



WARREN COMMUNICATIONS NEWS Telecom & Media Intelligence [www.warren-news.com](http://www.warren-news.com)

# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

NOVEMBER 6, 2000

VOL. 40, NO. 45

## SUMMARY-INDEX OF WEEK'S NEWS

### Broadcast - Cable

**BROADCASTERS SEE 'PARALYSIS'** at FCC in days before election. Agency said to be awaiting 'clearer picture.' As many as 4 commissioners could change. Chmn. jockeying under way. (P. 1)

**HILL WORK UNFINISHED** as Congress leaves until after election. Among bills in limbo is LPFM, cable ownership cap, FCC independent study. (P. 2)

**VIACOM BUYS BET FOR \$3 BILLION**, raising possible media diversity concerns. Johnson, Lee plan to stay on at BET, which would remain independent unit. (P. 3)

**DBS PROGRAMMING HIT** by FCC blackout, exclusivity rules. Limits said to reduce DBS advantage over cable, broadcast. (P. 4)

**SATELLITE STRENGTH SEEN** at Bear, Stearns conference. DirecTV to drive Hughes. Satellite radio, Pegasus touted. (P. 4)

**GOODMON BACKS NAB CODE** in return for DTV must-carry. Calls all-channel receivers critical for DTV, says station success is possible. (P. 5)

**BROADCASTERS SEE FCC 'PARALYSIS' BEFORE ELECTION:** "There has been a great paralysis [in FCC matters] set in before the election with everyone just waiting" to see who wins White House and control of Congress, executive of major TV group said. He said "several deals are cooking but the parties are just holding off." Most broadcasters and attorneys with whom we talked in last couple of days generally agreed. "It's a pretty slow time," NAB Exec. Vp Henry Baumann said, but "it's only natural for the FCC to go slow with the election right around the corner."

NCTA Senior Vp Daniel Brenner didn't agree. "I don't think there's a great paralysis," he said. "I think the Commission is continuing to work as usual. We were over there yesterday [Wed.] for a meeting" requested by staffers. But attorney representing several major TV-radio clients said: "I haven't been pushing the agency on some things because we might get a clearer picture of where things are headed with a new Administration." Another attorney said "there's just not much happening... Everybody wants to see how the election turns out." He expressed concern that Commission had announced its intention to issue rulemaking on newspaper-TV and broadcast-cable cross-ownership bans but hadn't begun soliciting comments. "That could go by the wayside following the election," he said.

There has been much speculation about makeup of Commission under new Administration, with several predicting there could be as many as 4 new commissioners no matter who wins White House. They pointed out that terms of Comrs. Ness (who is said to be in line for recess appointment) and Furchtgott-Roth have expired, while Chmn. Kennard's term ends June 30 and "he most assuredly won't stay at the Commission in a Bush Administration," source said. If Gov. George Bush wins White House, he could replace Kennard as chmn. any time — as could Vice President Gore. Several scenarios have Comr. Powell moving up to chmn. under Bush, with Patrick Wood, chief of Tex. Public Utility Commission, also mentioned prominently.

### Consumer Electronics

**PS 2 REVENUES EXCEEDED \$250 MILLION** at debut, Sony executives tell N.Y.C. investors conference. (P. 9)

**SIMULTANEOUS RELEASE PLANNED** for DVD-Audio and CDs from Warner next year, label executive reveals. (P. 11)

**PATRIOT DVD HAS PROBLEMS**, our tests discover. Title's Regional Code Enhancement isn't effective on some players, and disc won't play where it should. (P. 11)

**DOLBY LABS MULLS IPO IN LONG TERM** as part of estate planning for founder Ray Dolby. Offers first sound comparison with DTS. (P. 12)

**COPYRIGHT RULING ANGERS** groups over anticircumvention exemptions of DMCA. (P. 13)

**PS 2 SHORTFALLS BLAMED** by Recoton for 3rd-quarter loss. It closes on 3-year \$275 million financing package. (P. 15)

**FUNAI WINS BID OVER DAEWOO** to build and sell Emerson-brand AV gear. Wal-Mart seen as likely customer. (P. 16)



# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

NOVEMBER 6, 2000

VOL. 40, NO. 45

## SUMMARY-INDEX OF WEEK'S NEWS

### Broadcast - Cable

**BROADCASTERS SEE 'PARALYSIS'** at FCC in days before election. Agency said to be awaiting 'clearer picture.' As many as 4 commissioners could change. Chmn. jockeying under way. (P. 1)

**HILL WORK UNFINISHED** as Congress leaves until after election. Among bills in limbo is LPFM, cable ownership cap, FCC independent study. (P. 2)

**VIACOM BUYS BET FOR \$3 BILLION**, raising possible media diversity concerns. Johnson, Lee plan to stay on at BET, which would remain independent unit. (P. 3)

**DBS PROGRAMMING HIT** by FCC blackout, exclusivity rules. Limits said to reduce DBS advantage over cable, broadcast. (P. 4)

**SATELLITE STRENGTH SEEN** at Bear, Stearns conference. DirecTV to drive Hughes. Satellite radio, Pegasus touted. (P. 4)

**GOODMON BACKS NAB CODE** in return for DTV must-carry. Calls all-channel receivers critical for DTV, says station success is possible. (P. 5)

**BROADCASTERS SEE FCC 'PARALYSIS' BEFORE ELECTION:** "There has been a great paralysis [in FCC matters] set in before the election with everyone just waiting" to see who wins White House and control of Congress, executive of major TV group said. He said "several deals are cooking but the parties are just holding off." Most broadcasters and attorneys with whom we talked in last couple of days generally agreed. "It's a pretty slow time," NAB Exec. Vp Henry Baumann said, but "it's only natural for the FCC to go slow with the election right around the corner."

NCTA Senior Vp Daniel Brenner didn't agree. "I don't think there's a great paralysis," he said. "I think the Commission is continuing to work as usual. We were over there yesterday [Wed.] for a meeting" requested by staffers. But attorney representing several major TV-radio clients said: "I haven't been pushing the agency on some things because we might get a clearer picture of where things are headed with a new Administration." Another attorney said "there's just not much happening... Everybody wants to see how the election turns out." He expressed concern that Commission had announced its intention to issue rulemaking on newspaper-TV and broadcast-cable cross-ownership bans but hadn't begun soliciting comments. "That could go by the wayside following the election," he said.

There has been much speculation about makeup of Commission under new Administration, with several predicting there could be as many as 4 new commissioners no matter who wins White House. They pointed out that terms of Comrs. Ness (who is said to be in line for recess appointment) and Furchtgott-Roth have expired, while Chmn. Kennard's term ends June 30 and "he most assuredly won't stay at the Commission in a Bush Administration," source said. If Gov. George Bush wins White House, he could replace Kennard as chmn. any time — as could Vice President Gore. Several scenarios have Comr. Powell moving up to chmn. under Bush, with Patrick Wood, chief of Tex. Public Utility Commission, also mentioned prominently.

### Consumer Electronics

**PS 2 REVENUES EXCEEDED \$250 MILLION** at debut, Sony executives tell N.Y.C. investors conference. (P. 9)

**SIMULTANEOUS RELEASE PLANNED** for DVD-Audio and CDs from Warner next year, label executive reveals. (P. 11)

**PATRIOT DVD HAS PROBLEMS**, our tests discover. Title's Regional Code Enhancement isn't effective on some players, and disc won't play where it should. (P. 11)

**DOLBY LABS MULLS IPO IN LONG TERM** as part of estate planning for founder Ray Dolby. Offers first sound comparison with DTS. (P. 12)

**COPYRIGHT RULING ANGERS** groups over anticircumvention exemptions of DMCA. (P. 13)

**PS 2 SHORTFALLS BLAMED** by Recoton for 3rd-quarter loss. It closes on 3-year \$275 million financing package. (P. 15)

**FUNAI WINS BID OVER DAEWOO** to build and sell Emerson-brand AV gear. Wal-Mart seen as likely customer. (P. 16)



Under Gore, mentioned possibilities for chmn. include Comr. Tristani, former Gore telecom adviser Gregory Simon and Kathleen Wallman, former chief of Common Carrier Bureau and Clinton White House aide. Tristani considered running for House from N.M. this fall but reportedly gave up that idea after urging from Gore and other Administration officials because it would have left Commission split 2-2 on many key votes, according to several sources. Brenner didn't agree with likelihood of 4 new commissioners all at once. "If Gore is elected, there's also a possibility there'll be as few as none... at least for several months," he said. Several sources pointed out that if there were 3-4 changes in commissioners, that also would be likely to take several months because of required congressional confirmations.

As for Congress's remaining in session for so long in election year, "I just can't believe they're still here," lobbyist told us. "I've never known this to happen before... Since September, I've been telling people we'll get together as soon as Congress leaves town."

**CONGRESS WORK UNFINISHED:** Congress is postponing duties until after Nov. 7 elections, creating certainty of lame duck session to wrap up spending measures, potentially including mass media issues. Senate and House passed resolutions last week allowing them to leave until Nov. 14. Senate Majority Whip Nickles (R-Okla.) said he believed Congress then could get its work done in "couple of days" since after elections were over, "people will quit grandstanding for political purposes."

Delay leaves in limbo Commerce-Justice spending bill (HR-4942), which includes provision rolling back FCC's authorization of LPFM stations (TVD Oct 20 p1). Although extra time is intended to be used for GOP leadership to negotiate with White House as well as for members to campaign, lobbyists said they didn't expect new telecom provisions to sneak into spending bills in next 2 weeks. It was considered unlikely but still possible for new riders to appear, such as AT&T's, which would give it more favorable interpretation of cable ownership rules. In floor speech last week, Rep. Gonzalez (D-Tex.) castigated AT&T for seeking changes in appropriations measures, saying lawmakers "should ask that AT&T keep their word." He said Congress doesn't "have enough proper information to make an informed decision concerning this break for AT&T."

Meanwhile, GOP members of House Telecom Subcommittee unveiled bill (HR-5570) to create independent commission to study reforming FCC. Bill won't get action this year, said spokesman for its sponsor, Rep. Gillmor (R-O.). Measure would create 7-member commission to study FCC reform, emphasizing how agency's structure should be changed "to reflect the current state of telecommunications, including the rise of the Internet," and whether there should be fewer than current 5 FCC commissioners. Commission would consist of 2 members appointed by House speaker and Commerce Committee chmn., 2 by their Senate counterparts, 2 by minority leaders of House and its Commerce Committee and one by chmn. and minority leader of House Commerce panel. House Commerce Committee thus would have hand in picking 5 of 7 members. At least one member would be former FCC commissioner. Report would be due in 6 months.

Gillmor had led congressional task force appointed by Subcommittee Chmn. Tauzin (R-La.) to study FCC reform, but nothing came of those efforts this session, and Gillmor's spokesman said independent commission, including former FCC commissioner, might be taken more seriously. Nine of 13 GOP members of Telecom Subcommittee, including Tauzin, are original sponsors of bill. Not joining list were 2 Cal. GOP members, Reps. Cox and Rogan, as well as Reps. Cubin (R-Wyo.) and Shimkus (R-Ill.).

Commerce Committee ranking Democrat Dingell (Mich.) "was approached" to join effort, Gillmor's spokesman said, "but he said 'My plate is too full, I don't have time.'" But Andy Levin, counsel for Dingell, said "we were not asked" to help draft bill. "We would have liked to have been involved," he said. Levin said FCC reform "should not be a partisan issue," but Republicans "may be wanting to make it one." He said Dingell did decline involvement earlier in process, when Tauzin asked if he wanted to create Democratic task force to mirror existing Republican panel. Dingell felt there was "no point in having 2 task forces on partisan lines to work on the same issue," Levin said. He said Dingell in general wasn't big fan of task forces, feeling "we have task forces, they're called subcommittees."

---

**Europe\*Star 1 satellite** was launched successfully Oct. 29 from Kourou aboard Ariane 4 booster, companies said. Alcatel-built Ku-band satellite is to be placed over Indian Ocean (45° E) to provide direct-to-user IP multicasting, digital TV, other services. Following in-orbit testing, satellite is to enter commercial service in Jan. Arianespace said flight was its 58th consecutive successful launch and 9th for Ariane 4.

**Eutelsat will invest unannounced amount in TV Files Inc.**, broadband distributor of Internet protocol video, companies said. They earlier had agreed to cooperate on technology issues. TV Files owns software technologies for editing and processing multimedia content and delivering it over broadband networks. Target customers include content providers, ISPs, large corporations.



**VIACOM BUYS BET FOR \$3 BILLION:** Viacom formally agreed to buy privately held BET Holdings for \$3 billion in stock and debt assumption Nov. 3, with goal of expanding reach of BET and BET on Jazz cable networks and boosting their ad revenues. But proposed acquisition faces possibly tough scrutiny at Dept. of Justice and FCC because of antitrust and media diversity questions. Commission, which must approve deal because BET owns several microwave licenses, raised diversity concerns when reviewing Viacom's purchase of CBS in spring. In particular, Comr. Tristani called on agency to conduct "a diversity analysis" because of concerns about "the potential concentration of viewpoints on television."

Proposed purchase of BET, one of nation's premier black-owned media companies, by huge Viacom conglomerate promises to be even more sensitive issue than acquisition of CBS in media and govt. circles. Such leading black media executives as James Winston, exec. dir. of National Assn. of Black Owned Broadcasters, already have expressed fears about losing sole "independent African American voice in the cable industry." In interview with *Washington Post* earlier last week, Winston said BET sale to Viacom "would be a very, very unfortunate development." Del. Norton (D-D.C.) also said she would hate to see BET Chmn. Robert Johnson sell company.

Top BET officials sought to downplay such concerns and highlight sale benefits in conference call with reporters Nov. 3. Fielding questions about impact of sale on black community and culture, Johnson said he already had discussed deal with "several African American leaders, including Rev. [Jesse] Jackson, and they're excited." He stressed that he and BET Pres. Debra Lee "have been absolutely, totally committed to serving the black community with our content" and "have never wavered from that." Johnson contended that BET, by aligning itself with major media company such as Viacom but remaining independent unit, would strengthen itself and produce benefits for African American culture. He also said that, by becoming 2nd largest individual Viacom shareholder, he would be in strong position to influence that company's strategy.

Lee, who placed call about deal to FCC Chmn. Kennard that hadn't been answered by midafternoon Nov. 3., said BET officials "don't anticipate any problems" winning Commission approval. She said she also planned to speak with other commissioners and did so earlier in week with Cable Bureau Chief Deborah Lathen. FCC sources said it was too soon to say what Commission might do, but they noted that Kennard and Tristani had raised diversity issue before.

At first blush, antitrust issue appeared less serious. Although main BET network is major cable channel and BET Holdings also owns several smaller channels, they certainly don't rank with CBS or even UPN. "It doesn't seem like buying a [cable] channel has ever been an antitrust concern," said one source.

Viacom and BET executives, who hope to close deal early next year, said they would focus on expanding cable distribution of main BET network and BET on Jazz both in U.S. and internationally. Viacom Pres. Mel Karmazin said he aimed to boost BET's domestic reach to 74-75 million households, from 62.4 million today. "Our feeling is BET should be distributed everywhere," Karmazin said.

Karmazin and Johnson, who along with Lee signed 5-year deals to stay in current posts, said they saw similar international

potential for BET on Jazz, much smaller cable network that has struggled for distribution domestically. Pointing to Viacom's success in taking MTV, Nickelodeon and other cable networks abroad, Johnson said he envisioned BET on Jazz becoming "global brand" reaching hundreds of millions of jazz fans.

BET and Viacom officials said they also would concentrate on increasing advertising revenue for BET networks, which command lower rates than other cable channels because they're targeted at black audiences. Karmazin said while African Americans account for 13% of U.S. population, only about 1% of ad spending is targeted at them. He also said ad spending on black-oriented media grew 15% annually over last 5 years, compared with 6-7% annual growth rate for general media.

**"Free Speech: The Language of America"** is theme of 3-year, \$5 million campaign called "The Cornerstone Project" begun Oct. 31 by Media Institute (MI) and designed to remind Washington officials and public in general of importance of free speech and First Amendment. "The American public needs to be reminded of its own stake in the independence of the media and a strong First Amendment," said MI Pres. Patrick Maines at Washington news conference. Four founding co-sponsors — NAB, Newspaper Assn. of America (NAA), American Assn. of Ad Agencies (AAAA) and Magazine Publishers of America (MPA) — are putting money into project while other sponsors, such as ad agencies and PR firms, will provide "in-kind" services, Maines said. He said Project planned to include Internet companies, but no "working relationships" have been established in that area. Campaign will consist of public service spots, print ads, series of "Cornerstone Papers" on First Amendment issues, traveling exhibits, books and other publications and op-ed pieces, capped by national symposium at unspecified date next year. First paper, discussing public's "ambivalent attitude" toward protecting free speech guarantee of First Amendment, written by constitutional scholar-law prof. Robert Peck, was released at news conference.

Adelphia Communications completed its previously announced purchase of Cablevision Systems' Cleveland cable systems, adding more than 310,000 basic customers to its total. Adelphia, nation's 6th largest MSO, now has more than 5.6 million basic subscribers. Separately, Adelphia signed multiyear deal with Wink Communications to deliver latter's elementary interactive TV service to MSO's digital cable subscribers. Adelphia, which will offer Wink's service to customers through both Motorola and Scientific-Atlanta digital set-top boxes, plans to introduce service in Buffalo and 3 undisclosed markets by year-end.

**FCC delayed its decision on negotiated interference** agreements for FM band, it said in order, but it adopted several other streamlining initiatives for handling facility changes. Commission acknowledged that industry was widely divided on negotiated interference, citing strong NAB opposition, but said it continued to believe such agreements would be in public interest. It said it expected to address negotiated interference in order later this year. Order did: (1) Amend spacing table to give 2nd- and 3rd-adjacent channel stations minimum relief of 6 km from spacing requirements. (2) Expand types of facility changes covered by one-step licensing process. (3) Provide additional flexibility for commercial FMs in P.R. and V.I. (4) Modify noncommercial FM 2nd-adjacent channel interference standard to conform more closely to less restrictive commercial standard. (5) Adopt reclassification procedure for Class C stations.



**DBS PROGRAMMING HIT:** FCC issued sports blackout and program exclusivity rules for satellite companies that may change way programming packages are marketed by satellite and restrict broadcast of many popular sporting events. Commission rulemaking implementing Satellite Home Viewer Improvement Act (SHVIA) applies same blackout and exclusivity rules to DBS as to cable, although rules are adapted to differences in industries. New rules apply to C-band and DBS providers. Satellite companies will have 4 months to phase in nonduplication rules and 60 days to implement sports blackout order. Carriers with fewer than 1,000 subscribers are exempt.

New rules apply to 3 areas: (1) Network Program Nonduplication Rule that allows local TV stations to protect their exclusive distribution rights for network programming against duplicating programming on nationally distributed superstation carried by satellite carrier. Rule means game carried by superstation can't be distributed into local market in violation of exclusivity. (2) Syndicated Program Exclusivity Rule that imposes same constraint on syndicated entertainment programming. (3) Sports Blackout Rule that protects rights of sports teams or leagues in distribution of local sporting event that's televised. If local TV station lacks permission to carry local game, then no satellite or cable distributor can show game in protected local blackout zone.

Under new rules, 6 superstations — KTLA L.A., KWGN-TV Denver, WGN-TV Chicago, WPIX N.Y., WWOR N.Y. and WSBK-TV Boston — may be blacked out to subscribers in specified geographic areas based on station location and zip code of viewer. Local broadcasters can demand that satellite carrier black out any duplicate carriage of network or syndicated programs regardless of whether satellite company carries local signal.

Main impact probably will be on sports programming, including NFL football (DirecTV) and college basketball (DISH), which has been major source of growth for DBS subscribers, industry analysts said. Satellite Bcstg. & Communications Assn., DirecTV and EchoStar said they wanted to study rulemaking before commenting.

Carmel Group Vp Sean Badding said sports programs were "gems" of DBS market "and any type of legislation against the DBS industry is significant." He said there were "more implications for long-term" impact than "short term" and result was that "we won't see any impact" on subscriber growth immediately. Danger with FCC ruling is that "it may set some kind of precedent for future rulings" on sports programming that could be detrimental to DBS industry, Badding said.

Exhibitors have reserved more than 450,000 sq. ft. of floor space for NATPE'S Jan. 22-25 convention in Las Vegas — up 25% in year. Among 450 exhibitors signed up, 139 are foreign companies that will exhibit in 12 international pavilions, NATPE said. New media pavilion will feature products of 91 companies, and Assn. is planning digital media pavilion. Pre-registration is 15% ahead of Jan. 2000 convention in New Orleans, which attracted 17,520. Comedian Jerry Seinfeld will receive NATPE's Chairman's Award at opening general session Jan. 23 — day after joint session that ends convention of Assn. of Local TV Stations. Jan. 24 panel on "The Women of TV" will feature as panelists Candice Bergen, Whoopi Goldberg, Judge Judy Scheindlin, Rosie O'Donnell, Cristina Saralegui.

**SATELLITE STRENGTH SEEN:** DirecTV will continue to be primary revenue driver for Hughes Electronics, CEO Michael Smith said in keynote at Bear, Stearns conference in N.Y.C. last week. Hughes was among several satellite companies at conference, including Sirius Satellite Radio, XM Satellite Radio and Pegasus, to make optimistic presentations on future of satellite video and audio.

DirecTV expects growth rate of 20% in next 2 years, Smith said. Given that company's total investment per subscriber is 40% less than cable's, "our current market valuation doesn't represent the true value of our subscribers," he said. Rollout of digital cable isn't affecting DTV subscriber increase and company is seeing "our greatest growth" in areas where digital cable is present, he said. As company unveils new digital set-top boxes next year, Smith predicted that subscriber churn rate of 1.5-1.7% could be maintained.

Sirius plans to beta test limited number of radios in Jan. and Feb., including some models in cars, Chmn.-CEO David Margolese said, with full production of radios in 3rd and 4th quarters next year. "Virtually everything is on track for launch of services," he said. Launch of 3rd satellite is planned this month and 4th bird that was damaged will be made available by Loral in Aug., Margolese said. He stressed importance of "deployment of this service on a material basis by Detroit." While aftermarket sales will be disproportionately important in early years of service, long-term growth will come from original equipment installed in vehicles, he said.

XM Satellite Radio Pres. Hugh Panero said original equipment installation was important, but 79 million aftermarket radios are sold each year at Circuit City and Best Buy. Panero also said XM still planned to launch its first satellite in Dec. XM demonstrated its satellite radio system for GM chmn. in specially outfitted Cadillac receiving XM signals from its building, he said. While XM is building repeater system, "major focus right now is on the radios themselves," Panero said. Target is to have radios available at commercial price points in June, he said.

Pegasus Chmn.-CEO Marshall Pagon said company planned "frontal assault" in multichannel video service arena in next year on rural areas' small cable systems. Of 11,000 systems in U.S., 6,500 serve fewer than 1,000 customers. About half of 16.5 million cable subscribers in U.S. have systems with fewer than 2,500 subscribers served off head-end, he said. "Those systems are marginal systems that aren't being upgraded," Pagon said. "Our focus is on putting them out of business over the next 5 years." Company plans to make public within several months its plans for 700 MHz guardband auction licenses that it won at auction this fall, he told us.

As expected, Time Warner (TW) formally appealed govt. cable ownership cap to U.S. Supreme Court, challenging constitutionality of law placing limits on single company's control of cable systems and programming networks. TW, which argued that 1992 law setting 30% subscriber cap and 40% channel occupancy limit violated First Amendment rights of cable operators, filed petition for appeal 5 months after losing case in U.S. Appeals Court, D.C., May 19. Along with AT&T, its partner in Time Warner Entertainment joint venture, TW also is fighting FCC's ownership limits as unreasonable in separate case before D.C. appellate court. That case, which had oral argument 2 weeks ago, is likely to be decided before Supreme Court reviews constitutionality question.



**GOODMON BACKS NAB CODE:** FCC should mandate DTV must-carry for cable and satellite and Congress needs to legislate all-channel DTV tuning for all TV sets if transition from analog TV is to succeed, Capitol Bcstg. CEO James Goodmon said in keynote at CEA's "Delivering on the DTV Promise" conference in N.Y.C. Nov. 1. Goodmon said DTV could be viable for broadcasters, pointing to ventures by Capitol flagship WRAL-HD Raleigh-Durham.

Goodmon said "full" DTV must-carry would mean cable and satellite must include broadcasters' data signal as well as program content. Consumer electronics attendees fell quiet when Goodman said Congress must legislate requirements for set-makers to incorporate DTV tuner in all sets by 2003. CEA opposed mandatory built-in DTV tuning, citing cost to consumers and already razor-thin profit margins.

"Going to the government is the only way to do it," Goodmon said of DTV transition: "I don't know how we can do this without must-carry — they [cable and DBS] own 75% of the TV households." Although 2003 deadline is just suggestion, he said: "I also don't see how we do this without the DTV tuner requirement." Goodmon also suggested all stations broadcast DTV at least 2 hours daily in 6-11 p.m. prime time, and said FCC should mandate DTV receiver standards for multipath distortion in order to show commitment to 8-VSB modulation and block efforts to reopen transmission standards process for COFDM testing. "Broadcasters need assurance that this multipath thing is going to be fixed," Goodmon said. "We are very happy with 8-VSB. It works fine. We're aware of the multipath situation but this gets better with every generation of sets."

Goodmon also called for new broadcasters' code and FCC monitoring of public interest standards. He said if broadcasters want must-carry, they need to show "commitment to the public interest." He didn't offer specifics on public interest standards or broadcasters' code, but said latter should be voluntary, like former NAB Code.

DTV is broadcasters' only avenue for survival among competing media distribution outlets, Goodmon said, defending Capitol Bcstg.'s all-out efforts in DTV. "People used to challenge me, wanting to know the business plan and where is the revenue stream," he said. "Our plan is to stay in business. This is not a new revenue stream. This is not about sending e-mail to a wristwatch. This is about protecting and enhancing our position for the future." Multicasts, datacasts and local news and sports in HDTV are among Capitol efforts for DTV transition, Goodmon said. He called "flexibility" of multicasts and datacasts "the best thing that has happened for local broadcasting." He said multicasting enabled station to offer local sports and critical local news while providing network feed and other regular programming. WRAL-HD used multicasts to show all 4 simultaneous NCAA March Madness games this year and recently has begun broadcasting Carolina Hurricanes NHL games in HD, he said. Station splits signal to provide 13-14 Mbps transmission for HD, rest for SD and datacasts.

In datacasting, station has given out DTV tuner cards and rabbit ears that enable viewers to receive DTV on PCs. Station is using 2 Mbps to send local news, sports and traffic channels. "The focus groups like that," Goodmon said. This week, PC users will be able to cherry-pick news stories from datacast. Goodmon said stations should do own datacasts: "We don't

want to lease this out to some national carrier sending out whatever — that's not a good application for this. We want to support our own station. It's for local content, not for national carriers."

For DTV promotions, WRAL-HD is giving free outdoor antenna to all local DTV purchasers, Goodmon said. By Jan., "we're going to be all-DTV, including field acquisition and production. We'll do 5 hours daily of all-HD news." He conceded station had seen no increase in ratings "but we're going to keep our ratings. There is a little slide in prime time each year, but we're going to stop that with HDTV," he said. "We might be able to charge a little more for advertising, but I'm not planning on that. I'm planning on keeping my audience for the next 30 years."

Amount of DTV programming continues to be main criticism of consumers, CEA found in Sept. survey of 318 DTV owners. Although 50% of sample rated quality of DTV programming "good," 84% called quantity "poor," CEA Vp-Mkt. Research Todd Thibodeaux said. Nonetheless, 88% of owners said DTV met or exceeded their expectations. Of 12% disappointed with purchase, "those tended to rate the quality and quantity of programming the harshest," Thibodeaux said. Industry sold 368,947 DTV displays to dealers through first 9 months of year and is on target to hit projected 425,000, he said. Figure for 9 months includes sets with and without DTV tuner/decoder; 25,855 set-tops have been sold in period, he said.

Also at CEA conference, Academy of DTV Pioneers presented its first awards to FCC Comr. Ness, govt. leadership; **Richard Wiley**, industry leadership; CBS, Capitol Bcstg., Time Warner Cable, DirecTV, ABC Mon. Night Football, Over America.

**Intelligence Authorization Act** that Congress has passed would "have a profound negative impact on the function of journalists," RTNDA Pres. Barbara Cochran said in letter urging President Clinton to veto bill. Measure, which would subject govt. employees to fines and criminal penalties for disclosing "properly classified" information, would chill availability of important information, she said, and could subject news media to more subpoenas seeking to identify leakers. It also would encourage govt. to classify more information, Cochran said. Current laws protect enough information, she said: "This statute will preempt other protections for whistleblowers and will intimidate a substantial range of the normal sources for national security reporting." Cochran also said First Amendment rulings say content-based restrictions on speech must be narrowly tailored, and bill didn't meet that requirement. Joint letter to Clinton by CNN, *Washington Post*, Newspaper Assn. of America and *N.Y. Times* made many of same points, saying bill would "shatter the delicate balance that has been achieved in this country between the public's right to know and the legitimate demands of national security."

**MeTV Network plans** to test its video-on-demand (VoD) service over phone DSL lines in San Diego, starting in Jan. MeTV, which will conduct 3-month trial, said it would offer 70 films, several music videos, sports clips and movie trailers to 250 Internet Express customers. Company, whose service is designed for both TV and PC, said it would focus on testing its security, territory and content management systems.



**AT&T BEGINS MULTIPLE ISP TEST:** AT&T Broadband began testing carriage of multiple ISPs on its Boulder cable system Nov. 1, hooking up first of planned 500 subscribers. Six-month technical and operational test announced in early June (TVD June 12 p5) is first of at least 2 that AT&T plans in next year before opening its cable systems nationwide to rival ISPs in 2002. EarthLink, Flashcom, FriendlyWorks, Juno, RMI.net and Winfire head list of 8 ISPs participating in trial, along with AT&T's own Excite@Home and WorldNet. But conspicuously missing are 5 independent ISPs that had been invited, including AOL, MSN, Yahoo.

AT&T Broadband spokeswoman said MSO, like Time Warner (TW) with its current free trial in Columbus, O., wouldn't test pricing for multiple ISP carriage on 40,000-subscriber Boulder system. As result, AT&T hasn't yet floated proposed business model to ISPs, unlike TW's proposed term sheet that's been heavily criticized by ISPs for its hefty revenue splits and tight restrictions on ISP customer control. "They [AT&T] just haven't given us any indication," RMI.net CEO Douglas Hanson said.

Unlike TW in its term sheet conditions, AT&T isn't demanding presence on ISPs' home pages, AT&T Broadband spokeswoman said. Also unlike TW, she said, it isn't requiring ISPs to put down cash deposits upfront. AT&T said it was spending \$20 million to redesign its Boulder system for multiple ISP carriage, including buying new network equipment, developing network management applications, revamping its customer service and billing systems and creating special software package, or "service agent," that will allow subscribers to choose ISPs and set connection speeds.

AT&T spokeswoman declined comment on why AOL wasn't participating in Boulder, although she said there still was room for 2 more ISPs to join. Spokeswoman for AOL, which has had on-again, off-again negotiations with AT&T on access to its cable systems, also declined comment.

ISP officials expressed varying levels of optimism about AT&T test. Hanson, whose company is participating in AT&T and TW tests, said he was hopeful that Boulder trial would prove technical feasibility of multiple ISP carriage. But he doubted that either AT&T or TW trial would produce workable financial model for cable open access.

Juno CEO Charles Ardai said both AT&T and Time Warner seemed to be working in good faith to create open access: "As far as I can tell, both AT&T and Time Warner would like our business." AT&T seems to be putting appropriate resources into its Boulder test, he said. Ardai said he had heard no results from test in first few hours: "If there were something horrible, I probably would have heard."

On other hand, U.S. Internet Industry Assn. (USIIA) Exec. Dir. David McClure predicted "an awful, horrible failure... What incentive is there for this trial to succeed? I think they'd really love to show regulators that it doesn't work."

Once Boulder trial ends in spring, AT&T executives plan to review results and conduct 2nd test in Boston area late next year. AT&T Broadband spokeswoman said it was "hard to say" whether Boston trial would be larger or would test financial model. No other trials are planned and no commercial rollout has been set.

**UWB RESULTS DELAYED:** Citing engineering challenges, NTIA has pushed back until early next year its schedule for filing results of ultra-wideband (UWB) tests with FCC. NTIA Dir. Gregory Rohde told FCC Chmn. Kennard in letter that UWB test information in non-GPS band would be published in early to mid-Jan. and report on effects of UWB signals on GPS receivers by end of Feb. Both had been scheduled for Oct. 30. Rohde said delays were due to "the mechanics of doing the testing" and not result of larger policy debate on controversial UWB technology. Impact of delay on FCC timeline for proceeding with notice of proposed rulemaking wasn't immediately clear.

Oct. 30 date, acknowledged by both industry observers and NTIA as "ambitious," couldn't be met "because of the unusually complex and variable nature of UWB signals and GPS test instruments," Rohde said. Postponement until Jan. was due to "delays in obtaining devices to test from both UWB manufacturers and federal users of the spectrum as well as expanding requirements for measuring UWB devices themselves," Rohde told Kennard.

Pending final rulemaking, Time Domain, U.S. Radar and Zircon all have temporary waivers to operate devices under coordination with NTIA. Of those, Time Domain is largest. Wireless carriers and others had warned FCC in comments that it would be premature to write rules for technology that hadn't disproved its interference potential. AT&T Wireless told agency that tests were focused mostly on potential for UWB interference in GPS band. "It is clear, however, that UWB devices may have a detrimental effect on many other services," AT&T Wireless said, including fixed microwave bands. Verizon told FCC that if UWB systems were shown to cause GPS interference, "any service that relies on network elements for digital transmission or switching could undergo gradual service degradation" by increasing bit error rates and framing losses. One possible outcome of such scenario would be frozen video conference screens, Verizon said.

**TVs and game consoles** will account for half of all broadband reception devices by 2003, virtually matching PCs, Forrester Research said in new report. It predicted that multimedia-focused entertainment would be on TVs and consoles, with streaming interactive content and other services on PCs. "What is unexpected is that most of broadband's impact will be directed to other devices besides the PC," analyst Bruce Kasrel said. "As all types of devices connect to the high-speed Internet, content will shift to the most appropriate devices, like digital music files' being played back on the stereo system." Study predicted more firms would begin producing streaming content as number of broadband connections doubled by end of 2001. First "killer application," it said, will be Internet audio, with 19 million consumers using Internet for music downloading by 2002. By 2003, it said, more than 20 million set-top boxes and 16 million gaming consoles would connect to broadband, with total broadband connections growing to 191 million in 2005— [www.forrester.com](http://www.forrester.com).

**FCC Cable Bureau Assoc.** Chief To-Quyen Truong left Commission Nov. 3 to join Washington law firm Dow, Lohnes & Albertson. Truong, who oversaw Cable Bureau's review of such major cable mergers and acquisitions as AOL-Time Warner and AT&T-MediaOne, will become senior communications counsel for Dow Lohnes, specializing in broadband, Internet and competition issues. No replacement has been announced.



**ISP FILES CABLE ACCESS PLAN:** Wis. ISP NorthNet filed its own open access business plan with federal regulators Oct. 30, spelling out economic model starkly different from one AOL-Time Warner had proposed for carrying multiple ISPs on cable systems. NorthNet's 5-page plan, submitted at request of FCC Chmn. Kennard after he met with several ISPs and trade groups earlier last month, generally would grant much greater freedom and control to ISPs than much-criticized term sheet that Time Warner (TW) has been circulating to ISPs for months. It also called for ISPs to pay much lower carriage fees than TW had suggested, with none of hefty revenue splits that MSO demanded. It urged federal regulators to impose "a mandatory obligation" on cable operators to "provide nondiscriminatory access" to their networks, including pending AOL-TW union.

NorthNet, which filed alternative open access plan with FCC and FTC, expected it to be endorsed soon by other independent ISPs and ISP trade groups. NorthNet Mktg. Dir. Stephen Heins, who filed plan, said he submitted model without anyone else's formal backing because agencies were racing to complete their reviews of AOL-TW deal. U.S. Internet Industry Assn. (USIIA), RMI.net, Stic.net and Tex. ISP Assn., among others, are looking over plan.

FCC declined comment on plans, saying it hadn't had chance to review them. But spokeswoman said agency would look at them in context of both AOL-TW deal and its general open access inquiry if proposal were submitted in both proceedings.

Specifically, NorthNet proposal would allow ISPs to interconnect with cable systems "in the most efficient, technically feasible manner available to meet their needs." It recommended that FCC set up process for cable operators to work with ISPs "to expand the number of ISPs that can be accommodated and the mechanisms for managing traffic in a technically neutral manner." Unlike far more restrictive TW terms, alternative plan argued that ISPs "should be free to provide any service that is compatible with the chosen form of interconnection without prior approval from the network owner" unless network or service were threatened. And it contended that ISPs "should be required to provide only the minimum technical information necessary to implement new functionalities and services" in nondisruptive way.

On rate side, NorthNet model called for ISPs to compensate cable operators for costs of upgrading or modifying their systems for open access. But, unlike TW sheet, it called for ISPs to pay "only reasonable fees for the services they consume," not big portions of their subscription, advertising and other revenues. Instead of large revenue splits and \$30-per-subscriber monthly minimums proposed by TW, NorthNet recommended that ISPs pay wholesale interconnection rate based on either new cost proceeding conducted by FCC or leased access rates that some cable programmers pay. NorthNet also suggested 3rd option based on "publicly available retail rates" that would limit interconnection price to no more than \$10 per subscriber each month.

As for customer and business relationships, NorthNet proposal again differed sharply from TW sheet. Unlike more restrictive TW plan, NorthNet called for ISPs to "control their home page and all transactions conducted through that home page," with no obligation to provide presence to cable operator.

It also insisted that ISPs "receive fair treatment on the network boot screen" and keep to themselves all customer information gathered except for "information necessary for billing purposes." It argued that ISPs "should control" their own privacy, copyright and customer termination policies, not defer to cable operator. Finally, NorthNet pressed for mandatory open access conditions on AOL-TW deal.

Drafting of alternative open access plan came as FCC continued to weigh AOL-TW deal while waiting for FTC to act first. Because of FCC's secondary role, some ISP players doubt alternative open access plan will sway govt.'s merger review much, saying it has taken 2 years for Commission just to study open access issue. "I don't think it'll make a significant difference because the FCC won't do anything more strict than what the FTC does," said David McClure, USIIA exec. dir. But he said rival business model could influence FCC's open access inquiry begun in late Sept.

In meantime, USIIA is drafting its own cable open access business model designed to be much more favorable to ISPs than TW proposal. McClure said alternative business plan, which will go beyond one proposed by NorthNet, may be submitted to FCC as part of its open access inquiry next month or in Jan.

---

**"Safe harbor"** when violent programming can't be shown would be "least restrictive and most narrowly tailored means" to protect children from violence on TV if FCC rules V-chip and other technologies don't work, Senate Commerce Committee said in report (106-509) on safe harbor bill (S-876). Measure, sponsored by Sen. Hollings (D-S.C.), cleared committee last month by hefty 17-1 margin, and report appeared aimed mostly at disproving constitutional concerns. Report described long history of congressional concerns about TV violence and industry assurances that self-regulation would solve problem, saying Commerce Committee alone had held 23 hearings on issue in last 3 decades. It said requirement that FCC first examine efficacy of technological solutions was tailored to avoid "alternative means" argument that led Supreme Court this year to invalidate safe harbor scrambling requirements in Playboy case. If Commission deems V-chip ineffective, report said, safe harbor "is the only approach that has a significant chance of furthering the compelling governmental interest in protecting American children from the impact of television violence." Addressing concerns that bill doesn't define violence, it said that's "exactly the [sort of] tasks that the FCC was created to perform." Report said increasing pervasiveness of cable and satellite TV justified extension of regulation to those industries. Committee Chmn. McCain (R-Ariz.), who abstained from vote, disputed contention that FCC's function was to determine what's violent content: "These are the tasks of a Federal Bureau of Censorship, an agency that does not, and probably cannot, exist under our present Constitution." He said it was far from clear courts would extend safe harbor approvals from narrow area of indecency to violence.

**Number of female gen. mgrs. of TV stations** grew 23% in year ending Oct. 2000, NAB said — to 224 from 182 in 1999 and 131 in 1998. NAB Pres. Edward Fritts said numbers showed TV owners "are demonstrating their dedication to diversity."

**Latest DTV station to sign on:** WBOC-TV (DTV Ch. 21, CBS) Salisbury, Md. (162nd market).



## Personals

Larry Pollock, pres.-ABC Stations Group, retires... Donna Bryan, ex-Cahill, Gordon & Reindel, appointed vp-negotiations, NBC Sports... 20th TV names Patrice Callahan, ex-Fox Channels Group, vp-business & legal affairs, and Todd Rodriguez, ex-Fox Channels, as counsel... Vicki Dummer advanced to ABC Entertainment dir.-comedy & alternative series.

Paula Madison promoted to pres.-gen. mgr. KNBC L.A., from news dir. at co-owned WNBC N.Y... Tharon Honeycutt, ex-Lakeland, Fla., *Ledger*, named vp-gen. mgr.-WHNT-TV Huntsville... Ken Benson, ex AMFM Inc., appointed Citadel Communications exec. vp-programming... Mark Munoz promoted to pres., Big City Radio's new Independent Radio Reps subsidiary.

Laura Hunter promoted to TV Land senior vp-programming... Miles McNamee advanced to vp-business development, Starz Encore... Gary Thorne promoted to pres.-COO, Hubbard Media Group's MovieWatch venture... Larry Taymor, Liberate Technologies, joins Interactive Network board... Named to Cable Ad Bureau board: John Burns, Fox Family Channel; Roger Sverdluck, Comcast; Larry Divney, Comedy Channel; Michael Fleming, Game Show Network; Joe Gillespie, techtv; Kevin Murphy, WGN Cable; John Silvestri, USA Networks; Larry Zipin, Time Warner Cable.

Andrew Missan, ex-Egreetings Network, named vp-gen. counsel, ReplayTV... ValueVision Gen. Counsel Nathan Fagre elected to BigStar Entertainment board... Fred Seibert, former pres. of MTV Networks Online, will head Primedia Teen Internet Initiative.

Conn. Dept. of Public Utility Control (DPUC) imposed new funding formula for public access stations, while approving AT&T application for renewal of cable franchise for Hartford and 5 other towns. In place of existing "weighted formula," DPUC stipulated that AT&T provide annual funding to each community at rate of \$5.80 per subscriber. DPUC rejected demands by public access groups that AT&T fund community access at annual per-subscriber rate of \$7.46 and provide \$120,000 capital grant payable in 3 installments. State Office of Consumer Counsel, intervening on behalf of access groups, said AT&T's funding levels were insufficient for modernization of access facilities but didn't indicate what appropriate level should be. Saying AT&T's \$5.80-per-subscriber funding represented 100% increase in access funding over last year, DPUC said gain should allow access groups to improve facilities.

Globalstar lost \$211.2 million in 3rd quarter ended Sept. 30, vs. \$41.9 million loss year ago. Start-up had \$1.2 million revenue. Losses included \$128.4 million operating loss and \$82.8 million interest expense. CEO Barnard Schwartz said rate of subscriber growth and air time (2.3 million min. in 3rd quarter) was steady, but "unacceptably slow." As result, Loral and subsidiary Globalstar are facing up to rapid stock price decline that has left future of both in doubt. Some analysts predicted Globalstar would be forced into bankruptcy soon following announcement by Schwartz that it wouldn't give subsidiary cash bailout. He said Globalstar had "adequate funds to operate" through next year. New alliances are needed because Globalstar's problems have hurt Loral, which reportedly is trying to sell majority equity stake, looking to form joint alliance or consolidating with another company to improve sagging stock prices. Loral owns 38% of Globalstar and has invested \$1 billion in \$4.3 billion satellite telephone system.



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

## TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

(ISSN 0497-1515)

PUBLISHED BY WARREN COMMUNICATIONS NEWS, INC.

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

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

Copyright © 2000 by Warren Communications News, Inc.  
Reproduction in any form, without written permission, is prohibited.

### EDITORIAL & BUSINESS HEADQUARTERS

2115 Ward Court, N.W., Washington, DC 20037

Phone: 202-872-9200 Fax: 202-293-3435

Email: info@warren-news.com

#### WASHINGTON HEADQUARTERS

Albert Warren . . . Chmn., Editor & Publisher  
Paul L. Warren . . . President  
Daniel Warren . . . Vice Chairman  
Dawson B Nail . . . Executive Editor  
R. Michael Feazel . . . Senior Editor  
Edie Herman . . . Senior Editor  
Herb Kirchhoff . . . Senior Editor  
Alan Breznick . . . Senior Editor  
Mary Greczyn . . . Associate Editor  
Sasha Samberg-Champion . . . Associate Editor  
Dinesh Kumar . . . Associate Editor  
Bruce Branch . . . Associate Editor  
Dugie Standford . . . Associate Editor  
Shawn Nelson . . . Assistant Editor  
Terry Lane . . . Assistant Editor  
Matt Kistenmacher . . . Assoc. Production Mgr.  
W. Pernell Smith IV . . . Assoc. Production Mgr.

#### Television and Cable Factbook

Michael Taliaferro . . . Managing Editor  
& Asst. Publisher--Directories  
Richard Koch . . . Asst. Managing Editor  
& Editorial Director  
Gaye Nail . . . Asst. Managing Editor  
Susan C. Seiler . . . Senior Ed. & Ed. Supv.

#### Daily Document Service

Joseph Lautieri . . . Manager

#### Business

Brig Easley . . . Controller  
Lynn Levine . . . Exec. Sales Director  
Betty Alvine . . . Circulation Mgr.  
Deborah Jacobs . . . Information Systems Mgr.

#### NEW YORK BUREAU

276 Fifth Ave., Suite 1002, N.Y., N.Y. 10001  
Phone 212-686-5410 Fax: 212-889-5097

Paul Gluckman . . . Bureau Chief  
Stephen A. Booth . . . Senior Editor  
Mark Seavy . . . Senior Editor  
Jeff Berman . . . Associate Editor  
Razia Mahadeo . . . Editorial Assistant

#### CONTRIBUTING EDITOR, EUROPE

Barry Fox  
22 Holmefield Court  
Belsize Grove, London NW3 4TT  
Phone: (44-20) 7722-8295  
Fax: (44-20) 7483-3074  
Email: barryfox@cs.com

#### JAPANESE REPRESENTATIVE

Editorial and Circulation  
CES International Corp.  
Sumitomo Seimei Aoyama Bldg.  
3-1-30 Minami Aoyama, Minato-ku  
Tokyo 107-8577, Japan  
Phone: (03) 5413-8664

- ☐ I'm interested in *Television Digest with Consumer Electronics* and would appreciate your sending me a FREE four-week (4 issues) trial subscription. I understand I have no obligation to subscribe.
- ☐ The person below would be interested in receiving a FREE four-week (4 issues) trial subscription to *Television Digest with Consumer Electronics*.

Signature \_\_\_\_\_

Name \_\_\_\_\_

Company \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

For e-mail delivery, please provide internet address: \_\_\_\_\_

**News Corp. delayed spinoff of its global satellite business to public because of market conditions while company talks with GM about purchase of Hughes Unit DirecTV and with Microsoft about latter's possible investment of up to \$1 billion for 3.5% stake in Sky Global unit. Sky Global Networks was supposed to float IPO in U.K. and Asia, but has delayed it until next year, industry reports said, while News Corp. Chmn. Rupert Murdoch attempts to use Sky Global to help seal deal for DirecTV. Deal with Microsoft would give Sky Global value of \$30 billion, industry official said.**



# Consumer Electronics

A Section of Television Digest with Consumer Electronics

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Oct. 20 and year to date:

	OCT. 14- OCT. 20	1999 WEEK	% CHANGE	OCT. 7- OCT. 13	42 WEEKS 2000	42 WEEKS 1999	% CHANGE
TOTAL COLOR TV	769,770	866,308	- 11.1	560,950	22,983,028	21,958,767	+ 4.7
DIRECT-VIEW**	742,777	830,146	- 10.5	543,696	22,056,910	21,171,710	+ 4.7
TV ONLY#....	595,309	674,910	- 11.8	435,835	18,236,411r	17,695,666	+ 3.1
TV/VCR COMBO.	147,468	155,236	- 5.0	107,861	3,820,499	3,376,044	+ 13.2
PROJECTION...	26,993	36,162	- 25.4	17,254	926,118r	887,057	+ 4.4
TOTAL VCR**...	753,615	850,970	- 11.4	533,475	21,471,225	29,313,622	+ 5.7
HOME DECKS...	606,147	695,734	- 12.9	425,614	17,650,726	16,937,578	+ 4.2
CAMCORDERS.....	115,495	142,834	- 19.1	79,480	4,389,664	3,673,427	+ 19.5
DVD PLAYERS....	156,450	112,863	+ 38.6	128,174	5,560,566r	2,557,552	+117.4

Direct-view TV 5-week moving average#: 2000-685,917; 1999-722,624 (down 5.1%).

Projection TV 5-week moving average: 2000-27,485; 1999-32,305 (down 14.9%).

VCR deck 5-week moving average: 2000-651,268; 1999-640,664 (up 1.7%).

TV/VCR 5-week moving average: 2000-121,406; 1999-119,574 (up 1.5%).

Camcorder 5-week moving average: 2000-141,367; 1999-128,154 (up 10.3%).

DVD player 5-week moving average: 2000-261,791; 1999-113,573 (up 130.5%).

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

r Year-to-date total adjusted to reflect revisions in company-submitted data.

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

**PS 2 REVENUES TOPPED \$250 MILLION AT LAUNCH — SONY:** Sony Computer Entertainment America (SCEA) was able to ship "500,000 plus" PlayStation 2 (PS 2) consoles to its retailers at rollout Oct. 26, Senior Vp Jack Tretton said at Gerard Klauer Mattison's 10th Annual Toy and Interactive Entertainment Conference in N.Y.C. last week. Of course, from what retailers have been saying, most of those 500,000 plus units already had sold by end of same day.

Tretton said "the initial launch revenue" for Sony's new platform "exceeded \$250 million... basically in the course of a day" last week. He also said he was "very, very excited about the fact that initial sales look like we were able to sell 1.3 million units of software in that first week." Tretton added: "The tie ratios ran from a low of 1-1/2 to 1 to about 2.8 to 1 at some of the key software specialty chains. And we're also pleased that we were able to blow through a million plus units of peripherals after people had plunked down \$300 to get their hands on the hardware alone."

Through upcoming holiday season, Tretton said PS 2 "will add an additional \$750 million to this ever-growing category and PlayStation 2 is projected to generate \$1.3 billion in revenue by the end of our fiscal year, March 31." SCEA promised in Sept., when it revealed it was cutting its previously expected first shipment to 500,000 from one million, that it would be shipping additional 100,000 PS 2 consoles to retailers each week through holiday season (TVD Oct 2 p11). Tretton said SCEA was "confident" it would be able to reach goal of shipping 1.3 million PS 2 consoles into N. America by end of calendar year, and 3 million units into N. America and 10 million worldwide by end of Sony's fiscal year March 31.

Tretton said SCEA "will be doing everything we can to catch up with demand as quickly as possible." He said SCEA was indeed "shipping the first 100,000 units to retail [last] week on our follow-up shipment and we anticipate doing the exact same thing every week through the end of the calendar year, which would get us to the 1.3 million unit



number by the end of our calendar season.” Although Sony has said 3 million PS 2 consoles are earmarked for N. America, 3 million for Europe and 4 million for Japan by end of its fiscal year, Tretton said: “We’re hoping that our performance will make us a leading candidate for any incremental quantities as decisions are made based on profitability. Our current production estimates are about 250,000 a week for the 3 territories.”

SCEA said 2 weeks ago that it was delaying PS 2 sales at its PlayStation.com Web site until “the company ships a substantial amount of PlayStation 2 computer systems into the market” (TVD Oct 30 p19). Tretton said last week that e-commerce sales would start at company’s site when “we achieve that [original] million unit commitment that we had made to retail.” Slide SCEA showed at conference indicated that meant PS 2 sales would start at PlayStation.com in Dec., although company didn’t provide date. SCEA has declined to say how many systems would be available via PlayStation.com as opposed to each of its retailers.

In Sept., SCEA said there would be 26 PS 2 titles available at launch and additional 26 by holidays. As it turned out, Tretton said there actually were “an unprecedented 28 titles in the launch period for PlayStation with an additional 24 titles [to be] available by the holidays, giving us 52 titles for this platform.” He said company expected there would be “an additional 63 titles [available] from Jan. 1 to March 1 and an additional 80 titles in development for April 1 and beyond.” Tretton said 301 content developers supported PS 2 at this point and there were “270 titles currently in development.”

Despite positive news on 3rd party software front, Tretton admitted: “I think it’s fair to say that on PS 2, from a first-party standpoint, we’re a little behind in what we’d ideally like to have. We really only had one title at launch — *FantaVision*, which is not what I would consider to be a core title.” As we pointed out last month, SCEA said at E3 in May it would be shipping 5 titles under its SCEA brand and additional 5 games from its 989 Sports Div. this year. But most of those games were not included in SCEA’s Sept. list of titles slated to be available by year-end.

However, Tretton said last week: “The key franchises are coming from us. You’ll see *GameDay* and *Final Four* later this month. You’ll see *GT3* [*Gran Turismo 3* — a.k.a. *Gran Turismo 2000*] in the first quarter of calendar 2001 and we’ll be introducing some new franchises for the PS 2 as well. But I would say we’ve got a little bit of catching up to do on our first party software selection for PS 2.” Tretton told us one of reasons for first party software delay was related to changes at 989. Company said in Feb. it was merging 989, its publishing and development group, with SCEA as part of consolidation it said would help it “prepare for long-term business objectives.” But he said that because all 3rd party support that company saw would be there at outset, Sony was “a little less concerned” than it otherwise would have been about delays on first party side.

As for shortage on PS 2 memory cards that retailers told us about last week (TVD Oct 30 p10), Tretton said SCEA indeed “fell short in production” because “chips were hard to come by.” He said SCEA had “a little bit of catching up to do” on its cards, noting that it only shipped “about half” of what it would have liked at start. But he said “a big shipment went out the door last week” and “we’ve got decent numbers out there.” He pointed out, as we had, that SCEA in past never had licensed any 3rd party companies to provide memory cards. But he indicated SCEA had opted to license Mad Catz as 3rd party memory card provider now as way to help ensure more customers buying console at this point would be able to buy memory card as well. Tretton said “we’ll get better and better” with first party memory card shipments. While company probably won’t be flush with demand by holidays, he said situation would be better by the end of the year.

In other PS 2 news: Cinema trailer component of SCEA’s PS 2 ad campaign was due to end Nov. 5, although TV campaign will be continuing. Meanwhile, Sony was reported trying to convince U.K. customs and European Commission to reclassify PS 2 as computer from videogame player to put machine into lower tariff category. Tretton said PS 2 still was on track to bow in Europe Nov. 24. Source at major retail chain told us some rental chains were reluctant to rent out what few PS 2s they had because machines can be auctioned off at eBay or other auction sites at 3 to 4 times their value. Source said: “We’re renting these things out for \$5. What are we going to do? Require a \$400 or \$500 deposit?”

On PSone front, Tretton said last week: “The transition over to PSone was something that left us at a little bit of a loss in terms of inventory available in the field... We’re very excited that the future growth will quickly be worth the short term loss of supply [on PlayStation] we had to suffer” while new, smaller version of original PlayStation was being developed. He added: “Even though we’ve had incredibly limited supplies, we’ve been able to sell about 600,000 units since its debut on September 19 — and this is with anywhere from 57 to 70 percent less inventory than we had on the PlayStation last year at this time.” He said his company still expected to make LCD screen available this spring for PSone, which would make it truly mobile platform.



**WARNER REVEALS DVD-AUDIO AND CD PLANS:** Warner Music will begin simultaneous release of DVD-Audio and CD titles by mid-2001, Mktg. & New Technologies Vp Christopher Tobey told us exclusively during briefing at Dolby Labs in San Francisco last week.

Plans for day-and-date releases come as Warner prepares to ship first DVD-Audio titles (\$24.95) this week. It will release 5-7 new titles each month at start, largely catalog material remastered for multichannel DVD-Audio, Tobey said. Other record labels haven't committed to DVD-Audio release dates, but BMG Entertainment and Universal Music are expected to follow Warner's lead shortly.

"Initially it's going to be difficult because it's a long process, but as we go forward we will have day-and-date releases," Tobey said, alluding to process of recording, mixing and mastering multichannel digital titles. "It [day-and-date] is an individual decision that is made by artists and producers, but we're going to encourage them to do that now.

Length of DVD-Audio production process depends on release, but Emerson, Lake & Palmer's *Brain Salad Surgery*, among first to be released by Warner, took 3 weeks to complete, said John Kellogg, Dolby gen. mgr.-multichannel audio and music production. "Unlike DVD-Video, where we had thousands of 5.1 titles done, with DVD-Audio it's ground-up development," said Tobey, who started working on project 4 years ago. "It will happen and there will be a regular flow of releases, but we were literally starting from ground zero."

To promote sound improvement of DVD-Audio format as compared with DVD-Video music tracks or CD, Warner and other record labels are pushing to include "Advanced Resolution" tag line on releases. Tag will be applied to all releases featuring 88 kHz/24-bit or better sampling rate, Kellogg said. "The fact is we have this flexible architecture and the feeling was we needed to identify a certain benchmark for high resolution," he said. Although DVD-Audio spec has sampling rates down to CD's 44.1 kHz/16-bit, Kellogg said "a majority of the titles are going to be higher resolution."

Warner, which provided DVD-Audio sampler for first-to-market Panasonic and Technics universal DVD decks, is negotiating similar deals for new release with other CE manufacturers, although nothing has been finalized, Tobey said.

That sampler caused some confusion last week following distribution to press at Dolby Labs. Warner also includes Dolby Digital track on its DVD-Audio titles, so music can be played on DVD-Video players. But some became alarmed at possibility of flaw when music video footage and other DVD-Audio special features couldn't be viewed or accessed on DVD-Video players.

Reason for that is access to videos and specials requires navigation menu that's exclusive to DVD-Audio or "universal" DVD players. But that wasn't explained in sampler's jacket or literature. At our Fri. deadline Warner executives told us explanation would be provided on titles about to be sold to consumers this week. Limiting special features to DVD-Audio players is intended to give consumers incentive to upgrade hardware and thereby hasten rollout of higher resolution music format.

**PROBLEMS FOUND WITH THE PATRIOT DVD:** Our investigation of Regional Code Enhancement (RCE) used on *The Patriot* DVD has yielded some puzzling results. Supposedly more robust RCE, used by Sony's Columbia TriStar Home Video (CTHV) to prevent Region 1 disc from operating on DVD decks modified for all-region play, didn't prove effective on some modified players — and in case of at least one brand, Mel Gibson movie won't run on Region 1 player as it should.

Based on our own tests and widespread reports on Internet, RCE doesn't prevent *The Patriot* from running on DVD players whose factory region code setting can be changed for "Region Zero" or all-region operation. When disc with RCE encounters such players, it's supposed to screen message telling user that disc is intended only for use in Region 1 deck, and prevent play.

We tried *The Patriot* in 5 "firmware modified" DVD players set to all-region operation, including Apex Digital AD-600A and Samsung DVD-709, and RCE-encoded disc played just fine in 4 of 5. Only machine to generate rejection message was Apex — confirming that disc did indeed have RCE.

Oddity was that when Apex deck was switched to Region 1, disc wouldn't play movie at all. Instead, when Play command was executed from main menu, that simply jumped to submenu for special features. Hitting Play command there merely cycled disc back to main menu. Movie can't be accessed at all, although some special features could. Disc should play in decks set for Region 1 — and did in Sampo and Toshiba models and Creative DVD-ROM drive we tried.



Apex model is carried predominantly by Circuit City, and sources told us chain has sold more than 100,000 since Jan. Deck was subject to recall earlier this year when secret "loophole menu" was discovered that permitted users to change regional codes and disable Macrovision copy protection. Since then, new versions of AD-600A lack resettable codes. Apex spokesman told us independent tests show revised models don't have problem with *The Patriot*, which is confined to original AD-600A with secret menu. Sources told us Circuit City sold about 60,000 of those. Apex spokesman said upgrade is available for original AD-600A to play *The Patriot* and other problematic DVDs such as Warner's *The Matrix*, but upgrade would eliminate "loopholes" menu. He couldn't say how many consumers had returned decks for upgrade.

At our deadline, CTHV executives were investigating situation of top-renting and big-selling title in order to prepare response to our query. Circuit City spokesman was doing same, to learn how retailer was advising customers who bought Apex players. Circuit City tech support advised us to bring RCE disc to store to check playback on Apex machine there, but told us since other discs ran fine in player, problem likely lay in disc.

**DOLBY MULLS IPO, COMPARES DOLBY DIGITAL WITH DTS:** Privately held Dolby Labs is mulling IPO in long term as part of estate planning for founder Ray Dolby but has no immediate plans to enter public markets, executives told us. Exclusive revelation came during lab tour in San Francisco last week at which Dolby announced new products and technologies for unveiling at Jan. CES — and made first direct comparison of Dolby Digital with surround-sound rival DTS.

Dolby, which has been 100% owned by Ray Dolby since he bought out his brother shortly after founding company in 1965, has no outside investors and faces less pressure to pursue IPO than those backed by venture capital, Consumer Div. Vp-Gen. Mgr. Edward Schummer told us.

Overall, Dolby reported \$125 million in revenue for fiscal year ended Sept. 30. Some 80% was related to consumer and professional digital products and rest was analog, largely in car audio, Pres. William Jasper said. He said 55% of revenues came from licensing technologies, 35% from product manufacturing, 10% from services. Licensing and manufacturing each traditionally has accounted for larger share of revenues, but recent downturn in cinema industry has reduced licensing revenue, he said. Schummer said CE manufacturers such as Sony and Matsushita continued to be among Dolby's top customers, although PC-related companies such as ATI Technologies, Creative Technologies and MGI Software had slipped into top 10 in terms of percentage of revenue. Overall, Dolby has 550 employees, 200 of them in manufacturing and 150 in R&D, he said.

At briefing, Dolby reported findings of first test comparing sound differences between its Dolby Digital 5.1 and rival DTS surround format. Now that DTS has made encoders available for purchase — 5 years after debut of DTS for Laserdisc and 3 years after DVD-Video, Dolby noted — company bought 3 samples and conducted comparison tests with Dolby encoders.

Tests were conducted by recording engineers in London and L.A. using music known to expose compression artifacts, Dolby said. Comparison included DTS at full and half data rates (1509 kbps and 754 kbps) and Dolby Digital at 448 kbps and 384 kbps. Company said it also measured DTS encoders for performance.

Recently published results contend that Dolby Digital performs better than DTS, but subtle variations detected don't explain "stark differences" that some media and industry observers have reported, Dolby said. Although movies should sound equally loud through both systems, some seem slightly louder in DTS than Dolby, which makes casual comparison difficult, Dolby said. Company said one reason is that even when its own and DTS encoders are level-matched using 1 kHz tone, early DTS encoders added 0.6dB of gain across whole audio spectrum. Difference isn't enough to sound obviously louder, but adds subjective "punch" to DTS versions of movies such as *Twister* and *Interview with the Vampire*, Dolby said.

Company also said DTS had remixed some program material, with different "sweetening" or equalization, before DTS encoding. So *The Haunting*, Steely Dan's *Two Against Nature* and Dave Grusin's *West Side Story* sounded different on DTS releases, Dolby said. "Now that DTS encoders are available, anyone with proper equipment in the audio industry can repeat these tests, and is encouraged to do so," company said. DTS couldn't be reached for comment by our Fri. deadline.

Dolby will give first public audition of Pro Logic II analog surround at Winter CES. Surround sound system succeeds 1987-vintage Pro Logic and differs primarily by delivering stereo signal to now-monaural rear channel, thereby creating 2 rear effects channels. Rear-effects sound no longer is limited in frequency response, which rolls off at 7 kHz in original system.



Pro Logic II was developed by quadraphonic pioneer Jim Fosgate and creates rear stereo from matrix, Dolby said. No special encoder or special program software is needed, although they may follow. "The whole premise of this is to use existing content," Technology Strategy Dir. Roger Dresser said. "We can make new content, we know how to encode it for 5 channels, but we don't want to rely on that. It's obvious that we can get a benefit just from doing this because it adds value to the product."

All of work is done by new decoder, which bleeds some of left front sound power into left rear and some of right front power into right rear. Effect is to stretch front stereo around to rear to generate ambient effects there. Rear channel delay can be switched off when decoder is used to play music rather than movies, Dolby said. In music mode, level of center signal fed to front center speaker can be switched in 8 steps, ranging from strong hard signal to no signal at all, or to create only "phantom" image between left and right front speakers. Latter option will be used for autosound in Volvo cars and other applications where center speaker isn't feasible, Dolby said.

Onkyo and Meridian will show Pro Logic II at CES using software to upgrade existing Pro Logic products, Dolby said. Hardware IC upgrade also is possible, and Dolby has licensed several DSP chip manufacturers including Analog Devices, Crystal Dynamics and Motorola along with CE manufacturers. First products are due by mid-2001, Dressler said.

Dolby also used lab visit to unveil surround sound headphone system. Company has licensed patent from Australia's Lake Technology (USP 5 502 747) for system that can make ordinary stereo headphones seem to deliver sound from speakers all around room. Lake system uses digital processor that works like analog filter to modify frequency content of audio signal as it passes through. Dolby measured how left and right ears hear sound waves from speakers around room and programmed Lake filter to add matching effect to signals fed direct to each ear.

Processor chips filter recordings intended for speaker listening to make them sound natural on headphones. Dolby will use black box with filter chips to connect between amplifier and headphones, continually adding open-room effect to each of 5 channels and feeding processed sound to left and right ears. Unlike typical stereophone listening, in which sounds seem to come from inside user's head, with Dolby headphone system listener hears sound apparently coming from outside head and around room. Listener can select small, medium or large room effect. Dolby has licensed Analog Devices, Motorola, Sanyo, Sharp, Texas Instruments and Zoran to make processors. Dolby Headphone home processors go on sale early next year.

New Pro Logic II comes as predecessor finds itself increasingly sold as built-in feature of AV receivers, and as prices for standalone decoder collapse in face of emergence of Dolby Digital models at retail. "With the prices coming down for Dolby Digital decoders, the Pro Logic models have almost been squeezed out of retail," Dressler said.

Dolby Digital, meanwhile, has made inroads among 159 broadcasters now transmitting DTV signal. But Professional Audio Mktg. Dir. Thomas Daily conceded that adoption of DTV had been slowed by lack of programming and controversy surrounding modulation technology. However, HD-ready TVs have posted strong sales, suggesting "that this is a chicken-and-egg situation" and that when it is resolved "people who have upgraded their monitors might encourage adoption."

Also slow in adopting HD have been satellite services, reaction that's linked more to infrastructure than programming decisions, Daily said. Although DirecTV carries tape-based HDTV pay-per-view movies and Starz Encore programming in Dolby Digital, it doesn't pass through signal for HBO and Showtime fare, Daily said. HBO and Showtime deliver programming via satellite, requiring that DirecTV install Dolby E encoder. "Those are some of the bottlenecks that exist when going from one broadcaster to another, but over the next 6 months a lot more of that pipeline will be hooked up," Daily said.

**DMCA ANTICIRCUMVENTION RULING STIRS ANGER:** Decision by Librarian of Congress (LOC) to permit bypassing of technological copyright protection controls only in case of malfunctions and where lists of Web sites are blocked by filtering software has raised howls from library groups and at least one lawmaker over provisions of Digital Millennium Copyright Act (DMCA).

American Library Assn. (ALA) branded ruling "misguided." When Congress ordered LOC to determine whether DMCA's blanket anticircumvention provision should be modified to exempt certain classes of material, ALA official said, group argued for exemption for "legitimate, noninfringing" uses such as "fair use." Content industry, on other hand, opposed any exemption. Now, ALA official said, LOC has taken industry's side, carving out exemptions library groups "didn't even ask for."



Rep. Boucher (D-Va.) voiced disappointment with decision. It has “moved our nation one step closer to a ‘pay-per-use’ society that threatens to advance the narrow interests of copyright owners over the broader public interest of information consumers,” he said. When Congress crafted anticircumvention provision, Boucher said, it “sought to preserve the principle of ‘fair use’ — a principle the LC has now limited.”

Digital Future Coalition (DFC) charged that decision gave content owners “a green light to use technological protection measures to lock up access to copyrighted works” while also “seeking to preserve the fair use rights of information consumers.” American U. law prof. Peter Jaszi said Congress may have “gone too far” to accommodate copyright owners at expense of information consumers: “As it considers amendments to the DMCA next year, we trust the 107th Congress will seek to recalibrate the DMCA to bring it more in keeping with the grand tradition of balance that has served our nation so well for the past two centuries.”

Heaviest lobbying came from supporters of exemption for movies on DVDs, Copyright Office said. Proponents argued that: (1) Anticircumvention technology used on DVDs, Content Scrambling System (CSS) merges access and copy controls, making it impossible to circumvent one without circumventing other. Since Congress refused to outlaw bypassing of measures that protect copyright owners, current blanket anticircumvention rule exceeds Congress’s grant of authority. (2) Linux users who own PCs with DVD drives, and who buy legitimate copies of movies on DVDs, should be able to watch movies, despite fact that no licensed player has been created for Linux. (3) DVDs must be able to be reverse engineered to make them interoperable with other devices or operating systems. (4) Motion picture industry’s regional coding as access control measure bars legitimate users from running films on DVDs purchased abroad on machines encoded to play only DVDs for that region.

Copyright Office wasn’t swayed. After balancing competing interests, it said it was “clear” from evidence that permitting users to circumvent technological protection systems on DVDs was likely to make DVDs less available to public. MPAA opposed any anticircumvention exemptions, spokeswoman told us, although group was “pleased” 2 exemptions were narrowly drawn and that LOC had rejected calls for “sweeping exemptions that would have eradicated important protections to copyrighted materials.”

NTIA joined school and library groups in quest for exemption for “works embodied in copies which have been lawfully acquired by users who subsequently seek to make noninfringing uses thereof,” proposal floated by Jaszi, Copyright Office said. Without such exemption, supporters said, information seekers would have to “pay-per-use” of copyrighted materials, tipping intellectual property rights to side of content owners against users. Copyright Office disagreed, saying groups had failed to define “class” as required by rulemaking and to make case that users were being charged for access to materials. Moreover, office said, Congress had rejected similar exemption when it drafted DMCA.

Other exemption requests dismissed by Copyright Office included: (1) “Thin copyright” works (those not covered by copyright, such as works whose copyright term has expired, or U.S. govt. materials). (2) Works such as scientific and social databases, textbooks and other materials likely to be used by libraries and schools under “fair use” doctrine. (3) Works available only from single source in form protected by access controls. (4) Videogames playable only on proprietary players. (5) Computer programs and other digital works for purposes of reverse engineering. (6) Encryption for research purposes. (7) Material that can’t be archived or preserved. (8) Works used by public broadcasting companies in accordance with Copyright Act.

Anticircumvention exemptions are effective until Oct. 28, 2003. Before then, Copyright Office said, it will start new rulemaking to reconsider what classes of copyrighted works, if any, should be exempt from DMCA. Library groups are evaluating their options, which could include seeking reconsideration of LOC ruling or litigation, association said. “We’re certainly unhappy about the ruling,” ALA official said.

Fujitsu has postponed delivery of 55W plasma display until late 2001 and instead will introduce 50W and 32W (\$9,000-\$10,000) this week. New 55W had been targeted for early 2001, but was delayed by “engineering issues”, said National Mktg. Mgr. Michael Gleason, who declined to disclose nature of problem. New 50W, which is being produced along with 32W as part of Fujitsu-Hitachi joint venture, will feature former’s Alternate Lighting of Surfaces (ALiS) technology. It has 1,024x768 resolution, 500 lumens brightness, 250:1 contrast. Specs haven’t been set for 32W, which will ship in 2nd quarter. As it moves to new sizes, Fujitsu also will introduce enhanced version of existing 42W with improved brightness and contrast, Gleason said. In adding 50W to line, Fujitsu enters category already occupied by NEC and Pioneer.

EON Digital Entertainment is entering U.S. market with 3 PC games shipping throughout 4th quarter. London-based game maker said it would focus on titles for all platforms, including Game Boy Color, PlayStation and next-generation systems. It also said it “anticipates establishing a strong emerging presence in the coming months with its initial rollout and plans to follow up with another commanding lineup for Q1 2001.” EON said it “has already secured the rights to publish PlayStation and Game Boy Color titles from top Japanese developers, including Taito, TYO and Fujimic.” It said it had “successfully negotiated the publishing and distribution rights to future titles on emerging platforms.” First 3 games arriving in U.S. from EON are *Airfix Dogfighters*, *Crime Cities* and *Mission Humanity*, each priced at \$29.99.



**RECOTON BLAMES LOSSES ON PS 2:** "Significantly reduced availability" of PlayStation 2 (PS 2) consoles, as well as weak European currencies and delays in finalizing new corporate finance package, combined to hit Recoton results hard in 3rd quarter ended Sept. 30. Recoton did announce closing of new 3-year \$275-million senior credit facility led by Heller Financial that it said replaced all of its existing senior debt and would save it \$7 million in annual interest expenses. Completion of finance package was long-awaited final step in major restructuring, company said.

Recoton reduced net loss to \$1.93-million in quarter (-16¢ per share) from \$26.67-million loss (-\$2.27) year earlier on 9.5% sales decline to \$157.58 million from \$174.17 million. Pres.-CEO Robert Borchardt told financial analysts in conference call Fri. that Recoton's videogame accessories segment "dragged down" overall results. He said segment accounted for 28% of overall sales in quarter and was "below plan." However, Borchardt said "we expect to make this up over the next few quarters" as PS supplies become more plentiful and other next-generation gaming platforms such as Nintendo Gamecube and Microsoft Xbox debut later in 2001. Borchardt said Recoton expected profitable 4th quarter, and "we remain optimistic about 2001 and beyond."

CFO Arnold Kezsbom said videogame accessories resulted in operating loss of \$1.8 million vs. year-earlier operating profit of \$3.1 million. By comparison, he said, operating results improved for company's other key product segments. For example, he said operating profit for audio products was \$3.7 million, up from \$1.4 million year earlier, and CE accessories \$5.5 million, up from \$3.6 million. Borchardt said audio sales had "solid growth" in quarter, accounting for 38% of total sales. Recoton is boosting its car audio market share, he said. Company expects home audio business to be profitable for 2000, which he said would represent "a major turnaround" for company. Borchardt told analysts that most of progress in audio came in domestic U.S. market, as company suffered some shortfalls compared with year-earlier results attributable to several discontinued European-based businesses such as pro audio.

Despite summarizing drag that videogame accessories brought to Recoton's bottom line, Borchardt said that despite "initial launch shortages" of PS 2, company was heartened by Sony announcements that it expected to ship 3 million consoles to U.S. by March: "This staggered launch, while impacting near-term results, provides a great opportunity for the future." He told analysts that "revitalization of the videogame business will provide the final link in our development," following recent corporate restructuring and finalization of finance agreement. That prompted one hostile analyst questioner to challenge Borchardt on accuracy of other upbeat projections he had made in past, which analyst said had resulted in "bad execution" for 4 or 5 straight quarters. Borchardt responded that "your frustrations are my frustrations" and that PS 2 shortfalls that hurt 3rd-quarter results were beyond Recoton's control. He said Sony "is not giving a lot of information" to retailers on status of PS 2 allocations, but "as that becomes a clearer picture," Recoton's corollary PS 2 accessories business will flourish. He told analysts that company shipped \$6-\$7 million in PS 2-related accessories in quarter and told us later in interview that that volume was "significantly below" expectations.

Kezsbom dismissed as "absolutely incorrect" question by another analyst who challenged whether Recoton was overstating

impact of reduced PS 2 allocations in its quarterly results, considering that Sony announced publicly only on Sept. 27 — 3 days before close of quarter — that it would ship only half of previously expected consoles when platform was to debut in U.S. Oct. 26. It was unclear when Sony informed key retail accounts privately on inventory shortfalls. Borchardt told us retail purchasing of PS 2 and other videogame accessories was in doldrums well before Sony's Sept. 27 announcement because of consumer and retail buying inertia common to market arrival of new technologies and platforms.

**Pixtech**, despite shifting engineering focus to manufacturing of 5.2" mono field emissive display (FEDs), said 3rd quarter loss narrowed to \$6.8 million from \$7.6 million year ago despite sharp drop in revenue to \$854,000 from \$948,000. Decline in revenue was largely tied to start of manufacture of 5.2" mono FEDs at Unipac plant in Taiwan and shift away from work for Defense Advanced Research Projects Agency (DARPA), CEO Dieter Metzger said. Unipac produced 500 FEDs in Sept. and plans to build 1,000-2,000 in 4th quarter, he said. Fourth-quarter production will be hampered by delay in delivery of semiconductor parts that has halted assembly of module for 5.2" display, he said. Cathode and glass production will continue because "we're confident that the supplier can catch up very soon," Metzger said. Goal is to manufacture 2,000 FEDs per quarter. Pixtech will start production of 12"1" color FED for DARPA and separate 7" version in 4th quarter 2001, Metzger said... **Microvision**, which makes Nomad wearable display for U.S. Army and microdisplays for CE applications, reported 3rd-quarter loss widened to \$7.7 million from \$3.9 million year as revenue increased to \$2 million from \$1.5 million year ago... **Eastman Kodak** set up separate display group to "maximize the overall market" for its organic light emitting diode (OLED) technology, company said in response to our questions. Kodak, which previously only licensed technology, has established business unit with 50 employees and will "invest to grow this business substantially over the next 5 years and beyond." Current market for OLEDs consists of camcorders, cellular phones and handheld PCs and future applications will include "PC- and TV-sized" screens, Kodak said... **Universal Display Corp. (UDC)** has signed alliance with PPG Industries for latter to work in developing and commercializing UDC's OLED technology. In return, PPG will receive 550,000 shares of UDC common and warrants to buy another 550,000 over 5-year term of \$11 million contract. PPG will be UDC's exclusive supplier of proprietary OLED chemicals.

**OfficeMax** will take \$19.5 million charge against 3rd-quarter earnings to close up to 50 stores and cover settlement of lawsuit involving Ryder Integrated Logistics. About \$14.4 million of charges is result of settlement of suit OfficeMax filed 3 years ago against Ryder over scrapped logistics agreement. Latter responded with countersuit alleging breach of contract. As result of charges, OfficeMax's projected 3rd-quarter loss doubled to 20¢ from 10¢ announced on Oct. 4. Stores affected by closing will be spread across chain and shutdowns are likely to start in Jan., Officemax spokesman said. Company also has cut projected new store openings to 54 from 70 in next fiscal year. While OfficeMax rival Office Depot also is expected to announce store closings, capacity remains in U.S. for 4,000 home office superstores, OfficeMax spokesman said. There currently are 2,800, largely spread among OfficeMax, Office Depot, CompUSA, Staples. Of group, only Staples has been spared closings.



**FUNAI-EMERSON IN ACCORD:** Funai bested Daewoo in gaining 3-year agreement to build and sell Emerson branded DVD players, VCRs, digital TVs and set-top boxes (STBs).

Value of agreement wasn't disclosed, although Emerson will receive minimum royalty payments. Pact takes effect Jan. 1.

Largest customer is likely to be Wal-Mart, which has shifted suppliers in recent years as Emerson first licensed Orion Electric and later Daewoo to supply discounter with Emerson-branded video products. More recent Daewoo pact, signed in 1997, also covered microwave ovens, which won't be affected by switch.

Funai will assume responsibility for sales and marketing of video products, bringing Emerson brand into stable that also includes Funai, Sylvania and Symphonic. Funai is expected to make push to regain Target business, which has been large account for Emerson in past.

Deciding factor in Funai-Daewoo contest was price, sources said. While Daewoo had produced VCRs and small-screen TVs in Mexico, Funai will build VCRs and DVD players at plant in China. Funai will build TV/VCR units in portion of plant in Mexico owned by Philips, to which it also is major supplier of combos. Small-screen TVs are likely to come from Malaysia, sources said.

"This is just a way to ensure that their [Emerson's] name is well represented on retail shelves and they will receive a minimum licensing fee," source close to Funai said. "The biggest problem that Emerson had is that it could not get all the product they needed and this problem will be resolved immediately, but whether they can remain competitive is another question."

But former Daewoo executive countered that Emerson often came up short in providing sales projections: "The projections were bad and you were losing money on every piece so when you got down to the end of the year, do you sell Best Buy or Wal-Mart? Do you lose money or do you make money?"

Emerson officials weren't available for comment, but Chmn.-CEO Geoffrey Jurick praised agreement as "an excellent combination of Emerson's strong brand presence and Funai's established leadership in the manufacturing and distribution of video products."

Palm embarked on \$100 million ad campaign last week as it sought to reposition itself as provider of operating systems (OS) for handheld PCs, rather than supplier of hardware. Campaign, which covers newspaper, TV and radio, highlights software applications that can run on Palm-based handhelds ranging from golf programs to GPS systems. Ads, which carry "Simply Amazing" tag line rather than former "Simply Palm," come as Palm faces increased competition in market where it has 80% share. Palm licensees Sony and Handspring have introduced models in last year and Microsoft has offered slimmed-down version of Windows CE OS for new Pocket PC devices... Casio will supply Windows CE-based handhelds to telecom companies starting in Dec. Casio handhelds, to be marketed by Hutchison Telecom, Vodafone Airtouch and Japanese phone company DDI, are equipped with small digital camera. In U.K., Casio will package handheld with cellular phone that will sell for \$500. Casio shipped 300,000 handhelds in fiscal year ended March, spokesman said.

**ELECTRONICS GROWS AT AMAZON:** Amazon.com said its electronics store grew in last quarter to become its 2nd-largest U.S. store, behind books and ahead of music.

News came as Amazon posted \$637.86 million in sales for its 3rd quarter ended Sept. 30, which e-tailer said was 79% jump over \$355.78 million year ago. But once again it reported net loss — this time of \$240.52 million (-68¢ per share), compared with \$197.08 million (-59¢) last year. Pro forma operating loss for quarter dropped to \$68.44 million (-25¢) from \$79.2 (-26¢).

Amazon CEO Jeff Bezos said that in Sept., "6 of the 10 top-selling items on Amazon.com were from our electronics store," which includes electronics, software, videogames. Amazon CFO Warren Jenson said company was "driving toward profitability, and we surpassed our key internal operational and financial objectives" in quarter.

Company said its worldwide cumulative customer accounts increased more than 2.8 million in quarter to 25 million and sales per active customer to \$130 from \$108.

Toysrus.com bought Amazon's toy-related inventory for \$20 million in agreement announced in Aug. (TVD Aug 14 p15) to start joint online toy store, with fulfillment being handled by Amazon. Joint toy store opened in past quarter in time for holiday selling season.

For 4th quarter, Amazon said it expected: (1) Sales of \$950 million-\$1.05 billion. (2) Gross margin seasonally down compared with 3rd quarter's 26%, "although up strongly over the 4th quarter of 1999." (3) Pro forma operating loss of 5%-8% of sales vs. 11% in 3rd quarter. (4) Cash and marketable securities of "over \$1 billion."

Looking ahead to next year, Amazon said it expected sales to leap to about \$4 billion, pro forma loss to narrow to less than 5% of sales and cash and marketable securities as of March 31, 2001, of \$700 million. Company said it "expects to generate significant positive cash flow from operations for the 9 months ended December 31, 2001."

**Beamscope threatened** legal action last week after Navarre canceled proposed acquisition of its video entertainment business. Navarre "is not entitled" to cancel asset purchase agreement "under the circumstances," Beamscope said. Navarre, which was scheduled to take proposed purchase before shareholders for vote on Oct. 30, declined comment on reasons for scrapping agreement. But Navarre spokeswoman said decision was made after company completed due diligence on business, which typically involves reviewing financial statements. Beamscope, which is major retail distributor in Canada of Bell ExpressVu, Nintendo, Sega and Sony products, had sought to sell division in effort to reduce debt and secure customer for its Flex Logistics business, Pres. Thomas Reeves said. Earlier this year, Beamscope sold its PC hardware and software distribution businesses to Ingram Micro Canada for \$20 million. Beamscope has struggled for much of year, selling off assets and seeking waivers from lenders to avoid violating covenants governing credit agreements.

**Kodak and WizardWorks Group**, division of game giant Infogrames, are partnering on Kodak Picture Planet software. Companies said software, designed for kids 6-12, uses pictures as both entertainment and learning tool. It's being distributed and marketed by WizardWorks.



**RENT-WAY ACCOUNTING IS PROBED:** Rent-Way's (RW) pres. and controller are targets of investigation into alleged fictitious entries in financial statements in last 3 quarters of fiscal year ended Sept. 30.

Pres.-COO Jeffrey Conway took voluntary leave of absence last week, while Controller Matthew Marini was suspended without pay after preliminary investigation forced RW to restate fiscal 2000 earnings in \$25-\$35 million range. RW stock plunged to \$5-1/4 from \$18-3/8 on Oct. 31 on news of investigation, but inched up to \$6-3/4 by week's end.

About 70% of restatement is related to dozen accounting entries that reduced certain operating expenses including adjustments to rental merchandise and fixed asset writeoffs, CEO William Morgenstern said in conference call with analysts. Some adjustments involved merchandise gained in string of recent acquisitions of other chains. Problems with financial statements started to come to light Oct 25 as RW prepared for annual year-end audit, Morgenstern said.

Part of problem appeared linked to acquisitions that weren't "ramping up" in cutting costs as quickly as expected, one analyst said. As result of probe, by RW auditor PricewaterhouseCoopers, company has frozen several proposed acquisitions, CFO William McDonnell said.

"There is nothing fundamentally wrong with our business," Morgenstern said. "We'll fix our problem and get back. Operating spending appeared to be more than was budgeted so that is what led to the fictitious entries. My guess is we were a little ahead of ourselves and we tried to mask it."

Morgenstern declined comment on either Conway and Marini, but said that any actions that were taken were done out of "undying loyalty" to RW and desire to meet projections. He said Conway and Marini each had "significant stock and stock options" as part of compensation packages. Conway declined comment and Marini couldn't be reached.

Despite probe, Morgenstern said RW's relations with vendors wouldn't be affected. Gateway, which has installed kiosks in chain's 1,126 stores and packaged PC with Internet access for \$19.95 weekly fee (TVD May 1 p14), has given chain "strong support," he said. Gateway also has \$7 million investment in chain. Among CE vendors, Zenith is largest supplier, sources said, but its officials weren't available for comment.

"My concern is what kind of backlash is this going to have on the industry," CE executive said. "This is the most important quarter of the year for electronics and if they have problems getting product that will really hurt."

At same time **Rent-a-Center** reported 3rd-quarter net income increased to \$23.9 million from \$15.6 million year ago and sales to \$405 million from \$350.4 million. Same-store sales rose 14%, including 7.5% at former Renter's Choice (RC) stores, 16% at Thorn, 20% at Central Rents. RC acquired latter 2 to form new RAC, which formerly was owned by Thorn.

Vice Chmn. Mark Speese said same-store sales gains were "being driven" by 6.5% growth in number of customer accounts per store. Stores averaged \$62,000 in monthly revenue in quarter.

RAC, which operates 2,000 stores, reduced debt \$42 million in year to \$791 million.

RAC's RentaCenter.com Internet access service added 3,000 customers to end quarter at 9,000, but was likely to fall short of goal of 20,000-30,000 by year-end, Finance Vp Peter Bates said. ISP service, which is being supplied by BellSouth, has proved to be difficult sale and has suffered from plethora of free options such as NetZero, Bates said. RAC, which has 12-month contract with BellSouth, still has 350 stores that have to add ISP service to product mix. In quarter, PCs, which include Compaq, Dell and Hewlett-Packard, accounted for 10% of revenue, up from 7.5% in 2nd quarter, Bates said.

RAC ended quarter with \$66.3 million in operating cash flow, portion of which will fund expansion of chain. It plans to open 150 stores in next fiscal year in markets including Chicago and New York and add another 100 through acquisitions, Speese said.

\* \* \* \* \*

Rent-to-own stocks were dragged down last week following news of accounting irregularities at RW. RAC dropped to \$27 from \$30-1/8, Rainbow Rentals to \$6-1/4 from \$7 and Aaron Rents to \$15-1/16 from \$16.

Former Wiz owners Marvin and Stephen Jemal have formed TecnoZone International to market technology designed to block electromagnetic radiation from cellular phones, video screens, other devices. Jemal brothers bought majority interest in Tecno Co. of France that has international rights to technology that "corrects the polluting effects from radiation by emitting a compensatory signal." Tecno AO is football-shaped device (\$49) being sold via Web site as accessory for cellular phones, but could be marketed as built-in feature. Jemals have invested "millions" in company so far and plan to add "tens of millions" more in future, Stephen Jemal said. Unclear is whether any of funding came from \$100 million sale of bankrupt Wiz to Cablevision in 1998. Majority of proceeds from sale — \$80 million — went to pay lenders Congress Financial and Paragon Capital. While studies have failed to find link between cellular phone use and brain tumors, concerns about radiation emissions have received publicity. While declining comment on Tecno AO device, cancer researcher John Moulder told *Newsday* that consumers should be wary of claims because "there are a whole bunch of scams out there." Marvin Jemal countered that problems remained with electromagnetic radiation and that "the Jemal brothers have the solution." Cellular Industry Assn. spokesman told *Newsday* that group stood behind World Health Organization findings that there was no need for RF absorbing covers on mobile phones.

**IBM suspended plans** for notebook PC based on Transmeta's Crusoe chip. IBM declined comment on reasons for decision, but new ThinkPad 240 notebook will replace Transmeta chip with Intel model. Action is major blow for Transmeta, which counted IBM among early supporters of low-power chip designed for notebook PCs and Internet appliances and was scheduled to start stock offering Nov. 6. Transmeta spokesman declined comment on IBM's move, but said his company was "confident" other customers were "seeing the benefits of our technology." Among customers developing products with Crusoe chip are Fujitsu, NEC, Sony. IBM notebook PCs with Transmeta's Crusoe processor were due to ship in late 4th quarter. Crusoe processor is designed to enable lightweight notebook PCs to operate up to 10 hours on single charge.



**SEGA CHANGES FOCUS:** Sega said it's looking to increase its share of videogame software market worldwide to 25%, Reuters report out of Japan said last week.

News came only days after Sega announced major plan it said would broaden its "network initiatives to reinvigorate the company and make it more competitive globally in the new Internet economy" (TVD Oct 30 p20).

Sega said it was looking to become "the world's leading network gaming content provider" in 2003. At that point, it said, it "will be centered around" 3 core business: (1) Online network videogame content. (2) Narrow and broadband electronic services to online community. (3) Location-based amusement centers featuring Sega's content. Company said it "sees new market opportunities in leveraging its content to take advantage of a multitude of new Internet appliances." It also said it was seeking "to gain the largest global market share possible" for packaged game software.

Sega said it also was looking to "enter into alliances with top companies in the mobile business to become the leading game software provider in the handheld market." Electronic distribution and downloading of content will play key role in Sega's Network Business strategy as well, it said.

Dreamcast chip-set and APIs "will be optimized to perform inside a myriad of other Internet-enabled devices," Sega said. By doing so, it said, it "will be able to expand its business into other consumer devices including mobile phones, PCs and set-top boxes that offer Dreamcast-formatted content." Company said it would "minimize the Dreamcast architecture to a single chip," provide console's architecture to manufacturers of those other devices and promote Dreamcast "as a network content technology and supply Dreamcast network content to appropriate amusement businesses."

As part of restructuring, Sega said it was "selling off unused inventory, closing unprofitable amusement facilities, optimizing distribution systems and integrating overseas subsidiaries." It said it "started a program of semi-independence of the Software R&D Division and AM Facility Operation Business," which it said would "improve cost management and creative development."

Sega made changes in its management structure. As of last week, Senior Managing Dir. Hideki Sato was to become Sega representative dir. and vp, "responsible for the business and affairs of Sega as chief executive under the direction of Isao Okawa, Representative Director, Chairman and President." Up to last week, Sato had been responsible for company's network business in his role as Sega's development dir. Sega said board member Toshimichi Oyama, formerly representative dir. and pres. of Isao Corp., was to be promoted to senior managing dir., responsible for Sega Group's network service business. Media Factory Managing Dir. Tetsu Kayama was to be appointed strategic council, taking full responsibility for Sega's content business. Shoichiro Irimajiri was to resign as exec. vice chmn. to become exec. senior adviser.

In announcing restructuring, Sega said: "The Internet is poised to radically alter consumers' entertainment patterns, and as a result redefine the global entertainment industry. By embracing the Internet opportunity, and the changing life-styles of our consumers, we are convinced that Sega's position as market

leader will allow for huge growth in this new economy. By building the vertical technology, including the network and content, Sega is driving the industry toward this new networked society and is setting a precedent for the industry to follow."

Sega said "new opportunities for growth include 'net@,' an experimental broadband service using a fiber optic network between arcade and amusement locations." It said it "expects to have completed a strong foundation for its online network business by the end of this year."

Company said it had sold 5.98 million Dreamcast game consoles worldwide to date: 1.95 million in Japan, 2.70 million in U.S., 930,000 in Europe, 290,000 in Asia. Sega also said it had attracted 1.55 million registered SegaNet users worldwide as of Oct. 27: 750,000 of them in Japan, 400,000 in N. America, 400,000 in Europe. It's targeting cumulative total of 10 million Dreamcasts and online membership of more than 3 million subscribers worldwide by end of fiscal year. Since cutting price of its Dreamcast to \$149 in summer, Sega said its "share of the market has increased to 29.9 % of all unit sales."

Sega of America Communications Vp Charles Bellfield told us Fri. that SegaNet had been offering gamers more than company's announced 50 free hours of online play until debut of its *NBA 2K1* online game. Decision to give what essentially was free month of play for at least some gamers was designed "to continue to get new consumers on board" and give them chance to play 3 games, he said.

Sega took tongue-in-cheek jab at rival Sony with Dreamcast ad it placed in game magazine — in center of special PlayStation 2 section. Ad showed young boy sticking his tongue out while Sega joked in the tag line: "OUR DEEPEST CONDOLENCES TO SONY ON THEIR PS 2 SHIPPING DIFFICULTIES."

**New Daewoo 30W HDTV** is being sold at \$2,799 as part of 18-store test with Costco, primarily in Northwest U.S., Vp Michael Shishkoff said. Set also is being sold through Fry's Electronics. While market for integrated HDTVs is limited, delivery of 30W comes after Daewoo postponed shipment several times. To expand line, Daewoo is expected to add 30W HD-ready model in 2nd quarter as well as 55-60W HD-ready rear-projection sets by end of 2001, Shishkoff said. New 55W will have conventional 7" CRTs, but 60W will use LCD panels, he said. Rear-projection sets will be manufactured in S. Korea at outset, but goal is to shift production to plant in Mexico, Shishkoff said. New sets come as Daewoo Electronics continues to operate under oversight of S. Korean banks as part of restructuring of parent company. Banks are expected to continue role through 2001 before moving to sell or spin off company, Shishkoff said. "We're trying to move some of our business to the high end because there is only so much business you can chase at the lower end," he said.

**Musicland reported** same-store sales declined 1.4% in 4 weeks ended Oct. 28 despite strong momentum in DVD that for first time accounted for 40% of chainwide video sales. Same-store sales also fell 1.4% in Mall Stores Div. (which includes Sam Goody and Suncoast) and 1.5% in Superstores Div. (Media Play and On Cue). Total sales were down 0.2% to \$115.8 million from \$116 million. Total Mall Stores Div. sales dipped 2.9% to 73.4 million as Superstores Div. sales rose 5% to \$42.4 million.



**INTERPLAY REBOUNDS IN QUARTER:** Hailing what it said were its strongest results in 9 quarters, Interplay Entertainment returned to black in 3rd quarter ended Sept. 30, reporting \$113,000 profit vs. year-earlier \$17 million loss.

Significant revenue increase was engine that drove turnaround, Interplay said, reporting 34% boost in revenue to \$31.63 million from \$23.64 million. Executives told financial analysts in conference call that it was company's traditional dominance in PC gaming titles that served as hedge against downturns suffered by others as industry transitioned to new gaming console platforms such as PlayStation 2 (PS 2) and ultimately Nintendo Gamecube and Microsoft Xbox. In quarter, PC games accounted for 75.3% of revenue, followed by 13.3% from consoles and 11.4% from OEM revenues, royalties and licensing fees. CFO Manny Marrero told analysts that Interplay didn't expect those ratios to change much in 4th quarter, but that console mix would "increase substantially" in 2001, commensurate with company's more focused attention first on PS 2 and later on Gamecube and Xbox. However, as one possible downside to higher console concentration, Marrero said in response to question, was some slippage in gross margin that's expected next year. He said Interplay revenue jumped 34% despite less than half as many new releases (5 vs. 12) compared with same year-earlier quarter.

CEO Brian Fargo said Interplay would reverse that trend somewhat in planning 5 titles for 4th-quarter debut this year compared with one last year. He said 15 console games were in "various stages of development" for release in "the upcoming months" compared with "historical equivalent" of 2. He said PC game offerings next year would be "honed down" to concentrate on genres that "really work well in the PC world" such as real-time strategy games. However, Fargo said "approximately the same number" of PC titles were planned for development next year. He emphasized there would be no dilution of Interplay's PC gaming business next year, only that console business would be "layered on top of that."

Fargo said Interplay expected "a slow rampup" in its console game business, noting that PS 2 allocations had been substantially lower than expected and that Gamecube bow had been pushed back to later in 2001 than planned. However, he said "maturation" period in market acceptance of new gaming platforms had been shortened significantly to several months from more traditional model of 1-1/2 years. Fargo and Marrero, responding to analyst questioner, said they didn't believe industry speculation that Nintendo might miss Christmas 2001 with its Gamecube rollout, but referred such questions to Nintendo. However, Marrero said continued success of N64 might mean that Nintendo would be in no particular hurry to rush Gamecube to market.

**Creative community** "will be on the warpath" in Congress and courts next year to push "pay-for-play" agenda on downloadable music and video, CEA Pres. Gary Shapiro told reporters. He said CEA and Home Recording Rights Coalition, of which he also is head, will meet challenge by convincing lawmakers and courts that "downloading doesn't always mean a displaced sale." CEA spokesman said group planned to draft policy statement soon on issue. Shapiro said among activities planned for 2001 are to promote awareness among consumers that "the 'play' button should not be equated with a 'pay' button."

**PS 2 SCARCITY HURTS PROFIT:** Electronics Boutique (EB) said last week it had been hurt by smaller-than-expected number of PlayStation 2 consoles available. But Pres.-CEO Joseph Firestone said he expected sales to increase as Christmas neared.

Firestone told investors at Gerard Klauer Mattison's 10th Annual Toy and Interactive Entertainment Conference in N.Y.C. last week: "Ten days before Christmas, something's got to get under [customer's] tree. So I think we have a great opportunity. I think everything will sell then."

Comments came day after specialty electronic game retailer said it expected earnings for its 3rd quarter to be lower than First Call estimates. It said it expected earnings per share for quarter ended Oct. 28 to be in range of 6-8¢, compared with 19¢ year ago and 15¢ that analysts had forecast for past quarter.

EB blames 4 factors: (1) "Business slowed as consumer demand for other game platforms declined in anticipation of the PlayStation 2 launch." (2) "The reduction in manufacturing of PlayStation 2 units and resulting decrease in allocation of these units limited the revenue and profit potential for Electronics Boutique in the quarter." (3) "A significant drop-off occurred in PC game and Pokemon-related sales." (4) "A number of major new releases introduced during the quarter failed to meet expectations."

Those trends will continue into 4th quarter, EB said, and it had lowered its earnings expectations for fiscal year ending Feb. 3 to range of 95¢-\$1.05 per share instead of \$1.32 analysts had estimated.

Despite scarcity of PS 2 hardware, EB said it "had its most successful launch of a gaming console system" ever with Sony's new system. It said it "sold through virtually its entire allocation," adding: "Tie ratios of software and accessories to hardware exceeded the company's expectations, which could lead to more favorable future allocations." But it noted: "Sales of the PlayStation 2 products due to their limited availability will not be sufficient to make up the anticipated shortfall in the other categories."

**For first time** "in recent memory," all exhibits in Jan. 2001 CES will be in walking distance, CEA promoters told N.Y.C. news conference last week. Most significant change being imposed by CEA for Jan. 6-9 event in Las Vegas is dispensing with use of Sands Expo & Convention Center. Mobile electronics and other displays that had been based there at recent shows will be relocated to temporary "Gold Pavilion" being erected in massive parking lot across Paradise Rd. from Las Vegas Convention Center (LVCC). As result of new layout, parking will be scarce in vicinity of LVCC and showgoers will be urged not to drive their cars there, said Karen Chupka, CEA vp-events & conferences. She said shuttle bus service between LVCC and major participating hotels would be enhanced, and CEA would establish shuttle service between LVCC and off-site satellite parking lots.

#### THIS WEEK'S YEN RATE

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



**ACCESSORY COMPANIES MAKE PS 2 PUSH:** As PlayStation 2 (PS 2) continued to be hard to find at most retailers in N. America, accessory companies including GTR Group's Mad Catz division and Monster Cable were busily promoting their new products designed for Sony's game console anyway. While they may not be seeing much in way of sales this holiday season, they are well aware of opportunities starting in spring, when PS 2 consoles are expected to be available in larger quantities.

As we reported last week, GTR signed deal with Sony Computer Entertainment America (SCEA) that allows it to be only 3rd party company licensed to sell 8 MB memory cards for PS 2 (TVD Oct 30 p11). As we also noted, GTR-Sony agreement came as retailers reported PS 2 memory cards from Sony itself were hard to come by.

Mad Catz Pres. Darren Richardson told us he couldn't say how many of its memory cards it would be shipping but said: "It's going to be large quantities. It's going to be widely distributed [to] all of the majors: Wal-Mart, Toys 'R' Us, Target, Electronics Boutique, Babbage's, Musicland, right through the entire list." Kmart was only major retailer as of Oct. 30 that hadn't agreed to sell Mad Catz memory card, he said.

"It's going to be a big item for us," Richardson said, but he had heard mixed reports as to whether there was actual memory card shortage on Sony's end. But he said: "If there is a shortage, that's great for us." Since our interview with Richardson, SCEA Senior Vp Jack Tretton has admitted that there is indeed shortage on Sony's end (see separate report, this issue). As to why Sony might have decided to tap Mad Catz, he said: "We have a pretty good working relationship. It's always in the best interest of the console maker to have an alternative source." He said that was particularly true in case of memory card for PS 2 because console's cards incorporate MagicGate, Sony's authentication and encryption security system. So, while nonlicensed memory cards could be used in first PlayStation, they can't be in PS 2, he said.

Richardson said Mad Catz started shipping its memory cards week of PS 2 debut and "probably started hitting stores over the weekend [of Oct. 28-29]." He said his company's cards should have been available by end of last week "in quantity," and they were being produced "24 hours a day, 7 days a week" in China, where they are manufactured. He declined to say what company was providing Mad Catz with cards. Richardson said cards would be available "in good quantities certainly by mid-November" and there should be enough "by the end of the year" to satisfy all customers who have bought PS 2 console by then.

For consumers there actually is one slight advantage of buying Mad Catz card over Sony's: price. While Sony is selling its card for \$34, Mad Catz's card is only \$29.99.

Meanwhile, Monster Cable started shipping its line of gaming accessories in time for PS 2 rollout. Line includes GameLink 300 S-Video AV cable at \$39.95, LightWave 100 Fiber Optic audio hookup at \$29.95, GameLink 200 AV cables at \$29.95 for 8 ft. and \$39.95 for 15 ft., and PowerStation 600 color-coded outlet power center with surge/spike protection at \$24.95.

Monster Cable "Head Monster" and founder Noel Lee told us that PS 2 accessories were "first products for games" that his

company had shipped to date. He company started Monster Game division this year dedicated to products for electronic game systems. Kevin Lee, who was dir. of mktg. for Monster's audio accessories, serves as Monster Game's sales and mktg. dir.

Lee said Monster decided to get into gaming arena at this point because "with the Sony PlayStation 2, games are taken to a whole new level" since system is "multifunction device" that consumers also will be using to play audio CDs and DVD movies. Retailers carrying Monster Cable products for PS 2 now include Amazon.com, Babbage's Etc., Best Buy, Circuit City, 800.com and Electronics Boutique, he said. But Lee told us that even retailers who aren't carrying PS 2 consoles now are taking on Monster's PS 2 accessories because they recognize that many of their home theater customers may be adding PS 2 to their systems. He said at least some of Monster's home theater specialty dealers had expressed interest in carrying PS 2 consoles.

Monster also is considering providing accessories for other gaming systems such as Microsoft's Xbox, Lee told us.

**Kmart is selling Hitachi DVD player** in break with company's strategy of distributing product primarily through CE chains. Model is derivative of DVP305U, but is shorn of component video output, Hitachi Exec. Vp Gary Bennett said. It's being built for Hitachi by 3rd party in China, Bennett said, declining to identify supplier. Hitachi, which first sold VCR through Kmart year ago, isn't changing strategy, but rather is seeking to expand share of rapidly growing DVD market, Bennett said. He put Hitachi's DVD market share at 4-4.5% this year. "We're a relatively minor player in the [DVD] business and we'd like to grow it next year," he said. "What we decided to do was come with a derivative model to give the TV/appliance-type dealers a product with additional features at a little higher retail so they could give their customers a value-added feature." Sales of \$199 derivative model were limited to Kmart this year, he said. At same time, Hitachi has begun production of 55W rear-projection TV based on Texas Instruments' Digital Lighting Processing (DLP) technology. Sets, which will be limited to specialty CE chains such as Ultimate Electronics, are expected to ship this month with \$13,000 retail. Hitachi originally set first deliveries for Sept. "We stalled a little bit because of our shortages of lens, mirrors and other components and we were scrambling to get production up," he said. DLP-based site is being assembled at Hitachi plant in Tijuana, Mexico.

**MusicMatch announced** details of promotion in conjunction with General Mills and BMG-Universal Music Group online joint venture GetMusic that we reported last month (TVD Sept 25 p22). Eight exclusive CD compilations from GetMusic featuring music artists including Boyz II Men, Nsync and Sting will be available to consumers who buy one of 80 million specially marked boxes of General Mills cereal. Customers will be able to use included MusicMatch Jukebox software to play, record and organize tracks on their PCs. Companies said free on-pack offer is due "for full retail visibility in November and December."

**First Best Buy store** in N.Y.C. opened on Staten Island. Second city location — in Long Island City, Queens — is to have grand opening Nov. 10. Separately, Best Buy said it had signed up more than one million customers for MSN Internet Access online service since Nov. 1999 as part of retail chain's joint marketing and distribution agreement with Microsoft.



**DVD-GAME SITE DEBUTS:** RentMyDVD.com is latest company to open Web site to rent and sell DVD movies and videogames. However, Cal. company is looking to position itself not only as e-commerce site but also as entertainment destination providing extensive information on videos, including reviews, along with news and celebrity profiles.

Anthony Hicks, mktg. dir. for RentMyDVD.com, told us that at outset, site would be offering only DVD rentals. But he said company was looking to start selling DVDs and videogames "probably within a month after we launch" — probably in "early December," although "we're not setting a firm date."

Hicks said site would feature database of as many movies available on market as possible in both DVD and VHS form. But he said site actually would be selling only those that were available on DVD. While he said company had 9,000 videos in its online database at its premiere last week, he said 4,500 of those were DVDs that consumers could rent from it. He said: "Ultimately, we'd like to have our database up to about 12,000, which includes foreign movies, as well as documentary programs and also special interest programming — programs [that have run] on various [TV] stations that we can get." As for exact number of DVD titles RentMyDVD.com is hoping to carry, Hicks said: "We will do what the market has available."

Privately held company currently is getting its videos via distributors including Ingram, but Hicks said: "We are talking to some other [suppliers] as well, and in the future — once the business has grown to a point where we can leverage our sales — we will probably talk to the studios, too."

RentMyDVD.com is charging \$3.50 for each new release and \$2.50 for older ones, although it is running special at start allowing consumers who rent one movie to get 2nd at no charge. Hicks said company also would be introducing 2 alternative payment plans "in about another month or a month and a half." One program is akin to one being offered now by competitors such as Netflix in which customers pay flat monthly fee — in this case \$21.95 — and then can receive as many movies as they want, provided they don't have more than 3 titles out at one time. Other program wouldn't involve monthly fee, but consumers would have to sign up for 6 months. Within that time, customer would receive certain number of free titles based on each person's own viewing habits and individual then must agree "to rent the same number of DVDs that were given to you within that time frame," Hicks said.

Shipping charge for pay-as-you-go option will be \$1.50 for first movie and 75¢ for 2nd and subsequent ones, Hicks said. There will be no shipping charges for other 2 plans.

Videogame rental system will be "the same thing basically," Hicks said, but price will be "about \$5" and title will be due one week from day it was ordered. Although there was games section at site last week when we looked, it had yet to be updated. It still said PlayStation 2 was "set for an October 26, 2000 release" although it was already past that date and, of course, PS 2 since had been rolled out. Games section also still referred to Nintendo's upcoming next-generation console by its old code name, Dolphin, even though company announced in Aug. that it now was called Gamecube (TVD Aug 28 p10).

When RentMyDVD.com starts selling DVDs, it "will offer about [a] 25% discount" off SRP, Hicks said. Its first distribu-

tion hubs are in N.Y. and San Francisco, and customers in those markets can receive overnight shipping, he told us. Consumers outside of those areas will have to wait 2-4 days at start. But he said: "We have plans to add another 13 locations as we go. By the middle of next year we should have most of those up." All 13 additional centers will be in major markets, including Atlanta, Chicago, Dallas, Houston, L.A. "We will try to open one every month or month and a half if we can," he said, with L.A. to be next to go online, probably followed by Atlanta.

Hicks said: "[By] about the end of the 2nd quarter or so we hope to have them all up. And then our plan after that is to add in an additional 260 [or so] franchises that will cover the outlying areas that are not in the metropolitan [areas]." End result will be that most consumers will be able to get merchandise shipped to them overnight. Those franchises, Hicks said, will be new businesses that "are going to have responsibilities for their inventories. Their profit and loss [will be dealt with] separately and we route all the business in the area to them."

Company's extensive plans also include video-on-demand (VoD), but Hicks said that wouldn't be for 4-5 years.

While company already has received \$3-\$4 million in funding, it hopes to enter 2nd investment round by end of first quarter. Hicks said it expected to be able to break even in 2001 and then "be profitable in 2002." To achieve that, company is basing its business model not on membership numbers but on transactions per day. It hopes to have 13,000 transactions per day by end of next year.

Hicks previously worked for companies including Epson, IBM, Intel, Samsung and Xerox. James Kim, pres.-CEO-founder of RentMyDVD.com, is principal owner of Sneak Previews, Bay Area video rental and game entertainment business.

**Toshiba shifted production** of 17" PC monitors for U.S. market to Thailand from Horseheads, N.Y., blaming both sharp drop in prices that has led many manufacturers to move operations to China. Toshiba started monitor production at Horseheads plant, which primarily builds TV tubes, in 1998 (TVD Oct 19/98 p15) and had planned to add 19" as well. Goal had been to replace 19-20" TV tubes at plant with monitors. Newly freed capacity at factory is likely to be used for production of 32-36" flat-screen tubes, scheduled to begin in 2001, Toshiba Senior Engineering Mgr. Michael Milostan said. "The falling prices have hurt us and at one time, 4 years ago, all the Taiwan monitor makers were moving to Mexico, but now they're going to China," said Milostan, noting close proximity of Toshiba's Thailand plant to China. "The monitor prices have come down so much it wasn't cost effective" to continue manufacturing in U.S., he said.

**Nvidia graphics processors** are being included in new computers from Compaq and Sony. Santa Clara-based Nvidia, which is supplying processors for Microsoft Xbox, said its GeForce2 GTS processor was featured in Compaq's Presario 7000 consumer PC and Deskpro EXS Edition commercial products. Nvidia's GeForce2 MX processor is being included in Sony's Vaio Digital Studio series PCs. Nvidia said Sony's PCV-RX270DS and PCV-RX280DS minitower systems "depend on the Nvidia GeForce2 MX GPU to enable a new generation of digital imaging, movie editing, video e-mail and other high-powered graphics applications."



**E-TAILERS REPORT LOSSES:** Online retailers eToys and Barnes & Noble.com reported losses for past quarter ended Sept. 30. While eToys said it had smaller loss than analysts had expected for its 2nd quarter, Barnes & Noble.com's 3rd quarter loss met analyst expectations.

eToys said loss deepened to \$60 million loss (-48¢) in quarter from \$44.94 million (-38¢) loss year ago. But eToys said its loss excluding non-cash charges was only \$41.76 million (-33¢) vs. \$32.08 million loss (-27¢) last year. Loss was 2¢ less than 35¢ loss First Call/Thomson Financial said analysts had expected. Revenue for quarter nearly doubled in year to \$25.98 million from \$13.31 million. eToys also said its gross margin in quarter hit 22.5% — its best-ever showing — and gross profit dollars \$5.8 million, 129% over year earlier. Company said margin gain reflected "its continuing shift toward higher margin specialty products, including products and advertising sold by the company's BabyCenter unit."

In conference call with analysts last week, eToys Pres.-CEO Toby Lenk said: "We are pleased with our sales growth this quarter, especially when you consider that revenue from our videogame segment was negatively impacted by 2 industrywide phenomenons: Last year's artificial spike created by the Sega Dreamcast launch in September and this year's artificial dip created by anticipation of October's Sony PlayStation 2 release." He said: "Excluding videogames, our product revenues increased 2.3 times versus prior year — a strong underlying performance as we head into our peak selling season."

On customer acquisition front, Lenk said eToys added 223,000 new consumers in past quarter, bringing its total customer accounts to 2.4 million. Company also said existing customers continued to demonstrate loyalty by accounting for 44% of orders. Lenk also said average order size in quarter was "a strong \$61," which eToys called record for non-holiday quarter. Customer acquisition cost for quarter was \$26, based on ad expense of \$5.8 million, eToys said. At end of quarter, eToys said it had \$111.4 million in cash and \$61 million in inventory it owned. Lenk also said that in past quarter, company "completed our migration to 100 percent in-house fulfillment with the inaugurations of new warehousing and shipping hubs in southern Virginia and southern California." Locations give us enough fulfillment capacity for at least this holiday season and next," Lenk said.

eToys said it expects its quarterly loss "to narrow year over year for the first time next quarter and continue narrowing year over year for all subsequent quarters until break-even in fiscal 2002." In 3rd quarter, eToys said it expects: Net sales between \$210 million and \$240 million; gross margin between 22 and 44%; and cash and cash equivalents on Dec. 31 to be \$100-\$120 million.

Lenk said last week: "As we enter eToys's 4th holiday season, I believe we have never been better prepared or better positioned for success and that over the next few months, we absolutely intend to build on our leadership position in online kids' retail and content. In the videogame segment, the scarcity of Sony PlayStation 2 consoles will have negligible impact on our holiday sales since the Nintendo lineup, which targets kids 14 years old and below, is much more important to us. And the fact is we have ample Nintendo supply, including fast movers like *Pokemon Gold* and *Silver*."

Meanwhile, Barnes & Noble.com posted loss of \$48.03 million (-33¢), compared to \$21.88 million (-15¢) loss in same period year ago. Company said its pro forma loss for quarter was only \$36.94 million (-25¢), compared to last year's \$21.88 million (-15¢) loss. Revenue for quarter widened to \$74.07 million from \$47 million year ago. Online division of Barnes & Noble said its gross margin increased in past quarter to 20.1% from 15.5% a year ago thanks to "increased direct buying due to the opening of the company's state-of-the-art distribution center in Memphis" and "a reduction of both promotional activities and deep discounting bestsellers."

Barnes & Noble.com said it added more than 760,000 new customers to its base in quarter, while repeat orders reached 71% by end of quarter, increasing from 63% year ago. As quarter came to close, company's Web site added PlayStation 2 game titles to its software category. Although company carries games for most videogame platforms, it continues to treat category as minor part of its business, leaving company's Babbage's Etc. division to concentrate on that segment of the market. There was no mention of software segment in company's conference call with analysts last week.

In conference call, Barnes & Noble.com Vice Chmn. Steve Riggio pointed out company's latest new initiatives include addition of information products. But he said: "We still remain committed to strengthening our core business by delivering next generation levels of service — especially those that leverage our click-and-mortar network of retail stores and Web site." One way company is hoping to achieve increased levels is through initiative it announced week earlier in which it's adding Internet service counters at all of its stores for customers to gain easy access to Barnesandnoble.com Web site to buy item that store they are in might not have in stock.

### Consumer Electronics Personals

**Andrew Missan**, ex-Egreetings & WebTV, named ReplayTV gen. counsel... **Matthew Christiano**, engineering vp-gen. mgr. of Macrovision's Globetrotter Div., elected to parent company's board... **Michael Speckman**, ex-Waferscale Integration, appointed vp-sales, Fujitsu Microelectronics... **Bryan Stockton**, ex-Basic Vegetable Products, and **Thomas Debrowski**, ex-Kraft, named Mattel exec. vp-business planning and vp-worldwide operations, respectively... **Matthew Allen**, ex-Grow Biz International, appointed vp-franchising, CD Warehouse... **Murray Goldman**, retired former exec. vp, Motorola Semiconductor Products Sector, elected a Three-Five Systems dir... **Americo Silva**, ex-Deluxe Video Services, joins Paramount Home Entertainment as vp-operations... **Michael Cherniawski**, ex-Motorola, named vp-operations, Colorado MicroDisplay... **Changes at Hollywood Entertainment:** **Jeffrey Yapp** resigns as pres.-COO; **Scott Schultze**, ex-The Limited, joins as exec. vp-chief administrative officer; **Roger Osborne**, senior vp-eastern U.S. store operations, promoted to exec. vp-stores... **Nathan Fagre**, ValueVision senior vp-gen. counsel, joins Big Star Entertainment board.

**Half.com** is giving away 30 PlayStation 2 game consoles as part of holiday promotion it's holding this month. EBay company said customers automatically are given one entry in day's contest for every dollar spent at e-commerce site that day. One winner is selected each day, Half.com said.





# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

NOVEMBER 13, 2000

VOL. 40, NO. 46

## SUMMARY-INDEX OF WEEK'S NEWS

### Broadcast - Cable

**TAUZIN BLASTS BROADCASTERS** for early election calls, promises hearings next year, wants changes in deal with Congress. Ratings up, Web sites benefit. (P. 1)

**MAJOR CHANGE UNLIKELY** to result from election. Democratic gains in Senate seen as block to action. Some with telecom interest lose. (P. 3)

**MSTV-NAB MERGER** called unlikely, despite some support. Groups said to complement each other. NAB-ALTV also discounted. (P. 5)

**ABC BACKS RCN** as cable competitor to Comcast, citing retransmission consent fight. Comcast hits 'traditional Disney tactics.' (P. 5)

**FTC DELAYS AOL-TW** action. Companies offer new proposals. Kennard promises to reset FCC clock promptly. (P. 6)

**DISNEY UP, FOX DOWN** as companies report quarterly results. ABC cites higher ad rates. Fox hurt by Olympics competition. Other results. (P. 7)

**BROADCASTERS CALLED TO EXPLAIN WRONG PROJECTION IN FLA.:** TV executives should explain how they erred in Fla. election call, House Telecom Subcommittee Chmn. Tauzin (R-La.) said last week, promising hearings on subject early next year. At news conference, he said it was possible early reports that Vice President Gore had won state could have affected voter behavior in other states, particularly in Cal., where he said he believed support for Tex. Gov. George Bush (R) was depressed. He said networks could have influenced even Fla.'s own voting, since not all polls in multitime zone state had closed by time first reports aired. Voters affected were in western part of state, which is "Bush territory," Tauzin said.

Based on data from their common Voter News Service (VNS), networks, AP and CNN all announced around 8 p.m. Tues. that Gore had won Fla., which had been seen to be and then clearly became pivotal state in his battle against Bush, with polls in Cal. and elsewhere on West Coast still open. To obvious embarrassment of some newscasters on air, around 10 p.m. they had to retract their reports and reclassify state as too close to call. In early morning, newsrooms again erred by announcing state was firmly in Bush's hands, although by then all polls had closed. In fact, state at our deadline Thurs. remained in doubt, with recounts reducing Bush's margin to within 500 votes and with legal challenges promised. VNS "let us all down," Tauzin said.

Fla. errors may effectively have "disenfranchised" citizens who didn't bother to vote, believing election, that was widely expected to turn on state, already had been decided, Tauzin said. He said Cal. had been expected to be close, but Republican turnout was low and Gore won handily. Meanwhile, Democrats won all hard-fought House races in state, Tauzin said. First reports aired at 4:50 p.m. PST, he said, when possible voters were getting out of work and deciding whether to go to polls or go home.

### Consumer Electronics

**DIGITAL WATERMARK HACKED**, SDMI concedes. But questions linger as to results of open test. (P. 9)

**COMDEX TO SEE DVD RECORDING** from rival formats as -RAM, -RW and +RW camps prepare for showdown. CD-like 2 GB disc also to debut. (P. 10)

**DTV CONTENT TOO SCARCE**, set owners say in CEA survey. General public won't buy en masse until prices hit \$500. (P. 11)

**CE RETAIL SHARES PLUMMET** on Best Buy announcement that quarterly profit will fall 39% below expectations. (P. 13)

**U.K. PS 2 ALLOTMENT TO FALL SHORT:** Sony says Britain will get 165,000 instead of 200,000 expected. (P. 13)

**DOLBY SHOWS INCUBATOR** offering support for PC and video-games developers creating titles with multichannel audio. (P. 14)

**CABLEVISION DIGITAL SERVICE** to hold test with 1,000 Sony-built set-top boxes in Dec.-Jan. Wiz operating deficit grows. (P. 15)



By comparison, networks waited 2 hours to call Ohio for Bush and more than hour to call Ga. for Bush, who won it in “blowout,” Tauzin said. “VNS should come under scrutiny,” he said, urging investigation of “how this system works.” He said he was pleased that some networks already had called errors unacceptable and pledged internal investigations, but said general public had to understand what happened. “Whoever’s fault it is, we ought to try to fix it,” he said.

Networks in 1985 promised Congress not to air results from any state until “most” of that state’s polls had closed, Tauzin said. “Maybe it’s time to improve on that,” he said, and “wait until they all close.” Still, real problem is that reports were wrong, Tauzin said, telling room full of broadcast journalists that “if you had called it early correctly, I wouldn’t be here.” He said Americans needed “protection from getting bad information.” He said he doubted he had legal authority to block networks from airing reports, and he was “being very careful” on First Amendment. Congress was right not to legislate in 1985, he said, and Hill’s proper role again should be to hold hearings and help forge voluntary pacts. People need “chance to vent their frustrations,” Tauzin said.

Tauzin released letter to heads of networks and major cable players telling them of his impending investigation and asking them to explain what had happened. He asked for answers by Nov. 17 to series of questions, including: (1) What companies’ relationship was with VNS and what in-house analysis they applied in calling states, as well as what they did when there was discrepancy between VNS data and their own. (2) Whether same methodology was used for all states. (3) Whether VNS data had led to other errors, and whether changes were made to safeguard against such problems. (4) Whether companies still complied with 1985 agreement and whether they believed it should be expanded to cover all of a state’s polls. (5) Whether newsrooms took special precautions with Fla., considering most believed it was “essential to victory for either candidate.” (6) Whether companies considered impact Fla. call could have on turnout in other states.

Long before computers and exit polls, TV networks in 1960s bowed to pressures from Congress, public interest groups and others in agreeing not to project winner in Presidential elections in individual states until polls had closed in that state. There were several hearings in Congress then over impact such projections had on potential voters in states where polls hadn’t closed — at which even those favoring restrictions seemed to agree that legislation prohibiting projections would be declared unconstitutional. Networks have rejected entreaties not to project any state winners until polls have closed in all states. Networks agreed to limit their projections, according to veteran public interest advocate and former FCC and Justice Dept. official, “simply because a lot of prominent people were getting pissed off [by TV projections] and the networks just didn’t want to take the heat.” But, he pointed out, networks are broad in “hinting” at who winner will be — particularly when race isn’t as close as it was Tues. night.

Other than miscalling some election results, broadcast networks — and their Web sites — were among big winners in Tues. election. Close election heavily boosted network ratings, including holding audience into early morning, and prompted almost-too-heavy traffic on TV-related Web sites that carried election news.

Big 3 TV networks combined attracted nearly 50% of audience for prime time in 49 metered markets. NBC won, averaging 13.8 rating, 19 share, followed by ABC with 10.5/14, CBS with 8.9/13, with Fox 2.9/4. With Presidential election still in doubt throughout night, networks’ audiences remained abnormally high in early morning hours, according to NBC’s analysis of Nielsen figures for metered markets. UPN and WB aired regular entertainment programming during evening, with UPN earning its highest Tues. audience ever with 4.8 rating, 7 share for movie *Bad Boys*, while WB lineup of *Buffy the Vampire Slayer* and *Angel* received 4.8 rating, 6 share.

Web sites were both winners and losers in their coverage of election, based on figures from Media Metrix, which measured traffic flows to news and political sites, and Keynote, which measured sites’ performance. CNN.com got most hits on election day, followed by MSNBC.com with 2.6 million hits, ABCNews.com with 1.2 million hits Nov. 7, CBSNews.com with 341,000 hits, FoxNews.com with 511,000. ABCNews.com easily beat its own record for best single day, according to statistics from Walt Disney Internet Group.

But performance of many of sites was poor, according to Keynote, which rates speed at which Internet sites can be viewed. Keynote described *N.Y. Times* site as “terrible” and MSNBC.com “poor.” Keynote measures the time, in seconds, a page takes to upload from a broadband connection. Dan Todd, Keynote’s dir. of public services, said: “Everybody was surprised at how much traffic was generated. But the poor performance was also surprising. Most sites did not meet industry standards.” The *N.Y. Times* site took an average of 110 seconds to load, and 64% of the time it didn’t load at all, the Keynote report said. MSNBC.com loaded only 84% of the time at an average of 27 seconds. Yahoo was the most successful site, loading 100% at an average of 0.6 seconds.

Broadcasters didn’t do well in election races. Among losers were anchormen Rich Rodriguez in Fresno, Cal., and Mark Baker in Moline, Ill., weatherman Sean Cronin in Wausau, Wis., radio personalities Janet Jechelian in Boston and John Carlson in Wash.



Election also kept local stations busy, with record number of satellite news feeds. Conus Communications said it used 30 satellite transponders and proprietary Digital Distribution System to meet satellite newsgathering demand. PanAmSat said it provided ad hoc and special events services to 30 broadcasters around world for global distribution of live U.S. election coverage. ABC, British Telecom, CBS, CNN, European Bcstg. Union, NHK, TBS, Televisa, Univision, Vista and Vyvx were among those receiving feeds, company said. PanAmSat used 50 transponders on 11 spacecraft in 21-satellite global network and 6 teleports.

**DEMOCRATIC GAINS IN SENATE MAKE MAJOR BILLS UNLIKELY:** With Presidential race outcome uncertain at our deadline, only thing clear was that Republican majority in House and especially Senate would be even narrower next year, making major legislation with any partisan appeal that much tougher to move. Outcome of race for Presidency and attendant control of FCC and other key appointments remained unofficial, and several congressional results still were unresolved at our deadline. However, it was clear that several members of Congress who had been intimately involved with communications and technology policy had fallen, including up to 3 GOP members of Senate Commerce Committee. Claiming victory were New Democrats, who greatly increased their presence in both chambers and immediately cited technology policies as top priority.

Race for Fla., and with it Presidency, wasn't expected to be final for some time. As we went to press Thurs., state was completing recount of its agonizingly close returns, which showed Vice President Gore within 800 votes of Tex. Gov. George Bush, and legal action also was threatened over allegedly confusing ballots. Bush portrayed process as formality on his way to victory, while Democrats expressed hope Gore still could win. Most of those we talked with were operating under assumption that Bush would prevail. One knowledgeable cable industry observer said industry officials were "probably thrilled" that Gore-Lieberman ticket seemed more likely to lose because of heavy criticism that both had showered on entertainment industries in general and cable business in particular. "Cable couldn't pick a more anticable ticket than them," said source, especially noting Gore's Senate role in passing 1992 Cable Act that cut cable rates and imposed program access rules.

Nonetheless, on week when rampant speculation usually begins as to who victor will appoint to various key positions, "the campaigns have just clamped down," ITAA Senior Vp-Gen. Counsel Robert Cresanti said. "We expected to have a clear sense of who's in the running for these positions by this time." New President will have host of cabinet and subcabinet appointments to make to support his policies. "If [Bush advisers] have someone as competent and well-respected by Wall St. as [FCC Comr.] Michael Powell staying on at FCC in an acting capacity or permanent capacity, that would be a great solution, for perhaps as long as a year," Prudential Securities analyst Susan Lynner said.

Democrats started Tues. with 46 Senate seats and by Thurs. were assured of at least 49. Last undetermined seat was race to be "Senator from Microsoft," where even Democrats gave Sen. Gorton (R-Wash.) likelihood but not certainty of holding on against challenger Maria Cantwell (D) once absentee ballots had been tallied, which could run into this week. Among losers were 2 of GOP's 11 Commerce Committee members, both of whom had considerable industry backing, Sen. Abraham (R-Mich.) and Sen. Ashcroft (R-Mo.). However, Communications Subcommittee Chmn. Burns (R-Mont.) prevailed in campaign that received large quantities of communications industry money.

Although Cantwell victory would split Senate at even 50-50, GOP was poised to control that chamber regardless of which party won Presidency. Bush victory would allow Vice President Dick Cheney to break ties, while Gore victory would force Sen. Lieberman (D-Conn.) to give up his seat to Republican to become vice president. However, at either 49 or 50 seats Democrats were expected to agitate strongly for increased representation on committees. "We're at 50-50 in the Senate," Democratic leader Daschle (S.D.) told reporters. "It would seem to me we ought to be 50-50 in committees." We're told that's not likely to occur, but there's good chance that, for example, Commerce Committee, which now is split 11-9 for GOP, could be 11-10 next year, particularly since so many of newly elected Democrats are expected to seek Commerce posts and only retiring Sen. Bryan (D-Nev.) is sure to depart. Judiciary Committee, which currently is 10-8, and 11-9 Finance Committee, among others, could see changes in ratios. "In the Senate, GOP control is just going to be razor thin," Prudential's Lynner said. "The likelihood of having a general rewrite of the 1996 Telecom Act goes away."

Precarious nature of GOP's edge overall also led to much talk about 2 older and infirm Republican lawmakers — Sens. Helms (N.C.) and Thurmond (S.C.) — and possibility that if they should die or be incapacitated Senate could change hands in midsession, since both states have Democrat governors who would be likely to appoint Democrat replacements. Meanwhile, more GOP senators are up for reelection in 2002 — 20 — compared with 13 Democratic seats, meaning Senate will be more vulnerable to Democratic turnover in 2 years. If that happens, ranking member Hollings (D-S.C.) would be able to retake chair of Commerce Committee, where he could push bill to control violence on media and other proposals disliked by broadcasters.



Increased Democratic power could bode ill for broadcasters, as Daschle and others immediately cited campaign finance reform or at least free air time as major priority for new session. Daschle said Republicans might well go along now, because this election proved Democrats could raise just as much money: "This spiraling growth of campaign money has no advantage for anyone." Sen. Torricelli (D-N.J.) blasted broadcasters: "As we were raising money to buy television advertising during this fall campaign, we could not stay ahead of the rising rates of the network affiliates." He said that in some states, local affiliates received more than 10% of their revenue from political ads: "The same networks which are criticizing the campaign finance system are living off its largess."

Less partisan change was likely in House, where Democrats had gained just one seat by our deadline, with 2 races undecided. GOP entered Tues. with effective margin of 224-211, including one independent who generally sided with Republicans and one who caucused with Democrats, and at our deadline Thurs. it was in position to keep 221-223 members. However, New Democrats did very well, particularly in high-tech districts, even as many old-line Democratic seats were lost. For example, Mike Honda (D) beat James Cuneen (R) in race to succeed Rep. Tom Campbell (R-Cal.), New Democrat leader Rep. Dooley (D-Cal.) hung on in narrow race against broadcaster Rich Rodriguez (R) and Adam Schiff (D) defeated Rep. James Rogan (R-Cal.), member of Telecom Subcommittee. Group expected to add 8-10 members, taking its total to about 75. New Democrats immediately promised technology focus in conference call with reporters, with Sen. Landrieu (D-La.) citing efforts to close digital divide as key issue. Meanwhile, Consumer Electronics Assn. trumpeted easy election of its chmn., Darrel Issa (R), in Cal.

Slim margins that developed in both House and Senate as result of election could have significant impact on telecom industry, and it's not all bad, industry lobbyists and analysts said. "With razor-thin margins, anything that gets done will have to be done by consensus," Precursor Group analyst Scott Cleland said. And that could be good news, he said, because "telecom and Internet issues are among the relatively least contentious and least partisan." USTA Acting Pres. Gary Lytle said: "What I tell our members is, this is not a business dependent on partisanship. We would be okay no matter which party is in power."

Biggest changes could be yet to come, as jockeying begins for cabinet and committee leadership positions. Some said if Bush became President he might appoint Senate Commerce Committee Chmn. McCain (R-Ariz.) to cabinet. Burns would be next in seniority in that scenario after Sen. Stevens (R-Alaska), who already heads Appropriations Committee. Assuming he kept Senate seat, Gorton also was mentioned as possibility to succeed McCain.

Change in House Commerce Committee leadership as result of Committee Chmn. Bliley's (R-Va.) retirement could have even more impact. If Telecom Subcommittee Chmn. Tauzin (R-La.) became chairman "he will have a very different agenda," Cleland said. Meanwhile, Subcommittee Vice Chmn. Oxley (R-O.) remained in running for top committee job as well. Cable industry observer argued that cable officials might prefer Oxley over Tauzin, who is "very pro-RBOC" and pro-satellite and teamed up with Gore on 1992 program access rules. But source said Tauzin, who in 1992 was Democrat, was "much more hostile to cable" in past than he is today. Indeed, NCTA featured Tauzin as gushing keynote speaker at its last national cable convention in May.

Republican retention of House control means that Rep. Markey (D-Mass.) is seen as more likely to remain as ranking minority member of Telecom Subcommittee. If Democrats had recaptured House, observers said, Markey probably would have sought chairmanship of different full committee, leaving Telecom Subcommittee. It's still possible that he could become ranking member of full committee. Markey has been thorn in side of cable industry and others. His departure would open his position for Rep. Boucher (D-Va.), whose priorities would include close look at music copyright rules.

Extent to which FCC reform is scrutinized on Hill in next session may be affected by tight Senate margin, but even more so if Bush takes over White House, said Grant Seiffert, Telecommunications Industry Assn. vp-govt. affairs. "The Clinton Administration has had its opportunity," he said. "At this point, we haven't seen much progress except for the FCC reinvention plan" that was put in place 18 months ago, he said.

**AT&T Broadband signed pact with WorldGate Communications** to offer elementary interactive TV service to digital cable subscribers in 3 AT&T markets. AT&T, which had planned to introduce interactive TV service with Microsoft but delayed that effort because of software development problems, said it already had started WorldGate's service in Cedar Falls and Waterloo, Ia. and would expand next to Tacoma.

**President Clinton vetoed Intelligence Authorization Act** that broadcasters said would chill availability of important information to journalists (TVD Nov 6 p5). Clinton acknowledged that "far too many disclosures occur," but said "we must never forget that the free flow of information is essential to a democratic society." He said bill didn't provide proper balance between security and citizens' rights to information.



**MSTV-NAB MERGER?** Being heard on street in Washington is talk of possible merger of MSTV into NAB — particularly after MSTV Pres. Margita White's planned retirement late next year. But, "that's all it is — just talk," executive whose TV group is represented on boards of both groups told us. "There's absolutely nothing in the works along that line."

Of about dozen TV executives we queried on subject last week, most said they had heard same talk, but only newly installed MSTV Chmn. Gary Chapman would speak for record. "No, I'm not," he responded when asked whether he was leaning toward merger (as we had been told). As to whether combination ever would take place, he said "I just don't know." Chapman, who also is former chmn. of NAB joint board, stressed differences in goals of 2 groups — with MSTV strictly involved in technical matters, although it has formed "working group" to advise board on becoming involved in such issues as business, financial and political questions, while NAB along with its technical services is industry's primary lobbying group in Washington and provides many other member services that MSTV doesn't. "A good thing about MSTV is that we don't get involved in radio," Chapman said. As for technical issues — on which NAB and MSTV have worked closely in past — "we really have been very separate in our responsibilities," he said, with MSTV's function "very narrow." Stressing need for industry unity, he expressed hope merger speculation wouldn't take focus off both associations' main goal in digital area — uniform standards.

There is much commonality in MSTV and NAB boards — with just about every major TV group except Fox and NBC (which aren't NAB members) having representatives on both. That's one of reasons, source told us, why there are questions on need for both groups to exist. "I've wondered why we have them side-by-side for a long time," he said, "but there are pro and con arguments both ways." While echoing those views, another broadcaster involved in both said: "I feel the chances will be very slim that there will ever be a merger."

One broadcaster brought up idea of also bringing Assn. of Local TV Stations (ALTV) under NAB umbrella — making NAB only spokesgroup in Washington for TV industry outside of networks. Responded ALTV board member and ex-Chmn. Kevin O'Brien of KTVU Oakland-San Francisco to that idea: "That I can tell you is absolute fantasy." White had no comment on speculation, and NAB Pres. Edward Fritts didn't return our phone call.

**PrimeTime 24** has been ordered to pay broadcast plaintiffs \$675,000 in legal fees after losing satellite copyright infringement case under Satellite Home Viewer Improvement Act (SHVIA) in Raleigh federal court. Fourth U.S. Appeals Court, Richmond, upheld lower court ruling that home satellite service had to pay legal fees of successful broadcasters. Raleigh case was filed by ABC and several affiliates. CBS, Fox and other broadcast groups also have won copyright infringement suit against PrimeTime 24 in Miami federal court, and request that court order payment of their legal fees is pending. First such infringement case was filed several years ago in Amarillo, Tex., federal court by NBC and some of its affiliates, but judge still hasn't ruled in that case. NAB had collected from broadcasters and administered legal fund of several million dollars to retain outside attorneys in copyright cases against satellite providers.

**Globecast** said it had finalized agreements with half of National Hockey League and National Football League domestic radio rights holders to provide backhaul services from sports venues for 2000-2001 season, Globecast CEO Robert Behar said.

**ABC BACKS RCN:** In new twist to long battle between Disney and Comcast over retransmission consent rights, ABC-owned WPVI-TV (Ch. 6) Philadelphia took unusual step of backing overbuilder RCN Corp.'s application for franchise to provide competitive cable service. In testimony before City Council, WPVI-TV Pres. Dave Davis said Comcast's "monopoly wall" had to be broken through because consumers were paying "steep price." He also hinted that "free extensions" of retransmission consent wouldn't continue infinitely. Latest extension is to expire midnight Nov. 29. Comcast has 1.5 million subscribers in region.

Calling development "traditional Disney tactics," Comcast Cable Div. Exec. Vp David Watson said it was effort to deflect from basic fact that "we should negotiate a fair agreement." As for ABC station's backing RCN franchise, he said: "We face competition every day and it is not new. We welcome competition on the same and even terms that we have."

Urging Council to "vote... to give customers and broadcasters a choice," Davis quoted press reports as saying that Comcast customers in Philadelphia paid average of \$39.81 per month for 76 channels while RCN charged only \$29 per month for 88 channels, including Disney Channel in Chicago.

"Since January 1, we have received nothing from Comcast... for the most popular channel on its system, while they continue to collect the highest monthly cable charges in the country," Davis charged. Referring to Comcast's reported assurance that it wouldn't take Ch. 6 off system, he said that was like "Comcast customer pledging to keep taking cable service even though they stopped paying for it." Disney tried to be flexible in seeking compensation for carrying ABC signals if Comcast didn't want to pay cash, he said. It offered option of carrying Toon Disney and SoapNet and moving Disney Channel to basic from premium service.

Davis said his station had carriage deal with RCN on terms similar to that offered to other cable companies. However, he said, Comcast was refusing to accept offer because "they are negotiating from the strength of their monopoly." Meanwhile, Davis said, independent station WTVE (Ch. 51) Reading, all-news station being carried by Comcast, had offered to broadcast WPVI-TV news for up to 6 hours each day if MSO were to drop ABC from its systems, he said.

**S Media Corp.** was formed by Sony Corp. of America to serve as Web-based media exchange for buyers and sellers of TV programming, concentrating on sports and personal appearance rights of athletes. Sony said Kenji Kitatani will be interim pres. of S Media, with hq in N.Y. Sony Electronics Bcst. & Professional Co. will provide marketing support for Internet effort. S Media will charge clients annual membership fee (amount unannounced), plus \$300 listing fee and 12% for each transaction it handles. Charter members include PGA Tour, International Federation of Volleyball, Broadband Sports, Clear Channel's SFX and unidentified sports marketing and management company, Sony said.

**TV is powerful,** but secondary, influence on children, research report by U.K.'s Independent TV Commission said. It said main influences were parents and siblings. Researchers said it was difficult to clearly document effects of TV on children, but said children who watched TV were more willing to challenge authority at earlier age.



**FTC DELAYS AOL-TW ACTION 3 WEEKS:** FTC postponed proposed antitrust "enforcement action" to block AOL's pending purchase of Time Warner (TW) Nov. 9 after companies agreed to "offer new proposals to address competitive issues" related to merger. Five agency commissioners, facing reported Nov. 10 deadline for decision, voted unanimously to delay action "for a period of not more than three weeks," setting new deadline of end of Nov. Move came as at least one commissioner reportedly pushed for companies to make greater concessions to open TW's high-speed cable lines to rival ISPs in each market. It also came as AOL and TW faced increasing pressure from Wall St. to win govt. approval for deal announced 10 months ago.

FTC spokesman declined comment beyond agency's brief statement announcing its decision to extend negotiations for 3rd time. TW spokesman offered little more, saying "we're making constructive progress in our discussions with the FTC." But industry analysts and other observers expressed little surprise at delay because of tough line that FTC is taking in discussions. "Foreplay tends to continue longer," said Media Access Project Pres. Andrew Schwartzman. "These things tend to take more time."

Consumer groups and rival ISPs applauded move by FTC to require pending AOL-Time Warner union to open its high-speed cable lines to limited number of competitive Internet providers. But they called for federal regulators to go further on cable open access and nondiscriminatory terms for rival interactive TV content providers. Proposed draft agreement with govt. reportedly called for companies to carry at least 3 rival ISPs in each market over time. Plan would also block AOL-Time Warner from offering AOL's online service in each cable market until at least one competitor had been recruited.

At same time, FCC Chmn. Kennard pledged that Commission would reset its stopped merger time clock "promptly after the FTC has acted." In 2-page letter to Senate Antitrust Committee Chmn. DeWine (R-O.), Kennard disputed DeWine's argument that FCC's decision to delay its review causes "uncertainty for all parties." Kennard called it "inconsistent with sound administrative procedure and unfair to the parties" for FCC to "rush to a decision" while companies and FTC are "still negotiating significant issues that could have a substantial impact" on Commission's review. Kennard said extended period of review "reflects not only the complexity of this particular merger but also choices by the merging parties as to the best way to advance their case."

Escalating its campaign against TW, AT&T urged FCC to intervene forcefully in companies' running dispute over potential sale of AT&T's minority stake in Time Warner Entertainment (TWE) back to TW. Specifically, AT&T, which indicated it would prefer to shed its 25.5% interest in TWE to meet Commission's conditions for MediaOne deal earlier this year, asked FCC to require that issue be submitted to binding arbitration if companies couldn't agree on sale price by Dec. 1. In 3-page letter Nov. 8 to Kathryn Brown, chief of staff to FCC Chmn. Kennard, AT&T Exec. Vp-Gen. Counsel James Cicconi called for that requirement to be imposed as condition on AOL's pending acquisition of TW. He said Commission also should stipulate that companies "enter a definitive agreement" to exchange AT&T's TWE stake at "the arbitrated price" before FCC's May 19 deadline for compliance with MediaOne order.

On another front, several consumer groups petitioned FCC again to reopen its docket on earlier AT&T-MediaOne deal and consider both big cable deals together. In filing with Commission Nov. 9, Consumers Union, Consumer Federation of America and Media Access Project argued that recent filings by both AOL and AT&T on TWE joint venture demonstrated why 2 proceedings should be consolidated. Only by joining reviews, groups contended, "can the Commission gather complete information and tailor appropriate conditions." FCC turned down earlier petition by consumer groups on same issue.

Meanwhile, Disney lobbyists continued to pound away at proposed takeover at FCC. In latest ex parte filing at FCC, Marsha McBride, Disney vp-govt. relations, said she met with aides to Comrs. Powell and Tristani to stress Disney's concerns about AOL-TW's technical ability and business incentive to "discriminate against nonaffiliated program providers." As condition of approval, Disney wants govt. regulators to require AOL-TW to provide high-speed cable return path for all Internet and interactive TV content suppliers, not just AOL-TW's own content. In 17-page submission to Commission late last month, Disney called for such requirements in light of AOL-TW's "remarkably steadfast... refusal to provide any assurances regarding return path discrimination."

Yet another recent Disney filing took AOL to task for its new 6.0 software, arguing that new Web browser prevented subscribers from creating custom home pages and steered them instead to AOL's own page. In 12-page statement, Disney contended that new software version violated spirit of promises by AOL and TW executives that they welcomed competitors.

Despite yet another rumor on Wall St. that FCC was near decision on Northpoint-DBS spectrum fight, industry sources told us possible holdup for agency was lack of consensus among commissioners. "We hear Chairman Kennard favors Northpoint, but doesn't have enough votes" for rulemaking, source said, with Comrs. Ness, Powell and Tristani still studying issues. Northpoint executive told us company hadn't heard report that FCC was likely to back it and said it believed issue still was undecided: "We know they are working on something, but we don't think a decision is imminent."

**Broadcast data service** Dotcast said it completed 3rd round of financing, adding \$60 million capital and several big-name investors, including Disney, GE, Intel, Quantum, Worldview Technology. Financing is in addition to \$20 million 2nd-round funding in April by Pacific Century Cyberworks, Softnet Systems, Tribune, others. Dotcast technology uses underutilized portions of TV broadcast spectrum, either digital or analog, to deliver wireless data services to PCs. Company targets rich multimedia content, bypassing traditional Internet. Content is being distributed through deals with several broadcasters, including PBS.

**Iridium asset sale hearing** scheduled for Nov. 8 in U.S. Bankruptcy Court, N.Y., was postponed until Nov. 15 after creditors received higher offer of \$27.5 million from Venture Partners (VP) led by Eugene Curcio of La Jolla, Cal. VP also had made earlier offer.

**FCC plans forum** at 3 p.m. Dec. 1 to receive public comment on improving preparation process for next World Radio Conference (WRC) — 202-418-1407.



**DISNEY UP, FOX DOWN:** Disney TV operating profit climbed 26% to \$460 million in quarter ended Sept 30 and revenue was up 14% to \$2.2 billion. Problems at Fox, partly as result of Olympics competition, hurt News Corp. results. Cable results generally were up.

ABC results were big boost, Disney said, because of strong ad market and success of *Who Wants to Be a Millionaire*. TV stations also benefitted from higher spot ad rates due to higher ratings. Broadcast operating profit soared 65% to \$234 million and revenue was up 12% to \$1.3 billion. Disney share of cable operating profit rose 7% to \$240 million on higher affiliate revenue and subscriber growth, as well as higher profits from A&E, Lifetime, E! Entertainment, History Channel. ESPN profit was hurt by higher sports rights fees, it said. For parent, net loss from retained interest in Disney Internet Group decreased to \$33 million for quarter from \$35 million loss year ago.

Despite sharp drop in TV operating profit, News Corp. income dipped only to \$390 million in quarter ended Sept. 30, from \$395 million year ago. TV operating profit fell to \$80 million from \$149 million year ago because of competition from Olympics on NBC and late launch of Fox fall season. Fox also cited higher programming and promotional costs. Fox stations had 3% revenue growth. Overall News Corp. revenue increased to \$3.24 billion from \$3.16 billion and cable network operating profit to \$39 million from \$32 million, mainly because of growth at Fox Sports Networks. Company said losses at Fox News Channel were reduced 51% from year ago. News Corp. share of BSkyB losses fell to \$4 million from \$9 million.

In other financials: **Cablevision Systems** reduced net loss to \$40.1 million in 3rd quarter ended Sept. 30 from \$178.1 million year ago on \$130.8 million gain on sale of cable systems and higher operating profit before depreciation and amortization of \$264.9 million. Cablevision reported operating income of \$26.4 million, reversing \$20.4 million loss year earlier, as net revenue rose 14% to \$945.4 million... **Comcast** had \$1.25 billion profit in 3rd quarter ended Sept. 30, up from \$335 million year ago. Results for latest quarter included \$1.06 billion gain on recapitalization.

**High Speed Access Corp. (HSA)** reported net loss more than doubled to \$32.2 million in 3rd quarter ended Sept. 30 from \$14.3 million year ago, despite quadrupling net revenue to \$4.3 million... **Mediacom Communications** net loss widened to \$23 million in 3rd quarter ended Sept. 30 from \$14.4 million year earlier, despite more than doubling revenue to \$84.5 million and operating profit to \$40 million.

**Annual MSTV conference** on DTV will be Nov. 21 at Washington Monarch Hotel. Speakers include: (1) Keynote, MSTV Chmn. Gary Chapman of LIN TV. (2) Regulatory panelists Susan Fox and Dale Hatfield of FCC, attorneys Wade Hargrove and Jonathan Blake. (3) Lynn Claudy of NAB and Victor Tawil of MSTV on VSB/COFM Project. (4) Broadcasters Alan Frank of Post-Newsweek, Martin Franks of CBS, Jay Ireland of NBC, Michael McCarthy of Belo, Greg Schmidt of LIN TV. (4) Consumer panel of NCTA's Daniel Brenner, FCC's Robert Pepper, CEA's Gary Shapiro, attorneys Ellen Goodman, Lawrence Sidma, Robert Schwartz. (5) Panel on govt. transition including Mark Hyman of Sinclair, Justin Lilley of News Corp., Alexander Netchvolodoff of Cox, Preston Padden of Disney, Shaun Sheehan of Tribune — 202-861-0344.

**PUBLIC BCSTR. TO SELL WNEQ-TV BUFFALO:** Western N.Y. Public Bcstg. Assn. (WNYPBA) said it reached agreement to sell WNEQ-TV (Ch. 23, PBS) Buffalo to LIN TV for \$26.2 million. It will use proceeds "primarily" to create endowment fund for financing enhanced production and community service programs, association said. Transaction is subject to FCC approval.

Although FCC approved WNYPBA application for conversion of its station WNEQ-TV Buffalo to public license from commercial and WNEQ-TV the reverse, action is subject of court dispute. Washington-based Coalition for Noncommercial Media has challenged approval in U.S. Appeals Court, D.C., where no action is expected until spring, WNYPBA said.

If court ruled against FCC, WNYPBA would substitute WNEQ-TV for WNEQ-TV in sale to LIN, Assn. Pres. Donald Boswell said, and in that event LIN would pay additional \$5 million. Public TV programming then would be provided by WNEQ-TV in western N.Y. and southern Ontario area, he said. But "we consider that scenario to be highly unlikely," Boswell said, and "we believe the federal Appeals Court will uphold the Commission's decision."

There won't be any staff layoffs as result of sale, Assn. said. "In addition to funding TV and radio production, the earnings from the endowment fund will be devoted to enriching our educational and community outreach services," Boswell said. In addition to 2 TV stations, WNYPBA operates 3 radio stations. LIN owns WIVB-TV (Ch. 4, CBS) Buffalo.

**Adelphia is dropping adult entertainment network Spice Channel** from its cable systems in L.A. and surrounding communities, citing its "long-standing policies" and lack of significant demand for programs. MSO had inherited carriage of Spice when it acquired systems from Century Communications in Oct. 1999. But Adelphia will give serious consideration to any requests from regulators for reinstatement of channel, CEO John Rigas said. Adelphia has 1.3 million subscribers in market. Responding to article in *L.A. Times* that called decision risky since adult pay-per-view business was soaring, Rigas said that while many premium services contained some adult entertainment as part of their overall menu that were very popular, other cable operators had found that there wasn't significant demand for offerings devoted entirely to adult fare. Revenue generated from adult channels was only small fraction of "revenue potential from the other premium services," Rigas said. Saying cable operator has obligation to provide programming that reflects community standards, Rigas said that if franchise authorities in Adelphia's markets sought restoration of adult programming, "we would naturally take those requests very seriously. At this point, a significant majority of customers... have applauded our decision to no longer provide services devoted exclusively to adult programming."

**Clear Channel Communications** is seeking punitive damages from publisher of *Inside Radio* newsletter, charging in suit in U.S. Dist. Court, N.Y.C., that newsletter launched "vicious and concerted campaign of coercion, public vilification and harassment" against company. CEO Randy Michaels said newsletter had attempted to use its coverage to "disrupt our business." Eight-count civil suit claims tortious interference, business disparagement, publication of injurious falsehoods, unfair competition, unfair trade practices, RICO violations. Trial date hasn't been set.



## Personals

**Elliott Troshinsky**, ex-KMAX-TV Sacramento, named pres.-gen. mgr., KCRA-TV there... **Bill Rinchik** promoted to vp-finance & new ventures, Freedom Bcstg... **James Wareham** advanced to vp-gen. mgr. WLAI Lansing... ValueVision extended contract of CEO **Gene McCaffery** through April 1, 2004... Greater Media Chmn. **Frank Kabel** will retire Dec. 31, succeeded by **John Bordes**... Scientific-Atlanta gives CEO **James McDonald** additional title of chmn... **Richard Heftel** advanced to vp-music industry relations, Hispanic Bcstg.

Discovery Communications eliminated position of pres.-International Policy, so **Donald Wear** is leaving company, will continue as adviser... **Timothy McCarthy** promoted to pres.-gen. mgr., WABC(AM) N.Y. and Radio Disney... Changes at Fox: **Lee Bartlett**, ex-Greenblatt Janollari Studio, named senior vp-business & legal affairs, Fox Cable Networks Group; **Todd Schoen**, ex-MTV, appointed vp-affiliate mktg., Fox Family Channel... Changes at Playboy: **Jim English** promoted to pres., Playboy Entertainment Group; **Anthony Lynn** moves to pres., Alta Loma Productions... **Sheila Blackwell**, ex-Teligent, named Global Metro vp-communications... **Mark Scott** advanced to vp-New England, Cox Business Services.

Appointments at FCC Consumer Information Bureau: **Thomas Wyatt** promoted to assoc. bureau chief-operations; **Margaret Egler**, ex-Common Carrier Bureau, becomes assoc. bureau chief-policy; **Jack Forsythe**, ex-Prince George's County, Md., named chief, Consumer Information Network Div.; **Stephen Gorey**, ex-Dept. of Interior, named chief, System Support Office.

**NAB Exec. Committee** approved retaining Answer Think to help it devise 24-hour, 7-days-a-week "virtual trade show" Web site devoted solely to Assn.'s annual convention. Washington-based Answer Think is to devise plans for presentation at NAB's Jan. board meetings and it expects prototype to be on-line before April 21-16 convention in Las Vegas. By 2002 convention, plan is that exhibitors will be able to buy space via Internet. Site eventually is expected to be moneymaker for Assn., NAB board was told last June when task force was set up to study proposal. "The main thrust [of Web site] will be to protect the NAB brand," said Jack Knebel, NAB exec, vp-operations and business development.

**Local advertising on radio** was up 6% in Sept., helping industry record its 97th straight month of total revenue increases, even though national revenue was down 6% for period, Radio Ad Bureau (RAB) reported. However, figures were well below Aug. 2000 when local radio expenditures were up 11%, national 6%. For first 9 months of year, spending by local advertisers on radio was up 15% and national 20% for overall increase of 16%, RAB said.

**Basic cable networks** boosted their audience at expense of broadcast networks in first 5 weeks of TV season, Cable Ad Bureau (CAB) said. In analysis of Nielsen data for Oct. 2-Nov. 5 period, CAB said ad-supported cable's average prime-time household delivery climbed to 24.7 million, rating to 24.1, audience share to 39.1. At same time, CAB said, 7 broadcast networks saw their household delivery dip to 36.4 million, rating fall to 35.6 and audience share slip to 58.1. CAB said ad-supported cable networks showed even stronger gains, and 4 major broadcast networks racked up bigger losses, in total-day viewing in first 5 weeks of season.



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

## TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

(ISSN 0497-1515)

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

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

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

Copyright © 2000 by Warren Communications News, Inc.  
Reproduction in any form, without written permission, is prohibited.

### EDITORIAL & BUSINESS HEADQUARTERS

2115 Ward Court, N.W., Washington, DC 20037  
Phone: 202-872-9200 Fax: 202-293-3435  
Email: info@warren-news.com

### WASHINGTON HEADQUARTERS

Albert Warren . . . Chmn., Editor & Publisher  
Paul L. Warren . . . President  
Daniel Warren . . . Vice Chairman  
Dawson B. Nail . . . Executive Editor  
R. Michael Feazel . . . Senior Editor  
Edie Herman . . . Senior Editor  
Herb Kirchhoff . . . Senior Editor  
Alan Breznick . . . Senior Editor  
Mary Greczyn . . . Senior Editor  
Sasha Samberg-Champion . . . Associate Editor  
Dinesh Kumar . . . Associate Editor  
Bruce Branch . . . Associate Editor  
Dugie Standeford . . . Associate Editor  
Shawn Nelson . . . Assistant Editor  
Terry Lane . . . Assistant Editor  
Matt Kistmayer . . . Assoc. Production Mgr.  
W. Pernell Smith IV . . . Assoc. Production Mgr.

### Television and Cable Factbook

Michael Taliaferro . . . Managing Editor  
& Asst. Publisher--Directories  
Richard Koch . . . Asst. Managing Editor  
& Editorial Director  
Gaye Nail . . . Asst. Managing Editor  
Susan C. Seiler . . . Senior Ed. & Ed. Supv.

### Daily Document Service

Joseph Lautieri . . . Manager

### Business

Brig Easley . . . Controller  
Lynn Levine . . . Exec. Sales Director  
Betty Alvine . . . Circulation Mgr.  
Deborah Jacobs . . . Information Systems Mgr.

### NEW YORK BUREAU

276 Fifth Ave., Suite 1002, N.Y., N.Y. 10001  
Phone 212-686-5410 Fax: 212-889-5097  
Paul Gluckman . . . Bureau Chief  
Stephen A. Booth . . . Senior Editor  
Mark Seavy . . . Senior Editor  
Jeff Berman . . . Associate Editor  
Razia Mahadeo . . . Editorial Assistant

### CONTRIBUTING EDITOR, EUROPE

Barry Fox  
22 Holmefield Court  
Belsize Grove, London NW3 4TT  
Phone: (44-20) 7722-8295  
Fax: (44-20) 7483-3074  
Email: barryfox@cs.com

### JAPANESE REPRESENTATIVE

Editorial and Circulation  
CES International Corp.  
Sumitomo Seimei Aoyama Bldg.  
3-1-30 Minami Aoyama, Minato-ku  
Tokyo 107-8577, Japan  
Phone: (03) 5413-8664

- ☐ I'm interested in Television Digest with Consumer Electronics and would appreciate your sending me a FREE four-week (4 issues) trial subscription. I understand I have no obligation to subscribe.
- ☐ The person below would be interested in receiving a FREE four-week (4 issues) trial subscription to Television Digest with Consumer Electronics.

Signature \_\_\_\_\_  
Name \_\_\_\_\_  
Company \_\_\_\_\_  
Address \_\_\_\_\_  
City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

For e-mail delivery, please provide internet address: \_\_\_\_\_

## Obituary

**Joseph A. Carrier**, 66, retired pres.-broadcasting, Gray Communications, died Nov. 5 of heart failure in U. of Tenn. Hospital, Knoxville. Graduate of Boston U., he had long career in TV with Caprock Communications and Hubbard Bcstg. before joining Gray. Carrier was former member of BMI board, former chmn. of CBS TV affiliates board and was on NAB TV board. Wife, 2 daughters, son survive.



# Consumer Electronics

A Section of Television Digest with Consumer Electronics

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Oct. 27 and year to date:

	OCT. 21- OCT. 27	1999 WEEK	% CHANGE	OCT. 14- OCT. 20	43 WEEKS 2000	43 WEEKS 1999	% CHANGE
TOTAL COLOR TV	1,260,642	1,369,473	- 8.0	769,770	24,243,670	23,328,240	+ 3.9
DIRECT-VIEW**	1,208,487	1,307,580	- 7.6	742,777	23,265,397	22,379,290	+ 4.0
TV ONLY#....	993,786	1,048,969	- 5.3	595,309	19,230,197	18,744,635	+ 2.6
TV/VCR COMBO.	214,701	258,611	-17.0	147,468	4,035,200	3,634,655	+ 11.0
PROJECTION...	52,155	61,893	-15.7	26,993	978,273	948,950	+ 3.1
TOTAL VCR**...	1,568,959	1,554,280	+ 0.9	753,615	23,040,184	21,867,902	+ 5.4
HOME DECKS...	1,354,258	1,295,669	+ 4.5	606,147	19,004,984	18,233,247	+ 4.2
CAMCORDERS.....	429,506	265,943	+61.5	115,495	4,819,170	3,939,370	+ 22.3
DVD PLAYERS....	768,381	418,854	+83.4	156,450	6,328,947	2,976,406	+112.6

Direct-view TV 5-week moving average#: 2000-804,900; 1999-836,287 (down 3.8%).

Projection TV 5-week moving average: 2000-32,725; 1999-37,664 (down 13.1%).

VCR deck 5-week moving average: 2000-791,251; 1999-755,933 (up 4.7%).

TV/VCR 5-week moving average: 2000-143,540; 1999-143,812 (down 0.2%).

Camcorder 5-week moving average: 2000-197,872; 1999-156,332 (up 26.6%).

DVD player 5-week moving average: 2000-370,922; 1999-175,708 (up 111.1%).

\*\* 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.

**SDMI SAYS DIGITAL WATERMARK WAS HACKED:** More questions than answers remain in wake of last week's announcement by Secure Digital Music Initiative (SDMI) that one of its digital watermarks was successfully detected and attacked in its recent open challenge to hackers. Although identities of hackers hadn't been revealed yet, it was clear that research group that previously claimed to have defeated SDMI watermarks wasn't participating in SDMI's tests any longer — but still contended it was successful, as we reported Oct. 30.

SDMI reported 2 successful detections on one of 3 watermarks tested. Challenge originally included 4 watermarks, but one proponent withdrew proposal early in testing process, SDMI said. Matt Oppenheim, RIAA senior vp-business and legal affairs, said first round of audibility tests on hacked music sample had been completed. Listening tests by "golden ears" committee determines whether process used to hack watermarks also impairs quality of music, but results weren't available at our deadline. Other copy-prevention technologies, which didn't involve watermarks, weren't defeated, SDMI said. They involved ways to prevent making digital copy of digital original or to defeat watermarks by splicing snippets of music.

Only one of 2 successful detections proved successful in long run, SDMI said. Other hack wasn't reproducible on additional music samples, as required by evaluation process, Oppenheim told us. He said that after successful detection is discovered, hacking method must be applied to 3 other music samples in order to prove that hack isn't title-specific.

That is reason behind discontinued participation of hacker group that earlier claimed it had defeated all 4 original watermarks, Oppenheim said. So-called Princeton group, composed of computer scientists from Princeton U., Rice U. and Xerox' Palo Alto Research Center, wouldn't agree to participate at this stage, Oppenheim told us.



Princeton group insisted it was successful. "We remain convinced that we were and are able to defeat these 4 technologies," it said in statement on Web site ([www.cs.princeton.edu/sip/sdmi](http://www.cs.princeton.edu/sip/sdmi)). "Their [SDMI's] announcement does not invalidate our scientific results." Group said it planned to publish detailed technical report describing its results by Nov. 17.

That was early sticking point with SDMI. In order to qualify for \$10,000 prize for each watermark hacked, challenge participants had to agree not to disclose findings or methodology to public. Princeton group had declined nondisclosure agreement, saying it would make results public.

What wasn't clear was whether successful hack announced by SDMI was performed by Princeton group or whether SDMI would factor group's work into its evaluation of watermarking process. Oppenheim told us that identities of successful hackers weren't known yet, but eventually would be made public.

Also not known was whose watermark was hacked and whose were tested. In June, dozen companies submitted proposals for Phase II watermark. Those included Verance, which SDMI chose for its Phase I detection system and which has been adopted for DVD-Audio. SDMI spokeswoman told us 3 watermark participants in challenge wouldn't be identified, including one whose mark was hacked.

Watermarking adds supposedly inaudible and unremovable digital code to analog music waveform. Sensors in players and recorders look for code, which tells them whether music may be copied or otherwise used. But if watermark can be removed or distorted so that sensors can't detect it, copy protection is defeated. SDMI Phase I sensors already are built into MP3 devices and DVD-Audio players.

Variety of methods were used to attack watermarks in challenge, Oppenheim told us. Some hackers tried to make watermark undetectable by altering music's frequency response, or adding white noise, or changing pitch or speed. He said those methods could succeed in making mark undetectable, but sample still had to pass listening test and sound musically correct as 64 kbps MP3 recording. "You can't make Barry White sound like Alvin and the Chipmunks," Oppenheim said.

**COMDEX TO SHOWCASE OPTICAL RECORDING:** Rewritable DVD formats for PCs and home AV will make big showing at this week's Comdex as they prepare to enter their infancy. Meanwhile, new MultiLevel Recording technology that triples storage space in same real estate as 650 MB recordable CD will make first appearance in private demonstrations at Las Vegas show. Among here-and-now products, showgoers can expect to see plethora of digital music portables, digital still cameras, electronic books — and combinations of them.

Working prototypes of DVD+RW recorders will be demonstrated publicly and behind closed doors by Philips and other consortium members during show. Product plans and timetable for rollouts also will be revealed, partners said. Late last month, Philips said it would offer 2 home DVD+RW decks in 3rd quarter next year, with another to follow early in 2002. Introduction had been pushed back twice, from this 4th quarter and then to next June.

Philips also will show DVD+RW drives for PC for introduction in same time frame but believes home video will drive DVD+RW format, said Chris Buma, product mgr.-AV disc recording. Sony remains unlikely to offer DVD+RW for home AV recording but might field PC drive — which definitely is in plans for Hewlett-Packard. Although it's not consortium member, RCA parent Thomson has said it will introduce its own home DVD+RW deck late next year.

In DVD-RW camp, Pioneer will show drive for PCs that also will record CD-R/W and is expected to retail for less than \$1,000. Home DVD-RW deck from Pioneer is expected to hit retail in U.S. early next year, priced around \$2,500.

DVD-RAM home decks already are available under Panasonic brand at \$3,500. At Comdex, Panasonic and DVD-RAM stalwarts Hitachi and Toshiba will lay out plans for additional recorders, such as PC drives. Panasonic is expected to announced ramped-up production for format, which will be incorporated in PCs from Compaq and IBM.

Newest optical recording technology is MultiLevel Recording (ML), developed in alliance by TDK and Calimetrix and announced Oct. 30. As we reported same day, system uses CD-size disc but can record 2 GB in same surface area as 650/700-MB blank CD. System requires no changes in CD optics, mechanics or manufacturing, thereby retaining backward compatibility to read and write conventional CDs. Additional capacity is achieved by recording marks of different



lightness or darkness with different levels of reflectivity. Technology partners said all that was needed to add ML capability to CD drive would be addition of one or 2 Calimetrix chips and use of disc fine-tuned for ML recording.

ML will challenge existing CD format — and new double-density CD/R-W (DDCD) with 1.3 GB capacity announced by inventors Philips and Sony. TDK and Calimetrix say CD licensors have been informed about ML, but Philips and Sony had little to say on subject. Sony spokeswoman couldn't confirm that her company had been briefed about ML. She told us that because Philips and Sony weren't involved with ML, Sony wouldn't comment except to say "TDK and Calimetrix have announced a 'technology' which is not a 'Compact Disc' product because there are no standards backing it at this time."

At Philips, Buma said company "probably had been told" about ML but said it would focus on DVD+RW with 4.7 GB capacity and backward compatibility with CD and DVD instead of "interim" products such as DDCD and ML. Philips previously had said it would license DDCD to others but wouldn't itself offer format. "We see no mass market potential for interim products with 1.3 GB storage when 4.7 GB is coming next year," Buma said.

Buma insisted Philips wasn't worried about DVD+RW defections to DVD-RW camp. He said only exception had been Sony, which joined Rewritable Products Promotion Initiative (RWPPPI) at group's formation in May but remained steadfast supporter of DVD+RW for PC data. Other members of DVD+RW camp, Mitsubishi and Ricoh, have joined RWPPPI but they're media manufacturers and looking toward cross-platform, multiformat endorsement as means of achieving economies of scale in media, Buma said.

As for why Philips hasn't joined RWPPPI, as it reportedly had been close to doing in May, Buma said Philips had no argument with RWPPPI's stated goal of promoting compatibility between formats such as +RW and -RW, "but in our view, RWPPPI is very much focused on -RW only." Situation could change, though. "If there was a greater conviction toward +RW, that might make a difference," he said.

Home networking capabilities — always big draw at Comdex and lately in CE circles — won't factor into first-generation DVD+RW decks destined for U.S. next year. First prerequisite in home networking is designing and standardizing digital video output for DVD player, Buma said. Philips chairs that committee within DVD Forum and is working on that.

**DTV OWNERS WANT MORE PROGRAMMING — CEA:** Main complaint by DTV first-adopters is dearth of HD programming from broadcasters, according to CEA survey of 318 owners. Meanwhile, rest of nation isn't breaking piggybank to buy DTV sets. Separate CEA survey of general public found 60% of 1,000 polled won't buy DTV set until price dropped to \$500, and only 11% would buy in at \$2,000.

Industry is on track to sell 425,000 DTV displays to dealers this year, CEA announced at recent "Delivering on the DTV Promise" conference in N.Y.C. Tally through first 9 months was 368,947 compared with 53,415 in same period last year. Figures include sets with integral DTV tuner/decoder as well as DTV-capable monitors that need outboard decoder — which comprise vast majority sold, CEA said. Year to date, 25,855 outboard decoders were shipped to dealers. That makes minimum attach rate about 7%, consistent with past performance and manufacturers' estimates. CEA said that through 1999, attach rate was 17%.

Research on DTV owners showed buyer was tech-savvy baby boomer with \$75,000-\$100,000 annual income, said Todd Thibodeaux, CEA vp and senior economist-market research. He said 57% of DTV owners had rear-projection set, 22% front projector, 19% direct-view. About 90% bought modular display needing outboard decoder, and 83% had decoder. Same percentage used outdoor antenna, rest used rabbit-ears — and 44% also had satellite DTV reception.

DTV owners like what they see — but said they just didn't see enough of it. Picture quality was rated as "good" or better by 94%, and 67% of sample said same of DTV audio. And although 50% rated quality of programming as good, 84% said quantity was poor.

Asked whether DTV content availability fulfilled their expectations, 62% said they "didn't get their money's worth" while 32% said they did. Latter group tended also to have HD satellite reception and DVD player for high-quality pictures, Thibodeaux said.

As for satisfaction of overall expectations from DTV, 48% said they were "exceeded" and 40% said they were "met." Only 12% said DTV didn't meet their expectations, and that group "tended to rate the quality and quantity of program-



ming the harshest," Thibodeaux said. Despite dearth of HD programming, 86% answered "yes" when asked whether they would do it again.

Compared with NTSC, DTV viewing habits were what might be expected given nature of HD programming. Survey found 75% of owners watching movies with DTV, but only 50% using set to view general programming. Group reported watching "significantly" more TV than before DTV purchase, particularly movies. Survey also revealed other video and CE equipment in DTV owners' households: DVD, 89%; VCR, 80%; satellite receiver, 78%; cable box, 23%; videogame console, 16%; PVR, 14%; WebTV, 6%; home theater speakers, 74%. Survey said "many" DTV owners also had analog Laserdisc.

Most DTV sets were purchased from high-end retailers, but that was changing, Thibodeaux said. Local high-end specialty stores had 39% of set sales, regional electronics stores 26% and mass-market electronics retailers 11%, with 24% of owners shopping at unspecified "other" outlets. Those owning DTV for year or more and spending \$5,500 or more probably purchased set from local specialists, Thibodeaux said. But those who made purchase within last 6 months and paid \$2,000 to \$3,500 for set bought it from mass marketer such as Best Buy or Circuit City, he said. Retailers received generally good marks on their DTV know-how. Asked extent to which their questions were answered by sales staff, 41% of owners said "most," 29% said "some," 22% said "all." But 8% of owners said none of their questions had been answered. They also said they had used Internet extensively to research their DTV purchase.

Reaction to DTV from general public was more ambivalent compared with response of DTV converts. But CEA said survey was encouraging in that it found growing familiarity with DTV among average consumers.

Overall, 30% of sample said they were "very" or "somewhat" familiar with details of DTV. Figure rose to 41% among men. But 46% of group and 54% of women answered "not very" or "not at all" to question. Asked whether they were familiar with terms used to describe system, 74% said they knew Digital TV and 61% knew High-Definition TV. But HDTV struck bell with only 42%, and DTV with 25%. Overall, 83% of men and 73% of women were familiar with at least one of those terms.

Survey said 35% of respondents had seen DTV — 62% in retail stores. Although 24% said they had viewed DTV in homes of family or friends, CEA was skeptical as it "seems too high given the installed base," Thibodeaux said. He suggested it was possible some of those respondents had seen "digital satellite" TV, not DTV.

Survey indicated that most people are happy with status quo and saw little need to upgrade TV images. Asked whether TV performance could be improved, 57% said "a little" and 9% said it couldn't. But 31% said they thought performance could be improved "a lot." Thibodeaux said responses shifted in favor of improvement prospects among those who had seen DTV.

Buying interest in DTV was mixed, and definitely tied to price. Those "very/somewhat" interested comprised 54% of sample; 23% were "interested but not a buyer" and 22% were "not interested" in DTV. Group was split about evenly as to whether household's next TV would be DTV, 46% saying yes, 45% no, others undecided. But actions were likely to be predicated on price: 11% said they would buy at \$2,000, 17% at \$1,500, 30% at \$1,000 and 60% when ticket dropped to \$500. Industry sources were unwilling to speculate when latter price point would be achieved, and for what type of DTV set.

Warner Music signed agreement to use Advanced Audio Coding (AAC) compression technology for its Internet-based download business. AAC, developed jointly by AT&T, Dolby, Fraunhofer and Sony, earlier gained backing of BMG Entertainment and Universal Music. Among digital audio players on market, Matsushita and Toshiba models have technology, while Sanyo and Compaq will add it via software upgrade, said Andrew Fischer, Dolby AAC Business Development Mgr. Among new player entries is TDK, which is marketing Sanyo-built unit (\$299) in Japan that uses MultiMedia card technology. While fee-based music download business is in infancy, "value proposition needs to be compelling in relation to spending 10 minutes on Napster," Fischer said referring to PC file-swapping technology company that signed preliminary agreement with BMG last week for fee-based service in effort to resolve copyright litigation with music industry.

Bang & Olufsen (B&O) is shipping 25" TV combining DVD/CD player with FM radio and active loudspeakers. BeoCentre 1, which will be sold first in Europe, is available in 6 colors — black, blue, green, gray, red, yellow. Price wasn't available. B&O had proposed 27" TV with DVD/CD player for U.S. market this year (TVD Dec 7/98 p18). B&O has no immediate plans for BeoCentre in U.S., where it's shipping 30W BeoVision Avant (\$8,500) also in multiple colors. Set has 480p native resolution and Dolby Digital and DTS decoding, especially in silver and black, Harvey Electronics Pres. Franklin Karp said. In bringing BeoVision to market, B&O overcame software glitches and delay in UL approval to deliver what retailers said had been strong seller. To ease distribution, B&O has added 2nd warehouse in N.J., supplementing Ill. facility. Among new products, B&O is expected to introduce BeoSound 2000 shelf system in 2001.



**BEST BUY WARNS ON PROFIT:** Three weeks after rival Circuit City projected 3rd-quarter loss on broadbased CE sales slowdown (TVD Oct 23 p10), Best Buy shares plummeted 30% and more Thurs. after announcement that profits for 3rd and 4th quarters would fall significantly below analysts' estimates.

Best Buy projected 3rd-quarter profit at 27¢ per share vs. consensus estimate of 44¢, and for 4th quarter, profit of 90¢ per share vs. analysts' \$1.02. Best Buy blamed "softer economy," which has spurred increased "promotional activity" that in turn has reduced gross margins and profitability. Nevertheless, senior Best Buy officials said store traffic remained strong and same-store sales gains for quarter remained on plan at 5%.

CFO Allen Lenzmeier told analysts in conference call that gross margin for quarter was expected at 18.8% vs. 19% year earlier, which he said represented 120 basis points short of plan for quarter. He cited growing "commoditization" of products such as DVD players, saying that although unit sales were growing, they were commanding steadily lower average selling prices in process.

Chmn.-CEO Richard Schulze told analysts that digital product categories including DTV and DVD continued to grow by double digits and Best Buy was encouraged by early results of plan to change store layout of cellular phones and mobile electronics. However, he said market entry into N.Y. "has not yet ramped up to our expectations," and performance of Bestbuy.com was falling short of "our internal target," which he blamed on poor timing of new product launches in games and computers. Lenzmeier said Bestbuy.com and N.Y. market entry shortfalls combined would take 17¢-per-share hit in 3rd quarter. He said N.Y. hit would be 3-4¢ higher than anticipated because Best Buy expected quicker ramp-up reminiscent of move into Boston. In reality, he said, senior management now believes ramp-up will be more gradual, akin to Best Buy's market entry into L.A.

Best Buy warning had profound ripple effect on other CE retail stocks. For example, RadioShack said it expected Nov. same-store sales to grow on plan in mid-to-upper single digits and said it was comfortable with analysts' profit estimates of 75¢ per share. Nevertheless, RadioShack shares, tainted by Best Buy announcement, were down 12% in Thurs. afternoon trading.

Elsewhere, few CE retail stocks escaped damage. Circuit City shares fell 9.65%, Good Guys 13.27%. Tweeter Home Entertainment suffered worst decline, as shares fell 20.22%.

**RadioShack (RS) stock fell 7% last week** after it reported that Oct. same-store sales rose 10%, down from 16% gain in Sept. Sales increased 16% to \$371 million from \$321 million year ago. Stock dropped \$4-7/16 to \$60-9/16 when sales figures were released Nov. 6, but rallied to finished week at 54-7/16. RS blamed decline on "soft general retail environment." Finance Vp Lauren Jensen also said chain was switching cellular carriers to Verizon, which started sales Nov. 1. Its previous carriers Southwestern Bell and BellSouth spent fewer "promotional dollars" in quarter as they closed out business, he said. BellSouth and Southwestern Bell supplied cellular service to 1,200 RS stores, Jensen said. Overall wireless sales rose 20% in units and in "upper single digits" in dollars, he said. Same-store sales of cordless phones and scanners and CB radios rose in "low single digits," while A/V, which is sold in RCA store-within-a-store format, jumped 40%. Minus direct sales, A/V was up in "midteens," Jensen said, and PCs 20%.

**U.K. PS 2 ALLOTMENT TO FALL SHORT:** U.K. will be getting only 165,000 PlayStation 2 videogame consoles instead of 200,000 originally expected through holiday season, Sony Computer Entertainment UK (SCE UK) spokesman told us last week.

Spokesman wasn't positive on exact reason for shortfall, but he told us: "My guess [is that it's] the same reason and rationale that affected the U.S. shipment" — component shortage. He said overwhelming demand for PS 2 in Japan and U.S. also probably was factor in smaller number of consoles U.K. will be getting.

PS 2 is being rolled out in Europe Nov. 24. At our deadline last week, it was unclear whether other countries there also would be getting fewer consoles than expected.

As result of reduced allocation in U.K., SCE UK spokesman told us company would be "recalling forms" for preorders from its dealers that hadn't been filled out yet by customers. He said he wasn't sure how many consoles had been preordered from retailers in U.K. "because we've got a fairly complicated preorder system in place." But he said "we think that we've just about met the number [that U.K. is getting], which is about 165,000." Sony won't allow dealers to have additional forms filled out beyond that figure "to prevent consumers from being disappointed," he said.

Spokesman told us "we don't know" when U.K. will be getting additional PS 2s, "but we obviously want them as soon as possible." Sony, he said, is "working [its] hardest to make as many as possible." He was hoping more consoles would arrive early next year.

As Sony Computer Entertainment America Pres.-COO Kaz Hirai did when company revealed PS 2 allocations were being cut in half for U.S. debut (TVD Oct 2 p11), SCE UK spokesman said actual number of consoles for start there still was unprecedented. He said only 25,000 units of original PlayStation were shipped in U.K. when that platform launched there.

Meanwhile, Sony Chmn. Norio Ohga reportedly traveled to Taiwan last week to contract chip makers such as Taiwan Semiconductor Mfg. and United Microelectronics to make parts for PS 2, as well as Sony's cellphones and MP3 players.

**U.S. Precision Lens (USPL)** will add building with additional presses and molding equipment plus 350 employees as it seeks to expand projection lens capacity 60% by 2002. New 200,000-sq.-ft.-plus facility is largest chunk of \$79 million USPL parent Corning allocated for boosting capacity. Rest will fund conversion of warehouse space in existing building into pressroom and adding new equipment. USPL will occupy about half of new structure at outset, leaving room for further expansion or addition of new technologies, company said. Company gradually has expanded Cincinnati facilities over years including 70,000-sq.-ft. addition in 1994 (TVD Aug 15/94 p15). LED manufacturer Cree Research said it plans to open new 125,000-sq.-ft. expansion of factory in N.C. by Dec. Cree spent \$24.6 million on capital projects in fiscal first quarter including plant expansion as well as purchase of new equipment for epitaxy, crystal growth, clean room and package areas. Cree, whose customers include Osram, builds LEDs for variety of display applications including cellular phones.



**DOLBY INCUBATOR PROGRAM:** Dolby Labs is starting incubator program designed to provide support for video and PC game developers creating titles containing company's multi-channel audio technology.

Dolby's Virtual Incubator program, which has roster of 125 developers, is likely to be in place by mid-2001, said Dolby's Terry Bratcher, interactive media consultant. Dolby won't buy equity stakes in developers, he said, but will provide talent and resource information, sample code, marketing support and equipment data. Among those expressing interest, he said, are Blizzard Entertainment, Electronic Arts, Sierra Online, Squaresoft.

"We have to start providing services and moving beyond being evangelists," Bratcher said.

Expansion of services will be key to Dolby achieving what he termed "critical mass" of 1,000 titles containing its technology. Current catalog has 325 titles, majority of which are PC games developed in Dolby Surround. Goal is to move development to Dolby Digital, whose decoder is built into PlayStation 2 console and may be included in Nintendo's GameCube and Microsoft Xbox. As development of games has become more sophisticated, budget and storage space allocated for audio have increased, in some cases, to 10-12% of total from 1-2%, Bratcher said.

"Having several hundred Dolby-enabled games is not enough, and not until we create this critical mass of content will we ever become an audio standard in the interactive space," said Jack Buser, evangelist in Dolby's computer and game initiative. "The trick to sustaining product like this is moving beyond linear content and making sure interactive content actually supports our technology."

Push also is to make "the whole game Dolby Digital," Buser said. While DVD video content and music in PlayStation 2 will be in Dolby Digital, some game content may be delivered in PCM stereo, he said.

Dolby's move into videogames is relatively new, but company has long had strong position in PC market, where Creative Technologies recently introduced sound cards containing Dolby Digital. CD-ROM titles are well established in PC market, but DVD-ROM games have been slow to develop due largely to higher costs, Buser said. While there are 48.7 million PC DVD-ROM drives with Dolby Digital, only 35 DVD-ROM titles have been released. "When the cost comes down, then it will change," he said.

Among Dolby's future projects is likely to be online gaming, which is emerging slowly with release of PlayStation 2 and SegaNet service that says it has 100,000 subscribers. Online gaming business is projected to increase to \$5 billion by 2004 from \$85 million in 1999, Buser said.

**Transmeta stock** more than doubled to \$42-1/2 in Wall St. debut Nov. 7, just week after IBM decided against introducing ThinkPad notebook PC with Crusoe processor (TVD Nov 6 p17). Stock closed week at \$44-15/16. Transmeta raised \$273 million by selling 13 million shares at \$21. Compaq was expected to introduce PC product for Asian market containing Crusoe, but its plans for U.S. remained unclear. Via Technologies shipped wearable PC with Crusoe for tests with U.S. Army Military Police at Ft. Polk, La.

**Rentrak** swung to \$9.6 million loss in 2nd quarter from \$605,108 profit year earlier as it took \$6.1 million writeoff to shut down retailer loan program (RLP). About \$4.4 million of write-off was tied to Video Update, which is operating under bankruptcy protection. Revenues slid 9.7% to \$24.5 million in face of "weaker slate" of video releases and "decreased rental activity" due to televised Olympics, Rentrak said. Earnings were first issued since new management took control in Sept. following proxy battle (TVD Sept 25 p19). RLP, which Rentrak started in 1992, was designed originally to provide financial backing for retailers entering prerecorded video business. Video Update was RLP's largest dealer, followed by handful of smaller retailers, Investor Relations Vp Richard Nida said. Rentrak also recorded \$500,000 loss on sale of 200,000 shares of Hollywood Entertainment (HE) stock that were acquired in Jan. as part of settlement of lawsuit. Rentrak had sued HE 2 years ago for \$180 million in dispute over exclusive terms of revenue-sharing agreement and alleged that chain misreported income from videos purchased under pact. In wake of write-off, Rentrak's core pay-per-transaction (PPT) business reported \$8.5 million loss against \$882,407 profit year earlier as sales fell to \$17.5 million from \$22.9 million. Loss at Rentrak's e-commerce fulfillment subsidiary 3PF.com grew to \$1 million from \$277,299 despite rise in revenue to \$4.7 million \$1.7 million. Rentrak is continuing to weigh spinning off 3PF.com, which provides fulfillment services for small e-commerce retailers, most prominent of which is gift site Red Envelope, Nida said. He declined comment on possible discussions with Warner Home Video on providing data auditing and processing services for latter's direct shipment business. Rentrak is said to be seeking to regain Columbia TriStar and Warner business (TVD Oct 2 p14), which it has lacked for several years. "We've had ongoing conversations with those people and we would love to have them back," Nida said.

**Trans World Entertainment (TWE)**, taking \$13.1 million charge for IRS claim and write-off of investment in Internet company, reported \$15.6 million loss in 3rd quarter against \$3.8 million profit year earlier. Sales, hampered by weak music release schedule, slid to \$265.6 million from \$276 million on 4% decline in same-store sales. IRS claim (\$11 million), upheld on court appeal, related to deduction of interest expenses for corporate-owned life insurance policies for Camelot Music, chain TWE acquired in 1999. Minus charges, net loss was \$3.1 million. Downturn in sales was attributed to music category, including 30% and 37% drops in cassette and single revenues, respectively. CDs were down 4%. Video rose 24% on strength of DVD, which now accounts for 41% of category's revenue, CFO John Sullivan said. Despite sales slowdown, TWE projected 10% increase for 4th quarter on 3-5% gain in same-store sales, Sullivan said. In 4th quarter, TWE plans to open 125 stores and close 77. It recently completed acquisition of 119-store Disc Jockey chain and since has shut 6. TWE also plans to unveil chainwide brand strategy in Jan. starting with 20 stores that will open over 3-4 months, CEO Robert Higgins said. He came under fire from shareholder in conference call who said 2-quarter delay in announcing brand strategy was "embarrassing." Higgins said he would "do what is right for the business" and wouldn't make "a decision prematurely to keep investors happy." TWE posted \$1.1 million in online sales in quarter, up from \$100,000 year ago, and has hired Diamond Technology to help develop system for in-store sales of digital downloads of music.

**Sharp** shipped portable DVD player that it said contained world's largest LCD at 8.3". DV-L80U, which has Dolby Digital decoder and 10-bit A/D 3-stage zoom, is priced at \$1,599.



**CABLEVISION TESTS DIGITAL:** Cablevision will start test of new digital service in Dec. when it ships 1,000 Sony-made set-top boxes (STB) to Long Island, N.Y., customers, CEO James Dolan told analysts in earnings conference call last week.

Test is below 5,000 units Cablevision earlier in year had projected shipping this fall, but will lead to full rollout in 2nd quarter 2001, company said. Pricing and packaging haven't been finalized, but Sony is building modem-equipped STB that uses proprietary middleware for interactive services and OpenTV's Spyglass browser for Internet access, Telecom Services Pres. Joseph Azznara said. Two-way digital service will offer video-on-demand, e-mail access, interactive advertising and "select online content" from Cablevision's various holdings including Madison Sq. Garden and Radio City Music Hall, he said.

Digital cable debut comes as DBS penetration "accelerates" in N.Y.C. area, Azznara said. DBS, which has penetrated 8.5% of area homes, has resulted in some Cablevision subscribers' "downgrading" their pay programming, although "large percentage" have kept cable and DBS, he said. "With this [digital cable] it will be easy to compete because it's so robust in both directions," Dolan said. Annual churn for cable system has remained flat at 21%, Azznara said.

Overall, Cablevision reduced net loss to \$40.1 million in 3rd quarter ended Sept. 30 from \$178.1 million year earlier, largely on \$130.8 million gain on sale of cable system in Kalamazoo and higher operating profit before depreciation and amortization of \$264.9 million. Operating income swung to \$26.4 million profit from \$20.4 million loss year ago as net revenue jumped 14% to \$945.4 million. Cable and Long Island telephone operations had 10% gain in adjusted operating cash flow to \$218 million as net revenue rose 7% to \$469.9 million.

Cablevision's Wiz retail chain continued to struggle in quarter as adjusted operating cash flow deficit grew to \$18 million from \$10.2 million year ago despite 25% gain in revenue to \$171.7 million. Cablevision blamed cash flow deficit on lower gross margins and higher advertising and payroll costs. As result, Wiz is moving to improve inventory control system and customer service and reduce overtime costs, Azznara said.

Wiz, which has been overhauled with new store formats and strategies since former Pres. William Marginson resigned earlier this year (TVD Jan 31 p15), has become central to Cablevision's cable modem service. Eighteen of Wiz's 41 stores sell cable modems and goal is to reach 21 by year-end, Cablevision has said (TVD May 15 p14). Wiz is expected to account for 50% of MSO's cable modem sales by year-end with direct mail (48%) and online (2%) providing rest, Azznara said.

Cablevision added 46,000 subscribers to Optimum online service to end quarter at 139,700, but with goal of 200,000 by year-end. Company recently settled litigation with Excite@Home, but declined to disclose how many of new cable modem subscribers purchased that service. Overall cable modem penetration reached 9.5%, up from 4% year earlier, but hit 13% in Conn. and Long Island.

Cablevision said it had postponed to Dec. 8 from Nov. 10 special meeting for shareholders to vote on proposed tracking stock for Rainbow Media Holdings, which includes cable channels American Movie Classics (AMC), Bravo, Independent Film Channel (IFC). Vice Chmn. William Bell declined com-

ment on reasons for delay, but company said it would "evaluate all of its options and alternatives" related to assets that would comprise Rainbow. Among them was possible merger with MGM or sale of some cable programming businesses to USA Networks, which is interested in Bravo, *Daily Variety* reported Nov. 9. Cablevision spokesman declined comment on Rainbow plans.

Company also declined comment on reports that AT&T was weighing selling its 30% stake in MSO. "AT&T hasn't told us of any plans," Dolan said. "We'd like to have AT&T as a shareholder, but we'll be supportive of whatever they do."

**Unspecified glitches** have forced one-week delay in street debut of first Warner DVD-Audio titles. New street date is Nov. 14, Warner Music Exec. Vp Jordan Rost confirmed. However, release of one title, *Beethoven: Symphonies Nos. 4 & 5*, originally part of 7-title launch planned for Nov. 7 (TVD Oct 9 p12), has been pushed back to Dec., reasons undisclosed. Rost wouldn't comment on delay other than to minimize its importance. As we have reported (TVD Nov 6 p11), Warner includes Dolby Digital track on its DVD-Audio titles, so music can be played on DVD-Video players. However, access to higher resolution audio, music videos and other DVD-Audio special features and graphics requires "universal" or DVD-Audio player — explanation that Warner provides on packaged discs, samples of which it furnished us with last week. Discs also are labeled to differentiate them from regular CDs as they come packaged in nearly identical jewel boxes. Common to all is variation of disclaimer that "this disc will only play on players with a DVD logo." There's also diversity in stickers used to alert consumers that full feature set is playable only on DVD-Audio player. Simplest sticker among those provided by Warner is affixed to *The Bedroom Mixes*, by Jazz at the Movies Band. It reads: "Advanced Resolution Audio and related visual content require DVD-Audio capable players." Most elaborate sticker is on *Johann Strauss in Berlin* disc, which lists 3 available audio modes (advanced resolution surround, advanced resolution stereo, Dolby Digital), and directs consumer to "connect your player to a TV set for bonus visuals" (also listed). Meanwhile, newest DVD-Audio universal player to ship is previously introduced Toshiba SD-9200 at \$1,999 list.

**Sage, in first move** since acquiring Faroudja Labs earlier this year, will ship new line-doubler chip late this month. Chip, development of which started earlier this year, features motion adaptive cross-color suppression designed to remove artifacts from picture. It also has directional correlational deinterlacing that chooses best directional interpolation on pixel-by-pixel basis. Other features are per-pixel motion adaptive deinterlacing and film-mode deinterlacing. "Sage has a well-oiled engine for bringing products out quickly and supporting them in high volume," said Nikhil Balram, Sage Consumer Products Vp-Gen. Mgr. "That is what the merger has given us." FLI2200, which operates at 27 MHz, is priced at \$29 in 10,000-unit quantities. Line-doubler is packaged with 4 MB SDRAM, but has memoryless option for lower priced products, Balram said. It's designed for front projectors and DVD players and is produced at ST Microelectronics factory using 0.25-micron process. Line-doubler is Sage's first push into consumer market, strategy that will expand when company combines its technology with Faroudja's video processing in chip expected to be available in first half 2001. New Faroudja chip moves Sage beyond LCD monitors, where it had 29% market share in 2nd quarter 2000, and into DVD players and digital TVs.



**OFFICEMAX NARROWS LOSS:** OfficeMax, despite being hampered by switch in PC suppliers and problems with replenishing its stores, reported 3rd quarter net loss narrowed to \$22 million from \$37.4 million year earlier as sales inched up to \$1.307 billion from \$1.301 billion. Same-store sales dipped 1.5%.

Loss included \$19.5 million charge, \$14.4 million of which was settlement of lawsuit with Ryder Integrated Logistics (TVD Nov 6 p15). Balance of charge will cover closing of 54 stores in first half 2001.

Meanwhile, **Office Depot (OD)**, which is expected to shut 75-100 stores (TVD Oct 23 p19), said it would close or scale back 17 of 24 call centers in laying off 400 employees. Chain will complete review of business, which includes decision on store closings, by Jan., CEO Bruce Nelson said. OD operates 863 outlets in U.S. and 126 in international markets.

OfficeMax blamed decline in same-store sales on installation of end cap displays as part of new agreement with Gateway and on glitches in installation of new SAP software. Full-size Gateway store-within-a-store format has been installed in 55% of OfficeMax's nearly 1,000 stores, figure that will rise to 80% by year end, CEO Michael Feuer said.

Under agreement, Gateway is leasing space within OfficeMax stores, strategy that chain may expand as it shrinks average store size to 20,000 sq. ft. from 23,500, Feuer said. OfficeMax also is negotiating leases for 10,000 sq. ft. within its 30,000-sq.-ft. outlets, many of which it acquired in buying BizMart several years ago, Feuer said. Leasing within larger stores will "be done as soon as possible," but smaller outlets may not be affected for "a year or more," spokesman said. Office Depot also is focusing on 20,000-sq.-ft. stores. "A smaller retailer may be able to take that space or we could try another store-within-a-store format," he told analysts in conference call.

About 200 "issues" remain to be resolved in new SAP software system, including some on accounts payable and inventory management. Software, expected to be finalized by year-end, resulted in "in-stock levels falling below acceptable levels" in quarter, Feuer said. OfficeMax typically maintains in-stock levels of 90% or more, spokesman said. Installation of new PowerMax warehouses was completed in quarter and facilities handled 50% of chain's products, with goal of hitting 90% in early 2001.

In light of continued losses, OfficeMax has scaled back new store openings in current fiscal year to 54 from 115 at start. Fewer than 54 will be added in existing U.S. markets in next fiscal year, Feuer said. While company hasn't finalized which stores will be closed, he said chain may leave some regions. It will continue to test 5,000-sq.-ft. PDQ format, with 4 stores in 3 markets, although "right now it's not a priority," spokesman said.

"The race for pure stores is over and we're now looking for productivity gains," he said. "There are too many players and too many stores in some markets. It's going to be a much healthier industry for office superstores and this is a maturation process."

In other cost-saving move, Feuer said "vendor rationalization" — forgoing sales and ad support in favor of gaining lower product prices — is likely to yield \$100-\$110 million in annual savings.

Chain's OfficeMax.com online business posted 6¢ loss in quarter despite 180% increase in sales to \$30 million. It said 50% of sales were to repeat users and customer acquisition costs remained slightly under \$100.

Office Depot said "continued weakness" in desktop and laptop PCs, monitors and printers would cause it to fall short of analysts' projections for 4th quarter earnings of 17¢. Chain continues to be hampered by lack of in-store instant rebate for Internet service that's packaged with sale of PCs, but will have one in place by month's end, Nelson said. Same-store sales are expected to fall in "negative mid-single digits" for 4th quarter, he said. In connection with consolidation of call centers, Office Depot will take \$2 million charge for employee severance and disposal of assets, Nelson said.

\* \* \* \* \*

**Grupo Sanborns (GS)**, which earlier this year bought CompUSA, has continued to snap up shares of OfficeMax as well. Mexican retail group, operating under Orient Star Holdings banner, bought 2.4 million shares in 7 block transactions (\$2.35-\$3) Oct. 6-26 through Houston-based Orient Star Holdings investment vehicle, boosting overall holdings to 14% of OfficeMax outstanding common. GS also purchased 429,200 shares in Sept. in 6 transactions at \$3.97-\$4.48 and 348,600 in Aug. in 5 deals at \$4.18-\$5.06. OfficeMax board adopted rights plan in March that limited ownership of common by any group or person to 15% (TVD March 20 p14)... David Fuente, who resigned as Office Depot CEO in July but remains chairman, will receive weekly payments based on \$1 million annual salary through Dec. 31, after which annual figure drops to \$250,000, company said in SEC filing. Agreement also carries 5-year noncompete clause.

**Colorado MicroDisplay (CD)** has raised \$34.3 million in 4th round of financing designed to carry it to breakeven, said Mktg. Dir. Rainer Kuhn, who declined comment on when company would achieve that mark. GE Equity was lead investor and was joined by Chatterjee Group, EnterTech Capital Partners, Gruber & McBain Capital Management, Mustang Ventures Fund, Odyssey Capital, Polaroid. Among new investors, Mustang also has stake in PacketVideo, which has developed wireless streaming video delivery system. CD also has begun sample deliveries of 0.25" microdisplay (TVD May 29 p13) to potential customers, full production to begin in first quarter. CD hasn't select production source for 0.25", although Hanna Microdisplays, which is building its 0.47" display, is leading contender, Kuhn said. Display, designed for near-eye applications, has 320x240 resolution, 100-150 lumens, 100:1 contrast and power consumption of less than 100 mw.

**989 Sports** said its "sports junkies" had simulated 2000 World Series using its *MLB 2001 Major League Baseball* videogame for PlayStation "to predict the outcome of the 2000 World Series." 989 didn't correctly guess any of final scores and predicted that Series would extend to 6 games. But it did guess correctly that Yankees would win first, 2nd and 5th games; that Mets would win 3rd game; that Yankees would be ultimate winner of Series — albeit by 4-1 rather than 4-2 as 989 predicted. 989 is sports software brand of Sony Computer Entertainment America.

**Webvan** now is charging \$4.95 fee for customers whose online orders total less than \$75. Foster City, Cal.-based e-tailer sells electronics, music, videos, groceries, other items.



**GAMES ARE KEY TO SUCCESS:** Nintendo and Microsoft executives, speaking at Gerard Klauer Mattison 10th Annual Toy and Interactive Entertainment Conference in N.Y.C., said success of each company's upcoming advanced game systems was riding on how much consumers liked titles available for systems. Both were confident that consumers would indeed like what they saw next year.

Nintendo of America Sales & Mktg. Exec. Vp Peter Main said his company stood for "just great games," noting that *Pokemon* and other popular titles had been key to its ability to sell 100 million Game Boy Color systems to date. He said this year's *Pokemon Gold and Silver* sold 1.5 million pieces in their first week in stores.

Although Nintendo has attempted to target core gamers in their 20s with select games over last year, Main said Nintendo intended to continue focusing its platforms mainly on younger gamers, which he said was one clear way that company set its systems apart from those of competitors such as Sony. While competitors are stressing abilities of their systems to play DVD movies and be used for online gaming, Main said those weren't Nintendo's main concerns. He said: "We have to make money for the videogame industry" — and movies and Internet represent competition for videogame industry.

On Game Boy Advance, Main said "over 1,000 development kits are in developer hands." But various game makers have said in recent weeks that they had yet to see developer kits for Nintendo's Gamecube even though platform was slated to debut in Japan in July and U.S. 3 months later. Main said Nintendo was looking to "level the playing field" for 3rd party publishers by making sure development was relatively easy for game makers. He said basic computer programming already would be done for developers as part of system that could save money and create better games in less time than on today's Nintendo 64 machine.

Calling 2001 "really the year of true transition for our industry," Main said Nintendo's Game Boy Advance and Gamecube would represent "one-two punch that no one else in the industry can match."

But between now and rollout of new systems, Nintendo still sees plenty of market opportunities for its current platforms. Main said *Pokemon Gold and Silver* continued to sell well, as did recently released *Legend of Zelda: Majora's Mask* for N64, and company had additional titles on way that it expected to perform well, such as *Hey You, Pikachu* for N64 (which began shipping early last week) and *Donkey Kong Country* for Game Boy Color, which Main said would ship Thanksgiving week.

Later in day, Microsoft Games Mktg. Dir. John O'Rourke, when asked why consumers would want to buy Xbox instead of competing console, said: "Ultimately, what the consumers care about is the game." O'Rourke said "around 20 games will be available for Xbox at launch" — 2/3 of them from 3rd party publishers. Still unclear was how many games for system would be exclusive for Microsoft platform. All he told us was that there would be "some exclusives."

O'Rourke also offered list of what he called "5 keys to Xbox success." Heading list was Microsoft's desire to "focus like a laser beam on games." Second, he said, was company's desire to work with game makers because "we know we can't do this alone." Third was Microsoft's assigning more than 1,000 employees to

work on Xbox and provide such resources as previously announced \$500 million in funding earmarked for worldwide Xbox marketing. Rounding out list were Microsoft's aligning itself with Intel, Nvidia, Thomson and other technology partners, and goal set by Microsoft to "underpromise and overdeliver." Of course, industry will have to wait until next fall to see whether Microsoft pulls off that last goal.

**Audiovox will post earnings** of 44-47¢ in 4th quarter ending Nov. 30, down from 56¢ year ago, as it struggles with components shortage for GSM and TDMA cellular phones. Analysts had projected earnings of 67¢. Revenues will be in \$485-\$520 million range based on sales of 2.4-2.7 million cellular phones. Audiovox projected sales of one million GSM and 300,000 TDMA phones for year, but had shipped combined 236,000 through first 11 months, Pres.-CEO John Shalam said. Acer Communications and JVC Taiwan have supplied GSM phones, while Mitsubishi provided TDMA, he said. Toshiba and Hyundai, which build Audiovox's CDMA phones for U.S. market, haven't had similar components shortage, Shalam said. Audiovox had delivered 1.5 million CDMA phones as of Oct. 31 to Verizon, which accounts for 50% of its revenues. Overall, Audiovox expects to sell 10.5 million phones this year, 85% of which will be CDMA. It also will take \$8.5-\$9 million charge in 4th quarter as it drops analog cellular phones to focus on digital. While digital sales were projected to increase 88%-90% this year, analog was expected to fall 70%, CFO Michael Stoehr said. Audiovox has 500,000 analog phones remaining in inventory, said Philip Christopher, of Wireless subsidiary Audiovox Communications Corp. As result of decision to leave analog business, which generated annual sales of 2 million units, Audiovox projected revenues would rise only slightly in 2001 to \$1.8-\$1.9 billion from current \$1.7 billion. Digital sales are projected to increase 45-49% in 2001, Christopher said. Audiovox will ship PCS, MP3-compatible and trimode phones next year, Shalam said.

**Liquid Audio** revenue almost doubled to \$3.36 million in 3rd quarter ended Sept. 30 from \$1.79 million year ago. But Redwood City, Cal. digital music delivery company said loss widened to \$8.89 million (-40¢ per share) from \$5.82 million (-35¢). In conference call with analysts last week, Pres.-CEO Gerry Kearby said: "At the end of the 3rd quarter, content flowing through our network had reached 120,000 song tracks, comprising over 10,500 recording artists." He said that in latest quarter, EMI Recorded Music and Warner Music Group started using Liquid's software and services as part of each record company's digital music initiative. Kearby also said Liquid's distribution channel grew to 1,000 music sites including BestBuy.com and 21 other major online retailers. Meanwhile, HMV and Tower Records began using Liquid Kiosk Network software to sell music downloads at their brick-and-mortar stores in quarter, he said. Kearby said Liquid was continuing "to build the infrastructure of a B2B e-commerce network for the global distribution of music, with the rollout of our 5th-generation product line, which includes the first SDMI-compliant player available to OEMs." He said that "with this infrastructure in place, we look forward to migrating our revenue stream toward recurring download transaction revenues."

**Sony will increase** digital camera manufacturing 60% in 2001 as it adds production lines at TV plant in Ichinomiya, Japan, *Nikkei English News reported*. As result of expanded production, digital camera shipments will increase to 5 million in 2001 and digital camcorders 10% to 6 million. Within year, Ichinomiya factory will build 200,000 Mavica cameras.



**INDREMA DEVELOPER KIT UNVEILED:** While many details remained sketchy, San Francisco-based start-up Indrema last week took another step toward taking on big boys in console market by announcing debut of Indrema Developer Network (IDN) for company's Linux-based console.

Indrema founder and CEO John Gildred said company's entertainment system now was scheduled for "late spring" 2001 start at probable \$299 price point. Indrema Entertainment Software Development Kit (IESDK), available as download at IDN Web site, includes every API necessary to develop games on system, including DV Linux kernel. Additional tools and APIs will be available later this year, including CodeWarrior through deal announced with Metrowerks.

In conference call with reporters last week, Indrema was vague on publisher support, although Gildred suggested there were several poised to port popular Linux-based PC games over to his system. More importantly, he said, open source development meant that anyone with 600 MHz X86 processor, GeForce2 Nvidia card or better and 64-128 MB of RAM could develop games for Indrema. "We felt taking an open source approach... allows for a whole spectrum of development, cutting the distance from being a gamer to becoming a developer," he said.

Gildred said prototype for first-generation hardware would be ready by year end and hinted strongly that it would have more than 600 MHz processing chip announced last spring. First machines will be bundled with single game and controller. Still unclear was exactly who would be manufacturing hardware, although Gildred seemed to indicate first model would be OEM Indrema-branded model. He said company expected at least one other manufacturer to bring out Indrema hardware next year.

Also unclear at our deadline was how company would address entire issue of DVD movie playback in light of controversy over DeCSS encryption-breaking software that allows Linux-based PCs to play movies.

Gildred seemed confident that Indrema's hardware and open source approach would lure that 24% of hard core gamers that end up influencing rest of market. "By showing a screen shot, we could try to drum up a little more buzz," he said. "But we feel that what is important is not a particular title. The level of excitement for the end user is really the architecture that's going to allow for really an unlimited amount of games."

At \$299, Gildred said, Indrema will not be making any profit on hardware but instead will rely on royalties for certifying Indrema titles for bulk of its revenues. Hardware will be sold both online and at brick-and-mortar retail at outset, he said. "We are not hearing a lot of push-back from distributors saying there's not room for another console," Gildred said: "What we're hearing is there's plenty of room for a next-generation console, especially one with multifunctionality, because they can merchandise the product in a number of ways." But Gildred didn't indicate what stores actually would be carrying Indrema system.

**MP3.com competitor Myplay** said last week that it had surpassed 3.5 million customer mark and was attracting more than 25,000 users per day. Redwood City, Cal., company offers "digital music locker" service that enables consumers to store, manage and legally share their musical collections online.

**SONY TO SHIP NEW AIBO:** Sony said its Entertainment Robot America division would start taking orders for its new Aibo electronic puppy Nov. 16 in U.S. and begin shipping it in early Dec.

Sony said new model, ERS-210, would have voice recognition ability for up to 50 spoken words as well as other advanced features not offered by its earlier robotic pooches — now sold-out ERS-110 and ERS-111. Unit will be available in black, gold, silver.

Despite increasing number of inexpensive robotic dogs marketed by other manufacturers, including Tiger Electronics's Poo-Chi, since Sony unveiled its first Aibo, new Sony model will cost \$1,500 in U.S.

In conjunction with unveiling of new Aibo, Sony said it also was opening Aibo Web site, [www.aibo.com](http://www.aibo.com), featuring 3D animation.

Orders will be taken for new Aibo at more locations than for past models. In addition to being available direct from Sony online via [www.aibo.com](http://www.aibo.com) and [www.SonyStyle.com](http://www.SonyStyle.com) Web sites, it will be sold at all 92 Sharper Image stores nationwide, as well as Sony Style stores in N.Y. and San Francisco and Sony Gallery in Chicago, with interactive demonstrations at stores.

Sony said it "plans to manufacture enough Aibo units to accommodate anticipated customer orders" in U.S. In Japan, where orders also will be taken starting Nov. 16, Sony guaranteed that "all customers ordering" new model "will be able to purchase a unit."

Aibo will cost ¥150,000 (\$1,350) in Japan. Sony said it also would start selling Aibo in Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, U.K. Price in Europe is to be 1,500 euros (\$1,275).

Among enhanced features of new Aibo are additional light-emitting diode (LED) lamps on robot's face and tail and added touch sensors on its back and chin that Sony said allowed it to register wider variety of emotions than old models. Photo function allows robot to take snapshot of whatever is within its range of vision when someone says "Take a photo."

Sony said it also would introduce Aibo programming memory stick (ERA-MS008) in Feb., but didn't give price. Additional Aibo accessories will include wireless LAN card (ERA-201D1) that Sony said would allow robot's movements and sounds to be created on PC and then sent wirelessly to control movements.

First Aibo was unveiled in June 1998, with sales beginning year later. To date, 30,000 units have been sold in Europe, Japan and U.S., Sony said.

**Taxation of online sales** would cause 66% of consumers to decrease their Internet shopping, according to survey by Active Research. It also said there was gender disparity between percentage of women (71%) and men (64%) who would limit their online shopping if govt. taxed items bought over Internet. Firm said that echoed other findings showing that women tended to be more price sensitive than men when shopping for high-priced items.



**DEALERS WARY OF STUDIO GOALS:** Movies took 2nd seat to issues of concern to retailers at recent East Coast Video Show in Atlantic City. Most prominent topics of discussion were pay-per-view windows, revenue-sharing programs and associated issue of studio-set goals, changing technology, legislative interference, how home video industry conducts business.

At show's opening business session, VSDA Pres. Bo Anderson addressed sea of red baseball caps imprinted with "protect our windows" that had been distributed to retailers as they entered room by veteran retailers Ray Jewell of Texas-based Movie Magic and Tom Paine of Seattle-area Video Factory. Paine and Jewell also were armed with comprehensive look at how window lengths, particularly for films that made more than \$15 million at box office, had shortened in last 12 months. They said average window for 4th quarter titles this year was 48.8 days compared with 56.3 in same period in 1999. Jewell said shortening window by even 2 days could make title unprofitable.

Acknowledging hats and issue behind them, Anderson reminded retailers of VSDA-sponsored Protect Our Windows program to which 25 VSDA chapters contributed and that he said was push with "no sunset." Retailers must continue to vote with their purchases so that studios get message loud and clear, he said. "Releases with short windows are almost never smart buys," Anderson told crowd of applauding retailers.

Revenue sharing also was on minds of attendees, although recent ouster of Rentrak founder-chmn. Ron Berger seemed low priority at panel discussion of topic. Attendees hashed out number of studio-sponsored programs, judging Warner's current project to be retailer-friendly. One retailer said that with right profit-sharing formula, even low-profile titles could become assets, saying "everything, including *Romeo Must Die*, has turned a profit on [the Warner FiveTimes] program."

Anderson said goals studios set for retailers often were unrealistic and not adjustable. Because participation in studio-sponsored copy-depth programs often is tied to sales goals, effectively shutting smaller retailers out of those programs, retailers have serious concerns about process of goal setting.

High on Anderson's list of concerns was Senate bill that would enable studios to impose sanctions against video stores that didn't follow ratings guidelines when renting movies and videogames to minors. Legislation — of which video store owners seemed unaware, he said — would permit studios to impose "group boycotts" on those retailers. He said legislative schedule was short, and "VSDA should know after the session ends if the Senate intends to revive" bill.

Internet and DVD were topics of number of seminars designed to enable retailers to profit from new technology. David Goodman, pres. of DVD International, said at seminar on broadband and DVD that "everyone in this room will have retired by the time that downloading movies from the Internet takes the place of packaged media as the preferred means of delivery." Goodman said that to download *The Matrix* it would take end user with 700 kbps DSL connection 26 hours and, once downloaded, film would take up 9 GB on hard drive, if there were no "hiccups" or errors. Goodman also said that even if compression technology improved significantly, interactivity of DVD wouldn't download. Jeff Stabenau, pres. of DVD authoring house Crush Digital, agreed that DSL line could handle only about 5% of bandwidth that DVDs deliver.

In what seemed to be only consistently good news for retailers at show, series of seminars on DVD format outlined its growth and opportunities to profit from that gain available to even small video specialists. Bob Alexander of research firm Alexander & Assoc., estimated that by end of 2000, installed base of DVD players would reach 15 million. Mitch Lowe, vp-business development for Internet-based "rentailer" Netflix, said 7.5 million DVD-Video players would have been sold this year alone, with prices as low as \$100. Alexander said much of business from DVD was incremental — 51.6% of households with DVD players continued to rent VHS product. Lowe and Alexander said 15,000 locations now were renting DVD software and 30,000 selling it.

Using foot traffic on show floor as yardstick, many attendees and exhibitors said attendance at event, 2nd of 3 VSDA-sponsored trade shows in span of 6 months, seemed very light. But Kimberly Orr, home entertainment events director for show's producer Advanstar, said preshow registration was on par with last year. Final attendance figures weren't available. Orr said exhibition floorspace for Jan. VSDA, to be held in Las Vegas concurrently with CES, was 75% booked. Anderson said Amazon.com CEO Jeff Bezos would deliver keynote address.

**Traditional rules don't work for copyright registration of Web sites, which change frequently, so rules must be re-thought, U.S. Register of Copyrights Marybeth Peters said at American Intellectual Property Law Assn. annual meeting in Arlington, Va. Rulemaking is in works for 2001, she said. Copyright law requires that creators of published works deposit complete and "best edition" copy of their work in her office, she said. Published works then are registered based on date of publication. On Internet, however, it can be difficult to define publication or complete work or to narrow down date of first publication, Peters said. Examining Div. Literary Section Head Jeff Cole said those facts of publication often were "the biggest stumbling block" to registration under current rules. If Copyright Office follows rules requiring separate application and deposit per publication, he said, Web site owners could have to re-register their sites every time they changed them. Office now gives Web site owners 2 options, Cole said: (1) Apply under procedure for serial group registrations updated weekly or for newsletter group registrations updated daily, each of which lets Web site owners submit single application and pay one flat fee. (2) Apply for registration as database, process aimed at compilations that include uncopyrightable material or that isn't owned by database owner. However, Cole said, it's questionable whether database rules apply to Web sites that change frequently and that often contain great deal of content that qualifies for copyright protection. Office needs "a registration option tailored to registrations of frequently changing Web sites," he said. Peters said Copyright Office intended to look into problem but had been sidetracked by requirements of Digital Millennium Copyright Act.**

#### THIS WEEK'S YEN RATE

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



**KALISTO READIES GAMES:** As electronic game industry continues transition into new platforms, Kalisto Entertainment Head of Business Operations Dan Kaufman said his company already was busy creating games for Microsoft Xbox, Nintendo Game Boy Advance, Sony PlayStation 2 (PS 2).

Kaufman told us "we're working on a bunch of PlayStation 2 titles" and "we've got one Xbox title that's under way," but expected to "have a 2nd one" for Xbox in development within days. Kalisto also is working on "a couple of Game Boy and Game Boy Advance" titles. Details he provided on games were fairly sketchy, although he said first two PS 2 titles were role-playing game (RPG) that provided "true real-time" game play and multiplayer title that was "a take on a platform game."

Neither PS 2 game was ready for U.S. bow Oct. 26, but that didn't seem to concern Kaufman. He said that when talking with publishers, Kalisto "heard an interesting thing: A lot of them frankly [were pulling back] from launch. They're saying, 'Look, don't worry about launch... Just make sure it's a killer game.'" Kaufman said: "We're all aiming for Q1 or later" and "there's going to be a big feeding frenzy that's going to come out of launch and [publishers] don't want to get lost in the shuffle. And they're worried about the quality [of games that are developed]. So we're just taking the time to polish [first game] and make it something that we're proud of."

As for Xbox, Kaufman said "we're definitely talking to [Microsoft] right now" and he believed Kalisto could have something available for that console's start next year.

Company based in Bordeaux, France, is anomaly among electronic game industry's biggest names in that it's exclusively developer and doesn't distribute or publish games it creates, relying instead on such companies as Konami and Universal to handle those functions.

Kaufman said company also developed "some first party [titles] for Sony." Kalisto has offices in China, Japan, Paris, Britain, U.S.

While some developers have complained that PS 2 is difficult to create games for, Kaufman said Kalisto hadn't had that experience: "It is certainly a step up from what programming [was like] for the PlayStation. There's no question about that. But I guess for us we sort of feel justified because we've been spending all this money in R&D and coming up with tools. So the transition for us is barely being [felt]. I mean, it certainly takes a bit more work and a bit more people, but it's not proved all that difficult... I think the only frustration we've had at all is it's a learning curve like anything else. So as we're building games, we're actually starting to scrap some of the early levels of stuff we did and redo them because by the time you're halfway through you've learned so much that you look back" and realize what wasn't done right early on.

As for upcoming game console war, Kaufman said "it looks like [PS 2] is going to be huge," but Xbox could provide strong challenge. Although others in industry may be saying Sony has year's head start over Xbox, he said Microsoft's financial resources made it strong contender. "What do they have — like \$9 trillion or something" at its disposal, he asked rhetorically, saying that as result, "I can sit and think of 9 trillion reasons why they're going to win. I mean, I've never seen Microsoft go into a fight and lose." Kaufman said: "So will they come and

dominate Sony? No, that won't happen. Will they come in and make it a 2-platform race? I don't see why not."

As for Gamecube, Kaufman said he hadn't learned enough about it to say much: "That's the biggest mystery to me." But he suggested Sega's Dreamcast was in for rocky future. At this point, he said, there's "very little interest" among publishers, at least those that turn to Kalisto to develop games. From what he has seen, he said, even publishers that have backed Dreamcast up to now are pulling back and not asking Kalisto to develop games for that platform. He described it as disappointment because he thought "the Dreamcast is a great box" and some games for that system were "pretty impressive." But to large degree, he said, "the publishers drive the platform more than anything else." He said, "we don't currently have anymore Dreamcast" games in development.

Among other games Kalisto is working on are titles based on *Highlander* movies and TV series. Kaufman said he expected first title from Kalisto would ship in 2002. Publisher has yet to be chosen, he said.

### Consumer Electronics Personals

**Sean Lafleur**, ex-Bertelsmann, joins Net4Music as COO... **Changes at Lernout & Hauspie:** **Jo Lernout** and **Pol Hauspie** resign as co-chmn. and managing dirs., but remain vice chmn.; new chmn. is **Roel Pieper**, ex-Philips and Compaq; CEO **John Duerden** adds managing dir. responsibilities, replacing **Nico Willaert**, who remains on board; CFO **Carl Dammekens** resigns to take another unspecified post within company... **Roger Fortier** named N. American sales mgr. for Harman International's Madrigal brand, remains western regional mgr. for Mark Levinson, Proceed and Revel brands... **Walter Wilson**, Solecron business integration & information technology vp, resigns to work on strategic projects, replaced by **Sajjad Malik**... **Labeeb Ismail**, Metabyte technology dir., promoted to vp... **Terry Nickerson**, ex-Nortel and IBM, named CFO, ATI Technologies, replacing **James Chwartacky**, resigned... **Philip Pellegrino**, Kraft Foods senior vp, elected to Rayovac board, succeeding **Joseph Deering**, who retires... **Richard Walker**, ex-Hewlett-Packard, named vp, Pumatech Online Services Group... **Thomas Neslage**, ex-Texaco, appointed senior global sales & mktg. vp, Energy Conversion Devices... **Francesca Brockett**, Toys "R" Us senior strategic planning and business development vp, promoted to exec. vp.

**Imix.com** signed deal with Yahoo to be featured on latter's shopping section. N.Y.-based online custom entertainment provider said it was "the first time a major portal has offered its customers the custom CD option" as part of its shopping service. Companies said that when consumers conducted relevant product searches on Yahoo Shopping that contain keywords of songs in imix's library, they would be presented with option to make custom music CD. Imix said it also would develop special promotions to be featured in Yahoo Shopping's music category on continuing basis.

**XM Radio** said it delivered first-generation chipsets for digital satellite radio to primary autosound manufacturers months ahead of schedule. Manufacturers such as Alpine, Clarion, Delphi Delco, Pioneer and Sony now will begin working on integrating chipset into receivers. Chipset is first cut and is fully operational, XM said, but will continue to undergo improvements and modifications.





WARREN COMMUNICATIONS NEWS Telecom & Media Intelligence [www.warren-news.com](http://www.warren-news.com)

# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

NOVEMBER 20, 2000

VOL. 40, NO. 47

## SUMMARY-INDEX OF WEEK'S NEWS

### Broadcast - Cable

**ELECTION RETURNS FOCUS** of Tauzin, telecom executives as Gore-Bush standoff continued. Tauzin says networks face 'presumption of bias' in election night coverage. (P. 1)

**LIBERTY MEDIA SPINOFF** okayed by AT&T. Deal will help latter meet FCC's conditions for MediaOne, reduce regulatory pressure. (P. 2)

**PTV DTV BACKED** in state funding votes. Money doesn't mean public broadcasters will meet DTV transition deadline. (P. 3)

**TOWER PACT SEEN:** Advisory Council on Historic Preservation (ACHP) says policy could be ready by March. NAB participates. (P. 4)

**DIRECTV DROPS ECHOSTAR:** Ergen says DBS merger won't happen. Murdoch-DirectV deal seen more likely. (P. 4)

**CABLE, CE DUEL:** Cable and consumer electronics clash over FCC move to spur retail market for digital set-tops. (P. 5)

**TAUZIN, TELECOM EXECUTIVES FOCUS ON ELECTION RETURNS:** Networks will face "presumption of bias" in their handling of Presidential election, based on preliminary facts gathered in House Telecom Subcommittee's investigation, Chmn. Tauzin (R-La.) said at news conference Nov. 16. He said "we have... received a great deal of information" since announcement that he would hold hearings on networks' incorrect calling of Fla. for Vice President Gore, generally leading to conclusion that networks consistently called states won by Gore faster than those won by Tex. Gov. George Bush (R). Tauzin said it was possible hearing could be held when Congress returned in Dec., "more probably when we come back in January." He said he intended to "call the CEOs of the parent companies of the networks and those companies who were part of the election night coverage." When they testify, they will "have a duty... to overcome that presumption" that they were biased against Bush, Tauzin said.

Democrats took exception to Tauzin's rhetoric and methods. Noting that Democrats on Commerce Committee had been excluded from investigation so far, ranking Committee Democrat Dingell (Mich.) asked in letter whether Tauzin planned to "turn a Committee matter into a partisan investigation with no involvement by the minority?" He said Democrats "also have many concerns about the networks' behavior," citing reports that Bush's cousin John Ellis had major role in Fox News's being first to call Fla. for Bush. Dingell said he hoped hearing on networks' problems would be complete and balanced... It would be unfortunate if the public were to believe that this had become a partisan matter." He concluded with firm instructions to Tauzin to include minority from now on: "Our staff should be included in all staff interviews and receive copies of all outgoing and incoming correspondence."

Meanwhile, ranking Subcommittee Democrat Markey (Mass.) agreed with Tauzin that news outlets shouldn't call elections before all polls had closed in state. Although he said he didn't think networks could "hold off on all informa-

### Consumer Electronics

**DVD CAMPS HOLD GROUND** on rewritable formats at Comdex. Toshiba announces DVD-RAM/PVR combo. (P. 10)

**DTV CARDS REEMERGE** at Comdex as PC industry shows renewed interest in DTV programming. (P. 11)

**AD CAMPAIGN TO KICK OFF** for SonyStyle.com this week. Sony signs deal with Covad for online service. (P. 13)

**LCD MONITOR PRICES DECLINING** as industry braces for spate of excess inventory. TV models emerging at high end. (P. 14)

**XBOX CHIP PROTOTYPE READY** from nVidia, and media communications processor remains on target for delivery in game console by fall. (P. 15)

**HANDHELD PCs MERGE** some features with cellular phones, but seek to retain independence. (P. 16)

**GEMSTAR-TV GUIDE EARNINGS UP** 30% in 3rd quarter, but revenues slip to \$337.7 million from \$341 million. (P. 17)



tion on the East Coast results for President until California — or Hawaii — finishes voting,” he said country needed to revisit issue of uniform poll closing and said he would introduce bill next year to do that. Media don’t have bias for or against candidates, Markey said, “but rather toward being first.”

Tauzin said “any reasonable person” would see bias because CNN called 9 states won by Bush by at least 6 percentage points “too close to call” for significant time, against none for Gore: “In short, there was a long delay in calling the states for George W. Bush, compared to a much shorter delay for calling the states for Al Gore... You receive a picture of Americans believing Al Gore was sweeping the country, that George W. Bush was having trouble carrying his states.” He said that message was disseminated with “voters still going to the polls.” Tauzin said one study showed turnout in heavily Republican western Fla. was depressed by 4%, “perhaps as many as 10,000 Republican voters,” as result of early announcement that Gore had won state. Subcommittee members Reps. Cox (R-Cal.) and Stearns (R-Fla.) appeared with Tauzin at event.

Back-and-forth on networks’ behavior appeared to be only activity going on in TV policy circles last week as most involved persons spent week watching news reports about Fla. vote recount and speculating about who would be next FCC chairman. “Everyone is glued to the television set,” said one telco spokesman. “We’re waiting to hear what’s going to happen in this town.” Others said their offices were in “limbo” and for first time in months they had caught up with their e-mail messages while watching CNN. Several political appointees, whose jobs may rest on outcome of election, said they simply had stopped thinking about election to avoid “going crazy.”

Among more intriguing speculation on who’s lined up for top jobs was report that Blair Levin, chief of staff under former FCC Chmn. Reed Hundt, had thrown his hat in ring for FCC chairman if Gore won election. Asked about that, Levin said that was “every bit as truthful as Reed Hundt being considered for commissioner of baseball.” During Hundt’s term, rumor circulated that he wanted baseball job, but some attributed it to Levin’s sense of humor. Otherwise, familiar names continued to be mentioned: Tex. PUC Chmn. Pat Wood if Bush wins election; Greg Simon, OpenNet Coalition co-dir. and former Gore adviser, if Gore wins.

In addition, some have speculated about possible political futures of ex-MCI Vp Jonathan Sallet, who worked for Democratic vp candidate Joe Lieberman, and Washington communications attorney Nick Allard, who worked in Ky. for Gore. Meanwhile, FCC Comr. Powell was discussed as possible Justice Dept. appointee. Spokesman for one telecom company said FCC chairman rarely was named quickly. People working on staff appointments for new administrations “don’t sit around the White House worrying about telephone number shortages,” he said. Asked if she had any views on who might be appointed FCC chairman, FCC Comr. Ness said no one was thinking about that now: “All eyes, ears, brains and hearts are focused on Florida.”

If Gore became President, he probably would appoint FCC chairman quickly, but Bush would be slow in filling spot, group of former and current FCC commissioners agreed on panel Nov. 16. Speaking at Federalist Society’s Lawyers Convention in Washington, ex-FCC Comr. Henry Rivera said that was because Bush didn’t see FCC as high priority while Gore had long interest in telecom issues. Ex-FCC Chmn. Richard Wiley suggested that Bush probably would appoint interim chairman, assuming current FCC Chmn. Kennard would resign. Wiley said interim post would go to one of 2 sitting Republicans — Comrs. Furchtgott-Roth or Powell.

Furchtgott-Roth, also on panel, didn’t comment on Wiley’s prediction but in his monthly media breakfast earlier Nov. 16 he said his decision on whether to seek reappointment depended upon who became President. Asked at that breakfast what he would do as chairman, Furchtgott-Roth said he would conduct proceedings “in a more timely manner.” However, he said that was “idle speculation” because his being appointed chairman wasn’t “a particularly likely scenario.”

Wiley predicted that digital TV recommendations by Gore Commission and resulting FCC rulemaking would fall by wayside under Bush. He suggested that efforts to ease newspaper-broadcast cross-ownership limits would fare better under Bush. Rivera saw Gore Presidency as focused on issues of “sex and violence” on TV and elsewhere although Wiley said that might not extend to Internet. Neither candidate “wants to be known as the first regulator of the Internet,” he said.

**AT&T TO SPIN OFF LIBERTY MEDIA:** AT&T’s board approved spinoff Nov. 15 of Liberty Media Group programming unit as fully independent company in 2nd quarter next year, pending favorable IRS ruling. Planned move would help AT&T raise capital, cut its \$62 billion debt and boost its shaky credit rating. Liberty Media spinoff also would help AT&T meet FCC’s conditions for company’s purchase of MediaOne Group earlier this year, as well as reduce regulatory pressure on it to sell other major cable assets.



AT&T said spinoff plan was “consistent with the rationale behind the company’s recent decision to restructure into 4 companies,” with separate entities focusing on cable, wireless and residential phone businesses. AT&T said spinoff would better enable Liberty Media to raise capital on its own, use its stock currency for buying, merging or partnering with other companies, boost its stock value. Company said action also would “alleviate the competitive and conflict of interest concerns that arise from the differing business directions of AT&T and Liberty Media,” including making it easier for Liberty Media Chmn. John Malone to invest in Rupert Murdoch’s Sky Global venture and its rumored purchase of DirecTV.

Before proceeding with spinoff, AT&T said it would seek IRS ruling that move would be tax-free to it, Liberty Media and their shareholders. Ruling is crucial because AT&T and Liberty have balked at separation before 2-year anniversary of AT&T’s purchase of Tele-Communications Inc. in March 2001, which would trigger huge tax bills for both companies. AT&T said it didn’t anticipate need for Dept. of Justice, other regulatory or court approvals, but said “certain existing agreements would require modification.”

Spinoff announcement came after AT&T executives indicated they were considering large asset sales to cut debt, including shedding company’s 25.5% stake in Time Warner Entertainment (TWE), 30% stake in Cablevision Systems and interests in Road Runner and Vodafone Group. Announcement also came after AT&T complained to FCC that it was running into trouble selling its TWE stake back to Time Warner. With 2 companies far apart on price and AT&T facing FCC deadlines to divest cable assets, AT&T recently asked agency to order that issue be submitted to binding arbitration if companies couldn’t agree on sale price by Dec. 1.

Consumer advocates welcomed move to shed Liberty Media because of concerns about AT&T’s ability to undercut competition from rival programmers. But advocates, who also wanted AT&T to shed its stake in TWE, griped that AT&T could use spinoff to maneuver around FCC’s cable ownership cap. “Selling Liberty Media does not resolve the fundamental concerns about AT&T’s level of ownership in the cable industry,” said Gene Kimmelman, co-dir. of Consumers Union’s Washington office.

Meanwhile, Liberty Media reported net income of \$1.8 billion in 3rd quarter ended Sept. 30, reversing \$217 million loss of year ago, as revenue more than doubled to \$436 million and such programming operations as Discovery Communications, QVC and Starz Encore Group posted strong gains. Dispositions accounted for biggest gain, as company made \$4.4 billion on asset sales. But Liberty Media said it recorded comprehensive loss of \$180 million, as opposed to \$222 million comprehensive profit in 1999, because of unrealized holding losses.

**PTV DTV BACKED:** Public TV stations weren’t sure they would meet FCC deadline for transition to DTV, despite voter approval of bond issues for PTV digital conversion in N.C. and N.M. on Nov. 7. N.C. voters by 73% majority endorsed \$3.1 billion bond sale that includes \$65.9 million for U. of N.C.’s digital plans for 11 stations. N.M.’s \$7.2 million for 3 stations passed by 62% majority.

“The \$65.9 million bond will entirely meet the funding needs for digital conversion,” said Steve Volstad, dir. of N.C. Center for PTV Mktg. & Communications. It would finance conversion of 11 transmitters of statewide network, master control and studio equipment and provision of mobile satellite uplink to cover remote locations and new digital remote truck, he said. However, funds are unlikely to come in time to help N.C. stations meet FCC deadline to begin transmitting digital signals by 2003.

Realistically, it was unlikely that stations would meet FCC deadline because it’s major undertaking to convert 11 transmitters, Volstad said. “We hope to convert more than half of them [transmitters] and start work on the rest.” He said he was certain FCC would look upon work as good-faith effort and would appreciate request for extension of deadline, and “we are likely to ask for an extension.”

Ronald Salak, gen. mgr. of KRWG-TV Las Cruces, N.M., said \$7.2 million from bond issue wouldn’t be sufficient to

cover cost of digital conversion of 3 stations, but they had applied for \$8.2 million PTFP grants over 4 years and had received \$1.2 million for first year. Since grant could be approved for only one year at time, “we don’t know what the future allocation will be,” he said, and if N.M. stations get full PTFP amount, that and bond issue will cover entire digital conversion costs.

**Internal soul-searching** is under way at Big 4 TV networks in effort to determine what caused them to make wrong projections in election night coverage and to take steps to make sure it didn’t happen again. In-house investigations also will help networks prepare for hearing on election projections announced by House Telecom Subcommittee Chmn. Tauzin (R-La.) for early next year (TVD Nov 13 p1), network officials said. Tauzin also submitted written questions. CBS News took unusual step of bringing in outsider — Kathleen Jamieson, dean of Annenberg School of Communications at U. of Pa. — to help 2 network executives evaluate what went wrong election night. Also under strong criticism is Voter News Service (VNS), which provides networks with exit polling information upon which projections are based. VNS said it was conducting its own investigation. Fox News Channel received strong criticism from newspapers and CBS anchor Dan Rather after it became public that director of its election night projection desk John Ellis is first cousin of GOP Presidential candidate George Bush.



**TOWER PACT SEEN:** In meeting that underscored national scope and intensity of tower siting issues, Advisory Council on Historic Preservation (ACHP) projected that broad pact on reviews of colocation and new construction in TV and communications sector could be ready by March. To address that influx, ACHP created Telecom Working Group this year that includes FCC, telecom carriers, NAB, others. Group will meet through next year to develop comprehensive "programmatic agreement" on review process for existing and new tower sites, ACHP Program Analyst Charlene Dwin-Vaughn said.

Still, interim agreement that would propose streamlined review for existing colocation sites continued to run into opposition among state officers that conduct reviews under National Historic Preservation Act (NHPA), said Dwin-Vaughn. Citing expected growth in communications towers from 3rd-generation wireless deployment, she said: "Our concern has been to get out in front on this issue." ACHP Exec. Dir. John Fowler said nationwide program agreement that covered new tower construction and carriers that colocated equipment on existing sites could be worked out by group's next meeting in March. Overarching goal is "to try and get a better fit between local regulations and this federal review process, which in the end is only advisory... We are hoping we can work this out and longer term keep focusing on our relationship with the FCC, which has been a problem area because of the way they do business and the way we do business."

While ACHP believes interim proposal on colocation is sound, it has "generated considerable disagreement" among state officers that would have to implement it, Dwin-Vaughn told ACHP. Specifically, most recent version of proposed agreement would allow colocation on existing towers if certain caveats were met. Proposed conditions include: (1) Complaint hasn't been filed with FCC. (2) Existing buildings or structures where colocation would occur were less than 45 years old and weren't listed in or eligible for National Register of Historic Places. Dwin-Vaughn likened proposal to "amnesty" of sorts for those sites that would allow them to be cleared from backlog at state level, allowing state and tribal historic preservation officers to focus on future growth issues.

If state historic preservation officers failed to reach agreement on colocation proposal, move that some industry observers hoped would happen by year-end, action ultimately could be left to ACHP to formalize proposal, officials said. At meeting, some council members also raised issue of role that local stakeholders play in approval process.

**NPR couldn't take strong position on issue of political ads** after spurt in demand for free air time from politicians because of member stations' divergent views and practices on issue, National Affairs Dir. Kathy Dole told board's membership committee Nov. 14 in Washington. Organization also was constrained by time frame, she said. Issue has caused concern in Congress, particularly among Republicans, Dole said. There has been some work on language to eliminate requirement for public broadcasting to air political ads and it has been attached to one of spending bills, she said: "It has received the attention of the most senior members of Congress." Asked whether it would be more prudent for member stations to take up issue directly with members of Congress, she said she thought it might be useful but concern was how to present particular point of view "until we know what everyone thinks. Some believe that it is part of our service orientation and others believe it is the absolute opposite."

**DIRECTV DROPS ECHOSTAR:** EchoStar Chmn. Charles Ergen said purchase or merger with DirecTV no longer was possible after being told by Hughes that it was interested in discussing deal. Ergen withdrawal may clear way for Rupert Murdoch to acquire DirecTV, largest DBS company in U.S. Ergen informed investors of Hughes decision in conference call: "We only had some preliminary discussions. We never really got into any detail with them."

Ergen called DirecTV decision "disappointing" because of what he said would have been "synergy" between companies, "but we're not in their shoes. They have to make their own decisions." Carmel Group analyst James Schaeffler said he wasn't "surprised" by DirecTV decision since "Charlie Ergen has a history of bidding up properties. He figures if a bidder has to pay a higher price they will be less competitive." Schaeffler doubted Hughes took Ergen bid seriously: "There's some bad blood between the 2 companies." There also were questions about Ergen's ability to raise enough money to buy DirecTV, Schaeffler said.

GM Hughes Electronics Corp. officials said they still were interested in selling DirecTV and were holding talks with possible buyers, but wouldn't comment on status of discussions. Hughes spokesman said possibilities ranged from Hughes and DirecTV remaining as GM subsidiary to outright sale. Ergen said: "My gut feeling is that they are pretty far along with whoever they want to do a deal with and you can use your imagination of who that may be." Industry reports continued to suggest Murdoch, backed by John Malone's Liberty Media Group, was among top bidders. Combination of DirecTV, which has 9 million subscribers, and Murdoch's Sky Global Network, would be competitive threat to Ergen and EchoStar, which has promised to raise \$1 billion to expand service offerings.

**CBS and ABC TV networks joined WB in supporting efforts to develop "family-friendly" scripts for new programs** backed by 43 major advertisers, which 2 years ago formed Family Friendly Programming Forum. Script development is only one of several efforts by Forum to develop programs for networks that are "relevant, interesting and appropriate to a broad family audience." Other efforts include scholarships and annual awards ceremony. To develop programs, Forum allocates funds to 3 participating networks for script writers and, if network orders pilot as result, funds are returned to Forum to be used again as seed funding for new scripts. "CBS has a history in broadcasting programming that the entire family can watch together," CBS TV Pres. Leslie Moonves said. "Our participation in this initiative underscores our commitment to building on this track record." Stu Bloomberg, co-chmn. of ABC Entertainment, said Forum's objectives were "unique and important." In its first year, initiative resulted in development of 8 scripts for new shows and one series, *Gilmore Girls*, on WB.

**Half-dozen public interest groups that have asked FCC to deny Fox TV's \$5.35 billion purchase of Chris-Craft's 10 TV stations have used "a mixture of conjecture and conclusory statements" without showing transaction wouldn't be in public interest, buyer and seller told FCC.** "It is impossible to reconcile this rhetoric with what is actually proposed," they said in pointing out protesters had ignored fact that parties weren't seeking "a single new permanent waiver" of FCC's ownership rules. Proposal (which asks for 12-month waivers of rules) seeks "only a reasonable period of time" consistent with past FCC waivers to comply, Fox said.



**CABLE, CE DUEL:** Cable and consumer electronics (CE) companies and groups clashed anew at FCC over Commission's move to spur retail market for competitive digital cable set-tops. In dueling comments submitted to agency Nov. 15 on commercial availability of navigation devices, CE and cable industries fought over whether Commission should keep, move up or eliminate its Jan. 1, 2005, deadline for MSOs to phase out their older, proprietary cable set-tops from market. Industries also resumed their long-running debate over which was responsible for lack of interoperable digital set-tops in stores, with CE interests blaming cable for not developing truly open technical standards and cable blaming CE retailers for not ordering digital boxes or point-of-deployment (POD) security modules. Some commenters squabbled over copy protection licensing terms and copying limits for digital programming flowing through boxes.

CEA started fresh assault on cable industry, arguing that CableLabs' OpenCable standards process for advanced digital set-tops "has not been as 'open' as its name suggests, resulting in the development of standards that favor the cable industry." Charging that cable "has pursued proprietary solutions for the delivery of digital cable services with much more vigor and focus," CEA said FCC should "open and expand the standards-setting process for navigation devices" by requiring cable to develop national standard for set-top box interoperability and disclose "all necessary technical and operational information" to CE manufacturers. CEA also urged Commission to move up deadline for phase-out of proprietary, integrated set-tops to Jan. 1, 2002, 3 years earlier than currently required and one year earlier than even FCC contemplates. Finally, CEA contended MSOs "should not be permitted to insist on unfair and unreasonable licensing requirements" or to introduce new digital services unless independent set-top makers could provide them.

NCTA said cable "has gone beyond the requirements of the statute and the Commission's rules" in developing open technical standards for interoperable digital boxes and making POD modules available to CE manufacturers and retailers. Despite those and other efforts, group said, "retailers generally appear intent on manipulating the regulatory environment to further their own commercial agenda," including accelerated phase-out of competition from MSOs and "the extraction of a portion of cable operator revenues" for subscriber services. NCTA said FCC should at least keep current deadline. It also urged agency to let consumers continue to get integrated set-tops from their cable operator after deadline as long as MSO advised them that they also could buy set-tops in stores and made PODs available for subscribers buying boxes at retail level.

AT&T said FCC should "revisit its prior decision to ban integrated devices" in 4 years and consider eliminating ban entirely. Contending ban is "unnecessary" and "will deny consumers access to a cost-effective product choice," company said Commission should at least "clarify that integrated cable devices that are available for purchase by consumers at retail are not subject to the ban." Despite lack of digital set-tops on store shelves today, AT&T argued that retail market was starting to develop along same lines as market for interoperable cable modems. MSO cited its recent deals with Best Buy, Circuit City, Panasonic and Philips to develop integrated digital set-tops for retail sale and sell digital cable service in CE stores.

Both AT&T and Cablevision Systems said moving up deadline to 2003 or 2002 would handicap MSOs by disrupting their digital box design, procurement and deployment plans. As

result, 2 MSOs said, change actually would result in more set-top box delays and higher equipment costs.

TiVo urged FCC to make sure that copy protection technology licensing terms for digital set-tops didn't restrict consumers' ability to record and time-shift programs with new digital VCRs. TiVo, leader in emerging market for digital VCRs, said "copy protection must not be permitted to be used as a 'Trojan Horse' for the dilution of consumers' home recording and personal viewing rights." Diva Systems, Telecommunications Industry Assn. (TIA) and WorldGate Communications joined cable opposition to moving up phase-out of integrated boxes. TIA also joined AT&T in calling for end to ban.

Consumer Electronics Retailers Coalition (CERC) urged FCC to establish "level playing field, technically and legally," for competitive digital cable set-top boxes in retail market and move up deadline for phasing out older, proprietary cable boxes. In lengthy comments filed with Commission late last week, CERC said there was "overwhelming evidence that the cable industry has defaulted on its technical obligations to support competitive entry" and FCC's efforts to spur cable's development of open technical standards has failed. CERC — consisting of Best Buy, Circuit City, RadioShack, Sears, International Mass Retail Assn. and National Retail Federation — called on FCC to: (1) Move up cable deadline for phasing out integrated boxes 3 years to Jan. 1, 2002. (2) Require that MSOs distribute only set-tops built to same technical specifications as those for competitive boxes. (3) Require that existing OpenCable technical standards be completed quickly so competitive boxes could be built by manufacturers. (4) Push CableLabs to finish licensing terms for digital copy protection technology. (5) End cable industry's customer subsidies for digital cable service. If cable industry doesn't make moves on its own, CERC said, FCC should prohibit MSOs from leasing digital set-tops to subscribers and make them set up separate affiliates to sell digital boxes to consumers.

**Dale Hatfield**, chief of FCC Office of Engineering & Technology, will leave Dec. 8. Hatfield, who has been commuting to his home in Boulder for last 3 years, said he planned to teach and lecture. FCC Comr. Furchtgott-Roth said at his media breakfast Nov. 16 that Hatfield "represents the highest ideals of public service." Hatfield, who worked at FCC earlier in his career, ran Boulder-based consulting company from 1982 until 1997 when he retired and offered to serve at FCC. He took job as chief technologist in Dec. 1997, moving to OET chief in July 1998. "This is not the sort of person the Commission can recruit," Furchtgott-Roth said.

**Advertising Council** reached "new levels of success in 2000," receiving \$1.15 billion in donated time, print space and services, Pres. Peggy Conlon said. In 2001, Council said in annual report, "we will continue our tremendous efforts to become part of the fabric of the new media environment" with online delivery of public service announcements. With \$581 million donated in time and services, radio far outstripped other media in value of contributions, with large growth in Internet contributions besting TV for 2nd place — \$185 million vs. \$168 million. Cable industry donations to Ad Council campaigns totaled \$92 million, outdoor \$44.2 million, newspapers \$20.4 million, magazines \$10.8 million.

**AT&T Broadband** and KNTV (Ch. 11, ABC) San Jose, future NBC affiliate, for delivery of station to all of AT&T's 1.6 million area homes by Jan. 1, 2002, Granite Bestg. Corp. said. KNTV will be located on Ch. 3 in all homes in San Francisco-Oakland-San Jose market, Granite said.



**COURT OVERTURNS ACCESS:** In sweeping decision that surprised even its supporters, U.S. Dist. Court, Miami, overturned Broward County ordinance mandating that cable operators open their high-speed lines to rival ISPs. Judge Donald Middlebrooks said statute violated First Amendment rights of cable operators. Likening cable systems to newspapers, he said county ordinance, “unlike the must-carry regulations, threatens to diminish the free flow of information and ideas” and “operates to impose a significant constraint and economic burden directly on a cable operator’s means and methodology of expression.”

Attorneys on both sides said decision was significant because it was first to invoke constitutional grounds against open access. In 2 earlier cases in Portland, Ore., and Henrico County, Va., courts struck down local ordinances on grounds they violated federal laws and regulations, not Constitution itself. Lawyers generally considered constitutional case to be weakest one against mandated open access. In challenging Broward ordinance, AT&T emphasized federal statute argument until judge dismissed issue as premature because MSO hadn’t violated local law by introducing high-speed Internet service.

Middlebrooks applied “strict scrutiny” standard to case, meaning Broward County needed to show “a compelling reason” for limiting free-speech rights of cable operators. In earlier cable must-carry cases, U.S. Supreme Court applied less restrictive “intermediate scrutiny” standard for justifying such regulation. In decision, judge said ordinance would fail lesser standard as well.

**AT&T Broadband and ReplayTV** signed pact to conduct joint marketing trials of digital video recorders (DVRs) and digital cable service in Boston and Denver areas, starting later this month. AT&T Broadband will offer Replay DVRs with 30 hours of recording storage to 5,000 selected digital cable subscribers for discounted retail price. Spokeswoman for AT&T Broadband said service and installation would be free and trials would run at least 3 to 6 months. She declined comment on when MSO might roll out commercial service nationwide. AT&T is 3rd MSO signed up by Replay, which also is conducting cable-DVR trials with Time Warner and Comcast. TiVo, Replay’s archrival in DVR market, also has begun trials with at least 2 cable operators.

**U.S. cable operators** added nearly as many high-speed data subscribers as digital video customers in 3<sup>rd</sup> quarter ended Sept. 30, NCTA said. Group said MSOs signed up 690,000 cable modem users in quarter, raising total to 2.95 million. NCTA also said cable operators enlisted 700,000 new digital video subscribers, pushing their digital customer base to 7.8 million. Finally, NCTA said, cable added 139,000 new residential telephone subscribers in quarter, boosting total to 568,000.

**Even if FCC had authority** to set DTV reception standards, they could work only as part of “global package” of DTV solutions, Thomson Consumer Electronics said in FCC filing. It said package should include “definitive resolution” of COFDM/VSF debate, final agreement on DTV/cable compatibility, increase in HDTV programming. Reception standards could “impose substantial costs on consumers,” potentially doubling or tripling retail price of small sets, Thomson said.

**Latest DTV stations on air:** WNCN (DTV Ch. 55, NBC) Goldsboro, N.C.; WMAQ-TV (DTV Ch. 29, NBC) Chicago.

**BROADCAST IMPACT QUESTIONED:** Although FCC’s first steps toward active secondary market for wireless spectrum ostensibly don’t involve broadcast, FCC Comr. Tristani questioned its impact on broadcasters. Commission approved policy statement and rulemaking (NPRM) seeking comment on how to remove regulatory barriers that impede carriers from striking leasing deals for part or all of licensed areas, despite widespread concern about spectrum availability. NPRM outlines less restrict transfer of control standard to make it easier to make leasing arrangements. NPRM applies to fixed and mobile wireless services, including cellular, PCS, specialized mobile radio, local multipoint distribution, fixed microwave, 24 GHz, 39 GHz.

Citing spectrum scarcity as most serious concern facing wireless industry today, FCC Chmn. Kennard said: “This should be a national priority for us. It’s only going to get worse as more and more people start demanding access to wireless Web devices.” Comr. Tristani dissented in part, raising concerns that policy statement alluded to broadcast licenses and stressing it should focus just on wireless spectrum.

NPRM from Wireless Bureau examined ways that licensed carriers could reach leasing arrangements with 3rd parties for unused or underutilized capacity. FCC has said one reason secondary market hasn’t flourished is carrier concerns over stringent ownership transfer requirements. NPRM tentatively concluded that less restrictive standard than 1963 *Intermountain Microwave* case for interpreting Sec. 310(d) of Communications Act should be used to evaluate ownership transfers. Officials said that proposal would not alter how *Intermountain* standard was applied outside of this leasing context. That case has been interpreted to mean licensee needs to maintain close hands-on control of licensed property, including day-to-day supervision of employees.

**Proposal to require** all TV sets to be able to tune DTV would add \$200-\$300 to retail price of every new set, CEA Pres. Gary Shapiro said in letter to FCC Chmn. Kennard. Kennard had suggested equivalent of all-channel receiver act for DTV (TVD Oct 16 p2). Shapiro said he agreed with Kennard about lack of DTV programming, but said “it would be unfair to punish American consumers for this shortcoming. Rather than imposing costly consumer mandates, we urge the Commission to focus on the content side of the DTV transition.” He said most DTV programming consisted simply of digitized analog shows, and FCC should insist all networks provide minimum (and growing) amount of HDTV programming. He also pressed DTV must-carry and cable compatibility.

**NTIA interim report** on 3rd-generation wireless deployment indicated sharing of spectrum between next-generation wireless services and incumbent federal govt. users could be feasible. But FCC Wireless Bureau Chief Thomas Sugrue said preliminary assessment of 2500-2690 MHz band showed spectrum sharing in MMDS and ITFS spectrum would be challenging. NTIA Dir. Gregory Rohde said interim report provided “first look” at impact on incumbents of allocating additional spectrum for 3G services and that issues such as potential relocation costs wouldn’t be outlined until final report in March. Both Sugrue and Rohde said nothing in interim documents suggested either of bands was off table for additional spectrum for 3G.

**Emmis Communications** said it would delay issuing tracking stock for its radio and TV businesses, citing market conditions. Exec. Vp-CFO Walter Berger said company would reconsider decision when market conditions improved.



**MP3.COM BILL DROPPED:** MP3.com settlement with Universal Music Group (UMG) last week may eliminate need for Internet music bill, lead sponsor Rep. Boucher (D-Va.) said. But he expects "robust discussion" about other Internet copyright-related user rights issues: "Stay tuned." Boucher said he would need to talk with other co-sponsors of bill, but said he was "very encouraged" by settlement, under which MP3.com will pay UMG \$53.4 million to settle suit and receive license to deliver the entire UMG music catalog via Internet.

However, Unity Entertainment and others filed class action copyright suit against MP3.com in U.S. Dist. Court, L.A., company said Nov. 16. MP3.com Chmn. Michael Robertson said he was "disappointed" by suit, "particularly in light of the strides we have made in securing licensing agreements".

Boucher bill (HR-5275) was intended to assure that basic business model of Internet file sharing wouldn't be "sued out of existence," Boucher said. He said UMG license, as well as those that MP3.com signed earlier with other 4 major music labels, indicated that music industry was willing to allow licensed file sharing to exist: "As long as that is the case, it looks like the private industry may have solved the problem."

Even if HR-5275 isn't reintroduced, there will be "a robust discussion" in next Congress about "the need to assure that user rights are treated with the proper dignity," Boucher said. He wouldn't provide further details, other than to say debate would include fair use.

MP3.com also will continue to press fair-use issue on Capitol Hill in next sessions, Exec. Vp-Govt. Relations Billy Pitts, ex-ABC, said: "Congress has to address that in some way. There has to be a proper balance between copyright and the consumers. Clearly those discussions will go on, and we want to be a part of them." He said proposed Music Owners List Rights Act "would be a good place to start."

Settlement "should help a whole lot" in resolving Capitol Hill issues, said Mitch Glazier, RIAA senior vp-govt. relations. He said even user rights usually were big issue only when market wasn't working well: "Right now the market is not only active, it is red hot. I think it would be bizarre to see Congress talking about user rights in this hot environment."

FCC's efforts to "do good" push agency "to the edges of, and beyond, its jurisdictional authority," FCC Comr. Furchtgott-Roth said in latest issue of Catholic U. *CommLaw Conspectus Journal* (Summer 2000). Example is agency's joint issuance with FTC of guidelines for long distance advertising, he said. As he did when guidelines were issued, Furchtgott-Roth said FCC didn't have authority to regulate advertising. Such "do-good" efforts often are "popularly received" even though they may use "results-oriented procedures that deny parties viable legal recourse and thwart public participation," he said in article written with his legal assistant Bryan Tramont. Furchtgott-Roth concluded: "Every policymaker wishes to stop false and misleading advertising [but shouldn't] permit the desirability of the ends to shortchange a rigorous analysis of the means."

Phoenix Sat TV of Hong Kong signed agreement with McKibben Communications to provide N. American programming to its subscribers. Channel is scheduled to begin Nov. 22.

**TV TO COMPETE WITH WEB:** While current TV networks and their Internet divisions can co-exist in narrowband world, arrival of broadband eventually will put both sides of same company at war over eyeballs, speakers at WebNoize 2000 conference in L.A. said Nov. 14. Many of panels focused on short-term shakeout among Internet content providers and issues such as Digital Rights Management, global distribution and whether Internet was growing overall entertainment revenue pie or simply cannibalizing more established media such as TV, radio, movies.

In panel of executives of online divisions of cable networks, much of talk was on how both media could work together to create community around programming. But long-term talk focused on whether DSL and cable modems could allow Internet segments to truly compete for viewers and revenue. "The emergence of broadband will generate tremendous conflict between traditional television and associated online properties," BET.com Exec. Vp-COO Scott Mills said, "because the entertainment will be much more effective when it is fully interactive." But Miramax TV Pres. Billy Campbell warned that arrival of broadband wouldn't be big bang. Instead, he said, incremental growth would be slow, taking as long as 15 years for high-bandwidth infrastructure to become ubiquitous. Asked whether successful online presence was needed to have truly successful offline venture, Campbell said: "Now, no, but in the future, yes." He said online sites for TV shows such as *Dawson's Creek* and *The Sopranos* had proved that Internet could play major role in creating community around TV programs.

Internet is being used as kind of farm club where unknown talent can be discovered, said most of executives, including Campbell, Mills and VH1 Senior Vp Fred Grover. Campbell cited Miramax project, Greenlight.com, where 10,000 aspiring screenwriters can enter screenplay contest with winner receiving \$1 million to make movie. Ironically, none of related divisions are making money, with Mills saying all were dependent on their TV networks for much of their operating revenue.

**PanAmSat launched PAS-1R** Boeing 702 satellite Nov. 15 on Ariane 5 rocket from Guinea Space Center, Kourou. PAS-1R will replace 12-year old PAS-1 that's nearing end of life. It weighs 6,730 pounds and carries payload of 72 transponders. PAS-1R is to be used for voice, data and TV relay while 36 Ku-band transponders will supply direct-to-user services.

**Time Warner (TW)** said it settled 2-year-old lawsuit filed against it by U.S. Dept. of Labor for \$5.5 million. Settlement, approved Nov. 17 by U.S. Dist. Court, N.Y.C., calls for TW to pay money to certain temporary workers and independent contractors who provided contingent worker services for Time Inc. 1992-1997 but had been classified as ineligible for company's benefit plans. As part of settlement, TW avoided admission of any liability or wrongdoing.

**FCC should accept** competing applications for TV Ch. 32 in Pueblo, Colo., and use competitive bidding to resolve any mutual exclusivity, Commission said in order released Nov. 15. Bidding is required by Balanced Budget Act, it said, and disagreed that it effectively had opened filing window for new applications. Channel 32 Hispanic Bcstrs. had applied for license and asked FCC to waive FCC application freeze.



**SATELLITE WEB STARTS:** StarBand Communications (formerly Gilat-to-Home) introduced its 2-way high-speed Internet service delivered entirely over satellite Nov. 3, targeting 50 million rural and suburban homes not served by cable or DSL modems. Internet service launched month before similar one crafted by Hughes Network Systems (HNS) and opened long-awaited 3rd front in high-speed broadband wars. StarBand said service was backed by EchoStar Communications, Microsoft, Radio Shack. Industry observers questioned whether satellite-delivered service, which costs more than either cable modem or DSL and offers slower transmission speeds, would prove to be competitive.

StarBand executives said their new service would cost subscribers about \$70 a month, or about \$30 more than cable modem or DSL service. Customers also will pay \$399 for 24"x36" dish and \$199 for installation. Both EchoStar dealers and Radio Shack outlets have started taking orders for dishes, which will be delivered to stores after Thanksgiving.

StarBand declined to predict subscriber numbers, citing SEC restrictions for \$300 million IPO. But its officials and EchoStar executives said relatively high price wouldn't be problem because they were targeting virgin territory. With 24 Ka-band satellite transponders now under lease and new, more powerful satellite under construction, they plan enough satellite capacity to serve up to 3 million subscribers in few years.

HNS, which already beams its one-way satellite-delivered DirecPC service (with telephone return path) to 45,000 subscribers in U.S. and more than 200,000 globally, plans to start its own 2-way service before end of year. Other planned satellite Internet service includes Wild Blue, which also has relationship with EchoStar, and Teledesic and SkyBridge. But none of those services is scheduled to start until at least late next year.

**Pegasus TV** said it will reorganize under newly created holding company, Pegasus Communications Corp., that also will include subsidiary Pegasus Broadband that will operate TV-centric Internet access businesses. DBS business Pegasus Communications will be renamed Pegasus Satellite Communications. Pegasus Satellite also will be subsidiary. Other assets, including intellectual property rights licensed from Personalized Media Communications, will be held by direct subsidiaries of new holding company. Pegasus said it made changes to facilitate anticipated growth of broadband and TV-centric Internet access businesses.

**Daytona Beach** is latest critic of AOL purchase of Time Warner (TW). In recent filing with FCC, city said it had withheld its consent to transfer of TW's cable franchise to proposed AOL-TW entity because TW hadn't fully complied with city's rules for transfer. Daytona Beach, where TW serves 15,000 cable homes and another 16,000 housing units and hotel rooms, said company hadn't submitted "completed" FCC Form 394 spelling out how its operations and services would change as result of deal.

**Despite latest federal court decision** against mandated carriage of multiple ISPs by cable systems, OpenNet Coalition said "the drive toward a national policy of open access" will continue at same pace. In statement issued after Nov. 8 ruling by U.S. Dist. Court, Miami, striking down Broward County ordinance, OpenNet Co-Dir. Rich Bond said momentum toward open access wouldn't be affected because largest MSOs, FCC and FTC already were discussing details of new national policy of open access.

**L.A. Councilman Alex Padilla** introduced resolution recommending that city lobby FCC, FTC and Cal. PUC for cable-delivered Internet service. Resolution proposes that L.A. be involved in any national or state policy being developed on cable open access. It said any such policy should stipulate that: (1) Owner of Internet transmission facilities be required to make them available to any requesting ISP on terms and conditions no less favorable than those offered affiliated ISP. (2) Facilities must permit access to all content on Internet without imposing any filtering or blocking schemes. (3) All ISP traffic must be treated equally. (4) All cable franchisees that offer cable modem Internet service should provide unrestricted access to all content on Internet.

**Popular element** of ALTV and NATPE conventions will be missing Jan. 22-25 in Las Vegas. Since they went back-to-back in 1993 in cooperative effort, ALTV has closed and NATPE has formally opened with joint session featuring top govt. official. However, with inauguration of new President scheduled in Washington Jan. 20, groups were unable to get firm commitment and didn't want to risk last-min. cancellation, as happened last Jan. in New Orleans with Senate Commerce Committee Chmn. McCain (R-Ariz.) — then candidate for GOP Presidential nomination.

**D.C. govt.** is conditioning its approval of transfer of AT&T system franchise to Comcast Corp. on former's paying settlement for past noncompliance with cable service requirements, and amount is being negotiated, Stacy Burnette, gen. counsel for city Office of Cable TV & Telecom, said. Settlement amount will be used by city to promote technology initiatives, she said, and company will be barred from passing through cost to subscribers.

**Conn. Superior Court** said universities didn't need franchise to provide video programming on their campuses and state mandatory access law didn't apply to state properties. Granting summary judgment for U. of Conn. in lawsuit brought by Charter Communications, Judge Thomas Bishop said state's mandatory access law didn't give franchised cable service provider right of forced access to state-owned property such as university.

**First 4 of Journal Bcst. Group's** 32 stations began streaming when Knoxville-based company went online. Group includes WWST(FM), WMYU(FM), WBON(FM), WQBB(AM). Journal Bcst. uses SurferNETWORK, which it said also would help it stream its other groups soon.

**iBeam will deliver** advanced streaming for BellSouth Internet service customers under new contract. Deal calls for iBeam to install media servers throughout BellSouth network. Terms weren't disclosed.

**Large number of DTV exhibitors** at CES convention in Las Vegas Jan. 6-9 are to include Daewoo, Fujitsu, JVC, Panasonic, Philips, Pioneer, Samsung, Sanyo Fisher, Sharp, Texas Instruments, Toshiba, Yamaha and Zenith, CEA said. Convention also will include at least 4 sessions on DTV, it said.

**Advanced TV Systems Committee** will co-sponsor seminar on PSIP and data broadcast, group said, Feb. 21 in Palm Springs in conjunction with ITS Technology Retreat — [www.itsnet.org](http://www.itsnet.org).

**Latest DTV station on air:** WTMF-TV (DTV Ch. 28, NBC) Milwaukee. NAB said 163 DTV stations now are on air.



## Personals

NAB named **John Orlando**, ex-CBS, senior vp-external relations in govt. affairs office... **Marc Graboff**, ex-CBS, appointed exec. vp, NBC West Coast... **Les Vann**, ex-WICD Champaign, named gen. mgr. KGAN Cedar Rapids-Waterloo... **Jonathon Pinch**, ex-Clear Channel, appointed exec. vp-COO, Cumulus Media... **Michael Waring**, ex-NAB, becomes U. of Mich. exec. dir.-federal relations... **Andy Kubitz** promoted to dir.-program planning & scheduling, CBS TV... **Chris Raleigh**, ex-NBC, named TechTV vp-ad sales-Eastern Region.

**Sarah Beatty**, ex-MTV, appointed senior vp-mktg., USA Network... **Dana Beales** advanced to senior vp-finance & administration, CTAM... **Paul Nicholson** promoted to vp-print & mktg. operations, Showtime... **John Honeycutt** advanced to senior vp-bcst. operations, Fox Cable Networks... **Margaila Kretchmar**, ex-Liberty Media, named vp-operations, National Geographic Channel.

Ex-White House spokesman **Mike McCurry** named CEO, Grassroots.com... **Erik Flannigan** promoted to Disney Internet Group senior vp-entertainment verticals... **Paul De Lia** promoted to vp-systems implementation, Sirius Satellite Radio... **Robert Vigilante**, ex-National Cable Communications, becomes vp-national sales, WebAdTV.com... **Michael Lyons**, ex-Compaq, appointed iBiquity dir.-aftermarket.

**Satellite Bcstg. & Communications Assn.** changed bylaws at annual board meeting in Baltimore Nov. 15 to ensure 2 highest paying dues members are on board. SBCA also changed standards, testing and certification program and renewed its partnership with Media Business Corp. to continue operation of SkyTrends. Board approved operating budget of \$5 million for 2001. New convention plan was adopted that will create additional ways companies can participate outside of exhibiting on show floor. SBCA said 2001 convention would be in Aug. at Opryland Hotel in Nashville. New board members are: Chmn. **Christine Sheehan**, senior vp-mkt. development, MTV; first vice chmn.-secy., **Stan Kozlowski**, senior vp-sales, National Rural Telecommunications Cooperative; 2nd vice chmn.-treas., **Eddy Hartenstein**, chmn., DirecTV Global; vice chmn.-retailer, **Rik Hawkins**, pres., Star Path Communications; vice chmn., **John Ovrutsky**, vp, Home Box Office; past chmn., **Tola Murphy-Baran**, senior vp-mkt. development, National Football League.

**PBS and Twin Entertainment**, enhanced interactive TV company, signed agreement to produce educational, fully interactive TV games based on PBS kids programs designed to operate on leading interactive TV platforms such as Liberate, MicrosoftTV, OpenTV. First program to be adapted under agreement will be "ZOOM," daily kid-powered TV series, which will be turned into interactive TV on-demand trivia quiz game called "ZOOMnoodle." Game at start will be available to cable operators using Liberate platform, enterprise said, and will be offered as free game. PBS and Twin also plan to work on creating a synchronous program based on Advanced TV Enhancement Forum standards.

**FCBA sponsors** continuing legal education program on "Hot Technology Issues" 6-8 p.m. Dec. 5 in McLean, Va. Panelists include FCC Office of Engineering & Technology Chief **Dale Hatfield** and Chief Technologist **David Farber**, along with FCC staffers **Lisa Gaisford**, and **Julius Knapp** — 202-293-4000.



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

## TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

(ISSN 0497-1515)

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

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

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

Copyright © 2000 by Warren Communications News, Inc.  
Reproduction in any form, without written permission, is prohibited.

### EDITORIAL & BUSINESS HEADQUARTERS

2115 Ward Court, N.W., Washington, DC 20037  
Phone: 202-872-9200 Fax: 202-293-3435  
Email: info@warren-news.com

### WASHINGTON HEADQUARTERS

Albert Warren . . . Chmn., Editor & Publisher  
Paul L. Warren . . . President  
Daniel Warren . . . Vice Chairman  
Dawson B. Nail . . . Executive Editor  
R. Michael Feazel . . . Senior Editor  
Edie Herman . . . Senior Editor  
Herb Kirchhoff . . . Senior Editor  
Alan Breznick . . . Senior Editor  
Mary Greczyn . . . Senior Editor  
Sasha Samberg-Champion . . . Associate Editor  
Dinesh Kumar . . . Associate Editor  
Bruce Branch . . . Associate Editor  
Dugie Standeford . . . Associate Editor  
Shawn Nelson . . . Assistant Editor  
Terry Lane . . . Assistant Editor  
Matt Kistenmacher . . . Assoc. Production Mgr.  
W. Pernell Smith IV . . . Assoc. Production Mgr.

### Television and Cable Factbook

Michael Taliaferro . . . Managing Editor  
& Asst. Publisher-Directories  
Richard Koch . . . Asst. Managing Editor  
& Editorial Director  
Gaye Nail . . . Asst. Managing Editor  
Susan C. Seiler . . . Senior Ed. & Ed. Supv.

### Daily Document Service

Joseph Lautieri . . . Manager

### Business

Brig Easley . . . Controller  
Lynn Levine . . . Exec. Sales Director  
Betty Alvine . . . Circulation Mgr.  
Deborah Jacobs . . . Information Systems Mgr.

### NEW YORK BUREAU

276 Fifth Ave., Suite 1002, N.Y., N.Y. 10001  
Phone 212-686-5410 Fax: 212-889-5097

Paul Gluckman . . . Bureau Chief  
Stephen A. Booth . . . Senior Editor  
Mark Seavy . . . Senior Editor  
Jeff Berman . . . Associate Editor  
Razia Mahadeo . . . Editorial Assistant

### CONTRIBUTING EDITOR, EUROPE

Barry Fox  
22 Holmefield Court  
Belsize Grove, London NW3 4TT  
Phone: (44-20) 7722-8295  
Fax: (44-20) 7483-3074  
Email: barryphox@cs.com

### JAPANESE REPRESENTATIVE

Editorial and Circulation  
CES International Corp.  
Sumitomo Seimei Aoyama Bldg.  
3-1-30 Minami Aoyama, Minato-ku  
Tokyo 107-8577, Japan  
Phone: (03) 5413-8664

- ☐ I'm interested in **Television Digest with Consumer Electronics** and would appreciate your sending me a FREE four-week (4 issues) trial subscription. I understand I have no obligation to subscribe.
- ☐ The person below would be interested in receiving a FREE four-week (4 issues) trial subscription to **Television Digest with Consumer Electronics**.

Signature \_\_\_\_\_  
Name \_\_\_\_\_  
Company \_\_\_\_\_  
Address \_\_\_\_\_  
City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_  
For e-mail delivery, please provide internet address: \_\_\_\_\_

**Radio station transactions:** (1) Cox Radio is buying WDYL(FM) Richmond and WJMZ(FM)-WPEK(FM) Greenville, S.C., for \$52.5 million cash. (2) Religious radio group Salem Communications is swapping WHK(AM) Cleveland and paying \$10.5 million cash to Radio Seaway for WCLV(FM) Cleveland. As part of deal, Seaway also is acquiring WAKS(FM) Lorraine, O., from Clear Channel Communications. (3) Newsweb Corp. is buying WAYP(AM) Chicago from Catholic Radio Network for \$10.5 million cash through broker Media Services Group.



# Consumer Electronics

A Section of Television Digest with Consumer Electronics

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Nov. 3 and year to date:

	OCT. 28- NOV. 3	1999 WEEK	% CHANGE	OCT. 21- OCT. 27	44 WEEKS 2000	44 WEEKS 1999	% CHANGE
TOTAL COLOR TV	692,535	519,979	+33.2	1,260,642	24,936,205	23,848,219	+ 4.6
DIRECT-VIEW**	673,811	500,899	+34.5	1,208,487	23,939,208	22,880,189	+ 4.6
TV ONLY#....	538,971	441,793	+22.0	993,786	19,769,168	19,186,428	+ 3.0
TV/VCR COMBO.	134,870	59,106	+128.1	214,701	4,170,040	3,693,761	+ 12.9
PROJECTION...	18,724	19,080	- 1.9	52,155	996,997	968,030	+ 3.0
TOTAL VCR**...	732,025	437,005	+67.5	1,568,959	23,772,209	22,304,907	+ 6.6
HOME DECKS...	597,185	377,899	+58.0	1,354,258	19,602,169	18,611,146	+ 5.3
CAMCORDERS.....	95,484	110,855	-13.9	429,506	4,914,654	4,050,225	+ 21.3
DVD PLAYERS....	215,073	68,135	+215.7	768,381	6,544,020	3,044,541	+114.9

Direct-view TV 5-week moving average#: 2000-579,460; 1999-602,436 (down 3.8%).

Projection TV 5-week moving average: 2000-26,017; 1999-31,430 (down 17.2%).

VCR deck 5-week moving average: 2000-707,168; 1999-631,122 (up 12.0%).

TV/VCR 5-week moving average: 2000-135,190; 1999-115,039 (up 17.5%).

Camcorder 5-week moving average: 2000-159,565; 1999-138,299 (up 15.4%).

DVD player 5-week moving average: 2000-290,346; 1999-134,237 (up 116.3%).

\*\* 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.

**REWITABLE DVD CAMPS HOLD FIRM AT COMDEX:** Nothing changed and little new emerged in products and positions of rival DVD recording camps at last week's Comdex in Las Vegas. If anything, determination to proceed with 3 incompatible formats for rewritable DVD was cemented by Toshiba's announcement of combo DVD-RAM/hard disc PVR for Japan and revelation by Philips that it would begin promoting DVD+RW on its Web site today — 10 months before product availability. Meanwhile, DVD-RW proponent Pioneer introduced drive for PCs that will be available early next year along with home video recorder.

As we have reported, Philips showed DVD+RW working prototypes for home video and PC data. It demonstrated each by making live recordings through camcorder, then playing recorded disc in video deck and PC drive. In demonstrating backward compatibility of DVD+RW with legacy DVD-Video players, company exhibited wry humor in using decks from Pioneer and Toshiba. As company said late last month, it would offer 2 home DVD+RW decks in 3rd quarter next year, with another to follow early in 2002. Meanwhile, section of [www.philips.com](http://www.philips.com) Web site will begin promoting DVD+RW format today, Optical Products Pres. Rob Van Eijk said. As product gets closer to rollout, infomercials and other advertising will appear in broader media, he told us.

DVD+RW drives for PCs should arrive with home video decks, members of DVD+RW Consortium said at Comdex news conference. PC drives will write data at 2.4x speed, video at slightly more than realtime 1.2x. Ricoh Senior Vp Tadatoshi Sakamaki said sample blank media already were shipping to vendors for testing, and his company now was developing final production for drives. Hewlett-Packard plans to offer DVD+RW Super Drive next summer, Consumer Business Pres. Pradeep Jotwani said. In stressing importance of backward compatibility, he repeated company's mantra that "the burden of compatibility must be born by the writer, not the reader." As in past, Sony said it was "developing DVD+RW now for use in the PC environment" but would pursue high-definition DVR Blue technology for home video.



In DVD-RW camp, Pioneer showed PC drive that records rewritable DVD at 1x and write-once DVD-R at 2x. Drive will ship in first quarter at price to be announced next month, but "under \$2,000," Senior Vp-Product Development Andy Parsons told us. DVR-2000 home deck is expected to hit retail in U.S. early next year, priced around \$2,500.

Surprise from DVD-RAM proponents was Toshiba's announcement Thurs. in Tokyo that it would offer DVD-RAM/PVR combo in Japan Dec. 22. Model RD-2000, at \$2,500, incorporates 30 GB hard disc drive with up to 29 hours of storage. Programs cached on hard disc can be copied to DVD-RAM for home video archiving or editing, Toshiba said. Combo has multiple video inputs and outputs, but from specs we saw it wasn't clear whether digital video output was available, and that couldn't be determined owing to time zone differences at our deadline. Digital video output would raise red flag among Hollywood studios. Combo also has tuners for digital TV broadcasts in Japan, and Toshiba spokesman told us combo would be offered only there.

Only other DVD-RAM product announcements came from Panasonic, which showed new PC drive capable of writing and reading 9.4 GB double-sided discs. Panasonic also said it would supply PC drives to Compaq Computer for its Presario 7000 home desktops and Deskpro work stations. Company said components supply was improving for DVD-RAM drives, as chip manufacturers have increased output. In recent past, Panasonic executives have said parts shortages were limiting factor on DVD-RAM sales. Company said it now would ramp up production and didn't anticipate difficulty in supplying PC makers. DVD-RAM home deck already is sold in U.S. at \$3,500.

High-definition DVR-Blue optical disc recording was no-show at Comdex, although co-developers Philips, Pioneer and Sony each had demonstrated it to reporters in recent weeks. Philips had storyboards and components on view at its hospitality suite but executives emphasized that implementation was years off, although technology could be market ready in 2 years. Like executives from other companies, they questioned market demand for product with 2.4-hour HD recording and without sufficient availability of high-definition programming sources.

"We don't believe the market is crying out for this today," said Frank Simonis, Philips' DVD+RW product/mktg. mgr. "The market is no way near ready, and we don't know the applications for it." His remarks echoed comments by Sakon Nagasaki, Matsushita dir.-storage device business development. Although Matsushita hasn't announced HD recording technology, it's in works there as at all CE companies, he told us. But he too expressed skepticism over market readiness for HD recording.

"The technology can be ready soon, but there are many factors to be considered for the success of HD-DVD," Nagasaki said. They include consumer demand, availability of prerecorded titles from Hollywood studios, latter's requirements for copy protection and digital rights management. Nagasaki equated early announcements of HD-DVD with timetable for DVD-Video, which was first broached as subject in 1993 and went through standards-setting process before Nov. 1996 launch. "With HD-DVD, today is the practical equivalent of 1993," he said.

**DTV PC CARDS RE-EMERGE AS HD PROGRAMMING GROWS :** HDTV decoding cards for PCs, dormant for more than year, are re-emerging as amount of programming and number of TV stations transmitting signal increases, and growing number of PC monitors are capable of displaying SXGA 1,280x1,024-pixel resolution or better.

With more than 150 station broadcasting HD signal, PC industry is showing renewed interest in technology with companies such as ATI Technologies, Digita Systems, Hauppauge Digital, Sigmacom and others either shipping or developing PCI cards containing decoder chip, companies said at Comdex in Las Vegas last week.

"The PC space is more willing to take some risks and has a faster development cycle," said Matthew Miller, pres. of NxtWave Communications, which is supplying demodulator chip for ATI, Hauppauge and Sigma cards. "A lot of this is being driven by the rapid takeup of DVD, which is getting to be a target item on the computer. It [DVD] reinforces people's notion that you can use a PC for an entertainment application so why would you restrict yourself to prerecorded titles?"

PC industry has been down HD path before. Hitachi and Intel in 1999 started joint venture to develop decoder chip, but project never reached fruition amid dearth of HD programming. Of card suppliers, Hauppauge was early out of gate with product, but suffered slow sales owing to its being limited to standard definition (SD) display. In current version, Hauppauge card, which ships this week at \$399, uses TeraLogic's Janus decoder chip to deliver 1080i in full-screen mode. In designing card, Hauppauge shrank length to 7" by using more efficient higher density RAM in moving to 2 MB from 8 MB. While video decoding is chip-based, audio is handled using MGI Software technology.



"I don't think it [Hauppauge's first card] was enough of a jump over what was available," CE industry official said. "SD is SD and you can only make it look so good."

Hauppauge's chip-based approach to HD decoding enables task to be accomplished at lower processing speeds. Product requires 333 MHz or better Pentium II processor, while ATI card, which is smaller at 4", needs 700 MHz or more Pentium III due to its handling most video decoding with Ravisent Technologies' software-based technology. ATI's product, still in development, relies on video card to handle motion compensation, source said. Sigmacom, meanwhile, is hedging bets. It developed Jaguar PCI card that uses TeraLogic chip with 16 MB-based memory configuration and integrated 2D graphics engine for TV navigation. But Sigmacom also has Ravisent-based Jaguar HDTV II decoder for Samsung PC sold in S. Korea that adds Dolby Digital capability. Also entering derby is Global Telemann Systems, which is marketing HiPix DTV-200 video card (\$399) that can receive and output HD (\$399). It also records full-quality HDTV by passing MPEG bitstream to hard drive.

Hauppauge introduced Win PVR (\$249) card at Comdex, but product has analog tuner and allows for recording only of HD transport stream on hard drive, Hauppauge Product Mgr. Peter Bauer said. "We're not even considering software because you need a gigahertz system or better and don't let anyone tell you differently," he said. "Software is a nice idea, but not everyone can afford a gigahertz system."

In introducing HD product, Hauppauge will shift SD version to professional markets where some broadcasters have adopted it to monitor signals, Bauer said. Company also will limit sales of HD PCI card to higher end retailers at start before moving to Best Buy or Circuit City, rather than broad distribution used with debut of SD product, he said.

ATI's development of HD PCI card is major milestone for company. Its All-In-Wunder Radeon graphics processing unit can pass through HD signal but requires set-top decoder for display on PC. ATI, early proponent of TV tuner cards with its Rage brand, continues to pursue analog market with USB version of TV Wunder tuner (\$99) that requires Pentium II or III processor as well as cable TV signal or amplified antenna. Hauppauge, despite its push into HD, is continuing WinTV analog line, albeit at lower prices up to \$199, Bauer said.

However, not all graphics card companies are convinced of need to enter HD PCI market. NVidia plans to rely on ability of its GeForce GPUs to pass through HD signal for time being, Senior Mktg. Vp Daniel Vivoli said. NVidia earlier had announced agreement with TeraLogic, but so far hasn't introduced product. "We still haven't gotten to the point where we feel it is necessary to do the whole thing," Vivoli said. Grafting HD decoder onto GeForce GPU would require nVidia to increase size of chip, something it seeks to avoid, he said.

Meanwhile, future strategy for 3Dfx's VoodooTV analog tuner card business was unclear after company announced last week that it was closing Juarez, Mexico, graphics board factory and planning to return its graphic core technology to OEM business. 3Dfx will contract 3rd party source for future graphics boards. While it continues retail distribution of branded graphics cards, it's partly reversing course in returning to OEM market it left in 1999 with \$139 million acquisition of former customer and graphics board maker STB Systems. Diamond Multimedia, now owned by S3 (now Sonicblue), and Creative Technologies, STB competitors and 3Dfx OEM customers accounted for \$117 million (58%) of 3Dfx's revenues in fiscal 1998. New OEM thrust will be into licensing new Mosaic graphics technology for desktop and mobile PC, set-top box, game console, handheld PC and cellular phone applications. 3Dfx, which hasn't set availability date for Mosaic, says technology will have 50% better performance than current graphics products at 1/5 dye size and 1/3 memory bandwidth.

Return to OEM roots marks end of turbulent period for 3Dfx. It made some inroads with first branded Voodoo3 graphics chip, but then suffered continued delays in development of Voodoo5 that eventually led to ouster of CEO Gregory Ballard. "It's well known within the industry that discrete graphics chips sales are transitioning to integrated chipset sales in the mainstream OEM PC business," said Scott Sellers, chief technology officer at 3Dfx. "We believe that to license our graphics core to the primary players in the integrated chipset market is the right strategy to take advantage of the trend toward integrated graphics."

\* \* \* \* \*

As PCI card suppliers readied HD product, some OEM STB deals were brewing. S. Korea-based Integra was said to have OEM agreement with Samsung to supply HD STB using latter's tuner and STMicroelectronics' HD decoder. Princeton Graphics is said to be considering Integra as possible supplier, although it also is in discussions with Taiwan-based Zinwell. Zinwell STB, which has LG Electronics decoder, is said to be slightly more expensive than Integra. As result, Zinwell is moving to cut costs of STB by switching to 2-layer board from 4 layers and pushing LG to develop integrated MPEG-2 decoding and processing chip, sources said. Samsung and Princeton Graphics officials weren't available for comment. Digitra also showed STB at Comdex with 54-850 MHz input frequency and Dolby Digital decoding.



**SONYSTYLE.COM DEBUTS:** Sony is kicking off major TV and Internet ad campaign for its SonyStyle.com Web site this week.

Manufacturer officially launched Web site Nov. 10 after conducting soft launch since midsummer. Unveiling of SonyStyle.com represents first time that Sony has sold most of its CE line direct to consumers. In opening Web site, company for first time provided link between SonyStyle.com and Sony.com sites. Latter will continue operating mainly as informational site. Clicking electronics tab at Sony.com now will send consumer automatically to SonyStyle.com.

Sony also announced it had signed agreement with Santa Clara, Cal., company Covad Communications that will provide for Sony-branded dial-up and broadband Internet access powered by Covad. Network access service in deal will be known as Sony Style Connect. Ashcroft told reporters that service would start at "some time in the first half of next year."

Company said ISP service would provide seamless connectivity for Sony customers as more and more devices that link to Internet become available. Sony Electronics e-Solutions Co. Pres.-CEO Robert Ashcroft said providing "ease of access" to consumers for online services used in conjunction with Sony products was of primary importance. With tongue at least partially in cheek, he said: "If in the early half of next year owners of PCs [in] the whole of the United States want to switch to Sony's ISP, then I shall be a very happy man."

As we reported when Sony announced plan for SonyStyle.com in U.S. (TVD July 24 p13), company is positioning it not only as e-commerce site but also as Web destination providing informational content and connectivity solutions for consumers who buy Sony's products.

In terms of specific online services, Sony Vaio customers already can "get online support and online fixes for their computers" at Web site, Ashcroft said. But he added: "We need in the future to extend this to other products because increasingly they have large software components with the opportunity to provide downloaded upgrades and downloaded repairs to [Sony] devices." He said Sony had in mind whole "series of device-centric portals because each device will connect in a different way to different things."

At launch, Web site featured 2,000 products, although Ashcroft told us evening before launch that only about 750 of them would be available for shipping following day. He said company still was working out certain infrastructure issues, including process of how to best ship large products such as big-screen TVs.

SonyStyle.com's other features include link to Sony dealers closest to consumers, based upon ZIP codes. Although site didn't seem to have as many bugs in dealer locator as RCA.com site had when it bowed last year (TVD Oct 18/99 p13), it wasn't completely up-to-date either. For instance, new Best Buy location in Staten Island, N.Y., didn't come up in search for 10312 ZIP code although Circuit City and Wiz stores within walking distance of that Best Buy outlet did.

When Sony announced plan for SonyStyle.com, retailers' reactions were mixed. Some expressed concern, but most seemed to be expecting it, although all said Sony still would be providing at least some level of competition for them.

On evening before launch, Ashcroft said from what he could tell, "the reaction from retailers has been generally wait and see. I think there's a recognition out there that the world [is changing] and the Internet's here." He also thought it helped that Sony "communicated upfront beforehand [that] these are our plans." In contrast, retailers including Circuit City said they were taken by surprise when Thomson announced its plan for RCA.com and were more vocal when Thomson made its intentions public (TVD Oct 18/99 p11).

Opening of site won't change Sony's strict online dealer authorization policy, spokesman told us. To date, Sony has authorized only small number of dealers to sell its products at their Web sites.

Ashcroft said one way in which Sony was trying to make site different from many others on Internet was in its very look: "We've organized our Web site around 6 home pages, each one reflecting a unique life-style." Those 6 life-style home pages are broken down into "Code Breaker," "Free Agent," "Transcender," "Connoisseur," "Homelander," "Virtual Professional."

Web site last week told visitors: "You haven't seen anything yet" and "we will soon bring you a host of new interactive and educational activities" — among them "chats, polls and reviews" coming "in the near future."

On ad campaign front, e-Solutions Co. Mktg. Vp Michael Tive admitted: "The 4th quarter is the most cluttered time [because of all] the advertising messages that are out there. We have to say that we will be considerably outspent by people in a variety of other categories, other e-tailers, retailers, other companies doing things this holiday." Therefore, he said: "We need to launch with a tremendous amount of impact."

Sony's TV ads consist of 4 black comedy spots with a Christmas theme. In first 3, two men kidnap Santa Claus and kicker line says: "We have Santa. Shop at SonyStyle.com or there will be no Xmas." Final spot has Santa being released and kicker line says: "We had Santa. Thank you for shopping at SonyStyle.com." Tive said spots would run on national cable and broadcast TV in 5 markets.

**Musicmaker.com** once again posted increased revenue but widened loss. Reston, Va., custom CD company reported its sales jumped to \$845,190 in 3rd quarter ended Sept. 30 from \$189,091 same period year ago. Revenue consisted of \$292,000 from consumer business and \$553,000 from special products/premium business programs. Musicmaker's net loss more than doubled to \$18.98 million (-\$5.73 per share) from \$8.20 million (-\$2.85). Sales costs soared, with product cost jumping to \$362,140 from \$43,283 year ago and sales cost jumping to \$5.91 million from \$725,068 year ago. Company placed much of blame for increased costs on its sponsoring tours of The Who and Jimmy Page and the Black Crowes, as well as securing rights to distribute content related to those acts. But Musicmaker said those sponsorships "significantly raised the profile of our company." Commenting on Musicmaker's results, CEO Raju Puthukarai called it "a tumultuous time for both the music industry and for the e-commerce industry." He said company started restructuring process in last quarter that reduced its full-time staffing level about 30%. As result, he said, "we expect our annual cash burn rate, beginning with our fiscal year 2001... to be approximately \$10 to \$12 million."



**LCD MONITOR PRICES DROP:** After year of relatively stable prices, LCD monitor market is bracing for another plunge as industry seeks to free itself of excess inventory in 2001.

While tight supply has kept lid on prices and, in fact, resulted in some increases, push by Taiwanese manufacturers to add production capacity is reversing trend, industry executives said at Comdex in Las Vegas last week. Manufacturers ranging from NEC to Samsung have set low-end bar for 15" LCD monitors at \$799, which could decline further by year-end, industry sources said. In LCD monitors, 15" dominates with 80% market share, figure that will dip only slightly to 70% in 2005, experts predicted.

Gap between 15" and step-up 17" (\$1,399-\$1,799) and 18" models (\$2,400-\$2,600) has widened, but could narrow as CE manufacturers move to add LCDs to high end of TV line. Smaller sizes should benefit from new production lines featuring 680x880mm mother glass that are aimed at reducing costs by increasing both volume and yield.

"You don't have a consumer product without a \$499 price point and we will have one," said Bruce Berkoff, exec. vp of mktg. of LG.Philips joint venture that eventually may market line of TV-oriented modules at 13.3"-29", latter not expected for 3 years. "The bad thing about lowering prices is you make less profit," he said, "but you get more volume and that's how you get more maturity in the market."

Indeed, Zenith's 15.1" display, built by LG.Philips, has been advertised by Circuit City at \$999. LG.Philips also is expected to ship 20.1" display by year-end at \$1,000-\$2,000 with 640x480 resolution, 400:1 contrast, 300 lumens brightness. Samsung unveiled TV-oriented version of 24W LCD that was first shown for commercial applications in 1999. New 24W, which could be priced in \$7,000 range, has 1,600x1,200 resolution, 250 lumens, 450:1 contrast, 3" shielded woofer, 1.5" dome tweeter that deliver 5 w per channel. HD-ready display is being packaged with Global Teleman Systems' PCI decoder card. Gating factor for monitors will be requirement for minimum 1,280x1,024 resolution to display full HD picture.

"It's resolution and bandwidth that differentiates LCD and TV monitors, but you could move [TV LCDs] off your [standard LCD] production line and that would minimize your production cost," Samsung Mktg. Dir. Frederick Garcia said.

Long-term volume potential for flat-panel TVs has encouraged newcomers to enter market and others to relaunch technologies. Telegen, which is trying to revive interest in its high-gain emissive display (HGED) technology after emerging from bankruptcy protection, is planning to show 12" and 14" prototypes in 2001, up from current 10.4". Possibility of larger sizes will hinge on Telegen's claims that its column driver technology can lower production costs by reducing need for transistors to 2 per column from several hundred, CEO Jessica Stevens said. "We did not believe that hang-on-the-wall TVs were a market we wanted to get into, but that is becoming a segment that has tremendous volume potential."

As LCDs move to lower prices, plasma displays appear to be in holding pattern as promised reductions have been slow in arriving. Hitachi showed conventional 37" with 1,024x768 resolution, 450:1 contrast and 150 lumens as well as high-definition version of 42W (1,024x1,024) that was built in joint venture with Fujitsu. Hitachi is expected to begin retail

test with 42W in spring, strategy it embarked on earlier this year but never launched after struggling to establish retail base, Product Specialist Philip Perez said. Manufacturers have been trying to boost plasma yields that would make lower prices possible, and earlier this month Fujitsu scheduled, then canceled, news conference to introduce new 32W and 50W plasma displays.

"42W is not quite the right size," said Kenneth Walker, vp-gen. mgr., software and electronics, Philips Flat Display Systems, whose consumer counterpart has marketed 42W sourced from Fujitsu. "It's too big for European and Asian countries and too small for most Americans," he said. "So we're really looking at other sizes and directions where we could slide up for the American market and down for others."

Along those lines, Philips is weighing continuing to pursue plasma business either through joint venture that could include production or "alternative sourcing strategies," Walker said, and decision will be made within 12 months.

As Philips considers new plasma strategy, it has formally abandoned plans to develop display based on plasma addressed liquid crystal (PALC), technology it once championed with partners Sony and Sharp. PALC ran into numerous delays and was hampered by motion artifacts. Philips instead has put bet on LCD tiling in buying 29% stake in Rainbow Displays, which is developing 37.5" model that could be ready by late 2001.

Other alternative for Philips as well as Samsung could be liquid-crystal-on-silicon (LCOS) microdisplay technology. Philips showed home-grown 0.79" display inside PC monitor with 1,600x1,200 resolution and 300 lumens. Samsung pushed back delivery to mid-2001 from year-end of 25" PC monitor with 3 panels based on Three Five Systems' LCOS technology. Samsung monitor has 1,280x1,024 resolution, 250 lumens, 250:1 contrast and uses 100 w lamp with 10,000-hour life. Company plans to grow LCOS technology into "family of products," although Garcia conceded that "it did not prove itself out" in terms of yield in first production runs. Three Five officials weren't available for comment.

In time-honored CRTs, industry showpiece continues to be flat-screen monitors, although category accounts for less than 10% of overall sales. Toshiba rolled out 17" and 19" flat-faced monitors featuring its brightness enhancing microfilter technology that's expected to be available in 2001. Tubes also have 22.5 mm necks, sharp drop from early versions that had 29.1 mm. New NEC-Mitsubishi CRT joint venture countered with 22" flat monitor with 1,920x1,440 maximum resolution and digital video interface (DVI). LG Electronics took wraps off 19" Flatron monitor that ships in Dec. and displayed monitors that are sold in broad array of colors in S. Korea. Samsung had 19" Dynafat model with 1,600x1,200 resolution and 0.20mm dot pitch.

Seeking to refine dot pitch, Sony showed 21" monitor with 0.15 mm, but conceded technology was at least year away from market. Model, first shown 2 years ago, has 2,560x2,048 resolution, 100 candelas, 100:1 contrast, multibeam electron gun that allocates 2 beams each for red, green and blue.

Even with advances in CRT technology, tube-based PC monitors continue to be commodity item at retail, forcing many manufacturers to move production to new low-cost country of choice — China. Taiwanese companies have established manufacturing base there along with Samsung and others.



**NVIDIA XBOX CHIP PROTOTYPE:** NVidia has completed prototype development of media communications processor (MCPX) for Microsoft's Xbox game console and remains on target to deliver chip in time for debut next fall, Senior Mktg. Vp Daniel Vivoli said.

Chip is "2 generations newer" than nVidia's current high-end GeForce Ultra graphics processing unit (GPU), which can process 1 gigapixel and 31 million triangles per sec. It's being designed for 0.15-micron fabrication process vs. 0.18-micron that's standard across nVidia's current line, he said. NVidia unveiled single-chip GPUs with GeForce 256 in Aug. 1999 in effort to integrate features to drive down cost.

Vivoli also sought to differentiate nVidia's relationship with Microsoft from that with Indrema, which has said it plans to offer Linux-based game console in late spring at \$299 using GeForce graphics chip. "We're not doing any integration with them [Indrema] and it's not at all like Xbox," Vivoli said. "It's more like an [OEM] relationship ... We don't want a misperception out there because we are putting a lot of energy into the design of the architecture for the Xbox."

NVidia took wraps off new GeForce2 GPU designed to target gaming as well as business presentations on notebook PCs. GeForce2 Go, which will be introduced first in under-\$3,000 line of Toshiba Satellite notebooks late in first quarter, is based on GeForce MX chip that NVidia set for desktop PCs earlier this year.

New GPU, nVidia's first for notebook PCs, won't carry premium, although Carl Pinto, Toshiba product mgr. for Satellite PCs, conceded that company was subsidizing cost at start. To overcome notebooks' problems in working with gaming peripherals in past, Toshiba Satellites will be equipped with 2 USB ports. GPU can process 17 million triangles and 286 million pixels per sec. and has 2.6 GB memory bandwidth. It's available in 8-32 MB configurations and includes such features as shading rasterization, which provides per-pixel lighting and shading effects and TwinView architecture that allows display to be shown on 2nd monitor or projector. Memory and chip clock speeds are 143 MHz and 166 MHz, respectively. Taiwan Semiconductor is supplying silicon for chip using 0.18 micron process, while ChipPac assembles product.

GeForce2 Go will bring nVidia into direct competition with desktop rival ATI Technologies, which has 55% share of graphics card market for notebook PCs, followed by S3 and NeoMagic. While Toshiba is pricing GeForce2 Go at high end of Satellite line, it will continue to use ATI and S3 graphics cards in low-end and midrange models, respectively, Pinto said.

**Express.com unveiled Holiday Gift Center** featuring "60-Second Shopper" at its e-commerce Web site. E-tailer's 60-Second Shopper is designed for customers in hurry to buy gifts. User selects person they are shopping for (family member, teen, boyfriend or girlfriend, etc.) from pull-down menu and checks desired product category box to see items displayed on screen that have been handpicked by Express.com staff. E-tailer said it has used Federal Express and U.S. Postal Service to ship products to its customers for last 3 holiday seasons and claims it "has delivered DVDs 100 percent on time." New to site this year are music, specialty electronics, videogames. It has been selling PS 2 games imported from Japan since platform began in that country in March.

**Staples, blaming slowdown** in U.S. retail market and conceding that it "bit off more than we would chew," reported 3rd-quarter income fell to \$84.6 million from \$92.5 million year ago, despite 17% gain in sales to \$2.8 billion. Same-store sales were up 7% overall, 4% at N. American retail stores. At retail in N. America, slow economy affected revenue and profit by \$40 million and \$8 million, respectively, although overall sales increased 15.4% to \$1.78 billion. Marketing and merchandising miscues, including sales of Windows Millennium operating system that were 25% below projections, added another \$20 million blow to revenue, CEO Thomas Stemberg told analysts in conference call. Handheld and notebook PCs were strong sellers, although desktop models "weakened" late in quarter, COO Ronald Sargeant said. Chain's Staples.com online business posted \$21 million pretax loss in quarter on sales of \$141 million. Gross profit edged up 0.7% to 21.5% vs. chain's overall 0.68% decline to 24.1%. It said 67% of Staples.com sales were repeat business, and per-customer acquisition costs were \$75. Staples.com Pres. Jean Lewis projected that sales would increase this year to \$350 million from \$250 million, \$750 million by year-end 2001 when business was expected to achieve break-even. Sales in Europe climbed to \$161 million from \$125 million on 8% gain in same-store sales. Increase in in-store theft of new technology products such as handheld PCs and digital cameras added \$8 million in incremental costs in quarter, Sargeant said. It forced Staples to implement changes including packaging ink jet cartridges in clamshells and tying store managers' bonus to reducing theft, he said. In another cost-saving measure, Stemberg said Staples might take write-off against 4th-quarter earnings to cover both money-losing communications business and investments in Internet companies including BizBuyer.com in which it has 10% stake (TVD Feb 14 p17). Company also will limit expansion in 2001 to one new major market vs. dozen this year, but plans to continue with opening 170 outlets largely in existing markets. Chain's plan to push expansion comes in face of decisions by rivals OfficeMax and Office Depot to close stores. Staples also is expanding in-store Business Solutions centers, which have tested sales of Internet access and others services in 20 stores (TVD May 22 p20). Another 26 outlets are being added in San Diego and Phoenix in 4th quarter, Stemberg said.

**DTV recall** was disclosed by Thomson last week for its 38W Proscan and RCA sets. Spokesman told us no safety issues were involved, but life-testing in Thomson's consumer acceptance lab revealed potential for color purity problem in some direct-view DTVs. He said only few thousand had been sold since late summer shipment and few had experienced color blotching in lower screen corners, but Thomson decided to recall all sets in order to retain consumer and retailer confidence. Retailers are being asked to return inventory, and sets sold to consumers will be replaced with new 38W "in a matter of weeks," spokesman told us. He said faulty component had been redesigned and would go into production soon. Meanwhile, consumers were being given \$200 credit to purchase Thomson product of their choice in compensation for inconvenience. Direct-view DTV has \$3,999 MSRP and has been heavily promoted by retailers in ramp-up to holiday selling season.

**Circuit City subsidiary CarMax**, crediting improved sales of used cars, raised earnings estimates for 3rd and 4th quarters. CarMax Group, which operates 40 outlets, said net earnings for 3rd quarter would be 5-6¢, up from 4-6¢ it had projected earlier. Earnings for year ending in Feb. were projected at 37-40¢ and chain said it would contribute 14-15¢ per share to parent's fiscal 2001 net income.



**HANDHELD PC MERGERS:** As cellular and wireless functions are rolled into handheld PCs via add-on modules, future of devices as standalone personal digital assistants (PDAs) is being called into question.

Modules, which attach to handhelds via slot to provide cellular and wireless services, remain expensive — \$300 or more for hardware plus monthly service fee — but are increasingly stealing spotlight from what once were organizer-only product. Modules also come as cellular phones increasingly add PDA features that further push convergence of technologies.

“Some form of the PDA has to remain,” Handspring Senior Product Mgr. Lisa Best said at Comdex show in Las Vegas last week. “The product that is good for entering data isn’t necessarily a good one for talking on the phone. The user experience of trying to enter data into a cellular phone can prove difficult.”

On cellular side, Kyocera recently unveiled smart phone that combines Palm-based handheld PC features with CDMA cellular technology. Handspring introduced its VisorPhone (\$299) that’s available in GSM and CDMA versions.

Palm, Handspring, Sony and Microsoft also are readying wireless Internet access services. Palm licensees Handspring and Sony along with Microsoft allies Hewlett-Packard and Casio have aligned with GoAmerica, which charges \$39-\$49 monthly fee for service that operates at 19.2 kbps using CDPD network covering 80% of U.S. For HP’s Jornada, consumers can buy Novatel Minstrel 540 wireless modem bundled with services from OmniSky and GoAmerica, while Casio has similar deal with GoAmerica and Pocket Spider modem (\$199) from Nexcell. Compaq signed agreement with OmniSky to provide Metricom’s Ricochet mobile data network for its iPaq Pocket PC. Ricochet, which is available in 9 U.S. markets has 128 kbps data rate. Palm also unveiled MyPalm, revamped version of Palm.net portal for VII and VIIx handhelds that builds on company’s acquisition of Web-based schedule service Anyday.com. MyPlay also allows downloading of applications directly to Palm devices and wireless synchronization with other devices. It also added \$40 kits that will enable Palm III, V and m100 to connect to Internet.

“While it is possible to put all these functions in one device, I’m not sure that is how people want to interact with all these services,” said William Magg, chief technology officer at Palm. “They’re going to want devices that are tailored to specific applications.”

Nokia Senior Vp Timothy Eckersley countered that “there are going to be multiple phone solutions” that combine with PDA features, but conceded that phone and handheld PC would remain viable as separate businesses.

As Handspring, Microsoft and Palm court developers to provide solutions, questions have arisen on whether some programs overlap each other. For example, GoAmerica and OmniSky and Magellan and Nexian provide wireless Internet access and GPS software, respectively, for Handspring.

“I suppose there is some risk, but shortly after we introduced our wired modem, something else added one and we both co-existed so I think there is room for similar services,” Best said.

While Handspring, Microsoft and Palm continue to dominate handheld PC market, smaller competitors are seeking to carve niches with Linux-based and proprietary devices. Both Royal and Vtech showed new handheld PCs based on Linux operating system (OS) that will be priced around \$200, but with slightly different features and strategies. Royal will ship 16 MB mono model in first quarter with 75 MHz or greater processor and plans to combine features from previous daVinci handheld PC and organizers with those being created by 3rd party developers. Vtech’s Helios is likely to have 8 MB memory, but may shift to new Toshiba 55 MHz processor that’s designed to consume 30% less power. Vtech, which deployed proprietary OS in first-generation product, has signed up Transvisual Technologies to develop pocket version of Linux that will be compatible with Java and XML and will be stored in 2 MB of flash memory. Companies are expected to eschew wireless connections for Internet access in first-generation products in favor 33.6 kbps modem.

Both companies plan to keep previous models in line at lower prices, while Royal will push to bring portions of Linux features down into organizer line starting with \$69 model, Exec. Mktg. Dir. Robert Robinson said. Goal, he said, is to unify Royal line around Linux and make push into corporate market, which could account for up to 50% of company’s handheld PC sales.

“You could make the argument that I want to use Linux so that nobody can sue me, but we’re using it more importantly because we understand the strategies of it,” said Robinson, whose company has been sued by Palm for patent infringement. “In corporate America there is so much more capability when you tie Linux to the strategic devices that make a business.”

Vtech Vp-Gen. Mgr. Lawrence Stone was pragmatic in his approach to Linux in arguing that converting desktop OS to portable applications posed challenges. Among them are “power and memory management” as well as in ensuring that “general responsiveness” of chips is such that there is no latency in shifting between Linux applications.

“There are some technical issues we want to make sure are sound before we distribute the product and that’s why you don’t see it [Linux] on handhelds today,” Stone said. “Linux was delivered for a fairly large operating environment and we just don’t have that here.”

Also seeking space in market are CMC Magnetics and Cyberbank handheld PCs, which use proprietary and Widows CE software, respectively. CMC’s Personal Play Assistant handheld (\$199) has Smart Media Card slot, 2 MB flash memory and USB connector. It also has digital camera (640x480 maximum resolution) and MP3 player. Riding crest of cellular phone craze was Cyberbank, which showed model with 190 MHz Intel Strong Arm processor along with CDMA module and 4" LCD screen featuring 640x480 resolution.

**DVD-Audio decoding** is latest function of Vaddis-V processor from Zoran. Company said 5th-generation chip was optimized for universal DVD players with DVD-Audio and DVD-Video operation and supported DVD-Audio functions such as Meridian Lossless Packing, Linear PCM playback, watermarking. Chip provides DVD-Audio resolution up to 192 kHz/24-bit sampling and supports Copy Protection for Pre-recorded Media and Copy Protection for Recorded Media. Zoran also said Vaddis-V could play back DVD-RAM and DVD-RW recordings.



**GEMSTAR-TV GUIDE EARNINGS RISE:** Gemstar-TV Guide International, crediting gains in revenues from licensing and its interactive program guide, reported consolidated 3rd-quarter earnings before interest, taxes, depreciation and amortization (EBITDA) jumped 30% to \$99 million despite slip in revenue to \$337.7 million from \$341 million year earlier.

Stock tumbled 18% on Nov. 14 to close at \$44.69 on analysts' concerns of slowing revenues, but regained footing to close week at \$54 after Gemstar-TV Guide executives held 2nd conference call on Nov. 16 to provide additional details.

Earnings, first reported since Gemstar and TV Guide completed \$14.9 billion merger in July, were hampered by slowing subscriber base of *TV Guide Magazine*, analysts said. Gemstar's Media and services business, which includes magazine operations, posted gain in EBITDA to \$49.6 million from \$44.1 million, but revenue fell to \$171.8 million from \$175 million. Also included in media segment is C-band satellite business, once part of United Video Satellite before its merger with TV Guide. C-band subscribers are being converted to EchoStar's Digital Sky Highway (DISH) high-power service. Gemstar-TV Guide receives \$250 for each conversion and monthly royalty payment for 5 years, Co-Pres. Peter Boylan said.

Revenue focus for Gemstar-TV Guide is interactive program guide (IPG) that's being licensed to digital cable and satellite service providers. Business negative EBITDA of \$12.3 million in quarter was slight improvement on \$12.5 million year ago as revenue jumped to \$6.6 million from \$800,000.

Among Guide Plus IPG customers is Thomson, which has committed to installing it in TVs down to 19" and in total of 3 million units by year-end 2001, CEO Henry Yuen said. Gemstar-TV Guide is negotiating agreements with other CE manufacturers, and Yuen projected installed base of one million units by vendors other than Thomson by late 2001. "In time, there will be quite a few guides that will be slightly different in the look and feel, but they will be unified in advertising and branding," Boylan said. IPGs have installed base of 5 million units in satellite and cable industries and Gemstar's guides are in 3.5 million units.

In satellite, company is negotiating agreement with DirecTV to install advertising-based IPG. DirecTV faces "very significant contingent liability" if it doesn't reach agreement, said Boylan, noting that DirecTV's parent General Motors plans to sell or spin off unit. Gemstar-TV Guide has sued EchoStar for patent infringement and is seeking lost advertising and T-commerce revenues on sales of DISH receivers dating back to 1994, Boylan said. He said EchoStar, which has 5 million subscribers, had ceased "negotiating in good faith" and would have "massive problem" if Gemstar-TV Guide prevailed. EchoStar and DirecTV spokesman declined comment.

On cable side, Gemstar-TV Guide is in discussions several MSOs, largest of which so far has been Comcast, which has implemented guide with 800,000 digital subscribers. It also reached settlement of patent infringement suit against Motorola under which latter will pay \$200 million based on sales of digital units.

Other segment of interactive business is e-Books, which Gemstar-TV Guide started with Thomson earlier this year.

Thomson is expected to build 100,000 units by year-end, and Gemstar-TV Guide receives flat licensing fee exclusive of units shipped, Yuen said. E-books are expected to account for "way less than" 10% of company's interactive revenue in 2001, which are projected to hit \$150-\$160 million, Yuen said. Gemstar-TV Guide, which is expected to merge its Softbook Press and Rocket eBook businesses as it moves from current 10,000-20,000 customers to "hundreds of thousands and into the millions," will receive 15-25% gross profit margin on sales of e-books, Yuen said. Magazine sales could generate up to 50% margin which, unlike books, are based on percentage of retail price, he said.

In effort to boost revenue, Gemstar-TV Guide is pushing to spread advertising purchases across multiple platforms. Capital Records recently signed pact to promote new Beatles compilation CD panel ad on IPG and then began direct response spot on TV Guide Channel.

**Zenith, bolstered by \$5.9 million gain on sale of Network Systems Div.,** narrowed 3rd-quarter loss to \$2.8 million from \$13 million year ago as sales declined to \$144.7 million from \$209.5 million. Downturn in sales was due to Zenith's decision to drop businesses that didn't provide "acceptable profit margins" as well as elimination of OEM sales, it said in SEC filing. Gross margin fell to 5.3% from 9.8%. Network Systems Div., which was sold to Motorola subsidiary for \$14.9 million in Aug., reported \$500,000 net loss on \$8.1 million in sales in July 1-Aug. 7 period. Zenith also took \$1.8 million in restructuring charges tied to closing and transferring ownership of plants in Mexico as well as professional fees in sale of assets. In quarter, Zenith purchased \$162.3 million in TVs, VCRs, TV/VCRs and parts and components from parent LG Electronics' factory in Reynosa, Mexico. It transferred ownership of plant as part of its acquisition by LG in Nov. 1999. Zenith also revealed in SEC filing that Pres.-CEO Ian Woods signed separation agreement with company Aug. 12, 2 months before formal departure Oct. 11. Woods, who was replaced by LG Electronics executive Tokjoo Lee, was paid \$100,000 per month as interim pres.-CEO. Severance package totaled \$73,495, including stay bonus (\$23,589), deferred compensation (\$12,358), unused vacation (\$37,548).

**Visteon will team with General Motors** to introduce what it said would be industry's first factory-installed automotive DVD system on new line of midsize SUVs coming to market in early 2001, companies announced. VD Rear Seat Entertainment System includes fold-down 7" widescreen color LCD display built into overhead console with parental control button near front seat and wireless headphones with automatic shutoff to extend battery life. Wireless remote also is included. Pricing information wasn't available. Visteon said consumer research it has conducted has found "tremendous demand exists for this type of multimedia product."

**Gateway kicked off its Gateway Country Challenge** computer game tournament nationwide. Company said free tournament "is designed to showcase 'safe gaming' and demonstrate to parents that there are available resources to answer their concerns about videogames." Gateway said winners in 4 age groups would win cash, computers or scholarships.

**Eclipse DVD system** started shipping to authorized U.S. 12-volt retailers. System consists of 55090 DVD source unit at \$1,599.99 and 39011 Dolby/DTS digital decoder at \$799.99.



**EA.COM UNVEILS MAJESTIC:** EA.com provided details about its elaborate upcoming interactive game *Majestic* late last week at news conference in San Francisco.

Electronic Arts's Web division is heralding episodic game as conspiracy thriller designed to take online gaming experience to new level because it will interact with players in real time via communication devices and services including AOL Instant Messenger, e-mail, fax, phone, streaming media, voice mail.

*Majestic* will be available exclusively online at EA.com Web site when it debuts in Feb., said EA Vp Neil Young, who also serves as exec. in charge of production. He said game would be divided into different "seasons," with first season including "pilot" and 8 episodes. Regular episodes of game will be available about once each month and Young said they would take 12-15 days for players to complete. But he said that easily could wind up taking longer because of pace at which players respond to online and offline messages they receive to get clues on how to proceed through each episode.

Pointing out that game is M-rated and therefore won't be targeted at gamers under 18, Young said it was aimed at older audiences who grew up with interactivity but don't have time now to spend 6 hours each night playing game.

*Majestic* "is launching in North America first," Young said, and once "we get that right" company "will probably roll the product out" in other countries.

EA has yet to unveil pricing structure for game, and Exec. Producer Ralph Guggenheim declined to say how much company actually was spending on project. In addition to development, marketing and other typical costs involved in creating game, *Majestic* has created additional costs for EA including game's infrastructure, which caused company to set up variety of its own new phone numbers and Web sites, and costs involved in making phone calls and faxes to players.

But Guggenheim told us company had "been very careful," adding: "The big problem with online gaming is how do you make sure that you can be profitable at it? And so we spent a lot of time analyzing what the real costs are of sending faxes, making phone calls, getting involved in all the hard costs of doing this for a large user base. And [we will make] sure that the subscription fee will be commensurate with what allows us to make money." Although he said company had idea at this point how many subscribers it would take for project to be profitable, he declined to provide that information, saying "those are our internal projections." Guggenheim added: "We'd be happy to be surprised that there's a lot more [interest] — and we can certainly handle it. The game scales very nicely to larger audiences."

Guggenheim also told us that "about 20 to 25 people" are working on game's monthly content alone, while "there's a whole host of people who are doing testing and other sorts of work." Content team is headed by Guggenheim and Creative Dir. John Danza, who are collaborating with Ore.-based online entertainment and game developer Anim-X. EA said team has created hundreds of Web pages that figure into *Majestic* storyline — sort of cross between Michael Douglas movie *The Game* and *The X-Files*, involving govt. conspiracy by mysterious, high-powered, top-secret political organization. Web pages EA is setting up include realistic news sites featuring actual news headlines as well as one or more stories tied into fic-

tional game. EA said casual Web browser who comes across *Majestic* Web site wouldn't be able to distinguish it from authentic site.

Also working on *Majestic* is technology team that created patent pending systems powering game. Team includes client and server engineers led by Technology Dir. Rich Moore. Young said phone calls that players will receive will be automated rather than from live EA employees. But he said company occasionally may send live messages of some type to certain players, who wouldn't be able to tell difference. EA also will send messages to players via U.S. Postal Service. Company, he said, is out to make each player's experience somewhat unique and may be giving some of most enthusiastic players some extra bangs for their bucks.

Young also said *Majestic* "will be marketed like few products are marketed." Providing more details on marketing front, Senior Mktg. Dir.-Live Programming Chris Plummer later said somewhat cryptically: "Majestic will be marketed sort of the way it would market itself." He said company would be "leveraging the unique ways that Majestic operates" into game's marketing. Plummer also said: "We'll be going after a broad audience of people that roughly fit kind of 3 different target customer [profiles]: One would be... the people who are into the subject matter, mystery-suspense thriller fans, Tom Clancy fans... The 2nd [group includes] people who are into interactivity — people who either play games or interact with the Web a lot... And finally the technology user." He added: "We'll be investing a lot. So it'll give us [a] significant launch and you'll obviously see it [promoted] on the Internet and other media."

While pagers and PDAs are "all part of the platform" that EA is using for *Majestic*, Young said company decided that — at outset, anyway — those devices wouldn't be used as "a matter of scope management."

Intel introduced fastest-ever Celeron processors last week aimed at sub-\$1,000 PCs as it heightened retail battle with Advanced Micro Devices (AMD). New Celeron chips, which run at 766 and 733 MHz, are priced at \$170 and \$112 in lots of 1,000. Previous Celeron processor was in 600 MHz range. Intel, which designed chip using 0.18 micron manufacturing process, has 94% retail share of PCs that sell for less than \$1,000, according to NPD Intellect. AMD, which has made some inroads against Intel at high end with its Athlon chip, has sought to undercut rival by offering its processors at 25% discount. AMD's Duron chip competes with Celeron at low end and 9 of 10 PC makers use its processor, lone exception being Dell Computer.

800.com partnered with Heineken on national promotion that gives holiday shoppers discounts of up to \$100 off purchases of \$300 or more at CE e-tailer's Web site. Promotion, running through Dec. 3, includes point-of-purchase displays in more than 14,000 stores, where consumers can obtain Web decoder cards that will reveal discounts at Web site.

#### THIS WEEK'S YEN RATE

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



**CRAVE SIGNS DEAL WITH UBI SOFT:** Crave Entertainment Group CEO Nima Taghavi told us his company had signed short-term deal allowing Ubi Soft to distribute Crave games in Europe.

Crave spokesman said deal covered about 20 titles, including 5 for PlayStation 2 (PS 2) in markets of Austria, Belgium, Denmark, France, Germany, Italy, Netherlands, Spain, U.K. He said PS 2 titles covered under deal include *Kengo* and *Tokyo Extreme Racer*. Crave Exec. Vp-Publishing Holly Newman told us last week that *Kengo* was first PS 2 game that would be shipping from her company in U.S.

Deal with Ubi Soft represents major step by Crave to exit European distribution arena to focus on its U.S. games business. Privately held Crave "aggressively expanded into Europe" last year, Taghavi told us. But expansion didn't turn out as company had hoped. "Simply stated, the revenues did not justify" costs that were involved in expansion, Taghavi said, and "the poor financial results in Europe has impacted" its U.S. operations. As result, company experienced what Taghavi called its first loss this year. Privately held company declined to say how big loss was.

"Unfortunately, we had to lay off about 20%" of Crave's work force in U.S. — 30 employees, Taghavi said. Calling Crave "a results-driven company," he expressed confidence that company would be able to strengthen its business in U.S. under management of Ned DeWitt, who was appointed Crave pres.-COO in Sept. When DeWitt joined company, he immediately took over direct responsibilities for all of Crave Entertainment Group, including its distribution arm — SVG Distribution — and publishing arm Crave Entertainment.

Crave started out as N. American distributor but in last 4 years transformed itself into global distributor and publisher. Its best-selling titles have included *Tony Hawk's Pro Skater* and *Ultimate Fighting Championship*, which it distributed for Sega's Dreamcast. But Crave also has been working directly with several developers to create its own original games published under Crave brand, including *Battle Realms*, *Liquid Entertainment* and *The Lost*, developed by Boston's Irrational Studios.

Newman said other upcoming games from Crave include *Tokyo Extreme Racing*, which should be shipping for PS 2 early next year, and versions of *Ultimate Fighting Championship* for Game Boy Color and PlayStation shipping this month.

While Crave will be supporting Microsoft's Xbox, Newman told us company had yet to make any announcement on Nintendo Game Boy Advance and Gamecube fronts. She also said Crave planned to continue supporting Dreamcast.

Merisel completed \$2.3 billion purchase of Value America, which pioneered sales of PCs via Internet. Deal is designed to combine Merisel's back-end logistics business with front-end Web-based customer interface and e-service offerings. Value America, which filed for bankruptcy protection earlier this year, has reappeared as business that will target large manufacturers and retailers seeking to expand Internet operations. In addition to fulfillment, Value America will provide marketing, advertising and Web development, design. It struggled for months to right itself before filing for bankruptcy, laying off several hundred employees and trimming products it sold to fewer than 100 as it focused on PC market.

Sony "might be falling somewhat behind" on weekly allocations of PlayStation 2 (PS 2) consoles, Electronics Boutique (EB) Pres.-CEO Joseph Firestone told financial analysts in conference call Nov. 16 to discuss company's results for 3rd quarter ended Oct. 28. As he spoke to analysts at 5 p.m. that day, Firestone said his company had yet to receive its weekly allocation of PS 2 hardware, indicating it was first time since platform's Oct. 26 debut that shipments in given week had been delayed. Nevertheless, Firestone and other EB officials put that revelation in positive light, saying such fits and starts were typical of other platform rollouts they have experienced in past. Firestone said there was virtually no PS hardware inventory in EB stores as of Thurs., indicating chain expected to continue to pay costs of overnight-shipping PS 2 hardware into EB stores through holiday shopping period. He said "the retailers who sell the fastest will get the larger allocations" of PS 2. Responding to analyst's question, Firestone said he believes it would be "a challenge" for Sony to meet its publicly stated target of shipping 1.3 million PS 2 consoles to retail industrywide by end of Dec. For quarter, EB reported profit declined to \$1.4 million (6¢ per diluted share) from \$3.9 million (19¢) year earlier as revenue dropped 11.9% to \$158.6 million from \$177.4 million. Same-store sales fell 16.8%, mainly because total sales of PS 2 hardware, software and accessories, which were available for only last 3 days of quarter, were \$14 million lower than comparable Sega Dreamcast sales, which spanned 7-week period of year-earlier quarter. Nevertheless, Firestone said: "The robust demand we are seeing for PlayStation 2 and the strong tie ratios of software and accessories sales we have experienced bodes well for the future." EB executives told analysts PS 2 accessories and software had been selling at tie ratios of 2.5 to one and 2.6 to one, respectively, which they said met the company's internal targets.

**Gamers.com is holding daily contest** at its Web site in which it's giving away PlayStation 2 consoles and 8 videogames. Contest, "Gone in 60 Days — The Great PS 2 Giveaway," will be held each day through Christmas. Company said contest "is the first of several upcoming special features on Gamers.com."

**InterVideo unveiled WinRip MP3 player/decoder** and CeDVD software-based DVD player/decoder designed specifically for Windows CE operating system. Fremont, Cal., PC multimedia software maker said full-featured version of WinRip offering MP3-to-CD/R-RW burning capability and other feature enhancements will arrive in Jan.

**LucasArts Entertainment** said its Nintendo 64 videogame *Indiana Jones and the Infernal Machine* would be distributed in Dec. as retail exclusive with Blockbuster stores throughout U.S. LucasArts said game also would be available via each company's Web site, [companystore.lucasarts.com](http://companystore.lucasarts.com) and [www.blockbuster.com](http://www.blockbuster.com). Official strategy guide for game is being published by Prima Games.

**Photo-sharing Web site** will be established by Panasonic for digital still camera users. Company said free site ([www.picturestage.com](http://www.picturestage.com)) would enable visitors to store up to 50 digital images for sharing online with family and friends. Site also will give users access to photo editing software to enhance their images at no charge.

**Power-DVD Linux** is software-based DVD decoder for Linux-based PCs and information appliances, maker CyberLink said at Comdex last week. Decoder requires minimal processing — Intel Celeron 333 MHz or better — and can play Video CDs, audio CDs, MP3 files and other multimedia formats, CyberLink said ([www.gocyberlink.com](http://www.gocyberlink.com)).



**Results from SDMI hackers** at Princeton U. won't be used in evaluating music watermark system, spokeswoman for Secure Digital Music Initiative told us last week. That information wasn't available by deadline for our previous report. As we reported Oct. 30, so-called Princeton group claimed it had defeated 4 watermark technologies in SDMI's open challenge to hackers. But SDMI said group hadn't agreed to reproduce its hacks on 3 new music samples, as required by SDMI to confirm that hack wasn't title-specific. Princeton hackers also haven't supplied SDMI with required description of methodology used in attack. "As the Princeton hackers have elected not to comply with the last two, the Princeton group's submission cannot be considered a successful attack," spokeswoman said. Group had promised to post detailed technical report on its Web site ([www.cs.princeton.edu/sip/sdmi](http://www.cs.princeton.edu/sip/sdmi)) by last Fri., but hadn't at our deadline. Meanwhile, SDMI still was evaluating results of challenge, so it had yet to identify Phase II watermarking proposals that passed hacking test. As we have reported, SDMI said one watermark was attacked successfully and hack seemed to be repeatable on other music samples. But Verance, whose system is used for Phase I of SDMI compliance, told us it had received preliminary report from SDMI saying that all 153 attacks against Verance watermark had failed to hack system. Technology developer Blue Spike ([www.bluespike.com](http://www.bluespike.com)) claimed its Giovanni watermark achieved rating for highest audio fidelity in "golden ears" listening tests of 3 remaining Phase II watermark proposals. SDMI spokeswoman wouldn't confirm or deny either claim, saying group's policy was to decline comment on individual proposals until testing had been completed and technology selected. However, companies are free to make announcements on their own, she told us.

**First car audio system** with Secure Digital (SD) memory card capability was introduced by Panasonic for sale in Japan starting Dec. 15, pricing not available. SRX7000 has built-in SD player, "thin-model" CD player, AM/FM tuner in single-DIN chassis. SD player is said to "perform smoothly without any drive mechanism, thus eliminating skipping during playback." Installed SD audio decoder is compatible with AAC and MP3 compression algorithms. Autosound SD units won't be sold in U.S. immediately, said Sakon Nagasaki, Matsushita dir.-storage device business development office. He told us at Comdex show that next Matsushita autosound effort for U.S. would be to develop DVD-Audio systems for cars. Nagasaki said one function for SD available in Japan but not in U.S. was downloading music to iMode cellular phones for in-dash autosound playback. Legal situation for music downloads remains questionable in U.S., he said. Meanwhile, Matsushita plans for DVD-Audio include transitioning all DVD-Video players "universal" players over next 2 years and extending function to mini and shelf-top stereo products. First thrust for SD in U.S. will be headphone and pendant music players and digital still camera, already available in Japan, Nagasaki told us. At Comdex, Panasonic demonstrated 256 MB card capable of storing 4 hours of compressed music or 30 min. of MPEG-4 motion video. Nagasaki said card could be available next year and 512 MB version in 2002, but company might jump directly to 512 MB from current 64 MB.

**Robert Minkhorst** will end years-long tenure as Philips Consumer Electronics (PCE) pres.-CEO Dec. 31 to pursue other opportunities, spokeswoman confirmed. She said Dutch-born Minkhorst and his wife became naturalized U.S. citizens year ago, and next step up Philips corporate ladder would have been in overseas post, which he opted not to take. She said no successor has been named. During Minkhorst's term, he orchestrated move of PCE's U.S. hq to Atlanta from Knoxville and helped preside over gradual phaseout of Magnavox brand.

## Consumer Electronics Personals

**Robert Minkhorst** to depart Dec. 31 as Philips Consumer Electronics pres.-CEO, plans unannounced, no successor named... **Michael Lyons**, onetime Sony, joins DAB developer iBiquity Digital as dir., aftermarket business development... **Richard (Rick) Marquardt**, ex-Warner Advanced Media Operations, appointed COO and CEO of replicator Ritek Corp.'s N. American subsidiary MRT Technology... **Gregory Wood**, ex-Network Computing Devices, named CFO, InterTrust... **Geert Jan Davids**, ex-Taiwan Semiconductor, joins United Microelectronics as vp-European sales & mktg... **Robert Bowman** resigns as Outpost.com CEO to head Major League Baseball's new media business, replaced by **Katherine Vick**, who is succeeded as CFO by **Paul Williams**, senior business development & finance vp.

**Geocast and EchoStar** will start focus group studies in Dec. on way to initial tests of satellite-based datacasting service in March, Vp James Plant said. Focus groups will delve into hardware pricing and projected adoption rates, he said. Geocast and EchoStar, which reached agreement earlier this fall, are expected to launch service in 3rd quarter 2001. While Geocast originally put hardware at \$299, it may employ satellite business model that features low-cost or free hardware and monthly subscription fee, Plant said. Geocast service will be delivered from single transponder on EchoStar satellite at 110° W or 119° W, whichever has more subscribers, Plant said. Hardware supplier hasn't been selected, although Philips is both investor in Geocast and manufacturing source for EchoStar. EchoStar officials weren't available for comment. At same time, Geocast is readying expansion of beta test of terrestrial version of service to several hundred homes in Jan. via broadcast stations in San Jose, Portland, Ore., and Washington. Transmission rates in terrestrial test will vary between 4-10 mbps and use set-top box (STB) attached to PC with 40 GB hard drive, Plant said. Amplified indoor antenna will be used to receive broadcast signal. Geocast expects dozen program providers to participate in test. Demonstration at Comdex show last week in Las Vegas included material from MSNBC, CNET, AP, others. While Geocast was moving forward with terrestrial test, Plant confirmed that venture with Thomson had been "put on back burner" for now. "We want to deliver product right away and not be hindered by obstacles outside of our control," Plant said, referring to one-time debate over HD-transmission standard that since has quieted, as well as copyright protection issues.

**Nintendo** led all videogame software companies with revenue of \$4.7 billion in 1999, according to 18th Annual Veronis Suhler Communications Industry Report. Overall, revenue for publicly reporting interactive entertainment and information companies jumped 16.5% last year, Veronis Suhler said. Report said that represented drop from 20-plus and 30-plus percent growth rates in 1997 and 1998. Operating income growth for segment dropped to 3.6% in 1999 but 1995-1999 compound annual operating income growth was 7.6%. Report said margins and returns on assets decreased in packaged PC/multimedia software and videogame console software segments. It said 4 Pokemon games helped boost Nintendo's revenue 7.1% from 1998. But Veronis Suhler said GT Interactive was overall interactive entertainment category leader last year with \$527.3 million in revenue, up 5.4%. Only other company in category with more than \$100 million in revenue was Interplay Entertainment, with \$101.9 million, down 19.7%.





# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

NOVEMBER 27, 2000

VOL. 40, NO. 48

## SUMMARY-INDEX OF WEEK'S NEWS

### Broadcast - Cable

**DTV PROGRAMMING PUSHED** at MSTV conference. Datacasting rather than video seen likely to prompt pressure to return spectrum. CBS, NBC still wary about data. (P. 1)

**PROGRAM OBLIGATIONS PUSHED** by Capitol's Goodmon in return for DTV must-carry. Bid gets no support from TV executives. (P. 3)

**TV NETS DENY BIAS** in election coverage, say they're doing reviews. Tauzin is told calls had no effect on voting. (P. 4)

**FCC UPHOLDS EEO RULES**, rejecting NAB petition, providing clarifications. Cable also affected. No undue burdens shown, agency says. (P. 5)

**CABLE COPY RULE DELAYED:** MPAA, CableLabs don't meet FCC deadline, citing details of copy protection deal. Dec. 15 submission promised. (P. 5)

**TW SIGNS ACCESS DEAL** with EarthLink. Action targets FTC objections to AOL merger. (P. 6)

**DTV PROGRAMMING PUSHED OVER DATACASTING:** Broadcasters could face pressure to give back more spectrum if they don't use DTV channels primarily for TV programming rather than datacasting and other money-making ventures, CBS Exec. Vp Martin Franks told MSTV conference in Washington Nov. 21. Jay Ireland, pres. of NBC TV Stations, agreed there was "a political aspect to monetizing free spectrum." Conference focused mainly on traditional issues of DTV must-carry, cable compatibility and spurring DTV transition, but questions also were raised about bids to get access to broadcast spectrum by wireless industry and others.

"Someone will come up with the idea" of requiring broadcasters to give back spectrum unless broadcasters use DTV spectrum for more free TV, Franks said. He said it was possible to air digital standard-definition TV with as little as 2 Mbps. "This is a fight that we could very easily head off, but it worries me," he said.

Both CBS and NBC are wary of plans to use DTV spectrum for datacasting, Ireland and Franks said. Ireland said network believed it still was too early to commit to new uses, but "we're still leaning toward multiplexing." Franks said CBS was worried that spectrum could become low-cost commodity, making it "not a great business." CBS "has a lot of programming," he said, and network's "current tendency is to use whatever capacity we have for multiplexing." He said network might, for example, use multiplex capability to offer multiple simultaneous NFL games in competition with DBS's NFL package.

CBS is "worried" about DTV spectrum deals, Franks said, because committing spectrum to datacasting could make it difficult to produce true HDTV: "If 3 or 4 megabits of capacity go away, it's pretty hard to do high-definition sports or an NCAA multiplex." However, other broadcasters said datacasting could be public service. Alan Frank, pres. of

### Consumer Electronics

**LOW-PRICE DVD PROLIFERATES** in time for year-end selling season, with most entry level models sourced from China. VCR and TV prices drop in holiday doorbusters. (P. 9)

**GAMES ADJUSTING FOR HOLIDAYS:** PlayStation 2 shortage is causing retailers and videogame publishers to promote other platforms. (P. 11)

**VIRGIN ENDORSES SACD:** EMI-owned label becomes 2nd major to offer Super Audio CD, joining Sony with *Tubular Bells* title in Feb. (P. 12)

**SAMSUNG-UMAX JOINT VENTURE** formed to develop Wink-enabled DirecTV receiver, will expand to other products. (P. 12)

**HARMAN PLANS VIDEO RETURN** for its JBL and Infinity brands with plasma and D-ILA under consideration. (P. 13)

**GOODGUYS.COM OPENS SITE** after nearly year of development and several delays; projects profit by end of 2001. (P. 14)



Post-Newsweek Stations, said datacasting could “deliver an immense amount of material to consumers at a great price,” including such things as computer games: “This is a whole new business. There will be a lot of applications coming forward.”

Much of focus of broadcasters’ meeting was on their belief that cable and consumer electronics industry had failed to do enough on DTV. MSTV Chmn. Gary Chapman of LIN TV told long story about inadequacy of his HDTV set and denied claim by FCC Chmn. Kennard (TVD Oct 16 p2) that broadcasters were lagging on transition: “The laggards are the other parties necessary to effect the transition, including the receiver industry, the cable industry, the motion picture industry... and the FCC.” He said cable and set makers were using VSB/COFDM dispute as “convenient cover” for delaying DTV moves. Chapman said test effort being led by MSTV and NAB on transmission systems would be complete by end of year and would “eliminate some of the cover.”

DTV must-carry is “a significant issue that we have got to have” to make successful DTV transition, Belo Senior Exec. Vp Michael McCarthy said. However, Franks said it wasn’t as important to CBS as cable compatibility: “CBS is not terribly worried about getting carriage. We will. If the sixth or seventh station in a market didn’t get carriage, frankly the CBS sales people would be delighted.” Broadcast attorney Wade Hargrove said there was no connection between DTV must-carry and use of portion of spectrum for ancillary services: “Broadcasters are required to transmit one channel of TV programming. What they do with the rest of the capacity is irrelevant to must-carry.”

Broadcasters will face “huge push” by wireless industry in next Congress to set firm dates for reclaiming spectrum, warned Justin Lilley, News Corp. vp-govt. relations and recently staffer for House Commerce Committee. Wireless groups’ claims of insufficient spectrum to offer full 3rd-generation services “will be front and center,” he said. “In years past, it’s been broadcasters versus an agency, and that’s easy to win,” Lilley said. “This year [the fight] will be financed by the wireless industry,” which is “very substantial difference.” He said wireless lobbying effort to gain new spectrum could be helped if Tex. Gov. George Bush (R) won Presidency and offered promised tax cut, forcing Congress to come up with billions of dollars to balance budget. But others on panel said lawmakers would be wary of move that could cause constituents to lose TV signal, and Tribune Vp Shaun Sheehan said it was Democrats at FCC who had been pushing harder to shift spectrum to wireless uses. “There’s no political constituency for turning off people’s television,” Disney Exec. Vp Preston Padden said. “We had an involuntary experiment this year,” he said, referring to Disney subsidiary ABC’s temporary removal from Time Warner cable systems.

Otherwise, panelists didn’t predict swift changes as result of election. In Congress, there was not likely to be “a whole lot of difference in tone,” Lilley said. Cox Enterprises Vp-Public Policy Alexander Netchvolodoff said prolonged election would delay govt. formation, which dragged for months at beginning of Clinton Administration, and possibly “keep Congress totally preoccupied” for first half of year with appointments. He said he wouldn’t be surprised to see more lawmaker talk about sex and violence on TV, since that’s political “freebie.” Panelists declined to speculate about makeup of next FCC beyond throwing out long-established rumors such as chance that Comr. Powell or Tex. PUC Chmn. Pat Wood would become agency chmn. under Bush. “Unlike in years past, this is one of the most coveted appointments in Washington,” Lilley said, so there’s chance it will go to political operative rather than career telecom person.

Broadcasters don’t have greater public interest obligation if they do DTV, Hargrove said: “The suggestion that public interest ought to increase as a result of the change of transmission mode doesn’t seem to have a logical nexus.” However, FCC Mass Media Bureau Deputy Chief Susan Fox said public interest obligations were important to Commission regardless of transmission method: “They will not go away.”

In other comments at MSTV conference: (1) Fox said FCC would act on some DTV issues, possibly including must-carry for digital-only station, within one or 2 months. (2) Speakers generally agreed broadcasters shouldn’t seek overall delay in DTV transition deadlines, but suggested FCC might be willing to give waivers to individual stations. (3) MSTV Senior Vp Victor Tawil said latest round of DTV testing was 97% complete in Washington and would be completed in Cleveland in early Dec. Results will go to participants by end of year and be discussed in broadcaster-only “summit” in early Jan — now expected to be Jan 11. (4) NAB Senior Vp Lynn Claudy said deployment of 2nd-generation VSB sets “hasn’t been robust,” and fewer were available for testing than NAB and MSTV had expected. He said performance of additional sets would be tested as they became available.

(5) Dale Hatfield, retiring head of FCC Office of Engineering & Technology, said he would be “reluctant” to force broadcasters to relocate from Ch. 60-69 more quickly, but “seeing the difficulty that we face as a nation, it is important that we move along.” He also said FCC might need to consider set performance requirements and requirement that all new sets be able to receive DTV. (6) CBS actually is making money on HDTV, Franks said: “I would be happy to have my next year’s compensation as a relatively small percentage of that profit.”



(7) Cable "of course" would pass through HDTV "if a body of programming that is valuable to our subscribers becomes available," NCTA Senior Vp Daniel Brenner said. He repeatedly denied cable was dragging its feet on transition. (8) However, CEA Vp Michael Petricone said cable passthrough of signals "is the big elephant sitting in the middle of the living room." He said cable had economic incentives to delay introduction of interoperable set-top boxes and govt. must "change the incentives." (9) Portability of set-top boxes is not requirement, just "an aspiration," said Robert Pepper, head of FCC Office of Plans & Policy. DTV retailer-lawyer Robert Schwartz, however, said Congress had mandated portability.

**GOODMON GETS NO SUPPORT ON NEW OBLIGATIONS:** "He stands alone on that one," veteran Washington broadcast observer told us of push by Capitol Bcstg.'s James Goodmon for TV stations to agree to increased public interest commitments in return for digital must-carry (TVD Nov 6 p5). Every broadcast executive we talked with — even Goodmon — agreed with that assessment. "People are being very quiet about it," he told us, adding that after "things in Washington settle down" and new Administration is in place "I plan to really go after it."

"I don't know how we can have digital must-carry without public interest standards," Goodmon said. Like defunct NAB TV Code, he told N.Y. audience earlier this month, obligations should be voluntary and if TV industry secures must-carry, broadcasters should be willing to show "a renewed commitment to the public interest." Only one TV executive indicated that at some point in future he might be inclined to support Goodmon — particularly if Vice President Gore became President — but only if his support could be generated sans govt. pressure: "If the climate becomes right, I could come out in support of voluntary standards."

NAB hasn't taken formal position on Goodmon's plan — which he first proposed 2 years ago as member of Gore Commission on public interest obligations of TV stations in digital era — but Assn. covertly is very much opposed. Its officials constantly point to NAB's "Statement of Principles" adopted in June 1990 and reaffirmed in 1992. Statement is very general in nature, doesn't attempt to get into any specific obligations.

Belo's Michael McCarthy, member of NAB TV board, said broadcasters shouldn't agree to any "trade-offs" for digital must-carry: "Public policy should stand alone and we believe that digital must-carry is good public policy." Philip Lombardo of Citadel Communications, also member of NAB board, said that for broadcasters to negotiate public interest standards — when FCC still must act on many issues, not just DTV — "is out of place at this particular time."

**CEA and NCTA face** Nov. 30 deadline for submitting first semiannual status report to FCC on DTV set labels, technical standards for DTV cable-compatible receivers and other DTV-cable compatibility issues. Commission called for initial progress report, originally due Oct. 31 but then pushed it back one month, in order adopted just before its Sept. 14 open meeting. FCC officials said they were particularly interested in seeing progress made by cable and consumer electronics negotiators on technical parameters for provision of tuning and program schedule information to support electronic program guides. Although NCTA and CEA reached broad agreement on that issue in Feb., they hadn't done so on specific standards.

**Intelsat Assembly of Parties** unanimously approved plan to privatize at meeting Nov. 13-17 in Washington. Company said all transactions would be completed by July 18, giving it time to meet some members' legislative approval requirements. Company said much-ballyhooed privatization would place Intelsat on "level playing field to better address opportunities" in telecom marketplace, and "streamlined decision-making" would make it easier to expand businesses. Additional capital market transactions "should be expected" in 2001 and IPO will be floated in first year of operation. Company voted to keep current service hq and operating licenses for C- and Ku-band satellites in Washington.

**Vitac** said it received Dept. of Education funding for 2nd year of captioning of early TV series. Among series being captioned are *Gomer Pyle*, *Batman*, *Perry Mason*, *Real McCoys*, along with some newer series. Grants cover 69-73% of cost of captioning, with rest coming from private sector.

**FTC faces** "significant legal limitations" on its ability to police deceptive or unfair marketing of programming by entertainment industry, agency said in statement. Agency, responding to Capitol Hill queries about its Sept. report on marketing violent entertainment to children, said there were First Amendment limits on its authority. FTC action is limited by "significant and unsettled" First Amendment issues, FTC Chmn. Robert Pitofsky said in letters to Congress. He said FTC would face "considerable difficulties" in proving deception case, and there could be disincentives to self-regulation by industry: "For these reasons, the Commission believes that the best course is for the Congress to continue efforts to promote substantially improved, voluntary, self-regulatory efforts." If self-regulation fails, FTC said, "Congress should consider whether there are narrowly tailored legislative actions that could encourage more robust self-regulatory initiatives."

**Boeing disputed** industry reports that it was planning to spin off satellite communications business, saying that would become option to "create more shareholder value" once it developed "successful frontier" businesses, but "these aren't near-term activities." Spokeswoman said "spinning off high-growth" satellite stocks in effort to unlock value by creating tracking stocks, or obtaining separate stock market listings to obtain most value, were factors company would look at in future as businesses "grow and generate profits." Exostar joint venture with Lockheed Martin, Raytheon and Commerce One, and Boeing's Connexion service are among possible spinoffs.



**TV NETWORKS DENY ELECTION BIAS:** Big 4 TV networks said they were conducting internal investigations into mistaken calls of Fla. for Vice President Gore on election night, and later GOP candidate George W. Bush, they told House Telecom Subcommittee Chmn. Tauzin (R-La.) in letters released Nov. 21. However, they firmly denied any bias in their reporting, saying problem appeared to be in mistaken data from their jointly owned Voter News Service (VNS), and questioned Tauzin's suggestion (TVD Nov 20 p1) that miscall could have depressed voting in Cal. and other western states.

"We're encouraged by all of the networks' willingness to cooperate in this matter," Tauzin spokesman Ken Johnson said, "but there are simply so many questions that need to be answered. For example, did the networks simply make an honest mistake, or was the rush to be first more important than their responsibility to be right?" Tauzin plans to hold hearing on issue early next year to question broadcast executives (TVD Nov 13 p1).

"We share your desire to do everything in our power to make sure this does not happen again," ABC News Pres. David Westin wrote Tauzin, adding that it had been "difficult to complete our review" of network's procedures because it still continued to cover story intensively. It would "be best to defer extensive discussion of the whys and wherefores" until internal working group has investigated and issued recommendations, CBS News Pres. Andrew Heyward said, touting credentials of 3 members of team headed by Vp-Public Affairs Linda Mason. However, he said it appeared blame lay in faulty data gathered by both exit pollers and actual vote counters. "We were as good as the information we were getting from sources we trusted," Heyward said. "In this case, the information was not good, and neither were we."

ABC and Fox were only networks to announce new projection policies as result of controversy. Following in-house review of "seriousness of the errors" in its election night coverage, ABC News said in future it would project winner only after all polls in any given state had closed. Current policy of networks is to withhold projections until most of polls in state have closed. ABC also said it would support appointing one or more outside experts to review exit polling information supplied by Voter News Service (to which all networks subscribe) and that it would take "all reasonable steps to insulate those involved directly in making projections." Network said it would make projections only if they were justified by ABC's independent analysis of data supplied by Voter News Service and relevant statistical models. Fox News Chmn. Roger Ailes committed to new policy of calling elections only after all polls in state had closed. Fox received criticism from other networks after it was disclosed that it had hired GOP candidate's first cousin as its chief projection analyst.

CNN CEO Thomas Johnson named 3-member independent advisory committee to examine issue, but "I state categorically there was no intentional bias in the election night reporting." Committee consists of Joan Kenner of Columbia U., James Risser of Stanford U. and Ben Wattenberg, senior fellow at American Enterprise Institute. Johnson said network would "receive soon a report from VNS, which will be an important component of this process."

NBC Pres. Robert Wright said NBC News was "conducting its own careful review of its internal policies and practices regarding election reporting. We will endeavor to complete this effort in the next few weeks."

Broadcaster lobbyists didn't seem afraid of legislation at MSTV DTV update conference in Washington last week. They admitted networks had erred, but said combination of hearing and voluntary reforms probably would alleviate concerns. "I would hope broadcasters would voluntarily agree not to air results in states still voting," said Cox Enterprises Vp-Public Policy Alexander Netchvolodoff, who called premature announcement of Gore win in Fla. "critical flaw in judgment." However, he said problem of early results in East possibly depressing turnout in West was "not a broadcast issue," and as long as polls closed at different times in different states, "people need to know" results in timely manner. Broadcast lawyer Richard Wiley said this year's problems could lead to reforms that would allow people to "vote in a modern, secure manner."

Meanwhile, House staffer Johnson said Democrats' complaints about exclusion from investigation (TVD Nov 20 p1) were result of "misunderstanding" that had been cleared up. He said Tauzin held news conference only because he "had been asked by numerous reporters" what he thought of miscall, and lawmaker's letter to industry was on his personal stationery, not Subcommittee's. "Once it became clear we were going to pursue this in the way of a hearing, we immediately brought the Democrats into the loop," Johnson said. "Everything's been smoothed over." Democrats who complained had no comment.

**AT&T Broadband** unit of AT&T told its cable equipment suppliers to suspend or at least drastically reduce their shipments for rest of year as it seeks to trim its capital spending. MSO, under heavy pressure from Wall St. to meet its financial and subscriber goals, quietly informed its cable suppliers last week that it had too much product inventory and wouldn't need more equipment until at least mid-Jan. But AT&T Broadband insisted that customer demand for its digital cable, high-speed data and cable telephony services remained strong and that company still would hit its year-end targets for each new product. "We expect to meet our subscriber goals," AT&T Broadband spokesman said, noting that company still aimed to close year with 2.8-3 million digital video, 1.1 million high-speed data and 500,000-650,000 cable telephony customers. AT&T Broadband, which budgeted \$4 billion for capital upgrades to its aging cable plant this year, declined to say how much it was cutting back or how many equipment vendors were affected. "We're just trying to make sure our spending and our budget are in line," spokesman said, calling it typical "end-of-the-year budget balancing." Cable equipment suppliers reported wide range of effects from shipment freeze, with smaller vendors that rely more on AT&T bearing brunt of slowdown. Antec, which makes equipment for cable telephony service, said shipment halt "will have a material adverse impact on revenue and earnings results" in 4th quarter and possibly next year. But supplier, which counts on AT&T for 40-45% of its business, said it still expected its overall business with AT&T Broadband to grow in 2001. CommScope Inc., which also makes equipment for cable telephony service, said AT&T's shipment halt wouldn't affect its 4th-quarter earnings because its shipments had been generally running stronger than expected. But vendor lowered its sales and earnings targets for next year, citing overall slowdown in equipment orders from cable operators and other customers. Scientific-Atlanta, one of cable industry's 2 leading set-top box makers, said AT&T slowdown "would only impact 1% to 2%" of its total sales for 4th quarter. C-COR.net, another broadband equipment supplier which gets at least 10% of its sales from AT&T, said slowdown "is not expected to have a material effect" on its 4th-quarter financial results.



**FCC UPHOLDS EEO RULES:** FCC rejected NAB bid for reconsideration of its newest EEO rules, but provided some clarifications, in order released last week. Commission said burdens of new rules weren't onerous, as claimed by NAB, and Assn. generally had failed to provide enough justification for changes in requirements that broadcasters actively recruit minorities and women. NAB had contended rules were "substantially more burdensome" than old rules overturned by court in Lutheran Church case. Clarifications also apply to cable.

Comr. Furchtgott-Roth again dissented to decision, saying: "Repeatedly disavowing [effort to avoid making rules race- or gender-based] cannot change the reality of race- and gender-based requirements." He called FCC rules "strained" and said it shouldn't be necessary to gather race information that "should properly be irrelevant... Given that the D.C. Circuit already has struck down one set of EEO rules as unconstitutional, the Commission's continued insistence on pushing this legal envelope seems ill-advised, to put it mildly."

In unusual response to dissenting statement, Chmn. Kennard repeated that "the Commission's goal is equal employment opportunity throughout the recruitment and hiring process, without regard to race or gender. No more and no less." He said data on makeup of work force was important to assure stations that their recruitment efforts were effective, and effort to balance work force was required by Congress: "Frankly, one of the few remaining public interest obligations imposed on broadcasters is the requirement that they establish and maintain EEO programs."

NAB didn't demonstrate that EEO problems had been resolved enough to justify weakening rules, FCC said in order. Agency also pointed out that newest version was designed to "ensure broad outreach to all potential applicants," not just minorities, so it wouldn't be appropriate to "create exemptions based on the racial and gender composition of the labor force."

Among other decisions in reconsideration order (MM 98-204): (1) FCC didn't reconsider its decision on use of Internet for recruitment or requirement that broadcasters with Web sites post their employment results on Web. (2) Commission reaffirmed "zero tolerance" policy and recordkeeping and reporting requirements, saying they weren't unduly burdensome. (3) It rejected proposal that EEO rules sunset at unspecified date in future. (4) Agency refused to adopt "safe harbor" for broadcasters, such as minimum number or type of recruitment sources, saying efforts "will necessarily vary based on the circumstances."

Clarifications included approving joint recruitment efforts, midterm review, "good-faith discretion" in defining applicant and market. Commission decided to treat part-time hires same as temporaries. It also extended to LPTV and other Class A stations same religious exemption as full-power religious broadcasters.

State administrative law judge (ALJ) recommended that Mich. PSC fine City of Rochester \$30,000 for violating state Telecom Act by imposing "unreasonable" demands on Coast to Coast Telecommunications in the permitting process for company's proposed fiber cable network. Rochester is 2nd Mich. city to be faulted for its permitting process, with Birmingham being fined \$10,000 by PSC for failing to grant or deny local rights-of-way permit to Coast within stipulated 90 days.

**CABLE COPY PROTECTION DELAYED:** Oct. 18 deadline set by FCC on submitting final version of its controversial anticopying technology license for digital cable set-top boxes has been stretched once again by Cable Labs. In brief letter to agency Nov. 17, CableLabs Pres. Richard Green said R&D group had planned to submit final encryption license Nov. 15 but held back at last min. because of MPAA request for further negotiations. Deferring to that request, Green wrote, "we agreed to give MPAA and others a brief period of time to resolve the few, but critically important, remaining issues dealing with copy protection."

But, seeking to avoid FCC's ire, Green promised to submit final license agreement to Commission by Dec. 15 "regardless of whether the noncable parties have reached agreement on the terms of the PHI [POD-Host Interface] license currently in dispute."

Deadline extension is 2nd sought by CableLabs, which in Oct. 18 letter to FCC had promised to submit written status report on its PHI license (formerly known as DFAST) to Commission in 30 days (TVD Oct 23 p4). As he did in previous letter, Green shifted blame to others, contending that final resolution of license "has been in large measure dependent on noncable parties' reaching agreement on copy protection provisions." He stressed that CableLabs "was prepared" to submit full license to agency despite "the fact that there is still no consensus on those issues." In mid-Oct., group filed latest draft of PHI license with Commission, as required, but without license's key copy protection terms.

Green told us he was "very hopeful" that CableLabs, MPAA, set-top box manufacturers, CE retailers, computer software developers and other interests would be able to reach final agreement by new Dec. 15 deadline. "The bottom line is, we are making progress," Green said, declining to discuss remaining differences beyond noting they concerned copying terms for digital programming and other content protection issues: "We're down to a few sentences... but one sentence makes a lot of difference."

In separate letter to FCC, MPAA said it had requested 30-day postponement from CableLabs to "allow us to clarify certain questions of concern to the cable industry and to resolve a very few, but critically important, issues regarding the proposed provisions dealing with copy protection." Short letter from MPAA Senior Vp-Govt. Relations Fritz Attaway pledged that group "will use our best efforts to reach a resolution with cable and noncable parties" by new Dec. 15 deadline.

FCC Cable Bureau spokeswoman declined comment. But she said agency, despite frustration with industry delays, probably wouldn't respond until final PHI license was submitted.

**ValueVision (VV)** secured right to display NBC's Peacock in 10-year deal starting in spring. VV and its Internet site ([www.vvtv.com](http://www.vvtv.com)) will be rebranded with an NBC name to be announced later, companies said. They said they also would explore additional promotional and merchandising opportunities as part of "a wide-ranging marketing campaign" to start in spring. VV Chmn. Gene McCaffery said ultimate goal of rebranding was to "position our company as a growing force in the home shopping industry and at the forefront of TV-Internet convergence."



**TW, EARTHLINK SIGN ACCESS DEAL:** Time Warner (TW) signed pact with EarthLink Nov. 20 to place nation's 2nd largest ISP on all its cable systems, starting late next year. Deal, hastily negotiated to meet FTC's objections to pending AOL takeover of TW, is first business contract between large MSO and major independent ISP. TW and AOL said they would submit agreement to FTC for review of "technical and other details" and asked agency to defer merger action until Dec. 14. As result, companies said they now expected to close deal "by the end of the year or the very early days of 2001."

TW-EarthLink agreement is contingent on FTC's approval of merger and on TW's ending its exclusive carriage pact with its partly owned Road Runner unit, whose distribution contract doesn't expire until end of next year. Although TW executives have said since last winter that they planned to negotiate end to Road Runner exclusivity clause before then, they haven't done so yet. "We are optimistic that that will happen soon," TW Cable spokesman said.

Despite new 2-week delay, FTC indicated it might not take until Dec. 14 to act on merger. Spokesman said agency, which already had started reviewing EarthLink deal, still was on schedule to act by existing Nov. 30 deadline, but could opt for more time.

Even after FTC acts, FCC still must review TW-EarthLink agreement and AOL-TW merger. While FCC isn't considered as big an obstacle as FTC, it at least could delay closing until mid-Jan. or later. FCC Chmn. Kennard recently reminded lawmakers that his agency might have to open review for another 30 days of public comment if deal is changed enough. FCC Cable Bureau spokeswoman declined comment on whether EarthLink deal would constitute big enough change.

TW and EarthLink officials lauded their agreement as "a win" for both companies and consumers. Both companies said they planned to use their contract as template for business deals with other MSOs and ISPs. But they declined to provide specific terms of their agreement, raising possible red flags among other ISPs and consumer advocates worried that EarthLink might have cut sweet-heart deal. "It makes me a little nervous when they don't talk about the details," said U.S. Internet Industry Assn. Exec. Dir. David McClure, whose group represents 400 ISPs.

EarthLink executives called TW agreement "a significant breakthrough in the open access debate" and "a tremendous opportunity for us." They said deal would guarantee that no other ISP, including AOL, could offer Internet access over TW's cable lines before EarthLink. They also said TW agreed to give their company "nondiscriminatory access" to all its systems passing 20 million homes, allowing EarthLink to market itself to TW customers on same basis as Road Runner, AOL and any other ISP. "We are, in fact, wholesaling service to each other," said EarthLink Pres. Michael McQuary.

Despite companies' refusal to disclose terms, published reports said EarthLink was likely to charge subscribers about \$40 per month for its cable high-speed service, same as TW typically charges for its own Road Runner service, after paying TW monthly wholesale rate of \$20 to \$30 per customer. TW reportedly also would receive share of EarthLink's other broadband revenues, including advertising and transaction fees.

EarthLink officials, who recently signed deal with Hughes Network System to offer high-speed Internet access via satel-

ite, said they would pursue similar deals with other MSOs. TW said it would continue seeking deals with other ISPs, including Juno Online Services and, reportedly, Microsoft's MSN service.

Other ISPs and consumer advocates applauded TW-EarthLink agreement as "a good first step" toward open access. They said deal appeared to go much further than TW's previous agreement with Juno and its current technical trial of multiple ISPs in Columbus, O., scheduled to run into next summer. But they said marketing deals with 2 or 3 large ISP still didn't constitute unfettered carriage of multiple independent ISPs. "Let's not confuse this with true open access," McClure said.

Smaller ISPs, fearful that they still would be denied access to TW's cable systems, called on FTC and FCC to review and disclose terms of TW-EarthLink deal. They also urged 2 agencies to still impose strict open access conditions on pending AOL-TW union and make sure conditions applied to interactive TV as well. ISPs and groups also complained that TW-EarthLink agreement didn't call for latter to gain access to MSO's high-speed cable lines for another year. Calling that "long delay," they charged that deal didn't address "first-to-market advantage" still enjoyed by AOL-TW.

With AT&T and TW now conducting open access technical trials, Comcast reportedly will join action this week when it announces test with Juno and other ISPs. Three-month test reportedly will be held early next year. Comcast spokeswoman declined comment on reports.

**Canadian Webcasters** will suffer if country's Copyright Board refuses to set interim retransmission tariff, would-be rebroadcaster JumpTV said in Nov. 17 filing with Board. Response addressed complaints by copyright and retransmitter groups that JumpTV's request for royalty fees geared to Internet retransmission of TV programs was inappropriate because such retransmissions weren't covered by the Canadian Copyright Act. Interim tariff is necessary, Montreal-based company said, because there's "legal void" in copyright law that will allow opposition from other retransmitters to kill Webcasting. JumpTV said it had at least made prima facie showing that its proposed operations weren't so different from cable and satellite rebroadcasts. JumpTV said it met Act's test for exemption from copyright requirements because its communication would be rebroadcast of a local or distant signal, no different from signals broadcast by cable and satellite. To quell concerns that allowing Internet rebroadcast would open floodgate of Internet rebroadcasts, JumpTV proposed that any interim tariff be limited to itself, with other requests being handled on a case-by-case basis. Board is analyzing JumpTV's filing and hasn't decided whether foes of the proposal will be allowed to respond, Board Secy. Gen. Claude Majeau told us.

**Nielsen said** it would exclude diary-related data for stations that engaged in activities designed to encourage diary users to record their viewing. Nielsen said it "does not have confidence that the reliability of its published audience estimates is not adversely affected by such activities" during sweeps periods. Ratings service said there had been growth in use of special announcements, promotions or other activities by stations designed to encourage diary panelists to record their TV viewing.



**AT&T, COMCAST PUSH CONSOLIDATION:** AT&T reassumed lead role in cable industry with its purchase of MediaOne Group and smaller MSO, catapulting past Time Warner (TW) in our latest survey of Top 50 MSOs. Our new report, updated through Sept. 1, shows AT&T Broadband easily on top with 16 million basic cable subscribers, well ahead of 2nd-ranked TW's 12.6 million customers. List also shows strong gains by Comcast, which climbed past Charter Communications into 3rd place with 7.5 million subscribers, and Mediacom, which rose 2 notches into 9th place with 743,000, as more midsized MSOs sold out to existing players.

Rest of top 12 list also reflected considerable churn of MSOs in last year as MediaOne (ranked 7th in spring survey) was swallowed by AT&T and Prime Cable (ex-12th) was taken over by Comcast. Charter fell one slot to 4th despite continued growth while Cablevision Systems rose one step to 7th; Insight Communications gained right behind it to 8th and Classic Cable jumped 2 slots to 11th. In ironic note, cable overbuilder Ameritech New Media, video unit of SBC Communications now up for sale, leapfrogged 3 spots to 12th place with 300,000 subscribers. Another leading cable overbuilder, RCN Corp., jumped 4 slots to 16th with 228,000 customers.

Here's summary of other top 50 buyouts and changes since spring: MidContinent Media (formerly 28th) leaped 11 slots to 17th after forming joint venture with AT&T. Adelphia Communications (6th) acquired Prestige Cable TV (22nd). AT&T Broadband took over Chamber Communications (36th). Centennial Communications (40th), newcomer to our list, bought out Pegasus Cable TV (43rd). Comcast gobbled up Mid-Atlantic Communications (48th).

Our new report shows that cable consolidation trend continues despite slowdown in industry mergers and acquisitions this year, with 7 biggest MSOs having at least 3.4 million subscribers apiece and only one other MSO (Insight) having more than one million. All other MSOs have fewer than 750,000. Furthermore, top 25 MSOs now account for 97.5% of subscribers on top 50 list, up from 96.8% in our spring survey.

Basic cable subscriber count of top 50 MSOs rose 1.5 million (2.4%) to 64.6 million — 65% of all 99.4 million homes passed, despite flat cable penetration rates and strong customer gains by DBS providers as TV home market continued to grow. Penetration of pay services rose to 79.3% from 78.8% in spring. In one other notable finding, miles of cable plant jumped 11.2% to 1.36 million. (Details in *Warren's Cable Regulation Monitor*. For copy or free trial call 800-771-9202).

**FCC lifted its ban** against Disney and its outside legal counsel inspecting confidential documents related to AOL's pending takeover of Time Warner (TW). In 2-page order Nov. 22, Cable Bureau Chief Deborah Lathen said Commission terminated its previous order because Disney and its law firm had "complied with the conditions associated with this provision" by submitting measures they planned to take to avoid future violations. "AOL does not object to these proposed measures," Lathen wrote. "We find that the measures represent a realistic and good-faith attempt to avoid future violations." She said Disney and its counsel could resume inspecting confidential merger documents as long as they implemented proposed measures. But she said Commission still was considering whether to impose additional sanctions against Disney and its law firm for earlier violations.

**COX STOPS MODEM FEES:** In first major fallout from 9th U.S. Appeals Court, San Francisco, ruling classifying cable modem service as telecom, Cox Communications told counties and cities in its Cal. regions that it would stop paying franchise fees for cable-delivered high-speed Internet access. Decision will result in loss of millions of dollars in potential revenue for cities but should mean lower cable modem service costs for consumers.

Cox's decision will affect 15 counties and cities served by its systems in Bakersfield, Orange County, San Diego, Santa Barbara. "Once the ruling was made, we were in a Catch-22 situation," Cox spokeswoman said. She said customers would be upset if they had to keep paying franchise fees for cable modem service after court decision, but cities would be hurt if company decided to halt payment. "We decided that the clearest course of action is to abide by the law," she said, and Cox was "working with the cities" to determine "how we can go forward."

Orange County official acknowledged receiving Cox notice but declined comment beyond saying matter had been referred to its counsel. Revenue loss wouldn't be significant because Cox serves only 1/3 of Tustin City, said Joe Myers, senior management analyst with Tustin Public Works Dept., with AT&T other cable provider. He said city had separate telecom ordinance to deal with situation. Ordinance, which fills gaps between state and federal laws, requires telecom providers to sign separate franchise pact with city, Myers said. City hoped to address issue through ordinance and has begun informal discussions with Cox.

AT&T spokesman said company was "still looking at" idea of not paying franchise fees for cable modem service, "but we haven't made a decision yet." AT&T began rolling out cable modem service in Portland, Ore., soon after 9th Circuit decision, taking position that it didn't need franchise to provide high-speed Internet service. After failure of talks with AT&T, city officials are working on new telecom ordinance to address court's classification of cable modem service.

**C-SPAN is latest** media entity to jump into must-carry lawsuit (TVD Sept 25 p1) brought by Satellite Bcstg. & Communications Assn. (SBCA), EchoStar and DirecTV against Congress, Library of Congress and FCC. CEO Brian Lamb said C-SPAN would file amicus brief in support of SBCA and DBS companies, becoming first cable representative to join legal fray. Lamb said decision to become involved was based on "principle." He said Hill leaders had created atmosphere that had made C-SPAN 2nd class citizen. "We're constantly being put behind broadcasters, whether they produce public interest programming or not," Lamb said. "Broadcasters have argued in favor of must-carry for economic gain, not the free flow of information." He said must-carry rules hadn't hurt main C-SPAN but had stopped network from getting related networks such as C-SPAN 2 and other services onto cable systems. SBCA spokesman said it hadn't discussed must-carry lawsuit with C-SPAN but welcomed network's support.

**Nielsen is expected** to announce shortly it has developed software to measure viewing in homes that subscribe to RePlay TV and is working on similar system for TiVO-subscribing homes. Under current technology, Nielsen measurements bypass homes that subscribe to RePlay TV or TiVO, official said, calling new measurement ability "a big breakthrough."



## Personals

Mitch Metcalf promoted to senior vp, program planning and scheduling, NBC... Steven Kuo advanced to Fox senior vp-business development... Herbert Granath, ex-ABC, to advise Callahan Assoc. on content development... Deb Esayan promoted to vp-integrated sales, Emmis Communications... Birathon Kasemsri advanced to vp, Walt Disney Internet Group, Japan. National Geographic Channel named Lorraine Snebold, ex-WTTG Washington, senior vp-brand management... David Reed promoted to CableLabs chief technology officer... Scott Langerman, ex-Turner Entertainment, appointed vp-new business, BBC America... Cablevision Systems Corp. appointed Nora Feeley (ex-Event by Nora, Inc.) vp, community affairs... Elected to CTAM board: Maggie Bellville, exec. vp-operations, Cox; Peggy Binzel, exec. vp, NCTA; Richard Cozzi, vp-mktg. & sales, Time Warner Communications; Eric Kessler, exec. vp-mktg., HBO; John Pascarelli, senior vp-mktg. and consumer services, Mediacom Communications; Maggie Wilderotter, pres.-CEO, Wink Communications.

Phyllis Dickerson-Johnson joins CTAM as dir.-communications & media relations.... New board at National Assn. of Minorities in Cable: Patricia Andrews-Keenan, AT&T Broadband Chicago Market, pres.; Kathryn A. Bryant, Comcast, vp; Sheila Salido, TiVo, secy.; Earle Jones, District Cablevision, treas.; Joe Lawson, Bazillio Corp., immediate past pres... James O'Brien, ex-Jones Intercable, named pres.-CEO, NCTA Center & Museum... Larry Corn, ex-Roadrunner, appointed senior vp, sales & mktg., Intrenet... Changes at Travel Channel: Dan Russell named dir.-programming, Louise Brown dir.-program partnerships... Matt Packard advanced to Fox Cable Networks dir.-affiliate sales & mktg... Kristi Staab named dir.-local ad sales, Fox Cable Networks Group. Lisa Burns Griffin promoted to asst. chief, FCC Enforcement Bureau's Market Disputes Resolution Div.

Lindsay Davis advanced to exec. vp-meetings, RAB... Promotions at Harris Corp.: Stephen Marschilok to dir., International Sales for Europe, Brendan O'Connell to dir., International Sales for Asia, Kevin Kane to dir., Business Development for U.S. Army and Marine Corps... Jay Switzer promoted to pres., Canadian broadcaster CHUM TV... Anne-Rivers Forcke, IBM, appointed chmn., Multimedia Telecom Assn. Media Relations Committee.

Internet users often watch TV while surfing Web, new study said. Internet users spend 3.8 hours per week watching TV while surfing, Burke Inc. and NFO Interactive said in study. Report cited several specific examples, including: (1) 16% of Internet-enabled viewers of CBS's *Big Brother* went to network's site during show to find more information. (2) 8% of Internet-enabled viewers of NBC's Olympic coverage and ABC's *Who Wants to Be a Millionaire* logged in while show was airing. (3) 6% of CBS's *Survivor* viewers with Web access tuned in. Study also found NBC's coverage of Olympics and ABC's *Who Wants to Be a Millionaire* attracted more viewers to their Web sites than any other recent TV programming. But study said CBS's *Big Brother* attracted highest percentage of its TV viewers with Internet access. Food Network's *Emeril Live*, ESPN's *SportsCenter* and NFL football coverage also had high viewership, study said.



WARREN COMMUNICATIONS NEWS, INC. ISSN: 0497-1515 www.warren-news.com

## TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

(ISSN 0497-1515)

PUBLISHED BY WARREN COMMUNICATIONS NEWS, INC.

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

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

Copyright © 2000 by Warren Communications News, Inc.  
Reproduction in any form, without written permission, is prohibited.

### EDITORIAL & BUSINESS HEADQUARTERS

2115 Ward Court, N.W., Washington, DC 20037  
Phone: 202-872-9200 Fax: 202-293-3435  
Email: info@warren-news.com

### WASHINGTON HEADQUARTERS

Albert Warren . . . Chmn., Editor & Publisher  
Paul L. Warren . . . President  
Daniel Warren . . . Vice Chairman  
Dawson B. Nail . . . Executive Editor  
R. Michael Feazel . . . Senior Editor  
Edie Herman . . . Senior Editor  
Herb Kirchhoff . . . Senior Editor  
Alan Breznick . . . Senior Editor  
Mary Greczyn . . . Senior Editor  
Sasha Samberg-Champion . . . Associate Editor  
Dinesh Kumar . . . Associate Editor  
Bruce Branch . . . Associate Editor  
Dugie Standeford . . . Associate Editor  
Shawn Nelson . . . Assistant Editor  
Terry Lane . . . Assistant Editor  
Matt Kistenmacher . . . Assoc. Production Mgr.  
W. Pernell Smith IV . . . Assoc. Production Mgr.

### Television and Cable Factbook

Michael Taliaferro . . . Managing Editor  
& Asst. Publisher--Directories  
Richard Koch . . . Asst. Managing Editor  
& Editorial Director  
Gaye Nail . . . Asst. Managing Editor  
Susan C. Seiler . . . Senior Ed. & Ed. Supv.

### Daily Document Service

Joseph Lautieri . . . Manager

### Business

Brig Easley . . . Controller  
Lynn Levine . . . Exec. Sales Director  
Betty Alvine . . . Circulation Mgr.  
Deborah Jacobs . . . Information Systems Mgr.

### NEW YORK BUREAU

276 Fifth Ave., Suite 1002, N.Y., N.Y. 10001  
Phone: 212-686-5410 Fax: 212-889-5097  
Paul Gluckman . . . Bureau Chief  
Stephen A. Booth . . . Senior Editor  
Mark Seavy . . . Senior Editor  
Jeff Berman . . . Associate Editor  
Razia Mahadeo . . . Editorial Assistant

### CONTRIBUTING EDITOR, EUROPE

Barry Fox  
22 Holmfeld Court  
Belsize Grove, London NW3 4TT  
Phone: (44-20) 7722-8295  
Fax: (44-20) 7483-3074  
Email: barryfox@cs.com

### JAPANESE REPRESENTATIVE

Editorial and Circulation  
CES International Corp.  
Sumitomo Seimei Aoyama Bldg.  
3-1-30 Minami Aoyama, Minato-ku  
Tokyo 107-8577, Japan  
Phone: (03) 5413-8664

- ☐ I'm interested in **Television Digest with Consumer Electronics** and would appreciate your sending me a **FREE** four-week (4 issues) trial subscription. I understand I have no obligation to subscribe.
- ☐ The person below would be interested in receiving a **FREE** four-week (4 issues) trial subscription to **Television Digest with Consumer Electronics**.

Signature \_\_\_\_\_  
Name \_\_\_\_\_  
Company \_\_\_\_\_  
Address \_\_\_\_\_  
City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_  
For e-mail delivery, please provide internet address: \_\_\_\_\_

Citing increases in hiring of minorities by TV networks and more use of minority actors in TV series, NAACP said it was generally pleased with progress. "Everyone [networks and programmers] has taken a step," NAACP Dir.-Communications John White told us, "but there's still a lot to be done." Most of gains in front of and behind camera have been made by African-Americans, "but diversity doesn't just mean blacks," he said, citing Asians and Latin Americans. NAACP decried cancellation of *City of Angels* by CBS that features minorities in major roles, "but we understand the networks have to make a profit."



# Consumer Electronics

A Section of Television Digest with Consumer Electronics

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Nov.10 and year to date:

	NOV. 4 - NOV.10	1999 WEEK	% CHANGE	OCT. 28- NOV. 3	45 WEEKS 2000	45 WEEKS 1999	% CHANGE
TOTAL COLOR TV	635,997*	632,957	+ 0.5	692,535	25,572,202	24,481,176	+ 4.5
DIRECT-VIEW*	616,811	603,818	+ 2.4	673,811	24,556,019	23,484,007	+ 4.6
TV ONLY#....	525,909	502,588	+ 4.6	538,971	20,295,077	19,689,016	+ 3.1
TV/VCR COMBO.	90,902	101,230	-10.2	134,870	4,260,942*	3,794,991	+ 12.3
PROJECTION...	19,186	29,139	-34.2	18,724	1,016,183*	997,169	+ 1.9
TOTAL VCR* ....	527,243	525,614	+ 0.3	732,025	24,299,452*	22,830,521	+ 6.4
HOME DECKS...	436,341	424,384	+ 2.8	597,185	20,038,510*	19,035,530	+ 5.3
CAMCORDERS.....	88,427	100,683	-12.2	95,484	5,003,081*	4,150,908	+ 20.5
DVD PLAYERS....	171,019*	97,349	+75.7	215,073	6,715,039*	3,141,890	+113.7

Direct-view TV 5-week moving average#: 2000-617,962; 1999-633,531 (down 2.5%).

Projection TV 5-week moving average: 2000-26,862; 1999-33,819 (down 20.6%).

VCR deck 5-week moving average: 2000-685,909\*; 1999-645,393 (up 6.3%).

TV/VCR 5-week moving average: 2000-139,160\*; 1999-127,895 (up 8.8%).

Camcorder 5-week moving average: 2000-161,678\*; 1999-140,865 (up 14.8%).

DVD player 5-week moving average: 2000-287,819\*; 1999-145,611 (up 97.7%).

\* 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.

### CHINESE DVD DECKS LOOM LARGE FOR HOLIDAY SELLING: As it nears 10% household penetration

DVD-Video format seems on fast track to becoming mass market commodity in U.S. — in great measure attributable to entry level players made in China. All big national and regional retail chains have sub-\$150 deck going into holiday selling season and \$99 price point won't be rarity, either from new-to-market Chinese brands or from established CE makers that have made haste to source price-busters from China.

At post time for year-end sales rush this Thanksgiving weekend, eyes of industry were peeled on Wal Mart's annual Black Friday blowout, which is harbinger of forward-going pricing. Chain was widely expected to offer \$99 DVD player, which would be about \$20 below cost for Chinese-made entry level models.

Even so, \$99 retail price point has lost its shock effect given recent short-term promotions and rebates on entry level decks and even outright giveaways with purchase of large-screen TV or other big-ticket item. Sources told us that dealer cost for entry-level DVD players should drop to \$105 from \$109 in first quarter, then slide below \$100 and as low as \$90 later in 2001.

"Where will it end?" one source asked rhetorically. "Entry level DVD is plummeting in a death spiral toward ground zero — and the profit will have bailed out long before it hits." Source contended that manufacturers and retailers had fleeced golden goose before its time. "What a dumb industry we are!" source said. "We're just hoping there will be another virgin market coming along in a minute."

It's likely DVD's meteoric rise has much to do with software pricing and widespread availability of rentals. Catalog titles from major studios now sell for 10-bucks-cheap in U.S. Region 1, and there's lots of product at \$15 retail, compared with average \$20-\$30 for newest hot releases. Just week before last, Universal Studios Home Video sued Image



Entertainment for slashing prices on some 50 Universal titles to which Image had distribution rights; Image defended pricing move as adjustment required by changing market.

Among DVD software promotions, BigStar.com is offering consumers who spend \$50 or more at its Web site free *Doc Hollywood* or *Excaliber* DVD. JVC also is offering those who buy its DVD players and Austin Powers' *The Spy Who Shagged Me* DVD 2 additional titles free. Aggressive moves by Hollywood studios on sellthrough pricing contrast strongly with behavior of music labels, whose pricing for CDs until recently hadn't moved downhill much since format's debut 17 years ago. Lately, though, after major record labels reached settlement with FTC that ended probe of their pricing practices, retail price war has erupted with Best Buy and others promoting new CD releases at \$9.99.

Meanwhile, besides DVD, Wal Mart and others will torpedo pricing on VCR and TVs as industry heads into 4th quarter with stickers as low as \$39 for 2-head VHS and \$89 for 19" light-and-play TV expected this weekend. Ames Stores, in attempt to get jump on competition, packaged 2-head Daewoo VCR (\$59) with \$20 rebate. Long's Drugs was advertising GE 4-head mono VCR in San Diego area at \$79 that was scheduled to drop into \$39-\$49 range during 2-day, post-Thanksgiving sale. Long's rival Rite Aid responded by promoting 4-head Memorex model at \$79.

DVD battle lines among retailers were drawn on brand basis in early fall. Circuit City (CC), which introduced Oritron brand this time last year as first sub-\$200 player in U.S., now is staking out low-end turf this holiday with variety of models from Apex Digital. They start with \$119.99 entry level that's been promoted for \$99 before, and also has been sold by Kmart. Top-shelf Apex at CC is 3-DVD changer at \$199.99. CC picked up Apex in Jan., and brand quickly gained popularity for being first DVD deck that could play MP3-compressed CDs. Brand also achieved notoriety for deck that circumvented DVD regional coding and Macrovision copy protection, which prompted recall. Apex, brand name for Ontario, Cal.-based United Delta, now offers 7 models that distributor sources from various Chinese OEMs. Line includes DVD changer, mobile player and decks with component video output, all priced well below comparable product from big-name brands.

Best Buy will counter CC with \$99 KLH-brand deck and 5-DVD changer (\$219) OEM'd by Hong Kong's Total Technology Corp. Retailer also is carrying Apex AD-600A at \$179, selection of discs at \$9.99 and \$14.99.

Meanwhile, 800-store Target chain is making end run with \$119 Oritron DVD600, manufactured in China by Hong Kong's Orient Power Group. Oritron brand, once nearly exclusive to CC, also has been picking up ground among regional CE chains, such as N.Y.C. metro area Wiz. Target also is carrying Samsung and Memorex decks at \$159 and \$169, respectively.

"We're staying out of the \$99 game because we still have the mindset that we ought to be able to make money in the category, although there are a couple times of the year that you'll want to make a splash," said Steve Eastman, Target divisional merchandise mgr. for electronics. "What has happened is that any factory that is making CD players in China can pick up manufacturing of DVD with very little effort."

Wal Mart also was expected to have some Oritron decks in mix for \$99 Black Friday door-buster. As we reported previously, sources said chain had order for at least 100,000 decks from Oritron for Black Friday, and similar number from another unidentified vendor. Sources told us that as of June, Oritron had about 13% market share in decks priced under \$200, and 4% of overall DVD market in U.S. In runup to Black Friday, leader model at Wal Mart was GE model at \$139.

In fact, Wal Mart didn't advertise DVD players in Black Friday ad at all. But when we visited N.Y.C. metro area outlet, it was possible to negotiate \$99.99 deal on Oritron DVD100 ticketed at \$119.99. CC actually went lower in 5-hour Fri. sale: \$89.99 price "while quantities last," with limit of one per customer on selection of decks, including Apex AD-500A that usually retails \$10 higher. CC's 5-hour sale also offered \$20 off \$149.99 Apex AD-660 and \$199.99 AD-703 changer. Broksonic 2-head VCR was \$39.99 at CC, while Wal Mart had 4-head HiFi at \$58 — SV2000 model made in China for Philips. Wal Mart also footballed 19" Symphonic TV at \$89 and selection of 15 DVDs at \$9.96.

Among other offshore brands, Taiwanese Raite and Sampo are contenders in entry level market, although neither appeared to have distribution among big-box retailers heading into holiday season. Ditto for Konka, Chinese brand that made sub-\$200 splash this time last year before encountering protests from Macrovision, MPAA and DVD Forum over compliance with copy protection requirements.

One potential Chinese powerhouse that will exert no impact on this year's DVD sales is Haier — major white-goods maker based near Shanghai that supplies retail buying groups such as NATM. Haier was planning to supply regional



chains in group with DVD player for holidays, but product won't make Santa's sled in time. Sources told us Haier lacked its own DVD licenses from Macrovision, so it had outsourced production to China's Great Wall Mfg. Co. Deck wasn't to be entry level, but \$199 step-up with Dolby Digital and DTS decoding, component video output and other frills, sources said. Haier said it would exhibit DVD and other CE products at upcoming CES. Company now is supplying regional retailers with 13-19" TV and compact refrigerators, but in China also offers extensive line of high-end TVs, as well as price-competitive desktop and mobile PCs.

Other key entry in penny ante DVD race is Korea's Samsung. Company has long been supplying Chinese-made entry level player sold at \$159 through who's who of big-box and specialty retailers.

Meanwhile, big-name brands aren't letting grass grow under their feet in race for lowball market share. Virtually all of major CE brands, including Hitachi, Pioneer, Samsung, Thomson and Toshiba, have shopped China for entry level decks.

Samsung moved DVD production to China from S. Korea at midyear and is building product for own brand as well as Thomson's GE-brand price-buster and RCA 5-DVD changer, sources said. Thomson also is reliably said to have been negotiating with Oritron since early in summer to outsource DVD players in order to free up resources at its Juarez, Mexico, plant. Toshiba, meanwhile, is said to be using Chinese manufacturer ALCO as source for low-end deck.

Plunging DVD prices have brought added pressure on CE manufacturers that traditionally try to remain above fray. "We'll use features like HDCD, progressive scan, MP3 and better DACs, but I can't charge a premium that takes me out of the marketplace," said Harman Kardon Pres. Thomas McLoughlin, whose company recently shipped DVD player with many of those features after several months' delay owing to firmware. He said: "That's the fine balance I have to maintain. I have to offer a better performing product, but at a reasonable price so I can charge somewhat of a premium. I will not get into the commodity business because I can't afford to."

Meanwhile, Sony's PlayStation 2 hit Europe Fri. with some 80,000 potential customers on waiting lists turning up at retail stores, many of which ran Sony-sponsored midnight sales. Sony, which was hampered by tight product supply that limited U.S. launch shipments to 500,000 units, faced similar problems in Europe. Customers who weren't able to get PlayStation 2 in stores headed to U.K. online auction sites such as QXL, eBay, Freeserve. Sony had established preordering system in Europe to dampen profiteering that occurred after U.S. rollout, where models commanded 4-figure prices. About 500,000 PlayStation 2 consoles are due to ship in Europe before Christmas.

**VIDEOGAME TRADE COPING WITH PS2 HOLIDAY SHORTAGE:** Lack of PlayStation 2 (PS2) hardware has curbed some enthusiasm among videogame publishers and retailers this holiday selling season, but most stores and game makers have adjusted and now say they're looking forward to modestly successful 4th quarter.

Console industry should be up slightly over 1999, said George Harrison, Nintendo of America (NOA) vp-mktg. Although many retailers were disappointed by PlayStation 2 shortages, he said "People get amnesia. At the beginning of the year they were so worried about the transition. So if they come out of the year 5 to 6% ahead on a \$7 billion business, that's pretty great."

Although they all have PS2 titles out on shelves, publishers such as Capcom, Electronic Arts and Namco now are counting on strong library of older games and releases on other platforms to help make their quarter. "We've been doing all right," said Capcom Entertainment Pres. Bill Gardner. "We're in the top 10 of publishers but we don't have any top 10 titles. A lot of our business has been on catalog titles."

Paradoxically, oft-derided Sega Dreamcast might save holiday for many publishers and retailers. "Dreamcast has done very well for us and it continues to do well," Gardner said. Following impressive launch, Dreamcast has had solid 2000, with price cut to \$149 again spiking sales. Although it's difficult to project how it will do this quarter, 128-bit system should end up with N. American installed base around 5 million at end of calendar year. But many in videogame industry still consider Dreamcast odd system out going forward.

"Dreamcast is the Rodney Dangerfield of the industry — they can't get no respect," Namco Marketing Dir. Mike Fischer said. "They have done so much. They have a fantastic lineup. They've also had a good consistent marketing campaign in both print and TV," he said. "I think the only reason a lot of publishers had a good year last year was the Dreamcast provided all the dollar growth and here we are and they're doing it again," he said. "But they still don't get the credit they deserve."



Some contend there are troubling signs for publishers and retailers who banked their holiday solely on PS2. One publishing source, who requested anonymity, said early tie ratio (software to hardware sales) of Sony \$299 system ranges from 1.5 and 1.7 to 1. "Those consumers who have the hardware are not rushing out to buy 6 or 7 titles," source said.

Meanwhile, boon to 3rd party PS2 publishers is lack of strong first party titles from Sony. While no one expected much from Sony Computer Entertainment America's (SCEA) first game, fireworks simulation *FantaVision*, one retail source said store buyers already were grumbling about quality of SCEA's next release, football title *GameDay*. "Can you imagine how hard the PlayStation 2 must be to program for if Sony can't even bring out titles," executive said.

**VIRGIN RECORDS TO RELEASE SUPER AUDIO CD:** Second major label to endorse Super Audio CD (SACD) format is EMI's Virgin Records, which announced last week it would release SACD version of cult classic *Tubular Bells* in Feb. To date, only Sony Music among majors has given support to format, which uses Direct Stream Digital DSD recording developed by Philips and Sony.

Virgin SACD will be first to use SACD's multichannel capability, as Sony so far has focused only on format's high-quality stereo performance. Although SACD is capable of 5.1 channel operation, *Tubular Bells* will be 4 channel surround disc only, to remain faithful to original 4-track mix made in 1973, Virgin said.

Album, by Mike Oldfield, was Virgin's first LP release and put then-fledgling record label on road to becoming one of biggest and most successful. Original 4-track recording was in pristine shape and was transferred to DSD recording at Airshow Mastering in Boulder, Colo., Virgin said. Since album's 1973 release, 10 million copies have been sold. Virgin didn't disclose price for SACD or its plans for other titles.

Sound quality of SACD transfer of *Tubular Bells* seems superb. Our Europe correspondent heard early test pressing at London's Abbey Road Studios at end of Aug. and was impressed by almost complete absence of tape hiss on 27-year-old recording. Engineers explained that that was because Mike Oldfield's home studio had used dbx-brand noise reduction system that, at time, offered more drastic hiss reduction than Dolby-A system then employed in most large studios.

**SAMSUNG-UMAX IN JOINT VENTURE:** Samsung and Umax have created Cross Digital joint venture to develop and build Wink-enabled DirecTV receiver (\$99), said Steve Panosian, senior mktg. mgr. for digital products.

Cross Digital, based in San Jose, will expand efforts to other products as well, although Panosian declined comment on future projects. Wink/DirecTV product, which will ship March-April, will have S-Video and A/V jacks.

New venture came as Samsung prepared to ship new high-definition (HD) decoder set-top box (STB) with 720p output in addition to 1080i and 480p, he said. It also can handle NTSC 480i via S-Video port. Samsung will build STB, debunking rumors that it would source product from Integra (TVD Nov 20 p12). STB will have TeraLogic decoder chip.

Major break for Samsung will be price. New unit will have \$699 retail, deep cut from SIR-T100G decoder, which was \$1,900. Lower priced model will be stripped of some discrete features including RGB connection. SIR-T100G, which will be phased out with introduction of new model, sold about 1,000 units to retailers for HD demonstrations, but proved to be slow seller, Panosian said. Samsung also will continue development of DirecTV/HD decoder, although product availability has slipped to mid-2001 from end of this year, Panosian said.

**LG Electronics** is said to be nearing agreement to sell half of its CRT Div. to Philips in deal that would be follow-up to companies' year-old TFT-LCD joint venture. LG, which has formed series of joint ventures in recent years including optical drive agreement with Hitachi, is expected to get \$1 billion from sale of stake in CRT business to Philips, *Naeway Economic Daily* (NED) said last week. Under proposed sale, CRT business would be spun off from LG and then 50% stake would be sold to Philips. Companies, which are expected to sign deal Nov. 28, have been negotiating CRT agreement intermittently for better part of year, with sticking point being price, sources said. LG officials weren't available for comment. Philips spokesman, while refusing to confirm or deny NED report, told Reuters that deal would be in keeping with companies' plans.

**MusicMatch** released test version of its jukebox digital music software for Linux operating system (OS). Beta version of jukebox was developed with Code Weavers, San Diego company that has created Microsoft Windows programs based on Linux... **EMusic** said it would start using technology that hampers distribution of its songs over controversial file-sharing service Napster. EMusic, which sells form of digital music that can be downloaded onto PCs, has designed software that scans and analyzes files on Napster service. Software determines whether those files originally were downloaded from EMusic and sends messages requesting that they be withdrawn from Napster's service within 24 hours. If user doesn't comply, EMusic said it would ask Napster to block person from accessing service.



**JBL AND INFINITY PLANS:** Harman International's JBL and Infinity brands, best known for speakers, are planning return to video business.

While plans for reviving business are more in long term, strategy will be to tie brands' audio know-how to display technology including plasma and JVC's Digital Image Light-Amplifier (D-ILA), company said. JBL plans to show Performance series home theater system (\$8,000) with LG Electronics' Zenith-branded 60W plasma at CES, while Harman's Madrigal brand is developing D-ILA-based projector (TVD Aug 14 p13) that eventually could spread to other products as well. Madrigal entered video business in 1999 with CRT-based front projectors (TVD Sept 27/99 p17).

"Right now there are many display manufacturers out there that are all offering credible products that do wonderful things, but simply affixing a JBL logo to one of them doesn't answer the question of whether there is an ultimate benefit for the end user out there," JBL Brand Mgr. Paul Bente said.

JBL has had discussions with LG Electronics and other display manufacturers, but any product will be "later, rather than sooner, because it's going to take one of these new display technologies and the integration with our loudspeaker and electronics prowess to really register with the end user and our distributor," Bente said. "It will be the package eclipsing the sum of the parts, and that's what we're really after."

Infinity also is preparing video strategy with an eye toward introducing new technology. "We don't want to do it just because we can," Infinity Brand Mgr. Eli Harary said. "We need to do it because we're going to bring some level of significant added value to it."

JBL and Infinity had dabbled in video business in fits and starts over their long histories. JBL entered LCD projector business via former Kloss Video nearly 20 years ago, while Infinity added models as part of Synthesis product line in 1992.

"Over the last year, more and more of the gravity of this industry is being pulled toward video and display solutions," Harman Consumer Systems Group Pres. Gina Harman said. "But we are committed to be a profitable business and we will do it when we can add value and claim a fair price for it and that's not going to be anytime in the next 3 to 6 months."

In current video line, Harman Kardon (HK) will introduce dogle (under \$100) that will allow PCs to link with HK A/V receivers containing MP3 technology (\$499-\$999). To tie products together, dogle connects PC via USB port to A/V through SPIDF connector. Device, designed with audio chip supplied by Cirrus Logic, will enable PC connected to Internet to download MP3-encoded music and pass it to A/V receiver for playback. Harman, which is finalizing agreement with Northern Cal. PCMCIA card manufacturer to build product, will have exclusive at start. It plans to package dogle with A/V receivers and sell it as optional accessory.

"This is a way to make our receivers that incorporated MP3 decoding valuable to a greater number of people," Harman Kardon Pres. Thomas McLoughlin said.

JBL will introduce Pro Pack 600 as entry into home theater-in-a-box category that is expected to ship late in first quar-

ter at \$999. System will consist of 5-disc DVD changer, Dolby Digital/DTS A/V receiver packaged with 5.1-channel speaker system with 4 satellites, center channel, 100 w powered subwoofer. While Bente had indicated earlier that JBL was weighing co-branded product with Zenith, first device will carry only JBL logo. Extension of line to lower price points may involve co-branding, he said.

JBL also is bringing revived Ti-K series speakers, which were reintroduced in Europe in 1999, to U.S. market next year. Line will include 2-way bookshelf speakers, 3-way and 4-way floor-standing models, latter featuring dual 8" woofers. Series also has subwoofer with 600 w amplifier and built-in digital equalizer. Speakers will replace black and beechwood finishes used in Europe with lacquer.

To expand line at high-end, JBL will bring Millenia tower speakers (TVD Aug 23/99 p17) into U.S. early in 2002, following debut in Europe next year, Bente said. Passive speakers, at \$40,000, have Harman proprietary driver technology from company's Pro division and feature 1" tweeter, 3" midrange with compression drivers, 15" woofer.

Infinity is continuing test at Circuit City's new format stores on sales of flat-panel speakers (\$599), but won't expand line, Harary said. Instead, brand will focus on extending existing Intermezzo, Interlude and Prelude lines with Harman's ceramic metal matrix diaphragm (CMMD) driver technology, Harary said. "We're only going to focus on those speakers that feature our new technology," he said.

\* \* \* \* \*

**Harman Notes:** Despite growing alliance, neither LG or Harman is considering deepening commitment either financially or in joint venture, Harman said. Companies earlier this introduced SoundGear line of youth-oriented microcomponents systems (TVD June 26 p15). "There is not now an investment relationship and not one that I would predict," Harman said. "It's [SoundGear] is not a foreshadowing of a long-term relationship between LG and Harman that is much more all-embracing."... Harman's investment in ZapMedia (TVD Sept 18 p17) is more to gain access to company's technology than finished products, which include Internet-connected multimedia CD/DVD player, McLoughlin said... Harman will continue to provide R&D support for Lucent Digital Radio's in-band, on channel (IBOC) digital radio technology that is being combined with that of rival USA Digital Radio. Harman signed agreement, along with Recoton, to build Lucent IBOC car receivers (TVD Sept 6/99 p15). "It doesn't make any sense to introduce a product before the technologies are merged," McLoughlin said. Combined companies since have been renamed iBiquity Digital.

**Sony will issue tracking stock** for its Internet service provider (ISP) operation next year, becoming first Japanese company to adopt that funding method. Holders of tracking stock in Sony Communications Network (SCN), which operates ISP So-net, will have right to receive dividend linked to SCN's dividend to Sony and will get same voting rights as other Sony shareholders. So-net, capitalized at \$4.4 million, has 1.49 million subscribers in Japan. Stock will be listed on Tokyo Stock Exchange (TSE). Sony hasn't disclosed amount being raised by offering, but Japan newspaper *Nihon Keizai Shimbun* put it at \$624.9-\$918.5 million. Sony Chmn.-CEO Nobuyuki Idei said tracking stock would benefit investors who couldn't afford to buy Sony stock directly.



**GOODGUYS.COM OPENS SITE:** Goodguys.com unveiled e-commerce business last week after nearly year of development and several delays.

Goodguys.com, which will be 19% owned by bricks-and-mortar chain of same name, will function as separate company with own office/warehouse in Portland, Ore., and merchandising staff, Pres. Walter Mulvey said. But Good Guys (GG) buyers will purchase inventory from vendors that in turn will be sold to online business, he said.

Site is carrying 1,000 SKUs from 70 vendors at start, but plans to expand to 3,000 and 75-80 by year-end, Mulvey said. Pricing and marketing will mirror that of Good Guys, but online retailer eventually will run own advertising campaign via billboards and other media, he said.

Mulvey declined to disclose goodguys.com's capitalization or projected sales, but said business would turn profit by end of 2001. In addition to Good Guys, investors in online business include management and private individuals, some of them with ties to venture capital firms. GG has option to buy additional warrants to increase stake in goodguys.com to 49%, spokeswoman said.

Current structure of goodguys.com appears to differ slightly from what was announced in Jan. (TVD Jan 10 p23). At time, GG CEO Ronald Unkefer said chain would own 49.9% of online business, handle inventory, share in revenue. Under current plan goodguys.com will have own profit/loss statement and keep revenue.

Site currently features internally developed engine that allows consumers to compare prices and See It Work, software developed by Dallas-based company of same name, that enables user to see product in action. Goodguys.com will add online chat and voice-over-IP features in 2nd phase of development, with eFusion being considered as possible supplier of latter technology, Mulvey said.

Goodguys.com has hired UPS to deliver product purchases free via 5-day ground service, but will charge for 2-day air based on size of package, Mulvey said.

While site's merchandise generally will copy that of bricks-and-mortar locations, no decision has been made on whether it will include music software, Mulvey said. Tower Records, which operates music dept. in some GG stores, has Web site that sells CDs and has experimented with digital downloads.

**QSound Labs and Akoo.com** signed co-marketing agreement in which they will distribute and promote each other's products at their Web sites. Products included are Akoo.com's new Kima wireless Internet audio device and QSound Labs's full line of Internet audio enhancement hardware and software. Latter's Web site is Qsound.com. Akoo says its Kima is made up of 2 units: (1) Base unit that connects to PC sound card and wirelessly sends audio signal up to 1,000 ft. away. (2) Receiving unit, using Akoo's patent-pending technology, that's placed 8-10 ft. from any stereo or portable radio and sends audio signal to one of 2 available FM frequencies. Kima is compatible with any streaming media player, such as Real Networks's Real Player and Microsoft's Windows Media Player, Akoo said.

**ULTIMATE POSTS PROFIT:** Ultimate Electronics (UE), crediting strong sales of digital products, reported 3rd-quarter net income rose to \$3.3 million from \$1.8 million on 28% increase in sales to \$117.2 million. Same-store sales gained 12%.

Gross profit jumped to 32.2% from 30.4% year earlier, benefiting from UE's growing customer installation business, which accounted for 4% of revenue in quarter, CFO Alan Kessock said. TV/DBS accounted for 37% of revenue, up from 34% year ago, while audio slipped to 21% (22%) and mobile to 10% (12%). Video/DVD remained flat at 15% as home office dipped to 5% (6%).

DVD players are continuing to be strong sellers, although Panasonic's DVD-RAM recorder has gotten off to slow start. "It's selling, but it's not going to add 2 percent of comps in and of itself," Pres.-COO David Workman told analysts in conference call. "Obviously that's going to be a slow business to develop, but it's going to be exciting once it is."

Among new initiatives, UE has made push into plasma, creating 6-panel display near front of TV dept. featuring Fujitsu, Panasonic, Pioneer and Sony models priced at \$7,500-\$20,000, Kessock said. Goal eventually is to sell 60-90 pieces per month and chain is carrying small number of panels in inventory, he said. Ultimate also will introduce Bose-sponsored home theater display in select stores in mid-2001, Kessock said.

UE plans to continue expansion in Phoenix market in first half 2001 before moving to St. Louis (4 stores) and Oklahoma City (2) later in year, Kessock said. UE will continue to use 185,000-sq.-ft. Thornton, Colo., warehouse (TVD Sept 18/95 p17) to supply new stores, but will build 50,000-sq.-ft. addition next year, he said.

**Harvey Electronics** said sales for 4th quarter ended Oct. 28 rose 56% to \$8 million and for year jumped more than 60% to \$34.4 million on 52% gain in same-store sales. Custom installation accounted for 33% of sales in FY 2000, up from 20% range year earlier.

**C-Phone, major proponent** in last wave of consumer videophone hype, is throwing in towel on videoconferencing business. Wilmington, N.C., company is laying off one-third of 32 employees and plans to sell remaining inventory and attempt to license technology. As it moves to sell off videoconferencing business, C-Phone is weighing series of "strategic alternatives" including business combination or "complete liquidation" of company, it said. Pres.-CEO Paul Albritton said C-Phone hadn't been able to generate enough revenue to cover operating costs despite belt-tightening moves earlier this year (TVD Jan 10 p11). While it has been working with "potentially significant customer" on joint venture that would have included investment in C-Phone, latter hasn't raised funding needed to "move forward with project," Albritton said. C-Phone dropped out of consumer videophone market in 1999 (TVD April 12/99 p17) after unsuccessful run and shifted emphasis to business and security applications. It also made attempt to revive business with Internet access set-top box (TVD June 8/98 p16), but was able to deliver only limited quantities. Last wave of consumer videophones, which used conventional phone lines, strained to deliver 15-18 frames per sec. and latency was major problem with audio running behind video.



**NINTENDO PROFITS TRIPLE:** Buoyed by strong dollar and continued success of its Pokemon game franchise, Nintendo said pretax profits for fiscal year's first 6 months rose 157% to \$470.6 million, despite 26% decline in revenue to \$1.3 billion. Parent company said Game Boy handheld player continued to do well, but sales of N64 home console had been disappointing primarily because of arrival of competitor Sony's PlayStation 2 (PS2).

For full year to March 31, Nintendo projected \$710 million group net profit on sales of \$4.55 billion, down slightly from its May forecast of \$746 million and \$4.91 billion, respectively. Nintendo's profit rise was in stark contrast to competitors Sony and Sega, which recently reported losses in videogaming.

For six months ending Sept. 30, Nintendo sold 10.16 million Game Boy consoles worldwide, including 8.77 million outside Japan. For full year, hardware and software maker projected sales of 23 million Game Boy players, including one million of new 32-bit Game Boy Advance that company will offer in Japan early next year. Nintendo revised its estimates of global sales of cartridge-based N64 system down to 3.05 million from original 3.5 million. It will release Game Cube, successor to N64, in Japan and in Oct. in U.S.

"We believe demand for Nintendo 64 consoles and software has weakened because game users are waiting for our new player to be released next year," Managing Dir. Yoshihiro Mori said in news conference last week. "Sales and profit are expected to rise in the next business year, helped by our new game players," he said.

Analysts reacted positively to news. "Cutting full-year sales estimates was not expected, but it may mean saving production capacity before the launch of the new game machines," Morgan Stanley analyst Mitsuko Morita said. "We retain our 'outperform' rating on Nintendo as the new game players are expected to boost business."

Nintendo of America (NOA) has been trying to exploit shortages of Sony PlayStation 2 by aggressively pushing key N64 titles such as *Legend of Zelda: Majora's Mask* and *Banjo Tooie*. "Retailers are back to the thought of advertising [N64 titles] now that they have extra advertising space since they can't really push Sony PlayStation 2," NOA Mktg. Vp George Harrison said. He said company would release more Players Choice value-priced N64 games after Christmas to try to capture some of holiday dollars that can't be spent on new Sony system.

Past console transitions involving cartridge-based systems have been inventory management nightmares, in part because of long manufacturing times and higher upfront costs for retailers. But Harrison said this year company was keeping close watch on sell-in to retail. "We're probably even more aggressive than retailers about trying to make sure the inventory doesn't get overloaded at retail," he said, so supplies of *Legend of Zelda: Majora's Mask* may even run out in weeks before Christmas.

Meanwhile, struggling Sega posted \$163 million net loss for 6 months, hurt by hefty cut in U.S. price for Dreamcast. Six-month results were in line with lowered expectations and company projected 4th straight full-year loss for fiscal year ending in March.

"Most of the institutional investors will stay out of Sega because of an uncertainty about its ability to revive," said Takashi Oya, senior analyst at Deutsche Securities.

Dreamcast cut price to \$149 earlier this year in attempt to remain competitive with Sony's PS2, resulting in \$167.8 million group loss in hardware business. Sales for 6 months were flat at \$1.15 billion. In attempt to reverse fortunes, Sega has said it will focus on software, including developing titles for rivals' game machines, in effort to return to profitability. It also is seeking to license Dreamcast technology.

For full year to March 31, Sega projected \$214 million group net loss, widening from Oct. projection of \$200.4 million, but down from year ago \$388.2 million. Sega, which has seen stock price fall 75% so far this year, closed up 21¢ (3%) at \$7.25.

---

**Sony Electronics** killed a newly created TV ad campaign for SonyStyle.com after several cable networks objected to commercial that featured Santa Claus being chloroformed and dumped into the trunk of a car, *Wall St. Journal* reported. Six SonyStyle.com commercials were scheduled to run this week on Viacom's MTV, Walt Disney's ESPN and The Discovery Channel. In ads, kidnapers play series of cruel games with blindfolded Santa Claus. Sony decided to pull commercials after cable networks refused to carry them. *Journal* quoted unnamed executive as saying that commercial featuring Santa Claus being kidnaped was one that upset network. Sony was "concerned that consumers might misinterpret the edginess and irreverence of the campaign and may even be offended," spokeswoman said. In place of SonyStyle.com ads, Sony will run spots promoting Vaio PC and Wega TVs, spokeswoman said. Ads are by Young & Rubicam unit of London-based WPP Group.

**Nokia, heightening competition** to merge handheld PC features with cellular phone, will introduce model with color display in first half next year. Pocket-size Nokia 9210 Communicator, which will be available for GSM network in Europe, combines phone with personal organizer and ability to access Internet and e-mail. Dual-band product also features wireless application protocol (WAP) and supports Java computer language and Symbian's EPOC operating system. Symbian is co-owned by Ericsson, Matsushita, Motorola, Nokia, Psion. New model builds on Nokia's current 9110i WAP-enabled device.

**Barnes & Noble (BN)** confirmed Fri. that it was in talks with Gemstar-TV Guide on business relationship and didn't rule out potential merger. Companies reportedly have been studying jointly publishing electronic books and other business combinations and BN spokeswoman said they were "discussing a whole lot of issues, and all issues remain open." Earlier last week, she had denied companies were considering possible merger. Analysts have said they doubted merger is in offing, noting that Gemstar completed \$14.9 billion acquisition of TV Guide in July and still was integrating business strategies.

**Canon Software Publishing** signed strategic deal with Web photo service Zing Network to provide online printing and sharing services to Canon Photo product consumers. Links to Zing.com in Canon's desktop software give consumers access to various services, including personalized photo gifts and online photo album creation.



**ECHOSTAR LOSS WIDENS:** EchoStar reported 3rd-quarter loss widened to \$128.5 million from \$126.5 million year ago as marketing and subscriber-related expenses rose sharply.

Closely watched earnings before interest, taxes, depreciation and amortization (EBITDA) narrowed to negative \$28 million from \$48 million year ago. Revenues increased to \$694 million from \$431 million as per-subscriber revenue jumped to \$45.36 from \$43.13.

Marketing costs soared \$86 million in quarter to \$290 million, including doubling of ad expense to \$41 million as EchoStar pushed one-rate and Digital Dynamite programs that carry heavy subsidy of hardware. Per-subscriber acquisition costs rose to \$438 million from \$390 million and could average \$450-\$475 million for full year, EchoStar said in SEC filing.

Net loss from Digital Sky Highway (DISH) service grew to \$155.7 million from \$139.7 million despite rise in revenue to \$633.2 million from \$365.5 million. EchoStar Technologies Corp., which supplies receivers to ExpressVu in Canada and Telefonica in Spain, swung to \$2.5 million loss from \$22.9 million profit year ago as sales shrank to \$40.8 million from \$139.1 million. Satellite services business posted increase in net income to \$11.1 million from \$7.7 million as sales rose to \$14 million from \$13.5 million.

EchoStar's satellite fleet continued to suffer transponder failures. At quarter's end, 26 of 44 transponders on EchoStar IV had failed and another 10 on EchoStar III. EchoStar has filed \$219.3 million claim on EchoStar IV and has rejected \$88 million settlement offer. It currently is self-insuring EchoStar I, II and III, whose policies expired July 25.

As EchoStar reported, Hughes Network Systems (HNS) was gearing up for launch of DirecPC 2-way satellite service in first quarter 2001.

**Pegasus Communications**, which will market service under Pegasus Express powered by DirecPC banner, plans to sell HNS-made receiver \$499 bundled with either straight Internet access (\$69 monthly fee) or in combination with DirecTV that lowers cost to \$59, but requires separate subscription, Product Development Vp Christopher Walczak said. To receive DirecTV and DirecPC service, Pegasus will offer 26" dish and is pricing installation at \$200, he said. Pegasus will launch in-house beta test of service in Dec. and is expected to roll it out regionally. Pegasus, which has 1.3 million subscribers in largely rural markets, will seek to expand distribution to regional CE dealers, Walczak said.

ISP **Earthlink** signed on to sell DirecPC service. Earthlink, which has 4.6 million subscribers to its dial-up modem and DSL services, joins Juno and America Online (AOL) in offering DirecPC.

**Gilat Satellite Networks (GSN)** plans to launch satellite-based Internet access service in Latin America in first half of 2001, company told investors at conference in N.Y.C. last week. Gilat will focus first on Argentina, Mexico and Brazil, latter having 6.1 million people with dial-up Internet access, company said. Broadband services in Latin America are expected to have 10 million subscribers by 2003, double that in 2005. Strategy will be to pair with local high-speed access ser-

vice including digital subscriber line (DSL) cable modem or satellite.

GSN's Latin American service will be based on Starband platform, which has been deployed with EchoStar in U.S. GSN has 46% stake in Starband, which is readying IPO, company said. GSN executives declined comment on most aspects of Starband, which is in SEC "quiet period" before IPO. However, Starband is expected to have "substantially negative" gross margins this year but could break even in 2001, it said. It's projected to account for 25-30% of GSN revenues in 2001.

**Yamaha will introduce** front projector based on Texas Instruments' Digital Light Processing (DLP) technology as it seeks to expand video business. Yamaha, which already has DVD players in addition its line of audio products, will ship single-chip DLP projector in spring with price expected to be around \$10,000. Yamaha will be among handful of CE companies that sell DLP-based products. While technology has gained strong following in commercial markets for its ability to make possible ever-lighter front projectors, it has had slower sales in consumer market. Hitachi, Mitsubishi and Panasonic all have unveiled rear-projection TVs based on DLP technology, but front projectors have been largely limited to high-end models from Runco and Vidikron. Former Projectavision was early entry in market with DLP-based combination front/rear projector, but never registered more than limited sales before closing operations... **Epson**, trying to keep pace with DLP technology, unveiled 6.6-lb. LCD projector (\$3,299) based 0.7" panels. Projector, which ships in Jan., has 1,000 lumens, 400:1 contrast ratio, 800x600 resolution.

**More than 60%** of e-businesses will use content security tools or devices such as digital rights management (DRM) by 2002, Gartner Group said. DRM technologies are focusing on music and book industries first as they increasingly move online and need to control access to copyrighted content, Gartner said. It said fastest way for Internet company to crank up its DRM program was to outsource it. Separately, Reciprocal and Microsoft said they would partner to offer fully outsourced DRM technology for online book publishers. System will incorporate Microsoft's DRM technology into Reciprocal's digital clearinghouse structure to allow secure distribution of e-books in Microsoft Reader format, they said.

**Pioneer sued Gemstar-TV Guide**, charging company was "systematically eliminating competition and entering into agreements with others to restrain trade" in market for interactive program guides (IPGs). Suit, filed this month in state Superior Court, L.A., alleges that Gemstar hurt competition by acquiring EPG rivals StarSight and TV Guide. Pioneer, which makes set-top cable boxes, has been sued by Gemstar for patent infringement. Scientific-Atlanta also has sued Gemstar on similar grounds. Gemstar has gained measure of success in defending patents in court, most recently reaching \$200 million settlement with Motorola.

#### THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥110 = \$1, except where noted.



**EUROPE MULLING WEB TAX:** U.S. companies will need unified lobbying effort at Europe Union (EU) to prevent passage of value-added tax (VAT) on business-to-consumer transactions with Europeans, international tax lawyer told recent e-commerce forum in McLean, Va. American companies believe tax would give unfair advantage to smaller firms that are either unaware of tax or simply ignore it, said Howard Liebman, partner in Brussels office of Jones, Day, Reavis & Pogue. VAT is EU effort to harmonize its poorly structured tax system for Internet, he said.

U.S. companies want Organization for Economic Cooperation & Development (OECD) to work out implementation of VAT, Liebman said. Report on issue for full EU Parliament was due Nov. 22, he said, and it wasn't certain how EU would vote on measure. American companies have surprising lobbying influence in Europe, Liebman said, since they employ about 3 million Europeans. In 1999, EU Committee of American Chamber of Commerce urged EU not to adopt taxes that would slow development of e-commerce in Europe.

Jurisdictional details on VAT haven't been completed, Liebman said. European countries have assorted VAT rates and France is leading effort by 8 countries to require all U.S. e-commerce sites to register with each EU govt. to conduct business with their countries, he said. France and others are worried that would create "race to the bottom" countries such as Luxembourg, where VAT is only 12%, or Canary Islands, where it's just 4%. Others supporting multicountry registration are Denmark, Finland and Sweden, where VAT tax rates all are around 25%. Some nations are suggesting revenue-sharing proposal as possible alternative to multistate registration.

VAT isn't new to American companies in Europe, but it hasn't been applied to e-commerce sites, panelists said. Business-to-business sites (B2B) have little to worry about since tax is paid by business receiving service, Liebman said. In those cases, U.S. companies simply act as enforcers, collecting tax and turning it over to European govts. However, those companies must be careful with their timing since there inevitably will be delay from time tax is paid to European govt. and is refunded to American company, Liebman said. But B2C sites will have to pay tax when European consumers make purchases, he said, requiring cumbersome documentation.

European govts. are struggling with Internet tax issues similar to those in U.S., Liebman said. However, he said it appeared they, or EU, wouldn't tax American Web site as domestic company. They don't see Web site as "permanent establishment" for income tax purposes, but some European nations might tax remote server as company's establishment within country, Liebman said.

American companies need to improve their domestic lobbying efforts as well as international lobbying, Cisco Systems Senior Vp Daniel Scheinman said. He said increased collaboration between industry and govt. was necessary for smooth operation of Internet. But with 50% of its customers overseas, Cisco Systems is focusing on European collaboration. One strategy for American companies is to "tell Europe how they can win" sizable influence in world Internet market, Scheinman said. "U.S. leadership in the Internet isn't assured," he said. "As the price of bandwidth drops, it's becoming more open to everybody."

On related panel, dot.com executives highlighted several issues important to development of Internet, including: (1) Copy-

right protection and ownership of information. (2) Liability of service providers for content on their site, such as chat rooms, that originated from user. (3) Taxation jurisdictions. (4) States' roles in taxation and regulations. Some said U.S. should have more representation in international organizations, particularly ICANN, since U.S. is more affected by its decisions than any other nation. Yahoo lobbyist John Scheibel said his company was following content issues closely, particularly those related to information posted on site. He also wondered how copy-righting information might affect Information Age. "Will Ted Williams be able to write his biography if Major League Baseball owns his statistics?" Scheibel asked.

**MP3.com's key metrics** continued to improve last month. MP3.com Operations Vp Derrick Oien said "The number of digital artists coming to MP3.com to post their music continues to grow month over month, with listens, page views and daily visitors showing a steady pace upward." Number of songs and audio files MP3.com's Web site jumped to 698,534 in Oct. from 647,711 month earlier, MP3.com said. San Diego company also said number of approved artists at its site leaped to 109,709 last month from 99,855. Company said estimated average daily unique visitors rose to 697,000 from 663,000, estimated page views per month to 154 million from 147 million, song or other audio file listens to 46.12 million from 38.03 million.

**SSI Computer** began shipping Neo 35 MP3 player. Piscataway, N.J., company said Neo was first portable MP3 player that could carry more than 20 GB of music via hard drive. Eighty-one GB version costs \$599 and can hold up to 34,000 songs, SSI said. Company also is selling 20 GB version at \$409, 10 GB at \$389, without hard drive at \$299. Each version comes with car docking bay, carrying bag, PC docking bay, remote control. Optional accessories include additional hard drives, home stereo docking bay, remote display control panel. SSI said 2 docking stations allow Neo to "easily be swapped from one location to another." Home stereo bay connects via RCA outputs. Car docking bay can be installed in dashboard or trunk.

**National Panasonic Korea Ltd.** is new Matsushita direct-sales subsidiary based in Seoul that will begin operations April 1. Matsushita said that with abolition of various import restrictions, Korea's continuing economic recovery is expected to fuel market expansion, including surge in consumer demand for electronics products. Matsushita said: "By establishing its own sales company in Korea for consumer electronics and systems products, selling products directly to consumers there will enable Matsushita to provide more responsive customer service as well as increase exposure of its National and Panasonic brand images among Korean consumers."

**Sony will spend \$92 million** to double production of charge-coupled devices (CCDs) for digital cameras and camcorders. It will boost production to 3.3 million units per month by early 2001 at Kokubu, Japan, plant from 1.7 million last April. Sony, which supplies 60% of world's CCDs, is projecting increase in demand to 60 million units in 2001, spokesman said.

**Zomba Records** is latest music label to select Liquid Audio as one of its digital service providers for sale of downloaded recordings. As part of nonexclusive deal, Liquid will distribute Zomba music to U.S. customers via Liquid Music Network that includes more than 1,000 Web sites. Liquid also will provide label with clearinghouse, digital rights management, encoding, hosting functions.



**GOVT. COPYRIGHT ROLE DEBATED:** Will Congress need to intervene in Napster wars, or can existing copyright law and negotiations between businesses eventually sort things out? At recent conference at American U. Law School on "The Future of Copyright on the Internet" not everyone agreed, with some participants encouraged by recent Napster and MP3.com settlements and others less sanguine. Some opinions were characterized as much by skepticism over Congress's ability to handle issue as by confidence in industry.

Calling it "middle-of-the-road" decision, Judge Lewis Kaplan of U.S. Dist. Court, N.Y.C., defended his much-discussed decision to ban posting of instructions for cracking DVD copyright protections. He said each side presented "bitterness and sloganeering," and there was "not going to be an absolutist answer to copyright." Although acknowledging that his decision was on appeal, Kaplan warned that Supreme Court never had taken "an absolutist interpretation of the First Amendment," as demonstrated by its allowing FCC to regulate broadcast content. Parties seeking more freedom of intellectual property on Internet will find that's "a judgment that must be made by Congress, not by the courts," he said. He said only Congress can assemble all parties, take holistic look at situation and make inevitable "messy compromises," whereas courts can only choose between one or other of 2 competing arguments under limited set of circumstances. "Courts can serve as referees" in copyright battles, Kaplan said. "They can't ultimately play the game."

"I'm encouraged" by Bertelsmann deal with Napster, said Bruce Lehman, pres. of International Intellectual Property Institute. "I see a business model developing" that can "provide consumers with benefits and is consistent with the policy vision" in Digital Millennium Copyright Act (DMCA). "I think we provided the courts with a pretty good foundation" in DMCA, he said, and "I'm pleased with the way things are going." As result of MP3 and Napster settlements, Lehman said, "we may never see the Supreme Court or even appeals court decisions" of those cases. However, U. of Buffalo Law School Prof. Shubha Ghosh said settlements actually increased need for legislators to carve out "fair use for non-commercial use," now that companies that had advocated that position had given it up. He said practices that had hazy legal justification but were widely accepted in analog world, such as creating mix tapes, soon would be virtually impossible once companies could tightly control use of intellectual property.

It's "very difficult" for Congress to "create a rational [legal] structure" once business model has been established in marketplace and lawmakers essentially are just codifying general practice, Lehman said. Any attempts to amend DMCA will be obsolete by time Congress finishes, agreed lawyer Peter Schalestock. Lawyer Timothy Casey, who worked extensively on DMCA when he was with WorldCom, said he "would be surprised" if bill such as one floated by Rep. Boucher (D-Va.) to loosen copyright rules could be passed, in large part because it would violate international copyright treaties. Question would be whether new exemption such as for personal use "is presented as an extension of existing fair use, or as a novel concept," American U. Law Prof. Peter Jaszi said.

Casio Computer financed subsidiary in U.S. to act as incubator for high-tech start-ups. Venture capital company, to be located in Silicon Valley, is capitalized at \$9 million. Casio will invest up to \$800,000 in start-ups developing mobile devices for Internet, with option to offer additional funding on its own and from other investors.

## Consumer Electronics Personals

**Bruce Babcock**, ex-Gateway, named U.S. Robotics sales vp-Americas... **Kim Campbell**, ex-Canadian Prime Minister, appointed to e-Sim board... **John Daane** resigns as pres., LSI Logic's Communications Products Group, to join unnamed high-tech company as CEO; group split into Networking Products and Broadband Communications organizations that will be headed by Exec. Vps **Jordan Plofsky** and **Giuseppe Staffaroni**; Exec. Vp-CFO **Douglas Norby** resigns to join Novalux as CFO, replaced by **Byron Look**, ex-vp, corporate planning & strategic planning.

**Walter Mulvey**, ex-cameraworld.com, named CEO, goodguys.com ... Elected to Valley Media (VM) board, which expands to 7 members: **William Hall**, Sight & Sound CEO; **James Bonk**, ex-Camelot Music CEO, who replaces **James Sha**, resigned; **James Miller**, VM pres-COO, who succeeds former VM Pres. **Robert Cain**... **Richard Pendergast**, dir., RadioShack people development, advanced to vp-organizational development; **Carolyn Hoopes**, asst. corporate secretary, adds vp title.

**Michael Winkler**, senior vp, Compaq Commercial PC Group, promoted to exec. vp- global business units, new post... **Jeff Samuels**, ex-*Variety*, joins Panasonic PR, handling TV and video... **Steve Wilhite** resigns as Apple vp-mktg. communications.

**Samsung** is developing MPEG4 streaming video cellphone using GEO Interactive Media Group's patented Emblaze A2 video ASIC chip. Phone is expected to ship worldwide by 2nd half 2001, with Asia and Europe getting unit first, followed by U.S. Israel-based GEO said phone allows users to view rich media content directly on their mobile phones by pressing video function key and browsing through list of available content. Pricing was unavailable at our deadline. Emblaze technology enables video playback over standard devices using standard battery technology, memory and processors, GEO said.

**Codemasters** opened its sales, marketing and distribution operations in France and Germany to any 3rd party companies from throughout world that were looking to establish presence in those countries via distribution partnerships, U.K. game maker said. "We welcome all 3rd parties, irrespective of size, and from all areas of the business: Software and hardware," said Codemasters European Sales Dir. Neil Ralley. Codemasters said its French and German offices ran marketing campaigns for console and PC games, including Colin McRae Rally 2.0 and TOCA World Touring Cars.

**BMG Australia** and **Rio** signed deal to make 14 promotional tracks from music label's artists available for free downloads that would "time-out after a 30-day listening period," companies said last week. Tracks are available for worldwide downloading at [www.riohome.com](http://www.riohome.com), official Web site of Rio's digital audio players. Rio is division of Sonicblue, formerly S3. It earlier announced agreements with DreamWorks Records, Hollywood Records and TWT Records to promote tracks on Rio players.

"The best seat in the house is no longer in the house... It's in your car." So reads promotional tagline of 5.1-channel mobile DVD system introduced by Eclipse. DVD source unit is priced at \$1,600 list, while separate Dolby Digital/DTS decoder sells for \$800.