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McCain, Disney seek universal ratings system: Senate Commerce Committee Chmn. McCain (R-Ariz.) endorsed call by Disney Pres. Robert Iger for universal ratings system covering TV, movies, games and music at Sept. 27 committee hearing. Hearing was follow-up to FTC report that movie studios target marketing for R-rated movies in TV programs with audiences with more than 35% children (TVD Sept 25 p2). Iger said universal ratings system would provide "a clear and consistent guide across all the entertainment platforms." He said after hearing that he had "a lengthy dialog" about universal ratings with MPAA Pres. Jack Valenti and "we agreed to disagree." Also after hearing, Valenti said: "I've told Disney I'm opposed... One system just won't work logistically." Iger said universal system should be based on MPAA ratings, not one that TV put in force 2 years ago (with Valenti as chmn. of monitoring group).

"Unfortunately, we created a [TV] system that is cumbersome and unobjective" and isn't working, Iger said. He said he hadn't presented universal rating proposal to other TV networks or movie studios but would approach them in near future. McCain praised Disney proposal, but said he wouldn't propose legislation on issue because "I'm not sure how you do that."

Senators questioned TV heads closely on 12 "initiatives" announced day earlier by Valenti designed to prevent advertising of R-rated moves to children, accusing studios of using evasive and unclear language. Valenti said 8 largest movie makers (MPAA's 7 members, plus Dreamworks) would follow guidelines in promoting their movies in ads and trailers. "I intend to be very vigorous" in making sure movie companies comply with initiatives, Valenti said. They include: (1) Each company will review its marketing and ad practices "to further the goal of not inappropriately specifically targeting children" in promoting violent movies. (2) No person under 17 will be used in targeted screenings for violent films. (3) Movie makers will appoint senior executive as compliance officer or form committee for that purpose. (4) MPAA will review annually each company's compliance. (5) Movie makers will include reasons for film's rating in print ads and Web sites and keep parents better informed. (6) All newly released films on videocassettes and DVD will include film's rating and reason. (7) Theater owners will be "strongly urged" to display reasons for ratings of films they

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DATAPLAY DISC ON TRACK FOR CES with hardware debut in spring, prerecorded titles next fall. Portable music players, e-books seen for coin-size 500 MB disc. (P. 10)

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CIRCUIT CITY AVERAGES \$172 sale, topping rivals Best Buy (\$108) and RadioShack (\$42), household survey shows. (P. 12)

RADIOSHACK NEARS ALLIANCE with consortium of 6 MSOs to sell cable modem service, accord expected by year-end. (P. 13)

PANASONIC WINS 3-YEAR AT&T CONTRACT to build million digital set-top boxes, will offer branded model in late 2001. (P. 13)

FORMER CRAIG CEO INDICTED along with 2 other former executives on SEC allegations that they 'cooked the books' to make company appear more profitable. (P. 14)

exhibit. Meanwhile, Fox Bestg. said it wouldn't accept ads for R-rated films in any family programming or any show for which 35% of audience was expected to be under 17. Twentieth Century Fox Films also said it wouldn't place any ads on any broadcast station or publication under same conditions.

"I don't understand this language," McCain said at hearing. "It is filled with loopholes." Ranking Committee Democrat Hollings (S.C.) said MPAA initiatives provide studios wouldn't "knowingly" promote R-movies in TV programs with large child audience and asked why word was included. Valenti told reporters word was used because initiatives were voluntary and that it wouldn't be changed. Sen. Burns (R-Mont.) asked what "sanctions" would be enforced if initiatives were violated. MPAA paper doesn't provide for sanctions, but Iger said "we intend to hold all our executives accountable."

Sen. Hutchinson (R-Tex.) warned that if industry didn't curb promotion of violent films to children "you're going to see some kind of legislation." She said when 46% of underage minors could buy tickets to R-movies "it's not working. We want to make it work." Hollings said "we can't control violence, but we can control the airwaves" — citing his safe harbor bill that was approved by Commerce Committee.

Asked whether TV and movie violence caused real-life violence, Sony Pres. Mel Harris cited studies going back to days of *Gunsmoke* TV program to refute that argument. He said Sony would "stand firmly behind" initiatives, while Paramount Vice Chmn. Rob Friedman said movies and their promotion would be reviewed on "a film-by-film basis... There is no set formula for marketing movies." Movie-making "is a creative process and it simply does not lend itself to quantification," said Alan Horn, pres. of Warner Bros. Universal Pictures Chmn. Stacey Snider said that in balancing complex issues of making movies and "our responsibility to parents... we must also include our commitment to support the artistic freedom of writers, directors, actors" and others who collaborate in making movies. Citing such hit films as *Saving Private Ryan* and *Schindler's List*, movie makers argued that some R-rated violent movies are suitable for children.

Opening hearing, McCain took what he said was "somewhat unusual" step of prohibiting statements by committee members because of expectation that objection would be raised on floor to holding hearing while Senate was in session, as happened week earlier when Judiciary Committee suspended hearing on same subject (TVD Sept 25 p2). Brownback issued statement charging that marketing of "hyperviolent movies to underage audiences... is not subtle — it is aggressive, relentless and widespread."

Handful of groups at hearing handed out statements decrying violence in movie industry. Parents TV Council said 83% of 54 movie ads aired 8-9 p.m. on TV networks in last 12 months were for R-rated movies. Lion & Lamb Project (which describes itself as "an initiative to stop the marketing of violence to children") said promises by movie executives "fall far short of reforms needed to protect the nation's children." Six public health groups said more than 1,000 studies "point overwhelmingly to a causal connection between media violence and aggressive behavior in some children."

Meanwhile, Time Warner Chmn. Gerald Levin said it wasn't fair to blame media so heavily for rising violence in society. He told separate House Telecom Subcommittee hearing that "a constellation of things" contributed to problem, including easy availability of guns, drug use, failure of educational system, less parental authority and reduced role of religious institutions. "I find it appalling that a subject so important gets caught up in politics without addressing the real issues," he said under questioning by Rep. Rush (D-Ill.).

Levin, whose grown son was killed in violent attack in N.Y.C. several years ago, said he took "full responsibility for what this company produces." But he reacted angrily to further questioning by Rep. Largent (R-Okla.), who asked what role Time Warner played in promoting violence through its programming, music lyrics and other content. "I prefer that you not pursue it," Levin told Largent. "Fortunately, you haven't had the personal anguish that I have."

HOUSE TELECOM REPUBLICANS RAP FCC, FTC ON AOL-TW DEAL: House Telecom Subcommittee members gave largely free pass in hearing Sept. 27 on AOL's proposed acquisition of Time Warner (TW), instead focusing most of their ire on federal agencies reviewing deal or each other. Top Subcommittee and full House Commerce Committee Republicans used occasion to criticize widely reported efforts by FCC and FTC to impose cable open access, instant messaging interoperability and other regulatory conditions on merger approval. Some Republican members also questioned authority and expertise of 2 agencies to set such mandates. Meanwhile, top Subcommittee and full Committee Democrats criticized hearing itself for lack of merger critics among witnesses, prompting Subcommittee Chmn. Tauzin (R-La.) to promise another hearing tentatively set for Oct. 6.

Despite not attending morning-long hearing, outgoing full Committee Chmn. Bliley (R-Va.) set tone early with release of similar letters sent Sept. 26 to FTC Chmn. Robert Pitofsky and FCC Chmn. Kennard. In letter to Pitofsky,

Bliley charged that FTC lacked expertise to impose open access mandates on merger. "If the FTC were to impose open access standards as a condition for not blocking this merger, the FTC may well set a de facto industrywide standard without the benefit of thorough consideration of the nationwide implications of imposing such conditions by the federal regulatory entity responsible for implementing our nation's telecommunications laws — the Federal Communications Commission," Bliley wrote. "Under the FTC course of action, the FTC is establishing a de facto national policy without the benefit of the necessary input from the appropriate federal regulatory agency and other affected stakeholders."

Bliley also took FTC to task for news leak on agency's confidential deliberations about and negotiations with AOL and TW. He sought Pitofsky's "assurance that your staff has not violated any confidentiality requirements" relating to proposed deal. Bliley asked agency to provide briefing on status of its merger review to full committee staff by Oct. 3. He also requested written answers to series of pointed questions by Oct. 6, including: (1) Whether Pitofsky believes open access mandates could violate First Amendment. (2) Whether MSOs have right to offer own unique programming. (3) How closely FTC and FCC have worked together on merger review. (4) All FTC records on First Amendment and FCC collaboration issues, including staff notes, graphs, e-mails.

In his letter to Kennard, Bliley questioned FCC's statutory authority to force cable operators to carry multiple ISPs, as well as constitutionality of such requirement. Calling "FCC's apparent plan of action on the open access issue troubling," he said Kennard publicly had rejected such regulatory mandates as recently as last Dec. Bliley argued that Commission shouldn't impose open access mandates on AOL-TW before conducting industrywide rulemaking on issue, contending that merger review wasn't "the appropriate forum to address an issue of this magnitude." He also asked FCC to provide copy of AOL-TW draft order by end of Sept. 28, staff briefing on its merger review by Oct. 3 and written answers and staff records on nearly identical set of questions as above by Oct. 6.

FCC officials declined to respond by our deadline to Bliley letter seeking copy of their supposed draft order on AOL-TW merger. Questioned repeatedly Sept. 28 about response, Commission staffers said Bliley's request was "under review" but declined to comment further. Officials stressed again, however, that despite published reports to contrary, agency staffers had not made any recommendations on deal.

Tauzin blasted both FCC and FTC for reportedly seeking to impose regulatory conditions on AOL and TW "behind closed doors" in private negotiations: "I think the process stinks." He also criticized 2 agencies and Dept. of Justice for "making policy on subjective basis" through individual reviews instead of adopting industrywide regulations. "If it's such good policy, why not make it applicable to all companies?" he asked.

Rep. Oxley (R-O.) joined criticism of federal agencies, expressing concern that FTC and FCC were "micromanaging" AOL-TW review, "trying to pick winners and losers." Rep. Boucher (D-Va.) chimed in, urging FCC to "move more quickly" on open access and set national policy instead of tackling issue on company-by-company basis. "We have anything but a national policy today," he said. "That's a condition we certainly can't tolerate."

Ranking subcommittee Democrat Markey (Mass.) repeated his earlier criticism that hearing witness list included only AOL Chmn. Steve Case and Time Warner Chmn. Gerald Levin, not deal's opponents and other critics. Referring to his list of "virtual witnesses," he ran through open access, instant messaging interoperability, program access and AT&T-Time Warner ownership link complaints by public interest groups, competitors, other merger critics. Rep. Dingell (Mich.), ranking Democrat on full committee, also appeared briefly on crutches to denounce lack of witnesses testifying about "any potential public harms" of merger. "Unfortunately," he said, "this puts the committee in the awkward position of having to blindly defer to the FCC, an agency whose judgment on these matters has caused many of us great distress in the past." Day earlier, Dingell had called hearing "little more than an infomercial for AOL and Time Warner" and joined with Markey in letter expressing "disappointment" that they weren't allowed to invite other witnesses.

Case and Levin largely repeated their usual arguments for approval of deal. Both said they saw no antitrust issues because companies were not in "overlapping businesses." Levin and Case restated their "firm" commitments to opening Time Warner's cable lines to rival ISPs and AOL's instant messaging system to competitors, once technology permits. Both also contended that govt. mandates actually would slow process by frustrating their attempts to develop business models for open access to both services.

Meanwhile, L.A. Times called for FTC to require 2 companies to provide open access to their cable lines and give fair and nondiscriminatory treatment to competing content providers. In editorial Sept. 22, paper also urged regulators to sever links between AT&T and Time Warner Entertainment to reduce AOL-Time Warner's influence. "The key to the Internet's success is its openness," editorial said. "It should stay that way."

INTERNET COPYRIGHT HOT: Current copyright model for streaming Internet media “doesn’t work,” Sen. Wyden (D-Ore.) told NAB Radio Show in San Francisco. Issue should receive “high priority” in next Congress and it should be decided by lawmakers and not in courts, he said. As co-founder of Internet Caucus, Wyden predicted Congress would take more “proactive approach” to broadcast and Internet issues next year and urged broadcasters to become more involved in lobbying Hill: “There are not a lot of rallies outside my office.”

Otherwise, NAB Radio Show speakers on Internet law were able to provide admittedly few answers to broadcasters. “The law is up in the air right now,” said Jonathan Weiss, one of 4 attorneys on panel. Panelists mainly warned broadcasters to be meticulous about safeguarding site from possible lawsuits. Being careful includes asking permission for displaying or streaming content, speakers said. “If you have content on your site that’s not your own, someone’s going to call you on it,” said Thomas Burke, attorney with firm Davis, Wright, Tremaine. Privacy statement on Website also should be clear, concise and up to date, speakers said.

In disputing LPFM proponents argument that issue is between haves and have-nots, Wyden pointed to opposition by public broadcasters: “Public radio... ain’t no fat cat.” He urged LPFM factions to work out “sensible approach” to their differences and find “common ground.” He was critical of FCC for not spending more time “collaborating” with NPR and other LPFM opponents. While he said he didn’t want “to see the FCC micromanaged by Congress — that would be a big mistake — a lot of the flap that the agency gets from Congress should be a signal that they need to do a better job.” Commenting on FTC’s violence report, Wyden said: “There’s no law on this planet that can substitute for parental supervision.”

David Solomon, chief of FCC Enforcement Bureau, pledged quick action on complaints against licensees: “If you didn’t do anything wrong, you should know that quickly.” In past, some complaints have rested for years in various Commission offices, and Enforcement Bureau was formed year ago to handle most complaints across various services (such as broadcasting, cable, common carrier, satellites) and one reason for forming new Bureau and consolidating complaints was to help solve that situation, he said.

Washington attorney Barry Umansky, former deputy gen. counsel of NAB, said it wasn’t original violation that got licensee huge fines “but efforts to cover it up.” Anything involving safety violations “is one of the highest priorities” of Enforcement Bureau, he said. Solomon agreed, saying FCC’s “technical enforcement [of rules] continues to be an area of great concern,” and there will be more involvement by FCC’s field engineers in future.

FCC Mass Media Bureau Chief Roy Stewart again staunchly defended agency’s new EEO rules, just as he has many times at industry meetings over last several months. He denied broadcasters’ charges that rules require extensive and burdensome paperwork, to which fellow panelist attorney Margaret Tobey responded: “The fact is, reporting requirements have increased substantially.” In answer to question, Stewart said stations with Web sites are required to list vacancies there, but that won’t qualify as “sole source” of recruitment efforts.

Time Warner Cable and Belo announced 20-year partnership to produce and distribute 24-hour local news programming to former’s cable customers in Houston and San Antonio. Companies also announced 10-year agreements for analog and digital retransmission carriage of Belo’s TV stations by TW, and 3-year agreements for analog and digital carriage of Belo’s non-Tex. TV stations located in TW franchise areas. Companies jointly will own and operate services. Under agreement, each local cable news operation will have its own management and newsgathering staff, as well as ability to access newsgathering resources of Belo’s KHOU-TV (Ch. 11, CBS) Houston and KENS-TV (Ch. 5, CBS) San Antonio. Houston cable news channel is expected to start in early 2002, followed by San Antonio in mid-2002, companies said. Under 10-year distribution agreement, Time Warner cable will provide Belo’s Texas Cable News (TXCN) to 555,000 cable customers throughout state. TXCN will be available to TW cable customers on digital tier in Houston, San Antonio and Austin and on analog tier in other parts of state, including El Paso, Laredo, Port Arthur/Beaumont, Rio Grande Valley, Waco, Wichita Falls. Companies said that, subject to channel availability, TW plans to extend carriage of TXCN to all systems it owns or operates in state, covering 1.5 million subscribers. TXCN currently is available to 600,000 homes in N. Tex.

USTA asked FCC to issue declaratory ruling that cable operators must contribute to universal service program because they have been defined as both “telecom” companies and providers of “interstate” services — 2 requirements for contribution. In Sept. 26 petition, USTA said ruling was needed “to remove any uncertainty” about obligations of cable providers in light of decision by 9th U.S. Appeals Court, San Francisco, that held cable was telecom service. USTA said Telecom Act required contributions from all carriers that provide interstate telecom service “with only the narrowest exceptions.” Cable meets “interstate” definition because broadband facilities used by cable operators to transmit Internet traffic are interstate services, USTA said. Even wireless companies contribute to universal service, association said: “If some carriers do not contribute, the obligation becomes greater for those that do.”

FCC didn’t meet Sept. 29 court-imposed deadline for justifying continuation of political broadcasting and personal attack rules, despite decision of Chmn. Kennard to break deadlock (TVD Sept 18 p1, Aug 1 p4), officials said. There were indications, however, that Commission could act by early this week, possibly opening proceeding to update record on issue. Order was believed to be circulating on 8th floor Sept. 29, but all commissioners apparently hadn’t voted at our deadline. It wasn’t immediately clear what would happen if FCC didn’t meet deadline, although court had said only that proponents, RTNDA and NAB, could file new petition to have rules overturned if FCC didn’t act by then. RTNDA Pres. Barbara Cochran said group didn’t know exactly what it would do until Commission actually acted, although it has contingency plans: “We’re not going away.”

Satellite Bcstg. & Communications Assn. (SBCA) Pres. Charles Hewitt called attack by Northpoint on decision to bring must-carry lawsuit against federal govt. “desperate attempt to legitimize a flawed plan” to utilize DBS frequency spectrum. Hewitt said consumer choice, not govt. regulations, should dictate signal carriage. Northpoint Vp Toni Cook-Bush said company, unlike satellite industry, was committed to full must-carry in every market.

FCC STARTS OPEN ACCESS INQUIRY: FCC released its long-awaited notice of inquiry (NOI) on granting ISPs open access to cable systems Sept. 28, seeking to develop public record to assess legal issues, policy implications and marketplace developments of high-speed cable-based Internet access. In 5-0 vote, Commission approved NOI 2 weeks after pulling item from its Sept. 14 meeting agenda at request of Comr. Tristani, who wanted to wait for agency to act first on AOL-Time Warner deal (TVD Sept 18 p6). FCC, which had declined to mandate open access in past, said its broadly worded NOI would explore both cable-modem service and rival "high-speed platforms," including DSL phone lines, satellite, wireless, broadcast TV, unlicensed spectrum.

At same time, cable open access advocate challenged AOL and Time Warner (TW) implementation of their much-heralded Memorandum of Understanding (MoU) on issue, saying companies had failed to provide true access to other ISPs. In Washington to brief press and govt. as review of AOL acquisition of TW neared critical point, EarthLink Vp-Law David Baker told us TW had offered such unfriendly terms for access to its cable plant as to make it "difficult, if not impossible," for competing ISP to enter cable access market: "Their actions have not followed their words."

FCC's open access NOI shows just how complicated popular issue has become. It delves deeply into policy, legal, economic, market, technical and operational questions surrounding cable-based Internet service and open access, seeking answers on how to define open access, classify cable-modem service and promote greater broadband competition. It asks whether high-speed data over cable pipes should be treated same or differently as high-speed service over phone lines and other platforms. It lays out its regulatory options and then invites comment on whether it should continue its current hands-off policy, start rulemaking proceeding or exercise its forbearance authority.

Perhaps most notably, observers said, NOI asks unusually detailed questions on complicated subjects ranging from ISP open access to cable set-top boxes to possible regulatory framework for Internet Protocol (IP) telephony. Although it focuses on cable-modem service, it looks at how its regulatory treatment of that platform will affect such rival technologies as DSL phone lines, wireless, satellite, broadcast TV and even unlicensed spectrum. It asks whether cable high-speed data should be classified as cable service, telecom service, information service, advanced telecom capability or something entirely new and what implications of each would be. Similarly, it asks whether cable operators offering high-speed data should be treated as ordinary cable operators, telecom carriers, common carriers or something else and what impact would be.

"Without a doubt, they've given this intense thought," said Precursor Group CEO Scott Cleland, frequent critic of FCC on open access issues. "You could write a treatise on most of the questions they ask."

FCC Chmn. Kennard said Commission issued NOI now because of differing court opinions on how cable modem service should be categorized and regulated. In particular, agency acted after 9th U.S. Court of Appeals, San Francisco, ruled in late June that cable Internet access was telecom service that should be regulated nationally, not locally. "I have been patient in allowing the marketplace to develop, while monitoring it closely to assess its openness," Kennard said.

"It is unclear, however, whether a marketplace solution will develop absent some form of intervention. We need to determine whether a regulatory response is appropriate" to ensure open access.

Tristani, who had sought delay longer than 2 weeks because FCC was considering imposing open access mandates on AOL-TW, said NOI didn't mean Commission would lay off deal. While inquiry is less immediate than rulemaking, she said, "our action here does not prejudice our approach in specific cases that come before us. I strongly caution those who may believe the adoption of this item signals an intent to limit or constrain the Commission's ability to impose conditions in any particular case."

While inquiry could lead to open access rulemaking, FCC staffers cautioned that Commission still could choose to forbear from regulation of rapidly growing cable modem market. They said agency was approaching issue with open mind and would decide how to act only after comments from all parties. Notably, however, FCC set unusually tight deadlines for comments in inquiry — comments 45 days after NOI's publication in *Federal Register* and replies 30 days later. That could allow Commission to begin open access rulemaking as early as winter or spring.

FCC officials disputed notion that NOI indicated Commission's thinking about open access conditions on AOL-TW or might hamper its efforts to impose such conditions later this fall. They emphasized there was no link between industrywide inquiry and AOL-TW review.

NCTA, which opposed similar idea 2 years ago, welcomed FCC's action as way to set national policy straight and keep local regulators at bay. EarthLink, which has campaigned aggressively for open access mandates, applauded FCC for finally "taking steps to address this issue." Verizon Communications, another strong open access proponent, criticized action as "too little, too late."

EarthLink's Baker, clearly seeking to influence AOL-TW review, said TW wasn't offering truly wholesale lines equivalent with what's required of phone companies' DSL provision. Instead, he said, MSO is demanding to set retail price of cable Internet service — preventing EarthLink and others from competing on price — and then share revenues in "lopsided" arrangement, with most revenue staying with TW. Baker said TW also was seeking to have substantial presence on EarthLink's start page, essentially "co-branding" service, as well as demanding major part of EarthLink's revenues from advertising and links to other sites from its start page. He said there also was evidence that TW "may not be living up to" its promises to allow ISPs full access to their customers for billing and other purposes.

TW had little to say about Baker's allegations. Company "is committed to working creatively with EarthLink and others in the ISP community to provide consumers the choices they want in cable Internet service," spokesman said. He said TW also was committed to "arriving at business relationships in which everyone feels they're a winner."

Harris Corp. is installing its 100th DTV transmitter, this one at WFTV Orlando, company said. It now has installed transmitters for nearly 2/3 of DTV stations on air.

EX PARTE TREND QUESTIONED: As FCC moves toward more private, or ex parte, communications to speed its deliberations, industry groups and others say they have mixed feelings. Most laud agency's effort to be more efficient, but some say it's locking out consumer groups and small organizations with limited lobbying power. Although lobbyists are required to file ex parte letters stating gist of their private talks with FCC officials, some letters are little more than one or 2 sentences.

Agency staffers sometimes act as mediators in reaching agreement among parties in rulemakings, often in closed meetings, observers say. Bureaus and commissioners hold debates and forums behind closed doors to gather information. FCC work increasingly "is done at the staff level behind the scenes," Precursor Group analyst Scott Cleland said. FCC has worked to bring more parties into process but "the loser is that the public is kept more in the dark," he said. "It's great for the industry players and the regulators."

Attorney Michele Farquhar, ex-chief of FCC Wireless Bureau, said trend was due in part to shorter comment periods in proceedings: "Sometimes good ideas come late to the table and that can't be helped." Andrew Schwartzman, Media Access Project exec. dir., said he understood FCC wanted to become more efficient but he sometimes felt like he was "shadow boxing," trying to respond when he didn't really know what his opponent had told Commission in closed-door sessions. Schwartzman said he sent letter to FCC Gen. Counsel's office in May enclosing 14 ex parte letters in AOL-Time Warner merger review proceeding that were no more than 2 sentences long.

Schwartzman said FCC often changes traditional ground rules for merger review to encourage more ex parte comments. Merger reviews generally are considered "restricted" proceedings in which ex parte communications are prohibited, he said. More and more, agency now conducts them under "permit but disclose" rules in which ex parte communications are allowed, he said.

Former FCC official who spoke on background said he was troubled by fact that merger reviews now included so much informal rulemaking. FCC isn't in driver's seat when such negotiations take place, he said. "The person holding the pen is always the applicant" because applicant is one that wrote proposed conditions in first place, he said. Backers say agency is getting things done that once were thought impossible.

FCC Comr. Furchtgott-Roth disagreed, saying parties had been frozen out of talks and consumers weren't included until they cried foul. But FCC defenders said there was more openness now than ever before. Days of political deals' being made on golf course or tennis court are nearly gone, one source said. Discussions with commissioners now are more "substantive," he said. FCC Comrs. Ness and Tristani have been credited with making such discussions even more useful by requiring that parties participate in debates when they visit their offices.

Ness said she "found that when the proponents of both sides were present, you could get more thoughtful comments and sometimes resolve issues." When representative of one side makes statement, proponent of other views can respond immediately, she said. Such efforts not only speed proceedings but also help commissioners become better informed, she said.

Schwartzman said "in defense" of agency, it was "trying to be creative and forceful in addressing criticism of administrative delays." Commission is faced with "accommodating the slow process of government with technology that moves at Internet speed," he said. "The problem I have is those of us with limited resources can't play the ex parte game anywhere near as effectively." If company holds 2-hour meeting and then files one-sentence description, "we're left out."

MP3.com began campaign to make election issue out of its legal troubles with recording industry. It called for "Million E-Mail March" in favor of bill (HR-5275) by Rep. Boucher (D-Va.) that would overturn its losses in court. "If you've ever bought a CD, this issue affects you!" says new section on company's Web page (www.mp3.com/million): "Speak out now to ensure that you'll always have the right to listen to CDs you've already paid for." Page includes e-mail generator and link to help them register to vote. Another area tracks campaign's progress so far; at our deadline, it said "less than 100,000" e-mails had been sent. Boucher introduced bill to overturn MP3.com court decision and otherwise reform copyright law for music over Internet. Bill would allow consumers to store their own music and access it from Internet site, which is how MP3.com characterizes its controversial service. Introduction followed heavy Capitol Hill lobbying campaign by MP3.com. "It's clear that many of our copyright laws are from another era," Boucher said. "They are not strictly applicable in the age of the Internet." With only handful of days left in this session, "our goal is not to try to move this legislation this fall," Boucher said, but to "begin a conversation." He said he would reintroduce bill in next Congress. (Details in *Warren's Washington Internet Daily*. For free copy or trial subscription call 202-872-9200).

Sponsor of measure to limit foreign govt. ownership of U.S. telecom companies applauded letter from German govt. recommitting itself to eventual full privatization of Deutsche Telekom (DT). "This is an encouraging development," Sen. Hollings (D-S.C.) said. Meanwhile, Senate Majority Leader Lott (R-Miss.) called on conferees on Commerce-Justice spending bill (HR-4690) to strip Hollings language from measure. Lott was one of 30 senators signing letter to FCC in June saying foreign govt.-owned companies' buying into U.S. firms could be dangerous. Meanwhile, U.S. Trade Representative Charlene Barshefsky promised Administration would "continue and intensify its efforts... to encourage our trading partners to privatize their telecom incumbents as expeditiously as possible."

Total N. American ad spending will reach \$157.5 billion in 2002, 21% over 1999, but growth rate will be much smaller this year and next than previous years, Zenith Media said in report. Firm said top 20 media companies generated \$84.5 billion total revenue in 1999, up 9% from 1998, mainly because of mergers. TV ad revenue will reach \$57.4 million in 2001, it said, up 5% but well below 9% growth rate in 1999 and 13% in 1998. Zenith, which buys ad time for advertisers, said media consolidation could result in higher ad prices. CEO Richard Hamilton said smaller number of competitors for ad dollars "has definitely made it harder to negotiate" and "ongoing consolidation should be watched closely to preserve an open market." — www.zenithmedia.com.

Most CBS prime-time programming will be available in HDTV, with sponsorship by DTV set-maker Panasonic, companies said. Overall, 17 of 18 CBS comedy and drama series will be in HDTV, they said.

MALONE JOINS MURDOCH: Liberty Media will become 2nd largest stockholder in News Corp. and in its satellite subsidiary in multilayered deal involving Liberty's interest in Gemstar-TV Guide, companies said Sept. 27. Deal places nearly \$40 billion value on Sky Global Networks subsidiary, and News Corp. Chmn. Rupert Murdoch confirmed he was interested in acquiring DirecTV if GM decided to sell.

Complicated deal announced by Liberty Chmn. John Malone and Murdoch includes: (1) News Corp. will acquire Liberty's 21% of Gemstar-TV Guide, giving News Corp. 43% of company. Murdoch said deal created "opportunity" for News Corp. to become majority shareholder in near future. (2) Liberty will get additional 10% of News Corp., raising its total to 18%, although stock is nonvoting. Malone doesn't immediately get seat on News Corp. board, but Murdoch didn't rule out possibility in future but suggested there could be regulatory impediments. (3) Liberty will contribute its interests in Sky Latin America — including Sky Brazil, Sky Mexico and Sky Multi-Country Partners — to Sky Global. (4) Liberty will receive 4.76% of Sky Global before IPO that's expected by end of year. At time of IPO, Liberty is to buy additional \$500 million holding, estimated at just less than 1% of outstanding shares, in deal Murdoch admitted clearly indicated \$40 billion initial valuation for Sky Global.

Murdoch said it was "too early to comment" on possibility of acquiring DirecTV. However, he did say that "you can certainly confirm that we would be interested if GM decided to do anything." He also refused to comment whether bid for DirecTV would be in form of stock or cash. Analysts speculated that enlarged role of Malone and Liberty, both popular with Wall St., would make Murdoch bid for DirecTV more attractive.

Latest deal has been in works for months, with speculation arising after News Corp. decided to spin off satellite assets. Liberty acquired its first 8% stake in News Corp. year ago when Gemstar and TV Guide merged. Murdoch said he and Malone had become "friends" with similar global strategy. Murdoch called larger Malone investment in News Corp. "as strong an endorsement as we could get of our strategic direction and operational performance."

Transaction won't directly affect DirecTV bid or plans for IPO, Murdoch told analysts. Although valuation of satellite assets hasn't been set, he said figure between \$38.5 billion and \$40 billion was likely to be "pretty accurate."

U.S. State Dept. probably will hold off on making decision on Loral Space request for license to export Chinasat 8 satellite to China until after new President takes office in Jan., govt. official said. In heat of close battle between Vice President Gore and Tex. Gov. George Bush, issue is seen as "potential" political liability for Democrats and for Gore, official said. Spokesman said State Dept. had no comment on Chinasat 8.

Interconnection arrangements between Internet backbone providers should remain free of regulation, working paper released by FCC Office of Plans & Policy said. Authored by Michael Kende, division's Internet Policy Analysis dir., paper concluded that "market forces, including consumer demands, are likely to ensure that Internet backbone providers continue to provide universal connectivity."

NEW STREAMER PLANNED: Successor to iCraveTV said it legally could stream U.S. TV signals to Internet customers without violating copyright laws because its technology would prevent U.S. residents from accessing Web content. Montreal-based JumpTV expects to begin streaming in 2001, system administrator Joshua Fenton said. Taking advantage of current Canadian broadcasting and copyright laws, JumpTV plans to run both U.S. and Canadian TV shows using technology to prevent access from countries such as U.S.

To resolve cross-border jurisdiction issues raised by iCraveTV, new site will use technology called Border Control, Fenton said. By denying access from countries such as U.S., where he said service might violate copyright laws, company should be able to avoid copyright infringement lawsuits that forced iCrave TV to shut down earlier this year. Technology has database of Internet protocol addresses linked to geographic information and appears to be fail-safe, he said. Canada's broadcasting regulator, Canadian Radio-TV & Telecom Commission (CRTC) made retransmission of TV signals legitimate in 1999 when it exempted Internet-based operations from country's Broadcasting Act, Michael Geist, U. of Ottawa Law School Prof.

Copyright issue isn't clearly resolved, Geist said, but "strong case" can be made that issue could be cleared easily in Canada. iCrave TV, Canadian company that had planned to retransmit programming through its Web site, had argued that Broadcasting Act exemptions meant site could operate like cable TV, which pays fees to communal royalty fund that then is paid to production industry, Geist said. Similar payment scheme for Webcasting was being negotiated with Canadian Copyright Board by iCrave TV when out-of-court settlement with Canadian entertainment companies forbade the site from further negotiations, Geist said. He said it wasn't clear how long it would take the Copyright Board to create a fee schedule, but Webcaster might not need to await decision before starting to retransmit off-air TV programming in Canada.

JumpTV's Fenton said company currently was running in "test mode" with dozen U.S. and Canadian TV stations — www.jumpTV.com/ and www.bordercontrol.com.

Equalizing public obligations of converging industries can mean "no obligations whatsoever," Consumer Federation of America Research Dir. Mark Cooper said in speech at conference on media and democracy sponsored by Fund for Constitutional Govt. He said converging industries always argue that they would face competitive disadvantage if they had obligations that competitors didn't, so govt. should drop that obligation. Industries also argue that spectrum scarcity rationale for public service obligations no longer is true, Cooper said: "Although it can be argued that spectrum is no longer scarce, there is no question that it is still very valuable." Instead of eliminating obligations when there are new entrants, he said, govt. should "move in exactly the opposite direction" by imposing obligations of each competitor on all, and "new ones should be crafted, commensurate with the immense economic and political power that all will possess." Among needed obligations, Cooper said, are nondiscriminatory access, public interest programming, universal service, limits on media ownership concentration. Also to increase competition, he said, broadband Internet services should be able to compete as video programmers.

WIRELESS PRESSES 700 MHz: Wireless carriers and technology developers see moving incumbent broadcasters from 700 MHz band as key political problem, they said at PCIA GlobalXChange show in Chicago last week. Carriers emphasized need for more spectrum, saying they were seeking innovative ways to carve market niches for wireless data that would create demand for more capacity in first place. AT&T Wireless Vp-Technology James Grams said data-heavy 3G services were spectrum hungry, with inadequacy of current capacity likely to emerge more fully in 10-15 years.

Uncertainty over when broadcasters will leave 700 MHz spectrum "sends chills through the financial community for wireless carriers," TeleCorp CEO Gerald Vento said. Statutory requirements call for UHF broadcasters to leave 700 MHz band by 2006 or when digital TV reaches 85% penetration. Because of statutory demands, "the Commission doesn't feel it can force these relocation deals," Deputy Wireless Bureau Chief Kathleen O'Brien Ham said. To facilitate voluntary agreements that would clear band, FCC has been seeking comment on options such as cost-sharing and secondary auctions that would tie bid for actual spectrum with transaction that would clear away incumbent broadcaster.

Among concerns raised in comments on secondary auction, Ham said, is that FCC has statutory authority to auction initial licenses and that broadcasters' licenses aren't initial licenses in context of 700 MHz bidding. "The record on cost-sharing was very negative, too," she said. "Frankly, the record seemed to suggest that people just want to let the market work in terms of that process."

Several presenters framed varying interests of broadcasters and wireless carriers in band as involving contestants with uneven strengths, given historical political clout of broadcasters. "My advice is never bet against the broadcasters," attorney Carl Northrop said.

Meanwhile, asked how FCC planned to ease exit of broadcasters from Ch. 60-69, FCC Comr. Ness said proposal floated by Paxson to link departures to digital-must carry policy was "interesting." She said that "might ease the way for broadcasters to allow spectrum to be freed up on an earlier timeline." On broadcast incumbency issue in 700 MHz band, Ness said, "we are trying to respond to those [issues] in a market-friendly manner. This is going to take some effort." DTV transition in general, she said, has "been slower than we've anticipated. There have been some bumps in the road."

U.S. and Canada agreed on DTV channel allotments for stations within 400 km of U.S.-Canada border, FCC Chmn. Kennard and Michael Binder, asst. deputy minister of Industry Canada, announced. In addition to allotting DTV channels, Letter of Understanding calls for both countries to continue to review allotment tables with goal of clearing Ch. 52-69 for nonbroadcast uses. Until separate agreement is reached, Letter says nonbroadcast services in those bands must protect DTV and analog broadcast stations. Full text is available at FCC Web site.

Cox Communications signed agreement with ICTV to provide Internet TV and other interactive TV services in unidentified large cable market. Cox, early investor in ICTV, said it would offer ICTV's bundle of services to its digital cable subscribers in that pilot market.

ECHOSTAR BID QUESTIONED: Media attorneys disagree whether proposed purchase of DirecTV by rival EchoStar would pose antitrust problems if deal between only 2 U.S. DBS providers becomes reality (TVD Sept 25 p4). Lawyers who specialize in acquisitions and antitrust issues said key would be how govt. defined DBS market. Antitrust issue would be decided by either Dept. of Justice (DoJ) or FTC, but neither agency would comment. Hughes plans to sell DirecTV "within months." Other potential bidders include Walt Disney, GE, Microsoft, News Corp., Viacom.

Satellite analyst William Kidd said EchoStar Chmn. Charles Ergen "definitely has the financial resources" to buy DirecTV "if he wants to." Ergen has net worth \$14 billion, according to *Forbes Magazine*. Sale of DirecTV unit could net Hughes \$60 billion, analysts said. However, one lawyer said Ergen might be trying to "drive up the price" for DirecTV, or put "a little scare into [News Corp. Chmn. Rupert] Murdoch." Said another: "Charlie Ergen would like nothing better than to see Rupert Murdoch overpay" for DirecTV.

On antitrust review, one attorney said DoJ or FTC could define market to include only DirecTV and EchoStar, or decide wider multichannel video industry included DBS, cable and broadcast TV, making it easier to get favorable ruling. He said if market were defined to include cable, "there would be plenty of competition." If EchoStar and DirecTV were only companies in DBS-relevant market, then "the deal couldn't stand," attorney said. He said DoJ had shown in past rulings it would treat DBS as entity in "more expansive market." Another media attorney, however, said "it wouldn't be impossible, but it would be tough uphill battle," for EchoStar. He said if company did manage to acquire DirecTV, all DBS assets would be owned by same company, and govt. "would probably balk at that."

Congress could help DTV transition by clarifying FCC's authority to require DTV capability in new receivers and to establish technical standards for DTV receivers, said Dale Hatfield, chief of FCC Office of Engineering & Technology. In letter to House Telecom Subcommittee Chmn. Tauzin (R-La.) dated Sept. 1 but not widely released, Hatfield said Congress "could both help to support actions and efforts already under way by the Commission and provide new statutory guidance, authority and framework." Hatfield suggested that Congress clarify whether All-Channel Receiver Act applied to DTV. One approach, he said, might be to require that all TV sets 13" or larger built after 2003 have DTV receiver cards. He said such cards now cost about \$150, but economies of scale could cut that to "very low." Other possibilities for congressional action, Hatfield said: (1) Requiring cable systems to use same digital coding and transport structure as broadcasters after 2006 or some other date. (2) Requiring cable to devote some percentage of channel capacity to digital service. (3) Making must-carry more palatable by limiting number of broadcasters with must-carry rights, possibly to affiliates of 4 major networks, at least at first. Congress also could limit must-carry to some percentage of cable system's capacity. (4) Legislating to ease local and federal approval processes for DTV towers. (5) Providing funding for public broadcasters' DTV transition. (6) Providing tax incentives for broadcasters who complete DTV buildout by specific date, such as 2003. Hatfield said Congress also could clarify DTV copyright situation, saying consumers should be able to do same program copying in digital world as in analog.

Consumer Electronics

A Section of Television Digest with Consumer Electronics

STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Sept. 15 and year to date:

	SEPT. 9- SEPT. 15	1999 WEEK	% CHANGE	SEPT. 2- SEPT. 8	37 WEEKS 2000	37 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	595,026*	553,450	+ 7.5	337,284	19,498,410	18,164,121	+ 7.3
DIRECT-VIEW**	570,980	525,227	+ 8.7	319,017	18,650,451	17,438,590	+ 6.9
TV ONLY#....	459,692	456,331	+ 0.7	277,598	15,436,980	14,660,415	+ 5.3
TV/VCR COMBO.	111,288*	68,945	+ 61.4	41,419*	3,213,471*	2,778,175	+ 15.7
PROJECTION...	24,046	28,174	- 14.7	18,267	847,959*	725,531	+ 16.9
TOTAL VCR**...	410,400	465,361	- 11.8	244,303	17,607,858*	16,512,432	+ 6.6
HOME DECKS...	299,112	396,416	- 24.5	202,884	14,394,387*	13,734,257	+ 4.8
CAMCORDERS.....	70,440	54,847	+ 28.4	52,478*	3,682,827*	3,032,656	+ 21.4
DVD PLAYERS....	149,675*	39,191	+281.9	69,747*	4,251,611*	1,989,687	+113.7

Direct-view TV 5-week moving average#: 2000-465,127; 1999-478,706 (down 2.8%).

Projection TV 5-week moving average: 2000-26,913*; 1999-26,626 (up 1.1%).

VCR deck 5-week moving average: 2000-364,043; 1999-409,375 (down 11.1%).

TV/VCR 5-week moving average: 2000-102,356; 1999-86,867 (up 17.8%).

Camcorder 5-week moving average: 2000-95,518*; 1999-79,897 (up 19.6%).

DVD player 5-week moving average: 2000-154,173*; 1999-61,181 (up 152.1%).

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

DATAPLAY MINI-OPTICAL DISC ON TRACK FOR CES: Cornucopia of portable CE products using coin-size DataPlay 500 MB write-once disc will be previewed at Jan. CES in advance of spring launch, with prerecorded music releases following in fall from at least 3 of 5 major record labels. Boulder, Colo.-based company just received \$50 million in 2nd round of financing and now is fine-tuning licenses with CE vendors and OEMs, DataPlay Chmn.-CEO Steve Volk told us last week.

DataPlay optical disc is little bigger than quarter, and matchbox-size read/write drive can be incorporated in variety of portable CE devices such as digital music players, electronic books, portable videogames, digital still cameras, Web-enabled mobile phones. In 500 MB double sided version, write-once disc can store 11.5 hours of MP3 compressed audio or 3 hours of music at higher-than-CD quality, Volk said. Disc also will be available in single-sided 250 MB version, and cost of blanks is expected to be \$5-\$10, compared with \$200 for 64 MB flash memory card or \$1,000 for 320 MB flash.

Disc gets high capacity by using DVD-like pit pattern and data transfer rate, Volk said. Disc's phase-change material was developed by Kodak for military uses and can last hundreds of years, he told us. Besides use for consumer home recording, DataPlay also can be used for prerecorded material. Volk showed us selection of music titles and electronic books. Content also can be "locked" to disc with DataPlay's ContentKey e-commerce system. That lets record label or book publisher embed multiple selections on disc that consumer can access later by paying through Internet. Since data already are on disc, there's no need for time-consuming downloads.

ContentKey feature has tickled fancy and imagination of content providers to point where Universal Music Group was biggest investor in DataPlay's recent \$50 million capitalization and Universal eLabs' Pres. Lawrence Kenswil was elected to DataPlay board. Volk showed us DataPlay prerecorded titles from popular artists with music videos and other albums embedded. He also showed us DataPlay e-book of Stephen King novel that had teaser chapters from other King novels that consumer could access with online purchase.

Volk wouldn't identify 3 major music labels that will release DataPlay titles, but Universal's investment and glowing endorsements speak volumes. In past, DataPlay also has been praised by Capitol Records' Nashville label. Investors from CE industry include Imation, Rio-parent S3, Samsung, STMicroelectronics and Toshiba, as well as replication-equipment maker Ritek. Volk told us DataPlay had agreement with contract manufacturer in Asia to build its drive, and also had licensed 2 major CE companies. He wouldn't reveal them, but source at Toshiba told us company was licensee. Volk said agreements with other CE companies would be licensed to make drives, while discs would be supplied under license by established blank media makers. Those agreements, and licenses for CE vendors to sell DataPlay products, will be announced in coming months before CES, Volk said.

DataPlay drive is immune to shock owing to construction that isn't affected linear motion such as jogging, Volk said. Drive also has own 2 MB memory buffer, and portable devices is likely to add more. Drive's data transfer rate is 1 MBps and power consumption is 500 mw at peak — voltage requirement comparable to products using flash memory, Volk said. DataPlay has filed more than 80 patents on system.

Volk said content owners like write-once aspect of disc, because that prevents user from altering content in any way. It's likely some DataPlay licenses will leave blank space on prerecorded discs so that consumers can add their own recordings, he told us. Asked whether rewritable version of DataPlay was possible, Volk declined to comment.

ONLY 500,000 PLAYSTATION 2 CONSOLES TO SHIP FOR DEBUT: Sony Computer Entertainment America (SCEA) said last week it would be shipping only 500,000 PlayStation 2 (PS 2) videogame consoles in time for systems' N. American rollout Oct. 26. New number represents half amount SCEA had announced at E3 in May that it would be shipping (TVD May 15 p12).

In conference call with reporters, SCEA Pres.-COO Kaz Hirai blamed reduced figure on "a component supply shortage" that had caused Sony to fall "approximately one month behind in production." He and other SCEA executives declined to identify specific components that caused supply shortages. SCEA Senior Vp Andrew House said only that shortages were "not connected with DVD or the DVD capability of the machine."

But as we reported in June, PS 2 has been competing with cellular phones and digital camcorders for integrated circuits for much of this year (TVD June 12 p11). Digital camcorders affected most by shortages apparently have been those of Sony, which manufactures Digital 8 and Mini-DV digital models.

Hirai said, however, that SCEA planned to ship "approximately 100,000 units per week through the holiday season" in addition to 500,000 PS 2 consoles arriving at system's launch. That, he said, "will ensure a steady flow of products to consumers and retailers, many of which have been concerned that we wouldn't have product for the holiday shopping season." If company opted to ship one million at start, he said result would have been "a huge initial spike" in supply at retail followed by "some outages" in which retailers might have had nothing.

Hirai also said "modified launch schedule" wouldn't affect company's ability to reach its target of shipping 3 million units in N. America and Europe by end of company's fiscal year March 31 or its ability to ship 10 million worldwide by same date. He said company also would be able to ship "approximately 1.3 million units... into the North American market" by end of calendar 2000.

To meet demand for PS 2, Hirai said "Sony Computer Entertainment Inc. is ramping up production capacities worldwide from 400,000 units a month to more than one million units a month in the fall, with a further increase of 1.4 million units by the end of 2000." He declined, however, to say exactly when in autumn company expected to hit one million units. News of modified PS 2 start sent stocks of Sony and various videogame makers dropping last week.

Retailers weren't immediately available for comment. But SCEA Senior Vp Jack Tretton said company had "already been in contact with all of our major retail partners" to discuss changed plan and "they're encouraged that we [will be able] to provide a steady stream of PlayStation 2 computer entertainment systems not just at launch but throughout the busiest selling season of the year." Nevertheless, Tretton said: "We realize that the production delay will create an even greater initial gap between the available supply on October 26 and the ever-increasing demand for PlayStation 2."

Modified launch may very well mean that many customers who already had been promised a console by preordering might now not be getting one right away. Tretton said that was precisely why company suggested that retailers not presell consoles: "We actually felt that with the ever-building demand for PlayStation 2 and the undetermined initial supply, that it would be inappropriate to try to solicit any preorders from consumers and we actually discouraged our re-

tailers from doing so well back before the first of the year. Unfortunately, some retailers felt it was in their best interest to do so and that's clearly their choice." He added: "We emphasized [to] any retailer that chose to [take preorders] that it would have no effect on our distribution decisions."

SCEA declined to break down what distribution of PS 2 would be like for each of its retail accounts, including its own Sony Style stores. But Tretton said: "In terms of the reduction in available quantity on Day 1, it will be pretty equally felt in that the actual reduction from a million to 500,000 will be dispersed equally so each customer would receive about half what they initially anticipated."

Despite modified launch, Tretton pointed out that "compared to [the] initial rollout of 100,000 pieces" at debut of original PlayStation, "we feel that 500,000 units is still a pretty substantial offering to consumers." He said that "with the ability to achieve [a] 3-million-unit level in less than 5 months, we'll have a pretty decent size amount of satisfied customers by the end of our fiscal year."

House said he thought "it's also important to add the fact that we don't see demand for the system as being purely concentrated around the holidays." As to when company expected that supply would meet demand, he said: "I think that prior to launch of the system that's very difficult to estimate right now."

Tretton said that with modified rollout, "I think it'll be a little bit more difficult on October 26 than it might have initially been perceived to be" to get PS 2 console. But he said: "I think it'll be about comparably difficult to get it by the holidays" in comparison with initial plan. Tretton added: "I think the situation will improve post-holiday and that a larger percentage of people that are looking for it will be able to get access to it in the January-March time frame."

Tretton also said he believed PS 2 launch would lead to "an incremental \$500 million in retail revenue by the end of the year" and, "by the end of our fiscal year... will have generated incremental [retail] revenue of \$1.5 billion."

As for number of consoles online dealers will be getting, Hirai said: "We're still looking at a variety of options in terms of what the product offering would be and also what kind of allocations the dotcom — or the e-commerce sites as they're commonly referred to — is going to be getting. So, that's something that we haven't made a final determination on just yet."

On PS 1 front, Tretton said start Sept. 19 enabled company's PlayStation hardware retail sales to jump 82% over prior week. He said: "PS 1 worldwide production capacity is about 8 million units for this fiscal year, and based on demand and sellthrough we anticipate the North American percentage of that or actual units to exceed 3 million." Although company said there hadn't been same sort of production problems with PS 1 as with PS 2, Tretton said: "I think it'd be very fair to say that demand far exceeds supply right now in the North American marketplace and, similar to PlayStation 2, I think we'll be challenged to meet demand through the Christmas period. But we do believe that our supply will be significantly better post Christmas in the January-March time frame."

CIRCUIT CITY AVERAGES \$172: Circuit City's average sale is \$172, topping Best Buy (BB) (\$108) and RadioShack (RS) (\$42), although RS had slight edge on rivals in number of households that shopped it in last year, according to survey of 1,000 households conducted by Sanford Bernstein (SB).

About 25% of households in survey had shopped RS store in previous 12 months, followed by Toys "R" Us (35%), BB (26%), Circuit (22%) and Amazon.com (8%), Bernstein said. Wal-Mart was leader at 82%, trailed closely by Kmart (81%).

"It's not surprising that Circuit would have a higher average ticket since the expensive goods are at the front of the stores and consumers have to walk right past them to get to the more frequently purchased items," SB analyst Ursula Moran said.

In part of survey that asked households to rank chains on scale of 1 (best) to 5 (worst) in terms of value, service, product quality, assortment and convenience, Amazon came out with top average score of 2.01, followed by Wal-Mart, 2.18. Circuit had 2.49, Toys "R" Us (2.52), BB (2.57), RS (2.67). Circuit and BB's best scores came in assortment at 2.25 and 2.32, re-

spectively, while RS top rating was in convenience at 2.27. Toys "R" Us scored best in product quality at 2.33. On downside, CC, BB and Toys "R" Us worst scores came in service at 2.73, 2.50 and 2.85, respectively. Amazon scores ranged from 1.37 for convenience to 2.30 for value. Persons surveyed visited BB, RS and CC 3 times in last year, Toys "R" Us 4. In contrast, Wal-Mart's average customer visited store 27 times in year.

In awareness, Wal-Mart had 98%, followed by RS (96%), Toys "R" Us (94%), Circuit (88%), BB (72%). Average sale at Toys "R" Us was \$49 and at Amazon was \$38.

Pixelworks is supplying display controller for Dell Computer's 17" LCD desktop monitor that's shipping at \$1,449. LCD, which has 1,280x1,024 pixel resolution, has Pixelworks' 4-chip PW164 controller that originally shipped in 1999 at \$35 in volume. Controller has maximum input clock of 95 MHz and 30-bit output color depth. Samsung, which uses Pixelworks controllers in 15" and 17" LCD monitors it sells under own brand, is building Dell display.

RADIOSHACK NEARS CABLE PACT: RadioShack (RS) is nearing pact with consortium of top 6 MSOs to sell cable modem service alongside high-speed digital subscriber line (DSL) and 2-way satellite, Exec. Vp-COO David Edmondson said.

Agreement, which hinges in part on resolution of open access issue, is expected to be finalized by year-end, Edmondson said. RS will sell Excite@Home and Road Runner in markets where they are available and cable operators presumably will include AT&T Broadband, Adelphia, Charter, Comcast, Cox, Time Warner. Time Warner spokesman declined comment and AT&T officials weren't available for comment.

"Our preference would be to get to open access as soon as possible so we would be able to sell MSN [Microsoft Network] on several different transports," Edmondson said. "We may have to end up bridging between that desire and what the reality will be so that we can get into cable quickly."

If cable pact is reached, it could pose quandary since Time Warner has deal pending to be taken over by MSN arch-rival AOL. "We're in a much better position going with MSN over AOL right now because AOL is a closed network and through the history, 'open' almost always wins over closed," Edmondson said. "Open architecture is going to win. It may take a while, but if I were making bets over the long haul that's the one I would be making."

As it formally began program featuring MSN kiosks in 5,800 company and dealer-owned stores, RS remained on track to record \$100 million in residual revenues from sales of wireless, pager and other services, CEO Leonard Roberts said. Edmondson said MSN program wasn't likely to have "material" impact on revenues this fall, but would become larger factor next year. RS has been selling MSN's dial-up service, which so far has accounted for 1% of chain's overall revenue. MSN, which has more than 3 million subscribers, has added 1.5 million since start of year including 200,000 through RS, analysts said. Best Buy has accounted for 825,000 of new subscribers. New subscriber number doesn't include MSN's 4% monthly churn rate, which lowers net total to one million, analysts said.

Key to starting MSN business will be addition of Starband's 2-way satellite Internet access service and expansion of Northpoint Communications' DSL network. At start, satellite business, which also will include Hughes Network Systems' 2-way DirecPC service, will represent 65% of high-speed revenue, with DSL accounting for rest, Roberts said. If cable is added, each segment will have 1/3 of high-speed revenues, he said.

Starband's service will be packaged as PCI card with Compaq PC (\$949) at start and will carry \$300 premium, RS said. Goal is switch to external USB box in first quarter 2001 at same price, Starband said. Starband currently has 10,000 units installed as demonstration units at 5,000 RS stores and at test sites. Goal is to hit 25,000 by year-end, company said. Basic service will carry \$59 monthly fee for 400 kbps downloads. Price is likely to be \$70 for service operating at 500 kbps, said Yoel Gat, chmn.-CEO of Starband parent Gilat Satellite Networks.

Northpoint's DSL service, meanwhile, has \$39 monthly fee and, if purchased through MSN, will include free hardware and installation, RS said.

PANASONIC CABLE PUSH: Matsushita has signed 3-year agreement to build one million digital cable set-top boxes (STBs) for AT&T and said it would deliver first Panasonic-branded model by late next year.

STB, which will ship to AT&T by mid-2001, currently is designed around Microsoft's operating system (OS), but other versions are likely to accommodate MSO's recent agreement with Liberate Technologies, Matsushita Cable Group Vp Richard Strabel said. Microsoft invested \$5 billion in AT&T in 1999 in exchange for right to build OS into 10 million STBs. Matsushita is "further along" in develop process with Microsoft, but has begun discussions with Liberate, Strabel said.

STB will have 8 MB of flash, 32 MB RAM and minimum 266 MIPs processor, all of which are likely to be expanded, Strabel said. STB, which will be built at Matsushita plant in Tijuana, also will have IEEE-1394 connector and is compatible with OpenCable module. Matsushita also will make peripherals for AT&T including IP phones, fax machines, video and digital still cameras. STB also is likely to include DVD, DVD-RAM and hard disc drives in future.

Push into retail coincides with decision to move cable business under Matsushita CE group. As part of new strategy, company will ship first cable modem to retail in spring, price not set, Strabel said.

Matsushita, which has built analog STBs for Scientific-Atlanta, is moving Panasonic brand into cable market because "when you get into the digital realm it starts to make sense," Strabel said. "It also will add to our retail space." In addition to cable, Matsushita expects to deliver DirecTV receiver late this year that's being manufactured in Tijuana.

Amazon.com issued formal statement last week on controversial Sept. price test that angered customers. As we reported last month, Amazon said it already had told those who didn't receive lowest prices when buying DVDs during test period last month that they would be getting refunds (TVD Sept 18 p18). Company once again said last week that varied discounts offered during period were strictly on random basis. But for first time it released details on just how many customers were affected. Amazon said 6,896 customers were refunded average of \$3.10 after buying 68 DVD titles over 5-day period that were part of test. Discounts on those titles ranged from 20 to 40% off, company said. Although some accused it of testing based on demographics, Amazon CEO Jeff Bezos said: "We've never tested and we never will test prices based on customer demographics. What we did was a random price test, and even that was a mistake because it created uncertainty for our customers rather than simplifying their lives." It said that "in response to customer feedback, we changed our policy to protect customers should we ever do random price testing again (and currently we have no plans to do so). If we ever do such a test again, we'll automatically give customers who purchased a test item the lowest price for that item at the conclusion of the test period — thereby ensuring that all customers pay the lowest available price." Although company didn't once refer to random price test as controversial "dynamic pricing" in statement last week, one report indicated Amazon representative used that term in letter of apology sent to at least one customer.

FORMER CRAIG CEO INDICTED: Three former Craig Consumer Electronics executives were indicted last week on allegations they “cooked the books” to make company appear more profitable than it was.

Former Chmn.-CEO Richard Berger, CFO Donna Richardson and Vp-International Trade Dir. Bonnie Metz were indicted by federal grand jury in L.A. on 34 counts of conspiracy, loan fraud, wire fraud, falsifying corporate books and lying to auditors of publicly traded company.

Executives allegedly defrauded consortium of 4 banks that had granted Cerritos, Cal., company \$40 million line of credit. Berger “intentionally distorted” Craig’s inventory figures by classifying defective goods as new or refurbished and “misrepresenting” that it owned shipments of goods from overseas suppliers when it didn’t own the products or they didn’t exist,” indictment said. Indeed, Craig, which sold more than 100 different products ranging from personal CD players and car stereo equipment to TVs, VCRs and telephones, reported in 1996 that 12.3% of units shipped were returned with defects. Company blamed returns on retailers’ “liberal” return policy, but operated facility in Cal. that reconditioned products for resale.

Berger, Richardson and Metz also were alleged to have committed fraud in connection with Craig’s IBO statement in 1996 and quarterly financial reports that followed. Berger and Richardson are alleged to have created “queue” within company’s computer system where they manipulated processing of sales returns to meet daily cash flow needs, indictment said. As result, Craig exceeded credit limit by “significant amount,” court papers said. Berger also told Craig employees not to tell outside accountants of queue or improper inventory transfers, indictment said.

Michael Doyen, Berger’s attorney, said former CEO expected to “prevail at trial,” while Jay Vandeveld, Richardson’s attorney, said his client was salaried employee with “no stake in company or motive to engage in fraudulent activity.” James Riddet, Metz’s attorney, said his client “did nothing wrong” and would be “fully exonerated.”

Indictment is not first time Berger has undergone SEC scrutiny. He was one of 4 investors who supplied capital to buy Craig out of bankruptcy in mid-1980s and was investigated by SEC in 1988 on charges he improperly claimed “tax carry-forward benefits in a manner inconsistent with generally accepted accounting principles and improperly reserved for inventory obsolescence.” Berger later entered consent decree in which he neither admitted nor denied charges. Craig previously was owned by Bercor, distributor that Berger founded in 1979. Bercor sold Craig assets as part of bankruptcy proceeding.

Craig filed for bankruptcy for last time in 1997, but not before Berger and 3 other officials including Richardson and Metz had been suspended in SEC probe. Craig had tried to right itself, dropping video products in favor of CD players and boomboxes and switching reconditioning joint ventures in China after running into delays in obtaining govt. approval.

Craig brand emerged in 1950s and had distribution through about 200 retailers at time of bankruptcy filing. Best Buy had been top customer, accounting for 35% of sales in 1995, while Circuit City represented 22% of revenues in 1996. Brand was

purchased out of bankruptcy by Newtek and had been used largely as promotional vehicle, most recently for TVs and VCRs sold at Meijer chain of Grand Rapids, Mich. Craig peaked with sales of \$105 million in 1994, but fell to \$88 million following year.

Rentrak will focus on mending breaks with Warner Home Video and Columbia Tri-Star and increasing value of 3PF.com e-commerce distribution arm, new CEO Paul Rosenbaum said. Rentrak, which hasn’t distributed either Warner or Columbia Tri-Star videos for several years, has begun discussions with studios aimed at securing agreements, Rosenbaum said. Warner and Columbia Tri-Star officials weren’t available for comment. Studios had pulled out of agreements with Rentrak amid differences with former CEO Ronald Berger, sources said. Rosenbaum replaced Berger in Sept. after winning proxy battle for control of company (TVD Sept 25 p19). “I want to clean up the bad debt and get that out in the open and get past it because I think this company has a tremendously good cash flow situation,” said Rosenbaum, who declined to disclose amount of bad debt Rentrak was carrying. There also is “a great possibility” that 3PF.com will be spun off, Rosenbaum said. In addition to its distribution system, 3PF.com has technology that “is worth an awful lot of money and people haven’t stressed that,” he said. New management is seeking to retain executives including CFO Kim Cox, he said. Rosenbaum, who operates small chemical company in Mich. and owns 250,000 shares of Rentrak stock, began takeover battle in spring that escalated into lawsuits and finally shareholder vote that installed new management.

Matsushita signed multimillion-dollar agreement last week to underwrite CBS-TV’s conversion of 35 mm-film based prime-time programming to high-definition (HD) during 2000-2001 season. Pact was to start with Oct. 1 airing of *That’s Life*, Matsushita said. CBS is expected to broadcast 17 of its 18 prime-time entertainment series in HD this year, lone exception being *Walker Texas Ranger*. CBS, which is expected to carry up to 20 hours of HD programming, also has agreement with Mitsubishi for special events and sports and Thomson for NFL games. Samsung’s underwriting agreement with CBS for movies in 1999-2000 season lapsed in June and discussions since have shifted to college sports and miniseries, Samsung Senior Mktg. Mgr. Steve Panosian said. “CBS has been aggressively pursuing manufacturers in seeking agreements and they’ve made a commitment to high-definition more so than any other network,” Matsushita TV Gen. Mgr. William Mannion said. Matsushita is underwriting select programs in prime time, but not entire slot, he said. “We tried to decide what had the most value in HD and which has the greatest value to Matsushita.” For Matsushita, underwriting represents change in strategy from year ago when it provided HD production truck for broadcasts of ABC-TV’s *Monday Night Football*.

News Corp. upped ante in bid for Hughes Electronics (HE) last week, enlisting financial backing of Liberty Media’s John Malone. He agreed to more than double his stake to 18% of nonvoting stock in Rupert Murdoch’s News Corp. As part of complex deal, Malone will swap his stake in Gemstar-TV Guide International for shares in News Corp. In exchange, Murdoch gets Malone’s shares in Gemstar, raising his interest to 42%. Malone also receives 5% stake in News Corp.’s spinoff satellite company Sky Global Networks, which could be acquisition vehicle for HE’s DirecTV, sources said (see report, Bcst.-Cable section).

PALM EARNINGS INCREASE: Palm posted sharp gain in first-quarter earnings to \$17.3 million from \$9.7 million year earlier despite tight supply of components for its handheld PCs. Sales more than doubled to \$401 million.

Palm said it shipped 1.5 million handhelds in quarter, up from 600,000 year ago and increasing cumulative total to 8.7 million. Average selling price fell to \$240 from \$262 in previous quarter.

Shortage of components — flash memory, other chips and LCD screens — is expected to continue through Feb. Palm said it wouldn't be able to ship as many of its wireless Palm VIIx handhelds in current quarter because of inability to get enough of 2 needed chips. Analysts said company could have sold 50% more handhelds in first quarter if industry hadn't been hit by component shortage.

As it released financial results, Palm also signed licensing agreement for operating system with cellular phone supplier Kyocera. And it announced partnership with Motorola to co-develop and co-brand new line of smart mobile phones to be available in 2002. First phone under development is trimode GSM model. Companies said deal was extension of agreement last Dec. in which Motorola took minority equity stake in Palm.

Palm also signed lease for 500,000-sq.-ft. hq in San Jose within mile of current complex. Site was purchased from Societe Generale Financial Corp.. Palm said it expected to break ground in Oct. Palm will reserve \$220 million on balance sheet as collateral. Lease is for one year, but Palm said it planned to sign 7-year agreement in fiscal 2nd quarter.

At same time, Palm said, "Phage" virus was discovered as first to target handheld PCs. Phage, which most directly affects Palm Pilot since it has 80% share of handheld market, enters device through infrared port or Web and causes LCD screen to go blank when executed. Virus then overwrites programs with copy of itself. Infected programs must be deleted and reinstalled to eliminate virus, Palm said.

CD Warehouse ended 2-year experiment with trouble-plagued e-commerce business by shutting down Web site last week. CD Warehouse spent \$2 million on developing site, but has suffered software glitches (TVD Aug 30/99 p14) and sales have been "minimal," company said in SEC filing. Site contained "significant amount" of accounts payable "relating to" vendors, and chain obtained \$15 million revolving credit agreement (TVD Jan 3 p15) to pay site's debts. CD Warehouse had hoped to have 314 stores online by last fall, but only 35 were able to dial into Internet and upload inventory. In seeking to draft new online strategy, CD Warehouse signed alliances with CDPlus.com last fall (TVD Oct 11 p22) and Half.com (TVD April 24 p21). Latter, which counts CMGI@Ventures among its investors, sells used CDs. CD Warehouse also has undergone management shakeup with both CEO Jerry Grizzle and CFO Doyle Motley resigning in last month.

Emerson Radio's Hong Kong affiliate bought 86,300 shares of Sport Supply Group (SSG) stock in 20 separate transactions Aug. 17-Sept. 14 for aggregate \$208,515. Purchases ranged from 1,500 shares at \$2.62 to 30,000 at \$2.50. Emerson, which acquired stake in SSG in 1996, owns 3.6 million shares, 44.3% of those outstanding.

Energy Conversion Devices (ECD), blaming drop in product development and licensing revenues, reported annual loss grew to \$16 million from \$12.9 million year earlier as sales slipped to \$29.9 million from \$32.9 million. Licensing revenue, largely related to ECD's nickel-metal hydride battery technology, fell to \$3.1 million from \$4.7 million as fee from Sanyo declined to \$1 million from \$4.4 million year earlier. Decrease was partly offset by \$1.7 million license fee from Toshiba, ECD said. Product development revenue slid to \$10.4 million from \$17.2 million, in part on decline in fees from agreement with National Institute of Standards & Technology (NIST) (\$3.8 million, down from \$5.6 million year ago) to develop low-cost manufacturing system for DVDs based on ECD's phase-change optical memory technology. ECD also has joint venture with GE to design and develop its web roll-to-roll technology for high-speed manufacture of rewriteable DVDs. First products from agreement are expected in 2002, Treas. Stephen Zumsteg said. "We're going to see more and more joint venture funding for our projects as opposed to govt. funding," he said. It hasn't been decided whether NIST contract, which has year remaining, will be rolled into GE alliance, he said.

Investment group is pushing Phoenix Gold International (PG) executives to sell company and/or take it private in effort to boost stock value. N.Y.C.-based Wynnefield Capital, which controls 415,950 shares (11%), also is backing proposal to add independent director to board. "Wynnefield has been dissatisfied with the lack of effective management initiatives to create shareholder value and has frequently expressed its views" to PG management "to no avail," group said in SEC filing. Nelson Obus, who operates Wynnefield and bought first stake in PG in 1995, declined comment. PG CFO Joseph O'Brien said company was "studying the proposal." PG earnings in 3rd quarter ended June 30 increased to \$363,504 from \$335,901 despite 5.4% decline in sales to \$7.1 million. International sales plunged to \$1.8 million from \$2.3 million year earlier, while U.S. revenue edged up 0.8% to \$5.2 million. PG, which sells car audio accessories, amplifiers and speakers, has struggled in recent years. Most recently it cut 29 jobs in eliminating product line and taking \$1.1 million charge against earnings (TVD Jan 4/99 p12). In addition to consumer business, PG sells professional A/V products under Carver name, brand it acquired in 1995.

Consumer intentions on buying TV sets fell significantly in Sept. from Aug., according to preliminary data in Conference Board monthly survey. Of 5,000 households polled, 6.8% said they planned to buy TV set in next 6 months, vs. 8.4% in Aug., 6.9% in July, 7.3% in Sept. 1999. Consumer Confidence Index rose slightly in Sept. Conference Board said: "Despite higher gasoline prices this summer and the prospect of higher heating oil costs this winter, consumers remain in an upbeat mood and nothing in this latest survey suggests the economy will run out of steam soon."

Hewlett-Packard remained PC keyboard maker Key Tronic's top customer in fiscal 2000, accounting for 38% of \$164.4 million in net revenue, up from 24% of \$178.3 million year earlier. Lexmark moved into 2nd spot with 13% of sales and Microsoft slipped to 9% from 11%. Key Tronic has been hit by sharp declines in keyboard market, with unit sales tumbling 42.4% on 13.7% decline in average selling price. To offset sharp drops in keyboard business, Key Tronic increased contract design and manufacturing to 56% of revenue from 21% year ago.

PS 2 LAUNCH TITLES ANNOUNCED: Although Sony Computer Entertainment America (SCEA) will be shipping fewer PlayStation 2 (PS 2) consoles than originally expected (see separate report, this issue), Senior Vp Andrew House said last week more software titles would be available at launch than expected.

Company said last week 26 titles would be available at debut in N. America Oct. 26 and House said in conference call with reporters that "a further 24 titles or more [would be] available by the holiday season."

But one day after that announcement, in providing list of titles shipping this year and in first quarter 2001, SCEA said there actually would be "an additional 26 titles" available by holidays.

Company listed 33 games that will be available in Oct., but it didn't indicate which 26 of those would be shipped in time for actual launch. Of 33 titles listed, only one — *FantaVision* — was SCEA-published game. Rest were from cross-section of 3rd party publishers: Activision, Agatec, Capcom, Eidos, Electronic Arts (EA) and its EA Sports division, Hardcore, Infogrames, Interplay, Kemco, Koei, Konami, Midway, Namco, Rockstar Games, Take Two Interactive, THQ, Working Designs. Games listed included EA's *Kessen* and *X-Squad*, Midway's *Ready 2 Rumble Boxing: Round 2*, Capcom's *Street Fighter EX3* and Namco's *Tekken Tag Tournament*.

SCEA said "more than 10 additional titles are expected to be shipped in November and at least 9 titles in December." None listed were first party games, meaning *FantaVision* was only one of 5 SCEA titles company had said in May would be shipping this year that apparently would be arriving on time.

SCEA's list of 18 titles arriving in first quarter of next year included only one of other 4 games mentioned in May: *Gran Turismo 3*, confirming rumors that that title indeed would not be arriving in 2000 as expected.

Other 3 first party games SCEA had said in May would be available this year were *Dark Cloud*, *Extermination* (working title) and *ICO* (also working title).

Also missing from SCEA's list last week were 5 titles from its 989 Sports division that company had said in May would be available this year: *NBA ShootOut 2001*, *NCAA Final Four 2001*, *NCAA GameBreaker 2001*, *NFL GameDay 2001* and *NHL FaceOff 2001*. SCEA spokeswomen were unavailable for comment by our Fri. deadline.

Third party titles SCEA said it would ship in Nov. were: *Disney's Donald Duck Goin' Quackers*, *F1 Racing Championship* and *Rayman 2 Revolution* from Ubi Soft; *FIFA 2001 Major League Soccer* and *NASCAR 2001* from EA Sports; *Gradius 3 & 4* from Konami; *Super Bust-A-Move* from Acclaim; *The Sky Odyssey* from Activision; *Theme Park Roller Coaster* from EA; and *World Destruction League: Thunder Tanks* from 3DO.

Rockstar's *Oni* and LucasArts Entertainment's *Star Wars Starfighter* were among games listed for Dec. delivery. Acclaim Sports's *All Star Baseball 2002*, Metro 3D's *Dark Angel*

Vampire and Capcom's *Onimusha: Warlords* were among other games listed for first quarter 2001.

SCEA's House also said last week "there are 270 games currently in development for the system [and] 301 content developers [have] signed up to create games for the PlayStation 2."

Meanwhile, Sony Computer Entertainment Europe (SCEE) also provided more information last week about its PS 2 rollout. SCEE said "a total of 33 software titles would be available during the launch period, with a further 63 titles by the end of March 2001." Platform is scheduled to start in 17 countries — all EU territories plus Norway and Switzerland — Nov. 24.

PS 2 will be rolled out in Australia and New Zealand Nov. 30. SCEE said it would debut in Czech Republic, Iceland, Poland, Saudi Arabia, South Africa, United Arab Emirates and some Mediterranean countries "before Christmas."

SCEE Pres. Chris Deering said: "We will have around 500,000 units of PlayStation 2 during the initial launch period." That is same number that SCEA said it would ship during N. American start. Deering also said one million units "are planned to be produced by the end of December 2000" and 3 million "by the end of March 2001." SCEE spokesman told us Fri. that 500,000 figure Deering cited represented 17 European countries only, but million units for Dec. and 3 million for end of March represented all countries SCEE mentioned will have system by then.

Musicmaker.com laid off 30% of its staff last week in what company called "a major reorganization of its infrastructure." Global Mktg. Pres. Larry Lieberman resigned from N.Y.-based custom CD compilation and digital download company. Musicmaker Pres.-CEO Raju Puthukarai said reorganization "was not an easy decision," but was "in the best interests of our shareholders" because it "will reduce our cash burn to approximately \$10 to \$12 million per year, enabling Musicmaker.com to execute its business model more effectively." In SEC filing for quarter ended June 30, company said it had cash and cash equivalents of \$35.7 million but said last week it expected figure to drop to \$31.2 million as of Sept. 30. Reorganization, company said, will allow it "to focus its advertising and promotional activities on its content strength, specifically in the classical, jazz, Christian and Latin music genres." Musicmaker said it "will continue to maintain a strong staff in marketing, engineering, customer service and fulfillment."

Samsung began shipment of limited number of 43W rear-projection TVs based on Displaytech's ferroelectric LCD (FLCD) technology, company said. Sets, about 25 of which are expected to ship for demonstration purposes, are largely being limited to Pro Buying Group retailers at start, company said. Ultimate Electronics demonstrated first models, but Tweeter Home Entertainment and Magnolia Hi-Fi are expected to be added to distribution list this fall, sources said. FLCD sets, which feature three 0.78" displays, have been postponed several times in past, most recently in July (TVD July 31 p14), as companies sought to improve color purity and brightness. Goal is 300 lumens and 200:1 contrast ratio. While Samsung started distribution with 43W, it said it expects to add 50W by year-end.

NEW DSP UNVEILED: Texas Instruments (TI) unveiled 4th-generation programmable digital signal processor (DSP) and analog-based solution for Internet audio devices that it said delivers up to 70 hours of playtime with only 2 AA batteries.

TI said its TMS320DA250 — DA250 for short — is based on its TMS320C55x core, which it said extends battery life up to 50-70% more than competitors' chips. Company also said D250, which it will be showing at Internet Music Xpo in L.A. this week, is first chip for portable devices to feature embedded USB capabilities.

Meanwhile, Samsung is latest manufacturer to throw support behind TI. Samsung Electronics Personal Network Gen. Mgr. S.S. Kim said his company "has chosen TI's DA250 solution for our next-generation Internet audio player."

Before Samsung announcement, LG Electronics said in late Aug. it had chosen TI's new DSP for its MPFree PD-370 Internet audio player, due to ship late this year.

Other manufacturers that have used TI's previous DSPs have been JVC, Sanyo, Sony, Thomson, Toshiba. TI said more than 30 portable audio players, including RCA Lyra and Sony Music Clip, already use TI's DSPs. In addition to portable Internet audio devices, TI's DSPs have been used in camcorders, cellphones, digital still cameras, PDAs.

DA250 chip, which is about size of dime, supports most digital audio formats, including AAC, ATRAC-3, MP3, Real Networks's G2, Windows Media.

TI also said DA250 was first DSP with dual Multiply and Accumulate Chip (MAC) for Internet audio market. It said DSP gave manufacturers ability to update features and functions via easy software download rather than upgrading internal hardware.

Company said it expected DA250 chipset to be ready for evaluation by manufacturers in early 2001 and would go into volume production in 2nd quarter. Pricing will start at \$10 in quantities of 250,000 or more, TI said.

First version of DA250 will be 0.15u, but 0.13u version will arrive later in year that will drop power requirements down another 50%, company said.

By Christmas 2002, TI expects it will be able to offer DSP allowing up to 200 hours of battery time, Internet Audio Business Vp John Van Scoter told us last week. He said company was boosting its strength in Internet audio arena largely because of tremendous growth it saw already happening in category. Company pointed to analysts' projections that installed base of portable digital audio players was expected to hit 5 million by end of this year and that digital music downloading was expected to add \$1.1 billion to U.S. music industry by 2003. Van Scoter said broadband was needed for category to reach its full growth potential over next few years because of slow download speeds most people have today. TI said it had 48% DSP market share last year.

Home video publicity firm DKPR has moved to hq near L.A. from Philadelphia area, said principal Dana Kornbluth (818-889-9741, dkpr1@aol.com). Firm handles A&E Home Video, Monarch Home Video, BMG's DVD lines.

RadioShack (RS), slowed by building permit process, has postponed completion of new store format in Tucson to Nov., Exec. Vp David Edmondson said. RS had expected to complete renovations to 17 stores in Tucson area by Sept. New format adds 300-400 sq. ft. to standard 2,500-sq.-ft. outlet to include section for making online purchases (TVD June 5 p15). New format divides store into 4 segments, with "Destination Zone" at back of store for RS-branded parts, accessories and batteries and "Connecting Places" section for A/V and PC products. RS plans to expand format to 20-store market in Southeast U.S. in 2001, said Edmondson, who declined to identify location. RS also will begin sales of Verizon national cellular service Nov. 1 and add 8' sales section to stores alongside Sprint PCS in first quarter 2001, Edmondson said. RS signed 10-year agreement with Verizon earlier this year (TVD Aug 7 p15) as it consolidated cellular business that once featured 42 different providers.

Despite fact that PlayStation 2 (PS 2) supplies won't equal demand when system debuts Oct. 26 in N. America, Sony Computer Entertainment America (SCEA) said last week it nevertheless would go ahead with major marketing campaign to support new platform. SCEA said it would be providing "wide-ranging marketing support" for system that "will include extensive advertising efforts," including print, TV, movie theaters and online, as well as "promotions, sponsorships, direct and channel marketing." TV ads will be run in such shows as *The Simpsons* and there will be promotions tied into Super Bowl. Sony in-theater trailer will feature PS 2's launch library. Company said it also would be testing waters by promoting PS 2 via such "underground" sponsorships as Raveworld tour. It didn't reveal expected cost of marketing campaign. (See separate reports, this issue.)

Eastman Kodak stock plunged more than 20% last week as company warned investors that 3rd-quarter revenue would fall \$200-\$300 million short of internal projections. Stock fell 21% to \$42.25 Sept. 26 on news of shortfall and ended week at 40-5/16. Part of problem was that retailers have been trimming film inventories. Kodak also suffered from weak Euro and higher costs for raw materials. "It's a broad-based weakness across our product lines," CFO Robert Burst told analysts in conference call. Some analysts suggested that weakness in film business indicated consumers crossing over to digital cameras. While film sales have been flat for year, digital cameras, which use media cards, have shown sharp growth, retailers said.

Philips is expected to show latest version of LCD technology it's developing with Rainbow Displays at CEATEC Japan (formerly Japan Electronics Show) this week. Companies have designed 37.5" display that fuses 19" LCD panels. It has 500 candelas and 200:1 contrast ratio, sizable increases from 150 candelas and 150:1 contrast when companies unveiled agreement last fall (TVD Nov 15 p16). It also has pixel response time of less than 25 milliseconds... Toshiba has developed 7.7" low-temperature polysilicon LCD designed for eBook devices. Display has 640x960-pixel resolution, 250:1 contrast ratio, 70 candelas, 40 millisecond response time. Volume production is scheduled for early next year with sample priced at \$935.

Warner slashed DVD prices in Japan to capitalize on growth of market and player population there since spring, when Sony introduced PlayStation 2 videogame console with DVD-Video playback. All Warner DVDs in Japan now carry \$23.39 sticker that was applied to some key titles earlier this year. DVD movies typically start about \$10 higher in Japan than in U.S.

ROXY MAKES WIRELESS PUSH: In latest sign that electronics e-tailers are recognizing growing possibilities in wireless market, Roxy.com said last week it had acquired "key assets" of Boston-based online wireless products retailer and resource guide Globile.com.

As part of deal, Roxy said it had acquired all rights to Globile.com's registered, opt-in customer and e-mail databases, as well as proprietary interactive tools to help online consumers research and select wireless devices that best meet their needs.

Globile.com's customer data and online tools will be used by Roxy's Miramar, Fla.-based Everything Wireless (EW) division "to bolster marketing efforts for its personal communications product line, Roxy said. Globile.com's online traffic has been averaging 120,000 unique visitors per month, Roxy said, and those visitors will be "channeled automatically and seamlessly" to Web site www.everythingwireless.com. Before deal, EW had been product and information licensing partner with Globile.com for almost 2 years.

Meanwhile, EW Mobile Commerce Dir. David Hugglestone told us his company, by end of this week, will be allowing its customers using Wireless Application Protocol (WAP)-enabled mobile phones to gain access to "scaled-down" version of EW store to buy select items. Purchases will be able to be handled in secure fashion thanks to deal EW has forged with CardVerify, Hugglestone said. He also said company was "working on a much larger-scale application" to allow customers using additional mobile devices, such as PDAs, to shop at actual EW Web site. That could happen as early as "in the first quarter of 2001," when company hopes to have wireless portal "fully operational," he said. Hugglestone said company's "long-term goals" call for its consumers to "not only [gain] access to our store but also [to] value-added content" such as wireless games.

Majority of e-tailers we spoke with in recent weeks said their companies hadn't yet come up with plans to communicate with and sell products to their customers via mobile phones and PDAs. For example, HiFi.com spokeswoman told us her company "didn't have the capability at the moment," saying that mobile commerce was "more prevalent in Europe," where protocols were more standardized than in U.S.

Amazon.com is among minority that already has made major effort to push into mobile commerce via its Amazon Anywhere division, which it started in Oct. 1999. Last month, it began Mobile Auctions wireless service that offers mobile alerts for Amazon Auctions to customers via mobile phones.

Amazon also is offering wireless customers ability to actually search for products via version of its Web site specifically designed for wireless devices. Amazon Anywhere Gen. Mgr. Nayeem Islam said company started mobile initiative year ago, when it began selling Palm VII. Because Palm VII offers its users ability to sign up for wireless communication service, Amazon.com saw obvious opportunity to reach instant audience.

Explaining why company decided last year was right time to enter mobile arena, Islam said: "One of the things that we knew is that eventually the protocols for delivering content to wireless devices — particularly cellular phones — is going to get standardized and that we would open up a huge segment of customers for us both in this country and internationally."

Islam said he expected more customers to use wireless devices for shopping as more people are connected with them. But he said company understood right away that consumer behavior in mobile world was "going to be different from what is on the PC." Islam said it was clear that "time-sensitive application," such as item being auctioned, was one that "is very highly suited for these devices." He added: "Since these devices are with our consumers at all times, we are able to reach our consumers and provide a better experience for them. They have an opportunity to check on their order status, for example, wherever they might be."

Islam said Amazon would continue to look for ways to "exploit the channel." He said one key thing company is looking to take advantage of is "personalization," saying that what's "going to be a huge factor [particularly] on these cellphones is there isn't much real estate to play with." Therefore, "personalization becomes even more critical on these phones," where if Amazon can "tell you in 4 lines what the things that you may be interested in are, then I think your shopping experience is greatly enhanced." That's especially true, he said, because navigation through phone menus is such problem issue. "The more we personalize, the easier we make it for our customers to get to the items that we think they need to get to have a complete wireless shopping experience," he said.

Aberdeen Group Senior Analyst Riddhi Patel said that at this point at least some "consumers have started using mobile devices to browse the Internet" in some form. While "the current applications that they are using it" for are things such as "stock trade, news, weather and stuff like that," she said "shopping I don't think is far behind." But she said type of shopping that those consumers might want to be able to do with their mobile phones and PDAs would tend to be considerably different from traditional type of shopping most consumers currently engage in online. Echoing Islam, she said "applications that would be popular or companies that would succeed are the companies who are able to push location and time-sensitive information." Although traditional shopping may be done on some level with wireless devices, Patel said she thought it would be limited to situations in which consumers know exactly what they want to buy.

But Patel predicted that "it will take at least a couple of years — anywhere from 18 to 24 months" — before most online retailers make jump into mobile arena. "The infrastructure," in U.S. anyway, "is not ready" yet, she said. Before then, numerous obstacles have to be overcome. Patel said issues include lack of end-to-end security, blocked connections, small number of areas that PDA services can be used in.

Borders Books & Music is rolling out Web-based interactive kiosks to its stores that allow customers to search for books, music and DVD/VHS titles from more than 400 subject areas. Kiosks are being supplied by Netkey, which demonstrated them at National Retail Federation Conference in San Diego last week.

Macrovision increased equity in digital watermark specialist Digimarc to 12.5% from 7%, companies said. Philips also is Digimarc investor and 3 companies constitute "Millenium Group" that's working toward digital copy protection and playback controls for DVD and electronic distribution of video.

PS 2 TAKES CENTER STAGE: PlayStation 2 (PS 2) easily managed to overshadow other videogame platforms at Sept. 22-24 Tokyo Game Show, where games and accessories for Sony's new platform grabbed much of spotlight.

On other hand, noticeable absence of Sega — whose Dreamcast hasn't performed quite as well as company had banked on, especially in Japan — was perhaps biggest surprise of show. Also failing to make appearance at show was game-maker Square.

Although Microsoft appeared at show as console maker for first time, it didn't offer much by way of actual product demonstrations. Instead, Microsoft's biggest news, as we reported last week (TVD Sept 25 p15), was announcement of more than 150 game makers that have agreed to support Xbox.

Meanwhile, reports indicated that Nintendo attracted attention of show attendees mostly for its upcoming next-generation Game Boy Advance handheld machine, although there wasn't any major news on that front.

Of course, with Tokyo show following key announcements made at March's Game Developers Conference (TVD March 13 p11), May's E3 (TVD May 15 p12) and Aug. Spaceworld (TVD Aug 28 p10) shows, there wasn't anything new on hardware front left for companies to unveil at this point. Instead, much of excitement left for attendees was their chance to see new PS2 games like *Onimusha*, *Ring of Red*, *Shadow of Memory*, *Sileni Hill 2*, *Sky Gunners*, *Zone of Enders*.

New accessories unveiled at show included 10", USB "GT Force" force feedback steering wheel for PS2 from Logitech that represents Swiss company's entrance into console market. Steering wheel was designed to be used with upcoming *Gran Turismo 2000 A* racing game. Logitech said it will start shipping accessory in Japan this winter following release of Polyphony Digital's game. Logitech didn't announce pricing.

Other accessories coming for PS2 include digital camera that can be used to insert photos onto faces of characters in game titles. Camera will start shipping in Japan on Oct. 20 at ¥99,800 (about \$924), a Japanese news report said, adding that special printer can be used to print composite images created with camera. Report also said that by connecting camera to computer, images can also be transferred from NTT DoCoMo's Internet-capable cellular phone "i-mode" service free of charge. Plans for U.S. market were unavailable at our Fri. deadline.

Another Japanese press report said exhibits related to i-mode represented 4% of all displays at this year's show.

Artisan Entertainment announced new group to find and finance online ventures and other high-tech projects. Studio said group would be called Artisan Digital Media and would draw from \$50 million iArtisan fund to make new-media investments.

GrandeTel narrowed 2nd-quarter loss to \$1.2 million from \$1.5 million despite taking \$900,000 loss on sale of 447,667 shares of Nakamichi stock. Sales slipped to \$1.2 million from \$1.4 million. GrandeTel retains 8.5 million shares (8% of those outstanding) in Nakamichi.

DVD LINE AIMED AT GAMERS PLANNED: Vivid Video is "planning a whole line of [softcore] titles" with interactive features not found on most DVDs on market today, spokesman for Van Nuys, Cal., adult entertainment company told us last week.

In that vein, company recently started shipping softcore *Interactive Mind Teazzer*, featuring interactive puzzle game, at \$34.99 in move it hoped would appeal to more mainstream audience than its usual hardcore adult videos. Spokesman pointed out that title — like all DVDs — can be used on Sony's PlayStation 2 (PS 2) videogame console, shipping Oct. 26, and company is hoping title will appeal to many of same 18-35-year-old males who will be buying PS 2.

Vivid already has shipped other videos featuring same sort of "interactive body parts" puzzle.

Spokesman said softcore versions of its titles allow company to better compete against Playboy videos and stand better chance of reaching mass consumer base because major, mainstream retailers such as Tower Records and Virgin Megastores will carry them, but not hardcore.

Although company already is shipping *Interactive Mind Teazzer* in U.S., spokesman said company had yet to find U.K. distributor for title.

Vivid said puzzle games use development authoring technology developed by L.A.-based Dogfish Interactive that allows customer to use DVD player's "select" button to pull together images or puzzle pieces on screen. In case of Vivid's videos, pieces are body parts of actresses who appear in company's movies. When pieces are pulled together correctly, user gets access to scene featuring that star. Although Vivid is best known for its hardcore pornographic titles, it was one of first to ship DVDs that made use of format's multiple camera angle possibilities.

OfficeMax and Wal-Mart agreed to pay combined \$375,000 to settle allegations that they violated Mich. law by failing to put price tags on individual items at some stores. Investigation by state revealed that 10 Wal-Mart and 9 OfficeMax outlets had failed to comply with state law. Wal-Mart and OfficeMax will pay \$250,000 and \$125,000, respectively. Half of each penalty will be waived if investigators find stores have complied with state pricing law. Each retailer also will pay Mich. \$25,000 to cover costs of investigation.

EMusic.com signed digital music distribution agreement with HitDisc.com, Irvine, Cal. HitDisc will distribute select content from EMusic's catalog via Zapdisc Network, self-contained interactive music distribution system that allows consumers to create traditional or custom CDs. Network includes fully automated kiosks with CD production and dispensing unit, 42" screen capable of displaying video ads, payment device, secure content server, selection touch screen.

THIS WEEK'S YEN RATE

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

Consumer Electronics Personals

Changes at Sharp: Steve Search departs Home Digital Div. as mktg. dir., plans unknown; **Chris Cudina** resigns as Home Digital Div. assoc. sales & mdsg. dir., joins Samsung; **John Kelly**, sales & mktg. vp, promoted to senior vp... **David Grooms**, Kyocera America and Mexicana pres., resigns, replaced by **Kyocera America Sales Vp Robert Whisler**... **Randall McCurdy**, ex-RePlayTV, named vp-RespondTV... **Keith Hartley**, Hartley Capital Advisors managing partner, elected to Universal Display board... **Andrew Savadelis**, ex-Anadigics, named eMagine CFO, succeeding **Edward Flynn**, who remains vp-finance & operations... **Daniel Sescleifer**, ex-Solutia, joins Energizer Holdings as CFO, replacing **Daniel Corbin**, retiring... **Frank Chiodo**, ex-GoDigital Networks, named mPhase Technologies regional sales mgr... **Steven Buhaly**, Planar medical business vp-gen. mgr., promoted to vp-CFO... **John Harper**, ex-Hedstrom, named ToysRus.com international managing dir... **John Reagan**, ex-MGM Home Video, joins NetFlix as gen. counsel... **Louis Borders** resigns as Webvan chmn., replaced by CEO **George Shaheen**; CFO **Robert Swan** promoted to COO.

Larry Lieberman resigns as Musicmaker.com global mktg. pres., plans unknown... **Ken Appel**, ex-Siemens, joins MobileToys.com as vp-mktg.; **Todd Larrabee** advanced to vp-customer experience... **Jeffrey Soinski**, Mad Dogs and Englishman CEO, and **Daniel Woods**, CapitalThinking.com chief technology officer, elected to BigStar Entertainment board, replacing **Marlene McDaniel**, Women.com CEO, and **Will Lansing**, NBCi.com CEO... **Michael Capellas**, Compaq CEO, adds chmn. title, succeeding **Benjamin Rosen**, who becomes chmn. emeritus... **Bruce Claflin**, 3Com pres.-COO, to be promoted to CEO effective Jan. 1, replacing **Eric Benhamou**, who will remain chmn... **Hector Negroni**, ex-Honeywell, joins VideoChip Technologies as CEO... **Joel Schoenfeld**, ex-BMG Entertainment and onetime RIAA gen. counsel, elected a dir., TouchTones Music Corp., supplier of music-on-demand digital jukeboxes.

Jane Clarke, formerly vp-market research at Time Warner's Book-of-the-Month Club, joins Warner Music Group as senior dir.-market research... **Eduard Will**, Boca Research board member, named CEO, succeeding **Robert Ferguson**, who remains chmn... Promoted to vps at Nintendo of America: **Richard Flamm**, legal and gen. counsel; **Hiroshi Kamada**, engineering & quality control; **Rick Landry**, distribution; **Yoshio Tsuboike**, publications; **Perrin Kaplan**, corporate affairs... **Mary Bell** appointed Blockbuster vp-investor relations.

Interactive Imagination (II) said it closed on its initial round of financing with \$2 million. Seattle entertainment development company said individual investors had provided funds for development of its "Magi-Nation" franchise and it now was looking for institutional and venture capital partners "to propel the next phase of the company's growth." Additional funding will be used for marketing, sales and working capital, II said. As we reported (TVD Sept 4 p17), company unveiled its Magi-Nation line at Wizard of the Coast's GenCon gaming event in Milwaukee. II said it already had received purchase orders, although spokesman said last week it was too early to provide names of retailers who would be carrying Magi-Nation products. First product in company's line is Magi-Nation Duel, collectible role-playing card game that starts shipping Oct. 23. It will be followed by Game Boy Color game in first quarter 2001. II said license also would be extended to action figures, comic books and storybooks later 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
Corel			
2000-9 mo. to Aug. 31	117,137,000	(46,764,000)	--- ^a
1999-9 mo. to Aug. 31	182,119,000	12,134,000	.20 ^a
2000-qtr. to Aug. 31	36,357,000	(10,745,000)	--- ^a
1999-qtr. to Aug. 31	71,312,000	17,594,000	.28 ^a
Emmis Communications			
2000-6 mo. to Aug. 31	209,588,000	22,549,000	.39 ^a
1999-6 mo. to Aug. 31	153,881,000	1,457,000	.05 ^b
2000-qtr. to Aug. 31	109,069,000	16,638,000	.31 ^a
1999-qtr. to Aug. 31	81,529,000	1,216,000	.04 ^b
Energy Conversion Devices			
2000-year to June 30	29,979,000	(16,656,000)	---
1999-year to June 30	32,972,000	(13,778,000)	---
GrandeTel Technologies^c			
2000-year to July 31	1,225,000	(3,300,000)	---
1999-year to July 31	1,469,000	(2,205,000)	---
Micron Electronics			
2000-year to Aug. 31	499,961,000	23,065,000	.24
1999-year to Sept. 2	333,067,000	13,715,000	.14
2000-13 wk. to Aug. 31	1,556,216,000	41,543,000	.43
1999-13 wk. to Sept. 2	1,437,829,000	36,524,000	.38
Palm			
2000-13 wk. to Sept. 1	400,976,000	17,275,000	.03
1999-13 wk. to Aug. 27	176,505,000	9,658,000	.02
Research In Motion			
2000-6 mo. to Aug. 31	69,619,000	(1,237,000)	---
1999-6 mo. to Aug. 31	35,477,000	4,109,000	.06
2000-qtr. to Aug. 31	42,521,000	(1,625,000)	---
1999-qtr. to Aug. 31	19,278,000	2,322,000	.03
uniView Technologies			
2000-year to June 30	9,145,705	(10,863,875)	---
1999-year to June 30	11,486,058	(6,297,353)	---

Notes: ^aIncludes special credit. ^bAdjusted. ^cIn Canadian dollars.

Personal Video Recorders (PVRs) had sold 60,000 units via retail through Aug., NPD Intellect Analyst Thomas Edwards said. Category's peak was last Dec. when 10,700 were sold, but it picked up in Aug. (8,200) after declining to 5,000 in July from 6,800 previous month, Edwards said. TiVo PVRs accounted for 71% and 80% of retail dollar and unit sales, respectively, in Aug., ReplayTV representing rest, Edwards said. Sales don't include PVRs ReplayTV has sold through Web site under own brand. PVRs with 20 GB or larger hard drive have been stronger sellers with average retail of \$420, Edwards said. Smaller 14 GB models have had \$250-\$270 average selling price, he said. Matsushita, which began selling ReplayTV product in April, introduced 60 GB model (\$799) last week to compete with Philips-branded unit sold for TiVo service. PVR has drive designed by Quantum but built by Matsushita. PVR with similar capacity that ReplayTV is selling through Web site uses Maxtor drive. ReplayTV also signed agreement with Coca-Cola for latter to run banner ads on service, but goal eventually is to offer interactive spots. To further burnish name, ReplayTV also will supply PVRs as prizes in McDonald's promotion in Oct... **Thomson Multimedia** is building combo TiVo personal video recorder/satellite receiver for British Sky Bcstg.'s service in U.K. Device will be sold through Dixons, Currys and other select retailers under Thomson's Scenium brand. PVR/receiver, which has capacity for recording up to 40 hours of video, will carry \$580 price along with \$14.60 monthly fee or \$290 one-time "lifetime" payment. Thomson has no plans to market TiVo product in U.S., spokesman 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

EDITORIAL, ATTACK RULES suspended by FCC. Broadcasters still want total ban. New public interest rationale cited. (P. 1)

AOL-TW AND CHIEF CRITICS trade charges in FCC filings, House hearings, public appearances. Microsoft emerges as factor. (P. 2)

ALLIANCE DISAPPOINTED with station free-time offers, but broadcasters say they should get more credit. (P. 4)

CABLE, RIVALS SPAR over program access rules. DBS, others oppose cable exclusivity. Cable claims 'vigorous competition.' (P. 5)

BIPARTISAN FUSS AT HEARING on White House antidrug ad plan. 'Increasingly sad situation' claimed. Fraud seen possible. (P. 6)

OPEN ACCESS FIGHT depends on definitions, court argument indicates. Cable or telecom decision called crucial. (P. 7)

FCC SUSPENDS EDITORIAL AND ATTACK RULES: Still-divided FCC suspended political editorial and personal attack rules through election season and told broadcasters to report by early Feb. on effect of action. Commission plans to use information to update record before making decision required by U.S. Appeals Court, D.C. In order, Commission majority also suggested alternative to spectrum scarcity rationale for broadcast regulation, saying anyone using public property free should be willing to accept some public interest obligations.

Broadcasters again will ask court to vacate rules, charging FCC failed to carry out court's mandate that it justify retaining them, RTNDA Pres. Barbara Cochran said. She said FCC order unfairly shifted burden of proof to broadcasters, and suspension was for "a meaningless time period" because broadcasters wouldn't have enough time before election to prepare "thoughtful and thorough process" to begin editorializing: "This is not a very fair test of what would happen." Cochran also said FCC order could have effect of coercing broadcasters' speech, and effort to justify new public interest obligations was "really out of bounds."

Suspending rules for 60 days will allow FCC to collect data to support future decision, Democratic majority said. It asked broadcasters and others to report on how many more editorials and attacks were aired in current election campaign and remaining time afterward, saying that without suspension it would be impossible to gather unbiased evidence. However, Republican commissioners said suspension would put undue pressure on broadcasters to carry political editorials, because otherwise it would appear that rules weren't chilling speech. "This clever device presents the danger of government coercing political speech in the final innings of a major national election," Comr. Powell said in dissent.

Positions of commissioners could be considered contradictory, one observer said — Republicans who wanted to end rule opposed suspending it, while Democrats who wanted to keep rule voted to suspend it. Others noted that majority

Consumer Electronics

SONY, PIONEER READINGY 'DVR-BLUE' HDTV-quality rewritable optical disc, reportedly also with Philips. Japan's CEATEC show sees demonstration. (P. 10)

WARNER LISTS DVD-AUDIO SLATE of 7 titles for release Nov. 7 at \$25, with 24 more in wings. Discs shipping already from independent 5.1 Entertainment. (P. 12)

THOMSON PULLS OUT OF CES at LVCC in Jan., citing costs, changed retail base, but will have small exhibit at Mandalay Bay hotel. (P. 13)

DVD NEARS WATERSHED 10-MILLION installed base that defines mass-market acceptance, Warner's Nickerson tells DVD Forum. (P. 13)

MAXTOR, QUANTUM TO MERGE to form company that will have dominant share of hard-drive market for personal video recorders. (P. 15)

was ready to issue order by court-imposed Sept. 29 deadline, but was delayed while minority wrote dissent. Comr. Furchtgott-Roth, other dissenter, also said it was hard to understand why FCC acted now when it could have done so more than year ago if Chmn. Kennard had decided earlier not to recuse himself. He said conditions affecting recusal hadn't changed in interim.

NAB Pres. Edward Fritts said it was "outrageous" that FCC didn't discard rules entirely: "It is equally astonishing that the FCC would consider reviving the Fairness Doctrine. We are saddened that politics takes a higher priority than the Constitution. We hope the court quickly puts an end to this charade." Media Access Project Chmn. Andrew Schwartzman, who supports rules, said decision was "the wrong result for the right reason." He said new data gathered during suspension would be nice, but cost of gathering data "outweighs the possible benefits." He predicted broadcasters wouldn't carry many editorials or personal attacks during suspension, "but there undoubtedly will be some isolated instances, and that is unfortunate and illegal."

In suggesting that there was good rationale for extending public interest obligation to include not only editorial and attack rules, but also version of Fairness Doctrine, Commission said broadcasters received right to exclusive use of public property, even though others would use it if they were allowed. Majority said FCC was required by statute to get "fair return from each broadcaster" for use of public spectrum, and DBS operators were required to pay for spectrum in auction as well as set aside 4% of spectrum for noncommercial educational programming: "Broadcasters have obtained their spectrum for free and are not subject to such a set-aside requirement."

Powell adamantly rejected new justification for public interest obligations, saying demand for spectrum always would exceed supply, as long as it was free, so majority was suggesting it would be allowed to regulate speech "for time immemorial." He said majority also mistakenly limited its market definition to broadcasting, ignoring impact of DBS, cable, Internet and others on ability of anyone to speak: "It seems we recognize other media outlets as 'voices' when it enhances our regulatory power, but discount them when it restrains it."

Existing record on whether to retain rules is "stale and devoid of empirical evidence," majority said in justifying suspension and request for new information. It asked broadcasters and others to provide information on how much previously prohibited broadcasting occurred, in what circumstances, whether response time was offered, how burdens could be reduced.

FCC action came 2 days after broadcasters told U.S. Appeals Court, D.C., it should act by Oct. 9 to end personal attack and political editorializing rules because Commission wouldn't act quickly enough. In court filing, NAB and RTNDA said FCC had failed to meet Sept. 29 deadline for action and said even if agency acted now, it would only begin proceeding to update record, meaning "the Commission could not meet its burden for another lengthy period of time." Court shouldn't wait, they said, because "each day these challenged rules are in effect during the heart of the national electoral season — the most important political months of every four-year election cycle — further infringes on the broadcasters' and the public's First Amendment rights." Court should "compel" FCC to "repeal permanently" the rules, NAB and RTNDA said. They said "outrageous" 20-year delay in repealing rules justified immediate writ of mandamus.

In filing with appeals court, FCC said judges shouldn't issue writ of mandamus sought by broadcasters because Commission had acted and court should do so only in extraordinary circumstances. Commission said suspension would allow broadcasters to editorialize during season when it's most important, so no immediate court action was needed.

AOL-TW AND CRITICS OF DEAL TRADE CHARGES: AOL and Time Warner (TW), still seeking to fend off tough regulatory restraints on their pending deal, have taken offensive against such leading critics as Disney, Microsoft and Yahoo in their latest filings with FCC and in public appearances. In particular, AOL is targeting rivals for first time, charging that handful of major companies are seeking to block transaction simply for their own competitive advantage. "A handful of companies — most conspicuously Walt Disney Co. — have argued that AOL Time Warner will harm competition by discriminating against nonaffiliated program providers or unaffiliated ITV [interactive TV] providers in the provision of video and interactive services," AOL and TW said in letter to FCC released Oct. 3. "These contentions lack a grounding in fact and the related requests for Commission action lack any basis in law."

AOL officials also warned lawmakers and regulators of Microsoft's history of anticompetitive behavior. In recent submissions to FCC and appearances before Congress and on public panels, AOL executives raised specter of Microsoft's taking over instant messaging (IM) market same way it took over Internet browser market from Netscape. "We may be seeing a replay of what has gone on before," said George Vradenburg, AOL senior vp-global & strategic policy, speaking at Oct. 2 merger forum sponsored by American U. He argued that Microsoft, with estimated 18 million

registered users for its rival MSN Messenger service, would greatly expand its customer base soon by bundling MSN Messenger into latest version of its Windows operating system.

Move came as Microsoft, despite its consuming antitrust battle against federal govt., emerged as important factor in regulatory wars over AOL takeover of TW, belatedly joining such other major critics as AT&T, Disney, NBC, RCN, BellSouth and SBC. Over last 2 weeks, Microsoft executives and outside lawyers quietly have lobbied FCC officials for conditions that would force AOL to open its 2 IM services to competitors sooner rather than later. In several ex parte filings, Microsoft and its Washington law firm, Covington & Burling, have flooded Commission with calls, letters, newspaper articles and financial analyst reports warning of AOL's domination of rapidly growing IM market and its alleged efforts to frustrate attempts to develop interoperability standard for entire IM industry.

Move also came as EMI Group and TW formally called off their proposed \$20 billion joint venture to combine their music recording and publishing businesses after European Commission (EC) indicated that it still had doubts about deal and didn't have enough time to review it adequately before Oct. 18 deadline. TW and EMI said, however, that they were continuing discussions with each other, EC and other regulators to draft new pact that would be "acceptable to all parties." Sources close to companies said they hoped to produce new agreement before end of year and submit it to EC for quick approval. With EMI deal dead at least for now, observers believe path has been cleared for EC approval of AOL-TW deal because many of European regulators' concerns about combination of EMI, TW and AOL revolved around new company's domination of online music market.

In their latest FCC submissions, AOL and TW challenged agency's authority to impose conditions on combined company's interactive TV and IM services. AOL and TW argued that FCC couldn't require cable operators to provide "return path" to Internet for rival content providers, dismissing charges by Disney and other critics that interactive cable systems could act as discriminatory "bottleneck" against outside content. "Indeed, any such requirement would, in effect, be the imposition of what amounts to 'Internet must-carry' obligations — i.e., governmentally mandated free Internet access service," AOL and TW said in 9-page letter.

In separate 15-page letter to FCC also released Oct. 3, AOL said Commission lacked jurisdiction to regulate IM services, even under agency's broad public interest authority. Rejecting arguments by Microsoft, Yahoo, Prodigy and other IM rivals, AOL said IM should be treated as unregulated "enhanced" or "information" service, not regulated "cable" or "telecom" service. It also said FCC's potential intervention in industry battle over IM interoperability standards "would represent an unprecedented leap into regulation of the Internet and information services," reversing 30 years of federal govt. policy.

In meantime, deal's critics stepped up their assaults on ISP open access, interactive TV and IM issues. NAB executives wrote to FCC Chmn. Kennard and FTC Chmn. Pitofsky, urging both agencies to adopt open access provisions for unaffiliated service and content providers as well as independent ISPs. Nearly identical 3-page letters argued that such conditions would prevent discriminatory treatment by AOL-TW and protect interests of consumers. "To achieve this goal, the Commission should extend the basic principle of open access beyond Internet access so as to include such services as instant messaging, EPGs [electronic program guides], and digital and interactive television," said letters, sent as federal regulators weighed imposing open access conditions on interactive cable set-top boxes as well as cable modem services.

Preston Padden, Disney exec. vp-govt. relations, railed against AOL-TW's alleged control of nascent interactive TV market in Oct. 2 merger panel discussion at American U. "One company will own a bottleneck pipeline to your home and also own much of the content going through that bottleneck," he said, reminding audience that TW kicked ABC off many of its cable systems in big retransmission consent dispute in May. "If there were 3, 4 or 5 interactive television pipes into the home, we'd be out there competing. But there's only one interactive TV pipe into the home and it's about to fall into the control of a vertically integrated company."

In most recent Microsoft-inspired filing last week, Covington & Burling attorneys Gerard Waldron and Erin Egan wrote to Kennard charging that "AOL has repeatedly blocked attempts by other IM competitors to achieve interoperability" with its AOL Instant Messenger service while secretly working toward interoperability with its other ICQ service. Microsoft lobbyists and their allies at AT&T, RCN, Yahoo and other IM players also told regulators that AOL's estimated 80% control of IM market would "have a tremendous impact... on the bottom line of AOL and other Internet companies" even though service is offered free to consumers. Citing recent Lehman Bros. report assessing value of AOL's IM assets at \$5.8 billion, they stressed "the stickiness of IM and its ability to drive traffic and brand awareness."

Several merger opponents also converged on House Telecom Subcommittee Oct. 6 to renew their calls for imposition of open access for ISPs to cable systems, IM and interactive TV conditions on pending corporate marriage. Disney and

iCast executives led assault on AOL-TW at hastily arranged 2nd merger hearing, organized in last 10 days after leading panel Democrats loudly complained that first hearing featured only AOL Chmn. Steve Case and Time Warner Chmn. Gerald Levin (TVD Oct 2 p2), not any rivals or critics.

iCast Pres. Margaret Heffernan blasted AOL for not moving quickly to make IM interoperability reality despite its repeated public pledges. Citing AOL's lack of submissions to Internet Engineering Task Force (IETF) working on interoperability standards, Heffernan said she doubted company's commitment to adopting standards. In Feb., she said, AOL deliberately "blocked interoperability with our product" within 2 days after iCaster was launched, even though she asked company to not block it "as a gesture of good faith." She said govt. should make AOL live up to its commitment and set "a hard and fast date" for achieving interoperability.

Circuit City Stores Exec. Vp John Froman supported open access, but mostly focused on DTV-cable compatibility issues, criticizing cable for blocking development of competitive digital cable set-top boxes through "discriminatory" technical specifications and for unfairly subsidizing cost of its own digital set-tops. He also criticized cable and movie industries for promoting "restrictive, anticonsumer licensing terms" that would impose strict recording limits on viewers of digital programming.

At same time, AOL-TW submitted new filing to FCC in response to regulators' concerns about merged company's ownership ties to AT&T. In their 13-page letter to Cable Bureau Chief Deborah Lathen released Oct. 6, 2 companies argued that their proposed marriage will have "no effect on the limited existing relationships" between AT&T and TW because union "creates no new AT&T link to Time Warner" and "the addition of AOL does nothing to affect the preexisting — and FCC-approved — AT&T ownership interests in TWE [Time Warner Entertainment]." AOL and TW also contended that their merger "creates no relevant 'AT&T connection'" that would hamper video programming, cable telephony or high-speed data competition. They said deal "will have no incremental effect on any commercial negotiations" between merged company and AT&T about latter's 25.5% stake in TWE, which many industry analysts expect AT&T to sell back to TW.

FREE TIME DISPUTED: Although plans for broadcasters to provide free time or election coverage continued to roll in last week, critics said they still were disappointed at amount. However, broadcasters said they weren't getting full credit for all they were doing.

Fox will offer one hour of prime time to Presidential candidates, News Corp. Chmn. Rupert Murdoch said, beginning at 8 p.m. Oct. 27. Al Gore and George Bush will get half-hour each to answer, "Why should Americans vote for you?" Otherwise, content will be completely up to candidates, Murdoch said: "Broadcasters have an obligation to serve the public interest, and that is never more true than in an election year." NBC's owned stations will provide at least 5 min. of campaign coverage in each of 30 nights before Nov. 7 election, network said. Alliance for Better Campaigns Chmn. Paul Taylor said offer was "welcome," particularly following NBC decision not to carry first Presidential debate on all stations.

Alliance for Better Campaigns was disappointed with amount of free air time stations are offering to candidates. It said only 86 stations (5%) were complying with its request that they offer 5 min. nightly of "political discourse" for 30 days before elections. Exec. Dir. Paul Taylor called that "quite a disappointment." Alliance updated its published "good guys" list to 86 stations, and published list called "The Greedy 75" stations in top 75 markets that it said had "profited the most from political ads," but hadn't committed to its free time standard.

However, several stations on list say they actually have provided significant free time to candidates. For example, WPVI-TV Philadelphia provided time for 3 hour-long debates among candidates for N.J. and Pa. state offices and is offering time for more. WTMJ-TV Milwaukee, WPXI Pittsburgh, KJRH Tulsa, WHO-TV Des Moines and WTVF Nashville also

provided significant time, they said, although they were on Alliance list. TV markets 10 (Atlanta), 11 (Houston) and 12 (Seattle) weren't represented on Alliance "good guys" list — but stations in all 3 markets have provided free time, they said.

TV stations are expected to reap more than \$1 billion in political ads in current campaign, according to Alliance, which has joined coalition to form "GreedyTV.Org." Its purpose is to "name and shame" TV stations that it says don't offer free time to candidates and to "let citizens know how their local stations profiteer on democracy and how little air time they devote to candidates discussing issues."

NAB spokesman said "it's hard to take Paul Taylor's research seriously when he ignores political coverage in morning and early afternoon local news," as well as network and local talk and interview shows. "We're proud of the tremendous amount of political coverage and debates provided by broadcasters all over the country," he said.

Transactions: Emmis Communications closed on purchase of Lee Enterprises' 8 TV stations in deal that was approved by FCC last month. Randall Bongarten became pres. of Emmis TV, which with addition of Lee now owns 15 TVS... **Cumulus Media** said it completed previously announced acquisition of 35 radio stations in 9 markets from Connoisseur Communications for \$257.8 million... **Clear Channel** agreed to buy 10 radio stations from McCoy Bcstg. for \$35.5 million. Stations are in Chico, Cal., Eugene, Ore., Pueblo, Colo... **Clear Channel** agreed to buy 6 Ashland, O., radio stations from Knox Bcstg. for \$32 million... **Rubber City Radio** acquired 3 Lansing, Mich., FM stations from 62nd St. Bcstg., terms undisclosed... **Eagle Radio** closed on acquisition of 4 Kan. radio stations from Radio Inc. for \$2.5 million.

CABLE, RIVALS SPAR: Major public policy battle is brewing over possible extension and expansion of cable program access rules, reply comments on FCC's annual video competition inquiry indicate. Despite agreement over flourishing competition in multichannel video market, commenters split on need for continued program access requirements, now scheduled to expire in Oct. 2002, with DBS and broadband service companies urging extended and even tougher rules against cable-exclusive programming and cable interests calling for access rules to sunset on schedule.

RCN Corp. and DirecTV backed renewed and expanded rules to cover more than satellite-delivered networks owned by cable operators. Citing moves by such MSOs as Comcast to build clusters of cable systems in their prime markets, they warned that more cable operators were moving toward terrestrial distribution of regional programming to avoid meeting access standards. RCN and DirecTV predicted that such "terrestrial evasion" would only get worse if access rules were allowed to expire. RCN, which claims 2%-3% of pay TV market in Northeast, also charged that cable clusters hampered its ability to obtain quick, fair access to public rights-of-way.

DirecTV urged Commission to "close the loopholes" in program access rules that permit cable operators to carry exclusive content through "terrestrial evasion." But, responding to charges leveled separately by DBS rival EchoStar, DirecTV argued against expanding rules to encompass exclusive programming carried by satellite TV providers. DirecTV, which offers exclusive packages from NFL and other sports leagues, said access rules shouldn't apply to it because it wasn't cable operator or programming supplier vertically integrated with MSO. Also, DirecTV said, unlike cable operators, DBS providers don't possess market power.

NCTA, AT&T, Comcast and Viacom cited "vigorous competition" in pay-TV business that they said had cut cable's market share to 79%, from 91% 4 years ago. Cable interests said clustering produced many benefits for consumers and boosted their ability to compete with DBS and other rivals without limiting access to competitors. They also said exclusive programming deals lead to greater, not less, competition among distributors and programmers in healthy market. Comcast also said FCC didn't have power to expand program access rules to cover networks delivered by wires or microwave because of limits set by Congress.

NAB blasted DBS industry for trying to block imposition of must-carry on satellite TV companies. It said DBS carriers' "rantings" about lack of capacity to carry broadcast stations were "unsubstantiated and inconsistent with the evidence" because of development of spot beam and Ka-band birds. NAB also blamed satellite industry for problems with signal intensity testing and waiver process that DBS providers have laid on broadcasters.

Paxon Communications said FCC should impose digital must-carry requirements on both cable operators and DBS providers. In most controversial proposal, it urged Commission to use any additional authority over cable industry it gained from increased cable penetration to "adopt rules removing all X-rated programming from cable or severely limiting its accessibility to children." Paxon said agency also should use any increased power to "channel R-rated programming... away from family viewing hours and children" and "promote diversified, family programming." It said FCC should relax cable-broadcast

cross-ownership limits and ease clearing of broadcast spectrum for digital multicasting.

In joint comments, APTS, CPB and PBS criticized DBS for fighting satellite must-carry rules. Hawaii attacked DirecTV and EchoStar for launching DBS packages in state that "pale in comparison to the DBS service" in rest of U.S. because of fewer channels and higher prices. State said FCC "should not permit its licensees to intentionally structure a nationwide service so that it discriminates against consumers in one state."

Coalition of public interest groups urged Senate to kill bill to lift 30% cable ownership cap permitting AT&T to evade conditions imposed by FCC as part of its approval of MSO's acquisition of MediaOne Group. In letter to entire Senate, Consumers Union, Consumer Federation of America, Center for Media Education and Media Access Project said cable subscriber cap was "an important check on the ability of AT&T or any other company to exert undue control over programmers and consumers" and "AT&T will be able to dominate the cable market" without strict enforcement of this "already relaxed" limit. "For AT&T now to be asking Congress to change the rules through a last-minute, back-room deal is a serious abuse of its political clout," groups wrote. Senate Appropriations Committee Chmn. Stevens (R-Alaska) reportedly is considering bill or amendment to permit AT&T to avoid cap. MSO has been lobbying aggressively for elimination or relaxation of ownership cap for months, arguing that limit might force it to sell rural and inner-city cable systems and aggravate digital divide.

Hughes said it signed up fewer-than-expected 450,000 net new DirecTV subscribers in 3rd quarter, 6% over 1999, to reach 9 million. Company had hoped to continue annual double-digit subscriber growth. DirecTV said it still expected to hit analysts' projections for full year. It said higher pricing of some programming led to cancellations, resulting in fewer net customers. For year, DirecTV has acquired 1.3 million new customers in U.S. and DirecTV Latin America 332,000. Hughes Senior Exec. Vp-Consumer Sec. Eddy Hartenstein said numbers were hurt by "higher churn related to a first-ever price increase," and "priority by the company to conclude the conversion of customers" from Primestar. Satellite analyst William Kidd said DirecTV growth "seems to be slowing and long-term growth looks risky." He said results were "likely [to] spook an already jittery" DBS equity market, but Blockbuster distribution could boost figures in 4th quarter.

Both NBC and Fox will offer free prime time to candidates, they announced last week. NBC's owned stations will offer 5 min. to Presidential candidates in each of 30 nights before election, network said. Announcement means at least 83 stations nationwide will provide free time for candidates, Alliance for Better Campaigns said. Alliance Chmn. Paul Taylor said offer was "welcome," particularly following NBC decision not to carry first Presidential debate on all stations. Fox will offer one hour of prime time to Presidential candidates, News Corp. Chmn. Rupert Murdoch said. Candidate time will begin at 8 p.m. Oct. 27, he said, with candidates Al Gore and George Bush each given half-hour to answer "Why should Americans vote for you?" Otherwise, content will be completely up to candidates, Murdoch said: "Broadcasters have an obligation to serve the public interest, and that is never more true than in an election year."

BIPARTISAN FUSS AT ANTIDRUG HEARING: In opening statement, House Drug Policy Subcommittee Chmn. Mica (R-Fla.) set tone for Oct. 4 hearing on whether money has been wasted in Administration's 5-year, \$684 million campaign against drug use by teenagers when he accused White House of attempting to put "a happy face on an increasingly sad situation. This antidrug program is far too important for even one dollar to be wasted." Mica said charges of overbilling, contract fraud and financial mismanagement, including in programs related to TV and radio advertising, by Office of National Drug Control Policy (ONDCP) were "most serious and require the attention and concern" of subcommittee and General Accounting Office (GAO) — which reported at hearing on its investigation of ONDCP.

Rep. Mink (D-Hawaii) said hearing was "absolutely premature" because GAO now had 2nd investigation under way that would take "many more months" to complete. She said hearing was based on nothing more than "anonymous tips" that Democrats on subcommittee hadn't been given opportunity to investigate on their own. Mink said there wasn't "a shred of evidence" of any wrongdoing, yet hearing involved charges of "criminal conduct."

Rep. Burton (R-Ind.), chmn. of parent Committee on Govt. Reform, placed in record letter from White House Exec. Office questioning charges by ad agency Ogilvy & Mather (O&M) for antidrug campaign. "That's not anonymous," he said, adding ONDCP has put too much emphasis on "education," not enough on "eradication" of drug usage. Rep. Barr (R-Ga.) cited GAO study, which he said also wasn't "anonymous." Rep. Cummings (D-Md.) supported Mink, saying ONDCP had done "good work" and had met its "congressional mandate" in face of "sensational allegations." It's unfortunate, he said, that ONDCP "again has been put on the defensive."

Much of testimony and questioning at hearing dealt with when ONDCP Dir. Barry McCaffrey (who wasn't at hearing, with Deputy Dir. Donald Vereen testifying) first learned of alleged O&M overcharges and whether he discussed ordering outside audit of antidrug program. Robert Hast, dir. of GAO Office of Special Investigations, said McCaffrey was informed of overcharges in April, according to July investigation by GAO. However, overcharges weren't part of that investigation but will be in new study now under way by GAO, he said. Also, Hast testified, evidence indicated McCaffrey, in his own handwriting, had suggested need for outside audit in April 13 memorandum. Vereen testified on details of campaign, cited figures to show it "makes a strong impact with measurable results [and] is surpassing initial expectations."

Jane Twyon, pres. of Worldwide Media Directors, testified on study she did last spring as consultant to ONDCP finding that \$34.1 million (less production costs of \$8 million) charged by O&M amounted to 22% of media charges for ads — "very high compared to the traditional industry norms of 15% commissions on media billings." High "nonmedia costs are compounded" by additional expenses of \$5.8 million paid to subcontractors, she said. Her report to ONDCP made recommendations that could save program \$8.5-\$14.8 million, she said, adding: "I see no fault with Ogilvy or the ONDCP and I hope my report is not used to derail a good relationship and the excellent work from Ogilvy."

Federal antidrug ad campaign was begun in Aug. 1997, and for each dollar spent in media ONDCP is required to seek free matching spots from TV-radio stations. To that end, GAO re-

port to Congress during summer said public service announcements valued at \$148 million had been donated to campaign, plus \$71.1 million in other contributions, such as development and production costs (TVD Aug 7 p7). ONDCP also caused major controversy with its efforts to get producers to include antidrug messages in their programs and Congress, in its latest authorization, told agency not to review programming content in advance for antidrug messages (TVD Jan 24 p6).

Question whether interactive links to commercial web sites should be allowed on children's TV programming is raised in FCC's previously announced rulemaking (TVD Sept 18 p4) on children's TV obligations for DTV (MM 00-167). Text of order released last week cited proposal that FCC prohibit all direct links to Web sites in interactive version of DTV, asking whether children were uniquely susceptible to such links. It also asked if only specific types of links should be banned. Other questions in rulemaking text included: (1) Whether FCC should require that 3% of all core (7 a.m.-10 p.m.) should be educational, and whether that requirement should apply only to main video channel or also to datacasting and subscription services. (2) Whether FCC should require particular technical format for children's programming on DTV, noting that DTV flexibility could allow it to be shown in lowest quality. (3) Whether FCC should revise its definition of commercial matter. (4) Whether promos should be rated so they can be screened by V-chips. Commission also asked for information on children's viewing habits, what could be done to promote core children's programming, whether FCC should "undertake promotional efforts" for core programming. Comments are due Dec. 18, replies Jan. 17. FCC also released text of order and rulemaking on children's TV filing requirements (MM 00-44) and on standardized filings on public interest obligations (MM 00-168).

Broadcasters objecting to JumpTV's application to create new tariff for Internet retransmission of TV and radio signals asked Canadian Copyright Board for 2-week extension of Sept. 29 deadline, Copyright Board Secy. Gen. Claude Majeau said. Board's ruling on JumpTV's proposal for collecting fees from Internet retransmitters could establish guidelines for handling copyright issues raised by Webcasting. If granted, JumpTV's bid could protect Canadian Webcasters from copyright infringement lawsuits by putting them on equivalent footing with cable TV companies and direct-to-home satellite broadcasters, officials said. In its application, company objected to board's proposed royalty scheme for cable companies that makes no allowance for Webcasters, Majeau said. Under proposal, companies would pay fee to communal royalty fund administered by Copyright Board, based on 2 alternative approaches to collecting fees for Internet retransmission: (1) Percentage of revenue equivalent to share of royalties from cable company subscriptions. (2) "Per-user" fee based on maximum number of simultaneous users Webcaster's servers could accommodate.

Slow FCC licensing process has delayed arrival of broadband service in rural areas, Skybridge Dir.-Regulatory Affairs Guy Christiansen told House hearing. He said Skybridge, which wants to provide services to areas "too remote or too expensive to reach" using terrestrial technologies, applied for license in 1996, but FCC still hadn't acted. Skybridge is among 12 companies vying for 4 to 6 Ka- and Ku-band slots. It also is seeking slot in controversial 12.2-12.7 GHz along with Northpoint. Rep. Gutknecht (R-Minn.), temporarily chairing hearing, said: "We understand the problems, but we don't quite understand the solutions. We won World War II in 3-1/2 years. It shouldn't take that long to get a license issued."

OPEN ACCESS TURNS ON DEFINITIONS: Cable service or telecom service? That's big question that 4th U.S. Appeals Court, Richmond, Va., must decide as it grapples with question whether cable operators can be forced to provide carriage to multiple ISPs. At oral argument late last month on Henrico County, Va., ordinance mandating open access, 4th Circuit judges closely questioned attorneys on both sides on whether cable-based Internet access should be defined as cable or telecom service, observers said. That point is considered crucial because cable services can be regulated by local franchising authorities while telecom services can be regulated only nationally and only by FCC.

Debate before 4th Circuit, which covers 5-state region from Md. to S.C., mirrors issue that's emerging at FCC. In its recent open access inquiry (TVD Oct 2 p5), agency spent much of document asking how it should classify cable modem service and cable modem platform.

Despite arguments by AT&T on one side and Henrico County on other that cable-delivered Internet access was cable service, appellate court seemed skeptical of that view, observers said. In particular, they said, Judge Blane Michael questioned whether instant messaging and e-mail could be part of cable service and indicated that he leaned toward telecom concept. That stance cheered open access proponents, who have been making telecom argument since 9th U.S. Appeals Court, San Francisco, ruled in June that cable Internet in Portland, Ore., was telecom service that should be regulated nationally.

But observers said 4th Circuit also could decide that cable modem platform constituted telecom facility, making it potentially subject to no regulation either locally or nationally. That's essentially what 11th U.S. Appeals Court, Atlanta, did in pole attachment case in April when it ruled that FCC couldn't regulate rates that utilities charged for Internet service carried over wires on their poles. In its oral argument before 4th Circuit, AT&T made partial case for telecom facility definition, contending that county couldn't force it to provide telecom facility to subscribers by opening its cable lines to rival ISPs. "It is a telecom facility they're [county regulators] asking for but we believe it's a cable service," said Laura Kaster, AT&T attorney.

In weighing overturning of Henrico County statute by lower federal court, 4th Circuit also could rule on narrower grounds than 9th Circuit, deciding only that ordinance violated federal preemption authority. FCC advanced that argument in its amicus brief and AT&T pushed case in its argument to appellate court. "It is clear that Congress did not want regulation by 30,000 local franchising authorities," Kaster said.

Observers said panel, in questioning rival attorneys, appeared to favor preempting local regulation no matter which way it ruled on cable-vs.-telecom service question. Even county advocates agreed that judges expressed doubts about their case against federal preemption. County Attorney Joseph Rapisarda declined to comment on court's thinking, but conceded that Judge Michael seemed to lean toward FCC's position.

Attorneys involved in oral argument agreed that Michael, most active questioner by most accounts and youngest member of panel, was key judge in case and more than likely would write decision. Attorneys also expected 4th Circuit to rule quickly in expedited case, possibly before end of year, unlike slower moving 9th Circuit.

ECHOSTAR DISCOUNTS DECISION: EchoStar said preliminary injunction granted Oct. 2 to major network broadcasters in 2-year-old copyright infringement case would have "little or no impact" on its DBS service because it currently was complying with Satellite Home Viewer Improvement Act (SHVIA). U.S. Dist. Court, Miami, said EchoStar no longer could deliver network programming to subscribers or businesses that aren't in "unserved" household without written consent from broadcaster or providing station with copies of signal intensity tests showing consumer couldn't receive signal any other way. Motion for injunction was filed by CBS, NBC, ABC and Fox networks Dec. 2, 1998.

NAB Pres. Edward Fritts said he was "extremely gratified" court stopped "longstanding and flagrantly illegal practice of indiscriminately" offering distant signal network programming. Fritts said local stations had "borne the brunt" of "illegal conduct" by EchoStar for years, and decision should have "minimal impact" on its subscribers who now can get local-into-local DBS service.

Distant network signals no longer are "major" issue, EchoStar spokesman said. Ruling was "based on old information" and "inconsistencies" in dates for compliance within court order, he said. Company had no comment on whether it would appeal decision, but satellite analyst said there probably was no need to press issue because DBS companies currently were offering network signals to customers through local-into-local packages. Broadcasters "probably disagree," but it's moot point now, he said.

In product trials in the U.K., sports and financial services attracted early adopters to TV Internet services, Carmel Group analyst James Stroud said at Convergence 2000 conference in Santa Clara, Cal., last week: "It's a really great way to get interactive TV into the home." In U.S., abc.com has been establishing itself as interactive network by bundling shows such as *Millionaire*, *Drew Carey Show* and daytime soap operas with games and previews on Internet. *Drew Carey Show*, first prime-time telecast to be streamed online, drew 600,000 viewers, 300,000 shy of one Nielsen point, said Brian Bowman, vp-gen. mgr. of abc.com. He warned of legal traps. Because ABC owns rights to all of its daytime soaps, it hasn't encountered legal problems when it Webcasts segments of show, Bowman said, but what's happening to music industry with Napster lawsuit could very well happen to DVDs.

New Markets bill that includes tax credit for broadband deployment was reintroduced by Senate Finance Committee Chmn. Roth (R-Del.) as S-3152. Move is designed to allow it to go straight to floor without Committee markup, where Roth feared it would be vehicle for costly amendments that would prevent its passage. He said "every member" of Committee "had input into this bill," and it would have been reported with "an overwhelming vote in support," even though he didn't include everyone's suggestions. Bill has 15 co-sponsors, although one of them, Sen. Mack (R-Fla.), said he had problems with some parts and most other co-sponsors probably did as well.

Rupert Murdoch's son Lachlan Murdoch, 29, has moved up to deputy COO of News Corp., company announced. He reports to COO Peter Chernin, will continue to manage its U.S. print operations.

It's "absurd" to claim Internet streaming video is comparable to broadcast TV, public interest groups said in latest round of comments on FCC dual network rule (MM 00-108). United Church of Christ, Consumer Federation of America and Media Access Project said only one million U.S. households had broadband Internet access that allowed "even vaguely comparable" video via Internet. Groups said FCC could handle situation such as Viacom/UPN via waiver proceeding, and easing rule overall would be "utterly inconsistent with the Commission's precedent to treat the reduction of independent voices... as inconsequential." Network Affiliated Stations Alliance, which supports easing rule for emerging networks, said rationale should be "narrowly tailored," and relaxation would make other network ownership rules, including cable-broadcast cross-ownership, more important. Any relaxation will exacerbate power imbalance between networks and affiliates, Alliance said.

FCC Mass Media Bureau approved 3 DTV channel changes and began considering 4 others. Channel changes approved, based on improved service area and lack of interference, include: (1) KAKW Killeen, Tex., can use DTV Ch. 13 instead of Ch. 23. (2) WILL-TV Urbana, Ill, Ch. 9 instead of Ch. 33. (3) WCTV Thomasville, Ga., Ch. 46 instead of Ch. 52. Bureau seeks comments on other proposed changes, with comments due Nov. 24 and replies Dec. 11. Proposed changes are: (1) WINK-TV Ft. Myers, Fla., Ch. 9 instead of Ch. 52. (2) KETG Arkadelphia, Ark., Ch. 13 instead of Ch. 46. (3) KOTA-TV Rapid City, S.D., Ch. 2 instead of Ch. 22. (4) WTVI Charlotte, Ch. 11 instead of Ch. 24.

Bill to exempt from antitrust enforcement voluntary industry agreements to govern content such as TV, movies, music and Internet could be fast-tracked in House. Introduced by Reps. Ryan (R-Wis.) and Smith (R-Tex.), HR-5350 was immediately added to list of bills considered by leadership for floor action. Summary said it would require Attorney Gen. and FTC to submit report to Congress within year on whether entertainment industries had used their new freedom to develop guidelines limiting distribution of sexual or violent material to children. Bill has been referred to Judiciary Committee, but it was unlikely to receive action through normal channels in few days remaining in this session.

Arbitron is realigning its organization to focus on specific business areas — traditional ratings, people meters, Webcasting — parent Ceridian Corp. said. Divisional presidents are Owen Charlebois, currently pres. of Canada's Bureau of Bcst. Measurement; Marshall Snyder, now exec. vp-People Meter; Pierre Bouvard, currently exec. vp-radio and Internet, respectively.

FCC's previously announced en banc hearing on children's TV programming and public interest obligations is set for 9 a.m. Oct. 16 at agency's hq. Commission plans panels on impact of sexually explicit and violent programs and obligations for educational and information programming in digital age. Witnesses are to be announced later.

AT&T Broadband accidentally cablecast adult pay-per-view channel Hot Network to customers viewing public access channel in Iowa City last month. Spokeswoman said mixup was caused by equipment malfunction, which was corrected with repairs to headend, and there would be no repeat. She said company had received only one complaint.

EchoStar (DISH) said it added local channels KSAT-TV (ABC), KENS-TV (CBS), KMOL-TV (NBC) and KABB (Fox) in San Antonio. DISH now offers local channels in 33 markets.

Web sites have become more video oriented and companies wanting to compete in market expected to reach \$20-\$80 billion in next 5 years must deliver content faster, better and cheaper, said Cidera Vp-Business Development Paresh Shah at Society of Satellite Professionals meeting last week. TeleGlobe Vp-Business Development & Content Distribution Services Tom Fabian said, "You need more bandwidth because Web sites are becoming more televisionist." Shah said cable and DSL modems would solve many of public's problems with Internet bottlenecks, but companies such as Cidera, which use satellite and terrestrial systems, will have edge.

AT&T Broadband and Diva Systems Corp. said they would team up to offer video-on-demand (VoD) to digital cable customers in parts of San Francisco Bay area, L.A. and Pittsburgh in next few months. AT&T, which is testing Diva's VoD service in Atlanta, said it also would deploy service commercially in Atlanta by end of year. It said it would roll out VoD initially in several East Bay communities; Westchester and Culver City in greater L.A.; and Aliquippa, Baden, Carnegie and McKeesrock in Pittsburgh area. AT&T plans to price VoD similar to its current pay-per-view rate for digital cable subscribers.

U.S. Supreme Court denied petition for certiorari filed by National Assn. of Telecom Officers & Advisers (NATOA) and City of E. Lansing, among others, seeking review of 7th U.S. Appeals Court, Chicago, decision in SMATV case, according to Joseph Van Eaton, lawyer representing city. Appeals court had upheld FCC ruling that SMATV operator Entertainment Connections Inc. (ECI) could operate without local cable franchise.

Adelphia must provide \$3 million to fund community technology centers in Cleveland as part of cable franchise transfer agreement approved by city council. Contribution will go into fund held by Cleveland Foundation and will be used for modern telecom and computer equipment and services, including high-speed cable modem, in community computer centers. City also conditioned franchise transfer from Cablevision on completion of system upgrade to minimum of 860 MHz within 32 months. City didn't impose open access condition on Adelphia but said company should open its cable lines to unaffiliated ISPs if it made such decision in any other cable system.

Overbuilder RCN Corp. picked up franchise approvals in Quakertown and Lower Makefield, Pa., to provide bundled telephone, cable TV and high-speed Internet service. Seeking to expand its footprint in Greater Philadelphia region, RCN now has received regulatory approvals in 18 municipalities in Delaware County and 7 in Bucks County to serve more than 134,000 households.

Cable operators in Mich., including AT&T, are sending pamphlets to customers warning them of possible disruption in transmission, including outages, Oct. 6-12 as result of peaking solar activity during period. Mich. Cable Assn. spokeswoman said such disruptions are possible during period and cable companies decided to forewarn customers to fend off calls.

NAB's political hotline — 1-866-7657 — went into operation with expert on hand to answer member questions on campaign issues. Former NAB Assoc. Gen. Counsel Steve Bookshester is manning telephone during regular business hours through Nov. 6.

Personals

Roger Ailes chmn.-CEO, Fox News, received 3-year contract extension, additional duties... **John Rose**, ex-ESPN, appointed vp-human resources, ABC... **Ron Lindwall** resigns as senior vp-CFO, Benedek Bcstg... **Martin Haag** to retire Oct. 31 as senior vp-news, Belo Bcstg. after 26 years with group owner; he will become consultant to Belo and Audience Research & Development, Dallas... **Eric Redler** appointed gen. counsel-senior vp, Canadian Assn. of Bcstrs... **John Lansing**, ex-WEWS-TV Cleveland, named vp-station operations, E.W. Scripps... **Ric Harris** promoted to vp-gen. mgr., WEWS-TV Cleveland... **Robert Klinge**, ex-WKJG-TV Ft. Wayne, appointed vp-gen. mgr., WHAS-TV Louisville... **Changes at ASCAP**: **Ray Schwind** appointed asst. vp and dir.-TV licensing; **David Bander** asst. vp and dir.-radio licensing.

Alex Best resigns as exec. vp-engineering, Cox Communications... **Charles Bartolotta**, ex-AT&T Broadband, appointed senior vp.-field operations, Mediacom... **Jim Boyle**, ex-Digital Focus, named vp-mktg. & corporate communications, WorldGate Communications... **Bill Harris** promoted to senior vp-production and network operations, A&E TV Networks... **Kate Murphy** advanced to N.J. dir.-media and community relations, Cablevision Systems.

Changes at Hughes Space & Communications: **Joseph DeSarla** promoted to exec. vp; **Alexis Livanos**, ex-Loral, named senior vp-operations; **Ronald Maehl** promoted to senior vp-business development.

FCC doesn't get NPR's full support on its reconsideration order for low-power FM (LPFM) service (TVD Sept 25 p4). NPR CEO Kevin Klose said, "The FCC's new report and order does not establish adequate protection from interference for radio reading services for the blind and for public radio translators." However, NPR acknowledged in joint statement with International Assn. of Audio Information Services (IAAIS) that there was improved process for resolving complaints of interference to full-power stations created by LPFM stations. Meanwhile, NPR continued to endorse S-3020, which supports rollout of LPFM stations but protects existing full-power stations and radio reading services from interference. FCC Chmn. Kennard said: "I am surprised and profoundly disappointed by the statements" of NPR and IAAIS.

EchoStar said its Vote 2000 channel would broadcast more than 500 hours of informational and educational programming on Presidential election. Company invited candidates Al Gore and George Bush to provide 30-min. programs that would air continuously for 3 weeks beginning Oct. 18. FCC Chmn. Kennard said company's leadership and commitment were important for political process, and use of DBS served public interest. Meanwhile, EchoStar reached agreement with Hearst-Argyle TV to carry WYFF (NBC) Greenville, S.C., and WLWT (NBC) Cincinnati.

Nassau Bcstg. Partners confirmed it pulled out of deal to buy 9 radio stations in Northeast from Aurora Communications for \$185 million after Aurora announced deal had been canceled. Nassau said "meltdown in the current capital markets makes the purchase price prohibitive."

Hearst-Argyle TV is latest station group to say it won't air ads for R-rated movies before 9 p.m. Exec. Vp Anthony Vinciguerra said policy had been informal in past, now is "firm rule."



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DiffuseNetwork unveiled its AllCast Webcasting technology, allowing downloading of beta version of server control panel and plug-in for Microsoft Windows Media Player. Patented technology allows Webcaster to transmit its streaming media to only handful of select top-level users, who then cascade it to consumers in real time, rather than sending separate data stream to each end user. DiffuseNetwork said technology reduced cost of bandwidth for Webcasting, which now accounts for 30% of Webcasting costs.

Consumer Electronics

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STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Sept. 22 and year to date:

	SEPT. 16- SEPT. 22	1999 WEEK	% CHANGE	SEPT. 9- SEPT. 15	38 WEEKS 2000	38 WEEKS 1999	% CHANGE
TOTAL COLOR TV. (a)	639,530	774,364	- 17.4	595,026*	20,137,940	18,938,485	+ 6.3
DIRECT-VIEW**	613,575	739,264	- 17.0	570,980	19,264,026	18,177,854	+ 6.1
TV ONLY#....	509,544	601,846	- 15.3	459,692	15,946,524	15,262,261	+ 4.5
TV/VCR COMBO.	104,031	137,418	- 24.3	111,288*	3,317,502*	2,915,593	+ 13.8
PROJECTION...	25,955	35,100	- 26.1	24,046	873,914*	760,631	+ 14.9
TOTAL VCR**...	758,374	856,741	- 11.5	410,400	18,366,232*	17,369,173	+ 5.7
HOME DECKS...	654,343	719,323	- 9.0	299,112	15,048,730*	14,453,580	+ 4.1
CAMCORDERS.....	146,982*	125,056	+ 17.5	70,440	3,829,809	3,157,712	+ 21.3
DVD PLAYERS....	222,726*	108,180	+105.9	149,675*	4,474,337*	2,097,867	+113.3

Direct-view TV 5-week moving average#: 2000-468,473; 1999-504,054 (down 7.1%).

Projection TV 5-week moving average: 2000-28,240*; 1999-29,824 (down 5.3%).

VCR deck 5-week moving average: 2000-437,820*; 1999-479,649 (down 8.7%).

TV/VCR 5-week moving average: 2000-109,113; 1999-95,976 (up 13.7%).

Camcorder 5-week moving average: 2000-107,867; 1999-91,637 (up 17.7%).

DVD player 5-week moving average: 2000-173,894*; 1999-76,515 (up 127.3%).

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

'DVR-BLUE' IS WORKING NAME OF SONY-PIONEER HDTV DISC RECORDER: Pioneer and Sony revealed they had been collaborating since last fall on unified next-generation high-density rewritable optical disc system capable of accommodating 2-hour HDTV-quality movie on 5" disc. First working "technical demonstrations" of system, tentatively called "DVR-Blue," accompanied demonstration last week at CEATEC, inaugural electronics expo held at Japan's Makuhari Fairgrounds that was formed this year from remnants of former Japan Electronics Show.

Fascinating issues abound on DVR-Blue, including what role, if any, Philips is playing in project. Sony booth attendant at CEATEC identified Philips as 3rd DVR-Blue partner. Similarly, Pioneer executive S. Kamaguchi told us that Philips and Pioneer had agreed to share technology on DVR-Blue. But quoting from internal Pioneer briefing papers, Kamaguchi said there was no formal business relationship between Philips and Pioneer, and that collaboration between Pioneer and Sony had been longstanding, dating back to last fall. However, Kamaguchi, again quoting from Japanese-language Q&A papers issued by Pioneer, said 3 companies had agreed to submit DVR-Blue as proposal to DVD Forum once technical work on format had been completed. Philips spokesman said only that his company remained active in its pursuit of technologies using next-generation blue laser, but said Philips wasn't member of any DVR-Blue consortium with Pioneer and Sony.

DVR-Blue gets name from blue-violet laser with short wavelength (405 nm) used in working prototypes, and which makes it possible to accommodate full-length HDTV-quality movie on disc measuring same size as present DVD. By comparison, semiconductor red lasers used in current DVD system have wavelengths about 38% longer. Companies have said future HDTV optical disc recorders would gravitate toward use of even shorter-wavelength blue lasers, once commercialization of such devices becomes viable. Curiously, use of "DVR" acronym, for "digital video recording," bypasses use of "DVD" in deference to DVD Forum rules barring companies applying that name promotionally to technologies or products that don't have that group's sanction.

DVR-Blue's disc capacity is 22.5 GB, about 4.8 times greater than basic 4.7 GB DVD disc. Sony spokeswoman said DVR-Blue was based on technological studies presented at recent engineering conferences. She said Sony's key contri-

bution to project was system's high numerical aperture lens (0.85), while Pioneer provided electron beam mastering technology that packed more density. Although DVR-Blue disc is same 1.2 mm thickness as regular DVD, construction is different, using 1.1 mm thick substrate and 0.1 mm thick surface layer in place of 2 bonded halves 0.6 mm thick on conventional media. System operates at data transfer rate of 24 Mbps, about 2-1/2 times greater than comparable rate of existing DVD-Video. DVR-Blue specs and capacities are nearly identical to those revealed to us this time last year by Sony Electronics Pres.-COO Teruaki Aoki, except laser wavelength cited then was 415-420 nm. Company then also said blue-laser recorder could accommodate 7-8 hours of NTSC-quality video.

Technical demonstrations of DVR-Blue easily were key highlight of CEATEC show and appeared to catch many industry watchers by surprise. Matsushita's usually outspoken DVD point man, Sakon Nagasaki, who heads company's newly established Storage Device Development Office that combines DVD operations with those of Secure Digital (SD) Memory Card, declined opportunity in briefing with reporters to criticize Pioneer-Sony DVR-Blue initiative. He said introduction of next-generation high-definition DVD systems would have to take into account Hollywood's stated wishes not to jump gun on new formats for 5-7 years as major studios try to do all they can to reap financial rewards of existing DVD boom.

Responding to question, Nagasaki said he doubted high-profile showing of DVR-Blue at CEATAC would have any impact, positive or negative, on dark-horse attempts to unify Matsushita's favored DVD-RAM system with Pioneer-backed DVD-RW or Philips-supported DVD+RW systems. He said single rewritable DVD format no doubt would be in best interest of manufacturers and consumers, but added: "I cannot control Pioneer. They're an independent company."

Development and successful commercialization of "cutting-edge digital technologies" such as DVD-RAM is building block to future Matsushita growth, Pres. Kunio (Kirk) Nakamura told reporters last week. Since assuming Matsushita presidency in June, Nakamura said he had begun instituting "corporate culture" changes within company to give even lower-rung employees new sense of "empowerment." He said he also was working to change Matsushita management structure to dispense with more traditional "pyramid" establishment in favor of "flat, Web-based design" that would put senior executives in closer touch with key customers. Nakamura said such changes weren't revolutionary, but typified steps all major Japanese companies must take to remain competitive and responsive to marketplace changes if they were to thrive.

DVD family of products will approach \$3 billion business for Matsushita this fiscal year, Nakamura said. Because of semiconductor shortage, company is "running short" of DVD-RAM production capacity now, "but we are quite certain of the success of DVD-RAM products," he said. Recent introductions in Japan such as that of Hitachi DVD-RAM camcorder will expand format's acceptance in consumer electronics applications, he said. DVD-RAM's cross-platform compatibility between AV and PC is format's strongest suit, Nakamura said, compared with rival formats DVD+RW and DVD-RW which "are not quite friendly" with PC products. Matsushita also is confident of DVD-Audio's potential, he said. One-year delay to revamp format copy protection technology was worth wait to give music industry confidence in system's security, he said (see related story, this issue).

Components shortage has become especially acute because of "tremendous" growth in worldwide demand for cellular phones, Nakamura said. He said in last year alone, demand has grown from 140 million phones to 400 million. "If you consider the number of components used for mobile phones to be around 300 [per phone], it actually means there's a new demand for 40 billion components being used for mobile phone production," he said. At present mobile phone growth rates, industry still will be experiencing components shortages 2-3 years down road, although when it comes to semiconductors, new investments in production and design of better and more sophisticated LSIs should improve availability of chips in same time frame, Nakamura said,

At CEATEC, past lines of demarcation defining rift between DVD-RAM and DVD-RW camps showed few signs of shifting. One exception was at booth of Matsushita's affiliated JVC, which is member of Pioneer-orchestrated RW Products Promotion Initiative (RWPPi) and has been vocal DVD-RW supporter, especially insofar as blank media were concerned. However, only hardware prototype on display at JVC booth was nonworking mockup of DVD-RAM recorder, in apparent show of fealty to Matsushita parent.

DVD-RW recorder from Zenith's Korean parent LG Electronics was announced and shown at Korean Electronics Show in Seoul (Oct. 2-6). LG's recorder will use C-Cube's DVxcel MPEG-2 codec and ZiVA-4 DVD decoder, as well as Spatializer's N-2-2 technology that emulates multichannel surround sound from pair of stereo speakers. LG is RWPPi member and plans to offer DVD-RW model next year. Although Zenith showed prototype deck at last CES, spokesman said TV maker hadn't announced product plans yet.

DVD+RW was conspicuous by its absence at CEATEC as well as in London product exhibition by Hewlett-Packard (HP) last week. HP is PC industry's strongest backer of DVD+RW format, which lacks standardization support of DVD-Forum. Despite emphasis on future products at London event, DVD+RW was shown or mentioned. When asked

why, HP Product Mgr.-Writable Disc Charlie Ball told us: "We have just had a European meeting and they tell me it will launch in April, although I think it's safer to say June." Philips has postponed consumer debut to next fall, as has RCA-parent Thomson Multimedia.

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Hitachi and LG will combine forces in optical technology, including DVD and CD formats. Companies announced joint venture last week, to be called Hitachi-LG Data Storage, that will open Nov. 1 with \$1.38 billion capitalization, 51% from Hitachi. Subsidiary in Korea will open Dec. 1.

WARNER REVEALS DVD-AUDIO SLATE: First major record label to offer DVD-Audio albums will be Warner Music Group (WMG). WMG will release 7 titles Nov. 7 in time for holiday selling season, label said last week. Regular monthly releases will follow, with about 24 titles already in development, it said. Meanwhile, labels owned by independent 5.1 Entertainment already have begun shipping DVD-Audio titles, with 26 more to come Nov. 7 and 10 monthly beginning in Jan.

Titles will carry \$24.98 suggested retail price and will come in CD-type jewel box, Warner Music Exec. Vp Jordan Rost told us last week. For easy identification, cover art will appear within frame that carries logos for DVD-Audio and WMG's Advanced Resolution. Titles also will be stickered to differentiate them from CDs, Rost said. Albums, which don't have regional coding, will be available in Japan by year-end and in rest of world next year, Rost said. CE dealers carrying DVD-Audio hardware can get album prepacks from label, he said.

Besides inaugural 7 titles, others are in "advanced stages" of development and WMG "hopes to have a similar number in December as November, then starting in January, a bigger flow," Rost said. To promote new format, WMG "will work on a retailer-by-retailer basis" and establish Web site called DVDAudioPreview.com, he said. Company will continue current cross-promotion with Panasonic and Technics, which gives DVD-Audio player owners WMG sampler. As more DVD-Audio titles enter pipeline, WMG will escalate advertising, Rost told us.

All DVD-Audio titles are remixed from original master recordings to create multichannel surround tracks for DVD-Audio players, as well as Dolby Digital tracks that can be played on installed base of DVD-Video decks, WMG said. "Because our DVD-Audio discs include a Dolby Digital mix able to play in existing DVD-Video players, we're confident that a significant market for these discs will develop very quickly," WEA Chmn.-CEO David Mount said.

WMG said all its DVD-Audio albums could be played 2 ways by consumers with DVD-Audio or "universal" DVD player — one mode is Advanced Resolution surround sound and other is Advanced Resolution stereo. For consumers who haven't upgraded to DVD-Audio hardware, there's DVD-Video-compatible Dolby Digital surround mix. WMG described Advanced Resolution DVD-Audio as having sampling rate and bit depth that at least doubles resolution of current CDs. Label said conventional CDs can be played on DVD-Audio/Video players — but didn't point out that DVD-Audio titles can't be played in CD player and don't have Red Book-compatible CD track.

WMG announcement touted other DVD-Audio features, such as brief DVD-Video quality music videos and artist commentary, "visual menus" with remote navigation and access to still pictures, artist biographies, discography and credits. Song lyrics can be viewed during Advanced Resolution playback. Rost declined to discuss inclusion of encryption or digital watermarking for DVD-Audio titles, except to say WMG believed copy protection could be implemented "in a way that's sensitive to concerns of consumers and the IT community." Copy protection will be handled on "title-by-title" basis to comply with WMG's standards for quality control, he said.

First releases represent eclectic selection. List comprises *Beethoven: Symphonies Nos. 4 & 5*, conducted by Daniel Barenboim with Staatskapelle Berlin; *Core*, by Stone Temple Pilots; *Tigerlily*, by Natalie Merchant; *Johann Strauss in Berlin*, conducted by Nikolaus Harnoncourt with Berlin Philharmonic; *Brain Salad Surgery*, by Emerson, Lake & Palmer; *Hommage a l'Orchestre Lamoureux: Chabrier's Espana & Ravel's Bolero*, with Orchestre Lamoureux conducted by Yutaka Sado; and *The Bedroom Mixes*, by Jazz At The Movies Band.

Additional artists whose work already is in development for future release include: Barenaked Ladies, Barenboim conducting Beethoven's complete symphonies, Buena Vista Social Club, Tracy Chapman, Alice Cooper, The Corrs, Olu Dara, Miles Davis, Deep Purple, The Doors, Firesign Theatre, Bela Fleck, Fleetwood Mac, Foreigner, Fourplay, Philip Glass, Kronos Quartet, k.d. lang, Zubin Mehta conducting Orff's *Carmina Burana*, Mehta conducting Mahler's *Symphony No. 2*, Metallica, Pat Metheny, Luis Miguel, Joni Mitchell, Steely Dan, Rod Stewart, Take 6.

Meanwhile, 39 DVD-Audio titles will arrive between now and Jan. from Electromatrix, Immergent and Silverline labels owned by independent 5.1 Entertainment Group. Most of discs — 26 classical titles — will be released same day as WMG's Nov. 7 rollout, spokeswoman told us.

But 5.1 group gets bragging rights to first DVD-Audio releases in U.S. Company's Silverline label last week shipped big-band swing title *Swingin' for the Fences* by Gordon Goodwin's Big Phat Band. *Devotion* by Grammy-winner Aaron Neville arrives Oct. 24, following Oct. 10 release of *Venice Underground* by guitarist Peter DiStefano on affiliate Immergent label. On Jan. 9, label will begin regular schedule of 10 monthly releases in various genres, spokeswoman said.

DVD-Audio titles from 5.1 labels will have \$19.98 MSRP. Besides multichannel DVD-Audio tracks, discs include Dolby Digital and DTS surround versions for backward compatibility with DVD-Video players, spokeswoman said. She confirmed discs also use Verance watermark.

THOMSON PULLS OUT OF LVCC FOR CES: Thomson Multimedia, long mainstay of CEA's Consumer Electronics Show (CES) at Las Vegas Convention Center (LVCC), has pulled out, citing cost and other factors and instead will set up shop at Mandalay Bay hotel.

Thomson had leased 2 meeting rooms at LVCC and will have to pay penalty fee to CEA based on percentage of rent, CEA spokeswoman said. Thomson spokesman said it informed CEA 2 weeks ago it would "forfeit." Thomson had high profile at past shows, but started reducing presence at LVCC year ago in leasing 3 meeting rooms and moving most of operations to Mandalay Bay. Previously it also had leased space at Riviera Hotel.

"We do regret that any exhibitors pull out of the show, especially one like Thomson," said CEA spokeswoman, who said Thomson space had been resold.

Thomson's decision wasn't "a reflection on the show or on CEA, but the past 5 to 6 years have seen big changes in our customer base," spokesman said. "Most of our customers now are the major retailers, who meet regularly with us throughout the year and make their ordering plans early. Our primary reason to be at a show is to sell, so from a sales standpoint, CES is not what it used to be for us."

Expense of exhibiting at shows is high, in terms of space and staff needed to showcase products, spokesman said. "Those same customers of ours kept asking why we're spending the money. There are other benefits to being at the show, such as the media exposure, but they're outweighed by the expense of exhibiting compared with the sales generated."

Nonetheless, Thomson will keep presence in Las Vegas during CES, with "much smaller" off-site exhibit for dealers and press at Mandalay Bay, spokesman told us. Company also will hold traditional news conference on eve of show, he said — but 2 p.m. Fri. Jan. 5 meeting won't be listed on official CES news conference schedule that's limited to exhibitors.

Thomson isn't first major CE company not to exhibit at CES. JVC hadn't done so for years before returning last Jan. Zenith's core A/V business also has had varied presence, switching from Las Vegas Hilton (1998) to LVCC meeting room (1999) before returning to show floor this year following its acquisition by LG Electronics. However, Zenith's Accessories Div. has maintained presence on show floor for many years.

Overall, CEA has leased more than 1.1 million sq. ft. for Jan. CES to 1,500 exhibitors, roughly same as year ago, spokeswoman said. CES also will mark first time in several years that Sands Convention Center won't serve as venue. Sands lease expired at close of CES last Jan. and space has been filled by Video Software Dealers Assn. (VSDA) convention. Mobile and wireless products, which had been housed at Sands, will exhibit at Riviera, CEA spokeswoman said. CES will deploy up to 500,000 sq. ft. of temporary tent space on LVCC grounds with goal of having show under one roof by Jan. 2002.

Las Vegas Convention and Visitors Authority, which had been locked in legal fight with Sands owner Sheldon Adelson (TVD Sept 13/99 p10), will miss Jan. 2001 target for completion of 1.3-million-sq.-ft. LVCC expansion, but expects construction to be finished by next fall. At Jan. 2002 CES, A/V products will remain in South Hall, but wireless devices, PCs and related home networking products will move to 2nd floor of new addition, CEA spokeswoman said. First floor will house home theater and A/V network products, she said. Mobile electronics will shift into LVCC's North Hall — long home to PC exhibits — while Hilton hosts personal electronics and conferences, she said.

DVD NEARS WATERSHED 10-MILLION INSTALLED BASE: Point of mass-market acceptance is approaching fast for DVD-Video format, what with 10 million players shipped to U.S. retailers launch-to-date, and 2 million more likely to enter pipeline in remaining 13 weeks of year.

Latest CEA figures show nearly 4.5 million players shipped to retailers through first 38 weeks of year (see "State of the Industry" table). Figure is 131% increase over comparable 1999 period and already exceeds 4 million decks shipped all of last year. Using current 5-week moving average, 6.7 million DVD players will be sold to dealers this year, putting total just shy of 12 million in 3-1/2 years since launch.

"Every CE product that has reached 10% household penetration went on to mass market acceptance," said Stephen Nickerson, Warner Home Video (WHV) vp-worldwide DVD mktg. at DVD Forum conference in Mesa, Ariz., last week. He said virtually all players shipped to retailers have sold through to consumers. DVD numbers don't include TV/DVD combos or account for Sony's PlayStation 2 that premieres Oct. 26. Nickerson said DVD-equipped videogame console "could account for one or 2 million more" in DVD household penetration.

Figures also don't include 9.3 million households with DVD-ROM drive in home PC, and DVD equipped laptop PCs aren't counted at all, Nickerson said. WHV research showed 25% of DVD-ROM homes also had DVD-Video player. One million homes with DVD-ROM drive only are watching movies on PC, Nickerson said. On software side, 7,000 DVD movie titles are available now in U.S., and total should hit 8,500 by end of year, Nickerson said.

DVD's growth seems phenomenal compared with other CE products. According to CEA figures, it took CD players 7 years to ship 10 million players and VCRs 8 years. WHV said format has 75% "unaided awareness" among consumers and 98% "total awareness," Nickerson said. Awareness levels are "extraordinarily high for a product that has been in the market less than 4 years," he said. WHV found 43% of consumers planned to buy DVD player in next 6 months and 21% by upcoming holidays.

"The bad news is that there probably won't be enough players for all those people," Nickerson said, alluding to components shortages that are crimping DVD supply from CE manufacturers.

Poo-Chi and Super Poo-Chi from Tiger Electronics topped list of nonvideogame products that KB Toys predicted last week would be hottest items this holiday selling season. Tiger's Hit Clips placed 4th on list. But KB Toys Sales Promotion Mgr. John Reilly told us "it's a given" that PlayStation 2 (PS 2) will be item most in demand this season. Despite Sony announcement that it would be shipping only 500,000 systems at Oct. 26 debut and 100,000 per week after that (TVD Oct 2 p11), he said: "We still feel very good about the launch of PlayStation 2." Reilly admitted company wouldn't be seeing numbers for PS 2 it had expected for this year. But he said he was confident that KB Toys would be able to deliver PS 2s at start to many of those who preordered console, and to rest of preorders "by the end of November." Reilly said KB Toys started taking preorders for PS 2 in Jan., but declined to say how it had sold already.

Nvidia is issuing more than \$400 million of common stock and convertible subordinated notes due in 2007, Santa Clara, Cal., graphics processor maker said last week. It said it was issuing 1.4 million shares of common at \$73 per share and \$300 million of its 4-3/4% convertible subordinated notes convertible into shares of Nvidia common at conversion price of \$92.71 per share. Nvidia said it expected sale of securities to close Oct. 12. It also said it granted underwriters options to buy additional 210,000 shares of common and \$45 million of notes to cover over-allotments if there were any. Nvidia is supplying processors for Microsoft's upcoming Xbox game console.

Panasonic DLP-based TV was to debut at Tweeter Home Entertainment store in Philadelphia market last weekend. New 52W rear-projection set (\$12,500), which has Texas Instruments' digital micromirror device (DMD) technology, has 0.7" widescreen microdisplay, 1,280x720p resolution and 550 lumens. Panasonic appeared to be first to market with product, beating Hitachi and Mitsubishi, which are planning 55W and 65W models, respectively. Panasonic expects deliveries of 52W in "hundreds" (TVD Aug 28 p14).

Zenith will move hq to Lincolnshire, Ill., by year-end. It has leased 2-story, 50,000-sq.-ft. building in Millbrook Business Center that will house hq, engineering and R&D, spokesman said. Zenith is negotiating lease for 2nd 50,000-sq.-ft. facility nearby for administrative functions, he said. No jobs cuts are expected as result of move, he said. Zenith was required to vacate 408,000-sq.-ft. building in Glenview, Ill., by year-end under 1998 agreement to sell facility and accompanying 40 acres to Blackstone Real Estate Advisers for \$24 million (TVD Oct 12/98 p10). Building, which has served as Zenith hq since 1976, had vacant space in recent years as company reduced employment to 700 from peak 1,400.

RadioShack posted 19% gain in sales in Sept. to \$375.9 million from \$317.1 million year ago on 16% rise in same-store sales. Sales were driven by PCs, digital A/V products and wireless phones, Pres.-CEO Leonard Roberts said... Musicland, blaming "weak" slate of music releases, said Sept. sales fell to \$139 million from \$142.6 million on 4.2% decline in same-store sales. Revenue from Mall Stores Div. (Sam Goody and Suncoast Motion Picture Co.) slipped to \$88.7 million from \$92.5 million as same-store sales fell 2.9%. Superstores Div. (Media Play and On Cue), had 0.7% increase to \$50.3 million from \$49.9 million on 6.4% drop in same-store sales.

OfficeMax, blaming sluggish retail sales, said it would report 10¢ 3rd-quarter loss, just short of analysts' estimates of 11¢ profit. Chain also said it would miss analyst forecasts of 30¢ profit for 4th quarter, but would be profitable. OfficeMax is "sacrificing profits" in 3rd quarter as it reaches "final stages of completion" of "strategic initiatives." Among them, Gateway store-within-a-store displays are expected to be installed in 550 of OfficeMax's more than 900 outlets in U.S. by end of 3rd quarter, replacing 450 temporary racks that were installed earlier this year. OfficeMax shifted its PC business to Gateway earlier this year as it leased space to PC company and dropped other brands.

MAXTOR, QUANTUM TO MERGE: Maxtor and Quantum's Hard Disk Drive (HDD) Group reached agreement last week on \$2 billion merger that will create company with dominant share of hard drive market for personal video recorders (PVRs).

Merger, expected to close in first quarter 2001, will result in company with annual shipping capacity of 50 million hard drives, \$6 billion in sales and OEM agreements with nearly all major desktop PC manufacturers.

In PVR category, Quantum has been supplier for both ReplayTV and TiVo-based products marketed by Matsushita, Philips, Sony. However, Maxtor recently started providing 60 GB drive for PVR that ReplayTV sells through its Web site.

"In consumer electronics, we will be very compatible because Maxtor really has focused on the high-capacity drives, while we've been focusing on the right capacity at the right time at the right cost," said Quantum Strategic & Technical Mktg. Dir. Bentley Nelson, citing Maxtor's plans for 80 GB drive with 4 platters.

Combining of companies will produce annual saving of \$120-\$200 million, they told analysts in conference call. Maxtor, based in Milpitas, Cal., has 7,200 employees 7,200 and Quantum 2,900, with final decision on work force expected by mid-Dec., companies said.

Existing manufacturing strategies will continue. Matsushita, which signed agreement with Quantum in 1984, will continue high-volume production in Japan. Maxtor is expected to keep 734,000-sq.-ft. factory in Singapore and new 450,090-sq.-ft. pilot production/engineering facility that's scheduled to open in Longmont, Colo., in April.

Maxtor and Quantum will merge product lines, although specifics won't be completed until agreement is finalized, companies said. Maxtor sells 4.3-60 GB drives under DiamondMax brand with 1-4 platters and operating at 5,400-7,200 rpm. Quantum has similarly featured drives, but sells PVR models under QuickView brand.

On sales side, Compaq, Dell and IBM accounted for 26.3% of Maxtor's revenue in 4th quarter 1999, followed by distributors Ingram Micro and Bell Micro (18.5%) and retailers Best Buy, CompUSA and Staples (6.3%). Quantum has similar distribution among desktop PC makers, but lacks retail presence.

As result of deal, Maxtor CEO Michael Cannon will head new company, with Quantum CEO Michael Brown as chmn. They will be joined on combined board by representative from Hyundai Electronics, which owned 36.1% (40 million shares) of Maxtor before merger. Hyundai bought stake in Maxtor in 1994 and entire company 2 years later in taking it private. IBM veteran Cannon was hired in 1996 to help in turnaround of Maxtor and slashed work force 54% in dropping 5.2" and 2.5" hard drives. It reemerged as public company in 1998.

BBC Video expanded U.S. marketing operations based in N.Y.C. Home video division of U.K. broadcaster recently announced agreement for Warner Home Video to handle distribution of its titles in U.S., but BBC will control marketing and promotion. N.Y.C. staff was doubled with 4 new hires, BBC said.

PVR VENTURE FORMED: ReplayTV has formed joint venture with Charter Communications, Motorola and Vulcan Ventures in effort to provide personal video recorder (PVR) technology to advanced digital set-top (STB) cable boxes.

While terms of joint venture, including whether any of companies made investment in ReplayTV, weren't disclosed, product is expected to hit market by first half 2001, Charter Corp. Development & Technology Vp James Henderson said. Rollout is to be small — probably limited to markets such as suburban Atlanta and L.A., where Charter offers video-on-demand — goal is to license technology to other MSOs, Henderson said. Charter has 6.3 million cable customers.

Motorola will build STB containing software developed by ReplayTV and Vulcan's former R&D arm Interval Research. It will have 60 GB hard drive, with microprocessor speed and size of memory not yet available. Motorola has built prototype STB and will start volume production late this year, Henderson said.

STBs will be leased to consumers by MSOs and sold through retail, although prices haven't been set, he said. Features could include Internet access, interactive programming, etc., he said.

For ReplayTV, pact represents first time PVR technology will be integrated into STB. It currently is selling standalone PVR as part of test with Comcast in Burlington County, N.J., involving 45,000 subscribers. Time Warner, which has stake in ReplayTV, is offering STBs free as part of test with 500 subscribers in Chatsworth, Cal. (TVD Aug 14 p4).

Vulcan Ventures role in joint venture throws into question its investment in ReplayTV rival TiVo. Paul Allen-controlled investment fund filed recently with SEC to sell 108,395 shares but still retains minority stake in TiVo. Vulcan spokeswoman wasn't available for comment. TiVo is conducting its own test of standalone STB with 220,000 Comcast subscribers in Cherry Hill, N.J., but industry officials were predicting that PVR technology would emerge as integrated feature in TVs, DVD players and STBs in 2001 (TVD Sept 25 p13).

Greenleaf Technologies (GT) created new division last week, Greenleaf Ventures, that it said would be directly involved in negotiating mergers and acquisitions, conducting due diligence and actively seeking new opportunities for GT. Separately, software and security solution provider and Dell Computers signed agreement in which all of latter's DVD-enabled laptops and desktop computers would be bundled with multiple-title DVD disc from software and security solution provider. Disc, *The Dell Software Center*, is divided into 5 sections, including one for games that features 6 encrypted titles: Electronic Arts' *The Sims* and *Tiger Woods 2000*; Eidos Interactive's *Deus Ex* and *Tomb Raider: The Last Revelation*; Infogrames's *Pajama Sam 3*; Sega's *10six*. Last is multiplayer game that can be played online, and Greenleaf said consumers who selected it could have it for 15-day free trial. Greenleaf said individual titles on disc could be bought either online or by telephone using company's encryption and unlocking technology. Disc also contains free games section including 2 other titles from Infogrames. Greenleaf said it would be providing "a refreshed disc every 3 months" via its relationship with WIG (Warner Advanced Media Operation, Infogrames and Greenleaf). Greenleaf said it recently finished similar bundling deal with Sony. Dell said it expected to ship one million units in next 12 months.

UNIVERSAL GETS PATENTS: Universal Display Corp. has licensed rights to 75 Motorola patents covering organic light emitting diode (OLED) technology, fattening its portfolio to more than 100. It also gains access to another 30 Motorola patent applications. Financial terms weren't disclosed although Motorola will receive 3% (500,000 shares) stake in Universal, Universal Exec. Vp Dean Ledger said.

Motorola patents cover technologies related to OLED manufacturing including single-layer devices, packaging, plastic substrates, materials development, encapsulation methods. Universal also can license patents to other manufacturers.

Licensing agreements run life of patents and will allow Universal to combine Motorola's OLED patents with its own technology. First products using Universal's OLED technology could arrive by late 2001, although Ledger said widespread use for cellular phones, PCs and wireless terminals isn't expected for 2 years. "This is a real coup for us and makes us more complete," he said.

Universal, which has 30 patents of its own related to OLED, has strengthened its hand significantly in battle with Eastman Kodak, Philips and others to commercialize technology. Universal has struggled to bring to market its 2-tuner multicolor OLED technology that relies on "stackable" architecture that places red, green and blue pixels atop rather than alongside each other (TVD July 20/98 p19). Kodak, meanwhile, has licensed its OLED patents to eMagin, Pioneer, Sanyo, others. EMagin has said it expected to have first products containing its microdisplay technology to arrive on market in mid-2001. It has shown 0.78" prototype with 100 lumens and 200:1 contrast ratio for head-mounted display applications. Motorola also recently shipped trimode phone with Pioneer-made OLED.

Meanwhile, Telegen, which emerged from bankruptcy protection earlier this year (TVD July 3 p17), is seeking to revive high-gain emissive display (HGED) technology. It plans to show 14" display at CES and is targeting 200 lumens, 300-400:1 contrast ratio and 800x600 resolution, CEO Jessica Stevens said. Display also draws 150-250 v vs. 15,000-25,000 standard in many PC monitors. Goal is to bring technology to 24-27" displays, and Telegen is nearing acquisition of technology that it said could enable HGEDs to achieve 2,000-4,000 ft. lambert and resolutions of 1,024x768 and above.

Telegen, which has raised \$15 million so far this year, will seek another \$30-\$35 million this fall as it prepares to break ground on 5,000-sq.-ft. prototype manufacturing facility. It plans to produce 2-10 prototype pieces per day by spring, moving to 800-900 per month by fall, Stevens said. Eventual goal is to move to large-scale facility in Sacramento area that would be capable of producing 225,000 annually at start, Stevens said.

Still missing from strategy is licensing agreements, which will be key as Telegen seeks partners to bring HGED to market, Stevens said. It will be promoted as low-cost technology and "we can be closer to CRT [pricing] than any of the other flat-panel display technologies in development," Stevens said.

Analysts noted, however, that earlier HGEDs used vacuum fluorescent technology that runs counter to current trend of solid state and thin film. "It's not the right technology right now," an analyst said.

In addition to display patents, Telegen regained those relating to manufacturing process in settlement of lawsuit with IPC. IPC, which received undisclosed payment from Telegen's insurance carrier as part of agreement, sued (TVD May 4/98 p21), alleging that company "actively concealed material facts" about its business plan.

As part of agreement, IPC returned its 10% stake in Telegen. Stevens and Exec. Vp Bonnie Crystal, both of whom left Telegen in 1997 (TVD Nov 10/97 p17), now control 35-40% of company.

EGames signed agreement with Walgreen's to install "family friendly" section of 4-8 PC games in stores this fall. Pact with drug chain will be eGames' first outside of typical promotional agreements that run 6-8 weeks and will replace corrugated end-cap displays with 4' section of fixed shelving, CFO Thomas Murphy said. EGames also has developed "spinner" racks and bookcases for software. "Our desire is to have more permanent, in-line product and less promotional, but we're still working our way to get there," Murphy said. Walgreen's spokeswoman declined comment. In-store displays would represent shift in strategy for eGames, which made first push into food and drug chains with its sub-\$15 *Galaxy of Games* software titles in 1999. New "family friendly" sections also arrive as congressional committee probes violence in videogames and movies. As it embarked on new program, eGames, which markets 45 titles, also disclosed it paid Hasbro \$160,000 as part of settlement of copyright and trademark infringement suit. Hasbro had alleged that 12 eGames titles infringed on rights to such former Atari games as *Missile Command*, *Tetris*, *Frogger* and others. Infringing titles, which were discontinued as of Sept. 30, accounted for \$2.1 million in sales in fiscal year ended June 30 — 15% of total revenues. "We're confident we took the initiative up front early enough to get plans in place to develop other products or bring out titles we already had that retailers may not have seen" to offset revenue shortfall, Murphy said.

Toshiba will sell nickel-metal hydride battery (NimH) business to Sanyo, terms not disclosed. Toshiba, which had been seeking partner in NimH business in face of stiff competition, now will buy batteries from Sanyo. Batteries are primarily used for laptop PCs and cellular phones. Toshiba Battery Co. had sales of ¥20 billion in fiscal year ended March 31. Sanyo's acquisition of Toshiba's NimH business could serve to increase battery prices, said Steve Zumsteg, treas. of Energy Conversion Devices (ECD), which licensed nickel metal hydride technology to Toshiba and Sanyo. "Sanyo has been growing that business and it will continue to do so," said Zumsteg, whose company received \$1 million and \$1.7 million in license fees from Sanyo and Toshiba in fiscal year ended June 30. Despite sale of business, licensing agreement with Toshiba won't change since it will continue to market batteries, Zumsteg said. Sanyo and Toshiba signed licensing agreements with ECD 6 years ago as part of settlement of FTC complaint filed by latter's subsidiary Ovonic Battery Co. (TVD Dec 26/94 p15). Sanyo is minority stake in Ovonic, he said.

"Record" attendance of 15,000 turned out for CEDIA Expo Sept. 6-10 in Indianapolis, show promoters said. CEDIA Exec. Dir. Billilynne Keller said gain could be attributed to "the fact that CEDIA's annual exposition is the only show created to meet the specialized needs" of custom installation industry.

SAGE READIES FAROUDJA PLANS: Sage has postponed delivery of chips combining its display control technology with Faroudja's video processors to first half 2001 as it readies line that will target front projectors, TVs and LCD monitors, CEO Chandra Reddy said.

Sage, which bought Faroudja and its video processing technology earlier this year, had planned to have integrated chip by midyear (TVD May 8 p12), but delayed introduction as it changed specs and features, Reddy said. Line will consist of 2-3 chips combining deinterlacing and decoding technologies on single IC, he said.

"It will allow us to take standard VCR and DVD video and improve it through deinterlacing," Reddy said.

While Sage has discontinued Faroudja's rear-projection TV and front-projector businesses, it's readying plan to expand distribution of standalone video processors beyond current base of 400 retail dealers, Reddy said. Among distribution strategies being considered is alliance with CE manufacturer to bundle video processor with other CE gear. Sage also will market video processor as built-in feature of custom installation system, he said. Lower priced video processors will be sold under Sage brand, with Faroudja name on high-end models.

"We will not do complete turnkey products," he said. "We are focusing on getting our technology to the mass market."

At same time, Sage said it had agreement with Samsung to deliver display control processor for high-resolution LCDs displays. It also is phasing out Cheetah brand control processors to focus on Jaguar line, transition that will be completed by early 2001, Reddy said. Jaguar line consists of 5 products with input resolutions ranging from 1,024x768 at 75 MHz to 1,900x1,200 at 200 MHz.

Electronic Arts (EA) opened EA.com online game site last week. EA said it was offering more than 30 online games in "the first phase of the site," which was formed as part of strategic agreement with AOL in Nov. 1999 that gave maker exclusive rights to provide content on AOL's properties (TVD Nov 29/99 p13). In return for exclusive, EA guaranteed AOL \$81 million over 5 years. As part of deal, games are also available at AOL Games Channel, AOL.com, CompuServe, ICQ.com, Netscape. Separately, EA said *The World Is Not Enough* James Bond game for Nintendo 64 (N64) starts shipping Oct. 17 and version for PlayStation (PS) in early Nov. N64 version features 28 single and multiplayer levels and more than 40 weapons and gadgets, while PS version has 11 single-player levels and more than 30 weapons and gadgets. PS version also offers more than 20 min. of actual movie footage. Title is being released under EA's new EA Games brand.

TiVo investor Vulcan Ventures filed with SEC to sell combined 108,395 shares with \$2.36 million value. Microsoft co-founder Paul Allen-controlled fund made filing in late Sept... **Hasbro** registered with SEC to sell 500,000 shares of common at \$10.78 that were granted as warrants to Time Warner Entertainment's Warner Bros. Div. Latter received shares as part of agreement under which Hasbro obtained license to market toys based on 2 *Harry Potter* books and 2 movies based on them. Warrants become exercisable after release of first movie scheduled for late 2001.

SONY APPEAL DENIED: Sony lost yet another round in its war with Connectix last week when Supreme Court, without comment, refused to consider PlayStation maker's appeal of decision rejecting its copyright claims against Virtual Game Station emulator manufacturer.

Connectix Pres.-CEO Roy McDonald called decision "great news but not unexpected." He said it wasn't unexpected "because we thought the appellate court decision was very clear." Court he was referring to was 9th U.S. Appeals Court, San Francisco, which in Feb. lifted injunction that federal judge had ordered (TVD Feb 14 p13). Injunction had prevented Connectix from selling its emulation software until ruling was made in Sony's copyright infringement suit against Connectix.

Trial to resolve case, McDonald told us, is to start in March, but he said there still was separate patent suit that Sony brought against Connectix that was at "very early stage." Sony recently dropped patent suit but then quickly refiled amended version dropping 6 of 11 claims in process (TVD July 10 p13).

McDonald said: "We're whittling it down. Eventually it'll all just go away." Sony Computer Entertainment America (SCEA) spokeswoman told us last week: "Obviously, we are disappointed with the Supreme Court's decision not to hear our case against Connectix and Virtual Game Station." She said: "Sony Computer Entertainment has a responsibility to protect its intellectual property and will continue to do so."

Separately, Connectix said it now was offering free downloadable demonstration version of Virtual Game Station for Mac and PC at its Web site, www.connectix.com. Full version costs \$49, but Connectix said users of previous versions of emulation software could access free update at its Web site.

Investment fund said it was awaiting response from audio company Phoenix Gold International management before deciding what action to take in effort to boost shareholder value. PG is expected to file proxy in Dec. for annual shareholder meeting that's likely to indicate whether it will consider Wynnefield Capital's proposal to add independent director to board. Wynnefield Capital in Sept. also proposed management consider selling company and/or taking it private (TVD Oct 2 p15). Wynnefield spokesman criticized Phoenix Gold for what he said was "ineffective management" and said it had failed to expand product lines. PG's largest customer is Best Buy, but it recently received competition for account from Rockford Fosgate.

Sony Computer Entertainment (SCEA) spokeswoman told us last week that "as of now, SCEA will ship one first party PlayStation 2 product in 2000 — *FantaVision*." As we noted last week, when SCEA provided list of titles it would ship in next few months for PlayStation 2 (TVD Oct 2 p16), *FantaVision* was only first party title of 5 SCEA-branded games and 5 from its 989 Sports division that SCEA had said in May would be shipping this year. Only other title of remaining 9 that was even on last week's list for early 2001 games was *Gran Turismo 3* (previously referred to by company as *Gran Turismo 2000*). SCEA spokeswoman didn't provide status of other 8 first party titles.

Sony will ship interactive pet robot designed to be companion for company's Aibo by year end, Reuters reported last week. But report said Sony wouldn't be providing any other details on new toy such as pricing or ship date until Oct. 12.

SEGA DENIES CENSORSHIP CHARGE: Sega of America (SOA) last week denied charge of censorship that has arisen as Dreamcast maker tries to shut down Web sites it contends are either engaging in or abetting in sale of pirated electronic content online.

Company has been sending cease-and-desist letters to various Web sites. One of sites — Isonews — charged that Sega was trying to censor it. Isonews, which describes itself as “a nonprofit news and information site that reports alleged acts of piracy while providing the Internet public a forum to discuss matters of copyright infringement with the benefit of current information,” admitted last week that it had “defied a cease-and-desist order from attorneys representing Sega.” In doing so, Isonews said its staff “supports Sega in its antipiracy efforts” and denied any wrongdoing.

SOA Corporate-Mktg. Communications Vp Charles Bellfield said company wasn’t engaging in censorship at all, merely continuing its efforts to crack down on piracy. He told us last week: “I can’t, unfortunately, comment specifically about any particular sites because of the legal actions we may or may not be having.” But he said Sega had been acting based upon what it saw as its rights under Digital Millennium Copyright Act to stop piracy of its content. He said “any site that trades illegally pirated electronic content” was “open to closure” under law. He said “it doesn’t matter if the site may contain other content,” such as legitimate news. To date, he said, Sega has “closed well over 400 sites already.”

Separately, Bellfield told us Sega has started benefitting from Sony’s announcement that it would be shipping only 500,000 PlayStation 2 (PS 2) videogame consoles at launch Oct. 26 (TVD Oct 2 p11) instead of million originally promised (TVD May 15 p12). Dreamcast sales, he said, have seen “a significant increase in the triple digits.” He said at least part of credit also goes to Dreamcast’s new \$149 price point. But Bellfield also said Sega “in the last 2 weeks” had been able to see 20% increase in retailers’ “white space advertising” for Dreamcast. That, he said, seemed to be “directly related” to Sony’s announcement that retailers wouldn’t be getting as many PS 2s as they had expected. “Retailers,” he said, “want videogame content in their stores.”

Meanwhile, Bellfield told us that MP3 capability for Dreamcast had been delayed and company was deciding whether MP3 solution would be via Visual Memory Unit (VMU) for MP3 playback “or another product,” although one online report claimed Sega said it had given up on VMU idea. In either case, Bellfield said that while Sega had hoped to have MP3 solution available for Dreamcast owners by April, “I think it’s slipped out of that.”

On SegaNet front, Bellfield said company soon will be providing exact number of subscribers to online game service and ISP. He said that to date 422,000 people “have used their Sega Dreamcast game console to go online either through a game or to Web browse.” That, he said, means that “over 20% of [the] Dreamcast installed base in the [U.S.] have taken their [console] online” to some degree.

Red Storm Entertainment said it was named fastest growing, privately held company in Research Triangle area in N.C. at award ceremony last week. Morrisville, N.C., company is best known for its *Tom Clancy’s Rainbow Six* game.

‘M’-RATED GAMES BLOCKED: ShopKo and Ames Dept. Stores last week became latest retail chains to announce plans to make sure “M” (Mature)-rated videogames aren’t sold to consumers under 17. GameWorks announced start of plan to prevent minors from being playing arcade games at its 20 GameWorks and GameWorks Studio locations in U.S.

Green Bay, Wis.-based ShopKo said all cash registers at its stores would be programmed to prompt cashiers to check IDs of customers before selling them M-rated games and R-rated movies on DVD and VHS. Mature titles will be identified automatically and cashiers will be prevented from entering sale until proof of age has been provided, company said.

All ShopKo stores are expected to have system in place by Feb., ShopKo said, and “new program will be implemented as soon as the technology is in place.”

Explaining why company decided to act at this point, ShopKo Pres.-CEO William Podany said: “We feel this is the right thing to do. While there currently are no laws regarding the sale of these products, a responsible retailer must do what it can to make sure these products are not sold to young people.”

Kmart and Wal-Mart announced similar plans last month (TVD Sept 11 p16). Montgomery Ward and Sears have gone even further in efforts to keep violent games out of youngsters’ hands: They stopped selling M-rated games completely.

ShopKo operates 333 retail stores in 22 states, mostly in Midwest, Pacific Northwest and Western Mountain regions. It also runs 162 specialty discount stores under ShopKo name in midsized and larger cities, 171 Pamida discount stores in smaller, rural communities, and online Green Bay Packers store. ShopKo also carries such merchandise as apparel, electronics, jewelry, toys.

Only 3 days after ShopKo announced its plan, Ames Dept. Stores said it had implemented similar system in its 476 stores. Ames customers now must show IDs before they can buy mature titles. Rocky Hill, Conn.-based retail chain also said “Because We Care” signs had been posted in stores to explain new policy. Ames CEO-Chmn. Joseph Ettore said: “We recognize our responsibility in educating our customers on product content. We believe the policy provides our customers with a heightened awareness in order to make the best decision for their family.” Ames said it rolled system out over 2 weeks.

GameWorks — joint venture of Dreamworks SKG, Sega and Universal Studios — introduced “V-Card” system year ago that prevented kids from playing violent and other mature games if parent so requested. But it said last week that it now automatically was barring access to those games to anyone who didn’t present ID showing they were older than 16. Instead of using coins or tokens, GameWorks customers get debit cards. Minors now automatically will get “Limited Access V-Card” versions of debit cards that when swiped on restricted games will make sure those machines can’t be activated.

Moves came as entertainment industry continues to be blasted by govt. for violent content it creates and way in which it advertises and promotes that content to youngsters.

Mattel Interactive began shipping *Barbie As Princess Bride* hybrid MAC/PC CD-ROM game at \$29.99. Title is latest in company’s Barbie Software for Girls product line.

AMAZON OPENS CAMERA STORE: Newest addition to Amazon.com is full-service Camera & Photo Store, offering digital and film cameras and camcorders from cross-section of name brands, along with photo services provided by Berkeley-based Ofoto.

Although Amazon had sold cameras and camcorders before opening new store last week, Amazon.com Camera & Photo Store Dir. Shawn Haynes told us those products had been included at electronics store where selection had been considerably smaller.

Haynes said Amazon decided to open separate camera store in part because company fared especially well with that category last holiday season.

Brands offered by Amazon last week included traditional names such as Canon, Fuji, Kodak, Minolta, Nikon, Olympus and Polaroid, as well as digital still cameras from electronics manufacturers including JVC, Matsushita, Samsung, Sony, Toshiba. Haynes said Amazon was offering more than 5,000 SKUs at store last week.

As usual, Amazon wouldn't say which products it was getting direct from manufacturers and which from distributors. But Haynes told us "the majority of the product" was being provided direct. He said there certainly were benefits to getting merchandise direct, and said e-tailer was continuing to attempt to sign direct relationships with manufacturers.

Amazon.com Photo Services, provided by Ofoto, allows customers to have photos processed online, then shipped to their homes. As part of introductory offer, Web site last week was offering first-time customers 25 free prints. Amazon and Ofoto are running cross-promotions.

Other products sold at photo store include albums, batteries, binoculars, camera bags and cases, digital memory cards, film, filters, frames, photo editing software, printers, scanners, telescopes, tripods.

Nintendo of America filed suit in Seattle federal court last week against 55 Web domain name owners, alleging their Web sites "willfully infringe the trademarks" of its Pokemon brand and characters. Suit charged that registration of Pokemon-related Internet domain names constituted trademark infringement, dilution and cyberpiracy (violating Anticybersquatting Protection Act), as well as unfair or deceptive trade practices. Although there may be additional sites that use Pokemon brand and characters, Nintendo said it targeted domain names that were attempting to profit off of Pokemon. Nintendo Legal Vp-Gen. Counsel Richard Flamm said: "These Web sites are an obvious attempt to profit illegally from the success of Pokemon. Nintendo is intent on protecting its brands and properties against any attempt of cybersquatting." Company said it was seeking financial damages, transfer of all domain names to it and immediate injunction against transferring or registering any domain names likely to infringe on its trademarks.

Humongous Entertainment started shipping *Backyard Soccer MLS Edition* hybrid Macintosh/Windows CD-ROM for kids ages 5 and up at \$19.99. Title is available at stores as well as direct from Humongous at www.humongous.com or by calling 800-499-8386.

GBA TITLES BEING DEVELOPED: As increasing number of game makers continue to announce support for upcoming Sony PlayStation 2 (PS 2) and Microsoft Xbox consoles, Activision said last week it hadn't forgotten about Nintendo's next-generation handheld system, Game Boy Advance (GBA), due to ship in Japan in March and N. America and Europe in July.

Activision said it already was developing 6 GBA titles. Santa Monica, Cal.-based game maker said titles include those based on its *Mat Hoffman*, *Shaun Palmer*, *Spider-Man*, *Tony Hawk's Pro Skater* and *X-Men* franchises. But it didn't provide any other information about titles, such as specific names.

Activision Pres.-COO Ron Doornink said he believed company was "well positioned to leverage its market momentum as the No. 2 U.S. 3rd party software publisher for Game Boy Color onto the upcoming platform." He said: "Our robust Game Boy Advance product slate coupled with the platform's backward compatibility should ensure that our current and future Game Boy titles continue to perform strongly."

Company said it also intended announcement to show it was serious about maintaining "multiplatform strategy" and was committed "to being an early leader on the next-generation gaming systems." Activision already had announced its support for PS 2 and Xbox consoles.

Separately, game maker said it had shipped more than one million units of *Tony Hawk's Pro Skater 2* for PlayStation worldwide, making it "one of the largest launches in Activision's history." Referring to NPD data for week of Sept. 17-23, Activision said title was top grossing videogame in U.S. for PlayStation only after 5 days in distribution.

Activision said it started shipping first-person, PC role-playing game (RPG) *Wizards & Warriors*, developed by Heuristic Park. Title was created by RPG designer D.W. Bradley, whose prior credits include *Wizardry V, VI* and *VII*.

Take-Two Interactive announced completion of what it said was "a broad-reaching partnership" with Gameplay.com last week. Game maker said its Broadband Studios subsidiary consummated sale of all outstanding stock of Toga Holdings B.V., parent of PixelT Broadband Studios, to Gameplay.com. Take-Two said it received shares of Gameplay stock worth \$47.5 million and 2-year warrant to buy additional one million shares. Take-Two said deal allows it to participate on equity basis only in expansion of broadband technology assets it obtained in March via acquisition of Pixel. Gameplay is expected to use its resources to commercialize Pixel's broadband multiplayer gaming technologies and content, and exploit its established relationships with companies including Microsoft. Separately, Take-Two said *Smuggler's Run*, to be distributed by its Rockstar Games publishing subsidiary, had cleared licensing hurdles and would be part of PlayStation 2 system debut in U.S. Oct. 26.

Sega is running "Graffiti Is Art" contest in conjunction with upcoming debut of urban action videogame *Jet Grind Radio* for Dreamcast. Applicants are asked to submit their designs on paper to Sega. Five of them will be chosen by Sega to fly to San Francisco and recreate their designs on larger canvas. Grand prize winner will nab \$5,000. Sega said contest will be held at Justin Herman Plaza in San Francisco Oct. 21 noon-4 p.m.

ROYAL READIES LINUX PDA: Royal Consumer Business Products will ship Linux-based handheld PC in Feb. as it seeks to steal march in market dominated by Palm-like devices.

DaVinci 6 and 7, which are expected to retail at \$199-\$229 and \$299-\$349, respectively, will have 16 MB RAM, 16 MB flash ROM, Sharp-supplied 70 MHz processor and 2-3" LCD screen with 240x320-pixel resolution. Lower priced model will have mono LCD, while step-up adds color.

New models mark major step for Royal, which introduced daVinci in 1998 (TVD Aug 31/98 p16) and has confined it largely to 2 MB memory or less and sub-\$99 price. It has less than 5% share of handheld PC market, analysts said.

Royal introduced 3 daVinci units: DV1 (\$69), DV2 (\$79) and DV4 (\$99) that have 1, 2 and 4 MB memory, respectively, but retain same features as early models, including 160x160-pixel screen and 20 MHz processor. New handhelds lack handwriting recognition that's feature of current DV3 (\$99).

"Linux PDAs will never run on as small a footprint as the Palm devices because the operating system was written for the desktop and to be effective you need 16 or 32 MB of memory," said Andrew Surber, pres. of CompanionLink Software, which is developing synchronization software for Linux-based models.

As it readies new handheld line, lawsuit Palm filed against Royal remains pending. Palm obtained injunction last year temporarily blocking sales of daVinci product. Shipments resumed, however, after Royal replaced handheld's Motorola dragon ball processor — same chip at heart of Palm Pilot — with one from Sharp, Exec. Mktg. Dir. Robert Robinson said.

With renewed focus on daVinci models, Royal is likely to cut line of traditional low-tech organizers in half to 3 units with high end anchored by \$29 unit with 320 kb memory. Gone will be organizers priced at \$24 and \$14, Robinson said. Remaining in line will be sub-\$10 models including 96 kb unit.

"We're not talking about high growth in those [organizer] areas anymore," Robinson said. "It's a mature market with slow, steady growth."

Royal has started shipping credit-card-sized Vista organizer that has 768 kb memory, fold-out keyboard and \$59 price. Device is aimed at market that was home to Rex handheld that was marketed by Franklin Electronic Publishers at \$99, but since has been sold to Xircom.

Vista, like other handhelds, has been hit by component shortage, which has slowed full shipments of product. "You're expecting 100,000 screens and you get 60,000 and you have to like it," Robinson said.

Handspring, meanwhile, signed agreement with Gateway under which latter will offer discounts to consumers who buy Visor handheld with Gateway desktop PC. Gateway also will sell Visor and select Springboard cartridges through its Web site and Country Stores. In Asia, distributor GrandTech signed to sell Visor, Visor DeLuxe and 8 MB backup module as well as Electronic Arts' *Tiger Woods PGA Tour Golf* game. Ex-

panded distribution comes at critical time for Handspring, which has relied largely on sales of Visor through its Web site and select retailers in U.S. Staples, Best Buy and CompUSA accounted for 15%, 14% and 11%, respectively, of \$101.9 million in revenue in fiscal year ended July 1. Handspring's accumulated deficit stood at \$68.7 million at end of fiscal year, it said in annual 10K. Licensing agreement for Palm operating system expires in 2003, it said.

Palm has adopted shareholder rights plan designed to protect it against unwanted takeover. It said it wasn't aware of any attempt to acquire company. Palm will issue dividend of one right for each share of common stock held by shareholders of record Nov. 6. Right will allow shareholder to buy fractional share of Palm preferred for \$370, company said. It also disclosed in proxy for annual meeting that CEO Carl Yankowski, who joined company last Dec., received \$281,819 salary in fiscal year ended July 1, plus \$430,010 bonus and options on 1.5 million shares at \$38. Yankowski's annual salary is \$600,000. Former parent 3Com remains one of Palm's largest holders with 959,395 shares.

Toys "R" Us is planning to start e-commerce service in Japan by mid-Dec. in conjunction with McDonald's Co. Japan and Softbank e-Commerce Corp., division of Web investor Softbank, reports said last week. Toy retailer also said it was establishing Toysrus.com (Japan) Ltd. division in which it will have 55% stake. While that unit would have 26% stake in Japanese e-commerce service, reports said McDonald's would have 5% and Softbank 14%. Toys "R" Us already has 100 brick-and-mortar stores in Japan. Retailer announced in Aug. that it had formed alliance with Amazon.com to sell toys via co-branded site for U.S. market. Although reports indicated that Toys "R" Us and Amazon might be looking to expand their relationship into Japan, there apparently is no current plan to do so.

Sierra Attractions began shipping *Hoyle Casino* for Sega Dreamcast at \$39.95. Title, based on Sierra's game of same name for Mac and PC, was developed by Sierra On-Line's Casual Entertainment Div. and includes casino games blackjack, craps, pai gow poker, poker, roulette, slots, video poker. Sierra, unit of Havas Interactive, also shipped 4 new titles in its Hoyle CD-ROM line: *Hoyle Board Games*, *Hoyle Card Games*, *Hoyle Casino* and *Hoyle Word Games*, at \$29.99 each. Also new from Sierra is *3-D Ultra Lionel TrainTown Deluxe* for Windows 95/98 at \$29.99.

Square Electronic Arts (SEA) at our deadline was to host *Final Fantasy IX* Consumer Demo Day in PlayStation store at Sony Entertainment's Metreon center in San Francisco Oct. 7. Company said consumers would be able to play its upcoming role-playing game *Final Fantasy IX* for PlayStation month before it hit store shelves. SEA is exclusive publisher of all Squaresoft games in N. America. *Final Fantasy IX* is latest installment in series that has sold more than 30 million units worldwide, company said.

Bandai is looking for European partners to help develop its downloading services, report said last week, quoting Gen. Mgr. Satoshi Higashi. Report said Japanese game maker already was in talks with several companies, but didn't give their names. Agreements could be reached within 3 months, report said. Bandai spokeswoman was unavailable for comment by our Fri. deadline.

ATI TECHNOLOGIES POSTS LOSS: ATI Technologies last week reported improved sales for year ended Aug. 31, but Toronto-based graphics accelerator supplier reported slight drop in sales for 4th quarter, along with net losses for both year and quarter.

Company's graphics acceleration technology is used in Nintendo's upcoming Gamecube videogame console. Gamecube's graphics component was designed by ArtX team, which joined ATI earlier this year.

ATI finished year with revenue of \$1.37 billion — 11.4% over year ago, when sales were \$1.23 billion. For last quarter, company had sales of \$290.24 million, down from \$304.65 million in same period year ago.

Company said it had net loss of \$69.33 million (-32¢ per share) for year, reversing \$107.20 million (49¢) profit year ago. In quarter, it lost \$45.21 million (-20¢) compared with \$16.84 million (8¢) profit year earlier.

ATI said adjusted net income for year — excluding amortization of acquired intangible assets, gains on sale of long-term investments and one-time inventory write-down, as well as selling and marketing charges — was \$64.64 million (29¢), down from \$159.26 million (73¢) last year.

Gross margins dropped in 4th quarter from year ago because of what ATI said were "aggressive pricing actions from newly consolidated competitors" as well as its own decision to cut price of its Rage 128 Pro product to reach "the mainstream segment" of market "faster than anticipated."

"Consolidated sales continued to be negatively affected by a weak European marketplace," it said, but increased sales of its Mobility chips and shipping of its new Radeon board product in July partly offset decrease in European sales. Company said Radeon graphics technology can run latest games and other 3D applications at high speed and features integrated acceleration for DVD and digital TV signals.

Commenting on company's results, CEO-Chmn. K.Y. Ho said: "As we moved past the challenges of the 3rd and 4th quarters, we are encouraged by the rapid consumer adoption of our new products." He said: "Our Radeon technology moves us into the graphics high-end market, while ATI's momentum continues to build in the fast-growing mobile segment."

ATI plans to "aggressively build" its integrated graphics design business and "we continue to aggressively pursue e-appliance opportunities," Ho said.

ATI Pres.-COO Dave Orton said company's accomplishments in first quarter "will have a positive impact on our results going forward" and should help "return ATI to its long history of profitability."

3DO started shipping *Army Men Value Pack* and *Heroes III Complete* value-priced compilation game packs for PC. *Army Men* compilation includes original *Army Men* game, *Army Men II*, *Army Men: Toys in Space*, *Army Men — Air Tactics*. *Heroes* includes *Heroes III*, *Heroes II: Armageddon's Blade* expansion pack, *Heroes III: The Shadow of Death* expansion pack.

CODEMASTERS MAKES ONLINE PUSH: Joining growing list of companies making major leap into online space, Codemasters has created online videogame server scheduled to bow Nov. 24.

Codemasters Multiplayer Network (CMN) is non-game-specific server that company said would recognize and be compatible with future online-ready titles it develops. CMN software will offer players instant multiplayer options over Web and ability for cross-platform multiplayer gaming. It will be included with company's PC game *Insane*, first title designed to be used in conjunction with server. *Insane* will be available on same day CMN is rolled out.

Company said CMN would be Wireless Application Protocol (WAP), PlayStation 2 and Xbox compatible, allowing players to compete against others with same title on any of those platforms.

Codemasters also is starting "perpetual gamers league system" called Ladders, where players can compete against other online gamers in continuing competitions. It said CMN server would update information automatically whenever players accessed network, as opposed to other online gaming leagues that often make user download information.

Company said it was designing and writing network in-house, with project led by Ted Carron, member of team that created Game Genie.

Codemasters Mktg.-Sales Worldwide Dir. Mike Hayes said: "The creation of the Codemasters Multiplayer Network, in addition to our future game development, is a clear signal of our commitment to this exciting form of gaming that will be a key feature in upcoming next-generation consoles."

Separately, Codemasters said it started shipping games *Jarrett and Labonte Stock Car Racing* and *FoxKids.com Micro Maniacs Racing* at \$39.99 each.

Infogrames Inc. announced completion of its merger with Infogrames N. America and newly formed subsidiary of Infogrames, Inc. Infogrames N. America is subsidiary of French majority shareholder Infogrames Entertainment SA. In merger, Infogrames Entertainment SA will receive 28 million shares of Infogrames Inc. and \$128.6 million in debt latter owes to Infogrames Entertainment SA will be converted into 20.1 million shares. Infogrames Inc., as result of completed merger, immediately started trading on Nasdaq market under new ticker symbol IFGM. Separately, Infogrames said it started shipping game *Hogs of War* for PlayStation.

Corniche Group, which runs WarrantySuperstore.com Web site, has developed free interactive game that's being distributed to more than 20,000 e-mail addresses and is featured in new radio ads. Company also is allowing game to be downloaded directly from Web.

THIS WEEK'S YEN RATE

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

MATTEL FINDS BUYER: Mattel finally found buyer for its troubled Learning Company (LC) software division: Gores Technology Group (GTG), L.A.-based, privately held international acquisition and management company.

Sale was part of what Mattel called overall "financial realignment plan that is expected to generate substantial cost savings and improve the company's profitability and cash flow." Mattel said it was taking several "actions designed to lower production and manufacturing costs" — among them reduction of royalty payments under licensing contracts and streamlining of its U.S.-based hq locations by dropping 10% of staff. It said 350 positions would be cut.

Also as part of restructuring, Mattel said it was reducing its cash dividend "from a quarterly 9¢ per share to an annual 5¢ per share, effective immediately, which will result in an annual cash savings of \$130 million." It said it expected restructuring, along with special charges, "will generate approximately \$200 million in pretax savings." It said \$250 million of pretax costs of restructuring and special charges would be recorded over 2-1/2 year period, with \$150 million of it in cash.

Company also said \$100 million of pretax costs would be recorded in 3rd quarter of this year. But Mattel said writedown related to net value of LC "will result in an after-tax loss from discontinued operations of approximately \$430 million."

Mattel CEO-Chmn. Robert Eckert said realignment was designed to help company "focus on growing our core brands."

Under LC agreement with GTG, Mattel said it "will have a contractual right to receive future consideration." It said that upon closing of deal, which is awaiting government approval, it would sell LC to limited liability company that is 100% owned by GTG, and Mattel then would have "no further obligation to fund the operations of The Learning Company."

Price GTG paid for LC wasn't disclosed but reports indicated it essentially was giveaway. Mattel had paid more than \$3 billion for LC in May 1999 and division quickly managed to create financial disaster for toy giant — so much so that it was key factor in ouster of Jill Barad as Mattel's CEO-chmn. Mattel shares have lost more than half their value since LC purchase — diving to under \$12 from about \$26. One report last week said LC "has been losing as much as \$1 million per day." It took nearly half year for Mattel to find buyer for LC after announcing in April that it was looking to sell division (TVD April 17 p21). Toy giant retained investment company Credit Suisse First Boston to handle sale. Since then, Mattel has been treating software business as discontinued operation in its financial statements.

Gathering of Developers started shipping game *Blair Witch Volume 1: Rustin Parr*, distributed by Take-Two Interactive's Jack of All Games division, at \$19.95. Game, developed by Terminal Reality and published by Gathering, is first of 3 PC games in Blair Witch Games collection and features characters from Terminal's 3D-action horror PC game *Nocturne* from last year. *Blair Witch Volume 2: The Legend of Coffin Rock*, developed by Human Head Studios, and *Blair Witch Volume 3: The Elly Kedward Tale*, by Ritual Entertainment, will be next 2 titles in game series. *Coffin* ships later this month and *Elly* in Nov. Gathering is backing games via cross-marketing campaign with Artisan Entertainment, which is releasing film *Book of Shadows: Blair Witch 2* in U.S. Oct. 27.

Consumer Electronics Personals

Robert Lorch, Thomson Global Tube business vp, resigns, remains adviser through year-end, replaced by **Jean Brunol**, ex-Valeo & Alcatel... **Todd Bradley**, Gateway global operations exec. vp, and **Steve Caldero**, Yamaha Electronics sales vp, elected to CEA board... **Daniel Palumbo**, pres., Eastman Kodak Consumer Imaging Div., and **Kent McNeley**, chief mktg. officer, named corporate senior vps; **William Love**, asst. treas., advanced to treas... **Robert Hummel**, ex-Technicolor, joins Sony as senior vp, digital cinema... **Jerry Whitaker**, ex-Technical Press, appointed technical dir., ATSC.

Steve Harris, ex-ABC Radio, named vp-external programming, XM Satellite; **William Evans**, ex-KFOG Radio, appointed dir.-adult alternative and progressive channel program... **Robert Stoffregen**, ex-Sharper Image, named CFO, Good Guys... **Mark Zaleski**, ex-Webvan, joins QXL.com as COO... **John Pettitt**, Beyond.com co-founder who left company in 1999, rejoins board... **Richard Trio**, ex-Barclay Resource Group, named Rainbow Rentals human resources dir.; **Thomas Strauss**, ex-T.S. & Assoc., joins as real estate dir.

Jeremy Lewis resigns as Eidos Interactive CFO, plans unknown... **Shane Robinson**, ex-AT&T, named Compaq senior vp-chief technology officer... Promoted at Sega of America: **Neal Robison**, 3rd party licensing vp, to technology development vp; **Charles Bellfield**, mktg. communications dir., to corporate and mktg. communications vp; **Kathy Schoback**, 3rd party relations mgr., becomes 3rd party management dir.

Red Jade co-founders **Gunnar Tyrsing** and **Fredrik Liliegren** named CEO and pres.-chief content officer, respectively... Appointments at Infogrames: **David Gatchel**, ex-Paradigm Entertainment, as senior vp-development; **Cathy Tische**, ex-3DO, vp-licensing; **Lisa Rothblum**, ex-PolyGram Records, senior vp-gen. counsel; **Nancy Griffen**, ex-Time-Warner, vp-publishing.

Gary Iwatani resigns as Liquid Audio CFO, plans unknown, duties assumed by Controller **Lyman Yip**... **Larry Taymor**, Liberate Technologies vp-strategic partnerships appointed to Interactive Network board... **David Newcomb**, ex-vp, SkyMall Media Ventures, named pres., Greenleaf Ventures... **Alex Breckon**, ex-SkyTrends/Media Business Group, named Satellite Bcstg. & Communications Assn. business development dir.

Kalisto Entertainment signed exclusive 5-year agreement with Fox Kids Europe (FKE) to create interactive entertainment properties for 6-12-year-old children's market. Companies said properties include interactive TV, Internet, mobile phones, next-generation videogame consoles, PC. FKE CEO-Chmn. **Ynon Kreiz** said his company "will provide experience in TV production, distribution and merchandising" and Kalisto "resources for the development, publishing, marketing and distribution of all game products." Plans include production of 12 interactive games, along with 3 TV cartoon series that companies said they expected would "spawn individual merchandising lines." They said they "will focus on creating new titles and will also exploit existing licenses" that both have. FKE owns exclusive rights for distribution of programming related to characters including Addams Family, Casper, Power Rangers and Spiderman, as well as more than 200 other licenses.



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

FAIRNESS RULES REJECTED by appeals court. FCC ordered to repeal editorial, attack rules. Court says 60-day trial isn't good enough. NAB, RTNDA claim big win for First Amendment. (P. 1)

KENNARD HITS BROADCASTERS as 'spectrum squatters' in DTV transition. Spectrum fees to be proposed to Congress. Public obligations pressed. Furchtgott-Roth, NAB disagree. (P. 2)

FCC TARGETS LOBBYISTS in bid to end leaks by agency staffers. Sanctions to include fines, limits on building access. (P. 3)

EC APPROVES AOL-TW DEAL and FCC stops review clock, deferring to FTC. Companies and FTC agree to extend talks to end of month. Disney's hands slapped. (P. 4)

LPFM NEGOTIATIONS in budget bill go down to wire. LPFM and telecom ownership among last 5 items on table. (P. 5)

COURT TO FCC: 'IMMEDIATELY REPEAL' FAIRNESS RULES: In ringing denunciation of FCC's failure to act on earlier remands in 20-year-old case (TVD Oct 9 p1), U.S. Appeals Court, D.C., ordered agency Oct. 11 to "immediately repeal" its political editorializing and personal attack rules. Rules, which required stations to provide time for responses, are last vestige of fairness doctrine repealed by Commission in 1985. Remaining restrictions on broadcasters had been under attack ever since by NAB and RTNDA, with court noting that "less stalwart petitioners might have abandoned their efforts... long ago."

Decision written by Judge Judith Rogers for herself and Chief Judge Harry Edwards (Judge Patricia Wald no longer is on court), said rules "have continued to exist in a vacuum, unsupported by reasoning that would demonstrate to the court that they are in the public interest." Court reacted strongly to FCC decision to suspend rule for 60 days and require broadcasters to report back on effect of operating without rules during elections: "On this record, the court can only conclude that its remand order for expeditious action was ignored... Neither the timing nor the substance of the [FCC suspension of rules] responds to the court's remand." Since FCC hasn't provided adequate justification to keep rules in place, Rogers said, and hasn't given any "assurance whatsoever that the Commission will proceed expeditiously" once it receives updated information from stations, "it is folly to suppose that the 60-day suspension and call to update the record cures anything... If these circumstances do not constitute agency action unreasonably delayed... it is difficult to imagine circumstances that would."

Prominent attorney not involved in case called court's decision "a virtual slam dunk victory" for broadcasters, but FCC Chmn. Kennard said he wasn't giving up. While "disappointed" by court's action, he said rules "are only a small part of the much more important question: How are broadcasters, as public trustees, enhancing the democratic process. We will use this opportunity to test the broadcasters' claims that the rules chill speech and to determine how best to ensure that the public receives balanced coverage of controversial issues." Kennard said FCC would "move forward promptly" to determine public interest obligations of broadcasters in coming digital age — "including whether these rules should be reinstated."

Consumer Electronics

\$1 DIRECTV RECEIVER promoted with 12-month programming commitment by Circuit City in national and local newspaper ads. (P. 10)

STUDIOS TIGHTEN REGIONAL CODE to stem Region 1 disc sales for modified players overseas. First title is *The Patriot*. (P. 11)

TOUGHER DVD LICENSING COMING with lab tests to verify compliance with standards and bar decks from sale in U.S. (P. 12)

RCA 'eBOOK' GETS BROAD SUPPORT, with top publishers offering new titles exclusively in Gemstar format. Portables due Thanksgiving at 3 CE chains. (P. 13)

CIRCUIT CITY'S CREDIT CARD ASSETS weighted toward Visa and MasterCard, making earnings 'susceptible to incremental defaults,' analyst says. (P. 13)

FCC Comr. Tristani said she was “saddened” by ruling requiring agency to vacate rules but had no quarrel with rationale of court. “As the court noted, to an outside observer it appeared the Commission ignored the court’s prior call to action,” she said. “The rules’ challengers fairly seized on this point.” Ruling still leaves open question whether rules balance competing constitutional rights at center of issue, she said. “Whether the public interest requires the personal attack and political editorial rules can only be determined if the Commission undertakes a rulemaking,” Tristani said. “I look forward to providing both challengers and supporters their chance to advance their evidence and arguments.”

RTNDA Pres. Barbara Cochran called decision “a tremendous, historic victory,” while NAB Pres. Edward Fritts saw it as “a great day” — both citing First Amendment. “We are extremely gratified that the [court] has removed this burden,” Cochran said. “This has not been easy or inexpensive, but it was the right thing to do.” Fritts said: “It is clear from this decision that future attempts to regulate free speech will be viewed [by court] with a high degree of skepticism.”

KENNARD HITS BROADCAST ‘SPECTRUM SQUATTERS’: Saying TV broadcasters benefitted from “the biggest government giveaway since Peter Stuyvesant,” FCC Chmn. Kennard said broadcasters who delay DTV channel givebacks should be subject to escalating spectrum fees and all broadcasters should provide free time to candidates and other public service. Comr. Furchtgott-Roth disputed Kennard’s claim of broadcasters’ public interest obligations. NAB Pres. Edward Fritts said Kennard “has failed the test of leadership” by “trying to shift the blame for a faltering DTV transition.”

In speech in N.Y., Kennard said he would ask Congress in Jan. to make several changes: (1) Eliminating provision that DTV channel giveback would take effect in 2006 only if 85% of households had access to DTV, meaning giveback would begin then automatically. (2) Giving FCC authority to impose DTV equivalent of All-Channel Receiver Act, which would mean all new TV sets sold after specific date (Kennard suggested Jan. 1, 2003) would have to be able to receive, though not necessarily display, full-quality DTV. (3) Having Congress impose unspecified spectrum fee after Jan. 1, 2006, on stations that continued to use both analog and DTV channels. “Spectrum squatters fee” would escalate yearly until all analog spectrum had been returned. (4) Using proceeds from spectrum fee to help fund public broadcasters’ DTV transition and support “educational or informational programming.”

Provision for 85% DTV penetration could exempt broadcasters from giving spectrum back until 2025, Kennard said at Museum of TV & Radio. He said it took color TV 22 years and VCRs 16 years to reach that penetration level, and DTV could take longer, “particularly given the way broadcasters are dragging their feet.” He said “broadcasters have decided to sit on these 2 highly valuable properties... for as long as they can.”

Failure to turn back spectrum quickly is affecting other communications needs, Kennard said, citing emergence of 3rd-generation wireless technology and wireless Web in Europe and Japan: “Spectrum squatting may make great business sense for the broadcasters” but it “smothers innovation and endangers America’s lead in new technologies.”

Broadcasters reach “a new low” by failing to carry Presidential debates, Kennard said: “This disregard for the American democratic process is unacceptable... It’s high time that we rethink the terms of broadcasters’ compact with the American people.” Even though debates were available on at least some channels, he said, “broadcasters cannot delegate their obligation to act in the public interest.”

“Broadcasters have increasingly elevated financial interests above the public interest,” Kennard charged. He called that “particularly galling” in light of new DTV channels given them: “The public should get their money’s worth.” Even cable and DBS have public interest obligations — DBS in form of rule that it devote 4% of channels to noncommercial use and cable through 5% franchise fee and requirement for public, education and govt. (PEG) channels. Downplaying broadcasters’ contention that they provided \$8.1 billion in public service in 1999, Kennard said he had done such filings in past and “I know” definition of public service was “strained,” meaning figure was “somewhat overstated.”

To meet public service obligations, Kennard said broadcasters should: (1) Commit to carry every Presidential debate. (2) Carry state and local candidate debates, as well. (3) Provide additional “free” time to candidates. He also said Congress should require such free time as part of comprehensive campaign reform legislation. (4) “Recommit” to showing more PSAs. (5) Use DTV multicasting to provide “public space” similar to cable PEG channels. (6) “Exercise their judgment as citizens and parents” not to air inappropriate programming when children were likely to be in audience, and to use DTV to provide more educational programming. (7) Establish code of conduct for good broadcast citizenship.

Furchtgott-Roth highlighted his differences with Kennard both in letter to *N.Y. Times* and in briefing with reporters. In *Times* letter, he said carrying debates wasn’t only way to serve public interest. Since debates were available to those who wanted them, he said, “NBC and Fox served the public well by understanding the interests of the viewing public” in sports and entertainment shows. Furchtgott-Roth also said forcing all broadcasters to air debates would have countered

FCC pressure for more local programming: "Networks and stations were fully within their legal rights when they decided not to broadcast the debate. There is no law or FCC rule that requires such carriage." He told reporters "to bear in mind, this is a Commission that has historically chastised networks for having too heavy a hand" in guiding programming decisions of local affiliates. "This Commission has championed local decision-making." Furchtgott-Roth called it "bizarre" to have statements coming out of agency on what broadcasters and local affiliates should be doing on that issue.

In regularly scheduled news briefing with reporters, Furchtgott-Roth said that although FCC more than decade ago abandoned fairness doctrine for candidate air time, "it may be coming back" (see separate story). He called prospect "very scary" and expressed concerns about FCC's taking too strong a role in several areas involving content decisions that he said should be left to broadcasters. "The item went far beyond anything that could be described as necessary as a way to break the stalemate at the Commission," Furchtgott-Roth said. He said "a return to the fairness doctrine" was part of Democratic national convention platform in L.A. this summer: "A lot is happening right now before the election."

Requiring all broadcasters to provide live coverage of Presidential debates would suggest that "all Americans must have no choice of alternative programming during the debates," Furchtgott-Roth said. He said Americans should be able to choose programming, or not to watch TV at all: "It is not the responsibility of the FCC to compel Americans to watch television [or] limit their programming choices." Furchtgott-Roth also said FCC shouldn't "extract" concessions on public interest obligations: "Public interest obligations that apply to one industry alone will do little more than divert audiences to other media... Calls for additional public interest obligations are based on a 20th century view of regulation by micromanagement, more appropriate for a museum of well-intentioned-but-failed ideas."

Furchtgott-Roth also questioned FCC's legal authority for en banc hearing set for Oct. 16 on children's TV programming and public interest obligations (TVD Oct 9 p8). "I'm very nervous about having a government agency step in where no laws have been broken" and contrasting editorial policy decisions with "what a government agency thinks." He said: "That's a judgment that ought to be left up to Congress." He also referred to subliminal messages alleged to be in Republican-financed ads for Presidential candidate George Bush, on which Commission has begun staff investigation. Regardless of whether message was present in ad, Furchtgott-Roth said, if it was, no Commission rule was broken and FCC had taken steps to look into matter although "this agency is anything but prompt to action... I find it nothing short of bizarre and well outside the bounds of normal practice here at the Commission." Furchtgott-Roth also referred to recent voluntary commitments by some broadcasters to provide free air time to political candidates. To extent that's result of "coercion" or "constant bullying" by agency, he said he was "very troubled" by it.

Also countering Kennard, NAB's Fritts said broadcasters "are well ahead of schedule" on their part of DTV transition, with 158 stations broadcasting in DTV. He charged that in contrast FCC had failed to: (1) Require all TV sets be able to receive DTV channels. (2) Mandate DTV-cable interoperability. (3) Mandate DTV must-carry, all of which Congress allowed.

CTIA quickly endorsed Kennard stand on spectrum issues in letter to him. CTIA Pres. Thomas Wheeler said other countries were building next-generation wireless services "while American consumers and entrepreneurs are encumbered with spectrum policies that hold us back... American citizens and entrepreneurs are on the short end of the spectrum stick." He said some broadcasters were even trying to sell or lease spectrum that they were supposed to give back. Verizon Wireless agreed that promise of wireless "will only be realized if wireless companies... can use it." CTIA said it made good sense to make spectrum available more quickly. Verizon Wireless said 700 MHz spectrum, in which Ch. 60-69 broadcasters are incumbents until DTV transition is required in 2006, "holds great promise for 3rd-generation wireless services, but that promise will only be realized if wireless companies like Verizon Wireless can use it."

FCC TARGETS LOBBYISTS: FCC voted 4-1 Oct. 12 to penalize lobbyists who pass along nonpublic information obtained from agency. Rules apply to persons who are "regulated by or practicing before" Commission, but don't apply to news reporters, FCC officials said. Under new rules, lobbyists who receive nonpublic information for any reason must return it to FCC's Inspector General's Office without distributing or using it. If they violate rule, lawyers could be barred from practicing at agency and nonlawyers could be subject to fines, FCC officials said.

Comr. Furchtgott-Roth dissented, and several commissioners agreed with him that real culprits were agency employees who leaked documents. Comr. Powell criticized agency's "culture" and said he never saw such "free-flowing" leaks until he

joined FCC. In some cases, leaks by Commission personnel "are malicious attempts to pressure the outcome" of proceedings, he said.

Action is outgrowth of several high-profile leaks, most recently draft of staff recommendation in FCC's review of AOL-Time Warner merger request. In answer to call for investigation by Comr. Tristani, FCC attorney Patrick Carney said probe had been under way for several weeks. Commissioners emphasized that their concern centered on "pre-decisional documents" that could hamper agency's work, affect stock prices and confuse public. Reacting to concerns, FCC Chmn. Kennard announced later in day that agency had formed task force, chaired by Powell, to improve internal controls on nonpublic information.

EC CLEARS AOL-TW, FCC STOPS CLOCK: European Commission (EC) approved AOL's proposed takeover of Time Warner (TW) Oct. 11 after 2 companies made several concessions and TW jettisoned its separate deal with EMI Group. With approval, spotlight shifts from Brussels to Washington, where FCC and FTC are scrambling to complete their separate but closely coordinated reviews and to decide what conditions they should impose on merger. Industry experts expect at least one of federal agencies to reach decision by end of month, although FCC unexpectedly stopped clock on its review later same day in deference to extended review at FTC.

To gain EC's approval, TW called off its merger with British music firm EMI Group, and AOL and TW agreed to sever AOL's ties with German media behemoth Bertelsmann and French media giant Vivendi in separate European online ventures. Partners also agreed that AOL-TW wouldn't discriminate against rival ISPs for 5 years and would make AOL's online music player, Winamp, compatible with at least 3 competing software music players. Finally, AOL and TW pledged that they wouldn't make online content providers seeking carriage on AOL in U.S. sign deals covering Europe as well. EC said independent monitor would be appointed to ensure compliance with Bertelsmann conditions until company exits from both AOL Europe and AOL Compuserve France.

FCC unexpectedly deferred any action on AOL-TW union Oct. 11, stopping 180-day review clock as it was about to wind down, apparently in response to companies' request that FTC delay its decision pending further talks. Deferring to simultaneous review at FTC, FCC said it would wait until other agency reached its decision and then "promptly publish an anticipated timeline" for action. In brief letter faxed to both companies and their main Washington attorneys, FCC Gen. Counsel Christopher Wright stressed routine nature of deferral.

FCC and FTC officials declined further comment on deferral, citing confidentiality requirements. But well-placed sources said FCC acted after FTC agreed with AOL and TW to extend their oft-contentious negotiations on conditions until at least end of month. Both agencies originally planned to wrap up their separate but closely coordinated takeover reviews by mid-day to late Oct., just like EC. But unlike EC and FCC, FTC has no statutory or self-imposed deadline for acting. "There is no timetable," FTC spokesman said.

Industry analysts said regulatory delays clearly indicated that FTC wasn't satisfied with companies' offers. They said EC's approval of deal, while favorable for AOL and TW, would have little impact on FTC and FCC reviews because issues and markets were very different. But most analysts still believed deal would be approved by both federal agencies.

Following EC's example, FCC and FTC are widely expected to impose their own set of conditions on AOL-TW union in next few weeks. Industry observers believe FTC will focus on opening TW's high-speed cable lines to rival ISPs and possibly interactive content providers while FCC will stress development of instant messaging (IM) interoperability. "The EC set a floor on conditions," Precursor Group CEO Scott Cleland said. "It creates a negotiating momentum, a building block."

Indeed, even on day that EC acted, AOL's IM rivals prepared to mount new lobbying drive on IM interoperability stan-

dards at FCC. For instance, Ross Bagully, CMGI senior vp who runs its Tribal Voice instant messaging unit, planned to meet last week with 4 of 5 commissioners, all except Furchtgott-Roth, to push for requirement that AOL make its 2 IM services open to rival services as early as March 1. As alternative, he called for FCC to block wide commercial deployment of new AOL TV interactive TV service until combined company made its IM services interoperable.

At same time, Forrester Research issued short report sternly warning IM providers to set voluntary interoperability and security standards and "build one global network" or face regulatory consequences. "Instant messaging has moved beyond the domain of any single vendor to become a global communications network like the telephone or airwaves," Forrester said. "IM operators take note: If you don't rise to the occasion by voluntarily setting and meeting new standards of security and interoperability, regulators will force them on you."

In short joint statement, AOL and TW said they were "very pleased with today's approval of our merger by the European Commission, another important step forward in the approval process." Partners also said their "discussions with U.S. regulators are proceeding well and the companies are confident they will conclude successfully." They said they were "on track" to close merger this fall and declined comment on FCC's deferral and their continuing negotiations with FTC.

In another merger-related move Oct. 11, NCTA fired off letter to FCC Chmn. Kennard, objecting to NAB's call for open access provisions for unaffiliated service and content providers as well as independent ISPs. Blasting what it called "NAB's penchant for injecting itself and extraneous issues into merger reviews," NCTA called it "inappropriate to decide matters of industry or cross-industry significance, properly considered in general proceedings, in the context of specific merger reviews." NCTA said NAB's proposal "simply ignores all that Congress and the FCC have decided on questions of program access" in cable market and "ignores the competitive environment faced by cable operators."

Finally, FCC Cable Bureau Chief Deborah Lathen slapped Disney's hands last week for breaching Commission's order to keep confidential documents related to agency's merger review. In 2-page order issued Oct. 10, Lathen agreed with AOL that issue required investigation and instructed Disney to "provide a full and detailed explanation of this matter" by end of Oct. 13. She also ordered Disney to provide "appropriate affidavits" that offending e-mail "has been retrieved and permanently deleted" from Disney's e-mail systems and to destroy all copies in unauthorized hands by end of Oct. 13. Lathen said FCC "will decide what sanctions may be appropriate" upon concluding investigation. She also precluded Disney and its counsel from any further inspection of confidential AOL-Time Warner documents until they submitted approved list of procedures to prevent further breaches.

"Is content king or does government reign?" is question for Oct. 24 seminar at Freedom Forum (FF) in Arlington, Va., sponsored by NAB Education Foundation. Panelists include former FCC chmn. Newton Minow; Paul McMasters, FF First Amendment ombudsman, and attorneys Thomas Krattenmaker and Daniel Troy. Attorney Cameron DeVore will moderate.

LPFM NEARS RESOLUTION: Low-power FM (LPFM) has joined foreign govt. ownership of telecom companies on list of final 5 items in Commerce-Justice spending bill (HR-4690) to be negotiated between White House and Republican leadership in Congress, sources told us. While telecom provision looked increasingly unlikely to pass last week, provision to block or curtail LPFM program now was major candidate for inclusion. More than half of Senate has signed some measure to limit program. Meanwhile, bill creating \$1.25 billion loan fund for satellite provision of local TV signals seemed cleared for takeoff this week after House and Senate leadership resolved dispute over eligibility of Northpoint Technology.

"It has been kicked upstairs," said one Hill opponent of bill (S-3020) that would limit LPFM program. "It's out of our hands." He said LPFM's fate could rest on whether it took priority over 4 other White House concerns — telecom ownership, immigration, tobacco and marine conservation issues — with each side likely to get 2 or 3 victories. "Some of this stuff will survive and some will go," source said. He said it was unlikely LPFM was "vetoable" issue, and White House might have "bigger fish to fry." Last week, Office of Management & Budget (OMB) noted inclusion of LPFM limits in statement of objections to bill but gave far more space to its problems with telecom ownership limits. Senate Majority Leader Lott (R-Miss.), who has been supporter of ownership limits, said he wouldn't hold up bill over measure.

"We don't have any commitments at this point," said spokesman for Sen. Grams (R-Minn.), bill's sponsor. NAB Exec. Vp James May said GOP leadership had indicated its intention to include language, but outcome remained up in air. On other side, LPFM proponents stepped up their efforts to block bill last week. Civil rights groups, including NAACP, National Urban League, National Organization for Women and Rainbow/Push Coalition, wrote letter to Congress and Administration saying they regarded LPFM as important civil rights issue. Senate Commerce Committee Chmn. McCain (R-Ariz.), who has been gadfly on many overstuffed appropriations bills this year and in past, has said he opposes measure's inclusion in spending bill.

At this late stage in talks, sources said it was unlikely other controversial items such cable ownership relief for AT&T would be included. Commerce-Justice bill could include satellite provision, however. It wasn't clear last week how bill would be moved. Both House (HR-3615) and Senate (S-2097) versions have passed their respective chambers, but to accommodate time constraints lawmakers have chosen to work out their differences informally rather than proceed to conference. They had hoped to attach compromise to Agriculture spending bill (HR-4461), where it seemed most salient and least likely to encounter resistance, but that has come and gone, leaving more controversial Labor-HHS (HR-4577) or Commerce-Justice as potential vehicles.

Satellite bill now would require FCC to hire outside firm to conduct independent study on whether technology such as Northpoint's interferes with other satellite companies. Study results will be due within 60 days of bill's enactment, with 30 more days for public comment.

Both sides spun compromise as victory. Rep. Oxley (R-O.), who along with House Majority Leader Arny (R-Tex.) had been most vociferous opponent of Northpoint, was "extremely pleased," spokeswoman told us. "All he ever wanted

was a straight test of the technologies potentially competing on the spectrum." Northpoint Pres. Sophia Collier said she was "pleased" with compromise, which would allow FCC to continue allocations and licensing for Northpoint during testing. "We are highly confident in Northpoint's ability to stand up to any independent test," she said. Satellite loan bill passed both houses early this year but had been stalled since then despite almost universal approval of general intent. Battle over Northpoint had been seen partly motivated by partisan interests, since company is public backer of Democrats.

FCC's long-awaited Notice of Inquiry (NOI) on granting ISPs open access to cable systems appeared in *Federal Register* Oct. 11, starting clock ticking for public comments (TVD Oct 2 p5). FCC extended deadlines on NOI, saying comments now were due Dec. 1, not Nov. 27, and replies Jan. 10, not Dec. 26. Commission said it extended both deadlines in deference to "the intervening holidays" — Thanksgiving and Christmas. In related move, FCC essentially folded separate pleading into open access NOI, setting up same deadlines for comments on USTA's petition for declaratory ruling that cable operators providing telecom services contribute to universal service fund. As part of its open access NOI, FCC is looking at whether cable-based Internet service should be treated as telecom service and what implications of that would be. Separately, U.S. Internet Industry Assn. sent out e-mail policy alert urging ISPs and its other members to comment on NOI. Finally, coalition of business, association and citizen groups led by Americans for the Digital Bridge urged White House to back Broadband Internet Access Act, pending legislation in House and Senate that would provide temporary tax credit to spur deployment of high-speed Internet access to rural and low-income areas.

Teledesic may have to apply for new licenses from FCC and international regulators after revising its business plan, including redesign of satellite system and severing ties with prime system operator Motorola, it said in SEC filing. Teledesic, owned by group headed by cellular leader Craig McCaw, said it would pursue new prime contractor for 288-satellite constellation (McCaw has 60% equity stake in venture either directly or through Eagle River Investment group.). Redesign could switch Teledesic from LEO to another system, requiring new FCC authorization. Filing said system Teledesic plans to deploy will be global network composed of nongeostationary satellites and terrestrial infrastructure. Company expects to begin service in 2004 and offer commercial service by 2005.

Of 773 TV stations responding to poll by Ball State U. and RTNDA, 88% said they operated Web sites, with 11% making profit, 18% losing money, 25% breaking even and 46% saying "don't know." Typical TV station has one person working full time on Internet activities, study found. Of 295 radio stations, 63% operate Web sites, with only 2% making profit, while 20% were breaking even, 12% losing money and 66% "don't know." "Radio Web sites appear extremely unlikely to make a profit and there's no meaningful variation" by region, number of stations in market or whether station is AM or FM, study said.

FCC voted Oct. 12 agenda meeting to bar local telcos from signing exclusive service contracts with owners of commercial buildings but shied away from imposing requirements directly on building owners — at least for now. Agency also eased way for tenants to place dishes on their balconies and clarified several other requirements. Agency said pole attachment law required telcos to give telecom carriers and cable providers access to their conduits in buildings.

AT&T PRESSES FCC ON TWE SALE: Frustrated by its failed talks with Time Warner (TW), AT&T is seeking either regulatory relief or help in shedding its 25.5% stake in Time Warner Entertainment (TWE). AT&T, which is weighing TWE sale as one of 3 options for complying with FCC's conditions on MSO's earlier purchase of MediaOne Group, is quietly lobbying Commission for assistance as its deadline for choosing option approaches in 2 months. In ex parte filings with agency released Oct. 10, AT&T Exec. Vp-Gen. Counsel James Cicconi disclosed that he spoke on phone twice recently with Kathryn Brown, chief of staff to FCC Chmn. Kennard, to discuss his company's unsuccessful efforts to sell its TWE interest back to TW. Cicconi also warned that AT&T might not be able to sell its TWE stake to public before Commission's May 19, 2001, deadline for coming into compliance and hinted that regulators might have to step in. "In the absence of a negotiated settlement between the parties, which appears unlikely, the only alternatives to the uncertainties created by the registration rights process would be an obligation on both parties to ensure the fair and timely termination of the partnership," Cicconi wrote.

Move came as lawmakers and regulators weighed imposing conditions on pending AOL acquisition of TW that would force combined company to sever its ties with AT&T, nation's leading MSO. In latest action, Senate Judiciary Committee Chmn. Hatch (R-Utah) wrote FTC Chmn. Pitofsky late last month, urging his agency to analyze "the potential for anticompetitive conduct" in ownership links between AT&T and TW. "I respectfully ask that the Commission carefully consider whether a fair and expeditious resolution of the TWE partnership between AT&T and Time Warner would be in the best interest of competition and consumers in light of the proposed AOL-Time Warner merger," Hatch wrote. "This would ensure that consumers benefit from the robust competition that will result once these two companies' shared economic and operating incentives are separated."

AT&T's move also came as AOL and TW officials stoutly defended TW's links to AT&T and contended that regulators should not intervene. In recent 13-page letter to FCC, companies argued they shouldn't have to sever ties with AT&T because regulators already had addressed issue in MediaOne transaction. They also said AOL-TW deal wouldn't change those ownership interests because there were no links between AOL and AT&T. "This merger creates no new AT&T link to Time Warner, and the addition of AOL does nothing to affect the preexisting — and FCC-approved — AT&T ownership interests in TWE," letter stressed (TVD Oct 9 p2).

AT&T executives declined last week to say much more about their lobbying efforts. "We recognize that the addition of AOL to the cable partnership raises regulatory concerns," AT&T official said. "The FCC discussions and the Hatch letter are byproducts of that concern." TW spokesman said merely that "our conversations with AT&T are ongoing."

However, industry observers said AT&T's lobbying drive clearly was attempt to boost its leverage in flagging negotiations with TW and to win higher price for its TWE stake. Thanks to TW's having edge in bargaining because it doesn't need to buy back stake, they said, companies have remained as much as \$16 billion apart in price, with AT&T reportedly seeking as much as \$20 billion and TW offering as little as \$4 billion. Analysts have valued stake at about \$12 billion. "Inertia's not getting it done," Precursor Group CEO Scott Cleland said.

Analysts said TWE's sales price was particularly key right now because AT&T, plagued by faltering share price, could use cash infusion to cut its debt load and boost its stock's prospects. On other hand, purchase of TWE stake potentially might force TW to add debt, hurting its stock. "TWE is dead money for AT&T," Cleland said, noting that MSO had no management control over stake. But, he said, "AOL-Time Warner likes the use of AT&T's cash with no exit."

Preliminary agenda for FCC's en banc hearing Oct. 16 on DTV public interest obligations includes 18 panelists, none from highest rank of TV executives but several who could be classified as activists. Only major industry executives are Anne Sweeney, pres.-Disney/ABC Cable Networks, and James Goodmon, CEO, Capitol Bcstg. Others include Kathryn Montgomery of Center for Media Education, Vicky Rideout of Kaiser Family Foundation, Nadine Strossen of ACLU, Robert Peters of Morality in Media, attorney Henry Geller, Paul Taylor of Alliance for Better Campaigns, Sister Mary Parks of Diocese of Altoona. Also to speak are several academics, James Steyer of JPKids, Susan Altman of *It's Academic*, Patricia Nugent of PBS, lawyer Robert Corn-Revere, Paul La Camera of WCZB Boston.

AT&T Broadband signed letter of intent with Best Buy Co. to pitch AT&T's digital cable, high-speed data and potentially other advanced cable services through retailer's stores. In tentative cable retail deal, first one negotiated by AT&T, companies also said they would work together and with CE manufacturers to encourage development of "broadband digital appliances with new functions," as well as creation of e-commerce strategies and joint development of operational systems.

"Digital divide" is widening and is unlikely to close soon, Consumer Federation of America (CFA) and Consumers Union report said. Survey of 1,900 respondents found that 47% — mostly lower income, elderly and minorities — had no Internet access at home and were becoming "disadvantaged and disenfranchised in cyberspace," CFA said. "Understanding that these vulnerable groups are harmed by their lack of access to technology becomes the starting point for seeking cost-effective avenues to address this deprivation," CFA said.

On eve of expiration of retransmission consent deadline Oct. 15 for Comcast's carriage of ABC stations, Disney said deadline had been extended, but didn't specify date. "We really are not commenting beyond saying the deadline has been extended," Disney spokeswoman said. Retransmission negotiations center on ABC stations in Comcast's L.A., N.J.-N.Y. and Philadelphia markets.

Shop At Home agreed to sell KZJL (Ch. 61, Ind.) Houston to Liberman Bcstg. for \$57 million, companies said. CEO Kent Lillie said sale, along with earlier sale of Bridgeport, Conn., TV station, would provide \$88 million after-tax income to company. Liberman said it expected to reach at least as many Houston households through cable carriage and other agreements now being negotiated.

House Commerce Committee Telecom Counsel Justin Lilley is headed to News Corp., where he will be vp-govt. relations based in Washington. Lilley worked for retiring Committee Chmn. Bliley (R-Va.) for 4 years and advised Republican members of Committee from 1988 to 1993.

XM AND SIRIUS FACE BATTLE: Despite outperforming terrestrial broadcasters in 3rd-quarter stock comparison, XM and Sirius Satellite Radio still face uphill battle to gain acceptance for their service once they launch in 2001, industry analysts and radio executives believe. Satellite radio companies will face stiff competition from more established and better financed terrestrial stations and growing popularity of Internet stations, analysts said, creating 3-way competition for listeners and advertisers.

Sirius stock has gained 8.2% this year, but XM is down 8.9%, with shares of several large terrestrial broadcasters struggling. Bloomberg Bcsstg. & Cable Radio Stock Index, which charts results for 12 U.S. station owners, has dropped 56% and Clear Channel and Infinity are down 44% and 21%, respectively, despite major deals. Eight other companies in radio index are off 50% or more, including Cumulus Media, down 89% for year. As of June, Sirius had more than \$194 million in losses since start 8 years ago while XM had lost \$73 million since 1997 debut. Together, they have raised \$2.55 billion.

Analysts were unsure about future of satellite radio. "The initial barrier will be cost", said analyst Jonathan Lawrence, who issued "buy" ratings on Sirius and XM. He said company was unlikely to hit 100,000 subscribers by end of next year, but believed it could begin to show positive cash flow by 2004 or 2005. Lawrence predicted each would reach 16 million customers by 2007. "Sales will probably start slowly because people are going to be reluctant to spend money for a service that most people are now getting for free," he said.

Satellite analyst Marc Crossman predicted XM radio would "miss first milestone" and "investors are going to get nervous when it happens." He said that's expected for start-up in "totally new, unproven" industry — DirecTV, Globalstar and Iridium all missed milestones "out of the box."

Most analysts seemed comfortable with XM and Sirius, with both getting buy ratings from 13 firms that follow them. However, "uncertainties exist regarding the ability of [XM] to develop enough demand for satellite-based radio at price points necessary to service debt load," Moody's said. "The depth and breadth of XM's potential market and the viability of the advertising market is unproven." It said CDs and tapes "represent competition as entrenched music distribution systems with definable advantages are recognized by consumers." Moody's also was concerned with competition from terrestrial broadcasters, which are upgrading to digital, "eroding sound-based technical advantages" of satellite radio.

Industry observers said Internet radio still was evolving and wireless Web could overtake satellite radio as alternative to terrestrial service. "Once all the kinks in the technology shake out, I don't think XM and Sirius will be able to compete," Internet radio executive said: "It has taken them so long to get their service up, they may have missed their window of opportunity." However, Don Bogues, CEO of Command Audio, which offers similar satellite radio service in Asia and Africa, said satellite and Internet served different markets. "What satellite guys offer is highly appealing to people who are mobile,"

he said. "Internet radio is more appealing to someone sitting at a desk."

NAB spokesman said satellite and Internet radio programming would "be competitive threat," but radio broadcasters "have faced a lot of threats down through the years and we are still standing." He said public shouldn't write off traditional stations as some have done in past. "A lot of people have written obituaries for radio stations, but those predictions have been premature." Spokesman said Internet radio "isn't something we can ignore," pointing to 4,000 stations that currently are streaming station signals, but broadcasters see Internet "as an opportunity rather than a threat. It's a chance to enhance service to listeners."

Pa. House re-referred Image Bill (HB 1980) to Appropriations Committee after tabling measure Sept. 26. Bill would bar use of name or likeness of any person, living or dead, without consent. Cable operators fought provision in bill that would have required cable companies, which carry dozens of cable and broadcast networks, to preview all of their programming. Pa. Cable Assn. pushed for amendments circulated later by House Judiciary Committee to exempt cable companies from bill.

Chad (Elvis) Oxley, son of Rep. Oxley (R-O.), has become mktg. mgr. of French phone company Alcatel USA in N.C. Alcatel is largest stakeholder in 2-way satellite Internet service provider Skybridge. His father has been supporter of measure pushed by Skybridge that would require FCC to determine that Northpoint Technology would interfere with satellite companies such as DirecTV, EchoStar, Skybridge.

DirecTV, Wink Communications and Thomson Multimedia announced debut of DirecTV Interactive. Companies said service began Oct. 10 and would continue through end of month for one million DirecTV customers who own Wink-capable DirecTV receiver. DirecTV Interactive TV allows customers to interact with programs and commercials during viewing. DirecTV also announced addition of local channels in Austin, Birmingham, Ala., Greensboro, W. Palm Beach.

OpenTV said it signed agreement with United Pan-Europe Communications (UPC) of Europe to support UPC's direct-to-home satellite TV service subsidiary. Interactive TV launches are planned throughout Central Europe, with first service scheduled for Czech Republic, Hungary, Poland and Slovakia next year.

ESat announced rollout of Tera-Point wireless Internet service in L.A. that's expected to compete with DSL and cable services. Company promised service at speeds 2-155 Mbps depending on location of user and installation within 10 days.

CAIS Internet and Hughes Network Systems signed agreement to provide 2-way broadband services to enterprises linking multiple locations. HNS will supply DirecWay service for businesses. CAIS Internet will offer HNS DirecPC 2-way Internet for residential customers.

Canadian Assn. of Bcstrs. became associate member of N. American Bcstrs. Assn., groups said.

NCTA SEEKS TOUGHER THEFT LAWS: Seeking to contain signal theft that drains billions of dollars annually from cable industry, NCTA is working with state cable groups to add teeth to outdated state telecom security laws. As industry rolls out digital cable services, it's pushing to change obsolete state statutes that address only security issues of conventional phone service. NCTA said its efforts already had gained amended antitheft laws in Fla., Nev., Ore., Pa. and Tex., and it was active in other states.

Success of recently passed Pa. antitheft law has spurred action elsewhere, said Daniel Backo, dir. of NCTA Office of Cable Signal Theft. He said NCTA, which has created briefing packet for state cable groups addressing specific issues, is recommending language for legislation modeled on Pa. Act. Backo said NCTA was working with state groups in Ala., Neb. and N.J. on amending antitheft statutes, as well as with Broadband and Internet Security Task Force.

Cable operators lose more than \$5.1 billion revenue annually from signal piracy, Backo said, citing figures from 1995 survey. Figure doesn't include loss from pay-per-view theft, he said, and association is conducting fresh survey. NCTA estimated each illegal decoder sold to consumer led to loss of \$3,849 over decoder's 7-year life.

Recent industry focus on state laws is motivated by fact that they could provide real deterrent at consumer level, said Geoffrey Beauchamp, lawyer for Broadband & Internet Security Task Force. Beauchamp, who was instrumental in drafting Pa. legislation, said that although federal law could be more punitive than existing state statutes, enforcement was lax because agencies were hard pressed for resources. Pa. statute filled "gaps" in federal law, especially in Cable Communications Policy Act of 1984, which has been weakened by recent court rulings limiting civil damages, he said.

Calling new Pa. law most comprehensive antitheft statute in U.S., Beauchamp said it bans manufacture, sale, possession, use and promotion or advertisement of unlawful telecom devices and broadens definition of telecom device to include hardware and software capable of transmitting, acquiring, decrypting or receiving any telecom service. It protects all telecom services, including electronic data, video, audio, Internet access, telephone, microwave and radio communications, transmissions, signals and services, he said. Law beefs up criminal penalties and expands civil remedies available to include recovery of damages. Plugging loopholes found in some other state statutes, Pa. law broadens scope of vendor prosecution by imposing liability on out-of-state vendors involved.

Beauchamp said task force had begun national program to identify state laws that needed updating to take into account changes wrought by broadband revolution. Target states include D.C., Del., Mass., Md., N.J., N.Y., R.I. and Va., he said, and group will propose legislation through state telecom and cable groups.

CableLabs qualified 3 new cable modem termination system (CMTS) vendors, requalified another and recertified one manufacturer for one of its cable modems. CableLabs qualified RiverDelta, Riverstone and Terayon Communications Systems for their CMTS products, affirming that they could work with approved cable modems using different silicon. Cable industry R&D consortium also requalified Motorola's CMTS and recertified one of Motorola's interoperable cable modems.

OLYMPICS BOOST NBC: Spurred by Olympics, NBC revenue jumped 76% in 3rd quarter ended Sept. 30 to \$1.9 billion, parent GE said without elaboration. However, NBC profit was up only 10% to \$292 million. Discussing NBC results, GE talked only about network Emmy nominations, success of *To-day Show*, impact of Olympics on CNBC, MSNBC, NBCOlympics.com Web site. GE overall revenue was up 18% to \$32 billion for quarter and profit up 20% to \$3.2 billion.

In other financials: **Hughes Electronics** said cash flow from operations in 3rd quarter plunged 47% to \$107.9 million from \$202 million last year. Hughes said its net loss widened to \$88.5 million, including purchase accounting adjustments of \$29.6 million in 3rd quarter 1999. Quarterly revenue edged up to \$1.69 billion from \$1.63 billion... **PanAmSat** said 3rd-quarter revenue dropped 5% from same 1999 period to \$199.3 million. Net income was \$9.25 million, down from \$33.9 million. Company said decline was result of one-time customer payment of \$15 million year ago associated with termination of direct-to-home video services agreement in India.

Pax TV said it signed local marketing agreements (LMAs) with 6 NBC affiliates owned by Gannett and 3 by N.Y. Times Co. — NBC affiliates WHO-TV Des Moines and KFOR-TV Oklahoma City, ABC affiliate WNEP-TV Scranton & Wilkes-Barre. Pax stations will air local news of its new LMA partners on delayed basis. Gannett-Pax-NBC markets are Atlanta, Buffalo, Cleveland, Denver, Minneapolis, Portland, Me. Technical operations of Pax stations in LMA with Times will be based at Times's Digital Operating Center in Norfolk.

Broadlogic and Inetcable.com signed agreement to enable Broadlogic to supply latter with its Satellite Express™ USB desktop satellite receiver. Inetcable will use Broadlogic receivers for delivery of streamed IP video and data to subscribers.

Overbuilder WideOpenWest said it received 15-year franchise from Arvada, Colo., to provide competitive digital cable TV, high-speed Internet and telephone services to city's 38,000 homes. WideOpenWest is authorized to construct network to pass 600,000 households along Colo.'s front range, company said.

OpenTV, seeking to boost its interactive TV customer base in U.S., announced start of broadband initiative. Effort combines OpenTV's interactive TV software with broadband interactive TV and Web technologies developed by Spyglass, which OpenTV recently took over.

United Pan-Europe Communications (UPC) began its first commercial rollout of TV "set-top computers" (STCs) in Amsterdam. Motorola and Philips will produce new STCs, which essentially are digital cable set-tops that can support digital TV, near-video-on-demand, electronic program guide and eventually high-speed data services.

Time Warner Cable signed programming distribution deals with Major Bcstg., Cable Network (MBC Network) and Bloomberg TV. Both umbrella agreements permit cable networks to pitch their services to Time Warner systems reaching total of 12.6 million basic cable homes. But each network still must sign deals with individual cable systems for actual carriage.

Number of U.K. households with DTV grew 10% in June-Aug. period, to 5.25 million, for penetration of 21% in nation, U.K. Office of Telecommunications said. It said 10% of DTV households used DTV to access Internet.

Personals

Sanford Litvack resigns as vice chmn., Walt Disney... Promotions at Fox TV Studios: **Martin Carlson** to vp-business affairs, **James Sharp** to vp-physical production, **Bob Lemchen** to senior vp-Fox TV Pictures... **Colleen Brown** joins Belo as senior vp-business development, new post, concentrating at start on Spanish-language initiatives; until Sept. 30, Brown was pres. of Lee Enterprises Bcst. Group (which was sold to Emmis Communications) and is member of NAB, MSTV and TvB boards... **Steve Harris**, ABC Radio Networks, advanced to vp-external programming... **Tracy Katsky**, ex-Regency TV, becomes senior vp-comedy development, Fox Bcstg... **Erin Berenson**, ex-Red Hour Films, named senior vp-comedy development, Regency TV... **Mike McKinnon** advanced to vp-engineering, Emmis Communications.

Anne Sweeney, pres., Disney-ABC Cable Networks and Disney Channel, appointed pres.-ABC Cable Networks Group and Disney Channel Worldwide... **Joseph Ripp**, ex-Time Warner, appointed CFO, AOL... **Arthur Smith** resigns as exec. vp, Fox Sports Net... **Doug Herzog**, ex-Fox Bcstg., named chmn., Comedy World... **Alain Fux**, ex-Multithematiques, appointed gen. mgr., Discovery Networks Europe... **Bill Harris** promoted to senior vp-production and network operations, A&E Networks... **Barry Baker**, ex-USA Networks, named managing dir. and venture partner, Boston Ventures Management... **Matthew Zinn**, ex-MediaOne, becomes vp, gen. counsel and chief privacy officer, TiVo... **Randy Watson**, ex-DirecTV, named vp-business integration, High Speed Access... **Doug Brooks** appointed dir.-capital expenditures planning and tracking, Cox Communications... **Lloyd Werner**, ex-CBS cable, named exec. adviser, National Network TV... **Steve Rizley** promoted to vp-gen. mgr.-Phoenix, Cox Communications.

Changes at FCC: **Lorraine Miller**, chief, Consumer Information Bureau (CIB), leaves to become dir.-community empowerment zone, Housing & Urban Development Dept.; **Roderick Porter** promoted to acting CIB chief... Elected to American Women in Radio & TV board: **Nancy Logan**, BMI, pres.; **Melodie Virtue**, Garvey Schubert & Barer, vp; **Dorothy Polanco**, Spur Capital, treas... **Jerry Whitaker**, ex-Technical Press, appointed technical dir., Advanced TV Systems Committee... **Marty Haag**, ex-Belo, becomes consultant, Audience Research & Development... **Rosalind Stark**, ex-Newspaper Assn. of America, named exec. dir, RTNDA Foundation... **Alex Breckon**, ex-SkyTrends/Media Business, appointed dir.-business development, Satellite Bcstg. & Communications Assn.

Lenny Schwartz promoted to senior vp, Atlantic Satellite & Waterfront Communications... Changes at Paul, Weiss, Rifkind, Wharton & Garrison: **Michael Reede** and **Lisa Yano** promoted to partner, **Warren Rothman** named counsel... **Chuck Kaplan**, ex-Philips Electronics, appointed vp-mktg., PowerTV.

National Iranian TV (NITV) CEO and founder **Zia Atabay** appealed to world media for help in reinstating satellite programming after being knocked off air in Europe and Middle East by mysterious Iranian-based rogue carrier Oct. 1. L.A.-based NITV independently operates 24-hour satellite TV station that reports Iranian culture and world news. Network is supported by Globecast and Eutelsat. Both companies confirmed Oct. 6 that signal, which started receiving interference on Oct. 1, had been interrupted by rogue carrier outside of Tehran. Eutelsat has filed complaint with Iranian govt.



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AT&T Broadband reached settlement in class action lawsuit against late fee charged by former MediaOne systems in Mich. Under settlement, current customers who had paid \$5 late fee for month will get \$2.50 pay-per-view coupon and former customers will receive check for amount, spokeswoman said. Company also agreed not to increase late fee for "certain period of time," she said.

FCC granted GE Americom authority to launch and operate C/Ku-band GE 7 replacement satellite at 72° W.

Consumer Electronics

A Section of Television Digest with Consumer Electronics

STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Sept. 29 and year to date:

	SEPT. 23- SEPT. 29	1999 WEEK	% CHANGE	SEPT. 16- SEPT. 22	39 WEEKS 2000	39 WEEKS 1999	% CHANGE
TOTAL COLOR TV	1,177,323	1,774,364	+ 1.0	639,530	21,265,263	20,103,694	+ 5.8
DIRECT-VIEW**1	125,059	1,114,958	+ 0.9	613,575	20,339,085	19,292,812	+ 5.4
TV ONLY#....	948,472	911,985	+ 4.0	509,544	16,844,996	16,174,246	+ 4.5
TV/VCR COMBO.	176,587	202,973	- 13.0	104,031	3,494,089	3,118,566	+ 12.0
PROJECTION...	52,264	50,251	+ 4.0	25,955	926,178	810,882	+ 14.2
TOTAL VCR**...	1,194,186	1,204,929	- 0.9	758,374	19,560,418	18,574,102	+ 5.3
HOME DECKS...	1,017,599	1,001,956	+ 1.6	654,343	16,066,329	15,455,536	+ 4.0
CAMCORDERS.....	287,021	201,017	+ 42.8	146,982	3,829,809	3,358,729	+ 22.6
DVD PLAYERS....	617,952	275,491	+124.3	149,675	5,092,289	2,373,358	+114.6

Direct-view TV 5-week moving average#: 2000-647,231; 1999-431,370 (up 50.0%).

Projection TV 5-week moving average: 2000-31,132; 1999-32,158 (down 3.2%).

VCR deck 5-week moving average: 2000-511,838; 1999-524,300 (down 2.4%).

TV/VCR 5-week moving average: 2000-105,492; 1999-100,375 (up 5.1%).

Camcorder 5-week moving average: 2000-138,231; 1999-96,737 (up 42.9%).

DVD player 5-week moving average: 2000-259,256; 1999-90,300 (up 187.1%).

** Includes TV/VCR combinations. # Excludes TV/VCR combinations.

Note: Analog sets only included in figures on direct-view TVs, TV/VCR combos, projection TVs; analog and digital models included in camcorders.

CIRCUIT CITY PROMOTES \$1 DIRECTV RECEIVER: Circuit City (CC) jump-started holiday selling season Fri., breaking national and local newspaper ads offering DirecTV receiver at \$1 with commitment to purchase 12-month subscription to Total Choice programming package (\$31 monthly fee).

Ad caught CC competitors by surprise, prompting them to deluge DirecTV's El Segundo, Cal., hq with telephone calls seeking explanation. Promotion, which features Hughes Network Systems (HNS) and Thomson RCA receivers, wasn't sanctioned by DirecTV and is likely to prompt response from CC rival Best Buy and others. "It will be very interesting to see what the response is next week because nobody expected this," west coast retailer said.

Promotion, which runs for week, requires that consumer activate Total Choice package within 2 weeks of installation and is limited to one per household. Consumer pays \$300 if DirecTV account isn't activated or if subscription isn't kept for 12 months. Campaign coincided with DirecTV's launch last week of free installation program that runs through year-end.

"We do not like to have our product devalued unless we do it ourselves and that is not our strategy," said DirecTV Mdsgr. Pres. William Casamo, who said that DirecTV didn't sanction CC campaign and that it was funded by retailer. DirecTV officials conceded, however, that they had no recourse against CC other than to express their displeasure. CC spokesman declined comment. Asked whether Thomson sanctioned RCA's participation in promotion, spokesman said his company didn't learn of CC initiative "until we opened up the newspaper this morning." He said retailers "obviously are free to price the product how they want." CC promotion typifies very competitive nature of DBS business, Thomson spokesman said.

One CE executive speculated that "when they do something like this there is something fundamentally wrong with their business that they want to fix." "They may be trying to get DirecTV's attention or they may be experimenting to see if, in fact, price does drive volume with DirecTV service." Indeed, ad is departure for CC from its strategy in past of

promoting DirecTV based on service rather than price, sources said. In addition to \$1 offer, CC promoted 2-room DirecTV system at \$99 under same terms.

Referring to RadioShack, CE executive said: "If you think about it, the retailer that sells the most DirecTV systems sells it at the highest price and this will test that model."

STUDIOS READYING 'ENHANCED' DVD REGIONAL CODE: In bid to stem flow of DVD parallel imports overseas from N. America and enforce sanctity of regional coding, 2 Hollywood studios are preparing Regional Code Enhancement (RCE) that would prevent Region 1 discs from functioning in players that have been modified for "region free" operation. Sources confirmed that first implementation of RCE will be Mel Gibson movie *The Patriot*, scheduled for Oct. 24 release by Sony's Columbia TriStar Home Video (CTHV).

Plans for RCE became known when internal memo purportedly from Warner Home Video (WHV) was posted on U.K. Web site devoted to DVD issues. Although WHV confirmed existence of RCE program, statements in internal document were "preliminary" and didn't accurately reflect studio's current plan, Vp-Worldwide DVD Mktg. Stephen Nickerson told us. In particular, he denied RCE would be implemented on Nov. 14 release of blockbuster *The Perfect Storm*, as was widely speculated on online sites.

"Our plans for RCE are not final and it will not be applied to *The Perfect Storm*," Nickerson told us. "We're still evaluating RCE, and won't apply it to any major releases until our testing is completed, and as of right now, there's no timing for that."

That's not case at CTHV, which will "evaluate" RCE with *The Patriot*, Vp-DVD Business Development Scott Partridge confirmed. "We need to learn how the market will react, and we'll continue to test it in the future," he told us. "But from our testing so far, there's nothing alarming. They were really widespread tests, including DVD-ROM."

Reason for bolstering regional coding is to "protect theatrical windows and conform to local censorship ratings. Parallel imports have contravened those requirements," Nickerson said. "Being an internationally structured company, we've always complied with regional coding, and will continue to support it." WHV memo on Web stressed importance of briefing software retailers on RCE, particularly those who sell overseas through Internet.

Partridge gave identical rationale for adding more robust RCE to CTHV titles. Studio also is trying to reduce demand for Region 1 discs overseas by increasing simultaneous worldwide release of "top 10" movies theatrically and on DVD, Partridge said. Most recent example is *The Patriot*, which opened in theaters overseas within short window of U.S. premiere, and whose debut on DVD is slated for similarly close releases. As for other incentive to buy Region 1 discs — relatively lower U.S. prices — CTHV has moved to release DVDs overseas at about same price as U.S., and to match up "added value" features such as language soundtracks, Partridge said.

Despite technological attempt to shore up beleaguered regional coding system, RCE isn't likely to be cure-all. Sources familiar with system told us it would work only on DVD players that have been modified to play discs from all regions — so called "Region 0" or "code-free" decks. With "multiregion" players whose regional code settings can be changed at will, users simply could select Region 1 playback from "secret" software menu that's illicit under widely flouted DVD license.

Code-switchable multiregion players are predominant type now sold overseas, and usually have either OEM firmware or add-on chip that permits selecting all-region play or specific-region play through remote control. "Code-free" decks with hardware modification that entirely disabled regional coding were earliest option, which we reported when first "hacked" decks became available in Europe in March 1998.

Those won't be able to play RCE Region 1 discs — in fact, they weren't ever able to play Disney and Universal titles. Those studios from get-go implemented more robust regional coding that exploited format's navigation protocols, requiring "handshake" between disc and regional code chip before player could execute navigation menu's "branching" commands. If regional coding were disabled so that disc couldn't read specific region setting for machine, necessary handshake couldn't occur and disc wouldn't play.

"RCE isn't new, it's been built into the specs for some time," Partridge told us. Nickerson gave similar assessment: "It's within the DVD specs, and it's an additional step in authoring, although we've only looked at it since the beginning of this year." Neither executive was able to say whether RCE their studios had tested was same method used by Disney and Universal.

Although RCE won't prevent multiregion decks from playing Region 1 titles, point might be made moot by recent change in DVD license that aims to prevent manufacture of those decks. New specs were outlined in panel discussion on DVD copy protection at recent DVD Forum conference in Mesa, Ariz., by Mitch Singer, senior vp and assistant general counsel for Sony Pictures Entertainment. Henceforth, any internal or external method of disabling regional coding or Macrovision copy protection is "per se violation" of DVD license, Singer said. Ruling also includes means of changing player's regional code and Macrovision firmware after manufacture, such as by installing new program from CD-R — method embraced by some hardware makers to legitimately upgrade players to handle new DVD software features.

DVD LICENSING TERMS GET SHARPER TEETH: Stricter terms for DVD license and use of logo are in offing that will require tests to verify that players comply with DVD performance specifications — and bar noncompliant decks from sale in U.S. New terms were outlined at recent DVD Forum conference in Mesa, Ariz., that also saw discussion of DVD copy protection issues, patents, royalties.

New entity to oversee verification testing for compliance is DVD Format/Logo Licensing Corp. (FLLC), formed in April to administer licensing of revised logos, FLLC Pres. Makoto Inabayashi said. With manufacturing base for DVD players expanding rapidly, means to assure that products will perform to specs is necessary as well as enforcement of logo that assures consumers that deck complies with all standards, Inabayashi said.

To that end, FLLC has established verification test procedures that will be required of all manufacturers to qualify for trademarked DVD logo. Inabayashi said manufacturer's first production run must be tested by "Class A" lab within 60 days of shipping first production model. Testing for 2nd production run can be verified by "Class B" lab or "self-verified" by vendor's own quality control lab, he said. DVD Forum has authorized 14 verification labs to date, including one in China in June.

In event deck fails verification tests, vendor has 30 days to resubmit compliant product. If product fails 2nd time, there's option for 2nd resubmission within 30 days or to declare "final failure," Inabayashi said. That ruling "will deprive the licensee to continue use of the logo on their products," he said.

Revised status of DVD logos seems to give FLLC some teeth. "DVD FLLC is also responsible for policing DVD product, and will take the necessary steps on advice against noncompliance [by licensees] and nonlicensed infringers," Inabayashi said. FLLC has recorded trademarked DVD logo with U.S. Customs and provided authorities with list of licensed products, enabling Customs to prevent nonlicensed products from entering U.S. Inabayashi said other FLLC activities would include sending warning letters to manufacturers, based on "market inspection" of products and monitoring vendors' advertising and Internet activities.

Redesigned DVD logos carry trademark insignia and whereas format type (such as ROM or Video) used to appear within silhouette of elliptical disc, it now is placed below disc. Licensees must begin using new logo for new products by June, Inabayashi said.

In break with past practice, listing of all DVD licensees will be made public, Inabayashi said. Such disclosure will enable manufacturers to know they're contracting with other licensed companies, such as replicators. As of Aug., there were 92 licensees, up 31% from 70 on board in April, Inabayashi said. Actual number of manufacturing entities is higher — about 300 — and consists of affiliated companies that enjoy privilege of parent's license. Of 92 licenses, 35 are Japanese and only 5 from China, Inabayashi said, conceding that it was well known there were about 35 DVD manufacturers in China.

One thing FLLC testing won't verify is copy protection and regional coding compliance for hardware, Inabayashi conceded in answer to our query. Enforcement of regional coding and Macrovision copy protection requirements is responsibility of DVD Copy Control Assn., he said. New licensing rules prohibit manufacturers from providing any internal or external means of disabling regional coding or Macrovision, including use of firmware upgrades that would enable user to change region codes or circumvent analog copy protection.

Giving consumers ability to make such changes would be "per se violation" of DVD license, said Mitch Singer, senior vp and asst. gen. counsel, Sony Pictures Entertainment, who shared DVD copy protection panel with Macrovision Pres.-COO William Krepick. Latter outlined his company's efforts to enforce Macrovision license among errant DVD manufacturers, most often those in China, and said even more stringent enforcement will be required in future to combat threats from digital copying devices and Internet distribution. Singer characterized so-called file-sharing programs such as Napster, Gnutella and Scour as "file-distribution programs" and said any attempts to weaken protections against them in Digital Millennium Copyright Act would make studios reluctant to release content in digital form.

RCA 'eBOOK' GETS BROAD CONTENT SUPPORT: Top publishers will offer new hit titles exclusively in Gemstar's eBook format when RCA's handheld readers make Thanksgiving debut at Best Buy, Circuit City, OfficeMax (TVD Sept 18 p13). Half-dozen titles from best-selling authors will appear in electronic version before print dates, Gemstar Chmn.-CEO Henry Yuen announced at N.Y.C. news conference last week.

Big sell for book business was digital rights management (DRM) and content encryption used by Gemstar and RCA to prevent unauthorized duplication or distribution, authors and publishers agreed in prepared and off-cuff testimonials. Yuen said that even if hackers broke Gemstar eBook encryption and posted novel on Internet, DRM built into addressable RCA portables prevents display of content except on single device that has purchased authorization for its use. Louis Lenzi, vp-global new media services for RCA-parent Thomson, said content downloaded to eBook or its add-on memory cards couldn't be printed or otherwise transferred from device. Moreover, content stored on memory cards can't even be viewed in another RCA eBook.

Pricing for RCA eBooks now is official. MSRP is \$299 for REB-1100 with 5" monochrome LCD and \$699 for stepup REB-1200 with 8.5" color display. Distribution will be expanded from charter retailers to other CE dealers and to booksellers as production ramps up, Lenzi said.

Price of electronic versions of text isn't so clearcut. For example, Penguin Putman eBook edition of Patricia Cornwell's *The Last Precinct* released Oct. 12 wasn't priced differently from \$26.95 hardcover published Oct. 16. But Warner eBook of Brad Meltzer's *The First Counsel* will have \$14.95 sticker for Dec. 9 download, compared with \$25.95 hardcover arriving month later. *Roses Are Red* by James Patterson will appear as \$14.95 Little, Brown eBook Fri. but \$26.95 hardcover Nov. 20. Publishers generally said eBook prices would fall commensurately when mass-market paperback versions are published.

Marketing plan for electronic text will follow "timed release" pattern, Yuen said. Release of eBook version will precede hardcover and have 90-day exclusive in Gemstar format before publishers release them for other electronic formats, such as Adobe Glassbook and Microsoft Reader used for PCs. Publishers said eBook titles would be sold through Gemstar online store. Latter gets share of revenue in fulfillment of distributor role. Besides books, wide variety of periodicals will be available through Gemstar for RCA eBook.

CIRCUIT CITES CREDIT CARDS: Circuit City's (CC) credit card assets are heavily weighted toward Visa and MasterCard receivables, making chain's earnings "quite susceptible to incremental defaults," according to report by Sanford Bernstein analyst Ursula Moran.

About 60% of CC's \$2.8 billion of securitized receivables are tied to Visa and MasterCard, with rest represented by chain's private label credit card backed by First North American National Bank (FNANB), report said. CC's credit earnings account for 1/3 of its annual pretax income and could rise to 37% in current fiscal year as result of chain's dropping major appliances, report said.

Since Visa/MasterCard accounts pose lower threat of repossession because PCs or TVs can be reclaimed while meals can't, CC has "less leverage" with delinquent customers using branded cards, Moran said. Credit income has risen as percentage of CC's overall revenues to estimated 1% in current fiscal year from 0.7% in 1996 and is expected to level off there, Moran said.

Balancing Visa/MasterCard accounts is private label program that has been "trending quite well," Moran said. Private label card has had declining default rate and is "relatively low risk" vs. those of other retailers. Private label credit card accounted for 14% of sales in 1999, down from 24% in late 1980s and 19% in early 1990s, Moran said. It could shrink to 13% as result of dropping major appliances, she said.

CC has run private label credit operations "rather conservatively," leaving itself "relatively safe" if economy "sours and

personal bankruptcies rise," Moran said. "We left our analysis reassured about FNANB's private label business, but a little wary of the significant size of FNANB's Visa/MasterCard," she said.

* * * * *

As Sanford Bernstein released CC report, Federated Dept. Stores said it was cutting jobs and operations at its Fingerhut catalog business which has been plagued by credit problems. Federated Chmn.-CEO James Zimmerman told analysts in conference call that chain would "tighten" Fingerhut's "credit extension practices" and "significantly" reduce catalog business. As result of restructuring, Federated will report one-time pretax costs of \$75-\$100 million in 3rd and 4th quarters of fiscal year. It will take noncash write-down of goodwill and other assets totaling \$740 million on pretax basis in 3rd quarter ending Oct. 28. Included in write-down will be \$60 million related to Fingerhut's Internet investments. Federated will cut 550 jobs or 24% of Fingerhut's 2,300-person work force. Federated, which bought Fingerhut in March 1999 for \$1.7 billion, warned in July that delinquency problems at catalog company would hurt earnings.

As 800.com unveiled redesigned Web site (see separate report, this issue), CDNow was starting its own enhanced site in time for holidays. CDNow, which recently became division of Bertelsmann Commerce Group (TVD Sept 4 p16), said it redesigned its Video Shop, dividing titles into 13 genres and adding original reviews and other editorial content, including "Essentials" lists. Company said more than 70,000 DVD and VHS titles now were searchable by genre at its site. CDNow said changes made shopping easier and give consumers same sort of experience they found when searching for music at site.

AOLTV, ULTIMATE TV SLOW: Sales of DirecTV/AOLTV and Ultimate TV combo products will be in "drips and drabs" this year, with major rollout not expected until first half 2001, DirecTV Senior Global Digital Media Vp Brad Beale said.

While it had expected to have combo units available for holiday selling season, DirecTV "will focus our advanced platform for Christmas on TiVo," Beale said last week. DirecTV had planned to have both AOLTV and Ultimate TV this fall, former originally expected by last July.

"Some of it had to do with software and some it has to do with priorities — we have a limited amount of resources so we had to decide which projects to work on," he said. Indeed, Philips shipped first 35,000 units of TiVo personal video recorder (PVR)/DirecTV receiver earlier this month to Circuit City and Good Guys, and latter was said to have sold through first allotment in day and half.

While DirecTV had indicated that product combining AOLTV, Ultimate TV, DirecTV and TiVo was being considered, "we will wait until we understand the business models and then we will write the requirement for it," said Beale, who declined comment on availability. "We want to get the services out there and see how they go."

Among those is one-way AOLTV Plus Internet access service that's expected to ship first 2,300 units to retail by month's end, said Pradman Kaul, CEO of Hughes Network Systems, which is building unit. Two-way DirecPC is likely to be available in early Dec., but in limited supply — 20,000-30,000 units by year-end, he said. DirecTV will package its service with DirecPC, although pricing hasn't been set, Hughes Corp. Senior Exec. Vp Eddy Hartenstein said. Previous DirecPC service, which attracted 140,000 subscribers in 3 years, charged \$40 monthly fee. HNS could "easily ramp up" production of 2-way DirecPC receiver to 200,000 per month with 3-6-months' notice, Kaul said.

DirecTV also began download of Wink Communications software to receivers with interactive ad service. It had planned download for late Sept. (TVD Sept 25 p22). Software is being distributed on state-by-state basis starting with R.I. Software is expected to be in one million RCA brand receivers by month's end and could reach 3 million by year-end with addition of Philips, Samsung and Sony brands, DirecTV officials said. Among other things, Wink will offer 3-4 "virtual channels" from existing base of brand partners and new additions, Exec. Sales & Business Development Vp Allan Thygesen said. Software will be built-in feature of receivers by year-end, Beale said. DirecTV, Thomson and Wink are expected to unveil service formally at N.Y.C. news conference Oct. 19. Wink also has agreement with EchoStar, which has projected having service in million boxes by mid-2001.

"We will roll it out slowly on a state-by-state basis because we want to manage it in case there is an issue," Beale said.

EchoStar, meanwhile, has downloaded OpenTV's interactive applications software to 300,000-350,000 satellite receivers and expects it in million by year-end, OpenTV Chief Mktg. Officer Sharon Brown said. About 5 million EchoStar receivers are expected to contain OpenTV platform by end of 2001. Addition of applications to OpenTV platform for EchoStar has been at slower pace. So far, weather and news are available and

OpenTV is committed to developing 6 applications per year for EchoStar's Digital Sky Highway satellite service, sources said. "It is not so much the development of the applications that takes longer as it is integrating it into the service," source said. OpenTV software, which has 400 k footprint, is installed in boxes with 2 MB RAM, 2 MB flash, sources said.

In effort to expand beyond satellite in U.S., OpenTV also began OpenTV broadband software platform last week that's designed for cable set-top boxes. Platform combines core OpenTV software with Spyglass' Mosaic Internet browser, Pres.-COO James Ackerman said. OpenTV bought Spyglass earlier this year. While OpenTV doesn't have any agreements with MSOs, Time Warner is investor.

"It will be less integrated at the headend, leaving more space for other services," Ackerman said.

Target for OpenTV will be AT&T, which is expected to deploy advanced digital STBs in 2 separate trials later this fall, AT&T Digital Products Vp Keith Bechard said. One test will involve STBs equipped with Liberate Technologies software, other with Microsoft, he said. First test is likely to involve fewer than 100 participants and be limited to employees of companies involved, he said. If first trials prove successful, they could be expand to "thousands," although no time period has been set, Bechard said. Advanced digital STBs have been delayed repeatedly, with new target of 2001. Matsushita, Motorola and Philips are building STBs for AT&T, Bechard said.

At same time, United Pan-Europe Communications launched "Set-Top Computer" in U.K. last week. AT&T, British Sky Bcstg. and Canal Plus all plan to introduce similar devices next year. Next-generation boxes have hard disc drive and more powerful processor to make possible storing of movies, home shopping and transmitting of digital photos, among other things. STB is expected to be priced at \$349-\$436.

Pace Micro Technology is building STB with 40 GB hard drive for BskyB. Pace also is developing adapter for low-cost STB that communicates wirelessly with cordless phones and handheld PCs. It also has designed Shopping Mate handheld device that links with adapter to allow consumers to make lists and place orders through STB without interrupting TV program.

BMG selected MusicMatch's Jukebox software as first media player for its commercial digital download program that started last week. As part of BMG plan, as many as 2,500 albums and singles from record company's catalog are to be available in time for holidays, each of which can be used in conjunction with MusicMatch's Jukebox. As we reported, new version of Jukebox — 6.0, now in beta stage — includes MusicMatch Radio service (TVD Sept 25 p22). BMG Entertainment Chief Mktg. Officer and New Technology Pres. Kevin Conroy said MusicMatch's software "is an important element in our consumer-friendly approach to building a legitimate digital music market." Retailers taking part in BMG download plan include Best Buy, GetMusic, Musicland, Emusic's RollingStone.com, Tower Records, Trans World Entertainment, Wherehouse Music/Checkout.com. Digital downloads cost \$1.98-\$3.49 for singles, \$9.98-\$14.98 for CDs, \$11.98-\$20.98 for double CDs. Plan had been expected to kick off in Sept. (TVD Aug 28 p18), but BMG didn't announce reason for delay.

HUGHES LOSS WIDENS: Hughes Electronics reported 3rd-quarter loss grew to \$93.8 million from \$34.9 million year ago as DirecTV posted slower-than-expected subscriber growth and acquisition costs increased.

Continued slowdown in sales of DirecTV in rural markets coupled with programming price increase resulted in net gain of 450,000 subscribers, 70,000 fewer than Wall St. projections. Earnings before interest, taxes, depreciation and amortization (EBITDA) dropped to \$36 million from \$86 million year earlier despite 9% rise in revenue to \$1.15 billion from \$1.05 billion. Free programming offered in connection with NFL promotion had \$20 million negative effect on earnings, it said. DirecTV ended quarter with 9 million subscribers (7.3 million in urban/suburban markets, 1.7 million in NRTC territories).

Subscriber acquisition costs, driven partly by conversion of former Primestar customers to DirecTV, rose to \$525 from \$490. Cost will be "slightly north of" \$525 in 4th quarter as DirecTV begins promotion offering free installation, company said. Monthly churn rate edged up to 1.7% from 1.5% as DirecTV converted 300,000 Primestar customers, 135,000 short of goal. Overall, DirecTV said it had switched 1.5 million Primestar subscribers, 1.3 million of whom remained customers at quarter's end.

Rise in churn rate also was tied to DirecTV's increase in monthly programming fee. Of those that dropped service, 30-35% cited affordability as reason, Corp. Senior Exec. Vp Eddy Hartenstein told analysts in conference call. Average revenue per subscriber was \$58 in quarter. Former Primestar customers fell in \$48 range, he said.

DirecTV remains on target to post \$4.8-\$4.7 billion in revenue for fiscal year. Included year-end revenues will be \$100 million in incremental 4th-quarter gain expected from NFL, NHL and NBA programming and \$40 million from price increase, which took effect in Sept.

End of Primestar conversion program, will yield \$6-\$7 million monthly EBITDA gain, company said.

Installation of DirecTV kiosks in Blockbuster Video stores appears to have fallen slightly behind schedule. Kiosks were in 3,500-3,600 Blockbuster stores at quarter's end, short of 4,000 goal (TVD July 24 p19). Blockbuster is expected to begin ad campaign this month, Hartenstein said. DirecTV spokesman said he wasn't "aware of any issues or problems" with rollout of kiosks, but declined further comment.

In local-into-local, DirecTV has service in 39 markets, giving it coverage of about 40% of U.S., Hartenstein said. About 60% of new customers are buying local-into-local, which has helped spur slow sales in Pittsburgh and Portland, Ore., he said. DirecTV now has 35-40% penetration in latter 2 markets, Hartenstein said.

Hughes Network Systems (HNS) EBITDA fell to \$16.8 million from \$49.8 million and revenues to \$284 million from \$426.2 million. Shipments of DirecTV satellite receivers slid to 470,000 from 730,000 year earlier, HNS CEO Pragman Kaul said. Decline in shipments was due to

Primstar service where deliveries fell to 65,000 units from 281,000 year earlier, he said. HNS gained \$423 million in new contracts in quarter, including agreement to provide VSAT service for Musicland chain.

DirecTV's Galaxy Latin America (GLA) reported EBITDA rose to \$50 million from negative \$24 million year ago on sharp gain in revenue to \$136 million from \$76 million. GLA added 126,000 net subscribers in quarter, up 88% from year ago and boosting total to 1.1 million. DirecTV's former DirecTV Japan business lost \$3 million and shut down Sept. 30 after transferring customers to SkyPerfect TV.

RIAA said it began project to develop standardized way to identify digital files of sound recordings. System will build on identification programs already in use, such as International Standard Recording Code, to streamline and speed growth of global digital music delivery on Web, RIAA said. Because system is intended for worldwide use, RIAA will work with IFPI in Europe and RIAJ in Japan. Project will be managed by Rightscom Ltd., British consulting company, RIAA said.

Electronic cinema for filmless digital delivery of theatrical movies is being demonstrated in road show of major U.K. cities under auspices of joint govt.-industry working group. Opinions of those attending shows in Belfast, Bradford, Cardiff, Glasgow and London will be compiled for working group's study, to be published by year-end, U.K. culture ministry said.

Picture-enhancement technology for DTV and analog NTSC/PAL will be developed as ASIC by San Diego-based DigiVision, which already markets HT-70e Picture Enhancement System for home theater. New ASIC would make HT-70e enhancements affordable in DTV and analog TV sets, including direct-view, projection, LCD, plasma and DLP types, company said. System, which addresses and adjusts individual pixels in real time to improve video definition, originally was developed for endoscopic surgery, DigiVision said.

System to foil digital piracy of DVDs has been completed in prototype by TTR technologies, company said last week. Although analog copying of DVDs already is prevented by Macrovision copy protection in DVD players, need to prevent digital copying will increase as DVD recorders enter market, TTR said. Company already provides copy protection systems for CD-ROMs and music CDs and has joint development agreement to combine its MusicGuard embedded digital signature with Macrovision's SafeAudio copy prevention system (formerly called AudioLok). Macrovision has 11.4% equity stake in TTR.

Matsushita declined comment on raids by Japan's Fair Trade Commission on its offices in Osaka, Tokyo and 10 other domestic locations last week. Govt. in Japan said commission was investigating allegations that Panasonic parent was pressuring retailers to maintain suggested prices on consumer products. Matsushita spokesman confirmed raids, but said because company had no specific information on aim of investigation, it couldn't comment. If proved, charges are likely to have little effect because they carry no specific penalties and usually are settled in cease-and-desist manner.

SENSORY CUTS JOBS, TAKES CHARGE: Sensory Science (SS) has cut 35-40 jobs and taken \$1.5 million charge against 2nd-quarter earnings as it continues to struggle with plunging VCR prices and narrower gross margins for digital TVs.

Layoffs represent 1/3 of company's work force and largely affect operations and administrative positions, Senior Mktg. Vp Paul Frederickson said. As result, SS said it would report \$5.5-\$6 million quarterly loss against break-even year earlier. Sales fell 8% to \$18.5 million.

SS has suffered throughout year as prices for single-deck VCRs plunged below \$100, leaving its entry-level dual-deck at \$199. Dual-deck sales fell 24% in first quarter (TVD Aug 7 p16) despite \$900,000 in price protection allowances. SS also suffered delay in shipping DVD player/VCR combo owing to chip shortage, but deliveries have begun and it's working through back orders, Frederickson said. SS has relied on dual-deck VCRs for more than 70% of revenues.

"We've been trying for too long to bootstrap the business by using the dual-deck VCRs as the cash cow," Frederickson said. "We really had to step back and take a look at where we were and where we were going in the future. This was the necessary medicine."

Gross margins also fell in quarter as SS continued to adjust to new pricing for Loewe brand digital TVs. SS has cut prices twice this year (TVD Aug 7 p16, Feb 28 9 19), most recently \$500-\$800 across its line of 27-36" sets. Pricing since has stabilized and SS showed 38" at recent CEDIA convention. "We've seen recent arrivals in digital TVs get fairly aggressive and we felt these were the right moves to make to keep the sales velocity going," Frederickson said.

SS also has supported Intel processor-based Extreme DiGiTal Entertainment (EDGE) platform for multimedia applications. EDGE, which uses Linux operating system, is designed for HDTV, DVD, PVR, audio jukebox, Internet and game applications. SS expects to finalize investment and/or technology and service alliances for both platform and company in 30-60 days, Frederickson said in declining to disclose potential partners. "We're at various stages of negotiations with a variety of companies," he said.

Hackers now can be tracked to their origins, executives of Recourse Technology, based in Palo Alto, declare. Company's new ManHunt 1.0 "automatically tracks the attack to its point of entry into a network and then beyond, across the global network," Recourse said. Earlier, it released its covert ManTrap system, which diverts hacker into dead end. It said 2nd generation of ManTrap is available now, providing up to 4 deception environments.

BMG Entertainment rolled out commercial digital downloading program for U.S. with more than 100 singles and albums from BMG artists, it said. Number of titles will grow each month, it said. Music fans will be able to download from retailers such as GetMusic, Lycos and Tower Records at prices starting at \$1.98 for singles, \$9.98 for single CDs and \$11.98 for double CDs, BMG said. It also will offer "integrated shopping cart" to its retail affiliates to give

consumers one-stop shopping for physical and electronic products.

KBkids.com and KB Toys began preselling 5 PlayStation 2 (PS 2) packages at \$499.99 each. Each package includes PS 2 game console bundled with 3 PS 2 games. Spokeswoman for KB Toys and its online counterpart was unable to tell us why each package was priced about \$50 higher than same items if sold individually. Despite higher price, some consumers no doubt will be intrigued by one aspect of deal: KB is promising shipments of PS 2 packages by Dec. 12.

Midway Games began shipping Muppet RaceMania for PlayStation. Game features Kermit, Miss Piggy, Fozzie, other popular Muppets characters. Clips from all 6 Muppet movies are used throughout game. Midway said it would ship 2nd title in its Muppet series — Muppet Monster Adventure — in time for Halloween.

DTV demodulator chip from NxtWave Communications will be used in ATSC-compliant SIR-K100 Integra set top, Korea-based Integra Telecomm said. Company also produces DVB-compliant HDTV satellite receiver.

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LG IN BRAND CAMPAIGN: LG Electronics will embark on brand campaign in 2001 seeking to burnish image in PC monitors, DVD and CD-ROM drives and appliances with goal of succeeding where other efforts have failed in past, company said.

LG first sought to create brand in 1998 shortly after dropping GoldStar name, but financial crisis in S. Korea and lack of funding ended campaign after just 6 months, it said.

This time, LG is seeking to affix name to Flatron PC monitors, series of new drives. These include DVD-RW and combo CD-RW/DVD-ROM and major appliances including refrigerators, air conditioners and microwaves that will be built in Mexico starting in mid-2001, Brand Div. Pres. Simon Kang said. It had marketed Windows CE-based handheld PCs, but dropped product in 1999.

"We will seek to build the brand using alternative channels," LG spokesman said, citing company's sponsorship of 72' LG Flatron yacht in BT Global Challenge round-the-world race that pulled into Boston earlier this month following first 3,200-mile leg that started in London in Sept.

Push into PC DVD-RW drives is expected to begin in 2nd quarter next year with model priced at about \$300, Information Systems Products Dir. Y.B. Na said. Specs haven't been set. That will be preceded by 8x DVD-ROM/CD-RW drive that's expected to be introduced at Comdex along with new 16x DVD-ROM unit, Product Mktg. Mgr. Bennett Norrell said. Zenith has shown prototype DVD-RW home recorder, but shipping date hasn't been set.

New drives should benefit from LG's recently announced joint venture with Hitachi to develop, design and manufacture optical disc drives for CD and DVD. Venture will blend LG's expertise in mass production of CD drives with Hitachi's strengths in DVD including DVD-RAM, LG said.

Hitachi and LG digital media groups will be combined to form Hitachi-LG Data Storage that will be established in Tokyo Nov. 1 and add subsidiary in S. Korea month later. Hitachi will own 51% of joint venture, LG 49%. Hitachi-LG will employ 350 and have capitalization of \$14 million.

DVD will be supported by LG's 17" and 19" Flatron monitors. Former already has shipped in U.S., but company conceded it had had little success here thus far because of customer reluctance to buy LG-brand models. New 19" is to ship in Dec. To overcome lack of brand awareness, LG is weighing forming 8-member sales group to target corporate customers, e-tailers and distributors, Kang said. Product line currently is handled by 2 sales managers, Norrell said.

Flatron technology, developed by LG subsidiary Zenith Electronics but commercialized by LG, will migrate into 21" monitors within 2 years and possibly into TVs in U.S. as well, Norrell said. LG sells Flatron 21-27" Flatron TVs in Far East and Europe, he said.

Flatron name also will be extended to LCD monitors, where LG currently markets 15-18" models and may add 22" in 2nd half of 2001, Na said. It already builds 22" monitor for Apple, and company said biggest challenge had been competing

with LG OEM customers such as Apple, Dell and IBM for available product to sell under own brand.

LG earlier indicated that plasma production was expected to begin in S. Korea in first half with 40W and 60W in 2nd half of 2001. Displays will be sold for commercials applications and under Zenith brand for consumer market, Kang said.

Zenith, which LG purchased in Nov. 1999, is undergoing top-to-bottom review by new Pres. Tokjoo Lee, although no major changes are expected, LG said. Zenith will continue to market its products separately from LG with own sales force that targets retail market, Kang said.

* * * * *

LG-sponsored yacht in BT Challenge finished 3rd in first leg of 32,500-mile race with time of 18 days, 9 hours.

Hewlett-Packard started shipping new line of digital still cameras. Entry-level model is HP PhotoSmart 215 with 1.3 megapixel resolution at \$199. Step-up PhotoSmart 315 offers 2.1 megapixel resolution at \$299. Rounding out line are PhotoSmart 618 with 2.1 megapixel resolution at \$599 and 912 with 2.24 megapixel resolution at \$799. Latter 2 models use FlashPoint Technology's Digita operating system (OS). FlashPoint claims its OS gives user complete control of camera via simple, intuitive interface.

InnoGear started shipping MiniJam portable MP3 player for Handspring Visor. MiniJam is first device to ship that was designed specifically to function as module for Springboard slot on back of Visor. InnoGear player features e-book reader, image/slide-show viewer, flashing LED alarm. Device, which supports Windows and Macintosh operating systems, comes in graphite and ice colors. It's available in either 32 MB version at \$199 or 64 MB version for \$259. MP3 player has Visor and desktop file management applications, ear buds, full version of MusicMatch's Jukebox software, pouch with belt clip. MiniJam also comes preloaded with music, InnoGear said.

RIAA can't act impartially, charged Coalition for the Future of Music (CFM), which is preparing to challenge record labels' upcoming rollout of system for collecting royalties for Internet music streaming. CFM has "grave concerns" about RIAA's ability to manage artists' royalties, "given the fact that the organization does not speak for the entire music industry and is largely funded by (and solely represents) the interests of the 5 major record labels," group said in online newsletter. With such "clear conflicts of interest" and high dollars at stake, CFM said, it's ready to contest what RIAA is calling "SoundExchange." Rollout, which had been scheduled for last week, was pushed back after rescheduling of SoundExchange governance committee meeting, RIAA spokesman said.

RIAA and National Music Publishers' Assn. (NMPA) announced they had agreed on streamlined procedures for licensing musical compositions for Internet distribution. Agreement, which covers transactions between RIAA member companies and Harry Fox Agency, subsidiary of NMPA, will cut time needed to clear music publishing rights for digital downloads of sound recordings to consumers, groups said. New arrangement will remain in effect until Copyright Office formally adopts rules for digital phonorecord delivery licenses or Sept. 30, 2001, whichever comes first.

800.COM REDESIGNS WEB SITE: As holiday-selling season approaches, 800.com unveiled redesigned Web site last week at same time it introduced new logo — green socket symbolizing electronics that e-tailer sells — and “Buyer be happy” tagline. Portland, Ore.-based e-tailer also announced new ad campaign including print and radio.

800.com Senior Mds. Vp Frank Sadowski declined to say how much 800.com was spending on initiative. But he told us radio advertising would consist mostly of spots in drive time in 10 major markets, including Chicago, L.A., N.Y.C., San Francisco, Seattle. Print ads will be in publications in same markets, including *N.Y. Times* and *Wall St. Journal*, he said.

Sadowski said redesigned site included enhanced navigation that made it “much faster,” more content, and a redesigned shopping cart. He said 800.com’s investment to improve site was mostly in time, rather than being major financial undertaking.

In another move to boost effectiveness in holiday season, he said, it recently opened 2nd distribution center — 40,000 sq. ft. location in Delaware that Sadowski said allowed for quicker and less costly delivery to customers on east coast.

800.com also is “expanding our staff considerably,” Sadowski told us, with staffing this holiday season “virtually double” 150 last year. Company is hiring additional 150 employees, mostly for its Portland customer service center, he said.

Company also it had formed online alliance with Electronics Boutique (EB), terms not disclosed, in which latter’s EBWorld.com Web site now was directing visitors to CE e-tailer’s site when tabs for electronics, music or video on top of EBWorld.com home page are clicked. Consumers who click tab for games on 800.com’s site are directed to EBWorld.com. From co-branded page, they then can go to either company’s site with one click.

EB spokesman didn’t return call for comment but Sadowski told us: “We feel that a partnership with [EB] will be much more beneficial to the consumer” than handling games category on its own at this point.

Although 800.com had handled games category on its own at its Web site before EB deal, its main focus always has been on electronics and it didn’t offer same sort of depth in games category as EBWorld.com or other specialty electronic game sites such as Babbages Etc.’s Gamestop.com.

Sadowski told us: “We have been in negotiations with [EB] for some time” — for “weeks,” anyway. When asked whether upcoming start of Sony’s PlayStation 2 (PS 2) Oct. 26 played role in 800.com’s wanting partner to handle games category, Sadowski said: “It would be safe to say that PlayStation 2 entered into our consideration,” but “it certainly wasn’t the only [factor].” He said 800.com began talks with EB “well before” Sony’s announcement that only 500,000 consoles would be shipping at outset (TVD Oct 2 p11).

While Sony Computer Entertainment America (SCEA) hasn’t discussed exactly how many units of console each of its retail accounts will be getting, SCEA Pres.-COO Kaz Hirai late last month said his company hadn’t decided how it would

be handling e-tailers without bricks-and-mortar stores: “We’re still looking at a variety of options in terms of what the product offering would be and also what kind of allocations the dot-com — or the e-commerce sites as they’re commonly referred to — is going to be getting. So, that’s something that we haven’t made a final determination on just yet.”

If 800.com, which prides itself on being authorized to sell all merchandise it sells, had gone its own way on PS 2 product this season, there would have been real possibility it would have wound up with no PS 2 stock or, at most, very little stock. It also would have come at especially unfortunate time because 800.com was unveiling its redesigned Web site to better serve customers this holiday season.

In terms of fulfillment, Sadowski said 800.com was “confident that our performance will be better than it was last year” and it said that year ago it was able to deliver vast majority of its items to customers by Christmas.

Sadowski also said 800.com has had 2 new CE brands at its site so far this season — Safler and Onkyo. He said only Onkyo products now at 800.com are DVD players and shelf systems. Company expects to achieve direct relationships with more manufacturers in near future, he said.

On IPO front, Sadowski said 800.com had “no time table for refiling” IPO that it first filed in March (TVD March 27 p20), then withdrew in June (TVD July 3 p21) citing inappropriate market conditions for dotcoms. Market still is not right for IPO at this point, he said. As for when 800.com expects to be profitable, he declined to give specific projection, but said it would be “in the short term, rather than the long term” and it was “on target.”

Separately, 800.com and Dell were among latest online merchants to sign deals with wireless commerce provider Snaz enabling consumers to buy merchandise from them via Wireless Application Protocol (WAP)-enabled phones and wireless handheld devices.

Swaptor Ltd. is Napster clone with difference, board member and Chief Technology Officer R.W. Bivins told our affiliated newsletter *Warren’s Washington Internet Daily* last week. Unlike Napster, which relies solely on server to allow users to share music files, Nevis, W. Indies-based Swaptor’s peer-to-peer file-sharing program, uses “networking demons” — behind-scenes process that handles interactions between server and customers’ software, he said. Unlike Napster, Bivins said, Swaptor actually makes money and, unlike Napster, intends to pay most artists whose music appears on its Web site once program is up and running and has lined up 10-15 million customers. In meantime, however, start-up, which is beta testing now and is to debut by end of Nov., could face same criticism as Napster, Bivins acknowledged. “We support what Napster has done,” he said, but Napster could have avoided music industry lawsuit by using technology Swaptor has developed to block artists who opt out of system. Swaptor artists who promote their music on their own Web sites won’t get royalties, but company will contact RIAA and “work something out” for other artists who opt into program. For now, Swaptor is basically like Napster, Bivins said: “I’m sure we’ll hear from RIAA.” Swaptor recently announced start of its Internet service.

URBANFETCH EXITS CONSUMER BUSINESS: One-hour online delivery service Urbanfetch.com said last week that it was exiting business-to-consumer business. It now plans to focus on what it said was more profitable Urbanfetch Express (UE) business-to-business courier service.

N.Y.-based Urbanfetch, which had been operating only in select areas of N.Y.C. and London, quickly began offering much of its remaining electronics, music, video and other stock at heavily discounted prices. For example, all CDs were cut to \$10.

Urbanfetch CEO Ross Stevens said: "Because Urbanfetch Express is now, in fact, profitable and larger than our combined New York and London B2C [business to consumer] operations, we've decided to put all of our resources behind it. Present market realities dictate that we focus our resources where we can make a profit in a much shorter time frame than our B2C business would have required." He said company "would not rule out the possibility of reentering the B2C market if conditions change."

Stevens said company started UE 6 months ago because it recognized "that we'd be entering a volatile period." Urbanfetch said last week its UE business had "over 140 exclusive corporate relationships with companies including Sony, Conde Nast, Ernst & Young, PriceWaterhouse Coopers, Young & Rubicam and Arthur Andersen."

News came only days after word that discussions Urbanfetch had been having with N.Y.-based one-hour delivery service Kozmo.com on possible merger had fallen apart.

Although Urbanfetch Managing Dir. Bill Kitchen told us last month that company had been in discussions with Kozmo, he said those talks had ended and his company had decided to remain independent (TVD Sept 25 p18). Apparently, however, talks resumed, and by most accounts last week, some sort of deal was close.

Source close to Kozmo-Urbanfetch negotiations told us last week: "There were discussions, but they were halted last Thursday [Oct. 5] and at this time the deal is dead." She said Kozmo "halted negotiations... after discovering that Urbanfetch had significantly greater liabilities than they had originally disclosed."

Urbanfetch spokeswoman didn't return call for comment. But Stevens said companies "reached an impasse on the B2C strategy for the combined companies," adding: "In today's capital markets, we do not believe that a multicity national rollout with a focus on a low average order size will ultimately lead to profitability."

In late Sept., Urbanfetch announced it was dropping video rentals from its service offerings because of inability to make profit with it. Since then, it had been concentrating efforts on selling such higher priced offerings as wine.

Kozmo.com, larger of 2 companies, operates in 11 cities: Atlanta, Boston, Chicago, Houston, L.A., N.Y.C., Portland, Ore., San Diego, San Francisco, Seattle, Washington. Kozmo also started its service first — in 1997, although it wasn't offi-

cially opened until March 1998. Urbanfetch didn't begin its service until 1999.

Reports have said that before creation of Urbanfetch, Stevens had been one of investors Kozmo had approached. Instead, Stevens started Urbanfetch. Kozmo sued, claiming that Urbanfetch had stolen its business model — charge that Urbanfetch denied. In any event, case soon was settled, although terms weren't made public.

Since then, Kozmo has been able to attract investors including Amazon.com, Columbia TriStar, DreamWorks SKG, Twentieth Century Fox, Universal Studios and Warner Bros — something that Urbanfetch hasn't been able to achieve. Revenue-sharing agreements with studios apparently have allowed Kozmo to find more success with its video business than Urbanfetch found with its video business, although privately held Kozmo doesn't talk publicly about its finances. Kozmo filed IPO last year (TVD April 10 p20), but postponed it this past summer (TVD Aug 21 p13).

CEA supports efforts by FCC Chmn. Kennard to "hold the broadcast community accountable" for "promises made long ago" to deliver DTV programming to U.S. consumers. So said trade group in reacting to his speech in N.Y.C. last week in which he said broadcasters who delayed DTV channel givebacks should be subject to escalating spectrum "squatters' fees" until all analog spectrum had been returned (see report, Bcst.-Cable section). At same time, CEA said FCC should resist efforts to "shift the burden of broadcasters' responsibility" on DTV to consumers by imposing mandatory requirement, as suggested by Kennard, that all new TV sets sold after Jan. 2003 would be able to receive, though not necessarily display, full-quality HDTV. CEA said such mandates would significantly boost price of TV set to consumers, would "severely limit" consumer choice and would conflict with "every public policy goal behind a market-driven transition to DTV."

BestBuy.com added more capacity to its e-commerce Web site to be ready for holiday shopping season. Randy Skare, BestBuy.com technology systems dir., said "we're anticipating increased volumes of traffic to the site." He said: "A lot of people will be looking at new products that will become available shortly before the holiday. So, the important thing for us is the open system approach, the tiered architecture and the ability to scale modularly to handle the kind of loads we expect this holiday season." To that end, BestBuy.com said it was using Intel-based servers and more than 100 Compaq ProLiant 1850 systems with dual Pentium III processors. BestBuy.com said system's tier-based architecture "ensures that Web traffic is directed to the most available server so customers never have to wait for a response."

THIS WEEK'S YEN RATE

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

Consumer Electronics Personals

Promoted at JVC America: **Nancy Bird** to gen. mgr., corporate communications; **Donald Trapp** to mgr., corporate communications from supervisor in Consumer Audio Div.; **Matt Cooper** to mgr. of sales, National Accounts Div., from mgr. of AV accessories; **Jim Carroll** to supervisor of product training from product specialist, National Accounts Div.; **Rich Mirrer** to national product specialist, Consumer Audio Div.; **Steve Howcott** to East Coast regional sales mgr.; **John Seirensen** to East Coast regional mgr.; **Aaron Novak** to East Coast supervisor-product training; **Chad Vogelsong** to national product & mktg. mgr., Mobile Entertainment Div. Promoted in JVC Video Div.: **Rob Payesko** to national product mgr., **Allan Holland** to national product specialist, **John Bellagamba** to mgr., sales administration... **Barry Schuler**, pres., AOL Interactive Services Group, to give "executive perspective" keynote Jan. 8 at CES in Las Vegas... **Jim Goodmon**, pres.-CEO, Capitol Bcstg., to give keynote at CEA-sponsored "Delivering on the DTV Promise" conference Nov. 2, Hudson Theater, N.Y.C... **Buzz Goodwin** promoted to Lexicon vp-N. American sales.

Matthew Zinn, ex-MediaOne, joins TiVo as vp-gen. counsel & chief privacy officer... **Ralph Palaia** departs Sensory Science, can be reached at 480-585-3125... **Stuart Jacob**, ex-Alphastar and GE Americom, named Visible World chief mktg. officer... **Dennis Wyrick**, ex-Dell, appointed Greenleaf Technologies operations vp... **Michael Bozic**, ex-Sears, retires as Kmart vice chmn. at month's end... **Shawn Haynes**, Amazon.com business development dir., named Amazon camera & photo store dir... **Wayne Freedman**, senior mktg. vp, Wolf Camera, promoted to exec. vp-chief mdsg. officer; **Gregory Bragg**, vp, wolfxpress.com operations, advanced to vp-purchasing; **Tammy Roberts**, dir.-store systems, becomes vp-inventory management... **James Cook**, ex-VeriFone, named gen. mgr., PacketVideo Europe.

Greenleaf Technologies last week acquired assets of MultiCom, service provider specializing in data, video, voice. Transaction was made in stock and cash, although cost wasn't revealed. Greenleaf said it was forming new company operating as subsidiary, MCS Link, that will continue to operate in business arena established by MultiCom and explore new business opportunities. MultiCom Pres.-CEO Allan King will be pres. of MCS Link. Greenleaf CEO-Chmn. Leonard Berg said: "The acquisition of the MultiCom assets completes the circle for us. Now we're a one-stop provider and fulfiller of encrypted software. MultiCom's backroom capabilities open numerous new business opportunities for Greenleaf." Only week earlier, software and security solution provider Greenleaf announced it had created new Greenleaf Ventures division to negotiate mergers and acquisitions (TVD Oct 9 p15). Greenleaf is exclusive software security provider for DVD-ROM projects of Warner Advanced Media Operations (WAMO) and exclusive encryption partner and technology affiliate member for WAMO's Worldwide Affiliate Program. It also is partner in WIG (WAMO/Infogrames/Greenleaf) alliance, which produces series of DVD-ROMs featuring combination of different types of content encrypted with Greenleaf's DigiGuard technology.

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
Arm Holdings PLC*			
2000-9 mo. to Sept. 30	70,904,000	20,621,000	---
1999-9 mo. to Sept. 30	43,207,000	7,416,000	---
2000-qtr. to Sept. 30	26,397,000	7,232,000	---
1999-qtr. to Sept. 30	15,696,000	2,846,000	---
ATI Technology			
2000-year to Aug. 31	1,372,043,000	(69,334,000)	--- ^b
1999-year to Aug. 31	1,231,260,000	107,203,000	.53 ^b
2000-qtr. to Aug. 31	290,244,000	(45,208,000)	--- ^b
1999-qtr. to Aug. 31	304,654,000	16,841,000	.08 ^b
Cree Research			
2000-13 wk. to Sept. 24	37,642,000	12,655,000	.34
1999-13 wk. to Sept. 25	20,861,000	4,554,000	.14
Gannett			
2000-39 wk. to Sept. 24	4,453,932,000	1,424,179,000	5.33 ^c
1999-39 wk. to Sept. 26	3,759,118,000	663,342,000	2.37 ^c
2000-13 wk. to Sept. 24	1,559,289,000	208,263,000	.79
1999-13 wk. to Sept. 26	1,293,561,000	207,479,000	.74 ^a
General Electric			
2000-9 mo. to Sept. 30	94,872,000,000	9,150,000,000	.93
1999-9 mo. to Sept. 30	78,775,000,000	7,628,000,000	.78 ^d
2000-qtr. to Sept. 30	32,014,000,000	3,180,000,000	.32
1999-qtr. to Sept. 30	27,200,000,000	2,653,000,000	.27 ^d
Grow Biz			
2000-39 wk. to Sept. 23	36,632,600	(1,033,600)	--- ^a
1999-39 wk. to Sept. 25	50,473,700	(7,737,400)	---
2000-13 wk. to Sept. 23	11,541,500	739,000	.14 ^c
1999-13 wk. to Sept. 25	16,673,600	(7,440,900)	--- ^b
Hughes Electronics			
2000-9 mo. to Sept. 30	5,228,600,000	(301,800,000)	---
1999-9 mo. to Sept. 30	3,862,300,000	(69,900,000)	---
2000-qtr. to Sept. 30	1,688,500,000	(112,600,000)	---
1999-qtr. to Sept. 30	1,627,800,000	(54,300,000)	---
InFocus			
2000-9 mo. to Sept. 30	662,526,000	41,397,000	1.08 ^b
1999-9 mo. to Sept. 30	280,175,000	26,036,000	.70
2000-qtr. to Sept. 30	227,351,000	16,781,000	.44 ^b
1999-qtr. to Sept. 30	176,741,000	11,454,000	.31
Iomega			
2000-9 mo. to Sept. 24	969,037,000	147,616,000	.55 ^e
1999-9 mo. to Sept. 26	1,091,618,000	(124,830,000)	--- ^b
2000-qtr. to Sept. 24	320,501,000	55,420,000	---
1999-qtr. to Sept. 26	356,625,000	(78,346,000)	--- ^b
Kimball International			
2000-qtr. to Sept. 30	312,948,000	10,844,000	.28
1999-qtr. to Sept. 30	278,402,000	11,559,000	.29
Micron Technology			
2000-year to Aug. 31	7,336,300,000	1,504,200,000	2.73 ^c
1999-year to Sept. 2	3,764,000,000	(68,900,000)	--- ^f
2000-13 wk. to Aug. 31	2,570,200,000	726,700,000	1.28 ^e
1999-13 wk. to Sept. 2	1,080,800,000	(17,400,000)	--- ^d
Motorola			
2000-9 mo. to Sept. 30	27,516,000,000	1,183,000,000	.55 ^b
1999-9 mo. to Sept. 30	23,989,000,000	568,000,000	.27 ^f
2000-qtr. to Sept. 30	9,493,000,000	531,000,000	.24 ^b
1999-qtr. to Sept. 30	8,223,000,000	114,000,000	.05 ^f
New York Times			
2000-9 mo. to Sept. 24	2,515,810,000	259,767,000	1.53 ^c
1999-9 mo. to Sept. 26	2,248,101,000	204,879,000	1.16
2000-qtr. to Sept. 24	787,289,000	74,965,000	.45 ^c
1999-qtr. to Sept. 26	729,658,000	60,006,000	.35
Office Depot			
2000-39 wk. to Sept. 23	8,514,836,000	217,595,000	.69 ^a
1999-39 wk. to Sept. 25	7,544,387,000	173,619,000	.47 ^b
2000-13 wk. to Sept. 23	2,820,735,000	50,622,000	.17 ^e
1999-13 wk. to Sept. 25	2,578,500,000	(1,073,000)	--- ^b
E.W. Scripps			
2000-9 mo. to Sept. 30	1,259,718,000	115,153,000	1.46 ^b
1999-9 mo. to Sept. 30	1,140,477,000	100,188,000	1.27 ^b
2000-qtr. to Sept. 30	409,635,000	35,428,000	.45 ^b
1999-qtr. to Sept. 30	372,932,000	24,862,000	.32 ^b
Three-Five Systems			
2000-9 mo. to Sept. 30	124,319,000	12,301,000	.61
1999-9 mo. to Sept. 30	97,367,000	2,435,000	.17 ^d
2000-qtr. to Sept. 30	40,231,000	4,345,000	.20
1999-qtr. to Sept. 30	42,723,000	2,037,000	.14 ^d

Notes: *In British pounds. ^bAfter special charge. ^cIncludes special credit. ^dAdjusted. ^eIncludes special items. ^fAdjusted; after special charge.



TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

OCTOBER 23, 2000

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SUMMARY-INDEX OF WEEK'S NEWS

Broadcast - Cable

BROADCAST CONTRIBUTIONS DOUBLE in current election cycle. Bush, Republicans big beneficiaries. Cable, programmers also give more. (P. 1)

KIDVID DEBATE REPRISED at FCC en banc hearing. Tristani sees 'play I know by heart.' Agency continues divided. CME says it might support pay-for-play. (P. 2)

HIGHER CABLE FEES OKAYED: Little opposition voiced to Copyright Office plan for distant signals. Fees rise in 5-year plan up to 12%. (P. 3)

CABLE OWNERSHIP CAPS issue heats up. Opponents charge AT&T is trying to evade limits. Lobbying push seen. (P. 4)

GORE TALKS TOUGH on sex and violence in media in debate. Bush touts V-chip, self-regulation, parental love. Internet issues also raised. (P. 5)

Consumer Electronics

CIRCUIT CITY MET COMPETITION in \$1 DirecTV hardware campaign. Chain warns of 3rd-quarter loss. (P. 9)

RADIO SHACK TO SELL RCA/TIVO PVRs in exclusive deal. Personal video recorder with 20 hours storage arrives next month at \$199 after \$100 TiVo rebate. (P. 10)

EUROPEANS SHOW STRONG RESULTS for 3rd quarter, with Philips and Thomson posting big gains on sales of key components and finished CE products. (P. 10)

DIRECTV HUDDLES IN NYC with potential 'partners' as General Motors continues to weigh fate of Hughes Electronics. (P. 12)

SONY TO SELL PLANTS TO SOLECTRON in effort to focus manufacturing on 'core' businesses such as PlayStation 2. (P. 12)

GEOCAST-ECHOSTAR ALLIANCE forged to bring former's data service to satellite system by 3rd quarter 2001. (P. 13)

BROADCASTERS, CABLE INCREASE POLITICAL CONTRIBUTIONS: Broadcasters more than doubled their campaign contributions in this election cycle, to nearly \$4.9 million by Oct. 1 from \$2.4 million in 1998 and \$2.1 million in 1996, according to Center for Responsive Politics analysis of FEC filings. Figures also showed that Republican George Bush was by far biggest beneficiary of broadcast contributions, receiving \$273,152 to date, vs. \$79,595 for primary candidate Sen. McCain (R-Ariz.) and Democrat Al Gore (\$78,325). Overall, 65% of broadcast contributions went to Republicans, up from 56% in 1998 and 63% in 1996. Figures don't include contributions from law and lobbying firms that represent broadcasters.

Biggest single broadcast contributor, as usual, has been NAB, kicking in \$692,004 to date, up 30.5% from 1998 cycle. Of NAB contributions, 72% went to Republicans, up from 68%. Other big broadcasters in 2000 cycle include Amfm Inc. (\$372,050, 76% Republican), Westwood One (\$329,250, 100% Democrat), Metro Networks (\$275,339, 98% Republican), Hubbard Bcstg. (\$259,100, 85% Republican), Clear Channel (\$123,250, 98% Republican), Jovon Bcstg. (\$112,000, 100% Democrat), Sky TV (\$100,000, 100% Republican), Emmis Communications (\$98,250, 90% Democrat).

When election cycle is complete, NAB contributions will end up "pretty much on a par" with previous cycles, NAB spokesman said. Money went heavily to Republicans because NAB typically "skews toward the party in power" in Congress, he said. Internet may have prompted more contributions by some broadcast companies, spokesman said, because Internet streaming "is going to be a huge issue in the future, and some markers were laid this year." He said Internet companies have made major increases in contributions this term, possibly prompting some broadcaster response.

Of nearly \$4.9 million contributed by broadcasters, \$1.76 million came from broadcast-related individuals, \$585,478 from PACs and \$2.5 million in soft money, figures showed. Other big recipients of broadcast contributions include Rick

Lazio (R-N.Y.), \$52,000, Democratic Presidential candidate Bill Bradley, \$47,724, Sen. Burns (R-Mont.) \$33,000, Hillary Clinton (D-N.Y.) \$27,975, Rudolph Giuliani (R-N.Y.) \$24,450, Sen. Abraham (R-Mich.) \$23,730, Sen. Ashcroft (R-Mo.) \$19,750.

TV programmers and cable operators generally showed marked increases in political contributions in 2000 election cycle, roughly doubling amount they spent 2 years ago. Joseph Seagram & Sons, owner of Universal Studios, topped programmers with \$1.89 million in donations, more than double 1998 figure. Time Warner was strong 2nd with \$1.27 million, down from \$1.43 million in 1998, and Disney was close 3rd with \$1.12 million, down from \$1.25 million 2 years ago. Saban Entertainment, Viacom and News Corp. all had healthy increases over 2 years ago, donating \$589,000, \$521,291 and \$375,080, respectively.

Cable operators contributed \$6.11 million, nearly doubling \$3.24 million in 1998. AT&T topped list with \$871,714, up from \$772,810 donated by predecessor TCI 2 years ago. Cablevision Systems was 2nd with \$678,200, up from \$197,250, and NCTA 3rd with \$440,065, down from \$632,518. Cable interests, which have favored Republicans for years, split their money nearly evenly between Democrats and Republicans this year, continuing trend toward Democrats started 2 years ago. Of all candidates, Gore received most aid, edging out Bush \$156,075 to \$148,340. Among congressional candidates, Hillary Clinton received most cable money — \$113,350. McCain received \$100,250.

High-tech industries exploded into big-time campaign financing this year, becoming one of largest contributors to Presidential and congressional campaigns. Computer and Internet companies had given \$23.9 million to political campaigns as of Oct. 1, more than doubling their \$9.5 million for 1998 races. As whole, high-tech sector was nonpartisan, with 51% going to Democrats.

That largesse ranked high-tech industry 8th in giving, just behind \$24.9 million contributed by what's expected to be one its frequent opponents in coming months — intellectual property lobby of TV, movie and music companies. Phone companies gave about \$15 million. High-tech sector still was far from leading giver, however; real estate lobby gave \$50 million and insurance industry \$30.4 million.

KIDVID DEBATE REPRISED AT FCC EN BANC: FCC at en banc hearing Oct. 16 continued to be divided on issue of limiting access of children to violent or sexual programming. Chmn. Kennard and Comr. Tristani again said children must be protected, but other commissioners repeatedly cited First Amendment issues. Tristani said she was reluctant to even participate in hearing because Commission wasn't devoting enough time to issue, and doubted its effectiveness, saying she feared she was "here to watch a play that I know by heart."

In one of few potential position changes discussed at hearing, Center for Media Education (CME) Pres. Kathryn Montgomery said her group was considering supporting allowing broadcasters to pay others to meet their children's pro-

Albert Warren Named Chairman of Warren Communications News; Sons Advance

Albert Warren has been named chairman of Warren Communications News, Inc. He is succeeded as president by his son, Paul Warren. Another son, Daniel Warren, advances to vice chairman. The changes reflect the generational transfer of ownership of the company.

Albert Warren, 80, who has worked at Warren Communications News and its predecessor companies since 1945, will retain the titles of editor and publisher and will continue to edit each issue of the company's flagship publication *Communications Daily*, its *Washington Internet Daily*, and others. The senior Warren took ownership of the company in 1961, and his two sons now have assumed ownership from him.

Paul Warren, 50, joined the company in 1977 as a reporter after working for several years for the *Rochester (N.Y.) Times-Union*. Daniel Warren, 46, holds a Ph.D. in English Literature and joined the company as an editor in 1984 after a brief university teaching career. He retains the title of executive editor.

Warren Communications News, Inc., publishes 16 newsletters and news services, all in the telecommunications and mass media fields, plus several research reports and directories, including the industry-standard *Television & Cable Factbook*. The company has some 80 employees and is based in Washington, D.C., with bureaus in New York City and the Midwest.

gramming requirements. She said she was speaking for her group only and had just begun discussing it with coalition partners. CME had opposed payments in past because of fears they would be too small, Montgomery said, but “we need to find a way to help” public TV. She said if payments could be “meaningful,” so-called play-or-pay “could be valuable.”

Virtually all other positions were predictable. “Sacrificing our beloved First Amendment is not the answer” to solving children’s TV problem, Comr. Ness said. She said parents must “assume personal responsibility,” but information must be more readily available. Comr. Powell, who also said he was “very reluctant” to regulate content, said improved electronic program guide technology could help make more information available to parents.

Images and messages being distributed by media are “disturbing,” Comr. Furchtgott-Roth said, but they aren’t limited to TV. He said there “has to be another answer” rather than content controls, particularly on TV alone: “To the extent that broadcasters ever had any inescapable influence, those days are long gone.” Powell said amount of quality programming for children actually was growing, but it tended to be on cable and satellite, which don’t have public interest obligations that FCC is considering.

JPKids CEO James Steyer said govt. should consider subsidizing quality programming, as is done in Canada and Europe. Pat Nugent of PBS agreed that govt. “should expand its historic partnership with public television” through “development of a new fund to stimulate the creation of digital content for children’s TV programs.”

Other comments at en banc hearing included: (1) Montgomery said DTV’s capability for interactivity and data gathering “dramatically expands” potential harm, so FCC “must protect children.” She said Internet safeguards in Children’s Online Privacy Protection Act should be adapted for DTV. (2) *It’s Academic* producer Susan Altman said quality programming can be profitable, but broadcasters tend to opt for other shows that are even more profitable. (3) ACLU Pres. Nadine Strossen said other constitutional rights are “all jeopardized by any attempt to regulate content,” and politicians are “scapegoating the media” for society problems. (4) Attorney Robert Corn-Revere said even current limits on broadcasting “would be struck down” if they were considered for other media. (5) Joanne Cantor of U. of Wis. said there should be “more predictability” in appropriateness of ads for children. (6) Henry Jenkins of MIT said ratings placed on TV shows tended to favor one set of cultural choices over another. (7) Morality in Media Pres. Robert Peters said there was difference between banning speech that govt. disapproves of and preventing access by children to “smut or violence.”

HIGHER CABLE COPYRIGHT FEES OKAYED: U.S. Copyright Office plans to adopt higher cable copyright rates proposed by coalition representing cable operators, movie studios, commercial broadcasters, public TV stations, sports leagues, record labels and other players, after no objections were filed by agency’s Oct. 12 deadline. Under compromise 5-year plan, submitted by ASCAP, MPAA, NAB, NCTA, NPR and other groups in late June, copyright fees that cable operators pay to carry distant network signals and superstations will rise up to 12%, depending upon individual cable operator (TVD July 10 p2). Increase, retroactive to last July 1, will be first for cable industry since 1985. Cable operators now pay at least \$130 million into copyright royalty fund each year.

Bill Roberts, senior attorney for compulsory licenses in Copyright Office, said Library of Congress will approve proposed industry settlement formally in next few days and publish it in *Federal Register*. Because no parties filed opposing comments, he said, agency can adopt new rates without submitting them to arbitration panel.

Little opposition to higher rates had been expected because all groups with major stakes in issue already had signed off on settlement, but Copyright Office had held up approval temporarily because regulators weren’t sure they had power to impose rates retroactively. Industry lobbyists convinced regulators that they could do so, citing case law and fact that 6-month bills with new rates wouldn’t be due until late Feb. or early March.

Under proposed agreement, cable operators would pay 0.956% of their gross receipts for carrying first distant signal,

up 7% from 0.893% now. Charge for carrying 2nd, 3rd and 4th distant signals would rise to 0.630% of gross receipts, up 12% from current 0.563%. Rate for 5th distant signal and beyond would climb to 0.296%, up from existing 0.265%.

Even though individual cable system fees could jump as much as 12%, negotiators said overall impact was likely to be much smaller because proposal also would change standards used for splitting cable systems into 3 groups. Settlement lumps more systems than before into 2 smaller categories, effectively limiting increases for them and possibly even resulting in decreases. Largest systems generally pay highest copyright fees but fewer systems would qualify now as biggest. For instance, gross receipts threshold for determining large systems would be raised to \$379,600 from current \$292,000, for medium-sized system to \$189,800 from \$146,000 and for small systems to \$98,600 from \$75,800.

Loral CEO Bernard Schwartz, reacting to company’s falling stock, said: “We don’t understand the weaknesses in our stock price. Our core businesses are doing well.” He said company was “very pleased” with 3rd-quarter results and earnings per share (expected to be \$1.75) “beat our own expectations.” Analysts blamed subsidiary Globalstar for Wall St. lack of confidence. One suggested Loral would be better off “dumping” fledgling satellite phone network to “unlock value” in core satellite businesses because many investors feared company eventually would have to bail it out financially. Schwartz refused to dismiss that option. He admitted Globalstar had problems, though it was continuing to grow, just “not as fast as we had hoped.” He blamed problems on deployment rather than demand.

CABLE OWNERSHIP CAP DEBATED: In spirited session Oct. 17, 3-judge panel of U.S. Appeals Court, D.C., closely questioned attorneys for FCC and AT&T about their dispute over legality of agency's cable ownership limits. Oral argument in case, scheduled for 30 min., lasted 70 min. as Judges Stephen Williams, Raymond Randolph and David Tatel focused many of their queries on such apparently peripheral issues as Commission's limited partnership and channel occupancy restrictions on cable operators. But they also honed in on agency's ownership attribution rules for MSOs, which are considered key to dispute.

In their challenge of FCC's 30% cable subscriber cap, AT&T and Time Warner argued that AT&T's 25.5% stake in Time Warner Entertainment (TWE) joint venture shouldn't be attributable to AT&T because MSO had no management control over TWE. Calling it "purely passive" stake, they contended that it shouldn't be counted as part of AT&T's cable assets. Thanks partly to attribution rules, FCC held AT&T in violation of cap after its purchase of MediaOne Group, prompting agency to order AT&T to divest some holdings by next May.

Judges Williams and Tatel, seizing on those arguments, questioned FCC attorney James Carr about basis for attribution rules. They asked why Commission set 5% stake as standard for determining that one MSO had attributable interest in another. Carr replied that agency based 5% standard on legislative history of broadcasting industry attribution rules and said broadcast standard had existed for several years. "They're [AT&T] looking for the adoption of an out-and-out control test," Carr said. But he said attribution standard was "not a test of control, it's a test of influence."

All 3 judges questioned 2 MSOs' arguments that 30% subscriber limit should be higher because cable industry no longer was "bottleneck" with monopoly power over pay-TV market. Despite industry's argument that growing DBS competition had diluted cable's dominant market power, judges seemed dubious that much had changed since U.S. Supreme Court found cable to be bottleneck facility in Turner must-carry case several years ago. In May ruling, separate 3-judge panel of same court unanimously upheld constitutionality of law establishing ownership limits, saying Congress was justified in its concerns that cable operators could be bottleneck and that increased cable concentration could be threat to both diversity and competition (TV D May 22 p6).

All 3 judges also spent much time questioning FCC's 40% limit on channel slots that could be occupied by programmers in which cable operator had stake. They asked why Commission set cap at 40% and why such MSOs as Time Warner hadn't fought cap more forcefully in earlier agency proceedings. In their challenge of ownership rules, AT&T and Time Warner argued that 40% limit was too low and would force them to kick worthy networks off some systems.

Oral argument took place as AT&T continued lobbying effort in Congress and executive branch to waive cable subscriber limits so it could hold MediaOne without making any divestitures. In latest move, AT&T Chmn. Michael Armstrong asked President Clinton to support his company's drive to waive those limits, prompting immediate outcry from critics. In letter to Clinton Oct. 17, Armstrong argued that AT&T wasn't seeking change in cap itself, but in FCC's interpretation of cap. Armstrong said those rules would hamstring AT&T by unfairly preventing it from adding more cable systems and competing more vigorously in local phone market. He said rules also

would impede "important public interest goals" and "create other perverse results," including exacerbating digital divide by possibly forcing AT&T to sell its less profitable systems. He argued that such rivals as BellSouth, DirecTV, SBC and Verizon "face no such limits."

Consumers Union blasted letter as "a blatant attempt by AT&T to circumvent the conditions it agreed to when the FCC cleared the AT&T-MediaOne merger." Group called on Clinton and Congress "to stand firm in preventing AT&T from expanding its monopoly power in the cable TV market." USTA sent its own letter to Congress, urging members to reject AT&T's efforts "to skirt the law capping cable ownership by a single company and undo the terms of its MediaOne merger commitment." USTA argued that granting AT&T's request would provide MSO "with a near-nationwide cable monopoly" and more than \$5 billion tax windfall while resulting in higher cable rates and fewer choices for consumers.

Speaking with reporters after court session, Mark Rosenblum, AT&T vp-law, said MSO still intended to comply with FCC's divestiture requirements by shedding its TWE stake, selling its Liberty Media and other programming holdings or disposing of cable systems with nearly 10 million subscribers. But he said all that might change if appellate court threw out cable ownership limits as unlawful. He said AT&T, which must choose one of its 3 divestiture options by Dec. 15, hadn't yet decided what to do.

Seeking to avoid FCC's ire, CableLabs submitted latest draft of its anticopying encryption technology license for digital cable set-top boxes to Commission, but without license's key copy protection requirements. In 2-page letter sent to FCC Oct. 18, as previously required by agency, CableLabs Pres. Richard Green said group held back copy protection terms because it still was negotiating final technology license with MPAA, 5C companies, Circuit City and set-top box manufacturers. Green said CableLabs had received "substantial comments" on latest draft from those parties and had held "numerous discussions and conference calls" with them since Sept. 8, but they hadn't reached agreement despite Oct. 18 deadline set by FCC. "Although substantial progress is being made on resolving disagreements over the specific terms of the copy protection requirements, negotiations continue between the parties," Green wrote. "As soon as these negotiations are completed, CableLabs will submit a final version of the PHI [POD-Host Interface License Agreement] license to the Commission. But it is important for the Commission to recognize that CableLabs does not control the principal parties to these negotiations and that revisions to the DTLA [Digital Transmission Licensing Administrator] license agreement are also in dispute between these parties." Green said CableLabs was "working diligently to reach a compromise on these issues" with MPAA, 5C companies and consumer electronics industry "as quickly as possible" and pledged to provide another written status report in 30 days. NAB immediately blasted Green's letter as another stalling tactic by cable industry. "What a surprise — yet another FCC timetable that has come and gone that the cable industry failed to meet," NAB spokesman said. FCC officials expressed some frustration but declined comment on CableLabs' submission.

EchoStar (DISH) and Geocast Network Systems announced agreement to deliver broadband data services to PC users with DISH TV. Geocast will deliver services to PCs using dedicated bandwidth on EchoStar satellite.

GORE TALKS TOUGHER: Increasing concern over sex and violence in media, and particularly on Internet, overflowed into Presidential debates Oct. 17. Republican candidate and Tex. Gov. George Bush seemed attached to V-chip, self-regulation and parental love in broadcast arena. In contrast, Democratic candidate and Vice President Gore talked tough on recent FTC findings that entertainment companies had marketed violent material to children, but on Internet he emphasized self-regulation.

"I don't support censorship," Bush said, "but I do believe that we ought to talk plainly to the Hollywood moguls and people who produce this stuff and explain the consequences. I think we need to have rating systems that are clear. And I happen to like the idea of having technology for the TV, easy for parents to use, so you can tune out these programs that you don't want in your house." Bush also said govt. "can work with the entertainment industry to provide a family hour." However, he said he believed "the best weapon is the off-on button, and paying attention to your children and eating dinner with them." That comment drew applause from TV-Turnoff Network, which said Bush was "right on target: The best way to protect children is to turn off the TV and turn on life."

"I want to do something about this," Gore said. "I respect the First Amendment, but I will do something to help you raise your kids without that garbage." He focused on FTC findings, saying he would give entertainment industry 6 months to "clean up their act. And if they don't do it, we're going to ask for tougher authority in the hands of the FTC on the false and deceptive advertising."

"We can have filters on the Internet where public money is spent," Bush said. "There ought to be filters in public libraries, and filters in public schools, so that if kids get on the Internet, there's not going to be pornography or violence coming in." Gore cited his role in creating self-regulatory GetNetWise program that calls for major Web sites that collectively reach 95% of the Internet audience to link to site that provides variety of filtering and other parental control options. Gore said he also had worked on "feature that allows parents to automatically check, with one click, what sites your kids have visited lately." That puzzled several sources who have been involved in issue, saying they weren't sure what initiative Gore was describing.

Sen. Byrd (D-W.Va.) criticized failure to act on violence in media, asking "when will America awaken?" He said in floor speech he hoped someone would ask about issue in Presidential debates and challenge candidates on how they could act considering large amount of money they had accepted from entertainment industries.

FCC asked for comments on effectiveness of its Web site, saying it wanted to make it easier to use and faster, even though it has been cited as one of best in govt. Comments are due Nov. 10. Agency said it would like comments from industry, public interest groups, state and local regulators and professional associations. Comments should focus on Web site, not broader issue of FCC's electronic filing system, it said.

FCC is going bilingual, producing all consumer publications in Spanish as well as English, Commission announced. Comr. Tristani said move would "further the FCC's commitment to make information available to all consumers."

In his latest critique of appropriations process, Senate Commerce Committee Chmn. McCain (R-Ariz.) told Senate Appropriations Committee Chmn. Stevens (R-Alaska) he has "strong objections" to communications riders on spending measures. In letter last week, McCain mentioned cable ownership rules and rural TV loan guarantees as matters that should be settled by Commerce Committee, not in appropriations. "I share your frustration in dealing with the jurisdictional barriers that separate Committees," McCain said, but he pointed to "need and importance of jurisdiction in our legislative process." He said evading committee process "risks alienating the public and casting doubt upon the integrity of the process." McCain blasted this year's appropriations process, which he said has consisted mainly of secret negotiations among leaders and then votes on huge bills with no amendments allowed. "The only winners in this process are the appropriators, and the special interests," he said. "The rest of the Senate, and the American people whose interests they are elected to represent, are shut out of the process."

Rep. Weller (R-Ill.) and 15 others introduced HR-5497, which would give 20% credit for digital TV post-production capital expenses until FCC shuts off analog signals. In floor speech, lawmaker said it's costly for industry to process multiple formats simultaneously.

Senate Judiciary Committee Chmn. Hatch (R-Utah) addressed AOL's pending takeover of Time Warner (TW) for 2nd time in month, calling on FCC to examine several instant messaging (IM) issues before imposing any interoperability conditions. In 2-page letter to FCC Chmn. Kennard, Hatch asked: (1) Whether Commission intends to issue specific rule governing IM technology. (2) What "specific congressional authority" agency might invoke in issuing any regulations. (3) Whether, if such regulations were imposed, all manufacturers of IM applications technology would be covered or rules would apply only to AOL.

Bill to help religious broadcasters use noncommercial spectrum (HR-4201) was brought to Senate floor by Majority Leader Lott (R-Miss.), but Sen. Conrad (D-N.D.) blocked its passage by unanimous consent. Conrad said unidentified Democratic lawmakers planned amendments, which wouldn't be allowed under unanimous consent. Lott said he would continue working on how bill might be considered, noting that he had "special interest" in it since his former staffer Rep. Pickering (R-Miss.) moved it through House. Bill would prevent FCC from considering educational value of station's content in judging its fitness to hold noncommercial license. It was motivated by Commission ruling, since withdrawn, that would have excluded certain religious content such as sermons from educational content quota needed for license. Sources in public broadcasting, which opposes bill, and in religious broadcasting, said they were caught by surprise by attempt to move measure to floor with no notice. Conrad's office didn't return call for information on what amendments might be planned.

FCC "has been totally derelict in its management of the people's spectrum," Paxson Chmn. Lowell Paxson said in letter to Senate Communications Subcommittee Chmn. Burns (R-Mont.), in response to FCC Chmn. Kennard's call for speeding DTV transition (TVD Oct 16 p2). He said Commission had failed to implement congressional directives to speed transition on issues such as DTV receivers and cable compatibility. Paxson also said FCC still hadn't issued 2/3 of DTV construction permits and "standards for DTV sets are in a state of chaos."

GAO SUGGESTS CABLE ACCESS STEPS: Wading cautiously into cable open access debate, General Accounting Office (GAO) warned that shift to broadband networks could hurt consumer choice of ISPs and suggested steps govt. could take to ease regulatory disparity between cable-delivered and telephone-based Internet access. In report released Oct. 19, GAO proposed that Congress look at either changing law to regulate all broadband services similarly or ordering FCC to come up with ways to do so. "In light of the convergence occurring in the communications market and the disparate regulatory treatment of functionally equivalent services provided over different networks, the Congress may wish to consider whether statutory or regulatory action is needed at this time," carefully worded report said, laying out 2 options for Congress.

Without coming down one way or other on cable open access question, now before federal regulators in pending AOL-Time Warner merger and FCC notice of inquiry (NOI), GAO devoted much of its report to warnings on prospects for decreased consumer choice of ISPs. Despite quickening spread of broadband networks, it said, "consumers' choice of ISPs could simultaneously diminish in the next few years" because cable and wireless systems aren't designed to carry multiple ISPs and aren't required by law to do so. "In particular, their [consumers'] choice may be limited to an ISP affiliated with their transport provider or to the set of ISPs that successfully negotiated a contract with the transport provider," report said.

Although GAO said reduction in ISP choice might not necessarily be "a public policy concern," it said "many ISPs are making a transition from providing only a simple 'on-ramp' to the Internet to providing content and applications." As result, agency said, ISPs could end up wielding greater control over "what content is prominently displayed to consumers," making it more important that consumers can switch to other ISPs offering alternative content. Report also cited concerns of some industry experts on growing, if subtle, influence of ISPs over consumers' choices through content placement and greater access speeds.

In survey of U.S. Internet users for report, GAO said it found that: (1) Broadband service was available to 55% of Web users. (2) 12% of Web users now accessed Internet over broadband connection, including 9% by cable modem, 3% by DSL and less than 0.5% by wireless modem. (3) 19% of narrowband Internet users had made some attempt to upgrade to broadband service but had been unable to do so. (4) Web users who accessed Internet infrequently could be most influenced by their ISP's content placement, spending 43% of their time on their ISP's home page.

Senate Antitrust Subcommittee Chmn. DeWine (R-Ohio) and ranking subcommittee Democrat Kohl (Wis.), who requested report, said they were pleased that broadband was bringing greater choice to consumers now. But they expressed concern that choice might shrink as more consumers shifted to broadband networks.

Nielsen Media Research expanded its Monitor-Plus commercial monitoring service to include all 200 U.S. TV markets, from previous 75, company announced. It said expansion was possible because of its new metering technology.

Radio revenue increased 10% in Aug., Radio Ad Bureau said, with local ad revenue up 11%, national 6%.

DIRECTV LAUNCH DELAYED: Loral said it delayed launch of DirecTV 5 satellite for 6 months so technicians could conduct tests on spacecraft and modify power supplies for transponders. DirecTV said delay wouldn't have "any negative impact" on programming or customers. Spokesman said company was taking precautions by fixing problems now to "ensure trouble-free service." Loral said delay was caused by concern that power supplies could force transponders to lose power quickly.

Problems were discovered in ground tests on DirecTV 5 before long-delayed launch. Loral said problem had been overlooked while it repaired similar problems on unspecified number of other satellites. No Loral satellite was launched with "potentially troublesome" power supplies, executive said.

Loral said problem had been corrected and DirecTV 5 had been retrofitted. Power supplies were provided by Bosch Telecom GmbH of Germany, we're told. DirecTV 5 experienced problems because it had been left in storage for several years while company and former owner Primestar negotiated contract. Satellite, formerly called Tempo 1, was ordered from Loral 7 years ago and originally was to provide Primestar with way to deliver TV signals to small antennas.

AOL will become more dominant in linking Internet and wireless services, AOL Wireless CEO Dennis Patrick told CTIA convention in Santa Clara. "There is always great concern over who is going to win, who is going to own the customers," he said. "There is an assumption today we are engaged in a zero-sum game," he said, but there is enormously elastic appetite for service in public and "what we have is an enormous win-win situation." He said "partnerships are the real key to the way we are going to effectuate our strategies." In Japan, he said, govt. will be partner in AOL-Japan. Patrick, former FCC chmn., warned that "rather significant structural regulatory changes are coming in this industry. It is happening now."

Notice of settlement was announced by law firm representing stockholders who will receive \$22.5 million to settle securities class action lawsuit related to Orbital Sciences' 1999 financial restatements. Under agreement announced by Orbital in July, stockholders will receive \$11 million in cash from National Fire Insurance and 2 million shares of stock discounted 10%, worth \$11.5 million. No cash will come from Orbital, spokesman said.

In response to latest reports that foreign govt. ownership measure would be deleted from Commerce-Justice spending bill (HR-4690), spokesman for Sen. Hollings (D-S.C.) said his boss, sponsor of provision, had tired of commenting on back-and-forth: "He's not going to comment on any of it until the bill's been completed." Reuters said Senate Majority Leader Lott (R-Miss.) now believed provision that would block Deutsche Telekom purchase of VoiceStream had been removed. "Nobody will know until the night before," one Hill source said, referring not only to ownership but also to other controversial issues discussed as possibly in bill, including AT&T cable ownership changes and low-power FM reform.

Capitol Bcstg. CEO James Goodmon will keynote CEA conference on DTV Nov. 2, Millennium Hotel, N.Y.C. — www.ce.org.

Latest DTV station on air: WKPT-TV (DTV Ch. 27, ABC) Kingsport, Tenn.

TW PROFIT DOWN: Time Warner (TW) reported flat earnings for its 3rd quarter ended Sept. 30 despite slightly higher revenue and much higher cash flow. Including one-time items, net income fell to \$85 million in 3rd quarter from \$360 million in 1999. Normalized revenue rose 3% to \$6.87 billion while normalized cash flow jumped 13% to \$1.27 billion. Company reported healthy revenue increases in its cable networks, broadcasting, cable and music divisions but decreases in filmed entertainment and publishing units. On cable operations side, TW said it closed quarter with 1.3 million digital video and 719,000 high-speed data subscribers. In other financials: Tribune TV operating profit increased 11% to \$89.8 million in 3rd quarter ended Sept. 30 and radio 40% to \$5.6 million. TV revenue was up 10% to \$292.6 million, partly because of acquisitions, and radio revenue 2% to \$14.9 million. Tribune Interactive revenue grew in double digits, Chmn. John Madigan said. **United TV** operating profit dropped 4% in 3rd quarter to \$13.7 million, primarily because of 12% growth in program costs. Revenue rose 6% in quarter to \$54.2 million.

Shaw Communications had much lower profit from continuing operations in its 4th quarter ended Aug. 31, despite higher total revenue and only slight drop in cash flow. Shaw said revenue jumped to \$302.2 million (Canadian) in quarter from \$186.8 million year ago, largely because of cable system acquisitions, digital cable and high-speed data subscriber growth, rate increases. But net income plummeted to \$4.4 million from \$24.1 million. Shaw said it closed period with 163,193 digital video, 282,578 high-speed data and 450,000 DBS subscribers.

Scientific-Atlanta reported higher net earnings of \$113.3 million for its first quarter ending Sept. 29, well up from \$25.3 million in year-ago period. S-A said revenue jumped 71% to \$597.2 million in summer quarter, thanks to strong sales for its digital cable set-tops and other broadband equipment... **TiVo** said net loss widened to \$63.6 million in 3rd quarter ending Sept. 30 from \$20 million last year. TiVo said revenue climbed to \$1 million from \$33,000. Streaming media company **RealNetworks** had \$30.8 million net loss in quarter ended Sept. 30, vs. \$3 million profit year ago, even though revenue nearly doubled to \$67.1 million. Marketing expense doubled to \$27.5 million and total expenses to \$50.6 million from \$27.9 million.

If FCC decides to forbear from enforcing open access obligations on cable modem service providers, it should do same thing for DSL providers, said John Frantz, Verizon Communications vp-assoc. gen. counsel at Washington Legal Foundation forum. There is no functional difference between 2 technologies, he said, and there's no basis in logic or in law to regulate differently. But if FCC truly believed in open access, it should apply rules uniformly on broadband providers, Frantz said. Daniel Brenner, NCTA vp-law and regulatory policy, said it was "still too early" for FCC to mandate 3rd party access since largest cable companies, AT&T and Time Warner, had committed to voluntary ISP access. Despite "all the rumblings," he said, number of ISPs seeking interconnection is "very limited." Pointing out that there's "world of difference" in present regulatory requirements for different service providers, Brenner said functional equivalence might not be best test for determining need for regulation. Test should be whether there is market failure necessitating govt. regulation, he said. However, Frantz said relevant question was that 2 services compete in same market and as basic competitors ought to be regulated equally. Referring to FCC's notice of inquiry on open access, he said Commission should "deregulate us or regulate cable companies."

Motorola signed long-term license agreement to make and sell Gemstar-TV Guide's Interactive Program Guide (IPG) technology, latter said. Companies also agreed to immediately dismiss all pending arbitration and litigation. Agreement includes payments to Gemstar-TV Guide relating to settled litigation. Companies jointly will pursue new business opportunities involving interactive services utilizing their products, proprietary technologies, patents.

Presidential candidates Gore and Bush accepted free time on Fox TV Network Oct. 27, network said. Each will have 30 min. for statements to air 7-8 p.m. Program will be seen again next night on Fox News Channel.

Overbuilder WideOpenWest said it signed 15-year franchises with Littleton and Parker, Colo., and Bedford and Flower Mound, Tex., adding 600,000 households to Denver and Ft. Worth clusters. Meanwhile, Digital Access said it received 15-year franchise from Metropolitan Council of Nashville and Davidson County, Tenn., to provide competitive telecom, cable and high-speed Internet services to 220,000 households in area. With agreement, Digital Access has received 4 franchises in middle Tenn., representing 270,000 households.

Forum on "Electronic Media and the First Amendment" will be sponsored Oct. 24 by NAB Education Foundation. Speakers are to include NAB Pres. Edward Fritts, MPAA Pres. Jack Valenti, former FCC chairman Newton Minow and Richard Wiley, former FCC Comr. Rachele Chong, AOL Senior Vp George Vradenburg, several present and former FCC staffers, First Amendment experts and scholars. Event is at Freedom Forum hq in Arlington, Va. — 202-429-5350.

Pax TV will partner with Internet gambling firm WorldWinner.com to provide access to co-branded WorldWinner videogaming site via its Web sites, companies said. WorldWinner CEO Alex Saidakovsy said Paxson "is an important and ideal partner for further introducing our site to an ever-growing audience of online gamers."

PanAmSat said ABC Cable Networks Group and ABC TV selected it as provider of global satellite TV services for 15 years. PanAmSat will expand domestic and international distribution of Buena Vista TV, Disney Channel, ESPN, SoapNet, Toon Disney.

Alliance for Better Campaigns criticism of ABC is "false and libelous," Disney Exec. Vp Preston Padden said in letter to Alliance head Paul Taylor: "You owe us an apology." Alliance had claimed WPVI-TV Philadelphia had been airing "just seconds a night" of candidate discourse, but Padden said that was inaccurate because station carries 30 hours of local news per week, plus 8 weekly public affairs programs, as well as more than dozen candidate debates this year. He said Alliance focus on 5 min. of candidate time per night "turns out not to be a good measure of which stations are doing the best job of serving the public interest."

Entire future of Jerry Lewis MDA Telethon depends on keeping broadcast ownership cap, Muscular Dystrophy Assn. official said in letter to Rep. Manzullo (R-Ill.). In letter submitted to FCC in ex parte communication on ownership proceeding, Amy Morris said virtually no network-owned stations carried telethon, so allowing networks to own more stations could mean "the unthinkable alternative of the telethon fading into history."

Personals

Andrea Wong named senior vp-alternative series and specials, ABC... Planned changes in AOL-Time Warner's finance organization: **Michael Kelly**, AOL, to become exec. vp-CFO; **John LaBarca**, Time Warner, senior vp-financial operations; **Frederick Yeager**, Time Warner, senior vp-finance; **James Barge**, Time Warner, vp-controller; **Warren Christie**, Time Warner, vp-tax; **Landel Hobbs**, ex-Turner Bcstg., vp-financial analysis and operations support; **Melinda Mount**, Time Warner, vp-finance and acquisitions; **Raymond Murphy**, AOL, vp-treas.

Jeffrey Dunn appointed COO, Nickelodeon, TV Land and TNN and pres., Nickelodeon Enterprises... Changes at Cablevision: **Peter Olsen** promoted to vp-leadership development; **Carolyn Dursi**, ex-Thorndike Deland, named vp-exec. recruitment... **Patty Miller** advanced to vp-ads and brand mktg., Comcast... **Patricia Gorman**, ex-AT&T, named exec. vp-corp. operations, Time Warner Telecom.

CableLabs CEO **Richard Green** named chmn. of International Telecom Union Integrated Broadband and Cable Networks and TV and Sound Transmission Study Group... **Alex Breckon**, ex-SkyTrends/Media Business, appointed dir.-business development, Satellite Bcstg. & Communications Assn. (SBCA)... N.Y. State Bcstrs. Assn. new officers: **Dennis Swanson**, WNBC-TV N.Y.C., chmn.; **Bill Ransom**, WKBW-TV Buffalo, vice chmn.-TV; **Eric Straus**, RegionalHelpWanted.com, vice chmn.-radio; **Tom Chiusano**, WXRK, secy.; **Ed Levin**, Galaxy Communications, treas... **Marty Dajani**, ex-FTC, joins Piper, Marbury, Rudnick & Wolfe to work on e-commerce.

Mark Berryhill, ex-WMEX-AM Radio Boston, appointed news dir. and vp-news, KRON-TV, San Francisco... **Art MacDowell** promoted to vp-Sprint Wholesale Services Div... **Marla Greenstein**, ex-Comcast-S. Fla., becomes vp-customer mktg., Weather Channel... **Margaret Smith** appointed vp, NPR2... **Amy Niles**, MediaAmerica, named dir.-sales and mktg., Sirius Satellite Radio.

Congress approved Commercial Space Transportation Competitiveness Act of 2000 (HR-2607) and there was consensus among congressional staffers that \$14.3 billion NASA budget, which is attached to Veterans Affairs, HUD and Independent Agencies Appropriations Act of 2001 (HR-4635), also would be passed. Figure is \$250 million more than President Clinton requested and \$685 million more than agency received in 2000. "We have some procedural hurdles to clear, but [bill] is in pretty good shape," House Appropriations spokesman said. House agreed to Senate amendment to HR-2607 in voice vote Oct. 17.

FCC Managing Dir.'s Office took steps to expand opportunities for women-owned companies to provide products and services to agency. Agency appointed advocate in its Procurement Div. to encourage use of women contractors and said it would develop formal process for identifying and involving such businesses in contract solicitations. Action was taken to meet President Clinton's May 23 Executive Order establishing 5% goal for procurement from women-owned businesses. FCC Comr. Ness praised new policy, saying she would work to encourage agency "not only to meet, but exceed, our goals."

Belo agreed to sell KOTV (Ch. 6, CBS) Tulsa to Griffin Communications for undisclosed price. Griffin owns KWTW Oklahoma City.



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Eleventh U.S. Appeals Court, Atlanta, issued stay blocking utilities from charging higher pole attachment rates until U.S. Supreme Court hears likely appeal of case by cable industry or federal regulators. In motions filed with appellate court last month, FCC and NCTA requested stay of its April decision that federal laws covering cable pole attachment rates didn't apply to cable-delivered Internet service. NCTA said several utilities already had started boosting rates substantially since that ruling. Both FCC and NCTA are expected to appeal 11th Circuit decision to Supreme Court soon.

Consumer Electronics

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STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Oct. 6 and year to date:

	SEPT 30- OCT. 6	1999 WEEK	% CHANGE	SEPT. 23- SEPT. 29	40 WEEKS 2000	40 WEEKS 1999	% CHANGE
TOTAL COLOR TV	419,439	401,262	+ 4.5	1,177,323	21,734,702	20,504,956	+ 6.0
DIRECT-VIEW**	404,479	384,068	+ 0.9	1,125,059	20,793,564	19,676,880	+ 5.7
TV ONLY#....	333,398	347,117	- 4.0	948,472	17,228,394	16,521,363	+ 4.3
TV/VCR COMBO.	71,081	36,951	+ 92.4	176,587	3,565,170	3,155,517	+ 13.0
PROJECTION...	14,960	17,194	- 13.0	52,264	941,138	828,076	+ 13.7
TOTAL VCR**...	623,717	389,978	+ 59.9	1,194,186	20,184,135	18,964,080	+ 6.4
HOME DECKS...	552,636	353,027	+ 56.5	1,017,599	16,618,965	15,808,563	+ 5.1
CAMCORDERS.....	77,859	87,856	- 11.4	287,021	4,194,689	3,446,585	+ 21.7
DVD PLAYERS....	183,653	40,475	+353.7	617,952	5,275,942	2,413,833	+118.6

Direct-view TV 5-week moving average#: 2000-606,622; 1999-625,138 (down 3.0%).

Projection TV 5-week moving average: 2000-27,098; 1999-30,404 (down 10.9%).

VCR deck 5-week moving average: 2000-545,315; 1999-547,375 (down 0.4%).

TV/VCR 5-week moving average: 2000-100,881; 1999-96,806 (up 4.2%).

Camcorder 5-week moving average: 2000-126,956; 1999-102,943 (up 23.3%).

DVD player 5-week moving average: 2000-248,751; 1999-98,863 (up 151.6%).

** Includes TV/VCR combinations. # Excludes TV/VCR combinations.

Note: Analog sets only are included in figures on direct-view TVs, TV/VCR combos, projection TVs; analog and digital models are included in camcorders.

CIRCUIT CITY'S DIRECTV PROMOTION MET COMPETITION: Circuit City's decision to promote DirecTV receiver at \$1 with programming commitment (TVD Oct 16 p10) was national response to regional competition that has been quietly helping DirecTV test new pricing strategies, industry sources said.

Ovation in Indianapolis, handful of Blockbuster stores and select other regional retailers have participated in recent weeks in promotion with same terms as Circuit City's — \$1 receiver with 12-month commitment to purchase DirecTV's Total Choice programming package (\$31). DirecTV officials confirmed company has been testing pricing strategies this fall in regional markets including one similar to Circuit's.

"There have been some aggressive local promotions that took place around the country and Circuit City was not going to be embarrassed in their marketplace anymore," CE executive said. "They haven't been a particularly aggressive retailer, but they are defensive. You get out there a lot faster by buying an ad in *USA Today* than by buying ads in 70 or 80 local newspapers."

Response by Circuit's competition was swift and immediate. Good Guys moved \$100 mail-in rebate program it had been running with dual-LNB receiver across DirecTV line. Sound Advice quickly packaged 12-month contract with same terms as Circuit agreements and dropped some hardware to \$1. ABC Warehouse in Mich. matched price. One of few retailers not countering ad was BrandsMart in Fla., which already had advertised DirecTV hardware at 1¢. Most promotions ended last week.

"They [DirecTV] want everybody to be at higher prices and then when the national chains run things at cheap prices we refuse to bite," said N.Y.C. retailer that also advertised aggressive prices. "Every time they give us a hard time about low prices I say 'why should I hold prices if my competition is going to break them?'"

While Circuit promotion reduced value of DirecTV service, "I'm going to be competitive no matter what," said Chip Player, pres. of Queen City TV, Charlotte, N.C. Chain has advertised single LNB DirecTV receiver at \$56 or \$156 with free installation, but added HBO sports stadium jacket to mix in response to Circuit ad, Player said.

But DirecTV officials said their concern wasn't pricing, but rather programming contracts that locked in terms for 12 months or more. "It reduces our ability to change our packages and prices," DirecTV Mds. Pres. William Casamo said.

CE executives also voiced concern that promotions could revive pricing strategies deployed in 1997 that proved cumbersome for consumers and resulted in sales slowdown. "This doesn't do any good for the value of the product even if it looks like a good deal for the consumer," CE executive said. "Economies [of production] are different now [than in 1997], but this business is running well based on what the value proposition is and what the product delivers."

* * * * *

As Circuit wrapped up week-long DirecTV promotion, chain issued 2nd profit warning in 2 months, projecting 3rd-quarter loss due to lower-than-expected sales across virtually all product categories. Circuit projected 5-10¢ loss for quarter as result of sales "slowdown that was much more broad-based and included categories that had no reason to be affected" by store remodeling program, Pres.-CEO Alan McCollough said. Circuit, which is dropping major appliances, is in process of remodeling stores to accommodate larger selection of software and PC peripherals, process that's expected to be completed by early Nov. Sales slowdown in last 3-4 weeks is "disconnected" from remodeling program, McCollough said. "This is a reasonable broad-based slowdown even in products where we have supply." There have been periodic product shortages throughout year owing to tight supply of components. Circuit, which is tripling space dedicated to videogames, isn't counting on Sony PlayStation 2 to reverse recent sales trends, McCollough said. Sony earlier this fall cut amount of PlayStation hardware to be available at Oct. 26 launch in half to 500,000 units, meaning first inventories would be "measured in hours," McCollough said. CC's 4th-quarter earnings will be flat with year ago, "but significantly down from where we wanted to be," he said. As result, same-store sales will be "slightly negative," he said. Circuit closed week at \$13.81.

RCA AND RADIOSHACK TO SELL TIVO PVRs: In exclusive arrangement, RCA will supply personal video recorders (PVR) using TiVo's programming service for sale through RadioShack. PVRs, which have hard disc for 20 hours of video storage, go on sale next month at \$199 after \$100 TiVo rebate.

Co-branded RCA/TiVo PVRs will be carried in at least 4,000 outlets owned by RadioShack, whose "store-within-store" concept includes RCA Digital Entertainment Center. TiVo bit-buckets already are available through 4,500 retail and online outlets in U.S. Subscription to TiVo Personal TV Service costs \$9.95 monthly or \$199 for life-time service. According to NPD Intellect, 60,000 PVRs had been sold through at retail as of Aug., with TiVo accounting for 71% units and 80% of dollar volume, competitor Replay TV holding rest.

Alliance with TiVo is 3rd PVR venture for Thomson-owned RCA. Company is close to offering PVR for Ultimate TV service with partners and shareholders DirecTV and Microsoft. It also has CacheVision joint venture with Seagate to produce components for PVRs. Meanwhile, in U.K., Thomson is providing TiVo-enabled PVR under its top-shelf Scenium brand for British Sky Bcstg. satellite service. PVR offers 40 hours' storage and will sell through Dixons, Curry's and other select retailers there. Thomson U.S. spokesman told us company had no plans yet to offer Tivo/DirecTV combo to supplement standalone box at RadioShack.

Latest PVR moves by Thomson compare with recent silence from Philips, which was first brand to license TiVo technology for co-branded Personal TV and is TiVo investor. Company is reconsidering its position in PVR market, we're told.

Philips was to make presentation on PVRs titled "The Storit Project — Recording Personalized Viewer Patterns" at On Demand TV session during IBC in Amsterdam last month. But at last moment company pulled out of panel moderated by our European correspondent. Philips executive explained to us that company was going "completely back to the drawing board" on PVRs to examine options such as hard disc vs. rewritable DVD as storage medium, standalone recorders vs. TV receiver combos. Further comment from Philips on its PVR plans wasn't available at our Fri. deadline.

EUROPEAN CE MAKERS POST STRONG QUARTER: Sales of key parts and components driven by rising demand for CE products combined to generate positive financial results in 3rd quarter for Dutch giant Philips and Paris-based RCA parent Thomson Multimedia.

Thomson's revenue hit record 2.36 billion euros (\$2.1 billion) for quarter, up 35.3% over 1.74 billion euros in year-ago period and in line with expectations, company said. Finished CE goods led performance with 35.9% sales increase over 1999 quarter — 1.81 billion euros compared with 1.33 billion, Thomson said. Company attributed gains to strong performance by consumer digital products, including 89% gain in digital decoders, 3.3 times increase in DVD player sales and 5.5 times jump for cable modem shipments in Europe and U.S. In Europe, repositioning of product line toward high-end Scenium line yielded 39% increase in widescreen 16:9 direct view TVs and projection sets, Thomson said. In U.S., it said, it consolidated its market-leading position in video category sales, while new growth came from increasing share in audio and communications products.

Other strong category for Thomson was displays and components, as reflection of strong demand on OEMs from manufacturing clients for tubes and optical components, such as laser pickups. Revenues from these categories increased 35.2% over 1999 quarter to 467 million euros, Thomson said.

Revenue stream from patents and licensing also picked up in 3rd quarter, 21.2% to 80 million euros. Thomson this year regained lucrative patent portfolio that had been in pocket of former owner GE for 8 years. Despite windfall, Thomson said variations in currency exchange rates primarily accounted for increase in latest quarter.

Other revenue center, New Media Services that didn't exist last year, brought in 2 million euros in quarter, doubling one million in first half. Company said it had shipped 3.2 million TV sets with Gemstar electronic program guide in U.S. year-to-date, from which it and partner Gemstar share advertising and other revenues. Thomson also will start eBook electronic publishing venture with Gemstar next month from which it expects downstream revenues on hardware-technology licensing and on sales of electronic texts downloaded from Internet.

Overall, 3rd quarter-performance parlayed results from Thomson's first half. It said year-to-date revenue was 6.43 billion euros (\$5.9 billion) — up 41.3% from first 9 months of 1999.

First half also was profitable for Thomson, which earned 84 million euros (\$80 million at then-existing exchange rate of U.S. \$0.95 to euro, now worth about \$0.84) — 2.1% of 4.1 billion euro revenue at that time. Earnings for 3rd quarter will be announced in future, per European accounting practice. Thomson now is in "quiet period" on pending public offering that should leave French govt. with less than 50% equity stake but still majority shareholder. Besides French govt. and Thomson employees, other investors in newly public company are Alcatel, DirecTV, Microsoft, NEC. Thomson owns piece of Gemstar along with News Corp. and has seat on Gemstar board.

Meanwhile, Philips credited surge in semiconductor shipments in reporting sharply higher 3rd-quarter earnings rise to 2.07 billion euros from 374 million euros year earlier. Overall sales climbed 21% to 9.37 billion euros. Comparable sales growth was 11% vs. year-earlier quarter when exchange rate fluctuations were factored in.

Besides semiconductors, Philips said sales in consumer electronics also were robust, rising 19% in nominal terms to 3.68 billion euros, with all CE product groups recording strong gains. Overall sales growth in quarter was largely attributable to strength in Asia Pacific and Europe, where Germany and Eastern Europe headed strong increases, Philips said. Price erosion dipped "substantially" in quarter to 5% compared with year-earlier 8%, reflecting what Philips said were "supply constraints" in semiconductor and CE industries owing to key component shortages. Sales in U.S. and Canada jumped 21% to 3.06 billion euros, Philips said.

Retailers and high-tech manufacturers unveiled Internet Home Alliance they said was designed to "promote industry collaboration" on Internet appliances and other in-home Web access systems. Alliance includes Best Buy, Cisco, CompUSA, General Motors, Honeywell, Invensys, Motorola, New Power Co., Panasonic, Reliant Energy, Sears, Sun Microsystems, Texas Instruments, 3Com. Cisco said Alliance was examining need to "distribute broadband throughout the home," including PCs, phones, security systems, smart appliances. Issues affecting adoption rate of home-wide Internet solutions, Alliance said, include market fragmentation, consumer and industry "confusion," complexity of home technology solutions. It said more than half of U.S. homes had PCs but only "fraction" had other Internet-enabled devices.

Blockbuster and Enron signed licensing agreement with InterTrust making latter "preferred provider" of digital rights management technology for Blockbuster's upcoming entertainment on-demand service. Service is to start reaching consumer homes in U.S. cities via Enron's broadband network by year-end. Blockbuster had announced deal with Enron in July. Companies said service at outset would reach homes via high-speed digital connection provided by local broadband providers on regional basis. Blockbuster and Enron said they tapped InterTrust because they believe latter could "provide a high level of security and commercial reliability." Blockbuster New Media Pres. Mark Gilman said: "Agreement with InterTrust marks a significant step toward protecting [intellectual property rights of the studios] in the digital world."

DIRECTV HUDDLES, MURDOCH TALKS: DirecTV officials were to meet with potential "partners" in N.Y.C. last weekend as General Motors (GM) continued to weigh selling all or part, or retaining, Hughes Electronics, sources said.

Substance of talks couldn't be determined at our deadline, but sources said it would delve in part into areas that would be covered as part of due diligence should agreement be reached. General Motors is expected shortly to reduce 20 potential suitors for Hughes to 5 and make final decision by year-end. It earlier had planned to have process completed by Dec. 1, sources said. Hughes spokesman declined comment, but GM Vice Chmn. Harry Pierce had said earlier that decision would be made "within months, not years."

News on DirecTV came as top executive of one potential buyer — News Corp. — told shareholders it was in talks with Hughes Electronics and EchoStar on becoming U.S. partners in float of Sky Global Networks.

"We would be very happy to have DirecTV as part of Sky Global or its competitor EchoStar Communications," News Corp. Chmn.-CEO Rupert Murdoch told shareholders at annual meeting in Adelaide, Australia. DirecTV and EchoStar declined comment.

While News Corp. acquisition of DirecTV would give company long-sought position in U.S. market, sources said it would be hard-pressed to meet GM's desire to have sale be tax-free. News Corp. also faces increased regulatory scrutiny in U.S. in light of recent decision to buy majority stake in Gemstar-TV Guide.

Murdoch sought to soothe shareholder concerns over Sky Global float, but also conceded that deal was at least month away. Sky Global will include News Corp.'s 37.5% stake in British Sky Bcstg. (BSkyB) as well as its Asian satellite TV company Star TV, Sky Latin America and Gemstar-TV Guide, in which it recently acquired majority interest in complex deal with John Malone's Liberty Media Group. Latter was viewed largely as part of effort to ready offer for DirecTV.

Murdoch also said he didn't foresee difficulties in Viendi's selling its 20% stake in BSkyB as part of planned acquisition of Seagram, which also owns Universal Pictures.

Sky Perfect Communications made Tokyo Stock Exchange debut Oct. 20 after raising \$1.13 billion in selling 400,000 shares at \$2,962 each. Sky Perfect closed first day of trading at \$2,361. IPO values Sky Perfect at \$6.6 billion, nearly equal to Tokyo Bcstg. System, Japan's 3rd largest commercial broadcaster, analysts said.

Several analysts told Reuters that investor paid too much for early piece of company that has lost money for 6 years and has shown no signs of turning profit. Indeed, Sky Perfect has accumulated \$722 million in losses since beginning operations in 1994. In April-June quarter Sky Perfect had \$77 million loss on sales of \$95.8 million.

Sky Perfect had 2.36 million subscribers at end of Sept., compared with 15 million for NHK. After IPO, Itochu, Fujitsu TV Networks and News Corp. each will hold 8.14% of Sky Perfect and Softbank 6.12%.

Satellite company, which acquired DirecTV Japan year ago, will face stiff competition with start of BS digital broadcasting in Dec. and from existing base of cable TV and Internet service providers, analysts said.

SONY TO SELL PLANTS TO SOLECTRON: Sony has agreed to sell 2 factories to Solecron in effort to focus manufacturing on "core" businesses including PlayStation 2. Terms weren't disclosed.

Sale involves 360,000-sq.-ft. plant in Miyagi, Japan, and 160,000-sq.-ft. facility in Kaohsiung, Taiwan. Former produces car audio and assembles lithium ion batteries, while latter builds radios, Walkman, cordless phones, tape recorders and global positioning satellite (GPS) systems. Solecron will retain 2,000 workers at plants and continue to build products for Sony and other customers, companies said. Sale of Japan factory, which opened in 1991, is expected to close by year-end while 33-year-old Taiwan plant will change hands in spring, Sony said.

For Sony, which manufactures majority of products it sells, sale represents concession that factories haven't been able to keep pace with demand. It delayed delivery of digital camcorders earlier this year owing to components shortage and cut availability of PlayStation 2 consoles at Oct. 26 start to 500,000 from one million for same reasons.

Decision also is part of Sony's Engineering, Manufacturing and Customer Service (EMCS) platform unveiled in April that integrated 13 plants in Japan. Goal is to allow factories to build range of products as opposed to focusing on single category, Sony spokesman said.

Solecron, which built Sony Vaio desktop PCs in 1997, has signed manufacturing pacts with number of vendors in recent years. It also designs and builds OEM branded desktop PCs for Acer (Oct. 1999) and purchased Mitsubishi's former cellular phone factory in Brazelton, Ga. (Oct. 1998).

Agreement with Sony will make CE company one of Solecron's Top 10 customers in terms of revenue, although exact figures weren't available, Solecron spokesman said. Cisco Systems and Hewlett-Packard were Solecron's top customers in fiscal year ended Aug. 31, 1999, accounting for 12% and 11%, respectively, of company's \$8.3 billion in revenue, according to SEC filings.

Sony pact also will move Solecron into several new product categories with exception of GPS, which it builds at Milpitas, Cal., plant as result of Aug. 1999 acquisition of Trimble Navigation.

* * * * *

As it announced agreement to sell plants, Sony signed 5-year CE products recycling agreement with Minn. and Waste Management. Deal is extension of 3-month pilot program begun in March during which 600 tons of used CE gear were collected throughout state and analyzed. New collection initiative will start with Sony, but is open to others, Minn. officials said.

Enron is rolling out Blockbuster's "vast movie library" in "select areas" of 4 U.S. markets, it said in releasing 3rd-quarter earnings. Enron, which didn't disclose locations, is providing broadband network for Blockbuster's proposed video-on-demand service. Separately, companies signed accord with InterTrust for latter to provide digital rights management technology for VOD service (see separate report this issue) ... **RadioShack** signed agreement with Excite@Home last week to start selling cable modems and do-it-yourself installation kits in markets where service is available.

GEOCAST-EHOSTAR ALLIANCE: Geocast has signed agreement with EchoStar that will provide its data service to satellite system by 3rd quarter 2001. It also postponed planned first-quarter rollout of terrestrial service until same time as EchoStar debut (TVD April 17 p19).

Many details of alliance remain to be worked out including programming lineup, pricing, hardware manufacturer. EchoStar, which will lease transponder space to Geocast, will deliver service from satellite at either 110° W or 119° W, said Mark Jackson, EchoStar Senior Satellite Services Vp.

Geocast, which has said it wanted hardware for terrestrial service to be priced under \$200, is said to be developing several marketing strategies. Among them is offering hardware free to consumers who agree to pay activation and monthly fees, source close to company said. Geocast also is weighing operating service as free, ad-supported network with customized options sold on fee basis. Hardware will consist of box with 40 GB hard drive that attaches to PC. But EchoStar eventually will build Geocast into satellite receiver, Jackson said.

While no hardware provider has been selected, companies have several options. Philips, SCI Systems and Vtech build satellite receivers for EchoStar and Philips is investor in Geocast. Thomson also is investor in Geocast, but has slowed development of set-top box (STB) for terrestrial service. Thomson also builds satellite receivers for DirecTV.

"They don't have enough [broadcast] agreements right now to make enough of an economic model for us to go full force," source close to Thomson said. "I would say we're tracking it, working on it a little bit, but I couldn't tell you a product launch date. We worked hard at it for a while, but from a development standpoint it was constantly slipping anyway." Source close to Geocast said company had maintained relationship with Thomson, but declined further comment.

Geocast also is preparing to expand test of terrestrial service in Nov. to beta group using Granite Bctsg. station in San Jose. Latter, and with Hearst-Argyle affiliate in Sacramento, were used in first test that involved employees, their friends and families, Geocast said.

Agreement with Geocast gives EchoStar another weapon in its broadband arsenal. It already has deals with Starband and iSky for medium and high-power Internet access services, respectively, but Jackson said Geocast would "complement" other providers. Indeed, Geocast said it would focus on delivering data and wouldn't be 2-way service, using telephone line as back channel.

Proposed retail buying group appears dead for this year following Queen City's decision to pursue own strategy. Queen City, which along with Video Only proposed creating Assn. of Select TV & Appliance Retailers (ASTAR), will remain outside buying group for time being, Pres. Chip Player said. "Everybody wants to do it, but we couldn't reach an agreement," he said. "I still believe there is a need for a new buying group." Handy TV, Queen City, Vann's and Video Only parted ways with NATM Buying Group earlier this year. Handy has remained independent, while Vann's joined Pro Group. Queen City and Video Only sought to form new group, but have been unable to attract 10 chains that were needed to get started.

C-Cube Microsystems will ship 5th-generation ZiVa DVD decoder chip in first quarter designed for audio applications including MP3 encoding, company said. Decoder, which integrates 7 chips into one, includes progressive scan output and Internet applications including PlanetWeb's browser. ZiVa-5, which is expected to co-exist with previous generation chip for much of 2001, has Sun Microsystems 32-bit Sparc microprocessor that boosts speed to 150 MHz from 100 MHz. It also has 2-D multiplane graphics engine, field adaptive de-interlacer and 225 MIPS dual audio DSP architecture. Postprocessing features include Spatializer Audio Labs' N-2-2 3D audio algorithm and is compatible with C-Cube's C-Ware software. In effort to expand DVD-Audio market, C-Cube is offering ZiVa chip in volume at \$22.50 with MP3 feature, \$16.50 without it. While conceding pricing remains barrier to expanding DVD-Audio market, C-Cube Consumer Products Mktg. Dir. Timothy Vehling nevertheless predicted that technology could account for minimum 20% of DVD player sales in 2001. C-Cube is projecting worldwide sales of 29 million players in 2001, rising to 55 million by 2003.

Navarre, taking \$9.5 million write-off of loan to former subsidiary NetRadio, reported 2nd-quarter loss grew to \$8.4 million from \$3.1 million year ago despite 17% rise in net sales (see financial table). Navarre, which was to convert \$5.2 million of loan into equity stake in NetRadio (TVD Oct 25 p16), said it since has dropped investment plans. Minus write-off of NetRadio loan, Navarre posted \$1.7 million profit, reversing \$2.6 million loss last year. Sales of PC products increased 22% on strength of "improved penetration" of Symantec software, while music revenue rose 7.5% despite weak release schedule, Chmn.-CEO Eric Paulsen said. Navarre, which has focused music business on exclusive distribution agreements, plans to apply similar strategy to DVD, he said. Company will have 1-2 exclusive DVD deals in time for holiday selling season, spokeswoman said in declining to identify potential partners. Despite exclusive agreements, Navarre will continue to distribute widely available DVD titles as well. "It's going to be a hybrid and it gives us an opportunity to put together certain products that are unique to us," spokeswoman said. New DVD pacts will expand Navarre's presence in Canada, where it already sells music CDs under exclusive arrangements, spokeswoman said.

Rockford Fosgate said income rose to \$1.65 million in 3rd quarter from \$1.55 million despite what it termed "challenging" retail market for car audio. Sales increased 16.6% (see financial table), despite industrywide growth of 2.5% in first half. Gross margin plunged to 32.7% from 39% largely due to product mix, which accounted for 2% of decline and discounts to retailers (1.7%). Pres.-CEO Gary Suttle said in conference call with analysts. Margins were affected by sales of low-priced Lightning Audio line of 6 amplifiers (\$149-\$349) including four 2-channel and two 4-channel units. Discounts to retailers were granted to "counter the aggressive posture taken by Circuit City," Suttle said. RF's largest retail customer, Best Buy, "is now responding more aggressively," he said. Despite lower margin, RF increased leading share of car amplifier market for 3 months ended in Aug. to 21.4% from 16.4% year earlier, while moving into 2nd in speakers at 8.2% against 6.2% year ago, Suttle said, quoting NPD Intellect data. In effort to reduce reliance on car audio, RF is readying home theater products that will ship in 2001. Home theater will offer "broader and different distribution" and "we like it as a business opportunity," Suttle said. RF also will introduce expanded lines of digital amplifiers and Lightning Audio, latter having "exceeded our expectations" thus far, he said. RF purchased Lightning Audio in July 1999.

VIDEO UPDATE SELLING LEASES: Video Update has hired realty firm to sell leases to 120 stores in effort to pay down bankrupt chain's debt.

Great Neck, N.Y.-based Kean Realty will seek to raise cash from leases on locations in 24 states ranging from 4,000 to 12,000 sq. ft., company said. Sales won't include inventory.

Asking prices haven't been set, but will be based on period remaining on leases, location and what Video Update has been paying, Kean said. Of 24 states involved, Minn. (56) and Wash.(38) have most stores.

Sale of leases is first action 586-store Video Update has taken since filing for bankruptcy in Sept. listing \$129.5 million in assets and \$210.3 million in debt (TVD Sept 25 p19). At that time, it had defaulted on \$6 million principle and interest payments due on senior credit facility with several banks including Banque Paribas, which is said to be owed \$120 million.

Video Update CEO Daniel Potter wasn't available for comment, but he told Associated Press in Minn. that chain had 90 days to file reorganization plan with U.S. Bankruptcy Court in Wilmington, Del. Potter said chain "definitely" would emerge from bankruptcy protection.

Video Update employed variety of restructuring strategies before seeking bankruptcy protection. It had closed 69 of 240 stores it gained in buying Moovies chain.

Trans World Entertainment, meanwhile, last week said it would report 4-8¢ loss per share for 3rd quarter against 7¢ profit year ago. Chmn.-CEO Robert Higgins said sales decreased in quarter because "number and strength" of new music releases "have not met expectations." While "industry forces" affected 3rd-quarter results, holiday selling season will enable chain to report "strong growth and profitability" in 4th quarter, Higgins said.

Transworld, which operates stores under Camelot, Saturday Matinee, Coconuts Music & More, Spec's and Strawberries Music banners, was scheduled to close Oct. 20 on acquisition of 114-store Disc Jockey chain from WaxWorks/VideoWorks. It couldn't be learned by our deadline whether sale had been completed.

Musicland said 3rd-quarter profit narrowed to \$62,000 from \$728,000 year earlier as e-commerce business lost \$2.1 million. Sales edged up less than 1% on 0.9% gain in same-store sales.

Slight profit came despite "weak" music release schedule that caused chain's music category to post negative same-store sales. Downturn in music was offset by sharp gains in books, electronics and DVDs, last-named now accounting for 35% of revenue, Chmn.-CEO Jack Eugster told analysts in conference call.

E-commerce business sales jumped to \$1.5 million from \$200,000 year ago and expected year-end loss and revenue of \$8-\$10 million, company said. Goal for next fiscal year will be \$5-\$7 million loss on \$12-\$15 million in sales, it said.

As result of continued e-commerce losses, Musicland is "slowing development" of Web site and "giving our system

some time to stabilize," Eugster said. It will spend \$3 million on site this year, he said. Development is expected to be completed by mid-2001, company said. Web sales have "skewed" toward DVDs and CE, bolstered by authorization to sell Sony products, Eugster said.

Overall, Musicland has tested sales of increased assortment of CE products including DVD players in handful of its Media Play stores, he said.

Sales at Superstore Div. (Media Play and On Cue) slid to \$246.6 million from \$252.7 million as same-store sales fell 1.9%, but Mall Div. (Sam Goody and Suncoast Motion Picture Co.) posted increase to \$141.3 million from \$133.5 million despite 0.8% decline. Musicland is expected to close 60 stores by year-end while opening equal number of outlets, Eugster said.

Pricing for CDs has been "a little more aggressive" in recent weeks with Best Buy leading charge in promoting new Limp Bizkit title at \$9.99. "If we sell less of the hot new releases certainly it's not good for us, but it may mean our margins will rise," Eugster said. Musicland has posted improve gross margins as it tightened security at stores to reduce theft, he said.

To offset expected shortage of Sony PlayStation 2 consoles, Musicland has been preselling \$500 package that combines hardware with joy stick and software, Eugster said. PlayStation 2 ships Thurs.

Webvan Group shares dropped to all-time low of \$1 Thurs., online report said, after company was downgraded to "sell" rating by Prudential Securities. Downgrading came after "last-mile" online delivery service, which delivers CE products and other merchandise to consumers in as little as 30 min., reported its losses continued to climb in 3rd quarter ended Sept. 30. Webvan posted \$120.23 million (-26¢ per share) loss, compared with \$107.32 million (-24¢) loss year ago. However, it said sales increased to \$87.40 million from \$59.47 million. It also said it had "cash position" of \$376.9 million at end of quarter. Webvan CEO-Chmn. George Shaheen said "for the 5th consecutive period we experienced growth in all key metrics." In last quarter, Webvan completed its acquisition of competitor HomeGrocer.com, which it said caused it to recognize "approximately \$919 million in goodwill that is being amortized on a straight-line basis over a 5-year period." Webvan also recorded \$40.8 million restructuring charge in connection with recently modified rollout schedule associated with HomeGrocer acquisition.

DVD player installed base is on track to reach 13 million U.S. households by year-end, DVD Entertainment Group estimated. Penetration since debut is 9 million for standalone DVD players, plus 9.3 million DVD-ROM drives in PCs, group said. Player selection in U.S. now exceeds 100 models from 40 brands, while software titles number 8,000, with another 500 expected in holiday selling season. Group said 43 million DVD movies and music videos shipped in 3rd quarter — 150% over comparable 1999 period, and raising year-to-date shipments to 108 million discs, 233 million since rollout. At current growth rates, 2000 shipments should exceed 230 million discs worth \$4.5 billion at retail, group said. Releases for 4th quarter are heavily weighted toward box-office blockbusters, said Stephen Nickerson, Warner Home Video vp-worldwide DVD mktg. He said projected box-office gross of 4th-quarter titles exceeded \$3.2 billion compared with \$1.7 billion in 1999 quarter.

GAMES OUT IN FORCE AT PLAYDATE: Newest titles for Dreamcast, Game Boy Color (GBC), Nintendo 64 (N64), PlayStation (PS) and PlayStation 2 (PS 2) were showcased last week in N.Y.C. at PlayDate, annual one-day media event where interactive videogames shared spotlight with traditional toys.

PlayDate, marketing services company headed by Gerard Klauer Mattison Exec. Vp-Research Dir. Sean McGowan and U.K. toy industry journalist Jon Salisbury, polled retailers before event to gauge what they expected would be hottest products this holiday season. Many of those items were hawked at booths of game and toy makers, as well as retailers.

Heading list of videogames expected to be best-sellers this season was Activision's *Tony Hawk's Pro Skater 2* for PS, while Interplay's *Baldur's Gate II: Shadows of Amn* topped list of PC games. Not surprisingly, Sony's PS 2 was predicted to be No. 1-selling piece of videogame hardware.

Although Nintendo and Sega attended event, Sony Computer Entertainment, which passed on it last year, skipped it once again. PlayDate spokeswoman told us Sony had been invited but chose not to attend. Only videogame makers other than Nintendo and Sega who opted to appear were Activision, Take-Two Interactive Software's Rockstar Games division, THQ.

Activision's *Star Trek: Voyager — Elite Force* for PC and Rockstar's *Smuggler's Run* for PS 2 and PC were picked by retailers as other games expected to perform well, as were: Nintendo's *Banjo-Tooie*, *Legend of Zelda: Majora's Mask* and *Mario Tennis* for N64, and *Pokemon Gold and Silver* for GBC; Sega's *Sega Sports NFL 2K1* and *Shenmue* for Dreamcast; and THQ's *Summoner* for PS2, *WWF No Mercy* for N64 and *WWF Smackdown! 2* for PS.

Sega demonstrated other new Dreamcast games, including *Samba de Amigo*, music title that uses interactive maraca peripherals selling separately for \$79.99. Sega of America Corporate-Mktg. Communications Vp Charles Bellfield said latest online game to ship for Dreamcast was *Quake 3 Arena*, which he said was first to support Ethernet adapter for broadband use that he said would be available "by Christmas" — probably in "first week of December." Bellfield showed how Ethernet adapter could be attached easily to Dreamcast console. Pricing has yet to be provided.

While Bellfield recently attributed (TVD Oct 9 p18) at least some of recent uptick in Dreamcast sales to Sony's announcement that it would be delivering only 500,000 PS 2 consoles at launch this week (TVD Oct 2 p11), McGowan said he wasn't so sure that Sony news was major factor. "It probably would have jumped up anyway," he said. As for boost in Dreamcast sales: "I don't know if it's meaningful in the large scheme of things." He said installed base for Dreamcast was "still pretty low," although he said Sega had seen "better sales than I thought they would." While Sega has "sold enough units to stay around," it hasn't sold enough "to drive the industry," McGowan said.

McGowan said he believed Sony and its PS 2 were likely to be No. 1 console player even when Microsoft's Xbox and Nintendo's Gamecube arrive next year. But he said Microsoft and Nintendo probably would duke it out for No. 2 slot. Like many others in industry, he expected Sega to drop to No. 4. But he said that after next year, "in a sense, everybody's going to be

out of the console business" because of expected rise in broadband. One factor that may help Sega compete at that point is that it has large amount of its own content.

Meanwhile, outside of videogame category, McGowan said retailers weren't in agreement on what toys they expected to be best-sellers. He said many retailers increasingly were relying on exclusive items to drive their sales. Despite chip shortage, he said many manufacturers were pegging their hopes on variety of interactive toys that used such chips, including Tiger Electronics's expanding Poo-Chi line and Playmates's Amazing Babies — both of which are expected to see strong sales this season.

Eastman Kodak exceeded lowered earnings expectations for 3rd quarter, but said economic slowdown would hurt results in current quarter. Net income increased in quarter to \$418 million from \$235 million, but sales were flat at \$3.59 billion vs. \$3.58 billion. Sales would have been up 4% minus affect of euro. As Kodak's professional business continued to struggle, consumer imaging segment slowed suddenly in Sept. after growth in previous 2 months, CEO Daniel Carp said. While Kodak had projected 8% sales gain in consumer film for year, figure fell to 4% in 3rd quarter. Gross margins slid to 45.2% from 48.3% as digital camera business increased, but at "much lower prices and depressed margins," Carp said. While digital camera revenues rose 72%, unit volume increased 120%, he said. "I feel pretty good about where our [overall] digital business is right now," Carp said in conference call with analysts. "I could always throw more money at the business, but I don't see the place for that right now. I don't see a big investment until we see what the consumer is going to do" in terms of buying digital services such as Kodak's "You've Got Pictures" venture with America Online. Kodak ended quarter with \$330 million in overall inventory, up from \$165 million in 2nd quarter. It said it would move to pare inventory \$250-\$350 million by year-end... **Concord Camera**, crediting improved sales in digital and conventional OEM business, reported first-quarter income rose to \$6.2 million from \$3.8 million year earlier. Sales were up 52.1% (see financial table). Upswing in earnings came despite Concord's incurring \$800,000 expense in connection with proposed acquisition that was terminated in quarter. It raised \$89.7 million in selling 3.9 million shares, funding that will help expand digital business. Concord has obtained right to use certain Hewlett-Packard (HP) digital imaging technology and formed alliance with HP spinoff Agilent Technologies. Concord and Agilent jointly developed JamCam camera for KB Gear Interactive.

S3 made strategic investment in ETC Music last week, companies said. Latter said deal "will help further the development and delivery" of its "flagship product" — MusicTeller, ATM-like device that consumers can use to download digital audio directly onto their portable players inside retail stores. Financial terms of deal weren't announced. MusicTeller will begin testing at select retail stores Nov. 1. ETC spokeswoman told us tests "will be in the Boston area" but "the retail locations haven't been finalized yet." Those chosen "probably [will be] major music retail stores." ETC, based in Vancouver, Wash., said digital music offered in tests "will range in price from free promotional tracks to inexpensive single- and multitrack titles, to more expensive, limited-time offers for live music or previously unreleased material." After testing is completed, ETC hopes to roll out MusicTellers into stores nationwide early next year, spokeswoman said.

PS 2 SHORTAGE NO BIG DEAL: Toy retailers at PlayDate in N.Y.C. last week said smaller-than-expected PlayStation 2 (PS 2) shipments for launch (TVD Oct 2 p11) won't have major impact on their holiday sales. For one thing, they said, videogames represent just one category of many they carry.

However, situation may not be viewed same way at electronic game specialty retailers such as Babbages Etc. and Electronics Boutique, who declined to be interviewed for this article and didn't attend PlayDate.

But Gerard Klauer Mattison Exec. Vp-Research Dir. Sean McGowan said of Sony's changed PS 2 shipping schedule: "That's a lot of retail dollars that's out the door." While smaller shipment schedule in and of itself may not be so bad for retailers because many consumers will wait to buy console anyway, he said bigger issue may be that software sales "will be a little softer." Industry sources indicated last week that retailers were cutting back on PS 2 software orders.

Like other retailers at PlayDate, Toysrus.com Mktg.-Business Development Vp Greg Ahearn declined to say how many consoles his company expected for debut. All he would say was: "We're going to get a significant amount." But he admitted that it was "pretty obvious that supply is going to be a little short" to meet demand and "I would encourage people to buy early."

Ahearn said his company, which this holiday season is selling toys online as part of its partnership with Amazon.com (TVD Aug 14 p15), opted not to run PS 2 preorder campaign as did some of its competitors because "we wanted to make sure that we had the product in stock" first.

While KB Toys and its online counterpart, KBkids.com, were running preorder campaign for PS 2, they stopped after Sony made its announcement late last month, Merchandising Senior Vp Tom Alfonsi told us: "Right now, we're just going to take care of our presold customers." KB doesn't expect to be able at start to satisfy all customers who preordered system, Sales Promotion Mgr. John Reilly told us earlier this month (TVD Oct 9 p14). But he said company was confident it would be able to deliver PS 2 consoles to many of those who had preordered one and to rest of them "by the end of November."

Those who haven't preordered PS 2 console from KB Toys apparently will be out of luck — for short term, anyway. But, as we reported last week (TVD Oct 16 p16), KB started preselling five PS 2 packages at \$499.99 each that include console and 3 games. As we noted, price makes each package \$50 more expensive than same items if purchased separately. But KB is promising to ship packages to consumers by Dec. 12. Alfonsi told us last week KB was "taking extra steps to get" products into country and was passing extra cost of that along to customers. Just what those "extra steps" are wasn't clear, although he said consoles in packages were N. American versions of machine. How many other retailers are working on similar deals was unclear at our deadline.

Comment from Sony Computer Entertainment America (SCEA) on KB promotion was unavailable by our deadline. Alfonsi declined to say how many of PS 2 packages had been presold but said number was "significant."

Although eToys also originally ran PS 2 preorder campaign, spokesman told us his company, too, stopped program when it realized it would be receiving "more or less" half consoles it had expected. SCEA Pres.-COO Kaz Hirai said late last month that his company had yet to finalize plan for shipping online retailers PS 2 consoles. But eToys spokesman told us "we talk to Sony regularly" and eToys expects to be getting its fair share of systems. (For more about PlayDate, see separate reports, this issue.)

DirectTV and Thomson formally unveiled satellite receivers with Wink Communications' technology last week featuring 4 "virtual" channels that will allow e-commerce and delivery of data. Wink will be available in 4 models (\$99-\$349). Weather Channel and ESPN have begun with service that's being introduced on state-by-state basis, while Barnes&Noble.com and NBC will follow in early 2001, Wink said. Another 2-3 channels are expected to be added by first quarter, Wink Senior Vp Alan Thygesen said. Majority of revenues from virtual channels will be derived from advertising at start, although e-commerce will play increasing role, he said. Satellite is standard-issue DirectTV receiver to which 1 MB of flash memory has been added to accommodate Wink features, Thomson Digital Business Development Mgr. Barbara Birnbaum said. Standard receiver has 2 MB ROM and 2 MB flash powered by ST Microelectronics' 32-bit processor. Wink technology is expected to be available in 3 million receivers by year's end, and Philips, Samsung and Sony also will field models. Thomson hasn't committed to adding Wink to other products, Birnbaum said in noting company's ties to Gemstar. "We have to make sure we don't overlap and aren't redundant," she said. "If you had a Gemstar guide, a competing service would be a little bit difficult to add."

Roxy.com started offering "digital video product catalogs" at its www.everythingwireless.com and www.roxy.com Web sites. Company heralded feature as arrival of "broadband shopping," saying it allows customers to actually see video footage of product before they buy it. Roxy called it "one of the first large-scale online applications of video streaming as a direct retail sales tool at the product/model level" and consumers will be given "touch and feel" of brick-and-mortar shopping online. CE e-tailer is partnering with streaming media content producer SeeItWork.com on initiative. At start last week, Roxy said customers could see and hear features of more than 100 of its top-selling products in full-motion video at Everything Wireless (EW) site. E-tailer said "some 100 additional product videos" will be added to flagship roxy.com site and "many more products will be added" to both sites "in the months ahead." Company also said EW and SeeItWork would be sending out first e-mails incorporating video streaming. Roxy said E-mails would target 400,000 or so consumers in its database, in particular its high-speed DSL Internet users. Roxy Business Development Dir. Alan Refaeli said: "As the high-speed Internet access gains a strong foothold in the consumer market, rich media already has become a significant factor in online advertising." He said initiative would help make it easier for consumers to select right products and "consumer research indicates this should significantly boost our look-to-buy ratio."

New DVD/TV/VCR combos from Panasonic will use flat Tau screen in 20" (\$899.95) and 27" (\$1,299.95). Earlier Triple Play combo (\$999.95) had conventional tube, and didn't permit DVD output to be recorded on built-in Hi-Fi stereo VCR. New models ship next month and include FM radio/alarm clock.

DISNEY UNVEILS NEW GAMES: Disney Interactive (DI) unveiled new titles last week that it said would be available in time for holidays.

Four new games are based on upcoming Disney feature films, while another is latest in company's *Disney's Magic Artist* CD-ROM line. Latest entry in *Who Wants To Be a Millionaire* game series, based on popular TV show, rounded out list.

Spokeswoman told us last week that DI planned to support all upcoming platforms: PlayStation 2 (PS 2), Microsoft's Xbox, Nintendo Gamecube and Game Boy Advance. It also intends to keep supporting Dreamcast, she said: "As long as the platform is viable, we'll produce product for it." She said DI still planned to support current PlayStation because there's "still a very viable market" for it. Its first PS 2 titles will include *ESPN Snowboarding* and *Track & Field*, shipping later this month, she said.

Disney's 102 Dalmatians Activity Center and *Puppies To the Rescue* for CD-ROM will be shipping Nov. 7 at \$29.99 each. Titles are based on live-action movie *102 Dalmatians* that will be released for Thanksgiving. First title, aimed at kids 5 and up, will be available on hybrid CD-ROM for Macintosh and Windows, while latter game is 3D action-adventure title for ages 8 and up that will be available for Windows only and requires 3D accelerator card. DI spokeswoman said versions of 3D game also would ship for Dreamcast, Game Boy Color and PlayStation Nov. 14.

Also due to ship on Nov. 7 are 2 titles based on Disney film *The Emperor's New Groove*, which will be released in time for Christmas. *The Emperor's New Groove — Groove Center* CD-ROM for Macintosh and Windows, geared at ages 4-8, will cost \$29.99, although there will be \$10 rebate offer. *Emperor's Groove Action Game* for Windows only is for ages 8 and up at \$19.99.

DI already is shipping *Disney's Magic Artist 3D*, 3rd and most advanced in its series of *Magic Artist* titles, following *Disney's Magic Artist* and *Disney's Magic Artist Studio*. Title, shipping on Macintosh/Windows hybrid CD-ROM at \$29.99, allows users to animate, paint and sculpt in real-time 3D environment, then post images they create on their personal Web sites or send them by e-mail as QuickTime movies or JPEG and AVI files.

DI also will ship *Who Wants To Be a Millionaire: Sports Edition* under its Buena Vista Interactive brand on hybrid Macintosh/Windows CD-ROM at \$19.99 Nov. 14.

Dell and Sony started shipping computers bundled with multiple-title DVD-ROM discs provided by Greenleaf Technologies. Latter said Dell expected to ship about 350,000 computers and Sony about 50,000 in 4th quarter, and each expects to ship one million desktop and laptop computers bundled with disc under 12-month agreement with Greenleaf. Disc is first in series of 4 DVD-ROMs, each divided into 5 parts, including games section with 6 encrypted computer games from Eidos, Electronic Arts, Infogrames. Greenleaf said it would provide manufacturers with refreshed disc every 3 months with at least one title free to consumers. It said it wasn't charging Dell or Sony licensing fees in deal that gives it broad distribution for its discs.

EMusic.com said it took in revenue of \$4.64 million (see financial table) in first quarter ended Sept. 30, compared with \$180,000 year ago. But Web music retailer once again posted loss — this time \$17.33 million (-43¢ per diluted share), vs. \$14.24 million loss (-\$1.09) year earlier. Company also said it increased its music revenue to \$1.5 million in quarter, 195% jump from preceding quarter. EMusic said it sold its 3 millionth downloadable song in quarter and had cash reserves of \$22.9 million as of Sept. 30. EMusic CFO Joseph Howell said: "We have been able to continue our strong revenue growth while implementing significant cost controls, the benefits of which are clear in these results. We are confident in our business model, and while our industry is experiencing some instability, we believe that we have the necessary cash to get us to profitability." EMusic announced several albums by recording artists formerly signed to major label contracts were available for purchase and download in MP3 format at its Web site. Artists were Merle Haggard, Dan Hicks, Ricky Skaggs, Slash, Southern Culture on the Skids, Tiffany.

Sound Advice scrapped stock offering, citing market conditions. It had planned to issue 1.8 million shares, but pulled plug after stock fell to current \$7 from \$12 range when proposed offering was announced. Despite "strong interest" from institutional buyers, market conditions would have forced SA to sell stock "well below what we feel is its true value," Chmn.-CEO Peter Beshouri said. SA had proposed using proceeds to fund its new Electronics Environment (EE) format (TVD May 8 p13) that targets custom installation and acquisitions. It now will rely on internal funding for EE and last week completed purchase of Showcase Home Entertainment (TVD Aug 14 p14). Postponement of offering won't affect SA's expansion plans "at least the next 12 months," Beshouri said. It will expand Showcase in Scottsdale area and will continue its relationship with Sears' upscale Great Indoors outlets in markets "where we have a presence," SA Exec. Vp Michael Blumberg said. Showcase has 600-sq.-ft. home automation/home theater store-within-a-store format in Great Indoors outlets in Phoenix and Dallas, latter being managed by local high-end retailer, Blumberg said.

DVD regional code circumvention is possible with 70% of one million players now selling monthly outside of U.S. Consequently, some of those decks will have trouble playing Region 1 version of *The Patriot* which ships Oct. 24 with beefed-up Regional Code Enhancement (RCE) from Sony's Columbia TriStar Home Video (CTHV), as we reported last week. Sales estimate and prediction come from international research firm Understandings & Solutions, which also said DVD players were selling now at rate of 1.5 million monthly worldwide — U.S. accounting for 1/3. In effort to reduce parallel imports of Region 1 N. America DVDs overseas, CTHV said it would apply RCE to *The Patriot* to prevent playback on DVD decks that had been modified for "Region 0" or "code free" operation. RCE looks for specific regional code setting in order to play — in case of *The Patriot*, Region 1. But RCE won't prevent playback on "multiregion" decks whose regional code settings can be changed by user through "secret" software menus. Both types of decks are available overseas, with players from established brands usually needing hardware modification to "Region 0" operation, but proportion of these vs. "multiregion" decks isn't known.

THIS WEEK'S YEN RATE

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

HASBRO PROFITS TUMBLE: Hasbro said last week its earnings dropped 84% to \$13.83 million (8¢ per diluted share) in 3rd quarter ended Oct. 1 from \$85.17 million (43¢) year ago while revenue dipped to \$1.07 billion from \$1.10 billion.

News didn't come as surprise. After all, Hasbro only week earlier had warned that its results would fall far short of expectations. It said it planned to cut 500 to 550 jobs in major plan to improve profitability. Hasbro attributed disappointing results largely to "soft demand" for Pokemon toys in U.S. and Star Wars merchandise worldwide.

In conference call with analysts last week, Hasbro CEO-Chmn. Alan Hassenfeld said, as he had week earlier, that company was taking steps to improve results. He said: "Now our focus is on reducing our reliance on hot licenses and lowering our break-evens by reducing costs in product development, sales and marketing and administrative functions."

Commenting on results, Hassenfeld said: "Even in the face of challenging comparisons against last year's record results, needless to say, I am not pleased with our performance this quarter."

Company said one bright spot in quarter was its international business overall, which remained strong with revenues up 20% in local currencies internationally and 11% in U.S. dollars. Hasbro also said its core brands such as G.I. Joe, Play-Doh, Tonka and traditional board games "performed well." As part of restructuring, it said it was looking to focus its attention on those core brands as it reduced manufacturing of licensed products that relied heavily on success of movies and other factors out of its control.

In same conference call, Hasbro Pres.-COO Alfred Verrecchia said results this year also were affected by Furby sales decline in its Tiger Electronics division, as well as delays in "some of Tiger's expected new product introductions." Delays included handheld and table-top versions of *Who Wants To Be a Millionaire* and various products that had "slipped into next year," including i-Cybie. Delays were "in part due to the availability of electronic components," he said.

I-Cybie is more advanced version of Tiger's Poo-Chi interactive pet dog line, another bright spot for company. Hasbro began shipping Poo-Chi models in 3 new colors that it showed at PlayDate in N.Y.C. last week (see separate reports, this issue), along with Super Poo-Chi and Meow-Chi feline version that spokeswoman said company would ship next month. It also unveiled *102 Dalmatians* versions of Poo-Chi at F.A.O. Schwarz in N.Y.C. last week. Latter toys, at \$30 each, were modeled after 3 pooches in upcoming Disney film, *Domino*, Little Dipper, Oddball.

Looking ahead to what Hasbro expects to report for its current fiscal year, Verrecchia said: "We originally expected earnings per share to be approximately \$1.40 this year. However, as we said last week, in the current market conditions our outlook for the full year 2000 is now in the range of 30¢ to 50¢ per share prior to restructuring and other charges."

Verrecchia said: "The 2 primary reasons for this underperformance are the losses in [our] interactive games and U.S. toy segment — not only in the 3rd quarter but also in our current full year projections." Company "previously expected Hasbro Interactive to break even this year," he said: "Subse-

quently, we indicated it would likely be in a loss position but better than last year. For 9 months year to date interactive revenue was \$100 million compared to \$112 million a year ago. However, due to our expectations for the 4th quarter we now expect Hasbro Interactive to lose approximately \$85 million pretax, which is roughly comparable to last year." Hasbro Interactive lost \$20 million in 3rd quarter alone, Verrecchia said.

Company is "exploring strategic alternatives to our interactive and Games.com businesses," he said, because "our goal is to stop the operating losses and maximize the value of our games content in the digital world." Although Hasbro didn't specify how it planned to accomplish that, Verrecchia said: "We hope to have more definitive information before the end of this year." Meanwhile, company is planning to promote its Games.com site in heavily 4th quarter, he said. Hasbro spokesman told us beta version of site launched Sept. 19 and company was preparing official launch in Dec.

Both Hasbro executives declined comment on what they expected 2001 results would be, Hassenfeld saying that was because "the important holiday selling season is just beginning."

As Hasbro was announcing its results last week, chief competitor Mattel reported \$336.87 million loss in 3rd quarter ended Sept. 30 compared with \$135.33 million profit in same period year ago.

While core products such as Barbie have continued to perform well for Mattel, it still is attempting to recover from losses on its software side. It recently announced it finally had found buyer for its troubled Learning Company software division — Gores Technology Group (TVD Oct 9 p22).

Mattel said 3rd-quarter revenue was \$1.58 billion, down slightly from \$1.59 billion year ago. Before restructuring and nonrecurring charges, it reported \$174.26 million (41¢) income from continuing operations, down from \$222.2 million (52¢) year earlier.

Sampo is newest DVD brand to arrive in U.S. in time for holiday selling season. Baldwin Park, Cal.-based subsidiary of Taiwanese manufacturer said it was offering 3 models: Entry level DVE-620 at \$169, step-up DVE-660 with Dolby Digital decoding at \$199, DVE-625 with karaoke features for \$279. All have component video output, CD-R playback and decoder for MP3 compressed CDs, Sampo America said. Brand has had some DVD distribution in Europe since earlier this year.

Targus has shipped 3 lines of digital camera and camcorder carrying cases, first products to emerge from Aug. acquisition of Roundhouse. Pro Black, sport and casual bags, which feature charcoal, silver and metallic blue colors, were designed by new subsidiary Studio Roundhouse and are priced at \$11.99-\$49.99. Roundhouse previously sold CD and DVD-ROM carrying cases and storage systems under CDProjects brand. Targus, best known for its PC carrying cases, has sought to expand lines with acquisitions of Roundhouse and Wickford Backpack Co.

Electronic Arts showed off its latest videogames to consumers at Union Square location of Virgin Megastore in N.Y.C. last week. Celebrities attending event included Kerry Collins and Jason Sehorn of N.Y. Giants.

OFFICE DEPOT STORE CLOSINGS?: Office Depot (OD), struggling to return retail business to profitability, could close up to 100 stores in restructuring expected to be completed by year-end, analysts said.

OD officials declined comment, but said chain was reviewing operations of stores that opened in 1998-2000. Many of 30 stores opened earlier this year were in 30,000-sq.-ft. range, while new format will focus on carrying same number of products in 20,000 sq. ft., CEO Bruce Nelson told analysts in conference call. It closed 5 stores in recent 3rd quarter in Honolulu, Orlando, Overland, Mo., San Francisco and Woodland Hills, Cal., but he said those were unrelated to review of chain.

Office Depot repeatedly has scaled back store opening plans for year, starting at 125, but now targeting 70, Nelson said. OD executives have conducted top-to-bottom review of stores, checking payroll, opening/closing hours, lighting, signage, layout and broadband capability, he said.

"The average sales per week can't cover fixed payroll and rent" of larger stores, Nelson said in declining to disclose locations of those that may be affected by closings. Smaller store format cuts capital costs 30%, he said.

Nelson conceded that after OD's proposed merger with Staples collapsed in 1997, chain "got focused on opening new stores and some of these were just poor location selection."

OD's N. American retail business' 3rd-quarter operating profit shrank to \$85.8 million from \$125.6 million despite 7% gain in sales to \$1.6 billion from \$1.5 billion year ago. Same-store sales dipped 1% in slowdown in technology-related products such as desktop and laptop PCs, which suffered from "lack of compelling" rebate offer, Nelson said. OD began \$400 mail-in rebate for CompuServe in attempt to salvage business and will switch to instant rebate program later this month, he said. Average selling price for PCs increased, but unit sales declined owing to lack of rebate offer, Nelson said. Back-to-school same-store sales were up 5%, but fell short of OD projections, he said.

OD's online sales increased to \$219 million from \$98.9 million year ago and will hit \$800 million by year-end, Nelson said.

Overall, OD, which operates 863 stores in U.S. and Canada and 126 in 17 countries, reversed \$1 million year-earlier loss to post \$50.6 million profit. It benefitted from tax gain on sales of \$24.6 million of investments and \$1.1 million tax credit. Total sales rose 9% on 7% gain in same-store sales.

Meanwhile, Staples told investors that it would achieve 30% earnings growth in fiscal 2001 despite recent downturn in office supplies market. Pres.-COO Ronald Sargent said at Robertson Stephens conference in N.Y.C. that growth would hit high 20% range in 2002 and 2003 on 15-17% rise in revenue. To boost earnings, Staples will focus on European market, Staples.com Web site and in-store and online business services, Chief Administrative Officer John Mahoney said. Despite mounting losses at Staples.com, Mahoney said chain remained confident of growth and performance of Web site.

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As OD sought new instant rebate offer, Apple Computer was reported to be readying program in effort to offset weak PC sales. Apple was expected to offer \$200 rebate on sales of

PowerBook laptop PCs and \$300 on Power Mac G4 Cube desktop that's sold with 17" monitor. Rebates started Oct. 13 and run through month's end. OD doesn't sell Apple PCs.

MP3.com will pay up to \$30 million, and music publishers will drop their lawsuit against embattled dot-com if tentative agreement between MP3.com and Harry Fox Agency (HFA) is approved, National Music Publishers' Assn. (NMPA) said. Proposed 3-year pact would require MP3.com to pay HFA for benefit of up to 25,000 music publishers and their songwriter partners as part of 2 funds, NMPA said — one to pay HFA publisher-principals for MP3.com's past uses of music and other as advance payments for royalties earned under prospective license. Agreement must be ratified by HFA music publisher principals, NMPA said. Truce between MP3.com and music publishers won't directly affect company's legal tussle with Seagram's Universal Music Group (UMG) but may convince record label to "embrace new technology," MP3.com CEO Michael Robertson told us. Settlement, if given green light by music publishers, would leave only UMG's case pending, fact that's "highly significant," he said, because it sets up situation where "nine-tenths of the pie is colored in," with one lone hold-out. MP3.com will pay \$15 million in back royalties and at least \$15 million more in royalty prepayments at rate of 1/4 cent per song play, he said. To make money, company will set up 2 accounts, one to collect ad dollars and other where consumers will pay monthly or annual fee for music downloads, Robertson said. All of technology needed to charge music fans for songs is available at My.MP3.com, he said, and will be switched on when settlement becomes final. It's "ironic," Robertson told us, that recording industry, which recently has announced flurry of programs to give consumers legal access to music online, is suing his company "for exorbitant amounts of money" at same time it's setting up competing services: "Are these truly copyright issues or is this more about competition?" Still, he said, he was hoping that same arguments that apparently swayed music publishers to bury hatchet would "resonate with [UMG] as well."

Intellectual property portal Copyright.net will use MediaEnforcer's Web-based search engines in its CopyrightAgent solution, which legally licenses copyrighted works to persons who haven't paid for right to use them. Technology used by MediaEnforcer, which will permit CopyrightAgent to find users who have downloaded copyrighted works such as movies or music, was developed originally to search for unauthorized uses of copyrighted works on Napster music network.

Ipingpong-developed software will "de-Napsterize" sale or trade of digital music and give recording industry streamlined way to charge for and control its online music assets, company said. Ipingpong's "Digital Music Management Application" is suite of tools that will give Web site customers "private label version" of application to deliver legal digital music to Web site visitors, it said, and will let Internet users interact with their music collections from any Web-enabled device, including wireless ones. Music lovers will be offered system of rewards, prizes and other incentives, ipingpong said.

ASCAP and AudioSoft said they will team in digital copyright management program for music industry. Move follows successful test of AudioSoft's digital performance tracking technology that will allow ASCAP's more than 1,700 Web site licensees to report their use of copyrighted music more efficiently. ASCAP is offering Webcasters 5% discount to support widespread use of technology, it said.

Financial Reports of TV-Electronics Companies

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

Company & Period	Revenues	Net Earnings	Per Share
ACNielsen Corp.*			
2000-9 mo. to Sept. 30	1,167,000,000	32,000,000	.54 ^b
2000-qtr. to Sept. 30	390,900,000	17,000,000	.29 ^b
America Online			
2000-qtr. to Sept. 30	1,975,000,000	345,000,000	.13
1999-qtr. to Sept. 30	1,467,000,000	184,000,000	.17
c-cor.net			
2000-13 wk. to Sept. 24	78,300,000	5,820,000	---
1999-13 wk. to Sept. 29	64,503,000	55,000	---
C-Phone			
2000-6 mo. to Aug. 31	1,057,857	(1,059,325)	---
1999-6 mo. to Aug. 31	766,369	(1,885,944)	---
2000-qtr. to Aug. 31	676,447	(575,632)	---
1999-qtr. to Aug. 31	380,499	(899,615)	---
Cirrus Logic			
2000-qtr. to Sept. 23	189,537,000	16,145,000	0.24 ^c
1999-qtr. to Sept. 25	132,842,000	(735,000)	---
Concord Camera			
2000-qtr. to Sept. 30	62,722,902	6,205,709	0.28 ^c
1999-qtr. to Oct. 2	41,237,897	3,895,626	0.18
Emusic.com			
2000-3 mo. to Sept. 30	4,636,000	(17,326,000)	---
1999-3 mo. to Sept. 30	180,000	(13,519,000)	---
Handspring*			
2000-qtr. to Sept. 30	70,517,000	(16,373,000)	---
2000-qtr. to July 1	51,826,000	(19,527,000)	---
Intertan			
2000-3 mo. to Sept. 30	120,010,000	5,325,000	0.19
1999-3 mo. to Sept. 30	108,098,000	4,387,000	0.15
Koss			
2000-qtr. to Sept. 30	9,713,939	1,383,991	.62
1999-qtr. to Sept. 30	8,393,253	1,183,617	.44
Media General			
2000-39 wk. to Sept. 24	585,622,000	32,458,000	1.33
1999-39 wk. to Sept. 26	506,496,000	58,208,000	2.19 ^c
2000-13 wk. to Sept. 24	201,865,000	8,458,000	.37
1999-13 wk. to Sept. 26	166,621,000	30,446,000	1.15 ^c
Meredith*			
2000-qtr. to Sept. 30	250,000,000	16,500,000	.32
MP3.com			
2000-9 mo. to Sept. 30	58,132,000	(19,818,000)	---
1999-9 mo. to Sept. 30	6,628,000	(25,562,000)	---
2000-qtr. to Sept. 30	20,459,000	(6,138,000)	---
1999-qtr. to Sept. 30	4,051,000	(17,813,000)	---
Musicland Stores			
2000-9 mo. to Sept. 30	1,207,700,000	3,820,000	0.12
1999-9 mo. to Sept. 30	1,169,193,000	3,601,000	0.10
2000-qtr. to Sept. 30	389,393,000	62,000	---
1999-qtr. to Sept. 30	386,337,000	728,000	0.02
Navarre			
2000-6 mo. to Sept. 30	133,544,000	(10,568,000)	---
1999-6 mo. to Sept. 30	125,150,000	(5,788,000)	---
2000-qtr. to Sept. 30	78,378,000	(8,448,000)	---
1999-qtr. to Sept. 30	67,399,000	(3,184,000)	---
Philips Electronics NV^d			
2000-9 mo. to Sept. 30	26,855,000,000	6,810,000,000	---
2000-qtr. to Mar. 31	9,371,000,000	2,066,000,000	---
1999-qtr. to Mar. 31	7,744,000,000	372,000,000	1.12 ^b
Pixelworks			
2000-9 mo. to Sept. 30	34,472,000	(2,792,000)	---
1999-9 mo. to Sept. 30	6,755,000	(3,492,000)	---
2000-qtr. to Sept. 30	15,285,000	1,778,000	0.05
1999-qtr. to Sept. 30	4,289,000	(1,156,000)	---
Polaroid			
2000-9 mo. to Sept. 30	1,349,400,000	43,600,000	0.97
1999-9 mo. to Sept. 30	1,328,800,000	(19,800,000)	---
2000-qtr. to Sept. 30	458,200,000	18,400,000	0.41
1999-qtr. to Sept. 30	463,000,000	(3,800,000)	---
Rockford			
2000-9 mo. to Sept. 30	116,095,000	6,995,000	1.08
1999-9 mo. to Sept. 30	97,116,000	5,376,000	1.17
2000-qtr. to Sept. 30	36,370,000	1,652,000	0.21
1999-qtr. to Sept. 30	31,205,000	1,556,000	0.33

Company & Period	Revenues	Net Earnings	Per Share
Sage			
2000-6 mo. to Sept. 30	15,074,000	(15,334,000)	---
1999-6 mo. to Sept. 30	7,460,000	(4,021,000)	---
2000-qtr. to Sept. 30	8,598,000	(6,241,000)	---
1999-qtr. to Sept. 30	3,685,000	(3,404,000)	---
SanDisk			
2000-9 mo. to Sept. 30	424,157,000	269,142,000	4.04 ^c
1999-9 mo. to Sept. 30	164,219,000	16,522,000	0.31
2000-qtr. to Sept. 30	170,839,000	25,603,000	0.38
1999-qtr. to Sept. 30	67,534,000	6,505,000	0.12
Silicon Image			
2000-9 mo. to Sept. 30	36,976,000	(17,800,000)	---
1999-9 mo. to Sept. 30	13,622,000	(5,945,000)	---
2000-qtr. to Sept. 30	14,462,000	(14,413,000)	---
1999-qtr. to Sept. 30	5,341,000	(2,036,000)	---
STMicroelectronic N.V.			
2000-9 mo. to Sept. 30	5,621,500	990,200,000	1.12
1999-9 mo. to Oct. 2	3,578,100	363,000,000	0.42 ^a
2000-13wk. to Sept. 30	2,042,000	415,300,000	0.47
1999-13wk. to Oct. 2	1,274,200	135,300,000	0.16 ^a
Texas Instruments			
2000-9 mo. to Sept. 30	8,836,000,000	1,628,000,000	.95
1999-9 mo. to Sept. 30	7,121,000,000	1,132,000,000	.68
2000-qtr. to Sept. 30	3,145,000,000	591,000,000	.34
1999-qtr. to Sept. 30	2,515,000,000	453,000,000	.27
Time Warner			
2000-9 mo. to Sept. 30	6,873,000,000	88,000,000	.06
2000-qtr. to Sept. 30	20,517,000,000	(381,000,000)	---
United Television			
2000-9 mo. to Sept. 30	168,200,000	34,600,000	3.63
1999-9 mo. to Sept. 30	149,778,000	32,187,000	3.42
2000-qtr. to Sept. 30	54,200,000	10,200,000	1.07
1999-qtr. to Sept. 30	51,390,000	10,882,000	1.16
Video Display			
2000-6 mo. to Aug. 31	34,681,000	542,000	.14
1999-6 mo. to Aug. 31	33,232,000	445,000	.11
2000-qtr. to Aug. 31	18,061,000	302,000	.08
1999-qtr. to Aug. 31	15,706,000	91,000	.02

Notes: *Comparable results not available. ^bAfter special charge. ^cIncludes special credit. ^dIn euros. ^aAdjusted.

Consumer Electronics Personals

Rod Schrock, AltaVista CEO and ex-Compaq, resigns, plans unknown... **Ted Waitt**, Gateway chmn., resigns from MP3.com board... **Michael Hawley** resigns as Gillette chmn.-CEO, replaced by Pres. **Edward DeGraan** on interim basis; board member **Robert Pivrotto** named nonexecutive chmn... **Douglas Robertson**, ex-InFocus and Lightware, named OnMercial.com pres.-COO... **Jeffrey Peterson**, Best Buy retail operations systems and development dir., and **Timothy Sheehan**, retail operations dir., promoted to vps.

Purchasers of 2 models of Sony ES receivers are being contacted and advised that their products may need "service adjustments" in wake of reports that units may be prone to overheating. Sony spokeswoman said at our Fri. deadline that fewer than 500 units of models STR-V333ES and STR-V555ES were shipped to dealers in late Sept., and of that total, only 6-7% were believed to be vulnerable to problem. Oct. 18 notice to ES retailers from Sony Electronics in Itasca, Ill., said receivers, including 3rd model, STR-V444ES, could "pose a potential for injury or property damage." But spokeswoman said further investigation revealed that STR-V444ES wasn't susceptible. She said investigation was continuing. As "precaution," dealers were asked in Oct. 18 letter to "immediately cease any further sales of these receivers while we complete our investigation." It wasn't clear at our deadline whether sales of STR-V333ES and STR-V555ES had been reinstated.



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

LPFM ROLLBACK IN BILL: Final version faced veto, new vote. Cable ownership cap, satellite loan bill said to be still in play. (P. 1)

RICH GET RICHER as broadcasters and cable give most political contributions to incumbents. Tight races also targeted. (P. 2)

AT&T SPLIT RAISES QUESTIONS on regulatory impact, future of cable systems, cable telephony strategy. Few answers seen. (P. 4)

BROADCAST ROLE ARGUED at NAB forum. First Amendment rights vs. responsibilities cited. Minow says broadcasters should get proud of programming. (P. 5)

FTC DEFERS ACTION on AOL-TW deal, despite Oct. 27 deadline. Unresolved differences on open access blamed. (P. 6)

VIACOM PROFIT UP: Big broadcast and cable profit provide boost. Station transactions and political ads aided others. (P. 7)

LPFM ROLLBACK IN CONFERENCE SPENDING BILL: Bill to curtail low-power FM (LPFM) program (S-3020) was included virtually word-for-word in Commerce-Justice spending bill conference report, released Oct. 26 as attachment to D.C. spending bill (HR-4942). None of other major riders rumored in play made it onto Commerce-Justice, but sources said there still was possibility that measures such as help for AT&T on cable ownership rules could emerge in Labor-HHS bill (HR-4577), only major measure unresolved by Congress. Commerce-Justice also incorporates satellite loan bill (S-2097) exactly as proposed by Republicans last week, without changes in cable provisions pushed by Democrats.

Although House and Senate quickly moved bill in almost completely partisan votes, changes still were considered possible at our deadline, with quick veto expected from President Clinton over communications issues and other concerns such as immigration. "We may not have lost yet," said Cheryl Leanza of Media Access project, which opposes LPFM restrictions. Clinton said in Oct. 26 letter to GOP leadership that "I have no choice but to veto this bill," specifically mentioning LPFM among concerns. Negotiators were expected to work over weekend on new version.

Bill would require FCC to modify its LPFM rules to require 3rd-adjacent-channel protection for existing stations until it completed 9-station interference test and Congress specifically authorized expansion of program. Provision effectively would eliminate LPFM in many cities, where radio dial is so jammed that it's not possible to squeeze new stations in with 3rd-adjacent-channel protection.

There was little opposition to general intent of satellite bill to create \$1.25 billion fund guaranteeing loans for satellite operators to provide local broadcast signals, but it has been complicated by cable clauses. Democrats criticized provision that would give MSO eligibility for loan to extend, upgrade or enhance its services in franchise area unless its franchise

Consumer Electronics

PHILIPS REVEALS DVR-BLUE ROLE: Work with Sony on HD-DVD recorder dates back to 1997, company tells U.S. reporters. It plans 3 DVD+RW recorders for 2001. (P. 9)

PLAYSTATION 2 ARRIVES in N. America, but consoles — and memory cards for them — are hard to find. (P. 10)

SDMI WATERMARKS HACKED by university researchers, who claim they defeated 4 copy protection systems for digital music. RIAA says success isn't confirmed yet. (P. 12)

TDK PLANS NEW RECORDABLE DISC with 3x capacity of CD-R/W. Technology for 2 GB blank also applicable to recordable DVD. (P. 13)

SONY'S PROFITS FALL 57.4% in 2nd quarter on PlayStation 2 launch costs, game division losses, strong yen. (P. 14)

THOMSON PUTS HOLD ON TIVO personal video recorder shipments in U.S. as it pushes for TiVo-Gemstar accord on patent dispute. (P. 15)

already “expressly obligates” it to build area out. House version had included language negotiated by Rep. Markey (D-Mass.) that was far friendlier to MSOs’ extending their services to new areas than to those making upgrades or enhancements. It also didn’t include word “expressly,” which we’re told could rule out most franchise agreements. “This guts the whole concept,” Markey staffer said of new language. Democrats had hoped something could be worked out when bill was pulled from House calendar earlier in week, but it appeared in Commerce spending bill unchanged. It also would require FCC to complete processing of license applications for local broadcast service provision under Satellite Home Viewer Act by Nov. 29.

Attention remained focused on AT&T’s efforts to change ownership attribution rules so it wouldn’t have to divest MediaOne cable systems. Senate Appropriations Committee Chmn. Stevens (R-Alaska) was said to intend to attach AT&T-friendly language to another vehicle, with Labor-HHS being most likely. Current FCC attribution rules, which apply to broadcast as well as cable ownership restrictions, count properties at least 5% owned. Consumers Union’s Gene Kimmelman said he expected revision on attribution to require “controlling” interest — probably 50% ownership or voting rights — or direct participation in video programming decisions. He said implications could go beyond cable, also weakening limits on broadcast ownership and broadcast-cable and broadcast-newspaper cross-ownership. “This obliterates any notion of a meaningful ownership cap,” he told us.

Bill would fund FCC at \$230 million, compromise between \$237.2 million in Senate version and \$207.9 million in House. As in both, \$200.1 million would come from fees, meaning actual appropriation would be \$29.9 million. Report would require Commission to submit by Dec. 15 plan for distributing funds. Apparently dropped was language in House version that would have severely cut budgets of FCC’s Office of Media Relations and Office of Legislative & Intergovernmental Affairs. Also not included was Senate provision that FCC couldn’t be limited by bankruptcy laws in its debt proceedings involving licensees. Conference report did include Senate language calling on Commission to report to Congress by June 1 on issues related to resurrecting broadcast code of conduct.

Provision that would block acquisitions of U.S. communications companies by companies more than 25% owned by foreign govts. was dropped, as had been widely expected. “While this provision has been removed, the issue certainly has not,” said provision’s sponsor, Sen. Hollings (D-S.C.). He said he was “glad I raised the issue and advanced an important discussion about privatization worldwide.” Until foreign companies are fully privatized, Hollings said, he will “continue to oppose” such purchases. He said he believed “laws that govern these transactions are clear, and the FCC cannot waive them.” Current rules prevent foreign govt.-owned companies from winning merger approval without specific waiver by Commission.

Language on public broadcasters’ access to nonreserved spectrum was weakened significantly. Senate version had called on FCC to reconsider its requirement that public broadcasters participate in general auctions when seeking nonreserved spectrum, but new language said Congress believed “this issue can be resolved through the administrative or judicial process, so no legislative action is required at this time.” FCC has been asked to reconsider decision, and public broadcasters have filed suit. Bill would require Commission to report to Congress on action it takes by April 1. Meanwhile, NTIA’s PTFP program, which primarily funds public TV’s conversion to digital, would get \$43.5 million, compromise between \$50 million in Senate version and \$31 million in House. NTIA itself would receive \$11.4 million as proposed by Senate, up from than House’s \$11 million. Information infrastructure program would get \$45.5 million, big jump from \$15.5 million in both House and Senate versions.

HOUSE, SENATE RICH GET RICHER: Broadcasters and others poured their political contributions into this year’s campaigns carefully, concentrating their giving where it could make difference. Usually, that means contributing to candidates in tight races and those whose committee assignments give them great influence over issues important to industry. It’s worth noting that only \$31.3 million of \$84.3 million in communications contributions went directly to candidates, with rest in soft-money donations to parties. Most direct contributions not given to Presidential candidates went to just handful of candidates in each house, with only 18 candidates (sometimes more than one in same race) clearing \$150,000.

Communications industries zeroed in on most influential lawmakers in their House giving, according to our analysis of Center for Responsive Politics data. Virtually all of top 20 House recipients of communications money have posts on Commerce or Judiciary Committees or are in House leadership, and few face tough challenges this year. In contrast to Senate giving, where handful of lawmakers received far more than others, House contributions were distributed around country, with no one getting more than \$176,048 of Rep. Berman (D-Cal.). Sixteen topped \$100,000 and 62 got more than \$50,000.

Berman, ranking member of Judiciary Committee’s Intellectual Property (IP) Subcommittee, received most of his money (\$148,748) from TV/music/movie copyright lobby, including \$25,000 from Seagram, \$13,500 from Time

Warner, \$13,000 from Disney, \$10,000 from Viacom, \$6,000 from NAB, \$5,000 from BMI, \$5,000 from NCTA, \$5,000 from Sony. Judiciary panel's representation among House leaders also includes Chmn. Hyde (R-Ill.), who received \$93,748 (18th in House), including \$10,000 from NAB, \$6,000 from NCTA.

Industries gave generously to House leadership. Speaker Hastert (R-Ill.) received \$160,168 (2nd), including \$76,684 from phone companies and \$42,750 from copyright lobby, including \$10,500 from NAB.

In top 12 of industry contributions were all 3 contenders to be next Commerce Committee chmn.: Rep. Tauzin (R-La.) with \$157,094, Rep. Oxley \$133,304, Rep. Dingell (D-Mich.) \$113,411. Tauzin's money includes \$52,950 from local phone companies and \$48,076 from copyright lobby, including \$9,000 from Disney, NAB \$5,500, Time Warner \$5,500, AOL \$5,000. Oxley got \$10,199 from NCTA, \$5,000 from Harris Corp. Dingell received \$11,500 from Disney. Money also was lavished on Subcommittee ranking Democrat Markey (Mass.) — \$148,500. His givers were led by EchoStar at \$10,500, Disney \$5,050, AOL \$5,000, AT&T \$4,900.

Rep. Rogan (R-Cal.), who is trailing challenger Adam Schiff (D) in some polls, has \$159,257, including \$8,949 from NCTA, \$8,700 from Disney, \$7,500 from Microsoft. Schiff has countered with \$151,600 of his own, including \$14,050 from Time Warner. Rep. Bilbray (R-Cal.) has \$90,649, including \$9,999 from NCTA. He's considered neck-and-neck with Susan Davis (D), who has little communications corporate money. Other Telecom panel members include: (1) Rep. Blunt (R-Mo.) \$133,411, including \$9,998 from NCTA, \$7,000 from Microsoft. (2) Rep. Eshoo (D-Cal.) \$131,138, including \$6,000 from Microsoft, \$5,999 from NCTA. (3) Rep. Pickering (R-Miss.) \$105,108, including \$10,499 from NCTA, \$5,500 from AT&T. (4) Rep. Boucher (D-Va.), who also is on Judiciary Committee and its IP panel and is co-chmn. of House Internet Caucus with Goodlatte, \$91,781.

On Senate side, clear leader in fund-raising was Commerce Committee Chmn. McCain (R-Ariz.), although most of money was spent on his Presidential campaign — he doesn't run for Senate again until 2004. He collected \$1.2 million from communications companies. Copyright coalition of movie, TV and music interests gave \$504,599, including \$79,595 from broadcasters and \$100,250 from cable companies. Democrat Hillary Clinton's \$1 million from communications and electronics companies includes major cable contributions, such as \$59,300 from Disney, \$41,450 from Cablevision, \$23,500 from Time Warner, \$23,450 from Viacom. She also has received \$21,150 from NBC parent GE. Her opponent Rep. Lazio (R-N.Y.) has received \$426,299 from communications industries, including \$16,000 from NAB, and former adversary Mayor Rudolph Giuliani raised \$389,485.

Industries rallied around Sen. Burns (R-Mont.), who chairs Communications Subcommittee and had been in close race with rancher Brian Schweitzer before apparently getting some breathing room in recent polls. Burns received \$359,920 from communications companies. Those bankrolling Burns included AT&T (\$35,000), Time Warner (\$26,000), GE (\$16,000), AOL (\$13,000), Microsoft (\$12,000).

Sen. Robb (D-Va.) has raised \$289,516 from industry, including \$23,900 from AOL and \$14,000 from NAB, but challenger former Gov. George Allen (R) is close behind with \$219,662. Sen. Feinstein (D-Cal.) has raised \$333,024 in communications money, including \$13,750 from Time Warner, \$11,750 from Walt Disney. Her challenger Tom Campbell has received \$165,525 from communications companies.

Six Senators in no real danger also have reached \$150,000: (1) Sen. Kennedy, who's running but not seriously threatened, has raised \$353,350, including \$24,500 from Time Warner, \$14,000 from GE. (2) Judiciary Committee Chmn. Hatch (R-Utah), who has 40-point lead, has raised \$298,086, including \$21,731 from AT&T and \$21,000 from Time Warner. (3) Antitrust Subcommittee Chmn. DeWine (R-O.), who has safe lead and has raised \$212,299 from industry. Contributors include AT&T (\$23,800), Time Warner (\$14,250) — all companies involved in major mergers before his panel. (4) Sen. Schumer (D-N.Y.), who doesn't run until 2004 but received \$195,300 from industry, including Time Warner (\$46,000). (6) Sen. Kerry (D-Mass.), member of Commerce Committee, isn't running until 2002, but already has \$188,204 from communications companies. His major contributors have included Time Warner (\$35,960), Seagram (\$23,500), AOL (\$18,000).

CBS said it settled discrimination lawsuits filed by EEOC and 200 female technical employees. Women camera operators, film editors and other technicians at several CBS-owned TV stations filed suit in 1996, with EEOC filing separate suit later after finding that stations had discriminated against female technicians. In agreeing to institute new procedures to prevent reoccurrence of discrimination practices and pay \$8 million in settlement, CBS denied any wrongdoing.

About 60% of online subscribers say they watch TV and go online at same time, Roper said in survey for AOL, and 34% say they are watching less TV since they started going online. Other findings of annual survey include: (1) More than half (56%) of online subscribers shopped online, nearly double percentage of 2 years ago. (2) 45% said they expected to get information on candidates this election season, and 71% said they were interested in voting online.

AT&T BREAKUP RAISES QUESTIONS: AT&T's plan to spin off its cable holdings as independent company in 2 years left industry observers wondering about its commitment to local phone service over cable, its lobbying drive against cable ownership cap, fate of its Liberty Media Group unit and future role of Liberty Media chief John Malone. Despite fresh pledges by AT&T Chmn. Michael Armstrong to FCC Chmn. Kennard, FCC officials and industry analysts questioned whether AT&T Broadband would continue rolling out cable telephony aggressively once it's separated from AT&T's consumer long distance and business services operations. AT&T has been shooting to hit 500,000 to 650,000 telephony customers by year-end. "This certainly seems to take the wind out of those sails," Broadband Intelligence Pres. Cynthia Brumfield said.

AT&T unveiled wide-ranging plan Oct. 25 to split into 4 entities to highlight value of fast-growing businesses such as wireless and broadband that company feels have been overshadowed by flagging voice long distance unit. Move left executives on defensive to explain how companies would share AT&T brand, compete for customers and use remaining parent company for services such as network capacity.

Industry observers expressed doubts that AT&T's campaign against FCC's 30% subscriber limit for single MSO would succeed in Congress now that its cable and phone units will be split. Company officials have cited their cable telephony efforts as one of chief reasons for loosening interpretation of Commission's ownership attribution rules.

Breakup plan raised questions about future of Liberty Media programming subsidiary headed by former TCI Chmn. Malone. In separate talks with analysts and reporters, Armstrong refused to address fate of Liberty Media. Spokesman for AT&T Broadband also declined comment on where Liberty would end up. Some observers speculated that Malone might return to head AT&T Broadband. But others doubted that he would want to go back to his old job, now held by AT&T Broadband Pres. Daniel Somers.

Armstrong downplayed influence of Malone on restructuring decisions. "John Malone's a terrific board member," he said. "He participated just like all the other terrific board members — no more, no less." He declined to speculate on whether company would use Liberty Media option to comply with market cap restrictions on MediaOne deal. Asked whether reorganization plans would have any impact on company's talks with Time Warner about TWE joint venture, Armstrong said no. AT&T officials also sought to portray eventual spinoff of AT&T Broadband as no big change for cable unit. They insisted AT&T Broadband would keep upgrading its cable plant aggressively and rolling out digital video, high-speed data and cable telephony services across U.S.

It was unclear whether AT&T would need regulatory approval to execute its spinoff of AT&T Broadband and other units. FCC officials and industry observers said they didn't know enough about plan yet to gauge whether there would be any change in control of spectrum licenses. "That's probably not going to be clear overnight," one source said.

Calling it "a positive development for the cable industry," NCTA Pres. Robert Sachs said spinoff would create stronger AT&T Broadband operation and would "enhance" its position within cable industry. "Being singularly focused, AT&T

Broadband will be able to make corporate decisions based solely on the needs and interests of its cable business," he said.

Separately, AT&T said its broadband unit's pro forma revenue climbed 10.2% to \$2.4 billion in 3rd quarter from \$2.2 billion in year-ago period. Company credited increase primarily to boost in digital video, high-speed data and cable telephony subscriptions, with average revenue per basic cable customer rising 10.6% to \$50.15 per month. Despite gains, AT&T said broadband division's pro forma operating cash flow fell 12.7% to \$538 million in quarter because of higher programming costs, MediaOne merger integration expenses, higher labor costs.

Consumer advocates said AT&T's restructuring plan called into question local competition model heralded by regulators and Congress. Announcement "is an ominous sign that the deregulation of the telecommunications industry is not working," said Gene Kimmelman, co-dir. of Consumers Union's Washington Office. Precursor Group CEO Scott Cleland predicted AT&T's "redo" would trigger "thorny tax, regulation and anti-trust ownership issues that will have to be negotiated over time." AT&T spokesman insisted restructuring plan would require little, if any, regulatory clearance, at least in first phase. Brian Moir, attorney for International Communications Assn., agreed: "There's nothing for the regulators to do," he said. However, Cleland said he was dubious about no-review theory: "You can run but you can't hide" from regulators.

Armstrong said he and other AT&T officials had met with FCC Chmn. Kennard and said Kennard "was understanding and at least at that meeting saw no regulatory issues to share with us." AT&T spokesman said later that comment didn't mean AT&T assumed it had FCC's clearance. Company expects to "continue to work with the FCC" on plan, he said. However, Kennard indicated in statement that agency might not be ready to sign off on AT&T plan without some review: "Over 60 million American consumers rely on AT&T's long distance phone service. The Commission has the authority and the responsibility to ensure that this restructuring does not adversely impact the quality of consumer service, competition in the telecommunications markets and the integrity of the telecommunications network. I will... insist that consumers' interests are protected."

Kimmelman said Congress assumed local and long distance phone companies and cable systems would compete by offering bundled sets of services to consumers but AT&T "couldn't make it work. This is a marketplace disaster caused by a profound mistake in policy." Consumers Union spokesman said "this is a repudiation of the competitive model." CWA said AT&T's announcement indicated it was "moving away from its strategy of bundling communications services, the 'one-stop shopping' that both business and residential consumers want."

ABC pulled out of membership in N. American Bcstrs. Assn. (NABA), reportedly because of latter's plan to increase its lobbying efforts in Washington. NABA, whose membership includes NBC, Fox, ABC, and Mexican and Canadian broadcast groups, is expected to make decision by Nov. 15 on whether to expand its U.S. efforts.

FCC Mass Media Bureau said applicants for most TV and radio licenses must file electronically, beginning Nov. 1. Paper applications will be accepted only if Bureau agrees to waive rules, it said. Mandatory electronic filing of remaining broadcast licenses is to be phased in, Bureau said.

BROADCAST ROLE ARGUED: Argument over broadcast industry's "rights" under First Amendment (FA) should instead focus on broadcasters' "responsibilities," former FCC Chmn. Newton Minow told NAB Educational Foundation symposium in Arlington, Va. He said FA applied "only to the government... A lot of people in the business [broadcasting] do not understand that." Freedom Forum Ombudsman Paul McMasters said FA had become "something to circumnavigate," not something for broadcasters to "celebrate." He said FA didn't say anything about "responsibility" and if it did, some forum would have to define term before it could be enforced.

Public should be saying to broadcasters "I want to know why" you do and televise certain things, Minow said. Instead of broadcasters' rights under FA, he said, "you guys ought to be asking yourselves: 'Are you proud of what you're doing? I think you ought to get off the issue of rights and talk about what is the right thing to do.'" Minow said he failed as FCC chmn. to adopt NAB TV code as govt. rule, but "I still think it's a good idea... I believe in some kind of broadcaster standards."

FA litigator Daniel Troy listed several arguments used by those who seek to control content — such as scarcity, failure of marketplace and voluntary self-regulation, "maybe the most dangerous of all." He predicted that if Vice President Gore were elected President "I'm sorry to say we are going to see more content regulation." Washington attorney Thomas Krattenmaker predicted that whatever content regulation was proposed today "will be overwhelmed by the new technology of tomorrow."

Attorney Cameron DeVore said Supreme Court's 1969 *Red Lion* decision on spectrum scarcity "lives only because it has not been specifically overturned." Krattenmaker agreed that "Red Lion is dead," but said he expected ruling to be returned in some form by another court decision.

Asked where future industry regulation would go, Media Access Project Chmn. Andrew Schwartzman said: "No one knows" because it depends on whether broadcasters "step up to the plate and do it right." He said new technology could create "a real marketplace of ideas" and regulation of Internet shouldn't be permitted to create "a bottleneck of ideas." Attorney Robert Corn-Revere said "ability of people to access information is unprecedented," with many ways for public to use airwaves. Schwartzman said public's right "to be seen and heard [on media] is often overlooked" and Internet still wasn't effective at that.

Helgi Walker, aide to FCC Comr. Furchtgott-Roth, said regulation of indecency was "well established" and TV was only medium so regulated. But she said fact children were part of audience didn't give govt. "a blank check" to regulate content. Walker disputed Schwartzman's contention that ban against TV-newspaper cross-ownership was good, saying "constitutionality" of ban had been eroded by new technology. Corn-Revere said "conventional wisdom" was that Gore would be more regulatory minded as President than GOP candidate George Bush, but there were no major differences between candidates on content issues. But Schwartzman said candidates had "fundamental differences" — citing Gore's support of low-power FM radio and of cable regulation.

NAB Pres. Edward Fritts, said TV and radio stations were doing "splendidly" in fulfilling their public interest mandate:

"So, I say to those who want to bring back the regulatory framework of the past — give me proof that the American people aren't being well served... I cannot believe that in this era of unbelievable media abundance there is anyone in America who is uninformed or lacks the opportunity to hear a diversity of viewpoints because of a lack of voices." He was critical of efforts to force "voluntary" standards on broadcasters: "To have Congress or a federal regulatory agency pressure a regulated industry to undertake 'voluntary' measures stretches the meaning of that word."

Paul Allen's Vulcan Ventures and Charter Communications signed definitive agreement with High Speed Access Corp. (HSA) to invest total of \$75 million in cable-modem venture. Vulcan and Charter will invest roughly equal portions in HSA, which targets smaller and midsize cable markets. Agreement, which follows up on letter of intent 3 companies signed in Aug., came as HSA's chief rivals were running into financial problems. In latest example Oct. 19, SoftNet Systems announced it was restructuring its ISP Channel unit to reduce cost and boost revenue. Blaming "the dramatic consolidation of independent cable operators" in last 2 years, SoftNet said ISP Channel, with 33,000 high-speed data subscribers on 90 cable systems, would cut staff 1/3 immediately.

Reacting to U.S. Appeals Court, D.C., decision (TVD Oct 16 p1), FCC repealed its personal attack and political editorial rules for broadcasters. It also terminated rulemaking to update record on rules (TVD Oct 9 p1) and repealed same rules for cable, even though court hadn't acted on them, saying they were identical to broadcast regulations in all material respects. But decision doesn't end debate, since FCC Chmn. Kennard said in statement that he would direct Mass Media Bureau to prepare rulemaking to explore personal attack and editorial issues "in the larger context of broadcasters' obligation to serve the public interest." He said repeal created "clean slate," but "I continue to believe that these rules deserve careful reexamination." He said court didn't rule on merits of rules, just on procedural issues, and court said FCC could open new rulemaking on issue.

Mich. PSC fined Birmingham \$10,000 after finding city in violation of Mich. Telecom Act for failing to act on Coast to Coast Telecommunications rights-of-way permit within 90 days. Coast told PSC city had attempted to require that company enter into franchise agreement containing provisions not in Act and requested fees in excess of what's permitted. PSC also directed staff to begin process to clarify standards on rights-of-way. In "proposal for decision," administrative law judge earlier had recommended that PSC fine city \$5,000 per day from March 8 for failing to act within stipulated time on Coast's application for permit.

Broadband tax break bill appeared dead for year after failing to win inclusion in compromise tax package released last week by Senate Finance Committee Chmn. Roth (R-Del.). Measure to provide 10-20% tax breaks for providing service to underserved areas had won considerable support as standalone legislation (S-2698, HR-4728) and as part of larger bill (S-3152) by Roth. However, President Clinton didn't mention broadband in letter to congressional leaders describing his priorities for tax break package, and with its absence from tax bill, it's "most likely" done for year, Roth spokeswoman said.

DirectPC said it would be compatible with AOL 6.0 software, which includes built-in an audio and video player along with voice recognition technology.

FTC DEFERS ACTION ON AOL-TW DEAL: Despite its Oct. 27 deadline for deciding on AOL's pending takeover of Time Warner (TW), FTC deferred action on deal until at least early Nov. Citing unresolved differences on ISP open access to cable systems and possibly content provider open access to interactive TV services, sources said negotiations between companies and regulators could run beyond Election Day. Extension was at least 2nd for FTC, which once had hoped to wrap up its review by mid-Oct.

Sources said AOL and TW, faced with threat of govt. lawsuit to block deal, were pursuing extended talks to soften FTC's opposition and gain less onerous conditions. Some observers also suggested companies might be stalling on concessions to see how Presidential election turned out. Thinking was that if George Bush won, FTC might not be as tough on companies. But other sources dismissed that strategy as foolish and dangerous. "It didn't work for AT&T or Microsoft," said one.

FTC spokesman declined comment on its AOL-TW review last week. Spokeswoman for FCC, which is conducting separate though closely coordinated review, also declined comment. But FCC officials, who halted clock on their consideration 3 weeks ago in deference to FTC, have made it clear that they're waiting for antitrust agency to act first. Sources said FCC still was exploring imposing open access and instant messaging (IM) conditions too.

Deferral came as AOL and Disney heightened their sparring over Disney's breach of confidentiality on merger documents that AOL-TW submitted to FCC. In latest exchange between companies at Commission, Disney's attorneys apologized for "the inadvertent and unintentional e-mail transmission" of confidential documents to numerous nonauthorized Disney executives but said company took "immediate and repeated corrective action to remedy the error." However, AOL urged FCC to press Disney for fuller explanation and impose greater safeguards on use of its confidential documents. AOL also faulted Disney executives and lawyers for taking 5 days to notify it and FCC of breach.

At same time, critics of AOL-TW deal continued their assault at FCC and FTC, while AOL, TW and their allies continued to push for approval without conditions. Leading assault, Disney charged AOL and TW were seeking to retain exclusive control of their interactive TV services by keeping competing programmers off their cable lines. Despite their repeated assurances that they didn't intend to block viewer access to rival interactive programming, Disney said they proposed deal to Disney's ABC unit that would clear them of obligation to give ABC access to their cable return path.

EarthLink pressed its drive to force AOL-TW to give independent ISPs open access to its cable lines. EarthLink complained about "economically infeasible" carriage terms that AOL and TW offered it and others and about "emerging trend" among MSOs of demanding that ISPs sign nondisclosure agreements. It also urged FCC to regulate cable-delivered Internet access as telecom service.

RMI.net, which recently became 2nd ISP to sign up for TW's multiple ISP technical trial in Columbus, O., also asked FCC to require mandatory open access on "a common carrier model." RMI.net said Commission should make cable operators charge fair, wholesale prices for use of their systems. It

also said independent ISPs should be allowed direct relationships with their customers.

Digital Access, new broadband service provider seeking to compete against TW in Milwaukee, said FCC should ban exclusive programming deals by MSO, saying it couldn't gain access to Midwest Sports Channel (MSC) because of MSC's exclusive carriage agreement with TW. Prodigy, CMGI and Microsoft pressed FCC to impose IM interoperability conditions because of AOL's domination of IM market.

Comcast and Cox backed AOL-TW in filing, opposing mandatory open access conditions. Noting that Commission was conducting inquiry into open access issue, MSOs said agency should refrain from requiring open access "in order not to prejudice the outcome of that proceeding" or "curtail the flexibility of other broadband providers."

NAB and public broadcasters intervened for defendant in DBS must-carry lawsuit in U.S. Dist. Court, Alexandria, Va. NAB said in legal brief its 970 local commercial stations would be adversely affected if court ruled in favor of DBS companies. Filing said since broadcasters depended on revenue based upon advertising, which is determined by size of viewing audience, must-carry rules were important element of financial success. PBS, APTS and CPS said in filing that DBS providers were attempting to "invalidate the deal" they had struck with Congress under Satellite Home Viewer Improvement Act (SHVIA) by "freeing themselves of the obligations" to include all local signals. Public broadcast stations are included among local signals, and without statutory obligations, DBS companies would "most likely choose to provide the large commercial stations in a market without providing the local noncommercial stations... Viability of the noncommercial broadcast services for all viewers would be compromised." PBS is "willing to go to court" to protect its interests, Chmn. Colin Campbell said following annual meeting of members. Citing PBS-Time Warner cable carriage agreement, Campbell said public broadcasters would continue making deals. He said PTV broadcasters were looking at unspecified number of other cable companies for similar arrangements.

Two leading senators in floor speeches last week promised to examine ownership concentration in telecom. Commerce Committee Chmn. McCain (R-Ariz.), in speech also on behalf of Communications Subcommittee Chmn. Burns (R-Mont.), introduced bill (S-3235) that would provide tax incentives to promote ownership diversity. He said answer to concentration "isn't to forbid mergers out of hand, or to retain hopelessly outdated FCC ownership restrictions, or to pursue constitutionally or economically doomed set-aside programs." Bill would allow small businesses buying telecom companies for cash to defer taxes as if they had bought for stock, move that McCain said would level playing field against larger companies that have more attractive stock to offer. It would apply to phone companies, broadcast and cable and would require new owners to hold property for 3 years. Meanwhile, Sen. Dorgan (D-N.D.) blasted rising concentration of broadcast ownership. He said he intended to "meet with the FCC and send them a letter" and meet with NAB on issue to ask whether today's concentration "is really what was intended" when ownership restrictions were loosened in Telecom Act. "I hope we can discuss this next year... and whether we think concentration of radio and television stations is something that should alarm all of us," Dorgan said. "I believe it should."

VIACOM PROFIT UP: Big broadcast and cable profit growth boosted Viacom operating profit to \$528.7 million in 3rd quarter ended Sept. 30 from \$208.3 million year ago, but large interest and tax costs cut net profit to \$33.4 million from \$96.7 million. Station transactions and political ads boosted other media companies, but some were hurt by interest and other expenses in quarter.

Viacom's TV operating profit climbed to \$369 million from \$26 million and cable networks to \$426 million from \$285 million. Overall revenue was up 7% to \$6 billion. Interest and tax expenses were related to acquisition of CBS, Viacom said. TV revenue tripled to \$1.8 billion because of acquisition, and cable networks were up 34% to \$1 billion. MTV Networks operating profit increased 24%, Showtime 22%. CBS Internet Group revenue nearly tripled to \$28 million... **Infinity Bcstg.** net profit was flat at \$111 million, although revenue grew to \$1 billion from \$619 million and operating profit to \$288 million from \$209 million.

In other financials for 3rd quarter ending Sept. 30: Boosted by \$805 million gain on sale of stations, **Clear Channel** profit climbed to \$448.9 million from \$1.5 million year ago. Revenue jumped 90% to \$1.7 billion (including 48% radio gain) because of acquisitions, but interest expense more than doubled to \$105.3 million... **Grupo Televisa** had \$18.4 million profit, down from \$75.4 million profit year ago. Revenue was up 7.5% to \$523 million... **Hearst-Argyle TV** profit almost tripled to \$9.4 million from \$3.3 million year ago. Revenue rose to \$178.4 million from \$166.7 million and operating profit to \$46.8 million from \$36.1 million... **Belo** broadcast revenue jumped 22.8% to \$170 million, in part because of Olympics, and broadcast operating profit to \$43.7 million from \$28.8 million. Overall profit was \$17.5 million, vs. \$16.6 million year ago... Boosted by \$38 million gain on sale of broadcast assets, **Sinclair Bcst.** had \$18.8 million profit, reversing \$11.3 million loss year ago. Revenue grew 8.1% to \$174 million and cash flow 32.3% to \$37 million. Company cut its debt \$139.4 million in quarter to \$1.76 billion... **Citadel Communications** broadcast revenue increased to \$78.2 million in quarter from \$50.5 million year earlier. Because of interest expense, it had net loss of \$7.9 million vs. \$1.4 million profit year ago... **Gray Communications** broadcast revenue jumped 35% to \$29.2 million and broadcast operating profit was up 13% to \$15.6 million, while overall net loss was reduced to \$1.1 million from \$2 million.

USA Networks had net loss of \$19.5 million, equal to year ago. USA posted \$1.05 billion in operating revenue, up 20.7%, and cash flow jumped 21.7% to \$214.8 million.

Harris Corp. lost \$34.8 million, vs. \$1.3 million profit year ago, but revenue rose to \$460.4 million from \$398.8 million... **C-COR.net** said earnings from continuing operations increased 33% to \$5.8 million from 1999 period. Net sales rose 11% to \$78.3 million and bookings 39% to \$77 million... **XM Satellite Radio** had operating loss of \$28.1 million and net loss of \$20.1 million. In same 1999 quarter, XM had net loss of \$17.4 million. Startup operation had no revenue... **Excite@Home** had pro forma loss of \$41.6 million, vs. loss of \$4.2 million. Revenue jumped to \$169.9 million from \$112.6 million... **Wink Communications** said net loss expanded to \$6.9 million from \$4.5 million loss year earlier. Quarterly revenue soared 207% to \$1.4 million... **OpenTV** said it had net of \$83.4 million, vs. \$5.2 million loss last year. Revenue soared 237% to \$18.7 million.

WEBTV SETTLES CHARGES: WebTV in consent decree settled FTC charges of deceptive advertising. FTC had charged WebTV, which uses TV set to access Internet, didn't perform as well as advertised and resulted in higher-than-expected telephone charges. Under agreement, Microsoft subsidiary WebTV Networks (WNI) will add "clear and conspicuous" disclosure of long distance charges and reimburse some former subscribers for long distance charges and conduct a consumer education campaign on differences between Internet access devices such as WebTV and computers.

While consent decree applies only to Microsoft, Dean Forbes, FTC's lead attorney in case, said he hoped companies that produced similar technologies would take notice, particularly makers of handheld PDAs and wireless phones with Internet access. FTC will closely monitor how those products are advertised, Forbes said.

WebTV ads included statements such as "WebTV brings all the incredible entertainment and information of the Internet right to your TV." FTC said WebTV had many limitations accessing Internet material, including inability to access certain streaming video formats or programming languages. WebTV didn't even support many Microsoft formats, Forbes said, including RealNetworks audio or video or, until earlier this year, Microsoft's own Windows Media video format. It doesn't support Java programming language or Microsoft's ActiveX. WNI's upgrades to WebTV system failed to provide certain commonly used Internet technologies for audio, video, interactivity and multimedia, FTC said.

Microsoft said agreement didn't affect current ads and FTC's complaints involved ad issues from 1997 and 1998. Microsoft spokesman said WebTV now supported RealNetworks streaming video and Java Script, but not Java.

Ad campaign to better inform consumers about Internet access devices will be carried out in retail stores, Web and major magazines under agreement.

No matter which party controls House in next session of Congress, Rep. Boucher (D-Va.) predicted there would be early House passage of legislation setting national policy on intellectual rights, preempting various state laws. Speeding it along is fact that "a consensus is emerging" within industry for national policy, he said. Speaking at Media Institute awards banquet, Boucher (who is member of Commerce and Judiciary committees) also said "early attention" would be given to open access issues along lines of bill he was sponsoring in current session of Congress. However, he said "the FCC is the right place for this decision to be made." Boucher also predicted legislation would be offered in next session to provide unspecified "incentives" for broadcasters to leave Ch. 60-69 before DTV transition is complete. Under current rules, he said, broadcasters still will be using channels for more than decade. Also likely to be on agenda is "flexible" TV-newspaper cross-ownership rules, Boucher said, allowing cross-ownership as long as enough independent voices remain in community. Black Entertainment TV founder-Chmn. Robert Johnson received Institute's American Horizon Award, while Freedom of Speech Award was presented to Jeffrey Bezos, founder-CEO of Amazon.com.

NAB said record 7,680 attended Sept. 21-23 Radio Show in San Francisco, up from 5,600 in Orlando last year and 6,800 in Seattle in 1998. Sept. 5-8, 2001, Radio Show will be in New Orleans.

Personals

Bob Cook, ex-CBS, appointed pres.-COO, Twentieth TV... Promotions at Pearson TV N. America: **William Lincoln** to COO, **Sara Rutenberg** to pres.-business development, **Matt Loe** to pres.-production... **Gary Weitman**, ex-Allied Riser, appointed vp-communications, Tribune... Appointments at Univision: **John Heffron**, ex-Fox Sport Network, as vp-affiliate relations, Eastern region; **Tim Spillane**, vp-affiliate relations, Western region.

Wayne Jefferson, ex-gen. mgr., Clear Channel Bcstg. properties, becomes ICBC Bcst. Holdings gen. mgr.-S.C. market... **Craig Marrs**, ex-pres., North West Cable News, named vp-station mgr., KRON-TV San Francisco... **Wayne Lombardo**, Cox Communications, Middle America, named vp-engineering.

Mania Baghdadi promoted to deputy div. chief, FCC Mass Media Bureau... **James Popham**, ex-ALTV vp-gen. counsel, joins MPAA as vp-statutory licensing counsel... **Jo Popham**, ex CBS, has been named MPAA legal asst... **Ed Mastrean** elected pres., Ky. Bcstrs. Assn... Changes at Liberty Media: **Vivian Carr** promoted to senior vp-investor relations and **David Flowers** to senior vp-treas.; **Chris Shean**, ex-partner, KPMG, named vp-controller.

Scott Bosen, ex-Philips Broadcast, appointed dir.-mktg., Utah Scientific... **Kenneth Wright** joins C-COR.net as chief technology officer... PanAmSat appoints **Bruce Haymes** and **James Frownfelter** as senior vps... **Susan Sewell**, ABC, promoted to vp-media relations, network communications... **Stephen Lindsey**, ex-Paramount International TV, named dir., business development, Fox TV.

Request that Canadian Copyright Board set royalty fees specifically geared to Internet retransmissions of TV programs (TVD Oct 2 p7) met with unanimous opposition from country's copyright industry. In responses filed Oct. 20, 9 groups — including Copyright Collective of Canada (CCC), Major League Baseball Collective of Canada Inc., FWS Joint Sports Claimants Inc., Canadian Retransmission Right Assn., Canadian Assn. of Bcstrs. (CAB), Canadian Retransmission Collective (CRC), Border Bcstrs. Inc. (BBC), Society of Composers, Authors and Music Publishers of Canada (SOCAN) and Canadian Bcstrs. Rights Agency — assailed plan to begin retransmitting broadcast TV signals. New online service is to be called JumpTV.com. Company planned to earn revenue by selling banner ads to run during TV retransmission, it said, not by enrolling subscribers or charging consumers for access to the streamed programs. CRC said JumpTV appeared similar to iCraveTV, Canadian Internet company whose streaming of TV programs from N.Y. and Canada brought lawsuits from U.S. and Canadian copyright industries and spurred congressional hearings. Most respondents argued Internet retransmissions didn't fall within Copyright Act, making it inappropriate for Board to set tariffs. They sought prehearing conference to resolve jurisdictional question. JumpTV will be given a chance to respond, Board Secy. Gen. Claude Majeau said, although no deadline has been set.

Internet-only Webcaster NetRadio took 7 of top 10 slots in Webcast program ratings by Arbitron, rating service said. Top spot went to NetRadio's "80s Hits" Webcast, with total of 311,600 tuning hours in most recent month. Top-ranked U.S. radio station's Webcast was 9th-ranked WABC(AM), Arbitron said.



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RealNetworks and Sony will adopt each other's streaming media technology and work together to promote their products, they announced. Deal means Sony will incorporate RealPlayer and RealJukebox technology into portable music devices beginning in 2001 and RealNetworks will add Sony's ATRAC3 technology to RealSystems 8. Sony said addition of RealNetworks would allow customers to store music from their CD collections, as well as music downloaded from Internet, on portable devices. IBM earlier said it would collaborate with RealNetworks and Sony on digital music.

Consumer Electronics

A Section of Television Digest with Consumer Electronics

STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Oct. 13 and year to date:

	OCT. 7- OCT. 13	1999 WEEK	% CHANGE	SEPT. 30- OCT. 6	41 WEEKS 2000	41 WEEKS 1999	% CHANGE
TOTAL COLOR TV	560,950	567,503	- 1.2	419,439	22,295,652	21,092,459	+ 5.7
DIRECT-VIEW**	543,696	544,684	- 3.9	404,479	21,337,260	20,241,564	+ 5.4
TV ONLY#....	435,835	499,393	- 12.7	333,398	17,664,229	17,020,756	+ 3.8
TV/VCR COMBO.	107,861	65,291	+ 65.2	71,081	3,673,031	3,220,808	+ 14.0
PROJECTION...	17,254	22,819	- 24.4	14,960	958,392	850,895	+ 12.6
TOTAL VCR**...	533,475	498,572	+ 7.0	623,717	20,717,610	19,462,652	+ 6.4
HOME DECKS...	425,614	433,281	- 1.8	552,636	17,044,579	16,241,844	+ 4.9
CAMCORDERS.....	79,480	84,008	- 5.4	77,859	4,274,169	3,530,593	+ 21.1
DVD PLAYERS....	128,174	30,856	+315.4	183,653	5,404,116	2,444,689	+121.1

Direct-view TV 5-week moving average#: 2000-651,558; 1999-661,640 (down 1.5%).

Projection TV 5-week moving average: 2000-26,896; 1999-30,707 (down 12.4%).

VCR deck 5-week moving average: 2000-589,861; 1999-580,801 (up 1.6%).

TV/VCR 5-week moving average: 2000-114,170; 1999-102,316 (up 11.6%).

Camcorder 5-week moving average: 2000-132,356; 1999-110,557 (up 19.7%).

DVD player 5-week moving average: 2000-240,436; 1999-98,839 (up 143.3%).

** Includes TV/VCR combinations. # Excludes TV/VCR combinations.

Note: Analog sets only included in figures on direct-view TVs, TV/VCR combos, projection TVs; analog and digital models included in camcorders.

PHILIPS ACKNOWLEDGES ROLE ON DVR-BLUE: Philips filled in missing link last week on its role in developing next-generation HDTV-quality rewritable optical disc system codenamed "DVR-Blue," saying it had worked with fellow CD partner Sony since 1997 on project. For first time, Philips showed visiting U.S. journalists working prototype of optical disc drive it has developed for DVR-Blue using 405 nanometer blue-violet laser sourced from Japan's Nichia Chemical. Company also revealed plans for 3 DVD+RW decks to ship next fall.

But mystery continues on nature of 3-party relationship that surfaced earlier this month in Makuhari, Japan, when Pioneer and Sony used CEATEC electronics show to trumpet DVR-Blue system publicly for first time. While it has been Pioneer that has gone so far as to say that Philips, Pioneer and Sony have agreed to submit DVR-Blue proposal to DVD Forum for possible standardization when format is ready, Philips executives said last week that their only formal collaboration in last 3 years had been with Sony, not Pioneer. Sony has acknowledged it has worked for about year on DVR-Blue with Pioneer and unspecified time with Philips, but has referred further queries to those companies. At our deadline, we were awaiting reply from Pioneer on our requests for further clarification on its DVR-Blue role.

Executives at Philips Research Labs in Eindhoven last week broke some new ground on DVR-Blue beyond what was revealed at Makuhari show and its aftermath. For example, contrary to earlier prevailing view that system would gravitate toward use of even shorter wavelength laser in future, Philips Research Scientist Jean Schleipen told visiting U.S. reporters that 405-nanometer blue laser probably represented uppermost limit on what could be achieved in DVR-Blue optics. As previously claimed, system is capable of accommodating full-length HDTV-quality movie on 5" disc with 22.5 GB capacity, which compares with 4.7-GB limit on today's DVD.

Disc also is constructed differently from DVD-Video, which is fashioned from bonding 2 halves each measuring 0.6 mm thick. DVR-Blue disc's makeup appears to conform to Sony's development work. As with DVD, disc is 1.2 mm

thick, but it's composed of 1.1 mm substrate and 0.1 mm thick micro layer that's crucial to working in tandem with blue laser in delivering system's extra capacity. Schleipen said Philips already had found that bonding process used in DVD replication would prove impractical in DVR-Blue because micro layer was too thin. He said Philips had experimented with spin-coating micro layer, but had found more "preferred" method was to laminate polymer foil layer to thicker substrate. Chris Buma, Philips program mgr. for AV Disc Recording, said technology jump for producing DVR-Blue discs would be relatively insignificant compared with transition to DVD replication. Contrary to Pioneer's claims at Makuhari that DVR-Blue developers hadn't determined whether final format would use caddy-enclosed disc, Buma said caddy was foregone conclusion in Philips' thinking because disc's extremely tight pit density would make it extremely vulnerable to dust and fingerprints.

Responding to our question on which company in Philips-Sony 3-year collaboration contributed which technologies to DVR-Blue, Schleipen said split was difficult to delineate. He acknowledged that Sony engineers were first to publish paper on 0.85 numerical aperture (NA) technology used in DVR-Blue. Coincidentally, he said, Philips was working on 0.85 NA know-how but based on disc substrate measuring 0.6 mm thick, not 0.1-mm-thick micro layer adopted for DVR-Blue.

Despite high-profile showing of DVR-Blue at CEATEC and Philips' first-time demonstration of DVR-Blue optical drive operating at data transfer rate of 30 Mbps, Buma said Philips wanted to deflate expectation that system would be commercialized soon. He said system as now envisioned would serve HDTV consumer electronics market interests only in Japan and U.S., but not in Europe, where HDTV movement lags considerably. Buma also said Philips had no plans to demonstrate DVR-Blue publicly or privately at Jan. CES in Las Vegas, where company will put all its muscle behind promoting DVD+RW recorders due on market in about one year.

Buma revealed last week that Philips planned 3 DVD+RW recorders in first generation. Senior DVD Product Mgr. Eric Tijssen said 2 models planned for 3rd quarter 2001 both would feature DV inputs for dubbing digital camcorder footage, one to be "bundled" with Philips Pronto sophisticated remote. Third model, probably to be delivered after start of 2002, wouldn't have DV input. Buma and Tijssen retreated from claims made by other Philips executives at Sept. CEDIA Expo in Indianapolis that first-generation DVD+RW models would cost as much as \$3,000. Buma said first DVD+RW recorders would be comparable in price with first-generation DVD-RAM and DVD-RW recorders introduced by Matsushita and Pioneer, respectively.

Buma seemed to hold out little hope that 3 rival DVD recording formats would be unified, but insisted that Philips had not been dissuaded from pushing ahead on DVD+RW despite strides made by Pioneer in signing up more DVD-RW adoptees. Buma said: "We have no second thoughts." Philips executives told British reporters earlier last week in London that they regarded current situation for DVD-RW as fluid and confused. They suggested that Philips' insistence that new-generation DVD recorders be given 2-way compatibility with DVD-Video had led DVD-RW camp to follow suit.

Philips officials in London said it was their belief that in DVD-Video-compatible "real video" mode, DVD-RW discs first would have to be finalized to play on DVD player and then unfinalized if more material were added. Buma said competitive advantage of DVD+RW would be little-publicized "edit" mode, which lets user change order of sequences and insert and replace. Edited DVD+RW disc then is temporarily fixed or finalized to play in existing players. Buma told U.S. reporters that Philips DVD+RW decks would play DVD-RW media as long as they were compatible with DVD-Video players. He said compatibility with installed DVD hardware base was crucial because of worldwide market growth, which he said was expected to grow to 160 million drives in 2001 (45 million DVD-Video, 115 million DVD-ROM) from 30 million in 1999.

Final equipment is virtually in place in Eindhoven to start pilot production of optical drives for first DVD+RW recorders, Philips executives said. Plan is to transfer production to Philips plant in Hasselt, Belgium, in Dec. Full-scale production of drives will start in 2nd quarter 2001, Buma said.

SHORTAGES REPORTED ON MEMORY CARDS FOR PLAYSTATION 2: While PlayStation 2 (PS 2) consoles — as expected — are in short supply, memory cards for Sony's new game system are in even tighter, retailers told us last week one day after PS 2's N. American debut.

Although various retailers indicated they had about one memory card for each console, one dealer told us he had 16 cards for 200 consoles Sony had shipped him. But Allen Tigner, manager of Software Etc. store at 33rd St. and Broadway in Manhattan, told us Fri. that memory card shortage didn't come as shock to him. That, he said, was because Sony had told his retail chain in advance that cards would be in short supply at system's start. "Customers are fine with it,"

Tigner said, saying that retailers who had preordered system had been told about situation in advance and some already had preordered memory card in addition to console.

Tigner said Sony hadn't provided definite date for when additional memory cards would be arriving. But he said he expected to receive more cards in 3-4 weeks. Until more cards arrive from Sony, some dealers may opt to receive 3rd party cards from Mad Catz, accessories division of Ontario-based game maker GTR Group, which announced last week that it had signed agreement with Sony Computer Entertainment America (SCEA) to license its Mad Catz 8 MB memory card for PS 2. GTR said its card "will work with all compatible PlayStation 2 software." GTR-Sony agreement represents first time that any 3rd party company has been licensed to make memory cards for either PlayStation system.

One retailer told us last week he was short on memory cards as well as game controllers. But Tigner told us he didn't have any shortage problems on accessories or games for PS 2. As he had told us 2 days earlier, he said many competitors had cut down on their accessories and games when they learned Sony was going to be shipping only 500,000 consoles at outset, but his company, Babbage's Etc., didn't. Sony's first party multitaps, which would allow additional gamers to hook up to PS 2 and play games at same time, were being delayed until Nov, Tigner said. His store is providing customers option, he said, and he had limited quantities of multitap by Performance at \$29.99 that would work with system.

SCEA spokeswoman hadn't returned our call to comment on memory card and multitap situations by our Fri. deadline. SCEA Pres.-COO Kaz Hirai told us day before PS 2 rollout that he was confident there would be no technical glitches marring N. American start of PS 2. When PS 2 was introduced in Japan in March, many consumers complained that there were problems with memory cards for system and Sony reported "10-day lag in production" (TVD March 13 p18). While Sony is selling memory card as \$34 accessory in U.S., consoles came with cards in Japan at outset. Sony rectified memory card problem in Japan, but 2 more glitches soon were discovered: Some consumers were figuring out way to change console's regional code settings (TVD March 20 p10) and hackers developed way to circumvent console's Macrovision copy protection to make VHS and other dubs from DVDs (TVD April 3 p12). There also were reports that certain PlayStation games weren't compatible with PS 2. How serious memory card shortage might be in U.S. was unclear and there were no reports last week of any technical glitches with consoles here.

Meanwhile, many retailers reported Fri. that they had sold out of PS 2 consoles quickly. Amazon.com, for instance, said it started selling limited supply of PS 2 bundles at noon Oct. 26 and had sold out in 30 sec. But Amazon — like most other dealers — wasn't saying how many consoles it had sold. *Wall St. Journal* said Best Buy, Toys "R" Us and Wal-Mart "each received about 15% to 20%" of Sony's first shipments, while Electronics Boutique "can probably expect to receive about 100,000 PlayStation 2 consoles by Christmas" because that company's stores "account for 11% of Sony's North American sales."

Best Buy spokeswoman told us on first day: "On average, we had about 100 to 300 people waiting outside [each store]." She said retail chain gave out tickets on "first-come, first-served" basis to customers who "would be eligible [to buy] a PlayStation 2." She said: "Customers arrived in line between 6 and 8:30 p.m. [on Wed.] and about 50 to 100 camped out." She said not everyone who wanted PS 2 system got one. When Best Buy will receive 2nd shipment, she said, "hasn't been determined yet," although she said "we'll take shipments throughout the holidays." Best Buy, like many other retailers, opted to not run preorder campaign for PS 2 and wasn't taking deposits for PS 2s that would arrive in future shipments, spokeswoman told us.

Target Electronics Div. Mdse. Mgr. Steve Eastman said: "It was a very successful launch in terms of sellthrough, but supply was short of demand and we turned a lot of people away. We sold through the console within the first few minutes of our doors opening." He added: "We had full sellthrough and we could have sold quadruple or more than what we were allocated so it will be a treasure hunt through the rest of the holiday season." Blockbuster CEO John Antioco said in conference call with analysts last week that because hardware and software were expected to be in short supply "we don't expect PlayStation 2 to have any measurable impact on sales until later in 2001."

Software Etc.'s Tigner told us "close to 200" customers who had been among first to preorder system more than year ago started lining up outside store at 6 p.m. Oct. 25. He said: "We didn't turn [any of them] away" because all of them had been called in advance and told to come to store to claim consoles when they went on sale starting at 12:01 a.m. By 2 a.m. all 200 had been able to receive machines, Tigner said, and he had about 50 consoles left that would be held for other customers who had been part of first phase of preordering conducted last year at store. Select Electronics Boutique stores and Sony's own PlayStation store at Metreon complex in San Francisco were among other retail locations that were open at 12:01 a.m. to start selling systems Oct. 26.

Tigner said anyone who walked into his store at this point to buy console without having preordered system would be out of luck and wouldn't be able to get one from his store until spring. Tigner said he wasn't anticipating receiving another shipment from SCEA until "late December," when he was expecting to be able to provide 175 consoles to consumers who had been part of 2nd wave of customers who preordered system. He told us he wasn't certain when 3rd shipment of machines would be arriving, but 4th shipment is expected in spring. As of Oct. 25, "over 600" people had preordered system from store, he said.

Comparing PS 2 launch with Dreamcast's last fall, Tigner said there was "a lot more energy" involved in Sony rollout. He said customers didn't inquire as much about Sega's console as they have been for Sony's — and "we have a lot more preorders" for PS 2 than for Dreamcast. But he said: "Customers are still interested in Dreamcast." Like various other retailers, he said recent price cut on Dreamcast had helped spur sales for that platform, and when Sony announced it was cutting number of PS 2s it would be shipping at beginning to 500,000 from one million (TVD Oct 2 p11) "it actually helped the sales on Dreamcast" even more. He said there was a 10-15% increase in sales of Dreamcast after Sony's announcement, adding: "The PS One also started to pick up momentum" once customers realized they wouldn't be able to buy a PS 2 so fast.

SCEA's Hirai, who flew into N.Y. from Cal. to take part in start at Tigner's Software Etc., told us it still was "really hard to tell" when supply would equal demand for PS 2. He said it also still wasn't clear "what kind of demand we'll be able to get from the market" for the system to start with. That, he said, "is going to depend to a great extent [on] what kind of software we have coming out from both our 3rd party publishers as well as from our first party studios." He once again said last week that 26 titles available for debut was significant number for start of any platform. He also pointed out once again: "We hope to bring about 1.3 million units into the North American marketplace in this calendar year and we plan to bring in about 3 million units by the end of the fiscal year" in March. Sony still is confident it can ship 10 million systems worldwide by end of its fiscal year in March.

Hirai admitted "reduced number of software units per title" would be shipped now because of cut in console allocations. But he said because PS 2 uses optical disc format, "we are able to — and the retailers and publishers are able to — control their inventory a lot better than [they are with] some of the other conventional, cartridge-based [business] models." He said retailers placed their software orders knowing that Sony "will be able to supply the market very quickly when the demand actually moves up." Hirai added: "A lot, if not most, [of] the publishers have actually kept their initial numbers in terms of manufacturing software knowing that we'll be caught up by the end of the calendar year."

Hirai also admitted that "there may be some consumers who decide to buy another system instead of the PlayStation [2] because they couldn't get their hands on it day one." But he said: "I really think the kind of compelling software offerings that we have on the [system] is going to also [cause] a lot of consumers — perhaps if they couldn't get the system on day one or day 2 — [to] wait to pick up the system." That, he said, is "because at the end of the day, the most important thing" for customers is "the availability of compelling software."

PS 2 consoles, unsurprisingly, were readily available online at auction sites including Amazon Auctions and eBay last week. Just as unsurprising was that bidding went as high as well past \$1,000 mark for PS 2 console-software and other types of bundles. Hirai told us there was little Sony could do about anyone's selling PS 2 for inflated prices.

RESEARCHERS CLAIM THEY HAVE HACKED SDMI WATERMARKS: Vulnerability of copy protection technology for digital music has been exposed, according to university researchers who claimed last week they had cracked watermark systems devised by recording industry forum Secure Digital Music Initiative (SDMI). But RIAA contended results were preliminary and said successful outcome depended on still-pending listening tests.

Taking up SDMI's open challenge for hackers to try to crack its watermark systems, computer scientists at Princeton U., Rice U. and Xerox's Palo Alto Research Center (PARC) said they defeated all 4 watermarks presented for testing. Although SDMI offered \$10,000 cash prize for each watermark defeated without audibly degrading quality of music sample, research team wouldn't accept reward because it required agreement not to disclose findings. Instead, group will report its technical results next month, Princeton U. researcher Edward Felten said.

Team called SDMI's technology "flawed" and "inherently vulnerable" while branding its test methodology "vague," "unscientific" and "unrealistically difficult." Watermarking system adds supposedly inaudible and unremovable digital code to analog music waveform. Players and recorders look for code, which tells them whether or not they can copy or otherwise use it. First-generation sensors already are built into MP3 players, recorders and DVD-Audio players, and SDMI now wants to refine system with Phase 2 technology to provide greater control. But if watermark can be removed or distorted so that sensors don't detect them, copy control is defeated.

In challenge, SDMI posted music on Internet with and without watermarks. Hackers had 3 weeks to remove watermark and send music back to online "oracle" that would check it automatically and verify whether watermark had been made undetectable. Despite short time allowed, there were 447 attempts. SDMI denied early reports that watermarks had been hacked, but Princeton group in open letter last week (<http://www.cs.princeton.edu/sip/sdmi>) claimed it had "defeated all the watermarking challenges, by rendering the watermarks undetectable without significantly degrading the audio quality of the samples." Success was "confirmed by SDMI's e-mail server," researchers said.

Watermarks can be defeated by slight distortion, so that the sensor no longer recognizes them, Princeton group said. Besides 4 watermark tests, SDMI challenge included 2 that were nonwatermarking. One involved method for preventing users from copying music from digital copy of original CD, other was way to prevent them from defeating watermarks by splicing snippets of music, researchers said. They said first system could be defeated in practice, but SDMI's "oracle" didn't behave as documented, preventing them from confirming their analysis. SDMI's documentation for splicing test was too vague to permit analysis, researchers said.

RIAA contended success of hacks has yet to be confirmed. "We very much appreciate the effort and professionalism that the Princeton group has brought to this public challenge," said Matt Oppenheim, RIAA senior vp-business and legal affairs. "Notwithstanding, the results announced by the Princeton group are not accurate. The Princeton group appears to have misunderstood how the oracle functioned, believing that if they received a positive message from the oracle, it meant that their submission had passed both the watermark detector and the listening tests. This, in fact, is inaccurate. A positive message from the oracle only meant that the submitted challenge had passed the first test — the watermark detector — and the listening test would be the next step... Moreover, the Princeton group understands that some of their submissions were not of particularly high audio quality. We look forward to continued testing of the Princeton group submissions."

By our Fri. deadline, Felten hadn't responded to our request for comment on RIAA's assertions about understanding of "oracle" message or quality of group's music samples. But researchers' open letter said slight changes made to defeat watermark were "no more damaging than the watermarking methods themselves; if consumers consider these modifications too damaging to music, then they might feel the same way about the watermarks." RIAA spokeswoman told us that listening tests of music samples with defeated watermark were being conducted by SDMI "golden ears" committee, which will brief SDMI's plenary committee, possibly in time for that panel's Nov. 8 meeting. Results of tests will be published after that, she said.

IMPROVEMENTS IN CD DENSITY COMING: Technology that would triple storage space now available on recordable CDs will be demonstrated at upcoming Comdex show by TDK and Alameda, Cal.-based Calimetrics, companies will announce today. Drives for new recordable and rewritable discs also could write data at triple speed, 36x compared with 12x for CD-R/W discs and drives, they said — and technology can be extended to recordable DVD. Meanwhile, Philips and Sony weren't saying much about double-density CD/RW system they announced this summer.

Product of technology alliance is called MultiLevel Recording (ML), TDK and Calimetrics said. It yields disc with 2 GB storage compared with CD's 650 MB. But format requires no alteration in existing CD recorder optics, mechanics or manufacturing process — only addition of one or 2 ML chips developed by Calimetrics and disc that's fine-tuned for ML recording. ML-equipped drives would retain backward compatibility to read and write conventional CD media, companies said.

ML achieves added capacity by depositing pits and marks differently on surface of disc, Calimetrics said. On conventional recordable CD, laser writes and reads series of marks of uniform darkness or reflectivity on disc. Marks are of different lengths and are used to encode data. But ML creates marks of different lightness or darkness with different levels of reflectivity, and marks are roughly same length. That permits more information to be written and stored in each data cell on disc, Calimetrics said. In space where either zero or one is stored on regular optical disc, ML process can store values from zero to 8 or more, thereby increasing storage capacity for same surface of disc. In read-only prerecorded ML disc, multilevel marks actually are pits of physically different depths. They create effect of multiple levels of reflectivity to reading laser, company said.

ML Recording also increases data transfer rate of writable and read-only discs. Calimetrics said laser in conventional optical drive is basically "on-off" switch, either reading and writing mark or absence of mark. But ML Recording enables laser to write and read more information in same space on disc. When combined with high bandwidth electronics, data transfer rates are increased. Company said it proved application of ML technology with rewritable phase-change media in 1998 and completed tests in March 1999. It then began developing ICs and media for drives and now is talking with chip fabricators, although no deals have been announced.

Because technology is IC-based, ML drives will cost little more than conventional CD-RW hardware, TDK Electronics Pres. Kuni Matsui said. Cost of ML blanks will maintain cost-per-megabyte efficiencies of conventional blank CDs, he said. TDK will first offer write-once ML disc, while Verbatim parent Mitsubishi Chemical plans to provide

rewritable ML discs when format emerges next year. Companies are likely to sell both types eventually, TDK Marketing Communications Dir. Bruce Youmans told us. First hardware manufacturer announced is Shinano Kenshi, maker of Plextor-brand CD-RW drives. Licensing terms will be announced following demonstrations at Comdex (Las Vegas, Nov. 13-17), Youmans said.

ML Recording has been revealed to CD license owners Philips and Sony, Youmans said. Owing to time zone differences, companies couldn't be reached in Japan for comment by our Fri. deadline. CD co-developers recently announced double-density CD/R-W system (DDCD) that increases blank disc capacity to 1.3 GB from 650 MB.

That would yield 2.5 hours of CD music compared with current 75 min., or, if compressed, 500 MP3 music files or 1,000 Windows Media Audio files. System also would double number of still photos stored on blank CD or fit copy of feature-length movie recorded at VHS-quality using MPEG-1 video compression that's bundled with CD recording applications such as Adaptec's "EasyCD" program. For PC backup, drives would enable 16x write and 48x read speeds. And for prerecorded media such as CD-ROM-based videogames, publisher either could double content supplied or ramp up game's graphics, paths and other game-play features.

DDCD hardware won't cost much more than today's CD recording gear, said Philips, Sony and partner Cirrus Logic, which is supplying encode/decode and laser-servo chipset for system. That's because DDCD uses same infrared laser as today's CD gear, but slightly tightens CD's spiral grooves and uses shorter pits to store data. For blank CD makers and prerecorded CD replicators, no changes are needed in their current equipment except modification of track and pit specs, companies said.

There's little effort or cost involved for hardware makers to upgrade CD players for DDCD besides incorporating Cirrus Logic chipset — \$8 each in quantities of 25,000 but cheaper in millions lots typically needed for CD and DVD players. Future CD and DVD play-only equipment could be made to handle DDCD, but discs recorded in new format won't be playable in legacy CD/DVD hardware. Meanwhile, DDCD hardware will be able to play regular CDs.

Philips and Sony were keeping mum on product availability, but sources said first blanks and recorders would emerge in about 6 months. Sony spokesman told us company's first efforts would be to deliver professional authoring equipment, such as for PC software and videogame developers. It was questionable, though, whether software developers would make such investments without installed base of consumer hardware. Philips has been more stand-offish on format, saying only that it would assist with licensing procedures. "We won't make double density for the mass market because it's not compatible with existing CD drives," Chris Buma, program mgr.-A/V recording, told us in London last week. "But we won't stop someone else using it for a niche data market."

GAMES AND YEN TORPEDO SONY'S 2ND-QUARTER PROFIT: Dour financial results accompanied hoopla for Sony's PlayStation 2 (PS2) debut last Thurs. when company announced that strong yen and costs associated with PS 2 rollout caused 2nd-quarter earnings to plummet 57.4% from year ago to ¥19.82 billion (\$183.2 million) from ¥46.52 billion. Sales rose 3.8% to ¥1.69 trillion (\$15.6 billion).

Sony said its games division lost ¥2.81 billion (\$26 million) in quarter, driving category to ¥18.84 billion operating loss in first half. Games division had contributed 32% to company's operating profit in 1999. Sony said PS 2 launch had cost ¥250 billion to date, and it has sold 3.54 million of new consoles since March debut in Japan. PS 2 software shipments from Sony and licensees have reached 8 million, it said.

Sony attributed much of profit decline to strong yen, and said July-Sept. operating profit rose 51% in local currency terms compared with year-ago quarter. When denominated in yen, though, operating profits for period dropped 13.7%, to ¥60.53 billion, Sony said.

Despite falloff from games, electronics group showed earnings with ¥77.35 billion (\$716 million) operating profit, increase of 131.8% over ¥33.36 billion in 1999 quarter. Sony said it expected electronics division to continue growth in 2nd half, and that shipments of Vaio PCs should double this year, to 2.8 million.

Forecast for fiscal year ending March 31 remains on track, Sony said, with ¥7.2 trillion sales but steep profit dive to ¥10 billion from last year's ¥121.8 billion. Largest part of decline was attributable to ¥101.65 billion first-quarter charge for marketing costs in Sony's movie business, in line with recent change in U.S. accounting rules. Also affecting bottom line was big expected loss at affiliate Aiwa, which is 50.5% Sony-owned. Aiwa posted loss of ¥10.65 billion in first half and has forecast ¥21 billion loss for year as shortage of components and parts crimps production.

THOMSON PUTS TIVO ON HOLD: Thomson has put plans to supply TiVo personal video recorders to RadioShack (TVD Oct 23 p10) on hold as it pushes TiVo and Gemstar-TV Guide to resolve patent dispute.

TiVo PVR uses electronic program guide that Gemstar claimed in lawsuit filed earlier this year infringed on its patents on technology. Thomson, which owns small stake in newly combined Gemstar-TV Guide, won't deliver PVR until either lawsuit is resolved or companies reach separate accommodation, said Enrique Rodriguez, Thomson senior vp-digital multimedia products worldwide.

"Our guide relationship with Gemstar is extremely strong and we have absolutely no intention of supporting a product in which the guide strategy would be in conflict with Gemstar," Rodriguez said. Thomson intends to "use its relationship" with Gemstar as means of seeking to resolve differences between companies, he said. Gemstar and TiVo officials were not available for comment.

Whether agreement can be reached in time for product to ship for holiday selling season isn't clear, Rodriguez said. PVR, which Thomson is sourcing from 3rd party, is designed to give RadioShack standalone product for holiday season and not fill spot left vacant when Ultimate TV was postponed until first quarter 2001, he said. Thomson operates store-within-a-store format at RadioShack, whose rivals Best Buy and Circuit City are carrying PVRs under other brands.

While Thomson plans at start to ship standalone PVR, long-term strategy involves combining technology with other products such as satellite receivers and digital cable set-top boxes (STBs).

"We still have a lot of questions about that [standalone PVR] category because the business model is very, very difficult," Rodriguez said. "All of those [standalone] products are subsidized to some extent and it is still pretty open as to whether the revenue streams would really be out there long term to maintain that business model."

In end, Thomson chose TiVo platform over ReplayTV because of user interface and it's "doing a better job of establishing corporate relationships like AOL that are of interest to us in the future," Rodriguez said.

While shipment of Ultimate TV product, which combines Microsoft's WebTV technology with DirecTV under Sony and RCA brands, has been postponed, no "major issues" remain to be resolved, Rodriguez said. "We are in the last stages of finishing that up," he said.

Although Ultimate TV pricing hasn't been set, it will be "very, very competitive" with standalone PVRs and will "put another level of pressure" on that product, he said. "The consumer will want to know why the pricing gap is so narrow when the functionality gap is so big."

Zenith, making first plunge into LCD monitor business, was featured in Circuit City full-page ad in *USA Today* Oct. 23. Ad highlighted 15.1" model (\$1,999) produced by Zenith parent LG Electronics' LG.Philips joint venture that has 1,024x768-pixel resolution.

HARMAN EARNINGS RISE: Harman International, despite being hit hard by weak euro, reported first-quarter income doubled to \$7.2 million as sales increased to \$394.9 million from \$356.7 million year earlier.

Currency translations, which cost Harman \$25 million in revenue in quarter, were offset by "robust" sales of audio systems by DaimlerChrysler's Mercedes-Benz Div. and BMW, Chmn. Sidney Harman told analysts in conference call.

Harman's Consumer Systems Group, which includes OEM and branded audio, posted 9% gain in sales to \$285.4 million. Consumer audio sales were "slightly higher" than year ago, while OEM PC speakers gained 9% to \$120 million, analysts said. Domestic consumer sales fell 10-11%, Harman said. In seeking to expand home CE business, company will likely integrate ZapMedia technology in 2001 as part of investment it made in company, CEO Frank Meredith said. ZapMedia has developed convergence technology including ZapStation, universal Internet-connected multimedia CD/DVD player.

Professional Group sales rose 14% to \$109.6 million on strength of AKG's contract with General Motors for hands-free microphones for OnStar system.

Harman will start production of components for car multimedia systems in 742,000-sq.-ft. Northridge, Cal., plant in spring. Porsche expects to introduce first model in U.S. with technology by mid-2001, Meredith said. New production is part of Harman's 4-year, \$55 million expansion of plant.

New multimedia systems, which will combine Internet access and security with video and telematics, will debut in high-end Porsche, Audi and BMW vehicles primarily in Europe in fiscal 2002. Navigation systems will be added to DaimlerChrysler's PT Cruiser in Europe in fiscal 2003 and will move to U.S. following year, Harman said. Systems, which will be based on Harman's optical bus technology that replaces copper wiring with fiber, will add \$800-\$1,500 of "content" to vehicles, he said.

In conventional business, Harman has delivered its first audio systems for Toyota Lexus vehicles and they have been installed in 65% of line, company said.

Harman will complete overhaul of international consumer operations by year-end with unit projected to lose \$7 million in 2001. Business lost \$20 million in 4th quarter of fiscal 2000 as Harman embarked on program to shift to direct sales in international markets. It revamped consumer business in U.S. in 1999 in cutting 450 jobs and closing several facilities.

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As financial results were released, Meredith said Harman had appealed \$5.7 million judgment awarded Bose in Sept. Bose had alleged that some brands of Infinity and JBL speakers infringed on patents covering elliptical-shaped plastic port.

Take-Two Interactive Pres. Paul Eibeler will be among industry executives speaking at Gerard Klauer Mattison's 10th Annual Toy and Interactive Entertainment Conference Nov. 1 at Pierre Hotel in N.Y.C.

CANDESCENT, SONY IN ACCORD: Sony invested \$113 million in Candescend Technologies to extend partnership for field emission display (FED) technology through 2001.

Sony made \$27 million equity investment in Candescend, paid \$50 million in royalties and provided \$36 million for R&D. Latter will fund development efforts for scaling technology to 20" and larger sizes and 1,024x768-pixel resolution, sources said. Candescend, which received first \$50 million infusion from Sony in Oct. 1998, so far has shown prototypes up to 13".

"They [Sony] see a clear opportunity in the 20" and larger market and unfortunately they're not positioning Candescend in the small display markets where the company will be on its own," source said.

As part of deal, Sony can't begin FED production until 2003. Original plan was for Candescend to also fund development through IPO and start production in Aug. 2002. However, new agreement could mean Candescend forgoes production in favor of development line that "proves out" technology, while Sony handles volume manufacture, source said.

As Candescend and Sony were extending FED pact, **Eastman Kodak** set up separate display business unit to oversee development of organic light-emitting diode (OLED) technology. Group will be based in Walnut Creek, Cal. Kodak has licensed OLED to Pioneer, Sanyo and others, but new division is likely to hasten company's own commercialization of technology, industry source said. Pioneer has installed OLEDs in car head units, while Sanyo earlier this year showed 5.5" OLED with 320x240 resolution, 150 lumens and 200:1 contrast.

"Creating the display products business unit reflects our determination to generate new business from our display technologies," Kodak Chief Technical Officer James Soffel said.

"Kodak finally realized that they were licensing to everybody and not only is that not a big percentage of the ultimate pie, but they were putting themselves out of business," CE executive said.

At same time, **Cambridge Display Technology (CDT)**, which has licensed its light-emitting polymer (LEP) technology to Philips and Sanyo, also is shifting focus to commercialization, sources said. LEP, plastic formed into tiny dots that illuminate when hit with low, under 5 v charge, is designed for camcorder viewfinders, wireless phones, PC monitors. It has been shown in prototypes up to 12".

In shift to commercialization, CDT hired David Fyfe as CEO, replacing founder Danny Chapcal. CDT will seek to keep licensing agreements with Philips and Sanyo, which cover monochrome segmented displays, but not full-color graphics versions, sources said.

"They [CDT] were smart in not giving away the store and the question is how do they move out from here," source said. CDT may start with low-end applications such as cellular phones, then shift to "more advanced, higher end markets when they have been established profitably," CE executive said.

Meanwhile, **Kopin** said 3rd quarter net income soared to \$4.1 million from \$1.395 year earlier despite production shortfall of CyberDisplay microdisplays. Sales, largely fueled by

gallium arsenide-based transistors (GST) for cellular phones, rose to \$23.8 million from \$9.7 million. GST revenues jumped to \$17.9 million from \$7.7 million with Mitsubishi accounting for more than 10% of sales, Pres.-CEO John Fan told analysts in conference call. Kopin supplies heterojunction bipolar transistors (HBT) for Mitsubishi's GSM phones. CyberDisplay sales increased to \$5.3 million from \$1.5 million year ago and \$4.8 million in 2nd quarter. Kopin produced 200,000 of 0.24" displays in quarter, short of goal of 300,000 as "suppliers had difficulty meeting our ramp schedule and the quality we need," Fan said. Kopin will hire 2-3 additional suppliers to supplement existing base in effort to overcome what Fan said were materials that "were not as good as we need." As result of production problems, CyberDisplay business won't break even until first quarter 2001, Fan said. It had been projected to break even by year-end.

Westaim Corp., investor in display developer iFire Technology, reported 3rd quarter loss grew to \$9.3 million from \$5.3 million despite rise in revenues to \$34 million from \$30.6 million. Westaim had \$124.3 million in cash and short-term investments at quarter's end, down from \$161 million year earlier. iFire is developing solid-state displays for big-screen TV applications and has shown 8.5" model with 640x480 resolution.

C-Cube Microsystems, blaming change in product mix and phase-in of increases in wafer prices, reported 3rd quarter net income slipped to \$10.4 million from \$14 million year earlier despite rise in sales to \$69 million from \$52.3 million. C-Cube gained \$5 million on sale of stock in Liberate Technologies, company said. Gross margin fell to 55% from 60.3% year ago, but will "stabilize" at 52-53%, Pres.-CEO Umesh Padval said. C-Cube, which recently introduced 5th-generation ZiVa DVD decoder chip (TVD Oct 23 p13), expects to end year with 30% share of DVD chip market, he said, noting that C-Cube shipped 2 million in 3rd quarter. Overall, 17-18 million players are expected to ship worldwide this year, he said. "Expansion" platforms, including DVD, set-top boxes (STBs) and encoder/decoders, accounted for 74% of revenue in quarter and video CD chips balance, Padval said. C-Cube recently signed contract with Sony to supply AVia IC for digital cable STBs that latter is building for Cablevision and others. Sony is expected to ship 300,000 STBs by 2nd quarter 2001, Padval said. C-Cube also is nearing DVD and STB accord with Thomson, he said. Thomson has had discussions with C-Cube, but deal hasn't been finalized, said Enrique Rodriguez, worldwide senior vp-digital multimedia products.

Indrema and CollabNet are to unveil this week Indrema Developer Network (IDN) that Web site companies said they created to support developers and "facilitate Open Source game development." Indrema assailed its videogame console manufacturer competitors last week when it provided 10 reasons why consumers should buy its Linux-based game console over Sony's PlayStation 2. Its No. 1 reason: "Indrema supports independent developers — so we'll get all the perverted games." No. 2 reason, Indrema joked, was: "We are Microsoft. Resistance is futile." Indrema says "We are Open Source. Viva la resistance." Also in top 10: Indrema's system has 4 controller ports and built-in Web access; "by the time you actually get a hold of the PS 2, its GPU will already be obsolete;" "Nintendo is soooo 5th grade;" "some hackers will just make a PS 2 emulator for Indrema anyway;" "Buy Made in the U.S.A. (Xbox doesn't count — Bill Gates is his own country.)" and "the PlayStation 2 box looks like Max Headroom designed it. (May the '80s rest in peace..)"

DIRECTV ENTERS VoD: DirecTV plans to begin video-on-demand (VoD) service with TiVo next year, although it may lack movie studio content at start, Senior Programming Acquisitions Vp Michael Thornton said.

While pricing hasn't been set, Thornton said content was likely to be delivered to cache in set-top box or consumer would receive on-screen message that movie had been sent. With movie studios moving slowly toward VoD, Thornton said DirecTV might rely on other "partners" such as premium programmers HBO and Showtime as well as original content.

"Our view is that we won't do it with the studios in the beginning because it's a big enough struggle for us to get them to understand that we don't control TiVo," Thornton said in interview at VoD conference in N.Y.C. last week. Among studios, MGM is said to have VoD agreement with Blockbuster (see related story, this issue), while Starz Encore has deals with Sony Pictures and Walt Disney Co.'s Buena Vista.

Thornton also conceded that 10% of DirecTV subscribers were likely to account for 90% of VoD purchases, increase over 80-20 ratio common for pay-per-view (PPV), he said. "To get that much more purchasing out that small market segment is going to take a lot of consistently adjusting updates as well as addressing the large base as a whole," he said.

Among DirecTV's potential VoD partners, HBO Chmn.-CEO Jeffrey Bewkes said programmer's on-demand service would debut in first quarter 2001 on 3-4 cable systems. HBO will test variety of prices ranging from \$1-\$4 per download, he said. HBO won't include DirecTV/TiVo VoD in plans at start, he said. "TiVo will be the VoD, so what will they need us for?" Bewkes asked.

VoD will require library with minimum of 100 titles that skews toward original programming and is updated constantly, industry sources said. HBO on-demand will feature series, with backlog of 4 programs maintained for VoD at any one time, HBO Interactive Ventures Vp Sarah Cotsen said. Showtime Senior Business Development Vp Judith Press said "original programming will be very important in distinguishing the offering."

Starz Encore, which has agreements with TiVo and ReplayTV, will introduce VoD and subscription VoD (SVoD) in first quarter 2001 via satellite, VoD Vp Gregory DePrez said. While no satellite carriage agreements have been announced, Starz is program supplier to EchoStar, which is investor in ReplayTV. Pricing hasn't been set, but monthly fee of \$9.95 is being considered, he said.

Key to VoD could be PVR technology, sources said. Feature adds \$100 to cost of digital STB, Motorola Broadband Mktg. Vp Denton Kanouff said. TiVo and ReplayTV have signed cable deals, with latter forming alliance that includes Charter Communications, Motorola, Vulcan Ventures. ReplayTV also is said to be nearing agreement with Scientific-Atlanta, although latter's Subscriber Networks Vp-Gen. Mgr. Kenneth Klaer said final decision lay with MSOs. "I think we're the platform providers and the cable companies have to do the negotiating with TiVo, ReplayTV or anyone else," Klaer said.

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While DirecTV is readying VoD, satellite service won't add high-definition (HD) movie channel despite earlier indica-

tions that it might (TVD Sept 25 p14). DirecTV currently supplies single channel of HD programming from satellite at 119° W. "It's unlikely in the near term because there is not much to put on and there aren't many people out there watching right now," Thornton said. "Obviously the retailers are the ones that want those [HD] channels because they want to move HDTVs and we're within our obligation on that front. Right now I don't feel a huge rush to do it until there is a bigger market out there."

BMC Industries, despite sharp drop in sales of PC monitor masks, said 3rd-quarter net income rose to \$2.7 million from \$400,000 year ago as sales increased 2% to \$90.2 million. BMC experienced "favorable product mix" in high-end masks for widescreen, flat-screen and high-definition (HD) TVs, but PC business suffered "competitive price reductions" and 24% decline in sales, Chmn.-CEO Paul Burke said in conference call with analysts. Operating income for mask business fell to \$4.4 million from \$6 million and sales to \$53.3 million from \$53.7 million. Sharp drop in PC monitor masks offset 49% gain in invar TV products and 20% rise in 24" and up sizes. Further slowing PC business was annual maintenance shutdown at Cortland, N.Y., plant, ramp-up from which was "longer and more difficult" than expected, Burke said. Transformer fire at plant also cut into production. As PC business slumped, BMC moved to replace it with smaller entertainment masks and high-end items, he said. BMC currently is "capacity constrained" in high-end masks and is continuing development of new versions for flat-screen TV and PC monitors, HDTV and widescreen, Burke said. In quarter, BMC's Optical Products Group reported slight gain in revenue to \$36.8 million from \$34.6 million year earlier.

Corning said 3rd-quarter profits more than doubled on surging demand for optical fiber and components used in communications networks. Quarter's pro forma earnings rose to \$317 million from \$148.1 million as revenue jumped 54% to \$1.9 billion. Including one-time items, net income was \$254 million, up from \$142 million year, while revenue increased 37%. Corning's telecom business had 75% gain in revenue to \$1.4 billion led by sales of optical fiber. LCD glass business, which Corning operates as joint venture with Samsung, reported 89% gain in consolidated revenues to \$85 million and is preparing to add capacity for new Eagle 2000 glass in early 2001, CFO James Flaws said. Despite slowdown in PC sales, "demand for desktop monitors continues to be strong," he said. Sales of Corning's CRT glass business were up 12% to \$95 million, while U.S. Precision Lens, which designs and builds projection TV lens, reported 22% increase to \$55 million, Flaws said. USPL, which also had 30% increase in net income, is embarking on 55 million expansion of Cincinnati facility to increase capacity 60%, Flaws said.

There was good news and bad news for videogame category in 7th Annual Holiday Purchase Patterns survey, released by Consumer Electronics Assn. (CEA) last week. First good news: Videogame systems came in No. 2 in list of top 10 electronics gifts that those polled said they would be buying online this year, led only by DVD players. Also good news was that video games-systems was most desired gift among kids. But report said only 1% of those surveyed said they most wanted videogame system for gift and only 6% said they were at least somewhat likely to buy videogame system as present. CEA said survey was designed and formulated by its Market Research Dept. and conducted in week of Sept. 25 among sample of 1,000 random national households.

RADIOSHACK EARNINGS RISE: RadioShack, fueled by strong demand for digital products including cellular phones and DirecTV, posted 29% gain in 3rd quarter income on 18.7% increase in sales.

Strong earnings were tempered by slight dip in gross margin to 49.6% from 50.7% that caused stock to plunge 11% to \$46-1/16 in early trading Oct. 23. Stock closed week at 54-9/16. Among other things, lower gross margin was attributed to increased sales to franchisees of DirecTV hardware, which carries 20% margin. RS said it typically gains additional revenue on activation of DirecTV service and residuals from monthly subscription fee. Oct. same-store sales were projected to rise in high-single digits, although company may be hard-pressed to meet 17% increase achieved in Nov. 1999, analysts said. RS had predicted mid-to-high-single-digit gains.

"The gross margin was under pressure and while the margins with sales to dealers are low, the costs associated with that business also are low," an analyst said.

As it released earnings, RS increased projected residual revenue for fiscal year to \$103-\$105 million from \$100 million for current fiscal year and \$300 million from \$250 million by 2004. Increase in current fiscal year would be driven largely by sales of Verizon cellular service that start Nov. 1 and Microsoft Network (MSN) Internet access. RS installed MSN kiosks in 6,000 stores and signed on Verizon in effort to consolidate what had been sales through 42 different cellular carriers, RS said. For quarter, residuals were flat with 2nd quarter at \$26 million, about 80% of which was derived from cellular, 13% from DirecTV. Moving forward, RS projected cellular would account for 50% or more of residuals, with broadband increasing share via sales of Excite@Home, Northpoint Communications' digital subscriber line (DSL) and satellite-based Starband and iSky services.

RS sales also benefited from new Thomson RCA store-within-a-store format that has posted strong gains in months since launch in June, RS CEO Leonard Roberts said. A/V sales jumped 40% in quarter, half of which from DirecTV sales.

"We're addressing a lot of deficiencies with the product category that we've had in the past and we have a lot of optimism going into the 4th quarter," Roberts said.

In addition to CE products, PCs logged 35% gain in quarter, while parts, batteries and accessories were "up in mid-single digits," RS said. Despite increased sales, company ended quarter with \$1.2 billion in inventory, up from \$861.4 million, as it increased stock of DirecTV, RCA CE products and wireless phones.

Boston Acoustics credited "explosive" DVD player sales growth and impact on "core" home entertainment products in reporting higher 2nd-quarter profit and revenue. Income climbed 34% to \$2.2 million from year-earlier \$1.7 million on 21% revenue increase to \$34.6 million from \$28.7 million. CEO Andrew Kotsatos said company expected growth to continue in core products, although at slower pace than in 2nd quarter, which benefited from 14-week calendar period and \$1.2 million backorder at start. He said margin suffered in quarter on higher personnel and operations costs "associated with catching up."

SONY, MATSUSHITA TRIM U.K. PLANTS: Sony and Matsushita, hampered by sagging euro and concerns about when (or if) U.K. will adopt it, have slashed combined 1,800 jobs at plants there.

Matsushita made largest cut, announcing last week it would eliminate 1,400 jobs at Cardiff, Wales, plant in face of continuing strength of British pound against euro and falling TV prices. Matsushita will shed 700 positions through early retirement and won't extend contracts of another 700 part-time employees, company said.

Cardiff factory, which makes TVs, laptop PCs, microwave ovens and other appliances, will shift production to "more valued goods" such as digital TVs and set-top boxes as well as R&D, Matsushita spokesman said.

In related move, Matsushita said it would transfer manufacture of analog products to factory in Czech Republic, which currently builds small-to-medium-size TVs. Czech work force is likely to be increased to meet expanded production, spokesman said.

Similarly, Sony said Bridgend, England, factory will switch to higher margin digital products. Plant, which makes digital video cameras, TVs and STBs and PC monitors, employs 2,700. It's likely to drop 400 positions as result of production change, spokesman said. Sony's R&D in Bridgend won't be affected by move.

Job reductions came as Sony spokesman said company was concerned whether U.K. would join euro and time it might take for sterling to realign with continental currencies. In wake of decision, Sony will move analog TV production for Europe to Barcelona and Slovakia because of lower labor costs there.

Sony and Matsushita moves in U.K. somewhat mirror those of Philips, Thomson and others to shift production from U.S. to plants in Mexico where lower production costs make TVs more competitive in face of falling retail prices.

PC Data said last week that major retailers were reporting significant sales of PlayStation 2 (PS 2) games even before consoles went on sale Oct. 26. Two of top 10-selling videogame titles for week ended Oct. 21 — *Madden NFL 2001* and *Tekken Tag Tournament* — were for PS 2 and "earned an 11% game market share during the week," PC Data said. Matt Gravett, PC Data's game analyst, said: "It's a definite measure of the hysteria around PS 2 that people are willing to buy software with no guarantee that they'll have hardware to play it. They're all revved up with no place to go."

DVD market in U.K. continues rapid buildout, U.K. DVD Committee reported. Disc sales for final week of Sept. totaled 370,000 — most yet and setting record for month with 1.5 million sales worth \$36 million at retail. That compares with 4 million discs sold in all of 1999, and DVD now represents 25% of prerecorded videos sold, group said. Survey by British Video Assn. found 40% of consumers planning to buy new CE equipment this year said they would purchase DVD player.

NXT said Hitachi Home Electronics has signed on as its latest licensee. NXT said Hitachi planned to introduce "life-style" audio system in 2001 incorporating NXT SurfaceSound flat-panel speaker technology.

MIXED RESULTS FOR GAME MAKERS: Numerous game makers posted their results last week for quarter ending Sept. 30. For most, continuing transition to advanced new platforms continued to hurt their bottom lines.

Midway Games reported loss of \$9.95 million (-26¢ per share) in first quarter, reversing profit of \$11.35 million (29¢ per diluted share) year ago. Midway said revenue fell 55.7% to \$47.28 million from \$106.60 million. It said declines were “primarily related to the platform transition currently under way from 32- and 64-bit home videogame consoles... to the next-generation 128-bit consoles, including Sony’s PlayStation 2, Nintendo’s Gamecube and Microsoft’s Xbox.”

Midway said “anticipation and excitement surrounding the new game systems has caused decreased demand and lower selling prices for both PlayStation and Nintendo 64 software.” It added: “The overall impact of the platform transition on Midway’s profitability has been compounded by the need to increase research and development expenses now in order to have top-quality products ready for these new systems.”

Situation was somewhat different for Activision and THQ, which reported increased sales for most recent quarters. But while Santa Monica, Cal.-based Activision had uptick in income from year ago, topping analyst forecasts, Calabasas Hills, Cal.-based THQ saw its income drop from last year.

Activision had revenue of \$144.36 million in 2nd quarter of FY 2001, up from \$115.36 million in same period year ago. It said income rose to \$4.31 million (17¢ diluted per share) from \$1.06 million (4¢) year ago. In doing so, Activision topped average analyst forecasts by 8¢, according to First Call/Thomson Financial. *Tony Hawk’s Pro Skater 2* for PlayStation (PS) was among Activision’s biggest sellers in quarter, topping U.S. PS game chart since it went on sale Sept. 19. Company said it shipped more than one million units of title worldwide, making it one of most successful games in Activision’s history. Company also said it had “strong international market momentum” in quarter.

Activision CEO Robert Kotick said Oct. 23: “With U.S. debut of the PlayStation 2 just 3 days away and the upcoming holiday season, we are optimistic about our continued market momentum.” Company is shipping only 2 games for PS 2 by year-end: *Orphen: Scion of Sorcery* and *Sky Odyssey*. But it said it had 12 other PS 2 games in development, including 4 extreme sports titles. Company said it has “6 games in various stages of planning and development for both the Xbox... and Nintendo’s Game Boy Advance.”

THQ reported sales of \$53.26 million for 3rd quarter, up from \$44.31 million year ago, but profit dropped to \$2.41 million (12¢ diluted) from \$4.71 million (23¢). THQ Pres.-CEO Brian Farrell said: “We are pleased with our 3rd-quarter performance, and remain optimistic about THQ’s performance for the balance of the year. We believe that the product lineup we have scheduled for the balance of the year is ideally suited for the current market conditions at retail. As we look forward, we believe THQ is very well positioned to take advantage of the next generation of hardware platforms.” Heading slate of titles THQ will be shipping in 4th quarter is *Summoner* for PlayStation 2, which already is starting to arrive at stores.

Redwood City, Cal.-based game maker **Electronic Arts** (EA) said it lost \$38.91 million (-30¢ diluted per share) in its 2nd quarter compared to \$18.13 million (14¢) year ago. EA

also said revenue for quarter dropped to \$219.9 million from \$338.9 million in year. Company blamed downturn on “declining PlayStation and Nintendo 64 markets, channel clearing at retail and the anticipated difficult comparison with last year, which included the releases of top-selling titles for the year on both PlayStation and PC.” N. American revenues declined 32% while total international revenues fell 41%. EA CEO-Chmn. Larry Probst said: “As anticipated, the 2nd quarter was a challenging quarter as we moved through the seasonally slow summer prior to the introduction of PlayStation 2.”

Langhorne, Pa.-based computer game maker **eGames** reported profit plummeted to \$24,181 (0¢) in first quarter from \$576,619 (6¢) year ago. eGames said sales in quarter were \$4.31 million, up slightly from \$4.12 million. Commenting on results, eGames Pres.-CEO Jerry Klein said: “We are very pleased with our accomplishments during the first quarter of fiscal 2001. We have successfully reversed losses from the 2 previous quarters by effectively settling outstanding litigation, increasing our product shipments and generating stronger sellthrough results at the retail level.” He said that “perhaps the most significant accomplishment” in quarter was rollout of its Store-in-a-Store program, which he said has allowed value-priced game maker “to more deeply penetrate nontraditional retail outlets, resulting in initially lower margins but increased sales volume.”

3DO reported revenue of \$22.94 million in 2nd quarter, up from \$20.71 million in year. But Redwood City, Cal., game maker loss widened to \$16.73 million (-45¢ diluted) from \$5.92 million (-18¢) loss year ago. 3DO CEO-Chmn. William (Trip) Hawkins said: “Despite ongoing industry pricing pressure and market slowness prior to the introduction of PlayStation 2, we were pleased with the quarter and our revenue and the operating loss were in line with our expectations.” He said: “Even more rewarding, and a better measure of our success, is the acceptance of our products at retail.”

Hawkins said 3DO would be shipping “6 or more PlayStation 2 titles” in 2nd half of fiscal year: “We believe that the shipment of [PSone] consoles will likely help revitalize the original PlayStation platform, and we are well positioned with over 8 titles under development.” Revenue for 3rd quarter should “exceed \$50 million,” he said, and “we remain optimistic on the 4th quarter and we hope to show improvements in operating income compared to our last fiscal year.”

In move Sony said was designed to show it was “continuing to value its retail partnerships,” it said last week it was postponing e-commerce component of its PlayStation.com Web site. Sony Computer Entertainment America (SCEA) said it wanted “to ensure that retailers have the first opportunity to secure and distribute” PlayStation 2 (PS 2) at console’s launch. As result, company said it wouldn’t be selling PS 2 direct to consumers until “the company ships a substantial amount of PlayStation 2 computer systems into the market.” SCEA said PlayStation.com would reappear in Nov., and during site’s “soft-launch period” PlayStation products will be sold there but PS 2 products won’t.

THIS WEEK’S YEN RATE

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

DirecTV/high-definition decoder again faces shipping delays. Toshiba postponed delivery to Dec. as it continued to finalize product's software code, sources said. In recent revision, Toshiba found "bug" in vertical blanking interval (VBI) used for closed-captioning, sources said. Toshiba Asst. Mktg. Vp Scott Ramirez declined comment. Despite missing most of holiday selling season, combo product still will benefit from Super Bowl in Jan., he said. In promotional effort, Toshiba is weighing \$200 rebate on product to narrow gap with Thomson RCA model that has been priced at \$649 but requires additional adapter (\$129). Matsushita is readying delivery of DirecTV/HD model for Nov. Mitsubishi also is expected to market product, although company wasn't available for comment at our deadline. Hughes Network Systems, which is building combo devices for Mitsubishi and Toshiba, has delayed delivery several times this year, most recently in July (TVD July 24 p15).

Although declining sales in Pokemon merchandise hurt Hasbro sales in last quarter (TVD Oct 23 p18) and last Pokemon feature film hardly set any box office records over summer, franchise continues to bring Nintendo success. Company said last week that sales of its new *Pokemon Gold* and *Silver* games for Game Boy Color handheld system sold 1.4 million copies in first week of availability. Nintendo said performance of its new titles smashed industry sales records, surpassing previous U.S. record breaker, its *Pokemon Yellow* for Gameboy, which company said "sold just over 600,000 units in its first week." Meanwhile, Nintendo of America Exec. Sales-Mktg. Vp Peter Main said his company's *Pokemon Stadium* game for Nintendo 64 (N64) had been "the best-selling game in America for any home console." But Main said he expected *Pokemon Gold* and *Silver* sales to "eclipse" those of *Pokemon Stadium* and *Yellow*. He added: "We project sales of 10 million units total of these 2 games in less than 6 months' time."

Sega Group said it planned to acquire 100% stake in San Francisco-based entertainment company Family Wonder (FW), which runs online shopping site, financial terms not disclosed. Upon completion of acquisition, Sega Group will assume and manage FW's "current talent and assets, including the Web site," www.familywonder.com. Closing of deal is expected by year-end, Sega said. Commenting on deal, Sega Enterprises Pres.-Chmn. Isao Okawa said: "The acquisition of Family Wonder is an important step toward Sega's goal of building leading interactive entertainment experiences inside and outside the home. We're building a leading brand in interactive digital media for the entire family — acquiring successful properties, partnering with established content studios, and building on our existing Internet-ready Sega Dreamcast platform and SegaNet high-speed online video gaming network." Sega said www.familywonder.com averaged more than one million monthly unique visitors and more than 250,000 customers in 1999 holiday season.

Nintendo tried counter-marketing last week as attempt to draw at least some interest away from Sony's PlayStation 2 (PS 2) debut and put spotlight on its new *The Legend of Zelda: Majora's Mask* game for N64. Nintendo of America Mktg. Vp George Harrison told us company set up Zelda Comfort Stations at some stores across U.S. so customers waiting in line for PS 2 could relax on recliners and try out *Zelda*. He said it was humorous way to remind retailers that if they couldn't make their 4th-quarter projections due to PS 2 hardware shortages, they should push Nintendo products instead.

Consumer Electronics Personals

Sadao Kondo resigns as Sanyo Electric pres., plans unknown... **Matthew Medeiros**, Philips Components pres.-CEO, appointed to Philips' Group Management Committee effective Nov. 1... **Les Polgar**, ex-Etec Systems, named pres. of Eastman Kodak's newly formed display business unit... **Bruce Lurie**, ex-Intel, appointed vp-Telegen business development... **David Fyfe** named CEO, Cambridge Display Technology, replacing **Danny Chapcal**; **Stuart Hough**, ex-Candescent Technologies & Fujitsu, joins as vp-corp. development... **Lawrence Jackson**, Safeway senior vp-supply operations, elected to RadioShack board... **Brian Bender**, ex-Egghead.com, named ShopKo CFO... **Donald Bergenty**, ex-barnesandnoble.com, appointed K-tel International Eastern Div. vp, succeeding **Duncan Hutchinson**... **Robert Cremer**, Aronson Furniture pres., reelected pres., N. American Retail Dealers Assn.; **Oliver Dyer**, pres., Oliver Dyer's Appliance, elected to board; re-elected to board: **Michael Fischer**, Nielsen Tire Co., first vp; **Randy Whitehead**, Service West, 2nd vp; **William Benson**, Benson's Appliance; secy.; **Sandra Combs**, AAA Appliance Co., treas.

Sound Source Interactive (SSI) will change name to TDK Mediactive following sale to TDK, according to prospectus filed with SEC. TDK, which owned 4.7 million shares (44.5%) of SSI before acquisition, will control 74% of company after deal closes. TDK Recording Media Europe, which distributed SSI titles, provided funding for company to shift business to videogames from PC titles. As result of transition, SSI's revenues plunged 43.3% to \$2.6 million in fiscal ended June 30, although loss narrowed to \$3.2 million from \$3.9 million. Under purchase agreement, SSI board members **Richard Azevedo** and **Samuel Poole** of Boston Group and **Mark James** of ASSI will resign and be replaced by TDK USA Pres. **Kenichi Aoshima**, TDK Recording Media Europe (TRE) Pres. **Masatoshi Shikanai** and TRE Exec. Dir. **Shin Tanabe**. Azevedo, Poole and James gained board seats as part of 1998 settlement of lawsuit with SSI.

Sega Enterprises said Fri. it expected to post its 4th straight loss for fiscal year ending March 31. It also unveiled major plan to broaden "network initiatives to reinvigorate the company and make it more competitive globally in the new Internet economy." Sega projected consolidated net loss of ¥22.1 billion (\$204.2 million) for year, "revised from an earlier estimate of ¥1.5 billion net profit," Reuters said. Blame for loss was placed on Sega's decision to cut price of Dreamcast to \$149 in U.S. this summer (TVD Sept 4 p16) as way to better compete against PlayStation 2 (PS 2). Sega of America spokeswoman said last week that despite disappointing news out of Japan, Sega has been experiencing "only positive things in the U.S." — especially since Dreamcast sales saw uptick here after Sony announced there would be shortages of PS 2 at debut (TVD Oct 2 p11). We will provide more details of company's reorganization next week.

Creative Technology shares slid more than 4% Oct. 25 after first-quarter profit fell short of analysts' expectations. Shares traded at \$29.30, down 50¢ (1.7%) on volume of 130,000 shares. It earlier hit low of \$28.50. Creative posted income of \$17.6 million for quarter ended Sept. 30, up from \$10.8 million year ago, but short of analysts' projections of \$21 million — \$37.5 million if gains from investments were included. Revenues rose 13% to \$304.4 million.

Because earnings information is included in *Television Digest* stories, it no longer will be duplicated in a table.