
TV ONLY#....	582,144	777,230	- 25.1	492,817	14,186,304	13,519,219	+ 4.9
TV/VCR COMBO.	194,692*	180,978	+ 7.6	70,243*	2,966,627*	2,616,693	+ 13.4
PROJECTION...	37,801	38,582	- 2.0	19,323*	770,517*	650,092	+ 18.5
TOTAL VCR**...	842,204	959,681	- 12.2	355,697	16,473,767*	15,450,730	+ 6.6
HOME DECKS...	647,512	778,703	- 16.8	285,454	13,507,140*	12,834,037	+ 5.2
CAMCORDERS.....	135,201	175,516	- 23.0	85,238	3,425,676*	2,875,043	+ 19.2
DVD PLAYERS....	191,140*	156,564	+ 22.1	124,124*	3,796,009*	1,871,856	+102.8

Direct-view TV 5-week moving average#: 2000-503,751; 1999-530,115 (down 5.0%).

Projection TV 5-week moving average: 2000-25,553; 1999-27,238 (down 6.2%).

VCR deck 5-week moving average: 2000-511,942*; 1999-484,760 (up 5.6%).

TV/VCR 5-week moving average: 2000-112,369; 1999-151,714 (down 25.9%).

Camcorder 5-week moving average: 2000-114,169; 1999-103,959 (up 9.8%).

DVD player 5-week moving average: 2000-170,855*; 1999-89,964 (up 89.9%).

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

PHILIPS DVD+RW DECK NOW DUE IN SEPT. 2001: First "meaningful" commercial quantities of Philips DVDR1000 DVD+RW recorder won't make it to retail shelves until next Sept., around time of 2001 Internationale Funkausstellung in Berlin, Philips executives told us at our Fri. deadline at CEDIA Expo in Indianapolis.

Time frame for commercial introduction is considerably later than Philips' original target of delivering first DVD+RW recorder by end of 2000. Even as recently as several weeks ago, Philips executives based in Eindhoven where DVDR1000 is being developed said first samples would make their way to key dealers and reviewers before end of this year, with high-volume quantities filling pipeline by midyear 2001.

At \$3,000, price of DVD+RW recorder also will be much higher than Philips had indicated. At past trade shows, company's top executives said first rewritable DVD deck would sell at price comparable with first-generation DVD-Video players, with blank software not much costlier than current CD-RWs. Indeed, DVD+RW backer Thomson Consumer Electronics had said it would offer self-made deck for below \$1,000. Thomson spokesman told us Fri. that his company's DVD+RW plans wouldn't be affected by Philips' situation, but that it thought late 2001 was right time to introduce new technology, and \$1,000 would be ideal price. "But it's anyone's guess when it's going to arrive and how much it's going to be," spokesman said. "Our overriding concern is to have backward compatibility, regardless of the format's name."

Philips' new target for delivering samples is 2nd half 2001, Mark Poldervaart, mktg. mgr. for DVD+RW, told us. He blamed delays on key component problems, saying Philips engineers were having trouble getting at least 2 newly developed chips for DVDR1000's optical drive to "communicate with each other."

Poldervaart denied that delays in DVDR1000 had anything to do with industry efforts to unify DVD+RW with Pioneer-backed DVD-RW formats. However, he said Philips was stating its belief that compatibility between those record-

able formats was important "even before it was fashionable to do so." He confirmed that Philips came very close some months ago to signing on as charter member of Pioneer-orchestrated RW Products Promotion Initiative (RWPI), but declined because multicompany consortium didn't emphasize 2-way format compatibility strongly enough. Asked what impact Sony's decision to join RWPI would have on effort to make DVD+RW commercially successful as home video recording format, Poldervaart said defiantly that he didn't believe Sony ever would bring DVD-RW home recorder to market.

Two cosmetically different versions of DVDR1000 will be available at commercialization — unfinished aluminum for Europe, black for U.S., Poldervaart said. Deck will feature 4 recording modes. One-hour mode operates at 10 Mbps, and is suggested for dubbing DV camcorder footage through front-panel input. Two- and 3-hour modes, at 5 Mbps and 3.3 Mbps, respectively, will record off-air programming at prerecorded DVD and S-VHS quality. Efficiency 4-hour mode operates at 2.7 Mbps. Recording time conceivably could be pushed to 8 hours, said Chris Buma, Philips program mgr.-A/V disc recording, told us, but video quality would be sub-DVD and audio also would be affected. He said 8-hour recording also would require special DVD-Video decks capable of improved playback. Like recently introduced Panasonic DVD-RAM recorder, Philips DVD+RW deck can improve quality of dubs from analog sources. Poldervaart told us deck had time-base corrector, component- and S-video inputs, other enhancement circuitry.

Other big Philips wave was surprise introduction of industry's first multichannel Super Audio CD (SACD) player. In contrast to SACD partner Sony, which at same CEDIA show eschewed multichannel deck until sometime next year, Philips said it would target SACD1000 to broad audience and would introduce it at end of this year at \$2,000. Universal player will play DVD-Video discs as well as Video CDs and home-recorded CD-R and CD+RW media, but not DVD-Audio titles. Tom Gevers, SACD product mktg. mgr. for Philips based in Eindhoven, estimated that more than 160 SACD titles were available worldwide now, including some proportion of hybrid discs with stereo and multichannel SACD data in addition to Red Book audio CD material. He said Philips believed introduction of SACD1000 would spur development of multichannel SACD software base.

SONY ES-BRANDED DVD PLAYER DUE IN NOV. AT \$1,500: Sony used opening night Indianapolis news conference at last week's CEDIA Expo to introduce variety of "firsts," including "ES"-branded DVD player, making it first such product in video arena to bear coveted brand designation previously applied to limited-distribution audio gear.

Vic Pacor, pres. of Sony Home Network Products, said debut of DVP-S9000ES deck in Nov. at \$1,500 would "raise the bar" on high-end DVD hardware playback. Deck has 480p progressive scan output designed to deliver picture quality that's native on DVD movie disc with method called "3-2 reverse conversion." Deck incorporates feature called "precision cinema detection," which Sony said analyzes movie's original film/video frame composition, "restructures" it for DVD playback and "renders sharp, film-like progressive images as close to the original source material."

Sony technical backgrounder, alluding to current industry debate that not all progressive-scan DVD players "are created equal," said smooth 480p output depended on "proper" 3-2 reverse conversion. "To accomplish this," paper said, "the player must accurately detect the 3-2 cadence" of original master tape, using sequence of "first field repeat flags" found on most DVDs. But Sony said anomalies in encoding and authoring stage could throw flags out of kilter, causing even high-end players to produce not-so-subtle picture artifacts. Sony said DVP-S90000ES overcomes problem by performing high-speed detection of missing flags, which are reconstructed for smoother movie playback.

For optimal performance, Pacor said DVP-S9000ES would be positioned to sell alongside FD Trinitron Wega direct-view TVs or with either of 2 new 57" and 65" rear-projection widescreen TVs also introduced at CEDIA, which he said were Sony's first rear-projection models to bear "XBR" designation previously reserved only for direct-view sets. Available in Oct., Sony said, KP-57XBR10W and KP-65XBR10W, \$4,499 and \$5,499, respectively, use "Hi-Scan" chassis introduced at last Jan. Consumer Electronics Show and Sony's "digital reality creation" circuitry, said to upconvert NTSC signals to near-HD quality.

Although jury is out on commercial success thus far of Super Audio CD (SACD) format, Sony said that another important distinction of DVP-S9000ES was that it was company's first DVD player to incorporate SACD playback. Pacor said SACD "was always envisioned as a full-line concept," and Phase 2 of Sony's SACD initiative introduced at CEDIA featured expansion of line to include industry's first 5-disc SACD changer. Introduced at CEDIA, SCD-C333ES will ship in Nov. at \$1,200. Common to SCD-333ES carousel and SACD playback section of DVP-S9000ES is that they're stereo-only, just as with first-generation decks introduced nearly year ago. Pacor said that was to address continuing clamors from "pure audio" enthusiasts for stereo-only SACD playback, but he said multichannel SACD capability was likely to be part of Phase 3 introductions planned for upcoming Jan. CES in Las Vegas.

Michael Fidler, Sony senior vp, AV mktg., said Phase 3 also would include more mainstreaming of SACD product and some broadening of distribution beyond ES retail accounts that currently carried it. He wasn't more specific, except to say that such initiatives were natural in evolution of new format such as SACD and were necessary to build momentum crucial to growing software support. He said SACD hardware sales thus far had lived up to Sony's "modest" expectations.

Other Sony CEDIA developments: (1) Two new 301-disc DVD-Video changers were said to be first that were capable of accessing both sides of double-sided disc. DVP-CX870D and DVP-CX-860 will be available in fall at \$899 and \$699, respectively. (2) Sony Financial Services expanded consumer financing program to prospective buyers of high-end Sony home entertainment systems. Subsidiary also introduced "Sony for Life" trade-up program where, after 12 months, consumers can apply "fair market value" of current equipment toward purchase of new gear.

CIRCUIT CITY WARNS INVESTORS: Circuit City last week adjusted its earnings expectations for 2nd quarter ended Aug. 31, warning investors that earnings would be less than forecast.

Pres.-CEO Alan McCollough said company now expected to report "earnings per share for the Circuit City business of approximately 21¢, which is 2¢ lower than our July forecast." First Call/Thomson had indicated analysts were expecting Circuit to report earnings of 27¢ per share.

Primary reason for lower forecast was decision to exit appliance business (TVD July 31 p11), McCollough said last week: "We initiated our major appliance clearance sales in some stores in multistore markets earlier than anticipated and increased our markdowns in response to intensified competitive promotions which followed our announcement that we would exit the category."

Company's 21¢ prediction included 2¢ per share from appliance merchandise markdowns and previously anticipated 9¢ per share of one-time costs of quitting appliance business, McCollough said. He said that excluding those costs, which included ones related to employee severance, fixed asset impairment and lease terminations — "we anticipate earnings per share for the Circuit City business of approximately 32¢."

McCollough said: "Comparable-store sales in the major appliance category declined 23 percent for the quarter. Merchandise markdowns in the appliance category began in the first group of stores in late July and August, and the appliance sales decline lessened considerably as clearance sales progressed."

Company said 54 stores had completed ending appliance business and had undergone remodeling by Labor Day. It said it expected "to complete one flight of stores per week between now and November 6." First new store reflecting company's focus on CE and office products, accompanied by more contemporary look, opened in Jacksonville in mid-Aug. Financial Relations Vp Ann Collier said last week that "general reaction" so far to new store design was "highly favorable," and 2nd new store would open in Albany, N.Y., later this month.

Meanwhile, Circuit City Stores sales jumped 7% to \$3.18 billion from \$2.96 billion quarter year ago and Circuit City Group sales 4% to \$2.51 billion from \$2.42 billion. Company said that excluding appliance category, comparable-store sales increased 6% in quarter.

Company said top sellers in quarter included home office category, especially products emphasizing digital imaging tech-

nology. Collier said TV sales were driven by big-screen sales. She said audio business increased, especially digital audio recorders, home-theater-in-a-box, MP3 players, mobile audio.

While cutting core business expectations, Circuit increased its CarMax Group forecast, saying it expected it to contribute about 6¢ per share to Group's 2nd-quarter earnings, resulting in 27¢ earnings per share in quarter, down from 36¢ year ago. CarMax Pres. Austin Ligon said: "We increased our earnings expectations to a range of 11¢ to 13¢ per CarMax Group share following the first 2 months of the quarter, but adding the strong August performance, we now anticipate earnings per CarMax Group share of approximately 15¢."

At least some gamers who logged onto SegaNet online site on its debut day last week had difficulty signing up for free 50 hours, Sega spokeswoman said. Trouble, she said, was "such an overwhelming demand" from Dreamcast owners. But she said everything was resolved by following day, Fri. Company said SegaNet officially kicked off Thurs. with "multimillion-dollar advertising and marketing campaign," starting with broadcast of MTV Video Awards, which Sega sponsored for 2nd consecutive year. Ad campaign includes one 60-second TV spot, "Civil War," and two 30-second spots, "Crushcrew & Rudd" and "Packer Pack." Company said it was resurrecting its "Sega Scream" from early 1990s in each of new ads and said "Scream" would "become a symbol of Sega's leap into the online world." Campaign was created by San Francisco office of Foote, Cone & Belding and commercials include animated footage from Pacific Data Images, same company that created animated movie *Antz*. Day before SegaNet start, Sega.com said it had officially closed beta testing phase of SegaNet, with feedback from 100 beta testers "overwhelmingly enthusiastic." Separately, Sega of America announced it was entering partnership with Bubblicious. As part of deal, Sega said it was offering consumers who tried new Bubblicious chewing gum flavor Savage Sour Apple exclusive opportunity to win prizes including 100 Dreamcast systems.

Dual CD recorder with 4X dubbing made debut from Aiwa. XC-RW700 (\$650) can dupe 74 min. CD in less than 19 min. on either Audio CD-R or CD-RW blanks, but lacks MP3 function in recently announced Harman Kardon 4X dubbing deck. Aiwa model has automatic sample-rate converter that covers range from 32- to 96 kHz. Deck also has 2 coaxial and 2 optical digital inputs, 2 coaxial and 2 optical digital outputs, single set of analog inputs and outputs, headphone jack with level control. Aiwa recently introduced first line of autosound in-dash receivers with input jack for MP3 portable music devices, priced at \$110-\$350. CD models will play CD-Rs and CD-RWs.

KOZMO.COM EXPANDS SERVICE: N.Y.C.-based one-hour delivery e-tailer Kozmo.com said last week that it had expanded service in 4 of its 11 markets — Chicago, L.A., Portland, Ore., Washington.

News came as e-tailer was accused of refusing to deliver merchandise to neighborhoods with predominantly black residents in violation of Human Rights Act. Although new areas that are receiving Kozmo.com service include minority neighborhoods, e-tailer didn't link discrimination claim to decision to enter those areas.

U.S. Dist. Court, D.C., judge dismissed discrimination case Sept. 1. But report last week indicated that lawyer handling case was about to file new suit at higher level.

Kozmo.com spokesman said company "would have expanded into those [new] areas sooner as part of our regular course of business were it not for the pending, and now dismissed, litigation." He told us last week that another suit hadn't been filed against his company but he said: "We don't believe that there is any more merit [to case] under state law than under federal law."

Just after federal case was dismissed, Kozmo.com COO Kenneth Trevathan issued statement, saying: "Kozmo.com is built on diversity. The company was founded by two Asian-Americans, received important funding and guidance from African-Americans and prides itself on its diverse work force. Our business model has always considered many factors in determining our delivery areas, including accepted indicators of Internet penetration. Race is not and never has been a factor in our analysis and we were committed to defending the company against these false allegations."

Kozmo.com delivers CDs, consumer electronics, DVDs and other items within one hour in select areas of Chicago, D.C., L.A., N.Y. and Portland, as well as Atlanta, Boston, Houston, San Diego, San Francisco, Seattle.

Although reports in recent weeks indicated company had been talking with Urbanfetch.com, its N.Y.C.-based main rival in one-hour delivery arena, about acquiring it (TVD Aug 21 p13), Kozmo.com spokeswoman said last week company "doesn't comment on rumors."

High-definition DVD might be put on hold owing to lawsuits among makers of blue light wavelength semiconductors needed to read tighter pit pattern of HD optical discs. Japanese press reports said 8 different lawsuits were pending between Nichia Corp., chemical producer with many patents on blue LED used for short wavelength lasers, and Toyoda Gosei, another LED maker. Nichia sued Toyoda for patent infringement after latter began marketing blue-green LED it claimed had structure different from Nichia's. Upshot is that CE companies developing HD-DVD products are in holding pattern until lawsuits are resolved.

First TV/PVR combo has been announced by Chinese TV maker Changhong. Device has 90-hour storage on hard disc drive and adds \$108 to cost of set, Chinese press reported. First combos are expected to ship domestically by Nov. and provide brand with point of differentiation in fierce TV price wars in China.

Harman International plans appeal of \$5.7-million judgment awarded to Bose Sept. 1 in which it was alleged that some models of Infinity and JBL speakers infringe on Bose patents. Harman said it believed "the court erred" in granting Bose injunction barring Harman from producing or selling speaker systems with elliptical-shaped plastic port at issue in suit. Harman said it would file appeal immediately, but in meantime would "substitute an improved design for the small plastic port deemed to infringe." CEO Bernard Girod said: "We expect our appeal to be successful. If, however, the judgment is not reversed on appeal, it will not have material consequences for the company. We have provided for such contingencies in our business plan."

Bust of CD counterfeiters was announced by RIAA and N.Y.C. police last week, following Aug. 30 raid on 2 distribution centers in Manhattan. Authorities said more than 59,000 counterfeit CD-Rs were seized, featuring titles from prominent artists such as Garth Brooks, Mariah Carey, Whitney Houston, Enrique Iglesias, Rickey Martin. They said 15 were arrested and charged with trademark counterfeiting and failure to disclose origin of recording, both in first degree — felonies that each carry 7-year maximum jail term.

Battle continues between Sony Computer Entertainment America (SCEA) and Connectix. Connectix Pres.-CEO Roy McDonald told us last week that March 5 has been set for start of trial. SCEA has been attempting to stop Connectix from selling PlayStation videogame emulator ever since product was unveiled in Jan. 1999. SCEA voluntarily dismissed patent suit against Connectix earlier this year but quickly refiled amended version (TVD July 10 p13).

Impact of DVD rentals on VHS video market is one of several topics discussed in new report from research firm Centris titled *Who's 'Bought In' to DVD: A Demographic, Technology and Entertainment Profile of Early Adopters*. Report also discusses level and mix of DVD rentals and purchases, instances of dual DVD-Video and DVD-ROM households — www.centris.com.

Blockbuster's video-on-demand (VOD) service through Enron Broadband Services will use nCube's MediaCube 4 system for streaming media, companies announced last week. Technology will be used to store, manage and stream all digital content for Blockbuster's service. nCube said its system gave viewers VCR transport functions when watching movies or interactive programming. Separately, Blockbuster last week began sales of DirecTV equipment and subscriptions through its 3,800 outlets.

Yamaha shifted DVD production to Malaysia from Japan in effort to reduce costs of making players for export markets, primarily price-competitive U.S. Yamaha plant at Hamamatsu, Japan, will continue making high-end players, where profit margins are less stressed.

Hitachi will spend \$50 million expanding its CRT plant in Greenville, S.C., it said last week. Plant makes tubes for projection TVs. First phase of 30,000-sq.-ft. expansion is scheduled for completion in June.

Mattel Interactive is shipping *Barbie Fashion Pack Games* for Game Boy Color nationwide in U.S. at \$29.99.

ETOYS TO LAUNCH NEW WEB SITE: eToys will be starting ParentCenter.com Web site next month and Santa Monica-based e-tailer said it would be only "the first of several new channels that eToys plans to launch this fall as it pursues its mission of creating the ultimate online family destination."

ParentCenter.com will be combination e-commerce and personalized information resource for parents of children ages 2-12, company said. eToys said new site was conceived to capitalize on already established relationship company has developed with customers of already opened BabyCenter.com Web site. Like eToys's BabyCenter.com, new site will generate revenues through ads and sponsorship fees, company said.

Company already had announced plans to introduce hobby and party channels at its eToys site this fall.

Speaking at 7th Annual Goldman Sachs Global Retailing Conference in N.Y.C. last week, eToys Pres.-CEO Toby Lenk said company had "8 channels today," plans to have "12 channels by the holiday [season]" and would add "2 more commerce channels in the first half of next year." That, he said, translates to company's having "14 channels" in "the first half of next year." However, he didn't indicate what those other new channels would be.

Meanwhile, company is eyeing expansion on other fronts as well, including entering more countries in Europe. eToys already has U.K. site and "we're going to assess when and how aggressively to expand in Europe on an ongoing basis," Lenk said. But he said: "We're going to pace expansion there to capital availability and we don't want to lose the path to profitability here [in U.S.] with overexpansion in Europe. So we're going to be very prudent about that. So don't expect [us] to launch 8 countries in the next 3 months. The capital markets are telling us not to do that."

Lenk also said company was "doing some testing right now" of Family Photo Center in conjunction with Shutterfly.com, at BabyCenter.com site that represents "experiment in the services arena for us." Among other possible experiments company might try is service, perhaps in conjunction with travel company, that would provide travel tips for families. But Lenk said "the arms race is over" online and there isn't as much competition as there was year ago, so company's plan is to "pace our expansion to available funds and we will... drive to profitability and we will not go off ahead of our time and try to do 20 different things."

Lenk said company expected to "be contribution break-even this year on a full year basis" and "will be virtually break even [overall] next holiday [season] and we will be profitable on a full-year basis in 2002."

As of now, only major eToys competitor in online space is Amazon.com/Toys "R" Us joint toy business, Lenk said.

Among various achievements eToys has been able to achieve in last year, he said, were its bringing average order size up to \$67 and customer acquisition cost down to \$36. Of former, he said: "You've got to drive order size up to make money on the Web," noting that companies including CDNow have much lower rates and have taken beating for that. On latter, he said: "We're going to drive those [customer acquisition] costs down lower."

As for upcoming holiday season, Lenk said: "We feel we're very well-positioned... to do very, very well and capitalize on the growth of the sector and drive a lot of the growth." He said one advantage eToys would have this season over last year was its addition of East Coast distribution center in Va. that added to its fulfillment capabilities. It had only Ontario distribution hub last year.

On videogame front, Lenk said "I must defer" on predicting outcome of upcoming console war, although he said: "I don't think there's room for 4" players. As for PlayStation 2, Lenk said he expected eToys would be in much same position as other retailers this year: "Whatever everyone gets, we're going to sell." It will, he said, be a "severe overdemand situation," adding: "The demand is going to outstrip supply 10 to 1."

As for current state of Sega Dreamcast business, he said only that it was "softening a little bit."

Rockstar Games, high-end publishing arm of Take Two Interactive, announced live debut of Web sites for each of 2 of company's upcoming PlayStation 2 titles — *Smuggler's Run* and *Midnight Club*. It also announced that *Smuggler's Run* soundtrack, on Chicago-based dance record label Guidance Recordings, would ship simultaneously with game console debut.

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BABBAGE'S GEARS UP FOR HOLIDAYS: As holiday season looms, Babbage's Etc. is getting ready for what it believes will be especially busy period thanks in large part to debut of Sony's PlayStation 2 (PS2) in U.S.

John Woodson, recently named pres. of company's Internet division, said Babbage's was confident it would be able to duplicate its success of last year in getting majority of merchandise ordered online before holidays into customers' hands on time.

Woodson said Babbage's already had "been preselling [PS2s] for a number of months now and it's selling very, very well." However, he declined to say just how many consoles that translated into. But he added: "We continue to actually see an increase in demand for preorders of PS2. We've sold many more, we think, than what we expect will probably get an allocation [initially from Sony]." Echoing what most in industry have been saying, he predicted that "demand is going to be greater than supply in the United States." In fact, there's message at company's Gamestop.com Web site that says: "Because of the overwhelming demand for the PlayStation 2, all preorders for the console placed at Gamestop.com on or after July 3, 2000, are not guaranteed for delivery at launch."

As for when Woodson thinks supply will be able to meet customer demand for PS2, he said: "We're waiting for Sony on that." He also said he was "still waiting for the final details" that would indicate how many PS2 titles would be available in time for rollout.

On online front, Woodson said with confidence: "We're ready for the holiday season with our fulfillment process that worked flawlessly last year. It will work flawlessly again this year, although we expect to have growth of several hundred percent probably." At this point, he said, company is "looking at 90 to 95 percent of our orders' leaving this building within 12 to 24 hours [from time] when they're placed." He admitted, however, that international orders "take a little longer to process."

What stands to significantly increase merchandise and customer orders that company must handle this season is fact that Babbage's now has Funco in its fold since Babbage's parent Barnes & Noble acquired former competitor earlier this year (TVD May 8 p18). Woodson said that although "Funco fulfillment is right now still done out of Minneapolis, that will be consolidated probably within a year" and be taken up by what he called "fulfillment machine" at Babbage's hq in Grapevine, Tex.

Like most other companies in electronic game arena, Babbage's is looking forward to PS2 debut because it represents first major step out of period that has seen sales drop off industrywide as transition to new game platforms has dragged on. Barnes & Noble posted 2nd-quarter loss of \$8.65 million Aug. 17, reversing \$23.54 million profit year ago. It blamed loss in part on losses at Babbage's/Funco videogame business, which alone saw loss of 12¢ per share due to what company said was lower-than-expected gross margins caused by "higher-than-anticipated hardware sales, and lower-than-anticipated accessories sales." Barnes & Noble said it expected more of same in 3rd quarter but was looking forward to strong 4th quarter thanks to PS2.

"We think it's going to be a great 4th quarter," Woodson said: "We think 2001 really is shaping up to be exciting for the

whole industry, with PlayStation 2, we think, [continuing] to be strong throughout the year" as well as additions of Microsoft's X-Box and Nintendo's Gamecube and Game Boy. "This is really exciting," he said.

Unlike at least some analysts and game makers, Woodson said there may be room on market for 4 consoles: "I think you'll end up seeing different platforms dominating [within] different segments [of consumers]. I don't think you'll see one platform that will cross the 8-to-35-year-old group. I think Nintendo will clearly try to work the lower end of the range, PlayStation 2 the upper end-middle part of it, [but with] X-Box it's hard to say."

"We expect Dreamcast to continue to do well," Woodson said. Unlike some in industry, he said Babbage's hadn't seen decrease in Dreamcast interest since platform's strong showing at its launch. "Dreamcast interest is way up and is selling very well for us," he said, and rebate promotion over summer "has driven sales for us." What will help Dreamcast sales, he said, is "we think it'll be priced very, very competitively over the next 12 months compared to Sony or compared to Nintendo. We think it gives consumers a good option at a price-performance level."

Hasbro Interactive said last week it had successfully settled its intellectual property suit against software companies distributing "knock-off" versions of several Atari games. Game maker said eGames, MVP Software and Webfoot Technologies consented to federal court judgment that acknowledged Hasbro Interactive's copyrights to such games as *Asteroids*, *Centipede*, *Dig Dug* and *Missile Command* that it had acquired in 1998. As part of settlement, defendants are prohibited from selling games cited in suit and Hasbro Interactive is to be paid undisclosed amount of money. EGames said it didn't admit to any infringement as part of settlement although it agreed to discontinue sale of 12 of its games after Sept. 30, Reuters said. Commenting on settlement, Hasbro Gen. Counsel Barry Nagler said: "This is a content-driven business, making the protection of our intellectual property among our highest priorities. We're pleased that these companies and the court have acknowledged the validity of our copyrights and, additionally, believe that this will alleviate consumer confusion about the authenticity of the games they purchase." Suit was filed in U.S. Dist. Court, Boston in Feb. and originally also named GT Interactive and Varcon Systems as defendants, but settlements were reached with those companies before last week.

Acclaim Entertainment said *Turok 3: Shadow of Oblivion*, final installment in *Turok* franchise for N64 which it said has sold in excess of 3 million copies, has arrived in stores. *Turok 3* also is available for Game Boy Color.

Sierra Sports started shipping *Maximum Pool* game for Macintosh and Windows 95/98 at \$29.99. Company also said *Professional Bull Rider 2* was available for Windows 95/98 at \$19.95.

THIS WEEK'S YEN RATE

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

EB POSTS 2ND-QUARTER LOSS: Electronics Boutique (EB) reported \$2 million 2nd-quarter loss, reversing \$500,000 profit year ago, blaming plunging sales of Pokemon trading cards and \$1.9 million in costs of failed bid for Funco (TVD May 8 p18). Revenue rose 11.2% on 3.1% gain in same-store sales.

Toys and trading cards fell to 6% of revenue from 13% year earlier, partly offset by gains in video and PC games. EB also received \$1.6 million in pretax income as \$3.5 million termination fee from Funco, which was acquired by Barnes & Noble.

Videogames accounted for 40% of revenue in quarter, up from 36% year earlier, as strong Sega Dreamcast and Nintendo N64 software sales offset "slowing" of Sony PlayStation titles, EB Senior Mds. & Distribution Vp Jeffrey Griffiths told analysts in conference call. EB sold 95,000 Dreamcast consoles in quarter, he said.

PC games, led by *Diablo II* title, rose to 27% of revenue from 23% year ago, but videogames hardware slipped to 5% from 6%, Griffiths said. Gross margin fell to 24.7% from 26.7% on downturn in sales of more profitable Pokemon trading cards.

EBWorld.com online business lost \$1 million on sales of \$4.1 million. Web site had 9.5 million unique visits in quarter, up from 3.5 million year ago.

Griffiths was optimistic on Oct. debut of Sony's PlayStation 2, telling analysts chain expected to receive 10% share of first million units shipped to U.S. EB is planning "very aggressive" software promotions aimed at selling 5 titles with each PlayStation 2. Strategy will be key since Sony is telling retailers that future allocations will be based on their ability to tie software sales to hardware, Griffiths said. Profit margins are expected to be 24-25% on PlayStation2 software, 3% on hardware and low 30% on accessories, he said. EB is targeting 2-1 ratio for accessories sales to hardware, Griffiths said. While Sony has projected having 12-15 titles at start, he said selection could hit 20, increasing to 60 by year-end.

EB has 108,000 preorders for PlayStation 2 console and 8,800 in reserve, Griffiths said. In contrast, EB had 51,000 preorders for Sega Dreamcast before rollout last Sept.

Griffiths conceded chain was "somewhat concerned" by upcoming shipment of Nintendo of America (NOA) Pokemon Gold and Silver Game Boy titles. EB has ordered 100,000 of each, he said. "It will require a little more effort on everybody's part." NOA has projected selling 10 million Gold and Silver titles by year-end.

EB also is revising strategy for budget titles and aims to increase market share in category, Griffith said. "It hasn't been a strong emphasis for us and we need to stock the product deeper and be sharper on price," he said.

Barnes & Noble had \$8.6 million 2nd-quarter loss vs. year-earlier \$23 million profit on greater-than-expected weakness in Videogames Div. Revenue rose to \$924.3 million from \$727.2 million. Sales at Babbage's and newly acquired Funco were higher than expected at \$127 million, but gross margin

dropped on lower sales of accessories, B&N said. Same-store sales at B&N bookstores increased 6.6%.

InterTan reported 4th-quarter income jumped 52% as sales increased to \$102.4 million from \$91.7 million. For year ended June 30, InterTan turned around year-earlier \$24.6 million loss with \$25.1 million profit as sales dipped to \$484.2 million from \$500 million. Loss year ago was result of InterTan's sale of 270 Tandy stores in U.K. to Carphone Warehouse (TVD Feb 1/99 p16). InterTan operates 1,100 stores under Tandy and RadioShack banners in Canada and Australia.

Amazon.com opened Computer & Video Games Store at its Web site Fri. that takes place of its Video Games Store. Company called store "a one-stop gaming destination for both casual and hard-core gaming enthusiasts" that also features accessories, improved navigation by gaming platform, interactive gaming community via discussion boards and customer reviews, new and future release lists. Amazon.com also said it was offering customers exclusive downloadable multiplayer map for game *Command & Conquer: Red Alert 2* as part of deal with Westwood Studios/Electronic Arts. E-tailer also said it was exclusive online partner of Interactive Digital Software Assn. for latter's annual "A Nite to Unite for Kids" online auction. Amazon Auctions will host online auction Oct. 7-20 featuring unique and hard-to-find games.

Sega Dreamcast version of Infogrames PC game *Unreal Tournament* will ship this fall, game maker said last week. Title was developed by Epic Games. Multiplayer Dreamcast version, which can be used in conjunction with SegaNet, is being produced by Secret Level in San Francisco. Separately, Infogrames, DC Comics and Warner Bros. Consumer Products used London's European Computer Trade Show last week to announce worldwide license agreement that gives Infogrames rights to feature Superman character in "an extensive program of games" for all major platforms including those of Nintendo, Sega, Sony. Infogrames said games based on animated Superman series would be created specifically for children and young adults, while titles derived from "edgier style" comic book stories will appeal to hardcore gamers and long-time Superman fans.

New report released last week by Media Metrix and NPD Group said as many as 65% of consumers with Web access may buy electronic gaming product online in next 6 months. While 30% of online customers said they were likely to purchase product, 35% said they might make purchase and 35% said they didn't plan to buy one. Report also said 92% of all online users were aware of at least one electronic gaming Web site, nearly half (48%) had at least shopped online for those products, 15% had made purchase. Research also indicated that there was high level of customer satisfaction with Web sites. But report said some areas need improvement if e-tailers want to maximize sales. For example, 29% of consumers surveyed said they were dissatisfied with lack of free shipping, 19% didn't like downloadable demos and trailers they had seen, 11% were dissatisfied with product reviews. Turning around old situation, 88% of those surveyed said they were satisfied with site security.

Brief exposure to ultraviolent videogames may not be particularly destructive to children, online report said, citing research presented at American Psychological Assn.'s annual conference in Washington. But report seemed to suggest that exposure for more than 15-min. intervals could have negative impact on children's behavior.

INTEL, MATTEL PART WAYS: Intel and Mattel have parted ways in interactive toy joint venture, with former assuming sales and marketing duties. Venture, which sold PC camera Me2Cam and X3 Digital Video Microscope under Intel Play brand, was formed in 1999 (TVD Feb 15/99 p16). But companies differed over distribution and merchandising of products and Mattel in recent months has moved to revamp interactive strategy, including possible sale of Learning Co. software business (TVD April 17 p21). Intel had been solely responsible for product development.

"These products have to be viewed as a PC peripheral as opposed to a Barbie," Retail Channel Mgr. Troy Severson said. "Your target audience is the parents of children as opposed to the children themselves."

In seeking to sharpen focus of products, Intel is trying to broaden distribution beyond discounters such as Target and Wal-Mart and reach CE and toy chains. It met with Toys "R" Us recently. Goal is to have products merchandised with PC-related items rather than as software, which had been case, Severson said. Intel also will promote demonstrations of product at retail, he said. "A box and a 30-second TV ad just doesn't do it," he said. "You have to be able to demonstrate it."

To expand line, Intel is adding Sound Morpher (\$44) that's designed to alter sound of voice and has 6 MB memory for up to 4 min. of recording (TVD Feb 21 p12). Intel also is postponing delivery of camcorder-like Digital Creator (\$100) until 2001. Device is based on single CMOS chip, has 4 MB memory and can deliver up to 8 sec. video with 320x280-pixel resolution. "We just felt that one product at \$99 is probably enough," Severson said referring to microscope.

As it readies interactive toy strategy, Intel also is extending PC camera line, adding untethered model with 8 MB memory at \$149. Intel Pocket PC Camera has fixed focus lens and storage for up to 128 photos at 640x480 resolution, 199 at 240x160, Product Line Mgr. Dwayne Canfield said. Camera can record up to 10 sec. of video at 15 frames per sec. and has motor drive-like feature allowing it to take 5 pictures in 2 sec. It has 1/4" CCD and port for connection to PC and requires 350 MB of hard drive space.

Pocket PC model caps high end for Intel, which earlier this year filled hole in line by adding \$49 Easy PC camera that replaces CCD with CMOS chip and has 352x288 maximum resolution. Intel is continuing 2 PC Camera packages at \$79-\$99, higher priced version receiving new upgraded software in Oct. including new interface with tool bar for dragging and dropping photos, Canfield said.

Intel, which entered PC camera market in 1999, has gained 30% market share, with rival Logitech close second, Severson said, and N. America sales of PC cameras are expected to increase to 5.8 million units this year from 3.8 million in 1999. About 75% of Intel's PC camera sales are through retail, rest in OEM bundling deals with PC manufacturers including Tiny Computer in U.K. and Trigem in S. Korea, Severson said.

Logitech said in SEC filing it realized \$400,000 gain on sale of part of stake in force feedback technology developer Immersion. Logitech, which bought 10% interest in Immersion in

April 1998, retains 7.2% stake that represents \$19 million gross unrealized gain. Logitech also received \$3.6 million from sale of building in Europe. In first quarter ended June 30, it said retail sales of PC cameras rose 50% and OEM business 10%. Logitech has bundling agreement with Compaq for Presario PCs in N. America. Sales of PC mice represented 36% of company's \$141.4 million in revenue in quarter, down from 43% year earlier.

NYKO Technologies, L.A.-based manufacturer and distributor of videogame accessories, said it had signed license agreement to be exclusive distributor for Nintendo-licensed Game Boy Color Care Case line. NYKO said it was its first deal to market Nintendo-licensed product. NYKO will end production of its own Care Case line and will start carrying Nintendo-licensed version of Care Case Six-Game Pak as SKU in its regular line of accessories. Each "six pack" will carry \$4.95 suggested list and will be positioned by major retailers such as Target, Toys "R" Us and Fry's Electronics as key holiday shopping item, NYKO said.

Online videogame service GamePlay said it had licensed Macrovision's SafeCast technology for copy protection and secure distribution of games distributed online. European service lets customers buy or play games in multiple platforms, distributed via broadband cable or telephone, digital TV broadcasts, wireless telephony. Company's investors include U.K. retailer Dixons, British Telecom and News Corp.'s BSkyB satellite service.

Kmart will start implementing informational program Oct. 15 to help parents monitor content of computer and video games bought at its stores, retail chain said last week. As part of new policy, it no longer will let youngsters under 17 buy titles that have been rated "Mature (M)" by industry-created Entertainment Software Review Board. Kmart said checkout scanners at its stores will alert cashiers to ask customers for picture identification with proof of age if M-rated title is being purchased. Shortly after Kmart announcement, Wal-Mart said it would start same type of initiative. Kmart also said it would be placing ads and signs throughout its stores — something that Wal-Mart did earlier this year. Montgomery Ward and Sears already have gone further in efforts to keep sexually themed and violent games out of youngsters' hands: They have stopped selling M-rated games completely.

Consumer Electronics Personals

Sony Computer Entertainment America (SCEA) promoted **Jack Tretton**, sales vp, and **Andrew House**, mktg. vp, to senior vp positions; **Phil Harrison**, SCEA 3rd party relations-R&D vp, becomes senior vp-development, Sony Computer Entertainment Europe... Appointed at Babbage's: **John Woodson**, ex-CompUSA.com, as pres., Internet Div.; **Russell Howard**, ex-GamePro and onetime Take Two Interactive, Acclaim and Blockbuster, as vp-brand mktg.; **Jeff Donaldson**, ex-The Associates, Irving, Tex., information technology firm, as vp-Internet technology... Marketing consultant **Regis McKenna** to give keynote speech at CEA fall conference Oct. 18 in San Francisco... Kmart announced appointments of **Mark Schwartz** as store operations exec. vp. and **John McDonald**, ex-Familymeds, as vp-treas., replacing **Michael Viola**.



TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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FCC MOVES ON KIDVID: Children's TV rules upheld, 2 rulemakings on public interest obligations started. NAB calls it 'regrettable.' (P. 4)

HOLLINGS READIES NEW TV VIOLENCE BILL to force V-chip compliance but not end all violent programming in safe harbor times. (P. 4)

CABLE, RIVALS FEUD over continued regulation. Rivals seek limits on AOL-TW. Competition seen surging. (P. 5)

GOVT. LAUNCHES CAMPAIGN ON TV CONTENT ISSUES: Content and marketing of TV programming and other entertainment clearly will be major Washington focus, at least for rest of political season, officials signaled in flurry of activity last week. Rash of headlines last week about FTC report and Hill hearing is likely to be followed by: (1) FCC hearing on broadcasters' responsibilities to children, on unspecified date in Oct. (2) Sept. 20 Senate Judiciary Committee hearing on marketing violent content. (3) Another Senate Commerce Committee hearing same day, with Hollywood heads to be only witnesses. (4) Markup same day of bill by Sen. Hollings (D-S.C.) intended to curb children's viewing of violent shows (see separate story, this issue). (5) Expectation that Senate will include language in appropriations bill requiring FCC to evaluate new TV Code by June 1. Action came even as Commission began series of proceedings on broadcasters' public interest obligations (see separate story).

Hollings bill (S-876) had seen no action since hearing last May, but recent attention to inappropriate marketing of violent material to children appeared to increase its priority. It would ban "violent video programming" during hours when children were likely to "comprise a substantial portion of the audience," with premium and pay-per-view programming exempted. Under current version, FCC would be required to implement bill within 9 months and to revoke license of repeat offender. Measure would cover distribution by broadcast TV, cable, satellite and "wire."

Saying it was "concerned about the declining standards of broadcast television and the impact this decline is having on children," Senate Appropriations Committee in report called on FCC to evaluate issues associated with resurrecting broadcast code of conduct. Commission would report to Committee by June 1 on creating code that "would protect against the further erosions of broadcast standards."

FCC will hold hearing on broadcasters' obligations to children in Oct., FCC Chmn. Kennard said in letter to Sens. McCain (R-Ariz.), Lieberman (D-Conn.), Byrd (D-W.Va.), Brownback (R-Kan.). He said hearing was to supplement record in FCC inquiry on broadcasters' public interest obligations, "including the effect of sexually explicit and violent

Consumer Electronics

CE INDUSTRY LEERY of cable's DTV copy-protection license. Fast-erase clause 'goes beyond the bounds of even reasonable discussion,' Thomson says. (P. 11)

TV GLASS PRICES TO RISE 8-30% amid supply shortage, with tube price increases likely. Margin squeeze on 19-20" glass has TV makers scrambling. (P. 12)

RCA TO PREVIEW E-BOOKS IN N.Y. this weekend in Gemstar joint venture. Devices are upgradable to be portable music players. (P. 13)

JVC POSTPONES 61W D-ILA TV in U.S. to early 2001 and considers models with integrated ATSC and/or satellite decoders. (P. 15)

BEST BUY EARNINGS UP 32% in 2nd quarter on strong video products sales. Analyst sees expansion into Canada as possible. (P. 16)

programming on America's children." Commission eventually will issue report on findings, as well as recommendations, Kennard said. He also said agency "takes its indecency enforcement responsibilities very seriously" and has issued \$35,000 in indecency fines so far this year.

Vice Presidential candidate Lieberman commended Kennard for planning hearing on broadcasters' obligation to children, saying it "shows that the FCC is sensitive to the concerns of parents" and that it "takes seriously its stewardship of the public airwaves." Lieberman said hearings also should "send a strong signal to the broadcast community about the value of such a code, and hopefully persuade the industry to reconsider" TV Code.

Meanwhile, Senate Judiciary Committee released report recommending: (1) Limited antitrust exemption to allow entertainment industry to develop new guidelines to limit children's exposure to content. (2) Unified rating system for content. (3) New studies on impact of violent content. (4) Financial incentives for entertainment companies that create content suitable for children.

Flurry of activity came despite entertainment industry contention it shouldn't be prohibited from advertising mature movies, music and games on TV programs, Web sites and magazines that include a minority of underage viewership. Industry expressed view in Senate Commerce Committee hearing Sept. 13 on marketing adult products to children. Hearing occasionally became heated, though little new ground was broken, and Committee Chmn. McCain called 2nd hearing in 2 weeks, specifically targeting movie studio executives, whom he denounced for failing to participate Sept. 13.

Hearing followed much-publicized release of FTC report saying movie, music and electronic game industries should set tougher codes — with teeth — to prevent undue use of TV and Internet to market content rated for adults. Report had relatively little criticism of TV and Internet industries themselves, but did target content providers that placed ads. FTC said industries "routinely" targeted children under 17 with ads for movies rated "R" and games rated "Mature," and placed ads on TV programs watched by many younger children, often as part of basic marketing plan.

FTC acknowledged it probably shouldn't be setting specific rules for advertising of mature products, citing First Amendment. Solution, it said, is industry self-regulation, but "self-regulatory programs can work only if the concerned industry associations monitor compliance and ensure that violations have consequences."

Given proliferation of media, it would be virtually impossible to advertise only on shows without any underage audience, MPAA Pres. Jack Valenti said: "It is well-nigh impossible to exile young viewers from any of them." Sen. Boxer (D-Cal.) said entertainment industry was getting too much attention: "Let us be honest: if the industry changed its marketing policies today, would that cure the violence problem in our society?"

FTC recommended that industry codes: (1) Prohibit marketing action figures, toys or other products associated with mature products to underage audiences. (2) Provide no-buy lists of media outlets that were popular with under-17 audiences. (3) Encourage auditing of ad placement to assure ads weren't reaching substantial underage audiences. (4) Encourage media screening of ad placement. (5) Provide for associations to monitor compliance with marketing principles and "impose meaningful sanctions for noncompliance." Brownback, who introduced bill calling for study, termed FTC results "unambiguous and unsettling." He said it showed that companies were "making a killing off of marketing violence to children."

Not everyone was pleased with report. "The FTC's toothless recommendations are a recipe for inaction, and a pathetic gesture that will make possible the continued profiteering from sales of violent products to children," said Gary Ruskin, dir. of public interest group Commercial Alert. N.Y. Senate candidate Hilary Clinton criticized industry, saying that if it "fails to meet the challenge [of self-regulation] voluntarily, then I, along with others, will support appropriate action to protect our children... This isn't about censorship, it's about imposing rules and regulations; it is about accepting responsibility... to make sure its adult products are not marketed to children."

FCC ADOPTS DTV SET LABELS, OKAYS COPY PROTECTION LICENSING: In separate but related moves, FCC adopted labels for 3 types of DTV sets compatible with cable systems and ruled that copy protection technology licenses could be required for cable set-top boxes. Commission approved both actions on circulation in wee hours before its open meeting Sept. 14, acting on 2 items originally scheduled to be on agenda (TVD Sept 11 p1). But agency essentially punted on other contentious DTV-cable compatibility issues, declining to choose 4th series of labels for digital cable set-tops and deciding it probably lacked statutory authority to rule on copying limits for home viewers.

On labeling issue, FCC approved 3 versions of "Digital Cable Ready" for DTV receivers, rejecting "Digital TV-Cable Connect" and "Digital TV-Cable Interactive" names proposed by NCTA and CEA in late May agreement that quickly unraveled because of stiff opposition from consumer electronics retailers. Under new rules, "Digital Cable Ready 1" will cover

one-way DTV sets without 1394 digital connectors, "Digital Cable Ready 2" will apply to 2-way sets with 1394 connectors that can carry interactive TV and other advanced services and "Digital Cable Ready 3" will cover next generation of advanced, fully integrated digital sets that don't need separate set-top boxes. "We chose plain-vanilla descriptions that would not be confusing and would provide sufficient information," said Robert Pepper, head of FCC Office of Plans & Policy. "We're hoping to make it so that people can actually tell the difference" between sets.

In its report and order, Commission said that while it would have preferred "comprehensive market-driven solution" to labeling issue, it was adopting this approach because cable and CE industries couldn't develop consensus. "We were very, very patient," FCC Chmn. Kennard said at start of meeting. But, he said, after waiting 6 years for industries to produce comprehensive agreement, agency simply couldn't afford to wait any longer. Agency staffers said rules were approved in 5-0 vote.

On copy protection, FCC decided its navigation device rules permitted some amount of copy protection to be included in digital cable set-top boxes sold in retail stores. Specifically, Commission ruled that CableLabs' draft Dynamic Feedback Arrangement Scrambling Technique (DFAST) license, which covers cable industry's anticontroling encryption technology in digital set-tops, didn't violate agency's rules. In filings with Commission, CE retailers and other critics had charged that DFAST license went far beyond FCC's scope in its restrictions, violating agency rules requiring that cable operators place their signal security functions in separate point-of-deployment (POD) module. "It certainly should permit people to manufacture machinery [DTV sets] and get going," Cable Bureau Deputy Chief William Johnson said. But he said, "I presume there's going to be an ongoing argument about the encoding rules."

NAB, frustrated by failed negotiations between cable and CE industries, expressed general disappointment with FCC's actions. "The FCC today appears to have done little to hasten the delivery of interoperable digital television sets to store shelves," it said. "It's disappointing that 2 years into the DTV transition, consumers have no assurance that new DTV sets will work with cable."

NCTA applauded FCC's copy protection moves but complained about set rules. "The FCC's decision will enable cable operators to require inclusion of copy protection technologies in digital TV sets and set-tops sold at retail," NCTA Pres. Robert Sachs said. "Consumers will be the beneficiaries." At same time, Sachs complained that "cable-ready" labels adopted by Commission would continue to confuse consumers buying new TV sets.

Spokesman for CEA said group didn't have big problem with cable-ready labels but doubted Commission's ability to create them. "We sort of question the expertise of the FCC in developing product labeling for consumers," he said. CEA more strongly objected to DFAST ruling. "We still don't think the FCC has legal authority in this area," spokesman said.

Although it didn't resolve all DTV-cable compatibility issues, FCC clearly sought to step up pressure on cable, consumer electronics, content and software industries to settle their disputes and hasten nation's digital TV transition. Besides acting on labels and copy protection, Commission instructed squabbling industries to complete their drawn-out negotiations over copy protection technology licensing, key sticking point among warring trade groups, and to submit final version of cable DFAST license for review within 30 days. Agency also told cable and CE industries to finish developing their long-awaited technical standards for DTV-cable compatible receivers, including new, integrated digital sets. Finally, FCC proposed further rulemaking on whether deadline for phasing out older, proprietary cable boxes from consumer market should be moved up from current Jan. 1, 2005.

With all these moves and additional periodic reporting requirements, FCC officials said they aimed to speed development of DTV-cable compatible sets, which have badly lagged rollout of digital broadcast signals. Despite general industry skepticism, Pepper said he expects to see new cable-compatible DTV sets hitting stores as early as later this fall.

Despite debating wisdom of specific FCC actions, representatives of warring industries agreed that, at very least, agency had moved issue forward. "Any sort of oversight increases pressure," said Dave Arland, govt. relations dir. for Thomson Consumer Electronics. Another lobbyist said, "It'll get new devices out in the marketplace with copy management capability."

In wake of FCC's actions, DTV-cable focus will shift this week to L.A., where content owners and set-top and software makers will sit down again for their continuing negotiations over copying terms for digital programming. While content owners strongly favor strict viewer copying limits to protect their programming, CE groups vehemently insist on more liberal terms that would permit consumers to record shows, much as they do now. But at least one lobbyist thinks that, thanks partly to FCC's involvement, discussions finally might prove fruitful. "Certainly the FCC's decision is a major development," he said. "I hope everyone will feel the time is right to conclude an agreement."

None of industry players, however, agreed with FCC officials that DTV-cable sets would hit retail market soon. They said remaining issues were too complex to be settled so neatly and quickly. "These are not overnight issues that can be wrapped up at the snap of a finger," Arland said. "We're years, not months, away."

FCC MOVES ON KIDVID: FCC essentially upheld its Children's TV rules and began 2 rulemakings on broadcast public interest obligations in series of decisions at agenda meeting Sept. 14. FCC Chmn. Kennard said children's TV decision "verifies" that Commission was correct in 1996 in setting 3-hour rule for children's educational TV programming. Rulemakings, he said, ask "fundamental question" about how public interest standards will be extended into digital age. NAB Pres. Edward Fritts said FCC decision to "add regulation to a service still in the embryo is regrettable," especially since FCC hasn't acted on things such as DTV must-carry.

However, Comr. Furchtgott-Roth said moves represented "missed opportunity" to decide market was working and said there was no need for regulation. He said rules "may have been appropriate in the past," but it's time for FCC to "say there are rules we no longer need." New rules will burden and delay DTV unnecessarily, Furchtgott-Roth said, and new DTV multicasting capability will provide more opportunities for broadcasters to target children with programming. New rules assume DTV transition is opportunity to impose new public interest obligations, he said, but there's "no logical connection to the switch from analog to digital." He called DTV transition "Trojan horse" for more regulation.

Comr. Tristani said new rules didn't go far enough to "empower parents" to protect children. She said she supported rules providing more useful information to parents, noted decision followed closely on heels of FTC report on marketing to children (see separate story) and asked whether promotional materials should carry ratings allowing them to be blocked by V-chips.

New rules on children's education programming: (1) Make permanent provision that broadcasters file reports quarterly. FCC said 70% of broadcasters already do so. (2) Revise filing form to include more information on number of core children's programs preempted and how they're rescheduled. (3) Require broadcasters to provide information on how they promote their core children's programs. FCC also asked for comment on its tentative conclusion that broadcasters should make their quarterly reports available through their Web sites.

Rulemaking on broadcasters' obligations to children in DTV era also asked whether DTV broadcasters should face limits on ads in children's shows. FCC sought comment on: (1) How children's program rules should apply to DTV. (2) Whether children's programming obligations should apply to pay programming, and whether obligation should be for more than 3 hours. (3) Whether DTV flexibility would allow change in preemption rules. (4) What rules should apply to DTV interactivity. (5) Whether rules should be extended to program promos, which currently aren't included. (6) How to assure children aren't exposed to age-inappropriate promotional material.

Rulemaking on public interest disclosure requirements is intended to standardize and enhance disclosure, FCC officials said. Commission tentatively concluded broadcasters should have to provide information on their public interest efforts quarterly and in standardized format. It also proposed to require that information be placed on station Web site.

HOLLINGS MOVES V-CHIP: Sen. Hollings (D-S.C.) plans major revision in bill opposing TV violence (S-876) at Sept. 20 markup by Senate Commerce Committee, we're told, with changes aimed at forcing industry into greater compliance with V-chip rating system. Source said bill now would look more like version that passed Committee 3 years ago. Hollings' office couldn't be reached for comment.

Rather than barring all violent programming during "safe harbor" times when children aren't watching, bill now would allow such programming when V rated and blockable by V-chip. It also would require FCC study of V-chip effectiveness. "We're still going to oppose it," NCTA spokesman said, but new bill definitely is "compromise." Spokeswoman for Committee Chmn. McCain (R-Ariz.), who was prepared to oppose former version, couldn't be reached for comment on new one.

Bill is seen as real threat to move in Senate, opponents told us last week as they prepared on short notice for markup. Similar measure has passed Committee before but has been defeated on Senate floor. However, key holdup in past has been lawmakers' promise to industry that no content regulation would be enacted until V-chips were given chance to work. V-chip has proved no panacea for stopping kids' watching of violence, and recent attention to marketing of violence to children by entertainment industry has greatly increased perceived need to do something, sources said.

Markup announcement last week "came out of left field," ACLU Legislative Counsel Marvin Johnson said, and bill is "riding on this wave of the FTC report" that found entertainment companies inappropriately marketing violent material to young audiences. Political climate "probably increases the chances of it going through," he said. Sources said issue was particularly dangerous because it had been seized upon by Presidential candidates.

With events developing so quickly, bill's foes in industry and civil liberty groups were caught off guard, and few would comment for record beyond statements of opposition. Floor defeat of similar measure last time was spearheaded by NAB, NCTA, MPAA and Center for Media Education. At that time, Majority Leader Lott (R-Miss.) and others said explicitly that they voted against bill because of 3-year commitment Senate had given industry to work out problems with V-Chip — time that's now expired.

Clearing way to break deadlock on political broadcasting and personal attack rules, FCC Chmn. Kennard will end his recusal and vote on issue, agency officials confirmed. U.S. Appeals Court, D.C., gave FCC until Sept. 29 to justify continuation of rules or face their elimination (TVD Aug 14 p4), but action has been blocked by 2-2 split on Commission. NAB and RTNDA have been trying for years to win elimination of rules, which are last vestige of fairness doctrine repealed in 1987, contending they're unconstitutional limit on speech. Kennard has recused himself from issue, citing his work on that petition when he was NAB lawyer in 1980s. Official said Kennard had decided public interest in breaking deadlock outweighed need for recusal.

Fox Bcst. was given full-membership in N. American Bcstrs. Assn. (NABA). Company didn't say who would serve on NABA board.

CABLE, RIVALS FEUD ON REGULATION: In comments filed late Sept. 8, cable, DBS, telephone and new broadband service providers battled at FCC over need for more or continued regulation in pay-TV market. Commenters, which included American Broadband, AT&T, BellSouth, National Rural Telecom Coop (NRTC), NCTA and Satellite Bcstg. & Communications Assn. (SBCA), squabbled over such issues as possible restrictions on AOL-TW deal, open access mandates on cable operators, must-carry rules for DBS providers, tougher program access regulations for cable operators, looser cable ownership limits. But all parties agreed on one point — competition is surging in multichannel video programming market.

Cable and DBS interests cited similar statistics. NCTA said cable industry now had slightly under 80% of pay-TV market, down from more than 82% year ago, despite continued growth to nearly 68 million subscribers. At same time, it said, DBS had added nearly 3 million new customers, boosting its market share to more than 15% from 13% in July 1999. NCTA said total count of noncable customers, including C-band satellite, MMDS, SMATV, local telephone and broadband service providers, now exceeded 17.3 million — 20.4% of total market.

"Four out of 5 new [pay-TV] customers now go to satellite," NCTA Senior Vp-Law & Public Policy Dan Brenner said: "We face lots of competition." He said trend supported cable industry's argument that it should be deregulated further by govt. He also noted that MSOs had spent \$36 billion to upgrade their plant in last 5 years in response to such rivals.

NCTA urged FCC to resist efforts to toughen program access rules before they expire in 2 years. It also argued that agency shouldn't impose tougher leased access mandates on cable operators because it hadn't set benchmarks for rules.

AT&T said FCC should loosen its cable ownership rules so MSOs could control more than 30% of all cable and satellite homes. AT&T, which repeatedly has criticized 30% cap and is seeking to overturn rules in court and Congress, argued that "arbitrary" limit especially made no sense when govt. allowed broadcast networks to reach up to 35% of TV homes. It railed against FCC's cable attribution rules, which count sizable minority interests in other cable operators against MSO cap.

Using its own research, SBCA said DBS providers DirecTV and EchoStar now had more than 13 million total subscribers, after gaining just over 3 million in last year. With C-band customers tossed into mix, it said, at least 14.5 million homes now subscribe to satellite TV. SBCA also cited statistics indicating that direct-to-home (DTH) penetration exceeded 10% in 44 states, up from 40 year ago, and exceeded 20% penetration in 24 states, up from 10. It said 3 states had more than 30% DTH penetration, with Mont. set to cross 40% mark soon.

Saying that DBS industry was adding 8,274 subscribers per day, up from 7,432 year ago, SBCA credited much of latest surge to passage of local-into-local legislation last Nov. But it warned that DBS must-carry rules, scheduled to take full effect in 2002, would hamper industry's growth and particularly hurt satellite viewers in smaller and midsized markets. SBCA urged FCC to avoid imposing DTV must-carry requirements on satellite providers. Trade group called on agency to let more consumers receive distant network signals from DBS operators.

NRTC charged that FCC's DBS must-carry rules would deny satellite TV service to most rural Americans, exacerbating digital divide. It said DirecTV and EchoStar had announced plans to serve total of 44 markets with local signals, leaving more than 1/3 of TV homes and 20 states without any local service. NRTC said cable operators passed far less than 97% of TV homes that they claimed, with proper figure as low as 81%.

BellSouth, cable overbuilder that also plans to enter satellite TV market, called on FCC to extend and expand program access rules to protect cable rivals. It restated its opposition to AOL-TW deal unless links between AT&T and TW were broken. American Broadband also called for extension of cable program access rules beyond planned 2002 sunset. It urged Commission not to impose open access mandates on cable overbuilders.

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Cities and localities need to revisit policy for public access programming because of technology convergence, speakers said at National Assn. of Telecom Officers & Advisers (NATO) conference in L.A. "You can't come up with one policy and assume that it applies across technologies," lawyer Joseph Van Eaton said. Overall goal of policy should be flexibility in face of technical change, he said, and to be in control of program content. Other issues to be considered included franchise terms that restrict use of institutional networks (I-Nets) to noncommercial programming and what it means in web-based environment, he said, and suggested that such terms be defined more precisely. Limiting public access programming to video programming would inhibit access to multimedia programming, he said, emphasizing need to get some rights to upstream capacity. Bunnie Reidel, exec. dir. of Alliance for Community Media, underscored importance of privacy since public access programmers will be able to market products same as industry. Goal of public access programming in changing technological environment should to be maximize delivery of information and service to community, she said.

CableLabs picked 3 companies — Sun Microsystems, Microsoft and Liberate Technologies — to be primary developers of middleware software specifications for cable industry's next generation of advanced digital set-tops and other digital devices. Under software agreement, 3 companies will design specifications for CableLabs' OpenCable Application Platform (OCAP), key to development of interoperable cable set-tops offering interactive TV and other advanced digital services. CableLabs said Sun will be lead contributor for execution engine specification and Liberate and Microsoft lead contributors on presentation of engine specification. Research consortium also chose interactive TV software rivals Canal Plus, OpenTV and PowerTV to contribute to development of specifications through regular reviews and comments. CableLabs said it hoped to complete specifications this fall and have them ready for implementation by end of year.

Senate approved 2 reappointments and 2 new appointments to CPB board Sept. 8. Cruz & Assoc. Pres. Frank Cruz and Team Washington CFO Katherine Anderson were reconfirmed to 2nd terms while Ernest Wilson, dir., Center for International Development & Conflict Management, U. of Md., and Kenneth Tomlinson, pres.-dir., National Sporting Library, Middleburg, Va., were confirmed for first time. Terms of Cruz, Anderson and Tomlinson expire Jan. 31, 2006, Wilson in 2004. Meanwhile, CPB board unanimously reelected Cruz, and Carpenter to 2nd terms as chmn. and vice chmn., respectively.

FCC DEFERS CABLE ACCESS INQUIRY: In last-minute move, FCC pulled its proposed notice of inquiry (NOI) on ISP open access to cable systems from its agenda Sept. 14, deferring to request for delay from Comr. Tristani. Commission Chmn. Kennard granted request just before item was to be debated at meeting, agreeing to give her 2 weeks to prepare for vote. Tristani, who had sought month's delay but settled for 2 weeks after brief meeting recess, said she looked forward to acting quickly on item.

Tristani said she had requested one-month delay twice in last few days because she didn't want NOI to be considered until FCC had completed its review of AOL takeover of Time Warner (TW). Because FCC and FTC are weighing imposition of open access mandates on AOL-TW union, she argued, proposed NOI should wait. "With this adjudicatory matter pending involving open access, further analysis is appropriate prior to issuing an NOI," she said. "Nonetheless, I think it is high time to proceed with consideration of a national framework on this issue, and I look forward to acting on this expeditiously."

FCC source familiar with Tristani's thinking said she sought delay to improve quality of open access inquiry. "We're learning about open access" through review of AOL-TW deal, source said. "We just want to use what we're learning to sharpen the focus of the NOI."

Both Kennard and Comr. Ness, indicating they were prepared to approve NOI now, urged Tristani to move fast. "I believe it's very important we get this item done," Kennard said, promising that Commission finally would tackle contentious issue in late Sept. "It is incumbent on this agency to step up to the plate and begin to develop a comprehensive record" on cable-delivered Internet access. Ness called proposed NOI "a critical item to get out" and asked Tristani to "circulate her edits" before other commissioners voted on item.

At least one member of public interest community, which repeatedly has castigated FCC for resisting call to require multiple ISP carriage by cable systems, applauded Tristani's action. Center for Media Education Exec. Dir. Jeff Chester said he strongly supported her move as she "stood up for both consumers and citizens." He called on FCC to focus on issues raised by AOL-TW deal before proceeding with long-awaited open access NOI.

OpenNet Coalition, which also supports open access mandates for cable operators, pushed FCC once again to impose regulations by end of year. "We are disappointed that the FCC is issuing a call for further discussion rather than proposing concrete steps that will ensure consumer choice on cable broadband systems," Coalition Co-Dir. Kristan Van Hook said. "We urge the FCC to act as quickly to require open access as the industry is moving to provide cable broadband services."

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FCC Cable Bureau Assoc. Chief To-Quyen Truong has ended her recusal on pending AOL-Time Warner deal after having removed herself from review for several months. Truong, who has been seeking new employment in private sector, said she was "unrecusing" herself at critical stage in merger review because she had narrowed her job search and no longer had potential conflict of interest.

Second filing window for LPFM drew 473 applications from 11 states and territories, FCC said. Figure is down from more than 700 applications in first window. Third window is expected in Nov.

FCC ordered U.S. Intelsat signatory Comsat to negotiate with potential customers for international satellite capacity because of widespread industry concern about availability of capacity to meet their needs. FCC apparently agreed with privatization opponents who suggested Intelsat customers don't have "sufficient access opportunities" or "direct access" to services to meet their service or capacity requirements. Intelsat spokesman said he would have no comment until he had opportunity to review order. Agency determined U.S. companies lacked access because most of Intelsat capacity was committed to U.S. signatory Comsat. It said much of available capacity was "fragmented" into "small amounts of bandwidth" among many of satellites, making it unattractive to U.S. companies.

FCC Mass Media Bureau said it was prepared to issue construction permits for 118 TV, LPTV, translator and radio stations as soon as final auction payments are made. Licenses were won in Oct. 8, 1999, auction, and bureau said all applications were acceptable for filing.

Canadian TV network CTV will merge with one of largest newspapers, *Globe and Mail* of Toronto, and Internet content provider Sympatico, to create major multimedia company, firms said. CTV owner BCE, Canada's largest telecom company, will end up with 70.1% of merged company, newspaper company Thomson Corp. will have 20%, Sympatico owner Woodbridge Co. 9.9%. Combined company will have \$1.3 billion annual revenue.

NAB will open its quadrennial political hotline Oct. 2 (through Nov. 7 election day) to field questions on broadcast campaign issues from its members. Free phone line (1-866-622-7657) will be manned by First Amendment expert Steve Bookshester, who retired earlier this year as NAB assoc. gen. counsel. Hotline will be open weekdays only, and members with political questions before Oct. 1 should call 202-429-5430, NAB said.

EchoStar said subsidiary EchoStar Broadband was offering \$600 million aggregate principal amount of senior notes due 2007. It plans to use proceeds to fund capital expenditures in construction, launch and insurance of additional satellites and for general purposes, including strategic acquisitions.

ABC said it won't accept ads for R-rated films before 9 p.m. under new Disney policies, and Disney said it would try to avoid any ads targeting underage audience. It also said it would make other changes, including adding to ads, Web sites and trailers supplemental information on reason for rating. ABC also announced PSA campaign against youth violence in joint venture with National Campaign Against Youth Violence.

FCC Chmn. Kennard again called for reinstating tax certificate policy to boost minority broadcast station ownership. In speech to National Assn. of Black-Owned Bcstrs. convention in Washington, he called policy "the single most effective means of advancing minority broadcast ownership." He also asked attendees' support for new definition of public interest broadcasting in digital age.

Automated system to determine music license fees for broadcasters was announced by BMI. It said BMI TV Select would streamline process of reporting music usage and collecting fees.

BROADBAND PLAYERS SCARE CABLE: Cable operators, already battling record growth by DBS rivals DirecTV and EchoStar, increasingly fear pending competition from new source — broadband service providers (BSPs) — they said at East Coast Cable 2000 convention in Baltimore Sept. 12. New breed of cable overbuilders offering discounted bundles of video, telephony and high-speed data service to consumers, BSPs are growing concern for industry because they could hurt cable stock and system values, spur consumer price wars and spark fresh battles with franchise authorities.

Several senior cable executives said cable stock prices already had fallen, largely because of prospect of competition from BSPs, even though most overbuilders have just started building their systems and don't have customers yet. "The pressure on cable stocks is from the uncertainty as to how the various competitive forces will play themselves out, particularly the phenomenon of the new bundled operators coming to town," Comcast Vice-Chmn. Julian Brodsky said. "There's an enormous amount of capital chasing the tantalizing proposition that if someone can get 15% of the voice, video and data market and somehow magically maintain margins, they think this is a slam-dunk business."

Much to cable's distress, more than dozen BSPs have popped up around U.S. in recent months, seeking local cable franchises, raising capital and building fiber-rich systems (TVD June 12 p3). Promoting concept of 3rd wire into home, BSPs also have been quickly picking up open video system (OVS) certifications from FCC and CLEC approvals from states and localities, permitting them to start construction before receiving local franchises. In latest example last week, BSP Digital Access received CLEC approval from Tenn. Regulatory Authority for entire state. Digital Access, which also has received CLEC approvals from 3 other states and cable franchises from several cities and towns, intends to build broadband systems in Indianapolis, Kansas City, Milwaukee and Nashville markets.

Partly as result of such activity, BSPs have become darlings of Wall St., raising more than \$10 billion from prominent investors in last 2 years. Led by RCN Corp., "granddaddy of overbuilders" backed by billionaire Paul Allen, BSPs aim to raise billions more in equity and debt while investment market remains hot. "These people are collecting dozens and dozens of franchises, hundreds of franchises and raising hundreds of millions of dollars," said Granite Assoc. Chmn. and long-time Cablevision Industries chief Alan Gerry, speaking on Sept. 12 panel. "They're in the business of raising money."

In white paper on "broadband overbuild competition" issued Sept. 8, NCTA projected that cable operators soon would face competition from BSPs in top 9 TV markets, including 7 overbuilds that already have begun service in Boston, Chicago, L.A., N.Y., Philadelphia, San Francisco, Washington. NCTA said BSPs were targeting 20 of top 25 TV markets for overbuilds, sparing only Atlanta, Miami-Ft. Lauderdale, Pittsburgh, Orlando-Daytona Beach and Tampa-St. Petersburg areas. List doesn't include such telephone companies as BellSouth, Qwest and SBC Communications, which also are offering video and high-speed data services in competition with cable.

While NCTA is using those market developments to buttress its case that video competition is flourishing so govt. should further deregulate cable industry, senior cable execu-

tives said they were most concerned about short-term challenges posed by BSPs. In particular, they see broadband providers further depressing cable stock prices, staging costly price wars, luring away their most lucrative customers and winning more favorable construction terms from local franchising authorities. "It's not a level playing field," Comcast's Brodsky said, with many BSPs getting 5 to 7 years to complete their buildouts: "That's de facto redlining and skimming."

Over long term, however, executives said they were less concerned about competition from BSPs. They said most broadband providers ultimately would flop because of inadequate training, expensive builds, overly ambitious rollouts, untested business models, aggressive MSO responses. "I think there's going to be a rude awakening someday," said Gerry, who predicted some BSPs never would turn on service.

■ ■ ■

FCC should actively investigate subliminal advertising charges against Bush for President campaign, Democratic Sens. Breaux (La.) and Wyden (Ore.) said in letter to FCC Chmn. Kennard. They said they were "deeply troubled by these allegations and believe that it is in the best interests of both political parties and all Americans" that Commission conduct "immediate and impartial review." FCC received no other complaints about allegedly subliminal ad sponsored by Republicans, Commission said, and it wasn't clear whether agency would have jurisdiction anyway. *N.Y. Times* raised possibility of subliminal ad opposing Democrat Al Gore and cited FCC policy against such ads. FCC policy actually prohibits broadcasters only from knowingly airing ads with subliminal content, doesn't involve either creator of ad or stations that air it unknowingly. One FCC official said policy hadn't generated complaint "in decades."

Warning that failure to provide high-speed Internet access to all Americans could stunt future U.S. economic growth, coalition of industry, consumer, public interest and agricultural groups called on Congress to pass Broadband Internet Access Act (S-2698, HR-4728). Measure, by Sen. Moynihan (D-N.Y.) and Rep. English (R-Pa.), would give broadband providers 5-year, 2-tiered tax credit: 10% for deploying 1.5 Mbs service to rural and low-income areas and 20% for 22 Mbs to those and other residential areas.

Several new sponsors have signed on to S-3020, bill to force FCC to revise low-power FM rules. With additions last week of Sens. Bunning (R-Ky.), Crapo (R-Ida.), Robb (D-Va.) and Santorum (R-Pa.), measure now has 10 co-sponsors, along with original author Sen. Grams (R-Minn.). Although similar bill (HR-3439) has passed House, S-3020 is expected to need heavy support to move, since Senate Commerce Committee Chmn. McCain (R-Ariz.) opposes it. NPR and International Assn. of Audio Information Services (IAAIS) urged "prompt Senate action" on Grams bill, which they said "takes a balanced approach by providing for immediate low-power FM licensing while safeguarding existing stations and their vital radio reading services for the blind from interference until further testing can be conducted." Low Power Radio Coalition and others backed legislation by McCain (R-Ariz.) to allow FCC to continue to move toward LPFM, they said in letter to lawmakers. Groups, including Consumers Union, Leadership Conference on Civil Rights and U.S. Catholic Conference, said they wanted to make sure lawmakers knew that proposal by Grams "in no way represents a compromise."

POLICY FIGHTS SEEN IN SPENDING BILL: FCC may get marching orders from congressional appropriators soon, with Senate expected to take up its version of Commerce-Justice appropriations bill (HR-4690) as early as this week. Numerous major policy changes could be made in spending measure, with many already embedded in version that passed Appropriations Committee. In preparation for floor action, Committee finally released its report on bill, which panel passed in July. It revealed several actions not in bill itself, including requirement that FCC study return to broadcast code of conduct.

That's not even including new riders expected on floor. Among those mentioned in recent weeks as possibility is relaxation of cable ownership rules. AT&T Chmn. Michael Armstrong spent much of Sept. 12 on 8th floor at FCC, as *Washington Post* reported that he also was lobbying Congress for repeal of FCC ownership rule in Commerce-Justice bill.

AT&T Gen. Counsel James Cicconi acknowledged that company was actively lobbying Congress and FCC to loosen cable ownership cap. He said "arbitrary" 30% limit could force nation's largest MSO to sell less lucrative smaller and rural cable systems to comply with govt. rules because it now was close to cap, exacerbating digital divide. He also contended it wasn't fair for cable operators to be so restricted when DBS, Baby Bell, wireless and other rivals weren't. "We're capped and the incumbent monopolist is not," he said, referring to Bells. "You shouldn't be in a position where your success in a particular marketplace forces you to sell systems."

But, as he had before, Cicconi insisted that AT&T was "not trying to wriggle out" of FCC's conditions for approval of its recently concluded MediaOne merger. "We fully intend to comply with the merger conditions," he said. In fact, Cicconi dropped hints that AT&T could comply with govt. conditions by shedding its 25.5% stake in Time Warner Entertainment, as public interest groups and critics of AOL-TW deal urge and most industry analysts expect.

In appropriations bill, public broadcasters would win reversal of recent controversial FCC action that required PTV broadcasters, when seeking licenses that weren't reserved for non-commercial use, to compete in auctions with commercial stations. "Congress did not intend publicly funded stations to use public funds to pay for a federal asset to provide a public service," Committee said. "The Commission misinterpreted the law and the underlying congressional intent." It said Congressional Budget Office had estimated PTV broadcasters would have to pay \$250 million for spectrum needed for digital conversion under FCC rule, which "could result in the shutdown of the poorest public stations or the denial of new service."

Committee told FCC to reconsider decision "and adopt another approach that does not subject public broadcasters to auction." It also called on court that's hearing public broadcasters' appeal of decision to "take notice" of Congress's clear intent. PTV also would get much more money under Senate version, which awarded \$50 million for PTFP program, primarily to be used for DTV conversion. That exceeds House's \$31 million figure but falls far short of Administration's \$110 million request. Senate appropriators urged agency to emphasize needs of rural stations.

Committee warned that Israel's recent termination of cable franchise could lead to international trade war. It said company

"has been informed that it will have to turn over its entire \$350 million cable network or pay a fee of \$1.5 billion in order to continue using its own network." Committee called on Secy. of State to "resolve this matter as quickly as possible" and on Commerce Dept. "to determine whether such actions are in violation of international trade agreements and bilateral agreements with Israel."

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In action described as effort to "foster the highest professional standards of electronic journalism [and] strengthen principles of journalistic freedom to gather and disseminate information," RTNDA announced revised code of ethics and "professional conduct" at start of its convention in Minneapolis. Code states that electronic journalists (including those on Internet, as RTNDA seeks to recruit members from that new technology) "should operate as trustees of the public, seek the truth, report it fairly and with integrity and independence, and stand accountable for their actions" and recognize that their "first obligation is to the public." Internet journalists should "avoid real or perceived conflicts of interest" and "respect the dignity of the audience as well as the subjects of news." Hidden cameras and microphones should be used, code states, "only if there is no other way to obtain stories of significant public importance" and only if their use is explained to audience. Revised code attempts to deal with challenges raised by new technology, coverage of crisis situations and presence of minors, RTNDA said. RTNDA Pres. Barbara Cochran said, "It's designed to help [news directors] make the tough calls that arise more and more often in the modern newsroom."

DirecTV said it was offering local service in Nashville and Kansas City. In Nashville, WTVF (CBS), WSMV (NBC), WKRN-TV (ABC) and WZTV (Fox) have been added. Kansas City subscribers will receive local channels KMBC-TV (ABC), KCTV (CBS), KSHB-TV (NBC), WDAF-TV (Fox). Meanwhile, DirecTV said that after investigation it had filed civil suit against 6 restaurants and bars for illegal use of DirecTV programming. Complaints allege owners of businesses in Chicago, Melbourne, Fla., and Tempe, Ariz., publicly displayed DirecTV programming without appropriate authorizations. Company seeks \$100,000 in damages for each violation.

Entertainment and media industry revenue will reach \$1 trillion by 2004, PricewaterhouseCoopers predicted in new study. Figure assumes 7% annual revenue growth, fueled by double-digit Internet and cable gains. Fastest growth will be in U.S., study said, followed by Asia-Pacific. Internet spending is expected to nearly triple to \$75 billion, compounding at an annual rate of 22.3%. It said Internet advertising alone would quadruple to \$20 billion in next 5 years.

Most Americans think media companies are getting too big, don't believe media mergers produce better content and services and back concept of cable open access, Digital Media Forum said in report. Report, part of larger public attitudes study done for Digital Media Forum by 2 U. of Wis.-Madison journalism professors, said 70% of respondents agreed that media companies were getting too large and 59% disagreed that media mergers provided better content and services. Overall, researchers said, 86% expressed either moderate or high level of concern about media combinations. Consumer advocates said report was evidence public understood and agreed with concerns on pending AOL takeover of Time Warner and FCC's reluctance to impose open access mandates on cable operators.

BROADCASTERS URGED TO HOP ON INTERNET: Internet invasion of news media province was very much in evidence at RTNDA convention in Minneapolis late last week as broadcasters who hadn't already started their own Web site were urged to do so or be lost in evolving media of future. To be successful on Internet, stations must "stream" their programming and regularly update what they present to public on their Web pages, several panelists said. At same time, Minn. Gov. Jesse Ventura (Ind.) told broadcast journalists to "keep firing" at public officials and "at the same time make yourselves accountable."

ABC.com correspondent Sam Donaldson said today's Internet TV quality isn't good and "by the time that improves, if you're not already there, it's too late." AR&D Pres. John Willi said broadcasters who didn't already have Web pages would "have to jump on." But, he warned, "if viewers come to your Web site for information and you don't have it, they won't come back." Reid Johnson, founder of Internet Bcstg. Systems, said it wasn't enough simply to be on Internet: "You have to figure out what makes a Web site relevant and valuable." That, he said, is localism that all TV and radio stations already provide over air.

Johnson said information on Web sites must be updated frequently. Willi said trends on Web usage give good indication as to when page should be updated: "There's a surge [of use] in the morning, then another one at noon, and a big surge from early to late evening." Major challenge, panelists agreed, is to find way to induce viewers to return to over-air signal after they have checked out station's Web site.

On video streaming, Donaldson said stations and networks "have got to do it... People want to see the pictures." Streamed video pictures are poor and hard to watch today, he conceded, but "you've got to do it now so that when [picture] gets good, the audience will already be there." Johnson said "there's a tremendous hunger among viewers" for pictures on Internet. He said video viewing by Web users was rising 30% per month.

Donaldson panel featured 30 news dirs. on dais with electronic voting devices to voice opinions on comments by panelists. Their opinions were posted on RTNDA's Web page rather than disclosed immediately to audience. However, on-stage news dirs. also entered into dialog, with more than half saying that every day they put content on Web that they didn't broadcast. "Reporters often have much more information than they can fit in the on-air story," said Lynn Heider, WEWS-TV Cleveland news dir. Philip Alvidrez, exec. news dir. of KTVK Phoenix, said his reporters were sent out with Palm Pilots so they could file directly to Web site from field.

Participants said most stations were losing money on their Internet efforts, with Johnson suggesting that might be because of lack of proper sales efforts by stations. At follow-up panel, WTOP-AM-FM Washington News Dir. Marlis Majerus said "the Internet does make money for WTOP." WFLA Tampa News Dir. Dan Bradley said viewers and readers didn't make distinction about where news originated: "It's just good, solid journalism. That's what they're looking for." Brad Kalbfeld, managing editor of AP Bcst. News in Washington, said challenge was to link audio, video and Web coverage best way possible for AP subscribers.

About 46% of children have no rules on what they can watch on TV and 40% have no rules for online use, Statistical Research Inc. said in study. Among children who have limits, 24% cited no adult content, 24% limited number of hours, 16% limited violence.

POWELL BACKS CAUTION: FCC and others shouldn't be tempted to regulate before they even know whether industry being regulated will cause feared harm, FCC Comr. Powell said in an interview with *Warren's Washington Internet Daily*. Powell said he favored "classic antitrust" view that govt. shouldn't step in unless there was "demonstrated, factual evidentiary" proof that action was needed. For example, he said, there's lot of anxiety about Internet but regulators must "distinguish anxiety from harm."

AOL and Time Warner "are companies looking for combinations that will provide serious market opportunities in a yet to be fully developed future," Powell said. "Governments and consumer advocates are skittish. Do you want to cut toward a little more restraint in exchange for some efficiency and innovation? Or do you want to let it ride until there's a real problem?"

Powell suggested market probably would resolve cable open access issue, without govt. intervention. He said "there are greater incentives to provide open protocol and open access" than not to. "If I'm [AT&T Chmn.] Mike Armstrong and I own a pipe, I don't know why I don't want everyone to come to my pipe. If I don't ever let AOL onto my pipe and my customer likes AOL, then I run the risk he will leave my pipe and go to Joe's pipe so he can get AOL. Then I can't sell him local phone service or long distance service."

Powell compared rapid technology development to "2 huge glaciers slamming into each other. One is the information sector. That has been a free market world with entrepreneurs and innovation and risk capital. It is crashing into the historical world of communications infrastructure, the historically monopolized phone systems, oligopoly broadcasting networks, single franchised cable systems and new DBS entrants, all heavily regulated. The Internet is fascinating because it is the glue between these 2 revolutions. There are all kinds of swirling going on." (Complete text of interview is in *Warren's Washington Internet Daily*. For free copy or trial subscription call 800-771-9202.)

Comcast Cable plans to conduct its own technical trial of multiple ISPs on high-speed cable lines, following AT&T and Time Warner, Comcast Pres. Steve Burke told us. Burke, speaking on panel at East Coast Cable 2000 convention in Baltimore Sept. 13, said MSO was "very close to announcing" multiple ISP trial and he hoped to release details soon, but declined to say more. Charter Communications also is exploring idea. Burke said Comcast would: (1) Generate more than \$100 million in free cash flow from digital cable service this year. (2) Probably roll out video-on-demand commercially next year and possibly full-fledged interactive TV in 2002. (3) Push to rebuild all of its recently acquired cable systems in Washington area and elsewhere within 12-18 months. (4) Aggressively enter local phone market once IP telephony over cable lines becomes reality.

CNN Newsources said it opened news bureaus in Seattle and Denver and was deploying "triple path" satellite trucks at both, plus its N.Y.C. bureau. CNN Exec. Vp Jack Womack said Newsources also was adding 6 correspondents — increasing total to 10 — and creating Marketsource to offer affiliates live business and financial reports from N.Y. Stock Exchange. News service also said it began offering 2-way digital fiber and satellite (where fiber is unavailable) service called Local Connect.

Media Audit Inc. will provide Web rating and audience data for Web sites operated by NBC's 13 owned stations under new contract. Cost of service wasn't announced.

Personals

Bruce Romano named assoc. chief, FCC Office of Engineering & Technology; **Sherille Ismail**, deputy chief, Cable Services Bureau... **Albert Kornak** appointed corporate dir.-production, WOLF-TV, Wilkes-Barre/Scranton... **Susan Weiner** named senior vp-law and deputy gen. counsel, NBC... **Anthony Altig** appointed CFO, NBC Internet after being acting CFO since May 8... **Janice Giannini**, ex-Lockheed Martin, appointed exec. vp-chief information officer, Arbitron.

James Smith ex-AT&T Broadband, named senior vp, operations-western division, Charter Communications... **Ben Sample** appointed dir., affiliate relations, CableRep Advertising... **Donald Karell** named vp-gen. mgr.-Wichita, Cox Communications.

Robert Ambrosini, ex-Texfi Industries, appointed CFO, BET Holdings II... **David Nathanson**, ex-News Corp., named dir.-broadband strategy, Fox Cable Networks Group... **Emilio Mata**, ex-HBO, appointed vp-on-air promotion, Starz Encore Group... **Gerald Walker** named dir.-affiliate relations, CNN Newsources Sales.

Jane Zeletes, ex-Rhythms NetConnections, named vp-business markets, High Speed Access Corp... **Robert Toczycki**, ex-Carr & Ferrell, becomes dir.-intellectual property, ICTV... Changes at Millennium Digital Media: **Bruce Beard**, ex-SBC Wireless, named senior counsel; **Suzanne Harwood**, ex-MediaOne, becomes mktg. dir., central region... **Michael Dunn**, chief technology officer, Time Warner, elected to Qbeo board... Changes at Grupo Galaxy Mexicana SRL de CV: **Peter Hutchison**, ex-Onexa, named pres.; **Edward Balcerzak**, Galaxy Latin America, gen. mgr.

Changes at Andrew Corp.: **Charles Nicholas** named vice chmn., **Guy Campbell** CEO... **Bruce Block**, ex-Musicmaker.com, appointed senior vp-technology, RIAA.

Campaign to "name and shame" TV stations that don't provide free time to candidates was announced by Alliance for Better Campaigns. Group said stations were likely to have \$1 billion revenue from political ads this year, but fewer than 50 stations, and no national networks, were providing at least 5 min. of daily time to candidates. Campaign, called greedytv.org, has Web site and toll-free 866 number using same phrase. Post-Newsweek Stations, meanwhile, are latest to offer free air time to political candidates. Pres. Alan Frank said stations would devote regular segment of newscasts to election coverage, provide free time to qualified federal and state candidates, carry debates.

CBS executives will take over control of most UPN stations involved in new duopolies under reorganization plan announced by network. Executives of CBS stations in Boston, Dallas and Pittsburgh will take over formal direction of UPN stations, and 2 other duopolies — Philadelphia (where both stations will share CBS facilities) and Miami — will remain under separate management. In Detroit, head of WKBD (UPN) will oversee both it and WWJ-TV (CBS).

Paxson Chmn. Lowell (Bud) Paxson raised \$1 million for Republican candidate George Bush, then criticized his DTV policy, sources said. In presentation to Bush, Paxson said "failed" DTV policy was hurting wireless Internet, as well as broadcasters and expected revenue from spectrum auctions.



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National Rural Telecommunications Cooperative (NRTC) in ex parte filing at FCC supported Hawaii and Alaska in their efforts to require DirecTV to provide state-of-art DBS services in states, including full array of programming. NRTC was responding to Hawaii's accusation that DirecTV had failed to provide service to state in violation of assurances company made to FCC and state. Hawaii said major reason for DirecTV decision was company's legal fight with NRTC on contractual rights to serve that state.

WRH

Consumer Electronics

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STATE OF THE INDUSTRY

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

	AUG. 26- SEP. 1	1999 WEEK	% CHANGE	AUG. 19- AUG. 25	35 WEEKS 2000	35 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	642,652	441,191	+ 45.7	814,637	18,566,100	17,227,195	+ 7.8
DIRECT-VIEW**	607,523	415,228	+ 46.3	776,836	17,760,454	16,551,140	+ 7.3
TV ONLY#....	513,386	360,435	+ 42.4	582,144	14,699,690	13,879,654	+ 5.9
TV/VCR COMBO.	94,137	54,793	+ 71.8	194,692*	3,060,764*	2,671,486	+ 14.6
PROJECTION...	35,129	25,963	+ 35.3	37,801	805,646*	676,055	+ 19.2
TOTAL VCR**...	479,388	292,446	+ 63.9	842,204	16,953,155*	15,743,176	+ 7.7
HOME DECKS...	385,251	237,653	+ 62.1	647,512	13,892,391*	13,071,690	+ 6.3
CAMCORDERS.....	134,233	56,828	+136.2	135,201	3,559,909*	2,931,871	+ 21.4
DVD PLAYERS....	236,180*	47,660	+395.6	191,140*	4,032,189*	1,919,516	+110.1

Direct-view TV 5-week moving average#: 2000-469,253; 1999-446,110 (up 5.2%).

Projection TV 5-week moving average: 2000-25,594*; 1999-23,257 (up 10.0%).

VCR deck 5-week moving average: 2000-416,765; 1999-372,387 (up 11.9%).

TV/VCR 5-week moving average: 2000-96,655; 1999-84,252 (up 14.7%).

Camcorder 5-week moving average: 2000-100,470; 1999-69,716 (up 44.1%).

DVD player 5-week moving average: 2000-158,759*; 1999-61,577 (up 157.8%).

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

CE INDUSTRY LEERY OF DTV COPY PROTECTION LICENSE: Home recording rights in digital era will be matter of diligent scrutiny by CE retailers and manufacturers in wake of FCC's decision last week to let cable industry proceed with copy protection licensing for DTV sets. Separately, Commission also devised own names for DTV set labeling after cable and CE industries failed to agree on terms (see report, Bcast.-Cable section).

Although FCC won't suggest rules for home recording of copyrighted digital telecasts, it said CableLabs may begin drafting license for its Dynamic Feedback Arrangement Scrambling Technique (DFAST) copy protection system. FCC's ruling seemed to imply it believed consumers should enjoy recording rights for DTV as they did for analog TV, but CE executives remained apprehensive.

"We're heartened to read that the FCC thinks home recording ought to be preserved in digital as in analog," spokesman for RCA parent Thomson told us. "We're also encouraged that the DFAST will go under the microscope — and that the Commission wants a final license from all parties in 30 days. That's a significant move, we believe." Spokesman said that in past FCC had received input piecemeal from various industries, which created misunderstandings as to what had been agreed upon and consequently resulting in delays in rulemaking process.

CE industry's complaint on DFAST is that it gives too much control to content owners over operation of CE devices for home viewing and recording. "The most offensive provisions of the current DFAST draft license have to do with what the consumer's digital recorder can and can't do," Thomson spokesman told us. "For example, among other provisions like 'Never Record,' DFAST would automatically erase a recording 90 minutes after it's made.

"That goes beyond the bounds of even reasonable discussion," Thomson spokesman said. "Why in the world then would anyone buy a digital recorder or a PVR?" Separately, spokesman said company had "no strong opinion either way" about FCC's rulemaking on DTV set labeling. Spokesman for Circuit City told us Fri. that retailer and its lawyers were reviewing all material in FCC documents, so they wouldn't comment until study was completed. Chain has played leading role and has espoused forceful stances in DTV set labeling and copy protection discussions to date.

CEA's reaction to FCC's copy-protection vote was predictable and consistent with past positions. "We are pleased that the Commission in its actions today appears to recognize that consumers maintain reasonable home recording rights in the digital age," CEA Chmn. Gary Shapiro said. "We maintain, however, that the FCC has no legal authority to grant CableLabs permission to mandate copy protection schemes" in DFAST license.

Shapiro indicated there was room for consensus on home recording rights and limitations. Shapiro said: "We hope that the Commission's actions in this area today and in the future will not limit the usual and customary home recording rights of consumers. In addition, these actions must not allow cable providers to become gatekeepers with the ultimate power to determine the home recording and viewing rights of consumers. Specifically, cable providers must not be granted the ability to prevent consumers from viewing programming for which they have already paid."

Like Thomson, Shapiro expressed apprehension over DFAST license terms. "We are encouraged that the FCC has determined that the DFAST license must undergo scrutiny," Shapiro said. "The responsibility now lies with CableLabs to modify the draft license so that it respects the home recording rights of consumers and does not limit the ability of consumer electronics manufacturers to produce and market navigation devices." At our deadline, comment wasn't available from MPAA on DTV copy protection issues.

TV GLASS PRICES MAY RISE AMID SHORTAGE: TV tube glass makers are seeking 8-30% price increases across all sizes, following through on pledge made in spring (TVD March 6 p11) as industry battles supply shortage.

Proposed increases, which could become final by Dec., range from 10% for 25-27" panels to 30% and possibly more for 19-20", Techneglas Pres.-CEO Timothy Hickey said. Overall average should be in 8-10% range, but prices will rise sharply on smaller sizes because they are least profitable to build, he said. Indeed, 19" sets have been advertised at various times this year at \$99 and energy costs tied to melting of glass represent about half proposed increase, Hickey said. Corning is seeking 8% increase and will "minimize" production of small panels with eye toward converting some lines to larger sizes by late 2001, Commercial Operations Dir. Alan Herklotz said.

"There is a definite shortage in midsize (19-20") glass so you're coming off a very, very low base that is almost a dumped price level," Hickey said. "There is no profit there at all. It's not just the glass that is going up because there are a lot of other components that are also searching for increases." Worldwide shortage has been estimated at 200,000 tons.

"We need to recover something," Herklotz said. "I know the tube companies are in a tough position, but we gave a lot of price away and it was right after we invested a lot of capital for expansion to make larger sizes. We're expecting that 8% should be about right."

Increases come as industry experiences shortage that Hickey said has left Techneglas "sort of living hand-to-mouth" and relying on parent Nippon Electric Glass to provide some added capacity. Shortfall is largely tied to industry's appetite for flat screen and widescreen tubes each of which consume about 20-30% more glass than conventional models, industry officials said. Corning plans to add capacity for flat glass at State College factory by late 2001 or early 2002, Herklotz said. Tight supply is sharp reversal from year ago when glass makers were struggling with inventory that forced Corning to temporarily close State College, Pa. plant (TVD Aug 2/99 p13).

"What you are seeing happen is supply being less than demand because of things like big screen, widescreen and flat glass and the whole supply and demand equation has changed in favor of the glass companies," CE executive said. Based on quotes received from Techneglas and Corning Asahi, many tube makers we canvassed said they will seek an increase for 2001. Flat screen has become so pervasive that Sony is said to be preparing to manufacture only flat faced tubes by mid-2001, while Thomson and others are projecting it to account for 20-25% of big screen production, sources said. Sony spokesman declined to confirm or deny flat screen production plans. While flat screen sales have been strong in U.S., technology and along with widescreen has also caught on in Europe and Far East, further tightening already limited worldwide supply. Shortage also comes as Thomson readies plans to start production of 32" tubes at new plant in Mexicali by mid-2001.

To offset shortfall, Techneglas will may employ "selective" increases in capacity which may involve either adding new line for funnels and panels or converting an existing one, Hickey said. Cost of converting or adding new line can run more than \$50 million, virtually ruling out construction of any new plants will be built, he said.

"In general there is an increase in demand across all products lines including PC monitors as well as TVs," another CE executive said.

One possible effect of increase in prices for glass and other key TV components, could be slight rise in retail tags, something that has rarely occurred in past. "If there is a major increase in glass cost it's going to impact what is charged at retail," JVC Color TV Gen. Mgr. Michael Holmes said. "All the TV manufacturers face a big challenge because everyone wants to develop a flat TV strategy and as that becomes more main stream, the curved glass product will have to become more promotional."

While smaller screen sizes aren't most profitable, many manufacturers will keep 19 or 20" to offer full line to retailers, Matsushita's Jerry Surprise said. Matsushita will likely avoid commodity 20" in 2001, but continue flat screen model and those with step-up features like S-Video jacks, he said. "It is a volume business," he said.

Constant downward pressure on TV prices which has seen 35-36" and 27" sets nose below \$400 and \$200 respectively in some ads, has forced CE manufacturers to launch cost-saving measures. Sharp recently decided to close TV assembly facility in Memphis and shift production to Mexico, while Philips and Thomson have followed similar strategies. Matsushita, Thomson, Toshiba, Hitachi and Sony all currently maintain tube plants in U.S.

RCA TO SHOW E-BOOKS IN N.Y.: U.S. television market share leader will reveal distinctly highbrow side this weekend when RCA previews its electronic books at "New York Is Book Country" fair. Although company has postponed Sept. 20 news conference where pricing and availability for 2 "eBooks" and content were to be revealed, RCA still will demonstrate eBooks Sept. 24 at N.Y.C. fair and participate in Sept. 21 panel discussion on category. Meanwhile, formal announcements have been pushed back to next month. Spokesman told us news conference was postponed so company could announce product pricing, content availability and retail distribution simultaneously. "We want to make sure we have a complete story when we come forward," he said.

RCA eBook is latest venture with Gemstar-TV Guide International aimed at generating services-based recurring revenues on sale of margin-challenged CE hardware. Joint effort was announced in March, following Gemstar's acquisition last year of electronic-book pioneers NuvoMedia and Softbook Press, which marketed Rocket eBook and SoftBook Reader, respectively. On Fri., Gemstar announced acquisition of French online publisher Les Editions 00h00 ("Zero Hour Publishing"), which has electronic rights to hundreds of titles from leading French publishers and plans to expand online business to most European languages. Also on Fri., *N.Y. Times* carried full page ad for Book Fair with co-sponsorship of RCA and utility Con Edison prominently placed.

Foray is not without perils for RCA and Gemstar (which is 6.4% owned by RCA parent Thomson Multimedia). RCA's "eBooks" — and Gemstar's proprietary "reader" software — will be entering field where software giants Adobe and Microsoft already have staked out turf with "readers" that enable people to view enhanced-resolution text on desktop and portable PCs. Adobe's Glassbook Reader and Microsoft Reader can be downloaded free, from own or booksellers' Web sites. What's not clear in early innings is whether publishers will code content for single format exclusively or for all reader platforms. Movie industry took platform-agnostic stance on software in early days of home video, leaving Beta and VHS formats to slug it out on hardware front.

RCA's eBook hardware will be a differentiating factor among reader formats. Company is positioning eBook as dedicated reading device that doesn't need PC for downloading content. They thus lack complexity of PCs and their operating systems, Thomson Vp-New Media Services Lou Lenzi said. One eBook, in fact, turns on or off instantly upon opening or closing its cover and resumes operation where reader left off, he said. Moreover, each model has built-in modem to directly access "virtual bookstore" server administered by Gemstar. RCA also draws distinction between eBooks and portable PDAs. Lenzi said onscreen resolution of two eBooks has been optimized for reading text and has video resolution 6 and 12 times, respectively, greater "than one popular PDA."

Of 2 eBooks, entry-level REB1100 is paperback-size 17 oz. device with 5.5" diagonal monochrome LCD and capacity for 20 novels (or 8,000 paperback pages) on 8 MB built-in storage (expandable with 64 MB SmartMedia add-in card). Backlighting on 480x320 pixels touchscreen LCD is adjustable, and RCA says unit provides 20 hours' reading time from internal rechargeable lithium-ion battery.

Step-up, tablet-styled REB1200 swaps capacity and reading time for color display on 640x480 pixels 8.5" diagonal LCD, with 5,000 pages of text and color graphics and 5 hours run time. Form factor of 33 oz. eBook is optimized for magazines and periodicals (which can be rescaled for reading on REB1100), and its 8 MB internal memory can be supplemented with Compact Flash cards. Each model has built-in 56 kbps dial-up modem and REB1200 adds Ethernet port for connection to broadband cable or DSL modem.

Although RCA stresses book-like simplicity of devices, it seemed to be hiding its light under bushel, based on other current and future capabilities of eBooks.

Like other reader formats, eBooks enable users to browse, search, annotate or bookmark content, adjust type size and fonts and click on word to get definition from built-in interactive dictionary. eBooks has exclusive feature that permits note-taking on touchscreen LCD, either through onscreen keyboard or by hand with stylus. Handwriting recognition is built in, and users can use stylus to make sketches and store as "electronic ink."

Moreover, RCA eBooks have video and audio capabilities. Digital still photos stored on memory cards may be viewed onscreen. Devices also will be software-upgradeable to play music and audio in various compression formats stored on memory cards. REB1200 has built-in stereo speakers while REB1100 has headphone jack. Lenzi said that, also in future, eBooks can be software-upgraded for text-to-speech operation. Cirrus Logic is supplying ARM-based 74 MHz Maverick EP7212 RISC processor for eBooks. Chip developer also is making news as supplier of encoder/decoder microprocessor for double-density (1.3 GB) recordable CD format recently announced by Philips and Sony.

Prices for eBooks won't be disclosed until next month, when content partners also will be revealed. But Lenzi told us eBooks would be carried by brick-and-mortar and online booksellers and electronics dealers. Content partners will include book and periodicals publishers and retailers, authors selling direct to public, and specialty vendors.

For time being, eBooks will handle content sold for Rocket eBook and SoftBook, which includes 30 periodicals such as *Fortune*, *N.Y. Times*, *Time* and *Wall St. Journal*, Lenzi said. They also can be used to read any trade book titles formatted for Rocket eBook and currently carried by online booksellers such as Barnesandnoble.com and Powellbooks.com. Although popular novels in electronic form get most of attention when category is discussed, RCA and Gemstar believe electronic publishing will make its first impact in niche or "vertical" markets, Lenzi told us. He cited legal, medical, financial, real estate and other industries as examples — as well as potentially lucrative school and library segments.

As with similar business models, RCA and Gemstar expect to get cut from sales. Lenzi said partners plan to generate additional revenue in future from games, puzzles, catalogs and e-commerce through online store as well as from advertising. From outset, eBooks will be capable of displaying passive ads, as well as interactive ones via their modems, Lenzi said. Other revenue streams will come from licensing royalties for Thomson hardware patents and Gemstar eBook platform, and from sales through licensed devices available from other CE manufacturers. Lenzi told us Thomson would have some exclusivity in some channels for some years, but didn't divulge channels or time period except to say CE retailing wasn't one of them.

To allay fears among copyright owners of unauthorized digital reproduction and piracy, RCA and Gemstar stressed that eBook content was copy protected in various ways. Content is linked to individual eBook and can't be printed, transferred to another eBook or to PCs, Lenzi said. Content stored in add-on memory cards for one eBook can't be accessed in another.

PC link is available, but only for downloading to eBook from PC through USB port or infrared. Lenzi said that would enable users to access content from online sources not necessarily available through Gemstar online store, such as obscure electronic publishing sites.

Gemstar digital rights management (DRM) gives flexibility for copyright owners to determine how to market content, Lenzi said. For example, content can be coded and priced for read-once or read-many or for bonus chapters and other giveaways. Cost-free public domain also is likely to be available, as is now on some publishers' sites.

Meanwhile, Lenzi said, eBooks' DRM strikes balance for consumers. Content, once purchased, can be stored on Gemstar server, where it's always available to customer for downloading again to that individual's eBook. Such "virtual bookshelf" would be necessary if customer had to void title from eBook's memory to make space for another and didn't own or have access to extended-memory card. Library space on server would ensure that customer could retrieve content that had been purchased should it be erased or lost in any way.

Thomson is sourcing eBooks from unnamed OEM and expects refinements and lower prices following first-generation models, Thomson COO-Senior Exec. Vp James Meyer told us. For example, he cited discrepancy in use of different memory cards for 2 eBooks. "The products were already in production from 2 different companies when we got involved, and that's why there's 2 different kinds of flash," Meyer said. "But that's not where we want to be. We've driven these 2 companies to an intersection, but we're not at the stop sign yet." As for pricing, Meyer said first-generation models were "more expensive than we'd like them to be at the outset" but he predicted tickets would fall as company lowered manufacturing costs by streamlining production process and components sourcing.

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Assn. of American Publishers forecast that 10% of books would be electronic by 2005. Andersen Consulting said that by same year, 28 million consumers would spend \$2.3 billion annually on electronic content.

JVC POSTPONES D-ILA SET: JVC has postponed delivery of 61W D'Ahlia rear-projection set based on its Direct Drive Image Light Amplifier (D-ILA) technology to early 2001.

Delay will allow JVC to develop microdisplay technology into line of sets that may include models containing ATSC and/or satellite decoders, Color TV Gen. Mgr. Michael Holmes said. EchoStar is likely satellite service provider, he said.

JVC had planned to deliver 61W set (\$5,999) in U.S. in Aug. (TVD May 22 p19), but production has focused on smaller 50W model for Japan market, Holmes said. New line probably will have final assembly at plant in Tijuana, he said.

Specs for set won't change. It has 1.22" chip with 1,280x1,028 resolution, but JVC is expected to shift production to 0.9". It also has moved to boost brightness of D-ILA chips to 1,500 lumens and contrast to 400:1. It's expected to start production of 0.7" version for front projectors late this year.

Unclear is whether JVC remains wedded to 61W, and Holmes declined comment. Hitachi and Toshiba, among others, have had measured success with high-definition-ready 43" and 40" sets.

At same time, Three-Five Systems said it received "multi-million-dollar" order from Samsung Electro-Mechanics (SEM) for its Liquid Crystal on Silicon (LCOS) 0.78" display for rear-projection TV and PC monitor applications. Display has 1,280x1,024 (SXGA) resolution and 600-700 lumens brightness (TVD May 8 p11).

Agreement makes Three-Five exclusive supplier of SXGA microdisplays for Samsung's rear-projection products, SEM Exec. Managing Dir. S.S. Hong said. "Three-Five is the only company with the manufacturing expertise to bring the products to market in the time frame and in the volumes Samsung requires," Hong said. Samsung earlier showed 25" rear-projection PC monitor based on Three-Five display (TVD May 29 p14).

It wasn't clear how SEM's deal with Three-Five squared with Samsung Electronics' one with Displaytech to build latter's ferroelectric LCD (FLCD) microdisplay technology into 43W and 50W rear-projection sets. Delivery of FLCD-based sets has been delayed 3 times, most recently in July (TVD July 31 p14), as companies worked to improve color purity and contrast. Sets have three 0.78" FLCDs and targets have been 300 lumens and 200:1 contrast ratio. Samsung remains committed to FLCD products and hasn't changed plans for limited shipments this fall, said James Sandusky, mktg. dir. for visual media products. Displaytech Senior Mktg. Dir. John Valiulis wasn't available for comment.

In other news, Sharp and Pioneer scrapped joint development agreement for rear-projection TVs but will continue to work together on other digital products including DVD-RW player, Sharp Digital Products Group Assoc. Vp Robert Scaglione said. Sharp and Pioneer began rear-projection TV joint venture in 1998 (TVD July 13/98 p11) and developed 64W HDTV.

Next Knowledgefest is being held in Dallas Sept. 24-26. Knowledgefest is educational conference series for 12-volt retailers run by Mobile Electronics Retailers Assn. (MERA). One seminar at Dallas event will be on acoustic integration, given by JBL-Infinity Mobile Product Mktg. Mgr. Andy Wehmeyer.

Canon will set up 3 regional hqs worldwide by 2002, one of them in U.S., as it breaks with historically centralized corporate structure, Canon USA Pres.-CEO Kinya Uchida said last week in interview at Canon Expo 2000 in N.Y.C. last week. Canon's U.S. Div., currently based in Lake Success, N.Y., will take responsibility for R&D, sales and marketing, finance, legal and manufacturing operations for region stretching from Canada to Argentina, Uchida said. Canon is likely move some manufacturing for U.S.-based div. to Mexico from Japan and consider several sites, including Lake Success, for regional hq., he said. "In this situation location is going to be very important so we must be very careful in choosing a site," Uchida said. Company isn't likely to slash jobs under new structure, which Uchida said would allow company to compete more effectively in fast-changing market for digital products. Canon also unveiled prototype "micro" bubble jet printer strapped to back of digital camera. Printer, which has 1,200 dots per inch (DPI) resolution, most likely will be sold as option with new digital camera, although pricing and availability haven't set, company said. Printer engine, which has 64 nozzles x 3 colors, measures 75 mm x 15 mm x 46 mm. Canon also showed Blue Tooth-equipped printers as well as 15" LCD with rear-cross lenticular lens affixed to front of display to provide 3D image. Display, designed for medical and education applications, has 1,024x768 resolution, 200:1 contrast ratio, 230 lumens, 0.29 mm pixel pitch. LCD is expected to be available by mid-2001, pricing not set.

Apple Computer unveiled new line of iBook notebook PCs that boosts storage capacity and adds DVD-ROM drive. New iBooks introduced at Apple Expo 2000 in Paris last week represent first refreshing of line since Feb. Two models (\$1,499-\$1,799) increase processing speed to 466 and 366 MHz PowerPC respectively from 366 and 300 MHz and boost hard drive to 10 GB from 6 GB. Video memory is increased to 8 MB from 4 MB, while IEEE-1394 port is added to handle iMovie 2 video editing software. Both have 12.1" LCDs, 64 MB RAM, 56-kbps modem. At same time, Apple said much-delayed Mac OS X software would be available in beta form in fall at \$29, with final version due early in 2001. New OS, originally scheduled for release in late 1999, has Aqua interface, which is version of Microsoft's Internet Explorer and can switch among English, French and German, depending on user. Other new features include nimble icon panel, music player and minimizing device that stretches or shrinks images. Software is based on technology Apple acquired from Next Computer, company CEO Steve Jobs founded after being forced out in 1980s.

Hellig-Meyers (HM) will drop CE and appliance prices 10-15% at 3 stores in Beaumont, Tex., area this week in test of new merchandising strategy, sources said. Major CE competitor in area is Conn's. HM spokesman wasn't available for comment. Retailer, which filed for bankruptcy protection in Aug. (TVD Aug 21 p16) and is closing 302 stores, also has expanded test of merchandising CE with furniture to 2 stores in Charleston, S.C., sources said. It tried new merchandising scheme at 4 outlets in Las Vegas. New strategies comes as chain tries to loosen its reliance on lending business that had been hallmark. HM last week also gained bankruptcy court approval for liquidation sales at stores slated to close. It hired Great American Corp., Gordon Bros. Retail Partners and Nassi Group to conduct 45-60-day sales. HM also signed agreement with Household Financial to serve as its primary credit provider.

BEST BUY EARNINGS RISE Best Buy (BB) reported 2nd-quarter income rose 32% (see financial table) on strong sales of video products and slight increase in average selling price of PCs. Sales jumped 18% on 5.1% rise in same-store sales.

TVs and digital products helped boost revenues as Best Buy lessened reliance on low-end VCRs, boomboxes and printers, Pres. Brad Anderson said. At same time, however, he told analysts that DVD player priced at \$99 or less was "a given" for holiday selling season and would be part of BB's marketing strategy.

"The key is just not the price, but how you monetize the customer," said Anderson, whose chain has relied on sale of DVD software with player to offset lower hardware prices. "Leader price points don't scare us in the least and they will be part of the business." Indeed, we reported that BB had agreement with Total Technology Co. (TVD June 12 p11) to supply DVD player that could be sold at \$99. Rival Circuit City advertised \$129 Apex DVD player with \$30 rebate earlier this month in pre-Labor Day promotion (TVD Sept 4 p13).

Speculation was rife that BB might use \$845 million in cash it had at end of 2nd quarter to make acquisitions. Merrill Lynch analyst Peter Caruso suggested BB might expand into Canada and listed Future Shop (FS) as possible acquisition target. FS operates 83 stores in Canada that are about same size — 40,000-sq.-ft. — as BB outlets. FS made push into Northwest U.S. in 1992, but retreated 7 years later (TVD March 15/99 p14), closing 23 stores amid mounting losses.

"In physical size it [acquiring FS] makes sense, but I'm still skeptical that BB would run off and buy them right now," CE executive said. BB spokeswoman declined comment on FS rumor, but said international expansion was "on the horizon" and "would make more sense" once chain was "fully stored" in U.S. BB will have opened stores in all major U.S. markets when it adds Seattle to roster in 2001 and projects room for 600-650, target it's likely to reach by 2004, BB spokeswoman said. BB currently operates 380 stores. FS officials weren't available for comment.

BB's average selling price for PCs rose, buoyed largely by configure-to-order (CTO) and laptop sales. CTO business, which has agreement with Micron to build PCs, has average selling price \$300-\$400 higher than those carried on BB shelves. While BB didn't disclose average selling price, industrywide retail figure for desktops hit \$840 in July, up \$40 from year ago, PC Data analyst Stephen Baker said. PC pricing has nosed up, in part, because of smaller field of suppliers, he said. Both IBM and Packard Bell left retail desktop business in last year.

BB also has benefited from agreement with Microsoft Network (MSN) and has added one million subscribers to ISP service since introducing mail-in rebate offer in Nov.

On downside, BB said music CD sales were "soft" in quarter because of weak release schedule and sales of major appliances were hurt by cool weather. "We're working on a plan to reinvent our appliance business and we're fully committed to improving the business model," Anderson said. BB, which is expected to benefit from Circuit's decision in July to drop appliances, added Kitchenaid (TVD Aug 7 p14) to merchandise mix during quarter.

Chain released few details on e-commerce business that resumed in June (TVD June 19 p12) other than it "was pleased with early results." BestBuy.com's sales mix "favored bigger ticket" CE and PC products with average sale "better than projections," BestBuy.com Pres. John Walden said.

With introduction of Sony's PlayStation 2 slated for late Oct., BB will get "more than our fair share" of console that's expected to be in short supply for 3-6 months, Senior Vp Wade Fenn said.

In quarter, BB's gross margin rose to 20.5% from 19.8% year ago. It ended quarter with \$1.47 billion in accounts payable, slightly higher than inventory at \$1.45 billion, essentially meaning that chain didn't pay for its inventory until it sold it. Selling, general and administrative expenses were 16.8% of sales in quarter, up from 16.4% year ago, reflecting costs of opening of up to 60 stores in current fiscal and online business.

Comtroller Marc Gordon said \$845 million in cash that BB had at quarter's end would be "deployed strategically." He declined to disclose plans, but said BB expected to sign deal for national rollout of broadband service this fall.

Chain plans to open 40 stores in 3rd fiscal quarter, 8 of them in N.Y.C. area. BB "soft opened" 4 N.Y.C. outlets in Aug., but in advance of planned Sept. 22 grand opening sponsored free concert by Sting in Central Park Sept. 12. It had planned 14 N.Y.C.-area stores by year-end (TVD June 19 p13). Anderson declined comment on preopening expenses for new stores, but said it averaged \$600,000-\$650,000 on "manpower and hiring costs" for each. BB so far has kept to area surrounding N.Y.C., but is expected to push into Manhattan in 2001, analysts said.

Harvey Electronics said 3rd-quarter income soared to \$1.6 million from \$193,000 year ago as sales jumped 63.6% on 57.5% gain in same-store sales. Rise in earnings was result of increased sales of video products, which accounted for 32.8% of revenues in vs. 30% year earlier and stronger custom installation business, Pres. Franklin Karp said. Latter represented 32% of revenue against 25% year earlier as sales climbed to \$8.3 million for 9 months ended July 29 from \$4.1 million. Custom installation gross profit margin ran 3-4% ahead of chain's overall 39.7%, Karp said. Harvey had 37.3% gross profit margin year ago. Chain's newer stores in Mt. Kisco and Greenvale, N.Y., also posted 5% gain in gross profit margin, he said. Improved earnings came despite sharp rise in advertising expenses to \$280,000 from \$100,000 year ago. Harvey spent \$120,000 in FY 2000 first quarter on production of new TV ad.

Harvey plans to open 8,000-sq.-ft. store in Eatontown, N.J., by year-end and to add up to 4 others next year, including 2 more in N.J. Cost of opening Eatontown store is projected at \$1 million. Chain also has delayed plan to renovate flagship Manhattan store to spring 2001. Construction, which includes new facade, represents first renovation in 15 years and will be completed by mid-2001, Karp said. Outlet opened in 1960s.

Retailer will spend \$375,000 on e-commerce business that's scheduled to bow in Oct. Web site will handle sales as well as supply product specs and information about chain's custom installation business and new technology.

FIRST-HALF AUDIO UP 12%: Declaring audio business as "the comeback kid" of consumer electronics industry in 2000, CEA reported that first-half audio factory audio dollar shipments climbed 12% from year earlier, spurred by 25.3% year-to-date rise in portable audio.

CD format was most active product category within portable audio, CEA said, with dollar volume of personal CD players and CD boomboxes rising 37% and 23%, respectively, to combined \$700 million. CD also spurred significant gain in once-beleaguered separate components, with home CD (and particularly CD-R) growing 32%, pushing overall category to 16.4% increase for year. Receivers were category's other mainstay, up 23% on more mainstream-targeted Dolby Digital equipment.

Overall Jan.-June shipments were up 12% to \$3.85 billion from \$3.44 billion, while shipments in June alone climbed 12.5% to \$727.74 million from \$646.72 million. Here's CEA breakdown of factory audio dollar shipments for June and year's first 6 months (in thousands of dollars):

Product	June '00	June '99	% Chg
Portables.....	\$225,843	\$180,365	+25.2
Separates.....	134,361	109,575	+22.6
Systems.....	167,240	161,998	+ 3.2
Autosound.....	200,296	194,790	+ 2.8
TOTALS.....	\$727,740	\$646,728	+12.5

Product	6 Mo. '00	6 Mo. '99	% Chg
Portables.....	\$1,127,466	\$ 900,018	+25.3
Separates.....	726,937	624,576	+16.4
Systems.....	869,277	813,441	+ 6.9
Autosound.....	1,127,953	1,100,699	+ 2.5
TOTALS.....	\$3,851,633	\$3,438,734	+12.0

RocketPod created proprietary cross-platform operating system that it said would unify next-generation CE devices and Web. Pasadena, Cal.-based startup said it also would start shipping fully integrated line of smart electronics devices — "iAppliances" — "in late 4th quarter" that connect to Internet via user's computer. Products planned for rollout this year include MP3Pod digital audio player, LaunchPod USB hub, ViewPod flat-panel computer monitor. RocketPod said additional products will ship next year, including digital still cameras and camcorders, personal digital video recorders, enhanced telephony products, other smart devices.

Harman International, Alliance Technology Ventures, Eastern Asia Technology (EASTECH) and Five Paces provided Atlanta-based convergence technology company ZapMedia with \$6 million in private equity funding. ZapMedia said latest investments were part of \$25 million raised in last 4 months alone and \$28 million to date. But it said it also recently made \$270 million deal with Gannett that ZapMedia said "allows" it "to easily build awareness and source a wide variety of content using [Gannett] properties. ZapMedia said it would use new funding "to fuel additional growth and the company's current working capital needs." It makes ZapStation, universal Internet-connected multimedia CD/DVD player.

FREE WEBTV PROMOTION: Microsoft is running month-long promotion offering WebTV set-top free to new subscribers to its MSN Internet access service.

Program, through Sept. 30, packages WebTV Plus (\$199) with wireless keyboard (\$49) and is Microsoft's most recent effort to jump-start interactive TV service. WebTV has hovered around one million subscribers for more than year and recently shifted some technical focus to new Ultimate TV service.

WebTV pioneered Internet access via TV when it began in 1996 and was expected to continue to grow when it was acquired by Microsoft year later. But WebTV has met limited success in trying to repackage service, including recent addition of MSN messenger software.

New promotion also is aimed at assuaging licensees Philips and Sony, who are among few manufacturers still marketing standalone set-top. Both Mitsubishi and Samsung dropped product, while EchoStar has integrated it in hard drive-based IRD for Digital Sky Highway (DISH) satellite service.

Sony spokesman confirmed that company was providing hardware for promotion, but it couldn't be determined whether Philips also was involved. Some dealers said they were concerned about promotion's potential impact on retail sales.

"If they really are giving it away for free then we need not be carrying it as much," BrandsMart Pres. Michael Pearlman said.

WebTV has run waves of promotions to spark interest in service. Most recently it had special offering rebates up to \$250 to new WebTV customers who purchased 2 months of service. WebTV first offered \$100 rebate on hardware in 1997 (TVD Sept 22/97 p10).

Free offer is "very similar promotion" to \$250 rebate as long as consumer makes commitment to MSN service, Sears Digital Services Buyer Steve Pardee said. "From our perspective it's not as alarming as it first might appear on the surface," he said, noting that WebTV sales had been "stagnant" in recent months.

Ultimate Electronics will move into Oklahoma City area with 2 stores next year and is setting sights on range of other markets including Kansas City, St. Louis and Texas, CFO Alan Kessock said. Ultimate plans to add 4 more stores in Phoenix area next year, he said. Okla. stores will be 33,000-36,000 sq. ft., largest location serving as base for chain's Red Carpet delivery and Fast Trak repair services.

Sensory Science (SS) will split into home electronics distribution and technology development groups Oct. 1 in effort to raise capital more easily. Home electronics group will handle sales, marketing, finance and credit, service, procurement and warehousing, while technology group will develop products such as recently released media appliance platform. SS will remain holding company for both units, which will be managed separately. "It's not a huge change in some respects, but this more easily allows for raising capital," Mktg. Dir. Paul Frederickson said. Restructuring is SS's first major action since hiring Gerard Klauer Matison to help in raising capital.

AMAZON GIVE REFUNDS: After complaints by some of its customers, Amazon.com has told those who didn't receive lowest prices when buying DVDs in recent price testing period that they would be getting refunds.

Price test in question took place earlier this month at e-tailer's DVD store when different consumers were charged different prices for same titles.

Spokesman for e-tailer told us last week: "We're notifying customers that their accounts are being credited because they purchased [DVDs] during a price test in which they did not get the lowest test price." Refunds will reflect difference in price between what each person paid and what lowest price paid on particular item was. Consumers were notified of refunds in e-mails, spokesman said. Although he said "there aren't many" affected by situation, he declined to say exactly how many that involved.

Forrester Research report last week criticized Amazon's price testing, saying that although e-tailer "had the right idea [in] making the right offer to the right customer... [Amazon] executed it poorly." Report said: "Random variable prices, even carefully created regional pricing schemes, will never fly with online consumers who can compare notes with each other thanks to empowering tools like message boards and e-mail."

But report also said "different customers will pay different amounts of money if the total package of goods and services they're buying is not identical." For example, it said, "a shopper will pay \$30 to be the first on her block with the *Mission Impossible 2* DVD and not care that her friend pays only \$20 — but has to wait 2 weeks to get it." Report added: "To refine personalized offers and increase their conversion rates, retailers must segment their customer base by purchase practices and preferences, not, as Amazon did, by which browser customers use."

Meanwhile, bad publicity and customer complaints haven't caused Amazon to change its tune on another pricing issue. At least some customers who shopped at Amazon's DVD store Sept. 7 placed orders for titles that had prices far below their normal levels. Mistakes were caught by Amazon, which then asked customers to either pay higher price or cancel orders.

Amazon spokesman said problem was "just glitches in the data" in no way related to price testing issue and said customers affected by mistakes wouldn't be reimbursed if they paid higher prices. He said: "Our policy that's posted on the site says that if you are charged an incorrectly high price, we will in reality charge you the correct lower price. [But] if the pricing error is in the other direction we ask you: 'Do you still want the item or would you like to cancel the order.' Spokesman said policy, located in its "Help" section, has been included on site "for years."

But what policy said at site when we checked it last week didn't indicate clearly that consumer would have to pay higher price or have to cancel order. It merely said: "If an item's correct price is higher than our stated price, we contact you for instructions before shipping."

Glitch was similar to problem reported at end of July (TVD Aug 7 p18), when some customers ordered variety of items at reduced prices and Amazon reacted in same way after detecting

mistakes. It told those customers to pay higher prices or cancel orders. At least some of those consumers then complained to FTC (TVD Aug 14 p15). FTC spokesman declined comment.

Amazon spokesman said last week that company had "taken some necessary steps that we hope will prevent [glitches] from happening again." He declined to say how many customers actually were affected by problems, saying only that it was "not many."

PC Data Online analyst Cameron Meierhoefer said Amazon's handling of situation "seems to make sense from a financial perspective," but not giving affected customers items for low prices at time orders were made was "not the best way" to gain "customer loyalty."

But Forrester Research analyst Carrie Johnson said there was clear difference in Amazon's deliberately giving different prices as part of price test and mistakenly giving different prices as part of glitches. She said "turning around and giving people the lower price" when mistake is made "sounds like a great customer service tactic [but] honestly it's not a good precedent to set." Johnson said that if Amazon gives in to those customers it "could constantly find themselves, for every little mistake they make, having to honor the lower price. That can get dicey." It also can get pricey, she said.

What Amazon essentially did "was to gamble" in handling problems and probably decided it had "enough customers," so she guessed that it said something to effect that "We'd rather take the hit on a couple of dissatisfied customers than the revenue hit." She suggested glitches were caused by some sort of "content management problem" on Amazon's part. But Amazon didn't explain specific cause of problem.

Despite her take on Amazon's handling of glitch, Johnson cautioned that e-tailer might want to come up with clearer way to explain to customers why it handled price test and complaints differently. "All [consumers] know is Amazon is messing with pricing. They don't know that one is deliberate and one is an accident."

Separately, Amazon took hit on another front last week when consumer privacy groups Electronic Privacy Information Center and Junkbusters severed their business dealings with e-tailer, charging that Amazon's new privacy policy didn't protect customers' personal information well enough.

Pricing and privacy dilemmas came as PC Data Online released its findings that indicated number of Amazon buyers dropped in Aug. from July. PC Data Online said Amazon had 1.6 million customers in Aug., down from 1.8 million month earlier. But Meierhoefer said: "We don't read too much significance into this." He said "the level of buying activity is much higher than last year" overall and slight dropoff in Aug. wasn't necessarily indicative of major concern.

THIS WEEK'S YEN RATE

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

SEGA CALLS FTC MISLEADING: While addressing Senate Commerce Committee last week, Sega of America Pres.-COO Peter Moore called part of FTC's report on entertainment industry's ad practices "misleading."

Moore said he "take[s] issue" with report's finding that game makers were targeting children under 17 when they ran ads for "Mature"-rated videogames during such popular TV shows as *Baywatch*, *The Simpsons*, *The X-Files*. He said "many popular programs have audiences that are significantly over 18 years old." Referring to Nielsen figures for 2000, Moore said 71% of viewers who watch *The Simpsons* are over 18, 70% for *Malcolm in the Middle* are over 18, and more than 79% of *Friends* viewers are at least 18.

"This type of speculation is unconscionable in a document that has all the appearance of a scientific survey," Moore said. "These TV shows have wide, mainstream appeal, and as such, they inevitably capture some younger and older consumers than the shows' core audiences." He said "anyone with any experience in marketing or logic will have trouble swallowing" that particular FTC claim.

Moore also said it was "neither practical nor fair to imply that we should bypass advertising media targeted to the gaming enthusiast simply because of the possibility of spillage to a younger demographic."

Moore said he was "insulted" and "troubled" by FTC report, as well as "similar innuendo in political stump speeches, that overlooks our positive efforts and instead generalizes that the industry routinely and overtly markets to audiences younger than designated by ESRB [Entertainment Software Ratings Board] ratings." He said "such sweeping generalizations oversimplify and sensationalize the issue, and unfairly indict responsible companies such as Sega for the isolated mistakes of others.... Aside from my position at Sega, as a father of three young children, I am angered that, based on a handful of instances, government officials point an accusing finger at an entire industry as the cause of all youth violence. Any responsible parent knows that there are a multitude of factors involved in childhood development. The more time our government spends scapegoating one of the thousands of impressions made every day on children, the less time is spent on real, sustainable solutions."

Despite his criticism of report, Moore said: "I also want you to know that we are thoughtful and sensitive to the fact that children may be unintentionally receiving messages meant for an older audience. In recognition of such a situation, Sega and the IDSA [Interactive Digital Software Assn.] both enjoy close relations with our retail partners and continually work with them to develop new programs to educate consumers about the age and content suitability of video games." He said retailers Sega is working with include Babbages Etc., Best Buy, Circuit City, Electronics Boutique, Kmart, Sears, Target, Toys "R" Us, Wal-Mart. Moore said Sega, IDSA and ESRB "work to ensure that those retailers have the information and materials necessary to inform parents of the ESRB rating system."

Also commenting on report last week, Video Software Dealers Assn. (VSDA) Pres. Bo Andersen said "most of the nation's video rental stores" already had "adopted effective policies for helping parents control what their families rent or buy." He also cautioned that "the government cannot infringe the con-

stitutional rights of video retailers and their customers — or of parents to raise their families as they see fit." He added: "Ultimately the responsibility for raising children lies with their parents, not the government and certainly not video store clerks." Other entertainment industry executives also spoke out last week, along with elected officials (see separate report, *Bcst-Cable* section).

EchoStar filed with SEC to sell \$600 million of 7-year senior notes, proceeds to be used to fund construction, launch and insurance of upcoming series of satellites... **Gilat-to-Home** changed name to StarBand Communications as it geared up to start satellite-based Internet access service with EchoStar this fall... **YES**, in which Gilat Satellite Networks is investor, reached agreement with Israel's cable companies to use their infrastructure to deliver satellite service. Cable companies will receive one shekel per month for each new subscriber who uses cable network to access YES service. Cable companies also hope deal will help convince Israel's Communications Ministry to allow them to offer domestic telephone and Internet services in competition with state-run Bezeq Israel Telecoms.

Marta Buying Group signed agreement for ZMarket to develop customized Internet-based Unified Buying Platform. System would enable group's 115 members to make product forecasts and purchases, get manufacturer's product specs, promotions. ZMarket still must finalize agreements with vendors. Marta, which has combined annual sales of \$2 billion, previously handled process with manufacturers via electronic data interchange (EDI) network, Exec. Dir. Warren Mann said. ZMarket also is said to be in discussions with Associated Volume Buyers (AVB) and Nationwide groups. ZMarket platform will rival that developed by JG Sullivan Interactive for NATM, which also allows for Internet-based forecasting and other features (TVD Sept. 4 p14).

Konka slashed price on 13" TV/DVD player to \$299 from \$349 and 27" Art TV \$100 to \$699. Art TV line features flat-screen sets and multichannel TV sound (MTS) and is available in 5 colors... JVC's first flat screen set will ship in Oct. at \$899. New 27" I'Art has 2 component video inputs, 10 w amplifier and side-mounted front-firing speakers. It also has dual tuner PIP, Invar shadow mask and 3D Y/C with 4 Mb DRAM.

Philips Components Div. hq will move to Sunnyvale, Cal., from Netherlands, affecting 10-15 employees. Matthew Medeiros, who has headed division's flat-panel display systems group, was named pres.-CEO, replacing Gerard Kleisterlee, who was named earlier this year to succeed Cor Boonstra as pres.

HMV launched **U-Mix** in-store shopping service allowing customers to preview songs and create custom CD compilations from digital music kiosks. Retailer tapped Liquid Audio to supply technology for kiosks. HMV is holding 6-month pilot test of plan at its Oxford Circus flagship store in London "to gain a realistic evaluation both of consumer demand for this market and of the technology and hardware" involved, it said. But HMV said trial "may be extended" past 6 months and to additional stores. It said consumers at outset will gain access to more than 2,200 Liquid Audio tracks, but that "will increase as further digitized content is made available." HMV and Liquid Audio had announced in June that customers of HMV.com in U.S. and Canada would be able to securely purchase and download music from library of more than 85,000 digital tracks.

Consumer Electronics Personals

Matt Medeiros, CEO, Philips Flat Display Systems, appointed pres.-CEO, Philips Components, succeeding **Gerard Kleisterlee**, who becomes Philips pres.-COO... **Daniel Palumbo**, Kodak consumer imaging chief mktg. officer, named pres., replacing **Robert Keegan**, who becomes Goodyear Tire & Rubber pres.-COO; **Matthias Freund**, pres.-CEO, Kodak's Qualex subsidiary, advanced to consumer imaging COO, replacing **Henri Petit**, who shifts to China vice chmn..

Ronald Berger resigns as Rentrak CEO, remains chmn... **Alan Lacy**, Sears Service pres., named Sears pres.-CEO, replacing **Arthur Martinez**, who will retire in March... **Keith Spurgeon** resigns as Zany Brainy chmn.-CEO, replaced on interim basis by Pres. **Thomas Vellios**... **Michael Krupi**, CDNow COO, promoted to pres.-CEO, succeeding founder **Jason Olim**, who remains chmn. and becomes senior music strategy adviser, Bertelsmann eCommerce Group... **Stephen Browne**, All-American Bottling Co. pres.-CEO, and **Eugene Davis**. Pirinate Consulting chmn.-CEO and ex-Emerson Radio, elected to CD Warehouse board; **Ronald Perry** resigns from board.

Martin Hanaka, Sports Authority chmn.-CEO and ex-Staples and Sears, joins RMS Networks board... **Robert Bernardi** resigns as Musicmaker.com chmn., replaced by Pres.-CEO **Dverarajan Puthukarai** on interim basis; **Bruce Block**, ex-Musicmaker.com, joins RIAA as senior vp-technology, replacing **David Stebbings**, who left to join Internet startup... **James Miller**, Valley Media CFO, promoted to pres.-COO, replacing **Melanie Cullen**, resigned, plans undisclosed; he remains interim CFO, reporting to Chmn.-Acting CEO **Barney Cohen**... **Robert Burrus**, McGuire Woods chmn., resigns from Heilig-Meyers board after law firm is hired as special counsel for chain's bankruptcy case... **Mitch Koch** departs as head of domestic operations for Disney's Buena Vista Home Entertainment to become vp-worldwide sales, Microsoft's upcoming X-Box videogame system, no replacement announced... **Joseph Fleischer**, ex-MP3.com, named iCast Music CEO.

As MP3.com continued to face legal woes last week, it said it saw gains on 4 fronts in Aug. and announced new business initiative. Number of approved artists at site was up to 94,200 in Aug. from 87,700 month earlier; available songs posted at site were 606,600, up from 562,800; average daily unique visitors, 583,000 vs. 562,000; 142 million page views per month compared with 129 million. But MP3.com said number of songs delivered online to play or save fell in Aug. to 31.6 million from 33.5 million month earlier. MP3.com last week also announced deal with Adergy, company that specializes in producing and placing audio advertising messages in grocery stores and other retail locations. MP3.com said deal was its first "value-added reseller relationship" and one that would allow it "to reach a broader market base and more effectively distribute its Retail Music Services to the grocery retail community." Meanwhile, latest copyright infringement lawsuits filed against MP3.com were by Zomba Recording Corp. and Zomba Music Publishing, which own Jive record label — home of Backstreet Boys and Britney Spears. Although MP3.com reached settlements with BMG, EMI, Sony Music and Warner, Universal Music Group went forward with its suit against MP3.com and recently wound up on winning side of U.S. Dist. Court, N.Y.C. judge's decision.

Financial Reports of TV-Electronics Companies

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

Company & Period	Revenues	Net Earnings	Per Share
Best Buy 2000-26 wk. to Aug. 26 1999-26 wk. to Aug. 28 2000-13 wk. to Aug. 26 1999-13 wk. to Aug. 28	6,132,889,000 5,072,071,000 3,169,171,000 2,686,640,000	148,906,000 104,876,000 76,748,000 58,067,000	.72 .52 .37 .28
Harvey Electronics 2000-39 wk. to July 29 1999-39 wk. to July 31 2000-13 wk. to July 29 1999-13 wk. to July 31	26,353,634 16,272,398 7,931,955 4,848,907	677,192 (254,928) 14,540 (506,230)	.19 --- --- ---
Infogrames 2000-qtr. to June 30 1999-qtr. to June 30	32,983,000 121,325,000	(41,944,000) (3,852,000)	--- ^a --- ^b
National Semiconductor 2000-13 wk. to Aug. 27 1999-13 wk. to Aug. 29	640,800,000 481,800,000	144,200,000 47,100,000	.81 ^a .28
Rentrak 2000-qtr. to June 30 1999-qtr. to June 30	29,034,947 30,995,070	249,999 3,612,988	.02 ^c .35 ^d
Sound Advice 2000-6 mo. to July 31 1999-6 mo. to July 31 2000-qtr. to July 31 1999-qtr. to July 31	84,491,000 79,151,000 41,815,000 40,684,000	1,365,000 1,502,000 689,000 881,000	.36 .40 .18 .24
Solectron 2000-year to Aug. 25 1999-year to Aug. 27 2000-13 wk. to Aug. 25 1999-13 wk. to Aug. 27	14,137,500,000 9,669,200,000 4,736,200,000 2,386,100,000	497,200,000 350,300,000 171,000,000 103,500,000	.83 ^a .65 ^b .28 ^a .18 ^b
Tektronix 2000-13 wk. to Aug. 26 1999-13 wk. to Aug. 28	278,191,000 280,747,000	27,431,000 (8,482,000)	.58 ---
Zany Brainy 2000-26 wk. to July 29 1999-26 wk. to July 31 2000-13 wk. to July 29 1999-13 wk. to July 31	135,159,000 128,404,000 71,724,000 64,937,000	(29,692,000) (8,059,000) (22,194,000) (5,460,000)	--- ^a --- ^b --- ^a --- ^b

Notes: ^aIncludes special charge. ^bAdjusted. ^cRevised, includes special credit. ^dIncludes special credit.

Amazon.com said last week that its U.K. Web site, Amazon.co.uk, was first European e-commerce site to attract 2 million customers. It said U.K. site's customer base doubled in 8 months and saw average growth of more than 125,000 new consumers each month this year. Amazon.com Senior International Vp-Gen. Mgr. Diego Piancentini said "nearly one-fourth of Amazon's sales come from outside the United States" at this point. Company opened French site, Amazon.fr, late last month and has German Web site, Amazon.de. Separately, report said Amazon.com CEO Jeff Bezos said his company's fulfillment costs as percentage of sales dropped to 15% from 16% in 4th quarter of 1999. Bezos also was quoted as saying company would "like to see [fulfillment costs] in the low teens by the end of the year." Report said Amazon's fulfillment costs were only 10% of sales in prior year's 4th quarter and Bezos attributed increase to "new distribution center network that isn't fully utilized" and Amazon's now "carrying [additional] product categories."

Dreamcast players won't be getting hockey game *NHL 2K1* for system as expected this year. Sega of America spokeswoman told us last week that company instead would be coming out with *NHL 2K2* next fall. Company opted to drop *NHL 2K1* from plans because Sega was unable to add network play capability to that title this year, she said.



TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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SUMMARY-INDEX OF WEEK'S NEWS

Broadcast - Cable

SATELLITE GROUPS SUE over DBS must-carry, say they have better chance than cable. Tauzin displeased with suit. (P. 1)

TV VIOLENCE STILL HOT issue on Hill. Committee clears safe harbor bill. Hearing cut short. Fritts warns of 'slippery slope.' (P. 2)

DTV INTERFERENCE WORSE than expected, stations finding. Chapman blames demand for auction revenue. (P. 3)

ECHOSTAR TO BID FOR DIRECTV, Ergen says. Price tag of \$60 billion expected. (P. 4)

INTERNET REGULATION UNLIKELY despite threat to radio, Furchtgott-Roth tells Radio Show. Big opportunities for stations seen. (P. 5)

WIPO TO DEBATE RIGHTS of performers to more money, control of programming. (P. 6)

SATELLITE GROUPS SUE OVER DBS MUST-CARRY: Trying to succeed in court where they failed in Congress, satellite TV providers sued federal govt. over DBS must-carry rules in U.S. Dist. Court, Alexandria, Va. Lawsuit by Satellite Bctg. & Communications Assn. (SBCA), DirecTV and EchoStar said must-carry violated First Amendment rights of satellite carriers, programming suppliers and future DBS subscribers by forcing DBS providers to carry all local broadcast stations in every market where they offer local service by Jan. 1, 2002. Suit, which names federal govt., FCC and U.S. Copyright Office, also charged that must-carry violated Fifth Amendment and copyright laws by forcing DBS providers to carry unwanted channels without compensation.

Suit "isn't the smartest move they've ever made politically," said Ken Johnson, spokesman for House Telecom Subcommittee Chmn. Tauzin (R-La.). He said industry clearly "is flourishing as the result of our local-into-local legislation," which included must-carry as part of political deal with broadcasters. Congress "gave the DBS industry a break from full must-carry in order for them to become more competitive," Johnson said, and "there's not a lot of sympathy here on the Hill when it comes to trying to circumvent the law."

Not all major satellite players think it's good idea to take issue to court. Pegasus Communications Chmn. Mark Pagon called suit "ill advised and shortsighted," arguing that it would hurt DBS industry's already strained relations with broadcasters and end up aiding rival cable industry. "You're basically getting into a pissing contest with broadcasters, who represent 40% of the viewing in satellite homes," he said after SkyForum panel in N.Y. "It just makes it that much more difficult." Pagon, whose distribution company declined to join suit, said it reflected "metrocentric focus" of SBCA and 2 DBS providers and would do little to bring local broadcast signals to dish owners in rural areas. National Rural Telecom Coop (NRTC) Pres. Bob Phillips called it daunting challenge to take on politically powerful broadcast industry. "If SBCA wants to pick a fight, they know how to pick a big one," he said.

Consumer Electronics

PIONEER DVD-RW DECK IS POSTPONED to early 2001 to await final DVD Forum specs. Pioneer plans Comdex introduction of DVD-RW writer for PCs. (P. 12)

PVR COMBOS COMING in 2001 with Matsushita, Pioneer and Sharp joining fray. EchoStar readies 30 GB PVR combining IRD and PVR. (P. 13)

DVD-GAMECUBE COMBO TO SHIP in July from Matsushita for Japanese market, raising more issues on upcoming Nintendo videogame console. (P. 14)

MORE GAME MAKERS SUPPORT XBOX: More than 150 developers and publishers now backing Microsoft's game platform. (P. 15)

SATELLITE INTERNET ACCESS to debut this fall as EchoStar and Hughes Network Systems' DirecPC roll out 2-way services featuring USB boxes. (P. 16)

Satellite officials said they filed suit after realizing they stood little chance of convincing Congress to amend Satellite Home Viewer Improvement Act (SHVIA). They also concluded they had stronger case than cable industry, which narrowly lost effort to strike down cable must-carry in Turner cases eventually decided 5-4 by U.S. Supreme Court. "We'll continue to work with Congress," SBCA Pres. Charles Hewitt said. "But right now our efforts are [geared] toward litigation."

In suit, satellite interests said must-carry actually would prevent them from offering local broadcast stations in most midsized and smaller markets because of large number of stations and limited channel capacity. Both DirecTV and EchoStar offer local affiliates of 4 major broadcast networks in 34 large markets and plan to add more this year. But, with major markets such as L.A., N.Y. and San Francisco having more than 20 local stations each, DBS providers said they would have to limit local service to only biggest metro areas.

Attorney Andrew McBride said satellite industry had better chance of overturning must-carry than cable because DBS providers didn't have same monopoly power over local TV markets. He also said DBS must-carry, unlike cable must-carry, sets no limits on how many local stations satellite carriers must offer. "We don't think it's the Supreme Court that's different," he said. "We think the case is so different and the statute is so different."

Satellite attorneys said they chose Eastern Dist. of Va. court because SBCA is headquartered in Alexandria and court is known for acting swiftly. Calling court "rocket docket," McBride said he hoped for decision in 6-9 months. He said 4th U.S. Appeals Court, Richmond, which would handle any appeal, also was known for moving quickly.

Although cable lobbyists have shown little interest in DBS must-carry case, satellite representatives expressed hope that cable operators, cable networks and even some local broadcast network affiliates in smaller markets would join suit, especially as FCC wrestled with DTV must-carry. "I would expect cable operators to make some of the same arguments we're making," McBride said, because "digital must-carry poses an enormous threat" to both DBS and cable channel capacity.

TV VIOLENCE REMAINS HOT POLITICAL ISSUE: Despite maneuver to block full 2nd hearing on TV violence, issue remained on front burner in Washington last week (TVD Sept 18 p1), with Senate Commerce Committee passage of bill to require FCC to set "safe harbor" for violence. Passage apparently sets stage for another Senate floor fight over safe harbor. Bill (S-876) by Sen. Hollings (D-S.C.) passed on 16-2 vote, with Chmn. McCain (R-Ariz.) abstaining.

Hollings had introduced substitute that would allow continued transmission of gratuitously violent programming during safe harbor times when children were likely to be watching as long as V-chip was working to block it. FCC would determine effectiveness of V-chip and other blocking measures within year, and if it found them lacking, it would have 9 months to prohibit violent program distribution in safe harbor hours. Most industry groups had no immediate comment. "We don't think it's an area where government spending belongs," an MPAA spokesman said.

"The V-chip does not work," Hollings said at markup, and in fact industry has used its presence "as permission... to do anything they want." He said there was no need for FCC to conduct another study on matter, but his bill called for one anyway to remove any constitutional questions whether measure was justified. Broadcasters and other bill opponents have been telling Hill that measure might not have allowed showing of *Schindler's List* and other worthwhile programs, but Hollings said Europe and Canada had safe harbor systems and have had no trouble showing that movie. Bill wouldn't block violence that's meaningful within context of program, he said.

Sen. Brownback (R-Kan.) said bill "starts us down a road we're not prepared to take" toward content regulation. He said his own recently introduced measure would offer antitrust protection for entertainment industries to create their own code of conduct. NAB Pres. Edward Fritts, in letter to Committee day earlier, called govt. involvement in programming "slippery slope. If government can determine when certain programs may or may not air, then it is not a stretch for government to begin determining which programs may air at all."

"This has nothing to do with content," Hollings said: "It's about the showing." He said industry already had right to create code, so antitrust provision wasn't needed. Others on panel, including McCain, expressed support for Brownback's bill but worried that it more properly was in Judiciary Committee's domain. Sen. Kerry (D-Mass.) said "we should take that excuse [antitrust problems] off the table" to prod industry into action.

"I see us going to litigation" as companies challenge FCC definitions of gratuitous violence and safe harbor times, Sen. Breaux (D-La.) said. Sen. Gorton (R-Wash.) said he believed chances of bill's standing up to constitutional challenge were "less likely than not," but it still was "good policy" to pass it without predicting outcome of court review.

Same day, Senate Judiciary Committee hearing on advertising violent media to children was canceled after 90 min. because of objection on floor against holding hearing while Senate was in session. Only FTC Chmn. Robert Pitofsky and handful of senators had testified before Chmn. Hatch (R-Utah) gaveled end to hearing with 7 scheduled witnesses waiting to testify, including MPAA Pres. Jack Valenti. MPAA handed out news release at hearing in which Valenti pledged movie industry's commitment to address FTC recommendations: "While I cannot tell you at this moment precisely how we will act [on recommendations] I can tell you we will act."

Hearing was intended as follow-up to FTC report saying R-rated movies, music and electronic games routinely were promoted to children, and on antitrust exemption to enforce voluntary codes. Hatch said "some in the entertainment industry have deliberately forced violent and unsuitable material on [children] for the purpose of making money." Pointing to court decrees declaring TV's family viewing hour and code unconstitutional, Hatch said "that should give us pause about the constitutionality of proposals that might coerce 'voluntary' action in regulating free speech."

Sen. Kohl (D-Wis.) said Congress should give industries antitrust exemption and make sure FTC enforced its deceptive trade practices rules. Kohl released letter from himself and Sen. DeWine (R-O.) to FTC asking whether entertainment company that violated industry code on advertising to children could be sanctioned for deceptive advertising. Pitofsky said FTC believed it would be hard to draft exemption that did "exactly what you want and goes no further." However, Sen. Feinstein (D-Cal.) said "a carefully tailored" exemption would provide "a kind of nudge" for companies to step forward in self-regulatory area.

Meanwhile, ranking House Telecom Subcommittee Democrat Markey (Mass.) said TV violence was "part of the overall environment in which violent behavior takes place." He said it appeared one reason TV violence increased was diminishing ability of station groups, which he said often functioned as proxies for their local audiences, to pressure networks. He said that's one reason he supported 35% broadcast ownership cap. Markey said it "would be very good" if broadcasters had code of conduct, without saying he would require one. He said he was "holding back on safe harbor" rules in hope that industry would fix problem without govt. intervention.

Markey said he believed FTC already had authority to crack down on ads for violent products inappropriately targeted to children under unfair and deceptive marketing statutes: "I believe it's very deceptive for an ad for an 'R'-rated movie to show up before a 'PG' movie." Most of Congress has no interest in censoring content adults see, he said, and he urged industry to be cooperative on children's content issues lest it leave impression it was "irresponsible."

DTV INTERFERENCE WORSE: Loss of current TV service because of unexpected interference from DTV will become "a national problem," LIN TV CEO Gary Chapman told FCBA. He said experience of LIN's WOOD-TV Grand Rapids "is a sharp warning that the losses could be far greater than we anticipated." Chapman, who also is MSTV chmn. and former NAB chmn., attributed unexpected problem to "an artificially accelerated timetable" for DTV, driven by "budgetary politics." Computer models used to predict that interference would be barely acceptable have been superseded by real-world experience, he said.

Fact that stations around country are being "clobbered" by DTV interference indicates FCC estimate that 25 million viewers might lose some existing TV service due to DTV interference could be very low, Chapman said: "Real people, lots of them, are starting to lose vital local and network service." He said FCC and Congress "have become so obsessed with taking back broadcast spectrum and selling it to nonbroadcast users that they have been willing to sacrifice literally millions of broadcast viewers."

Broadcasters remain committed to current DTV table of allotments, Chapman said, although it's "not nearly as good as it could be." He said govt. could alleviate problems by imposing DTV must-carry and cable compatibility, as well as enforcing All-Channel Receiver Act.

WOOD-TV estimates it lost 100,000 of its 600,000 viewing households, including some entire cable systems that pick up station off air, because of new DTV signal from WMVS (PBS)

Milwaukee, which caused unexpected co-channel interference. WMVS agreed to reduce power temporarily, but permanent fix is likely to cost hundreds of thousands of dollars, Chapman said. LIN officials said possible fixes include paying for new WMVS antenna or building new translator for WOOD-TV. Similar situations are appearing elsewhere, one official said: "This is just the beginning."

Despite attention on broadcasters' review of 8-VSB standard for DTV, Chapman said real goal was to "produce the factual basis for ending the current confusion." He said current review actually should accelerate transition, and broadcasters were doing everything they could to avoid further delays.

DTV is having big negative effect on network-affiliate relations, Chapman said. Those relations are difficult even in one-channel, one-way world, he said, and "vastly more complicated" in multichannel, 2-way environment. Networks have caused concerns by "draconian" cuts in affiliate compensation, Chapman said, "generating vast reservoirs of ill will and resentment" just when networks should be working toward new partnership with stations: "This is at least part of the reason so many affiliates have jumped so eagerly to... dedicate precious digital spectrum to programmers other than the networks."

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N. American Bcstrs. Assn. (NABA) said its Secy. Gen. Bill Roberts would leave Oct. 20 to become CEO of Vision TV, Canadian religious broadcasting service. No successor has been named.

ECHOSTAR TO BID FOR DIRECTV: EchoStar Communications intends to pursue DBS market leader DirecTV as GM weighs sale, spinoff or other options for its Hughes Electronics satellite unit. Speaking in N.Y.C. at SkyForum conference Sept. 21, EchoStar Chmn. Charles Ergen said he wanted to buy DirecTV and its 8.7 million subscribers, putting his company into likely contention with such media heavyweights as Disney, GE, News Corp., Microsoft and Viacom in Hughes bidding contest that analysts said could exceed \$60 billion. If successful, bid would make EchoStar lone DBS provider in U.S. with more than 13 million subscribers, 3 times larger than its customer base of 4.3 million. It also would make EchoStar larger than every MSO except AT&T, transforming pay-TV landscape.

Big question is whether govt. would allow one of nation's 2 DBS providers to buy other, thereby creating satellite TV monopoly. Industry analysts and officials at SkyForum split on issue, with some seeing serious antitrust problems. "It would be difficult to finance it and I don't think Washington would like it," PaineWebber analyst Thomas Eagan said. "I think they [regulators] would prefer them to be competitors."

However, others argued that govt. never had treated satellite TV market as separate from cable. "There were originally only 3 [DBS] competitors and the government cut it from 3 to 2," said one source, referring to Justice Dept.'s blocking of Primestar merger by News Corp. and top MSOs in 1998. "You could almost say it [DirecTV] is in a monopoly position right now."

At SkyForum, Ergen declined to spell out his ambitions for DirecTV and its Hughes Electronics parent. But he said EchoStar-DirecTV merger would generate "tens of millions of dollars in synergies" through elimination of duplicative satellites, spectrum, uplink centers, programming deals. He contended that no other bidder could create as much value. "There's a tremendous amount of value in unleashing spectrum," he said.

Making his case for govt. approval earlier in day, Ergen told Wall St. analysts that EchoStar purchase of DirecTV would result in greater DBS competition to cable, boost industry's ability to offer local channels in smaller markets, meet govt. must-carry mandates, lower DBS programming costs, cut prices for consumers. He said govt. could impose subscriber cap on EchoStar, similar to existing cable ownership limits, to keep company from controlling too much of multichannel video marketplace.

Hughes Electronics Senior Exec. Vp Eddy Hartenstein, on earlier SkyForum panel, acknowledged again that GM was exploring outright sale of Hughes Electronics or addition of partners, but declined to comment on EchoStar's interest. Saying he didn't know "regulatory constraints" of possible EchoStar bid, he said GM and Hughes executives would have to "look carefully at all the regulatory issues." He said DirecTV and EchoStar now were "healthy competitors in that arena."

Analysts agreed with Ergen that EchoStar-DirecTV combination would make sense. But most said top candidate to take over Hughes and DirecTV remained News Corp., which has tried to enter U.S. DBS business at least 3 times in last 5 years. Some speculated that Ergen might be more interested in driving up price of Hughes, just as he ratcheted up price of DBS spectrum in 1996 with unexpectedly high bids. "EchoStar will at least be involved in the process," CS First Boston Vp Ty Carmichael said. "At the minimum, Charlie wants to make sure that DirecTV doesn't sell cheap."

With time winding down on regulatory review of proposed AOL-Time Warner (AOL-TW) deal on both sides of Atlantic, European Commission (EC) confirmed Sept. 22 that companies had submitted formal set of concessions to win approval of deal in Europe. In Washington news briefing, EC officials said AOL and TW had filed proposed concessions with antitrust agency in Brussels Sept. 21, but declined to spell them out. Companies, which had until Sept. 24 to suggest remedies to EC's objections to deal, reportedly pledged they wouldn't use their combined market power to discriminate against rival ISPs or music labels in Europe. They also proposed gradually reducing Bertelsmann AG's 50% stake in AOL Europe, among other things. EC officials, required to act on merger by Oct. 24, said AOL and TW still could submit proposed remedies after deadline but would run risk that remedies might not be considered fully. EC representatives also produced statistics indicating that agency had turned down 13 of 74 proposed deals in similar Phase 2 review in last decade. But they cautioned against drawing any conclusions about numbers, saying every merger was different. Meanwhile, FCC Chmn. Kennard said Commission would rule on AOL-TW deal within 30 days. On visit to India, he said agency was "less than 30 days from taking a decision on case," but declined to discuss status of review. FCC reportedly is weighing conditions that would force companies to open up their cable systems to other ISPs as well as to provide equal access to their instant messaging and interactive TV systems. But agency dismissed press reports about potential conditions as "based on incomplete and speculative analysis." In statement attributed to spokesman, agency said no FCC staffer had made recommendations to full Commission.

Separately, in ex parte filing at Commission, Time Warner said local franchising authorities had given their blessing to merger in overwhelming numbers. But MSO said 3 small communities, representing total of 37,200 subscribers, had denied franchise transfers. It said another community with 8,985 subscribers hadn't acted but should do so later this month. Also last week, Portland, Ore., City Comr. Erik Sten urged FTC Chmn. Robert Pitofsky to impose nondiscriminatory Internet access condition on AOL-TW even if open access isn't required of other cable operators. In Sept. 20 letter, Sten said relying on cable companies' promises to open their systems to rival ISPs "requires a belief that these companies will voluntarily act against their own economic interest." Without legally enforceable right to compete, he argued, "the energetic, entrepreneurial companies that have driven the growth of the Internet" will be put at serious competitive disadvantage. Contending that Portland's ordinance was invalidated because city had no right to regulate telecom services, he said FTC "clearly does have the appropriate jurisdiction and authority" to impose nondiscriminatory access condition on AOL takeover of TW. Meanwhile, Sten said Portland had reopened negotiations with AT&T on MSO's obtaining telecom franchise to operate its cable modem service in city, and "we are on the way to a regulatory agreement."

FCC refused to require LPFM stations to provide 3rd-channel interference protection to full-power stations, except those providing radio reading service, in reconsideration decision late Fri. Agency also adopted new procedures for handling interference complaints, but reaffirmed its earlier belief that LPFM would cause little additional risk of interference to full-power radio. Complaint procedure would take effect when full-power station received complaints of new interference from 1% of listeners in area most likely to experience interference, FCC said. If LPFM and full-power station can't negotiate solution, Commission said it would initiate what Comr. Ness called "rocket docket" proceeding to resolve it within 90 days. FCC also provided new protection for radio translator stations.

INTERNET REGULATION UNLIKELY: FCC Comr. Furchtgott-Roth, told NAB Radio Show in San Francisco last week that slapping Internet with bevy of regulations that broadcasters face would mean its demise: "I don't think there's any chance that the type of regulations broadcasters put up with will go to the Internet." While he dodged specific questions on how FCC policies might change under Al Gore or George Bush administration, he said he was certain Washington would try to "regulate this beastly new technology... People in Washington... think they can regulate our ills away. They can't... You cannot survive if you are regulated to death."

Fellow broadcasters no longer are stations' main competition, he said, referring to Internet: "Your competitors don't have a Fairness Doctrine. None of them face the same regulations you face. If you're in business in America, you know you're in competition with the Internet."

But as 6 million American households are projected to have high-speed Internet access in next year in form of cable modems or DSL, radio industry that's used to perceiving Internet as threat should seize it as opportunity, Warren Kurtzman of Coleman Research said. Speed of broadband translates into more people downloading music and more people listening to streaming audio, he said. In 1999, only 1.9 million households had high-speed Internet access at home but number is expected to increase to 32 million or 1/3 of American households by 2004. Pierre Bouvard of Arbitron said that's reason enough to begin implementing broadband strategy into radio station Web sites: "If you don't have a broadband strategy, you're going to miss out."

Arbitron/Coleman survey found that Americans who have high-speed Internet access divide their time almost equally among TV, radio and Internet. In nonbroadband household, people devote 33% of their media time to watching TV each day, 28% listening to radio, 11% online. In broadband household, time spent watching TV plunges to 24% and radio time to 21%, but Internet usage nearly doubles to 21%. While broadband doesn't bode well for TV, which has most viewers in the evening — same time Internet usage is at its peak — damage to radio can be minimized by adding streaming audio to radio station Web site, he said.

New survey by Arbitron and Edison Media Research also released at show said more Americans are online and listening to streaming audio, but radio station Web sites don't provide enough captivating content to encourage their audiences to visit more frequently. "These radio station Web sites still largely function as brochure Web sites," Edison Pres. Larry Rosin said. Among 14,703 radio station Web site visitors surveyed for Internet study, only 23% said they visited daily because most radio station Web sites remained static sites without ability to listen to radio online, Rosin said.

Rosin said now is opportune time for radio stations to invest in developing their Web sites and in laying groundwork for capturing online radio audience. Station managers need to trust that popular radio station can generate even more ad revenue by attracting listeners to their online site, where quick purchases are more likely to be made with a click on banner ad, Rosin said. Having streaming audio on Web site remains most lucrative way to attract online users and advertisers, survey said. It found that only 19% spent time away from computer while listening to streaming audio, 29% worked at their computers, 27% surfed Internet and 21% remained at site where audio originated. Of those surveyed, 56% spent more than 1-1/2 hours online each day.

RADIO SHOW NOTEBOOK: NAB Pres. Edward Fritts urged broadcasters to "e-mail, fax, call or send a carrier pigeon" to senators in support of LPFM compromise bill (S-3020). Similar to measure (HR-3439) that already has passed House to prohibit LPFM stations from interfering with regular radio service, he said legislation was "the best and only chance to stop the FCC's interference plan... Time is short. Congress [due to adjourn early next month] will not be in session long." Fritts said LPFMs, as approved by Commission, would cause wholesale interference to FM stations so "the FCC has clearly abdicated its responsibility as guardian of the spectrum." U.S. Appeals Court, D.C., has scheduled Nov. 28 argument on NAB's appeal of FCC order authorizing LPFMs.

About 50 persons (all appearing to be 30 or younger) demonstrated at Moscone Center Fri. morning protesting what leaflet said was lack of "prodemocracy measures" in broadcasting and its regulation. According to Fairness & Accuracy in Reporting (FAIR): "Thanks in large part to the NAB, telecommunications deregulation has proceeded with dizzying speed... enabling a parade of media mergers that has concentrated power into fewer and fewer corporate hands." Demonstrators were kept outside building by nearly as many policemen, although 4 gained entrance to lobby and were sitting on floor chanting slogans while chained together at neck with bicycle locks. At Fri. breakfast, just after Fritts had introduced FCC Comr. Furchtgott-Roth (and before he could speak), one demonstrator grabbed podium microphone and proclaimed: "I'm here on behalf of free-speech protestors." Before she could say anything more, large security guard clamped his hand over her mouth and kept it there while he pulled her out of room.

Formation of Local Media Internet Venture by 5 large radio group owners was announced at show. Participants — Bonneville International, Corus Entertainment, Emmis Communications, Jefferson Pilot Bstg. and Entercom Communications — said Venture would provide content, technology and marketing for radio stations' Web sites. Other stations will be invited to join Venture, which won't offer market exclusivity. Venture Chmn. Jeffery Smulyan of Emmis said it would serve interests of broadcasters rather than 3rd parties. Attorney Jack Swarwick, who was consultant in formation of Venture, was named pres.-CEO.

Keynoter Colin Powell stressed public service, urging radio stations to support America's youth and to report positive events that happen in their communities: "If you hear about a kid that has done a really great thing, get him or her on the air." Powell also urged broadcasters to be more careful about what they put on air: "We hear things on the radio that are rough, crude and dirty, and kids hear them."

PBS and APTS said they reached "agreement in principle" with Time Warner (TW) Cable for carriage of DTV signals. However, agreement must be signed by 80% of PTV stations in TW regions within 45 days before it's binding on stations and TW Cable, they said. There are 140 PTV stations eligible for carriage on TW Cable systems, PBS said. Elements of agreement are: (1) Recognition that multiple PTV stations in markets often provide differentiated services to distinct audiences and a provision for carriage of more than one PTV service per market under certain circumstances. (2) Inclusion of high-definition and multicast programming, and program-related material. (3) Provision of carriage through the transition period from analog to digital broadcasting.

WIPO TO DEBATE RIGHTS: U.S. content distributors and producers could face “administrative nightmare” if World Intellectual Property Organization (WIPO) approved European copyright proposals, said Donald Wear of Discovery Communications, who’s expected to represent N. American Bcstrs. Assn. at Dec. meeting in Geneva. WIPO Diplomatic Conference aims at setting new copyright rules for all types of audiovisual performances, including TV, movies, Internet streaming media.

Key issue is amount of copyright rights that performers, rather than program producers, have. U.S. has been satisfied with current environment, in which performers turn over their rights to producers in return for their pay, as part of contracts negotiated with Screen Actors Guild (SAG) and others. However, European Union has been pushing since at least 1996 for expanded, separate rights for performers, which could lead to broadcasters’ and others having to negotiate separately with individual performers over fees and any modifications in audiovisual programs.

Result of European proposal could be “a significantly higher administrative burden” for program distributors, Wear said: “We believe performers ought to be fairly compensated, but it would be difficult to administer a set of rights without transferability” of rights to producers. He said program distributor such as Discovery might have to conduct separate negotiations with each actor, and single actor or estate could block distribution of program. Europe also is proposing that rights be imposed retroactively, Wear said. Broadcast official said result could be creation of international versions of BMI and ASCAP, which hold rights for music creators.

European proposal would let each country decide its own copyright rules for performers, MPAA Senior Vp Fritz Attaway said, which also would increase administrative burden: “This meeting could be extremely important if it doesn’t support the allocation of rights that has been worked out through collective bargaining. It would be a big problem because it would inhibit our ability to distribute our product around the world.” Attaway said studios and SAG had agreed on proposal that would assume that performer transfers rights to producers in return for compensation.

Broadcasters, producers and distributors seemed to agree that European proposal had less than 50-50 chance of approval in Dec. meeting, but remained concerned. One official said similar plan failed in last meeting. “This was very contentious then,” he said, and with addition of new technologies and streaming media “none of the issues have gotten any easier.” But another participant said Europeans had been lobbying other countries hard and might be generating some support.

U.S. is hoping group will approve set of rules similar to American proposal. Some U.S. officials admitted they might prefer no action at all, but saw some benefit in codifying American system in international treaty. They also said protections were “very important to performers, and we want to accommodate them.” Groups in Africa and Japan also have submitted copyright proposals to be considered at meeting, and American officials were expected to work with them toward acceptable compromise.

In addition to compensation, European proposal would give performers “moral rights” over programs, meaning they would have control over any alterations. Draft proposal prepared by

WIPO standing committee chmn. would say performers couldn’t limit standard industry practices in modifying programming, which some are interpreting to mean such things as formatting it for different aspect ratios and editing it for commercials or time constraints. Attaway said Hollywood probably could accept that, although it “needs some clarification.” However, Wear was concerned that moral rights “could have a crippling effect,” depending on how that issue was interpreted. He said proposal was “so subjective that the result could be fairly arbitrary decisions. This kind of worries us.”

Performers’ rights would be “just another complication” for Internet streaming, Wear said. Others said European proposal could seriously complicate copyright licensing for Internet streaming since each country could have different rules and Internet programs could be streamed worldwide. “The Internet underlines the need for uniformity,” one official said.

FCC Comr. Furchtgott-Roth praised Commission’s handling of latest biennial review of telecom regulation, saying report still wasn’t perfect but better than one 2 years ago. Telecom Act requires FCC to review telecom rules in even-numbered years to determine whether some should be dropped. Furchtgott-Roth said new report was “far more detailed” than 1998 version but it still didn’t do “rule-by-rule” review as he would like. He said 2 years ago FCC “made no pretense” of looking at every rule as required by Telecom Act. This time it looked at categories of rules, or rule “parts,” which he said was big improvement. Furchtgott-Roth also praised FCC for proposing to incorporate biennial review analysis in every new rulemaking. He also liked proposal by Office of Managing Dir. to create “public tracking system” as part of planned computer upgrade. Tracking system would let public monitor status of items under consideration by FCC.

FCC has no right to investigate allegedly subliminal ad by Republican Presidential candidate George Bush (TVD Sept 18 p7), FCC Comr. Furchtgott-Roth said. He called Commission investigative letters to broadcasters “nothing short of extraordinary” since “the FCC has many virtues; expeditious resolution of petitions and complaints is not a consistent one.” Agency has no formal rules on subliminal ads, Furchtgott-Roth said, including no basis for determining what is subliminal message, and no authority to regulate advertisers: “The Commission has embarked on an unpredictable and hasty proceeding, with no clear precedent to guide it... The weeks before a national election are unlikely to be the best time for a proceeding on political advertising.”

Boards of NCTA and Cable in the Classroom (CIC) approved plan to combine their education activities. Move, designed to increase efficiency and build on cable industry’s education initiatives, will transfer all NCTA education programs to CIC effective Jan. 1. NCTA will provide administrative support, groups said, and CIC will maintain its nonprofit tax status and separate offices in Alexandria, Va. NCTA’s programs such as Cable’s High-Speed Education Connection, webTeacher and Family and Community Critical Viewing Project will be integrated into CIC.

Mark Millage, KELO-TV Sioux Falls news dir., succeeded CNNRadio Vp Robert Garcia as RTNDA chmn. at close of convention in Minneapolis. David Busiek, KCCI-TV Des Moines, won as chmn.-elect over Robert Salsberg of AP. Nashville’s Opryland will host 2001 RTNDA convention Sept. 12-15.

FCC QUESTIONS DIGITAL BOX LAG: Baffled by absence of digital cable set-top boxes in stores, FCC is demanding detailed answers from cable and consumer electronics (CE) industries. In text of further notice of proposed rulemaking (NPRM) on DTV-cable compatibility issues released Sept. 18, Commission particularly put focus on cable side, seeking comment on industry's efforts to develop federally mandated retail market for competitive digital set-tops. Agency pointedly asked why cable modems were available at retail in some areas but cable set-tops weren't. Addressing current impasse between cable and CE industries, it also asked what else it should do to spur retail market for digital set-tops.

Specifically, FCC's 16-page NPRM seeks comment on actual openness of OpenCable technical standards for competitive cable set-tops developed by CableLabs. Heeding complaints about OpenCable specifications by group of CE retailers led by Circuit City, Commission asked "whether the efforts of CableLabs to develop an interface standard have achieved the desired result, and whether entities outside of the membership of CableLabs have been able to effectively participate in the process." NPRM questions "whether the specifications provided by CableLabs allow consumer electronics manufacturers to build a navigation device that provides consumers a viable alternative to the equipment provided by their service provider." Agency asks commenters "whether there are further steps the Commission should undertake to ensure compliance... and achieve the statutory objective of commercial availability of navigational devices [set-top boxes]."

Responding to other complaints raised by CE interests, FCC sought comment on its current Jan. 1, 2005, deadline for MSOs to phase out older, proprietary set-tops. It asked whether that deadline should be moved up to 2003 or earlier, as CE interests favored, or pushed back later than 2005 to create incentives for retail set-top market. It wanted to know economic impact of earlier or later date on CE manufacturers and on cable operators and rivals. Along those lines, it requested that MSOs and other commenters provide: (1) Number of proprietary boxes they already had deployed. (2) Number of boxes they expected to deploy by 2003. (3) Number of orders that cable operators and retailers had placed for new, interoperable boxes. (4) Number of orders for proprietary boxes that cable operators had placed since agency's last order on subject 2 years ago. (5) Total cost differential between old and new set-tops.

Citing Circuit City's contention that incentives for development of retail set-top market were lacking, FCC requested comment on "any obstacles or barriers preventing or deterring" creation of that market. Noting that retail market for cable modems was developing, agency asked why "this apparent disparity" was occurring. It said new broadband services providers were building alternative cable systems in many markets and wondered what impact they were having. Reacting to cable charges, Commission asked for comment on such other possible factors as retailers' alleged attempts to extract portion of digital cable revenue from MSOs in return for selling cable set-tops.

Cable representatives shrugged off FCC's focus on their industry, saying it had been expected. NCTA Gen. Counsel Neal Goldberg said he was "actually pleasantly surprised" by agency's NPRM because its tone was more "objective and neutral" than he had feared it would be. "I was concerned that it was just going to be a one-way set of questions," he said.

However, cable lobbyists continued to steam over FCC's adoption of "Digital Cable Ready" labels for 3 types of DTV sets. Industry sources said NCTA was likely to file petition for reconsideration by Commission because of objections to labeling report and order, also released Sept. 18. Cable officials contended that advanced, integrated DTV sets labeled "Digital Cable Ready 3" should have to include 1394 digital connectors, just like "Digital Cable Ready 2" sets. Cable also wants FCC to require CE manufacturers and retailers to use agency's chart spelling out differences among 3 set types.

Signaling its intent to appeal case to U.S. Supreme Court, NCTA asked 11th U.S. Appeals Court, Atlanta, to stay its ruling that FCC lacked authority to regulate utility pole attachment rates for cable-delivered Internet service. In motion at 11th Circuit last week, NCTA, intervenor in case on FCC's side, requested that court grant stay even though earlier this month it had denied petition for rehearing or en banc review. NCTA said case "presents issues of exceptional importance" that were likely be reviewed by Supreme Court this term because of their national significance and conflict among circuits on issue. Filing said 11th Circuit decision, if not stayed, would "upset the most basic and long-standing contractual relationships between cable operators and utilities" by allowing latter to deny fair access to their poles, charge "exorbitant rates" and subject cable operators to "unconscionable terms." NCTA charged that 3 southern utilities — Alabama Power, Gulf Power and Virginia Power — already had begun engaging in "anticompetitive conduct," with first 2 recently seeking to terminate all pole attachment agreements with cable operators and boost rates 500%. Cable trade group also accused Alabama Power and Gulf Power of unfairly using rate increases to promote their allied video and Internet services at expense of cable operators and their subscribers.

Portland, Ore., decided not to contest 9th U.S. Appeals Court, San Francisco, ruling invalidating its ordinance requiring open access by AT&T and classifying cable-delivered Internet Service as telecom service. Announcing decision on eve of deadline for filing appeal, official said city believed "whatever the legal arguments, the court was right on the facts" that cable modem service was telecom service. He said it was right that "we can't have 200 broadband policies around the country." He said city chose to mandate open access because "FCC, which is supposed to deal with such issues, abdicated its responsibility." AT&T spokesman declined comment.

EchoStar sued Fox Family Worldwide in U.S. Dist. Court, Denver, in effort to drop Fox Family Network. EchoStar decision to drop Fox Family wasn't surprising since it had notified Fox last Oct. it wanted to do so along with \$500,000 monthly programming fee. Fox insisted on holding EchoStar to 1995 distribution agreement with Fox Family predecessor International Family Entertainment. Contract wasn't scheduled to expire until 2005. Meanwhile, in action related to earlier suit involving News Corp., Chmn. Rupert Murdoch sold 7 million shares of EchoStar stock worth \$343 million, he said in filing with SEC.

FCC Comr. Ness drew mention from President Clinton in speech late Thurs. in Mich. on digital divide. Clinton cited as one of his important accomplishments inclusion in Telecom Act of provisions for telephone access for disabled. He thanked Ness and "all those who helped us to fight for the rights of disabled Americans in the Telecommunications Act."

REPORTERS CRITICIZE TV: Low esteem in which public holds TV news was major topic at RTNDA convention in Minneapolis (TVD Sept 18 p9). CNN's Christiane Amanpour blamed "money managers" and "hocus-pocus" groups. John Siegenthaler of NBC said TV news had been damaged by lack of public confidence. ABC's Carole Simpson said there was lack of diversity in newsrooms, and CBS's Ed Bradley said he failed to get best assignments before he became *60 Minutes* correspondent because he was black.

Amanpour said "the moneymen have decided over the last several years to eviscerate us [because] it actually costs a bit of money to produce good journalism... Let's just cheap-skate our way into the most demeaning, irrelevant, superhyped, sensationalism we can find. And then we wonder why people are tuning out in droves."

Siegenthaler said it was "no secret that all the news media suffer from a loss of public confidence. And unfortunately, with many Americans it is especially true of television news because of our perceived power, penetration and persuasiveness." TV's credibility "has been damaged to the point that we are seen as no more than reliable used car dealers, undertakers or politicians," he said.

Simpson said if TV news "does not reflect the nation's diversity in its on-air staff, in story selection, in management, in employment, we are doomed... To have a real democracy we need a multitude of voices."

Bradley told audience "I'd like to say something that I can't say on the air," calling for major reforms in federal election process and for TV stations "to come up with some kind of formula" for candidates: "I for one am tired of political commercials."

Command Audio, which plans to offer personal video recorder-like pay-for programming audio network in vehicles in 2002, said tests of "radio-on-demand" service in Phoenix and Denver attracted "significant number of users" who bought RCA 1000 receivers manufactured by Thomson Electronics and subscribed to service. CEO Don Bogues said service allowed listeners to "choose and control" news, sports and weather content from TV, newspapers and radio with push of button in vehicle. Satellite signal can move over several distribution pipes to subscribers, Bogues said. Spokesman said Command Audio currently provides "roughly 200 programs" that are compressed and transmitted via GE Americom satellite. From local earth stations, signal is sent via FM subcarriers to subscribers in Phoenix and Denver test markets. In future, spokesman said, company hopes to deliver programming via satellite radio companies such as XM or Sirius or digital audio broadcasting in Europe. Traditional radio companies "already understand they need to get their technology to offer these new solutions," Bogues said: "When they decide to offer them, we will be a god-send" instead of competitor.

FCC Enforcement Bureau Chief David Solomon will keynote day-long session Sept. 27 at Washington Marriott on "New Enforcement Bureau: Nuts, Bolts & Strategies," sponsored by Wallman Strategic Consulting. Conference will feature practical information such as how to defend or prosecute formal complaint and how to negotiate consent decree. Presenters will be Washington attorneys, govt. officials and others familiar with enforcement issues — 202-347-4694.

LAWSUIT TARGETS PACIFICA: Cal. Attorney Gen. Bill Lockyer granted listeners of Pacifica public radio stations right to proceed with lawsuit to have Pacifica Foundation board removed and have some members held accountable for allegedly violating its founding purpose. Carol Spooner, head of Committee to Remove Pacifica Board, said she and Novato, Cal., attorney Daniel Bartley had filed suit Sept. 15 with Alameda County Superior Court in Cal. where nonprofit Pacifica Foundation has hq. Pacifica has 30 days to respond. Effort to obtain comment from Pacifica was unsuccessful.

"It's a very interesting legal procedure... [and] it's very rare," said Spooner, one of 12 Pacifica Foundation sponsor-listeners to bring suit against Washington-based public radio company. In Cal., attorney gen. has duty to make sure nonprofit organizations follow their Articles of Incorporation and, if not, has authority to file suit in court to correct problem. In Pacifica Foundation situation, Lockyer, rather than using his staff to prosecute case, appointed relator (12 listener-sponsors) to file suit.

Suit charges Pacifica Foundation with violating its founding purposes, Spooner said. If group wins, dirs. will be removed and "they will be held personally liable," she said. Suit attacked actions of board when in 1999 it enforced 23-day staff lockout at KPFA station. Suit seeks personal liability against David Acosta, Robert Farrell, Ken Ford, June Makela, Frank Millspaugh, Michael Palmer and former exec. dir. Lynn Chadwick. Spooner said suit seeks removal of other directors "for other reasons." She said they were illegally elected and violated bylaws.

Bill to require Supreme Court to allow TV cameras into open sessions (S-3086) was introduced by Sens. Specter (R-Pa.) and Biden (D-Del.). Specter said court under Chief Justice William Rehnquist "is unusually activist in pursuing its agenda" and frequently dismisses intent of Congress. Among cases he pointed to was striking down Communications Decency Act in 1998, in which court said Congress hadn't spent enough time considering law. "I do not expect a rush to judgment on this very complex proposition," Specter said, "but I do believe the day will come when the Supreme Court of the United States will be televised." RTNDA Pres. Barbara Cochran applauded bill, saying arguments often used against TV in courtrooms, such as danger to defendants or pressure on witnesses and juries, "simply do not apply to the Supreme Court."

"I'm 6 weeks from being chairman again" of House Telecom Subcommittee, ranking Democrat Markey (Mass.) told Media Institute last week, although he didn't rule out taking chairmanship of full Natural Resources Committee instead. He said Democratic takeover of House would mean "inevitability of a return to a slightly different philosophy" on panel, but he pointed to years of largely unanimous votes by Subcommittee when it was run by Democrats and promised to include minority counsel from beginning on every bill. Markey also: (1) Suggested he would deprioritize FCC reform, one of Republicans' favorite issues. He said only way to reduce FCC's role is to diminish need for it through increasing competition. (2) Promised to push a "privacy bill of rights" as priority. He said he would consider federal preemption of state privacy bills as element as long as federal protections were strong enough.

Latest DTV station on air: KTTC (DTV Ch. 36, NBC) Rochester, Minn. NAB said there now are 154 U.S. DTV stations on air, reaching 64.72% of all U.S. TV households.

BROADBAND TAX BREAK BILL ADVANCES: Bill to provide tax incentives for broadband deployment to unserved areas (S-2698) saw its chances of passage rise when it was folded into Chmn.'s markup of larger tax incentive bill, Community Renewal & New Markets Act (HR-4923). Markup of larger measure in Senate Finance Committee was postponed Sept. 21 due to filing of 72 proposed amendments, spokeswoman said, but another could be scheduled if differences can be worked out quickly. Bill already has passed House and is considered popular candidate for Senate approval. It contains series of targeted tax cuts for projects such as empowerment zones and low-income housing.

Broadband section would provide tax breaks worth \$1.3 billion over next 3 years, according to Committee estimates, making it one of larger parts of \$8.7 billion New Markets Act. Committee summary said measure would continue to provide 10% credit for current broadband services of at least 1.5 Mbps in rural and underserved areas and 20% for next-generation services of at least 22 Mbps downstream and 10 Mbps return. Existing services would remain eligible through Jan. 1, 2003, while next-generation services would be eligible through Jan. 1, 2005. Telecom, cable and wireless carriers could apply discounts only to "last mile" equipment running from last switching station to outside of home.

Backed by retiring Sen. Moynihan (D-N.Y.), S-2698 has picked up 46 co-sponsors in major push this month by coalition of rural interest groups and broadband providers. Its House counterpart, HR-4728 by Rep. English (R-Pa.), has 49 co-sponsors, but may never need House action. With broadband provisions added to HR-4923 after House passage, only votes that matter would be those of conferees.

Backers have stressed bill's importance to rural areas. Such major agricultural groups as U.S. Sugar Alliance, National Wheat Growers Assn. and National Pork Producers Council told Finance Committee Chmn. Roth (R-Del.) in Sept. 19 letter that broadband provision would be critical for American agricultural industries to "retain and build their market competitiveness." They warned that "American farmers and ranchers are being left behind and geographically isolated" by growth of e-commerce. World Perspectives study financed by Corning said farmers would have saved at least \$5.8 billion this year with high-speed Internet access.

Bill to allow several low-power TV stations to provide high-speed wireless data services (S-2454) cleared Senate Commerce Committee on voice vote. Accommodating concerns of full-power broadcasters, bill would authorize only 10 stations for pilot project to evaluate feasibility of such services and whether they would interfere with broadcast signals. FCC would be required to set procedures for testing interference to digital TV receivers, including taking quarterly reports from each participating station, and terminate license of any station that causes interference. Bill specifies 10 stations that would be authorized, including stations in districts of sponsor Sen. Burns (R-Mont.), Committee Chmn. McCain (R-Ariz.) and other panel leaders. Sen. Stevens (R-Alaska) asked to have Alaskan station included and Burns agreed to work something out.

Pegasus TV closed on previously announced sale of cable TV assets to Centennial Communications for \$170 million cash. Cable systems have 57,000 subscribers in Aguadilla, Mayaguez San German and western part of P.R.

FCC RELUCTANT ON ACCESS: FCC decision to start inquiry on ISP open access to cable systems doesn't mean agency thinks time is right to begin regulating service, Anna Gomez, senior legal adviser to Chmn. Kennard, told NATOA conference in L.A. Commission's reliance on market-based approach resulted in industry movement toward voluntary open access agreements, she said, but recent court decisions assigning cable modem service to various regulatory classifications caused "some uncertainty and confusion," she said.

In light of court decisions, time is right to "assess the competitive development of this market," Gomez said. She said Kennard had 4 goals: (1) Promote widespread, rapid deployment of high-speed Internet services while preserving vibrant, competitive market for Internet. (2) Create legal and policy framework for cable modem service that would foster competitive development of new technology and services by all entities, including cable operators. (3) Instill regulatory stability in market to encourage investment in all types of high-speed networks and innovation in high-speed services. (4) Develop national legal policy framework in light of recent court opinions classifying cable modem service.

Gomez said agency was discussing options to formalize Local and State Govt. Advisory Committee (LSGAC), which had big impact on boosting intergovt. communication. LSCAC's "excellent work has resulted in a much clearer channel of communication with the Commission," she said. Earlier, St. Louis regulator Susan Littlefield said local govts. had feeling that Commission had been "treating us as regulatees rather than co-regulators."

Back-and-forth at FCC continued on how to resolve interference issues in 700 MHz band in reply comments from incumbent broadcasters and wireless carriers gearing up for March 6 auction. Spectrum Exchange, which is developing private market mechanism to ease band-clearing through secondary auction, urged FCC not to delay date again: "If potential bidders believe that the March 6 auction date may slide further, or that the rules of the game may change, they may postpone formulating business plans... reducing the likelihood that they will seriously bid in the auction." Comments were response to rulemaking that agency released on ways to facilitate voluntary band-clearing agreements between wireless carriers and incumbent UHF broadcasters in Ch. 60-69 spectrum. NCTA criticized DTV must-carry proposals and took umbrage at what it called Paxson's "complicated scheme for sweetening its incentive to vacate the 700 MHz band." Paxson proposed that station that abandons its analog channel could not only require local cable operators to down-convert and carry analog feed of station's primary digital signal, but also to carry its digital multicast signals. "To the contrary, the statute precludes the multiple carriage rights that Paxson and other incumbent broadcasters seek," NCTA said. Since broadcasters vacating band would be "accepting significant business risk in prematurely terminating established and reliable analog service," FCC should set up secondary auctions to compensate stations for moving, Paxson said. Paxson also said again that DTV must-carry was necessary to convince broadcasters to vacate band. USA Bctg. said if FCC tried simply to mandate that broadcasters vacate band "it would mire the process down in endless regulatory maneuvers and litigation... Mandatory relocation would be unlawful, technically infeasible and fundamentally unfair." Like Paxson, USA said FCC didn't have authority to set caps on compensation stations could receive for vacating spectrum.

MOST MSOs STILL AVOID PHONE MARKET: Despite AT&T Broadband's drive to sign up 500,000-650,000 cable telephony customers by end of year by offering free service, most large cable operators are focused on delivering other new services, such as digital cable, high-speed data, video-on-demand (VoD). Of other top MSOs, only Cox is pushing to provide local and long distance phone service to consumers over cable lines. Other major MSOs are either starting to conduct limited Internet Protocol (IP) telephony technical trials or seeking to provide cable telephony to high-volume commercial users. "Clearly, phone is in our future," Comcast Pres. Steve Burke said at recent East Coast Cable 2000 convention in Baltimore. "It's just not our highest priority now."

Most cable executives said their companies, unlike AT&T, weren't focusing on supplying conventional circuit-switched phone service to consumers over cable lines because of service's high cost, estimated to be as much as 10 times greater than IP telephony's. Cable officials also viewed cable telephony as more complicated service than even high-speed data, requiring more technical upgrades and more billing, customer support and other work. Furthermore, they believed other new services, especially digital cable and high-speed data, offered far more attractive and immediate financial returns than telephony.

Big exception is Cox, which has pushed aggressively to offer circuit-switched voice service to consumers. Cox, nation's 5th largest MSO, ended first half of year with 166,582 cable telephony customers and just under 240,000 phone lines in 8 of its 15 biggest markets, including Omaha, Orange County, Cal., Phoenix, San Diego. With 1.75 million homes passed and 9.5% penetration rate for cable telephony, Cox trails only AT&T in market and, in fact, led AT&T until that MSO took over MediaOne. Cox plans rollouts in more markets in near future.

Unlike their MSO counterparts, Cox officials said they plunged into circuit-switched service to make early inroads on incumbent telcos and beat potential rivals to market. They said they also didn't want to wait up to 3 years for IP telephony technology to develop and be deployed. "It was really a time-to-market decision," said Cox Digital Telephone Mktg. Dir. Thomas White.

Even Cox isn't pursuing cable telephony customers as fervently as AT&T, which is offering free local phone service and sometimes free long distance through Jan. 31 in 10 areas, including Chicago, Dallas, Denver and San Francisco (TVD Sept 4 p6). AT&T, which passed 300,000-customer mark for cable telephony in early Sept., said it now was signing up more than 1,600 cable phone customers per day as it strove to reach its ambitious year-end target and satisfy Wall St. In contrast, Cox signed up 67,000 customers in first 6 months of year — about 370 per day.

White said Cox offered phone customers 10% discounts off first line and 50% discount off 2nd line. In various markets, Cox also offers free voice mail for 3 months, free 30 min. of long distance service for 6 months, \$5 off cable bills for 6 months. But White said Cox avoided AT&T's more extensive free offers and price discounts because it was satisfied with its take rates, didn't want to be overwhelmed by customer demand, feared high subscriber churn. AT&T offer "makes you think when you see it," he said. But cable telephony is "a very labor-intensive and time-intensive business. It's a difficult service to scale up very rapidly."

Among other top MSOs, Cablevision Systems, Comcast and Time Warner offer circuit-switched cable telephony in single market apiece. Comcast has 15,000 customers in northern Va., Time Warner 5,000 in Rochester, N.Y. and Cablevision 11,000 in N.Y.C. suburbs. All 3 are betting more on IP telephony. Time Warner started IP market trial in Portland, Me., last month while Comcast is testing IP in Union, N.J., and plans 2nd trial in Willow Grove, Pa., in Nov.

Unlike AT&T and Cox, 3 large cable operators — Adelphia, Cablevision and Time Warner — are focusing more on delivering circuit-switched service to businesses. For instance, Cablevision's Lightpath commercial phone operation now serves 531 commercial buildings on Long Island with more than 58,000 access lines. In Cablevision's 2nd quarter ended June 30, Lightpath recorded \$21.7 million net revenue, up 25% from year-ago period, and \$13.7 million adjusted operating cash flow, up 29% from 2nd quarter 1999.

Europe's top antitrust regulator questioned FCC's hands-off approach to cable open access issue in speech as European Commission (EC) considered imposing open access conditions on AOL takeover of Time Warner. Competition Policy Comr. Mario Monti said FCC "has taken the view that it wishes to see open access develop, but as a result of commercial negotiation. The FCC wishes to intervene only if such commercial negotiation proves unsuccessful." Although approach "has much to commend it," he said, "it is not always open to me," especially in context of merger review: "If parties are proposing a merger or a joint venture, then I do not have the luxury of being able to see how the market develops in the future. I have to take a view on the basis of what we know today." Keeping up with technological developments is difficult, Monti acknowledged, but he said that wasn't "a basis for not intervening where necessary... Even if the fast pace of high-technology sectors means that market failures last only for a short time — and I have serious doubts about this — this does not mean that we should be less concerned." In same speech, Monti said "it may also be necessary" to examine whether music and publishing industries' interest "in maintaining the status quo is hampering the development of Internet services."

Streaming media company Coollink Bcst. Network said it recruited Leo Hindery, CEO of Global Crossing and ex-pres. of AT&T and TCI cable operations, as its nonexecutive chmn. In addition to streaming audio and video, Coollink said it planned rich media ad insertions, viewer profiling, other services. Company already has streaming agreements with more than 180 stations, including Citadel Bcstg. and Hispanic Bcstg. Hindery remains Global Crossing CEO.

DBS subscribers will grow to 25 million by 2005, Yankee Group forecast. Addition of local channels and new services such as Internet access and interactive TV will spur growth, it said. As DBS companies roll out new services, it will "expand its appeal to wider range" of consumers, report said. DBS customers are expected to increase to 17.3 million in 2001, 19.9 million in 2002, 21.9 million in 2003, 23.6 million in 2004.

Proposals that V-chips be used to block TV commercials that are considered inappropriate for children were backed by V-chip maker Tri-Vision. "Providing program-blocking capabilities for a TV program, without providing blocking for the TV commercials and film trailers... does not eliminate the exposure that children still have to violent and offensive programming," Tri-Vision Dir. Tim Collings said.

Personals

Elected to Walt Disney board: **Monica Lozano**, La Opinon; **John Bryson**, Edison International... **Lou Anne Nabhan**, ex-Reynolds Metals Co., named vp and dir.-corporate communications, Media General... **Celeste James**, ex-U.S. News & World Report, appointed vp-communications, NPR... **Sonya Middleton**, ex-GE Power Systems, named corporate counsel, Cox Communications... **Hilton Howell** appointed exec. vp, Gray Communications Systems.

Karen Buchholz, ex-Philadelphia 2000, appointed vp-corporate communications, Comcast... **Steve Baker** named pres.-COO, Geoworks... **Stanley Fendley**, ex-U.S. Senate Finance Committee counsel, becomes legislative & regulatory affairs dir., Corning... **Charles Lillis**, ex-MediaOne Group, elected to Williams board.

In push for inclusion on busy Senate docket, National Religious Bcstrs. (NRB) and 25 allies asked Majority Leader Lott (R-Miss.) to move bill (HR-4201) that would prevent FCC from restricting content that's eligible for noncommercial, educational (NCE) license. Measure passed House easily in June but Senate hasn't acted. It's reaction to FCC order at end of last year, since retracted under congressional pressure, that appeared to disqualify many religious broadcasters from holding NCE licenses. Bill is opposed by public broadcasters, who fear it opens door for all comers on NCE spectrum. NRB spokesman said group had had several meetings with lawmakers and staff in last couple of weeks, mostly on strategy for moving bill. "It sounds like everyone's very supportive of the idea," he said. Spokesman said it appeared most likely strategy would be to attach language identical to HR-4201 to appropriations bill. Question now is how much importance Senate leadership gives it, APTS Pres. David Brugger said: "It can easily get attached to any bill that's moving. There's probably not much we can do about it if it does."

RTNDA Foundation released study on "public's use and perception" of radio news. Conducted by Statistical Research Inc., study "strongly indicate[s] that radio news will continue to remain an integral and important part of the American news landscape," Foundation said. News is 2nd only to music as reason public picks particular radio station, said Mark Thalhimer, Foundation news project dir., and with spread of new technologies, "local news and information may be the one distinguishing factor that keeps the public tuned into radio." Despite changes and new technology, radio "is extremely viable right now," outgoing RTNDA Chmn. Robert Garcia of CNNRadio said. Study was based on interviews with 1,146 radio listeners and is available from RTNDA.

Freedom Forum (FF) issued 2 handbooks — one for TV, one for newspapers — examining public concerns about news media and proposing practices news organizations should follow to regain "credibility with readers and viewers." Several recent surveys and FF discussions with community leaders, public and journalists "found widespread mistrust of the press, lukewarm support for press freedom and an array of journalistic practices the public regards as unfair," FF said. TV handbook was written by Av Westin, ex-ABC News; newspaper version by Robert Haiman, ex-exec. editor, *St. Petersburg Times* — puborder@freedomforum.org or 1-800-830-3733.

Broadcom unveiled new "single-chip solution" for providing Internet Protocol telephony and home networking services over cable lines.



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Number of commercial Web sites receiving piracy notices from RIAA was twice as high in first half of 2000 as in all of 1999, Assn. said in its midyear piracy statistics. Group also said there was 28% increase in number of notices sent to link sites that facilitate downloading of unauthorized audio files. RIAA attributed growth both to increased piracy and to strengthened efforts to crack down on what it considers to be piracy. It also said it had filed civil suits against 8 Web site operators that it accused of illegally facilitating acquisition of audio content, including MP3.co and MP3Board.com.

WRH

Consumer Electronics

A Section of Television Digest with Consumer Electronics

STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Sep. 8 and year to date:

	SEPT. 2- SEPT. 8	1999 WEEK	% CHANGE	AUG. 26- SEPT. 1	36 WEEKS 2000	36 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	337,284	383,476	- 12.0	642,652	18,903,384	17,610,671	+ 7.3
DIRECT-VIEW**	319,017	362,174	- 11.9	607,523	18,079,471	16,913,314	+ 6.9
TV ONLY#....	277,598	324,430	- 14.4	513,386	14,977,288	14,204,084	+ 5.4
TV/VCR COMBO.	41,419*	37,744	+ 9.7	94,137	3,102,183*	2,709,230	+ 14.5
PROJECTION...	18,267	21,302	- 14.2	35,129	823,913*	697,357	+ 18.1
TOTAL VCR**....	244,303	303,895	- 19.6	479,388	17,197,458*	16,047,071	+ 7.2
HOME DECKS...	202,884	266,151	- 23.8	385,251	14,095,275*	13,337,841	+ 5.7
CAMCORDERS.....	52,478*	45,938	+ 14.2	134,233	3,612,387*	2,977,809	+ 21.3
DVD PLAYERS....	69,747*	30,980	+125.1	236,180*	4,101,936*	1,950,496	+110.3

Direct-view TV 5-week moving average#: 2000-452,289; 1999-394,046 (up 14.8%).

Projection TV 5-week moving average: 2000-26,167*; 1999-24,606 (up 6.3%).

VCR deck 5-week moving average: 2000-379,361; 1999-388,833 (down 2.4%).

TV/VCR 5-week moving average: 2000-93,586; 1999-84,052 (up 11.3%).

Camcorder 5-week moving average: 2000-96,330*; 1999-80,783 (up 19.2%).

DVD player 5-week moving average: 2000-146,247*; 1999-59,775 (up 144.7%).

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

PIONEER DVD-RW DEBUT DELAYED TO FIRST QUARTER: Rollout of Pioneer's DVR-2000 DVD-RW home video recorder has been pushed back to first quarter 2001, executives told reporters at N.Y.C. update briefing last week.

Briefing was billed as effort to "set the record straight" on DVD recording, apparently in reference to Matsushita's claims last month that its rival DVD-RAM system was best optimized among contending platforms for compatibility on recording and playback across AV and PC environments. Pioneer said it planned Comdex introduction of internal DVD-RW PC writer that will be available in first quarter next year at "consumer-friendly" price point that wasn't disclosed. As with DVR-2000 home recorder, PC component will accommodate write-once DVD-R and rewritable DVD-RW media, as well as factory-produced DVD-Video discs. Discs recorded on DVR-2000 will be playable on Pioneer PC writer, as Pioneer previewed in James Bond-like promotional video that will be shown at Comdex booth.

Delay on DVR-2000 effectively leaves Panasonic as only company with bragging rights on reaching retail shelves this year. Pioneer N. America Vp-Group Business Development Bob Niimi said his company preferred not to call adjusted delivery timetable "a delay." He said Pioneer opted to wait for early-2001 start because DVD Forum was expected to finalize Version 1.1 DVD-RW specifications before end of Dec.

In describing features and business plan of DVD-RW, Pioneer broke new ground compared with recent N.Y.C. briefings when it made sweeping prediction that DVD recorder within 5 years would replace VCR as primary home video device. Company said last week that DVR-2000 would record for one or 2 hours at DVD quality in DVD-Video mode. Such discs would be playable on most existing legacy DVD-Video decks, including virtually all Pioneer machines. Non-standard recordings from one to 6 hours in "video recording" mode would be playable in DVD-Video decks bearing "RW" logo, 3 of which are being introduced by Pioneer this year.

In other developments: (1) Pioneer said DVD Forum was finalizing specs for 2 different gradations of write-once DVD-R discs — one for authoring, one for "general" consumer use. Authoring discs will be recordable only on appro-

priately featured professional writers, and not on consumer recorders. General-use discs also will be recordable on general-use drives and not on professional decks. However, recorded authoring and general discs will be playable on overwhelming proportion of DVD-Video players and DVD-ROM drives. (2) Pioneer estimated that 30 million units in worldwide volume would be level at which DVD recorders would overtake VCR shipments by 2005. However, it conceded hard-disc personal video recorders (PVRs) had gained introductory head start on DVD recorders and were available at relatively mainstream pricing. As such, DVD recorders will need several years to reach parity with PVRs, it said. Nevertheless, executives said Pioneer saw DVD recorder as co-existing with PVR. Former is based on removable media and is suitable for archiving old VHS tapes, while PVR has larger storage capacity and advantage in low hardware cost. To trumpet that co-existence, Pioneer said it planned late-2001 introduction of combination DVD recorder with hard disc drive built in.

Pioneer also announced that membership in RW Products Promotion Initiative (RWPPPI) had grown to 33 companies as of Aug. 31. Newest members are Aiwa, Almedio, InterVideo, MediaTec, Orion, Sonic Solutions. Sony-affiliated Aiwa is most noteworthy new addition. Sony, which had aligned itself strongly in DVD+RW camp, was surprise member when original roster of RWPPPI companies was announced in May. Last Dec., senior Aiwa officials were sitting on fence insofar as to which of rival DVD recording formats to support. But they told us then that company was conducting R&D on all and that eventual choice probably would be more political than technical.

PVRS MOVE TO COMBOS AS VENDORS PLOT 2001 STRATEGY: CE manufacturers are readying wave of combination personal video recorder (PVR) products for 2001 launch, year after technology gained foothold as standalone device.

While ReplayTV and TiVo championed hard-drive-based format, EchoStar is readying 30 GB model with OpenTV platform for CES introduction, while Thomson and Seagate's CacheVision joint venture (TVD July 17 p9) also is expected to focus on combo models, sources said. Matsushita, meanwhile, is said to have developed 27" TV/ReplayTV PVR, while Sharp combines same technology with DVD player. Sharp Vp. Robert Scaglione declined comment on product plans.

"We feel the future of PVRs for the mass market will be combo products," Panasonic Consumer Video Gen. Mgr. Andrew Nelkin said, declining comment on specific product plans, but he said TVs, DVD players and model with removable drive all were under consideration. (Pioneer, in belief that DVD recorders will co-exist with PVRs, said it expects to introduce DVD-RW deck late next year with built-in hard disc drive. See separate report this issue).

PVR market remains small, with about 300,000 standalone units projected to be sold this year, 500,000 if Ultimate TV and TiVo/DirecTV products are included, ReplayTV Senior Sales & Mktg. Vp James Hollingsworth said. About 30,000 were sold year ago, industry sources said.

"One would think it is a completely natural integration, but there are a fair amount of PCB [printed circuit] boards that are not in common," ReplayTV Chmn.-CEO Kim LeMasters said. "They share a lot of parts, but they don't share enough to make it happen overnight," he said, predicting "end of life term" for standalone PVRs starting in 2001.

Key to introducing combo models, presumably with larger storage capacities, will be advances in hard disc drives, which currently top out at 60 GB for both TiVo and ReplayTV units. Higher capacity drives will require additional platters and heads. Maxtor, for instance, employs 2 platters and 2 heads in drive for ReplayTV model, sources said.

"People want the hard drive to be more powerful, deliver more streams at a higher bit rate and at the same time deliver 100 hours of content all in a device that you could give away for free," said Quantum Strategic & Technical Mktg. Dir. Bentley Nelson, whose company is developing drives with greater storage capacity but at 30-40% lower cost. "The question is do you want to pay for one additional head and do you want to go with half the capacity. Once you get down to the platter level, all you're doing is counting heads. The density can be increased by simply adding a head."

Wild card in standalone PVRs could be EchoStar. It has priced its DishPlayer, which combines WebTV with IRD for Digital Sky Highway (DISH) network, at \$199. WebTV/IRD will be positioned as "Cadillac" to OpenTV PVR/IRD, which will lack Internet access, EchoStar spokesman said. Goal is to have OpenTV product by year-end, but price hasn't been set, he said. While it's investor in ReplayTV and has said it will add technology to line, EchoStar has no immediate plans for product, Senior Vp Mark Jackson said. "We see that technology as a standalone product rather than as integrated" model, making it less complex for consumer, he said. Hollingsworth declined comment on EchoStar's OpenTV plans.

Presumably EchoStar could factor into RePlayTV's alliance with Starz Encore for subscription video-on-demand (SVoD) and pay-per-view (PPV) VoD services that are expected to start trials in early 2001. However, EchoStar isn't planning SVoD service. Last week, Starz Encore also signed pact with TiVo. It had projected field trials for this fall and full rollout in 2001 (TVD March 13 p19).

"As far as the services provided by the vendors, everybody's going to wind up with the same kind of deal," LeMasters said. "The real trick is going to be how well do you create a user interface and a service off a television PVR that is going to make the consumer watch Starz Encore on ReplayTV more than a competitor's product?"

As industry watchers debated future of PVR hardware, TiVo last week unveiled new TiVo Direct marketing tool. It allows advertisers to deliver specialized ads to targeted group of viewers. TiVo Direct will enable viewers to watch ad and then get additional information or order product. First providers of specialized content will be Professional Golfers Assn. (PGA), Starz, Showtime, iFilm, direct marketer Guthy Renker.

GAMECUBE-COMPATIBLE DEVICE COMING FROM MATSUSHITA: In development that raised yet more questions involving Nintendo's upcoming Gamecube, we learned last week that at same time next-generation videogame console is rolled out in Japan in July, Matsushita plans to ship Gamecube-compatible machine there as well.

Matsushita device will be compatible with Gamecube, but unlike Nintendo console, it will allow users to play DVD-ROMs and DVD-Video movies, U.S. Matsushita spokesman told us last week. He described it as "multipurpose entertainment device" that's "not designed to be used together" with Gamecube console. Products, he said, are designed for "2 different markets." But that doesn't necessarily mean that products won't end up, on some level anyway, competing for at least some of same customers. Nintendo officials were unavailable for comment.

Spokesman for Matsushita also said his company's device would be more expensive than Nintendo's console, although he couldn't tell us whether company has particular price in mind. Among many questions left unanswered at our Fri. deadline was whether Matsushita planned to ship machine to U.S. DVD-videogame combo — such as Sony's PlayStation 2 (PS 2) — is attractive product in Japan where DVD player prices are higher than in U.S. Sony Electronics Pres. Fujio Nishida recently said more than half of PS 2 owners over 30 in Japan bought console primarily for its DVD-Video capability. Many in game industry have questioned wisdom of Nintendo's opting to leave DVD-Video playback capability out of Gamecube — especially in light of installed base that PS 2 is expected to have by then and fact that Microsoft's Xbox, which is expected to ship at about same time as Gamecube, will have DVD-Video playback capability.

As we reported, Matsushita Electric Industrial (MEI) developed optical disc drive for Gamecube, as well as 8 cm optical disc media for game software that system will be using (TVD Aug 28 p10). When Matsushita-Nintendo collaboration on Gamecube was announced, at May 1999 E3 where console was called Dolphin, Nintendo of America Chmn. Howard Lincoln suggested that optical technology might be incorporated into Matsushita's consumer electronics products such as DVD players (TVD May 17 p14). However, no specifics about Matsushita product were given at that time.

Like Gamecube, Matsushita unit "does not incorporate M2 technology," Matsushita spokesman said. Specs for MEI's Gamecube optical technology bear some resemblance to M2 technology that Matsushita bought from 3DO in 1995 with intention of developing game system around. However, Matsushita said in 1997 that it had changed its mind and conceded console market to Nintendo, Sega, Sony.

Harman International Chmn. Sidney Harman drew \$850,000 salary in fiscal 2000, same as year ago, but bonus rose to \$750,000 from \$425,000, company said in prospectus for Nov. 9 annual meeting in N.Y.C. Vice Chmn.-CEO Bernard Girod received \$725,000 salary, up from \$583,333 year earlier, and \$750,000 bonus, increase from \$425,000. Harman and Girod also were granted options for 50,000 shares each at \$62.75. FMR Corp. remains top shareholder with 1.5 million shares (8.9% of those outstanding), followed by Harman at 1.3 million (7.2%). Girod owned 163,811 shares... **Cooper family** retains 948,300 shares in Ora Electronics (12%) despite sell-off of majority stake to SATX Inc. (3.9 million shares) earlier this year. Gershon Cooper, who founded company, was pres.-CEO of Ora until his death Jan. 22. Cooper drew \$279,231 salary in fiscal 2000.

EchoStar and DirecTV will seek to strengthen their high-definition (HD) programming this fall. EchoStar plans to open pay-per-view HD channel by Nov., although much will depend on negotiations with movie studios, Senior Vp Mark Jackson said. Pricing hasn't been set, but is likely to be in \$3.99-\$6.99 range, company said. New service comes as EchoStar moves to use satellite at 148° W for additional HD programming. It currently uses bird at 61.5° W. DirecTV also may add HD channel for movies by year-end, although plans haven't been finalized, Hughes Electronics Senior Exec. Vp Eddy Hartenstein said.

Sound Advice board approved amending rights agreement with American Stock Transfer & Trust Co. to boost purchase price to \$50 from \$12. Agreement was signed in 1997.

MORE GAME MAKERS SUPPORT XBOX: More than 150 game makers now are supporting Xbox platform, Microsoft said at San Francisco news conference last week.

Included in list of game makers provided by Microsoft last week were some of industry's biggest names, among them Acclaim, Activision, Bandai, Capcom, Codemasters, Eidos Interactive, Hasbro Interactive (HI), Infogrames, Interplay, Konami, Midway, Take-Two Interactive, THQ.

Not all game makers on list, however, were announcing their support for first time. As 3 examples: Activision announced in March that it would be supporting platform, HI said in March that it planned to ship 6-8 games at Xbox's debut (TVD March 13 p12), Kalisto Entertainment Head of Business Operations Dan Kaufman recently told us his company already was developing games for Microsoft system.

Microsoft also unveiled Xbox games under development, although it was unclear at our Fri. deadline just how many titles already were being developed. Microsoft spokeswoman said company expected to have "between 20 to 30 [titles available] at launch" next fall.

Codemasters said it "is developing a comprehensive range of titles" for system, "including games with full online capabilities, the first of which is expected to be part of Xbox's launch portfolio." Company said it "currently owns many game brands with incredible value to the console market, including *Jarrett and Labonte Stock Car Racing*, *Colin McRae Rally*, and *FoxKids.com Micro Maniacs Racing*" and has "a significant number of new titles in design and development."

But Codemasters Sales & Mktg. Dir. Mike Hayes told us last week only specific title he could say at this point that definitely would be making its way to Xbox platform was *Colin McRae Rally*. Explaining why Codemasters decided to throw its support behind Xbox, Hayes said his company liked "the way that they have approached the games market" and believed Microsoft represents "genuine competitor" in console space. He said he believed Xbox platform was "compatible with some of the products we have in our development."

THQ Pres.-CEO Brian Farrell said his company decided to support Xbox because his company felt console would "further expand the console games industry and we are delighted to have such a significant role in the system's launch." He said: "Our developers are already enjoying the advantage of a familiar toolset in designing games" for platform. As many have pointed out, Xbox development tools, after all, are based on DirectX, which is being used by developers for computer games.

Microsoft last week also unveiled futuristic logo for Xbox that includes "XBOX" name and large, green 3D "X." Spokeswoman said company will keep "Xbox" name when console makes bow.

Announcement by Microsoft arrived as Tokyo Game Show was about to kick off Sept. 22, and company indicated "more Xbox publisher announcements" would be "forthcoming" at show.

Last week's news represented latest in series of announcements from Microsoft on Xbox support that began at Game De-

velopers Conference in San Jose in March. Earlier this month, Microsoft provided names of 18 development studios that will be creating exclusive Xbox content under Microsoft label. Nintendo, in contrast, has been quiet on software support front even though its Gamecube system is to hit market at about same time as Xbox. Various game makers who support Nintendo's current game platforms have told us in recent weeks that they have yet to even begin talks with Nintendo about supporting Gamecube.

Forrester Research Senior Analyst Jeremy Schwartz, who wrote report earlier this year questioning Microsoft's chances for success with Xbox (TVD May 22 p21), told us last week "it's a pretty impressive" and "significant" list of software supporters that Microsoft has racked up. But he did point out that Square and Electronic Arts (EA) were among prominent game makers not on Microsoft's list and EA hadn't supported Sega's Dreamcast. EA spokeswoman said earlier in week that her company already had begun discussions with Microsoft on supporting Xbox (see separate report, this issue).

Schwartz also said "the whole Nintendo thing has been very peculiar." He conceded that Nintendo's bread and butter "is primarily first-party titles," unlike Sony, and "from that point of view, Nintendo is not as concerned about" which 3rd party game makers will be backing its Gamecube. But he said it struck him as strange that Nintendo still had given out less information about Gamecube than Microsoft had for Xbox or that Sony did even in its early PlayStation 2 announcements.

Gerard Klauer Mattison Analyst Edward Williams said 3rd party support was not as crucial for Nintendo as for Microsoft because "Nintendo owns a lot of properties" on game franchise front that he expected would translate into titles that would be available at Gamecube's start — be they Donkey Kong, Pokemon or Super Mario. Williams said: "They can use those properties to basically facilitate a successful launch." He also said "Nintendo's track record certainly is not 3rd party friendly." Despite that, he said, "I would expect Nintendo to be working with the 3rd party developers sooner [rather] than later given the launch of the console" is only year away.

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Digital still camera (DSC) sales "will more than double this year compared to last year," NPD Intelect predicted last week. NPD said it expected U.S. unit sales to reach 4.2 million — 127% jump from 1999's 1.8 million. Although it said falling prices "will keep dollar sales growth at a lower pace," it predicted 79% growth in dollars this year to \$1.8 billion by year end, compared with \$1 billion year ago. Average price per DSC has dropped to \$513 so far this year from \$544 last year, NPD said. Clear leader in both unit and dollar market share this year so far, it said, is Sony, which through July reached 32.7% unit share and 40.8% dollar share. Sony was only CE manufacturer in top 5. It was followed by Olympus, with 19.4% unit and 20.2% dollar shares; Kodak, 15.7% and 13.2%; Polaroid, 6.9% and 1.9%; Nikon, 5.8% and 11%.

Sony Disc Mfg. said it completed expansion of DVD production facility in Terre Haute and as result capacity has been boosted by 8 million discs monthly and facility now can accommodate new customers. Expansion includes 25 DVD production lines, 3 cutting machines with double-speed DVD-Video capabilities, 3 screen printers, one offset printer. Senior Vp-Sales & Mktg. Bob Hurley said plant production has been exceeding 10 million discs per month.

SATELLITE INTERNET ACCESS NEARS: After years of operating on fringes of Internet, satellite companies are plunging into access business this fall.

EchoStar will offer standalone USB box in 4th quarter to deliver Starband (formerly Gilat-to-Home) 2-way Internet access service and integrate feature into IRD by 2001, CEO Charles Ergen said. Meanwhile, Hughes Network Systems (HNS) DirecPC is expected to deliver one-way AOL TV Plus and 2-way services late this year (see separate report, this issue). And Pegasus Communications, which had planned one-way DirecPC service this fall, instead will hold out for 2-way and introduce "TV-centric" system tied to phone lines as stopgap, Pegasus Development Corporate Vp Christopher Walczak said.

"We just figure why should we have a staggered introduction [of DirecPC service] when we could have both at once?" Walczak asked, saying company was likely to market one-way DirecPC as entry-level product with 2-way as step-up. In interim, Pegasus expects to market access device based on phone line this fall that attaches to PC. It will be priced in \$200 range for hardware, \$10-\$20 for ISP, Walczak said. Acer, which is building model with 16 MB of memory and 166 MHz processor, will deliver 50,000 units for limited shipments this fall, he said. STB, which will be based on Liberate Technologies' operating system, also is likely to add MetaTV software by first quarter. MetaTV, which signed agreement with Pegasus in Aug. (TVD Aug 14 p17) operates portal for interactive TV that connects network operators, such as cable broadcast and satellite, with Internet consumer services like e-commerce.

EchoStar's plans represent apparent break with earlier strategy of selling Starband service with Dell PCs (TVD July 24 p11). Under new plan, hardware will attach to PC and be priced at under \$500, Ergen said. Starband, which also is selling service with Compaq through RadioShack, will combine Internet access with one of Digital Sky Highway (DISH) video packages for \$100 monthly fee, Ergen said. Premium channels such as HBO won't be included, he said.

Allen McCabe, Hughes Network Systems Asst. U.S. Field Sales vp, said DirecPC would be "extremely competitive" in price with Starband product, but declined to release details. "We can't allow ourselves to be priced out of the market," he said.

Neither EchoStar nor HNS will package Internet access service with PC. "Somebody who wants high-speed Internet most likely already has a PC," said McCabe, whose company once sold DirecPC PCI card with Compaq desktops (TVD April 19/99 p19). "It may depend on what the PC is and if it's a step-up for the consumer it depends whether they're willing to make a commitment to pay off however much that PC is subsidized. We don't think it's [combining service with PC] as much of a requirement now that we're into USB technology.

Area that DirecTV and EchoStar are targeting is pairing satellite programming digital subscriber line (DSL), latter serving as back channel. Both Verizon and SBC Communications have sold DirecTV service and added 100,000 subscribers since debut in 1998 (TVD March 9/98 p14), Hughes Electronics Senior Exec. Vp Eddy Hartenstein said. Unclear was how many of those subscribers also chose DSL.

EchoStar will have DSL agreements with several providers by year-end, Senior Vp Mark Jackson said. EchoStar is said to be in talks with both Covad and Northpoint on service agreements, and Ergen expressed interest in buying DSL operator. Covad has become takeover target in recent weeks because of its depressed stock price, *Business Week* Inside Wall St. column said last week. Covad's stock price has fallen 64% since start of year and closed week at \$15-1/8. "I think it's something worth looking at," Ergen said. Noting that DSL has largely targeted small and medium-size businesses, he said consumer product had proved difficult without having video programming. "The sweet spot [for DSL] is when we can be competitive within that 3-mile radius of the home," Ergen said. "It [DSL] does position you long term for providing a dial tone."

DVD household penetration will hit 10% in U.S. by year-end. Meanwhile, better-than-expected sales of DVD and CD software will result in 10.3 billion discs being replicated worldwide this year — 9% over 1999. Those are some conclusions in forecast from Optical Media Market Intelligence Report unveiled by International Recording Media Assn. at N.Y.C. news conference last week. Pres. Charles Van Horn told reporters that N. America market accounted for 75% of 194 million DVDs replicated last year and that worldwide DVD output would more than double this year to 474 million discs. He said industry shipped 4 million DVD-Video players to U.S. retailers in 1999, and IRMA estimated 15-20% of PCs had DVD-ROM drives. IRMA's forecast for DVD replication is 905 million in 2001 and 1.4 billion in 2002. Group also predicted that by year-end 2004, worldwide installed base for DVD hardware would include 175 million households with one or more drives. Meanwhile, falling DVD hardware prices will help overseas markets match U.S. consumption. IRMA forecast that in 2002, N. America would account for 710 million DVDs replicated, Europe 310 million, Japan 145 million, China 100 million. DVD-Audio won't have major impact as "it will take 8 to 24 months to build a meaningful catalog of titles," Van Horn said. IRMA estimated 97 million DVD-Audio titles would be replicated worldwide in 2002. Interestingly, "mature" 18-year-old music CD format posted 4% gain in 1999 and is projected to jump another 5% this year, Van Horn said. Some erosion could occur after 2001 as DVD-Audio and Super Audio CD enter mainstream, he said. Role of Internet in music sales also could be factor, but not before 2004. Statistics for 413-page report came from IRMA members, which represent 80% of replication capacity worldwide — www.recordingmedia.org.

Outpost.com, crediting surge in new customers and lower acquisition costs, reported 2nd-quarter loss narrowed to \$6.7 million from \$8.4 million year ago as sales rose 97% (see financial table). Customer acquisition cost plunged to \$38 from \$69 year ago on average order of \$260. Order size was down slightly from previous quarter due largely to increased sales of Brookstone products, Pres.-CEO Robert Bowman said. Gross margin grew to 14.1% from 11.5% year ago. Outpost added 128,000 customers to end quarter with 875,000. Repeat buyers accounted for 59% of revenue, up from 50% year ago. Outpost partnerships, including those with Brookstone, Wolf Camera and Tweeter Home Entertainment, accounted for 10% of revenue in quarter. Wolf and Tweeter sales carried 26% margins, Bowman said. Business-to-business (B-to-B) sales represented 15-20% of revenue, figure that is likely to increase with Outpost's recent purchase of CMPExpress retail business. CMPExpress adds Sony handheld PCs and Apple Computer products to merchandise mix.

CIRCUIT CITY EARNINGS FALL: Circuit City (CC), hampered by costs of dropping major appliances and starting conversion to all-CE chain, reported 2nd-quarter income plunged 25% on 4% rise in sales (see financial table). Same-store sales edged up 1%.

CC said appliance-related markdowns (2¢ per share) and costs of exiting category (9¢) hurt profit by 11¢ per share and first round of remodeling, largely in Jacksonville area, cost 3¢. Overall, 225 of CC's 618 stores have sold through appliance inventory. About 170 of 225 have been remerchandised to include expanded assortment of videogame hardware and software, DVDs and CDs, digital cameras and PC peripherals, company said. CC has projected selling off rest of appliance inventory and converting to new merchandise mix by early Nov.

Chain's 3-year remodeling program will have reached 17 stores by year-end and is moving next to Albany, N.Y. market, Pres. Alan McCollough said. CC puts remodeling at \$2.5 million per store.

Appliance results for quarter made plain what prompted CC to decide in July to discontinue category just months after unveiling plans for appliance-only stores. Same-store sales for appliances were down 23% for quarter, 15% for fiscal year but CE same-store sales rose 6%. Appliances also were responsible for drop in CC's overall gross margin to 23.3% from 25%. Gross margin for appliances plummeted to 13.6% from 20.9% year ago.

Sell-off of inventory, which is being done on market-by-market basis, takes about 3 weeks, followed by 7-10 days for reconfiguring 3,500-sq.-ft. space to accommodate new merchandise, McCollough said.

Many analysts were optimistic about pace of revamping stores and potential for CE-only format. Sanford Bernstein projected remodeling program could yield 16% internal rate of return provided costs were lowered. CC has \$100-\$150 million in appliance inventory remaining in stores, analysts said.

"Despite some short-term risks that CC sales decelerate following the transition out of appliances after Q3, we believe that CC will eventually replace appliances sales one-for-one with higher operating margin nonappliance categories," Sanford Bernstein analyst Ursula Moran wrote.

On CarMax side, income soared to \$16.3 million from \$3.2 million as sales jumped to \$673.5 million from \$535.7 million. Same-store sales rose 18%. Used cars continued to dominate sales, accounting for 86% of revenue in quarter, new models representing rest. Gross margin rose to 13.4% from 11.9%.

CarMax, which operates 40 outlets, will embark on 3-5 year strategy in next fiscal year to expand into 25-26 single-store markets that have population of 1-2.5 million.

U.K. retailer Dixons is battling 5 major videogame publishers over new packaging. Companies want to move to DVD-style slipcases for PC games, but U.K.'s top CE retailer is insisting they stick to existing large-box packaging. Game makers Activision, Eidos, Electronic Arts, Infogrames and Take Two said they wouldn't budge.

As Codemasters readied its first Xbox title (see separate report, this issue), Sales & Mktg. Dir. Mike Hayes told us last week that U.K. game maker also was "well into development" of games for Sony's PlayStation 2 (PS 2). But he said company's first games for that platform probably wouldn't be ready until April or May. Although Hayes said he had heard of some developers' complaining about difficulty in developing games for PS 2, he said "we have not encountered any issues" like that. Codemasters, meanwhile, also is continuing to support current PlayStation, Nintendo's Game Boy Color (GBC) and PC platforms, Hayes said. He said Codemasters would ship 4 PlayStation, 3 PC and 2 GBC titles in time for Christmas and plans to ship 2 PC and 2 PlayStation games by June. Hayes said Codemasters has yet to make announcement on support for Nintendo's next-generation Game Boy Advance handheld system and Gamecube console. His company has been among many game makers that has not thrown support behind Dreamcast and he said "we won't be" in future. Echoing many in game industry who have said they like Dreamcast but aren't planning to support it, he said: "Dreamcast is a fantastic machine." But he said his company made decision based on which platforms it was "likely to get a better return on." Hayes said he was "loathe to make any predictions" about which systems would survive upcoming console war, but said Codemasters was convinced that PS 2 and Xbox would succeed.

Planar Systems is getting out of military business to focus on developing flat-panel displays for medical equipment, truck instrumentation, gas pumps. Planar, which had been developing displays for Navy's Super Hornet strike fighter and Army's Apache helicopters since entering business in 1996, told analysts it would complete contracts in first 3 quarters of new fiscal year that starts this week. It will take \$13 million pretax charge against earnings in 4th quarter ending Sept. 29. About 35 employees will be affected by decision, company said... **Digital Light Processing** (DLP) subsystem shipments have topped 500,000 since first units were delivered in 1996, parent Texas Instruments said last week. Technology has been confined largely to front projectors, but Hitachi, Matsushita and Mitsubishi are expected to introduce DLP-based rear-projection TVs by year-end... S3 formed Frontpath subsidiary to handle information appliance business. Frontpath, which will remain based at S3's Santa Clara, Cal., hq, will develop products based on Transmeta's Crusoe microprocessor. S3, which spun off its graphics chip business into joint venture with Via Technologies earlier this year, will focus now on its Rio music player and home networking businesses, both of which it inherited in 1999 acquisition of Diamond Multimedia.

Online publisher Alexandria Digital Literature (www.alexlit.com) said it had contracts to supply e-book title for Gemstar-owned NuvoMedia and Softbook. Gemstar eBook reader platform and RCA eBooks were previewed last week at "N.Y. Is Book Country" fair and are expected to make retail debut next month. Alexandria primarily publishes fantasy, horror and science fiction titles by new authors on its Web site, as well as public domain literature. Company also announced that Martin Eberhard, ex-NuovoMedia co-founder-CEO and inventor of Rocket eBook, was elected to board.

Konami began developing "several game titles for launch" of Xbox, including *Crash Bandicoot X*, *Jurassic Park X* and *Metal Gear Solid X*. Japanese game maker was one of more than 150 companies that have announced support of Microsoft's upcoming game console to date (see separate report, this issue).

URBANFETCH DROPS VIDEO RENTALS: E-mail message was sent out last week by Urbanfetch.com to its customers informing them that company was dropping DVD and VHS rentals.

Urbanfetch.com Customer Service Dir. Philip Friedman said in e-mail: "While we appreciate that rentals may be an important convenience for you from time to time, rentals actually comprise a small (less than 5%), but more importantly, unprofitable segment of our business."

In ending video rentals, Urbanfetch also liquidated its inventory of used titles for as little as \$5 apiece. Inventory apparently went fast: By evening of Sept. 19, same day notice went out, no used DVDs were available in any category, although VHS titles apparently still were in stock. As what it said was "a gesture of our appreciation," company also provided customers with code to receive \$5 off their next purchase.

Privately held e-tailer, which delivers variety of goods including electronics and music within one hour in select areas of Manhattan and Brooklyn, is continuing to sell new DVD and VHS releases. Decision to drop rentals didn't include company's London service, which it recently began, although it isn't ruling that out, according to report last week.

Urbanfetch recently opened beauty, office supply and wine stores at its Web site, www.urbanfetch.com, as part of move to expand product lines available. Wine and recent addition of TVs to electronics store mix reflect company's desire to expand into higher priced merchandise.

Speaking at eetailing 2000 conference in N.Y.C. last week, Urbanfetch.com Managing Dir. Bill Kitchen said company sees wine store, and upcoming beer store, as way to attract new customers and keep old customers who match profile it's targeting — those who are "cash rich, time poor and [have] a disposable income" they are willing to spend on more profitable merchandise Urbanfetch sells.

"We do not want everyone who has a dollar in their pocket to come to our store," Kitchen said. Shedding video, he said, was just latest in series of moves Urbanfetch has made to get rid of consumers who aren't profitable. First step it took was to institute \$10 minimum on all purchases. He told us another step was to get rid of promotion that offered 2 CDs for \$20, which he said also was money-losing proposition.

When company went into business, Kitchen said, it believed video "was going to be the Trojan horse" that would attract customers who then would buy higher margin items. But he said: "We have since found that that is generally not the case. Ninety percent of the customers who come in with a low average order size, stay with a low average order size no matter what you do."

Kitchen said that while video rentals had "represented about 5% of our total gross revenue," they also had "probably been responsible for about 15 to 20% of our overall expenses." He said that while "current order size is \$46," he expects that will increase thanks to rentals' being dropped: "In October, we expect [order size] to jump rather dramatically."

In drive to get rid of undesired customers by dropping video rentals, Urbanfetch realizes that it runs risk of also losing

at least some customers it doesn't want to lose, Kitchen admitted. But he said company believed only small number of such customers would be driven away. Sending out e-mails that were upfront and honest with customers — and also included \$5 savings code — was one way company hoped to appeal to those it wanted to keep.

Although Kozmo.com, one-hour delivery e-tailer that competes with Urbanfetch in N.Y.C., has claimed its video rental business is profitable, that may be attributable at least in part to revenue-sharing agreements with Columbia Tristar Home Video and Warner Home Video (TVD April 10 p20).

Kitchen also told attendees at conference that Urbanfetch recently made moves to increase its business-to-business and 3rd party logistics businesses. For instance, he said it recently became exclusive courier service inside Sony building in N.Y.C. Irony is that Urbanfetch isn't even authorized online dealer for Sony Electronics but has been selling Sony products at its Web site anyway. Kitchen said Urbanfetch was hoping to be able to use its business-to-business relationship with Sony to help forge supplier-retailer relationship with manufacturer to get products direct.

Electronics, Kitchen said, currently "make up 35 to 40% of our sales." He also also confirmed reports (TVD Aug 21 p13) that Urbanfetch and Kozmo had been in talks about possible merger. But those talks ended recently and Urbanfetch has decided to remain independent at this time, he said, also saying that many companies, including Webvan, had approached it about possible merger deals. Webvan, another "last-mile" e-tailer whose product mix includes electronics and video, recently entered into definitive merger with competitor HomeGrocer.com (TVD July 3 p22).

As of last week, Urbanfetch had reached "over 90,000 customers in New York City" alone, Kitchen said.

Thomson Multimedia stake in Gemstar dropped to less than 5% after latter completed merger with TV Guide, SEC filing showed. It previously had 5.2% interest it gained when Gemstar bought StarSight in 1997. Thomson owns 12.3 million shares in combined entity... Tweeter Pres.-COO Jeffrey Stone sold 12,854 shares in Aug. at \$38, retains 533,490 (3.4% of those outstanding), as board member Jeffrey Bloomberg sold 30,000, also at \$38. He had owned 400,688 shares (2.5%)... Vulcan Ventures filed with SEC to sell 57,000 shares in Zany Brainy with value of \$129,533. Paul Allen's investment fund had 2.1 million-share stake (12.9%) year ago... Staples Pres.-COO Ronald Sargent filed to sell 50,000 shares with value of \$1.7 million, had held 899,204.

Trademark battle apparently is going on between Microsoft and Fla. technology holding company Xbox Technologies over use of "Xbox" name. Companies couldn't be reached for comment. Patent Office spokeswoman told us 56 filings had been made under "Xbox" name as of Fri. But all she could tell us beyond that were that "a few specifically for Xbox Technologies" were among them and "some of them are by Microsoft," others from other companies. British press report said last week that Microsoft and Xbox Technologies had been given to Nov. 8 to resolve dispute.

Jack Valenti, MPA chmn., will address Oct. 19 industry luncheon at SMPTE Technical Conference & Exhibition, Oct. 18-21 in Pasadena — www.smpte.org.

RENTRAK CHANGES MANAGEMENT: Rentrak shareholders last week voted to oust founder Ronald Berger and board, replacing it with new slate backed by dissident group.

Shareholders beat back management attempts to retain power in 6.8 million-to-3.43 million vote. It replaced existing 9-member board with 5-member group that includes Paul Rosenbaum, who heads Mich. chemical company and led campaign to change management. Other members are former Ida. Gov. Cecil Andrus, George Kuper, Joon Moon, James Petcoff. Rosenbaum was named chairman and interim CEO.

Dissident Committee to Achieve Rentrak Excellence (CARE) success was rare since it controlled only 9.2% of shares outstanding, while management and supporters had nearly 30%. Berger, who founded Rentrak in 1977, alone owned 1.6 million shares (14.1%).

Rosenbaum said he asked all of Rentrak's 437 employees, including Pres. Kim Cox, to remain with company. In addressing Rentrak's 100 Portland, Ore.-area workers Sept. 19, Rosenbaum said he "told them I'd heard nothing but wonderful things" about them. Differences weren't with workers or Rentrak business, but with "management's direction and profitability," Rosenbaum said. Berger resigned as Rentrak CEO Sept. 15.

Rosenbaum and his group had battled Rentrak management for much of year amid falling sales and profits. Sales for fiscal year ended in March dropped to \$113.4 million from \$123.8 million year earlier. Rentrak's stock price had fallen to \$3.63 Sept. 20 from \$7.06 at start of year. It closed week at \$3.25.

CARE in May began battle that eventually included lawsuits and culminated in annual meeting Sept. 19. At meeting, Berger told investors that board was "second to none" and that management had successfully steered company out of video store business and into distribution. It currently operates pay-per-transaction revenue-sharing business for video stores and has 3PF.com subsidiary that handles distribution for Internet retailers.

CARE had pushed Berger to get more value out of 3PF.com, including possibly spinning off operation. In coming weeks, Rosenbaum said, he plans to meet with customers and executives at movie studios.

Berger, who was in L.A. part of last week for Barbra Streisand concert, told *The Oregonian* newspaper of Portland, he was "considering my options." He indicated he had received several job offers since resigning as CEO, but was more inclined to start own company although he didn't have specific area of business in mind.

Among issues new management will have to address is pending lawsuit with Video Update, which last week filed for bankruptcy protection. Rentrak earlier this month took \$4.4 million reserve to cover amount owed by Moovies chain, which Video Update purchased in 1998 under pay-per-transaction (PPT). Rentrak also restated first quarter to lower revenue to \$29 million from \$30.3 million after deferring \$1.25 million payment from one unidentified customer. Payment was applied to Rentrak's PPT business and was part of larger \$2.5 million bill.

Video Update sued Rentrak in 1998 alleging that PPT violated federal antitrust laws and case is pending. Rosenbaum downplayed litigation, saying it "will not be a priority" under new

management and "hopefully will be the last thing that comes up in the future."

In filing in U.S. Bankruptcy Court, Wilmington, Del., Video Update listed \$210.3 million in debt, \$129.4 million in assets. Ingram Entertainment was top unsecured creditor at \$16.2 million, followed by Warner Home Video, \$6.6 million; Sight & Sound Distributors, \$4.4 million; CNA Hartford Insurance, \$2.3 million; Chubb Insurance, \$2.1 million; Columbia TriStar Home Video, \$1.6 million; Valley Media, \$1 million.

Video Update defaulted Aug. 15 on \$6 million principal and interest payment due on senior credit facility with several banks including Banque Paribas and said it had been unable to get products from movie studios or distributors. Video Update has closed more than 60 stores under restructuring plan begun last fall (TVD Sept 6/99 p18). It also renegotiated revenue-sharing agreements to eliminate mandatory purchases of prerecorded videocassettes that chain doesn't "believe will generate adequate rental volume."

Senior credit facility consisted of 3 term loans of \$52.5, \$42.5 million and \$10.5 million carrying 11.19%, 11.40% and 12% interest rates, respectively. Facility, which replaced \$60 million revolving credit agreement, also included \$15 million capital expense line and \$5 million in revolving credit. Video Update borrowed \$95 million under 2 term loans to cover conversion and integration costs in connection with \$65.1 million Moovies purchase (TVD July 21/97 p16). Video Update closed 69 of Moovies' 240 stores. As part of credit agreement, chain also issued 5-year warrants to Paribas to buy one million shares of common at \$2.68. Video Update reduced loss to \$36.1 million for fiscal year ended April 30 from \$110.3 million year earlier and had stockholders' capital deficit of \$35.7 million.

Hastings Entertainment, meanwhile, spelled out terms of new 3-year syndicated loan agreement with Fleet Retail Finance and CIT Group/Business Credit. New pact, which expires Aug. 29, 2003, carries \$70 million ceiling on amount outstanding under facility, figure that rises to \$80 million between Oct. 15-Dec. 15. As of Sept. 7, Hastings had \$31.4 million available under new agreement. It failed to comply earlier this year with covenants governing financial agreements and received waivers through June. Hastings, which briefly faced delisting from Nasdaq earlier this year for failing to file annual report on time (TVD June 5 p15), closed 5 stores as part of fiscal belt-tightening.

As Hastings moved to right itself, **BigStar Entertainment** hired financial adviser to review "strategic alternatives" including sale of company and/or merger, company said. Online video retailer has "received inquiries" on company but said it hadn't agreed to terms, including price. As it weighed options, BigStar said it received notice of delisting from Nasdaq as result of its bid price falling below \$1 minimum for 30 consecutive days. It has 90 days to comply. In cost-cutting move, BigStar earlier this year trimmed engineering staff to 10 from 13 and abandoned plans for streaming feature-length movies from Web (TVD July 10 p18).

Best Buy spokeswoman last week clarified schedule for N.Y. metro area store openings. She said 15 stores would be opening in market this fall, 2 of them in outer boroughs of N.Y.C. — one in Long Island City, Queens, and other in Staten Island. Of other 13 store openings, closest one to N.Y.C. is in Westbury, L.I., which had grand opening last week. She said Best Buy would open "40 total" stores in N.Y. metro area in "next 3 years."

'LP' WILL REPLACE CD — I-JAM: Latest company to say it has created format that will replace CD is I-Jam Multimedia, Schaumburg, Ill., company best known for its digital audio devices.

Company last week described its License Plate (LP) format as "new and improved form of content storage" that uses Iomega's PocketZip discs (known previously as Clik! discs) as "basis for the new secure way to distribute prerecorded music, best-selling books, classic radio shows and digital magazines."

I-Jam Pres.-CEO Doug Morrison said last week that PocketZip discs were being used in growing assortment of digital music devices, such as his company's upcoming Win-Jam II set to ship in Jan. at price between \$249 and \$299, and Iomega's own HipZip, because they represent lower cost alternative to today's widely used flash memory cards.

Independent label TVT Records has licensed select full-length recordings that will be released in LP format next month and Random House Entertainment has agreed to let select digital audio books be released in LP form. Morrison said at least 6 feature-length pop music recordings, including ones from Charlie Daniels Band and XTC, will ship next month at \$19.98 each.

Six digital audio books shipping next month in LP format will include Bob Costas's *Fair Ball*, Michael Crichton's *Timeline*, John Grisham's *The Brethren*, Danielle Steele's *The House on Hope Street*. I-Jam also is planning to ship same number of Christian music recordings for Christian market as part of deal with Word Records.

LPs will be recorded in Microsoft's Windows Media format and exclusively support Windows Media digital rights technology. Company said each LP can fit entire CD — about 78 min. of music recorded in Windows Media.

Discs will come packaged in same size jewel cases as CDs and feature same artwork used in CD versions of recordings, company said, and it will distribute and sell point-of-purchase "PrePaks" to retailers for 8 weeks starting Oct. 17. Paks will include Iomega HipZip players bundled with free sampler LP and blank recordable PocketZip disc.

Retailers that have signed on to carry LPs for debut next month are Best Buy, Tower Records and e-tailer MediaBay.com, Morrison said, but company is talking with other dealers and is hoping more will follow by Jan. Company said Media Bay also will be contributing spoken word audio content from its own library for recordings.

On record label front, Morrison told us that I-Jam was "in discussions with all the majors" about licensing music for format and "the reception by the music community has been very strong." He said "the labels like the security" that LP provides. I-Jam Music/Content Vp Rick Rieger said last week company was closest to cutting deal with EMI. "I think that's going to happen fairly quickly," he said.

Although Morrison said he had confidence that LP has what it takes to replace CD, he admitted: "I don't expect this to happen overnight."

SEGANET STRATEGY HIT: Forrester Research report called recently launched SegaNet game service "right idea" at "right time," but predicted it "won't fly," largely because it had "higher monthly fee than most ISPs charge."

Report, written by Forrester Senior Analyst Jeremy Schwartz with Jim Nail and Meredith Gerson, said "the gaming world changed forever" with SegaNet debut Sept. 7 (TVD Sept 11 p11) because it: "Brings console gaming online for the first time," "delivers an optimized narrowband gaming experience" free from usual Web "logjams and numerous router hops," "makes it easy to get online — and onboard," "provides a complete gaming destination site." Report said "Sega has a 12-month window with no competition in online console gaming to grab a niche in today's small, but profitable, avid gamer market."

But report said SegaNet "will fail to attract subscribers" because of \$21.95 per month price tag. What would have been better idea, it said, was "a dual-tier strategy — a low fee for dial-up today with an upgrade to broadband service next year." For SegaNet to work, report said, company must "attract PC as well as Dreamcast users" because there are so many more PC users, bring pricing "in step with reality" and "plan to make up revenues when users switch to broadband." Report said "online users don't show much loyalty to ISPs as it is," and this in field where average ISP is \$17 and companies including Juno and Lycos have offered free ISP services. SegaNet's \$21.95 fee therefore "is a nonstarter," report said, and "Sega must drop its fee to less than \$15 to compete with existing ISPs and attract price-conscious dial-up gamers — sacrificing short-term revenues to gain subscribers." Because gamer is likely candidate for early broadband adoption, report said Sega should assume that many customers it hooked now would sign on for broadband upgrade later.

Sega recently said it was "well positioned to meet its goal of having an installed base of 5 million [Dreamcast customers] in North America by March 2001." But Forrester said "Dreamcast penetration is less than 3 million units today" and predicted it "won't exceed 6 million by 2005." It said "only 52,000 users — less than 2% — had signed up for SegaNet or expressed any intent" yet. Schwartz told us last week that figures were as of "a couple of days before" Sept. 13. Sega spokespeople didn't return calls for comment by our Fri. deadline.

Nvidia revealed details of 2nd key processor that will be used in Microsoft's Xbox. Santa Clara company said its Media Communications Processor (MCP), also known as MCPX, "performs the highly demanding multimedia processing for broadband connectivity, communications, and breakthrough audio capabilities of the Xbox." Processor uses pair of multimedia DSPs that Nvidia said execute up to 4 billion operations per sec., which it said would allow Xbox "to produce theater quality 3D audio and super realistic 3D sound effects" when connected to broadband Internet for networked game play. As reported earlier, Xbox also uses Nvidia graphics chip and Intel Pentium III processor (TVD March 13 p12).

"Winter Technology Summit" was set by CEA for Feb. 25-28 in Vail, Colo., with goal of bringing together top CE executives "to explore critical issues" — CEA, Lisa McKellar, 703-907-7047.

EA SHOWS NEW GAMES: Electronic Arts (EA) provided taste last week of some of its upcoming EA Games titles for PlayStation 2 (PS 2), PlayStation, PC and Nintendo 64 (N64) in N.Y. Press Tour.

Noting that company was "trying to position ourselves as the leader" in next-generation gaming, spokeswoman said EA Games and EA Sports divisions together would ship "about 5 to 6 PlayStation 2 titles by the end of this year" and "10 to 12" by the end of its fiscal year in March. She said company already had started "discussions" with Microsoft on supporting latter's Xbox console.

EA was not one of more than 150 game makers that Microsoft announced last week would be backing its platform (see separate report, this issue). Considering that EA is supporting Nintendo's current console, game maker is expected to back upcoming Gamecube as well, but spokeswoman told us EA had yet to make official announcement on that front.

Most of games shown by EA Games last week had been announced earlier. PS 2 games demonstrated included *Theme Park Roller Coaster*, simulation/strategy game developed by Bullfrog Productions shipping in late Nov. or early Dec., and *X Squad*, 3rd person action shooter developed by EA Square Japan that's to ship at \$49.99 in time for PS 2 launch Oct. 26. Also set to ship in time for PS 2 debut is *Kessen*, real-time strategy game developed by Koei that already is shipping in Japan.

Although EA spokeswoman said company wanted to make sure PS 2 customers were taken care of this year, she said company was well aware there would be many consumers who won't have PS 2 console this year. To that end, she said, company wanted to make sure it fully supported current PlayStation as well.

New PlayStation games demonstrated last week included *Medal of Honor Underground*, a first-person action/adventure series developed by DreamWorks Interactive that follows popular *Medal of Honor* from last year. Title, due to ship in late Oct. at \$39.99, features realistic graphics and archival WW2 footage. Other PlayStation titles demonstrated were *WCW Backstage Assault* and 2 James Bond games — *007 Racing* and *The World Is Not Enough*, both to ship in Nov. Company said it also would ship N64 versions of *Backstage* and *World* in Nov. While PlayStation version of *World* was developed by Black Ops, U.K. company Eurocom developed N64 version.

Most intriguing titles from EA Games actually were on PC side. We were told company had yet to finalize versions of *American McGee's Alice* and *Clive Barker's Undying*, but were shown promotional trailers showing segments from each. Latter is first person action/horror title that EA said was author/filmmaker's first interactive game effort. EA spokesman said Barker provided story and other creative ideas on game, which was developed by DreamWorks Interactive and is expected to ship Feb. 14. *Alice* is very dark take on Lewis Carroll's *Alice's Adventures in Wonderland*, developed by Rogue Entertainment with significant creative input by EA Creative Dir. American McGee, formerly of id Software, where he worked on that company's *Doom* and *Quake* titles. Although EA had hoped to ship it in time for Halloween, spokesman told us company wouldn't make that date and instead probably would ship it in mid-Nov. Third person game, built on *Quake III Arena* engine, features mentally unhinged Alice trapped in sinister version of Wonder-

land where evil Queen of Hearts has turned most of Alice's friends, including Mad Hatter, against her. Game has visuals that bring to mind Tim Burton's movies. EA spokesman also said it's shipping game with CD soundtrack.

Also on PC front is *Black & White*, role-playing game developed by Lionhead Studios that won awards at E3, to be shipped next year. Company also said it was developing "a pretty significant title" as part of its previously announced EA.com launch in spring, when company "will be launching a handful of titles," spokeswoman said.

Separately, EA last week announced new distribution partnership with LucasArts. EA received rights to distribute select future LucasArts PC and console titles in Asia Pacific region, Australia, Brazil and Germany, as well as to publish select titles in Asia Pacific and Brazil. Companies already signed similar deals for Japan and Spain. But they said THQ's Softgold Computerspiele division "will retain a portion of [LucasArts'] business by publishing and distributing several new Nintendo Game Boy and Game Boy Advance titles." Companies said LucasArts' current Brazilian partner, PI Editora (Brasoft), "will maintain the distribution and publishing rights to LucasArts' classic product lines in that territory."

Audiovox will offer first portable and car DVD players late this year and has secured Circuit City for retail sales of products, Pres.-CEO John Shalam told analysts. Company unveiled plans as it reported 3rd-quarter income surged to \$10 million from \$6.4 million year earlier, driven largely by sales of cellular phones to Verizon. Sales rose 58.5% (see financial table). Wireless subsidiary Audiovox Communications Corp. said sales of cellular phones jumped 73% to \$403.7 million, representing 85% of revenue. Unit sales increased to 2.5 million from 1.5 million, led largely by trimode CDM-9000 CDMA phones built for Audiovox by Toshiba and Hyundai. Audiovox had shipped 900,000 CDMA trimode phones to Verizon through Aug. and will deliver another 600,000 by March, Shalam said. It will introduce CDM-9100 model in Jan. with Web access, longer talk time and new Qualcomm chipset. On GSM front, Audiovox had shipped 156,000 units as of Aug. 31, as supplier Acer suffered from component shortage. TDMA phone vendor Mitsubishi encountered production delay but digital phones represented 84% of sales, up from 56% year ago and were major factor in pushing average selling price to \$153 from \$141 year ago, ACC pres.-CEO Philip Christopher said. Subsidiary Audiovox Electronics (AE), which markets mobile video products in addition to DVD and FRS devices, posted 5.2% gain in sales to \$66.6 million. Mobile video accounted for 30% of AE's revenues and included contract with Nissan. Gross margin for CE products was flat with year ago at 22%, while wireless increased to 11.9% from 9.1%. Late last week, Audiovox signed licensing agreement for i2Go's digital audio player technology and will introduce product by year-end. Player will be compatible with CompactFlash and IBM MicroDrive storage technologies.

THIS WEEK'S YEN RATE

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

MUSICMATCH ADDING RADIO: MusicMatch is latest company to enter online radio service arena. Company said last week that its MusicMatch Jukebox 6.0, available in beta version next month, will include MusicMatch Radio service personalized for each user's own musical preferences.

Music to be included as part of radio service will include popular songs as well as more offbeat selections, said David Bean, MusicMatch Internet Radio programming vp. Bean, who has spent more than 30 years in music industry, said MusicMatch Radio would be "mixture of personalization and [more traditional radio] programming."

Jukebox 6.0 software also has new interface this year that company said is easier to use than prior versions.

As with previous versions, standard one will be made available as free download. Business Development Senior Vp Bob Ohlweiler said gold version with more advanced features would be made available later for \$20. Company's business model still is based on money it takes in via ads, he said.

Company said it would run promotion in conjunction with General Mills and Getmusic.com in Nov. that will give consumers taste of MusicMatch software inside stores via point-of-purchase displays.

Earlier this month, Media Matrix reported that MusicMatch said music fans were using its jukebox for longer periods than competitors' software. Report said users spent average of more than 153 min. per month using MusicMatch Jukebox for 57% share of active min. in jukebox category, compared with 43% share for RealNetworks' RealJukebox. Ohlweiler said last week that MusicMatch Jukebox had "about 9 million registered users" to date.

Although MusicMatch CEO Dennis Mudd told us in March that company was planning to file IPO "in the next 6 months" (TVD March 13 p20), Ohlweiler said last week company changed its mind after market took turn for worse in dotcom industry.

Ohlweiler said MusicMatch, in which Thomson Multimedia took 20% stake last year (TVD May 3/99 p14), was looking to be profitable "by the end of 2001." Among other companies that have invested in MusicMatch have been Redpoint Ventures (TVD March 13 p20) and Intel Capital.

Hughes Network Systems (HNS) said it would begin beta test of 2-way DirecPC service next month on way to first-quarter 2001 rollout. It also has started production of USB modems that will attach to PC to deliver service and will market one-way AOL TV Plus/DirecPC service this fall that features satellite downlink but phone line return. New DirecPC package will consist of transmit and receive modems and will require that PC have USB port, HNS Asst. U.S. Field Sales Vp Allen McCabe said. While prices haven't been set, products will be "very competitive" with similar offering for EchoStar's Digital Sky Highway (DISH) system from Starband (formerly Gilat-to-Home), McCabe said. Latter also is marketing USB box that connects to PC that's expected to carry \$200-\$300 retail price. DirecPC is weighing packaging 2-way service with affiliated DirecTV programming, although agreement and pricing haven't been finalized, McCabe said. DirecPC will deliver 2-way service from satellites at 99° W and 116.8° W, giving it full coverage of U.S., he said. HNS started original DirecPC service in 1995, but had only 140,000 subscribers through this year.

Financial Reports of TV-Electronics Companies

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

Company & Period	Revenues	Net Earnings	Per Share
Audiovox 2000-9 mo. to Aug. 31 1999-9 mo. to Aug. 31 2000-qtr. to Aug. 31 1999-qtr. to Aug. 31	1,192,124,000 749,068,000 470,334,000 296,732,000	22,167,000 15,865,000 9,956,000 6,429,000	1.04 .83 .45 .34
Circuit City Group 2000-6 mo. to Aug. 31 1999-6 mo. to Aug. 31 2000-qtr. to Aug. 31 1999-qtr. to Aug. 31	6,254,632,000 5,649,376,000 3,179,781,000 2,958,394,000	112,464,000 (15,150,000) 55,341,000 73,692,000	.55 .— ^a .27 .37
Cyberian Outpost 2000-6 mo. to Aug. 31 1999-6 mo. to Aug. 31 2000-qtr. to Aug. 31 1999-qtr. to Aug. 31	137,085,000 69,369,000 72,294,000 36,689,000	(14,032,000) (17,248,000) (6,667,000) (8,393,000)	.— .— .— .—
Liberate Technologies 2000-qtr. to Aug. 31 1999-qtr. to Aug. 31	9,404,000 5,288,000	(88,219,000) (12,506,000)	.— ^a .— ^b
TDK 2000-qtr. to June 30 1999-qtr. to June 30	175,322,000 164,277,000	12,835,000 11,730,000	.— .—

Notes: ^aAfter special changes. ^bAdjust. ^cIn thousands of Japanese yen.

Consumer Electronics Personals

Jodi Sally, ex-Panasonic, joins Toshiba America Consumer Products as mktg. dir. for DVD, VCR and portable digital products... **Gary Pearson** to depart as Philips Consumer Electronics senior vp-CFO to pursue other interests once successor is found... **Brent Butterworth**, ex-etown.com, named Dolby Laboratories consumer mktg. technology dir.; **Dennis Staats**, technical mktg. dir., shifts to computer & games technology mktg. dir... **Jim Babb**, former reporter with WWBT Richmond, Va., appointed at Circuit City PR dept.... **Neil Moses**, ex-Bradlees, named Axcelis Technologies CFO; CEO **Peter Thorner** to assume responsibilities on interim basis... **Di Ma**, ex-Standard Microsystems, named Nvidia operations vp... **Martin Eberhard**, ex-NuvoMedia co-founder-CEO and inventor of Rocket eBook, elected to board of online publisher Alexandria Digital Literature (www.alexlit.com)... **Jack Valenti**, MPAA chmn., to address Oct. 19 industry luncheon at SMPTE Technical Conference & Exhibition, Oct. 18-21 in Pasadena — www.smpte.org... **Jeena Choi**, ex-Samsung, joins Sony Electronics PR department with responsibilities for DVD, TV, set-top boxes... **Curtis Manns** appointed interim CFO, Runco.

Wink Communications is expected to start download of software to DirecTV IRDs this week with national debut set for mid-Oct. Thomson, which is building Wink-enabled IRDs at Mexico plant, will be first with product followed by Philips and Samsung by year-end and Sony in early 2001, Wink said. One million IRDs will use technology at start, 3 million by year-end, Hughes Electronics Senior Exec. Vp Eddy Hartenstein said. Wink feature adds \$10 to cost of IRD, said EchoStar CEO Charles Ergen, whose company is expected to have one million boxes with Wink by year-end and start service by mid-2001. Satellite launch should be major boost for Wink, which had installed base of 300,000 units in cable markets.

First 21 of 125 DVDs from K-tel International made debut last week. Company said 100 of DVDs are music titles, which it called good fit to its traditional market niche.