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DTV TRANSITION DEBATED BY FCC COMRS.: Expressing dissatisfaction with early pace of switchover to DTV, FCC Comr. Ness told Western Cable Show in L.A. last week that FCC should "play a more proactive role" in spurring transition. "We need to do more to make sure that happens in a timely fashion," she said, noting Commission was moving to resolve such difficult issues as digital broadcasting technical standards and DTV-cable compatibility. FCC commissioners at show also wrestled over agency's merger authority while trying to avoid tipping their hands on Commission's review of AOL's pending purchase of Time Warner (TW).

Despite concerns of at least some FCC commissioners about DTV transition, agency won't vote this week on proposals to speed switchover. Draft proposals, which apparently cover such issues as DTV must-carry, cable carriage rights of all-digital stations and dual analog-digital TV set mandates for consumer electronics manufacturers, tentatively had been for consideration at agency's Dec. 7 open meeting. But sources said issues were tabled until at least Jan. because of Western Show, upcoming holidays, other reasons.

Comr. Powell took issue with notion that DTV transition was going too slowly. Calling govt.'s 2006 deadline for DTV to reach 85% household penetration unrealistic, he said it didn't make sense to expect digital broadcasting to get there quicker than VCRs or CD-ROM players did. "This transition is never going to be on track and never was," he said. But he warned cable not to take hard line against DTV must-carry rules because of Congress's deep "anxiety" about broadcasters' meeting that deadline in 6 years.

As he had in past, Comr. Furchtgott-Roth criticized Commission for repeatedly using its statutory authority over spectrum license transfers to impose antitrust conditions and other broad types of restrictions on media and telecom deals.

Consumer Electronics

SONY 'STUDYING' AUDIO CD-R DECKS for introduction, possibly for early 2001, Nishida says. 'We missed the boat' on CD-R, he says. (P. 9)

LG ELECTRONICS-PHILIPS VENTURE will produce CRTs for TVs and PC monitors, but could extend into plasma as well. (P. 10)

REPLAYTV SHUTS DIRECT SALES retail arm, will focus on licensing PVR technology. Matsushita remains supporter. (P. 12)

COPYRIGHT DEBATE BEGINS on rights of consumers and content owners under Digital Millennium Copyright Act. (P. 13)

ZENITH SETS DIRECTV PUSH with 18" and 24" co-branded dish receivers that are expected to be manufactured by Acer. (P. 15)

SONY STILL LAGS ON PS2 SHIPMENTS in N. America with holiday shopping season in full swing, analysts say. But SCEA says it's 'on track.' (P. 15)

Questioned about AOL-TW merger, he said FCC should leave antitrust issues to FTC and concentrate on license transfer considerations despite size of deal. "This [antitrust] is not an FCC issue," he said, saying larger mergers should be treated no differently from smaller deals: "We should not condition license transfers on unrelated issues."

Ness defended FCC's right to look beyond narrow license transfer concerns, saying Commission needed to examine large mergers carefully and make sure they didn't violate agency's rules. She agreed FCC should shorten its sometimes lengthy merger reviews but disputed contention all reviews should be completed within 90 days.

Ness and Powell agreed any conditions on AOL-TW union and other corporate marriages "ought to be merger-specific," not sweeping industry restrictions. They also seemed to agree that FCC had right to consider antitrust concerns raised by big mergers. But they disagreed over how much deregulating and streamlining of rules Commission still needed to do. Arguing that companies often used FCC to delay deals involving rivals, Powell called for agency to be "more aggressive about shutting down some of these processes." Ness said that while FCC had "cumbersome" procedures that could stand some streamlining, it must retain important task of taking "public input."

NBC AND FOX MAY DROP VNS: Unless Voter News Service (VNS) can convince NBC that VNS has "taken the steps needed to ensure the accuracy and integrity" of its election data, network said last week that it wouldn't renew its membership in consortium that supplies election-night projections to Big 4 TV networks, CNN and AP. Fox echoed that sentiment, saying it wanted "adequate explanation" from VNS before it would continue to support consortium.

NBC said it took action as part of its review to determine why it — along with other networks — first predicted Gore winner in Fla. before all polls in state had closed, later declared Bush winner, and still later election night said race was too close to call. Information for those wrong projections was supplied by VNS. Network said it would pay "our fair share of additional funding" to VNS in taking those additional steps and urged VNS subscribers to "retain outside experts" to review procedures. NBC also announced it was taking following steps: (1) It won't project winner in given state until all polls in that state have closed, step ABC and Fox announced earlier (TVD Nov 27 p4). (2) It will "study closely" impact of absentee ballots, which are ignored in VNS projections, on "the ability to make accurate projections." (3) It will continue to support — "as it has since 1985" — national time for closing polls in all 50 states.

Fox said it's "actively exploring other polling options for future elections. Other networks had no comment on statements by Fox and NBC as such, with ABC also calling for study of VNS procedures by outside experts. CBS said "we are in the thick of our own investigation which we hope to have completed by year-end."

VNS is conducting its own study of what happened and hopes "to have the answers that our members are seeking shortly," Lee Shapiro of VNS told us, although no target date has been set for completion. Consortium, headed by ex-CNN executive William Headline, was formed by networks, CNN and AP in 1990. Until then, each news service had done its own polling and it was reported that VNS joint venture would save each network up to \$10 million in each election cycle. VNS refused to disclose its budget or to confirm or deny published report that members had reduced their contributions since 1996 Presidential election. However, we're told that members put about \$3 million each election cycle into \$20-million VNS budget and that service still could survive "if only one or 2 members pull out."

Earlier last week, American Antitrust Institute (AAI) filed complaint at Justice Dept. and FTC against VNS, charging "all of the 'competing' major networks are actually colluding with one another" through consortium. Govt. should file suit to break up VNS as antitrust violation if members don't pull out of joint vote counts voluntarily, AAI said.

In unrelated move, Washington law firm Smithwick & Belendiuk (S&B) asked FCC to conduct investigation of networks' election-night coverage to make sure "this kind of fiasco should never be repeated." Firm said that Sec. 403 of Communications Act, which authorizes Commission "to conduct an investigation of the conduct of the [TV] networks," provides agency with ample authority. Quoting recent speech by FCC Chmn. Kennard in which he said broadcasters in recent years had "increasingly elevated financial interests above the public interest," S&B said that for a network to be first to call results in Fla. "means ratings, and the calculus of ratings easily translates into revenues. Thus, it appears the networks subverted the public interest for a few extra dollars."

If Commission investigation finds networks didn't act in public interest, S&B said, then agency should issue policy statement on their election-night conduct in future and "determine when it is appropriate for broadcasters to announce predicted results of contested elections." FCC should take "appropriate action [for] intentionally or recklessly" airing of false information, "up to and including" license revocation, law firm said.

FCC OKAYS SHARING: In blow to incumbent satellite TV companies, FCC gave Skybridge and Northpoint opportunity to share 12.2-12.7 GHz band as long as they didn't interfere significantly with incumbents. For example, decision could allow Northpoint to begin terrestrial wireless cable-like service using satellite frequencies. Commission said overriding factor was potential for innovative Multi-Channel Video Distribution & Data Services (MVDDS) such as Northpoint to provide variety of new services to public, including high-speed Internet and low-cost cable TV. Agency plans to establish technical and service guidelines for MVDDS to operate in band.

Decision opens door for Northpoint to get license, industry source said, "but the fight is far from over." FCC also made spectrum available for fixed satellite service (FSS) providers in Ku-band. That decision is expected to benefit Skybridge, which filed petition for rulemaking. Comr. Tristani said decision wasn't easy, citing "new opportunities to deploy exciting services," but noting that "several important determinations [and] additional steps are needed before the promise of these services becomes reality."

Commission also began rulemaking seeking comment on licensing MVDDS services. Opposition in comment period is expected to be strongest from DBS operators and Satellite Bestg. & Communications Assn. (SBCA). Commission said it sought comments on: (1) Service areas and frequency assignments. (2) Permissible operations, eligibility requirements and regulatory status of MVDDS, and other service technical and licensing rules. (3) Disposition of pending application by Northpoint, Pegasus Broadband, Satellite Receivers. (4) Establishment of rules in event auction is conducted.

DirecTV spokesman said "the determination by the FCC is not in the best interest" of 15 million DBS subscribers. He repeated claim that DBS tests "prove there would be serious degradation of their system from the Northpoint transmitter" and company would "continue its efforts to convince FCC that sharing of DBS spectrum with terrestrial services isn't possible." Skybridge Vp-Strategic Affairs Mark MacGann called decision "excellent result" of hard work that included negotiations with PanAmSat and DirecTV over last 3 years.

As letter to FCC from Rep. Kasich (R-O.) suggested, there's growing support to put spectrum Northpoint covets up for auction. Northpoint opposes auction, saying it believes as innovator of technology it has special right to spectrum now that Commission has ruled terrestrial systems and DBS providers can co-exist. "There is near unanimity at the FCC that there has to be an auction," SkyBridge's MacGann said. "The FCC is legally obliged to have an auction for this spectrum."

Any FCC move to require DTV tuners in standard-definition TV sets would be "unwarranted," Consumer Federation of America said in letter to FCC. Requiring tuners in all sets 13" or larger would mean set price would "increase dramatically, by hundreds of dollars per set," said Mark Cooper, group's dir.-research. "The increase is completely unjustified and an unnecessary burden on all consumers." He said low-income consumers might even be "cut off from the most important sources of news and information" because of cost. Requirement also would make cheaper alternatives such as digital converters less likely, Cooper said. He said "broadcasters have reneged on their part of the bargain" to provide more digital programming: "This proposal represents a capitulation by the FCC to the broadcasters."

ECHOSTAR 'SATISFIED': EchoStar said it was "satisfied" with stay by U.S. Appeals Court, Atlanta, that overturned ruling last Sept. by U.S. Dist. Court, Miami, that forced DBS network to shut off many subscribers receiving distant channel networks Nov. 22. Major TV networks had demanded EchoStar stop providing local subscribers with programming unless it originated from network affiliate closest to consumer's home. NAB spokesman said organization was "disappointed" by ruling, but "expedited briefing could conceivably wrap up this case in very short order."

EchoStar CEO Charles Ergen said company knew Miami decision "wasn't well-reasoned and had not given fair consideration" to consumer rights. Appeals Court is expected to "expedite" proceedings, company said. Both sides are expected to file briefs by Jan., with court issuing decision shortly thereafter.

If lower court ruling had been upheld, many sports and popular programs that have contributed to growth of DBS service would have been restricted, including sports programming provided by superstations. New ruling means DISH network can continue broadcasting local stations until issues of possible "free speech limitations" raised in brief filed by Harvard U. Law Prof. Laurence Tribe are decided. Tribe challenged constitutionality of portions of Satellite Home Improvement Viewer Act (SHIVA).

"Scant progress" has been made in actually deploying cable DTV-compatible set-top boxes, CEA said in its status report last week to FCC on TV-cable compatibility: "While CEA has completed its part of the standardization process, little work has been done to provide a final build-to standard for the POD [point of deployment] host device or to ensure that PSIP [program & system information protocol] information can pass through the cable chain." CEA said it believed "primary reason" for slowdown was "a breakdown in the collaborative process that once linked the cable and consumer electronics industries in the pursuit of compatibility solutions." It said cable had "made it clear" it wouldn't participate meaningfully in Cable-Consumer Electronics Compatibility Advisory Group or Joint Engineering Committee. It also said cable hadn't made "significant effort" to implement NCTA-CEA agreements, such as in area of electronic program guides. Instead, report by CEA Vp Michael Petricone said, cable is moving ahead with upgrades using proprietary technology. He said CEA was "disappointed yet undaunted by the lack of progress," but would welcome larger FCC role, including encouraging more interindustry cooperation and setting timelines for cable to benchmark its progress on standard process. FCC also could begin process of incorporating standards into Commission rules, he said. NCTA's own low-key report to FCC included no other developments on its agreements with CEA on compatibility, but said CableLabs' OpenCable project released specification for bidirectional DTV functionality to OpenCable participants. Specification includes IEEE 1394 interface between DTV receiver and cable system, as well as ability to access interactive DTV services through connection. NCTA said specification was expected to be made public by end of year, allowing manufacturers to build hardware.

Western Cable Show got off to less than auspicious start Nov. 29, thanks to 2 prominent no-shows. First, FCC Chmn. Kennard, scheduled to make special remarks at convention opening general session, cancelled at last min. because of "personal problems," moderator Ken Auletta said. Then, Oracle Chmn. Larry Ellison, scheduled for one-on-one interview at following session, cancelled because his private plane couldn't land in fog at L.A. Airport. Neither session was rescheduled.

OPEN ACCESS PUSHED: Rep. Goodlatte (R-Va.) said he would continue to press for multiple ISP access to cable systems in next Congress. "Most cable companies today are now talking about commitments to have open access," he said in interview, but most announced plans have been "very ill-defined and haven't been much implemented." Comments came as cable and ISP interests maneuvered at FCC on open access issue.

Despite supporting open access in general, Goodlatte has been critical of FTC efforts to impose access requirements on AOL in review of its merger with Time Warner. Doing so "would reduce the leverage of the companies that have said the most about open access — AOL and Time Warner," he said. "If they're suddenly required to do that, what leverage do they have to require AT&T and other cable companies to have an open access policy?" Goodlatte said he preferred open access rules based on self-regulation or congressional action "rather than a massive FCC regulatory scheme." Referring to FCC's inquiry into subject, he said "I welcome their agreement that open access is necessary, but I'm not sure they're the best ones to do it." Goodlatte said open access rules should be based on antitrust analysis, which would move them through the Judiciary Committee, where he sits.

NCTA began extensive new attack against govt.-mandated carriage of multiple ISPs by cable in comments on FCC open access inquiry. NCTA officials presented fresh case against what they called "forced access," arguing govt. mandates would hamper, rather than spur, competition for high-speed data subscribers. Assn. said cable modem service should be classified as simple cable service "immune from regulation as a common carrier or utility" or, at most, as "an information service that has not historically been subject to much regulation." Group said cable-delivered Internet access wasn't telecom service "because there is no offering of telecommunications for a fee directly to the public."

In new report to FCC, NCTA estimated that cable's share of residential broadband market would drop to 74% by end of this year, from 94% 2 years ago, as DSL installations kept gaining on cable modems. Study projected that DSL market share, 6% at end of 1998, would rise to 31% at close of 2001 because of its faster growth rate on smaller base. It also projected that DSL would account for even higher portion of new high-speed customers — about 34% — by end of next year, up from 30% at close of this year and 23% at end of 1999.

Cities claimed regulatory authority over cable Internet services, including ability to collect franchise in fees, in their comments. Small ISPs also weighed in, telling agency that they, not large cable and phone companies, were responsible for Internet's growth and that open access was essential for independent providers to continue playing role.

"At stake are millions of dollars in local franchise fees and the right of franchising authorities to adopt customer service standards to protect consumers using cable modem services," Marin County (Cal.) Telecom Agency (MCTA) said. San Francisco court ruling ignores "common interpretation and practice of cable franchising authorities and cable operators throughout the country," it said, with Internet services included in cable services "almost universally in franchise renewal and transfer agreements."

Distributors such as EchoStar shouldn't be subject to same open access rules as cable, and cable lines also should be opened to "horizontal" competitors such as EchoStar, company

said. Cable should be forced to open its networks to competing ISPs because cable has market power and control over bottleneck facility, EchoStar said. Filing acknowledged that "DBS companies are technologically disadvantaged in offering truly interactive products" since they didn't have return link. Access to cable network would allow DBS to compete with cable on "a more even footing," EchoStar said.

AT&T and Comcast were joined by the Competition Policy Institute and Information Technology Industry Council in opposing access rules, citing growing competition from other broadband providers and existing access agreements with ISPs. Consumer groups and OpenNet Coalition took other side, questioning commitments cable has made. In filing that chided FCC for its inaction and "inadequate" step in ordering inquiry rather than rulemaking, consumer groups led by Consumers Union asked FCC to ignore recent federal court decision in Broward County, Fla., that struck down local access ordinance. Groups said ruling was "fundamentally flawed and does not bind the Commissions's First Amendment analysis." Open access plans that have been announced have "not occurred because the marketplace is forcing that outcome," groups said, but because various regulatory agencies "have been involved in unnecessary and time-consuming proceedings while the FCC remained on the sidelines."

Comcast said rulemaking "would enmesh the Commission in extraordinarily complex matters that would require years of rulemaking and a misallocation of govt. resources that should be deployed in true competition-enhancing efforts." AT&T said enhanced regulation of broadband services wasn't necessary because of competitive alternatives to cable broadband, including DSL, wireless services and satellite services.

Cable companies dismissed lightly USTA's petition to require them to pay into telephone universal service fund on revenue from cable Internet services. FCC "ought not to concern itself with the petition," Comcast said, devoting less than page to topic in its 45-page filing. It said USTA's petition was based on assessment that cable Internet was telecom service, which is far from settled: "That, of course, is the open question." Even if cable Internet is telecom, Comcast said, there would be "no universal service issue that requires Commission clarification." It said FCC's policy had been not to apply universal service requirements to ISPs that "self-provide" underlying telecom service.

Several FCC staffers expressed concern about recent decision by U.S. Dist. Court, Miami, to overturn Broward County's cable open access statute on First Amendment grounds. Speaking on Western Cable Show panels, they said ruling, if upheld and applied nationwide, could have sweeping effect on Commission's core cable regulations, including horizontal ownership cap and must-carry rules, because they also could be considered unconstitutional infringements on cable's free-speech rights. "If this reasoning holds up, I think the impact will be much broader," Deputy Cable Bureau Chief Sherille Ismail said. "There are a lot of issues that spin out of this." Legal advisers to several FCC commissioners said they were surprised and struck by court's unusually strict analysis of cable's First Amendment protections, but generally seemed confident ruling would be overturned on appeal if it went that far. "I could see a lot of holes in that analysis and I could clearly see the 11th Circuit reversing it," said Rebecca Benyon, aide to Comr. Furchtgott-Roth. "The court is just struggling to fit Internet transmission into some sort of model."

VIDEO STREAMING DOUBTED: Despite growing popularity of streaming audio among Internet users, Web video streaming market will take at least 3-5 years to develop because TV programmers and cable operators lack business model, cable officials, technology executives and industry analysts said. Speaking at Western Cable Show in L.A. last week, panelists said neither consumers nor advertisers had shown much willingness to pay for video streaming. "The fundamental issue is the economic one," Court TV Chmn. Henry Schleiff said: "Who is going to pay for this? Where is the economic model?"

Speakers cited questions of copyright control, bandwidth restrictions, poor video quality, lack of technical standards, signal piracy. They also said technical limitations of current digital cable set-top boxes and fears of cannibalizing TV channels would hamper development of video streaming from Web sites. "We have problems with someone taking the Court TV network intact and moving it to the Internet," Time Warner Cable Pres. Glenn Britt said. "We don't want to be the idiots paying for something that's free."

Some panelists predicted cable operators and programmers would keep using limited video streaming as "branding tool" to drive Web users to their TV channels, retain cable subscribers, build customer databases online. HBO U.S. Network Group Pres. John Billock said he sees cable taking advantage of streaming video to collect user e-mail addresses. "It's a great brand builder," agreed analyst Jessica Cohen of Merrill Lynch.

Several speakers said video streaming could develop faster if cable-modem rivals or technology companies decided to spur market. Billock said DSL providers could "upset the applecart" by pushing strongly to deliver video streaming to PCs in teen bedrooms and college dorm rooms, just as Napster did with music streaming. Rapid growth of broadband market also speed video streaming market, some speakers said. Excite@Home Chmn. George Bell projected broadband market could reach 40 million from current 3-6 million subscribers in 4 years, including "probably 5 million to 7 million simultaneous prime-time users," or more than number of viewers for many cable networks.

Speakers were almost uniformly upbeat about prospects for video-on-demand (VoD), which several large MSOs are starting to offer. Unlike video streaming, they see strong consumer willingness to pay premium charges for VoD movies, games and other services because of added convenience, control and personalization that they offer. Speakers also said cable operators could use their closed proprietary systems, rather than Internet's open technical standards, to deliver VoD services to subscribers.

Cohen estimated cable operators could capture 60% of video rental business in next 10 years by rolling out VoD. But Billock said cable industry could blow opportunity if it dragged its heels.

AOL announced agreements with leading content providers, including National Geographic Channel and QVC, to create wide range of new interactive content for AOLTV service. AOL and QVC are working to develop interactive shopping for AOLTV service that will enable users to obtain detailed product descriptions and make purchases as they view items. With National Geographic Channel, AOL will pursue co-development of enhanced interactive content to complement former's documentary and news programming, AOL said. Other partners include AsSeenIn.com, BBC America, Moletown.com, NBA.

MALONE ATTACKS REVIEWS: Liberty Media Chmn. John Malone last week blasted federal, state and foreign govts. for multiple antitrust reviews of AOL-Time Warner deal and other major media mergers. At Western Cable Show in L.A., he said separate reviews by Dept. of Justice, FTC, FCC, state govts. and European Union could hamper media deals by dragging them out and placing too many conditions on them.

"In theory, it's fine for the government to play a role," he said, but "there are just too many cooks in the kitchen." Malone said govt. agencies also were "usually backward-looking" in their reviews, worried more about past market dynamics than future ones. He urged regulators to "be careful their review doesn't become too complex and convoluted... that commercial transactions become impossible."

Malone, who reportedly is preparing to team up with News Corp. Chmn. Rupert Murdoch to take over DirecTV, said he believed cable and DBS "can co-exist" in developed markets such as U.S. and U.K. While satellite "probably has the advantage in serving broadcast television" because of its "ubiquity," he argued that cable has edge in delivering such new services as interactive TV, high-speed data, IP telephony. "Satellite will never be a voice telephony path or a very useful high-speed data path," he said.

Malone, USA Networks Chmn.-CEO Barry Diller and Insight Communications Pres. Michael Willner agreed that interactive TV services and applications would play to cable's advantage as long as MSOs rolled them out quickly enough. "Cable is a better mousetrap if we can get to the customer first, early enough and raise enough capital," Malone said. "If not, we'll see the marketplace heavily divided among the 2 other powers."

Willner said Insight, like other major MSOs, was racing to deploy digital cable and introduce interactive TV services in its markets. He predicted that "95% of our customers will have interactivity available" by end of year. Diller, saying "the best defense is a good offense," said cable operators should focus on "getting it out there." He predicted interactive TV would prove to be quite popular as long as industry gave it enough time.

AT&T Broadband Pres. Daniel Somers defended his parent company's sagging performance in stock market. He said AT&T was "living up to 95% of what we promised" when company bought TCI and then MediaOne and was adding subscribers for its new digital video, high-speed data and cable telephony services at rate of 1% per month.

FCC released notice of proposed rulemaking (NPRM) on steps agency may take to remove regulatory barriers to development of secondary wireless markets. NPRM asks extent to which band manager licensing is needed to increase spectrum leasing, solicits feedback on impact of leasing, including whether lessees would be "willing to build out facilities if they would be leasing the rights to use spectrum for only a short period of time." Agency asks whether it matters that leasing involves only excess capacity or leasing of "rights to the use of the licensee's raw spectrum." Feedback also is sought on whether agency should take steps to bolster secondary markets for satellite capacity. Citing public interest obligations, proposal doesn't examine whether FCC should revise policies on mass media services for secondary markets, but asks whether issues relating to mass media should be explored in future.

VALENTI TOPS MEDIA EXECS: MPAA Pres. Jack Valenti again was highest paid among mass media executives in 1999, according to association tax filings. But Valenti trailed heads of Cellular Telecom Industry Assn. and U.S. Telephone Assn. in million-dollar club for association executives. Valenti took home combined \$1,119,250 million from salary and payments from related company that owns MPAA hq., up 5% from \$1.07 million year ago. Information on NAB and NCTA wasn't available at our deadline, but previous salaries appeared to indicate they didn't reach \$1 million level.

MPAA had banner year as revenue jumped 16.3% to \$42.3 million from \$36.4 million year earlier, converting \$2.3 million deficit into \$1.8 million excess despite expenses' rising to \$40.6 million from \$38.6 million. Most of revenue (\$36 million) came from member dues. Valenti's earnings, which are believed to be even higher with payments from for-profit international affiliate, led 24 MPAA officers making more than \$100,000. Those in Washington office were Senior Vps Fritz Attaway (\$173,729 plus \$23,164 from building corporation) and Vans Stevenson (\$187,461) and Vps Cynthia Merifield (\$177,180), Rich Taylor (\$134,018) and Tod Cohen (\$131,911), who now is eBay's lobbyist.

Most NPR officers who apparently took pay cuts in 1997 saw increases in salaries in 1998, according to latest filings. Pres.-CEO Kevin Klose, who took over from Delano Lewis in midyear, received \$161,844 for less than full year. (Numbers in parentheses represent 1997 figures unless otherwise noted): Vp-Development Barbara Hall \$140,947 (\$125,916), Vp Kathleen Jackson \$135,875 (121,217), Vp Neal Jackson \$155,568 (\$144,846), Vp-News Jeffrey Dvorkin, \$159,919 (\$142,524). Leading NPR's salary scale was *Morning Edition's* senior host Robert Edwards at \$206,366 (\$172,600), with *All Things Considered's* Robert Siegal \$141,234 (\$125,560) and Lina Wertheimer \$136,761 (\$119,282). Carl Kassel's pay dropped to \$130,526 from \$136,630. Daniel Schorr received \$133,134 for freelance reporting, up from \$117,609 in 1997.

NPR revenue increased 15.5% to \$82.1 million in 1998 from \$71.2 million, with public support and govt. grants rising to \$29.2 million (\$22.1 million) and reversing decline in 1997 (\$24.2 million). Organization also saw expenses increase to \$78 million from \$70.5 million, leaving surplus of \$4.1 million against \$753,461 surplus previous year. As result, net assets grew to \$40.3 million from \$36.7 million.

Md. Public Bcstg. Foundation, fund-raising arm of Md. Public Bcstg., reported surplus of \$686,381 on revenue of \$10.2 million, vs. deficit of \$1.6 million on revenue of \$9.7 million in 1997, raising net assets to \$13.4 million (\$12.5 million). Program services made up \$8.7 million (\$10.7 million) of total expenses of \$9.5 million (\$11.4 million).

Among other associations, Alliance of Motion Pictures & TV Producers reported \$4.1 million in revenue (\$3 million from member dues) and \$4 million in expenses. Pres. J.N. Counter took home \$635,200 (up 5.9% from \$600,000) and Vp C.A. Lombardini \$299,196... ALTV reported \$399,000 surplus on revenue up \$100,000 to \$2 million (including \$243,342 from convention) against expenses of \$1.6 million (same as previous year), raising reserves to \$3.1 million. Pres. James Hedlund received \$338,000, up 4.8% from \$322,500.

Center for Media Education reported \$2.4 million revenue, but Exec. Dir. Jeffrey Chester told us group remained on \$1.2 million

annual budget (same as reported expenses) and jump was result of grants accounted for year in advance. Salaries for husband-and-wife team of Chester and Pres. Kathryn Montgomery weren't reported on Form 990, but Chester said each received \$80,000, 13.8% raise from Montgomery's previous \$70,271.

"Storm clouds are rising," with indications that Hollywood and TV networks will have "difficult labor negotiations" in 2001 with Screen Actors Guild (SAG) and Writers Guild of America (WGA), reflecting "ongoing concerns about slowing growth" of entertainment companies next year, according to report by analyst Christopher Dixon of UBS Warburg. Perhaps most important issue facing entertainment media is threat of strikes by SAG and WGA, he said, predicting "a 75% chance that the unions and producers" would strike. Strike(s) could have "positive impact" for cable networks, which use less product from guilds, Dixon said: "In fact, we would expect the gap between networks and cable CPMs to close." If strike continues for more than month, "industry will face serious disruptions," he said, and "the combination of uncertainty and recent price performance has created a difficult environment for the major media stocks... However, given current [stock] valuation levels, we believe the market has discounted much of the uncertainty and that strong-willed patient investors will be well rewarded." UBS Warburg hosts its annual media conference this week in N.Y., during which some 4 dozen media companies discuss for analysts their outlooks for 2001 and answer questions. Warburg last week issued "strong buy" recommendations for stock of Clear Channel Communications (CCC) and Emmis Bcstg.: CCC remains "compellingly undervalued... considering our projections for 19% free cash flow through 2003."

New high-tech law firm founded by African-American partners seeks to join flood of legal firms attempting to serve growing number of telecom, broadcast, entertainment, Internet and satellite companies that have gone public in last year. TEC Law Group, with offices in Washington and Atlanta, is providing services that link start-ups with venture capitalists, taking equity stakes instead of fees and helping develop business plans. Partners at TEC Law Group Washington office said widespread lack of racial diversity and cracking traditional professional networks based on personal relationships had become greatest obstacles to company's growth. Other top firms have African-American partners and associates who work on telecom and high-tech issues. Among partners are Black Entertainment & Telecom Assn. (BETA) pres. and ex-FCC International Bureau staffer Talib Karim; Hill staffer and aviation and telecom lawyer Warner Sessions; Rosalind Parker, former staffer for Sen. McCain (R-Ariz); technology specialist Fred Woods; communications policy and public interest lawyer Kofi Asiedu Ofori.

ReplayTV announced restructuring that included significant layoffs and refocusing on licensing its digital video recorder (DVR) technology to other manufacturers rather than attempting to sell DVRs itself. Company said moves were aimed at "broader and more rapid proliferation" of DVRs, with computer, phone and set-top manufacturers expected to incorporate DVR technology into their offerings. ReplayTV also said its founder, Anthony Wood, had been named chmn.-CEO, replacing Kim LeMasters, who said company now would be in business-to-business operation, "an area outside my background and interest."

Western Cable Show broke its attendance record again this year one day before convention ended, drawing 32,817 through Thurs. Total exceeded 31,208 registrants at 1999 cable convention, previous record. Show, held in L.A. last 2 years, is scheduled to return to Anaheim next year.

CABLE DISCOUNTING NEEDED: Cable executives and industry observers touted bundling as cable's "killer application" against competitors such as DBS but warned at Western Cable Show in L.A. last week that there was no escaping discounting that was "paralyzing" some of them. Cable operators averse to discounting, key component in drive for market share, could make up for "money they leave on the table" by driving incremental penetration and customer retention, speakers said.

Leaving money on table is "big and difficult question" for cable operators offering bundled services, said researcher Howard Horowitz, but discounts are important. He said his study showed 68% of consumers said they were likely to buy bundled services with 10% discount. At 10-20% discount, 57-65% said they would consider adding a service to their current video or Internet services. He said bundled services were key to market share.

Saying discounting issue "paralyzes certain financial folks" but is simple, Comcast Mktg. Vp Andrew Addis said if cable operators could drive up incremental penetration by bundling with multiproduct discount and "retain our customers longer, at the end of the day we are going to make more money." Addis said Comcast's research showed that for digital customers convenience and cost drove interest in bundled offers, but convenience was more important than potential for discount.

Calling bundling cable's best competitive weapon, Cox Vp-Mktg. Joseph Rooney said strategy was "to keep it simple." He said number of 3-product customers had been doubling from quarter to quarter, driven partly by company's "umbrella" campaigns.

NCTA Pres. Robert Sachs called on cable operators to provide subscribers with "a choice of ISPs" and "access to all Internet content" in his boldest public statement yet on cable open access issue. While NCTA continues to strongly oppose govt.-mandated open access, he urged MSOs to open their high-speed lines to multiple ISPs to ward off threat of federal regulation. "To be clear, it is in our industry's self-interest to provide cable consumers with a choice of ISPs," he said in speech at Western Show, pointing to technical trials being conducted by AT&T Broadband and Time Warner Cable and one announced by Comcast, "for it's not as if the skies are entirely free of regulatory clouds." Despite that commitment to multiple ISP carriage and FTC's expected imposition of open access conditions on AOL-Time Warner merger, Sachs said cable industry "will vigorously oppose any efforts to impose government mandated prices, terms and conditions on this still new and developing competitive business."

Citing Cox's decision to stop paying franchise fees on cable modem service in Cal., USTA asked FCC to expedite finding that MSOs providing Internet service must contribute to universal service fund. It called on agency to move up reply deadline in proceeding, which is part of advanced services docket (00-185), to Dec. 15 from current Jan. 10, as well as investigate Cox's behavior and possibly take enforcement action against operator. First-round comments were due Dec. 1 (see separate story). Cox is using 9th U.S. Appeals Court, San Francisco, decision that cable Internet service is telecom service to avoid paying franchise fees, but it's not making universal service payments as do other telecom carriers, USTA said: "The Commission should not countenance any such 'Heads I Win — Tails You Lose' gaming of federal and local regulation by cable operators." If FCC doesn't act, Assn. said, it "will send a regulatory policy preference in favor of cable high-speed data services."

Okla. State Sen. Grover Campbell (R) has proposed legislation that would prohibit any state election official from giving voter totals to media until 9:30 p.m. — 2-1/2 hours after polls close in that state and 30 min. after polls close in Cal. Citing current dispute over Presidential vote projections earlier and ballot recounts in Fla. (TVD Nov 27 p4), Campbell's bill also would prohibit exit pollers from interviewing voters within 300 ft. of polling place. Legislation was immediately attacked as unconstitutional by Lucy Daglish of Reporters Committee for Freedom of the Press. It's "a little preposterous and presumptuous," she said, saying only real solution to problem would be uniform voting hours in all 50 states. Daglish said she knew of no other states where such legislation had been proposed. Meanwhile, Freedom Forum Online article urged TV networks not to testify at upcoming hearing on voter projections planned by House Telecom Subcommittee Chmn. Tauzin. In testifying, networks "will legitimize an illegitimate inquiry," said author Douglas Lee, legal counsel to First Amendment Center: "This isn't about public relations. This is about the First Amendment and, yes, the media's absolute right to look like idiots." Freedom Forum said it had found 7 instances in past when media had projected wrong winner in Presidential elections. First was by inventor-radio pioneer Lee De Forest, who in 1916 reported on experimental station that Republican Charles Hughes had defeated incumbent President Woodrow Wilson.

Cable operators asked U.S. Supreme Court to overturn ruling that FCC lacked authority to regulate utility pole attachment rates for cable-delivered Internet service, as expected. Eleventh U.S. Appeals Court, Atlanta, had stayed its April ruling in anticipation of NCTA's petition for writ of certiorari. At issue is whether cable systems that provide Internet service over cable lines no longer get regulatory protection for rates utilities can charge for essential facilities such as pole attachments. Atlanta court overruled FCC's finding that it could provide such regulation on basis that cable Internet service was neither cable nor telecom service, only types of service for which Commission is allowed to regulate utilities. Changing that ruling "is critical to the development and availability of high-speed Internet services," NCTA said. It said Telecom Act intended that cable operators provide advanced services, not that they be penalized for doing so.

"Significant risks and uncertainties" remain in Juno's cable access agreements with AT&T Broadband and Time Warner, ISP warned investors in SEC filing. For example, it said there was "significant risk" that AT&T wouldn't be able to renegotiate its exclusive arrangement with Excite@Home, leaving Juno unable to offer service at more than 128 kbps on AT&T's system until July 2002. Time Warner failure to renegotiate with RoadRunner would keep Juno off those systems until Jan. 2002. Juno said it wasn't clear whether it could offer its service over cable without "levels of operating expense" that would make such offerings "unfeasible or unattractive to us." It said there also was risk that Time Warner or AT&T "could exercise rights to terminate their relationship with Juno."

OpenTV and ICTV formed broadband partnership to provide comprehensive, integrated interactive TV solution for domestic and international cable operators. Cable operators using OpenTV client-server platform can offer ICTV's's headend-based delivery of broadband Internet, attachments for e-mail, Web linking, rich links for interactive applications to customers. OpenTV said it currently was deployed in 11 million set-top boxes worldwide.

Personals

Jeffrey Immelt promoted to GE pres. & chmn.-elect, to succeed Jack Welch when he retires next year... **Paul Dinovitz**, ex-KCRA-TV and KQCA, Sacramento, named pres.-gen. mgr., KRON-TV and Bay-TV, San Francisco; **Michael Kennedy** promoted to regional sales mgr., KRON-TV... **Bill Payer**, ex-KPIX-TV San Francisco, named news dir., CONUS News Services... **Joe Muller**, ex-KOKH-TV Oklahoma City, appointed vp-affiliate network distribution and relations, Hispanic TV Network... **Keith Schneck** resigns as CFO, AM Communications... **Mark Fratrack**, NAB vp-economist, moves to BIA Financial Network as vp, effective Jan. 1... **William Barr** promoted to vp-co-op/NTR services, Radio Ad Bureau.

Changes at Classic Communications: **Steven Seach** resigns as pres.-CFO; **Dale Bennett**, COO, adds pres. to title; **John Geisler**, ex-Brera, named interim CFO and dir.; **Jeffrey Garvey** resigns from board; **Dan Pike**, ex-Prime Cable, appointed chief technology officer... Promotions at MTV Networks: **Leslie Leventman** to exec. vp-creative services, special events and travel management; **David Sussman** to exec. vp & gen. counsel, law and business affairs... **Elizabeth Markowski**, ex-Baker Botts, named senior vp, Liberty Media... **Susan Lewis** promoted to div. vp, Comcast Cable account team... Changes at USA Network: **Jackie Lyons**, ex-ABC, appointed senior vp-original series programming; **Chris Sloan** named senior vp-reality programming and specials... **Debra Smul** promoted to senior vp-corporate development, Oxygen Media... **Amanda Gibbs** advanced to dir.-distribution & field mktg., western region, Lifetime TV... **Jerry Lindaeur** and **William Glasgow**, ex-Prime Cable, found @Security Broad-band Corp.

Changes at Discovery Networks: **Justin Albert**, ex-Transatlantic Café, named vp-production & exec. producer, digital networks and advanced TV; **Christine Alvarez** promoted to dir., licensed promotions; **Annie Howell** advanced to vp-communications... Newly elected to National Assn. of Minorities in Communications board: **Patricia Andrews-Keenan**, pres.; **Kathryn Bryant**, vp; **Sheila Salido**, secy.; **Earle Jones**, treas.; **Joe Lawson**, immediate past pres.

Changes at Tech TV: **John Kopchik**, ex-AT&T, named vp-CFO; **Alyssa Donelan**, ex-Turner Bcstg., dir.-corporate communications... Changes at Hubbard Media Group: **Jan Schuth**, U.S. Satellite Bcstg., named exec. vp-mktg.; **Bernard Weiss**, USSB, appointed exec. vp-finance and administration... Changes at RealNetworks: **Susan Coskey**, ex-Garvey, Schubert & Barer, named vp-human resources; **Peter Jackson**, ex-Qualcomm, becomes chief consultant for wireless & mobile technology; **Richard Cohen**, senior vp, adds consumer business responsibility.

Censoring media violence isn't solution to violence in society and would pose fundamental threat to free speech, consortium of publishing groups said in joint statement. "The root causes of violence in society lie beyond violent portrayals by the media," group said. "It is by exposing, confronting and addressing controversial speech, not by hiding it beneath a veil of censorship, that the merits of speech can be tested." Group includes American Booksellers Foundation, American Society of Journalists & Authors, Assn. of American Publishers, Assn. of American University Presses, Authors Guild, Freedom to Read Foundation, PEN American Center.



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PanAmSat is giving away free antennas and upgrade kits to cable operators and content providers in N. America for use with Net36 IP Broadcast Network, company said. Antenna will allow operators to receive programming and Internet content from Galaxy 5, Galaxy 9 and Galaxy 10R satellites. Senior Vp Ann Mountain said antennas would enable cable operators to receive 100 top cable programmers on 5 different satellites using less equipment, requiring less space, at no cost for hardware. Net 36 also provides for IP encoded digital media for streaming video and audio entertainment and other applications over Internet.

Consumer Electronics

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STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Nov. 17 and year to date:

	NOV. 5 - NOV. 17	1999 WEEK	% CHANGE	NOV. 4- NOV. 10	46 WEEKS 2000	46 WEEKS 1999	% CHANGE
TOTAL COLOR TV	867,115*	864,536	+ 0.3	635,997*	26,439,317	25,345,712	+ 4.3
DIRECT-VIEW**	835,980*	834,653	+ 0.2	616,811	25,391,999	24,318,660	+ 4.4
TV ONLY#....	698,640	713,268	- 2.1	525,909	20,993,717	20,402,284	+ 2.9
TV/VCR COMBO.	137,340*	121,385	+13.1	90,902	4,398,282*	3,916,376	+ 12.3
PROJECTION...	31,135*	29,883	+ 4.2	19,186	1,047,318*	1,027,052	+ 2.0
TOTAL VCR**...	1,019,198*	912,017	+11.8	527,243	25,318,650*	23,742,538	+ 6.6
HOME DECKS...	881,858*	790,632	+11.5	436,341	20,920,368*	19,826,162	+ 5.5
CAMCORDERS.....	141,528	104,261	+35.7	88,427	5,144,609*	4,255,169	+ 20.9
DVD PLAYERS....	219,217*	112,063	+95.6	171,019*	6,934,256*	3,253,953	+113.1

Direct-view TV 5-week moving average#: 2000-670,523; 1999-676,306 (down 0.9%).

Projection TV 5-week moving average: 2000-29,639; 1999-35,231 (down 15.9%).

VCR deck 5-week moving average: 2000-775,158*; 1999-716,864 (up 8.1%).

TV/VCR 5-week moving average: 2000-145,056*; 1999-139,114 (up 4.3%).

Camcorder 5-week moving average: 2000-174,088*; 1999-144,915 (up 20.1%).

DVD player 5-week moving average: 2000-306,028*; 1999-161,853 (up 89.1%).

* Record for period. ** 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.

'WE MISSED THE BOAT' ON AUDIO CD RECORDERS — SONY'S NISHIDA: After years of opposition, Sony is "studying" introduction of audio CD recorders, possibly as soon as early next year, Sony Electronics Pres. Fujio Nishida told reporters last week.

"We missed the boat" on audio CD recorders, Nishida said in apparent agreement with reporter's assessment that Sony would play catch-up role to rivals such as Philips, which introduced its first component CD audio recorder as far back as 1997. At same time, it's conceivable Sony would argue that it ranked high among market leaders of CD-R and CD-RW burners for consumer PC environment. Meanwhile, Nishida stood by viability of Minidisc (MD) — unquestionably Sony's main reason to date for eschewing audio CD recorders — saying "connectivity" with PC was key in recent MD sales surge, and saying that 3 times more MD players than MP3 devices had been sold. Specifically, Nishida said, sales of Sony MD devices have jumped 40% since company's introduction of MD-to-PC link last spring.

Sony's entry into audio CD-R would come as category makes strong push to broader market and lower price points. Dual transport dubbing decks, which constitute vast majority of market, already are selling as low as \$299 for 2x dubbing (Classic CDR200 at Circuit City) and \$399 for 4x (Harman Kardon CDR2 and TDK DA-3826).

"The CD recorder is the fastest growing category in home audio," said Jim Hirschberg, dir. of consumer electronics at research firm NPD Intellect. He told us retail sellthrough of CD-R decks rose 61.5% in first 10 months of year compared with 1999 period. Dollar volume climbed 39.4% as influx of lower priced decks dropped average retail selling price to \$439 from \$497, Hirschberg said.

Most obvious trend in audio CD-R is inroads made by multidisc recorders, Hirschberg said. In Sept. 1998, single transport decks comprised virtually entire market. Dual-drive dubbing decks took 60% share until recent emergence of CD-R decks with 3-CD changer from JVC, Philips, Pioneer. NPD said breakdown through Oct. put single-transport recorders at 15.4% of market, dual-dubbers at 47.9% and 3-plus-1 changer configuration at 36.7%.

Brand market share for audio CD-R decks could change if and when Sony entered fray. Company now is top-seller of home CD players with about 1/3 market share, Hirschberg said. That compares with Philips, which has 10.8% of total home CD market — comprising 55% of CD-R market but only 3.9% of home CD players. Philips's commanding share in CD-R has been shrinking with entry of new brands, even as pie grows larger. Following Philips, CD-R stalwart Pioneer has 27.8% share and relative newcomer Harman Kardon has 11.1%, Hirschberg said.

Audio CD recording will see more brands, established or otherwise, with Chinese OEMs driving prices lower. Besides aforementioned brands, CD-R decks are in lines of Aiwa, Akai, Kenwood, Marantz, Onkyo, RCA, Teac, Yamaha. China is source of 4x dubber from RCA, which lists at \$499 but now sells as low as \$429. As we have reported, Chinese makers have told us they can produce 2x CD-R decks that can be sold profitably at \$299. Playback of MP3-compressed CDs is feature fast spreading through CD-R decks, most definitely in plans of Philips.

Innovative twist on MP3 function was shown by Taiwan-based CMC Magnetics at recent Comdex. Company's CB-100 "multiformat" deck is 2x dubber that can convert music CDs to MP3 files on recordable CD or for storage on Multimedia card through deck's built-in memory card slot. CB-100 can record music at variety of data transfer rates, as high as 192 kbps, CMC said. Dubbing deck itself is unique in that each of 2 transports can record — one for CD-R, other for CD-RW blanks. Deck's price and availability are expected to be announced by time of CES.

Meanwhile, Sony's Nishida, in other remarks to reporters, said Sony plans at next month's Las Vegas CES to demonstrate DVR-Blue, technology developed with Philips and Pioneer that uses blue-violet laser to accommodate HDTV-quality feature-length movie on single side of 5" 22-GB disc. Demonstration, planned for Sony's main CES booth, will be first such showcasing publicly in U.S. Nishida said Sony believed DVR-Blue could be commercialized in as little as 2 years, in marked contrast to belief expressed by Philips senior officials that DVR-Blue shouldn't reach market for at least 5 years to permit systems such as DVD+RW to run their course.

Nishida backed away from earlier indications that Sony might demonstrate DVD-RW home recorders at CES. Asked to explain Sony's dual support of DVD+RW for computing and DVD-RW for home recording, Nishida said issue could be moot soon if systems could be unified. He said timetable for unification was difficult to determine because it involved multiple companies in addition to Sony. However, without elaborating, Nishida said his personal opinion was that unification was possible "in the foreseeable future."

In other developments, Nishida said "general feedback" from poll Sony had done of major retailers was that overall sales over recent Thanksgiving weekend were strong and met expectations. As result, he said, it was fair to characterize retailers' reaction as "not extremely happy, but satisfied." Home theater, and particularly DVD, were among hottest categories of weekend, with increases as high as 35-40% over last year, Nishida said. However, hi-fi products, except for home theater-related gear, suffered sharp declines, he said. Nishida said that "surprisingly," VHS was strong, while digital imaging products such as digital still cameras were "very, very hot."

Other Nishida comments: (1) Sony TV sales in last 6 months are up 45% from year earlier, spurred by robust sales of Wega flat-screen sets. In terms of dollars, Sony commands market share near 80% in TV sets 36" and larger, he said. (2) Sony continues to hold top market share in DVD and has doubled its sales over year earlier. (3) Goal in 2001 is to bring pricing of Super Audio CD players to under \$1,000 for first time.

LG ELECTRONICS-PHILIPS TUBE VENTURE SHAKES MARKET: LG Electronics and Philips' CRT joint venture not only will strengthen their hands in tube business, but also may provide avenue for increasing presence in plasma market.

While LG and Philips, which manufacture, assemble and sell CRTs for TVs and PC monitors, are likely to maintain separate product lines in 2001, major change will come following year when integration begins, said Kenneth Walker, vp-gen. mgr., software & electronics, Philips Flat Display Systems.

Companies, which forged similar alliance for LCDs in 1999, will realize \$300 million in savings within 2 years of creating joint venture that will have combined sales of \$5.2 billion, Philips COO Gerard Kleisterlee said. Deal is ex-

pected to close in 2nd quarter, when LG will receive \$1.1 billion, representing difference of valuation. Philips also will make \$500 million investment in LG's redeemable preferred shares.

Joint venture would have 36,000 employees and operate 17 manufacturing sites, although much of savings were expected to be generated by combining production. LG and Philips currently build 15-19" PC tubes at plants in S. Korea and Taiwan, respectively, while Philips also does assembly for U.S. market in Juarez, Mexico.

On CRT front, Philips has moved this year to restructure tube-making operations in N. America. It's largely closing Ottawa, O., plant and moving production of commodity-priced 25-27" tubes to new facility in Central Mexico that's scheduled to open in 2nd half next year (TVD May 8 p10). At same time, LG is said to be preparing to revamp Reynosa, Mexico, facility it inherited in buying Zenith in 1999. Plant will focus more on high-end products including high-definition TVs and projection-TV assembly, sources said. Reynosa factory has assembled commodity-priced TVs and VCRs in past. LG officials weren't available for comment.

"It will take time to integrate the technologies into new products and understand which of the factories are the best to build those particular products," Walker said.

Joint venture also is likely to change supply relationships, including PC tube agreements between Philips and Samsung that are unlikely to be renewed, Walker said. Samsung officials weren't available for comment. Unclear is whether companies will continue ties to Toshiba, which has supplied them with 32" and 36" tubes in past. They also will have to manage several TV brands: Magnavox, Philips and Zenith in U.S. and LG and Philips internationally. Philips increasingly has moved to shed itself of Magnavox banner in U.S. to focus on own brand.

"I can see the fit for the computer monitor business, but it is not quite as clear on the TV side where they will have several brands," CE executive said.

LG and Philips also will have to make decisions on deployment of flat-tube technology. LG has championed Zenith's Flatron that it has introduced for PC monitors in U.S. and 21-27" TVs in Far East. Philips, meanwhile, has unveiled 27" and 32" Cybertube in conventional and widescreen formats.

"We'll look at the different technologies and how far along we are with some of the production problems," Walker said. "The toughest part will be understanding what it takes to manipulate the electrons in the gun so that you keep a consistent speed on the scanning line. All of that is understood, but turning that around and making it consistently manufacturable at a reasonable price is more of a struggle."

Joint venture isn't likely to result in immediate changes since LG and Philips will be buying PC monitor tubes from joint venture rather than division of parent company, LG Electronics Product Mgr. Bennett Norrell said. Under LG.Philips structure, they maintain separate sales and marketing groups for LCDs and same is expected for flat-screen technologies, he said.

Possible offshoot of joint venture will be plasma technology. LG is expected to start full production of 40W and 60W plasma panels in 2001 at new plant in Gumi, S.Korea. Panels are expected to be sold for commercial applications and under Zenith brand, but Philips also is likely to become customer. Philips' CE Div. currently sources 42W plasma panels from Fujitsu, relationship that's unlikely to change in near future, Walker and Fujitsu Senior Vp Tedd Rozylowicz said.

"Clearly, we're not producing plasma in-house, but they are and we have a lot of knowledge of how to improve the image on plasma," Walker said. "This becomes a situation where they can produce the panels and we can add our electronics and make those screens look better than they would otherwise." Unlikely to be part of mix will be plasma-addressed liquid crystal (PALC), technology that Philips jointly developed with Sony and Sharp, but that it since has abandoned.

* * * * *

As Philips and LG unveiled CRT joint venture, there were indications companies might be weighing mobile telephone venture as well. Kleisterlee identified 3G mobile phone technology as area of interest. Area that isn't under consideration for joint venture is organic light-emitting diode (OLED) displays, Walker said. LG displayed 1.3" OLED at Comdex for cellular phones, while Philips has designed polymer-based version (PolyLED). Philips is developing polyLED display with DuPont's Uniax subsidiary and expects to have display in cellular phone next year (TVD May 22 p20). "Whether it makes sense to maintain these individually or continue to combine these from a component side is clearly a possible source of discussions," Walker said.

REPLAYTV FOLDS RETAIL, WILL LICENSE TECHNOLOGY: As ReplayTV folds direct sales business to focus on licensing its personal video recorder (PVR) technology, its future viability is being brought into question.

While ReplayTV and licensee Matsushita have sold 30,000 units since debut last spring, other alliances with EchoStar, Motorola, Scientific-Atlanta and Sharp have yet to bear fruit. Matsushita is developing integrated products and, while it hasn't set an introduction date, it remains committed to PVRs, Panasonic Consumer Video Gen. Mgr. Andrew Nelkin said. EchoStar, meanwhile, has marketed DishPlayer that combines WebTV with satellite receiver, but also is planning PVR/IRD based on OpenTV platform that doesn't include ReplayTV technology. Neither EchoStar nor Sharp, which have financial stakes in ReplayTV, has committed to introducing products, although Sharp is said to be developing DVD player/PVR.

TiVo and ReplayTV have sold combined 98,000 units so far this year and are likely fall short of year-end projection of 300,000, industry sources said.

There also were signs that ReplayTV was struggling financially. Venture capital firm Kleiner, Perkins, Caulfield & Byers, which has 19.5% stake in ReplayTV (TVD Jan 31 p14), was said to have tightened funding. And ReplayTV strategy, which relied on free basic service, required heavy subsidy. Some industry sources said strategy resulted in \$499 PVR carrying "several hundred dollar" subsidy. Indeed, in first quarter ended March 31 — most recent available since ReplayTV pulled IPO in Aug. — company's loss grew to \$22.3 million from \$3.49 million as total costs soared to \$23.5 million from \$3.46 million at time when only 3,500 PVRs had been shipped (TVD May 15 p15). In closing direct sales arm, ReplayTV is expected to cut 100 jobs.

TiVo hardware, meanwhile, was priced at \$399 and service carried \$9.95 monthly fee. TiVo also offers lifetime subscription with \$199 upfront payment. Lifetime subscription is amortized as revenue over 4 years, which TiVo has pegged as "service life" of PVR. But TiVo faces its own fiscal challenges. While publicly traded TiVo, fresh off \$200 million investment agreement with America Online, had \$148.6 million in cash and cash equivalents as of Sept. 30, it also had accumulated deficit of \$194 million, it said in SEC filings. TiVo's 9-month net loss grew to \$117.1 million from \$31.6 million year earlier.

"Both TiVo and ReplayTV wanted to be licensors and were hardware companies more out of necessity than anything else," industry source said. "But the necessity was starting to stretch out longer than both were comfortable with, especially ReplayTV. ReplayTV's getting out of hardware wasn't a big surprise, but backing out of the content agreements wasn't part of their plans." Indeed, ReplayTV's strategy from beginning was to find partner to market, brand and manufacture PVR while it concentrated on delivering services (TVD Jan 18/99 p13).

To raise revenues, ReplayTV had signed agreements with Universal, Ford and Coca-Cola, with last to run banner ads at start and then expand to interactive spots (TVD Oct 2 p20). ReplayTV Mktg. Vp Steve Shannon wasn't available for comment, but told Reuters that potential cable and satellite partners wanted to integrate PVR technology into their systems and keep revenues rather than share them.

"You certainly can't go to an advertiser today with the numbers that TiVo and ReplayTV have and command much attention other than 'let's experiment together,'" said Bentley Nelson, strategic and technical mktg. dir. at Quantum, which supplies hard drives to TiVo and ReplayTV. "There should not be a rush to judgment on this business model, but you can fault these businesses on anticipating that they would get ancillary revenue quicker."

But ReplayTV lagged behind rival TiVo. While Philips brand TiVo PVR started category in Sept. 1999, Matsushita delayed introduction of competitive ReplayTV piece until last spring. TiVo also floated successful IPO in 1999 that raised \$71.5 million, while ReplayTV scrubbed proposed public offering in Aug. TiVo had agreements and product from DirecTV, Philips and Sony, while ReplayTV had pact with Matsushita, but little support from Sharp and EchoStar. Meanwhile, on services front, Starz Encore, which formed alliance with ReplayTV earlier this year for subscription video-on-demand (SVoD) and pay-per-view VoD, switched allegiances in Sept. to TiVo, saying that earlier pact wasn't exclusive (TVD Sept 25 p14). ReplayTV also had been quick with potential sponsorship deals with Disney, Fox and Showtime, but TiVo reeled in some of potential supporters with new direct marketing tool that allowed advertisers to deliver specialized ads to targeted group of viewers. Among those expected to provide content for TiVo program were Showtime and Starz in addition to Professional Golfers Assn. (PGA) and iFilm. Both companies had trials with cable companies: ReplayTV pairing up with Time Warner and Comcast and TiVo with Cox Communications and Comcast.

"They [ReplayTV] always seemed to be 6 to 9 months behind TiVo all the time from a relationship and product point of view," industry source said.

Even after shedding direct sales business, ReplayTV will face tough odds as licensor, industry sources said. "Falling back on technology licensing is easier and cheaper to support, but it's also not as defensible either because other companies can attack that position," source said.

But ReplayTV's PVR technology expertise could prove strong bargaining chip, Nelson said. "They have got the hardware nailed from end to end, they know how to make the service component that's needed to run this work and they've proven that it can work," he said. "You have to say there is some value there to the industry as a whole."

As ReplayTV readied strategy shift, Quantum signed alliance with C-Cube Microsystems to develop Krontos digital video recorder (DVR) reference platform. Krontos allows OEM suppliers to "rapidly develop" hard disc-based products either as standalone device or integrated in TV, Quantum said. Platform incorporates C-Cube's DVxcel codec and Ziva-HGi, which combines 32-bit RISC processor with advanced multiplane graphics engine.

Nelson declined comment on nature of Quantum and C-Cube "working relationship," but sources indicated it could be first leg of new program that Quantum is expected to unveil at CES in Jan. "It [new program] will involve multiple companies working to promote development [of PVRs in a more accelerated way]," source said.

However, new alliance throws C-Cube's previous alliance with Western Digital for PVR platform (TVD Sept 27/99 p14) into question. Plan at time had been to combine C-Cube's DVxplore single chip decoder with WD's 9.1-27.2 Gb Performer hard drives. C-Cube's Christopher Day, senior mktg. dir. for broadband network products, wasn't available for comment, but said in news release that Krontos provided "low-cost, flexible" platform for DVR products.

DEBATE BEGINS ON CHANGES IN COPYRIGHT ACT: Is Internet on collision course with intellectual property rights? That's question Copyright Office and National Telecommunications & Information Administration (NTIA) will study in upcoming debates on copyright law in Digital Age.

Officials waded into issue at public hearing Nov. 29, called in connection with congressionally mandated study of effect of Digital Millennium Copyright Act (DMCA) and growth of e-commerce on copyright law. At hearing, Register of Copyrights Marybeth Peters, NTIA Dir. Gregory Rohde and staffers from each agency tried to find common ground in conflicting testimony. At issue were questions whether "first sale" doctrine of Copyright Act (Sec. 109) should be extended to digital transmission of copyrighted works and whether consumers should be allowed to make archival copies of digitally acquired materials to guard against loss (Sec. 117). Those and other proposals were floated during recent DMCA negotiations but weren't adopted, as we reported Nov. 6.

Content owners said first sale exemption shouldn't be extended to digital transmissions. IP owners represented included Assn. of American Publishers, Business Software Alliance, Software & Information Industry Assn., Time Warner (TW). Applying first sale doctrine to digital transmissions "would transform [Sec. 109] from a protection against restraint of alienation of particular copies to a device for allowing the owner of one copy to supply, without authority of the copyright holder, the needs and desires of a vast population," said TW lawyer Bernard Sorkin.

Revisions in first sale doctrine also drew opposition from digital rights management company. InterTrust Technologies Corp. Vp Nic Garnett said: "Because digital delivery and [digital rights management] appear to be improving the dissemination and use of copyrighted works, concerns about their effect on the first sale doctrine... appear to be at best premature."

Library groups have pushed hard for changes in first sale rule, charging that increasing prevalence of licenses for digital information had restricted library uses of information by eliminating such protections as "fair use" — and chilled public access to materials. Library community witness Rodney Peterson said: "I am not convinced that copyright protections for authors and creators of digital materials is so much in peril that we must resort to a [nonuniform] system of individual licenses that also opens the floodgates for restrictions on otherwise legitimate uses."

Agency representatives looked for help from technology. If, as proposed, first sale of digitally transmitted work included simultaneous destruction of work in sender's files, Peters said, how would libraries avoid running afoul of privacy laws? Peterson said that although it wasn't as likely that someone would copy book before giving it away, offline copying raised same concerns. Moreover, he said, content owners' fears that libraries will pirate and distribute digital works are just as speculative as libraries' worries about effects of not amending Sec. 109. However, some content owners argued that simultaneous destruction of work after retransmission wouldn't necessarily stem its further spread on Internet. That prompted Rohde to ask whether there was any point in fighting to protect copyright laws when they so easily could be evaded by technology: "Are we on the right battlefield here?"

Public hearing on DMCA is merely a "preseason skirmish" that will lead to "significant" congressional scrutiny of effects of copyright law on e-commerce, members of Digital Media Assn. (DiMA) said in teleconference day before hearing. Agencies are expected to submit their report to Congress Feb. 28.

Congress left open complicated Webcasting and digital copyright issues when it passed DMCA 2 years ago, DiMA Exec. Dir. Jonathan Potter said. Among them were questions about whether "first sale" doctrine should apply to digitally downloaded materials, whether Internet users should be allowed to make temporary "buffer" copies of digital media without paying royalties, and whether consumers should have right to make archival copies of digitally acquired media to protect against loss. Broad range of industry groups, including DiMA, has told agencies that copyright law impedes e-commerce by favoring intellectual property owners. However, entertainment industry has countered that laws barring unlawful distribution of copyrighted works should be left alone.

"RAM buffer" question was foremost in their minds although they were focused on all 3 issues, officials of several DiMA member companies said. Digital download is good only for life of PC, DiMA spokesman told us, so many consumers copy download for future use or in case of PC failure. Launch Media CEO David Goldberg said consumers shouldn't get stuck paying for those "temporary but valueless" copies they made on their home PCs.

Issue is critical one for DiMA, Potter said. While some contend Internet music and video streamers should pay for both performance and reproduction rights, DiMA has taken position that mere fact copy is stored in PC's RAM buffer doesn't make it reproduction subject to royalty payments, he said. Sputnik7.com CEO David Beal said making people pay for RAM buffer copies would render streaming impossible because materials would be delivered in stuttering fashion. Treating them as reproductions is "not a reasonable notion," said MusicMatch Senior Vp-Business Development Bob Ohlweiler.

It's gray area whether or not RAM buffer copies are reproductions under copyright law, Goldberg said. Despite that, he said he didn't expect to see much litigation over issue in coming years as Congress pondered whether to revise DMCA. Although content owners like to wave issue as "an ax" during negotiations with DiMA, music industry doesn't appear likely to force issue in court, Goldberg said, precisely because it's unsettled. Potter said he expected congressional hearings on copyright and technology, with legislation possible in 2 to 4 years.

DiMA also said it would press for action on questions of whether consumers should be able to transfer ownership of works lawfully acquired online ("first sale") and copy digitally acquired media to protect against computer failure or upgrades. Those are rights consumers already have in offline world, Assn. said. Copyright law shouldn't be tied to differences in delivery technologies because those technologies will change, company official said. What DiMA wants Copyright Office, NTIA and Congress to do is to resolve issues left unanswered by DMCA, members said. That will "remove the angst" of potential litigation, Ohlweiler said. It also will make digital media companies more attractive to venture capitalists — and that will create more opportunities for artists, DiMA members said.

TDK will enter AV hardware in big way at upcoming CES, extending foray made into PC business this time last year. At N.Y.C. news briefing last week, company said it would use CES to introduce 2nd-generation Audio CD dubbing deck. New model, will add features such as one-touch dubbing and disc finalization to current 4x dubbing deck, which now retails for \$399. TDK also will enter multimedia loudspeaker category with trio of 3-piece amplified systems. Satellites of new Tremor line use flat driver SurfaceSound technology licensed from U.K.'s NXT. TDK said it will seek newly announced THX certification for PC speakers on future models, but not for ones making debut at CES. On PC front, TDK will add 2 veloCD recorders to line that started it in aftermarket hardware sales late in 1999 and where company said it since has grabbed 15% share of CD burner market. Internal and IEEE-1394 external veloCD burners will record CD-R at 16x, CD-RW at 10x, dub audio from hard drive at 32x and read CDs at 40x. Also at CES, TDK will demonstrate new MultiLevel Recording (ML) system it developed in alliance with Alameda, Cal.-based Calimetrix. ML system can record triple density of current blank CDs — 2 GB compared with 650 MB. Companies plan to license and commercialize ML for wide variety of applications, including digital AV recording, camcorders, portable audio. First application is likely to be PC recording, arriving in 3rd quarter 2001, TDK said.

Largest CD Warehouse shareholder is seeking changes in used music retailer's board. Alan Brown, who has purchased 368,000 shares (10%) since July, proposed in SEC filing that chain have at least one board member with "working background in pre-owned music retail." Brown, pres. of St. Paul-based Applause Music, recently bought 174,000 shares at 40¢-\$1.16. CD Warehouse, which operates 330 stores, had management shakeup earlier in fall with departures of CEO Jerry Grizzle and CFO Doyle Motley (TVD Oct 2 p15) and ended 2-year experiment with trouble-plagued e-commerce business in shutting down Web site... Musicland said same-store sales fell 3% in Nov. despite strong sales of DVDs, which accounted for 40% of revenue. Downturn was tied to slower sales of music software, chain said. Musicland's Sam Goody and Suncoast Motion Picture Co. mall-based chains said same-store sales dipped 0.6% while superstore retailers Media Play and On Cue fell 7%. Total sales were off 1.6% to \$158.1 million from \$160.7 million. Superstore Div. sales edged down 0.9% to \$58.2 million and mall outlets 1.9% to \$99.9 million.

Thomson Multimedia completed acquisition of Singingfish.com, which develops Internet search services that allow users to locate streaming audio, video and MP3 content. Singingfish.com will debut formally at Streaming Media West conference in San Jose later this month.

ZENITH WEIGHS DIRECTV DISH: Zenith is weighing introducing co-branded DirecTV receiver dish and low-noise blockers (LNBs) as it readies return to satellite business.

Product line, consisting of 18" and 24" dishes and LNBs, is expected to ship late in first quarter, although pricing hasn't been set, Accessories Vp Len Coakley said. Zenith is likely to source receiver dishes from Acer Div., which has made inroads in market largely dominated by Channelmaster. Line also is likely to include self-installation kits, signal splitters, other products.

Accessories would presage return to satellite business by Zenith, which is among those expected to sell combo high-definition/DirecTV receivers. Combo receivers had been expected this fall from Hitachi, Mitsubishi, Samsung and Toshiba, but have been delayed as software is finalized. Zenith was prominent supplier in C-band satellite, but has little presence in DirecTV receiver market dominated by Hughes Network Systems, Sony, Thomson.

Additional DirecTV accessories will come as Zenith continues to expand product roster to more than 750 SKUs from 60 when Coakley arrived in 1998.

Among other items on tap for first half 2001 are LCD-based and MP3 remotes as well as Phaser RF-RF-IR extender. Latter is variation of traditional IR-RF-IR technology that uses IR diode to generate RF signal when remote is activated. Remote has AA and AAA-size transmitters, which will be sold separately (\$39) and packaged with control (\$49), Coakley said. Transmitter fits into battery slot of Zenith and other remotes.

MP3 kit (\$99) will consist of wireless audio sender attached to PC that transmits 2.4 GHz and 7-function remote with specially designed keys to accommodate technology. LCD-based 7- and 8-function models (\$79-\$99) is likely to have 5-6" screen that will display all functions of given product, Coakley said.

As for other product categories, Zenith may expand videogames accessories line that currently consists of single 4-function remote for Sony PlayStation 2 that's being sold through Circuit City. Zenith also is considering push into cellular accessories, although plans haven't been finalized, Coakley said.

Zenith has doubled memory across remote line to 64k as it expands number of product codes devices contain to more than 600 from 490 (TVD Nov 30/98 p15).

Bose patent infringement award may increase to about \$7 million from \$5.7 million as result of court decision that allowed Harman International to sell JBL and Infinity speakers involved in case through Nov. 26, Harman said in SEC filing. Federal judge awarded Bose \$5.7 million earlier this year (TVD Sept 11 p12) in finding that some JBL and Infinity speakers violated Bose patent for loudspeakers with elliptical ports. But judge later modified permanent injunction to allow for JBL and Infinity sales. Ruling required that Harman account for sales at "later date." Harman, which appealed decision (TVD Oct 30 p15), has said that "regardless of outcome," action wouldn't have "material adverse impact" on company.

SONY STILL BEHIND ON PS2 SHIPMENTS: As holiday shopping season continues, Sony still seems to be behind on PlayStation 2 (PS2) shipments. Sony Computer Entertainment America (SCEA) has shipped only 600,000-700,000 PS2 units to N. American retailers to date, analysts said.

For example, Analyst James Lin of Sutro & Co. said Sony had shipped only 600,000 pieces of hardware as of early last week. If correct, that means SCEA has fallen even further behind on PS2 shipments than retailers including Electronics Boutique have been indicating (TVD Nov 20 p19).

But SCEA spokeswoman seemed to contradict analysts' reports last week when she told us: "We have not released overall sales figures for PlayStation 2 and do not plan to do so until the beginning of 2001. However, I can tell you that we are on track with the shipment schedule we originally outlined in September."

SCEA said in late Sept. it would be shipping only 500,000 PS2s at platform's Oct. 26 debut instead of one million promised (TVD Oct 2 p11). But it said at same time it would be shipping additional 100,000 units to dealers each week after rollout for total of 1.3 million by year-end. Analysts point out that if SCEA had been able to live up to that promise it would have shipped considerably more than 600,000 or 700,000 — about 900,000 — in N. America by beginning of last week.

Meanwhile, one report specifically linked Sony's production delays to "problems making graphic chips." SCEA spokeswoman told us report was only partly correct: "At the press conference following the Sony earnings announcement at the end of October, Mr. Terry Tokunaka, CFO and deputy pres. of Sony Corp., stated that [the] shortage included, but was not limited to, the Graphics Synthesizer (GS) chip." She said: "Sony Computer Entertainment Inc. is currently producing one million PlayStation 2 units per month in order to satisfy demand worldwide and we hope to increase the total output in the coming months."

Separately, report indicated that Sony was planning start selling PS2s in India in April. Another report said Sega planned to begin marketing its Dreamcast in India next month as low-cost (\$364-\$455) method of accessing Web.

Geo Interactive Media added Nokia to roster of manufacturers developing MPEG4 streaming video cellular phones using its Emblaze A2 video ASIC chip. Samsung (TVD Nov 27 p18) and Nokia, which is designing chip into Communicator 9210, are expected to ship product worldwide in 2nd half 2001. ASIC, which has Arm Holdings 15 MIPs processor and was designed by Geo's Zapex subsidiary, can deliver video to cell phones' 1.6"x1" LCD screen at 15 frames per sec. Samsung model provides clear image with 360x240 resolution. Emblaze A2, being manufactured by Samsung using 0.18-micron process, will ship in 3-6 months with encoding version due by 3rd quarter, Geo Pres. Sasson Darwish said. A2 also will draw less power, possibly half current 150 mw, he said. Emblaze technology will remain chip-based for now with software version not expected for 2-3 years, Darwish said. As it pushes into wireless market, Geo is seeking partner for its WebRadio.com subsidiary, which has agreements with more than 200 radio stations to broadcast audio over Internet, he said. WebRadio.com accounts for 1% of Geo's annual revenue. "We're going to focus more on streaming to cellular phones wirelessly and less to IP," Darwish said.

BEST BUY 3RD-QUARTER SALES UP: Best Buy reported record sales for 3rd quarter ended Nov. 25. Retail chain posted sales of \$3.73 billion — 20% jump from \$3.11 billion in same period year ago. Same-store sales increased 5.9%. For 9 months, Best Buy said sales leaped 21% to \$9.87 billion from \$8.18 billion and same-store sales 6.7%.

Best Buy CFO Allen Lenzmeier said last week: "In a more cautious consumer environment, we were pleased with our 5.9% comparable-store sales gain." He said "sales were in line with expectations" for quarter but "they were driven by a more promotional environment, which impacted gross margins."

Lenzmeier said: "Best Buy continues to achieve double-digit sales increases in video products, wireless phones, music and movies. Sales of home theater systems and computer peripherals contributed to comparable-store sales gains in the quarter."

Breaking down products by categories, Best Buy said 32% of sales were in consumer electronics, up from 30% year ago; home office 35%, down slightly from 36%; entertainment software flat at 19%; appliances fell to 7% from 8%. Other categories were flat at 7%.

However, all was not upbeat for chain in quarter. It announced early last month that profits for 3rd and 4th quarters would be significantly below analysts' estimates (TVD Nov 13 p13). Best Buy projected 3rd-quarter profit of 27¢ per share vs. consensus estimate of 44¢ and 4th quarter profit would be 90¢ instead of \$1.02. Lenzmeier blamed drop in profit on growing "commoditization" of products including DVD players that had seen average selling prices tumble although sales had increased.

Best Buy is to release its official 3rd-quarter earnings Dec. 12. Lenzmeier said "we [still] expect earnings for the quarter to be approximately 27¢ per share."

In past quarter, Best Buy opened 40 stores and entered N.Y.C., Seattle and Norfolk, Va., markets for first time. It now operates 413 stores in 41 states, in addition to BestBuy.com online Web store.

Gemstar-TV Guide and Barnes & Noble (BN) will focus on strategic alliance, not merger, companies said last week. BN said last month it was in discussions with Gemstar-TV Guide on possible e-Book alliance, but didn't rule out possible combination (TVD Nov 27 p15). Among possible alliances is publishing electronic books. Gemstar is building e-Book business around Thomson's RCA hardware and Softbook Press and Rocket eBook companies it acquired earlier this year. Thomson is expected to ship 100,000 units by year-end (TVD Nov 17 p17)... **Franklin Electronic Publishers (FEP)**, which also is seeking to build e-Book business, will spend \$11 million in current fiscal year developing and marketing eBookman platform, it said in SEC filing. FEP, which made name selling handheld electronic reference devices, is projecting "significant shipments" of eBookman in first half 2001. Reference products accounted for 84% of \$20.3 million in revenue in 2nd quarter ended Sept. 30.

Samsung postponed delivery of home DVD-RAM recorder to Feb. as it finalized copy protection, Product Mgr. Claude Frank said. Recorder will be priced at \$2,400, up from original \$1,999 (TVD March p13), but down from Matsushita's \$3,500 model. Samsung had said in past it was waiting for copy protection issues to be resolved before shipping model with digital output.

DEMAND HIGH IN EUROPE FOR PS2: About 500,000 PlayStation 2 (PS2) videogame consoles were sold in PAL countries in first week of platform's debut in Europe, Sony Computer Entertainment Europe (SCEE) spokeswoman told us Fri.

Spokeswoman said 300,000 consoles shipped throughout Europe Nov. 24 — day one of rollout — alone. British press report said 70,000 consoles were sold in both France and Germany on first day. Although same report said 60,000 consoles were sold on day one in U.K., spokeswoman said number actually was considerably larger there, where SCEE ran preorder campaign. Sony said in Nov. that it would be shipping 165,000 consoles to U.K. at start instead of 200,000 promised (TVD Nov 13 p13). About 165,000 had been preordered.

U.K. preorder campaign, although initially controversial (TVD July 24 p16), apparently helped avoid chaos that took place in certain locations — most obviously in France, where TV news stations showed retail clerks fighting off crowds of consumers fighting to get their hands on consoles.

SCEE said thousands of people turned up at Paris Virgin Megastore on Champs Elysees night before PS2 bow. Company also said Helsinki consumers "braved subzero temperatures to queue for midnight openings" of stores selling consoles.

As in N. America, PS2 supplies in Europe were in tight supply because of what Sony described as shortages of Graphics Synthesizer Chip and other components.

Commenting on European scene, SCEE Pres. Chris Deering said: "The demand for PlayStation 2 has been phenomenal. We've sold more than 4 to 5 times the number than we did when we launched PlayStation in 1995." But he said: "We know that this figure could have been much higher."

Noting lengths to which SCEE went to achieve smooth, on-time start, Deering said company chartered "12 giant Antonov air freighters into Europe, Sydney and Auckland to ensure we kept to the launch date." PS2 premiered in Australia and New Zealand last week.

Sony said it would be producing another 500,000 consoles for PAL territories by year-end and predicted it would have shipped 3 million PS2s in those countries by March 31, end of company's fiscal year.

Games available at outset in Europe included *Final Fantasy 2001*, *Ridge Racer V*, *Tekken Tag Tournament*, *TimeSplitters*.

MGI Software narrowed 3rd-quarter loss to \$4.7 million from \$7 million year earlier as revenue rose to \$13.7 million from \$9 million. Reduced loss came as revenue from MGI's digital video business increased to \$6.1 million from \$487,000. MGI's Pure Diva MPEG-2 software codec, which company acquired from Zoran year ago, is "becoming more sizeable piece of video business," Pres.-CEO Anthony Cristofaro told analysts in conference call. MGI is positioning Pure Diva as possible codec for Microsoft's upcoming Whistler operating system, but Cristofaro said no agreements had been reached. MGI's VideoWave 4 software, which has gained spot in Compaq and IBM desktops, has 55% share of video editing software market, he said. MGI's e-Imaging business, which includes Eastman Kodak's Photo.Net Web site, said revenue declined to \$7.6 million from \$8.5 million year earlier.

WEB SITE GLITCHES HIT E-TAILERS: As holiday shopping season officially kicked off on Thanksgiving weekend, Amazon.com and BestBuy.com were hit with glitches that slowed sales at their Web sites. Amazon had same type of glitch 2nd time last week.

BestBuy.com spokeswoman told us her company's Web site had "intermittent errors" that caused traffic to slow "considerably" on Black Fri. (Nov. 24) and Nov. 25. She blamed problem, which affected ability of many consumers to buy merchandise at site on those 2 days, on "a couple of factors." For one thing, she said, rumors started running rampant online that BestBuy.com would have hard-to-find PlayStation 2 (PS2) videogame consoles available, which created "a large spike in traffic." At same time, she said, company was upgrading site with new promotional offers that created additional traffic.

But BestBuy.com spokeswoman said "glitch" was "cleared up and by Sunday we were up and running and processing a large number of orders."

BestBuy.com had announced Nov. 22 that it was expanding its online offerings in time for what it expected to be busy Thanksgiving shopping weekend. Among products scheduled to be added to site in time for weekend were computer and videogame accessories, hardware, software. But spokeswoman pointed out that company hadn't announced that PS2 would be among products available online at site. She said: "We potentially will have [PS2] product online," but she didn't say when.

Spokeswoman said: "We've been continually getting shipments [of PS2 for Best Buy stores] and we're telling people that we don't always know when those shipments are going to come in." Although Best Buy had been getting additional shipments of PS2 after initial Oct. 26 allocation, she said "there was a disruption" before holiday weekend "based on the [PS2] launch in Europe." She said Sony had informed her company that delayed delivery of additional consoles was related to PS2's European debut late last month. But she told us Thurs. that Best Buy was expecting to receive PS2s by end of last week.

Meanwhile, Amazon.com spokeswoman told us "relatively minor glitch" caused her company's site to shut down for about 30 min. on Black Friday. As result, "we'll be right back" message was all that visitors found at site during that period.

Amazon didn't say what caused glitch but indicated it wasn't heavier-than-normal traffic. After same problem occurred Nov. 30, Amazon spokesman told us it was "internal glitch that was easily fixed" and site was back up and running in 15 min. "We'll be right back" message greeted visitors to site once again.

Some industry observers wondered whether PS2 interest might have affected Amazon site in much same way as it did BestBuy.com. PS2 sales log on Amazon site showed that console went up for sale at site at 10:19 a.m. PST on same day as first glitch and sold out in 30 sec. Log also showed that Amazon sold out quickly when it put PS2 up for sale on Oct. 26, Nov. 10, Nov. 16.

Amazon spokesman said there was absolutely "no connection" between PS2 traffic and glitch. Spokeswoman had told us that first glitch was corrected quickly and didn't stop Black Friday from being best day ever for Amazon's electronics store at Web site. Carl Gish, gen. mgr. of store, said Nov. 26, wound up as even better day.

But glitch raised concerns among at least some analysts. Reuters said Amazon shares dropped Tues. after at least 3 Wall St. analysts released cautious reports on e-tailer. Amazon shares dropped 10.5% and closed at \$25 1/32 on Nasdaq same day. Reuters also said one analyst — Tom Courtney of Banc of America Securities — indicated in report that he believed "Amazon's growth rate would slow considerably in 2001." However, all analysts weren't offering same gloomy forecast for Amazon.

While some reports had indicated there was some "softness in the market" this season, Amazon's Gish said: "We're just not seeing that." Instead, he said, Amazon is seeing "continued growth throughout the year. We are very excited so far this holiday season [and] we are just seeing great growth from our consumer electronics store." He said traffic at store had been "3 to 4 times what we saw last year."

What has helped, Gish said, is that Amazon electronics store is starting to become "destination location" for many consumers looking for DVD players, stereos, TVs, other products. He said electronics store now has "over 25,000 items in our catalog." Top sellers so far this season have included digital still cameras, DVD players, PDAs, Sony's eMarker. Meanwhile, big-screen TV and personal video recorder sales have seen uptick, he said.

On computer and videogame front, Kirk Koenigsbauer, gen. mgr. of Amazon's software store, told us his company had "seen strength" across all platforms this season. But he said "anything that's related to the Game Boy Color" has fared exceptionally well, while interest in Dreamcast was "probably not as high" as other platforms.

In PS2 arena, Koenigsbauer said last time Amazon received supply from Sony was Nov. 24, but "we expect [additional] product in the next week or so." Feedback on PS2 bundle giveaways Amazon has been offering in conjunction with Web partner Toysrus.com has been enthusiastic, he said. Koenigsbauer said 2 PS2 bundles had been given away already. One entrant was picked each day in month-long promotion and entered into drawing in which one winner was picked for each 2-week period. Promotion ended but another was set to start Fri., Koenigsbauer said.

Pioneer is expected to reveal further details of DVD-RW recorder and marketing plans at N.Y.C. news briefing this week. DVR-2000 deck goes on sale in Japan this month at \$2,250, with production at 7,000 monthly, company said. Production of write-once DVD-R and rewritable DVD-RW blank discs will be 50,000 monthly, although Pioneer didn't announce pricing. As for DVD-1000 recorder that's been sold in Japan since last Dec., Pioneer said it would offer hardware upgrade for "moderate fee." That will enable deck to record DVD-quality Video Mode (10 and 5 Mbps respectively for one and 2 hours) on DVD-R. Deck can't be upgraded to record Video Mode on DVD-RW, but can record in Standard/Manual mode on DVD-RW, although those recordings aren't play-back-compatible with DVD-Video players.

Combo DVD movie/videogame will be unveiled by BBC Worldwide this week using Macrovision's SafeCast digital rights management. BBC and Macrovision said DVD-Video of popular U.K. short-film series *Wallace and Gromit* also would incorporate SafeCast-locked DVD-ROM videogame of animated characters that could be unlocked via Internet for reduced price.

RIAA SEEKS WEB ROYALTY: RIAA asked Copyright Office to determine whether companies selling online music services must pay mechanical royalties.

RIAA said last week there was "pressing need in the marketplace for legitimate digital music services, driven by the dual forces of exploding consumer demand and a proliferation of digital music services that are infringing copyrighted musical works and sound recordings."

It said Copyright Office should determine whether "on-demand streams" (real-time music streaming) and "limited downloads" (on-demand transfer of time-limited download to storage device such as PC hard drive) were subject to mechanical compulsory licenses under Copyright Act and, if so, what rate applied. Although RIAA has been negotiating for those licenses with Harry Fox Agency, nothing has been settled primarily because law is so unsettled, Assn. said. Among other things, music publishers claim both on-demand music streams and limited downloads require mechanical royalties, RIAA said.

"The time has come to resolve these issues," RIAA said. It asked Copyright Office to: (1) Begin rulemaking to address application of mechanical compulsory license to both kinds of digital transmissions. (2) Convene Copyright Arbitration Royalty Panel if it is determined that either transmission constitutes making and distribution of incidental digital phonorecord deliveries. (3) Issue regulations to set royalty fees if it determines that limited downloads constitute distribution by acts and practices in nature of rental, lease or lending.

Earlier in week, recording industry rolled out "SoundExchange" — program to collect royalties for Internet music streaming. SoundExchange said it would administer collection and distribution of U.S. performance fees for noninteractive digital services under Digital Performance Rights Act of 1995 and Digital Millennium Copyright Act, marking first time that service had been handled domestically.

SoundExchange's governance board includes representatives of American Federation of Musicians, American Federation of TV & Radio Artists, Assn. for Independent Music, BMG Entertainment, EMI Recorded Music N. America, RAS Records, RIAA, Sony Music Entertainment, Universal Music Group, Warner Music Group and Zomba Records, as well as several recording artists, organization said.

SoundExchange's start had been slated for Oct., but was delayed. Coalition for the Future of Music said then it was preparing to challenge program on ground of conflict of interest.

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Live Audio Inc. said it received patent on technology that limits online song distribution to countries where music can be sold legally. Company said last week its advanced "territory restriction" feature in Internet music delivery system determined user's location based Internet Protocol address and permitted downloads only where copyright protection was in place.

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Panja said 2nd-quarter revenue from its electronics control systems increased to \$5.7 million from \$5.1 million year earlier, although overall profit declined to \$200,730 from \$287,383. Enterprise system sales for commercial applications rose to \$20.1 million from \$16 million.

Eastman Kodak's newly minted display business unit (TVD Oct 30 p16) will "expand its business relationship" with Sanyo as it seeks to increase market for organic light-emitting diodes (OLEDs), company said. Kodak, with Sanyo, has developed 5.5" and 2.5" OLEDs, latter expected to ship in 2001, possibly in smaller 1.8" size for digital cameras. New 5.5" will be available in late 2001 with resolution expected to be increase to 640x480 from current 320x240 and power consumption cut to 300-350 mw from 600-700 mw, Kodak said. Smaller display is expected to improve resolution to 320x240 from 284x220 and cut power requirement in half to 100 mw. Production of OLEDs also will shift by late 2001 to 720x600mm mother glass from current 400x300mm. LG Electronics has developed 1.3" active matrix OLED with 112x64 resolution that it has designed for mobile phone applications. Pricing and availability haven't been set.

RCA eBooks made debut Thanksgiving weekend at Best Buy, Circuit City and OfficeMax. Although neither of latter promoted products in their weekend circulars, Best Buy had offer applying rebates for Microsoft Network ISP subscription (\$21.95 per month) toward purchase of eBooks. With \$100 rebate for 12 month signup, price of \$299.99 monochrome 5.5" eBook became \$199.99. Steeper \$400 rebate for 36-month signup could be applied to \$699.99 eBook with 8" color LCD, dropping price to \$299. Irony is, Microsoft is pushing own Microsoft Reader electronic book platform in competition with RCA partner Gemstar's format. It wasn't clear how MSN could be applied to eBooks, which connect by modem directly to Gemstar server for downloading books.

NxtWave Communications will deliver samples of next-generation 8-VSB demodulator chip this month. Production of NXT2002, which will have embedded microcontroller and enhanced algorithms designed to improve indoor digital TV (DTV) reception, will start in March, Pres.-CEO Matthew Miller said. It will be priced at \$20 in small volumes. New chip will co-exist with NXT2000 chip throughout 2001, but replace it following year, company said. In March, NxtWave also will start manufacture its first COFDM demodulation chip for Europe's DVB-T market. Chip will be introduced by year-end, slightly behind planned 3rd-quarter bow. STMicroelectronics will be silicon supplier for COFDM and 8-VSB chips. NxtWave also is working with Samsung to build demodulator into DTV tuner by 2002, Miller said.

Amazon.com opened wireless phone store at its Web site last week, selling units only from Nokia and Samsung, and was partnered with national service providers AT&T Wireless, Sprint PCs, VoiceStream Wireless. In conjunction with holidays and opening of new online store, Amazon was offering \$50 discount on cellular phone and wireless accessory sales over \$100. Amazon also joined steering committee looking to design common wireless data measurement systems for data and Web tracking products being developed. Other companies that joined committee included DoubleClick, Excite@Home, Nextel, Sprint PCs, Ticketmaster Online-Citysearch, Virgin Mobile USA. Committee held first meeting Nov. 16 in San Francisco.

NetPack will allow authors using its electronic book distribution program to sell e-books in traditional brick-and-mortar stores, company said. It said program would help authors reach new markets and permit more new writers to disseminate their works. Lower publishing and distribution costs with NetPack mean authors "can expect more revenue from the sales of their books," company said.

Investar Semiconductor has registered with SEC to sell 103,673 shares of Sage stock with value of \$1.78 million in 3 separate transactions from 21,333 (\$357,327) to 64,001 (\$1 million). Sage said NEC accounted for 19.5% of \$8.6 million in 2nd-quarter revenue. Sage also will contract with Faroudja's long-time OEM supplier STMicroelectronics to build FLI2200 deinterlacing IC, and Bestronics will continue as component supplier. Sage purchased Faroudja earlier this year for \$154.7 million... **Macrovision Senior Business Development Vp Mark Belinsky** has registered to sell 50,000 shares worth \$3.7 million. He also filed to sell 8,000 shares (\$408,000) year ago (TVD Dec 20 p13). Macrovision said in SEC quarterly report that video copy protection revenue soared to \$12.5 million in 3rd quarter from \$7.6 million year ago despite drop in videocassette business to \$2.6 million from \$3.3 million. However, downturn in videocassettes was offset by rise in DVD to \$5.6 million from \$2 million and in pay-per-view to \$4.2 million from \$2.2 million. PC software copy protection rose to \$586,000 from \$579,000 and electronic license management software to \$6 million from \$4.4 million. Macrovision said it paid \$21.8 million to increase stake in digital watermarking technology developer Digimarc to 12.5%. Macrovision, along with Digimarc and Philips, is developing digital video watermarking technology for DVD recorders.

Investor group paid \$2.2 million for 7.26% stake (198,800 shares in mobile satellite dish supplier Datron Systems. Acquistor, led by York Energy Chmn.-CEO Duncan Soukup, acquired shares in 3 separate transaction between Nov. 9 and 15 ranging from 5,500 at \$12.14 to 143,100 at \$11.18. Soukup wasn't available for comment, but Acquistor said in SEC filing it was U.K.-based company specializing in buying "significant holdings" in companies it believes are "fundamentally undervalued." Datron spokesman wasn't available, but company in Sept. adopted new shareholders rights plan under which, if 3rd party buys shares representing 15% or more of voting power without board approval, shareholders can buy stock at market price twice exercise price. Datron also unveiled CruiseTV STS satellite tracking system for recreational vehicle (RV) market. CruiseTV, designed for DirecTV, is 9.5" high and will ship in Jan. at \$3,295.

Pair of hackers got \$5,000 reward for successfully defeating digital watermarks in public challenge by Secure Digital Music Initiative (SDMI). Successful challengers emerged from field of 447 submissions in HackSDMI challenge, but were only ones to able to defeat one of 5 copy protection systems being considered by SDMI, group said. It didn't identify hackers or which of 3 digital watermark proposals they defeated. But SDMI said no proposal had been scuttled because of hacks and it would let proponent whose technology was defeated evaluate how its security was breached, and propose modifications or other changes.

Sony's Columbia TriStar Home Video (CTHV) said recently released "limited edition" DVD of *The Bridge on the River Kwai* will be first in collectors' series DVDs of classic films. Titles in series will include *From Here to Eternity*, *Lawrence of Arabia* and *On the Waterfront*. Limited editions are 2-DVD sets at \$39.95; 2nd disc contains "making of" documentary, archival materials and other value-added features including links to Internet. In case of *Kwai* DVD at least, disc doesn't employ "Regional Code Enhancement" that CTHV implemented last month in release of *The Patriot*. That effort to prevent Region 1 U.S. disc from running in modified players available in world's other regions met mixed success, in most cases not preventing playback in decks whose regional code settings in firmware could be changed by remote control.

Although Sony killed newly created TV ad campaign for its recently opened SonyStyle.com Web site (TVD Nov 27 p15), spokeswoman last week told us new ads were being developed that company hoped to run later this month. Upcoming spots are being created by Young & Rubicam unit of London-based WPP Group, same company that made spots that were scrapped. In meantime, Sony ran 30-sec. Wega TV ad with SonyStyle.com tag line week of Thanksgiving and 30-sec. Vaio TV ad with SonyStyle.com tag line last week. *Wall St. Journal* reported that Sony Electronics killed initial spots after several cable networks objected to them — especially one featuring Santa Claus being chloroformed and dumped into trunk of car. But Sony spokeswoman told us "that wasn't exactly accurate." Although she admitted that concerns had been raised about campaign, she said she was "not at liberty to say" specifically who raised objections. Another spokeswoman for company said: "Based on some preliminary feedback there was concerns that consumers might misinterpret the edginess of the campaign." Six ads were made for campaign — 4 of them slated to run on TV and other 2 online when dedicated WeHaveSanta.com Web site was opened. Sony decided not to start that Web site. It declined to say how much scrapped campaign was costing it.

Nvidia developed and licensed enabling 3D technology to Microsoft for software company's new DirectX 8.0 3D application program interface. Nvidia, based in Santa Clara, Cal., said its technology would allow software content creators to use more elaborate artwork and flexible 3D rendering techniques in their applications and games. Microsoft Windows Client Div. Vp Chris Jones said "as a result of" nVidia's new features, "DirectX 8.0 will enable a new level of 3D graphics applications, and new GPUs, including nVidia's, bringing new 3D rendering and shading techniques to life." As we reported, nVidia also developed Media Communications Processor and GPU for Microsoft's upcoming Xbox game console.

Member of Rent-Way audit committee that's investigating accounting irregularities at chain sold \$1.7 million of company's stock just before probe was revealed. Vincent Carrino, pres. of Brookhaven Capital Management and board member since 1995, made last of sales on Oct. 25, 5 days before Rent-Way announced investigation, which is expected to be completed by midmonth. Probe is focusing on alleged fictitious entries in financial statements in last 3 quarters of fiscal year ended Sept. 30 (TVD Nov 6 p17). Stock sold was from investment accounts that Carrino managed at Brookhaven for individuals, institutional investors or investment partnerships and timing was "purely coincidental," he told *Wall St. Journal*.

GetMusic signed content agreement with AOL under which it becomes "anchor tenant" on AOL's music channel and will be featured prominently channel's main page. Also as part of deal, BMG-Universal Music joint venture GetMusic will provide streaming video programming to AOL members who have high-speed connection as part of AOL Plus multimedia content service. Placement on AOL's CompuServe and Netscape properties also is being provided for GetMusic.

THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥111 = \$1, except where noted.

Rex Stores reported rise in 3rd-quarter net income to \$2.8 million from \$2.4 million despite double-digit decline in same-store sales of VCRs, low-end audio and TVs, major appliances. Sales rose 3% to \$105.1 million but same-store sales plunged 7%. Earnings benefited from investment in synthetic fuel limited partnership, income from which rose to \$3 million from \$1.1 million. Interest expense of partnership also increased, to \$2.6 million from \$1.4 million. In cost-cutting move, Rex scaled back new store openings for fiscal 2001 to 10-15 from 35-40 to "better focus on existing store performance." Sharp drop in sales of commodity products was offset by rise in big-screen TVs and DVD, CEO Stuart Rose said. Rex, which once specialized in selling commodity and close-out products, since has moved to higher margin items to avoid competing with discount king Wal-Mart. "It's gotten very crazy at the low end because a lot of people seem to believe that the comp store number is more important than earnings," Rose said. "We found that chasing Wal-Mart is a no-win situation and we could sell a DVD player \$50 below cost, but we wouldn't prove anything." Rex also has suffered shortages of high-definition-ready TVs from Hitachi and Sony, Rose said. While Rose projected 3% increase in same-store sales for 4th quarter, he also said price war could be looming in appliances as Home Depot and Lowe's sought to gain market share that Circuit City ceded in dropping category. Appliances accounted for 19-20% of 3rd-quarter sales, Finance Vp Douglas Bruggeman said. "We have no intention of getting out of appliances, but if the profitability gets drained there would be no reason for us to be in it," Rose said.

800.com's early tracking shows 224% jump in sales this holiday season over year ago at its e-commerce electronics Web site, company said last week. Meanwhile, Gartner, Jupiter Media Metrix and PC Data Online all reported that e-tail traffic in general this season already had taken huge leap over last year. Media Metrix said number of unique visits to online Web stores week of Thanksgiving increased more than 40% from Thanksgiving week year ago. To help transform visitors into purchasers, many e-tailers — including Amazon.com, BestBuy.com, CircuitCity.com and 800.com — once again have been offering free shipping for limited time and some have been offering huge price cuts as well. For example, CDNow has been promoting "storewide" 30% off special that's due to end Dec. 19. Separately, Roxy.com is offering money-back on-time delivery guarantee in which company and its affiliated site, www.everythingwireless.com, promise to deliver any item ordered in time for Christmas as long as it's ordered by 5 p.m. on Dec. 20. If item doesn't arrive on time, e-tailer says it will refund purchase price up to \$100.

MPAA Pres. Jack Valenti took home \$1,119,250 million in combined salary and payments from related company that owns MPAA hq. His 1999 compensation rose 5% from \$1.07 million in previous year, according to Form 990 tax forms that non-profit communications organizations filed with IRS. MPAA had banner year as revenue jumped 16.3% to \$42.3 million from \$36.4 million year earlier, converting \$2.3 million deficit into \$1.8 million excess despite expenses' rising to \$40.6 million from \$38.6 million. Most of revenue (\$36 million) came from member dues. Valenti's earnings, which are believed to be even higher with payments from for-profit international affiliate, led 24 MPAA officers making more than \$100,000. Those in Washington office were Senior Vps Fritz Attaway (\$173,729 plus \$23,164 from building corporation) and Vans Stevenson (\$187,461), and Vps Cynthia Merifield (\$177,180), Rich Taylor (\$134,018) and Tod Cohen (\$131,911), who now is eBay's lobbyist. For salaries of other association executives, see report in Best.-Cable section.

Consumer Electronics Personals

Kim LeMasters departs as ReplayTV CEO, replaced by founder **Anthony Wood**. **Merle Eakins**, ex-Emerson and Philips and most recently Primestar vp-retail sales, joins Aiwa America as senior vp-sales; **Scott Wellington** leaves as Aiwa product mgr., plans unannounced... **Steve Tirado**, Silicon Image exec. business development & mktg. vp, promoted to COO; **Badar Baqui**, ex-Fujitsu Microelectronics, named exec. engineering vp... **Paul (Trip) Williams III**, Outpost.com business development and finance senior vp, promoted to CFO, succeeding **Katherine Vick**, recently named pres... **Amy Belew**, CDNow vp-customer service and operations, and **Sharon Delman**, Kodak.com chief mktg. officer, to speak at eCRM 2001 conference Feb. 20-23 at Wyndham Palace Resort & Spa, Orlando... **Edward Kidston**, Kidston Family Co. CEO, elected to Celerity board... **Changes at RealNetworks:** **Thomas Frank** resigns as COO; **Peter Jackson**, ex-Qualcomm, named chief consultant, wireless and mobile technology; **Senior Vp Richard Cohen** adds consumer business responsibilities... **Fiona Dias**, ex-Stick Memory, named senior vp-mktg., Circuit City.

Energizer Holdings said it expected lower first-quarter sales and earnings on weak battery demand following last year's heavy Y2K purchases. Energizer, which was spun off from Ralston-Purina in 1999 (TVD Oct 4/99 p14), projected earnings of 50-60¢ per share on 12-16% decline in sales to \$565.5-\$592.7 million. Analysts had projected earnings at 84¢. CEO Patrick Mulcahy also blamed earnings shortfall on "aggressive inventory management" by some U.S. retailers and currency devaluations in "several key markets." Despite earnings warning, Energizer share of battery market rose 2% to 34% in 13 weeks ended Nov. 18, according to A.C. Nielsen. Energizer stock fell 12% on Nov. 29 to \$19-1/16, but rebounded to finish week at \$19-7/8... **Moltech Power Systems**, which acquired Eveready's Energizer rechargeable battery business year ago (TVD Nov 8/99 p19), will introduce Millennium Rechargeable Power Systems batteries and chargers at CES in Jan. Millennium AA, AAA, C, D and 9-volt nickel metal hydride (NiMH) batteries will carry \$7.49-\$12.49 retails, while lithium-ion and NiMH power packs for wireless telephones and camcorders are priced at \$30.99-\$54.99 and \$38.99-\$92.49, respectively. Chargers will be \$15.99-\$21.99. In introducing rechargeable product line, Moltech is reviving Millennium brand that Gates Energy Products used before selling business to Eveready in 1993 (TVD Sept 20/93 p15)... **Battery Technologies (BT)** acquired Accucell Deutschland, which developed and marketed batteries in Europe based on BT's reusable alkaline manganese (RAM) technology. BT issued 3 million shares of common to Accucell owner Ronald Muller, 2.3 million of which are payable based on "future performance," BT said. Accucell has sold RAM-based batteries through retail at Media Market and Mr. Battery in Germany and on OEM basis to Thyssen Industries' Krupp Div. In U.S., Rayovac has marketed RAM-based batteries under Renewal brand.

Consumer intentions on buying TV sets fell significantly in Nov. from Oct., according to preliminary data in Conference Board monthly survey. Of 5,000 households polled, 5.5% said they planned to buy TV set in next 6 months, vs. 6.9% in Oct., 6.6% in Sept., 6.6% in Nov. 1999. Consumer Confidence Index fell in Nov. Conference Board said: "The 9-point drop in Consumer Confidence over the last 2 months underscores an anxiety about future economic conditions. The dip in expectations may reflect concern about the still unresolved Presidential election."



TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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SUMMARY-INDEX OF WEEK'S NEWS

Broadcast - Cable

TV ISSUES DELAYED by election dispute. Slow transition expected to sidetrack issues, agency appointments. Powell seen heading FCC. (P. 1)

TAUZIN ENDORSES POWELL for FCC chmn., says they will meet this week. Both favor FCC reform in speeches. (P. 3)

OWNERSHIP RULE CHANGES being made without rulemaking, Anderson Bestg. lawyer says. FCC drops license transfer application after petition. (P. 4)

DBS MUST-CARRY SET by FCC. Rules closely mirror cable, despite court appeals. DBS to continue to fight. (P. 5)

WIRETAP CASE could affect broadcasters, Supreme Court is told. Station sued for airing wiretapped tape. First Amendment issues raised. (P. 6)

CASE PREDICTS OKAY of AOL-TW merger by end of year, despite FTC, FCC issues. Kennard indicates optimism. (P. 7)

BELO HIGH ON INTERNET, Decherd tells analysts. TiVo seen at 'beginning of something very different.' (P. 7)

TV ISSUES SEEN DELAYED BY ELECTION DISPUTE: TV and communications issues could be sidetracked in early days of next Administration because of prolonged Presidential election, lobbyists and analysts said as they awaited resolution of dispute over Fla. With either new Administration facing abbreviated transition period, complex technology matters that received little attention during campaign weren't seen likely to get priority in critical first few months. Tex. Gov. George Bush or Vice President Gore would "have much bigger issues to grapple with" in their first 100 days, and weren't likely to focus on telecom, Precursor Group analyst Scott Cleland said. "This is not a normal transition," he said, and "practically, most timetables will have to slip."

Usually, most communications policy is set by 2nd- or 3rd-level appointees, presenting particular trouble this year since even top cabinet officials can't be named. Staffer of one lobbying group said it usually would spend this time educating incoming Administration. "We're in a bit of a holding pattern right now," she said, especially since it also still wasn't known who would run several key congressional panels such as House Commerce Committee. "No one knows who to contact," AeA Senior Vp-Domestic Policy John Palafoutas said.

Although both Bush and Gore have announced they were proceeding with some transition activity, "they're not in a position to say, 'Give me resumes,'" Palafoutas said. By contrast, Clinton Administration transition by this time 8 years ago already had reached level of forming FCC transition team headed by lawyer Ron Plesser. That was subset of Science & Technology team led by former astronaut Sally Ride. Even so, Clinton later was widely criticized for perceived general tardiness in making appointments. "The politicking that goes on during this time [usually] is intense," Palafoutas

Consumer Electronics

QUESTIONS AROUND ON BEST BUY acquisitions of Magnolia and Musicland. Fate of Magnolia's membership in PRO Buying Group is uncertain. (P. 10)

PIONEER TO FOCUS ON CORE BUSINESS such as DVD, video displays, key components, Pres. Ito says. Company claims 15% DVD player share and 20% of dollars. (P. 12)

PLAYSTATION 2 SCAMS UNCOVERED: Dubious online videogame console retailers and counterfeit software are proliferating on 2 continents. (P. 13)

PAL PS2 HITS DVD SNAG: Sony game console won't permit DVD movie play through RGB output that lacks copy protection, we have learned. (P. 15)

ZENITH-TELECRUZ ALLIANCE to produce 27" interactive TV with e-mail and Web browsing as Zenith takes 2nd crack at market. (P. 15)

SHARP SLOWS LCD TV continuous grain silicon technology with volume production set for 2002; widescreen LCD sets expected next year. (P. 16)

said. "Now you're bumping into the holiday season, you have people traveling... Unless there's a lot going on in a subterranean manner, it's going to push it [key personnel decisions] back further than we'd like."

That means immediate action could require grabbing attention of top advisers and linking technology issues to larger policy questions such as state of economy. One source with conservative group said Bush team was expected soon to call for proposals for top 5 policy moves it could implement immediately following inauguration.

Administrations have handled technology policy differently, and next one will face key structural decisions first, Plesser said. For example, he said, Carter Administration's White House staff handled most technology decisions, whereas Reagan Administration farmed most out to agencies. One source told us Bush team favored quickly appointing high-level "technology czar" to centralize information technology policy. Palafoutas said that would be "big title to fill," questioning whether anyone in industry today had sufficiently broad knowledge base to cover all of tech policy. "We're intrigued by the idea," said spokeswoman for Information Technology Industry Council, "but the devil's always in the details. We have to figure out what the role of that person would be."

If Bush did appoint technology czar, we're told, among leading candidates would be: (1) Timothy Adams, former staffer for President Bush who handled many technology issues on younger Bush's campaign. He left his job as managing dir. of G7 Group, Washington policy firm, early this year to work on campaign full time, and most recently has been top policy adviser for Vice Presidential candidate Dick Cheney. Adams is expected at least to play leading role in transition. Staffer for still-skeletal Bush transition team told us Adams hadn't yet reported to that office but was expected soon. (2) Defeated Sen. Abraham (R-Mich.), author of this year's digital signature legislation who is widely respected by technology lobbyists. "There are a lot of rumors flying," his spokeswoman said. "We're just not commenting." (3) Former Indianapolis Mayor Stephen Goldsmith (R), who has been general domestic policy adviser for Bush campaign and has represented him in discussions on online privacy.

Powell, Swindle Seen Agency Front-Runners

Among key appointments to be filled are FCC and FTC chmn. Some suggested that delays, combined with 50-50 split in Senate, could box Bush transition team into simply naming FCC Comr. Powell and FTC Comr. Orson Swindle as at least acting chairmen of their respective agencies to avoid protracted confirmation process. Both have been long rumored as among leading candidates, and their appointments "now look very likely," Progress & Freedom Foundation Pres. Jeffrey Eisenach said. Prudential Securities analyst James Lucier questioned whether shortened transition would force Bush's hand in that direction, since FCC appointments "are unlikely to breed the sort of controversy you see with appointments to the federal bench." He said it had appeared Powell was leading FCC candidate anyway, and he "has been wisely keeping a low profile on the issue." Other repeatedly rumored candidate for the top FCC position remains Tex. PUC Chmn. Pat Wood, with the other Republican at FCC, Comr. Furchtgott-Roth, not often mentioned. FTC Comr. Timothy Leary sometimes is mentioned as less ideological alternative to Swindle.

It's not unusual for either 5-member agency to continue to favor previous Administration's party by 3-2 ratio for months or longer after new party takes power, until term expiration or retirement allows new appointment. FCC Chmn. Kennard, whose term as commissioner expires in June, and FTC Chmn. William Pitofsky, whose term runs out in Sept., both have expressed interest in finishing their terms even if they no longer are chmn. Assuming Democrat FCC Comr. Ness gets recess reappointment from President Clinton, new President would have no vacancies to fill. However, "there may not be a recess to do it," one source said, only half in jest. Both regulatory agencies have "pretty entrenched bureaucracies" and can keep running fairly smoothly without much intervention from new Administration, Plesser said. He said his FCC transition team submitted 90-page briefing book by Christmas in 1992 on issues facing agency that was helpful, but "I'm not sure it was a total necessity. I don't think the government would fall apart if we didn't have that. There's obviously a lot of continuity at regulatory agencies." FCC and FTC "are designed to follow election outcomes on a delayed track" anyway, Prudential Securities' Lucier said.

Larger immediate impact could be felt on first budget submitted by new Administration, Lucier said. Budget normally is due in early Feb., but Clinton Administration was given month's reprieve in its first year and next President could get same. Particularly if Bush prevails, his attention will be on "ensuring it reflects whatever policy differences Bush might have with the Clinton Administration," Lucier said.

Commerce and Justice Depts. could face short-term difficulties setting communications policy since not only political appointees but many career staffers have left, Plesser said. "Who would you even talk to at the Commerce Dept. today... I don't think there's anyone [left] on the staff there who had any impact." While independent agencies such as FCC and FTC "have some precedent to what they do," communications policy at Executive Branch agencies "seems to reinvent itself each time there's a change in the Administration," Plesser said.

TAUZIN ENDORSES POWELL FOR FCC CHMN.: Although neither has been formally appointed to new position, FCC Comr. Powell and House Telecom Subcommittee Chmn. Tauzin (R-La.) seemed ready last week to work together on major FCC reform next year. Tauzin, who's considered leading candidate to head full Commerce Committee, went so far as to endorse Powell for FCC chmn. in speech last week at Progress & Freedom Foundation event. Powell, who is considered front-runner for at least interim chairman if Tex. Gov. George Bush becomes President, gave what appeared complementary speech, at one point seeming to send message to Hill that he could work with Congress to make changes. Powell aide told us later speeches "weren't coordinated."

Tauzin called Powell "brightest light on the Commission." He said he informed Powell earlier in week that he would say so, and "Michael indicated to me he's flattered." Tauzin said he would meet with Powell this week, without elaborating on what topics would be. But in his speech, Tauzin emphasized FCC reform, including restructuring agency's bureaus to reflect new telecom world, and said many necessary changes could be made without congressional intervention if FCC chmn. exerted enough will. Meanwhile, Powell called for lessening regulation that impeded innovation. His speech appeared almost chairman-like as he recommended new "agenda" that would provide "greater reliance on deregulation and competitive markets." He laughed when reporter suggested he was positioning himself for new role as chmn., but audience was dotted with top lobbyists, some of whom said they came because Powell could be headed for that spot.

"Assuming I am chairman-elect" of full Commerce Committee, Tauzin said FCC reform would be among his first priorities for coming year. Of course, he hasn't been named chmn., and he acknowledged that there probably would be no formal announcement until Jan. He and his opponent for position, Rep. Oxley (R-O.), were interviewed last week by House Republican Steering Committee. It still wasn't clear how GOP would make choices, and we're told methodology could be decisive. That's because Tauzin appeared to have support of party leadership, in part because of his prolific fund-raising for other Republican House candidates this year, whereas more ideologically orthodox Oxley has more friends among rank-and-file Republicans. "Billy [Tauzin] remains confident that he has done everything necessary," said his spokesman Ken Johnson. Oxley spokeswoman said: "I never have handicapped this race and I'm not going to start now."

But uncertainty didn't stop Tauzin from describing some of his likely agenda as Commerce chmn. He said his reform of FCC could extend to other agencies under Commerce's jurisdiction, including FTC. He said there would be some role for Congress, particularly in curbing FCC's merger reviews, which he said bordered on "unconstitutional" by requiring "voluntary" agreements from companies in exchange for approval. He said he had evidence that was "extensive, although not public," that agency was extracting such concessions as requiring donations to favored charities. Reps. Burr (R-N.C.) and Pickering (R-Miss.) have suggested limiting merger reviews to 90 days and preventing imposition of conditions, with only approval or denial as options. "That's probably a good model for the FTC" as well, Tauzin said, and he suggested that with help from Judiciary Committee it could extend to Justice Dept.

Tauzin, along with Rep. Gillmor (R-O.), has proposed commission to study FCC reform. He said such panel could be created voluntarily without formal legislation, to get process rolling. He acknowledged that narrowness of margin in House and tie in Senate meant any proposal would "have to meet with bipartisan sup-

port. Many proposals will have to be compromised." Tauzin also blasted recent FCC and FTC interest in imposing cable open access rules specifically on AOL/Time Warner and perhaps to cable industry as whole. Speaking to reporters later, Tauzin said he was "offended" agencies would contemplate open access rules before Congress had reached consensus on issue. He said it would be unfair to impose them on one company and not on whole industry, but he also warned that even limited open access regulations for everyone could lead to more detailed ones such as colocation requirements: "How do you stop... once you're walking down that path?" Tauzin also said he still was planning hearing "as early as I can after [new President's] inauguration [in Jan.]" on networks' miscalls on election day. He said it wouldn't be "hostile hearing at all," and he would consider all proposed solutions, including that of Rep. Markey (D-Mass.) to standardize poll closing times across country.

Bureau reform can be handled by FCC itself, Tauzin said, and Powell's speech seemed to pick up from there. Powell said current regulatory scheme was too industry-specific, which didn't fit growing convergence of communications technology. Telecom Act "left unchanged the balkanized regulatory treatment of different technologies and industries that existed in the Communications Act of 1934," he said. Example is "continued uncertainty over how to treat the multitude of services that can be bundled over high-speed cable plant," Powell said. At time Telecom Act was drafted there were proposals for new Title 7 "that would recognize converged communications services more fundamentally and offer specific guidance as to its regulatory treatment," he said. Congress rejected proposal, "not yet seeing how cracked and unstable the current foundation would become."

Powell said he would like to see Commission reorganized on more functional lines, goal that former FCC Chmn. Reed Hundt sought, along with current Chmn. Kennard. FCC Comr. Ness, who was in audience for Powell's speech, said later she also supported that goal. Agency has taken some steps in that direction, by creating Enforcement Bureau and Ness noted that FCC also takes on some overlapping issues with inter-Bureau task force approach. Powell said that rather than look back at Telecom Act's progress, FCC needed to look forward and focus on how to change its regulatory scheme to conform to transformation of analog to digital communications. He recommended agenda that would: (1) "Focus on incentives" to innovation. (2) Rely more on "deregulation and competitive markets" unfettered by "intrusions and distortions from inapt regulations." (3) Reflect concern about consumer protection but not use that issue as "straw man for engaging in industrial policy."

Powell urged clearing away "regulatory underbrush to bring more simplicity to the market" and strongly recommended efforts to speed regulatory review of license transfers in mergers. "Many will seek regulation for protection or to harm competitors," he said. In answer to question from audience, he said enforcement would be highly important if regulations were lessened: "There would be clear rules on what the enforcement consequences would be. If we give you freedom, enforcement will be swift if you violate the rules."

Powell said if changes in law were necessary, FCC should act as adviser to Congress, not submitting specific proposals for legislative change but engaging in "ongoing dialog" with Hill. "I'm not going to write statutes," Powell said at one point. "I wouldn't presume to write legislation or lobby," he said. "That's what all of you can do," he said, gesturing to audience full of company representatives.

ANDERSON 'INCENSED' AT FCC: Apparently temporarily heading off fight over ownership caps, FCC removed from Dec. 7 agenda proposal to designate Anderson Bcstg. license transfer for hearing. Opponents said move was intended as mechanism to set tighter local broadcast ownership caps without rulemaking, but attorney for Anderson sent letter to Mass Media Bureau Chief Roy Stewart Dec. 6 asking him to dismiss license transfer petition entirely. Mass Media Bureau officials weren't available for comment.

Dismissal letter was sent because Anderson was "so incensed with the way they were handling this," said company's attorney George Borsari. "They were going to use this as a vehicle to adopt a rule on multiple ownership that they couldn't otherwise adopt through the regular rulemaking process." Borsari also criticized effect of designation on Anderson family, including widow of long-time broadcaster. Delay "would have been devastating" on family financially, he said, and "they [FCC] didn't care... This is the bottom side of politics."

Petition involved sale of 3 radio stations and 2 expiring construction permits in Bismarck, N.D., to Cumulus Licensing. Cumulus already owns 4 stations in market, and other major owner is Clear Channel with 2 stations. CPs are expiring too soon to allow them to be built, Borsari said. He said transaction fully complied with ownership limits in Telecom Act, but some FCC commissioners believed it still would allow too much concentration in market.

FCC has been working on rulemaking to tighten ownership caps, and "hundreds" of long-standing transfer petitions have been held up pending that decision, official said: "We've been fighting 2 years over how to process these. These people are entitled to the law as it is. You can't change the rules in the Telecom Act by administrative fiat. This is no way to set rules."

In addition to apparent opposition from Comrs. Powell and Furchtgott-Roth, FCC has been reluctant to begin actual rulemaking because of time it would take, one official said. Borsari also said FCC in rulemaking "would have to explain its reasoning on the record and allow for the inevitable court challenges. This is a backhanded way to adopt a rule."

Copyright Office, in ruling on radio Webcasting to be released Dec. 11: (1) Said broadcasters that simulcast their radio programs online were subject to same royalty requirements as Webcasters. (2) Said "consumer-influenced" Webcasts that permitted listeners to register their music preferences were covered by compulsory licenses and didn't require individual licenses for each song. (3) Scheduled arbitration to set Webcast royalties. RIAA, which is embroiled with NAB in dispute over whether radio station Internet streaming should be treated same as Webcasting for performance royalties, said it was "gratified" by Copyright Office decision and looked forward "to working with the broadcasters for a smooth transition into this marketplace." NAB said order directly contradicted federal law and congressional intent as expressed in Copyright Act. "Broadcasters currently pay hundreds of millions of dollars annually to the licensing societies representing the authors, composers and publishers, and have never been required to pay additional fees to the record companies and artists," group said. RIAA and NAB also are in federal court in N.Y. over issue of performance royalties for broadcast simulcasts. Decision in NAB's favor would preempt Copyright Office ruling, NAB spokesman said. Meanwhile, Assn. is reviewing its options following Patent Office action, he said.

FCC rules on defining radio markets have produced results that are at odds with commercial and economic reality, Commission said in notice opening rulemaking on redefining radio markets. FCC said no changes would be applied retroactively and it would continue to process existing applications under current standards. Notice seeks comment on several alternative methods of counting number of stations in market. It said current definition based on "mutually overlapping" signal contours indicated there were 52 commercial radio stations in Wichita market, allowing one owner to have up to 8 stations, although Arbitron and others would define market to have only 24 stations, allowing one person to own only 6. Among questions FCC asked are: (1) How to define markets for counties not located in Arbitron-defined markets. (2) Whether it should retain "mutual overlap" standard but revise how many stations can be under common ownership. (3) Whether to count only stations whose principal community contours overlapped. (4) Whether to count only stations that overlapped certain percentage of contour. FCC's current rules "seem to be turning the statutory design on its head" by allowing more ownership concentration than Congress wanted, Chmn. Kennard said. Comr. Ness said some rules might change but "I fear the final rules... may be the gilded padlock on the proverbial barn door." Comr. Furchtgott-Roth concurred, but said his goal wasn't to cut back ownership concentration levels, since Congress should have understood rules it was setting. He said rulemaking was justified to rationalize "our arguably arbitrary and capricious methodology" for deciding license transfers. Comr. Powell also concurred, but warned against using rulemaking process to "circumvent statutory provision and effectuate a different result than Congress intended." Comr. Tristani called rulemaking "small step" that "has come so late, and at such great cost, that it is appropriate to reflect... on the damage that the Commission's delay has inflicted on the listening public."

Sinclair Bcst. plans to complete testing of portable reception of analog TV by end of month, with goal of showing that current DTV standard can't replicate analog performance, Vp Mark Hyman said. Sinclair opposes VSB modulation system for DTV, saying COFDM would make it easier for DTV stations to reach all customers that they currently reach with analog signals. Details of test procedures aren't complete, Hyman told us, but they could be as simple as carrying current TV set around city and recording how well it receives signals. Tests will assess NTSC performance at 2 levels, using ATSC definitions: (1) In portable use, in which set can be moved from place to place, using self-contained antenna, but actual reception is when TV set is stationary. (2) In pedestrian use, such as with Sony Watchman, in which set might be moving up to 5 km per hour. Sinclair has no plans for comparable tests with ATSC DTV standard, Hyman said, because that's "no-brainer. We see enough problems with ATSC in a fully stationary mode, so we know it won't work." Current U.S. business model is for DTV receivers hooked to cable or 30-ft. outdoor antenna, Sinclair Vp Nat Ostroff said, and lack of portability "has contributed to the failed DTV rollout." Goal of Sinclair test is to provide "benchmark" for portability of analog TV, Hyman said: "If they say ATSC is going to replicate the service area of NTSC, this is another element of replication." He said ATSC developers "played semantics when promising 'replication of service,'" and ATSC fell far below true replication.

Disney gave Comcast another retransmission consent extension, until Dec. 31, for carriage of 6 ABC-owned stations, Comcast spokeswoman said, and negotiations were continuing. Last extension expired Nov. 29. Retransmission talks involve ABC stations in Comcast's L.A., N.Y.-N.J. and Philadelphia markets.

DBS MUST-CARRY SET: FCC established must-carry and retransmission consent rules for satellite carriers, barely meeting one-year deadline set by Congress in Satellite Home Viewer Improvement Act (SHVIA). Despite sweeping First Amendment lawsuit filed against govt. must-carry provisions by satellite interests in Sept., Commission opted to impose requirements largely comparable to those that already apply to cable, as directed by Congress. While noting constitutional challenge by Satellite Bcstg. & Communications Assn. (SBCA), agency said Congress already had addressed issue and U.S. Supreme Court upheld similar carriage obligations for cable in Turner must-carry case several years ago.

Spokesman for SBCA said group's legal crusade against govt. must-carry rules would continue despite FCC order. "It was nothing we didn't expect to see," he said. "We're moving forward with this litigation. Our opposition to must-carry hasn't changed."

In order, FCC gives commercial broadcast stations option of electing either must-carry status or retransmission consent right from satellite providers, just as they can do now with cable operators. Noncommercial stations also receive must-carry rights but not retransmission consent rights, just as they do with cable. Unlike cable operators, satellite providers are subject to rules only in markets where they offer local-into-local service. Satellite providers, unlike cable, also must offer all local stations in any market where they carry at least one local broadcaster.

Similar to its carriage rules for cable operators, FCC order sets up 3-year election cycle for local stations to choose must-carry or retransmission consent. However, first satellite election cycle will last 4 years to bring it in line with cable carriage election cycle that starts in 2006. For first cycle, which begins Jan. 1, 2002, stations must select carriage option by next July 1. For later cycles, choice must be made by Oct. 1 of year preceding new cycle.

Commission said local stations could opt to be carried one way (must-carry or retransmission consent) by cable in market and other way by DBS. Rejecting DirecTV argument that rules should be consistent across platforms to prevent broadcasters from giving cable advantage over DBS, agency said SHVIA "makes no reference to expanding the consistent election requirement to the satellite context." FCC said: "The service area differences between satellite carriers and cable operators also counsel against implementing such a rule" because large TV markets usually featured many adjacent cable systems while national DBS carriers covered entire market.

Although it considered arguments for and against DTV transition must-carry requirements for DBS industry, FCC punted on issue in order, just as it had avoided ruling on matter for cable industry. Instead, agency said it would tackle digital carriage requirements for satellite providers when it addressed similar requirements for cable operators sometime in future. "We find that the Commission must be able to issue rules for satellite digital broadcast signal carriage that are comparable to those for cable operators," FCC said. "We will consider the digital carriage obligations of both cable operators and satellite carriers in tandem within the context of the rulemaking for cable operators."

Among order's other provisions, FCC said: (1) Satellite carriers, like cable operators, don't have to carry duplicative

signals of TV stations in same market unless stations are network affiliates licensed to communities in different states. (2) Satellite carriers don't have to offer 2 of same network affiliates in markets, even if signals don't duplicate. (3) Satellite providers must carry all nonduplicative educational stations in any market where they offer local-into-local service. (4) Satellite carriers can't satisfy their public interest set-aside obligations by carrying noncommercial stations. (5) Satellite carriers must provide all local stations "in a contiguous manner" on their channel lineups and treat them comparably in their program guides. (6) Satellite providers can't discriminate against stations that elect either must-carry or retransmission consent and must offer them to subscribers "on comparable price terms." (7) Satellite carriers must carry primary video and accompanying audio signals of local stations, as well as "all program-related material contained" in station's vertical blanking interval, "unless carriage of such data is technically infeasible." (8) Satellite carriers are banned from requesting compensation in return for carriage.

Univision outbid Disney, Tribune and others for 13 TV stations, plus minority stakes in 4 others, owned by USA Bcstg., paying \$1.1 billion, companies said. Deal ends USA's bid to beef up stations by producing more local content. "In hindsight, we were probably overly ambitious in attempting to develop these television stations locally," USA Networks Chmn. Barry Diller said. He said he still believed in localism, but "to build stations in 16 markets from a standing start in a world of duopoly and consolidation became an impossibly difficult task." Diller said USA had considered continuing to operate stations or forming joint venture, but decided instead to focus on company's entertainment sector. Univision already owns 12 stations, including in several major markets such as L.A., Dallas, Houston, Miami and N.Y., where it's acquiring USA stations. Univision plans to convert new stations to Spanish-language programming, it said. Univision CEO Jerrold Perenchio predicted "a tremendous demand" for Spanish-language programming as Hispanic population expands. Deal gives Univision owned stations in Atlanta, Boston, Cleveland, Orlando, Philadelphia, Tampa.

FCC upheld its large fine against Cablevision Systems for not offering N.Y.C. area station on same channel as station used for its over-air broadcasts. Rejecting Cablevision's petition for reconsideration of Cable Bureau order last Feb., full Commission ordered MSO to pay forfeiture of \$127,500 for refusing to carry WXTV-TV on Ch. 41 on 21 of its 38 cable systems in area. FCC did give Cablevision relief for 4 of its systems because they didn't have Ch. 41. Fine is largest ever levied by Cable Bureau. Cablevision spokesman said MSO was "reviewing the order" but hadn't decided whether to appeal it in courts. Separately, MSO spokesman declined comment on report that company was weighing sale of its Rainbow Media programming unit to other cable programmers and operators, instead of spinning it off as separate public company.

MSTV has begun process of recruiting successor to Pres. Margita White, who had planned to retire in June and has cancer, officials said. MSTV also said LIN TV Vp-Gen. Counsel Gregory Schmidt would be interim co-pres. with White during her treatment. Search committee is headed by Morgan Murphy Stations Pres. Elizabeth Burns.

Radio ad revenue continues to outperform 1999, Radio Ad Bureau said, with 3% gain in Oct. Big gain (6%) was in local ads, while national ad revenue was down 5%.

SUPREME COURT HEARS WIRETAP CASE: Day after it ruled in Presidential election dispute, U.S. Supreme Court tackled knotty constitutional case pitting First Amendment rights of media organizations against govt. wiretapping statutes and privacy rights of individuals. Court heard oral arguments Dec. 5 in *Bartnicki v. Vopper*, case closely watched by media, wireless phone industry, Congress and First Amendment experts because of its potentially broad implications. Eight of 9 justices — all except Justice Clarence Thomas — grilled lawyers on both sides, prompting participating attorneys to predict split decision one way or other. "It's going to be very close," said Thomas Goldstein, Washington attorney representing one of parties opposing govt. side.

Complex case grew out of heated battle over contract talks between teachers union and school board in Wilkes-Barre, Pa. Unknown person intercepted and taped cellphone conversation between 2 union officials, Anthony Kane and Gloria Bartnicki, that featured former talking about "blowing off" front porches of school board members' homes if union didn't win big enough raise. Tape was placed in mailbox of Jack Yocum, pres. of local taxpayers' group, who gave copy to local radio talk-show host Frederick Vopper of WILK-AM. Vopper, who hosts public affairs show under name of Fred Williams, played whole recording on his show at least twice and replayed parts on later broadcasts, and it was picked up by local TV stations and newspapers.

Bartnicki and Kane sued Yocum, Vopper, WILK-AM and affiliated station WGBI-AM in U.S. Dist. Court, Scranton, under federal and state wiretapping and electronics communications laws, seeking compensatory and punitive damages. They charged that defendants knew or had reason to know that taped call had been intercepted illegally and that therefore they had no right to broadcast it. After court denied cross-motions for summary judgment, case made its way to 3rd U.S. Appeals Court, Philadelphia, which ruled that First Amendment prohibited civil damages against someone who disclosed innocently received tape recording. In 2-1 decision, appellate court held that it "is likely that in many instances these provisions will deter the media from publishing even material that may lawfully be disclosed under the Wiretapping Acts."

In oral argument, Supreme Court justices pressed attorneys for union officials, Vopper, Yocum and govt. on competing First Amendment and privacy arguments. Justices Sandra O'Connor and Anthony Kennedy particularly questioned Jeremiah Collins, of law firm Bredhoff & Kaiser representing Kane and Bartnicki. Kennedy asked Collins what legal precedent there was for regulating free speech not found to be seditious or obscene. O'Connor asked why wiretapping law penalties should "extend to the subsequent user who didn't do anything wrong."

U.S. Solicitor Gen. Seth Waxman, who argued case for govt. on same side as union members, faced grilling from Justices Kennedy and David Souter. They, Chief Justice William Rehnquist and Justices John Stevens and Antonin Scalia asked how far wiretapping law extended to other media groups and wondered about burden on First Amendment. "What you're doing here is suppressing speech that's valuable to the public," Kennedy said, questioning idea of making illegally taped call "tainted speech that nobody can use."

Justices Scalia and Stephen Breyer particularly lit into Lee Levine, Washington lawyer representing Yocum. Scalia, who said he didn't use his wireless phone to discuss court business

because of fears of interception, grilled Levine on why First Amendment should trump wiretapping statute in this case. "You enable the criminal to achieve his act of criminality," he said, suggesting that radio broadcast rewarded wiretapper who performed illegal act. Breyer wondered what privacy protections would be left if cellphone calls could be intercepted secretly and then broadcast with impunity.

Goldstein, representing Vopper, found himself under verbal assault mostly from Rehnquist, Scalia and Souter. They questioned him closely about legal distinction that he tried to draw between matters of "public interest" and "public significance," as he argued that latter applied to cases such as *Bartnicki* "when First Amendment interests are at their highest." They also pressed him about Congress's intent to discourage wiretapping by punishing those who broadcast or published intercepted calls.

PBS and N.Y. Times are partnering to produce national nightly newscast but initiative isn't taking off, mainly for want of corporate underwriters, they said. Newscast, which would be joint production of *Times*, MacNeil-Lehrer Productions, which offers PBS's *News Hour with Jim Lehrer*, and WNET N.Y., is planned to be aired weekdays at 11 p.m. in direct competition with local news broadcasts of commercial stations. All partners are in agreement on terms, said Rob Flynn, dir.-communications for PBS's MacNeil-Lehrer Productions, but "until we have funding, it will just remain an idea." PBS is looking for corporate and foundation backing for program, to be known as *National Edition*, Flynn said. He said discussions with *Times* had started several years ago. "There are lots of bridges to be crossed," PBS spokeswoman said, stressing that finding corporate underwriter was "big part" of it.

AT&T agreed to \$5 million settlement with D.C. govt. for noncompliance with cable service requirements as part of approval for transfer of its franchise to Comcast. Complaints against AT&T include failure to upgrade system and provide institutional network (I-Net), and nonadherence to workplace compliance and customer service requirements, said Stacy Burnette, gen. counsel of city Office of Cable TV & Telecom. City Council approved franchise transfer but companies have yet to consummate deal, she said. AT&T also reached tentative agreement with city of McMinnville, Ore., for \$300,000 cash settlement for noncompliance with local cable requirements by TCI, which it acquired, said attorney Cliff Ross, who is representing city in franchise negotiations.

NCTA said it set up "high-level committee" to promote diversity within cable industry. Committee, which planned to hold its first meeting in N.Y.C. Dec. 7, has 16 members representing major MSOs, cable programmers, Walter Kaitz Foundation, Women in Cable & Telecommunications, National Assn. of Minorities in Communications. Showtime Networks Chmn. Matthew Blank and AT&T Broadband CEO Daniel Somers are co-chairing committee, established in Sept. following presentation by NAACP Pres. Kweisi Mfume to NCTA board in June.

Syndicated TV program development alliance was announced by NBC, Gannett and Hearst-Argyle TV. First syndicated daytime TV program to be developed by group is to be announced at NATPE convention in Jan., companies said. Stations involved in partnership already reach unduplicated 60% of U.S. audience, making it easier to launch shows, they said. "This is a partnership that will allow us to focus more on programming than sales," NBC Enterprises Pres. Ed Wilson said.

CASE PREDICTS OKAY: "I'm here to tell you that we're in the homestretch" in pending AOL acquisition of Time Warner (TW), AOL CEO Steve Case told security analysts in N.Y. last week. He said he expected approvals by FCC and FTC "very soon," with deal closing before end of year. Asked after speaking at UBS Warburg conference for basis of his optimism, he said it was because "of my understanding of what the process is." He declined to explain what he meant by "process" and when asked whether he expected deal to be approved at Dec. 14 FTC meeting responded: "It's hard to say what day."

Despite Case's optimism, industry observers didn't expect deal to close before mid-Jan., if then, because FCC still must review it after FTC finishes. FCC Chmn. Kennard already has warned that Commission would have to throw its AOL-TW docket open for another 30 days of public comment if significant enough changes were made. While FCC officials have declined to say more, TW's recently announced carriage agreement with EarthLink may constitute modification.

However, Kennard said he hoped to complete agency's review of AOL's pending acquisition of TW by early next year. FTC, which has been pressing AOL-TW to open its high-speed cable lines to at least one independent ISP, is scheduled to act on deal by Dec. 14 after several postponed deadlines.

Case said 11-month wait for regulatory approvals had been beneficial in that AOL-TW executives had been able to make "concrete plans" to energize old businesses and build new ones: "We really will be able to hit the ground running... Watch what happens the first month" after merger closes, he said. He said first focus would be on building new businesses, establishing "footprint" as global company.

Also at conference, as largest Clear Channel Communications (CCC) stockholder, CEO Lowry Mays said he wasn't perturbed by company's sluggish stock performance. "I expect to stay rich," he said. "People don't understand the impact [with more than 1,000 U.S. radio stations, hundreds of billboards, several TV stations] we can have on behalf of our customers... We look forward to very long, consistent growth." Mays and his son, CFO Randall Mays, stressed synergy of radio (110 million U.S. listeners per week to CCC stations), billboards and outdoor entertainment productions. Randall Mays said CCC revenue had grown 10% and cash flow 13% in last several quarters.

AT&T Broadband CEO Daniel Somers said company was "aggressively adding new services [and] is rolling high-speed data faster than any other company." He conceded Broadband's cash flow margin was "unacceptable today." When asked when company expected to become profitable, he said "we haven't disclosed that." Somers cited AT&T Broadband's "large, well-clustered footprint," with advanced plant being "rapidly upgraded" and "intensive overbuild competition" in several areas, including Chicago, Denver, San Francisco, Fla.

Hughes Electronics Exec. Vp Eddy Hartenstein said DirecTV's advantages over cable were national platform, virtual channels, "100% digital," brand loyalty, "a powerful broadband pipeline." DirecTV's average monthly revenue per subscriber is \$59, 50% higher than cable, and its pretax return on investment is 35-40%, compared with cable's 18-23%, he said. DirecTV invests only \$725 per subscriber for its plant, Hartenstein said, while cable's investment per subscriber is \$1,200.

BELO HIGH ON INTERNET: Internet is "a very important factor" in Belo's drive to reach consumers, Belo CEO Robert Dechard said Dec. 4 at USB Warburg seminar in N.Y., and online strategy will be locally oriented, delivering personalized content and highly targeted ads "any time, any place to any device." Belo will have 100 Internet salespersons at work in 2001 and its TV station account executives are selling for Web site, he said. Belo has alliance with Strategy.com offering personalized local content to wireless and mobile devices, he said, and expects its 2000 revenue from Internet ventures to be \$10-\$11 million.

TiVo is "the beginning of something very different," David Courtney of TiVo said: "We're here, we're now, we're available." Mitchell Kertzman of Liberate Technologies said Liberate was creating software platforms for clients "in an increasingly complex infrastructure" with variety of program offerings. He said Liberate was working closely with TiVo and had developed partnership with AOL. Most popular programming, Kertzman said, is interactive gaming. Among Internet companies, he said, "the largest part of the land grab [for partners and customers] is over."

Hal Krisbergh of WorldGate Communications said in Internet world "the key word is revenue growth." He said WorldGate had partnership with AT&T Broadband on "full range of services." Main sources of new revenue other than ads, he said, include videogaming, with online consumers currently spending \$22-\$25 per month on Internet, and that's "a very modest" estimate. Randy Livingston of opentv said interactive TV programmers were very much in local market, with online ads very big in France.

Rajiv Samant of Disney Internet Group said Disney Web properties were attracting 23 million users monthly — 28% of Web universe. Disney's goal, he said, is to extend its market sites to "achieve ubiquitous presence" worldwide and company was "monetizing our sites to drive returns [and] to leverage Disney's significant off-line assets." Goal, Samant said, is 70 million users on daily basis. Company spent this year consolidating operations and divesting nonstrategic Internet assets and started movies.com and Disney Auctions with eBay and it expanded its enhanced TV offerings in *Mon. Night Football* and other programs, he said. Samant said 70.3% of adult online users used Internet for entertainment and 42.2% were "frustrated with Web navigation and search engine use."

Viacom-CBS CEO Sumner Redstone was bullish about his company, proclaiming it "a prime-time programming juggernaut... I'm telling you guys... no matter where you turn the dial, Viacom is there... We have a commanding position over everyone" and he predicted Viacom-CBS would retain No. 1 position "at least through 2004... in the face of more and more competition." With its TV networks, TV stations, programming and cable networks, "we clearly have the most explosive growth platform," he said. In his only mention of UPN, he said that network was continuing to grow. CBS programming, he said, currently is in 139 countries reaching 328 million households — 75% outside U.S.

Dechard said Belo expected \$600 million in cash flow over next 4 years, with 55% of that coming from Tex. TV station and *Dallas Morning News*. In addition to expected new investment in online activities, he said Belo's goals next year included selling off certain (unnamed) assets, repurchasing its stock and considering extending its noncore businesses. Dechard said Belo's TV stations amassed \$50 million in political revenue this year, another \$10 million from Sydney Olympics and "our objective" is to find ways to make up for that lost revenue in 2001.

LIBERTY YEAR 'TOUGH': While conceding "it's been a tough year for our shareholders," Liberty Media CEO Robert Bennett told security analysts in N.Y. that company had "cautious opportunism" perspective and market changes would "be a time of opportunity for us." Speaking at USB Warburg conference, he said "it appears that we have been overpenalized by the [stock] market," citing Liberty's positive cash flow and advantages of its pending spinoff from AT&T. Since Jan. 1, Liberty stock is down 49%. Bennett got through his hour presentation without once mentioning name of Liberty Chmn. John Malone — but Malone's name did appear on slide during presentation.

AT&T spinoff is dependent on favorable tax ruling, Bennett said, and if that comes, closing is expected in 2nd quarter. In answer to question why AT&T-Liberty expected tax break on deal, he said it was because of changing "regulatory and competitive environment" since AT&T acquired Liberty through its purchase of TCI. Among benefits to Liberty of spinoff, Bennett said, are that it currently is prohibited from owning TV stations or cable systems and "that's an area we might want to expand in." However, in answer to question he said TV station ownership "is something we have looked at" but Liberty wasn't interested except as part of investments in other companies.

Although asset value is down 53% for year, he said Liberty had \$3.8 billion cash available and would focus on "core strategic assets" in using cash. Citing positive cash flow and recent deals, including sale of Black Entertainment TV to Viacom, he said "we're trying to gather as much cash as we can." Subsidiary Telemundo has done "exceptionally well," Bennett said.

News Corp. Pres. Peter Chernin said in today's "overheated [media] environment," company had "the key building blocks in place likely to drive" continued revenue growth. News Corp., he said, is in "perfect position to weather the storm." Year ago, he said, Fox TV Network was "floundering" but today it has made "the most significant turnaround in this company." Fox News Channel is "solidly profitable," he said, BskyB is "unquestionably the world's leader" in providing home entertainment and News Corp. has placed "the largest order for set-top boxes in the world." Despite that, he said News Corp. had "companywide hiring freeze" in place.

In other presentations: (1) USA Networks' Vice Chmn. Victor Kaufman said cable channel expected 20% annual growth rate with additional first-run programming and "a very strong block" of reruns. He said USA was 2nd most profitable cable network, behind Sci-Fi Channel. (2) CBS's David Poltrack predicted that if there weren't Hollywood strikes in 2001 (as widely predicted) Big 4 TV network advertising would increase 7% next year, down from 12.5% in 2000 — year fueled by heavy political and Olympic spending.

All media ad revenue in U.S. will increase 5.8% next year to total of \$250 billion, said Robert Coen of Universal McCann. He said huge increase in TV ads by Internet companies in 2000 would be much smaller next year. He saw only 1% increase for 4 TV networks in 2001 and same for national spot TV, while Coen expected cable ads to increase 12.5%, radio 5.5%. Loss of dot.com ads in 2001 will slow overall U.S. ad growth to 4.5% from 8.1%, said John Ferris of Zenith Media.

PATENT SUITS PROLIFERATE: DirecTV and Gemstar are latest media companies to become enmeshed in proliferation of patent lawsuits. Immediate cause of recent rash of such suits wasn't clear, although some observers said it merely was result of maturation of new technologies.

Pegasus Communications (PGTV) and Personalized Media Communications (PMC) filed patent infringement suit Dec. 4 against DirecTV, Thomson Consumer Electronics and Philips Electronics in U.S. Dist. Court, Wilmington, Del. Pegasus said it was exclusive sublicensee of PMC's advanced media and communications technology patents after signing deal with company in Jan. Technologies included services distributed to consumers using Ku-band BSS frequencies and Ka-band frequencies, including those licensed to Hughes and used by DirecTV to provide service to its subscribers, complaint said. Case involves "pioneering forms of media and communications technology" that enable users to customize and personalize processing of broadcast transmissions and computerized control technologies that are used to automate receipt, storage, scheduling and rebroadcast of various forms of TV programming and other media to end users, court filing said.

Pegasus accused DirecTV of "knowingly" using patented automated broadcast control system and signal processing apparatuses and methods, known as "Harvey Patents" developed and registered to inventors John Harvey and James Cuddihy in 1987. Companies said they notified DirecTV of possible patent infringements, but latter continued to use technology. Gemstar filed similar suits against DirecTV and EchoStar in Nov.

EchoStar filed antitrust suit and counterclaim against Gemstar in U.S. Dist. Court, Denver, charging that latter's licensing practices violated various federal and state antitrust laws and others on unfair competition. Complaint detailed what EchoStar called "illegal and monopolistic" licensing practices in interactive program guide (IPG) technology.

Gemstar vehemently denied violating antitrust rules. CEO Henry Yuen said company had "open licensing policy" and offered variety of licensing programs to accommodate specific business needs of licensees. He said list of "sophisticated licensees" held by Gemstar-TV Guide was "strong attestation not only to the validity, enforceability and breadth of its patent portfolio, but to the legitimacy and flexibility of its business practice."

EchoStar alleged in suit that Gemstar had used its "power" for licensing IPG technology to "monopolize" market by wielding patent portfolio to "coerce companies into license agreements containing numerous anticompetitive terms." Suit said Gemstar's standard license agreement forced licensees to "agree to long-term exclusive contracts, nonassertion of patent infringement claims against Gemstar and its licensees, purchase of products unrelated to IPG and other unreasonable and anticompetitive provisions."

KWSB-TV (Ch. 19, WB) San Diego will be excluded from Nov. ratings reports, Nielsen said in notice to clients. Nielsen said station "engaged in activities which, in the opinion of Nielsen Media Research, were designed to influence or change the viewing habits of... sample panel members." It said ratings data for other stations wouldn't be affected. Station mailed promotional video to Nielsen sample homes asking viewers to watch its programming and include it in diaries, as well as promoting viewing on air.

Personals

Jeffrey Rosen promoted to senior vp-human resources, ABC... Promotions at Gannett Bcstg.: **Craig Dubrow** to pres., **Cecil Walker** to chmn.-CEO... **Betty Berlamino** advanced to vp-gen. mgr., WPIX N.Y... **John Lansing**, vp-Scripps Howard Bcstg. Div., named to NAB TV board... Changes at Paxson Communications: **Carol Wright-Holzhauser**, ex-KPXB-TV Houston, named regional vp-Southwest Region; **Lee Warpack** appointed regional vp-Western Region... **Jeremy Thorp**, ex-NTL, becomes chief technology officer, Tandberg TV... **Candice Meyers**, ex-Techtv, named senior vp-TV & broadband, CNET Networks.

Blair Levin, ex-FCC chief of staff and current Blue Hill Group, joins Legg, Mason telecom research team... **Manus Cooney**, ex-Senate Judiciary Committee, named vp-corporate & policy development, Napster... **Amy Isbell** promoted to vp-state legislative affairs, MPAA... **George Borkowski** of Mitchell, Silberberg & Knupp, named acting dir.-civil litigation, RIAA... Changes at American Ad Federation: **Karen Cohn** appointed vp-conference services; **Peter Shih**, ex-American Business Press, named exec. vp-mktg. and communications... Appointed at Ad Council: **Calvillo Communications**, vp-media; **Anna Teitelbaum**, ex-Family Center, dir.-corporate development... **Mary Hilton**, ex-American Institute of Architects, named dir.-public affairs, American Ad Foundation... **Terry Isner**, ex-Howrey, Simon, Arnold & White, named Patton Boggs chief mktg. officer... **James Fleming**, ex-RIAA, appointed managing dir., Adeo.

Linda Moran named special adviser to Time Warner CEO-Chmn. **Gerald Levin** and Pres. **Richard Parsons**... **Paul Meltzer** advanced to vp-product operations, Cablevision... **Joseph Gibbs**, Golf Channel, elected to Convergys board... **Howard Tigerman** promoted to vp-accounting and financial planning, Cox Communications... **Thomas Quick**, ex-GE Aircraft Engines, appointed vp-human resources, CNBC... Changes at Odyssey Network: **David Stone** promoted to regional vp-Central Region, Network Distribution and Service; **Harriet Beck** named senior vp-legal & business affairs... Changes at VH1: **Tracy Burnett**, ex-Warner Bros., as vp-business affairs/gen. counsel; **Rebecca Sloca**, ex-Artisan Entertainment, as dir.-business affairs; **Michael Lanzillotta** promoted to counsel.

FCC streamlined procedures to automatically grant some C-band earth station applications. Commission said it had made 2 major changes in way it processed applications. Beginning Jan. 16, agency will grant "routine" applications filed on FCC Form 312 proposing to use C-band fixed satellite service frequencies (3700-4200/5925-6425 MHz). Under streamlined procedures in rulemaking and order (R&O), routine C-band earth stations will be considered as granted 35 days from date application appears on public notice as "acceptable for filing" provided that no objections have been filed during required 30-day public notice period. R&O should allow FCC to grant licenses in routine applications within 55 days of filing date, including 20-day period for receipt and initial review of application, FCC said.

Hong Kong is moving toward selecting European DVB-T standard for DTV, rather than U.S. VSB-based system, govt. said. Govt. Information Technology & Bcstg. Bureau issued report saying DVB-T would "maximize the use of spectrum" and "enable easier frequency planning and transition." Govt. will seek public comment on proposed standard through end of Feb. It said applications for licenses to operate DTV multiplexes would be accepted soon thereafter.



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Paul Allen's Vulcan Ventures agreed to pump \$100 million into Oxygen Media, women-oriented cable network and Internet venture founded by former Nickelodeon chief Geraldine Laybourne. Oxygen said fresh financing would allow it to "continue to develop new online, cable and convergence programming initiatives, services and tools to better serve its growing audience." But Laybourne told *N.Y. Times* that company would scale back its Internet business, reducing number of Web sites that it maintains to trim its ambitious budget.

Consumer Electronics

A Section of Television Digest with Consumer Electronics

STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Nov. 24 and year to date:

	NOV.18 - NOV.24	1999 WEEK	% CHANGE	NOV.11- NOV.17	47 WEEKS 2000	47 WEEKS 1999	% CHANGE
TOTAL COLOR TV	815,027	901,283	- 9.6	867,115*	27,254,289*	26,246,995	+ 3.8
DIRECT-VIEW**	788,901	859,007	- 8.2	835,980*	26,180,845*	25,177,667	+ 4.0
TV ONLY#....	638,677	723,082	-11.7	698,640	21,632,394*	21,125,366	+ 2.4
TV/VCR COMBO.	150,224	135,925	+10.5	137,340*	4,548,506*	4,052,301	+ 12.2
PROJECTION...	26,126	42,276	-38.2	31,135*	1,073,444	1,069,328	+ 0.4
TOTAL VCR**...	818,825	1,179,108	-31.1	1,019,198*	26,136,975*	24,921,646	+ 4.9
HOME DECKS...	668,101	1,043,183	-36.0	881,858*	21,588,469*	20,869,345	+ 3.4
CAMCORDERS.....	159,867	147,090	+ 8.7	141,528	5,304,476*	4,402,259	+ 20.5
DVD PLAYERS....	261,198*	171,695	+52.1	219,217*	7,195,454*	3,425,648	+110.0

Direct-view TV 5-week moving average#: 2000-679,197; 1999-685,940 (down 1.0%).

Projection TV 5-week moving average: 2000-29,465; 1999-36,454 (down 19.2%).

VCR deck 5-week moving average: 2000-787,549*; 1999-786,353 (up 0.2%).

TV/VCR 5-week moving average: 2000-145,607*; 1999-135,251 (up 7.7%).

Camcorder 5-week moving average: 2000-182,962*; 1999-145,766 (up 25.5%).

DVD player 5-week moving average: 2000-326,978*; 1999-173,619 (up 88.3%).

* Record for period. ** 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.

BEST BUY MAPS AGGRESSIVE PLANS FOR MUSICLAND, MAGNOLIA: Best Buy shares recovered slightly in midday trading Fri. after plummeting day earlier on company's showstopper announcement Thurs. that it would acquire Musicland and Magnolia Hi-Fi chains and was plotting aggressive move into Canada starting in 2002. Analysts said falling share prices reflected investors' concerns about Best Buy's decision to expand when music business was sluggish and U.S. economy showed signs of slowing down.

Best Buy said it expected Musicland acquisition to close in first quarter next year, pending completion of cash tender offer at \$12.55 per share (about \$685 million), including assumption of \$265 million in debt. Deal to acquire privately held, 13-store Magnolia is worth \$85 million and is expected to close as soon as this week. Musicland CEO Jack Eugster will relinquish that post on completion of deal and will become a Best Buy dir. Best Buy Senior Vp Kevin Freeland will become Musicland pres., reporting to Best Buy Pres.-COO Brad Anderson, as will Magnolia Pres. Jim Tweten, who will retain current post.

Best Buy Chmn.-CEO Richard Schulze told financial analysts in conference call that Musicland and Magnolia acquisitions and expansion into Canada would "extend our reach into new consumer segments, thereby leveraging our current capabilities as well as [our] valued supplier relationship." He said moves also would add "important brands to our consumer-centered portfolio, thus enabling us to reach additional targeted consumers through new and expanded channels of distribution." Schulze said through Musicland, and particularly that chain's On Cue and Sam Goody stores, Best Buy now would be able to target teens, women and rural consumers in ways not previously possible. Magnolia acquisition will extend reach to affluent, early-adopter consumers previously inaccessible to Best Buy, Schulze said. He said Musicland acquisition would have 5¢ per share 4th-quarter hit on Best Buy results and 20-25¢ per share hit for first 3 quarters of next year. However, he said Musicland could add 15-20¢ per share to Best Buy bottom line by fiscal 2003.

Schulze said Musicland would add “significantly” to Best Buy’s national market share because music chain has 330 million annual customer visits and 10% share of music retail business. Musicland’s 1,331 stores represent total of 9 million sq. ft. of retail selling space, he said, and acquisition will shorten Best Buy’s “mall learning curve” and cycle times required to serve new consumer segments while protecting its brand image. Sam Goody has strong “unaided” consumer awareness, Schulze said. Best Buy strategy will be to “transform” Sam Goody name into “technology and entertainment solutions provider to new and younger consumers,” he said. What lured Best Buy to On Cue, he said, was that it served rural markets of fewer than 30,000, “where the competitive landscape provides greater margin opportunities and substantially lower costs for labor and space.” He said Best Buy envisioned aggressive expansion plans for On Cue and Sam Goody chains, estimating that there could be 75 new On Cue stores added per year over next 10 years. Schulze said Best Buy would institute “bridge strategy” next year for transforming On Cue and Sam Goody to Best Buy “ecosystem.” Strategy will include introduction of videogaming devices, MP3 products, accessories. Best Buy next year also will begin testing “pilot concepts” for 2002 introduction, including addition of packaged wireless telecom products, digital imaging gear, DBS products, Internet appliances. Schulze said small-store Media Play and Suncoast chains would be left relatively intact, although he left door open to testing hardware concepts there, too.

As for Magnolia, which had sales approaching \$100 million in 1999, Schulze said Best Buy planned to “accelerate the growth” of 13-store chain. Chain will be operated autonomously using existing management team, he said. He said Best Buy had “carved out” as many as 150 “unique market locations” throughout U.S. “that will accommodate the type of services, product offerings and customer experiences that Magnolia brings to the marketplace.” He said Best Buy planned at start to add 3-4 Magnolia locations next year, mainly in San Francisco area, with 7-10 new stores planned per year there and in other new markets. Other Best Buy executives said 150 targeted locations covered 26 markets and wouldn’t necessarily be filled by Magnolia storefronts. They said targeted openings could be “augmented” by other specialty chain acquisitions.

Best Buy had relatively little to say about its Canada entry, except that it had signed its first 8 store leases and planned first openings in 2002. Schulze said company believed Canadian market would support about 65 Best Buy stores, including 15 at start in Ontario and British Columbia. Stores are expected to range in size from 30,000 to 45,000 sq. ft, similar to those of U.S. locations, he said. Canada move is first step of broader plans to open stores internationally, but Schulze wasn’t specific except to say that expansion “may require store differentiation by country.”

Questions abound on some of finer implications of Musicland and Magnolia acquisitions, particularly latter’s membership status in PRO Buying Group, against which Best Buy competes. Also uncertain is possible fate of Jim Tweten as PRO pres. — fact that Best Buy spun positively in news releases announcing that Tweten would stay on as Magnolia pres. PRO Exec. Dir. Roger Heuberger told us that he hoped Magnolia could remain PRO member but conceded there could be potential problems if networking or other membership activities were compromised.

Sources we polled who said they were familiar with developments involving Magnolia acquisition said that Best Buy beat out equally aggressive Tweeter Home Entertainment Group in quest for Seattle chain. Magnolia purchase brings high-end AV brands under Best Buy umbrella for first time, including Krell, Martin Logan, McIntosh, Sonus Faber, Sony ES, Vienna. One CE executive, requesting anonymity, said it was his guess that Tweeter “was far from offering what Best Buy paid and was offering stock, not cash.” Tweeter and Magnolia officials couldn’t be reached for comment.

Good Guys, which competes against Magnolia in Seattle and San Francisco, has fared well against chain, said Good Guys Pres. Kenneth Weller, former Best Buy executive. “When we go head-to-head with them we do very nicely,” said Weller, who along with Good Guys founder Ronald Unkefer has sought to revive chain by shifting its focus to higher margin CE products.

Meanwhile, immediately in wake of Best Buy announcements, RadioShack executives battled fallout as stock took sharp drop on expectation that Best Buy, particularly via On Cue expansion plans, would afford it stiff competition in rural markets. Additionally, in shopping malls, Sam Goody and Suncoast would compete with 1,250 RS outlets. On Cue features 6,200-sq.-ft. format that carries DVD hardware/software and assortment of audio products in addition to CDs. Stores also contain Jam Central section that merchandises musical instruments and Game Zone for sale of used videogame and PC software. “As competitors seek to emulate us, they will catch up, but by then we will have reinvented ourselves again,” said RadioShack CEO Leonard Roberts, under whose leadership chain has narrowed what once was broad retail strategy that encompassed Computer City, Incredible Universe, McDuff’s, Video Concepts.

RadioShack has reemerged as strong CE competitor by creating series of store-within-a-store formats that feature Compaq, Microsoft, Sprint, Thomson. New strategy also has generated residual stream that’s projected to hit \$142-\$148 million in 2001, Roberts said. Indeed, RadioShack abandoned mall-based Video Concepts format after finding that “it’s a lot more difficult to operate in both spaces,” Exec. Vp-COO David Edmondson said, referring to freestanding and mall

outlets. As for Best Buy plans to add CE to Sam Goody and other Musicland stores, Roberts said that while RadioShack's share of digital AV sales was "minute" in comparison with other chains, it had "been able to dominate certain markets" including wireless phones and DBS.

Meanwhile, Best Buy rival Circuit City, conceding that "retail environment was more promotional than we expected", said it would report 31-33¢ loss for 3rd quarter ended Nov. 30, well above analysts' 8¢ estimates. At same time sales slid to \$2.3 billion from \$2.5 billion on 10% decline in same-store sales. Circuit City had cautioned analysts in Oct. that slowing sales would result in 3rd-quarter loss of 5-10¢.

Prices of analog products have "declined significantly" and "we ended up having to do a lot more units," CEO Alan McCollough told analysts in conference call. "The question is, at what point do you reach the bottom of what it costs to make these products?" he asked. His chain advertised \$39 VCR in post-Thanksgiving blitz.

Earnings also were hampered by chainwide partial remodeling programming whose "magnitude was beyond what we had seen previously," McCollough said. Circuit City embarked on remodeling after dropping appliances and replacing them with expanded assortment of videogame hardware/software and PC peripherals and accessories. It also has fully remodeled 26 of its 573 stores in adopting new format. Full remodels cost about \$3 million per store, which is above \$2.5 million that chain will target going forward, McCollough said. At Circuit City's CarMax Group, sales rose 15% to \$561.5 million from \$489 million year ago on 11% gain in same-store sales.

PIONEER TO FOCUS ON CORE BUSINESS, INCLUDING DVD: Given 15% share of DVD player sales and 20% of dollars worldwide, Pioneer Electronics will leverage that position through expanded production in China, self-manufacture of key DVD components and continuing OEM sales, Pres. Kaneo Ito told reporters at N.Y. briefing last week. Company also will focus on core digital businesses such as displays, set-tops, car navigation systems.

Those categories will generate \$1.9 billion this year for Pioneer — 30% of its global revenue and more than company received from Laserdisc business in early 1990s, Ito said. That category is down \$1.3 billion from its peak, and it and other "declining product categories" in analog domain such as VCRs, direct-view and projection TVs are gone from Pioneer lineup, he said. "We have virtually no products now in diminishing markets."

New digital categories also are profitable for Pioneer, Ito said. Company is projecting revenue will rise 5.5% to \$6.2 billion for fiscal year that ends March 31, with 38% increase in net income to \$170 million. To keep momentum, Pioneer will focus on reducing production costs 20% over next few years.

Ito said that involves building new production base in China for DVD pickups and drives, as well as increasing output from existing Chinese factories. Over next 3 years, China will represent 150 billion yen (36%) of company's dollar volume in all products, up from last year's 3%, he said. Pioneer also will outsource production to Chinese OEMs when in-house production isn't cost effective. He said some DVD pickups might be made in Japan, but by automated processes. "There's no need for automation in China," Ito said. "The average age of workers is 17 years old and we have 2-year employment contracts, so we'll always have 17-year-olds."

DVD category for home video and PCs has been strong for Pioneer, Ito and other executives said. Compared with Japan's industry consensus of 11 million DVD-Video player sales this year, Pioneer handicapped market at 17 million, Ito said — figure that industry forecast for 2001. For next year, Pioneer predicts 26 million worldwide tally, and for 2002 it predicts 36 million DVD players will be sold, compared with industry's 26 million forecast.

In growing market, Pioneer already has 15% share of sales but 20% of dollars globally as mix is strong in step-up models. "Because of this product mix, our DVD player business is a profitable one," Ito said. Company's business in DVD-ROM drives for OEM customers also is profitable, but category will become "cutthroat, price-driven market" soon, Ito said. To remain competitive Pioneer will outsource drive production in China and build its own optical pickups there, he said. Company will be shipping 5 million DVD-ROM drives to PC makers this year in market of about 30 million. Production could have been higher except for shortage of key components, Ito said.

Rewritable DVD will be next big push to maintain Pioneer's leadership in optical digital technology, Ito said. Company just announced its DVD-RW format DVR-2000 home recorder for Japan at \$2,250 and plans U.S. model in spring as soon as copy protection work is completed. Timeframe is same for DVR-103 recorder for PCs, with price tag under \$1,000.

That's Pioneer's pricing goal for future home DVD-RW decks, and company is working with Sharp to get price down on this and other technologies, Ito said. He repeated company's contention that DVD-RW format "will become the de facto stan-

dard,” given that Rewritable Products Promotion Initiative (RWPPi) now has 37 manufacturer members — including DVD+RW co-developer Sony. Ito was noncommittal when asked chances for unification of rival DVD recording formats.

“In theory, we don’t want to have some kind of format battle such as in VCR. But we’re not sure if it’s a good thing to combine 3 technologies into one,” he said. “We want a 100,000 yen recorder, but if combining makes it 300,000 yen, that’s not good,” he said, alluding to DVD Multi concept that combines DVD-RAM and DVD-RW functions. “But our door is always open,” he said. As for conciliation with DVD+RW format, Ito and other executives agreed when Paul Dempsey, Pioneer New Technologies pres., told reporters “we haven’t seen it yet. That makes it very difficult for us.” Dempsey and others told us that DVD+RW co-developer Philips hadn’t given Pioneer or DVD-RW backers any product to study.

Ito evaded comment on relationship with Philips for DVR-Blue high-definition DVD recording, which Pioneer and Sony demonstrated at CEATEC show in Japan and will do again at CES next month. “Right now we are collaborating with Sony to develop the product,” Ito said. System uses blue laser and 22.5 GB blank disc to record 2.4 hours of high-definition video. Asked when DVR-Blue product might be commercialized, Ito said “I’m closer to the Philips side this time” — allusion to 5-7-year wait compared with optimistic 2 years by Sony. Matsushita executives also believe market isn’t ready for high-definition recording, given dearth of HD programming on TV.

Meanwhile, Pioneer plans to expand DVD-Audio offerings, Ito said. Company introduced player in Japan this time last year, along with range of high-end components. “Despite the limited number of titles available, it has sold well,” Ito said. “The titles are increasing now, so this might double or triple the market.” Software arm Pioneer Entertainment has no plans for DVD-Audio titles, he said. In Feb., Pioneer will introduce \$5,500 combination deck that plays DVD-Audio and video and Super Audio CD, Ito said, and will offer \$1,600 universal DVD player with progressive scan output. Current DVR-2000 video recorder lacks progressive scan output, but Pioneer’s Chris Walker said that was for pricing reasons, not technical issue, and future DVD+RW recorders would have progressive scan output.

Other business Pioneer will drive hard in future is digital displays, Ito said. They include plasma display panels (PDP) and organic electroluminescent (OEL) displays. Pioneer already is supplying Motorola with OELs for cell phones. Production is “maxed out” at 2.5 million displays with yield “well over 95%,” Ito said. Pioneer plans to ship full-color OEL in 2002, and flexible, filmlike display just 0.2mm thick in 2003. Active matrix version also is on way, company said.

In PDP, Pioneer now offers HD-capable 50W model that sells in \$18,000 range, but goal is to cut cost in half — or to 20,000 yen per inch, Ito said. At that cost, company also is considering 37W model that could sell for under \$7,000. He said Pioneer will sell 40,000 PDPs this year, double 1999 total. Plan is to double sales in each of next 2 years. Company already is building 2nd production line, to be ready next fall. That will bring annual capacity to 150,000 PDPs, Ito said.

PDP market now is 80% commercial but that should reverse to consumer sales in 2005, Ito said. He predicted worldwide market would be 2.5 million PDPs then. Japanese consumers already are buying PDPs on installment plan, for 72 monthly payments of ¥9,800, Ito said (1¥ = \$.009). “If you divide that over 30 days, nowadays you can’t even drink coffee that cheap,” he said.

PS2 SCAMS UNCOVERED IN EUROPE AND N. AMERICA: Reports of dubious online retailers promising consumers hard-to-find PlayStation 2 (PS2) videogame consoles that they can’t actually deliver have cropped up throughout Canada and U.S. Meanwhile, counterfeit PS2 games already are proliferating in Europe, even though system made debut there only 2 weeks ago.

Better Business Bureaus (BBBs) of Canada and U.S. issued international alerts to warn consumers about Web sites that falsely advertised they had PS2s in stock. BBBs were referring specifically to 2 affiliated Web sites — www.ps2storeusa.com and www.ps2storecanada.com — that bureaus said many U.S. consumers had been complaining about this holiday season.

Canadian Council of Better Business Bureaus (CCBBB) said consumers in states across U.S. had contacted it to check on legitimacy of Web sites, which had been advertising they had “a large supply” of PS2s. CCBBB Pres.-CEO Bob Whitelaw said: “The CCBBB started to receive calls [2 weeks ago] from consumers who visited one of these Web sites, placed an order and hadn’t received the product as promised.” On Dec. 1, he said: “We continue to receive more than 20 complaint calls a day.”

Whitelaw told us last week that one particular concern about situation was that consumers “were asked to fax a photocopy of the front and back of their credit cards” — supposedly to assure speedy delivery of their gifts. But he said no

legitimate business would request photocopies of such personal financial information. Whitelaw said that by faxing copies of their credit cards, consumers not only were giving out their signatures, but also 3-digit, personal bank number on back of their cards that in essence was "the key to the vault." What that amounts to, he said, is "personal identity theft." Whitelaw also told us CCBBB so far had been unsuccessful in its attempts to locate principals or business owners responsible for Web sites in question.

PS2 Store Canada, subsidiary of Endeavor Networks that supposedly operates Web sites in question, denied any wrongdoing and issued statement on Dec. 2 in which it claimed it was being confused with Montreal-based company of same name that was "proven to be fraudulent." That Montreal company, PS2 Store claimed, "was requesting their customers to send money via Western Union, which is virtually untraceable." PS2 Store Canada pointed out that it is based in Moncton, New Brunswick. But CCBBB said company it had received complaints about was PlayStation Store of USA and/or Canada, based in Moncton — not Montreal. Whitelaw told us it "looks to be the same company, in our opinion," and CCBBB also had found offices for company in places including Maine and Quebec and he believed "money is being wired" by PS2 Store Canada "to bank accounts in Florida." He also told us Royal Canadian Mounted Police now were investigating PS2 Store.

Sony Computer Entertainment America (SCEA) spokeswoman didn't get back to us by our Fri. deadline to tell us whether PS2 Store Canada was authorized dealer for its products. But PS2 Store said Dec. 2 its "main distribution company" was Beamscope, which it said "closed down a week ago." Also unclear was whether Beamscope was authorized PS2 distributor.

Phone number listed at PS2 Store Canada's Web site for its mktg. dir., Brad MacDonald, and e-business mgr., Scott Byers, offered only recorded message mentioning controversy in which company was involved. Recording didn't let us leave message to ask PS2 Store representatives to respond to our questions. At one point on recorded message, PS2 Store claimed: "We are working with the Better Business Bureau and Sony to rectify the situation."

PS 2 Store did, however, admit in public statement available at its Web site Dec. 2 that at least some customers who had ordered consoles hadn't yet received them. But company blamed that on delay largely because of losing Beamscope as supplier. MacDonald also said in statement that his company wasn't expecting such huge demand for consoles outside of Canada: "Our marketing plan was never intended to service the whole world. We were intending to sell these units locally, out of 4 stores, spaced throughout Atlantic Canada. Never in our wildest dreams did we imagine that we would generate this sort of demand on a global scale."

Despite delay in shipments, PS2 Store said: "We do have PlayStation 2s and we will ship them as soon as possible. We are making every effort to meet our Christmas guarantee, which at this time we will meet." Two major factors that have been holding up fulfillment of orders, company said, was its need to verify every order and staff shortage. Company said in mid-Nov. that it was "having to increase all of our staff tenfold" to handle orders. However, one report said manager of PS2 Store call center claimed deliveries were delayed because of problem with UPS.

PS2 Store has been selling console, which carries \$299 SRP, for \$394, while "enhanced system" featuring console, 2 games, 2 controllers and DVD remote control has been \$599.

Meanwhile, Fountain Valley Police Dept. in Cal. reported that it, in conjunction with Palo Alto Police Dept. and U.S. Postal Inspectors Office, was investigating company called Gametek. Fountain Valley Police Sgt. Jim Perry said Gametek took 2,500 orders for PS2 at \$349.99 each at www.PS2cart.com, Web site no longer in service. Perry said company "does not have this merchandise in stock and no PlayStation 2 game systems have been delivered to any potential customer." Fountain Valley police said owner of Gametek had "been contacted and interviewed" but "no arrest has been made" as of Dec. 5. Gametek representatives couldn't be reached for comment by our deadline.

While PS2 console scams have led to many disappointed consumers in N. America, European Leisure Software Publishers Assn. (ELSPA) warned consumers to be careful where they bought PS2 games from after what it called "a spate of seizures of counterfeit PlayStation 2 game discs." Raids in Belfast, Lancashire and London by Trading Standards officers and ELSPA investigators resulted "in the seizure of large quantities of PlayStation 2 discs," ELSPA said.

Terry Anslow, chief investigator of the ELSPA's crime unit, said: "We have witnessed fakes being sold to unsuspecting shoppers for up to £30," (about \$45). He said: "When tested on a legitimate console, we have found that these discs will not even play." Interactive Digital Software Assn. (IDSA) spokeswoman told us last week that "nothing to my knowledge" had been reported like that on software front in U.S. to date. SCEA spokeswoman didn't offer comment by our deadline. Also in Europe, DVD playback complications on PS2 have been reported (see separate report, this issue).

PAL PS2 HAS DVD PLAYBACK SNAG: Sony's European PlayStation 2 (PS2) console has DVD-Video playback quirk, we have learned. Our European correspondent reports that reason is buried in small print of PS2 instruction manual and involves DVD copy prevention, or lack of it, in one playback mode of PS2s designed for Europe's PAL-format TV system. Discovery came in same week that saw PS2 scams emerge in Europe and N. America (see separate report, this issue).

As sold in Europe, PS2 comes with AV output connection cable that ends in 3 RCA plugs — 2 for audio and other for composite video. It also has adapter called Euro-AV Connector plug that lets RCA lead connect to multifunction Scart socket now found on virtually all new European TV sets. Customers also can connect PS2 with optional S-Video cable, although that input isn't as widely available on European TVs as Scart is. Those connections work fine for DVD-Video playback.

But problems arise if PS2 owner buys optional Euro-AV Cable with 21-pin Scart plug, which can feed RGB-type component video to TV when owner selects that option in PS2's on-screen menu. Console manual says that hookup gives best possible picture quality from PS2.

Trouble is, RGB option works only with videogames, as PS2 console deliberately blocks DVD-Video output in RGB mode. That's because Macrovision copy protection system doesn't cover RGB-type component video output. It only prevents copying through RF-, composite- and S-Video outputs, as well as through 3-plug Y/Pr/Pb-type component video output found on NTSC-format PS2 consoles sold in Japan and N. America but not PAL model.

Although copy protection isn't explained in PS2 PAL owners manual, note in small, fine print says "Euro-AV cable supports the video output of PlayStation 2 and PlayStation format software only. When viewing DVD videos on your PlayStation 2, use another cable that supports PlayStation 2 format video output..." RGB restriction on PAL PS2s also prevents best-quality DVD movie playback through high-end video projectors and monitors with RGB input. Sony spokesman in U.K. confirmed that RGB output restriction was intended to prevent DVD copying.

How Sony is blocking RGB output wasn't known at our deadline. Earlier this year, company ran into embarrassment when hackers in Japan discovered they could convert original PS2's RGB output to NTSC composite video in order to copy DVDs onto VHS.

Technology exists to prevent converting RGB to NTSC or PAL composite video. Patent applications filed in 1998 by Macrovision (WO 99/00097) and last year by Hewlett-Packard (99302387.8 and 99302492.6) describe different methods of degrading video quality in RGB or VGA conversion process to make video unviewable in other formats. Macrovision system confuses horizontal and vertical sync of TV or VCR, while HP's adds artifacts to spoil image. Patent filings for respective methods claim legitimate RGB or VGA viewing isn't impaired. Macrovision also patented methods and circuits for circumventing RGB-to-composite copy protection, thereby arming itself with legal means to prosecute possible hackers.

On hacking, other disappointment for European PS2 owners is that console sold there plays Region 2 DVD-Video only and can't play Region 1 discs obtained from N. America. So far, hardware or software hack hasn't emerged in Europe to modify PS2s for multiregion play.

ZENITH, TELECRUZ IN ALLIANCE: Zenith Electronics has vaulted back into interactive TV business in alliance with chip designer TeleCruz to introduce 27" (\$600) analog set by 2nd quarter.

Zenith will charge \$100 premium for addition of TeleCruz single-chip technology that combines 32-bit RISC processor with 64 Mbit SDRAM, graphics co-processor, modem, TV control. TeleCruz also grafted OpenTV's Mosaic browser onto chip, which is being manufactured by Toshiba using 0.35-micron process.

Set will be designed with 56 kbps modem, but next generation will accommodate broadband connections such as cable modem and digital subscriber line (DSL), Zenith Senior Research & Technology Vp Richard Lewis said. Zenith will introduce 27" to gauge dealer reaction before deciding whether to extend line to include 32" and 36" models, he said. Versions also could be developed for hotel/motel and education markets, he said.

Not part of first product are Gemstar-TV Guide's electronic program guide, which has been licensed to TeleCruz or Wink Communications' enhanced broadcast technology, of which Zenith is licensee, Lewis said. Zenith has no immediate plans for Wink-based product, he said.

For Zenith, TeleCruz alliance represents return to interactive market where it signed development agreement with Diba in 1996. Diba's Interactive Digital Electronic Appliances (IDEA) (TVD May 13/96 p9) platform was designed to offer many of same features as TeleCruz including Web browsing and e-mail, but it required multiple chips and carried \$400-\$600 premium for line of 27" and 35" NetVision sets (\$999-\$3,499) (TVD May 27/96 p8). Zenith abandoned Diba plans following year and briefly considered introducing set-top box.

Zenith's NetVision introduction was matched by those of Mitsubishi and Thomson with Compaq and former Curtis Mathes under Uniview brand, all of which failed to win consumer acceptance and eventually were dropped.

"We think the market is right now for this type of product to take an integrated approach, especially if you look at the number of people that surf the Internet while they're watching a game or chatting with others," Zenith spokesman said.

Despite disappointing forecast for electronics sales this season offered by Sanford Bernstein (see separate report, this issue) and others, as well as slumping PC desktop sales, NPD Intellect said "handful of technology categories" was having "triple-digit sales growth." NPD's Market Tracking indicated plasma flat-panel TV was fastest-growing category: "Although unit sales remain relatively low [for flat-panel], purchasing shot up 263% in January to October 2000 compared to the same time period last year. And sales are increasing even as average price has increased to over \$12,000." Meanwhile, NPD said DVD player sales were up 119% in terms of units as average selling price decreased 29.5%, "which is likely to further spur sales," NPD said. Digital still cameras have jumped 112%, NPD said, and devices capable of accessing Web, including cellular phones and PDAs, have been performing well. NPD Intellect Mktg. Dir. George Meier said: "These products and others have shown dynamic growth, and everything suggests that the trend will continue."

SHARP READIES LCD TV: Sharp Electronics said it had slowed production of 60W continuous grain silicon (CGS) LCD-based rear projection TV (TVD Jan 11/99 p18) to focus on smaller, more conventional LCD sets.

Handful of CGS-based sets have made their way to high-end Sharpvision dealers in U.S., but company doesn't plan volume production at new Mie, Japan, plant until early 2002, Senior LCD TV Product Mgr. Anthony Pavia said. At one point, Sharp had planned volume production for this year (TVD Dec 27 p10). Major barrier has been \$50,000 price, driven largely by expensive components, said Robert Scaglione, Home Digital Div. assoc. mktg. vp. Technology also will require separate production line at Mie factory, he said. Sharp currently produces majority of LCD panels at Tenri, Japan

To reduce price, Sharp is considering replacing current 2.6" CGS panels with smaller 1.3" or 0.7" versions, Pavia said. As currently configured, rear-projection TV has 1,280x1,024 resolution, 280 lumens, 300:1 contrast ratio.

"Even if it is not a mass volume consumer product, it is a great technology statement for us that has some benefits to it that go beyond sales," Pavia said. "It fits very well into our overall corporate embracing of LCD technology."

Sharp also remains committed to Plasma- Addressed Liquid Crystal (PALC) that it jointly developed with Philips and Sony, but never has brought to market. While Philips put PALC on back burner after developing lighting technology for it, Sharp and Sony planned to bring product to market, although no time frame had been set, Pavia said.

"We don't feel a lot of pressure so we're taking our time getting it right," Pavia said. "It could be an addition to the plasma family and supplement other screen sizes."

Along those lines, Sharp is weighing introduction of 43W or 37W plasma displays in 2001, extending line led by high-definition 50W model sourced from Pioneer, Pavia said. Pricing and specs haven't been set. Pavia declined comment on whether Sharp would continue sourcing arrangement with Pioneer, but latter is expected to introduce 37W next year (see related story, this issue).

As it moves to larger sizes, Sharp also will focus on smaller, 10-15" LCD TVs to provide volume. Current line of 10" (\$1,299), 12" (which ships this month at \$1,899), 15" (\$2,499) and 20" (\$5,999) will be replaced by 2nd-generation models in 2001 produced at Mie factory, Pavia said. New line will add 13" and is likely increase brightness and contrast to 450 candelas and 300:1 contrast from current 400 and 200:1, he said. Current 20" has 360 candelas and 240:1 contrast. Panels also will receive new treatment that will result in "normally black" pixels replacing white as hedge against dead pixels. Price of new 10" LCD also may be cut to \$999 in effort to jump-start category in strategy similar to that used with desktop PCs in mid-1990s, Pavia said.

Sharp also is likely to expand line with 21W and 28W LCD panels, both expected in 2nd half, prices not set. While specs haven't been established for 21W, new 28W will have 1,280x768 resolution with native 720p, 450 candelas and 300:1 contrast, Pavia said.

Despite plans for widescreen, Sharp remains committed to 4x3 LCD TVs for volume sales, Pavia said. "That's where a

vast majority of content is, especially in cable television, where we think most of the uses for this are going to come from. We don't believe that 16x9 makes that much of a difference in the eyes of most consumers, especially with the amount of HDTV content that is out there."

Former Office Depot (OD) employee has been charged with selling chain's confidential pricing information to rivals. Aubrey Fisher, Coconut Beach, Fla., faces mail fraud charge on suspicion of selling OD pricing data to Staples several weeks before it appeared in ads, U.S. Attorney Donald Stern said. Fisher gained access to information while working as graphic designer at OD's hq in Delray Beach, Fla., Stern said. He is accused of sending unsolicited e-mail message to Staples employee in July. Staples told FBI of letter and cooperated in sting operation. Case will be transferred to federal court in Cleveland in conjunction with related charges filed there involving Shaker Heights, O.-based OfficeMax... **CompUSA** has reached agreement to sell PC assembly plant in Fossil Creek, Tex., to Storm Inc. subsidiary Red River Technologies for \$4 million. Red River will continue building PCs for CompUSA, which was acquired earlier this year by Grupo Sanborns (TVD Jan 31 p14). CompUSA opened facility in 1998 (TVD June 29/98 p17) in effort to jump-start build-to-order PC program that featured its American and American Pro branded models. CompUSA began line in 1997 (TVD Sept 29/97 p17) using contract manufacturers, but scrapped agreements after running into supply problems.

Worldwide PC camera shipments will increase at compound annual growth rate of 72%, to 44 million in 2004 from 11 million this year, International Data Corp. (IDC) predicted. But IDC said that although worldwide PC camera market would show explosive growth by year-end, "work remains in driving this market forward." Chris Chute, IDC digital cameras and scanners research analyst, said: "The prediction that 1999 would be the springboard for PC cameras to penetrate the consumer market was right on target. Now, the critical factors fueling the digital camera market's growth include bundling with PC vendors and developing a growing infrastructure." Company also said PC cameras still suffered from "limitations" including "slow frame rates and average image quality caused by slow Internet connections." But IDC said "vendors are working exceptionally hard to improve the user's experience." Chute said: "As bandwidth increases and USB2 adoption corrects the video streaming issues, the PC camera market will continue to grow at an impressive rate." IDC said U.S. again would represent majority of worldwide market share in category in 2000 while Western Europe would be ahead in annual growth, with shipments this year jumping more than 300% from 1999. Company said it believed Logitech, Intel and Xirlink would continue to be top 3 selling manufacturers.

Three-Five Systems said 4th-quarter sales and earnings would fall far below analysts' estimates as result of LCD drive supplier's having "one-time yield issue," CEO Jack Saltich said. As result, \$7-\$8 million of orders won't be filled in quarter and "are not usually carried over to the first quarter," he said. Fourth-quarter earnings are expected to be 8-10¢ vs. 20¢ analysts had expected, while sales are projected in \$36-\$38 million range against projected \$45 million. Three-Five is major LCD supplier to Motorola... **Colorado MicroDisplay** formed alliance with Polaroid to develop and market mobile, wireless digital imaging and printing devices based on former's microdisplay technology. Alliance covers broad range of applications including miniature embedded LCD viewfinders for digital cameras.

800.COM ADDS TO PRODUCT MIX: 800.com said last week it had received authorization to sell products from 14 additional manufacturers. New agreements allow e-tailer to broaden its mix of CE, photo and telecom products as company enters heart of holiday shopping season.

Manufacturers that now have authorized 800.com to sell products from their lines are Aiwa, Atlantic Technology, ATT, Bazoooka, Canon, Carver, Cobra, Hafler, JVC, Onkyo, Polaroid, Samsung, Sound Dynamics, Uniden.

800.com Merchandising Vp Frank Sadowski told us Fri. his company had received authorization to sell full lines "in just about every case." One exception, he said, was Onkyo, which authorized 800.com for only DVD players and systems. 800.com has been adding products from those manufacturers to site "over the last 60 days."

Most products it has been authorized to sell have been added already, Sadowski said, with exceptions being Carver, which is just shipping new line, and Aiwa, which was last of 14 dealers to give 800.com authorization. Aiwa products will be added "within a week or 2," Sadowski told us.

Only surprise among manufacturers was JVC. Earlier this year, JVC Americas Pres.-CEO Katsuhiko Hattori told us that company had yet to finalize its Web dealer policy, but said that when it did it would — at least at start, anyway — select only brick-and-mortar dealers who already were authorized to sell its products at their stores (TVD Feb 21 p10). JVC spokeswoman hadn't returned call for comment by our Fri. deadline on why company opted to authorize pure-play 800.com. Also unclear last week was overall status of JVC's Web dealer policy.

E-tailer was quick to point out last week that manufacturer authorizations always had been "central to 800.com's business model" because they allow "for a direct manufacturer relationship that ensures a broad selection of products, competitive prices, a strong in-stock position and exceptional customer service."

800.com CEO Greg Drew said: "As we move into the final weeks of the busy holiday shopping season, we are delighted to further solidify our brand lineup. Authorizations are key to our full-service business model, and have put us on a clear path to profitability."

Company also said last week that to better prepare for holiday season, it had enhanced customer service, completely redesigned Web site, upgraded technical operations, added East Coast distribution center in Del. to complement one in Portland, Ore.



Progressive-scan DVD-Audio players from Toshiba are being offered in U.K. but progressive scan component video feature is defeated for PAL-format TVs used there, our European correspondent reported. New SD900E reference model and dual-transport SD500E have NTSC progressive scan output only because Macrovision copy protection for progressive scan signal is ineffective with PAL, Toshiba said. Point is moot: Although most new PAL sets can grab onto NTSC 60 Hz sync, progressive scan TVs aren't readily available in Europe. Instead, "100 Hz PAL" sets are available but don't scan progressively, merely doubling interlaced fields.

PEGASUS SUES DIRECTV: After nearly year of moving to mend frayed relationship with DirecTV, Pegasus Communications has begun new legal attack in alleging that satellite service provider infringed patents held by licensor Personalized Media Communications (PMC).

Pegasus, whose separate breach of contract suit against DirecTV is pending, signed licensing agreement with PMC earlier this year (TVD Jan 17 p21) giving it access to latter's satellite service-related patents. PMC, which has seat on Pegasus board and owns 213,000 shares with warrants to buy another one million, originally filed complaint alleging patent infringement with International Trade Commission (ITC) in 1996. While ITC found in PMC's favor, company had partial loss on appeal when U.S. Appeals Court, D.C., ruled that phrase "digital detector" was "indefinite," thus making some claims for patent infringement invalid (TVD Dec 7/98 p18). Court rejected PMC's argument that Service Channel ID packets could serve as "predetermined signal," saying data arrived at IRD in "unpredictable order."

Pegasus spokeswoman acknowledged earlier suit but said current one action "stands on its own merit." Indeed, while PMC's earlier suit, which also named DirecTV parent Hughes Electronics, Philips and Thomson as defendants, was based on 2 patents, Pegasus' complaint covered 7. Dropped from current suit was Hitachi, which was defendant in earlier PMC suit.

Suit includes earlier patent and adds 6 more covering various aspects of "signal processing and methods" that were issued to John Harvey and James Cuddihy between 1987 and 1999. Among them were patents on distribution of high-powered satellite services at 101°, 110° and 119° W and fixed satellite service at 99°, 101°, 103° and 125° W. Patents cover automatic insertion of programming at DBS uplink and pay-per-view buying authorization of satellite receivers. DirecTV spokeswoman declined comment on suit.

In partly overturning ITC decision, Appeals Court earlier declined to rule whether DirecTV infringed on other patent because issue wasn't raised in appeal. Administrative Law Judge Paul Luckern, whose opinion served as basis for ITC decision, had found that DirecTV receivers could infringe on patent because they didn't "have the capacity to generate or output information" of video overlay that linked to TV programming. Appeals court also didn't address ITC decision that turned down PMC request for injunction barring import of infringing products, issue that isn't raised in current suit.

Pegasus's legal action also represents break in what had been warming of relations with DirecTV. Companies reached agreement in Aug. on revenue-sharing and incentive payment plan for marketing and sales of DBS service by retailers and distributors in rural areas (TVD Aug 14 p8). At time, Pegasus CEO Marshall Pagon said that while agreement didn't settle litigation, it was important step forward.



JVC has formed joint venture in China to produce AV software. Company said it would team with state-owned China Record Corp. (CRC) for beginning-to-end production of DVDs, Video CDs, music CDs, cassettes. Venture, named CRC.JVC Audio Visual Software Co. Ltd., is attempt to offer high-quality software replication to China market and displace pirated materials as that country prepares to enter World Trade Organization, JVC and Chinese govt. said. JVC also will get rights to act as agent to export and distribute Chinese programming overseas.

PEGASUS PLANS CONVERGENCE: As Pegasus Communications prepares to roll out Express and iTV Internet access services, it's laying groundwork for set-top satellite receiver that will combine technologies by late 2001, Product Development Vp Christopher Walczak said.

Single STB is likely to have 60 GB hard drive and ability to provide local-into-local service in addition to Internet access and DirecTV, Walczak said. New device would be major advance from current "Powered by DirecPC" Express hardware (\$499), which essentially is 2 satellite modems bound together and connected to PC via universal serial bus. Express delivers downloads to 26" oblong receiver dish at 400 kbps, while return path is 100 kbps, Walczak said. Service is \$69 for non-DirecTV customers, \$59 for subscribers. Next-generation STB also is likely to include video-on-demand (VOD), he said.

"The box will be like a gateway so that through a wireless or Ethernet connection you can plug your PC into this device," Walczak said. "Our goal is to marry these two kinds of connectivity."

New service also will offer flash images and streamed content and Pegasus plans to reserve 20% of hard drive for content it provides, Walczak said. Pegasus will operate service using unspecified number of transponders on Hughes Electronics low-power satellite at 91° W. Pegasus also will offer Express Pro service for business applications that will provide 2 Mbps download, 256 kbps back channel, he said.

"The convergence box gives us the ability to pump out more services and extract additional revenue streams that will keep the cost of the box down," Walczak said.

As Pegasus, along with America Online, Earthlink and Juno, start selling service in first half 2001, Hughes Network Systems (HNS) will continue to provide service and hardware support, National Account Mktg. Dir. Samuel Baumel said. Level of support will depend on desires of individual partners, he said in noting that HNS will continue meeting with retail buyers to sell service.

HNS also will increase focus on small office, home office (SOHO) market with DirecPC Business Edition that will be sold based on number of users. To reach SOHO market, HNS has struck agreement with Office Depot to carry both DirecPC consumer and business editions, Baumel said.

"We're not going to give up shelf space at a retailer like Best Buy, but if they end up with a 'Powered by' customer that is fine," DirecPC Services Vp David Zaroulouk said. "This is an expansion of DirecPC and not a unilateral departure from retail distribution," Baumel said.

HNS first launched DirecPC in 1997, but struggled with pricing and program packaging in gaining 100,000 paying subscribers in U.S. Total includes 47,000-48,000 paying consumers and 40,000 SOHO customers, Zaroulouk said.

Original DirecPC also provided 400 kbps downloads, but relied on telephone line for return path. HNS will continue to maintain one-way system, but will cut price and offer upgrade program, Zaroulouk said. DirecPC data-only hardware is currently priced at \$149, while Direc Duo, which allows for DirecTV reception is \$199. Part of licensees' attraction to new

DirecPC strategy is HNS guarantee of one million subscribers, sources said.

"The original DirecPC used satellite on the front side, but had a telephone back channel which proved troublesome since customers had to wait for a dial-up connection," Walczak said.

Pegasus also will offer program to convert existing DirecPC subscribers, Walczak said. Unclear is which DirecPC licensees will gain most from HNS retail distribution. Largest HNS retailer was Best Buy, which is said to have soured on AOL since it signed alliance with Circuit City.

On iTV front, Pegasus is expected to introduce one-way phone-based Internet access service in Jackson, Miss., this month and gradually expand it to other markets where it owns TV stations including Portland, Me., and Scranton. In each of markets, Pegasus, which has agreement with Genuity to provide Internet access, is developing local portal.

ITV hardware consists of Acer-made set-top box (\$200) with 8 MB RAM and ROM and Arm Holdings' 50 MIPS processor, Walczak said. Acer has produced 50,000 units but Pegasus hasn't made commitment to more, he said.

"If there are legs to the dial-up box and it looks like there is a valid product we'd like to go back and buy more," Walczak said. "But we think the evolution is through a network connected box through a satellite."

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As Pegasus readied Express service, HNS signed agreement with Inktomi to supply its Traffic Server network caches to operations centers worldwide. HNS and Inktomi also will develop caching and content distribution software for satellite network. HNS will bundle Traffic Server with DirecPC platform to provide end-to-end caching and content distribution... Genuity said it would cut capital spending next year while maintaining 55-65% revenue growth. Capital spending will be slashed \$500 million to \$2.5 billion, it said.

SonyStyle.com unveiled new 30-sec. TV spot last week that shows Santa's elves shopping for electronic goods at SonyStyle.com Web site after being handed orders from attractive young women on roller skates. Sony products featured in spot include Aibo interactive robotic dog and Vaio computers. Products noticeably absent in spot include TVs. Visuals are set to Run-DMC's rap song "Christmas in Hollis." Ad was created by Young & Rubicam, same company as designed ads recently killed by Sony that showed Santa Claus being kidnaped (TVD Nov 27 p15). Sony Electronics e-Solutions Mktg. Vp Michael Tive told us ad will appear "in largely the same media" as original ads were planned, including such national cable networks as ESPN, TNT and USA, as well as local broadcast affiliates in major markets including L.A., N.Y., San Francisco, Washington. Online ad campaign for SonyStyle.com is running as well. Tive said TV ad would run through Dec. 19, which he said was last day consumers could order from Web site and still be guaranteed delivery by Christmas. Ad is aimed at adult consumers 25-54 and Sony is "using the ad to generate awareness" for its recently launched site, he said. Tive said that, as of Thurs., it was "too early" to say what impact ads had had on traffic and sales at site.

New address for TDK Electronics is 901 Franklin Ave., Garden City, N.Y. 11530-2933. Telephone is 516-535-2600, fax 516-294-7936 — www.tdk.com.

ELECTRONICS INTEREST DECLINES: Consumer interest in buying electronics appears to be "waning," Sanford Bernstein survey reported.

Electronics was among biggest losers of categories cited in survey, which said 42% of 712 households contacted at random said they were planning to buy fewer CE products this holiday season compared with year ago. That number was "much lower than expected," Sanford Bernstein said. Electronics was tied with home furnishings, and only category that fared worse was household appliances, at 47%.

Survey showed that only 15% of respondents said their households would be spending most of its money on electronics this season. Faring best, in comparison, was adult apparel at 33%, children's apparel 24%, toys 24%, books/music/media 22%. Survey was conducted by Keleman Assoc.

In separate report, on online retailing, Sanford Bernstein analyst Faye Landes said it appeared there had been "a flameout of the pure plays" while traditional retailers going online had been enjoying advantages over their strictly online competitors. Those advantages, report said, include: Widely recognized brand and credibility, ability to use storefronts as ad vehicle, category expertise, buying power, better access to capital.

Report also said: "Credibility in one retail category does not necessarily translate into credibility into other categories. For instance, how would consumers respond to toys or books at Home Depot?"

Most of report concentrated on Amazon.com, eBay, Priceline. Of Amazon, it said "departure of president and COO Joe Galli leaves the company with less operational firepower at a time when the business is becoming increasingly complex." Report said: "It may be difficult for Amazon to establish itself as a platform for a wide array of categories of merchandise." It also said "marketing spending higher than currently forecast may be necessary" by Amazon, while "some bricks-and-clicks entrants with category expertise may have an important competitive advantage."

One risk Landes report said Amazon faced was: "It may take time for it to become truly apparent that Amazon's forays outside of media-related categories are not successful." Other risks include investors' viewing Amazon "as a play on e-Christmas, though timing on such a play can be very tricky," and possibility that "company may be acquired by a bricks-and-mortar retailer."

As for Amazon's 3rd-quarter earnings report issued Oct. 24 (TVD Nov 6 p16) said "good news" included "upside surprise driven by big improvement in gross margin as a result of improved shipping, more cooperation from vendors and better inventory management." But report said: "While the latest 12-month revenue per customer rose to \$130 from \$108 a year ago, adjusting for time customers have spent in the franchise implies that [revenues per user per week] continues to go down." Report said figure was \$3.58 for week of Sept. 30, down from \$3.64 week of June 30, \$3.89 week of March 31, \$3.90 week of Dec. 31, 1999, \$3.98 week of Sept. 30, 1999. Decline came "as the company has added more categories," report said.

In presentation sponsored by Sanford Bernstein last week, Impiric Pres.-CEO David Sable touched on some of same issues raised by online report. Bernstein echoed some of concerns

about Amazon and added new one by criticizing quality of its catalogs, which he said contained "just a hodgepodge of stuff" and didn't really suggest company knew very much about every category in which it sold products. Among mistakes Amazon has made from beginning, he said, was not charging small fee on every order. But he praised simplicity of Amazon's one-click shopping process.

Overall, Bernstein said he believed multichannel retailing approach would be winner over pure play e-tailing. He also said he wasn't sure branded electronics ever could be very profitable online for most part, although "people will pay a premium at the Sony site just because it is Sony." Impiric is direct response division of Young & Rubicam, company that created ad campaign for SonyStyle.com (see separate report, this issue).

Bernstein also said he didn't see usefulness of banner ads on Web sites, which have effect of taking potential customer who has visited particular site someplace else — maybe never to return. "It just doesn't make sense to me."

European Union (EU) decision to permit Internet consumers to sue e-merchants in courts of member countries in which buyers live has added another wrinkle to already tenuous negotiations on global treaty aimed at harmonizing jurisdiction and enforcement of civil lawsuits, we're told. New rules, which update Brussels Convention, were approved Nov. 30 by Council of Justice & Home Affairs. They're on agenda for talks later this month on draft Hague Convention on Jurisdiction and Enforcement of Foreign Judgments, said Marc Pearl, industry representative in U.S. delegation to The Hague. Negotiators already are divided on many provisions, including article that deals with relationship of proposed treaty to other accords, he said. Article in its current form would allow new Brussels Convention rules to "trump" those of proposed Hague draft, Pearl said. That's problem for U.S. industry because new EU rules "go beyond" allowing consumer to sue dot-com for injury that occurred where both sides reside, he said. Pearl said that under French law, for example, French consumer has right to sue in court in that country by virtue of citizenship. Under proposed Brussels rules, even if injury occurred outside of France or EU, foreign seller conceivably could be hauled into court in France. There's "no business certainty," he said. Question likely to be debated at meeting this month is how to make Hague treaty — not EU rules — "default" law governing global e-commerce jurisdiction in absence of contract, Pearl said. E-commerce community isn't trying to avoid well-written treaty, he said, but why sign off on one that's "null and void"?

TVs over 24" still are not being offered for delivery at SonyStyle.com. Spokeswoman told us Fri. reason is UPS that won't ship TVs over 24". She said Sony was "working with a white glove service that is having some technical difficulties on the back end." She said: "It's a main priority for us to get that fixed." Sony didn't identify company it was working with. At this point, consumer can get information about big-screen TVs only at Sony's Web site.

THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥110 = \$1, except where noted.

ETOWN REPS TO VOTE Etown.com customer service reps will vote in Jan. on whether to form union as Web site operator moves to restructure business.

Organizing drive came as Etown.com cut 28 positions, including 13 customer reps. It also shed 10 jobs in sales and 5 at ShopAudioVideo.com e-commerce subsidiary, which accounted for 1% of privately held company's revenues and will close, CEO Robert Heiblum said.

Heiblum denied job cuts were related to effort by Newspaper Guild-Communications Workers of America (CWA) drive to organize Etown.com customer service reps. However, union official branded restructuring as "highly suspicious" and said it had filed unfair labor practice charge on behalf of 15 employees. CWA also filed petition with NLRB for vote on union representation.

"The allegations by the union are untrue and groundless," Heiblum said. "That doesn't mean that people were not happy and may be we should have reached out more." He laid customer service rep problems at feet of "a couple of" former employees who were fired, although he conceded that supervisor overseeing department "didn't do a very good job" and was asked to resign.

Reps were paid \$10.50-\$16 per hour which "matches or exceeds" wages paid for similar positions in San Francisco area, Heiblum said. Etown parent, Collaborative Media, has offices in N.Y.C. and San Francisco. There was no forced overtime, and employees worked "fixed schedules," Heiblum said. Several Etown employees told *CBS.Marketwatch.com* that company hadn't followed through on pay promises and pushed employees to work beyond job descriptions.

In shedding e-commerce business, Etown will focus on content licensing business that accounts for 75% of revenue, Heiblum said. It also will continue to maintain its DealerWeb of 20 retailers including Harvey Electronics and Best Buy, he said. Another 20 potential DealerWeb partners are in "pipeline," Heiblum said.

Etown also is seeking to raise \$10-\$25 million in 3rd round of funding with goal of turning profit by 2nd half 2001, Heiblum said. Etown raised \$3.5 million in first round, \$22 million in round that closed in Jan. Among investors are Best Buy and ZDNet. Etown had planned 3rd round in April-May, but postponed action to Sept. after stock market took Internet-related downturn. It continues to weigh IPO, Heiblum said.

California Amplifier said 4th-quarter earnings would be below analysts' estimates, citing weakness in direct broadcast satellite market. It said it would report earnings of 8-9¢ vs. analysts' consensus of 17¢. Drop was tied to Look Communications' decision to suspend \$2.2 million equipment order, CEO Frederick Sturm said. CA also has \$3.5 million backlog of other product, whose development hasn't been completed, Sturm said. In 3rd quarter, earnings rose to \$2.3 million from \$1.6 million year earlier and sales to \$32.6 million from \$26.3 million... **Datron** investor group has further increased stake in company to 286,000 shares (10.5%). Acquisitor, which originally paid \$2.2 million (TVD Dec 4 p19) for 7.26% (198,800), added balance in series of stock purchases Nov. 16-30. Purchases, made in 8 separate transactions, ranged from 17,700 at \$11.85 to 2,500 at \$12.06.

GOOD GUYS NARROWS LOSS: Good Guys (GG), crediting progress in repositioning chain as purveyor of higher end products, said 4th-quarter loss narrowed to \$9.7 million from \$25.5 million year ago. Net sales increased to \$212 million from \$191.9 million on 16.5% gain in same-store sales.

Earnings benefited from \$9.8 million gain on termination of lease in connection with expected relocation in March of 85,000-sq.-ft. Brisbane, Cal., hq to 35,000-sq.-ft. facility in East Bay area of San Francisco, company said. Annual rent will fall to \$900,000 from \$2.5 million, it said. GG also has chopped hq staff in half to 150 in last year, move that was partly responsible for decline in selling, general and administrative expenses in 4th quarter to \$64.6 million from \$68.1 million year ago.

GG's gross margin rose in quarter to 26.9% from 23.4% year earlier when it dropped home office category, but was short of 28-30% goal, company said. Slight shortfall was tied to chain's being "overly aggressive" in selling close-out merchandise, Chmn.-CEO Ronald Unkefer said. "That cost us more margin than if we had sold it over a period of time,"

GG, which has made major changes in format in last year in dropping home office and low-end CE products, will make "interim adjustments" in sales commission structure to account for higher margin products and rebate programs, Pres. Kenneth Weller said. It also will make management "adjustments" at underperforming stores in early 2001 and expects to turn profit in fiscal year starting in March, he said.

Chain is continuing to experiment with leasing space at 2 Las Vegas stores to Tower Records for sale of music and video software. Tower also runs software department in 6 jointly owned Wow stores. "We're still not running 100% with them the way we should," Unkefer said. "We get sales increases, but we've got make sure it works better for Tower at this point."

EMI sold all shares of common stock it held in Musicmaker.com to BCG Strategic Investors in private transaction, terms not disclosed. EMI spokeswoman told us Fri. only company comment was: "We're selling our Musicmaker holdings because the opportunity to sell has arisen and EMI continually evaluates opportunities such as these" in interest of its shareholders. At same time, EMI's Jay Samit and Jonathan Smith, who had been designated by EMI affiliate Virgin Holdings to be Musicmaker dirs., resigned from those positions. However, companies said EMI license agreement with Musicmaker, due to expire in June 2004, remains in place. EMI signed exclusive 5-year licensing deal with Musicmaker in June 1999 allowing Web music company to manufacture and sell custom compilation CDs using songs from EMI song catalog (TVD June 14/99 p17). At same time, EMI took 50% stake in Musicmaker.

Copy-protected videogame DVD-ROM from Greenleaf Technologies is shipping with Dell and Sony PCs during holiday selling season. Disc, made by Warner Advanced Media Operations, contains several game titles and uses Burst Cutting Area of DVD to unlock those individually when payment is made through Internet.

Super-VHS promotion by JVC will award \$50 mail-in rebate to customers who buy S-VHS camcorder and VCR within 60 days of each other. First purchase must be made by year-end and 2nd by Feb. 28 in any order but from same retailer, JVC said.

HASBRO SIGNS INFOGRAMES DEAL: Toy giant Hasbro said it was selling its Hasbro Interactive and Games.com divisions to Infogrames as part of \$100 million deal. Companies also signed long-term licensing agreement that gave Infogrames exclusive rights to develop and publish digital interactive games based on current and future Hasbro properties on all existing and future digital interactive formats.

Hasbro said it expected results of its 4th quarter and full year would fall below expectations. In conference call last week, Hasbro CEO-Chmn. Alan Hassenfeld said: "At best, we now expect to break even for the year, with the potential for a loss of between 10¢ and 20¢ per share." That's before \$140-\$170 million in pretax restructuring and other charges and potential write-down of \$35 million on sale of Hasbro Interactive-Games.com sale. Company blamed reduced expectations in large part on declines in worldwide revenue of trading card games and continued slowness in its U.S. toy group business.

Hassenfeld said Infogrames deal represented "a tremendous opportunity for both companies." Of interactive electronic games, he said: "This has been a difficult business for us and we have not been able to make money the last 2 years." He said: "We believe Infogrames is well-positioned to make this business profitable. They have the infrastructure — enhanced distribution both domestically and internationally — and tremendous expertise in the digital world."

As part of deal, Infogrames will buy 100% of common stock of Hasbro Interactive and Games.com for \$95 million in Infogrames Entertainment SA securities, representing 4.5 million common shares, and \$5 million in cash. Hasbro will get annual guarantee from Infogrames based on sales generated from licensing agreement, slated to last 15 years, although there's option for additional 5 years based on performance. Platforms covered by licensing deal include Microsoft's Xbox, Nintendo's Game Boy Advance and Gamecube, Sega's Dreamcast and Sony's PlayStation 2 (PS2), as well as games for arcades, broadband networks, cellular phones, computers, interactive TV, PDAs. Hasbro said it had about 60 games now in development, including PS2 and Xbox versions of titles under Atari, Hasbro and Microprose brand names. Games include *Circus Maximus*, *Civilization*, *Grand Prix 4*, *Micro Machines*, *Monopoly*, *Twister*, *Zoo Tycoon*.

Companies said online portal Games.com would make official bow "in early 2001," offering "more than 30 online games based on Hasbro properties" including *Asteroids*, *Clue*, *Monopoly*, *Risk*, *Scrabble*.

Commenting on deal, Infogrames CEO-Chmn. Bruno Bonnell said: "Infogrames' external growth strategy consists of 3 requirements: A willingness of the prospective partner's management to share our strategic vision, a complementary set of skills and products and, finally, value for our shareholders. The Hasbro Interactive and Games.com acquisition meets these criteria." He said: "Infogrames' access to Hasbro's long list of well-known properties fits perfectly with our long-term publishing strategy to become the leader in family entertainment. The terms are beneficial for Infogrames Entertainment, since they have no direct impact on the company's future investment capacity."

Agreement is subject to approval of Infogrames shareholders. Hassenfeld said he expected deal to close in first quarter next year.

Hasbro Pres.-COO Alfred Verrecchia said "this partnership is an important step toward achieving our key objectives [for creating] sustained long-term profitability for Hasbro." When company announced in Oct. that its 2nd-half results would fall below expectations (TVD Oct 23 p18), it announced major cost-cutting plan to achieve profitability. Among steps it said it would take were increasing its focus on Hasbro's core brands and ending reliance on blockbuster licenses, along with significant overhead reductions. At time, Hasbro said it expected to cut 500-550 positions — 5% of its global work force. But Verrecchia said last week that company was looking now to cut even more jobs.

Verrecchia said: "We currently expect head-count reductions of approximately 750 people across all divisions of Hasbro excluding Hasbro Interactive and Games.com." He said that was because company had opted to be "more aggressive in our efforts to reduce overhead." He said "restructuring program is on track." Hassenfeld closed conference call saying: "We expect to be profitable in 2001."

Arcane copyright law in Germany has been used to exact royalty compensation fee from Hewlett-Packard on CD burners allegedly used for authorized music copying from Internet. Law dates back decades to audiotape recording, and assesses fee on manufacturers of equipment used to record copyrighted materials. IFPI said 500 million CDs were pirated annually by people downloading from Web and that more than 25 million songs were available illegally online. Unauthorized copying cost \$10 billion European music industry \$1 billion last year, and \$72 million in taxes for European govts. In May, German music licensing group GEMA brought test case against HP as market share leader in CD burners for PCs. German govt. wanted to charge \$13 for each CD recorder sold since Feb. 1998, but HP challenged fee. Under settlement, HP will pay \$1.50 for each recorder sold over period and \$5 for each sold in future.

E-tailer Webvan is implementing 60-min. delivery window for customer orders. Company said change would open up "more delivery windows" and allow it to serve 15% more consumers than before. Company serves 10 markets: Atlanta, Chicago, Dallas/Ft. Worth, L.A., Orange County, Cal.; Portland, Ore.; Sacramento, San Diego, San Francisco Bay Area, Seattle. Webvan Group CEO-Chmn. George Shaheen said: "Streamlining our delivery window will help us achieve a consistent service offering in all of our 10 markets, and will help us achieve our goal of providing our customers with a full-service shopping experience that is second to none." He said: "Making this shift will also enable us to serve more customers who want webvan.com, while gaining economic efficiencies in our business model." While new delivery time already is being implemented in Sacramento and San Francisco markets now served by www.webvan.com, Webvan said "Atlanta and Chicago markets will convert to a 60-minute delivery window sometime in the first quarter of 2001." Dallas, L.A., Orange County, Portland, San Diego and San Francisco now served by HomeGrocer.com will move to one-hour delivery window from 90 min. as each market migrates to Webvan platform. First to make transition will be San Diego in mid-Jan., Webvan said. It entered into definitive merger with HomeGrocer earlier this year (TVD July 3 p22).

DVD licensees now are publicly listed at www.dvdfllc.co.jp, Web site of DVD Format/Logo Licensing Co., Pres. Makoto Inabayashi told us last week. Listing will make it easier to identify manufacturers, replicators and others with legitimate DVD licenses.

PS ONE OUTSHINES PS2 — PC DATA: Despite hype over PlayStation 2 (PS2), PS One has been by far biggest success on videogame console front this holiday season, PC Data reported.

Noting that PS One was best-selling console for week ended Nov. 25, PC Data said redesigned, smaller version of original Sony PlayStation represented 42% of all consoles sold that week, compared with only 6% for Sony's still-hard-to-find next-generation PS2.

Main reason for PS2's failure to capture more than 6% of market can be attributed primarily to Sony's decision to ship only 500,000 consoles at platform's Oct. 26 debut, with smaller additional shipments shortly after that. PC Data game analyst Matt Gravett said: "With the PlayStation 2 in short supply, the PS One is becoming a lifesaver for toy retailers." PC Data said PS One "has been the top-selling console for 3 consecutive weeks."

Gravett also said that while "the market was anticipating 100,000 [additional PS2] units a week to be available through the beginning of next year," he, like other analysts (TVD Dec 4 p15), said he wasn't convinced Sony actually had been living up to its promise. Gravett said: "Our estimates show that during the Thanksgiving week, less than a quarter of the expected units were available for sale."

However, it's hard to figure out just how many PS2s Sony actually shipped based on PC Data's figures. After all, as PC Data spokesman said, every retailer doesn't provide his company with data.

Sony Computer Entertainment America has insisted, despite what analysts have said, that its shipping schedule has been "on track."

Meanwhile, Sega Dreamcast wasn't coming anywhere near approaching PS One's sales numbers. PC Data said that for week ended Nov. 25, Dreamcast edged out Nintendo 64 with 27% of market compared with 26%. Gravett said: "Dreamcast has retained its 2nd place position in the market, but it's experiencing a tough slog competing with Sony's massive PlayStation catalog and continued publisher support."

But PC Data said there was good news for Dreamcast nevertheless, because its sales jumped 104% Thanksgiving week over week before. In comparison, Nintendo 64 sales increased only 76% as PS One leaped 58%.

Sega.com acquired San Francisco-based entertainment company FamilyWonder, terms not disclosed. Sega.com said FamilyWonder's chmn.-founder Jonathan Kaplan was assuming additional role of Sega.com pres.-CEO. As member of Sega.com's executive team, Kaplan will be responsible for company's online console and PC gaming businesses in N. America, including business development, marketing, sales, operations.

Codemasters and Snowball.com division Snowball Interactive are hosting online auction through Dec. 22 to raise money for charities in memory of Adam Petty, 4th generation pro auto racer who died at 19 in accident at N.H. International Raceway in May. Bidders and browsers can access auction at www.snowballinteractive.com/codemasters.

Consumer Electronics Personals

Appointed at Best Buy as part of deals to acquire Musicland and Magnolia Hi-Fi (see report, this issue): Senior Vp **Kevin Freeland** to become Musicland pres. when acquisition is completed in first quarter 2001; Musicland CEO **Jack Eugster** to be a Best Buy dir.; **Jim Tweten** and **Thomas Conrad** to remain Magnolia Hi-Fi pres. and senior vp-COO, respectively; Senior Vp **Tom Healy** to direct Best Buy's expansion into Canada starting in 2002. Freeland, Tweten and Healy will report to Best Buy Pres.-COO **Brad Anderson**... EMI executives **Jay Samit** and **Jonathan Smith** resign from Musicmaker.com board... **Roger Ackerman** to retire as Corning chmn.-CEO Jan. 1, to be replaced by Pres.-COO **John Loose**; **Charles Deneka**, chief technology officer, and **Norman Garrity**, vice chmn., to retire Jan. 1 and March 1, respectively, no replacements named... **Larry Iram**, Corning Precision Lens sales & mktg. mgr., promoted to mktg. & product planning dir.; **Clarice Hoffer**, sales mgr., advanced to sales & customer service dir... **Daniel Karp**, Eastman Kodak pres.-CEO, adds chmn. title, succeeding **George Fisher**, who retires at year-end; **Hector de Ruiz**, Advanced Micro Devices pres.-COO, elected to board... **Arthur O'Donnell**, ex-Digital Equipment Corp., joins Solecron as vp-COO-Global Services; **Denis Taylor**, ex-Solecron Dunfermline, vp-gen. mgr.-Europe; **Bart van Dijk**, ex-IBM, Netherlands gen. mgr... **Gene Fleischer**, ex-XO Communications, named SanDisk information systems & technology vp; **Sharon McAfee-Hunter**, ex-Dell, joins as quality and reliability vp... **David Medinets**, ex-Toysrus.com, joins onProject as R&D dir... **Jay Samit** and **Jonathan Smith** resign as EMI representatives on Musicmaker.com board as record label sells stake in Internet company... **Jonathan Kaplan**, FamilyWonder chmn.-founder, assumes additional role of Sega.com pres.-CEO after Sega.com acquisition of FamilyWonder... **Brian Allain**, vp-Lucent Internet business systems, named GeoVideo Networks COO-product development & operations... **Joseph Korb**, GoAmerica exec. vp, promoted to pres.; **David Blumenthal**, ex-Flash Creative Management, named COO... Appointed to Digimarc board: **William Krepick**, Macrovision pres.-COO, and **Alty van Luijt**, Philips Corporate Research senior vp-strategy & business development.

Broad MP3-enabled line of audio systems has been introduced by Samsung in U.K. Goal is to eliminate need for PC to make MP3 compressed recordings by building encoder into variety of shelftops, ministereos and boomboxes, Samsung said. Typically, systems have docking station for Yepp MP3 portable player, enabling users to play music stored on SmartMedia card. Built-in MP3 encoder can compress music from CDs and other sources for recording onto portable's memory card. Stereo systems also can be connected to PC in order to download music from Web for compression or for playback through stereo system. Company is even making foray into multimedia sound systems, offering PC-style tower with built-in amp, radio, detachable portable CD player, Yepp MP3 portable.

Rent-Way is expected to release results this week of audit committee probe of accounting irregularities (TVD Nov 6 p17). Investigation is focusing on alleged fictitious entries in financial statements in last 3 quarters of fiscal year ended Sept. 30.

Half-price promotion on \$100 Flash Path floppy diskette adaptor runs through year-end with purchase of JVC Digital CyberCam digital cameras. Adapter enables user to transfer digital stills from camera's MultiMedia storage card to PC for e-mailing. Camera and adapter have to be purchased at same from same retailer, JVC said.



TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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Broadcast - Cable

TRANSITION SLOW following close of Presidential election. Rumor mill open for business, involving Kennard, Powell, Oxley. (P. 1)

FTC OKAYS AOL-TW, launching debate on whether Internet rules will become model for other MSOs. FCC action awaited. (P. 2)

MINORITIES ACTION seen possible following FCC release of studies said to meet *Aderand* test. Potential depends on next FCC chmn. (P. 4)

NEWS COVERAGE REVISITED in debates on coverage of election, Supreme Court. Broadcasters hope to head off govt. action. (P. 5)

DTV JUMP-START NEEDED, Flaherty says. Hatfield sees FCC in difficult situation. Open access called wave of future. (P. 5)

AT&T TO SPIN OFF Liberty Media as part of MediaOne deal. Sale of TWE stake still preferred. (P. 6)

WASHINGTON TRANSITION SLOW, RUMOR MILL FAST: Despite final decision on Presidency, little action was seen last week on who would be handling key mass media policies in new Administration. At our deadline, no one had been named to head up FCC transition — nor had FCC Chmn. Kennard named anyone from Commission to work with Bush people. Despite that, election closure appeared to open tap on rumor mill.

Among rumors getting wide circulation in Washington: (1) Spokeswoman for Kennard said it wasn't true that he was leaving Commission before Christmas, rumor that circulated at Dec. 14 Practising Law Institute-FCBA conference. Kennard is "committed to an orderly transition," she said. (2) Newest candidate for seat on FCC, not necessarily chairman, according to rumor mill, is departing Sen. Grams (R-Minn.), ex-TV anchorman and sponsor of legislation to block low-power FM. Grams lost bid for reelection in Nov. (3) From House side comes rumor that leadership might solve dispute over who will head Commerce Committee by giving something to both Reps. Tauzin (R-La.) and Oxley (R-O.). Word is Tauzin would head Commerce but some of Committee's responsibilities, such as finance piece, would go to Banking Committee, which Oxley would head. (4) Another rumor circulating last week was possible scenario in which Sen. Warner (R-Va.), Senate Armed Services Committee chmn., would be named Defense Secy. in Bush cabinet, clearing way for Comr. Powell to be appointed by newly elected Va. GOP Gov. George Allen as senator to replace Warner. Warner said on Larry King show last week that he's not interested in Cabinet post, noting precarious balance between GOP and Democrats in that chamber.

Questioned after he appeared at telecom conference in Washington Dec. 14, Tex. PUC Chmn. Pat Wood said he was "interested" in serving on FCC but only as chairman. Both Wood and FCC Comr. Powell have been mentioned frequently as candidates for FCC chairman and there had been speculation that Wood might be willing to serve on Commis-

Consumer Electronics

ZENITH DVD-RW DECK TO SHIP in 3rd quarter at \$2,499. Progressive scan and portable DVD players also coming. (P. 10)

RCA ADDS DUPLICATION, INVESTOR: Thomson to become world's top video replicator in buying Technicolor from Carlton, which takes stake in RCA parent. (P. 11)

AIWA PUSHING DIGITAL EDGE in new product line, which drops low-end shelftop stereo and MiniDisc, adds DVD, CD-R/W, emphasizes audio performance. (P. 12)

SONY MAY EXCEED 1.3 MILLION PS2 shipment target, Tretton says. Arrest made in PS2 scam in Canada. (P. 14)

BEST BUY DEFENDS EXPANSION as prudent long-term move. Schulze 'disappointed' by Wall St. reaction to initiatives. (P. 16)

INFOCUS READIES CONSUMER PUSH with front projector with 0.7" Digital Light Processing (DLP) display, 1,024x768 resolution. (P. 17)

sion under Powell as chairman. "I'm already a chairman," Wood told reporters. "I'm good at being a chairman. I'm good at running things." Wood wouldn't say whether he had been approached about taking job by President-elect George Bush's staff. He also emphasized that there were several jobs in new Administration where he thought he could "make a difference."

Asked how he might change FCC, Wood said "there is a real need to rethink the paradigm" of regulation. For example, he said he would do much more extensive biennial review of agency regulations. He would start from scratch, assuming there were no rules, and then decide what regulations were needed, he said. By contrast, FCC assumes it will keep current rules and then decides which of them can be dropped, he said. He said he also would encourage more cooperation with state regulators.

FCBA panelist Kyle Dixon, aide to Comr. Powell, said there were key issues in pipeline, such as cable access, and they would continue to move. He said Powell also was very concerned about FCC's involvement in merger review and role there might change under new Administration.

In Bush Administration, "it is clear that the Internet will not hold the same position of importance that it held in the Clinton Administration," U.S. Internet Industry Assn. Pres. Dave McClure said. In White Paper, he said that "conspicuously missing" from Bush's technology advisers "are any companies engaged in the management of the Internet — no ISPs, no telecommunications companies, no satellite companies and no cable companies... This does not mean that there will be no Internet issues addressed in 2001, only that these issues will be driven by the Congress and the regulatory agencies rather than the Administration."

FTC APPROVES AOL-TW DEAL WITH OPEN ACCESS, DSL, ITV CONDITIONS: FTC unanimously approved AOL's pending \$111 billion purchase of Time Warner (TW) Dec. 14, with toughened open access, DSL and interactive TV requirements, setting off fierce debate over whether conditions should be imposed on entire cable industry. FTC Chmn. Robert Pitofsky, AOL, consumer groups and at least some ISPs immediately hailed Commission's consent order as "a breakthrough" and "landmark agreement" that could serve as model for all cable operators. They called on FCC to adopt similar rules for other MSOs. But cable leaders sought to downplay impact on rest of industry, calling it "unique" and "an anomaly" and saying it shouldn't set precedent for broader govt. regulation of their industry.

FCC prepared to follow FTC's lead by quickly concluding its separate but closely coordinated review of proposed deal. Sources said Cable Bureau sent its favorable recommendation to 8th floor for circulation late Dec. 13 or early Dec. 14 for approval by 5 commissioners. FCC spokeswoman said agency's staff was reviewing FTC's decision and reiterated that Chmn. Kennard "intends to act expeditiously" upon completion of that review. In several recent statements, Kennard has said that he hopes to wrap up agency's review by year-end.

While it was not yet clear what additional conditions FCC might impose on deal, consumer groups and other critics said they still were hopeful that it would sever ownership ties between TW and AT&T and force AOL to open its instant messaging (IM) services to rivals. Expressing concern about "the overlapping ownership interests between AT&T and Time Warner," Consumers Union said it would continue to press issue at FCC. Meanwhile, lobbyists for such rival on-line services as Excite@Home said they would keep pushing for IM interoperability requirements. "We're optimistic they'll do something on the subject [IM]," said Jon Englund, Excite@Home vp-govt. affairs.

In its 5-year consent order on deal, FTC went far beyond even regulatory conditions widely reported in last few weeks. Agency voted to require AOL-TW to: (1) Make at least one independent ISP available on its larger cable systems before offering AOL. (2) Add at least 2 more outside ISPs to systems within 90 days of offering AOL and negotiate in good faith with other ISPs after that. (3) Refrain from interfering with content supplied by other ISPs and interactive TV providers or discriminating against such competitors. (4) Market and offer AOL's DSL services over high-speed phone lines in TW cable areas as aggressively as it marketed and offered DSL services in non-TW regions. In smaller cable markets, requirements shift slightly to allow AOL-TW to add 3 independent ISPs within 90 days of introducing AOL.

Consent order said FTC must approve AOL-TW's carriage deals with 2nd and 3rd outside ISPs, just as it okayed TW's agreement with EarthLink announced 3 weeks ago. Commission stipulated that those agreements must be on terms at least as favorable as one already signed by EarthLink or any that AOL might sign to gain access to other MSOs' high-speed cable lines. AOL-TW is permitted to deny access to other ISPs only because of technical limitations, capacity constraints or broadband business considerations, not because its in-house ISP brands might lose subscribers. If AOL-TW doesn't sign agreements with required number of outside ISPs, FTC reserved right to appoint monitor trustee who would enter into agreements on its behalf.

"The heart of the negotiations had to do with access," Pitofsky said. "We wanted to ensure that this transaction doesn't close things down." FTC Competition Bureau Dir. Richard Parker argued that order would prevent AOL, biggest U.S. ISP with 25 million subscribers, from dominating technically superior cable broadband platform or reaching TW's 20 million franchised homes before all comers: "There will never be a time when AOL has a first mover advantage on a superior platform."

Pitofsky, whose staff seriously weighed bringing antitrust lawsuit against what Parker called "an illegal merger," said he hoped that consent order would lead to open access agreements for other MSOs. "I really do think that open access is the way to go for this country," he said. "But we don't have the authority to impose that... I hope the market produces that." If the market doesn't, he said, Congress or FCC should consider mandating it.

FTC Comr. Mozelle Thompson stressed that he supported consent agreement with 2 companies because it would protect openness of Internet and "also send an important message to the market that high-speed Internet should continue to provide consumers with choice of service and diversity of concerns." But he expressed worry that FTC took unusual step of requiring behavioral remedies rather than such structural solutions as divestitures to foster competition. He also questioned order's relatively short duration — 5 years instead of typical 10 or 20. And he questioned whether it "might not preclude the possibility of harm from the merged entity's control of AOL and Time Warner content along with the Time Warner cable systems."

FTC's approval of AOL-Time Warner deal is "an historic opportunity," AOL Senior Vp-Global & Strategic Policy George Vradenburg said, speaking at Practising Law Institute conference on Telecommunications Policy & Regulation in Washington. Consent decree embodies Feb. AOL-TW memorandum of understanding setting out broad terms of their deal, he said, calling it model he would like to see replicated throughout industry. While FTC approval took longer than expected, Vradenburg said, it's win-win situation for AOL, TW and their customers. Companies are having "productive discussions" with FCC that they expect to complete in next few weeks, he said.

Gene Kimmelman, co-dir. of Consumers Union's Washington office, called order "a landmark agreement that could bode well for competition on the Internet." Even though his group didn't gain everything it sought, he credited FTC with creating open access and granting "some of the key things we wanted." OpenNet Coalition and EarthLink officials offered similar praise. Dave Baker, EarthLink vp-law and public policy, said his company expected to be offering service in at least one major TW market by middle of next year and most major markets by end of 2001.

But NCTA Pres. Robert Sachs sought to downplay notion that agreement could serve as model for other MSOs. "The antitrust safeguards imposed by the FTC are unique to AOL's substantial Internet position and are not a precedent for broader government regulation," he said. "Agreements required by FTC lawyers should not be confused with contracts negotiated based solely on economic considerations."

PenguinRadio said deals with Activate and NTunes would provide turnkey streaming media solution for broadcasters that wanted radio station aggregation and digital media services. Streaming Plus service announced at Streaming Media West in San Jose will allow terrestrial and Internet-only radio stations to reach global audiences, Penguin said, using satellites to deliver service to customers. Company also plans to market set-top box or high-tech Internet-only radio that plugs into stereo without help of PC. It said prototype should be ready by first quarter next year. CEO Andrew Leyden said combined service gave companies opportunities to "build a large international audience by aggregating and distributing traditional and Internet-only radio stations to next-generation devices" such as PCs, Internet home appliances, Internet car radios, mobile phones, Personal Digital Assistants. Companies will compete with satellite radio companies Sirius and XM, industry expert said, but decision by U.S. Copyright Office that backed rights holder on Internet simulcasting royalties could affect future service offerings.

Charter Communications announced plan to conduct IP cable telephony trial in St. Louis area using equipment from Nortel Networks and Antec. Charter said trial, testing integration of voice and data services, would involve up to 500 cable subscribers. MSO didn't disclose how long trial would last or when it would start.

Group of 8 religious institutional investors filed proxy resolution with AT&T urging MSO to study and report on "the potential social and business liabilities" arising from its carriage of Hot Network in many of its cable homes. Led by Mennonite Mutual Aid, 8 members of Interfaith Center on Corporate Responsibility said they controlled more than 1.6 million shares of AT&T stock. Resolution, which said AT&T's "involvement in the mainstreaming of pornography is a source of serious concern for shareholders on both social and financial grounds," called on company to issue report by May on its pornography policies and "an assessment of the potential financial, legal and public relations liabilities." In particular, resolution said AT&T should outline potential legal issues, including obscenity law violations, distributing pornography to minors and "possible collusion with organized crime in the sex industry." Move by religious groups followed concerns expressed publicly by coalition of nearly 30 religious and socially concerned institutional investors in July. Coalition said it filed resolution because attempts to negotiate with AT&T had been fruitless.

EchoStar introduced 8-VSB HDTV tuner cartridge for DISH Network Model 6000 satellite TV receiver, saying it would allow customers to receive off-air analog and digital broadcasts including HDTV. Cartridges are available at participating DISH Network retailers for \$100 until Jan. 1, when price will rise to \$149.

FCC MOVES ON MINORITIES: Apparently laying groundwork for future action to make it easier for minorities and women to own broadcast and other licenses, FCC released package of studies Dec. 12 that showed women and minorities continued to face barriers in entering communications markets and in fact might have lost ground. Studies showed, for example, that: (1) Industry consolidation brought on by Telecom Act had led to higher prices for communications properties, making it harder for minorities and women to gain ownership. (2) Women and minorities had more difficulty securing financing and agency's move to auctions hadn't improved situation much.

FCC said studies could provide evidence of need that's required by U.S. Supreme Court decision in *Adarand v. Peña* before govt. can step in. *Adarand* ruling prohibits federal govt. from setting quotas or taking other action based on race or ethnicity unless there's "compelling government interest." FCC officials said if future chairman supports it, FCC could make argument that more minority-targeted action was justified. It would be up to court then to say whether justification was adequate, they said.

At forum at agency's hq, FCC Chmn. Kennard said studies showed need for Congress to reinstate tax certificate program for minority broadcasters and to expand Telecom Development Fund to help minority and women-owned businesses get capital for communications ventures. He also suggested that Commission reexamine way it determined minority ownership. Too often minorities are used as "straw participants without real opportunities for ownership," he said.

Comr. Ness said she first expressed concerns about lack of women broadcasters at 1984 FCC forum when she was in banking, and situation hadn't changed much since. Comr. Tristani said she also was concerned about study results showing women and minorities were turned away more frequently when seeking access to capital.

Among findings of studies: (1) "Minority- and women-owned businesses were statistically less likely to obtain wireless licenses in FCC auctions than were businesses owned by nonminorities." (2) Installment payments increased rate at which minority and women applications won licenses. (3) "Applications [for wireless licenses] for debt financing by both minorities and women were statistically less likely to be approved than the applications of nonminorities." (4) Minority-owned firms reported that repeal of tax certificate program "has had a severe negative impact on their ability to obtain new stations." Studies were prepared for FCC by several sources, including Ernst & Young, KPMG and U. of Washington.

African American broadcast pioneer Ragan Henry suggested Commission adopt rules that would require companies to list all efforts to involve minorities in ownership during sale process when filing license applications. "People would have to start talking to minorities," he said: "That would place us [women and minorities] back in deal flow." National Assn. of Black Owned Bcstrs. Pres. James Winston called installment payments "kiss of death" for minorities and women. He said installments made FCC senior debtor and "scares off" other investors.

Minority Media & Telecom Council (MMTC) Exec. Dir. David Honig called auction process currently used by Commission that gives minorities and women discounts "defective." Later he told us at informal gathering of civil rights lawyers and

advocates for minorities and women that MMTC would be attempting to set agenda with large companies and candidates for FCC Chmn. and Comr. Powell, and on Hill with House Telecom Chmn. Tauzin (R-La.). "Powell has been on the right side of these issues," Honig said. Group also will ask Kennard, Tristani and Ness whether they might consider staying on after George Bush takes office as President to help push their agendas. Group said they also would consider supporting Powell in his efforts to succeed Kennard. MMTC also is considering asking FCC to postpone auction of FM and AM stations until rules on minority ownership are defined more clearly.

National Rainbow/PUSH Coalition Pres. Rev. Jesse Jackson hailed proceeding and study as "bold undertaking" led by Kennard who with "great vision and insight has consistently shed light on injustice." He said it was framework through which "we can begin to heal the breach and include everyone in full ownership and full participation in communication industries." Kennard called minority ownership "wedge issue" that could divide nation during time when advancing technology is so important: "All I want to do is keep the cause alive."

Comcast Cable Pres. Stephen Burke said he was optimistic about signing retransmission consent deal with Disney for carriage of 6 ABC-owned stations in Comcast's markets before year-end. Burke told Washington Metro Cable Club that negotiations with Disney were "continuing and moving" after companies agreed to latest deadline extension of their often-contentious talks in late Nov. "I'm much more optimistic than I was 2 weeks ago," said Burke, who formerly worked for Disney: "We've both gotten more reasonable." He said he "wouldn't be surprised" if companies announced new deal in 2 to 3 weeks. On other cable subjects, Burke said: (1) Comcast now has close to 1.5 million digital cable subscribers — nearly 20% of its total cable customer base — and should reach 2 million in year. (2) Comcast should close year with 375,000 high-speed data customers, 5% penetration rate. (3) He plans to roll out video-on-demand (VoD) services to "a very substantial portion of our marketplace," or at least one million digital cable homes, in 2001. (4) Comcast, which has spent \$200 million rebuilding recently acquired cable systems in Washington's Md. and Va. suburbs, will spend at least another \$100 million on rebuilds in area over next 18 months, mostly in Washington itself. (5) He hopes to close pending purchases of AT&T's District Cablevision system and Home Team Sports regional sports network in next few weeks. (6) He aims to sign up at least 2-3 other independent ISPs for Comcast's trial of carriage of multiple ISPs over high-speed cable lines, due to start in Philadelphia area with Juno in first quarter.

Hughes Global Services (HGS) began business restoring damaged satellites and selling them to new owners that move them to new locations. Company has salvaged 5 satellites that had been abandoned by original owners, who had received insurance payoffs after determining birds were unusable. After recouping investment, profit on salvage operation is split with insurance companies, which take over ownership of satellites when insurance claims are settled. Satellites are restored by loading new software and outfitting new ground control center. Process is expensive and it "doesn't work" for all birds, HGS technical expert said, but it offers new opportunities for HGS and insurance companies, which usually write off satellites after they lose 50% of capacity, industry source said. New service also gives smaller telecom companies that need less than maximum capacity "a cost-saving alternative," source said.

NEWS COVERAGE REVISITED: Remedies for any problems with election coverage “need to come from within the industry,” RTNDA Pres. Barbara Cochran told Media Institute last week: “It would be extremely ill-advised to have the Congress or Administration get involved, but to justify that freedom from regulation, the industry has to step up to the plate.” However, Media Institute panelists weren’t clear on what industry should do. “It may turn out that the projections were right, it was the vote tabulation that was wrong,” Cochran said. Panelists expressed concern about competitive pressures to call election early, but didn’t actively criticize exit polling techniques.

CBS correspondent Bill Plante said networks still were reviewing situation, with no decisions in sight: “These are questions that all of us will have to answer. And we have to explain to the public what we will do about it.” Terrence Smith of *News Hour With Jim Lehrer* said 65% of public believed media didn’t get facts right: “Our credibility suffered a real blow on election night. The consequences are still to be measured.” Panelists said proposals to require networks to withhold polling results until all polls closed wouldn’t work because results would be released on Internet and elsewhere. They also said limits might be unconstitutional. In general, media “did a pretty good job this year” of covering election, said Merrill Brown of MSNBC, including providing more coverage of issues, rather than horse race.

Meanwhile, there was no criticism after the fact of TV correspondents for their failure before going on air to understand nuances of U.S. Supreme Court’s 65-page decision in Bush-Gore Presidential race, which they received immediately before going on air just before 10 p.m. Dec. 12. Late release of decision — without synopsis that usually identifies how 9 justices voted or even what decision entailed — caused correspondents to fumble in dark outside Supreme Court building for half-hour or more trying to digest, summarize and make sense of very complex order. “It may take an army of lawyers to translate this thing,” said CBS anchor Dan Rather after about 15 min. on air.

Commenting on on-air mistakes about what ruling and dis-sents actually said, *N.Y. Times* TV reporter Bill Carter said: “Nobody can blame the people [reporters] for stumbling around. There was no blueprint for them to follow. There was no map.” That was in direct contrast to 2 earlier Fla. Supreme Court rulings in Bush-Gore contest when court spokesman immediately announced what was in decisions.

“Reality of competition” required TV and cable networks to go on air immediately and before decision could be digested by correspondents, CBS News Vp Sandy Geneliuf said. “It’s just not realistic to hold back... We were in the same position as viewers... What they saw was exactly as it happened.” As for voluntary agreement among networks in future to hold back going on air for 10-15 min., she said “that’s not a solution for living in a real world.” Others told us there could be antitrust problem in such a voluntary agreement. CBS reportedly considered holding off going on air until correspondents had chance to digest decision but, said Rather, “the end of our conversation was... competitively you’re just going to get killed if you do that.” NBC anchor Tom Brokaw’s response to holding off on-air report: “Are you kidding,” saying if that happened, audience of infomercial network would top NBC’s.

Lockheed Martin Global Telecom rolled out Securedge Extranet networking service Dec. 12. Securedge is designed to protect business-to-business transactions and Internet communications.

DTV JUMP-START NEEDED: CBS Senior Vp-Technology Joseph Flaherty said “yeah” when asked at conference last week whether FCC should show more leadership in shift to digital from analog transmissions of terrestrial TV, adding: “It’s now 20 years that this idea has been percolating around... We did start slow and taper off [but] there’s enough blame to go around.” Flaherty said transition pretty much was “stalled right now and something needs to be done” to get it started again.

Dale Hatfield, who recently retired as chief of FCC Office of Engineering & Technology, said Commission was in “difficult situation” because there were so many industries involved with different goals in switch to digital. But, he said, steps need to be taken to “break the logjam.” Robert Pepper, chief of FCC Office of Plans & Policy, said what he heard was “frustration” as involved industries “all have different ideas.” He said situation wasn’t like move to color in 1960s when dominant company RCA was involved in manufacture of TV set, owned NBC TV Network and produced programming.

Ex-Comr. Rachele Chong said former Chmn. Reed Hundt and Chmn. Kennard had made good start toward reorganizing FCC along functional lines but “there’s a lot more that could be done.” Now gen. counsel and vp-govt. affairs of Cal.-based Broadband Office, Chong said company had to make presentations before several FCC bureaus on single issue, where with reorganization it could be just one. She said Congress would have major influence on reorganization but she expected FCC to accomplish it without legislation. Pepper said Commission was making progress and had group working on making agency more “user friendly... It’s like changing engines on a 747 in flight — you’ve got to do it carefully.”

Asked if it was wise for govt. to auction analog TV Ch. 60-69 (which TV stations are to return to govt. in switch to digital) long before they would be available to other users, Chong said that “as long as people [bidders] know up front, that’s fine.” However, she said, 2006 deadline for TV stations to move out of space should be set in concrete. Hatfield said Ch. 60-69 are “perfect... for portable and mobile applications.”

Attorney Robert Corn-Revere hit what he labeled “informal, unregulated merger reviews” by FCC as “very threatening.” Through such actions, he said — citing 3 hours weekly of children’s programming agreed to by Westinghouse when it acquired CBS — Commission has ability to “extract concessions and call them voluntary.” Westinghouse received ownership waivers it sought, while Disney was denied similar waivers in its acquisition of ABC when it didn’t make same pledge on children’s programs, Corn-Revere said.

FCC is proposing to make it easier for coordination between agency and foreign regulators in rulemaking (GC 00-219) on changing ex parte rules. Ex parte rules currently exempt presentations to or from Justice Dept. and FTC involving telecom competition. FCC said growth of international impact of mergers increased need for similar easy contact between FCC and foreign bodies such as Competition Directorate of European Commission or national equivalents of FTC or Justice. Comments are due 30 days after *Federal Register* publication, replies 15 days later.

DirecTV chose Amazon.com to sell receiving equipment online, satellite TV company announced. Equipment will be available at Amazon.com electronics store on TV link, where customers can order DirecTV units and have free shipping provided by DirecTV.

AT&T TO SPIN OFF LIBERTY: As expected, AT&T told FCC Dec. 15 it intended to spin off its Liberty Media Group programming unit as separate company to meet Commission's conditions for approving MSO's purchase of MediaOne. In 2-page letter to FCC Cable Bureau Chief Deborah Lathen, AT&T Gen. Counsel James Cicconi said MSO would spin off Liberty as fully independent entity before agency's May 19 compliance deadline as long as it received favorable tax ruling from IRS. Cicconi said AT&T also planned to "insulate" itself from its 25.5% stake in Time Warner Entertainment (TWE) limited partnership by making sure its stakes in Rainbow Media Sports Holdings, In Demand and MediaOne-affiliated programming networks carried by Time Warner (TW) "are no longer attributable to AT&T under the Commission's rules." Letter didn't specify whether debt-ridden AT&T aimed to accomplish that by selling all or part of those stakes, converting its financial holdings into nonvoting interests or putting them into some kind of trust.

If AT&T can't insulate itself from its TWE interest by May 19, Cicconi told Lathen, MSO either will divest its stake in TWE or "place this interest in an irrevocable trust for purposes of sale." Notably, he made no reference to AT&T's concerted efforts to shed its TWE stake by selling it back to TW or 3rd party for at least \$10 billion. Nor did he refer to AT&T's recent drive to persuade FCC to force TW to make fair offer for TWE interest as condition for approving AOL's pending purchase of TW. "We're really not commenting on it," AT&T spokesman said. "We've clearly said publicly more than once that we are interested in doing that [selling TWE]."

In letter, Cicconi noted that AT&T already had announced plan to spin off Liberty Media, which it inherited when it bought TCI in early 1999. Move would help AT&T raise capital, slash its \$62 billion debt and boost its shaky credit rating. It also would make it easier for Liberty and CEO John Malone to raise capital, boost its stock value and invest in such competing DBS ventures as Rupert Murdoch's Sky Global operation and its reported pursuit of DirecTV (TVD Nov 20 p2). But Liberty deal is dependent upon favorable ruling from IRS because sale could trigger tax bill of more than \$2 billion if carried out before 2-year anniversary in March of AT&T's acquisition of TCI.

FCC spokeswoman said Commission was "reviewing" AT&T letter and declined to comment further. There's no deadline for agency to reply to MSO, although it was likely it would respond promptly if it didn't believe AT&T was complying fully with its conditions.

Consumer groups welcomed proposed Liberty spinoff but said it wasn't nearly enough to ease their concerns about AT&T's control of cable systems and programming. Gene Kimmelman, co-dir. of Consumers Union's Washington office, blasted AT&T for "taking advantage of a loophole that the FCC should never have created." He renewed his call for Commission to require MSO to shed its TWE stake. Media Access Project Pres. Andrew Schwartzman criticized AT&T's action, too, calling it "transparently vague and clearly not in compliance with the Commission's directive that it specify which one of the choices it elects." He also criticized FCC for what he charged was its "tolerance of AT&T's repeated gamesmanship, abuse of ex parte rules and legislative backstabbing."

Number of Web channels measured by Arbitron grew to unprecedented 1,000 in Sept., company said. Nonbroadcast Internet streaming services provided by Akamai and iBeam Bcstg. took 7 of top-10 rankings as most-accessed Webcasts, Arbitron said.

QWEST SEEKS ACCESS TO AT&T CABLE: Escalating "open access" battles involving cable operators, phone companies and ISPs, Qwest Communications International is looking for "equal access" to AT&T's high-speed cable lines in Colo. and Wash. In letter to AT&T Broadband Pres. Daniel Somers Dec. 14, Qwest asked that companies immediately begin negotiations on its request to interconnect with AT&T's "equipment and transmission facilities" underlying MSO's cable modem services. Citing June ruling by 9th U.S. Appeals Court, San Francisco, that cable-delivered Internet access was telecom service, Qwest argued that AT&T couldn't discriminate against its ISP competitors by denying access to those facilities. "It's time for them to abandon their anticompetitive stance," said Steve Davis, Qwest senior vp-policy & law.

Qwest said it also made request in light of stringent open access conditions FTC imposed on AOL's pending purchase of Time Warner (TW) (see separate story, this issue). As part of those conditions, AOL and TW agreed to open TW's high-speed cable lines to at least 3 outside ISPs per market, negotiate in good faith with additional outside ISPs and deny access only because of technical limitations or capacity constraints. AOL and TW also agreed not to discriminate against competitors using their lines nor interfere with content provided by other ISPs. "It looks like AOL-TW agreed to many of the things we're requesting from AT&T," Qwest spokesman said.

AT&T Broadband officials sought to downplay significance of Qwest request, calling it "bewildering" and "surprising." They said they had just begun talking with Qwest on including it in MSO's Boulder technical trial of multiple ISP carriage, following much more private, conciliatory letter from Qwest in late Nov. "We're getting conflicting messages," said spokeswoman for AT&T Broadband, which started Boulder test Nov. 1 and now has 250 customers on board. "One is commending, the other is chastising."

AT&T Broadband officials suggested Qwest's "public posturing" might have more to do with local phone company's efforts to gain govt. approval to enter long-distance business in its sprawling 14-state area. Qwest plans to start filing for approval to enter long distance in second half of 2001, starting with such states as Colo. They also argued that Qwest was "feeling the heat" from AT&T's rollout of cable telephony in several major markets.

But Qwest officials insisted that they wanted to reach potential broadband customers in areas they couldn't yet reach with their DSL service, which is expected to close year with 250,000 subscribers. They said they planned to pursue similar cable broadband access agreements in their other 12 states once they begin negotiations in Colo. and Wash. They asked AT&T to respond by Dec. 22.

Spending bills still were pending in Congress at our deadline, although it appeared no cable ownership provisions had been added at last min. Fate of legislation scaling back low-power FM (LPFM) was uncertain. Sources said there had been rumors LPFM had been taken out of bill, but it appeared to be still in play. With votes possible on long-awaited spending bills, low-power FM supporters wrote another letter to President Clinton asking him not to allow measures to contain provision killing LPFM program. Commerce-Justice bill (HR-4690) so far has included provision that would scale LPFM back dramatically, and Clinton cited that among host of reasons why he planned to veto bill.

BELL COMPANIES LEAD: Telephone companies appear to have far out-contributed mass media firms in state and local political races, according to documentation obtained by our affiliated publication, *Communications Daily*. Around country, companies and their political action committees (PACs) contributed to thousands of candidates for local offices, from attorneys gen. to state lawmakers to judges. *Communications Daily* found well over \$1 million in contributions from telecom companies, based on analysis of records filed with IRS and posted online.

Those figures may be just tip of iceberg. IRS, which only recently began requiring such filings, didn't do so until July 1, and many filings were made late. Many weren't available for various reasons, and companies also funneled contributions through host of intermediaries, of which only most obvious shell groups are included in this analysis. In some cases, company has submitted and IRS has posted Form 8871, which details PAC's charter, but not Form 8872, which lists contributors and recipients of funds — so we know group exists and why, but not how much money it has. Because of gaps in records, in many states companies' total expenditures and received contributions over last few months don't match, so we have listed higher figure in those cases.

Incumbent LECs spent \$800,000 on nonnational races. SBC, including its Ameritech and Pacific Bell subsidiaries, contributed \$370,113. Qwest and its U S West subsidiary gave at least \$118,681, including \$45,000 in its home Colo. Verizon and its Bell Atlantic and GTE subsidiaries reported relatively paltry \$98,780, most of that from GTE's Cal. (\$37,000) and Fla. (\$30,500) operations.

AT&T contributed at least \$212,150, including \$97,500 in 3 Northwestern states. Most state cable groups had made only skeletal filings available, making it difficult to assess their spending. However, Cable TV PAC for Fla. said it had spent \$38,873 by Sept. 30, including \$15,000 for Majority 2000 Republican fund. It also spearheaded Committee for Fair Competition in Telecommunications, which spent another \$29,900. Mich. Cable Telecommunications Assn. PAC spent \$31,500, Wash.'s Broadband Communications Assn. \$24,400, Colo. Cable TV Assn. \$19,000. Cable PAC of N.Y. had raised \$14,500 by Sept. 30, thanks to \$5,000 checks from Cablevision's Charles Dolan and James Dolan. There was no Tenn. Cable PAC, but Time Warner created one in state and spent \$10,000. Ky. Cable PAC had raised \$5,250 by Sept. 20, all from Insight Communications executives. Among unusual PACs created but with no further information available: (1) L.A. cable operators created PAC separate from larger Cal. PAC. (2) Cablevision, despite being leading backer of state group, created N.Y. PAC apart from state association's.

Movie PACS concentrated on Cal. lawmakers, unsurprisingly. MPAA targeted 2 leading lawmakers, spending \$10,000 on Assembly Speaker Robert Hertzberg (D) and \$9,500 on Senate Pres. Pro Tem John Burton (D); only another \$2,500 was documented for 2 other legislators. Walt Disney Co.'s PAC gave \$17,000 to variety of lawmakers. Warner Bros. PAC added another \$14,000 — including \$3,000 for Burton, who sponsored anticybersquatting bill and other legislation friendly to intellectual property interests.

Britain's NTL said it received 15-year contract worth \$600 million from Australian Bcstg. Corp. (ABC) to design, build and manage terrestrial digital TV transmission services in Australia. Also in contract, with option for 5-year renewal, is provision for continuing ABC's analog transmissions until 2009, NTL said.

STREAMING MEDIA TENSE: Revenue growth, broadband expansion and digital rights management were buzzwords at Streaming Media West conference in San Jose Dec. 12. Long-range consensus was that streaming media growth would encourage many players to stay around, but as recession began to loom and pace slowed down there would be major consolidations of smaller players. "There is big value in streaming media in the overall market but it is still in the embryonic stage," said Joey Manley, vp, Interactive Streaming Media.

"It is this lack of revenues that have kept the major media companies barely wading into this streaming media industry," said Zachary Coffin of KPMG Consulting Digital Media Institute. He said older companies were more concerned with bottom line and wanted return on investment rather than becoming embroiled in last 2 years of hype.

Speakers disagreed who would lead in revenue growth for streaming media. "The entertainment value is the sexy part," said Jim Stroud, analyst with Carmel Group: "Concepts such as video-on-demand where movies are stored in a server will be a revenue driver." All panelists agreed darkest cloud over entertainment part of medium was that there wasn't enough broadband access to provide improved streaming. "Broadband is the priority in this mix," said Visionconsult Pres. Barclay Dutson. There are only 4 million users of broadband in U.S. today, and one million in Europe, he said. Dutson said his company was forecasting 85 million American broadband users in 5 years, plus 30 million in Europe, but he said cost remained high and creating infrastructure would be arduous.

Other concerns raised were Digital Rights Management (DRM), built-in technology that ensures that content owners and originating distributors receive their share of revenue. That, like Napster, is complicated because content easily may be copied and transmitted online. Companies such as Time Warner and Universal Studios are trying to figure out how they can generate revenue from Internet streaming. One expert believes heads of major studios eventually will drive how DRM works both technologically and as business. He also raised possibility that through online technology big studios could get rid of their distributor networks, put content such as movies right on their Web sites, increase their profit margins.

National Ad Review Council (NARC) said it expected to hire new pres. by early next year as part of task force recommendations to improve Council's efforts at voluntary self-regulation of ad industry. Post has been vacant for 19 months. NARC Chmn. Carla Michelotti of Leo Burnett Worldwide said Council also was receiving from its 4 association sponsors "additional resources to support procedural and operational improvements to the self-regulatory process." As part of its functions, NARC oversees operations and sets policy for National Ad Div. (NAD) of Council of Better Business Bureaus, Children's Advertising Review Unit (CARU), National Ad Review Board (NARB). NAD and CARU serve as NARC's investigative arms and NARB is appeals body. FTC Chmn. Robert Pitofsky has praised NARC as "the best self-regulatory system of any industry in this country."

Beasley Bcstg. Group said it renegotiated contract to buy 3 radio stations in New Orleans and 3 in Las Vegas from Centennial Bcstg., reducing total price to \$113.5 million from \$138 million. Purchase had been announced in June, but Beasley said Nov. 7 it would pull out of deal (which had been approved by FCC) unless price were adjusted.

CTV SALE APPROVED: Canada's broadcast regulator said it had asked for public comment on whether cable companies should own analog specialty TV channels. Request came day after Canadian Radio-TV & Telecom Commission (CRTC) approved acquisition by BCE, country's biggest telecom operator, of CTV, country's largest private TV broadcaster. BCE owns nation's largest telephone company Bell Canada and distributes TV channels through its Bell ExpressVu satellite service. In decision, CRTC said fundamental reason for its approval was BCE's "financial capacity to provide long-term stability to the CTV television network."

CRTC said its long-standing policy has been to restrict cable operators from owning pay or specialty TV channels "because of the potential for undue preference" to stations they owned, but "in a changing broadcasting environment, the CRTC considers that a review of its position would be appropriate at this time." Commission requested comments that address issue of preferential treatment and offer safeguards to protect public interest. Comments are due Jan. 26, replies Feb. 26.

"This approval [of BCE-CTV merger] is the right decision to have made. But the rules have to apply to everyone," said Janet Yale, pres. of Canadian Cable TV Assn. (CCTA). BCE-CTV merger "bolsters our case that we believe that distributors should be able to own content," spokeswoman for Rogers Communication said: "There's no reason that BCE should be treated differently from Rogers. If BCE as a distributor is allowed to own TSN [The Sports Network], I don't understand why Rogers as a distributor couldn't own [competitor] Sportsnet." However, BCE is distributor of TV channels through its ExpressVu satellite service, while Rogers is distributor through its cable operations, CRTC spokesman said: "You have to realize the difference from distributors in analog mode and those in digital mode." Commission also said in its report that concerns of "undue preference are sufficiently mitigated by a number of factors. These include ExpressVu's continuing nondominant position."

Cable companies must be "absolutely clear" on how they address undue preference for channels they own, said Gerry Noble, pres. of CanWest Global Communications, Canada's 2nd biggest private broadcaster. Soon after BCE-CTV merger was announced, CanWest said it had bid to purchase newspaper and Web site assets of major Canadian publisher Hollinger Inc. Another cable operator, Shaw Cable, announced buyout of regional broadcaster Moffat Communications.

Cox Communications plans to test carriage of multiple ISPs on its high-speed cable lines in first half of next year, company revealed in its comments on FCC's cable open access inquiry. Unlike Comcast, which 2 weeks ago announced plans for multiple ISP technical trial with Juno and up to 3 other independent ISPs in Philadelphia metro area in early 2001, Cox didn't disclose where it would test or which ISPs might participate. Cox is 4th major MSO to test multiple ISP carriage, joining AT&T Broadband, Comcast, Time Warner Cable. Charter also is exploring technical trial.

Globecom Systems received \$3.1 million contract from BSKyB to provide digital TV satellite uplink facility. Plans call for Globecom to provide design, engineering, installation and testing of Eutelsat Satellite Uplink Terminal capable of supporting 40 TV channels with expansion to support 80 additional channels.

WEB-BROADCAST MERGER PREDICTED: Internet won't fundamentally change entertainment, but will offer new distribution medium, Catherine Mackay, pres. of U.K.-based Pearson TV Enterprises, told Jupiter Entertainment Forum in L.A. She said Internet wouldn't change entertainment, but would offer another distribution medium. Forum was indicator of how quickly content creators are moving away from niche on-line-only plays toward gathering mass market with content and brands that can be leveraged both online and off.

Sean Bailey, co-founder of Live Planet, said his company has had little trouble attracting sponsor and advertising interest for upcoming TV/Internet reality project *The Runner*. *The Runner*, on ABC next year, will involve nationwide manhunt in which consumers try to track and capture "runner" as he moves cross country. Bailey said he already had discussed with Nike possibility that "runner" would wear Nike footwear so public continually would look for people in Nike shoes.

Playboy Enterprises Chmn. Christie Heffner outlined plans for her company's global multiplatform content push. In addition to continuing TV push overseas, she said Playboy was moving into online auctions and was looking at offshore/online gambling where consumers could wager while watching Internet game shows. Jeff Berg, chmn.-CEO of Hollywood power brokers ICM, said many online efforts would remain money-losing propositions over short term. "All the studios have invested vast sums trying to figure out their 'I' or 'E' strategies," he said, adding: "Until there is a high-speed seamless full-service video, these are going to be difficult to get right." But Berg also said it would get there eventually, saying cable TV was around for 20 years before it had break-out hits such as *Sex and the City*.

European Community's (EC) \$200 million program to encourage widescreen (16:9) TV in Europe was at best partly successful, EC said in report on project. Report said 16:9 market reached "critical mass" only in France, Belgium and Netherlands, and impact of 1993-1997 program to subsidize widescreen programming "cannot be detected" in Denmark, Greece, Ireland, Spain, Sweden, U.K. Report said DTV in England later caused 16:9 to reach critical mass in that country. Despite that, only 3.5% of European households had 16:9 sets in 1999, led by Netherlands (nearly 10%), Belgium (7.6%), U.K. (5.1%), France (5%). Despite subsidies, report said critical mass of 16:9 programming "was not reached," but it claimed partial success, saying producers, broadcasters and manufacturers gained confidence to include 16:9 in DTV and DVD strategies. Report also said development of pay DTV services "will not suffice to achieve... a sustainable market for 16:9 in all member states," now that subsidy program has ended. EC said no more than 90,000 hours of 16:9 programming were broadcast in all European countries in 1999, and "significant number" of stations that broadcast in 16:9 in subsidy period had stopped using it.

Consumers of Internet audio are enthusiastic about "side channels," Webcast programming that's extension of radio station's over-air programming, Arbitron study said. Side channels have unique content that complements station's main programming. Among side channel listeners, 74% said they "like" or "love" the experience, and more than 2/3 said they visited station's Web site often to listen to side channels. Arbitron Internet Gen. Mgr. Bill Rose said side channels "represent a significant opportunity" for stations that Webcast.

Personals

Harry Isaacs, ex-Paramount, returns to CBS as senior vp-industrial relations, including responsibility for Infinity Bcstg. labor relations, succeeding Exec. Vp **James Sirmons**, who retired in fall... **Michael Jordan**, ex-CBS, promoted to exec. chmn., Clariti Telecommunications International... **Graham Kraehe**, Southcorp Limited, and **James Murdoch**, News Corp. and Star TV, elected to News Corp. board... **Scott Grogan**, ex-Universal, named vp-corporate communications, Fox Bcst. Group, succeeding **Thomas Tyrer**, now senior vp-corporate communications, Fox Cable Networks... **Simon Kenny**, exec. vp-bcstg., Walt Disney International-Latin America, moves to managing dir., Walt Disney Internet Group European Operations.

David Kirkland, ex-Fox Sports Net, named managing editor, KRON-TV San Francisco... **John Cullen**, ex-Capstar Bcstg., appointed pres., International Radio Div., Clear Channel Communications... **Patrick McGinley**, ex-WFOR-TV Miami, named vp-gen mgr., KEYE-TV Austin... **Melissa McAnelly** promoted to national sales mgr., KHQB-TV Houston... **Dana Rehm**, ex-Wis. Public Radio, named NPR vp-member services, starting early in 2001.

Betty Hudson, ex-NBC, appointed senior vp-communications, National Geographic... Promotions at USA Cable: **Lucy Minutillo** to vp-business operations, **Carin Silverman** to dir. accounting and reporting, **Lyle Seltzer** to dir., programming operations... **Chris Tice**, ex-Sony Online Entertainment, appointed vp-eMedia products, Cablevision Systems... **Nancy Silverstone** promoted to exec. dir., program acquisitions, Starz Encore... **David Zaslav**, NBC Cable, elected to RespondTV board.

Changes at Women in Cable & Telecom: Named to exec. committee: **Sharon Monahan**, Fleischman & Walsh, chmn.; **Rori Peters**, Comedy Central, vice chmn.; **Robin Sangston**, Cox, secy.; **Nancy Murphy**, AT&T Broadband, treas.; **Susan Lewis**, Starz Encore, and **Melanie Penna**, at-large members; named to board: **Lisa Bryant**, HBO; **Dana Caterson**, Pioneer Studios/QVC; **Carol Hicks**, Scripps Network; **Victoria Lins**, Adlink; **Wonya Lucas**, CNN; **Maureen O'Hanlon**, AT&T Media Services; **Kim Roden**, Time Warner Cable.

Changes at Hubbard Media Group: **Robert Bedford**, U.S. Satellite Bcstg. (USSB), moves to senior vp-customer service; **Richard Abbott**, USSB, named vp-programming... **James Richter** promoted to vp-strategic development, Conus Communications... **John Franco**, ex-Learning International, named vp-sales & mktg., GeoVideo Networks... Changes at ACTV's Enhanced Media Services: **John Penney**, ex-Scient, named exec. vp and pres., Media Online Services; **Peter Cullen**, ex-AOL, appointed exec. vp-new business development... Appointed to AIM advisory board: **Bahnsen Stanley**, Weather Channel, and **Victoria James**, Victoria James Exec. Search... **Richard Newman** named pres. ComedyNet by owner American Interactive Media... **Clark Morehouse**, ex-Microcast, appointed senior vp-ad sales, Tribune Entertainment.

Changes at Wink Communications: **Melinda White** advanced to exec. vp-national accounts for distribution and programming; **Timothy Travaille** adds exec. vp-product mktg. to chief technology officer title; **Charles McCullough** promoted to exec. vp-engineering; **Katherine Sullivan**, advanced to exec. vp-mktg. and media relations; **Robert Rowlett** promoted to gen. counsel; **Jonathan Spatz**, ex-Eve.com, named CFO.



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Garth Ancier is out as pres. of NBC Entertainment and **Jeff Zucker**, exec. producer of *Today Show* since 1994, is in, NBC announced Thurs. Change takes effect in Jan. NBC West Coast Pres. **Scott Sassa** called Ancier "one of the smartest and most creative people in the television business" and said he hoped he would stay with NBC "in a significant capacity." NBC Entertainment also promoted **Kim Reed** to vp-publicity and **Mike Nelson** to senior dir.-entertainment programming information.

Consumer Electronics

A Section of Television Digest with Consumer Electronics

STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Dec. 1 and year to date:

	NOV.19 - DEC. 1	1999 WEEK	% CHANGE	NOV.18- NOV.24	48 WEEKS 2000	48 WEEKS 1999	% CHANGE
TOTAL COLOR TV	870,713	525,768	+ 65.6	815,027	28,125,057	26,772,763	+ 5.1
DIRECT-VIEW**	834,372	492,766	+ 69.3	788,901	27,015,272	25,670,433	+ 5.2
TV ONLY#....	681,781	409,031	+ 66.7	638,677	22,314,175	21,534,397	+ 3.6
TV/VCR COMBO.	152,591*	83,735	+ 82.2	150,224	4,701,097*	4,136,036	+ 13.7
PROJECTION...	36,341*	33,002	+ 10.1	26,126	1,109,785*	1,102,330	+ 0.7
TOTAL VCR**...	677,940	501,273	+ 35.2	818,825	26,814,915*	25,422,919	+ 5.5
HOME DECKS...	525,349	417,538	+ 25.8	668,101	22,113,818*	21,286,883	+ 3.9
CAMCORDERS.....	243,486	110,704	+119.9	159,867	5,547,962*	4,512,963	+ 22.9
DVD PLAYERS....	510,272*	150,778	+238.4	261,198*	7,705,726*	3,576,426	+115.5

Direct-view TV 5-week moving average#: 2000-616,796; 1999-557,952 (up 10.5%).

Projection TV 5-week moving average: 2000-26,302; 1999-30,676 (down 14.3%).

VCR deck 5-week moving average: 2000-621,767*; 1999-610,727 (up 1.8%).

TV/VCR 5-week moving average: 2000-133,185*; 1999-100,276 (up 32.8%).

Camcorder 5-week moving average: 2000-145,758; 1999-114,719 (up 27.1%).

DVD player 5-week moving average: 2000-275,356*; 1999-120,004 (up 129.5%).

* Record for period. ** 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.

ZENITH JOINS DVD-RW CAMP AS IT UNVEILS NEW LINE: Zenith officially joined DVD-RW recordable DVD camp last week as it announced its first recordable deck in U.S. market would ship in 3rd quarter next year at \$2,499. Meanwhile, Zenith said it once again was mounting all-out effort to boost its brand name in U.S. market, this time via multimillion-dollar ad campaign and introduction of its largest line of digital products yet.

Decision to jump on DVD-RW bandwagon didn't exactly come as surprise in light of fact that Zenith parent LG Electronics was one of founding members of RW Products Promotion Initiative (RWPPI). Group has said its mission is "to facilitate smooth market introduction of DVD-R/RW products in North America." Most aggressive proponent of DVD-RW format so far has been Pioneer.

Only small portion of Zenith line for 2001 was shown to reporters at briefing in N.Y.C. last week, where company said its VDR would perform MP3 decoding, have built-in Dolby digital decoder, have ability to play CD-R/RW discs, offer progressive scan for higher resolution. Zenith had shown only prototype deck at CES earlier this year, without committing to specific format.

Also new from Zenith in 2001 will be line of 3 progressive scan DVD players, including 2 multidisc units. First to ship will be 5-disc model in mid-2001 at \$799, with additional model in 4th quarter at \$100 less. Rounding out progressive DVD line will be single-disc model shipping in spring at \$599. Like VDR, key features on progressive scan DVD players will include MP3 decoding, built-in Dolby Digital decoder, ability to play CD-R/RW discs. Zenith said it also would bow its first portable DVD player — model with 16:9 LCD display/7" removable screen and MP3 decoding at \$899 that it said would ship in mid-2001. Yet to be announced by company are plans on DVD-Audio and Super Audio CD fronts.

Zenith said it would deliver variety of digital products it has talked about in last year, but has yet to introduce. They include full slate of digital set-top boxes — first of which Zenith said would be equipped with HDTV DirecTV satellite receiver/tuner at \$699, shipping in spring. Company said it would follow with advanced versions of box in fall and in 4th quarter. Zenith Senior Vp-New Product Development & Sourcing Wayne Park also said: “We are currently developing an open cable set-top box/digital tuner box.” Zenith said that unit would ship in summer. But Park said company was focusing its efforts at this point on satellite versions of box “because we don’t see the consumer market materializing [for the] open cable box technology.”

Also slated to ship in 2001 are dual-deck CD recorder in first quarter at \$499 offering multispeed recording at 1x, 2x and 4x, as well as SDMI-compliant, 64 MB MP3 player with 2 expansion slots in spring at \$249. Although Zenith showed CD recorder and 32 MB MP3 player at last CES, it never actually shipped product in those categories in U.S. this year.

Zenith also demonstrated IQD27B48W 27" interactive TV it announced earlier this month (TVD Dec 11 p15). Set is being designed in conjunction with chip designer TeleCruz and will ship in April at \$599, including IR keyboard. It also will offer built-in Internet access through alliance with Palo Alto company Transcast. Still to be announced by Zenith is when it plans to offer TVs with Wink Enhanced Bcstg., technology for which Zenith is licensee. Zenith announced at last CES that it would be incorporating Wink capability into its multimedia TV line.

But Park said “most critical” elements of Zenith’s 2001 line were its new display devices. “Flagship” of line, he said, is 60" plasma HDTV monitor offering 1,024x768p resolution and 16:9 aspect ratio, shipping “sometime in the 2nd half next year” at \$27,999. Also in plasma line will be 42" (\$6,999, 4th quarter), 40" (price TBD, 2nd quarter) and 36" (\$6,499, fall) Enhanced Definition TV (EHDTV) models. While company already has said 60" model was being sourced by LG, it was unclear at our deadline where Zenith was sourcing 42" and 36" models. LG is building plasma plant in Gumi, S. Korea, expected to open early next year.

Zenith is also planning to ship 60" 16:9 LCD HDTV monitor with 720p resolution in 4th quarter at \$5,999. In direct-view LCD HDTV arena, 22.1" 16:9 HDTV monitor offering 1,024x768p resolution at \$4,699 (fall) and 20.1" 4:3 EDTV monitor with 600x480p resolution at \$4,299 (spring) will join 15.1" 4:3 HDTV monitor already shipping at \$1,999. Meanwhile, 61W rear-projection integrated HDTV set at \$5,999 will join 64W and 56W sets, already shipping at \$7,999 and \$6,499, in summer. Also new for 2001 will be 3 rear-projection HDTV monitors: 65W at \$4,999 (summer), 61W at \$3,999 (first quarter), 56W at \$2,999 (summer). Zenith said it also would ship 3 direct-view multimedia HDTV monitors in 2nd quarter: 36" at \$2,299, 32" at \$1,799, 27" at \$1,299.

As new products roll out, Zenith is looking to boost its brand name recognition among younger, technology-savvy customers via major new ad campaign and variety of new promotional initiatives that will see company, for example, sponsoring Sundance Film Festival Jan. 18-28.

Zenith Mktg. Vp Patrick Kilroy said: “We believe our mission is fairly clear — to create a new brand identity... a vision that is unique and, more importantly, that is motivating and relevant” to what company is offering now. On upcoming media blitz, Kilroy said: “We’ll have about 241 million impressions over broadcast television.” Online, he said, there will be “29 million” impressions. Kilroy said LG’s commitment in terms of rolling out new products under Zenith name over next 3 years would be just over \$100 million. Company’s “overall media plan,” he said, “is still in the evolution process, but roughly the broadcast [campaign] is going to start with the kickoff of the NFL football season.” Print campaign will also be part of media blitz, he said.

Park also said LG had no intention of abandoning Zenith brand name for CE products in U.S.: “We have a very firm [position that] Zenith brand will be the only brand [we will use].”

THOMSON ADDS DUPLICATION AND GAINS NEW INVESTOR: In complex give-and-take arrangement, RCA parent Thomson Multimedia plans to become world’s largest replicator of DVDs, videotapes and movie film — and pick up new investor to boot. Planned acquisition of Carlton Communications’ Technicolor business, announced last week, will add to Thomson’s services portfolio and will launch company into budding industry for electronic delivery of digital cinema. Meanwhile, U.K. based Carlton plans to become 5.5% Thomson equity holder.

Companies said they would enter “strategic partnership.” Under terms of legally nonbinding letter of intent, companies would cooperate in fields of terrestrial DTV, interactive TV and media services and would restructure some of their assets accordingly.

Carlton played key role in debut of terrestrial DTV in U.K. In field of interactive TV, companies said they believed they shared same vision. Thomson recently announced creation of Digital Media Solutions Group as one of its 5 divisions, in order to provide broadcast and content industries with systems and solutions to manage transition to digital from analog medium — and this month grabbed up Philips' broadcast businesses in order to achieve critical mass in that field.

Thomson and Carlton propose to include several interrelated transactions, including: (1) Carlton becomes partner of Thomson. Latter will issue Carlton 15.5 million noninterest-bearing bonds redeemable in shares, which would convert to 15.5 million ordinary shares on first anniversary of deal's closing. Parties said that represented 5.5% outstanding Thomson shares. As shareholder, Carlton would get one seat on Thomson board. (2) Carlton would transfer to Thomson 100% of share capital in Technicolor, world's top film and video replicator. (3) Carlton, in collaboration on interactive TV, would invest \$15 million in TAK, Thomson's European interactive TV joint venture with Microsoft. (4) Thomson would pay Carlton \$750 million for Technicolor at closing, then \$600 million over next 4 years in \$150 million installments.

In acquiring Technicolor, Thomson gets acknowledged world leader in services to media and content industries. Technicolor is top processor and distributor of motion picture film as well as largest independent manufacturer and distributor of prerecorded DVDs, CDs, videocassettes.

Perhaps more important to RCA parent, Technicolor is front-runner in digital lab services, has introduced digital rights management services to its clients and has formed joint venture with Qualcomm in electronically delivered digital cinema that's expected to displace film reels physically delivered and screened in movie theaters.

Thomson said it saw substantial growth opportunities with Technicolor's current and future client base, in particular in DVD, digital cinema, digital lab and digital media chain services. Besides proposed acquisition of Technicolor, Thomson said it planned other partnerships and acquisitions to enhance foothold of its fledgling Digital Media Solutions Group.

Meanwhile, current cash flow from proposed acquisition isn't shabby. In fiscal year ended Sept. 30, Technicolor posted \$1.6 billion revenue, \$378 million earnings before interest, taxes, depreciation and amortization (EBITDA) and \$249 million operating profit. Cash flow from Technicolor would be used to parlay further strategic moves in Digital Media Solutions business, Thomson spokesman said.

Thomson still will have cash resources of nearly 1 billion Euros (about \$880 million) after closing of Technicolor acquisition and will use war chest to support development across all its divisions, spokesman said. Other aspects of partnership with Carlton and underlying details of transaction will be announced in future, pending shareholder, regulatory and govt. reviews, Thomson said.

AIWA DROPPING MD, LOW-END SHELF-TOPS FOR CD-R, UPMARKET AUDIO: Citing sub-\$100 "commodity" market for shelf-top stereo systems, top brass of Aiwa America said company was likely to drop offerings at that end of audio spectrum while increasing emphasis on value-added mid-range to high-range systems.

At same time, No. 2 audio market share holder has dropped MiniDisc recording format championed by parent Sony, executives revealed at news briefing last week. Instead, Aiwa will bolster existing lineup of CD recording products and extend MP3 audio features throughout its home, portable, and car audio lines, as well as to DVD products. Earlier this month, top Sony U.S. executive conceded company had "missed the boat" on Audio CD recording and would enter category early next year.

Aiwa also reaffirmed its audio heritage with announcement of new technology that improves amplifier efficiency and clarity — and that will be implemented across all product categories except lowest-priced products. Sonic improvement will accompany design changes as company departs from conventional me-too look for highly styled and radically contoured components and systems. Among other plans for 2001, Aiwa will: (1) Restructure retail support. (2) Expand DVD line and build format into more systems and home theater packages. (3) Introduce DVD-Audio as "universal" player. (4) Continue gradual move into TVs for sale through A/V specialty dealers.

Emphasis on upmarket features and technology reflects goal of strengthening bottom line, incoming Aiwa America Pres. Hideki Tafuku told reporters. It coincides with first year in many when Aiwa worldwide expects to report steep losses, triggered by insufficient supply of key components that resulted in production shortfalls. Downturn has prompted 51% owner Sony to tighten reins on Aiwa management and product planning but also to lend helping hand in components sourcing. Despite corporate travails, Aiwa in U.S. remains in good shape, Tafuku said.

"Business was tough this year, but we are still Number 2 after Sony," Tafuku said, referring to Aiwa's 10.4% share of home audio dollars. In minisystems, Aiwa retains top spot with 27.2% dollar share, runs place with 12.8% in CD boomboxes and has post position in portable audio with 9.3%. As of Oct., company took in 9.9% of total U.S. audio market dollars, including autosound, Tafuku said. Grab for dollar share will go into overdrive next year when Aiwa introduces "new audio concepts and configurations that don't conform to traditional categories" he said. "Shelf systems have become a commodity at \$99, so we might not pursue that," Tafuku said. "The midterm objective is to offer unique products to boost profitability and strengthen the midrange for value, not price."

Home-theater-in-box category is promising for Aiwa, Senior Vp-Mktg. Akio Imanishi said. Aiwa now has 6.6% share of U.S. sales, representing 5.1% of dollars. "Home theater in a box is the only category where pricing is going up," Imanishi said. He put potential of home-theater-in-box in context of what traffic would bear in shelf-top pricing. "Aiwa is very comfortable to be higher than the industry average of \$170 to \$180. We like to push the \$199 area," Imanishi said, conceding that top price consumers would pay for shelf-top was "probably \$399."

But home-theater-in-box can offer higher premiums, Imanishi said. Aiwa plans to offer 2 models next year in \$800 range, each with DVD, multichannel amp, radio tuner, Dolby Digital and DTS decoding, 6 speakers including powered sub. One model is 3-disc changer, other is radically styled single disc top-loader about size of telephone directory. To put category in context, Sony has been wildly successful with DVD home-theater package that lists for \$699 but streets for \$599. Meanwhile, we have auditioned well-performing and handsomely styled package from one Chinese manufacturer that says system could retail profitably at \$399.

As for China, Aiwa has no plans to move manufacturing operations there or source products from Chinese OEMs as other major CE makers have, Tafuku said. Company does have "contract manufacturers" there, where Chinese factories produce Aiwa-designed products under company's supervision, Tafuku said. Instead of shifting Aiwa-owned manufacturing to China, company will buttress existing operations of "mother plants" in Japan, Indonesia and Malaysia, Tafuku said. Imanishi told us Aiwa recently shuttered plant in Wales in part because currency imbalance between strong British pound and Euro used on Continent made exports from Wales operation too expensive elsewhere in Europe. As for parts supply that hobbled Aiwa's production this year and caused anticipated steep loss, Imanishi conceded "we really had a bitter experience" but said corporate parent assured him that situation was under control and would improve after this month.

In DVD, Aiwa is admitted "latecomer," Imanishi said. But company will expand current standalone offerings and exploit its experience in consolidation to build DVD into systems next year, although it won't offer progressive scan DVD until 2002. Company's U.S. market share in DVD isn't "much to talk about" owing to late entry, although Aiwa brand has done well through limited distribution among its core audio retailers, Imanishi said. He told us DVD foray had "gone smoothly" among specialists probably as result of company's recent offering of style-matched, flat-faceplate 24" and other TVs with upscale audio specs. Aiwa won't change TV and TVCR combo lines next year or move into larger screen sizes for another 2 years, he said.

What Aiwa will take swing at is DVD-Audio, with "universal" deck scheduled for retail late next year. Imanishi volunteered that, as vassal of Super Audio CD (SACD) champion Sony, political complication was obvious for Aiwa — and he didn't rule out SACD offering. "As a Sony company, I'm told by Aiwa headquarters that somewhere behind the curtains they're developing something," he said.

Situation is similarly muddled and fluid for rewritable DVD from Aiwa. Asked whether company was backing one or more horses among rival DVD-RAM, DVD-RW and DVD+RW formats, Imanishi said: "I don't have a concrete answer. We're reviewing the category, obviously. And I'd say that in 2 years we've got to be there. But we're going to be flexible and do what the consumer wants. But very much again, we're in the Sony group." Muddled aspect of Imanishi's reply has to do with Sony's own position on DVD recording. Although company is co-developer of DVD+RW format with Philips and others, it repeatedly has said it will back DVD+RW for PC data recording but not for home video. Meanwhile, Sony has joined Rewritable Products Promotion Initiative (RWPPi) spearheaded by DVD-RW developer Pioneer Electronics. Aiwa also is RWPPi member but so is Matsushita-owned JVC, whose corporate parent is standardbearer for DVD-RAM format. At Tokyo CEATEC show in Oct., JVC showed prototype DVD-RAM home video recorder.

Aiwa's erstwhile jealously guarded independence of Sony was obvious by Imanishi's revelation that Aiwa had dropped MiniDisc recording system and would go full-bore on Audio CD-R/W and MP3 formats in future components, systems, portable and autosound products. This time last year, Aiwa shaved MiniDisc line to single, portable recorder/player.

"Our effort is more going toward the silver format that is a standard, instead of the square format," Imanishi said, alluding to 4.72" diameter CD-R/W and MiniDisc that's housed in 2.5" sq. shell like floppy diskette. As for CD-R/W, he

said Aiwa would continue to offer 4x-speed standalone CD dubbing deck but would put more emphasis on integrating CD recording into stereo systems. Aiwa CD player line already can read CD-R/W recordings. At news briefing, company showed combo CD-R/W, MP3 and hard disc drive "Digital Audio Recorder" sold in Japan that can swap content digitally among 3 formats. But Imanishi told us Aiwa wouldn't offer triple-play box in U.S. until outstanding copyright issues were resolved. "I'm not looking for big headlines in exchange for small sales and the cost of lawsuits," he told us. "We'll leave that to Napster and Scour and all the others who don't make money!"

Playback of MP3-compressed digital audio also will proliferate through Aiwa line next year including autosound, execs. said. Portable CD player that can read MP3-compressed discs arrives in Feb. Company also will expand autosound CD players capable of reading MP3. Merle Eakins, recently appointed senior vp-sales, pointed out that Aiwa was first vendor to offer MP3 playback for autosound and still leads category among retailers.

Eakins, former vp-sales for audio at Philips, then top dog at Emerson and most recently at Primestar before satellite TV provider's sale to DirecTV, told reporters that his mandate at Aiwa would be to beef up company's support to retailers. He said that included top-ten U.S. dealers, in line with Aiwa's market position among vendors. "Sales support doesn't mean having a salesman call at the account's door more often," Eakins said. "In this changing business, what is meant by sales support is bringing the retail partners more into our product development plans and giving them assistance with infrastructure issues such as forecasting and order entry."

As Aiwa tacks into wind of new formats and ways of doing business, company said it has made concerted R&D effort to rediscover roots that put it among preeminent audio brands. Result is DINA (Dynamic Integrated Neo Amplifier, pronounced "dye-na"), which Aiwa says improves sound by increasing dynamic range and headroom, lowering distortion and creating wider sound stage.

Instead of adding "gimmicks" to tweak sound, Aiwa engineers revisited roots of amplifier and preamp technology to look for ways that modern technology could improve performance, company said. Details of how that's achieved will be revealed in White Paper to be released soon but, for now, Aiwa enumerated areas of improvement and benefits for listeners.

Key component is use of discrete high-speed Darlington transistors with high-voltage output, Aiwa said. That and other as-yet-undisclosed factors enable DINA to boost dynamic headroom so amp can deliver brief bursts of power that exceed its continuous-rated level. Result is particularly important for demanding DVD-Video soundtracks, Aiwa Product Mgr. Don Milks said.

Other DINA enhancements include increasing amp's slew rate by factor of about 5, thereby permitting powerplant to respond quickly to fast-changing input signals. System also is said to reduce output impedance and thereby increase damping factor, which better enables amp to control loudspeaker's cone motion and yield tighter reproduction of original signal. In addition, new circuitry yields tenfold reduction in distortion across audio band, Milks said.

In demonstration comparing DINA-equipped prototype shelf-top with existing one, effect of new technology was audible immediately, although stereo systems themselves sounded mediocre at best and pop music source material wasn't challenging in terms of frequency response and dynamic range. But generally tubby bass was much tighter, vocals more to forefront of soundstage and other instruments more transparent with DINA system. Milks and Aiwa executives apologized for shortcomings, saying DINA-equipped system was hand-built prototype just received on eve of news briefing.

Elegant aspect of DINA is that it can be deployed cost-efficiently across broad range of products, Milks said. These include upcoming component A/V receivers, shelf-tops, home-theater-in-box bundles. System also is applicable to Dolby Digital and DTS multichannel systems and will make first appearance in AV receivers with those. Eventually, system will be deployed in portable products, although it won't be offered at all price points in all categories — only midrange and above, Milks said. Aiwa was careful to state that system wasn't on-off switchable for retail "A-B" demonstration because it's integral to individual product. Company has no plans to license DINA to competitors, Milks said.

SONY MAY EXCEED 1.3 MILLION PS2 SHIPMENT TARGET — TRETTON: After some delays in getting PlayStation 2 (PS2) consoles to U.S., Sony Computer Entertainment America (SCEA) said shipments of new \$299 hardware units had been slowly increasing in recent weeks and now estimated it might even surpass 1.3 million it had promised retailers this year.

While Sony has said it would follow up initial N. American allocations of 500,000 PS 2s with 100,000 consoles weekly through holiday season, Senior Vp Jack Tretton admitted SCEA hadn't — as analysts and retailers have been in-

dicating (TVD Dec 4 p15) — necessarily been shipping 100,000 units each and every week. "There have been heavy weeks and light weeks," he said. "What we should have said was that we would average about 100,000 [units each week]." He said PS2 was complex hardware to manufacture and "you have to realize we're not making widgets." Tretton wouldn't be pinned down on exact number of units that eventually would reach N. America this calendar year, but indicated it might be nearer 1.5 million by time all is said and done.

SCEA has said it will ship 3 million units from Oct. 26 debut through end of fiscal year March 31, which means additional 1.5 million hardware units should be arriving in next quarter. But given huge demand, Tretton said there still would be PS2 shortages well into 2001 and it might not be until "late spring or early summer" before consumers confidently could go into stores knowing there was hardware in stock.

Silver lining for SCEA and retailers this holiday has been strong demand for PS One (TVD Dec 11 p22). New version of original PlayStation console is winning impressive 42% market share. Demand has been so great that major retailers such as Wal-Mart currently have only one-week supply in stock, where they normally would have 7-8 weeks' supply, Tretton said.

While not predicting that total PlayStation hardware sales would reach same 7.5-million volume that company shipped in 1999, Tretton did say PlayStation unit sales next year should surpass company's 2000 numbers. He said SCEA had no plans to drop PS One below its current \$99 price next year. "We're very comfortable with the \$99 price and, given the demand, I think retailers are too," he said. "They're certainly not calling for" price cut.

Meanwhile, Royal Canadian Mounted Police (RCMP) said it arrested 20-year-old Scott Byers of Moncton, N.B., and charged him with 2 counts of fraud in connection with one of PS2 scams we reported last week (TVD Dec 11 p13). News came as yet another case involving possible PS2 fraud was reported. This time, Ft. Lauderdale-based company, Families On Line, said it was starting to issue refunds to consumers for more than 9,000 PS2 consoles it wouldn't be able to deliver. Families On Line CEO Mark Thurman told us last week that his company was promised 30,000 PS2 consoles by company located in Manhattan. But he said Families On Line never received any of those game systems.

When we called phone number for only company listed in Manhattan that matched description Thurman gave us, we were told by representative claiming to be its pres. that it didn't sell PS2s — only "textiles." Thurman said about 20 companies had "faxed us information trying to sell us [PS2] units," asking for payment up front.

In notice to customers posted at Families On Line Web site, Thurman said: "In mid-October 2000, our company was approached with an opportunity to purchase and distribute the Sony PlayStation 2 console. We were given absolute assurances that these units would be delivered by late November and hence we offered these units on our Web site and the response was incredible. We received orders for in excess of 9,000 units." But Thurman said: "To date and despite numerous attempts, promises and stories, we have not received the units as represented." He said his company had "already taken steps to involve the Fort Lauderdale Police Department Economic Crimes Unit and will further ask assistance from the Federal Trade Commission in dealing with the parties responsible for placing us and our loyal customers in this position."

Thurman told us Families On Line started issuing refunds for all PS2 purchases Dec. 6 after realizing it wasn't going to be able to fulfill orders. Saying that e-commerce wasn't core focus of his company, he told us this was first time Families On Line had attempted to sell videogame consoles. He said: "This was an opportunity that arose and we wish we hadn't taken advantage of it," adding that company had "lost a tremendous amount of money." He also told us he had spoken with PS2 Store of Canada's Byers and was convinced Byers was victim of scam, rather than perpetrator of one.

As we reported, Canadian Council of Better Business Bureaus (CCBBB) had warned consumers about PS2 Store's Web sites — ps2storeusa.com and ps2storecanada.com — after receiving many calls from consumers who said they had ordered PS2s from sites and had yet to receive consoles. CCBBB Pres.-CEO Bob Whitelaw said his main concern was that consumers were being asked to send faxes of front and back of their credit cards, thus giving PS2 Store their signatures and 3-digit personal bank numbers. This, Whitelaw said, amounted to "personal identity theft." Byers was listed at PS2 Store Web sites as company's "e-business manager."

Whitelaw told us he believed "there were hundreds of victims" in case. But RCMP Commercial Crime Section Cpl. Mario Turcotte said he wasn't sure exactly how many consumers had been victims of scam. RCMP said Byers was charged with fraud "exceeding \$5,000." Turcotte said "so far, [Byers is] the only person" who had been charged with any crime involved in PS2 Store case. However, he said RCMP was continuing its investigation. Certain details of case

certainly suggested there were multiple people involved. Whitelaw said credit card information that consumers provided to PS2 Store was sent to location in Wash., while call center for PS2 Store was in Cal. and money taken in through PS2 orders was wired to bank in Fla. Moncton, N.B., address of business listed at Web sites was "a fake," Whitelaw said.

As reports of would-be buyers' being victimized by PS2 scams mounted, Sony Computer Entertainment America (SCEA) issued warning telling consumers to beware of fraudulent business practices and false advertising. SCEA advised those interested in buying PS2 system online to do so via "familiar merchants or research individual sites before buying." It also told customers with questions relating to issue to call its Consumer Service Dept. at 800-345-7669.

But Families On Line's Thurman put much of blame for scams on Sony's shoulders: "I do believe that all of this nonsense that's going on worldwide — all of these scams that are going on — are a direct result of Sony's inability to produce the product at the levels that it originally [said it would]."

BEST BUY DEFENDS EXPANSION: Senior Best Buy executives "obviously were all disappointed" by Wall St.'s reaction to company's Dec. 7 showstopper announcement that it was acquiring Magnolia Hi-Fi and Musicland chains. It's also plotting aggressive move into Canada (TVD Dec 11 p10), Best Buy Chmn.-CEO Richard Schulze told financial analysts in conference call last week to discuss 3rd-quarter results.

Analysts speculated that freefall in Best Buy share value after Dec. 7 announcement reflected investors' concerns about decision to expand when music business was sluggish and U.S. economy showed signs of slowing down. But Schulze defended initiatives as providing Best Buy with "an important opportunity for our company to add more than \$10 million in incremental sales" in current decade. He said incremental sales and profits would accrue to Best Buy without "significant cannibalization" of its existing business because new product segments, demographics or markets in which chain doesn't currently compete.

Schulze said: "We're confident of our ability to operate multiple [store] formats, both in the malls and in rural areas with products where we've developed an industry-leading position." He said Best Buy was "particularly excited" by plans to expand Musicland's On Cue chain by 750 stores to 1,000 in next 10 years. He said On Cue's 6,000-sq.-ft. locations were 3 times larger than those of that chain's closest rural competitor.

Best Buy 3rd-quarter income fell 27% in quarter to \$57.3 million (27¢ per share) from year-earlier \$78.4 million (37¢) despite 20% revenue rise to \$3.7 billion from \$3.1 billion, with same-store sales increasing 5.9%. As Best Buy previously announced, profits were crimped by combination of slower consumer spending and onset of "a more promotional environment."

Schulze told analysts that despite 3rd-quarter income decline, Best Buy achieved same-store sales target, which he said was driven by demand for core CE products. He said digital technology products such as DVD hardware, DTV sets, digital camcorders and digital still cameras now accounted for 11% of Best Buy's business vs. 8% year ago. "New lower price points on DVD hardware create additional opportunities for after-holiday sales of entertainment software," he said.

Schulze said Best Buy remained committed to major appliances, but conceded chain hadn't won "the appropriate market share" in that category in light of recent decisions by rivals such

as Circuit City to abandon it. He said: "We believe that adjustments in product assortment, supply chain management and technological enhancements are all key to improving the outlook for the appliance business."

Pixelworks agreed to buy semiconductor company Pantera in all-stock deal valued at \$127.4 million. Acquisition will broaden Pixelworks' product line, which includes display controllers, and could result in 90% revenue growth in fiscal 2001, up from previous 70-75%, company said. Pixelworks will issue 4.5 million shares of common in exchange for all outstanding shares of privately held Pantera. Latter is San Jose-based semiconductor design firm that was founded year ago and has 22 employees. Pixelworks will incur \$1.3 million in noncash charges in 2001 for amortization of deferred stock compensation. Pixelworks also is starting volume production in Jan. of PW111 low-cost controller. Device, which will lack frame rate conversion, is expected to hit \$15 price in volume... **Silicon Image**, blaming slowdown in demand for PCs, said 4th-quarter revenue would be 8-10% below \$14.5 million in revenue in 3rd quarter ended Sept. 30. Revenue will be up 70% from year ago and Silicon Image now expects to break even in 4th quarter vs. 1¢ profit analysts had projected. It said revenue for first quarter of 2001 should be flat or up slightly from 4th quarter provided PC market doesn't continue decline... **Genesis Microchip** introduced gm5060 dual interface LCD controller that will be available in first quarter in volume at \$40. Controller supports resolutions up to 1,600x1,200 at 60 Hz and has integrated digital visual interface (DVI) receiver up to 165 MHz.

Latest headache for online dealers selling hard-to-find PlayStation 2 (PS2) videogame consoles this holiday season apparently is caused by "shopping bots" — Web programs that automatically log onto Web sites to search for particular product and then quickly alert consumer. Online report said Gohastings.com and Kmart's BlueLight.com were among e-tailers complaining that such programs were partly responsible for Web outages and slowdowns caused by heavier-than-expected traffic. Many consumers seemed to be relying on those programs to search Web sites that might be putting PS2s up for grabs. Various Web sites, including Amazon.com, have been making PS2s available about once each week as new allocations of product arrive. But dealers aren't announcing in advance just when they would be available, thus making shopping bots extremely useful for those who really want PS2 badly enough and don't want to stay glued to Web site for hours with no guarantee that one ever will be up for sale.

INFOCUS SETS CONSUMER PUSH: InFocus Systems, top-selling brand of front projector in corporate market, will roll out first consumer model at Consumer Electronics Show in Jan., company said.

Lightweight projector will be based on Texas Instrument's 0.7" Digital Light Processing (DLP) chip and 1,024x768 resolution, said Chief Technology Officer David Slobodin, who declined to release full specs, including price. However, model will have significant improvement in brightness and contrast over InFocus' 4.7 lb. Dragonfly DLP projector that set off lightweight push with its introduction in 1999 (TVD May 24/99 p18). InFocus showed 2.9-lb. DLP-based front projector earlier this year at \$5,000 with XGA resolution, 1,000 lumens brightness, 700:1 contrast (TVD June 19 p9).

Trick will be to ensure long bulb life for consumer market. Most business-oriented front projectors have bulb life of 2,000-4,000 hours, short of what is needed for consumer market. InFocus 2.9-lb. model had Osram-designed 160 w lamp with ballast that was 50% smaller than existing models.

InFocus also must work to establish consumer name. While its brand and that of Proxima, which it acquired earlier this year, are well known in business circles, there's little resonance in consumer market. First consumer projector is likely to be sold under InFocus banner, although company also builds models for Eastman Kodak, IBM and Toshiba for business applications. "Our initial plan is to go with our brand and continue to look at partnerships," Slobodin said. To head consumer push, InFocus has formed Home Products Div., he said.

Even as InFocus is readying 0.7" model, however, sources said it was developing model with 0.5" liquid crystal on silicon (LCoS) microdisplay from Three-Five Systems that could be available by year-end 2001 and sell for \$1,500. Slobodin declined comment, but industry sources have said 0.5" display could reduce weight under 2 lbs. and footprint to 50 cu. in. Three-Five microdisplay has 1,024x768 resolution, 250:1 contrast and 1,000 lumens, sources said.

Unclear is impact of Three-Five-based product on InFocus's relationship with Colorado MicroDisplay (CMD) in which it has financial investment and seat on board. CMD has focused on near-to-eye applications for its 0.47" and 0.25" microdisplays including head-mounted products and viewfinders. "It's in InFocus's best interests to stay in close touch with anybody that is developing technology that could be used in projection applications," CMD CEO Mark Willner said at Stanford Resources Flat Information Displays Conference in Monterey, Cal., last week.

CMD is expected to start volume production of 0.25" microdisplay for digital camera and camcorder viewfinders at Hana Microdisplay's fabrication facility in first quarter. Display, with 320x240 resolution, 100-150 lumens and 100:1 contrast (TVD May 29 p13), is expected to be available in OEM volumes of 25,000-50,000 units per month, Willner said.

Electronics Boutique (EB) announced strategic alliance with Microsoft to allow EB customers to receive up to \$400 after they have bought eligible merchandise and signed up for latter's MSN Internet Access service. EB said promotion expanded upon relationship its EBWorld.com division had established with Microsoft in which EB was "premier videogame and PC retailer on Zone.com."

TOP RENT-WAY EXECUTIVE RESIGNS: Top Rent-Way executive resigned after chain tripled to \$65-\$75 million restatement required for fiscal 2000 earnings as result of false entries in balance sheet.

Pres.-CEO Jeffrey Conway, who had been suspended after disclosure of investigation by audit committee in Oct. (TVD Nov 6 p19), resigned, while Controller Matthew Marini was fired. Chain had estimated impact on earnings to be in \$25-\$35 million range and it covered last 3 quarters of fiscal of 2000. It's continuing to investigate whether any of false entries also applied to fiscal 1999.

Rent-Way had said 70% of restatement was related to dozen accounting entries that reduced certain operating expenses including adjustments in rental merchandise and fixed asset write-offs. Problems with financial statement were revealed Oct. 25 as company prepared for year-end audit.

Rent-Way Chmn.-CEO William Morganstern conceded that chain "underestimated costs, time and resources" needed to integrate acquisition of Rentavision chain. He said "assessment of financial impact and affordability" of opening 86 new stores, implementing new computer system and installing Gateway PC kiosks in stores was "based on fundamentally flawed information regarding our financial performance."

As result of restatement, Rent-Way will "close, merge or sell" underperforming stores and temporarily curtail expansion plans. It operates 1,142 stores in 42 states.

Adjustments in financial statement shouldn't affect Rent-Way's revenue since false entries related to operating expenses, said Dennis Van Zelfden, analyst at Robinson-Humphrey. Cost-cutting strategy should result in solid earnings, he said.

Indeed, Rent-Way said it expected to return to 15-16% operating margin by end of 2001 and revenue for fiscal 2001 to increase \$70-\$80 million from year earlier.

Morganstern was sharper in his criticism of Conway and Marini following investigation than he had been earlier, and was "outraged that senior management betrayed the trust shown in them." Earlier, he had said any actions of Conway and Marini had been done out of "undying loyalty" to chain and desire to meet projections.

Liquid Audio filed bid with U.S. Bankruptcy Court, L.A., to acquire technology assets of privately held Scour, in same city, including latter's peer-to-peer file sharing application. Scour recently filed voluntary Chapter 11 petition. Liquid Audio said it hoped to integrate Scour's file-sharing technology into its Liquid Music Distribution System. Company said that would enable online retailers and music destinations in its global distribution network to add peer-to-peer music services to their sites. Retail Web sites part of Liquid network include BestBuy.com, CDNow, HMV.com, Musicland's sites, TowerRecords.com. Liquid Audio CEO Gerry Kearby called peer-to-peer capabilities "a logical extension of our secure music distribution system."

General Motors licensed flat-driver speaker technology from U.K.'s NXT for use in Buick Bengal concept car, to be shown at Detroit Motor Show in Jan. GM is 2nd automaker to license NXT's SurfaceSound, following Daimler Chrysler.

STREAMING MEDIA BATTLE: RealNetworks and Microsoft squared off last week in race to deliver advances in Internet audio and video software that exploit faster communications and smaller devices.

At Streaming Media West in San Jose, Microsoft demonstrated updated version of Windows Media technology it said approaches DVD quality at transmission speeds of 500 kbps, which is largely limited to broadband networks. Windows Media Video and Audio 8 software can store audio recording in 1/3 of file space required by MP3 and download 60% faster, Microsoft said. NTT DoCoMo is using technology to deliver audio and video clips to handheld device that attaches to cellular phone.

In effort to blunt Microsoft's push, RealNetworks took wraps off upgraded software that it said was up to twice as fast as its existing products and could handle multiple data formats. RealSystemIQ is update of software that RealNetworks and others use to broadcast audio and video over Internet. Software typically is installed at distribution points, but RealSystemIQ is designed to be arrayed in decentralized manner that would reduce clogging of networks.

RealNetworks exec. told *Wall St. Journal* that Microsoft release was "me-too" product that didn't represent significant advance in technology. But Kenwood showed portable CD players using Microsoft format that could store more than 22 hours of music on single disc. Microsoft Pres. Steve Ballmer also demonstrated multimedia features of company's upcoming Whistler operating system that's expected to include program guide and personal video recorder (PVR) features.

Microsoft conceded that cellular networks in U.S. weren't fast enough yet to deliver video, but said consumers in Japan would use it for both text and video.

TuneTo.com used Hewlett-Packard (HP) Jordana handheld PC based on Windows CE operating system to demonstrate technology designed to deliver high-quality audio to devices with wireless modems. Typical wireless modem transmits content to handheld at 19.2 kbps, but TuneTo CEO Timothy Bratton said technology overcomes delivery problems by dividing audio files into 2 parts. Portion of song is downloaded in advance by users and stored on handheld PC or other device, while smaller segment is transmitted later to complete file and make it sound like standard broadcast. Technology represents significant expansion for TuneTo, which to date has focused on Internet radio service.

TuneTo doesn't have licensing agreement with HP, but spokesman said it demonstrated technology in attempt to win support as it seeks to expand reach into handheld PCs and other devices such as Internet appliances and car stereo devices. Cost of adding feature will vary based on implementation, he said.

Meanwhile, Singingfish.com, fresh off being acquired by Thomson Multimedia, said it had signed German-language Web site as first customer for its Internet-based database of music and video clips. Inside Internet AG, which runs Swiss-search.com, will make Singingfish's services available in first quarter. Singingfish has said it plans to make more than 8 million streaming media files searchable by Internet users by year-end.

Its software searches text information is embedded in music or video files for file name and Web page on which it resides to

identify song or video. Current database has half of multimedia content available on Web, and its software next year will be able to catalog songs 15 min. after they are posted on Internet, company said. Thomson's acquisition of Singingfish is part of push into digital media and of effort to help movie studios and TV networks broadcast over Internet without fear of piracy. Thomson also acquired Technicolor last week from Carlton (see separate story, this issue).

Solectron last week completed purchase of Sony's factory in Miyagi, Japan, that produces car audio and lithium ion batteries and plans to close on 2nd plant in Taiwan in Jan. Solectron will employ 1,145 former Sony workers at 126,700-sq.-ft. Miyagi plant. Sony signed agreement in Oct. to sell 2 plants to Solectron as part of restructuring that consolidated factory operations... **Philips** said it would record one-time \$1.97 billion gain in 4th quarter of fiscal 2000 as result of swapping shares in Seagram for those in newly merged Vivendi Universal and on sale of Origin technology arm to Altos. As result of stock transaction, Philips will get 3.5% and 49% stakes in Vivendi Universal and Altos Origin, respectively. It gained stake in Seagram in selling PolyGram music unit to company.

Interplay and Virgin Interactive Entertainment are locked in dispute over international distribution agreement for latter's software titles. Interplay, which signed deal with Virgin in Feb. 1999, amended agreement in June to eliminate clause requiring it to pay overhead fees and minimum commission. Virgin rejected amendment and asked Interplay to pay \$9.3 million as share of annual overhead. Virgin earned \$2.5 million in commissions through Sept. and was projected to add another \$2 million in 4th quarter, putting Interplay's maximum exposure at \$4.8 million, Interplay said in SEC filing. Interplay has 43.9% stake in Virgin, which sells titles as part of 7-year exclusive agreement covering Europe, Africa, Middle East.

Microsoft-Thomson alliance unveiled its first interactive TV in Europe using TAK platform. New TVs don't need set-top box, but incorporate free Internet access for e-mail, and other services such as electronic program guide, weather, news, online betting. Interactive aspect of system will be tied to onscreen program, enabling viewers to vote in polls or participate in game shows. Sets will go on sale under Thomson brand in France next month, priced at \$750. TAK is 70% owned by Thomson, with rest held by Thomson shareholder Microsoft. As in past, partners said name had no meaning but could be used easily in several languages.

EchoStar is shipping tuner (\$100) for high-definition (HD) satellite receiver that will enable it to receive off-air HD broadcasts. Receiver (\$499) also is being packaged with 2 dish antennas (\$699) to receive EchoStar's HD feeds. EchoStar's Digital Sky Highway (DISH) service is delivering HBO, Showtime, pay-per-view and demonstration HD programming from bird at 61.5°... **DirecTV** signed agreement with Amazon.com to sell Thomson RCA receiver along with product from Philips that combines TiVo personal video recorder technology with satellite service.

Nikon was offering \$50 holiday rebate on its Coolpix 950 digital still camera. Rebate is on top of \$100 rebate company already had been offering on camera. Combined rebate offers bring price of model down to \$749. Camera is 2.11 megapixel model with 3x zoom-Nikkor lens. Company said it also was continuing to offer \$75 rebate on its \$599 Coolpix 800 2.11 megapixel camera. Rebates expire Dec. 31.

PALM PLATFORM ADVANCES: Palm took wraps off new upgrade of operating system as hardware and software suppliers unveiled new products at PalmSource developers conference last week.

Palm introduced 4.0 version of operating system (OS) that adds support for 16-bit color, Bluetooth wireless connectivity, USB connections, wireless telephony. CEO Carl Yankowski also hinted at 5.0 OS that would support higher screen resolution, but didn't set release date. Palm handhelds have display with 160x160-pixel resolution and upgrade is likely be to 320x240, sources have said.

Meanwhile, Bluelark introduced Blazer Personal Edition 1.0 browser for Palm that it said delivered content 4 times faster than its competitors, while Motorola said it planned to add Arm Holdings core technology to DragonBall processor by mid-2001. Kyocera Wireless formed Partners Program to promote Palm-based software development and distribution for its upcoming trimode CDMA smart cellular phone and said it was seeking alliances with up to 10 companies that are "dominant in specific markets."

Motorola decision to integrate Arm core follows Palm's move to add latter as 2nd processor supplier. Motorola, which has been sole supplier, said Arm technology would allow it to incorporate wireless connectivity. Motorola's 33 MHz DragonBall processor is at heart of Handspring's Visor Prism and Platinum Palm-based handhelds, while 16 MHz and 20 MHz versions are in Sony's Clie, Handspring's Visor Deluxe and Palm V, VII and III series.

Survey by Bear, Stearns, revealed that 54% of 100 retailers it queried reported demand for Palm handhelds exceeded expectations and that sales of Handspring products were brisk. Some retailers said they were sold out of Palm m100 (\$149) and V models. Sales of Sony Clie have been lackluster but Compaq's Windows-based Pocket PC has been in short supply, making sales difficult to gauge, Bear, Stearns said.

On software side, Bluelark said browser boosted speed by downloading text first and then filing in images and other objects. It uses caching and rendering technology that it said displays majority of Web pages in less than 5 sec. Browser provides native access to content written in HTML, WAP and I-Mode programming languages, Bluelark said.

Jawz also introduced Datagator software that automatically encrypts all data on Palm handheld. Software is available in standard version (\$39) that encrypts Palm's address, data and date books as well as to-do list and memo pad. Datagator, which uses 448-bit Blowfish or 168-bit triple DES encryption software, also is available in professional (\$49) and enterprise versions, former protecting all data, while latter is designed for customized applications.

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Fashionable version of Palm handheld also took shape last week. PNT Media, which operates ClaudiaShiffer.com Web site, began sales of Palm Vx (\$399) endorsed by model. Handheld is packaged with CD with add-on software application endorsed by Shiffer including Imageviewer, dietlog, fitness tracker, travel and shopping guides. Meanwhile, TheRightSize released Rosetta Stone software for wireless Palm VII that recommends right size and style of clothing from several online retailers. Software can be downloaded free during holiday selling season from therightsizes.com Web site.

GAME MAKER ENTERS U.S. MARKET: London-based game publisher EON Digital Entertainment started shipping action/flight combat PC game *Airfix Dogfighter* in U.S. Game, at \$29.99, represents EON's entry into U.S. market.

Recently formed company started shipping games in Europe and Asia-Pacific region in late Sept., and EON Pres. John Burns told us last week that "EON's aim is to be a global player." He pointed out that EON was acronym for Everything Or Nothing and one of company's goals is to become more aggressive in N. America. To that end, as we reported (TVD Nov 6 p14), company is shipping 2 more PC games this quarter: *Crime Cities* and *Mission Humanity*, each also at \$29.99.

Company's first title for 2001 will be *Steel Soldiers*, another PC game. Burns told us that game would ship in "the back end of the first quarter."

EON also is looking to step up its presence on console game front. Burns told us company already had started shipping PlayStation titles outside U.S. and "recently signed [deals for] some more PlayStation 1 games, and we've actually shipped some of those." One of them is budget-priced *Street Scooters*, he said.

Burns said: "As we move into 2nd and 3rd quarter next year, we will release 2 PlayStation 2 games... and 3 more PC titles, and potentially some more PlayStation 1 titles at the budget price." He said EON also "signed one specific deal for 2002 with a U.K.-based developer" but said he couldn't provide details other than that it's multiplatform deal. That, he said, "means PlayStation 2, Xbox and PC." Burns added: "You can expect to see another 2 [multiplatform] announcements signed" in near future — he hoped by Christmas.

"Moving forward, we will be supporting Game Boy and Game Boy Advance," as well as Gamecube, Burns said, and EON already has started distributing 3 titles for Game Boy outside N. America. But he said: "We're aggressively pursuing Xbox, PlayStation 1, PlayStation 2 and PC." EON, he said, is backing Nintendo platforms now in more of "opportunistic" manner. However, it still wants to distribute Nintendo titles in N. America.

As for Dreamcast, Burns said EON was about to sign 4-title distribution deal exclusively for Europe. "I like the [Dreamcast] platform," he said, and Sega's system is doing well now thanks to Sony's troubles in shipping adequate supplies of PlayStation 2 consoles. But he said "I'm not sure" what will happen to Dreamcast sales in future when PlayStation 2 systems can meet consumer demand and other competing platforms arrive.

Burns, industry veteran who has worked for game companies including Atari and Sega, said: "We feel the industry is ready for a boom — not just [in] the traditional publishing sector, but broadband and online" as well. Eon is looking to position itself to best take advantage of that boom.

THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥112 = \$1, except where noted.

ETOYS FACES MAJOR CHALLENGES: As eToys battles with Amazon.com/Toysrus.com for largest share of online toy sales this season, Forrester Research issued report saying eToys had difficult road ahead of it. In report, Forrester predicted that "traditional retailers like Wal-Mart" and Toys "R" Us via its online partnership with Amazon "will grab the online toy lead from eToys."

Report arrived as growing number of analysts have questioned ability of pure play online dealers to compete effectively against retailers that have multichannel presence. Recent Sanford Bernstein report, for instance, said there had been "a flameout of the pure plays" as traditional dealers have gained strength in online space (TVD Dec 11 p19).

Forrester's report, by analysts Seema Williams and Lisa Allen, said one major advantage Amazon/Toysrus.com seemed to have over eToys this year was in its ability to get hold of "the goods — hot items like PlayStation 2," which have been hard to find.

Meanwhile, Kmart, Target and Wal-Mart will present more competition for eToys as those retailers make "push for a multi-channel splash," report said. Forrester said those 3 companies "will sell online most of the products they carry offline" with added advantage that "their stores will accept returns of online purchases."

Report said "traditional merchants [also] will start to leverage [their other] offline assets." As examples, it said: "The Babies 'R' Us gift registry is a low-cost source for new Toysrus.com customers, while Wal-Mart's toy volume ensures rock-bottom prices from manufacturers, another way to acquire — and keep — customers." It said: "These merchants will benefit on the revenue side as well because their multiple channels seduce customers into increasing their average annual spending. In contrast, eToys will spend about \$25 million on advertising this quarter to buy in just one channel."

To have fighting chance of succeeding, Forrester said eToys "plans to increase revenues from \$107 million in the 4th quarter of 1999 to between \$210 million and \$250 million this year." Report called eToys's ability to do that "a necessity because the company's cash reserves are being drained." Forrester also said "eToys will introduce a few new spots to its TV ad campaign, distribute catalogs in newspapers and Gap.com shipments and push higher margin private label products." That last move is in keeping with trend among most major toy retailers this year.

Forrester said eToys would "have to generate \$750 million to \$900 million in sales" just "to reach break-even next year." But "given strengthening online competition, [eToys] won't." Therefore, report said, "eToys needs an offline savior" in form of bricks-and-mortar retailer that agrees to buy online toy merchant. Forrester said, for example, that "Wal-Mart's purchase of eToys would infuse the troubled site with needed online merchandising talent and features, great content and a marketer's dream URL."

EToys spokesman hadn't returned call for comment by our Fri. deadline.

Warrantech is threatening to end negotiations with Staples on renewing service contract agreement, arguing that rate increase was "needed to sustain profitability for all parties." New pact would replace agreement that expires Feb. 1. Warrantech suffered setback year ago when CompUSA chain, which accounted for more than 30% of its revenue, dropped service contract program.

Consumer Electronics Personals

Perry Clay retires as Sharp Electronics pres., successor not announced; **Robert Scaglione**, Sharp vp-mktg., Home Digital, promoted to vp-mktg., Consumer Electronics Group... **Robert Minkhorst**, who is leaving as Philips Consumer Electronics pres., joins advisory board of Internet infrastructure company Droplet Inc... **David Edmondson**, RadioShack exec. vp-COO, promoted to pres.-COO... **David Fischer**, ex-America Online, named managing dir., GetMusic International... **Paul Milbury**, ex-iBelong.com, appointed Avid Technology CFO, replacing **Ethan Jacks**, who had served as CFO on interim basis and remains senior business development vp-chief legal counsel... **Candace Peterson**, ex-Pacific Media and Portland (Ore.) State U., returns to InFocus Systems as product development vp; **David Slobodin**, technology and advanced product development dir., promoted to chief technology officer; **Benjamin Joy**, senior product mgr., leaves to join Sharp Microelectronics' mobile PC unit... Rent-Way changes: **Jeffrey Conway** resigns as pres.-COO; **Matthew Marini** ousted as controller, replaced on interim basis by Treas. **Therese Bihler**; **Scott Young**, ex-Ernst & Young, hired to assist CFO **William McDonald** on year-end financial filings... Promoted at Equity International (marketer of B&W and Rotel brands): **John McIntosh** to dir. of sales from national sales mgr.; **Dave Baker** to Rotel national sales mgr., will continue to be based in Seattle, replaced as regional sales mgr. for Pacific Northwest by **Greg Williams**... **John Franco**, ex-Learning International, named GeoVideo sales & mktg. vp... **David Brooks**, InViso engineering vp, shifts to business development vp.

RadioShack said it had reduced investment in DSL provider Northpoint Communications to less than \$2 million from original \$20 million stake it bought in 1999. It sold majority of stake in first half of this year, but continues to sell Northpoint's DSL service through Dallas-area stores. It has transferred responsibility for DSL to Microsoft, which operates store-within-a-store format at RS outlets. Northpoint has struggled in recent weeks as Verizon canceled planned \$800 million DSL operation and it chopped \$6 million off previously reported 3rd quarter earnings because ISP customers were delinquent on payments.

Sharp's 1-bit digital amp will be built into 3 compact stereo systems for sale in Japan, company said. It introduced 1-bit with 2.8 MHz sampling rate 64x greater than CD's this time last year in conjunction with rollout of Super Audio CD players in Japan. New compact systems combine CD player, tuner, MiniDisc recorder, other features. Models have 1-bit amps rated at 5w, 20w and 25w per channel priced at \$500, \$640 and \$1,000, respectively.

New bonus pack for Microsoft Windows Media Player 7 contains new utility that lets users convert MP3 music files to Windows Media Audio. Conversion enables users to fit twice amount of music compared with MP3 compression, but without loss of sound quality. Bonus pack is available as free download.

JVC has teamed with POPcast to let customers upload video footage for e-mails. JVC said consumers can log onto www.jvc.com for up to 30 min. of free video storage on site. Sender simply sends e-mail with link to www.jvc.com in text, and when recipient clicks on Web site address, e-mailed video will play.



TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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AOL, TW LOBBY FCC FOR QUICK MERGER APPROVAL AS CLOCK RESTARTS: As they awaited FCC action on their merger plans, AOL and Time Warner (TW) were pressing 5 commissioners to approve deal before year-end. In conversations with legal advisers of all 5 commissioners last week, AOL Telecommunications Policy Vp Steven Teplitz said his company had "strong interest in a prompt conclusion to these proceedings to avoid the substantial burden and expense" of closing deal after Dec. 31. Specifically, according to ex parte filing, Teplitz said AOL and TW "would bear the burden and expense of: The need to file over 10,000 partial-year state and local income tax returns; the need to make additional filings with the Securities & Exchange Commission; the undertaking of costly and duplicative audit and accounting reviews, along with significant modifications to internal accounting systems; as well as other costs associated with closing the merger beyond the end of the calendar year." In brief statement, TW and AOL also reiterated their intention of consummating takeover "at the end of the year or in the very early days of January."

At same time, FCC Gen. Counsel Christopher Wright asked parties to provide additional information "promptly" and promised that agency would try to conclude its review quickly. In brief letter faxed to AOL and TW attorneys Dec. 19, Wright said FCC was encouraging commenters to supply additional information quickly "in the interest of reaching an expeditious resolution of this proceeding." Without setting specific deadline, he said "Commission will endeavor to take action as soon as possible." FCC, which stopped clock on its merger review 2 months ago in deference to FTC's parallel antitrust review that concluded Dec. 14, reportedly was weighing additional conditions that would force AOL-TW to open its instant messaging (IM) services to rival online players. Commission Chmn. Kennard repeatedly has pledged to complete agency's merger review by year-end.

Consumer Electronics

LCD PRICE CUTS EXPECTED as oversupply looms. Plasma panels to gain additional production capacity. (P. 10)

SAMPO DVD PERFORMS WELL in our exclusive lab test. DVD players from Taiwanese newcomer join line of 4 HD-ready TVs, including widescreen plasma panel. (P. 12)

BLOCKBUSTER VoD TRIAL begins in 3 U.S. markets via DSL with goal of rolling out nationwide by 2nd half 2001. (P. 14)

U.K.'s TESCO THUMBS NOSE AT SONY as it acquires 2,500 PlayStation 2s on gray market to sell at select stores. (P. 15)

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CONFIDENCE IN ETOYS SLIPS among analysts as online retailer says 3rd-quarter results will fall short. (P. 17)

MICRODISPLAYS DIVIDE MARKET into rear/front projection and viewfinder/headmount displays. (P. 18)

Spokeswoman for FCC declined to comment on several reports that Commission also was considering proposed rule that would ban all cable systems from blocking interactive TV triggers from rival content providers. Proposed action would be one result of FCC's review of AOL takeover of TW and conditions already imposed on deal by FTC. Rulemaking procedure reportedly could start early next year.

Fight Over Instant Messaging Intensifies

Meanwhile, Sen. Burns (R-Mont.) urged FCC to mandate that AOL-TW open its IM service to competitors before approving merger. In Dec. 19 letter to Kennard, Burns said, "Commission should consider steps that will immediately remove impediments to interoperability" to improve environment for both large and small IM providers. "We cannot allow the balkanization of this new service and all its potential," he said, noting that 2 prominent IM providers recently had gone out of business.

Move came as AOL and Microsoft and its online allies continued to duel at Commission over proposals to require AOL to open its IM services to online rivals. Microsoft, Yahoo, Prodigy and Excite@Home said they were "fully prepared" to make their respective IM services interoperable with AOL's. In letter sent to all 5 commissioners Dec. 21, IM members said they wished to "reconfirm their commitment to promoting interoperability among competing instant messaging systems." Group members said they took action because, "despite our substantial efforts, AOL has suggested that our companies somehow would refuse to reciprocate if AOL were to interoperate with our systems." They said they were committed to interoperating with AOL because it would "simultaneously accelerate innovation and consumer choice." "Ultimately," they said, "the only question we have is why AOL consistently refuses to take any concrete steps with the IM industry to achieve these goals."

In latest back-and-forth, AOL and Microsoft disputed whether IM market was tipping toward AOL or Microsoft as Yahoo and others were gaining fast. AOL argued that FCC, instead of requiring interoperability of IM services, could merely monitor future developments in IM market to ensure that AOL-TW didn't dominate it. AOL suggested that Commission could use such yardsticks as "continued rapid growth by competitors," rival offerings of "advanced IM" services, industry adoption of "a true interoperability standard" or "marketplace progress toward a de facto standard," among other things.

Commenters Debate FTC's Merger Conditions

Despite much praise for FTC's unanimous approval of AOL acquisition of TW with strict conditions, not every- one thought govt. agency acted wisely. Cal. Internet Service Providers Assn. questioned whether proposed safeguards would really prevent AOL-TW from shutting out competitive ISPs and discriminating against other Internet and interactive TV content providers. Charging that SBC Communications "has created technical and economic barriers freezing independent ISPs out of the DSL market" in Cal., group said it was worried AOL-TW would do same thing nationally. "While we like the principle of open access, we're concerned — based on our experience with the merger of Pacific Bell and SBC — that after the honeymoon is over, the commitment to fair play and open access may just fade away," said group legal counsel David Simpson. Despite similar safeguards against discrimination, he contended that SBC was "favoring instead its own in-house ISPs — Pacific Bell Internet and Prodigy," causing competitive options for ISPs to disappear quickly.

On other side, Assn. for Competitive Technology (ACT) condemned "forced access provisions" in FTC's consent or- der, arguing that they could end up impeding deployment of broadband services by providing disincentives to AOL-TW and other cable operators. ACT Pres. Jonathan Zuck said: "In the end, forced access amounts to corporate welfare and consumers will be the losers." Group called open access "wrong in principle" and contended that "its practical impact will be to delay and discourage investment in cable broadband upgrades."

Senate Antitrust Subcommittee Chmn. DeWine (R-O.) and ranking Democrat Kohl (Wis.) praised FTC, AOL and TW for negotiating consent agreement. They said they were hopeful that FTC's conditions "will be sufficient to guarantee vigorous competition in the market for broadband Internet service and to prevent the possibility of discrimination on the basis of content affiliation." They also said they were "pleased that AOL appears to be living up to its commitment to a policy of open access." DeWine and Kohl called on FCC to "conclude its review swiftly" as promised and pledged that their subcommittee "will closely scrutinize the effects of this merger and the implementation of this agreement in order to make sure the needs of consumers are being met." Disney Exec. Vp Preston Padden, frequent critic of merger plans, also lauded FTC, saying that open access and nondiscrimination conditions "represent a huge victory for consumers and for competition."

Following FTC's action, Moody's raised debt credit ratings of AOL, TW and Time Warner Entertainment (TWE) Dec. 18. Moody's, which had placed 3 companies on review for upgrade after AOL and TW announced planned deal last

Jan., lifted their ratings to Baa1 for \$21.8 billion of debt securities. Credit agency attributed AOL upgrade to “the significant benefits gained from the merger,” including credit strength and stability of TW and TWE, “the content richness” within many TW and TWE operating units, “the significantly increased scale and diversification” and “broadband capability” gained from TW’s cable operations. Moody’s attributed upgrades of TW and TWE debt ratings to their continued financial credit improvement and their union with “significantly less leveraged AOL.”

Overall, Moody’s cited potential for new growth opportunities at merged company, despite prospect of economic slowdown and advertising contraction, because of AOL-TW’s strong brands, potential for new products and heavy reliance on “noncyclical subscriber fees.” It said it also expected AOL-TW to “drive growth through acquisition and investment,” particularly internationally, and to avoid building its debt too high. Both Moody’s and UBS Warburg, in separate favorable analyst report on AOL-TW deal, said FTC’s open access and other conditions should not hamper new company’s ability to continue growing rapidly. UBS Warburg reiterated its “strong buy” rating of AOL stock.

At same time, AOL and TW provided update on their 4th-quarter financial performance. TW said it expected its earnings before interest, taxes and amortization would grow 11% for full year, down from earlier estimates of 12-13%, because of disappointing box-office performance of its *Little Nicky* release, recent softness in cable network ad revenue and weaker than anticipated music sales. AOL said it was on track for record growth in quarter, thanks to strong momentum in membership growth and advertising and commerce revenues.

CONGRESS CURBS LPFM RADIO, CLINTON FRETS OVER MOVE: Bill scaling back FCC’s LPFM plans survived appropriations process and was included in spending legislation that passed Congress and was signed by President Clinton last week. NAB heralded LPFM measure as protecting current radio stations from interference while letting LPFM go forward. Clinton, on other hand, said Dec. 22 he was “deeply disappointed that Congress chose to restrict the voice of our nation’s churches, schools, civic organizations and community groups.” He urged Commission to move ahead on LPFM by “giving a voice to the voiceless” and to authorize as many low-power stations as possible under congressionally mandated restrictions.

Bill would reduce number of LPFM stations, particularly in urban areas, by expanding FCC’s interference protection plan for FM stations. “Broadcasters win LPFM fight,” NAB told members in bulletin, saying Congress voted “drastically scaled-back version of the FCC’s ill-conceived plan.”

Law allows FCC to conduct tests of closer spaced LPFMs in 9 markets, with Congress deciding later whether tests were successful enough to allow more such stations. Meanwhile, FCC announced Jan. 16-22 LPFM filing window for 3rd group of states — American Samoa, Colo., Del., Hawaii, Ida., Mo., N.Y., O., S.C., S.D., Wis. Agency warned, however, that some frequencies might not be available as result of legislation and urged applicants to check FCC Web site.

New LPFM applications were accepted for filing by FCC Dec. 21, with list of 262 applicants attached. Petitions to deny and any “minor” amendments are due Jan. 22. Mutually exclusive applications will be announced later. FCC said all applicants were accepted according to requirements of appropriations bill and Commission’s 2nd and 3rd spacing requirements.

In related matter, FCC’s Office of Inspector Gen. (IG) ruled agency officials didn’t violate antilobbying rules in congressional fight over LPFM. Responding to questions by key members of House Telecom Subcommittee, IG said it couldn’t find any evidence that FCC officials had solicited trade associations or anyone else to lobby on Commission’s behalf for LPFM legislation, as charged. IG said agency employees did send to Congress correspondence they had received, which was appropriate. (Among other findings in IG’s semiannual report: (1) FCC employee was disciplined for conducting music business on his FCC computer, causing agency’s e-mail system to malfunction. (2) Employee working for FCC contractor was found sleeping in Commission’s computer lab instead of conducting inventory. Contractor fired employee and sent new team to verify accuracy of first employee’s work.)

Congress also passed and sent to President bill by Reps. Boucher (D-Va.) and Goodlatte (R-Va.) to establish \$1.25 billion loan guarantee program to help deliver local TV stations via satellite to medium and small cities and rural parts of U.S. Bill would fully guarantee loans but they would have to be collateralized and approved by 3 of 4 board members — Secys. of Commerce, Agriculture and Treasury and chmn. of Federal Reserve. As soon as companies meet criteria, they can apply for loans.

Boucher said bill authorized Agriculture Dept. to administer loan program, which allows companies seeking loans to apply to Dept. It would evaluate business plan of company and “decide who can deliver the most signals for the lowest

amount of the loan guarantee," Boucher told us. Agriculture would make sure companies applying for loans were "consistent with requirement of law," he said.

EchoStar and DirecTV currently offer local-into-local satellite TV service to largest 66 of nation's 211 TV markets, excluding rural customers from network TV access. Purpose of bill is "to fill that gap," Boucher said, citing need for access to broadcasts in event of natural disasters and other emergency broadcasts. Goodlatte said: "If matters are left solely to the initiative of the existing satellite platform providers, more than 50% of existing satellite subscribers... will continue to be deprived of their local TV stations."

TV, CABLE SAY NO TO KID DTV RULES: Despite their differences on other DTV issues, NAB, NCTA and MPAA along with other TV groups spoke as one in separate comments to FCC Dec. 18 on whether new service obligations to children should be imposed in digital TV era. On opposite side were 40 advocacy groups that argued that if right policy decisions were made now, power of DTV could be made positive force in lives of children. "Number and diversity" of groups and individuals signing comments "sends a strong signal to the FCC," said Kathryn Montgomery, pres. of Center for Media Education (CME) in response to FCC rulemaking (Doc. 00-167).

NAB said DTV "is still struggling to be born" and FCC should be focusing its efforts on resolving transition issues before it considers imposing additional programming obligations on stations. Agency should "encourage broadcasters to join in jump-starting digital transition by attracting viewers of all audiences, including children." NAB said imposition of new content obligations on "a nascent DTV technology is premature and could stifle developments and diversification of innovative digital services." FCC also should not "dictate" technical format for stations to provide "core" DTV programming, NAB said.

NCTA objected to what it called "an extreme solution to a nonexistent problem" proposed by CME to prohibit cable and broadcast direct links to commercial Web sites (for interactive programming) during airing of mandatory programming under Children's TV Act. To issue such mandate "may well chill the development of new and innovative programming choices for children," NCTA said. Rulemaking doesn't "identify any real or even imagined problems that would warrant Commission intervention" in development of interactive programming, Assn. said.

Rulemaking is "nothing short of outright content regulation," MPAA said. "Thus, the Commission has invited itself to the threshold of media content regulation... The Commission ought to step back... Indeed, the Commission's proposals place the [agency] on a collision course with its statutory mandate and the First Amendment."

NBC contended that coming transition to DTV "should not be used as an opportunity" to place increased children's programming obligations on licensees: "Imposition of additional regulatory requirements at this time is premature and could stifle the development of new, innovative and creative services." New CBS owner Viacom said: "In this notice the Commission presents... a far-reaching set of proposed new regulations for children's programs that would have the effect of punishing our efforts on behalf of children." Some proposals also would create "disincentives to experiment" with new services for children specifically and public generally, Viacom said. Others, it said, would "impose burdensome new programming requirements and stifle innovation" in development of DTV. ABC and Fox didn't file comments at FCC by Dec. 18 deadline but said they may file replies.

Advocacy coalition said FCC should develop "clear, quantifiable guidelines on how DTV broadcasters should serve the educational/informational needs of children." It said agency should adopt policies to "protect children from unfair and excessive advertising practices... The current 3-hour rule... is insufficient for digital television." Among new requirements, group said, should be cap on preemptions of educational/informational programming, redefining of "commercial matter" to include program promotions, and new point system to provide "flexible options" for commercial stations to fulfill their public interest obligations.

Sesame Workshop said FCC should adopt "3-hour/3%" processing guideline requiring stations to carry 3 hours of "core" children's programming on its primary digital signal, plus additional core shows in 3% of its 7 a.m.-10 p.m. programming. KidsNet urged that stations include "an unobtrusive informational link," similar to IDs, to inform parents of availability of educational programs. Parents, KidsNet said, aren't generally aware that licensees are obligated to air specific amount of educational/informational programming weekly.

Citing public TV's "exemplary track record" of providing quality children's shows, PBS and Assn. of America's Public TV Stations asked that educational stations be exempt from any new "reporting and public disclosure requirements in the digital world." They said they "generally support" proposals that encourage deals whereby commercial stations can help meet their public service obligations through arrangements with public stations when such commitments "are designed to encourage innovation and responsiveness to local community needs."

White House said Dec. 18 it had given Democratic FCC Comr. Ness recess appointment, allowing her to be sworn in later that day and keeping her from having to leave agency at end of year. Her term ended July 30, 1999, and Senate never confirmed her reappointment. With recess appointment, Ness will be able to stay until end of next legislative session of Congress — meaning she can stay in office until late next year. Ness in statement said she was "honored" that President Clinton had named her to recess term. She has been on FCC since 1994. White House said her position "is vital to the daily operation of the FCC." It keeps agency from splitting 2-2 on many issues. Senate Commerce Committee Chmn. McCain (R-Ariz.), who held up Ness's confirmation for new term, had little to say about recess appointment. Committee spokesman said "it is the White House's prerogative" to make such appointments. "It has the right and we respect that." NAB Pres. Edward Fritts said NAB was pleased to see Ness continuing on FCC even though it didn't agree with her on every issue: "Her leadership on digital television will be important as the DTV transition continues." Meanwhile, President-elect Bush said he would nominate Don Evans, chief of oil and gas company, as Commerce secy. Evans, 54, is CEO of Tom Brown Inc., Midland, Tex., energy company, and worked on Bush campaign.

FCC TELLS AT&T TO SHED TWE STAKE: Taking hard-line approach urged by consumer groups, FCC ordered AT&T to sell its 25.5% stake in Time Warner Entertainment (TWE) to meet agency's conditions for clearing MSO's purchase of MediaOne. In Dec. 21 order, FCC told AT&T to carry out its stated commitment to shed TWE stake or place it in irrevocable trust for sale by May 19 even though company said it preferred to spin off its Liberty Media programming unit (TVD Dec 18 p6). In 4-1 vote, FCC also ruled that AT&T had failed to comply with agency's merger order because it didn't choose one clear option for satisfying govt.'s rules.

But, in bone tossed to AT&T, FCC left open possibility that company still could use Liberty spinoff to meet agency's divestiture requirements. Commission said AT&T could petition agency to modify order by Jan. 15 by submitting written request "with an appropriate showing as to why such a modification would serve the public interest." FCC Cable Bureau spokeswoman declined comment on that clause. But sources said agency added provision to demonstrate that it was acting reasonably.

Trying to put positive spin on issue, AT&T quickly put out release saying that Commission's order "correctly points out that we have elected to divest TWE in order to meet the Dec. 15 election requirement." Company said it already was complying with divestiture requirements and would "continue to work diligently" to meet govt.'s May 19 deadline. "We do not believe today's order requires us to take any action different from those that we are already pursuing to comply with the merger order," it said. AT&T also said "it was not our intent to create ambiguity."

FCC's surprisingly tough move followed intense wrangling between agency and AT&T over govt.'s cable ownership cap. AT&T, which has fought unsuccessfully in both Congress and courts to overturn ownership limits, argues that 30% cap on systems that single company could own would deter cable plant upgrades and cable competition to incumbent phone companies. But FCC, which relaxed ownership limits just year ago after AT&T announced deal to buy MediaOne, drew line and clearly didn't like company's not-so-secret lobbying efforts to scrap cap in Congress.

In order, FCC reiterated its position that AT&T had to select its divestiture option by Dec. 15 and then stick with it. It dismissed AT&T's Liberty Media spinoff proposal as conditional, not firm, commitment because MSO said spinoff was contingent upon its receiving favorable tax rulings from IRS. In 2 recent letters to FCC Cable Bureau Chief Deborah Lathen, AT&T Gen. Counsel James Cicconi stressed that company intended to split off Liberty but couldn't make unshaken commitment to it because it needed IRS rulings first. So Cicconi promised that, if Liberty spinoff couldn't be carried out, AT&T would either divest its TWE stake or place its interest in irrevocable trust for sale.

Comr. Furchtgott-Roth dissented from FCC's ruling, arguing that it seemed to "be based on an overaggressive reading of the relevant ordering clause." Contending that AT&T had acted in "quite prudent and sensible" way, he said Commission overreached its authority and slapped company for merely "designing a fallback position to its chief election." He also criticized agency for not putting AT&T "on clear notice" that its filing acknowledging possibility of unfavorable Liberty tax ruling "was somehow impermissible" under FCC's merger order.

Consumer groups, which had been pushing FCC to force AT&T to shed its TWE stake, lauded Commission's action. Con-

sumers Union praised move as "an enormous victory for consumers" because it would sever ownership ties between AT&T and Time Warner, 2 biggest MSOs that together control 50% of all cable homes. In their latest of many filings with Commission Dec. 20, consumer groups called on agency to "take prompt and decisive action to declare that AT&T has irrevocably elected to divest TWE."

FCC's C- and F-block PCS auction reached recordbreaking \$11.1 billion in combined high bids Dec. 21 as 3 largest U.S. carriers maintained lead either as standalone companies or through investments in designated entities. Wireline analysts said they expected bidding in auction of 422 licenses could slow somewhat after holiday hiatus that started Dec. 22 and runs until Jan. 4. Analysts have estimated ultimate totals could surpass \$20 billion and auction already has beat previous spectrum bid record set in 1996 PCS sales with \$9.2 billion. "Still, you could have a long way to go in these auctions," Strategis Group Senior Vp Elliott Hamilton said. "I don't think it will be the pace that it had been." When auction resumes, it will be with narrowed field, with 29 bidders dropping out, most notably Nextel. Other dropouts since Dec. 12 start include Cincinnati Bell and Alltel, although some larger carriers will reenter bidding with diminished eligibility. Verizon Wireless bid \$5.5 billion, including key markets of N.Y., Chicago, San Francisco, L.A. AT&T-backed designated entity Alaska Native Wireless trailed with \$2.1 billion and Cingular Wireless-backed Salmon PCS with \$1.6 billion. Among large carriers, AT&T Wireless and Sprint didn't break into top 15 net high bidders as standalone companies, although VoiceStream PCS was 5th with \$313.1 million. Others in top 10 were Black Crow Wireless with \$421.9 million; Leap Wireless, \$309.5 million; Dobson Communications subsidiary DCC PCS, \$258.2 million; Cook Inlet, \$254.8 million; Lafayette Communications, \$228.18 million; SVC BidCo, \$43.9 million. Verizon had highest bids for 2 N.Y.C. licenses — \$968.6 million and \$909.3 million; high of \$494.6 million for Chicago and highest for 2 blocks of L.A. spectrum. "We had a budget and the bidding started to exceed that," Nextel spokesman said, explaining carrier's departure from auction. "We are very comfortable with the spectrum that we have in the 800 and 900 MHz bands. We will continue going forward to focus on that spectrum." "Verizon obviously wants to own some of the most important markets, such as New York," Allied Business Intelligence wireless analyst Larry Swasey said. "Some of their aggressiveness is definitely due to their vision of a national market," he said. Earlier FCC had asked AT&T to quickly clarify how it intended to meet Commission's divestiture requirements for approving MSO's \$44 billion purchase of MediaOne earlier this year. In 2-page letter to AT&T Gen. Counsel James Cicconi, FCC Cable Bureau Chief Deborah Lathen said "we find that it is not clear" whether company is "in compliance" with Commission's divestiture order because MSO's Dec. 15 letter stating its intentions "does not appear to make a single election," as required by agency. In that letter, AT&T said it planned to comply with FCC's requirements by spinning off its Liberty Media Group programming unit as fully independent company and insulating itself from its 25.5% stake in TWE by making sure its other programming interests no longer were attributable to it. Liberty spinoff, however, is dependent upon AT&T's receiving favorable tax ruling from IRS because of potential tax liability of more than \$2 billion from Liberty sale.

ACTV SUES DISNEY ON ITV PATENTS: ACTV filed lawsuit against Walt Disney and its ABC and ESPN units Dec. 20, charging they had infringed 3 of its interactive TV patents with their "enhanced TV" services that blend TV programming with Internet content. In suit filed in U.S. Dist. Court, N.Y.C., ACTV sought permanent injunction barring Disney networks from using its enhanced services as well as undisclosed amount of monetary damages. "I can't comment on the damages but they are material or we never would have brought suit," ACTV Chief Intellectual Property Officer Scott Doyle said in conference call with reporters and analysts.

ACTV officials, who have 21 issued or pending interactive TV patents, said they took legal action "reluctantly" because they would prefer to license their enhanced media technologies to Disney and other TV programmers. They said such other major programmers as Turner Bcstg. and MTV Networks already were paying license fees to use various ACTV patents. But they said they had no choice but to sue Disney because their long licensing discussions, while "cordial," had been "ineffective." They said they hoped suit would lead to settlement with Disney, not trial.

"Our goal is not to use our patents to block people," ACTV Chmn.-CEO William Samuels said, praising Disney as "an innovator" in TV-Web convergence field. "We eventually want to work with Disney in many areas," he said. "We do not see them as an adversary" but "we want to be fairly treated."

Disney spokeswoman dismissed suit's allegations. "We unconditionally deny that our enhanced TV technology infringes upon anyone's patents," she said. "Our in-house technical staff developed its own unique enhanced TV system independently."

Disney uses its enhanced TV service to offer specially crafted Web content over computers to program viewers who have TVs and PCs in same room. Most notably, it provides such Web features as interactive games, polling, electronic chat and additional graphics and statistics to computer users as they watch ESPN's *Sunday Night Football*, ABC's *Who Wants to Be a Millionaire*, *Monday Night Football* and assorted college football games. In latest example, Walt Disney Internet Group and ABC announced Dec. 21 that they would produce enhanced TV telecast of Orange Bowl college football championship game Jan. 3. Researchers say that up to 52 million U.S. homes now are potential "convergence" households with TVs and PCs in same room.

Responding to questions, ACTV executives said they would pursue lawsuits against other alleged patent infringers as well. But they stressed that they wouldn't sue everybody, unlike such aggressive companies as Gemstar, and were likely to ignore smaller companies conducting demonstration projects. "If you have 50 infringers, that doesn't mean you bring 50 lawsuits," Samuels said. "We want to focus on those companies that are commercial and have significant revenues based on that commercialization."

European Union's European Investment Bank will provide \$445 million financing to help European media companies compete with U.S. program producers and Internet companies, EU announced. EU officials have been concerned that U.S. companies would overwhelm European culture and that Europe ran \$6 billion annual trade deficit in cultural goods with U.S.

REPORTING RESISTED: FCC proposals on DTV public interest obligation reporting are "a return to an earlier regulatory time" with "quantitative minimums" for programming, 40 state broadcast association said in joint filing on FCC rulemaking (MM 00-168). They said Commission decided 20 years ago that quantitative minimums served no purpose and created unjustifiable burden. Standardized programming form would require "maintenance of voluminous station program logs," state associations said, and posting files on Web sites "will be enormously costly." They also said there was no evidence of "a general breakdown" to justify new rules.

Although DTV stations have same responsibility as analog to serve needs of communities, NBC said, arrival of digital doesn't justify new obligations or reporting requirements. Any minimum program performance standards would raise First Amendment issues, network said, and proliferation of other media made them even less justified. It said new reporting requirements would be burdensome.

It would cost "tens of millions of dollars" per year for all TV stations to open Web sites and convert contents of their public files to Internet files, said joint comments by Benedek Bcstg., LIN TV, Post-Newsweek Stations, Raycom. They said as many as 1/3 of stations even in top-100 markets didn't have Web sites, and posting public documents on sites wouldn't provide enough new benefit to justify cost.

WGBM Media Access Group supported FCC proposal for reporting requirements on closed-captioning and video description.

FCC Enforcement Bureau has closed its investigation, without making any charges, of whether TV networks were compensated by govt. agency in return for running antidrug spots. In letter released Dec. 22 to National Organization for the Reform of Marijuana Laws (NORML), Bureau Chief David Solomon said there was "no basis to take further action." Bureau began investigation Feb. 17, following up NORML complaint. It quizzed Big 4 networks April 18 on charge they had been paid by Office of National Drug Control Policy to air antidrug spots. Solomon said although there's "no doubt" that networks and drug office had an "understanding,... it is difficult to find that such an understanding rose to the level of a promise to compensate the networks for programming that contained antidrug or anti-alcohol themes."

Lockheed Martin and Extended C-Band Ad Hoc Coalition asked FCC to reexamine Oct. decision to put fixed satellite service (FSS) operations in extended C-band on secondary basis. Commission adopted notice of proposed rulemaking and order transferring 50 MHz to nongovt. from govt. uses with aim of providing fixed wireless access in rural areas. Extended C-band would be allocated to nongovt. terrestrial fixed service and to mobile service for fixed land base stations on primary basis. Existing FSS base stations in 3650-3700 MHz were grandfathered. But new applications for FSS earth stations within 10 miles of grandfathered sites could have been submitted to operate on co-primary basis until Nov. 30.

DTV chip maker NxtWave announced 2nd-generation VSB/QAM receiver chip for DTV sets, PCs, set-top boxes. It said new chip provides better reception in presence of multipath, phase noise, impulse noise and other interference.

ROAD RUNNER ABSORBED: Time Warner (TW) and AT&T agreed to dissolve their Road Runner high-speed data joint venture, handing management control back to TW and ending venture's exclusive carriage deal with Time Warner Cable (TWC) one year early. Deal announced Dec. 18 clears way for TWC to begin carrying multiple ISPs on its cable systems after Dec. 29, although MSO doesn't plan to start doing so until at least next summer. Road Runner restructuring also allows AT&T to meet key govt. condition for approving that MSO's purchase of MediaOne. And agreement permits Microsoft and Compaq to exit Road Runner with hefty cash payments.

Under agreement, TWC will boost its interest in Road Runner to nearly 100% and take over its national assets and most of its 21 regional data centers. AT&T Broadband will receive undetermined number of regional data centers and retain small, indirect stake in Road Runner through its minority interest in Time Warner Entertainment (TWE) joint venture. But TW, which started Road Runner 4 years ago and then spun it off as separate operation, will take back full control. In related move, TW said Jeffrey King, formerly division pres. in its Southwest Tex. operation, would become pres. of Road Runner, succeeding William Gordon.

AT&T Broadband, which accounts for about 350,000 of Road Runner's 1.1 million subscribers, will continue to offer Road Runner on systems formerly owned by MediaOne for up to 18 months. AT&T also will take over regional data centers in areas where it's dominant cable carrier, such as Boston and Atlanta. AT&T will be free to offer other ISPs on its Road Runner systems after Dec. 29, just like TW, even though it's also not ready to do so. On its other cable systems, AT&T is locked into exclusive deals with its in-house ISP brand, Excite@Home, for another 18 months.

TW will spend \$570 million in cash to carry out restructuring, largely in payments to Microsoft and Compaq for their respective 10% stakes, and will take one-time restructuring charge of \$20-\$40 million in 4th quarter ending Dec. 31. As minority partner in Road Runner, AT&T will pay reported \$230 million for restructuring and undisclosed service fee to TW for continuing to offer Road Runner. TW and AT&T said they expected to complete restructuring by April.

TWC spokesman said restructuring pact, announced just 4 days after AOL and TW won FTC approval for their pending merger (TVD Dec 18 p2), removed one of chief hurdles to TW's offering access to multiple ISPs on its cable systems. He said TWC aimed to start carrying outside ISPs in 2nd half of 2001, after completing current technical trial in Columbus, O. Just before Thanksgiving, TW, under heavy pressure from FTC to open its high-speed cable lines to competitors, announced definitive agreement with EarthLink to offer that ISP over its cable plant. Similar agreements with other outside ISPs are expected soon, including Juno and possibly Microsoft's MSN service, Verizon Communications, RMI.net.

With restructuring, TWC, which ended 3rd quarter with 719,000 Road Runner subscribers on its systems, said it would accelerate its deployment of Road Runner in large and small cable markets. TWC said it didn't plan price changes in Road Runner, which typically costs cable subscribers \$40 per month. TWC plans to lay off 10-20 Road Runner staffers.

DIRECTV SALE NEARING?: Hughes Corp. CEO Michael Smith confirmed industry reports that talks were being held with "several companies" interested in buying DirecTV and that deal could be announced "in not too distant future." Smith said Hughes had talked with "multiple parties" on selling off DBS unit. He didn't mention names, but Disney, News Corp., Sony and Viacom have been considering purchase of DirecTV for months with News Corp, led by Rupert Murdoch, regarded as leading candidate, industry reports and sources have indicated in last 2 weeks. AOL was interested, but industry sources believe FTC approval of deal with Time Warner may have reduced its interest.

DirecTV would be "smart, strategic acquisition" for companies searching for U.S. video platform, Merrill Lynch satellite analyst Marc Nabi said. He cited News Corp. access to 9 million DBS subscribers and ability to build up potentially lucrative Latin American service. Stock market value of DirecTV has declined, but "if you are willing to invest billions, being concerned about Hughes' missing numbers in one quarter is very shortsighted," said Goldman, Sachs satellite analyst Vijay Jayant. Company also is boosted by reports 2000 revenue may reach \$4.8 billion and 2001 revenue \$6 billion, analysts have said. It expects to hit 10 million subscriber mark in "next few quarters." Debut of DirecPC makes company even more attractive, analysts said.

DirecTV CEO Odie Donnell said he believed "investment community" would look closely at year-end results: "If we end it as projected, we will be in good stead in terms of overall value. We are optimistic."

Arianespace successfully launched Boeing 376 Astra 2D and Lockheed Martin-built GE-8 satellite for GE American Communications Dec. 20 on Arianespace Flight 138. Boeing satellite, which was built for Société Européenne des Satellites of Luxembourg, will deliver direct-to-home service to U.K. and Ireland. Astra 2D is 11th bird in SES constellation and 8th Boeing spacecraft and first spin-stabilized bird. GE-8 launch was 21st consecutive success since 1979 for GE Americom program. GE-8, which is to be fully operational early next year, will join AT&T Alascom to deliver telecom service to Alaska, send local and national radio programming to more than 6,000 antennas and provide next-generation service to U.S. and Caribbean. GE-8 will replace GE Satcom C-5, which will become orbital spare.

Children's TV mogul Haim Saban has exercised his option to force Fox Bcstg. to buy his 49.5% stake in Fox Family Worldwide (of which Saban is CEO), parent of Fox Family Channel. Fox also owns 49.5% of Fox Family Worldwide, with remaining 1% held by Allen & Co. Price for children's network, which reaches 76 million cable homes, will be set in late Jan. through negotiations, sources said, with Saban valuing his share at about \$2 billion. Both sides have hired investment bankers to evaluate property — Saban retaining Morgan Stanley Dean Witter and Fox hiring Bear, Stearns. Saban's employment contract with Fox Family Worldwide has 2 years remaining.

Number of streaming media users is up 65% since Nov. 1999, Nielsen/NetRatings said, to 34.7 million individuals, equal to 36% of all Internet users. High-profile events such as Super Bowl and Olympics attracted most new users, ratings service said, and demand for streaming media content such as movie trailers and even full-length films "continues to grow aggressively." Biggest growth rate (77%) of streaming media users was among women, company said.

BELLSOUTH DEAL BOOSTS ECHOSTAR: BellSouth's decision to curtail plans to become 3rd DBS provider by instead offering EchoStar (DISH) service to wireless video subscribers probably will give DISH stock "slight boost" while helping company overcome sluggish sales in soft market, satellite analysts said. BellSouth deal adds "little value" but will be "very valuable as window dressing" in 2001, analyst William Kidd of C.E. Unterberg Towbin said. EchoStar will gain 22-27 cents per share after acquiring 80,000-120,000 subscribers from BellSouth wireless video operation that industry experts and analysts said never took off.

Former BellSouth subscribers probably will account for 25% of net additions next year for EchoStar, which is trying to close gap on industry leader DirecTV. EchoStar said transition of subscribers would begin in Jan. and should end by June. "We intend to make the transition as simple as possible," BellSouth Exec. Vp William Smith said. Company probably will have to pay undisclosed sum to BellSouth in addition to conversion costs.

BellSouth didn't specify what would happen to DBS service it announced in May, but analysts said it was "very doubtful" company would move forward with project. It had planned to offer service to up to 50 million homes in 9 states by 2002. Subscribers who receive video service through BellSouth's fiber operations won't be affected, and company said future video focus would be on fiber. Spokesman said BellSouth had 45,000 customers for that service.

Shift to DISH service comes as BellSouth focuses on new data-driven services such as DSL and Web hosting. It plans after-tax restructuring charges of \$350-\$375 million in deal with EchoStar, with most of costs in 4th quarter when restructuring activities begin. Remaining charges will be taken as wireless video operations start transition next month. "We predicted the service wouldn't succeed," Kidd said, "but it's interesting to ponder complete strategic reversal in a span of just 7 months."

World Intellectual Property Organization (WIPO) meeting in Geneva failed to reach agreement on European proposals for protecting performers' copyrights in digital age, sources said. Geneva conference had hoped to set copyright rules for all types of audio-visual performances, including broadcasting and streaming media (TVD Sept 25 p6). MPAA Pres. Jack Valenti said U.S. negotiators had hoped to set copyright framework for increasingly global world, but "there were parties who did not consider their proposed language to be negotiable." He called breakdown of talks "highly regrettable." Intellectual property rights of performers currently are protected by individual nations' laws, but Diplomatic Conference had hoped to make it easier for programming to cross national borders by setting international agreement. Europeans also proposed giving performers "moral rights" over programs, meaning they would have to approve any alterations in programs. U.S. Screen Actors Guild had supported U.S. proposal for more unified copyright regime. Valenti expressed optimism that negotiators hadn't "reached an unbridgeable chasm," saying U.S. would continue to push for further negotiations.

TV broadcasters won procedural victory over satellite distributors when U.S. Dist. Court, Alexandria, Va., dismissed DBS request for summary judgment in case involving carry one/carry all provision of Satellite Home Viewer Improvement Act. Next step will be court's consideration of NAB request that case be dismissed as without merit.

HUGHES BUYS TELOCITY: Hughes Electronics announced Dec. 21 it would acquire DSL provider Telocity for \$2.15 per share in cash, or total price of \$180 million. Boards of both companies have approved transaction, which still faces regulatory approvals. In interim, Hughes has offered to advance up to \$20 million to Telocity.

Deal is expected to help Hughes "significantly" expand its ability to offer Internet and broadband services. Hughes said deal created "whole house" of entertainment and information services. It also sells 2-way DirecPC satellite Internet service.

DirecTV said it was first in U.S. to offer satellite and DSL services, bringing together digital multichannel TV, wired and satellite broadband access. Hughes declined to say how transaction might affect expected sale of DirecTV. "When the right deal comes along, we will do it," Hughes Vp Eddy Hartenstein and DirecTV founder said. He called deal with Telocity "a value-enhancing proposition." He said company needed to keep focus on "running business," not looking to find "business partner."

Hughes CEO Michael Smith said deal was "strategically important" for Hughes and DirecTV, which is attempting to carve out niche in rapidly changing marketplace DSL is expected to fill because of demands on satellite capacity. "We currently offer DirecPC as our primary nationwide Internet and broadband offering," Smith said, "but the projected demand for broadband exceeds our existing capacity to deliver it by satellite." Hartenstein said DSL offered "unlimited capacity" while company could target satellite resources in areas where fiber networks weren't available. Telocity CEO Patti Hart called chance to merge operations with Hughes "extraordinary opportunity." She said Telocity had become leader with "proprietary technology and nationwide footprint" and innovator in providing "lifestyle-enhancing" broadband service.

U.S. Trade Representative (USTR) proposals for World Trade Organization (WTO) negotiations would benefit TV and movie industries by ensuring more open trade arena, MPAA Pres. Jack Valenti said. USTR proposals "recognize the critical role that the copyright industries play in our nation's economy," he said. Countries must submit their proposals for General Agreement on Trade in Services (GATS) talks this month. U.S. proposals note that current treaties don't fully account for digital environment, but some are proposing to exclude culture activities from WTO talks or to liberalize completely trade in audiovisual. U.S. said "such stark options" obscure many issues and "all-or-nothing" approach wouldn't work: "The choices are not, nor have they ever been, a choice between promoting and preserving a nation's cultural identity and liberalizing trade in audiovisual services." It said countries could accept only portion of free trade treaties. USTR proposal seeks clear definition of audiovisual services included under GATS, "clear, dependable and predictable trade rules," and possible "understanding" on countries' desire to subsidize some cultural activities.

Broadband provider Streampipe raised \$10 million from client-investors, including PSINet, Young & Rubicam, N.Y., Verstar. Company said it planned to use money to expand marketing efforts to corporations, trade associations and govt. offices wanting to broadcast audio and video presentations over Internet. American Tower subsidiary Verstar helps Streampipe with satellite services and resells services to its clients. PSINet and Young & Rubicam have used Streampipe for Web services.

Personals

Zenia Mucha, aide to N.Y. Gov. George Pataki (R), named senior vp-communications, ABC Bcst. Group and TV Network, effective in mid-Feb., with hq in Burbank; Mucha will succeed **Patricia Matson**, who has been at ABC since 1978 and will remain consultant to network; also at ABC, **Howard Davine** advanced to exec. vp, Touchtone TV, and **Jana Winograde** promoted to senior vp-business affairs, ABC Entertainment... **John Porter**, dir., NAB Educational Foundation, resigns... **Andrew Laird** promoted to vp-radio engineering, Journal Bcstg. Group... **Andi Sporkin**, ex-CBS, named senior vp-communications and talent relations, Columbia TriStar TV Distribution.

Changes at Cablevision Systems: **Anne Carmignani**, ex-PricewaterhouseCoopers Consulting, appointed dir.-financial planning-sports and entertainment; **Jennifer Ostrager** promoted to dir.-product development for Cablevision Education Dept... Changes at Classic Communications: **Merritt Belisle** resigns as CEO; board member **James Kofalt** elected chmn. and becomes partner in Brera Capital Partners; **Alberto Cribiore** steps down as board chmn. to vice chmn... **Jonathan Gorchow** advanced to vp-gen. mgr., Comcast Network; **Robert Norcross**, ex-Mercer Management Consulting, named vp-new product development, Comcast... **Adam Perel**, ex-MediaOne, named Comcast senior dir.-national sales... **Michael Dyer** promoted to vp-gen. mgr. for middle Ga., Cox Communications... **Stephane Goebel**, ex-IFM International Sports Media Research, appointed gen. mgr., OpenTV Germany.

Promotions at FCC: **Jonathan Levy** to acting deputy chief economist; **William Dever** to asst. chief, Policy & Program Planning Div., Common Carrier Bureau... **Richard Parker** resigns as dir., FTC Bureau of Competition effective in Jan., **Molly Boast** to take over his duties... **Neal Lane**, ex-White House Science & Technology adviser, named prof., Rice U... **Jon Leibowitz**, ex-Senate Judiciary Committee Democratic staff, joins MPAA as vp-legislative affairs... **James Pitts**, ex-chief of staff for Sen. Abraham (R-Mich.), named exec. dir., Financial Services Coordinating Council's Privacy Project.

George Krug promoted to vp-network operations, Lifetime TV... Promotions at Starz Encore: **Karen Falzone** to senior mgr., business affairs-production; **Ellen Mednick** to dir., on-air promotion... **Taran Swan** advanced to exec. vp, Nickelodeon Online... **Lawrence Kaplan** promoted to exec. vp, Channel One Interactive Development... Advanced at USA Affiliate Distribution: **Douglas Holloway** to pres.-network distribution and affiliate relations; **Peter Ruben** to exec. vp-affiliate relations; **Thomas Smith** to senior vp-eastern div.; **Mark Bienstock** to senior vp-business affairs and gen. counsel... **Gregg Liebman**, ex-MTV, appointed dir.-strategic resources, Zenith Media... **Hemant Vaidya**, ex-SBC Communications, appointed senior vp-gen. mgr., @Work Div., Excite@Home.

Four incumbents are among 9 candidates seeking 6 seats on NAB TV board in mail balloting. Incumbents are **James Conschafter**, Media General; **Michael Eigner**, Tribune TV; **Michael Fiorile**, Dispatch (O.) Bcst. Group; **Jerald Fritz**, Allbritton Communications. Also running for TV board are **Burnie Clark**, noncommercial KCTS-TV Seattle; **Alan Frank**, Post-Newsweek Stations; **Thomas Scanlan**, Scanlan Communications; **John Tupper**, WVSX Lewisburg, W.Va.; **Madelyn Bonnot**, Emmis Communications. Ballots are due at NAB hq Feb. 2. On radio side, 9 incumbents are seeking reelection to district seats.



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Dutch company VNU agreed to pay \$2.3 billion for ACNielsen, allowing it to combine ACNielsen's Internet rating services with VNU's NetRatings and eRatings services, as well as recombining ACNielsen with Nielsen Media Research, which rates TV programs and which VNU acquired year ago. ACNielsen also provides TV ratings services outside U.S. VNU said it would consider selling its consumer magazine publishing operations, including *Billboard* and *Hollywood Reporter*, as well as its educational information business.

Consumer Electronics

A Section of Television Digest with Consumer Electronics

STATE OF THE INDUSTRY

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

	DEC.02 - DEC. 8	1999 WEEK	% CHANGE	NOV.19- DEC. 1	49 WEEKS 2000	49 WEEKS 1999	% CHANGE
TOTAL COLOR TV	663,035	619,368	+ 7.1	870,713	39,067,092	27,392,131	+ 42.6
DIRECT-VIEW**	630,631	581,774	+ 8.4	834,372	27,645,903	26,252,207	+ 5.3
TV ONLY#....	556,067	513,702	+ 8.2	681,781	22,870,242	22,048,099	+ 3.7
TV/VCR COMBO.	74,564*	68,072	+ 9.5	152,591*	4,775,661*	4,204,108	+ 13.6
PROJECTION...	32,404	37,594	- 13.8	36,341*	1,142,189*	1,139,924	+ 0.2
TOTAL VCR**...	314,622	433,117	- 27.4	677,940	27,129,537*	25,856,036	+ 4.9
HOME DECKS...	240,058	365,045	- 34.2	525,349	22,353,876*	21,651,928	+ 3.2
CAMCORDERS.....	58,455	83,398	- 29.9	243,486	5,606,417*	4,596,361	+ 22.0
DVD PLAYERS....	162,486*	123,605	+ 31.5	510,272*	7,868,212*	3,700,031	+112.7

Direct-view TV 5-week moving average#: 2000-620,215; 1999-572,334 (up 8.4%).

Projection TV 5-week moving average: 2000-29,038; 1999-34,379 (down 15.5%).

VCR deck 5-week moving average: 2000-550,341; 1999-608,156 (down 9.5%).

TV/VCR 5-week moving average: 2000-121,124*; 1999-102,069 (up 18.7%).

Camcorder 5-week moving average: 2000-138,353*; 1999-109,227 (up 26.7%).

DVD player 5-week moving average: 2000-264,838*; 1999-131,098 (up 102.0%).

* Record for period. ** 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.

LCD OVERSUPPLY LOOMS, CONSOLIDATION EXPECTED: As LCD industry braces for year-long oversupply of panels that's expected to drive selling price below production cost, some industry executives are pushing for standardization of manufacturing process in effort to stabilize market.

LG.Philips is supporting formation of Standard Factory Working Group in effort to put end to boom-bust cycle that has plagued LCD industry in last several years. Oversupply in 1998 dropped prices for 15" LCD monitors below \$1,000 for first time, but shortage sent them creeping back up in 1999. More recently looming oversupply has sent prices for 15" — 80% of sales — tumbling to \$799 (TVD Nov 20 p14), with \$499 possible by end of next year. Oversupply is expected to be in 3-5% range in 2001, but manufacturing cost for 15" will remain around \$550, industry sources said.

LCD price have been falling at rate of 7-9% per quarter, industry sources said. Prices aren't expected to stabilize until 3rd quarter 2001, they said at recent Stanford Resources (SR) Flat Information Displays Conference in Monterey, Cal. Oversupply is likely to peak in first quarter with supply of 8.9 million panels vs. demand for 8.2 million, but stabilize by 3rd quarter at 9.8 million, SR said. Shortage will arise in first quarter 2002 with supply of 10.7 million and demand at 10.9 million, SR said.

"We need to create certain boundaries to make it [LCD manufacturing process] more standard," said LG.Philips Mktg. Dir. Davis Lee, who earlier this year projected 15" would hit \$500 in 2003. "We have too many different fabs with too many different sizes."

Indeed, while many LCD fabrication plants have upgraded to 680x900mm mother glass, Fab 5 design that features 1x1.2m glass is expected to be brought on line by IBM/Toshiba, LG.Philips, Samsung, Sony and others within 2 years.

And while 15" dominates monitor market, variety of sizes including 15.7", 16.4" and others have emerged in addition to more standard, 17-22."

Collapsing prices could result in number of LCD manufacturers' being cut in half to 10 by 2002, with top 5 controlling 80% of market, up from current 60%, Lee said. At same time, profit margins could fall to 15% from 25%, he said. LCD market is expected to double sales to \$40 billion by 2006, led by desktop monitors, which would increase to \$17 billion from \$3 billion this year, SR said.

"There could be some major fallout especially if you haven't been able to amortize their costs yet," said Scott Gray, product mgr. for commercial flat-panel displays at Compaq, which buys panels from Toshiba-IBM joint venture (18") as well as Taiwanese vendors Hanstar and CDT (15"). Taiwanese manufacturers are most recent entrants in LCD manufacturing, with most capacity brought online within last year.

Oversupply could be tempered by continuing shortage of components including driver ICs. LCD manufacturers also are moving to reduce reliance on desktop monitor and notebook PCs, which combined account for more than 60% of market, industry sources said. One avenue being pursued is LCD TVs, with Sharp and LG.Philips promoting lines that start at 13.3" currently but are likely to grow to 28-29". Yet LCD TVs remain pricey by U.S. standards compared with CRTs, and some industry officials question whether market exists here for that product.

"The constraint there is it's going to be highly price competitive and it's going to be a difficult market to compete in," said Cathy Dotson, product mktg. engineer at NEC Electronics, which recently introduced 20.1" LCD with 640x480 resolution for TV applications. "It's probably more likely to take off in Japan." Indeed, Kraig Kawada, display products dir. at Sharp Microelectronics, conceded that it would be "hard to justify the cost unless you need it from a space point of view."

In cost-saving move, manufacturers are studying "smart" panels in which circuit boards are replaced by electronics mounted directly onto LCD glass. "If they move some of the electronics into the back of the panel, it could result in a low-cost optimized solution," said Pixelworks Mtg. Vp Brad Zenger, whose company develops display controllers.

As LCD suppliers struggle with oversupply, plasma appears poised to expand, with Samsung expected to hit volume production of 13,000 panels per month at new S. Korea plant by mid-2001, Samsung SDI Exec. Vp-Chief Technology Officer Samuel Chung said. Samsung will start with 37W and 42W with 852x480 resolution and follow it with 50W and 63W at 1,366x768, latter also having 360 candelas. Samsung rival LG Electronics is expected to start building plasma in first half with 40W, followed by 60W.

As manufacturers ramp up production, goal will be to drive down price that has been mired in \$10,000-\$15,000 range for finished TV display. Industry is likely to hit cost of \$100 per inch by 2002-2003, figure that will shrink to \$60 by 2005 in enabling displays to hit \$2,500 retail price, Samsung Sales Vp Chris Kim said. Worldwide sales of plasma panels are projected to increase to \$5.9 billion by 2005 from \$1.5 billion this year, SR Pres.-CEO Joseph Castellano said.

Yet as manufacturers move to ever-larger plasma displays, Philips survey found that demand for product among consumers weakens as size increases to more than 50", said Michael Tyson, mktg. mgr. for large flat displays at Philips. Philips found in survey of 1,000 persons that 75% would more readily buy panel of 50" or less and that interest peaked in 30-39W range, Tyson said. Philips, which has sold Fujitsu-sourced 42W in consumer market, is said to be weighing 32W or 37W. Worldwide market for plasma is expected to hit 3.5 million pieces annually by 2005, Tyson said.

"When comparing the cost to rear projection, plasma becomes very unfavorable above 50W," Tyson said. "That's because plasma costs continue to rise with size, while projection costs are nearly constant with increasing size." As Philips works on plasma strategy that may include joint venture to manufacture panels, it has parted ways with Pioneer on R&D agreement. Companies studied all aspects of plasma including performance comparisons with plasma-addressed liquid crystal (PALC), display technology Philips jointly developed with Sony and Sharp but has since abandoned.

"We [Pioneer and Philips] thought about what the options were and whether we should go into business together," Tyson said. "But we just felt the time wasn't right."

As plasma seeks to cut production costs and increase yields in effort to expand market, microdisplay-based projection TVs are gaining foothold. Three CE companies are expected to show rear-projection sets at Consumer Electronics Show in Jan. based on Three-Five Systems' 0.78" liquid crystal on silicon (LCoS) technology, Senior Microdisplays Dir. Al Davis said. New 0.78" display will have 1,024x768 resolution at start and should enable rear-projection set to be sold

at \$5,000 in 2001 and \$3,000 by following year, he said. Davis declined to identify possible partners, but Samsung, along with Nikon, has built LCoS light engine. Three-Five also plans to have 0.85" display ready by March that will have 1,920x1,200 resolution, 500:1 contrast, 350 lumens. It once targeted 0.98" for similar display with delivery scheduled for middle of this year (TVD Dec 27 p9).

Other alternatives also are appearing on horizon. Westaim's iFire subsidiary expects to have agreement with CE company by mid-2001 to build its solid-state inorganic electroluminescent technology into 30-36W, and possibly 42W, displays, Business Development Vp Joseph Virginia said. Smaller sizes are likely to have 640x480 resolution, 300 lumens and 300:1 contrast, while 42W will have 1,365x768, Virginia said. Goal is to have display price at \$2,500 by time product hits market in 2002, he said. At same time, iFire investor TDK will start pilot production of 8.5" display next year with 640x480 resolution, 150 lumens, 150:1 contrast. Brightness still remains issue for iFire technology, although Virginia said company was moving to improve light efficiency of blue phosphors used in display.

Also seeking to find niche is Sony-financed Candescent Technologies, which again showed 5.8" and 13.3" field emissive display (FED), but is targeting 24-32" for mass production in 2004, Senior Mktg. Dir. Kyle Baker said. Larger displays probably will have 852x480 or 1,280x768 resolution, 450-600 nits brightness and 100:1 contrast, Baker said. Smaller 5-7" versions, which could start production in 2002, have 320x240 resolution, 350 nits, 800:1 dark contrast.

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Display Notes: Quasar's quality may once have been well-known within CE industry, but name now is on high-resolution display for medical applications. National Display Systems, Morgan Hill, Cal., is selling 12" display with 2,048x1,536 resolution, 800:1 contrast and 0.5-450 nits black levels. Matsushita obtained rights to Quasar CE brand in buying Motorola in 1970s and uses it largely for low-end products. IBM/Toshiba joint venture has developed 22W LCD monitor with 3,840x2,400 resolution, 0.12-micron pixel pitch, 235 candelas, 400:1 contrast and targeting 16.6 millisecond response time. U.S. Energy Dept.'s Lawrence Livermore National Lab is first customer, using displays to study operation and aging of nuclear weapons using 3-D model simulations. Another 10 displays are expected to be delivered to lab by mid-2001. IBM showed 16.3" LCD display with 2,560x2,048 resolution in past, but never produced finished monitor. Toshiba will expand production of low-temperature polysilicon LCDs to include 12-15" displays by April. Sizes and specs haven't been set, but Toshiba has shown 15" prototype in past with 1,600x1,200 resolution.

FIRST SAMPO DVD PERFORMS WELL, OUR LAB TEST SHOWS: DVD player from Taiwanese newcomer to U.S. market made good showing in our extensive lab test and hands-on evaluation. Test results for Sampo DVE-660 extend record for consistently good performance and construction of Chinese-made decks found in our previous reports.

At \$199, DVE-660 is stepup with Dolby Digital decoding in \$169-\$279 line Sampo introduced in mid-Oct., all of which have component video output and MP3 music playback. Company announced entry into U.S. market in late Sept. with DVD line, 3 direct-view HDTV-ready sets and 42W plasma HDTV-ready monitor. Distribution is through small to midsize independents, regional chains and retail groups such as Nationwide Buying Group, Sampo said. Parent of Baldwin Park, Cal., subsidiary is major OEM in electronics and appliances, with plants in China, Philippines and Taiwan. Sampo was founded in 1936 and entered technological cooperation agreement in 1969 with Japan's Sharp, which is largest Sampo shareholder.

Like pioneering Chinese-made Apex Digital DVD player we measured earlier this year, our test confirms that Sampo DVE660 plays MP3 music files or uncompressed music recorded on CD-R or CD-RW blanks. Deck also plays Super Video CDs, Video CDs and audio CDs. Like Apex model, Sampo has universal voltage, and permits display of PAL-format DVDs on NTSC set, and vice versa.

What DVE660 lacks is "secret loopholes menu" from original Apex AD-600A that lets users reset regional coding — and turn off Macrovision copy protection and DVD Content Scrambling System. That's ironic, as Sampo DVE560 sold in Europe earlier this year did same thing, made possible through firmware on ES4308 and 4408 Video Drive decoder chips from ESS Technologies. Those were recalled and replaced by March with new chips that didn't give access to regional code or other factory settings. Remote control codes for accessing settings didn't work on Region 1 N. America DVE660 we tested, although it used ESS chip and had same on-screen menu. To date, there are no known hacks for circumventing system.

Besides component video output (Y-Pb-Pr), multistandard TV operation, MP3 and CD-R/W playback, other features of Sampo's DVE660 include S-Video output, coaxial and optical digital audio output, headphone jack and multilanguage onscreen display. As for NTSC-PAL conversion, PAL DVDs without regional coding played well on NTSC monitor in our evaluation. Color was perfect and there was no 50 Hz PAL roll, although picture had

some artifacts attributable to conversion from 625-line PAL to 525-line NTSC. They included very slight vertical compression of images in 4:3 aspect ratio programs, somewhat more obvious vertical elongation when 16:9 ratio program was displayed as letterbox on 4:3 set.

As for performance, specs of Sampo deck measured as well as Konka and Oritron models we have tested, which compared favorably with lab's previous measurements of higher priced decks from major brands. Except in one area, DVE-660 had superior numbers to now nearly year-old Apex AD-600A. Electrical measurements were conducted by Advanced Product Evaluation Laboratory (APEL), independent test facility in Bethel, Conn. APEL was CBS test lab before privatization and routinely tests CE products for publications, major retailers, govt. departments, others. Tests were supervised by Frank Barr, APEL pres. and veteran engineer, and involved industry standard measurements for video and audio performance.

Sampo player tested as average in video frequency-response, which measures resolution or sharpness of decks' output. DVE-660 measured -1.62 decibel (dB) rolloff at 6 MHz point, meaning deck delivered somewhat less than full 480-line horizontal resolution inherent to DVD format. By way of comparison, Apex AD-600A's rolloff was -4.15 dB — and best frequency response APEL has measured to date was down just -0.18 dB at 6 MHz — in \$850 deck. Color Purity of Sampo player rated "excellent" as measured on vectorscope for color red, which is challenge for video to reproduce accurately but handled better in digital products than analog.

Video signal-to-noise ratio was just average compared with other decks. In this test for luminance noise, Sampo measured 59.0 dB at composite video output and 60.1 dB for S-Video. Those were about 6.5 dB lower than best we have seen in Chinese decks (but 9.4- and 8.1 dB greater, respectively, than Apex model). Luminance signal-to-noise for Sampo's component video output was 58.5 dB, considered just average, but main benefit of component output would be on colors. As for color signal-to-noise (red field chroma), Sampo measured 74 dB in AM modulation through composite video output — highest score so far in that category. APEL's Barr said there usually was some correlation between test results of luminance and color performance. Test discs used for measurements included *Video Essentials* and *CBS CD-1*.

Trickier performance category for all DVD decks is staircase linearity, which tests player's ability to correctly resolve shades of gray from black to white — fundamental building blocks of video picture. Measurement for staircase linearity is expressed as percentage that, relative to perfection (0%), tells how close deck comes to resolving shade correctly. That seldom occurs at more than one step among 10 in test, with any DVD player APEL has tested to date, but DVE660 hit bullseye on 2. At step for black, deck came within 30% of resolving shade; step for white was within 48% of accuracy. Those steps were on par with measurements for Konka and Oritron decks. At intermediate steps, Sampo's deviation ranged from 4% to 15%.

Audio measurements for Sampo also were on par with other Chinese decks except in stereo channel separation. That measures amount of unwanted crosstalk between left and right audio channels, with higher dB measurements indicating wider separation. Wide separation also ensures accurate steering among channels in Dolby surround-sound modes. Here, DVE-660 measured 67.2 dB, lowest reading we had seen to date. Other Chinese decks have ranged from 79.7 to 86.7 dB, and best overall tested by APEL was 91 dB.

Otherwise, Sampo player measured as well as or better in audio than other Chinese decks tested. DVE-660 showed flat frequency response out to 20 kHz, where signal dropped only 0.47 dB — about half as much as other Chinese decks. In audio signal-to-noise ratio, Sampo weighed in at 91.5 dB, ditto for dynamic range. Those measurements are 2nd only to Oritron's DVD200, although measurements have averaged 100 dB in each category for some major brand players tested in past. Total harmonic distortion was virtually nonexistent in DVE-660, at 0.005%.

In hands-on evaluation, Sampo's deck compared favorably with any we have seen. Under hood, construction was solid, with state-of-art electrical grounding, shielding that completely enclosed Taiwanese Afree-made disc drive, and heat-sink cemented atop ESS microprocessor. DVD drive was whisper quiet, with 2.6-sec. scan time from instant of disc insertion and 2.2-sec. random access among tracks or chapters — speeds typical of all drives. Only anomaly of DVE-660 was position of power button — on right side of front panel instead of conventional left-side placement, and clustered with 2 same-size buttons for other controls and source of possible confusion. Sampo won't be on show floor at upcoming CES, but spokeswoman said it would exhibit at Digital Home Experience in Aladdin Hotel, Jan. 6, 5-9 p.m. Company also has suite at Mirage Hotel.

Acclaim Sports began shipping NBA Jam 2001 for Game Boy Color. Title features all 29 NBA teams. Acclaim Sports is division of Acclaim Entertainment.

Red Storm Entertainment said it would ship its game *Bio-Strike* in 2nd quarter next year. Tom Clancy-based PC title is being developed by Holistic Design of Atlanta.

BLOCKBUSTER VoD TRIAL: Blockbuster and Enron have begun video-on-demand (VoD) trials in 3 U.S. markets with goal of national rollout by 2nd half 2001, New Media Pres. Mark Gillman said.

VoD thus far has emerged via digital subscriber lines (DSLs) to 300 households in Portland, Ore., Seattle and Salt Lake City suburb of American Fork and is expected to reach total of 1,000 by first quarter, Gillman said. ReFlex Communications is providing DSL in Seattle and Portland, Switchpoint Networks in Salt Lake and eventually Verizon in N.Y.C.

Those participating in trial were drawn from area Blockbuster customer lists focusing on those who rented 4-5 videos per month and were DSL subscribers, Gillman said. Enron is installing hardware free and service is charging \$4.99 for pay-per-view movies selected from 100 titles provided by Artisan, Lion's Gate, MGM and Trimark, he said. Service is likely to lease set-top boxes (STBs) for \$10 monthly fee, he said.

Blockbuster spokesman conceded that initial lineup lacked major studio presence with exception of MGM. But he said company was continuing talks with major studios. "They're all evaluating their video-on-demand strategies and a lot of them haven't licensed their products for VoD," spokesman said. "It's an emerging business for them and it's going to take some time."

Hardware consists of Motorola Streamaster STB attached to router that splits DSL signal between TV and PC. Device has no on-board memory or hard drive, but receives video from RBOC central switching office outfitted with servers, Gillman said. Blockbuster earlier this year signed agreement with TiVo to provide personal video recorder (PVR) technology for VoD, although that won't be part of trial, he said. Streamaster STB also includes VM Labs' Nuon interactive game/DVD chip as part of platform, technology that could come into play as companies plan to introduce gaming service in late 2001. Nuon chip has been installed mainly in DVD players to date, including those marketed by Samsung and Toshiba. VM Labs is expected to bring technology to STBs in 2001. VM Labs also is expected to introduce Nuon technology in Europe next year, according to SEC filing by its peripheral licensee Hot Products. Motorola originally introduced Streamaster under code name Blackbird and positioned it as all-in-one STB.

While Blockbuster has agreement with InterTrust to provide digital rights management (DRM) technology, STB in test is delivering analog signal to TV, thus requiring Macrovision copy protection, Gillman said. As service expands, each movie studio will select its own DRM, he said. "We have to be dependant on the studios as far as the DRM they end up using," Gillman said.

As currently configured, Enron is encoding studio-supplied digital beta copies of movies and delivering them via network to video data center at central office, Gillman said. Service eventually will open regional caching facilities that will serve as midpoint between video data centers and edge servers, he said.

Network is delivering 2.3 Mbyte video stream that provides "VHS, but not quite DVD" quality, Gillman said. Standard DSL data rate is 640 kbps. He said he had been "very happy and pleasantly surprised" by initial demand for service that went online Dec. 8. Demand is greatest in evening and on

weekends, although goal is to break away from Blockbuster store model in which majority of revenues are generated on Fri. and Sat. "We think we'll see some shifting to other days because of the convenience associated with this," Gillman said.

Blockbuster-Enron venture is most recent foray into VoD, which is small segment of pay-per-view market estimated at \$1.5 billion, Jupiter Media Matrix said. Other partnerships include U.S. West venture with Intertainer, which introduced similar service in Denver and Bolder, Colo., in 1999. Time Warner Cable offers service via digital cable lines in select cities.

Phoenix Gold International (PGI) faces delisting from Nasdaq after failing to maintain \$1 million minimum market value for 30 consecutive trading days. PGI has until Feb. 22 to comply with rule or request hearing before Nasdaq Listing Qualifications panel. PGI also has filed suit seeking court ruling to determine future rights of Carver brand for professional products. Carver, which licensed brand to PGI several years ago as it struggled with finances, has contended that license expired in Nov. PGI CEO Keith Peterson wasn't available for comment, but company markets 18 products (\$535-\$2,780), mostly amplifiers, under Carver banner and plans new models next year, it said in annual 10K. Bose, which buys professional sound amplifiers and other electronics from PGI, accounted for 10.8% of \$27.3 million in sales in fiscal year ended Sept. 30. Three-year-old Bose agreement had been scheduled to expire Dec. 31, 1999, but was extended to March 31, 2001. Separately, PG announced agreement Fri. to buy AudioSource for \$2.5 million. PG gains company focused on home theater market with products ranging from in-wall speakers to amplifiers and surround sound processors. PG also hired CE Focus consulting firm to manage newly purchased AudioSource and existing Carver Professional business.

Discount retailer Bradlees is on verge of liquidation as it weighs filing for bankruptcy protection, published report said. Braintree, Mass.-based chain, which operates 105 stores with varied assortment of low-end CE products, was said to be planning to file for bankruptcy protection to ensure an orderly liquidation, *Boston Herald* reported Fri. citing unidentified sources. Consortium led by liquidation firm Gordon Bros. signed agreement with Bradlees Dec. 20, *Herald* said. Bradlees spokesman confirmed that chain was considering liquidation as option, but declined further comment. Bradlees emerged from 3-year bankruptcy protection in 1999 but had been hurt by slowdown in consumer spending. Bradlees said in SEC filing that its cash flow might not be enough for it to comply with cash requirements of revolving credit agreement. Chain was in talks with lenders to avoid default and allow operations to continue, it said in filing. Bradlees was "considering various alternatives in dealing with its ongoing cash requirement, including strategic combinations and partial or complete liquidation," filing said. One-time Bradlees rival Caldor also suffered from competition with national discounters such as Wal-Mart and was forced to liquidate in 1999.

EMusic is offering holiday gift certificates for MP3s, including subscriptions to its EMusic Unlimited MP3 service. It's offering free 30-day trial of subscription service, which provides consumers with unlimited access to EMusic's 140,000 tracks for \$10 each month. Separately, EMusic announced exclusive, long-term digital distribution deal with Fantasy Records in which more than 35,000 Fantasy songs are being made available in MP3 format at www.emusic.com.

TESCO THUMBS NOSE AT SONY: Tesco bragged last week that it was only British retailer in U.K. to have PlayStation 2 (PS2) videogame consoles on its shelves before Christmas. Retailer said it had managed to acquire 2,500 PS2s — apparently on gray market — and made them available, one per customer, at \$442 (299£) per console on Dec. 20 at Tesco Extra stores in Cardiff, Inverness, Newcastle, Peterborough, Watford.

Retailer provided seemingly tongue-in-cheek account of how it was able to get hard-to-find consoles, using terms usually reserved for spy thrillers. Tesco said it received game systems through “an unprecedented cloak-and-dagger operation in mainland Europe” that took 5 months to complete. It said: “The secret deal was struck by a specialist Tesco team disguised as tourists who met various go-betweens before finally making a rendezvous with an official European PS2 dealer in Northern Europe. Once the deal was completed, a security team escorted the shipment back to a secret location in the U.K. where they are guarding it day and night.”

Tesco Special Purchases Spokeswoman Sue Johnson said: “Pulling this operation off under Sony’s noses, especially as it is so difficult for us to get them, is a major coup. Tesco has gone to incredible lengths to pull the deal off but this is ultimately a victory for the consumer. We wouldn’t have to be so secretive if the brands accepted that the gray market offers huge benefit to our customers. We’re fighting to clarify the law in the European Court so it’ll be easier for us to bring customers their favorite products... Despite the work involved in setting this operation up, we will continue fighting to get our customers what they want. It is unacceptable for brands to raise customers’ hopes and then dash them by restricting imports to keep their brand exclusive.” Tesco said: “Shame on Sony for creating such demand and hyping the console up without delivering.”

Sony Computer Entertainment U.K. spokesman hadn’t returned call for comment by our Fri. deadline.

Tesco didn’t identify exact location where it received its consoles. One U.K. report guessed it was making “a covert reference to... Sony’s warehouse in Aylesbury” when retailer said PS2s were from somewhere in Northern Europe.

If consoles were obtained from another European country, U.K. purchasers might be in for some surprises. According to our European correspondent, these include PS2’s electrical plug and owners manual. Electrical plugs and wall sockets differ from country to country in Europe. Fortunately, power cord on PS2 consoles isn’t hard-wired into machine but is detachable and goes into standardized figure-8 connector. So, our correspondent says, purchasers simply can obtain standard U.K. replacement power cord (or alternatively, plug-adaptor for British wall sockets). Our correspondent also reports that there would be no electrical safety regulation problems with imported PS2s because all electronics sold in Europe and U.K. carry common “CE” standards approval. Owners manual, though, might be another issue. Manual for PS2 sold in U.K. is in English only — as one for Japan is Japanese only — so there’s little likelihood manuals for continental Europe are multilingual.

As in U.S., PS2s have been nearly impossible to find in Europe on retail floors or online — through legitimate means and at regular price, anyway — since system was rolled out there in late Nov. (TVD Dec 4 p16). About 500,000 PS2s

were sold in PAL countries in first week there, Sony Computer Entertainment Europe said. By most accounts, retail shelves have been bare ever since. Sony said in Nov. that it was shipping only 165,000 consoles in U.K. instead of 200,000 originally promised — and 165,000 PS2s were preordered there by launch day.

Separately, reports indicated that Saddam Hussein apparently had been able to get as many as 4,000 PS2s that were bought in U.S. and shipped to Iraq in last month. Reports said FBI and U.S. Customs Service were investigating.

What may be concern for U.S. govt. — and govts. of other countries, too, for that matter — is issue that was raised even before PS2 made debut in U.S.: PS2’s 32-bit CPU and encryption technology are so powerful that Japanese govt. considered system supercomputer and was hesitant to allow PS2s to leave Japan. Some say PS2s can be configured to be used in weapons of mass destruction. Japan eventually gave in to Sony and PS2 bowed in U.S. with few if any concerns raised publicly by U.S. Sony Computer Entertainment America spokeswoman hadn’t return call for comment by our deadline.

U.S. Web shoppers spent \$1.5 billion in week ended Dec. 10, up from \$1.3 billion in previous week, Goldman, Sachs/PC Data study said. Result brought total online holiday spending, starting week ended Nov. 5, to \$7.2 billion — 115% jump from \$3.3 billion year ago, study said. But it said year-to-year growth of spending for 2nd week of Dec. was only modest — only 24% higher than year ago, when consumer spending peaked at \$1.25 billion. PC Data Internet analyst Cameron Meierhoefer said: “Online shopping patterns are very different this year. In 1999, the majority of holiday spending occurred in the first part of December. This year spending started in early November and has continued. Online spending has topped the \$1 billion [mark] for 5 consecutive weeks. That happened once last year, at its peak.” While apparel continued to lead all online spending categories in sales in week of study, online electronic sales also were strong, to more than \$200 from \$122 million previous week, report said. Computer hardware and toy spending weren’t far behind at \$200 million and \$138 million, respectively, report said.

Concord Camera and former CEO Jack Benun are squaring off again, this time over his attempt to get federal arbiter to issue order blocking annual shareholders meeting Jan. 18. Arbitrator last week denied Benun’s request, Concord said. Benun, who was fired in 1994, alleged that Concord was trying to hold annual meeting before expected release of decision by American Arbitration Assn. Benun claimed he had agreement with Concord that allowed him to nominate 6 dirs. to camera company’s board. Concord originally filed arbitration case against Benun in 1995, seeking \$1.5 million in alleging that he had “perpetuated fraud” in expenses and bonuses (TVD May 6/96 p18). N.J. arbiter last year upheld Concord’s firing of Benun (TVD Sept 6/99 p17). Separate shareholder suit (TVD March 13/95 p19) had charged that Benun embezzled \$150,000 from company and that had Concord erred in clearing him of wrongdoing in 1991.

Pioneer-backed RW Products Promotion Initiative (RWPPi) will open branch office next month at hq of Pioneer N. America in Long Beach, Cal., to promote DVD-RW platform. Pioneer said RWPPi membership grew to 39 companies as of last meeting Dec. 12 in Tokyo.

XBOX LAUNCH TO BE STAGGERED: Microsoft said Fri. it would be "carefully staging the rollout of Xbox so that demand can be met in each region." It said N. America and Japan would get system next fall and Europe in first quarter 2002.

Although Microsoft had said as far back as Xbox's official unveiling at Game Developers Conference in San Jose that system would be rolled out in fall 2001 (TVD March 13 p11), it didn't specify then which countries would get console first.

Commenting on decision last week, Microsoft Games Div.-Chief Xbox Officer Robbie Bach said: "Our goal is to carry out a strong Xbox launch that is well-orchestrated and well-supported." Although he didn't point to Sony's troubles this holiday season in meeting demand for PlayStation 2 (PS2), it was clear that Microsoft was paying at least some attention to what had been happening with PS2 when it decided on when and where to debut Xbox. Bach said: "Meeting Xbox customer needs is job No. 1. After analyzing the supply and logistics challenges faced by the gaming industry this holiday season, we decided to clarify our new manufacturing plans so that we successfully meet product demand."

Gerard Klauer Mattison Senior Vp Edward Williams said he "would have expected U.S. and Europe to [get Xbox] in the same time frame and Japan some time after that." He said he didn't know why Microsoft had opted to start Xbox in N. America and Japan at same time, but suggested reason might have been fact that N. America and Japan use same broadcast video standard.

Microsoft spokeswoman didn't return call for comment by our Fri. deadline.

Regardless, Williams said he really hadn't "put a whole lot of thought into" time frame of when various regions would be receiving Xbox before Microsoft's decision last week. But he said move to stagger start seemed to make sense in that company clearly saw it would be "better to have enough in each of the markets" to meet demand. After all, he said: "They can only manufacture X number of units."

Microsoft has yet to say officially just how many consoles it will be shipping at outset in each region. Williams said: "I don't think [staggered launch will have] an impact on how [Xbox] does in Europe." But he said system would miss busy holiday shopping season in Europe: "Now they're giving Sony an opportunity when Sony can increase their installed base." Of course, on other side of coin, offering system in holiday season doesn't ensure huge sales results — especially if company can't meet demand.

Delaying Xbox bow in Europe also could give Nintendo's Gamecube launch boost, although Williams said he didn't think its sales would provide much competition for Microsoft — initially, anyway. Although he said that last he had heard, Nintendo still was planning to start shipping Gamecube in 2001, he predicted: "No 3rd party publishers will benefit from Gamecube in '01." Williams said that if Gamecube did indeed emerge in 2001 it would be with very few 3rd party titles. Most of first Gamecube titles, he said, would be published by Nintendo itself or possibly Rare. In recent months, various 3rd party game developers have said they had yet to receive developer kits for Gamecube and many had yet to say officially they would even be supporting Nintendo's next-generation console.

Microsoft also said Fri. it had tapped Singapore-based Flextronics to "bolster distribution capabilities" and "establish Xbox manufacturing facilities in several regions of the world." Flextronics will establish and manage regional Xbox manufacturing operations in Hungary and Mexico, Microsoft said. It said Flextronics was "noted for its flexibility, quality and speed in manufacturing consumer electronics products, including Microsoft's other hardware products."

Software giant said its "long-term plan is to open a manufacturing facility in Asia to support markets in that region, including Japan." However, time frame in which it said manufacturing facilities would be established added even more confusion to decision to start Xbox in Japan before Europe. After all, Microsoft said, facility apparently will be in place in Hungary before Japan.

Microsoft's Bach said: "Establishing regional manufacturing facilities will make the distribution support and service to our global retailers more efficient." He also said: "Microsoft is the only videogame supplier that has set up a manufacturing and distribution center in Europe."

More details of Xbox launch will be unveiled by Microsoft at CES, Microsoft spokeswoman told us.

Gerard Klauer Mattison's Williams told us selection of Flextronics was good move on Microsoft's part: "This project is enormous. They definitely need help."

Meanwhile, Ravisent and its CineMaster DVD engine were chosen as provider of DVD playback software for Xbox under 5-year licensing agreement signed with Microsoft. In separate announcement, Applied Microsystems said it signed multiyear agreement with Microsoft to supply DVD emulators for Xbox development kits.

Telegen is likely to spend \$10 million to build limited production/prototype line for its high-gain emissive display (HGED) technology, company said in annual 10K. While Telegen is expected to show prototype 12" HGED at CES in Jan., it doesn't plan to have manufacturing license agreement in place before Sept. "Any significant production" of displays won't begin before early 2002, it said. Company also said HGED technology eventually would cost under \$5 per sq. in. to produce. By comparison, plasma is expected to compete with high-end rear-projection TVs when it hits \$100 per sq. in. Pres.-CEO Jessica Stevens, who returned to Telegen and helped it emerge from bankruptcy in 1999, is being paid \$500,000 annual salary and Exec. Vp-Chief Technology Officer Bonnie Crystal \$450,000, according to 10K.

Clarification: Zenith spokesman told us company's new 36", 40", 42" and 60" plasma monitors were developed by parent LG Electronics (TVD Dec 18 p11). While 36", 42" and 60" monitors all have 16:9 aspect ratio, 40" model has 4:3 VGA display. Top-of-line 60" offers 1024x768 progressive resolution, while other 3 models are 640x480 progressive.

Game Technologies signed licensing agreement with Hasbro Interactive that gives Hasbro division exclusive worldwide rights to manufacture, market and sell PC game Rules of the Game. License includes rights to PC and/or videogame platform versions of title, which features baseball, basketball, football, golf.

CONFIDENCE IN ETOYS SLIPS: Growing number of analysts are questioning future of eToys in wake of e-tailer's warning that its 3rd-quarter results would be lower than estimates.

EToys said it expected net sales for quarter ending Dec. 31 would be \$120-\$130 million instead of \$210-\$240 million it had predicted Oct. 30. If sales wind up at \$120-\$130 million, it would represent only narrow increase over \$106.8 million in same period year ago. EToys also said it no longer expected it would achieve profitability by its fiscal year ending March 31, 2003, or that its quarterly loss would narrow year-over-year beginning in quarter ending Dec. 31 and for all subsequent quarters.

EToys said it expected gross margin to be 21-23% instead of 22-24% it had forecast — its gross margin for same period year ago was 19% of revenue. It said it expected operating loss of 55-65% of revenue, rather than projected 22-28%; operating loss year ago was 59% of revenue.

Raising even more concern for analysts was that eToys said its current cash and cash equivalents would "be sufficient to [oly] meet its anticipated cash needs to approximately March 31, 2001, although there can be no assurance in this regard." EToys said it expected cash and cash equivalents for quarter to be \$50-\$60 million instead of anticipated \$100-\$120 million vs. \$111.4 million as of Sept. 30. It had said it expected to have enough money to get by through June 30.

"In order to continue operations in 2001, [eToys] will require an additional, substantial cash infusion," it said, but it admitted: "There can be no assurance that additional capital will be available to the company on acceptable terms, or at all." As of end of 3rd quarter, "book value" of eToys inventory will be \$60-\$70 million, it said.

Only week before eToys announcement, Forrester Research issued report saying it faced difficult road (TVD Dec 18 p20). It predicted that "traditional retailers like Wal-Mart" and Toys "R Us", via its online partnership with Amazon, "will grab the online toy lead from eToys." Forrester said eToys would "have to generate \$750 million to \$900 million in sales" just "to reach break-even next year." But "given strengthening online competition, [eToys] won't." Therefore, report said, "eToys needs an offline savior" in form of brick-and-mortar retailer that agrees to buy online toy merchant.

Confidence of other analysts also slipped last week. ABN Amro, Northstar Group and Standard & Poor analysts were among those painting gloomy picture. Merrill Lynch's Henry Blodget went so far as to question future of Amazon.com and, for that matter, entire e-commerce industry in light of eToys's troubles, Reuters reported.

To reduce operating costs, one move that eToys opted to take was "a reduction in the work force" — certainly no stranger to dot-com companies, including competitor Amazon.com, throughout much of this year. But EToys gave no specifics, saying it expected to "announce a specific plan for the work force reduction in January."

Putting positive spin on eToys's announcement, CEO-Pres. Toby Lenk said that despite troubles, "we point to the fact that the company is expected to show between 12% and 22% growth in revenue versus the same quarter last year and that we are

serving customers exceptionally well this holiday season." Indeed, to its and other online retailers' credit, we haven't — not yet, anyway — heard any horror stories about inability to deliver products ordered by consumers in time for this Christmas. Only major headache in product delivery reported so far has been on PlayStation 2 videogame console front — and that, of course, hasn't been failing on part of legitimate online retailers, but rather on part of Sony.

EToys said it turned to Goldman, Sachs as its financial adviser "to explore strategic alternatives for the company, which may include a merger, asset sale, investment in the company or another comparable transaction or a financial restructuring." Goldman, Sachs was among those to downgrade eToys last week. Move represented stark turnaround from only 3 months ago when, at 7th Annual Goldman, Sachs Global Retailing Conference in N.Y.C., Goldman, Sachs e-Commerce Analyst Anthony Noto described eToys as bright light in online retailing world — one e-tailer that seemed to be doing everything right.

In warning of 3rd quarter shortfall, eToys blamed trouble "in large part" on "a harsh retail climate driven by concerns over the economy, the current disfavor of Internet retailing and a consumer population meaningfully distracted by the Presidential election and its aftermath." But analysts said eToys's shortfall also could be attributed to increased competition from Amazon.com via that company's online alliance with Toys "R" Us. CEO Lenk said in Sept. that Amazon/Toysrus.com represented his company's only major online competition this holiday season (TVD Sept 11 p13).

New free music service by MP3.com, called Instant Listening, lets consumers buy CDs and listen to them immediately online. As part of service, consumer sets up My.MP3 account. Then, when CD is bought online at Web site of retail partner of MP3.com, Instant Listening-enabled tracks are activated in consumer's My.MP3 music manager. MP3.com sends e-mail to consumer with direct link to activated songs available for immediate listening online. E-tailer sends hard copy of CD to consumer. Retailers that have signed deal with MP3.com to take part in service include Cheap CDs, Djangos.com, Ubrandit.com's Jungle Jeff store. Tower Records is expected to offer service by mid-Jan. MP3.com CEO-Chmn. Michael Robertson said he believed service had "potential to positively impact CD sales." Djangos.com CEO-Chmn. Steve Wood agreed, saying: "You're looking at the future of retail music and this is a great development for our companies, the record industry and music fans."

Oct. factory audio shipments fell 2.1% to \$991.89 million from \$1.01 billion year earlier on 10.3% decline in separate components, CEA reported. Aftermarket autosound also had significant decline in month, falling 7.1% to \$196.26 million from \$211.27 million. Audio shipments were up 8.7% for year's first 10 months, to \$7.18 billion from \$6.6 billion year earlier. Portable audio remained industry's top overall category for year to date, up 16.3% in 10 months to \$2.23 billion despite rising only 2.9% in Oct. to \$353.93 million.

Celebrating 35 years in U.S. this year is Fuji Photo Film U.S.A., its parent company, Fujifilm, said last week. U.S. division is based now in Elmsford, N.Y., but original location was in Empire State Bldg., it said. Division started off with only 6 employees, including current Fujifilm CEO-Chmn. Minoru Ohnishi.

MICRODISPLAYS DIVIDE MARKET: As microdisplays gain foothold in market, technology is splitting into categories targeting rear/front projection and viewfinder/headmount displays.

And like technology, companies developing microdisplays are, at least for now, divided into 2 camps. Exception is Three-Five Systems, which has developed 0.78" and 0.85" displays for rear projection (see related story, this issue) and 0.47" for near-to-eye applications.

Development of microdisplays for broad array of applications is expected to spur market value to \$1.39 billion by 2006 from \$425 million in 1999, said Kim Allen, strategic market analyst at Stanford Resources. Front and rear projection and near-eye will emerge as dominant applications as market values more than doubles to \$980 million and \$400 million, respectively, she said.

"You have to go one way or another, start and build a successful business and then add other technologies," said Mark Willner, CEO of Colorado MicroDisplay (CMD), which is expected to start volume production of 0.25" display with 320x240 resolution for viewfinder applications in first quarter (TVD May 29 p13). Among first customers is expected to be Polaroid (TVD Dec 11 p16). "We are in the process of ramping our near-eye business and as soon as it's self-sufficient and generates a lot of positive cash for us, than we'll look at [rear] projection." CMD earlier disclosed plans for 0.9" microdisplay for rear projection.

Three-Five is exploring both categories. It expects to have agreements with 3 CE companies to design liquid crystal on silicon (LCoS) technology into rear-projection sets (see related story, this issue). InViso is expected to ship eGlasses head-mount display (\$500) in 2nd quarter with Three-Five's 0.47" with 800x600 resolution, 100 lumens, 50:1 contrast. Glasses at start will be co-marketed with laptop PC manufacturers that will sell them as accessories, Business Development Vp David Brooks said. EGlasses also will be packed with lithium ion battery pack that plugs into VGA port of laptop and draws 2 w of power, he said.

"The near-to-eye devices are easier to build because they are smaller chips and the yield is better both at our factory and in wafer fabs," said John Erdmann, vp-gen. mgr. of Hana Microdisplay, which is building 0.47" and 0.25" displays for CMD. "I think there is an opportunity for these guys to have material to work with faster, but whether the infrastructure is there to produce product, I don't know."

Microdisplays, more specifically LCoS, are expected to lead charge to cheaper front projectors aimed at retail market. While front projectors have largely remained province of business applications because of high price, retail market is expected to open under \$1,500. InFocus is said to be readying front projector with Three-Five's 0.53" microdisplay with 1,024x768 resolution for 3rd quarter at \$1,500 (TVD Dec 18 p17). Sony, meanwhile, is developing grating light valve technology it licensed from Silicon Light Machines (TVD July 31 p15) for front projectors, Mktg. Dir. Clint Hoffman said.

"At this point in time, LCoS provides the shortest path to a cheaper projector, but the key will be to overcome some of the shortcomings of contrast," Hoffman said, and LCoS contrast must double from current 200-250:1 range to become retail

product. "If that can happen and we can find a balance between price and performance, then we'll have a product."

Sony and Epson have applied LCD technology to 0.7" panels in new 5-6-lb. front projectors, but don't plan to make rush to 0.5", industry sources said. InFocus has said 0.5" display could enable front projector to break 2 lb. barrier. But development of ultralight projectors also will require changes in cooling process that so far has been handled largely by fans. Most likely choice would be liquid cooling technology, sources said.

"Some people say there is a need for people to carry these onto an airplane, but I don't believe the people use the product that way," Hoffman said. "If there is a projector where you are going, you don't have to carry it and at that point it doesn't have to be that small."

While InFocus and Sony are aiming to open retail market, Epson, major force in business channel, still was weighing options, Senior Product Mgr. Mark Pickard said. "We have the technology to build a projector to provide whatever digital TV resolution you want and Epson won't let that slip by," Pickard said. "The question of whether we'll build product for the digital market depends more on the marketing and sales infrastructure we want to apply to it than it does the technology or products."

D-Link started shipping portable DMP-CD100 MP3 CD player at \$149. Compact new player delivers up to 10 hours of "digital quality music," company said. It said model is its 3rd-generation MP3 device. DMP-CD100 has anodized blue and silver finish. Primary function buttons are displayed on front panel under LCD display. Model has 2 external output jacks — one for headphones, other to plug player to external amplifier such as home stereo system or in-dash car stereo. Company said player also has integrated 10 sec. of electronic shock protection. D-Link has R&D facilities in Taiwan and U.S. and 5 major manufacturing plants — one each in Cal.; Dong Guan Province, China; Verna, India; and 2 in Hsin-chu, Taiwan. Company's hq for Canada, Latin America and U.S. region is in Irvine, Cal.

Hoping to reduce communication and power service disruptions, researchers at Johns Hopkins U. Applied Physics Lab in Laurel, Md., now are able to measure magnetic and electrical fields over large areas of Earth's ionosphere over polar regions. National Science Foundation-sponsored study uses magnetometers on Iridium's 66 satellites to measure magnetic fields while Super Dual Auroral Radar Network of 12 radars around poles bounces radar signals off same regions to measure electrical fields. Combined measurements create maps of electric current much like weather station readings create weather maps.

Egghead.com opened telephone sales facility in Vancouver, Wash. E-tailer said that with addition of business-to-business initiatives and recent relocation of several technical and accounting functions, 75% of company's 725 jobs now were based in Vancouver.

THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥113 = \$1, except where noted.

OLED COMPETITION HEIGHTENS: Organic light-emitting diodes (OLEDs) have won attention of major CE manufacturers, quickening pace of development and consolidation among more than 100 companies competing for share of fledgling market.

NEC and Samsung have joined to form Samsung NEC Mobile Display Co. with goal of starting production in June of 2.2" passive color OLEDs (128x128 resolution, 100 lumens) for cellular phones with initial capacity of 500,000 units per month. Joint venture will operate single production line in existing Samsung plant in S. Korea, but is targeting 30% market share and \$82 million in sales by 2005. Samsung NEC, which is licensing OLED technology from Eastman Kodak, will start with capitalization of \$7.7 million.

"The ability to deliver a lower cost solution than LCD displays is the goal, but the key is getting there," said Janice Mahon, vp of technology commercialization at Universal Display, which also is developing 2" passive OLED and plans to begin pilot production at Ewing, N.J., facility in 2001.

Indeed, cost of building OLED facility is estimated at \$100-\$150 million, substantially below that of LCDs, which is in \$500-\$600 million range, industry source said. Low cost has helped jump-start production. Kodak licensee Ritek, which has financial backing of Intel and Viewsonic, is building 1-2" passive OLEDs (128x64 resolution) on 3 production lines in Taiwan with 24,000-unit monthly capacity.

Despite low-cost production, OLEDs still have much ground to close to achieve price parity with LCDs, industry source said. For example, 13.3" OLED module with 1,280x1,024 is likely to be priced at \$1,800 in 2004, well above similarly featured LCD at \$220, SR Market Research Vp Paul Semenza said. Parity will be reached at \$200 in 2010, he said. Overall worldwide shipment value of OLEDs is expected to rise to \$725 million by 2005 from \$60 million this year, Semenza said.

In addition to competing with LCDs, OLED technology is likely to split along lines of material used in display, with Kodak championing small molecule approach, while Cambridge Technologies, Philips, Uniax and others support polymer-based devices. Polymers use an ambient solution coating in targeting larger displays while small molecules rely on vacuum deposition for smaller devices. Polymers operate at slightly lower voltage — 3-5 v — than small molecules and have efficiency of 20 lumens per watt, said Olef Gelsen, dir. at Covion Organic Semiconductors, which supplies polymer materials. Most likely victims of push by OLED manufacturers will be inorganic light-emitting diodes (ILEDs) and vacuum fluorescent displays (VFDs).

Uniax is expected to start pilot production of 1-3" passive OLEDs with 200 lumens and 200:1 contrast at Santa Barbara facility in first quarter. Goal is to shift to color active matrix OLEDs by 2003, Uniax New Technology Dir. Nicholas Colaneri said. Kodak licensee eMagin expects to hit volume levels late in first quarter with 0.62" display for head-mounted applications with 852x600 resolution, 100 lumens, 50:1 contrast, Senior Product Mktg. Engineer Webster Howard said. Kodak, which recently formed own display business unit, is likely to have 10" prototype with 800x600 resolution and 100 lumens by late 2nd quarter, Research Assoc. John Burtis said.

CENTERSPAN BUYS SCOUR ASSETS: CenterSpan beat out Liquid Audio in bidding for assets of privately held Scour. Hillsboro, Ore.-based CenterSpan, developer and marketer of peer-to-peer Web solutions, bid \$9 million in cash and common stock.

Acquisition closed Wed., CenterSpan said. As result, it has become new owner of Scour's Napster-like file-swapping technology. CenterSpan said it would start charging for Scour swapping service that, like Napster, had been offered free at start.

Deal requires CenterSpan to pay \$5.5 million in cash and \$3.5 million in newly issued CenterSpan common stock, representing 333,333 shares at \$10.50 per share. Company said cash portion of deal was made via funds company had received earlier this month from private investor who agreed to buy 1.43 million shares of CenterSpan's common at \$7 per share for total of \$10 million.

Scour Exchange service, which had been shut down when Scour filed for Chapter 11 bankruptcy protection, will reappear in first quarter 2001 as part of CenterSpan's secure — and legal — distribution channel, known so far by code name C-star. CenterSpan said C-star integrates company's next-generation peer-to-peer technology with digital rights management support.

CenterSpan CEO-Chmn. Frank Hausmann said: "Scour represents a significant opportunity for us to accelerate public visibility of C-star and create critical mass for the secure and legal distribution of digital content for fee over the Internet."

When Liquid Audio filed bid with U.S. Bankruptcy Court, L.A., to acquire technology assets of Scour, it said it hoped to integrate Scour's file-sharing technology into Liquid Music Distribution System (TVD Dec 18 p17).

Earlier this year, CenterSpan introduced Socket, software application that allows instant messaging and multiplayer gaming. CenterSpan spokesman told us last week that 40,000 free downloads of Socket had been made to date. He also said gaming didn't figure into company's C-star plans — "not at this point," anyway. He said focus of new digital distribution channel at start would be on music and video files — same as Scour's focus, but "eventually, gaming files could be included."

WebCriteria benchmark data said Toyopia was among easiest e-commerce Web sites to use. WebCriteria, Portland-based company that specializes in customer experience analysis, said Toyopia took least time to buy Razor Scooter at "just over 3 minutes." In comparison, WebCriteria said it took longer to buy same item at Amazon.com/Toysrus.com, Brookstone, Buy.com, eToys, KBTtoys.com, Netoy.com, ZanyBrainy.com. WebCriteria said Buy.com took longest, at 6.5 min. But study didn't take into account how long it might take to buy items other than Razor Scooter or other factors such as customer service. Toyopia sells toys, as well as videogames, computer software, movies, music.

Custom DVD compilations of original b&w episodes of Rocky and His Friends are being offered by imix.com. Choice of 5 episodes from 8 being offered costs \$29.99. Company said its "CustomDVDs are shipped within 24 hours."

NEW DIGITAL AUDIO PLAYERS COMING: As MP3 player category continues to grow, manufacturers are offering new models.

D-Link started shipping portable DMP-CD100 MP3 CD player at \$149. Compact new player delivers up to 10 hours of "digital quality music," company said, with model as its 3rd-generation MP3 device. DMP-CD100 has anodized blue and silver finish. Primary function buttons are displayed on front panel under LCD display. Model has 2 external output jacks, one for headphones, other to plug player to external amplifier such as home stereo system or in-dash car stereo. Company said player also has integrated 10 sec. of electronic shock protection.

D-Link has R&D facilities in Taiwan and U.S. and 5 major manufacturing plants — one each in Cal.; Dong Guan Province, China; Verna, India; and 2 in Hsin-chu, Taiwan. Company's hq for Canada, Latin America and U.S. region is in Irvine, Cal.

Pine Technology USA, based in City of Industry, Cal., said it would unveil SA6400 digital audio player at CES next week. Company said SDMI-compliant device was "first player to incorporate copyright protection technology with support for a multitude of digital audio formats," including MP3, Windows Media Audio (WMA), AAC. Pine said device also "easily upgrades to any future digital audio format." SA6400 will ship in first quarter 2001 at \$299.99, equipped with built-in 64 MB of memory.

Pine is global components and hardware manufacturer that designs, develops and produces fax modems, Internet appliances, motherboards, sound cards, VGA cards.

Rio began shipping Rio 800 portable player at \$279.95 with voice record feature, expansion accessories to increase music storage, upgraded Audio Manager 3.4 software designed by RioPort. Voice record feature enables user to record and store up to 4 hours of personal memos or conferences with built-in microphone, Rio said. Player supports MP3 and WMA, but can be upgraded to accept other audio file formats, such as AAC and Audible.

Rio said new audio player was available at retailers including Best Buy, Circuit City, CompUSA and Fry's, as well as at Rio parent company Sonicblue's online store, www.sonicblue.com.

PhotoChannel Networks began PhotoSite and Albums service at its Web site, www.photochannel.com. PhotoSite enables users to build their own photo Web sites using various creative features and Albums to create customized albums from pictures uploaded to site. Separately, company said its online digital imaging Web site attracted 20.97 million hits and 395,786 unique visitors in Nov. CEO-Chmn. Geoffrey Briant said: "New member registrations are currently exceeding our targeted projections for Dec. 31" and had been "as high as 4,253 per day."

David Bowie became first major label recording artist to allow consumers to listen to music from his catalog through MP3.com's My.Mp3.com service. MP3.com said customers could add Bowie CDs to their My.MP3.com accounts free using company's proprietary Beam-It Software. MP3.com initiative is being offered in conjunction with Virgin Music Group Worldwide.

Consumer Electronics Personals

Bill Whalen, ex-Pioneer, joins Hitachi America Home Electronics as senior product & mktg. mgr... **Michael Wehner**, ex-Rentals.com, named business development-sales vp, Reciprocal's Entertainment Div... Appointed at Liquid Audio: **Paul Melnychuck**, ex-Digidesign, as vp-sales and business development; **Jeff Okkonen**, ex-Harry Fox Agency, as senior dir., copyright relations-public policy; **Matthew Smith** promoted to vp-product mktg.; **Thomas Blanco**, ex-Aspect Communications, as vp-human resources; **Paul Stark**, founder, Twin/Tone Records, as vp-music services... **Carl Neun**, ex-Tektronix, elected to Planar Systems board... **Stephane Goebel**, ex-IFM International Sports Media Research, named OpenTV gen. mgr.-Germany... Appointed to Microsoft's Xbox sales dirs.: **Bill Arkwright**, ex-Mattel Interactive, western region; **Darryl Postelnick**, ex-Yahoo, central region; **Brad Wildes** ex-Konami of America, eastern region... **Barry King**, RadioShack exec. creative dir., promoted to vp.

Poo-Chi is among top-selling toys so far this holiday season. NPD TRSTS Toys Tracking Service said interactive robotic pooch, introduced by Hasbro's Tiger Electronics unit in April, had been top-selling toy in dollar sales, among all new ones introduced this year, and robotic dog in unit sales. Tiger said more than 10 million Poo-Chis had been sold worldwide in 65 countries. Company said: "In the past 3 weeks, more than 1.5 million Poo-Chis have been sold in the U.S. alone." Super Poo-Chi and Meow-Chi interactive cat already have joined Tiger's Robo-Chi line. Company said: "Next year, Tiger will have a whole menagerie of Robo-Chi pets including Chirpy-Chi, the interactive bird."

Bungie Software and Gathering of Developers released additional information on upcoming Mac and PC 3D action/adventure game *Oni*, which ships in Jan. Companies said main character of game is Konoko, elite agent of Tech Crimes Task Force. Other characters include Shinatama, Konoko's sidekick; Muro, leader of Evil Crime Syndicate; Sniper, strategically placed throughout game waiting to attack; Ninja, game's "fastest and most agile character;" Police Chief Griffin; Tanker, another of Konoko's enemies; Elite Striker, most heavily armed and meanest "striker;" Communications Striker, Syndicate's "eyes and ears who won't hesitate to sound the alarm."

Future Shop will roll out Web Bar Listening Posts at its 88 Canadian stores over 29-month period under deal it signed with music content provider musicmusicmusic. Latter's listening posts are song-sampling stations that allow consumers to preview songs from any CD in store's inventory. Letter of intent was signed after pilot installation in May at Future Shop's flagship store in Vancouver. Musicmusicmusic said it expected to generate "in excess of U.S. \$2 million in revenues during the period of the contract through a combination of hardware and installation charges, annual database access fees and potential revenue from 3rd party advertisers."

Lexicon will team with New Line Home Video at upcoming Las Vegas CES to promote 2-disc Platinum Series DVD version of film *Seven*. Disc will be demonstrated and given away at Lexicon booth in Las Vegas Hilton on first-come, first-served basis. Lexicon said *Seven* Platinum Series DVD is first to use newly remastered transfer done directly from film's original negative under supervision of its director, David Fincher.

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