



# 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

**VSB RESULTS READY:** Key broadcasters getting report, but lid still on. 'Good news, bad news' for each side. Chmn. say controversy may not end. (P. 1)

**LARGE TV REVENUE DROP** expected in 2001, with only 1% increase seen by some. Radio will grow at about 8%, RAB's Fries predicts. (P. 2)

**COPY PROTECTION SET:** CableLabs submits final draft of controversial anticopying technology license for advanced set-tops. PVRs targeted. MPAA 'pleased.' CEA seeks FCC comment process. (P. 3)

**NAB WANTS CONFIDENTIALITY**, proposes new bylaws that could remove board members for misconduct. Conflicts of interest also targeted. (P. 3)

**PBS REVENUE DOWN**, according to tax return. Most media groups had positive results. NAB to file later. (P. 4)

**COFDM/VSB RESULTS SENT TO STUDY PARTNERS:** VSB/COFDM report sent to key broadcasters Dec. 29 included "some good news and some bad news" for both DTV modulation systems, we're told. Reports, based on field testing completed in mid-Dec., were said to have been adopted unanimously by technical groups, which include VSB critic Sinclair Bcst. "I think it was pretty well balanced," one official familiar with report said. He discounted claim that report strongly supports VSB.

Technical groups preparing report have kept tight lid on results, with even steering committee members generally not provided results in advance, we're told. In letter of appreciation to technical group members, Project Chmn. Gary Chapman of LIN TV and Vice Chmn. Craig Dubow of Gannett said they're "confident that the process was inclusive, fair and scientifically sound," but they admitted that "even these most comprehensive and authoritative tests cannot fully resolve all issues. Opinions may differ as to the precise implications of the data."

Steering Committee is to meet Jan. 10 to discuss results and submit reports to MSTV board. Then, series of meetings will lead up to joint session of NAB and MSTV boards Jan. 15 in Carlsbad, Cal. Broadcasters spent \$2.1 million on testing of competing DTV modulation schemes, following what they acknowledged to be "stalemate" as result of dispute over benefits of each system.

TV group CEO told us "the direction we take will be charted" at industry summit of station executives in Washington Jan. 11. But, he said, unless study shows COFDM with "an overwhelming preference" industry should proceed with VSB. Then, he said, "we will need to press the FCC very, very hard" for such things as digital must carry and TV networks for more digital programming.

### Consumer Electronics

**CHRISTMAS NOT MERRY AT RETAIL** despite aggressive promotions as CE dealers report sharp drop in holiday sales fueled by economic concerns. (P. 7)

**ISSUES TO VIE WITH PRODUCTS** at this week's CES, where rival DVD recording formats could reach accord while videogame and digital audio recording platforms proliferate. (P. 9)

**iDVD ON TRACK FOR ROLLOUT** this summer, says Planetweb CEO Ken Soohoo, whose company will also demo Web-surfing on PS2 at CES. (P. 11)

**MAGNOLIA LEAVES PRO GROUP** following acquisition by Best Buy, will maintain vendor agreements through March. (P. 12)

**NEW HOME SPEAKER BRANDS** targeting home theater will include Rockford's Fosgate Audionics and Sonigistix's Monsoon. (P. 13)

Field measurements comparing 8-VSB and COFDM DTV systems won't be only study under consideration at Jan. 11 summit. NAB has quietly commissioned 2 outside studies of its own — one technical, one marketing. Former reportedly comes down heavily in favor of 8-VSB, saying industry shouldn't wait for further testing of COFDM as sought by Sinclair and others. Marketing study reportedly concludes that TV should accelerate move to digital transmissions or it's likely to lose opportunity to do so because of demands for spectrum, among other issues. Summit will be at Ronald Reagan Bldg.

Meanwhile, "Digital Promise" is title of \$500,000 study sponsored by 4 foundations to be released in first quarter next year. Co-chaired by ex-FCC Chmn. Newton Minow and Larry Grossman, ex-pres. of PBS and NBC News, it will recommend broad use of spectrum auctions with proceeds used to establish endowment fund for benefit of public broadcasting. Report, which also will recommend policy and public interest standards for TV in digital age, is based on 15 supporting papers, interviews with "250 leaders from all walks of life," source said. Foundation sponsors include Carnegie, McArthur, Century and Knight.

**SEERS PREDICTING DOWN YEAR FOR TV ADVERTISING:** Last recession year for TV advertising was 1991, and "it appears the industry is heading that way again in 2001" in terms of national spot, prominent stock analyst predicted last week in face of broad indications of major cutbacks by largest TV advertisers. First quarter of year looks particularly bad for TV stations, he and others predicted. Radio on other hand will show ad growth of 7.5-8% next year, according to Gary Fries, pres. of Radio Ad Bureau. "Radio is 80% a local business with revenue sources that defy national trends," he said.

Gloomy predictions follow banner 2000 — fueled by Summer Olympics in Australia and political campaigns. Local TV stations took in more than \$160 million from Presidential race alone, according to Alliance for Better Campaigns — ad dollars that won't be spent in 2001. "We're very cautious" about prospects for national advertising, particularly in first quarter, CEO of major TV group told us. Advertising for new cars could be the key for much of economy, he said, and "we're watching that very closely."

Most broadcasters tell us tax cut promised by President-elect Bush would be huge benefit to media. "Right now, the consumer confidence" in the economy is fragile, one told us. Robert Coen of Universal McCann predicted last month that while advertising in all U.S. media will be up 5.8% (to \$250 billion) in 2001, big 4 TV networks will show only 1% increase — with same for national spot. CBS's David Poltrack, however, said TV network billings will increase by 7% in 2001 — down from 12.5% in 2000 — if there's no strike by Hollywood unions as many are predicting.

Radio "generated huge double-digit" gains in 2000 (13% ahead of 1999), RAB's Fries said, and "while we will see a leveling off to a more realistic figure in the first half of 2001, the trend in revenue gains will continue on an upswing."

Despite pledges by FCC Chmn. Kennard and strong push by AOL and Time Warner (TW), Commission was unable to conclude its review of AOL's pending purchase of TW by year's end (TVD Dec 25 p1). Knowledgeable sources and press reports indicated commissioners will probably defer action until sometime in Jan., even though Comr. Furchtgott-Roth has reportedly voted to approve deal already. Sources blamed holiday lull, lateness of FTC's Dec. 14 approval and desire of at least some commissioners to examine open access and other merger conditions imposed by FTC. They also blamed pressure by Kennard and AOL Chmn. Steve Case to finish review by year's end, saying lobbying tactic actually backfired by angering Comrs. Ness and Tristani. While FCC is widely expected to follow FTC's lead in approving merger, it's still not clear what, if any, additional conditions agency may impose on AOL-TW. In dueling filings at Commission, AOL-TW and such leading merger critics as Disney, RCN and Microsoft continue to spar over interactive TV content, programming access and instant messaging service interoperability requirements.

**Two subsidiaries** of Charter Communications announced plans to sell \$850 million of senior and senior discount notes. Charter said net proceeds of bond sale will be used to repay \$272.5 million debt that remains outstanding from \$1 billion senior bridge loans it received in Aug. MSO said it will also use proceeds to repay debt outstanding from its revolving credit loans. Separately, Charter said it reached 1 million digital cable subscribers, up from 155,000 at end of last year.

**World Intellectual Property Organization (WIPO)** meeting in Geneva failed to reach agreement on European proposals for protecting performers' copyrights in digital age. 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. 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.

**Pappas Telecasting** said it would begin operating KMSG-TV (Ch. 59, Telemundo) Sanger, Cal., Jan. 1 under local marketing agreement. Pappas, which owns KMPH Visalia-Fresno (Ch. 26, Fox) in same Designated Market Area (DMA), said KMSG-TV would drop its Spanish-language programming and switch to WB. As part of deal, Pappas also acquired option to purchase KMSG-TV.

**COPY PROTECTION SET:** CableLabs quietly submitted full final draft of its controversial anticopying technology license for advanced digital cable set-top boxes to FCC recently, agreeing with major film studios to set strict home copying limits for at least some DTV programming. Copying provisions, buried deep within CableLabs' 43-page filing on Dec. 15, establish such categories as "copy no more," "copy never" and "copy once" to set tight limits on how many times various types of DTV programming can be recorded by consumers. Restrictions particularly take aim at personal video recorders (PVRs). But license doesn't spell out which types of digital programming would be limited, leaving that decision up to film studios and other content producers.

Formally known as final POD Host Interface License Agreement (PHILA), draft replaces earlier versions of CableLabs' Dynamic Feedback Arrangement Scrambling Technique (DFAST) technology license. Besides setting copying limits, it requires cable operators and broadcasters to "down resolution" specified HDTV programming delivered to analog TV sets so consumers can't make top-flight copies. Idea is to keep pay-per-view and premium movies that are labeled as "copy never" from being recorded when viewed on analog sets. CableLabs said it's developing software that will soon allow licensees to "constrain the resolution of Controlled Content that is High Resolution" and transmitted to analog sets.

In addition, CableLabs is reportedly working on technology designed to prevent consumers from plugging cable wires into their computers and uploading restricted DTV programming. Moreover, R&D group said it's developing software that will permit content holders "to obliterate the stored content" on PVRs and similar recording devices "after a stated period of time" if there are copying limits. Restrictions on amount of digital programming that may be recorded on PVRs are also reportedly being considered.

Move by CableLabs comes after group twice extended FCC's original Oct. 18 deadline for submitting final PHILA license (TVD Nov 27 p5). It also comes as cable operators, content holders, broadcasters, set-top box manufacturers, CE retailers, PVR firms, computer software developers and other interests continue to spar over DTV encryption, technical standards, cable compatibility and other issues. Recently, House Telecom Subcommittee member Boucher (D-Va.) urged FCC Chmn. Kennard to prevent emerging DTV copy protection restrictions from stripping consumers of their ability to record their favorite shows.

In brief statement, MPAA said it was "pleased that the PHILA license includes copy protection specifications" but indicated it still hopes to tweak license further. "This is a critical issue for content providers, for cable distributors and particularly for consumers," group said. "If consumers purchase devices that are not capable of protecting high value content, those devices will become bottlenecks in the chain of distribution of high value content."

CEA executives, who have fiercely opposed strict home copying limits as anti-consumer, declined comment on specifics of CableLabs' license. They said group is still reviewing PHILA license. But Michael Petricone, vp-technology policy, reiterated CEA's position that technology license shouldn't go beyond ensuring signal security and preventing harm to cable system architecture. He argued that FCC should "put it out for public comment" because of license's "significant public policy implications."

**NAB WANTS CONFIDENTIALITY:** NAB bylaws currently have no provision requiring that board members keep information obtained through their role on board confidential, nor is there any workable provision for removing members from board. That's about to change as members now are voting by mail to make several changes in bylaws, with ballots due back at NAB by Jan. 5.

Under proposed changes, board members would be required to keep certain information (such as budget matters) confidential and could be removed from board for unspecified "misconduct" without affecting membership in NAB of board member's company. Under current bylaws, NAB would have to initiate what it called "cumbersome proceeding" to end membership of director's company before that member could be removed from board. New bylaws also cover conflicts of interest, such as prohibiting directors from negotiating any business transaction between their companies and NAB, and declare that directors have "a fiduciary duty" to Assn.

In another proposed change, bylaws would require only 48 hours' notice to call special meeting of board, rather than current 5 days. Change is necessary, Bylaws Committee said, because of increased need to act rapidly on legislative and legal matters. New bylaws also delete as "impracticable," because of large number of NAB members (several thousand), "long outdated" provision for annual and special membership meetings. Such annual meetings — at one time held at close of convention — haven't been held for many years. Among other proposed changes:

(1) Provision for 2 radio network seats on board would be abolished since all eligible networks now are owned by groups that also own radio stations. (2) Provide for Executive Committee to appoint temporary pres. in case that position becomes vacant. Current bylaws state that exec. vp will become acting pres. — provision adopted when there was only one exec. vp; there now are several. (3) Delete all references to race and gender in providing for appointment of minorities to board, while not affecting overall commitment to ensure board membership by minorities and women.

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**FCC's new EEO rules** are "an unwarranted restriction on the Commission's policy with regard to owner/employees," law firm Fletcher, Heald & Hildreth said in petition for partial reconsideration. Firm said FCC rules shouldn't treat minority owner who works at station as "a mere employee" since owners make up significant part of staff of many small stations. It said FCC rules (TVD Nov 27 p5) should be modified so only persons with at least 20% ownership are considered owners rather than employees.

**Interactive Network**, developer of intellectual property for interactive TV and Internet applications, said it signed letter of intent to acquire remaining 50% of Twin Entertainment. Currently, Interactive owns 50% of outstanding stock of Twin with the other 50% owned by TwoWayTV of U.K. With acquisition, company said, Interactive will move from licensing strategy to operational strategy. Twin provides live, competitive interactive TV games to U.S. and Canadian markets.

**Europe Star** said it agreed to provide Ku-band satellite capacity for Electroteks to carry ethnic Sri Lankan TV direct to Europe. Electroteks is expanding service to include Middle East, U.S. and Australia. Capacity will be provided on Europe Star 1 satellite for 2 channels of programming for Sri Lanka viewers.

**PBS REVENUE DOWN:** Most media groups had positive results in most-recent tax years, according to their latest tax filings with IRS. Main exception was PBS, whose revenue dropped, causing deficit for year. NCTA and most advocacy groups ended up with surplus for most recent tax year. (NAB has received extension until Feb. 15 to file its tax form for fiscal year 1999.)

PBS revenue dipped to \$421.7 million in FY 1998 (last year available) from \$446.2 million previous year, resulting in deficit of \$14.7 million vs. surplus of \$14.2 million in 1997. Expenses in 1998 rose to \$436.4 million, up from \$431.9 million previous year. Though lion's share of revenue came from direct public support (\$182.4 million), public funding recorded decline from \$225 million in 1997. Program service revenue continued to increase to \$87.8 million from \$64.5 million, but membership dues fell marginally to \$130 million from 130.2 million. Former PBS Pres. Ervin Duggan's salary decreased slightly to \$151,658 from cap of \$151,800, while former Exec. Vp-COO Robert Ottenhoff saw salary go up to \$198,662.

NCTA ended 1999 tax year with surplus of nearly \$6 million, it said in latest tax return. Revenue of \$36.6 million included \$15.6 million from conventions and program service, \$18.4 million dues. New Pres. Robert Sachs had \$486,644 salary (for part of year), while outgoing Pres. Decker Anstrom received \$702,650, for total of just under \$1.2 million. Other salaries and wages totaled \$7.2 million.

Other groups' tax filings included: (1) C-SPAN had \$40.7 million revenue and \$34.8 million expenses in most recent tax year (1998). Biggest expense was \$11.1 million in salaries and wages, plus \$5.1 million in depreciation. Chmn. Brian Lamb was paid \$196,732 and Exec. Vp Susan Swain \$185,165. (2) CableLabs spent \$19.1 million and took in \$18.6 million, mostly from dues. Biggest expense was \$5 million for consultants. Pres. Richard Green received \$380,716 salary plus \$1.36 million in benefits, and Exec. Vp Christopher Lammers \$276,815 plus \$652,841 benefits. Other salaries and wages totaled \$5.7 million. (3) RTNDA had \$3.5 million revenue in 1999, \$3.2 million expenses. Pres. Barbara Cochran was paid \$197,213, with other salaries totaling \$680,192. (4) NATPE took in \$10.7 million in most recent year (1998) and spent \$20,000 less. Biggest expense was \$4.9 million for conventions and meetings. Pres. Bruce Johansen received \$445,000 and other salaries totaled \$1.6 million. (5) MSTV had \$3.4 million revenue for year and spent only \$1.9 million. Pres. Margita White was paid \$236,770. Other big expense was \$609,065 for legal fees.

(6) Cable & Telecom Assn. for Mktg. had \$6 million revenue and \$5.9 million expenses. Pres. Char Beales received \$433,861 and other salaries totaled \$1.5 million. Biggest expense was \$1.7 million for conferences and meetings. (7) American Ad Federation took in \$4.64 million and spent \$4.58 million in 1999. Pres. Wallace Snyder was paid \$230,000. (8) Society of Motion Picture & TV Engineers took in \$2.6 million and spent nearly \$3 million. Exec. Dir. Frederick Motts was paid \$112,098, and other salaries totaled \$877,461. (9) Cable Ad Bureau had \$5.8 million revenue and \$5.7 million expenses. Pres. Joseph Ostrow received \$412,731, and other salaries totaled \$2.1 million. (10) Cable TV Public Affairs Assn. took in \$635,549 and spent \$693,062. Exec. Dir. Sara Breaux was paid \$64,323, and other salaries totaled \$58,963.

Among advocacy groups: (1) Alliance for Community Media had \$561,903 revenue for 1999 and \$509,134 expenses. Exec. Dir. Bunnie Riedel was paid \$63,500, and other salaries totaled

\$57,994. (2) Media Access Project had \$563,243 revenue and \$414,965 expenses. Pres. Andrew Schwartzman received \$98,750 and Exec. Dir. Gigi Sohn \$28,137 for part of year. Other salaries totaled \$95,378. (3) National Assn. of Telecom Officers and Advisers (NATOA) ended 1999 with deficit of \$20,621 on revenue of \$828,641. Bulk of revenue came from program service (\$557,659) and membership dues (\$258,323). Member services, management fee, bank fee, consultants fee, etc. accounted for \$499,268 in expenses, while conferences and meetings cost \$283,438.

Assn. of America's Public TV Stations (APTS) reported \$3 million revenue in FY 1998, almost all of it coming from membership dues (\$2.8 million) with program service revenue accounting for \$76,439. Among expenses, federal lobbying accounted for \$696,251, \$878,048 on policy, planning and regulatory affairs and \$329,179 on implementation of communications marketing plan.

**Even though** broadcasters received "consideration" for airing antidrug messages in programs, they didn't violate sponsorship identification rules because they weren't sure they would receive compensation, FCC Enforcement Bureau said. Letter to complainant NORML Foundation terminated Enforcement Bureau investigation (TVD Jan 24 p4). Networks, which were required to air specific number of antidrug PSAs, could be exempted from portion of requirement by including antidrug messages in program, with approval of White House Office of National Drug Control Policy (ONDCP), freeing additional time for paid ads. Enforcement Bureau agreed with NORML claim that freeing time for paid ads was consideration that normally should result in sponsorship ID notification in program, and rejected networks' claims that notification wasn't needed because they already had been including antidrug messages before ONDCP program. Bureau said, however, that networks didn't know at time of broadcast whether programs would qualify for PSA credit, so it said including sponsorship ID actually could be misleading if credit weren't given, which "would run counter to the purpose of the rule." Bureau did say networks might need to include IDs for repeat broadcast of show that already qualified for credit, but said sanction wasn't warranted because situation wasn't clear.

After year of tough negotiations and numerous retransmission consent extensions, Comcast and Disney announced agreement in principle on carriage of over-the-air signals of ABC owned stations in MSO's markets. Spokeswomen for companies declined to divulge terms of agreement, citing confidentiality. Agreement covers Disney products and services — including ESPN, ESPN2, ESPN Classic, ESPN News, Disney Channel, Toon Disney, SoapNet — and retransmission consent for ABC-owned stations in Philadelphia, N.Y., L.A., Chicago, Flint, Mich., and Toledo. Current ESPN and Disney Channel programming agreements were set to expire Dec. 31, 2000. Latest in series of retransmission consent extensions was also due to expire Dec. 31. Characterizing agreement as "important" one, Disney Pres. Robert Iger said it's "clearly in the best interests of our viewers on all the Comcast systems."

About 82% of DTV stations plan to use PSIP (program and system information protocol) technology, NAB said in survey of DTV stations. PSIP is protocol that allows data, including such things as electronic program guides, to be embedded in DTV signal. Survey also indicated that less than 25% of stations currently planned to deliver separate data services, NAB said, although it acknowledged that response rate might not make figures representative of all DTV stations.

**DIRECTV PLAN JEOPARDIZED:** News Corp. may have hit “bump in the road” in effort to raise money to acquire DirecTV and Clear Channel TV since Standard & Poor’s (S&P) reduced its debt rating to “negative” after producer Haim Saban exercised clause Dec. 21 forcing News Corp. to buy his stake in jointly-owned company (TVD Dec 25 p7), analysts said. News Corp. rating now is BBB-, one notch above junk bond rating. “The timing couldn’t be worse,” satellite stock analyst said: “Murdoch is going to need all the money he can get to close the DirecTV deal and put the finishing touches” on Clear Channel acquisition, which News Corp. has committed to buy for \$5.35 billion in cash and stock.

Morgan Stanley Dean Witter analyst Doug Colandrea said News Corp. could have to pay Saban \$1.5 billion in cash for his 49.5% stake in Fox Family Worldwide. Other industry reports predicted Saban could get up to \$2 billion. That kind of buyout could “put pressure on the News Corp. balance sheet” unless Saban agreed to take stock rather than cash or News Corp. found another company to buy Saban’s interest, S&P said.

Buying stake from Saban would force News Corp. to consolidate Fox Family’s \$1.4-\$1.5 billion debt on its balance sheet, S&P said. News Corp. could avoid hurting its rating if it sold all of Fox Family or Fox Family Cable Channel cable network. Fox Family Worldwide also owns Saban Entertainment, Fox Kids Network and international operations that include 75% stake in Fox Kids Europe. Among Saban creations are *Mighty Morphin Power Rangers* and *Teenage Mutant Ninja Turtles*. Another option would be to reduce debt by selling assets or with cash raised in sale of shares of Sky Global Networks through IPO scheduled in first half of 2001, S&P said. However, News Corp. maintains that Saban’s decision won’t hurt it despite 10% decline in first-quarter earnings.

Ultimate purchase price for Saban’s stake will be determined by investment bankers hired by 2 companies, industry sources said. News Corp. retained Bear, Stearns, while Saban hired Morgan Stanley. Evaluations will be offered by each side by Jan. 31. If there’s less than 10% difference in prices, News Corp. will pay average of 2 prices, but if sides are farther apart, 3rd banker will be hired to determine valuation.

Motorola will unveil its iRadio satellite car radio system at Consumer Electronics Show at Las Vegas Convention Center this week. New system is one of many digital radios that companies are planning to compete with XM and Sirius Satellite Radio for customers, industry officials said. iRadio, developed by Motorola Telematics Unit, is expected to offer satellite services and interact with Internet through digital cellular networks which are primarily used for voice calls. Company is hoping to integrate iRadio with satellite navigation systems and emergency service products that are standard in many cars and trucks. CES is being used to showcase prototype with hopes of attracting manufacturer of car audio products, firm said. Motorola believes “right company” could have products ready for introduction to marketplace in year, spokesman said. Realistically, he said, “most of iRadio products won’t hit the marketplace until 2003.”

CWA opened Web site critical of AT&T’s proposed spin-off of Liberty Media (TVD Dec 18 p6) — [www.ATTinsider.com](http://www.ATTinsider.com). It includes presentation of “why the AT&T breakup is bad for investors,” links to analysts and others who have voiced concern about restructuring plan, section on “Armstrong’s bundling doubletalk.” Another section criticizes Goldman, Sachs and Credit Suisse First Boston, saying they “rake in fees” to help company acquire properties and then advise AT&T on breaking up.

**STREAMING ACCESS LIKELY:** New rules aimed at making federal govt. Web sites and information technology available to people with disabilities could trigger greater accessibility to Internet streaming media programming through closed captioning, officials from WordWave said. Standards — issued Dec. 21 by Access Board, independent federal agency charged with ensuring accessibility for govt. people with disabilities — were developed under Sec. 508 of Rehabilitation Act.

Internet began as text-based environment but has expanded to audio and video as streaming media have become more successful and broadband capability has opened up, said Doug Roberts, vp-sales & strategic markets for captioning firm VITAC, part of WordWave. With more programs being streamed, it’s becoming more important for those with hearing or sight impairments to have access to text of those programs, he said. That means describing pictures in words that can be read by braille reader, providing text-search capabilities for people who can’t hear, or using closed captioning similar to what’s been used on TV for years, he said.

Closed-captioning isn’t just for people with disabilities, WordWave Div. Pres. Larry Schwartz said. Although it was mandated by govt. to make TV accessible for hearing-impaired, he said, it’s now used regularly in gyms, bars and other places. Internet closed captioning, Roberts said, lets workers turn down audio on their computers and search text of streamed program through bullet points. His company also provides subtitled, so transcribed audio or video programs can be translated into foreign languages, he said, must for “worldwide medium” of Internet.

New govt. regulations will likely trickle down to private sector, officials said. Broadcasters initially resisted closed-captioning, said Roberts, but in cyberspace, there’s expectation that there will be voice-to-text capabilities. As govt. Web sites become more accessible, private sector sites will see value of captioning, he said, because adding text allows search functions. Will federal govt. require access to streamed media as it did to TV broadcasts? “It’s anybody’s guess,” Schwartz said.

Finding city of Rochester, Mich., in violation of Mich. Telecom Act (MTA) for failure to provide Coast to Coast Telecommunications with valid permit for construction of fiber network within stipulated 90 days of application, state PSC last week fined city \$20,000 from which costs and attorney fees of company are to be met. PSC also directed city to pay Mich. state fine in amount, if any, of difference between costs and attorney fees and \$20,000. It also ordered city to pay fine to Mich. of \$1,000 per day from date of order to day city issues Coast’s permit in full compliance with MTA. Commission rejected city’s contention that its grant of permit within 90 days would meet statute’s requirements even though permit didn’t set fees that city would impose and didn’t authorize Coast to install anything in rights-of-way.

High Speed Access Corp. (HSA) and C-COR.net, technology and services provider, announced cooperative agreement to provide subscriber support for cable network operators. HSA will be responsible for customer care, network operations center (NOC) and helpdesk support to cable system subscribers, while C-COR.net will provide complementary technical support in troubleshooting network issues identified through helpdesk service. C-COR.net said it expected majority of its existing helpdesk customers would transition to HSA 2 months after agreement takes effect Dec. 29.

## Personals

Andi Sporkin, ex-CBS Enterprises, named senior vp-communications and talent relations, Columbia TriStar TV Distribution... Peter Scanlon, ex-ABC, named vp-sales analysis & planning, Univision... John Schauss, ex-George Washington U., named treasurer, Media General, replacing Stephen Zacharias.

John Matlack promoted to senior vp-advertising sales, Lifetime TV... Charles King, ex-Insight Communications, named vp-north central region, MEDIACOM... Steven Reifsneider, ex-Jones Intercable, appointed vp-southwest region, Leap Wireless International... Stephen Oksala, ex-Unisys, named vp-standards, Society of Cable & Telecom Engineers... David Levitzky resigns as exec. vp, BigStar Entertainment.

**DirecTV** and **EchoStar** want FCC to reconsider policy on syndicated exclusivity, network nonduplication and sports blackout rules for programs retransmitted by superstations, companies said in separate comments filed with Commission. KTLA L.A., KWGN-TV Denver, WGN-TV Chicago, WPIX N.Y., WWOR-TV N.Y.-Secaucus, N.J. and WSBK-TV Boston are subject to program deletions under current regulations established by Commission. EchoStar said 120-day timetable established to delete programming would prevent company from evaluating "the burden from the rules" and whether to continue to provide superstations' package to consumers. EchoStar said it believed FCC had overstepped its bounds in "imposing" sports blackout requirements for network stations that "potentially" presented "enormous logistical difficulties" for DBS companies and "failed to account for unique characteristics of nationwide satellite service." DirecTV used same argument and said "notification period" mandated by FCC was "inadequate".

Citing short-term delay in orders from major domestic cable operator, Concurrent Computer Corp. scaled down video-on-demand (VoD) revenue projections from its Xstreme Div. for 2nd quarter ending Dec. 31 to \$1.7 million-\$1.9 million from previous estimate of \$7 million-\$7.5 million. Company said it expected revenue for quarter from its Real-Time Div. to be in \$12.1 million-\$12.3 million range, slightly higher than earlier estimate of \$11 million-\$11.4 million. Consolidated 2nd-quarter revenue projection was revised down from estimate of \$18-\$18.9 million to \$13.8-\$14.2 million. Net loss for quarter was projected to increase to 7¢-8¢ per share from 4¢ estimate. Change was attributed primarily to delay in purchase orders from major cable operator for 3 new VoD system deployments, company said, but new systems are expected to ship in next quarter. Concurrent CEO Jack Bryant said he remained confident VoD would be deployed in large number of major markets in 2001.

**U.S. Appeals Court**, D.C., should remand LPFM rules to FCC for further proceeding as result of LPFM language included in budget bill (TVD Dec 25 p3), NAB said in letter to court, which had asked NAB for analysis of effect of legislation. Broadcasters said FCC's new LPFM rules didn't comply with congressional mandate for minimum distance separation for 3rd adjacent channel operation. It also said legislation and resulting technical analysis would "require, at a minimum, a reassessment of the costs and benefits of LPFM service." FCC should be required to modify rules to assure compliance with congressional mandate, NAB said.



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**U.S. Dist. Court**, Cleveland, said city of Brunswick, O., was justified in denying renewal of Cablevision's franchise in Sept. 1999, holding that company substantially failed to comply with material terms of existing franchise. "Evidence in the record was sufficient to permit a reasonable fact-finder to conclude that Cablevision failed substantially to comply with the material provisions of the existing franchise agreement," Judge Ann Aldrich said, citing company's failure to provide 20 hours per week of local origination programming.

# Consumer Electronics

A Section of Television Digest with Consumer Electronics

## STATE OF THE INDUSTRY

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

	DEC. 09 - DEC. 15	1999 WEEK	% CHANGE	DEC. 02- DEC. 08	50 WEEKS 2000	50 WEEKS 1999	% CHANGE
TOTAL COLOR TV	534,858	511,221	+ 4.6	663,035	29,322,950*	27,903,352	+ 5.1
DIRECT-VIEW**	513,695	481,229	+ 6.7	630,631	28,159,598*	26,733,436	+ 5.3
TV ONLY#....	437,860	421,466	+ 3.9	556,067	23,308,102	22,469,565	+ 3.7
TV/VCR COMBO.	75,835*	59,763	+ 26.9	74,564*	4,851,496*	4,263,871	+ 13.8
PROJECTION...	21,163	29,992	- 29.4	32,404	1,163,352	1,169,916	- 0.6
TOTAL VCR**....	345,980	498,956	- 30.7	314,622	27,475,517*	26,354,992	+ 4.3
HOME DECKS...	270,145	439,193	- 38.5	240,058	22,624,021*	22,091,121	+ 2.4
CAMCORDERS.....	57,537	62,467	- 7.9	58,455	5,663,954*	4,658,828	+ 21.6
DVD PLAYERS....	169,333*	97,660	+ 73.4	162,486*	8,037,545*	3,797,691	+111.6

**Direct-view TV 5-week moving average#:** 2000-602,605; 1999-556,110 (up 8.4%).

**Projection TV 5-week moving average:** 2000-29,434; 1999-34,549 (down 14.8%).

**VCR deck 5-week moving average:** 2000-517,102 ; 1999-611,118 (down 15.4%).

**TV/VCR 5-week moving average:** 2000-118,111\*; 1999-93,776 (up 26.1%).

**Camcorder 5-week moving average:** 2000-132,175 ; 1999-101,584 (up 30.1%).

**DVD player 5-week moving average:** 2000-264,501\*; 1999-131,602 (up 101.1%).

\* 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.

**CHRISTMAS ISN'T MERRY FOR RETAILERS:** Despite aggressive promotions that included advent of \$39 VCR and \$89 DVD player, most brick and mortar CE retailers reported sharp drop in holiday sales fueled by murky economic picture that cut into consumers' discretionary spending, industry officials said.

Canvas of retailers revealed that sales slowdown began post-Thanksgiving and that revenue increases were expected to be in flat to low-single digit range. Overall, total retail sales were expected to increase 3%, compared with 6.2% last year, according to TeleCheck Services. Wal-Mart said same store sales were running below 3-5% increases it had projected at beginning of Dec. Target also said sales during 5-week reporting period were "way below plan" due to weak volume in several categories, including CE, that continued right up until Christmas. Chain had expected 5% increase.

"Even if retailers had increases in revenues, they didn't have increases in profits because they all promoted heavily and cut prices to move products," JVC Exec. Vp-COO Harry Elias said.

Among those that were hit hardest were high-end CE specialty chains whose more affluent consumer cut back on holiday spending, industry officials said. "The traffic was very good through Thanksgiving, but we definitely saw a change in Dec.," Tweeter Home Entertainment CFO Joseph McGuire said. "That has everything to do with the economy, the elections and the stock market. People were saying 'I'm going to wait.'"

Slower-than-expected holiday sales have left some retailers saddled with inventory, especially in DVD players, leading to speculation that price cuts may be on horizon. While retailers reported brisk sales of DVD players, many dealers had bulked up on product to avoid shortage that plagued industry year ago.

"We all expected a lot more [DVD] volume and we thought there might be a shortage, but there never was one," said Roger Heuberger, exec. dir. at PRO Buying Group. "I would expect there are going to be some good buys coming up."

Yet at same time, cheaper DVD players opened market to more consumers, some of whom bypassed single-play model in favor of changers, buyer at west coast chain said. Tweeter, however, was able to keep its average sales price for DVD players in \$370-\$375 range. Prices for DVD players will continue to fall this year as manufacturers roll out new lines, majority of which will be priced less than \$300, retailers said.

Video products, led by big screen and projection TV, posted strong sales albeit at lower prices. But some retailers reported slow sales of personal video recorders and softening in market for audio that cut across entire category from MP3 players and shelf systems to receivers and speakers.

"Audio overall this year was disappointing," ABC Warehouse Audio Buyer Daniel Schuh said. "Audio took a hit in most categories this year and we're still trying to figure out why." In part, strong sales of home-theater-in-a-box products may have cut into sales of receivers, speakers and other separate components, Schuh said.

On home office side, desktop PCs were not as strong as year ago. Other products including digital cameras and handheld PCs, both of which benefitted from substantially lower prices, were strong sellers, retailers said. Palm introduced IIIe handheld PC at \$149, while digital cameras could be had for as little as \$99 for model with 640x480 resolution. Handhelds also were in short supply owing to continued component shortage that isn't expected to ease until first quarter.

Not all retailers offered gloomy analysis of season, however. Abt Electronics Gen. Mgr. Phil Hannon, for instance, told us: "We actually did pretty good." Sales were up about 10% from last holiday season, he said, noting that DVD players, along with digital still cameras and digital camcorders were among best-selling items. Hannon also said his company's online business did "probably almost 10 times" better than last year.

Although analysts have continued to paint dim picture for dotcoms, online CE retailers we talked to last week said they enjoyed strong holiday-selling season. Amazon.com CEO Jeff Bezos said his company shipped "more than 31 million items" — up from last year's 20 million. Company, however, didn't indicate what percentage of items sold were in electronics category and Robertson Stephens analyst said: "Given Amazon's noticeable out-of-stock position on many CE products and lack of authorization by some key vendors, we believe Q4 revenue upside could be limited."

Kirk Koenigsbauer, gen. mgr. of Amazon's software store, didn't offer specific CE sales figures. But, calling it "the season of all things digital," he said DVD players, digital camcorders, digital still cameras and handheld devices performed especially strong for his company, while there really weren't any particular categories that under-performed. "We sold more than 20,000 DVD players," he said, with Toshiba SD-1600 at \$189.94 standout model in recent weeks. While audio and TVs weren't top-selling items this season, he said those categories were "sort of on par with what we expected."

Koenigsbauer told us: "I think the thing that was different this year was that digital products were much more affordable." He noted that Palm IIIxe was selling for \$249 vs. equivalent product year ago that was priced at about \$499. Certainly contributing factor in how well DVD category performed this year was drop in averaging pricing as well, he said.

DVD was also, not surprisingly, among top sellers for 800.com. Although Merchandising Vp Frank Sadowski said falling prices in category contributed at least in part to jump in sales, he pointed out that higher-end DVD players have still managed to perform well for his company. Other top-performing categories for 800.com included digital cameras and big-screen TVs, including HDTV models. Among surprises, he said, were "the strength of the personal video recorder category — TiVo and Replay product — which did extraordinarily well" and portable audio. Sadowski added: "Overall, we were very, very pleased [with holiday sales]. Preliminary numbers that I'm seeing indicate that e-commerce as a whole was up about 55% to 60% from last year.... We did considerably better than that. We nearly doubled last year's [sales for the quarter]."

While Hifi.com spokeswoman declined to give specific sales figures, she told us: "We did experience a pretty good holiday season — very healthy in terms of sales... with relatively few glitches." She said DVD players were, not surprisingly, among biggest sellers, along with speaker line of sister company Cambridge SoundWorks.

BizRate.com said last week that online shoppers, across all categories, spent more than \$6 billion this holiday season. Meanwhile, Goldman Sachs/PC Data report said online holiday shopping peaked during week of Dec. 17 with over-

all spending nearly doubling 1999's level. Report said total spending for season was \$8.7 billion since first week of Nov. — 108% jump over \$4.2 billion same period year ago.

More good news from e-tailers came with word they had managed to avoid pitfall suffered by many of them last year, when they failed to deliver products in time for holiday. Fulfillment this year, in contrast, was reported to be much improved, with majority of online dealers who weren't handling their own fulfillment last year performing that task on their own this time around. At same time, those dealers — like Amazon — which were already handling their own fulfillment last year, said experience has made them better at handling it now. BizRate.com said "more than 8 out of 10 purchases, or 88% of online orders, were delivered on time" from Nov. 20-Dec. 15. That compared with 74% for same period last year, BizRate.com said.

Meanwhile, Web site outages — another major problem last year — seemed to be few and far between. Majority of outages reported this year were attributed to frenzy among consumers to get PlayStation 2 (PS2) game consoles. Indeed, few if any e-tailers not carrying PS2s reported Web site outages — something that made Abt's Hannon and 800.com's Sadowski say they were glad they weren't involved in PS2 chaos.

**CES TO SEE NEW SUPPLIERS, DIGITAL ITEMS — AND OLD ISSUES:** Much-cliched "paradigm shift" for CE industry will be apparent at this week's tradefest in Las Vegas, where attendees at Consumer Electronics Show (CES) will see erstwhile competitors grouping under joint pavilions to tout leading-edge technologies — as well as tooting own horns and jousting under individual colors from own booths. CES also will see influx of new suppliers, primarily from China, and these for first time will take places under big-top of Convention Center floor rather than staging side-shows in satellite tents as at previous pow-wows. Biggest technical news could come from rival camps in DVD recorder category. At our pre-CES deadline, it seemed likely that some announcement on effort to achieve mutual compatibility between DVD-RW and DVD+RW formats would be made, possibly as early as eve of show.

Among key product areas, CES showgoers will see heightened activity in videogaming, DVD, MP3 and other audio-compression formats, solid-state storage for program content, and increasingly-hot category of Audio CD recording. Following is synopsis of noteworthy CES topics.

**New technologies:** Consortiums of vendors will exhibit together in pavilions devoted to Bluetooth wireless standard, DataPlay disc and SD memory-card formats. In this sense, CES is taking on feel of Comdex computer show, where emergence of new technologies and increasing trend to "strategic partnerships" finds competing vendors grouping under common cause in joint pavilions to build critical mass for budding categories — rather than merely mix in key items among commodities at individual booths.

DataPlay is choice example. Diskette is size of 25-cent coin, is expected to sell for under \$10 and stores 500 MB of content — compressed music, digital still photos or video, text for electronic books. Diskette can be sold as blank for personal recording and also used for prerecorded content — including "locked" programming that consumer acquires by purchasing or otherwise obtaining access online. It's backed and bankrolled by majors that include Universal Music Group, Panasonic, Samsung and Toshiba.

Vendors will show variety of DataPlay devices for mobile and home applications at CES. Meanwhile, SD Card Assn. will promote postage-stamp-size solid state memory card for similar purposes — in competition with Sony's MemoryStick and existing CompactFlash and SmartMedia storage devices. SD's backers are Panasonic, SanDisk and Toshiba. Bluetooth, 2.4 GHz spread spectrum system for wireless communication among handheld and other PC-type devices, also will have multi-vendor showcase at CES.

**New exhibitors:** China and Hong Kong-based manufacturers will have emboldened presence at CES on recent strength of their role as key OEMs and branded producers of AV products such as DVD-Video, MP3 devices, set top boxes.

Profile of Chinese manufacturers began to heighten at last year's CES, when newcomers Amoisonic and Konka exhibited for first time on main show floor, apart from usual Hong Kong/China trade group in dungeons of Convention Center. This year, Oritron-parent Orient Power Multimedia also will have floor presence, including exhibit of Nuon-enhanced DVD900 DVD player at VM Labs' booth (details below). Sampo America, Taiwanese vendor and latest entrant to DVD and HD-ready TV stakes, will seek to build distribution at off-site locations that include exhibit at Digital Home Experience in Aladdin Hotel, Jan. 6 from 5-9 p.m., and suite in Mirage Hotel. Similarly, Chinese manufacturers such as Starlight Holdings that produce strictly on OEM basis will have private suites in Las Vegas Hilton Hotel and elsewhere to enlist new retailer and manufacturer customers.

**Rewritable and HD-DVD:** Even as successful DVD-Video format diverges to lower price points and high-end enhanced features (such as progressive scan output and Nuon capability), vendors will be dangling next-gen DVD formats before industry's collective proboscis. Products include recording capability for current DVD format, and concepts for future high-definition (HD) systems.

Philips, Pioneer and Sony will provide educational backgrounders at CES on proposed DVR-Blue system for HD-DVD, which uses blue laser to store 2.4 hours of HD-quality video on 4.72" prerecorded and blank optical discs. System also is capable of longer recording times for less demanding video content, such as TV time-shifting. But companies have previously conceded that marketing feasibility isn't clear, what with dearth of HDTV broadcast content and steamroller momentum of DVD-Video format — even though DVR-Blue technology could be ready in 2 years.

Meanwhile, if bird-in-hand is better than 2-in-bush, industry still remains roiled by ongoing incompatibility issue among 3 competing rewritable DVD formats: (1) DVD-RAM backed by Hitachi, Panasonic and Toshiba (with Panasonic deck already selling in U.S.). (2) DVD-RW championed by Pioneer (which sells recorder in Japan and plans U.S. launch by spring) and supported in principle by 39 hardware and software companies in Rewritable Products Promotion Initiative (RWPPi) coalition. (3) DVD+RW format, consortium of 6 CE and PC companies spearheaded by Philips — but which lacks other CE support even from co-developer Sony although it counts U.S. video powerhouse RCA among potential vendors.

At our pre-CES deadline, there were strong indications that show might see announcements of steps toward compatibility between DVD-RW and DVD+RW formats, which are similar in technical operation, user-function and marketing philosophy when compared with DVD-RAM — although even that format can be bridged with DVD-RW under "DVD Multi" agreement within DVD Forum. Latter recognizes DVD-RAM and DVD-RW as "standards" but not DVD+RW, which is maverick format developed outside of Forum's auspices by Philips, Sony, Hewlett-Packard, Ricoh, Yamaha and Verbatim-parent Mitsubishi Chemical.

As we've previously reported, Sony repeatedly has said it will support DVD+RW only for PC applications but not for home video recording. Company instead has been urging CE industry to leapfrog 480i-DVD recording and set sights on HD-recorders using blue laser. Sony also has joined RWPPi group, and is widely perceived as playing referee in effort toward mutual compatibility between DVD-RW and DVD+RW camps for home video applications.

**Digital TV:** DTV might be quietest category of all, despite and possibly because of much going on behind scenes. In lieu of agreement between CE and cable TV industries over labels for different DTV sets, FCC mandated terms to cover these — which each industry is appealing. Meanwhile, industries last week finally came to terms over DTV copy protection through cable — although it remains to be seen if consumer-rights groups will mount protest. On hardware side, Panasonic will show just-introduced DTV set top box with DirecTV satellite HD reception at \$1,100. And newcomer Sampo will show HD-ready direct view 27" and 32" sets with 4:3 aspect ratio, 34W direct-view model and 42W plasma monitor. Taiwanese company will have off-site presence during CES (see above).

**Videogames:** Nuon-enhanced gaming features will spread to more DVD players and even to combination set-top boxes at CES, where Web-browser developer PlanetWeb will announce agreement to build online capability into some games for Sony's PlayStation 2 platform (see separate report, this issue). Announcements come against backdrop of Sony PS2 emerging as 800-pound gorilla of videogaming but with Microsoft's Xbox and Nintendo's GameCube looming for 2001 holiday selling season — and persistent if denied reports of Nintendo acquiring troubled Dreamcast vendor Sega.

Latest addition to VM Lab's Nuon interactive-DVD camp is Hong Kong-based DVD powerhouse Oritron, we have exclusively learned. Several sources confirmed that companies will make Jan. 6 announcement at CES regarding plans for mid-2001 introduction of sub-\$200 Oritron-brand DVD players with Nuon-enhanced capabilities — price that undercuts existing Nuon-DVD decks by half. Additionally, sources told us Oritron-parent Orient Power Multimedia will make Nuon-enhanced players available to Who's-Who roster of OEM clients, which includes major CE brands as well as private-label products for retail chains in U.S. and Europe.

Significance of announcement has to do with pricing and volume. Chinese-made Oritron brand has large market-share in DVD-Video players priced from \$100 to \$200 at retail stores such as Best Buy, Circuit City, K-Mart, Target and Wal Mart, as well as regional specialty chains such as The Wiz, Ultimate Electronics and others, plus leading independents. Company has delivered 1.2 million DVD-Video players to market since appearing at Circuit City with first sub-\$200 deck in fall 1999, and its DVD-Video players now sell for as low as \$99 when promoted below dealer-cost by some chains. Products have been generally well-reviewed in lab tests by publications such as *Stereo Review's Sound & Vision* and our *Television Digest* and *Audio Week*, which were first to test Oritron's and other Chinese-made DVD play-

ers. Besides DVD decks, Orient Power Group, formed in 1984, builds home audio, autosound and telecom products for sale under own brands (which include Koss, under license) and those of major CE clients.

Working prototypes of Nuon-enhanced Oritron DVD900 player will be demonstrated during CES at Orient Power exhibit and also by VM Labs in room N-223 on mezzanine level of LVCC, sources confirmed. To date, VM Labs has Samsung and Toshiba on board as licensees — company lost early licensee and investor RCA when parent Thomson Multimedia opted to back equity-holder Microsoft's Xbox instead.

**Digital Audio:** MP3 and other music compression formats such as Microsoft's Windows Media Audio will proliferate in wide variety of portable devices, and continue migration to shelftop stereo systems, home stereo components and DVD-Video players. Burgeoning Audio CD-Recorder category likewise will expand among brands — and become integrated among more shelftop stereos and packaged sound-systems.

Aiwa, Philips, Pioneer and RCA-parent Thomson will be most aggressive in Audio CD/R-W. Latter company is no-show at CES but will have suite at Mandalay Bay Hotel. RCA also has said it will integrate MP3 playback and compression throughout its home and portable audio lines — as will Philips in company policy declared at recent Comdex show. New entrants to Audio CD recording market include TDK and Sony. In fact, growth in CD recording will come at expense of latter's MiniDisc format. Sony-vassal Aiwa has dropped MiniDisc entirely and erstwhile-proponent Sharp has curtailed MiniDisc offerings, as will Matsushita-vassal JVC.

As for DVD-Audio and Sony/Philips developed Super Audio CD, latter partners will field joint exhibition at CES to promote format — and are expected to show expanded product lineup at sub-stratospheric price points, some including DVD-Audio capability. Also at CES, Warner Home Video (WHV) chieftain Warren Lieberfarb is expected to announce media giant's expanded support and aggressive promotion of DVD-Audio content, much as WHV rode as ram-rod during DVD-Video rollout. Despite Warner's boosterism, support for DVD-Audio among other major record labels remains nebulous at best — as much because of meager installed-base of hardware as for still-unresolved digital watermarking issue.

**Home Video:** CES also coincides for first time with Video Software Dealers Assn. Show (VSDA) at Venetian/Sands hotel-convention center complex. CES attendees are advised to be mindful of heavier-than-usual crunch for taxis, dining arrangements, hotel and airline availability — yet another Comdex-like evolution for CES. VSDA also incorporates Adult Video Assn. Show, where DVD front-runner Vivid Interactive is expected to unveil new interactive tricks for DVD-Video format that's playable on Sega Dreamcast, Sony PS2 and forthcoming Microsoft Xbox videogame platforms. Sources told us Vivid also possibly will take wraps off its much-bruited plan for broadband Internet distribution of adult content.

**iDVD ON TRACK FOR MAJOR SUMMER ROLLOUT:** Thanks in large part to improved DVD chip technology, Internet-enabled DVD players should begin reaching shelves in major tests by mid-summer 2001, Planetweb CEO Ken Soohoo said. In addition, Planetweb also is expected to use this week's CES to demo Web-surfing on Sony's PlayStation 2 (PS2) videogame console.

Many in retail, hardware and movie industry had hoped DVD players with Internet connectivity would be already exerting their presence on store shelves by now. But, Soohoo said: "When we looked at what we wanted out of the product — which was simultaneous DVD playback and Web browsing so you could essentially trigger the web content off the DVD content — frankly with this generation of chips it just wasn't compelling."

Planetweb has generated support from hardware makers such as Aiwa and JVC, and has lined up 3rd-party chip manufacturers, including C-Cube, National Semiconductor, Zoran, VM Labs. "It will certainly hit the June-July time frame for the larger volume 50,000 tests," he said. "And then we expect to have the product tweaked, well understood and lined up for holiday 2001."

iDVD will enable consumers to access Web content tied to movies and other discs. In addition, major studios may be able to target consumers who have already purchased discs by sending promotional material about upcoming releases.

Project was supposed to be launched in 2000 through "Free DVD" initiative, with Internet Service Providers (ISPs) providing consumers with free or heavily discounted hardware if they signed up for several years of Internet connectivity through living room. But Soohoo said several of ISPs that were to be involved experienced unrelated financial pressure that caused them to shelve effort.

While Soohoo characterized much of delay as technology-related, at least one source familiar with iDVD said there are still some issues of establishing standards for surfing Internet via DVD players. Without going into detail, source said various companies, including studios, hardware makers and enabling software firms, such as Planetweb and InterActual, are negotiating over any potential revenue that may be derived from providing content through players. "Wherever, there's money involved, you know there's going to be some complications," he said. Other issue is whether CE makers may want to get involved in providing Internet service, although Soohoo said most have shown little interest thus far.

Meanwhile, Planetweb will provide glimpse into future of PS2 as it shows Web surfing on Sony 128-bit console. Details were still sketchy at our Fri. deadline. But, Soohoo said: "The American market will get their first look at PlayStation 2 browsing via Planetweb at CES."

Planetweb became first browser company formally linked to PS2 several weeks ago when Japanese game developer Koei (maker of strategy game *Kessen*) and its Ergosoft subsidiary announced it had formed alliance with Planetweb to provide Internet software and middleware tools to PS2 in Japan. "The significance was that Koei was the first publisher to announce a Web browser solution," said Soohoo, adding: "There are several Web browser solutions for PlayStation2 and we were the first ones chosen and currently the only one chosen."

Planetweb has been at forefront of Web browsing via CE products for some time and was first company to bring out console browser when it worked with Sega on NetLink in 1996 for ill-fated 32-bit Saturn. Planetweb was later able to parlay that experience into deal with Sega to provide browser for Dreamcast in Japan and U.S. Planetweb also provides browser for other appliances and recently signed deal with PowerChannel to Web-enable 2 million set-top boxes in U.K.

While Koei announcement attracted little fanfare in U.S., it does provide glimpse into possible role game publishers may play as console gaming market moves online. One of issues going forward is how much control major manufacturers will have over console experience via Internet. For example, will Web surfing over game machines be closed experience, or will 3rd party publishers and others have opportunity to host various aspects of their videogame experience? Already, Sega has indicated that despite its hope for SegaNet ISP, it will allow publishers to set up their own Web presence for Dreamcast games. "Today *Star Wars Racer* has it built in to where gamers go right to the Lucas Web site," noted Soohoo. "We're offering that ability on the PlayStation 2, and that's triggered huge interest."

**MAGNOLIA LEAVES PRO GROUP:** Magnolia Hi-Fi has left PRO Buying Group it helped form following acquisition by Best Buy. Kent, Wash.-based chain formally severed ties to buying group on Dec. 31, but will continue existing vendor agreements through March 31 to coincide with ending of fiscal years of most Japanese manufacturers, PRO Group Exec. Dir. Roger Heuberger said. Magnolia Pres. James Tweten wasn't immediately available for comment.

Magnolia, which operates 13 stores stretching from Seattle to San Francisco, was among early members of PRO, formed in mid-1980s in effort to help independent CE specialty retailers compete with multi-store chains. Best Buy completed \$87 million acquisition of Magnolia in Dec.

Tweten, who was named PRO first vp-secy. in 1994 and advanced to pres. in 1999, will relinquish post. Replacement is expected to be elected at CES from existing board that includes Ultimate Electronics (UE) Pres. David Workman and Tweeter Home Entertainment Pres. Jeffrey Stone.

"There were too many potential conflicts that were going to come out of the woodwork so we thought it was better to stop for now," Heuberger said. "It was a question of it wasn't going to work out right now given that we don't know what the overall structure [of Best Buy-Magnolia relationship] will be." Best Buy has said it had "carved out" 150 "unique market locations" for stores featuring Magnolia's format, which includes custom installation.

With Magnolia's departure, PRO will weigh expanding organization. It has received expressions of interest from 5

chains, but won't make any decisions regarding adding members for several months, Heuberger said. Pro has 15 members and is projecting combined sales of \$1.6-\$1.7 billion for 2001, up from \$1.5 billion last year, Heuberger said. Group has varied in size in recent years between 11 and 18 members.

Magnolia's departure, coupled with publicly traded UE and Tweeter's expansion has led some to question PRO's long-term viability. UE (Audio King) and Tweeter (United Audio Centers, Home Entertainment) have acquired PRO members in past. "I don't think anything will change in the short term, but over the long term, who knows?", executive at PRO member said. UE and Tweeter executives have previously said they have no plans to leave group.

Blaming slumps in its videogame accessories segment caused by reduced PlayStation 2 (PS2) deliveries, Recoton warned financial community that its 4th-quarter revenue will be 20-25% below those of same year-earlier period. Announcement came after market closed Dec. 28. Shares hovered just above 52-week low of 6 on Fri. before recovering to close week at 7-5/8. Company said shortfall was expected despite strong 4th-quarter sales in core CE accessories and mobile and home audio segments. Pres.-CEO Robert Borchardt said: "We, and others, are very disappointed in the reduced deliveries" of PS2 and with "the sales of all video game platforms which appear to be down this holiday season causing a major gaming market revenue shortfall." On positive side, Borchardt said, company expects "a strong rebound in 2001 for our videogaming segment based on the expected regular deliveries" of PS2 and arrival of new platforms such as Nintendo Gamecube and Microsoft Xbox.

**NEW HOME SPEAKER BRANDS:** Rockford Fosgate (RF) and Sonigistix, better known for car audio and Monsoon PC speakers respectively, are taking aim at home theater market.

RF formed Fosgate Audionics (FA) Div. to market line of satellite speakers, subwoofers and 5-channel amplifier, while Sonigistix will ship line of 3 flat panel, floor-standing speakers.

"Enthusiasm for home theater has reached an all-time high and its price in general has evolved to where any household can get involved," FA National Sales Mgr.-Product Mgr. David Munzlinger said. "More people also understand the technology now."

FA and Monsoon speaker lines will be aimed at CE specialist and priced ranging from \$299 for former's 2-way satellites with 5.25" drivers to \$1,599 for latter's passive floor-standing model with dual 8" woofers.

RF's launch of FA represents revival of brand originally developed by Jim Fosgate, who is working with speaker maker as senior exec. consultant. Fosgate sold brand to Harman International in mid-1990s and developed technology for its former Citation speaker line. He reacquired it last summer and has licensed it to RF. RF also will introduce Fosgate-developed vacuum tube surround sound processor housed in bing wood case (\$7,499).

FA's initial home speaker line, which ships in March, will consist of 4 pairs of satellites (\$299-\$449) available in dual or single 2-way 5.25" and 6.5" driver configurations and 10", 12" and 15" powered subwoofers (\$599-\$899). Another line will be added in July consisting of smaller 8", 10" and 12" powered subwoofers and changing design of satellites to feature 5.25" and 6.5" side-firing drivers. Pricing for latter hasn't been set. Amplifier (\$2,499) is rated at 200 w x 5 and will be available in April.

Songistix, meanwhile, will market Monsoon FPF home speaker series consisting of 3 models (\$599-\$1,599). All 3 speaker pairs have Sonigistix's Planar Focus technology featuring dipole-radiating design and thin polymer diaphragm. Entry level model has 6.5" woofer, 86 dB sensitivity, 400 Hz and 5 kHz cross-over frequency and 30-150 w recommended amplifier power, while mid-priced product moves to dual 6.5" woofers, 2 magnetic mid-range transducers, 88 dB sensitivity and 30-200 w recommended amp. High-end speakers contain 4 mid-range magnetic transducers, two 8" woofers, 90 dB sensitivity, 300 Hz and 5 kHz cross over frequency and 30-300 w recommended amp.

In entering flat panel speaker market, Sonigistix will take on Martin Logan, Apogee and other brands, but at lower prices. Current bottom for flat panel market is around \$1,200.

"We're taking the technology down to a broader market base from a price perspective and offering a higher priced performance product," Sales & Mktg. Vp Woody Jackson said.

Push into home theater market will mark significant shift in strategy for Sonigistix, which has confined itself to PCs since introducing Monsoon brand in 1998. It also has cultivated OEM business that includes Compaq among its customers, but will likely rely on own brand for 80% of revenues, Jackson said.

"It [OEM] was a matter of getting a revenue stream started in the lowest resource, highest volume mode possible," Jackson

said. "It's [OEM is] also the most volatile so the strategy has always included a retail presence and getting those in balance."

Yet while RF and Sonigistix are readying retail strategies, they will face intense competition in market saturated with speaker brands. Like flood of new video brands that accompanied digital TV hype, speakers are hoping to catch digital wave. But many retailers remain skeptical. "I'm not sure the retail market has a need for another speaker brand," one dealer said.

**Sony's Clie** handheld may add music and cellular phone features by mid-year in bid to jumpstart slow sales. Functions would enable user to listen to music, view clearer moving images, or connect to cellular phone via Bluetooth wireless technology, Sony Gen. Mgr. Shinsaku Inada said in interview with Bloomberg news service. Unclear is whether features will be phased in together or added in stages. "We'd like to introduce features that Palm and Handspring may find hard to install," Inada said. "We'll play real games next year after practicing this year." Sales of Clie, whose color-screen model sold out Sept. 9 when it hit Japanese store shelves, have slowed in Japan. While the device grabbed almost half Japanese market for handhelds in Sept., share has since fallen to about 20% in Dec., Inada said. As result, Sony has cut back monthly production of Clies, which also are sold in U.S., from a planned target of between 70,000-100,000 units. Output hit target level in Sept. and Oct. "Because the Japanese market isn't expanding rapidly, we are adjusting our production," Inada said. Sony is aiming to boost sales by introducing Clie in Europe this year and adding color screen version in U.S. At same time, Sony may add new LCD suppliers for Clie after receiving complaints in Japan about quality of color display. Sony chose current color LCD to conserve battery life, Inada said... **Handsprint** last week signed agreement to buy Web browser firm Bluelark Systems for about \$16 million. Handspring will issue 450,000 shares in deal expected to close in first quarter. Bluelark, which has 11 employees, makes Web browser and other Internet software for Palm operating system (OS) of which Handspring is licensee. Bluelark's Blazer browser is designed to display content using variety of standards including Wireless Application Protocol (WAP) and HTML. Using Blazer, people type in Internet address and information is reformatted by server to fit on smaller screens of handheld PCs. Purchase of Bluelark is part of Handspring's evolving strategy in market where 50-70% of handheld PCs are expected to have some kind of wireless capability within 3-5 years, analysts said.

**Bjorn's Audio/Video** has opened new 15,000-sq.-ft. store in San Antonio that adds lifestyle rooms and will feature "ultimate theater" with 12-channel surround sound system, Runco projector and 11' screen. New outlet replaces 1,000-sq.-ft. DVD software section with small electronics dept. featuring shelf systems, telephones and eventually MP3 players, Pres. Bjorn Dybdahl said. Store will carry new DVD titles, but will largely make them available on special order basis, he said. Store replaces former 11,000-sq.-ft. location that Bjorn's had occupied for 7 years and is up for sale or lease, Dybdahl said. Number of demo rooms was increased to 3 from 2 at former store, but continues to feature amplifiers and speakers. Also added were 3 lifestyle rooms.

**Harvey Electronics** announced completion of \$7 million credit facility with lender Paragon capital, funds to be used for store expansion and working capital. CFO Joseph Calabrese said cash infusion and projected cash flow from operations would support opening of at least 2 and possibly as many as 4 retail outlets in fiscal 2001, with Eatontown, N.J., first to open under new financial plan, in Feb.

**MONTGOMERY WARD TO CLOSE:** Montgomery Ward (MW) and Bradlees, battered by poor holiday sales and intense competition from discount chains, filed for bankruptcy protection last week and will close all stores.

Closing of 250-store MW and 105-store Bradlees came as no surprise given that chains had struggled since both emerging from bankruptcy in 1999.

"If you look at Montgomery Ward, a number of years ago they just lost their identification with consumers and their customer base shrank dramatically," JVC Exec. Vp-COO Harry Elias said. "Today if you do not have some type of identity like Wal-Mart, Target, Circuit City or Best Buy, you're going to face some difficult times."

Failure represents misguided investment by GE Capital, which financed \$3.8 billion buyout and then bought chain for \$650 million when it sank into bankruptcy in 1997. GE Capital in brief statement last week said MW's closing will have "no material affect on GE Capital Services' ability to meet our anticipated earnings."

While many CE manufacturers had pulled back from MW in recent months, some were hit by bankruptcy. Top unsecured creditor was Hughes Network Systems (HNS)(\$5.2 million), which had sold DirecTV receivers to chain. Other CE creditors included Thomson (\$1.5 million) and Gran Prix (\$1.1 million). Virginia Surety (\$4 million) was service contract provider. Privately-held MW employed 28,000 and annual sales of about \$2 billion.

Bradlees, meanwhile, listed \$553.2 million in assets and \$525.8 million in total debt. Software distributor Handleman was top unsecured creditor at \$3.6 million, followed by several other vendors including Thomson (\$2.8 million), distributor Valley Media (\$1.2 million), video games vendor Fla. State Games (\$1 million) and Yorx Electronics (\$993,974).

More Xbox details are expected to be provided by Microsoft Chmn.-Chief Software Architect Bill Gates at CES this week. Gates is slated to give keynote speech at 8:30 a.m. Sat. — opening day of show. Although Microsoft spokesman was unable to tell us precisely what Gates will be talking about or demonstrating, report indicated Gates will be unveiling Xbox's controller and casing, which was apparently completed by Sept. Report said internal components for videogame console won't be completed until few months before Xbox's launch in U.S. and Japan, which is expected to come at some point between mid-Sept. and mid-Nov. Quoting "inside sources," report said Xbox's casing is larger than PlayStation 2's because system includes 64 MB hard drive and 4 controller ports. Report added that Microsoft is apparently trying to convince game publishers to hold back on launches of various titles until 2002 out of fear that supply will not equal demand for Xbox initially. As we reported, Microsoft announced that it will be staggering launch of Xbox, with U.S. and Japan launches slated for fall 2001 and European launch to follow in first quarter 2002 (TVD Dec 25 p16). Company is trying to avoid sort of problem that Sony has faced in meeting PlayStation 2 demand globally.

Movie Gallery said last week that it opened its 1,000th store (in Dexter, Mo.) and acquired 17 stores — 9 from Video City in Conn., Mass. and Me. and 8 currently operating under Circus Video name in southern Ill.

**MIDWAY GAMES SUED:** Lawsuit filed against Midway Games by Conn. woman who claimed her 13-year-old son was killed by his friend while imitating scene from arcade game *Mortal Kombat*.

According to *Stamford Advocate* report, Noah Wilson died in 1997, hour after his friend stabbed him with knife that severed his aorta. Suit was filed by attorney Joseph Moniz on behalf of Andrea Wilson in U.S. Dist. Court, New Haven, on 3rd anniversary of her son's death, report said.

Andrea Wilson's suit argues that Midway should have featured some sort of label to "warn of the mental affects [sic] the game is likely to have on the minds of children and adolescents, and of the unreasonable risk of harm that [an] addiction [to the game] is likely to cause when they begin to imitate the game," report said.

Suit is seeking more than \$75,000 in damages and attorney's fees, according to report, which added that Andrea Wilson claims her efforts to keep violent videogames out of her home was thwarted by Midway's making arcade version of *Mortal Kombat* readily available. Owners of Norwalk Dairy King restaurant, where Noah Wilson and his friend allegedly played game, were also named in suit.

Report added that suit claims: "*Mortal Kombat* was intentionally and/or negligently designed by defendant Midway to addict young viewers to its realistic violence through the use of virtual reality, while convincing these immature viewers that what they observed was only a game and no one would be harmed if these viewers 'played' out the violent acts they observed, notwithstanding the very real violence portrayed in the video game."

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

Netpliance shareholders are attempting to block proposed buyout by current executives that would take Internet appliance maker private. Donald Semone filed class-action suit Dec. 26 in Del. Chancery Court, seeking an injunction to stop management-led buyout. Investor group, led by Netpliance CEO John McHale and representing 52% of company's shareholders, has proposed offering 65¢ per share for those it does not already own. Buyout offer came as Netpliance's stock closed at 34¢, well below 52-week high of \$26.12 it hit in March. In suit, Semone asks court to block executives from "taking any steps to accomplish or implement the proposed transaction" without safeguards for minority shareholders. Netpliance is best known for launching Internet appliance category with I-opener access device. But company ran into trouble with business model that featured hardware being sold below cost while profits were generated by monthly Internet fees and share of e-commerce revenue. Netpliance shifted strategy several times in pricing product at \$99-\$349 and also suffered setback when hackers found way to turn unit into Linux-based device, thus bypassing Netpliance's Internet service. Netpliance in Nov. moved to quit selling hardware and instead shifted focus to helping ISPs sell I-openers and other Internet devices.

**GetPlugged.com** was awarded Standard of Excellence Award in shopping category by Web Mktg. Assn., sponsor of 2000 WebAwards. Consumer electronics Web site was among entries in more than 75 industry categories judged by panel of independent Web experts in areas including content, design, ease of use, innovation, interactivity, navigation, use of technology.

**FEW SURPRISES FOR GAME SALES:** There were few surprises reported last week from videogame retailers about their holiday sales results. Although those few retailers that were willing to talk about results said they were satisfied with how they performed, they said their sales would have certainly been better if they had received more PlayStation 2 (PS2) videogame consoles to sell from Sony.

One retail source told us: "Things picked up in the last 2 weeks. Before that [the situation was] looking pretty bleak. The week before Christmas and now the week after Christmas look pretty good."

Regarding Nintendo 64 console sales, source said: "The software that was out there did very well. I just don't think the hardware did well." Not surprisingly, PlayStation hardware and software did well, she said. Meanwhile, despite reports from analysts, some retailers and Sega itself that indicated Dreamcast was benefiting from lack of PS2 availability, she said: "There was very little Dreamcast [selling]. However, Game Boy did begin to rally."

Source added that retailers are now in "cautious" mood heading into new year. "They want their inventory cleaned out. I think everybody is getting ready for a really slow first and 2nd quarter. There will still be some demand for PlayStation 2. But I think the first and second quarters will be pretty tough."

Toys 'R' Us spokeswoman told us her company was keeping mum about its holiday sales results until Jan. 4. But KB Toys Sales Promotion Mgr. John Reilly told us: "Sales for the season were basically flat. We were slightly ahead of last year, where we did \$1.8 billion." That, he noted, included store's brick and mortar locations as well as its KBkids.com online e-commerce business.

As for PS2, Reilly said: "Like all retailers [we sold] what we were able to get from Sony." He said KB received initial shipment of PS2s at system's launch Oct. 26 and, for most part, received additional allocations each week as Sony promised — "with the exception of a little down time around Thanksgiving." Like other retailers, Reilly attributed lack of new shipments at Thanksgiving to Sony's concentration on PS2 launch in Europe in November.

Like Toys 'R' Us, Best Buy wasn't saying anything about its holiday season sales results until Jan. 4, according to spokeswoman. While Electronics Boutique Pres.-CEO Joseph Firestone told us he couldn't say anything about his company's results until early Jan., Babbage's couldn't be reached for comment by our Fri. deadline and eToys spokesman didn't return call for comment. Firestone, however, said in Nov. that his company's sales results for 3rd quarter were impacted by lack of available PS2s (TVD Nov 6 p19). He also said he expected PS2 situation and other problems that affected 3rd quarter sales to continue in 4th quarter. But he said he expected sales of other products to take uptick as Christmas neared because "10 days before Christmas, something's got to get under the tree."

Amazon.com CEO Jeff Bezos said his company shipped "more than 31 million items" — up from last year's 20 million. Company didn't indicate what percentage of items sold were in games category.

Meanwhile, Amazon said it was able to capitalize on its Toysrus.com relationship when it came to making PS2s available. Company said Dec. 28 that "thanks to our alliance with

Toysrus.com," it was "able to secure a few thousand additional PlayStation 2 game packs" that it was planning to put up for sale Dec. 29. Amazon Software Store Gen. Mgr. Kirk Koenigsbauer told us Toysrus.com relationship helped Amazon get its fair share of consoles throughout most of season. Like KB and other retailers, however, there was period in Nov. when PS2 shipments did not arrive. In Amazon's case, company didn't sell any PS2s between Dec. 7 and 25. "There is no question that there was a period of time when we didn't receive [any PS2s]," he said. But before that, he said, Amazon was getting stock "about [every] 10 days or so."

Although Amazon has declined to say how many PS2s it has actually been able to sell each time it makes allotment available, Koenigsbauer told us: "Each time, it's been different... It is generally within a range of a few thousand," adding: "Let's just say this. We've never put out only a hundred." Like his competitors, Koenigsbauer said: "I personally think that we could sell as many [PS 2s] as [Sony] could give us."

Amazon has, to date, been selling PS2 bundles that include console with DVD movie, 3 PS2 games, extra Dual Shock controller. Company plans to only sell bundles "for the foreseeable future," rather than consoles by themselves, he said. "So far, reception by the customers has been fantastic" for bundle packages, he said, noting that "most folks" buy accessories and games as soon as they buy videogame system anyway. "It seems like the right merchandise strategy" at this point, he said. When asked if Amazon might be concentrating on bundles at this point because they might be easier to get allocations for than solo consoles, he said "I can't comment specifically" about any "particular deal" Amazon and/or Toysrus.com might have with Sony.

Apart from PS2 consoles, Koenigsbauer told us he was also pleased with sales of games including *Madden NFL*, *MechWarrior*, *Roller Coaster Tycoon*, *The Sims*, *Snowboard Supercross* and Nancy Drew PC titles as well. "Game Boy, for us, was a big surprise this year," he said, noting that handheld game system "out-performed our expectations." Another surprise hit, he said, was Nyko's Worm Light for Game Boy. While there were no outright disasters for Amazon, Koenigsbauer said Dreamcast and N64 "sort of did as expected... Certainly, the limelight wasn't on them." Amazon was offering \$50 rebate on Dreamcast for holidays, which essentially dropped system's \$149.99 price tag to \$99.99. He declined to specifically say how effective that promotion was. But he said: "I well tell you that when we run promotions of that type, they obviously [perform] very well for us."

While sellthrough had somewhat of flat holiday at brick and mortar level, game rental market remained solid. Movie Gallery Chief Financial Officer Steven Roy said: "It was fine. It trended up from where it was prior to the release of PlayStation 2. It was nothing extraordinary — but it's fair to say it met our expectations." Roy noted that rental market tends to pick up once school lets out for holiday break. But, he said: "Frankly, many of the children did not get out of school until [Dec. 21], so we're just in the beginning of trying to see if it's given us any lift now."

#### THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥114 = \$1, except where noted.

**BATTERY EARNINGS FALL:** Battery makers, lacking Y2K-inspired buying binge of year ago, have sharply revised quarterly earnings downward and braced investors for restructuring charges.

Gillette will eliminate 2,700 jobs and close 8 factories and 13 distribution centers in restructuring cutting across its Duracell battery business. Plan, with details to be finalized in Jan., will result in one-time charge of \$430 million in 4th quarter. Income for period will be in range of 32-33¢ per share against analysts' estimates of 34¢.

Rayovac, blaming 12-13% decline in battery sales, said it would take \$17 million pretax charge in its first quarter to cover global restructuring that will cut manufacturing costs. Rayovac said it expected earnings of 30-33¢ per share in first quarter ending Dec. 31 vs. analyst estimates of 47¢.

Sharpest sales declines were in C- and D-sized batteries and lighting products, all of which had strong gains year ago amid Y2K hype, Duracell and Rayovac executives said. Rayovac also had fewer promotions in 12 weeks ended Dec. 2, deriving 42% of sales from promotions vs. 54% year ago. However, Duracell boosted its promotional sales to 42% of total from 39% year ago.

Battery makers also are faced with retailers that have moved in recent weeks to cut inventories. For example, Wal-Mart plans to carry 7 weeks of battery inventory starting Jan. 15 vs. previous 10-12 weeks, said Rayovac CEO David Jones, whose company recently signed agreement to eventually supply up to half of chain's Everactive private label batteries.

Gillette's restructuring will result in \$125 million in annual saving, most of which will be recognized in 2002, company officials told analysts in conference call. Part of savings will be plowed into point-of-purchase retail displays for Duracell, CEO Edward DeGraan said. "We have to reinforce our effort at retail and put more muscle there," he said.

Analysts remained skeptical of potential effectiveness of restructuring, saying that Rayovac and Duracell had embarked on similar programs 2 years ago.

Rayovac began \$9.3 million restructuring program in 1998 (TVD March 30/98 p19) that resulted in closing and combining of lithium coin cell plant in Appleton, Wis., with that in Portage, Wis. It also was hit by sales slowdown late same year as retailers sought to balance year-end inventories (TVD Jan 25/99 p16). Duracell, which was acquired by Gillette in 1996, also cut costs and reduced ad spending in 1998 in effort to generate profits (TVD April 20/98 p14).

Gillette didn't identify which Duracell facilities might be closed. It operates factories in Lancaster, S.C., and LaGrange, Ga., Port Elizabeth, S. Africa, Aarschot, Belgium. Rayovac has 8 plants, including 3 in Wis. — in Fennimore (alkaline and rechargeable), Portage (zinc air) and Wonewoc (lighting products), Wis.; Mexico City; Tegucigalpa, Honduras; Guatemala City; Santo Domingo, Dominican Republic; Washington, England.

TV comedies of late Ernie Kovacs are being issued on 6-hour DVD from White Star Video ([www.whitestar.com](http://www.whitestar.com)). Company said disc held more than 100 skits and routines culled from 600 hours of Kovacs's various TV shows. List price of *Best of Ernie Kovacs* is \$49.95.

## Consumer Electronics Personals

**Chris Byrne** rejoins Recoton's NHT brand as gen. mgr.; he had been marketing NHT in professional audio community... **David Levitsky** resigns as BigStar Entertainment exec. vp and as a dir. to pursue other opportunities, no replacement will be named... **Nancy Karch**, recently retired from McKinsey & Co. consulting firm, elected a Toys 'R' Us dir... Appointed to KnowledgeLink advisory board: **Paul Farris**, U. of Va.; **David Reibstein**, Wharton School, U. of Pa.; **Katuri Rangan**, Harvard Business School... Appointed at Sony Disc Mfg.: **Brice Winney** promoted to mgr. of packaging at Springfield, Ore., plant; **Matt Hurley**, **Danny Stein** and **Denise Brady** join as regional sales mgrs. for East, Midwest and Northwest, respectively.

**Joint venture company** has been established in Japan to administer use of Bluetooth logo on compliant products. Toshiba will own 80.5% stake in as-yet-unnamed company, which will be capitalized at ¥40 million and will start operations in Feb. Other partners are Taiyo Yuden (with 10% share) and IBM Japan (9.5%). Partners said new company is expected to "make it much quicker and more convenient for Japan-based manufacturers to obtain qualification of Bluetooth-enabled products, and is also expected to contribute to shorter development terms and lower associated costs."

**Consumer intentions** on buying TV sets increased slightly in Dec. from Nov., according to preliminary data in Conference Board monthly survey. Of 5,000 households polled, 6.7% said they plan to buy TV set in next 6 months, vs. 6.2% in Nov., 6.9% in Oct, 8.2% in Dec. 1999. Consumer Confidence Index fell in December for the 3rd consecutive month. Conference Board said: "While the overall index continues to signal economic growth, albeit at a slower pace, the continued decline in expectations is somewhat disconcerting."

**JVC** will control 70% of new joint venture in China's Fujian province to produce and sell deflection yokes for use in display monitors. Other partners in Fujian JVC Electronics Co., each with 10%, are Chunghwa Picture Tubes, Fujian Electronic Information Group, Kuang Yuan Co. Venture, which is capitalized at \$20 million, will start production in April with capacity of 300,000 units per month, expanding to target of million per month by 2003. Work force at start of 500 employees is expected to grow fourfold by 2003.

**Japanese CE production** will climb 7.7% in 2001 to ¥2.34 trillion, according to annual forecast by Japan Electronics & Information Technology Industries Assn. (JEITA, formerly EIAJ). Biggest projected increase is in video cameras (including camcorders and digital still cameras), forecast to rise 37.1% to ¥418.16 billion. Japanese audio equipment production again is projected to be only major CE category to decline in 2001, falling 7.7% to ¥540.76 billion, although rate of decline will be much less than 16.2% dropoff estimated for 2000 vs. 1999.

**3DO** signed 1998 Olympic gold medalist Jonny Moseley to star in series of extreme skiing games for next-generation game systems. Redwood City, Cal., game maker said it was "gunning to release the debut videogame prior to the upcoming Winter Olympics in Salt Lake City, Utah, where Jonny will defend his gold medal." 3DO didn't announce names of any titles or indicate specific platform games in which it would play.



# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

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## SUMMARY-INDEX OF WEEK'S NEWS

### Broadcast - Cable

**TAUZIN GETS COMMERCE POST**, Stearns favored for telecom panel as House Republicans pick new committee heads. Oxley gets Financial Services. (P. 1)

**FCC PLANS DTV VOTES** on must-carry rules for cable, DBS at Jan. 11 open meeting, but may avoid key DTV dual-carriage issue. (P. 2)

**FCC CONSIDERS CABLE ITV RULES:** Proposed rulemaking may follow FTC conditions on AOL-TW. NCTA opposed. (P. 3)

**FCC EYES MORE AOL-TW CONDITIONS:** ISPs press for greater open access mandates. Microsoft pushes IM standards. (P. 4)

**COPY PROTECTION STIRS COMMENT:** MPAA faults CableLabs license. Content owners press FCC for strong protection. (P. 4)

**AT&T, COMCAST, ADELPHIA SWAP SUBS:** MSOs boost control of key markets. Experts see more cable consolidation coming. (P. 5)

**TAUZIN GAINS COMMERCE, STEARNS FAVORED FOR TELECOM:** House Republicans surprised few with their choices for new committee heads Jan. 4. As expected, Telecom Subcommittee Chmn. Tauzin (R-La.) was promoted to Commerce Committee chmn., and Subcommittee Vice Chmn. Oxley (R-O.) was given Banking Committee, which was expanded and renamed Financial Services, apparently clearing way for Rep. Stearns (R-Fla.) to take over Subcommittee. Rep. Sensenbrenner (R-Wis.) won Judiciary Committee, as expected, while Rep. Thomas (R-Cal.) gained Ways & Means.

First order of business for Tauzin is examination of "the networks' blown coverage of the presidential election," his spokesman Ken Johnson told us. In early Feb., Tauzin will chair full Committee meeting on subject, Johnson said: "It's not designed to be confrontational. We simply want to find out why the networks dropped the ball and how we can prevent this from happening again." He said another early priority would be FCC reauthorization and reform.

Committee hasn't been able to reorganize subcommittees yet, let alone name their chairmen. That's because there's still contention about how much of Commerce's jurisdiction over financial services will be transferred to renamed Banking Committee, Johnson said. When that's done, "we are looking at a wide range of possibilities" for reorganization, he said, declining to offer further specifics. Sources said it could take weeks to finalize subcommittee heads, including Tauzin's replacement on Telecom Subcommittee, but speculation for Telecom post centered on Stearns. Last session he was 3rd ranking GOP member on Subcommittee, following Tauzin and Oxley. Other Republicans on full Commerce panel outranked him and theoretically could call for Telecom post, but we're told that's unlikely. Some sources questioned its importance, given Tauzin's expected continued intense interest in telecom issues, including several bills he has been waiting years to move. "Tauzin's going to run the telecom show," one source said. "I would be extremely surprised to see him abdicate responsibility" to Stearns or anyone else.

### Consumer Electronics

**THOMSON HDTV HIGHLIGHT CES**, where Sony and others also were expected to introduce big-screen sets. (P. 7)

**IT'S ANYONE'S GUESS WHETHER TRUCE IS IMMINENT** in rewritable DVD formats. Technical similarities abound between DVD+RW and DVD-RW. (P. 8)

**DTV TRANSITION QUICKENS** as CE manufacturers trim analog TV offerings and lower prices. (P. 9)

**CE SHIPMENTS TO RISE** 10% in 2001, CEA says in annual consensus forecast report. DVD penetration will reach 20%, it predicts. (P. 10)

**MUSICLAND HEAD TO RECEIVE \$16 MILLION** in chain's sale to Best Buy; same-store sales fall 3.9% in 5 weeks ended Dec. 30. (P. 12)

**CIRCUIT REVISES REMODELING** strategy to lower costs, trims number of remodeled stores to 20-25 from projected 140. (P. 12)

Sources said Stearns has kept neutral on many contentious telecom issues, one source even going so far as to say he had been "mostly missing in action." However, telecom lobbyists said they frequently visited Stearns's office when presenting their positions to Subcommittee. Stearns made his biggest splash in broadcast world last year when he helped fight against FCC interpretation of noncommercial broadcasting rules that apparently would have limited religious broadcasters' use of noncommercial frequency. He then sponsored appropriations amendment in summer to drastically cut budget of FCC's media office. He also has been supporter of lifting restrictions on broadcast ownership and cap on spectrum ownership.

Committee also named its 6 new Republican members, headlined by returning member Davis (Va.), who went on hiatus from panel to chair GOP campaign committee. He still kept heavily involved in high-tech and telecom issues as member of Govt. Reform Committee. Other new GOP members have interest but little reputation yet on high-tech issues: (1) Rep. Radanovich (Cal.). (2) Rep. Pitts (Pa.). (3) Rep. Bono (Cal.). (4) Rep. Walden (Ore.). (5) Rep. Terry (Neb.). Democrats haven't named their members, and we're told that's because they're still trying to secure more favorable committee ratios. Democrats agitated for ratio closer to current 221-211 party breakdown (51-49%). Last year, Republicans held 29 of 53 Commerce Committee seats (54.7%) and 21 of 37 Judiciary positions (56.8%), and Democrats said they should get 2 more on each panel. GOP leaders offered counterproposal under which each party would get one additional seat on each major committee. Republicans still could name one more member if Oxley vacated Committee.

In 50-50 Senate, meanwhile, Democrats will get equal representation on committees under power-sharing agreement passed last week, although Republicans will maintain ability to move bills in event of straight partisan split. Democrats thus will have several appointments to make on all committees, and as result of key election losses Republicans have seats to fill on Commerce and Judiciary panels. Those appointments will be made by leadership, not committee chairmen, said spokeswoman for Commerce Committee Chmn. McCain (R-Ariz.).

Also last week, incoming Bush Administration worked to form its telecom policy. Its FCC transition team is headed by Kevin Martin, former staffer for Comr. Furchtgott-Roth and campaign's deputy gen. counsel since July 1999. Sources refrained from reading much into choice of Martin, saying Comr. Powell still was front-runner to be next FCC chairman. "I wouldn't necessarily say this is a slap against Michael Powell," one source said. Said one Powell supporter: "I still have every hope and expectation that Michael would be the choice." In other transition news, House Commerce Committee Chief of Staff James Derderian is heading Commerce Dept. team's examination of NTIA. Review of whole department is led by Vinson & Elkins partner Theodore Kassinger. Justice Dept's review is led by House Majority Leader Armey's (R-Tex.) Chief Counsel Paul McNulty.

**FCC TO ACT ON DTV TRANSITION ISSUES:** Month after postponing consideration of thorny DTV transition issues, FCC intends to tackle at least some DTV matters at its Jan. 11 open meeting. Well-placed sources said Commission was likely to approve bid by new DTV-only station to gain cable must-carry status and require consumer electronics manufacturers to put digital tuners in all new TV sets by date certain, among other less controversial items. But what wasn't clear was whether agency would handle core issue of whether cable operators and DBS providers should carry broadcasters' analog and digital signals during current DTV transition. Action on dual-carriage issue, which has been hanging over federal regulators for more than 2 years, has been postponed repeatedly by Commission.

FCC Cable Bureau spokeswoman, citing sunshine notice rules, declined comment on what agency might do at meeting. But she said Commission would consider proposed report and order and proposed further notice of rulemaking on DTV must-carry issue. That indicated that agency might adopt various guidelines for carriage of DTV signals, including extent to which cable operators and DBS providers must carry more than station's primary digital video channel, but avoid core must-carry controversy. Evidently fearing that result, NAB Pres. Edward Fritts warned Commission against adopting such approach in recent letter to FCC Chmn. Kennard and other 4 commissioners.

"Nothing would be gained by further delaying a decision" on core DTV must-carry issues, Fritts wrote in 3-page letter Jan. 4. Although he said Commission could defer decision on must-carry itself while adopting some "rules of the road" for carriage of DTV stations, he said there would be no benefit in delay, "certainly nothing that would be worth the harm to the progress of the [DTV] transition." He said "the constitutional arguments in favor of digital must-carry are, if anything, stronger than the arguments that led to the Supreme Court's 1997 decision upholding [analog] must-carry." He also said that even though 167 stations now were broadcasting digital signals, "no more than a handful of these stations" were carried on any cable system.

But, with this week's FCC meeting possibly last to be chaired by Kennard as new Bush Administration prepares to take over govt. reins, sources cautioned that anything was possible. They said Kennard could be looking to clear away all

pending DTV issues before his successor takes over. They declined, however, to forecast outcome. "You'd be a fool to make a prediction on this," source said. "I don't think anybody at the commissioner level has made a decision on this."

Spokesmen for both NCTA and NAB also declined comment on what FCC might do at meeting. But sources believed agency at very least would approve petition by Guenter Marksteiner, who has permit for yet-to-launch WHDT-DT (Ch. 59) in Stuart, Fla., for mandatory cable carriage of his new DTV-only station. "I suspect they'll find a way to get the Florida station carried," source said. Case is first considered by Commission involving carriage rights of DTV station with no corresponding analog signal. Cable industry has strongly opposed bid while broadcasting industry has favored it just as strongly.

Sources said FCC also might impose digital tuner requirements on consumer electronics makers, despite industry's strong objections. Broadcasting industry has pushed for that requirement to speed nation's lengthy conversion to DTV from analog. In his latest letter to Kennard, Fritts renewed NAB's call for mandatory digital tuners in all new TV sets, arguing that requirement "will accelerate the [DTV] transition and the ultimate return of the analog spectrum."

**FCC WEIGHS ITV LIMITS ON CABLE INDUSTRY:** FCC is considering proposed rulemaking (NPRM) that would regulate interactive TV (ITV) services carried by all cable operators, well-placed sources confirmed Jan. 2. Proposed regulations probably would ban all cable systems that offered interactive services from blocking ITV triggers from rival content providers, similar to ITV conditions that FTC recently imposed on AOL's pending purchase of Time Warner (TW). But sources said FCC could go further than FTC conditions, prohibiting cable operators from favoring their own content by caching it on local servers or sending it at higher data speeds than content from unaffiliated providers. "I'm sure they're talking about all sorts of things," said source who declined to be identified.

Spokeswoman for FCC Cable Bureau declined to comment on draft notice of proposed rulemaking, which is circulating on Commission's 8th floor for approval. But sources said new regulatory thrust was joint effort of Cable Bureau and Office of Plans & Policy, which formed task force to tackle issue. Proposed rules grow out of agency's lengthy review of AOL-TW deal, which Disney and other critics claim could consolidate control of nascent ITV market in one huge company. They also are result of FCC's parallel inquiry on cable open access, which asked several pointed questions about ITV.

NCTA officials, taken by surprise by FCC's proposal, declined to say much about what Commission was considering. But, already alarmed that FTC's open access conditions for AOL-TW deal could become standard for entire cable industry, they were trying to block ITV effort as too much, too early. At very least, they hoped to water down draft NPRM into less urgent notice of inquiry (NOI). "Our view is pretty clear," NCTA spokesman said. "It's premature at best to regulate a market that hasn't even been established yet."

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NATPE said its Jan. 21-25 convention in Las Vegas would highlight 3 major sessions designed to provide "insight about the hottest public policy issues" in Washington in new Bush Administration. One panel, "The Digital Spectrum: Repositioning TV as the Great Broadband Solution," is to help broadcasters and programmers "better understand what the digital future holds," Assn. said. Another session will focus on diversity, during which industry will be presented "report card" on its accomplishments in last 12 months. Third will be on "contentious issue of inappropriate television programming for children" — subject that received attention of both major Presidential candidates last fall.

Commerce Secy.-nominee Donald Evans was cautious on Internet and telecom issues in his appearance before Senate Commerce Committee Jan. 4, assuring panel members that he would give attention to their pet issues but making no specific commitments. Evans has been busy wandering halls of Senate since his nomination, having visited virtually all Committee members before hearing. He appeared to have little to no opposition, and several lawmakers said they expected to see him confirmed quickly following President Bush's inauguration. Among topics raised by Senators: (1) NTIA's Technology Opportunity Program (TOP), lauded by several members for providing technology funds to underserved regions. "I know how important the issue is," said Evans of digital divide: "I will give it my attention." He said he would try to convince business leaders to increase private efforts. (2) Wireless spectrum, which several senators said was major topic in their private meetings with Evans. Sen. Rockefeller (D-W.Va.) said country needed "spectrum management strategy... We go from crisis to crisis." Evans acknowledged that he had just learned about 3rd-generation wireless technology "in the last 48 hours or so," but said it might help solve digital divide. He agreed that govt. needed long-term strategy for managing and auctioning spectrum. (3) Bureau of Export Administration's Critical Infrastructure Assurance Office, which Rockefeller said was "underfunded, understaffed." (4) Internet taxation quandary, which Evans said was "going to be on all of our minds as we approach" Oct. end of current e-commerce taxation moratorium. However, he said, Bush Administration was "sensitive to what it might mean to the tax base of... the cities and the counties and the states. And so those factors need to be considered." Evans said "important thing is to get all the right constituents to the table to talk" and "this is not something that we should wait until October or September or whenever to talk about it." (5) Privacy. Asked by Sen. Wyden (D-Ore.) what his "general approach" would be on topic, Evans said only that he would work with ranking Democrat Hollings (S.C.) and Chmn. McCain (R-Ariz.) and others interested in issue. But he said "we shouldn't continue to procrastinate."

News Corp. said it wasn't going to "risk negative credit rating" following negative forecast from Standard & Poor's and would "proceed cautiously" in its negotiations for Saban Entertainment's 49.5% stake in Fox Family Worldwide. S&P report on News Corp. came after Fox Family Chmn. Haim Saban exercised his option to sell his stake back to News Corp. Analysts valued stock at \$1.2-\$1.7 billion, while Saban estimated worth at \$2 billion. Buying at that price, News Corp. could pick up bad credit rating, analysts said, which would undermine its effort to purchase DirecTV from Hughes Electronics.

**FCC EYES MORE AOL-TW CONDITIONS:** As it continued to weigh imposing additional regulatory conditions on AOL's pending purchase of Time Warner (TW), FCC sought help from group of small and midsized ISPs. Commission asked coalition of smaller ISPs and state associations to draft definitions of local and regional ISPs that agency might use in setting tougher open access requirement on AOL-TW combination. Proposed requirement reportedly would force AOL-TW to carry at least one local and one regional ISP on every TW cable system, in addition to national EarthLink service that MSO has already committed to carry. That would go beyond open access provision stipulated by FTC, which would require AOL-TW to open its high-speed cable lines to at least 3 unaffiliated ISPS, including EarthLink, when it added AOL as offering.

Speaking for ISP coalition, NorthNet Mktg. Dir. Stephen Heins said group also was pressing FCC to set open access mandates for business users in smaller and rural areas. He said group would submit its proposal to Commission by today (Jan. 8).

Meanwhile, Microsoft, smaller ISPs and other AOL rivals pressed their furious campaign for instant messaging (IM) service requirements and more open access mandates. In Jan. 4 letter to FCC Chmn. Kennard, Microsoft called again for "imposition of a meaningful and enforceable condition that facilitates IM interoperability by enabling consumers to communicate with each other regardless of the IM system they use." Microsoft and its allies also sent 2-page fact sheet listing 8 consumer groups, 53 companies and associations, 10 senators, 12 House members and 7 publications favoring IM interoperability. At minimum, Microsoft said in related filing with FCC Jan. 2, "the Commission should obligate AOL to enter into multiple contracts with leading IM providers to allow for interoperability prior to offering any advanced services over the broadband infrastructure of Time Warner's cable systems."

Excite@Home, Microsoft, Prodigy, Yahoo and their allies also said they were "fully prepared" to make their respective IM services interoperable with AOL's. In Dec. 21 letter to FCC, IMU members said they wanted to "reconfirm their commitment to promoting interoperability among competing instant messaging systems." They 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 argued that they were committed to interoperating with AOL because it would "simultaneously accelerate innovation and consumer choice."

In yet another recent filing with Commission, nationwide group of ISPs that brought class action lawsuit over AOL's 5.0 and 6.0 software urged agency to force company to modify its offending software feature. They argued that regulatory condition changing that feature, which directs modem calls away from user's desired ISP to AOL access number, "would do more to introduce competition in Internet access than the instant messaging condition that has been the subject of recent press reports."

At same time, new op-ed piece by Cato Institute said FTC's open access conditions on AOL-TW deal would hurt consumers and hamper competition and innovation by dampening incentives for rivals to build competing high-speed data systems. "The entire forced access campaign is an unfortunate example of unelected regulators overstepping their bounds," wrote Clyde Crews, Cato technology studies dir.

**COPY PROTECTION STIRS COMMENT:**..MPAA filed major objections to CableLabs' final copy protection technology license for advanced digital cable set-top boxes, after mainly expressing satisfaction with it initially (TVD Jan 1 p3). In comments submitted to FCC late last month, MPAA said it was "concerned with a number" of provisions in POD Host Interface License Agreement (PHILA), formerly known as DFAST, and was "uncertain as to how some of these and other provisions will work in practice."

MPAA said its concerns about PHILA license included: (1) "Apparent ineffective protection against unauthorized Internet retransmission of all content, including broadcast." (2) "Unprotected high-resolution output of most categories of content from those devices." (3) "Copying and permanent storage in those devices of all content, including high-value content, which individual copyright owners and cable operators may have voluntarily negotiated to treat as 'copy never.'" To ease such concerns, MPAA said "the only alternative" for cable operators would be to "turn off the OpenCable box" and prevent DTV programming from reaching consumers. But it said such result "would have a negative effect on consumer expectations, particularly if they were not given adequate notice from equipment manufacturers." MPAA said it would continue to work through those and other issues with CableLabs and 5C companies "in a prompt, good-faith and constructive manner."

Separately, coalition of major broadcasters, cable networks, movie studios, record companies, sports leagues and other content owners lobbied FCC for strong copy protection technology. In joint 4-page letter to FCC Chmn. Kennard Jan. 4, ABC, BMI, CBS, ESPN, Fox, Minor League Baseball, MPAA, NBC and RIAA argued that "cable interface devices must include the capability to protect certain high-value content against unauthorized copy and Internet retransmission" because of "the economics of producing and distributing high-value programming." Responding to earlier letter to Kennard from House Telecom Subcommittee member Boucher (D-Va.), they also said advanced digital set-tops must be capable of providing some level of content protection "so consumers that purchase such devices will be able to receive the widest variety of program choices, including high-value programs that may be made available only if content protections are in place."

Coalition said "alternative is to introduce devices in the marketplace that cannot provide content protection, and therefore cannot receive certain types of high-value programming." Content owners also disputed Boucher's contention that "freely broadcast programming should remain freely copyable," saying local broadcasters would be relegated to "the position of 'low-value' content distributors." They questioned whether there was any public interest "in allowing consumers to make multiple copies of broadcast programming, or to retransmit broadcast programs over the Internet."

StarGuide Digital Networks said it received patent for its Satellite Receiver/Router System and Method of Use for removable Ethernet cards utilized in satellite receivers as well as satellite receiver cards that provide Internet Protocol (IP) router functionality. Company said technology was essential for StarGuide 3 satellite transmission system, Coolcast streaming media aggregator and broadcaster and Transportal 2000 professional and corporate multimedia distribution system. Coolcast subsidiary uses IP over satellite technology to facilitate multicast distribution of streaming video and audio to unlimited numbers of broadband PC users.

**AT&T, COMCAST, ADELPHIA SWAP SUBS:** Four major MSOs swapped or bought cable systems from one another as new year began, furthering consolidation trend that has snowballed in last 3 years. Adelphia, AT&T, Comcast and Mediacom all announced system trades or buys that resulted in 2.4 million subscribers — more than 3% of all U.S. cable customers — changing corporate hands overnight. Transactions create even bigger cable clusters in such markets as N.Y.C., L.A., Washington, Chicago, Detroit, Philadelphia, Atlanta, southeastern Fla. Some industry experts said deals, concluded as FCC weighed final govt. approval of AOL's pending purchase of Time Warner (TW), would lead to even more as scale became ever more important. "Cable consolidation is not over," ABN AMRO analyst John Martin said.

In biggest cable trade, AT&T and Comcast completed transfer of systems serving nearly 1.5 million subscribers. Negotiated as part of May 1999 settlement allowing AT&T to buy MediaOne instead of Comcast, swap moved 773,000 AT&T subscribers to Comcast and 700,000 Comcast customers to AT&T, enabling both MSOs to boost their control of prominent markets. AT&T gained cable systems in Chicago, Atlanta, northern Cal. and southeastern Fla., while Comcast picked up systems in N.Y./N.J., Washington, Detroit and southwestern Fla., among others. MSOs said "transaction is designed to better cluster the territories" served by each.

Comcast and Adelphia concluded major trade that exchanged cable systems serving 440,000 Comcast subscribers for others serving 470,000 Adelphia customers. Most notably, Adelphia added systems in 4 southern Cal. counties that will enlarge its L.A. area cluster by 375,000, giving it nearly 1.3 million there. Comcast gained cable systems serving 103,000 subscribers in Mich., giving it more than one million customers in Detroit area. Comcast already has cable clusters serving million or more subscribers in N.Y./N.J., Philadelphia, Baltimore and Washington.

In 3rd deal, Mediacom completed purchase of several small systems in Ala. from AT&T. Those systems, with 14,000 subscribers in Fairhope area, cost Mediacom \$34 million. With Dec. 28 transaction, Mediacom said it ended 2000 with 9 system acquisitions, paying \$109.2 million for total of 53,000 customers.

Cable analysts and other industry observers debated whether AOL-TW deal, expected to be approved any day by FCC with possible additional conditions, would prompt new wave of consolidation. Despite slumping cable stock prices that made purchases more difficult, Martin and others said AOL-TW union would lead to similar deals between big content and distribution companies such as News Corp. and DirecTV or Yahoo and somebody. Douglas Shapiro, analyst with Banc of America Securities, said next wave was likely to see MSOs taking equity stakes in interactive TV providers, just as they did in programming suppliers. But former Viacom CEO Frank Biondi, now managing dir. of Waterview Advisers, said it was hard to imagine more deals on AOL-TW scale. "I don't think it's [cable industry is] going to consolidate much more than it is today," he said.



**Corning Precision Lens** will unveil HDTV optical platform for new model RCA TV it produced with Thomson Multimedia. Set, to be showcased at current CES in Las Vegas, creates images using liquid crystal light valves and high-intensity discharge lamp instead of CR tube.

**Capitol Bcstg.-backed AccessDTV** said it was starting DTV-to-PC service at Consumer Electronics Show in Las Vegas last week (see separate reports, this issue). AccessDTV offers package of hardware, software and services to allow DTV to be displayed on PC monitors, including universal analog/digital tuner card, antenna to receive broadcast DTV signals, DTV video card, software including on-screen remote control, interactive program guide, personal video recorder-like functionality. Package allows PC (at least 300 MHz) to output DTV and AC-3 digital audio, company said. Pricing hasn't been set, but it's expected to be under \$500 for one-time purchase, with option of smaller upfront fee combined with monthly subscription. DTV broadcaster Capitol is minority investor, with rest coming from what company called "techno-angels." It's currently raising additional financing. First hardware is expected to be in consumer hands by end of March, and AccessDTV said it had deals with several unnamed suppliers. "Most people could tune DTV broadcasts today, but they simply don't have the right equipment."

**AT&T Broadband** said it would increase cable rates average of 4.8% across nation this year, starting next month. It said biggest portion of cable customers, 63%, would see 4.3% price increase on main analog package, known as Standard Cable. Another 11% of subscribers whose channel lineups have expanded by 3 channels or more will see increases averaging 6.55%. AT&T said some of its systems would boost equipment and installation prices, starting in Feb. AT&T blamed rate boosts on its higher technical upgrade and customer service costs, citing 10% increase in programming fees, especially for sports. Consumers Union blasted move and called for reopening of Telecom Act to place new lid on cable rates or promote more competition. "It's becoming more and more difficult to just accept the industry blaming programming costs every time it jacks up cable rates," group said.

**Several members of Congress** got off to fast starts last week, introducing Internet-related bills on familiar topics within days of returning to Washington. Among them: (1) Rep. Green (D-Tex.) introduced HR-95 to protect "individuals, families and Internet service providers" from spam. It was referred to both Commerce and Judiciary Committees. (2) Rep. Frelinghuysen (R-N.J.) offered bills to require FTC to set regulations protecting Internet privacy (HR-89) and to regulate Internet companies' use of social security numbers and other personally identifiable information (HR-91). He also dropped measures prohibiting telemarketers from interfering with any caller ID service (HR-90) and to ensure efficient allocation of phone numbers (HR-92). All were referred to Commerce Committee, of which Frelinghuysen isn't yet member.

**Despite steep rise in Internet use**, consumers remain devoted to watching TV, listening to music and even reading, according to latest home media study released by CTAM. Monthly telephone survey of 1,000 consumers found home Internet usage soaring to 58% of PC households in Dec., from 38% year earlier. It also found that more than 50% of homes now had at least one PC and 40% were online. Study said 31% of consumers now had TV sets and PCs in same room. But watching TV remains most popular way of spending leisure time, with 98% of consumers reporting that they view shows, equal to ratio in 1999 and up from 96% in 1998. Study said 36% of households now owned large-screen TVs (bigger than 35"), up from 22% in 1998. Consumers' top expected purchases in 2001 are PCs (16%), DVD players (11%), CD players (11%).

## Personals

**Brian Mulligan**, ex-Seagram, appointed chmn., Fox TV... **James Hedges** promoted to senior vp-CFO, ABC TV Network... Other changes at ABC: **Geri Wang** promoted to senior vp, prime-time sales; **Cynthia Ponce** advanced to senior vp-news sales; **Gary Montanus**, ex-Microcast, named senior vp-Disney Kids Network. **Jeff Frost** moves up to vp-legal affairs, ABC Entertainment & Touchtone TV... Promotions at Paxson: **Jennifer Getson** to dir.-sales research & audience analysis, **Joe Siegel** to creative-dir., East Coast... **William Moll**, ex-WKRC-TV Cincinnati, named pres., Clear Channel TV Div., Clear Channel Communications.

**Adam Singer**, Telewest, appointed non-exec. member of board, QXL ricardo... **Jeffrey Liberman** advanced to pres.-Radio Div., Entravision Communications, replacing **Amador Bustos**, who resigned as executive but remains with company... **Travis Rutherford**, ex-ememories.com, named senior vp, MGM Consumer Products and MGM Interactive, replacing **Doug Gleason**, who resigned.

**Christopher Bogart** promoted to pres.-CEO, Time Warner Cable Ventures... **Karen Heisler**, ex-Comcast, named corporate vp-human resources, Pegasus Communications... **Stacey Nachtaler**, ex-i-traffic, appointed vp-ad sales mktg., CNBC... **Michael Alex**, MTV News, moves to vp-MTVi News... Promotions at Motorola: **Mike Zafirovski** to report to Office of Chmn.; **Edward Breen** to pres., Networks Sector; **Joseph Guglielmi** to pres., Global Customer Solutions Operations... **Michael Kennedy** moves up to dir.-global relations, Motorola... **Nicole Buie** advanced to dir.-research and education, CableRep Adv... **Kay Jackson** promoted to dir.-regulatory affairs, Cox Communications... **William Carey** advanced to pres.-Southwest Tex. Div., Time Warner Cable, replacing **Jeffrey King**.

**Ave Butensky**, pres., TV Bureau of Advertising, joins board of advisers, eMadison... **Paul Irwin**, ex-WUSA-TV Washington, named project dir., Radio & TV News Directors Foundation... **Rosemary Kimball** moves from FCC Office of Media Relations to press liaison at agency's Consumer Information Bureau... **Jack Zwaska** to receive career achievement award to be named after him by Bost. Cable Financial Management Assn. Jan. 10... **Richard O'Brien**, ex-Special Olympics, appointed exec. vp-dir.-govt. relations, American Assn. of Advertising Agencies.

Named partners in Wiley, Rein & Fielding law firm: **Mary Borja**, **John Burgett**, **Tanja Hens**, **Scott McCaleb** and **Suzanne Yelen**; **John Fiorini**, ex-Gardner, Carton & Douglas, also appointed partner; named of counsel to firm are **Christopher Kelly**, ex-U.S. Patent & Trademark Office, and **David Southall**, ex-Information Management Consultants... **Winston Maxwell**, ex-Hughes, Hubbard & Reed, named partner-communications group, Paris office of Hogan & Hartson... **Thomas Magee**, ex-Vorys, Sater, Seymour & Pease, joins Keller & Heckman.

**Act Against Violence**, to steer children away from acts of aggression and violence at young age, is new broadcast campaign backed by Ad Council, National Assn. for the Education of Young Children and American Psychological Assn. Sponsors said goal was to "change people's behaviors and therefore the messages they send to children." Created by volunteer agency Flashpoint Advertising, campaign includes radio and TV PSAs — 1-877-ACT-WISE or [www.actagainstviolence.org](http://www.actagainstviolence.org).



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# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

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**Cablevision Systems** reportedly has placed its Rainbow Media Holdings programming group up for sale after first planning to spin off unit as separate tracking stock. *N.Y. Times* said Cablevision, which had been considering move for weeks, had contacted USA Networks, NBC, Comcast and Liberty Media Group, 4 most likely suitors. Cablevision reportedly is seeking \$5-\$6 billion for Rainbow. Companies have until Jan. 16 to submit bids. Move came as UBS Warburg downgraded rating on Cablevision stock to buy from strong buy Jan. 2 because Rainbow sale would "remove a major catalyst for the stock."

# Consumer Electronics

A Section of *Television Digest with Consumer Electronics*

## STATE OF THE INDUSTRY

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

	DEC. 16 - DEC. 22	1999 WEEK	% CHANGE	DEC. 9- DEC. 15	51 WEEKS 2000	51 WEEKS 1999	% CHANGE
TOTAL COLOR TV	502,546	461,437	+ 8.9	534,858	29,825,496	28,364,789	+ 5.1
DIRECT-VIEW**	478,591	431,250	+ 11.1	513,695	28,638,189	27,164,686	+ 5.4
TV ONLY#....	428,172	358,917	+ 19.3	437,860	23,736,274	22,828,482	+ 4.0
TV/VCR COMBO.	50,419	72,333	- 30.3	75,835*	4,901,915*	4,336,204	+ 13.0
PROJECTION...	23,955	30,187	- 20.6	21,163	1,187,307	1,200,103	- 1.1
TOTAL VCR**...	292,178	408,508	- 28.5	345,980	27,767,695*	26,763,500	+ 3.8
HOME DECKS...	241,759	336,175	- 28.1	270,145	22,865,780*	22,427,296	+ 2.0
CAMCORDERS.....	80,923	55,256	+ 46.5	57,537	5,744,877*	4,714,084	+ 21.9
DVD PLAYERS....	143,967*	110,005	+ 30.9	169,333*	8,181,512*	3,907,696	+109.4

**Direct-view TV 5-week moving average#:** 2000-548,511; 1999-485,240 (up 13.0%).

**Projection TV 5-week moving average:** 2000-27,998; 1999-34,610 (down 19.1%).

**VCR deck 5-week moving average:** 2000-389,082; 1999-520,227 (down 25.2%).

**TV/VCR 5-week moving average:** 2000-100,727; 1999-83,966 (up 20.1%).

**Camcorder 5-week moving average:** 2000-120,054; 1999-91,783 (up 30.8%).

**DVD player 5-week moving average:** 2000-249,451\*; 1999-130,749 (up 91.1%).

\* 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.

**THOMSON HDTV INTRODUCTION HIGHLIGHTS CES:** At our Fri. deadline, Thomson used Las Vegas CES news conference to introduce world's first liquid-crystal on silicon HDTV rear-projection set for 2nd quarter next year at under \$8,000. Model L50000 has 50" wide screen with 1,280x720 display and was designed entirely in Ind. by 30-member Thomson engineering team. Set has 2.76 million active pixels and claims to have greater brightness than any other comparably sized rear-projection set. L50000 measures only 18" inches deep, comparable depth of average 19" direct-view TV. Product was designed with three partners — Corning, ColorLink, Three-Five Systems.

Thomson introduction was highlight of show in which Sony also was expected to demonstrate 40" Wega flat-screen direct-view TV after our deadline Fri., potentially reviving screen size that was mothballed when Mitsubishi dropped it 2 years ago. At same time, Toshiba entered consumer market for plasma with 50W sourced from Matsushita that will ship in 2nd quarter at \$19,999.

Sony declined comment on new Wega set pending news conference at CES, but retailers said TV would be priced at \$4,000. Sony is banking on success of earlier 32" and 36" Wega sets carrying over to new model, which will weigh more than 250 lbs. but still will be lighter than conventional Mitsubishi model first introduced in 1992 that was more than 400 lbs. Mitsubishi abandoned screen size when it dropped direct-view sets in 1999.

Toshiba plasma set will have HD decoder, 1,366x768 resolution, 2,000:1 contrast ratio, optional matching speakers. Its Commercial Div. has marketed Matsushita-sourced 42W since 1999, but consumer group waited for larger size to augment direct-view and projection TV line. Plasma also is seen as interim step by Toshiba toward goal of introducing TVs based on surface conduction electron emitter display (SED) technology it's developing with Canon (TVD Aug 14 p12) but that won't be ready for market until 2002-2003.

Meanwhile, Matsushita, which had planned to introduce Panasonic 50W plasma display late last year, has postponed debut until spring. It attributed delay to demand for 42W panel, Vp William Mannion said. Matsushita will make 60W plasma display available on special-order basis by late this year at more than \$20,000, he said. Among issues facing 60W will be need to get FCC Class B certification, he said.

In joining growing push for LCD TVs, Matsushita showed 22W, 15W and 15W combined with DVD player in positioning product as "smaller version" of plasma set albeit featuring LCD technology, Mannion said. LCD TVs will have 480p native resolution. Matsushita eschewed conventional 4x3 LCD TVs owing to price war that's brewing in market amid oversupply of panels. Company also showed TV with set-top box (STB) based on open cable standard and announced OEM agreement to build million STBs for AT&T. While separate product plans would appear to conflict, Chief Technology Officer Paul Liao said strategies weren't contradictory and MSOs increasingly would push to integrate STBs in TVs so "they don't have to have any of that capital on their books."

While Matsushita focused on expanding integration of products, Toshiba will double line of FST "pure" flat-screen sets to 16 models in 7 sizes this year, up from 6 models in 32" and 36" year ago. New sets will include 20" (\$349) and 24" (\$549) flat-screen models that are due in first quarter. About half of market for 35-36" sets will be flat screen this year, nearly double year ago, while 31-32" will move to 25% from 12%, Toshiba Asst. Mktg. Vp Scott Ramirez said. Toshiba has said it expects to start production of flat-screen TV tubes at Horseheads, N.Y., in spring.

Toshiba also is moving to boost assembly of HD-ready sets at Lebanon, Tenn., plant this year by more than 50% to levels that it hadn't expected to be reached until 2002. Toshiba started assembly of 50-65W sets at factory last year (TVD Aug 14 p11). Overall market for rear-projection TVs is forecast to hit 2 million units this year in U.S., 1.1 million of which will be digital, rest analog, marking first time digital sales will surpass analog, Ramirez said. Matsushita will carry only 3 analog sets in TV lineup, trend being followed by rest of industry (see related story, this issue). In direct-view, digital TV sales will double this year to 320,000 units out total market of 4.1 million, Ramirez said.

**DEVELOPMENTS SEEN IMMINENT ON REWRITABLE DVD TRUCE:** Full day of news conferences ended at Las Vegas CES Fri. with vague indications that developments were imminent before show closed Tues. on bridging rewritable DVD+RW and DVD-RW platforms.

At Philips news conference, Consumer Electronics CEO Guy Demuynck answered reporters' questions on unification issue by acknowledging that talks with other companies were under way. But he refused to elaborate, except to say that Philips was encouraged that other companies have moved closer to Philips viewpoint that 2-way compatibility with existing DVD-Video players was crucial in success of new rewritable formats. Other Philips executives suggested additional public statements were possible Mon. morning at show, but they also declined to elaborate. It's unlikely any accord between Pioneer and Philips camps on rewritable DVD would mirror that of Super Density and Multimedia CD format truce in 1995, when competing formats unified to become present DVD-Video system. It's thought that current talks center on how machines conforming to one platform can be made mutually compatible with the other, and DVD+RW and DVD-RW will maintain their separate identities.

One circumstance that augured well for merging -RW and +RW formats was that latter had yet to be sold, and former hadn't been introduced outside of Japan, where quantities sold so far were small. If competing camps can overcome issues of patents, royalties and corporate pride, that would leave technical differences to be bridged.

Here, analysis is confounded by changing technical standards in each format and lack of detailed information on +RW. Latter point is basis on which Pioneer executives in U.S. and abroad have sidestepped our repeated questions on what it would take to bridge DVD-RW and DVD+RW — they simply have stated as recently as early Dec. that they haven't been privy to first-hand examinations of Philips DVD+RW machines.

What is known is that all formats, including -RAM, use blank disc that's pre-embossed with wobble groove that guides laser during recording. Differences among formats begin with -RAM disc, which records data in groove as well as on "land" areas to either side, meaning laser must continually switch focus between high land and low groove. Because -RW and +RW discs record data only in groove, it must be packed more tightly.

Blank RAM disc is pre-embossed with bursts of digital code that recorder and player use as headers to label recorded data. But +RW disc records headers at same time as it records data in pre-embossed wobble groove. Meanwhile, blank -RW disc has headers in land areas adjacent to pre-embossed wobble groove. Among other differences, DVD-RAM

discs spin at constant linear velocity (CLV), like CDs. DVD-RW is CLV, too, but DVD+RW discs spin at either CLV or at constant angular velocity (CAV), like PC hard disc and old analog Laserdisc prerecorded video format.

There is some precedent for mutual compatibility among rewritable DVD formats. Last summer, DVD Forum announced that DVD-RAM and DVD-RW formats it had standardized could be bridged in products called DVD Multi. New generation of Multi decks would use modified laser servo systems to make recordings on caddyless blanks. Intriguing surprise emerged last month when lab test in Stereo Review's Sound & Vision revealed that -RW recordings made in Japan-market Pioneer DVR-2000 deck would play compatibly in Panasonic's DVD-A10 DVD Audio player. Report also found that early Pioneer DVD player could read -RW disc recorded in top-quality 10 Mbps mode.

Copy protection is one area where it's hard to gauge whether formats can be bridged. Nothing has been revealed as to how +RW manages copy protection, but -RW group explained that disc uses "pre-obsured" or "embossed" area on blanks to prevent deck from recording DVD-Video's content decryption keys. In essence, that prevents prerecorded DVD movie from ever being copied. But format makes some allowance for copying some other kinds of copyrighted programming, such as in time-shifting TV shows.

In "Video Recording" mode common to -RAM, +RW and -RW, last uses unique serial number in "near burst code area" of blank disc along with "media key block" to enable consumer to make one digital copy of program. But making digital copy of copy isn't possible because "VR" content is re-encrypted when deck records it and media key block tells recorder that content was "copy once" only.

Other aspects of operation that -RW camp has revealed include causes of incompatibility with legacy DVD-Video players. In paper distributed recently, Pioneer said -RW spec required reflectivity ratio of 18% to 30% for blanks — same as prerecorded DVD-ROMs. Company also said DVD-Video and -ROM drives were required to read dual-layer prerecorded DVDs. That's where incompatibility issue with -RW can arise.

Pioneer said some legacy DVD-Video players would make assumption that -RW recordings were dual-layer discs, and make futile search for nonexistent 2nd layer. Some legacy players will try to determine what type of disc is being played by reading so-called media identification code present on all DVD media. But since -RW is new format, older players won't recognize new format's disc ID code and will refuse to play -RW recordings. Pioneer said dual-layer and media ID issues each can be corrected by "minor" firmware modification, although it wasn't clear how manufacturers could achieve that given DVD-Video's installed base worldwide. At recent Comdex show, Pioneer executives told us they believed -RW would be backward compatible with about 80% of legacy players.

**DTV TRANSITION TO QUICKEN AS MANUFACTURERS CUT ANALOG:** CE manufacturers will quicken pace of transition to digital TV (DTV) this year as they prune analog models from lineups and lower prices, industry officials said.

While DTVs represented 30% of TVs last year, sets are expected to be given equal representation with analog counterparts this year, manufacturers said. Change will be even more acute for companies such as Hitachi, whose high-definition and HD-ready sets will make up 80% of product line, Exec. Vp Gary Bennett said. Manufacturers are likely to trim analog offerings 30-50%, retailers said.

Expansion of DTV lineups is likely be accompanied by lower prices, with entry level expected to be in \$2,300-\$2,400 range, although sources said Matsushita was weighing introduction of 47W rear-projection set that could sell for \$1,999 street price. Retailer briefed by Matsushita said 47W was "being floated as a trial balloon," but if introduced could force competitors to respond by reducing prices. Matsushita Vp William Mannion confirmed that set would ship by midsummer as company sought to regain any market share it may have lost as result of delays in shipping 56W and 65W HD-ready sets last fall. Rear-projection sets were scheduled for Sept. delivery, but shipment slipped into Oct.-Nov. owing to slower production required for models that can handle 480p, 720p and 1080i resolutions, Mannion said. Analog sets probably will be pressed into \$1,000-\$1,600 range with occasional promotional model slipping below \$1,000, industry sources said.

"What manufacturers are doing is cutting an entry-level layer of [analog] products that helps us separate ourselves from the nonselling [retail] floors," ABC Warehouse Video Buyer Daniel Schuh said.

Analog projection sets through Nov. represented 75.7% of retail sales in units and 62.2% of dollars, with average price of \$1,636 against 92.9%, 86.2% and \$1,779 year earlier, NPD Intelect said. DTVs accounted for 24.3% of unit sales and 37.8% of dollars in same period, with average price of \$3,090, Intelect said, vs. 7.1%, 13.8% and \$3,756.

"There's not a lot of cost being taken out so as you move down in screen size and picture content, hopefully you can make the step to digital," said Michael Leese, vp-gen. mgr. for projection TV at Philips. "High-end analog as we knew it before is gone."

Indeed, Mitsubishi, in attempt to make its HD-ready sets more competitive, cut prices as much as \$500 across its 3-model Platinum Series of 46W (\$3,499), 55W (\$3,999) and 65W (\$\$4,499) sets, retailers said. Mitsubishi officials weren't available for comment.

While price compression invades rear-projection TVs, it's less pronounced in direct-view, where prices already are at rock bottom. Big-screen 32" sets routinely have been advertised at \$399, while 36" has fallen into \$499-\$599 range. Despite pressure from direct-view DTVs, analog category still will have legs for several years, said Michael Holmes, color TV gen. mgr. at JVC.

"There is a great opportunity right now for the consumers in terms of the curved glass, non-HD analog product because there are still those out there that, rather than spend a lot of money on a TV, might buy a DVD player and a set with a component video input," Holmes said. "We're still looking forward to the next few years of curved glass analog sales."

While DTV is expected to gain an increased share of consumer market, some of new sets featuring it have been delayed. Mitsubishi and Hitachi postponed delivery of 55W and 65W rear-projection sets featuring Texas Instruments' Digital Light Processing (DLP) to first quarter, leaving Matsushita as only company to ship DLP-based product in 2000. Mitsubishi and Hitachi had planned to ship sets in Dec. JVC also delayed to first quarter 61W set designed around its Direct-drive image light amplifier (D-ILA). While JVC rolled out D-ILA-based 50W in Japan last fall and sold through first allocations, it postponed 61W for U.S. market (TVD Sept 18 p15). Some changes were made in 61W, although Holmes declined to release details. Specs aren't expected to change much. It has 1.22" D-ILA chip, but JVC is expected to shift production to 0.9" while also boosting brightness to 1,500 lumens and contrast to 400:1. Earlier model had been \$5,999 (TVD Sept 20/99 p18).

"We weren't able to keep to our original time schedule, but we had a lot on our plate in developing our line of flat-screen sets," Holmes said. "It was just a matter of allocating resources."

**CE SHIPMENTS TO TOP \$90 BILLION THIS YEAR — CEA FORECAST:** Total CE industry shipments are expected to top \$90.1 billion mark this year and DVD players could well top 20% barrier in household penetration. Those are highlights of CEA's annual consensus forecast report distributed at Las Vegas CES, which opened Sat. for 4-day run.

CEA forecast DVD player shipments would rise to 12.5 million decks in 2001 from roughly 8.2 million shipped in just-completed 2000. Increase would be relatively conservative 52.4% compared with triple-digit growth in recent years. But CEA's DVD predictions have been crapshoot since market was born, and there's widespread agreement industry might have done even better in DVD department last year had shipments not been strained by shortages of key components.

For first time in annual consensus forecast, CEA predicted that sales of digital TV sets — both integrated HDTV models and standalone HDTV-ready sets — would top 1.13 million units in 2001 and generate sales of \$2 billion. It estimated that industry sold 625,000 such products in 2000. Average price of digital TV set and display was \$2,275 in 2000, but will drop to \$1,975 this year from high of \$3,147 in 1998 when only 14,000 sets are estimated to have been sold.

Other highlights of consensus report: (1) Camcorders are expected to reach 40% household penetration for first time as unit sales increase to 6.3 million. (2) Personal video recorders "will emerge as a major category," rising to 2.9 million decks this year from 1.44 million. (3) Sales of MP3 players — which CEA report has broken out as a separate category for first time — should continue "their phenomenal expansion" this year, jumping 54% to 1.8 million.

Here are excerpts from audio and video portions of CEA consensus forecast report. CEA said projected sales for 2001 were prepared using information gleaned from CEA market activity reports, staff estimates and data submitted from CEA member companies. (Copies of full report are available from CEA Market Research Dept., 703-907-7600.)

## U.S. SALES TO DEALERS AND FACTORY VALUE

## Home and Portable Audio Products

Product	Units (add 000)			Value (\$000,000)			Average Price		
	1999	2000	2001	1999	2000	2001	1999	2000	2001
Rack systems.....	270	143	112	\$148	\$82	\$65	\$547	\$573	\$580
Compact systems....	10,600	11,836	12,404	1,695	1,976	2,007	160	167	162
Components.....	—	—	—	1,530	1,528	1,464	—	—	—
Home thtr-in-box...	806	1,187	1,443	229	353	433	284	298	300
Home radios.....	19,899	21,654	23,625	348	390	443	18	18	19
Tape/rad-tape plrs	10,837	9,211	8,290	217	175	158	20	19	19
Tape/rad-tape rcdrs	8,785	9,140	8,846	238	261	244	27	29	28
Portable CD gear...	26,414	19,308	20,775	1,532	1,012	1,041	58	52	50
Port headset audio.	27,431	29,686	30,865	1,015	1,098	1,173	37	37	38
MP3 players.....	500	1,167	1,800	100	192	210	199	178	160
Total CD players...	45,225	56,531	59,358	4,477	5,201	5,223	108	99	96
TOTAL.....	—	—	—	\$6,136	\$6,161	\$6,274	—	—	—

## Video Products

Product	Units (add 000)			Value (\$000,000)			Average Price		
	1999	2000	2001	1999	2000	2001	1999	2000	2001
Direct-view TV*....	23,218	23,776	23,901	\$6,199	\$6,063	\$5,904	\$267	\$255	\$247
Digital TV sets....	121	625	1,125	295	1,422	2,166	2,433	2,275	1,925
Projection TV.....	1,232	1,460	1,220	1,632	1,884	1,481	1,325	1,291	1,213
Monochrome TV.....	320	265	201	20	15	10	63	55	49
LCD color TV.....	367	425	475	36	43	48	99	100	100
LCD monochrome TV..	465	425	319	25	21	15	54	50	48
TV/VCR combos.....	4,418	5,009	5,280	1,014	981	982	230	196	186
Vidcastte players..	180	100	75	15	15	4	79	70	55
VCR decks.....	22,809	24,005	21,605	2,333	1,894	1,579	102	79	73
with stereo.....	11,538	12,055	12,224	1,370	1,111	1,040	119	92	85
Camcorders.....	4,790	5,702	6,276	2,448	3,123	3,313	511	548	528
Laserdisc players..	7	3	2	3	3	1	504	490	470
Home satellite.....	3,625	4,250	4,463	957	1,102	1,124	264	259	252
Pers vid recrders..	100	1,440	2,857	46	414	714	459	288	250
DVD players.....	4,072	8,258	12,500	1,099	1,683	2,415	270	204	193
TV/PC combos.....	140	150	173	357	357	382	2,550	2,163	2,038
Internet devices...	1,200	1,400	1,651	192	192	210	160	145	130
TOTAL.....	—	—	—	\$16,672	\$19,213	\$20,347	—	—	—

\* Excludes LCD, projection TV, TV/VCR combos, digital TV sets and displays

\*\* Includes direct-view and projection digital TV sets with integrated decoders and standalone digital TV displays

**Palm signed agreement** last week that will enable handheld PC users to tap into Sprint's wireless network. By spring, Palm III and Palm V owners will be able to buy co-branded wireless adapter to connect handhelds to Sprint cellular phone. Later, they will be able to purchase small modem that slides into Palm and connects directly to Sprint network. Finally, Sprint will offer phones with built-in Palm operating system. Sprint is likely to turn to Samsung or Kyocera to build phones. Both companies already have announced products that combine cellular phones with handhelds. Agreement gives Sprint piece of mobile data market, which it has had limited success accessing via its Internet access phones.

**What a difference** one year makes. Although e-commerce companies had strong presence at CES last year (TVD Jan 10/00 p14), that didn't appear to be case at this year's show at our Fri. deadline. BestBuy.com led e-commerce announcements last year with details on impending return of its Web site with CE products added. E-commerce also was subject of numerous panels year ago. But BestBuy.com was expected to have little presence at this year's show. Same thing could be said for majority of other CE e-tailers. One possible exception was Amazon.com. Details of briefing with Amazon CEO Jeff Bezos will appear in next week's issue, as will highlights of at least one e-commerce conference session at this year's show.

**EUGSTER TO RECEIVE \$16 MILLION:** Former Musicland Pres.-CEO Jack Eugster will receive \$16.8 million as part of \$425 million sale of chain to Best Buy, SEC filing showed.

Eugster will get, among other things, \$3 million as part of annual incentive plan and \$9.5 million in retirement benefits, filing said. He also will be granted options to buy 37,500 shares of Best Buy stock and \$1 million annual fee under 4-year consulting agreement. Pact also requires BB make \$100,000 annual contribution to charity of Eugster's choice.

BB's acquisition offer, which expires Jan. 22, stems from discussions that began July 25 when chain's adviser Richard Zona met with Eugster to gauge his interest in potential deal, SEC filing said. BB Chmn.-CEO Richard Schulz met with Eugster following day and chains signed nondisclosure agreement Aug. 31. BB set \$12.55-per-share offer Oct. 25 and board met Nov. 8 to consider separate Musicland and Magnolia Hi-Fi acquisitions. Best Buy temporarily delayed negotiations Nov. 10 following drop in its stock, but board resumed discussions Dec. 1, leading to announcement of deal Dec. 7.

In addition to Eugster's pact, Musicland Vice Chmn.-CFO Keith Benson will receive \$4.3 million, including \$2.8 million in retirement benefits. He was given one-time option to buy 22,500 BB shares and will be paid \$800,000 under one-year employment agreement.

As Best Buy revealed terms of Musicland acquisition, latter reported its same-store sales fell 3.9% in 5 weeks ended Dec. 30. Mall Stores Div. (Sam Goody and Suncoast Motion Picture Co.) lost 1.3%, and Superstores Div. (Media Play and On Cue) plunged 8.2%. Musicland said overall sales dropped 2.6% to \$427.4 million from \$439 million year earlier. Superstores Div. fell 2.2% to \$154.9 million from \$158.4 million, and mall stores 2.9% to \$272.5 million from \$280.5 million. For year ended Dec. 30, same-store sales dipped 0.3% as total sales edged up 0.9% to \$1.90 billion from \$1.89 billion.

Meanwhile, Tweeter Home Entertainment, which had made run at buying Magnolia Hi-Fi, paid Chmn. Samuel Bloomberg \$374,231 in salary in fiscal 2000, up from \$337,320 year earlier, and granted him options to buy 35,000 shares at \$23.87, according to proxy for annual meeting. Pres.-CEO Jeffrey Stone received \$423,846, increase from \$352,761, and options for 45,000 shares at \$23.87.

**Good Guys** paid CEO Ronald Unkefer \$500,000 annual salary in fiscal 2000, up from \$125,005 in 1999, when in mid-year he rejoined chain he had founded. Mds. Vp Cathy Stauffer received \$199,591, up from \$185,994 year earlier, and options for 25,000 shares at \$5.93. New Pres. Kenneth Weller, who rejoined chain in Aug., will be paid \$400,000 minimum base salary and was granted options for one million shares.

Unkefer remained chain's largest stockholder with 2.89 million shares (11.2% of outstanding), followed by Lord Abbott & Co., 2.83 million (10.9%); First Pacific Advisers, 1.7 million (6.9%); Dimensional Fund Advisers, 1.4 million (5.6%). Weller owns 750,000 shares (2.9%), Clayton 60,011, Stauffer 48,384.

GoodGuys.com, online business in which chain has 20% equity stake, received investments from Good Guys management and board members. Among those investing were Unkefer, \$1 million; Stauffer, \$10,000; board member and former Thomson executive Joseph Clayton, \$50,000. Business went online last fall.

**CIRCUIT REVISES REMODELING:** Circuit City (CC), continuing to revise store remodeling, will test format designed to hold costs to \$1.5 million per outlet, company said Fri.

CC, which struggled as cost of full remodeling reached \$2 million per store in Jacksonville, said partial remodeling would take 60 days to complete vs. 180 days for full revamping. CC has fully remodeled 17 stores. It also said it would trim number of remodels to 20-25 from 140 originally projected. It plans to relocate 10-15 stores and open another 15-20 in fiscal year starting March 1.

Chain also conceded that it needed "stronger marketing program to communicate changes" being made in remodeling stores. Chief among changes was replacing major appliances with expanded offering of videogame hardware and software, PC software and peripherals and digital cameras. Expanded and new categories were among chain's "best performing products" in Dec., CC said. Overall, Dec. sales increased 2% to \$1.66 billion from \$1.63 billion despite 1% decline in same-store sales. Minus major appliances, which chain decided to drop in July, CC posted 7% increase in same-store sales.

CC rival **Best Buy** reported 3.7% gain in same-store sales for 5-week period ended Dec. 31, amid slowdown in consumer spending, and down from 9.8% increase year ago. Sales jumped 19% to \$2.69 billion as digital products rose from 17% of revenue from 10% year earlier.

**Good Guys** (GG) reported sales rose 8.5% in 3 months ended Dec. 31 to \$282.2 million from \$260.1 million year earlier. GG credited strong sales of digital products, including HD-ready and HDTV sets, for 8.5% gain in same-store sales. GG, which is moving to new fiscal year that starts March 1, will report results for 5-month period, it said.

**Rex Stores** said same-store sales fell 4% in Nov.-Dec. period despite 4% gain in total sales to \$119.8 million from \$115.2 million. In 11 months ended Dec. 31, Rex reported same-store sales fell 5% as total sales increased 2% to \$422.5 million from \$413.2 million. In effort to boost stock price, Rex has repurchased 129,800 shares since Nov. 30, boosting fiscal year total to 2.6 million. It has 724,100 shares remaining in stock buyback program.

**Electronics Boutique** (EB), suffering sharp decline in sales of Pokemon Trading Cards, said same-store sales for 9 weeks ended Dec. 31 fell 6.6% as total sales gained 1.7% to \$266.1 million from \$261.7 million. Pokemon Trading Cards sales plunged 88.1% on same-store sales basis, while sales of original Sony PlayStation were down 30.8%, due largely to introduction of 2nd-generation PlayStation2, EB said.

**Sears**, which also had disappointing holiday sales, said it would close 89 stores, although only 4 full-line outlets were expected to be affected. Closings will apply largely to National Tire & Battery Centers (53 stores) and hardware outlets (30).

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**Shortly before** presenting new line of products to reporters at CES Fri., Sony announced introduction of enhanced version of its online Musicclub service. New features include expanded music downloads, music news and reviews, information on Sony portable digital music products and software.

**MORE DOT-COM TROUBLES:** Dot-com woes continued last week as Musicmaker.com and Mercata announced plans to end their businesses, and eToys said it was cutting 70% of its staff.

Musicmaker.com said its board voted unanimously to liquidate and dissolve company and approved plan of complete liquidation and dissolution to be submitted to stockholders. If they approve, Musicmaker said, it will prepare information statement describing plan of liquidation to be filed with SEC.

Custom CD e-tailer said its board "believes the plan of liquidation is in the best interests of the company and its stockholders."

Musicmaker.com cited various factors for decision to exit business, including: (1) Music industry and e-commerce were "in a period of rapid change and uncertainty." (2) "Potential for growth and availability of financing" was "extremely limited" in current environment. (3) Its "inability, despite significant efforts, to identify a buyer or strategic partner willing to offer greater value than that expected to be derived from liquidation." (4) Company's stock was trading "well below the net asset value of its shares." Last week it was selling around \$4.63, down from a 52-week high of \$75.

Like most e-tailers, Musicmaker suffered its share of dilemmas in last year, including job cuts. As we have reported, it also was hit with class action lawsuits by disgruntled stockholders. EMI also recently cut its financial ties with Musicmaker.

Meanwhile, Mercata, online retailer based in Bellevue, Wash., said it was ceasing operation only one day after withdrawing IPO for familiar reason — poor market conditions. Company first filed for IPO in March.

News from eToys didn't exactly come as shock. E-tailer had warned in Dec. that revenues for its holiday quarter would be significantly less than forecast and it no longer expected to be profitable by its fiscal year ending March 31 (TVD Dec 25 p17). At that point, one-time darling of analyst community quickly fell from grace as many observers questioned eToys future.

Staff cuts at eToys will reduce number of employees to 300 from 1,000, it said, with 380 positions being dropped instantly and another 320 by March 31.

Company also said it would close its City of Commerce, Cal., and Greensboro, N.C., warehouses in next 30-60 days and consolidate its operations into Ontario, Cal., and Blairs, Va. EToys also said it would shut its U.K. Web site Jan. 19 and close out its European business.

**Eclipse will ship AV5101 Digital Audio/Video Entertainment Center Control System for cars in fall.** One-DIN sized in-dash center control unit allows for display of 2 different video sources independently on 2 rear seat monitors while displaying navigation directional information on control system itself. Company said pricing would be announced in summer. Unit was unveiled at CES, along with 5 new CD head units and 3 new amps. Four of 5 new head units allow consumer to add Commander (E-Com) voice control functionality that allows for hands-free use of cell phone and control of audio functions and source selection.

**TOYS 'R' US PRAISES HOLIDAY:** Despite well-publicized shortages of PlayStation 2 (PS2) hardware, Toys 'R' Us last week reported strong holiday sales for 9 weeks ended Dec. 30. Total sales, excluding those of Japanese operations, now accounted for on "equity method" since its IPO last April, were up 4% for 2000 holiday selling season. Total sales (excluding Japan) for season were \$4.2 billion, down from \$4.4 billion (including Japan) for same 1999 period.

"Our strong performance in the 2000 holiday selling season is indicative of a number of encouraging trends under way at Toys 'R' Us," Pres.-CEO John Eyler said, as same-store sales of U.S. toy store operations rose 3.5%. He said: "We are particularly pleased with this sales performance as it was achieved despite weather-driven declines in customer traffic in many parts of the U.S., the lack of must-have products and acute shortages in the video category."

Company finished holiday season with same-store sales in videogame category that were "slightly negative," Eyler told financial analysts in conference call. Fact that overall same-store sales were up reflected robustness in toy sales across board, he said. He told analysts that Toys "R" Us management believed PS2 shortages was story "that will continue to unfold on through the spring season." With expected introduction of Microsoft's Xbox and Nintendo's Gamecube, Eyler said company saw holiday 2001 "as actually being an extremely vibrant video market, where we see 3 major competitors going head to head with new technology." He said he doubted "very seriously" whether industry would see "a flooding" of PS2 inventory now that season had passed. In fact, he said he doubted whether PS2 supply would catch up with demand much before 2001's calendar 3rd quarter if not well into next Christmas.

As with other retailers, Eyler said his company sold through quickly whatever PS2 inventories it was able to procure. He said one of surprising "bright spots" was videogame software, particularly Nintendo 64 products, and specifically *Pokemon Gold* and *Pokemon Silver*. But Eyler said: "From a hardware point of view, this was a season where some of the older platforms actually did better than we forecast, but were not strong enough to offset the shortages in the PlayStation 2 business."

**Digital still cameras (DSCs)** were in abundance at CES with new models from cross-section of manufacturers. Olympus unveiled Camedia C-2040 Zoom 2.11 megapixel DSC, shipping this month at \$699, that it said had "world's first large-aperture F1.8, superbright, high-performance 3x zoom lens for digital cameras." It said feature "extends the flash working range and is better for low-light photography." Olympus also introduced C-3040 3.34 megapixel model that ships in March at \$999. Among other companies showing DSCs was Panasonic, whose line now includes PV-DC3000 ipalm, shipping now at \$899.95, that showcases manufacturer's continuing focus on SD memory card-based products. Ipalm is first DSC from Panasonic that allows user to save images on SD card, as well as MultiMediaCard.

**Full court press** of new MP3 players were slated to be unveiled at CES after our Fri. deadline. Among new models to bow was BMP-100 broadband music player from Panja. Company said player enables MP3 streaming without PC Internet connection.

**CE SALES UP, PC DECLINES:** Holiday selling season brought good news for most CE and technology products, but PC sales saw 24% decline, companies reported last week.

NPD Intelect said several categories had triple-digit growth from Thanksgiving through Christmas. Although overall unit sales were down 0.3% in 47 CE categories tracked, NPD said those categories had 5.6% dollar growth thanks to new high-ticket digital products that sold well.

NPD said fastest growing CE categories over holidays were: Personal video recorders (PVRs), up 300.8% in units and 211% in dollars; DVD players (194.4% units, 102.1% dollars); home theater-in-a-box (104.1% units, 139.5% dollars), digital still cameras (74.9% units, 42.6% dollars), cell phones (72.1% units, 44.2% dollars).

NPD Intelect Audio & Video Tracking Dir. James Hirschberg said home theater-in-a-box sales were driven largely by success of DVD category. He said PVRs "are growing fast, but this is still a new category that is not yet fully understood by consumers."

Hirschberg also said MP3 player, CD recorder and portable CD player sales made up for continuing declines in cassette-based products.

On technology product side, NPD said that despite slow PC sales, 39 categories increased 1.5% in units and 2.7% in dollars.

NPD said tracking for report was done among 11 major national retailers and mail order houses.

Meanwhile, PC Data said preliminary results showed PC sales at stores and direct mail companies dropped 24% in Dec., "the 5th consecutive month of negative comparisons and the 2nd consecutive month of double-digit unit declines."

PC Data said dealers sold slightly more than one million desktop PCs in month and, for year, unit sales of PCs (also including Internet dealers) were down 0.8% to 10.1 million units, which it said was "first annual decline ever reported by PC Data."

Stephen Baker, PC Data's technology products research and analysis vp, said there was "a spike [that] occurred during the week of Christmas, but it fell short of the boost needed to lift overall sales during the holiday shopping season."

Baker said decline was caused by various factors, among them success of ISP rebate programs in 1999, "slowing economic outlook," prices that were up slightly in 2000, "lack of compelling upgrade rationale for the millions of consumers who purchased PCs over the last 2 years."

PC Data said retail PC revenue in Dec. sank to \$855 million, down nearly 30% from year ago. It said indication of slowing sales was Dec. retail selling prices' falling 7% from same period year ago to \$846 — "lowest monthly average price of the year." Dec. pricing, PC Data said, was down 3% from Nov. and almost 10% from Oct.

For entire 4th quarter, unit sales were just under 2.5 million units — "more than 18% below the 4th quarter of 1999," PC Data said.

Putting positive spin on situation, Baker said: "Despite these poor PC results, the overall computer products business still looks like a good place to be. We anticipate that computer retailers will see a 10 to 12% increase in revenues for 4th quarter, driven by the digital upgrade cycle as consumers shift purchases away from PCs and into the new 'digital toys' of the 21st century." Among those digital toys, PC Data said, are: Handheld devices, whose sales more than doubled in Nov. from year ago; MP3 players, up 400% in Nov.; Web PC cameras (up 68%); CD burners (up 65%); blank CDs (up 32%); digital cameras (up 26%); mice (up 15%).

Office Depot (OD) began long expected restructuring last week with plans to close 70 stores and prune inventory, including DVD players. OD, which some analysts had projected would close up to 100 stores, will shut down operations in Cleveland and Columbus, O., Phoenix and Boston. CEO Bruce Nelson, who succeeded founder David Fuente in July, said chain stocked too many products that were irrelevant to its business model and would take \$280-\$300 million charge in 4th quarter to clear inventory and close stores. Office Depot will reduce store merchandise 20%, eliminating many of 1,800 products it has added in last 18 months including DVD players and children's PC software. Extra inventory crowded out core office supplies that were OD's niche of selling to small business, Nelson said. "Barbie software is not a core business item," he said. "We need to be the destination place for small and medium-size business, not the destination for weekend shoppers." Merchandising mistakes, some poor store locations and slowdown in consumer spending resulted in 4th-quarter same store-sales decrease of 5-6%, Nelson said. Chain expects similar sales drop in first quarter, but projects earnings per share will grow 15% in 2001, he said. As part of restructuring, OD also has trimmed number of new store openings to 50 from 80, and new outlets will be 1/3 smaller than typical 30,000-sq.-ft. outlet, Nelson said. OD also plans to cut warehouse merchandise 30% and lay off 120 account reps — 10% of its contract sales force. Latter serves customers ordering more than \$25,000 of supplies annually.

Panasonic unveiled VDR-M10 DVD camcorder at CES that records digital video and still images onto removable 8 cm optical DVD-RAM disc. Company said it expected to ship unit in spring at same time it ships VW-HB28 2.4 GB recordable DVD disc. Pricing was unavailable at our Fri. deadline. Meanwhile, company's new line of Mini DV camcorders includes 4 models — PV-DV101, PV-DV201, PV-DV401 and PV-DV601 — ranging in price from \$799.95 to \$1,099.95. Panasonic Consumer Video Product Mgr. Mary Miceli said units this year were \$100 lower than models last year and offered more features. New in line this year are higher pixel 680K CCD, picture-in-picture recording, 20:1 optical zoom, multi-image display, Movie Messenger motion image transfer feature, addition of ArcSoft software editing package. All but entry-level model offer most of upgraded features. Miceli said company offered only 18x optical zoom last year. She said all but entry-level model this year offered USB connection instead of serial port, allowing for "much quicker" transfer speed.

Amazon.com opened online outlet store at its Web site. E-tailer recently held sneak preview of outlet at site. New store offers Amazon chance to sell discontinued and overstocked merchandise. But some industry observers wondered what attraction for consumers would be considering that pricing at outlet store — at outset, anyway — didn't appear to be much different from items being sold elsewhere at Web site.

**XBOX GRABS GAME SPOTLIGHT:** At our Fri. deadline, Microsoft was expected to be most prominent company on videogame console front at CES.

Also on game front, Nintendo was to take part in technology demonstration with Sandisk, Panasonic and Palm Sat., and Planetweb said it show Web connectivity on PlayStation 2 (TVD Jan 1 p12). But Nintendo and Sony Computer Entertainment were not expected to have same level of exposure as Xbox, largely via keynote Microsoft Chmn. Bill Gates was to give Sat. At our deadline Gates was also expected to demonstrate Xbox at the CES. Sega spokesman told us his company wasn't planning to attend CES at all.

Microsoft continued to be subject of various reports on game front before CES.

For starters, it may have changed Xbox specifications, reportedly dropping console's GPU to 250 MHz from 300, which would lower performance to 125 million polygons per sec. from 150 million. It also was said to have decided to make console's DVD functionality add-on feature. Microsoft spokeswoman told us last week no changes had been made in system's specifications that she was aware of. She also said there was no plan to start Xbox ad campaign this month, despite reports to contrary.

Another report said Microsoft was planning to kick off TV ad campaign for system during Super Bowl and that 2 spots had been planned, one of them thumbing its nose at Sony by showing PlayStation 2 console being destroyed.

Separately, Hungarian Prime Minister Viktor Orban said Microsoft plan to build Xbox machines in his country (TVD Dec 25 p16) would generate 5,000 jobs, Reuters reported. It quoted Peter Gaal, Microsoft mktg. mgr. in Hungary, as saying: "It will probably be the largest sales turnover enterprise in Hungary, but I would be careful with saying a precise number until the official announcement, expected in early February."

Microsoft posted notice at its Web site saying it was looking for gamers 13 and older who lived in Seattle/Puget Sound region of Wash. to test its PC and Xbox games.

Intel, in rare concession to chip-making rival, will include Arm Holdings' microprocessors in new line of e-mail and Internet access devices. Intel was to demonstrate products based on Arm chips at CES after our deadline Fri. Intel's licensing of Arm technology is major win for British chip maker, which recently signed deals with Motorola for cellular phones and Palm for handheld PCs. Intel also said it would introduce fastest processor yet for low-cost PCs. New 800 MHz Celeron processor, which will cost \$170 in lots of 1,000, is aimed at desktop PCs priced below \$1,000. Intel has developed new chipset that surrounds microprocessor and has faster bus, pipe that data pass through between processor and other parts of chipset. Faster bus runs at 100 MHz vs. 66 MHz currently.. Intel rival Advanced Micro Devices (AMD) reached agreement to design microprocessor chips based on Transmeta's low-power processor technology, CNET said. Details weren't available, although Transmeta had largely focused technology on notebook PCs.

Amazon.com will be among companies taking part in Morgan Stanley Dean Witter's Internet, Software & Networking conference Jan. 9. Amazon CEO Jeff Bezos is to make presentation.

**Despite woes** at various e-tailers last week (see separate report, this issue), Kozmo.com forecast was decidedly less gloomy. Flatiron Partners is raising \$30 million for N.Y.-based e-tailer to keep business going, *N.Y. Times* said, but without additional financing, Kozmo could run out of money by end of Jan. Report also said company broke even in N.Y. in Nov. and was expected to make profit in N.Y. and San Francisco this month. Sales for Kozmo's one-hour delivery service no doubt were helped by Urbanfetch.com's exit from consumer e-commerce business late last year. Urbanfetch had been Kozmo's main competition in N.Y. market. Another possible factor that helped spur profits was company's recent decision to start charging \$1.99 per delivery on all orders under \$30, although it now is offering free delivery 8 a.m.-3 p.m. More good news for Kozmo came in early Dec. when equal rights organization that had filed discrimination suit against company changed its mind. Other Kozmo investors include Amazon.com.

**Blaupunkt** has developed car stereo that listens to its car. Company said at CES that process called Dynamic Sound Adjustment (DSA) first uses microphone to detect how acoustic characteristics of car distort sound, then corrects for that distortion. Additional process, called Digital Noise Covering (DNC), listens to wind, mechanical and tire noises, then boosts sound level only at problem frequencies. That masks those noises without dramatically increasing overall sound level, Blaupunkt said. Result is music and voice that sounds more natural and system that can be listened to at lower average volume levels. Technology is based on new digital signal processing (DSP) software developed for Blaupunkt's DigiCeiver platform, which performs all key radio frequency and audio frequency operations entirely in digital domain. Correcting for car's acoustics isn't new, Blaupunkt said. But until now, engineers had to measure each different car model in order to determine acoustic corrections needed. Then, it was necessary to build separate factory-installed systems for each different car model and sometimes for different styles within automaker's line. That approach is used by General Motors for its premium Delco/Bose sound systems. Company said its DSA and DNC achieved acoustic corrections for much lower costs and without long development times. Technology makes debut this month in San Francisco-model CD70 receiver at \$699.

**Industry leaders** from high-tech, music and legal arenas will gather Jan. 10-11 in Washington to discuss 2001 music/tech policy agenda, Future of Music Coalition (FMC) said. Speakers at first annual FMC summit include Sen. Hatch (R-Utah), RIAA's Hilary Rosen, and MP3.com CEO Michael Robertson, group said. Topics to be explored include state of music and technology post-MP3 and Napster litigation, and look at broader issues such as fair use, telecom regulation and digital royalties, FMC said — [www.futureofmusic.org](http://www.futureofmusic.org).

**Acclaim Entertainment** said it started shipping *Ducati World Racing Challenge* for Dreamcast and PlayStation. Game was developed by Attention To Detail. Acclaim described Ducati as "the world's premium motorcycle brand."

#### THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥114 = \$1, except where noted.

**ROXY SHIFTS FOCUS:** Roxy.com and its Everything Wireless division have consolidated their operations under new Roxy Satellite & Wireless banner.

Roxy eliminated 19 jobs last year in what company said was restructuring designed to increase efficiency (TVD May 22 p16). Since then, it has been working to consolidate operations into one main location in Miramar, Fla., Chmn. Keith Clougherty told us.

Clougherty said first category Roxy.com sold was satellite, which had continued to be major focus for company. But wide range of CE categories were added to Roxy.com site and company has been positioning that Web site as online electronics business similar to competitors such as 800.com and Hifi.com. Although audio and video still are being sold at Roxy Web site, focus now clearly is on satellite and wireless products. Company also no longer has 2 separate Web sites, although consumers can reach newly designed site by searching for [www.everythingwireless.com](http://www.everythingwireless.com) or [www.roxy.com](http://www.roxy.com).

Clougherty said company "opened a new 16,000-square-foot distribution facility" in Miramar and "moved [our] Everything Wireless business into that and then consolidated [company's operations into] the new facility." Roxy is handling its own order fulfillment in-house there, he said, and "brought down as many people as we could to Florida" from company's old Marlboro, Mass., hq. Small office with "3 or 4" employees remains in Marlboro, he said, "but the bulk of everything is now" in Fla. He said: "The consolidation is just about completed."

Roxy enjoyed healthy holiday selling season, Clougherty told us, and started shifting focus in last quarter, before name change.

Like various online competitors, Roxy relied on 3rd party for order fulfillment in 1999 holiday season. Clougherty said being in charge of its own fulfillment this time around helped make sure majority of orders arrived on time. He said: "We think we got everything out [in time for holiday] — I mean over 99 percent." Company offered consumers guarantee over holiday season that all items ordered by 5 p.m. ET Dec. 20 would arrive on time or company would refund price of item up to \$100.

Clougherty said satellite and wireless areas were strongest for company over holiday season because "we really weren't pushing and promoting" audio and video products "as heavily." He said, "I think subsequently we didn't see the sales" increase much in the CE categories. But "overall," he said, "we were probably up about 15% and we're going to finish the year twice [what we did] the year before." Company "year-over-year" is "up about 100%" in overall sales, he said.

Products that sold especially well in last quarter, Clougherty said, included handhelds, including BlackBerry, Palm, iPAQ. Although company focused efforts more on satellite and wireless arenas, he said DVD players performed up to expectations. But he conceded: "I would say we were a little disappointed in digital video recorders... Everything else was kind of what we thought it [would be]."

Clougherty said focusing on satellite and wireless areas was "the best way for us to add value [for customers] and also provide ourselves with some returns." He said: "We think there's going to be a lot of new things happening in the satellite sector with the launch of 2-way high-speed Internet access, satellite ra-

dio [and] a lot of the wireless data services are starting to really take hold. So we see lots of growth in these areas."

Roxy announced last week it had signed deal with OneClip.com that allows its customers to "click and instantly redeem manufacturer-sponsored discounts and special offers as easily as they use coupons at store check-out counters." First manufacturers Roxy offered special discount coupons from were Duracell and Zenith. Web site also is offering OneClip's Portable Promotions feature, which enables Roxy to reach consumers with same discount offers via banner ads throughout Web and Roxy e-mails.

## Consumer Electronics Personals

**Robert Carroll**, BEI Holdings chmn.-CEO, appointed to Panja board, replacing **John McHale**, resigned... **Akira Yamamoto**, Seiko Instruments engineering executive, named pres.-CEO of newly formed Seiko Instruments Austin (Tex.), responsible for handheld products; **Drew Pragliola**, ex-Zenith, joins as sales & mktg. vp; **Stokely Marco**, ex-Pioneer, as mktg. dir.; **Diane Barnes**, ex-Franklin Electronic Publishers & Smith Corona, as eastern sales dir.; **Roberta Russell**, ex-Franklin, as western sales dir.

**Robert Altenbern** resigns as Sensory Science product mgr. for DVD and audio, plans unknown, can be reached at 480-419-7596... Technology journalist **Marty Levine** joins iVast Corp., Santa Clara developer of MPEG4-based interactive streaming technologies, as vp-business development for consumer platforms... **David Ripp**, onetime Hughes-JVC Technology Corp., appointed Eastern regional mgr., Theta Digital... **Thomas Mitchell**, recently retired senior partner at Ernst & Young, elected an Infogrames dir. **Philip Callahan**, ex-Mitsubishi & Princeton Graphics, joins Hitachi to head large screen displays including DLP-based TVs.

Although some new MP3 players are coming to market with ability to "rip" MP3 file off CD without computer, "the current generation of MP3 players is nowhere near as easy to use as CD or cassette players," said review in Feb. *Consumer Reports*. Magazine's bottom-line recommendation: "So unless you're comfortable with computers, you may need help loading music — or you may want to wait to buy a player until the process becomes easier."

**Sales of DVDs** and other entertainment software accounted for 25% of all online transactions this holiday season, Internet shopping service BizRate.com survey reported. It said for first time women comprised majority of online holiday shoppers (56% vs. 50% year earlier). BizRate.com estimated online shopper spent more than \$6 billion on 52 million orders placed Nov. 20-Dec. 26 vs. \$3.8 billion and 38 million in 1999 span.

**AOL said retail sales** to its online members reached record \$4.6 billion in 2000 holiday season. AOL members' total online spending over year reached record-breaking \$20 billion, double last year. Patrick Gates, AOL vp-E-Commerce, cited extended hours as one factor in growth. "We know that many online consumers shop between the hours of 7 to 10 p.m., a time when many offline retailers are closed. By offering 24/7 access... we give consumers a shopping experience they can't find elsewhere," Gates said.



# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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## SUMMARY-INDEX OF WEEK'S NEWS

### Broadcast - Cable

**DTV COMING TO HEAD:** FCC delays carriage, technical decisions. Test results mixed, but VSB seen likely to continue. (P. 1)

**AOL-TW APPROVAL STOKES** open access, ITV debates. Policy battles shift to 2 FCC proceedings, new Congress. (P. 3)

**UPTON HEADS TELECOM** subcommittee. Other Hill changes set, but some are undecided. (P. 6)

**STRIKE PREPARATIONS BEGUN** by networks. Reality and news shows seen if SAG, WGA strike. (P. 6)

**KENNARD TO LEAVE JAN. 19** as FCC chmn., will move to Aspen Institute. FCCers sad at departure. Powell appointment likely. (P. 7)

**POWELL ISN'T ACTIVIST**, he indicates in CES appearance. Market solution seen for compatibility, content issues. (P. 7)

**DTV POLICY ISSUES COMING TO HEAD THIS WEEK:** Yet another round of critical decisions on DTV is expected this week as broadcasters decide whether they want to change DTV transmission standard and FCC acts on batch of DTV cable carriage issues, as well as possibly on DTV transition deadline and on requiring digital tuners in analog receivers. Broadcasters were considered likely to decide they would prefer to stay with VSB transmission standard because of mixed results in latest round of side-by-side tests with COFDM transmission, and FCC was considered likely to go along with that.

"Robust discussion" of results of latest DTV testing followed presentation of results to more than 150 broadcasters in Washington Jan. 11, we're told. Closed-door meeting reportedly was told that VSB standard out-performed COFDM on 30-ft. outdoor antennas, COFDM did better on 6-ft. outdoor antennas and neither did very well on indoor antennas, as expected. Broadcasters also were told that COFDM would make DTV available to about 6% fewer households and same power level would give stations 14% smaller viewing area. Officials of COFDM supporter Sinclair Bst. reportedly repeatedly made claim that testing was flawed because it used COFDM receiver without needed filter. Broadcasters also were said to have repeatedly criticized cable and set-makers for not accelerating DTV rollout. Boards of NAB and MSTV were to meet Jan. 14-16 to decide what to recommend to FCC based on test results.

Speaking at CES convention in Las Vegas last week, FCC Comr. Powell said there was "a presumption against change" in DTV transmission because of impact it would have on transition and lack of assurance that new standard would be significantly better. If current system is "clearly and demonstrably flawed I would rather fix it than ram it down the consumers' throats," he said, "but the burden is high to change horses this late."

### Consumer Electronics

**IRONIES ABOUND IN RWPP PLAN** to study feasibility of designing dual-compatible DVD recorders. Plan is defended as best alternative to merging 2 formats. (P. 10)

**NEW XBOX DETAILS UNVEILED** by Microsoft at CES, including word that DVD movie functionality will be offered only via add-on remote. (P. 11)

**DIRECTV-TIVO VoD COMING:** Satellite video-on-demand expected to be announced within 60 days, we learn. DirecTV-AOLTV service is delayed. (P. 12)

**CES SEES MORE HIGH-TECH** in HDTV displays, digital AV recording, optical storage. (P. 14)

**VM LABS GAINS NUON SUPPORT** as LG Electronics, Logitech, Oritron and Fox Home Entertainment agree to use interactive DVD technology. (P. 16)

**SPACE TIGHT FOR NEW DISPLAYS** as retailers hedge bets on new technologies being rolled out by manufacturers. (P. 17)

Geocast Vp John Abel, former NAB exec. vp responsible for HDTV, also said still-undisclosed DTV test results "tilt in favor of staying the course" for using VSB-based standard. Key issue still is signal strength, he said, and even COFDM won't work indoors if signal strength isn't adequate. "If we had our druthers, we may have preferred COFDM from the get-go," Abel said, "but the results are that VSB works. This transition has taken a lot longer than anyone thought it would, but let's just get on with it." Granite Bcstg. Vp Stewart Park said VSB-COFDM debate "slowed everything down," and issue was "still murky," but he was hopeful VSB performance would improve. Despite that, he said, Granite would test mobile reception of COFDM in San Francisco area because mobile TV reception was "an interesting market. It gets us excited."

Meanwhile, FCC once again delayed votes on 3 digital TV items scheduled for consideration at its meeting Jan. 11. Commission, which first postponed action on DTV issues last month, didn't indicate reason for latest delay. But, in his swan song meeting, FCC Chmn. Kennard pledged that agency would act on all 3 items no later than Jan. 17, just before he's expected to step down from his post in favor of Republican successor (see separate story, this issue).

Well-placed sources said FCC's latest delay was due not to problems with proposed DTV rules, but to agency's prolonged review of AOL's purchase of Time Warner (TW). They said staffers and commissioners working on DTV issues simply ran out of time because they were busy with merger. Sources said they still expected FCC to approve bid by new DTV-only station in Stuart, Fla., to gain cable must-carry status. They also believed agency would require consumer electronics manufacturers to place digital tuners in all new TV sets by a date certain and decide extent to which cable operators and DBS providers must carry more than broadcaster's primary digital video signal. Commission reportedly also may consider study of cable systems' capacity to carry both analog and digital broadcasting signals and their plans to boost channel capacity. Finally, agency may open new inquiry to determine what broadcasters intend to do with their new digital channels.

But outcome remained unclear at our deadline, with sources still expecting Commission to punt on core issue of whether cable operators and DBS providers should carry broadcasters' analog and digital signals during current DTV transition. Besides dual must-carry issue, FCC sources said agency had "host of technical and legal issues" to settle concerning DTV carriage by cable and satellite operators, including channel positioning of DTV stations, tier placement of digital service, material signal degradation limits, DTV carriage by smaller cable systems, rate regulation, retransmission-consent rights.

Other knowledgeable sources said Kennard might propose extending DTV transition deadline 2 years to 2008 to allow broadcasters more time to complete their switchover to digital-only signals. In return, they said, govt. would eliminate 85% market penetration standard for stations to make full conversion.

Powell endorsed free market over govt. regulation, pleasing consumer electronics officials at the CES. But reaction was more muted when he also indicated reluctance for govt. to move aggressively to spur DTV transition. Powell, who is widely rumored to become next chmn. of FCC, was interviewed one-on-one by CEA Pres. Gary Shapiro, also rumored to be candidate for position in new Bush Administration, despite recently signing new 10-year contract with CEA.

Powell repeatedly lauded success of 1996 Telecom Act in promoting deregulation and unleashing market forces, saying (1) no govt. policy could have kept pace with rate of change caused by digitization of telecom, (2) there's "a burden of proof against regulatory intervention" and (3) "markets are proconsumer." He also said he was "not necessarily the biggest fan" of "industrial policy" in promoting DTV transition. DTV didn't fail, Powell said, but expectations of speed of transition were just wrong since no consumer electronics product ever had achieved 85% penetration as rapidly as Congress projected for DTV.

Asked by Shapiro whether FCC would act to speed transition, Powell said DTV "will work when consumers figure out that the value [of DTV] is worth the expense." He said he was "very skeptical of attempts to overly shove [DTV] down the throats of consumers" who "weren't even at the table" during industry-to-industry negotiations. Powell acknowledged that broadcasters had responsibility to speed transition, but said same was true of consumer electronics and other segments of industry: "Everyone says it's up to someone else... People are wasting too much energy on figuring out how to divert blame." He said broadcasters needed to transition to digital and begin offering programming, and CE companies had to "drive down the price points" and develop chips to solve multipath problems.

FCC is likely to act soon on DTV must-carry, Powell said, but "whether you will like [FCC action] remains to be seen." DTV must-carry is "not a trivial constitutional question," he said, and Supreme Court already has raised questions

about it. It's also "easy to diminish the technical question" of cable systems' passing through DTV signals, he said, and there's still question of when and whether timing would be right for imposing transitional must-carry. "Transitional" is the key word," Powell said.

There's room for compromise between broadcast and cable on DTV must-carry, Powell said: "Everyone is playing for their own protection. That won't work in this exercise. Everybody has to go first." He said industries could "find a transitional mechanism" that would allow at least brief period of DTV must-carry: "There are lots of variables that they could play with as the makings of a compromise." He said he saw signs of compromise activity by both sides.

Asked whether HDTV was "inevitable," Powell said: "DTV is inevitable. What quality level still is debatable." Best technology often doesn't win, he said. He said DTV was competing with many other technologies for consumer dollars, including multiple wireless phones per family, multiple personal computers, broadband access and personal digital assistants, all of which are "wrestling for the hearts and minds of consumers."

Most recent round of DTV standard tests was flawed, COFDM backer Sinclair Bcst. said in memo obtained day before start of closed-door DTV summit in Washington. Sinclair said COFDM tests inadvertently were conducted with receiver that lacked front-end filter, causing set to be overloaded in many situations. At very least, mistake and test results indicated that NAB and MSTV should go ahead with 2nd round of testing on DTV systems, Sinclair Vp-New Technology Nat Ostroff said in memo. Other broadcast officials didn't immediately comment on memo.

"Major flaw" in COFDM receiver "was not recognized early and thus all field data was taken without full knowledge of the impact of this defect," Ostroff said. He said lack of filter could explain why COFDM outperformed VSB when simple indoor antenna was used but failed at same sites when 30-ft. outdoor antenna was used. COFDM also was hurt by use of higher data rate for COFDM than for VSB, Ostroff said.

One clear result of tests was that "neither transmission standard as tested can be the basis for a free over-the-air broadcast transmission standard," Ostroff said. He said chip makers who said they could solve VSB's multipath problems hadn't delivered on promises: "The question for broadcasters is this: Should we rely on an [consumer electronics] industry that is not focused on our needs, but has made a commitment to the cable and satellite delivery of television, for our future survival?"

Despite being "inconclusive" on COFDM, tests provided some "very conclusive results for VSB," memo said, including that: (1) VSB would require outdoor antennas for 45-88% of broadcast audience. (2) VSB provided less than 40% coverage for close-in indoor antennas. (3) VSB didn't provide "ease of use," even when indoor reception was possible. (4) VSB didn't replicate NTSC coverage. Only solution is to continue looking for improved DTV standard, memo said: "To abandon the broadcast industry's future to a reliance on empty promises of improvements to VSB in the face of clear evidence of that standard's failure would be irresponsible to our companies and our shareholders."

**AOL-TW APPROVAL STOKES OPEN ACCESS, ITV FIGHTS:** Now that FCC has approved AOL's takeover of Time Warner (TW) with additional conditions, cable operators, consumer groups, phone companies, state and local regulators, ISPs, broadcasters, DBS providers, cable overbuilders and others already are girding for next big fights over extending those regulations to rest of cable industry. Likely new battle fronts include 2 separate FCC proceedings on cable open access issue and interactive TV (ITV) rules, each of which covers part of leading conditions imposed on AOL-TW by FTC and FCC. Another new battle front could be expected bill in new Congress that would create comprehensive regulatory scheme for all broadband services, whether delivered by cable, telephone, satellite or wireless technologies.

Most immediately, many cable critics said they would focus on FCC's notice of inquiry (NOI) on cable open access issue, which they still hoped to turn into comprehensive rulemaking procedure under new Republican chmn. With AOL-TW required by FCC and FTC to open its high-speed cable lines to 3 independent ISPs and not discriminate against competitors, critics want similar rules to cover other MSOs. "We're going to press to get these principles applied to the whole cable industry," said Gene Kimmelman, co-dir. of Consumers Union's Washington office. He said Republican Comr. Powell, considered likely to succeed outgoing Chmn. Kennard, had stressed that he favored setting communications policy through agency rulemakings, not merger reviews. "We will test him on that," Kimmelman said.

L.A. Councilman Alex Padilla, who introduced open access legislation in City Council last year, applauded FCC for following "the lead of cities like Los Angeles in imposing conditions on the approval" of merger. Arguing that FCC's requirement on AOL-TW to provide unrestricted access for ISPs was victory for consumers, he urged Commission to "demonstrate its leadership" by requiring same standards for all companies providing cable modem service. "Giving consumers a choice of an ISP — regardless of whether the Internet is being accessed by dial-up, DSL, cable or wireless — is a necessary step to ensure that gateways to content and information are kept wide open," said Padilla, who chairs City Council's Information Technology & General Services Committee.

Calling FCC action "great step forward though a little late in coming," Portland (Ore.) City Comr. Erik Sten told us conditions set "tone" and precedent that rest of industry ought to follow. "We are a little bit nervous that Kennard's successor may not follow up on this," he said, but even though FCC has been "a little slow and even too cautious" to take on issue, "good news is good news." Saying FCC's move "doesn't do much for us in Portland" because AOL-TW doesn't operate there, Sten said only way to have "true" open access was through federal policy.

San Francisco cable regulator Brian Roberts, whose city was among those that toyed with open access legislation, said he anticipated that FCC's conditions would end up applying to other cable operators. He said FTC and FCC conditions on ISP access to cable lines reflected city's position set out in reply comments to FCC's open access inquiry.

NCTA officials said "FCC's conditions must be viewed as AOL-specific" because of company's domination of U.S. Internet market and said they would continue to fight fiercely against turning open access NOI into rulemaking. "The ruling did not establish principles that can or should apply to all cable operators, none of whom serve more than 2% of Internet users in the U.S.," NCTA Pres. Robert Sachs declared. N.J. Cable TV Assn. Pres. Karen Alexander said she didn't expect FCC to extend open access conditions to other MSOs because it took action in response to specific company's ability to control marketplace.

Cable officials also expressed hope that Republican-run Commission under Powell, who dissented from most of conditions in FCC's merger approval order, would go no further than Democratic Commission did under Kennard. Indeed, pending prospect of Republican rule made some consumer advocates nervous that FTC and FCC open access conditions might never be vigorously enforced. "The conditions put in place by the FTC and the FCC are useful and potentially important provisions, but one has to wonder if the FCC or the FTC will have its heart in enforcement under a Bush Administration," said James Love, dir. of Consumer Project on Technology. Love said that Powell, whose father sat on AOL board, "not only was opposed to the conditions placed on AOL-Time Warner, but he ridiculed the majority's decision."

Cable critics said they also would push Commission to act on its proposed proceeding on possible interactive TV (ITV) rules for cable industry. Well-placed sources said proceeding, expected to be approved as either NOI or NPRM by end of this week, will explore barring all cable systems that offer interactive services from blocking ITV triggers from rival content providers, just as FTC imposed on AOL-TW. They said proceeding also could look at prohibiting cable operators from favoring their own content by caching it on local servers or sending it at higher data speeds than content from unaffiliated providers. "I think we're going to ask a lot of questions and get feedback from the companies," Comr. Ness said at FCC news conference Jan. 12, while declining to comment on what conditions she favored.

At same conference, Kennard said Commission opted to proceed with broad industry NOI or NPRM on ITV after deciding it was "too early" to apply specific conditions to AOL takeover of TW. But cable officials, alarmed by move, said they would strongly oppose any attempt to impose rules on entire industry. "To commence a rulemaking — one that could bind hundreds of companies that have nothing to do with this merger — is totally unwarranted by the facts," Sachs said. "Interactive television has yet to take form as a business. It's regrettable that, in order to break an apparent deadlock over merger conditions, the Commission decided to take this action."

In another stratagem, some cable critics plan to lobby new Bush Administration and Congress to enact proposed Title 7 regulatory plan that would impose similar high-speed data rules on phone companies, cable operators and other broadband players. Citing conflicting rules for AOL-TW, cable operators in western states, other MSOs and phone companies, they argued that this "crazy patchwork quilt of regulation" threatened future of Internet. "It's now incumbent on Congress to bring coherence to the broadband marketplace," said John Raposa, Verizon vp-assoc. gen. counsel, whose company backs that effort. He said such "uniform set of rules" probably would be "something more than the no regulation that AT&T has and less than the hyperregulation that ILECs have."

Relying on its broad public interest authority over spectrum license transfers, FCC went beyond FTC in imposing conditions on new AOL-TW combination. Specifically on open access front, Commission said AOL-TW: (1)

Must open its high-speed cable lines to up to 3 rival ISPs per market, as already required by FTC. (2) Must allow cable subscribers to select participating ISP by method that doesn't favor AOL affiliates. (3) Must permit all unaffiliated ISPs to control content of their customers' first screen. (4) Must let participating ISPs directly bill their high-speed customers if they wish. (5) Must offer same technical performance standards that its affiliated ISPs enjoy to unaffiliated ISPs. (6) May not enter into any contract with ISPs that prevents them from disclosing terms to FCC confidentially.

On instant messaging (IM) service front, FCC gave AOL-TW choice of 3 options for complying with its requirement that company open any cable-delivered high-speed IM service to competitors. Specifically, Commission said AOL-TW: (1) May show it has implemented industry-wide standard for server-to-server interoperability. (2) May show it has signed contract for server-to-server interoperability with "at least one significant, unaffiliated provider" immediately and 2 additional rivals within 180 days of first contract. (3) May seek relief "by showing by clear and convincing evidence this condition no longer serves the public interest, convenience or necessity because there has been a material change in circumstances." At news conference, Kennard said AOL-TW might, for instance, cite market share statistics showing that its IM services no longer dominate market.

On other matters, Commission ruled that AOL-TW: (1) May not make deal with AT&T that gives any AOL-TW ISP exclusive access to any AT&T cable system. (2) May not enter any agreement with AT&T that "affects AT&T's ability" to offer any rates, terms or conditions of access to non-AOL-TW ISPs. (3) Must notify Cable Bureau and International Bureau in writing of any transactions that boost company's stakes in General Motors Corp. and/or Hughes Electronics Corp., parents of DirecTV, no later than 30 days after transaction.

In statement, Kennard called conditions "forward-looking and fair" and argued that they "avoid heavy-handed regulation by using a narrowly tailored market-opening approach." Citing particular concerns about "the future of the instant messaging platform, the ability of competing broadband ISPs to access Time Warner's cable systems and the potential for discrimination in the interactive television space," he said that "the power of these players is immense and so is the potential for anticompetitive behavior." At news conference, he also argued that he had sought to keep regulatory hands off Internet by not imposing IM interoperability standard. "It's all about preserving the open culture of the Internet," he said.

Fellow Democratic Comrs. Ness and Tristani lauded merger conditions as way to keep Internet open and promote competition among ISPs. Tristani, who had pushed for even tougher IM conditions, said she accepted compromise provisions because they "go a long way to protect consumers." But Republicans Furchtgott-Roth and Powell, while approving merger, dissented from either most or all of conditions because they doubted FCC's authority or majority's reasoning. Powell particularly questioned IM conditions, expressing concern about "the implication for Internet regulation."

**In face of major ad** slump for all TV networks, sources said NBC was preparing to make across-the-board personnel cutbacks in all divisions — including owned TV stations and cable networks. NBC, News Corp. (Fox) and ABC already have hiring freeze in place. Also expecting large-scale staff reductions are employees of Time Warner — particularly at CNN — now that takeover by AOL has been consummated (see separate story, this issue), source said. CNN in Nov. had warned staffers to expect layoffs. At NBC, up to 600 employees are expected to be dismissed and/or offered buyouts over next 6 months, with layoffs to start soon, source said. Network with its various subsidiaries has work force of about 6,000.

**President Clinton** formally renominated FCC Comr. Ness again for new term, throwing her bid to stay on Commission back to Senate Commerce Committee for consideration. Ness was renominated last year, but Committee Chmn. McCain (R-Ariz.) never scheduled confirmation vote, and she currently functions under recess appointment that expires as soon as another commissioner is appointed. If cleared by Committee, Ness's 5-year term would start from July 1, 1999, expiration of her last one. However, Commerce Committee spokeswoman said panel would concentrate on confirming Bush cabinet members before considering Ness's situation.

**Speakers at CES** in Las Vegas last week were touting future of interactive TV as new business model for broadcasters. Among expected "driver" applications, speakers said, are sports and news information on demand, interactive children's TV, instant messaging via TV. Fox TV Group Vp-Interactive Eric Shanks said his company had been experimenting with interactive TV overseas and its most successful launch to date was start of interactive TV gambling service in U.K. several weeks ago: "Of course, there are a couple of hurdles for that in the U.S." Despite optimism, WebTV Vp Shari Glusker said interactive TV wasn't slam dunk. She said interactive TV companies needed to find "creative ways" for broadcasters and advertisers to generate new revenue stream from interactive TV: "Otherwise, this will be back-burnered." Glusker said WebTV's biggest "lesson learned" from slower-than-expected rollout was that dial-up return link was "a less than fabulous experience. Frankly, it sucks." She said interactive TV wouldn't be fully successful until there was broadband return link, and WebTV "has a product right around the corner" with broadband connections.

**StreamAudio** will provide audio streaming and revenue-sharing ad insertion technology for all 83 Cox Radio stations under new agreement with Cox Radio Interactive. Cox is 4th largest radio owner in U.S., based on revenue.

**UPTON HEADS TELECOM PANEL:** House Telecom Subcommittee will be headed by Rep. Upton (R-Mich.), but Commerce Committee Chmn. Tauzin (R-La.) carved out Trade & Consumer Protection Subcommittee for Rep. Stearns (R-Fla.). Trade Subcommittee will have jurisdiction over privacy, trade and other commercial practices within purview of FTC, while Telecom panel will keep all telecom and other media issues. "There's still some gray area that has been resolved" on jurisdiction, Committee spokesman said, but "we have a road map we can follow."

Seven new members were added to Senate Commerce Committee, and Democrats filled out their membership on other committees. Panel will be bigger than last year — 22 members vs. 20 — and GOP had extra spot opened with departure of Sen. Frist (R-Tenn.). Four new Republicans are: (1) Sen. Allen (Va.), who was heavily backed by high-tech companies. He continues rising influence of Va. on Internet issues; (2) Sen. Ensign (Nev.), who takes panel seat as well as Senate seat of retired Sen. Richard Bryan (D-Nev.). (3) Sen. Smith (Ore.). (4) Sen. Fitzgerald (Ill.).

Three new Democrats are Sen. Boxer (Cal.), well known as supporter of high-tech issues, and Sen. Edwards (N.C.) who backs tough privacy legislation. Sen. Carnahan (D-Mo.), like Ensign, fills Commerce seat that had been held by former Sen. John Ashcroft (R-Mo.).

Most of newcomers have slim records on telecom industries' important issues. Senate Commerce panel, where almost 1/3 of members are new, "is a committee that really has to learn" issues quickly, said one official. New head of House Telecom Subcommittee has little history on issues. Only issues he cited in release Jan. 11 were technology in classroom and telemedicine. He's most known among lobbyists for pushing bill (HR-1291) last year that would have prevented FCC from taxing Internet. Of course, "reality is that telecom is going to be driven by the chairman [Tauzin]," said Precursor Group analyst Scott Cleland.

In other Democratic announcements, Sen. Cantwell (Wash.) and Durbin (Ill.) were added to Judiciary Committee. Extra spot was opened on 9-member Democratic side when Sen. Torricelli (D-N.J.) departed for Finance Committee. Judiciary will handle intellectual property matters such as Webcasting. Cantwell is former executive of Webcasting company RealNetworks.

Still pending are committee assignments for Senate Republicans and House Democrats, who face similar problem: Having done worse than they expected in Nov. elections, they've overcommitted seats. On House Commerce Committee, Democrats have just 2 seats available, and front-runners are Reps. Harman (Cal.), who has written promise from Democratic Leader Gephardt (Mo.) that she gets seat on Commerce, and John (La.), who is backed by Commerce ranking Democrat Dingell (Mich.). Others pushing for slots include Rep. Davis (D-Fla.) and Doyle (D-Pa.). Gephardt isn't expected to announce his decisions until near Jan. 20, using remaining time to cut deals with members and pressure Republicans for more spots.

FCC, CPB and others that live off spending bills have new House Appropriations Committee subcommittee chairmen to lobby. House Republicans named Rep. Wolf (Va.) to head Commerce-Justice panel, replacing Rep. Rogers (R-Ky.), who moves to chmn. of Transportation Subcommittee. Rep. Regula (R-O.) takes spot of retired former Labor-HHS Chmn. Porter (R-Ill.). Among others, Rep. Taylor (R-N.C.) takes Legislative Branch panel and Rep. Istook (R-Okla.) gets Treasury-Postal.

**STRIKE PREPARATIONS BEGUN:** Threatened strike against TV networks this spring by Writers Guild of America (WGA) and other unions was a major issue last week as networks met with TV critics in Pasadena. "Everyone that's involved on both sides says there's going to be a strike," WB CEO Jamie Kellner said, but "I think there's going to be a lot of reasons to avoid a strike." He and other network executives said they had contingency plans in place in case there was strike, mostly involving "reality" programs and expanded news operations.

CBS TV Pres. Leslie Moonves, for example, said network had ordered new *Survivor* series 3 and 4 — to follow *Survivor 2*, which begins its run immediately following Jan. 28 Super Bowl. Third in series will air in fall as hedge against possible strike by writers and actors. "That's all part of the game plan," along with extended new or expanded editions of news programming, he said at TV critics session. Reality shows are "not union dependent," Moonves said. "We hope the strike can be avoided, but we are ready... Obviously, everybody is going to be doing the same thing" in stockpiling reality programming in case of strike. He joked that if Super Bowl were "a blowout, we may eliminate the 4<sup>th</sup> quarter and go right to *Survivor*... and hopefully in the near future we'll be announcing *Survivor 19* and 20."

NBC Entertainment Pres. Jeff Zucker, who has been in job less than month, said "obviously," with threat of strikes against networks and movie companies, "we're going to look at nonscripted programming." His boss, NBC West Coast Pres. Scott Sassa, said "some form of alternative programming" had become necessity for all networks. To that end, he said, NBC has 4 nonscripted shows in various stages of production — 2 in-house and 2 from outside producers. Network bought reality quiz show *Weakest Link* from BBC that's expected to be ready for airing in spring. As for strike possibilities, Sassa said "we have made plans and I hope that these plans go for naught." NBC has been holding strike-contingency meetings for 10 months to devise plans.

"Of all the networks, we are situated very nicely... we are in very, very good condition" in case of strike by writers and/or actors, but "I would rather not get into specifics" about steps NBC is taking, Entertainment Co-Chmn. Lloyd Braun said. "We really don't want to develop or put on the air any show that we wouldn't otherwise put on the air if there wasn't a strike." Some of that preparation involves reality shows, but fellow Co-Chmn. Stu Blumberg said "it's not a function of us saying we've got to put so much reality on the air" — programming staple being used by other networks in strike preparation.

WB has at least 4 "reality" programs under development, plus advantage of being able to add movie night by using affiliate Turner Bctg.'s huge library of films, Kellner said. UPN Pres. Dean Valentine said reality shows were "a useful tool to have should a strike occur [but] we really began developing reality because we always believe" in that programming genre. But, he said, they're not really intended as strike protection. Reality shows are "easier and cheaper to produce... and they seem to appeal to a larger percentage of our younger demographics." On strike possibility, Pax TV's Jeff Sagansky didn't mention reality shows but said: "We're trying to get ahead in the scripts, but we're largely going to be unaffected, no matter what."

Rep. Oxley (R-O.) may have lost his bid to lead Commerce Committee, but he still could have influence on telecom policy. He introduced bill (HR-235) to require FCC to eliminate its restrictions on newspaper-broadcast cross-ownership.

**KENNARD LEAVES JAN. 19:** FCC Chmn. Kennard made it official: He's leaving Jan. 19 "with great pride in the accomplishments of the Commission" and "deep gratitude" for opportunity to serve, he said in resignation letter sent to President Clinton. Kennard said that for "next few months" he will be senior fellow of Aspen Institute's Communications and Society Program in Washington, and first chairman of program's new advisory board. However, his immediate plans are to "get some rest and spend some time with my 10-month-old," he said. He said he hadn't decided what he would do after Aspen Institute.

Kennard said farewell to fellow commissioners and agency staffers at Commission meeting Jan. 11. In packed, emotional session filled with others' tributes to his warmth, good humor and commitment to helping minorities, disabled and native Americans, Kennard wished his still-unnamed (but expected to be FCC Comr. Powell) successor "a great deal of success." Kennard had chaired FCC since Nov. 1997 and had served as agency gen. counsel for 4 years before that.

FCC bureau chiefs, senior staff and fellow commissioners spent more than half of meeting showering Kennard with accolades as Commission dealt with dramatically reduced agenda after dropping 3 controversial DTV items and earlier approving order on video description and emergency information for visually impaired.

FCC Gen. Counsel Christopher Wright pointed to Kennard's work in areas such as improved communications access for persons with disabilities and in poor areas and highlighted "high level of collegiality" at agency. Wright said he was chosen to speak for all senior staff because if individuals had spoken on their own behalf, meeting would have run too long. Powell joked that it was testament to Kennard's leadership skills that he could get that many individuals at agency to agree "to let one person [Wright] speak for them."

Ness called Kennard "loved" and "wonderful" and said his "sweet tone and demeanor have really set a standard at this agency." Furchtgott-Roth, acknowledging his disagreements with chairman, said Kennard was "what he appears to be and that is a very thoughtful, very sincere and extremely friendly individual." Referring to "those of us who are left here," Powell said "we will always see your footprints in the sand." Tristani, also acknowledging disagreements with chairman, cited Kennard's strong commitment to Native American issues and low-power FM radio.

New cable industry study found that 79% of digital cable and 55% of analog cable subscribers were "very or somewhat receptive" to interactive TV (ITV) features. CTAM study, involving online interviews with 525 cable customers in 6 major markets, showed video-on-demand (VoD), personal video recorders (PVRs) and local news and information to be most attractive of core interactive features. Customers expressed most willingness to buy VoD services, with 71% of digital cable and 67% of analog cable subscribers saying they would do so. Study also found that cable customers most receptive to ITV features already were tinkering with more rudimentary forms of interactivity, colocating PCs in same room as TV sets and using both devices simultaneously. Most receptive consumers also tended to be 18-34 years old, pay-cable subscribers, frequent pay-per-view users and videotape renters, high-speed data subscribers and owners of big-screen TVs and DVD players.

**POWELL ISN'T ACTIVIST:** Preserving "fair use rights" of consumers to record programming using new technologies such as DFAST cable box, like other copyright issues, isn't FCC responsibility, FCC Comr. Powell said at CES in Las Vegas last week, saying Commission role in such issues was "extremely limited, if at all... This is an issue best left to the industries and others unless the Congress directs otherwise." Powell is said to be front-runner to become FCC chmn. following expected resignation of Chmn. Kennard. In earlier keynote, CEA Pres. Gary Shapiro said "protecting home recording rights... remains a priority for CEA... We will be fighting hard on Capitol Hill and beyond to prevent a rollback of home recording rights."

FCC's role in "social policy" issues such as objectionable content is "whatever Congress tells us," Powell said. He said he was "not a fan of affirmative use of regulatory authority for social policies." Limited FCC role doesn't mean policies aren't important, Powell said, but "the debate is best left to institutions that directly represent the public." He said it was better that "a decision that reverberates throughout the nation" be made by majority of 535 federal legislators acting on bill signed by President than that decision be made by 3 FCC commissioners. Powell acknowledged that he might object to programs such as Howard Stern radio show, but "as long as I have the tools to protect my family from it, I don't have a problem with those who choose to listen, for whatever reason."

Meanwhile, it's time for FCC to begin looking at spectrum management, Senate Communications Subcommittee Chmn. Burns (R-Mont.) said. He said it could be "a big issue in this Congress" since there's "never been a national policy on spectrum management." However, he said that he was reluctant to put limits on how broadcasters used DTV spectrum, saying "once you own spectrum you have property rights and the government shouldn't dictate what you can do. All the FCC can do is make sure you stay in your lanes." FCC Comr. Ness said spectrum management was "very complex" because spectrum was used more intensively in U.S. than elsewhere. She said FCC needed assurance from Congress that it had "the technology resources and engineers to be able to effectively referee" spectrum issues.

Consumer Electronics Retailers Coalition (CERC) urged FCC to reject NCTA and Time Warner petitions for reconsideration of agency's cable-ready labels for new DTV sets. Signaling no letup in battle between consumer electronics and cable industries over DTV set labels and other DTV-cable compatibility issues, CERC argued that real problem was OpenCable specifications for advanced digital cable set-top boxes and integrated TV sets, not set labels adopted by Commission. In 10-page filing, CERC criticized cable industry for not supporting digital cable boxes "capable of competition with the MSO-distributed products now on the market." Group said it was "cable industry compliance, not the labels, that needs to be reformed." CERC also said NCTA was seeking to "turn this labeling proceeding into a substantive mandate that all OpenCable-reliant DTV receivers must include the '1394' interface" favored by cable and broadcasting industries for digital sets. CERC said cable industry's own focus group studies showed that "the labels previously recommended by NCTA are... not good enough."

Helgi Walker, aide to FCC Comr. Furchtgott-Roth, will move to White House as assoc. White House counsel and special asst., his office said. Walker, who specialized in mass media and cable issues, will be replaced by Ben Golant of FCC Cable Bureau.

**DATA CONCERNS 'MISPLACED':** Broadcasters offering data services are "very comfortable" that they can have good data business without running afoul of congressional pressure for HDTV, Matt Jacobson, exec. vp of iBlast, told CES in Las Vegas last week. Geocast Vp John Abel said hearing by House Telecom Subcommittee Chmn. Tauzin (R-La.) to pressure broadcasters on HDTV was "baloney."

Broadcasters can use available capacity for data when stations aren't carrying HDTV, and "opportunistic" capacity — at least 3-5 Mbps — for data even when HDTV is airing, Jacobson said. Stewart Park, Granite Bcstg. vp-digital and one of organizers of datacast consortium, agreed station could "deliver good HDTV pictures and still have capacity available" for several Mbps of data.

Broadcasters shouldn't have to worry about HDTV, Abel said, because there's "nothing in the '96 Telecom Act requiring HDTV or forbidding data." He said there also was nothing in FCC rules that would block data, and Commission orders actually encouraged it. Hearing by then House Telecom Subcommittee Chmn. Tauzin (R-La.) unfairly "cast a pall over DTV and datacasting," Abel said, causing broadcasters to be afraid now to even mention data. However, Park said "there is law and there is politics, and they're not always the same." He said HDTV pressure in Washington was based on "a number of misperceptions," but said Bcstrs. Digital Co-op of 17 station groups, including Granite, was trying to make sure it "understands not only the specifics of the law, but the political will."

Datacasting may be necessary to make DTV transition economically viable and faster, speakers said. Abel said datacasters "are the only ones who have a business model that has even a remote possibility of working," and "it's even difficult on the data side." Saiprassa Naimpally, COO of Panasonic Labs, said there were other possible ancillary services that could help, including delivering audio services: "Audio has really been ignored a little bit in DTV." Iblast's Jacobson said data streams could be used for variety of audio and video services, as well as pure data, including video-on-demand and subscription music.

Despite that, Bcstrs. Digital Co-op stations are moving slowly on data, Park said: "We believe it is premature to spend a lot of money to build infrastructure that might not be right for future data services. We consider ourselves the owners of valuable property with a sign on it saying 'will build to suit.'" Unlike stations that are rushing to sign digital datacasting deals, Park said Co-op members believed it was "far less risky to be late to the party than to do it wrong."

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HDTV is "still a very early adopter market," Mark Snowden, senior analyst with Gartner Dataquest, said at CES session. He said early adopters enjoyed talking about technical details, but said HDTV wouldn't become mass market product until consumers didn't need to know details. He also said DTV transition had been slowed by wave of other new technologies competing for consumer attention. For example, he said interactive TV could generate \$4 billion incremental annual revenue by 2004, mostly from ads and from commissions on sales via interactive TV, which he said could generate \$11 billion in sales by 2004. Agreement with AOL and Time Warner indicated that FTC "really gets it, finally" about importance of interactive TV, Snowden said: "It means that interactive TV won't operate without an overseer. If the industry doesn't cooperate, it runs the risk of having an interactive TV czar" at FTC.

**Writers Guild of America (WGA)** called for negotiations on new contracts with movie and TV program producers to begin Jan. 22, with 2-week deadline to reach agreement before current contract expired May 1. If those sessions failed to produce agreement, WGA said it wouldn't return to bargaining table until early April — with both sides now predicting strike was likely. Studios and networks also were facing negotiations later this year with Screen Actors Guild and American Federation of TV & Radio Artists, raising likelihood that 3 guilds could strike at same time. Programmers have charged that WGA proposals (if picked up by other unions) would cost them more than \$2.2 billion additional over next 3 years — more than they now are expected to make in profits. WGA disputed that, saying guild's proposal would cost studios \$725 million over next 3 years. Dreamworks head Jeffrey Katzenberg told reporters that WGA demands would have ripple effect that could bankrupt producers. Mostly at issue are future revenues from new media, including Internet, DVD, videocassettes. Disney's Robert Iger said programmers were curious as to why WGA had put 2-week limit on early negotiations: "It's our intention to begin when we begin and to continue for as long as we possibly can" to reach agreement. Program executives said it wasn't their intention to conduct negotiations in media but to send clear signal to WGA that its members should lower their demands. Programmers went out of their way to dispel idea that studios had rigid negotiating strategy or that they secretly welcomed strike, saying 14 companies that are members of Alliance of Motion Picture & TV Producers were in agreement. Negotiations will start with sharp division between parties, with guild claiming its members haven't received fair share of "the dramatic increases in revenues in both screen and television," according to recent report to WGA membership. Last WGA strike against studios, in 1988, lasted 5 months.

**Justice Dept.'s Telecom Task Force** asked for input on how to improve its merger review process. Task force chief Donald Russell sent letter to 50 communications attorneys inviting them to March 1 private meeting to participate in "informal, off-the-record discussion." Discussion topics listed in Jan. 10 letter: (1) Do initial task force investigations lead to "success in efficiently distinguishing between transactions which raise substantial competitive concerns and those which do not?" (2) How can task force best improve its "understanding of commercial or technological considerations relevant to our competitive analysis." (3) How would attorneys compare task force merger review and processes with FTC, FCC, other sections of DoJ's Antitrust Div., foreign antitrust agencies. (4) How could "second-request process be modified to promote the efficient and focused production of relevant information and documents."

**NCTA** said FCC's latest video competition report confirmed "irrefutable trend of the last five years" that DBS had emerged as cable's biggest video rival and was "rapidly becoming a significant competitor in data as well." NCTA said report, which indicated that cable's dominance of pay TV market was slipping because of DBS, also showed no new regulation of cable industry was needed. "Competition from satellite, wireline overbuilders and wireless operators is benefiting consumers," group said. "It has made cable rise to the challenge by providing digital tiers, video-on-demand and data and phone services. This competition is reason enough to reject government micro-management of these communications markets."

**U.S. Copyright Office** started 6-month negotiation period for adjustment of royalty rates and terms for performance of copyrighted sound recordings by preexisting subscription services and satellite digital audio services. Negotiation period began Jan. 9 and those who want to participate must notify Copyright Office by Jan. 31.

## Personals

**David Marvento**, legislative dir. for Rep. Tauzin (R-La.), will follow him to House Commerce Committee as staff dir... **Scott Dinsdale**, ex-FirstLook, appointed exec. vp-Digital Strategy, MPAA... **Ronald Walter** promoted to vp-govt. & cable relations, N. Y. Times Bcast. Group... **Lance Simmens**, ex-Small Business Administration, appointed dir.-govt. relations, Screen Actors Guild.

**Paul McGuire** resigns as UPN senior vp-communications to become Disney media consultant... Promotions at USA Affiliate Distribution: **Douglas Holloway** to pres.-network distribution & affiliate relations, **Peter Ruben** to exec. vp-affiliate relations, **Tom Smith** to senior vp-eastern division, **Mark Bienstock** to senior vp-business affairs & gen. counsel... Promoted at 20th Century Fox: **Ted Gagliano** to pres.-postproduction, **Joe Hartwick** to pres.-physical production.

**Andrew Fisher** promoted to pres., Cox TV... **Berry Smith**, senior vp, Schurz Communications, retires Jan. 31... **Pat Patton**, ex-KMBC and KCWE Kansas City, named program dir., KRON San Francisco... **Andrew Rosen**, regional vp-sales, Clear Channel, adds exec. vp-mktg., replacing **John Fullam**... **Bob Walker**, ex-KQMB Salt Lake City, becomes program director, WKTI Milwaukee.

**Sallie Fraenkel** advanced to senior vp-mktg. & operations, program enterprises and distribution, Showtime... **Michael Brouder**, ex-WBZL Miami, appointed dir.-creative services, WGN Cable, Chicago... **Kathy Payne** promoted to programming dir., Cox Communications... **Dave Wampler** advanced to finance dir.-central and eastern regions, CableRep Advertising... **Jonathan Shair**, ex-Bravo/Independent Film Channel, appointed vp-program scheduling and planning, Starz Encore Group... **Kathy Jia** promoted to gen. mgr., MediaWave Advertising... **Robert Gerrard** advanced to exec. vp-gen. counsel, Scripps Networks.

**Paxson** announced series of TV station transactions, including: (1) It agreed to sell KBPX (Ch. 13) Flagstaff and WPXS (Ch. 13) Mt. Vernon, Ill., to Equity Bcstg., terms not disclosed. Stations will remain Pax affiliates. It said sales were move toward complying with FCC ownership cap. Deals mean Paxson stations will reach 33.1% of U.S. households, it said. (2) Pax TV signed joint sales agreements with Scripps-owned NBC stations in Kansas City (KSHB-TV, Ch. 13), Palm Beach (WPTV, Ch. 5), Tulsa (KJRH, Ch. 2). NBC stations will provide sales and marketing infrastructure for Pax stations. (3) Paxson signed joint sales agreement with Dispatch Best. station WTHR-TV (Ch. 13, NBC) Indianapolis. WTHR-TV will provide sales and marketing for WIPX-TV (Ch. 63) Bloomington, Ind.

**AT&T and Insight** Communications said they closed on their previously announced deal to add 530,000 cable subscribers to their Insight Midwest joint venture managed by Insight. Under agreement, AT&T is contributing systems in Ill. with 250,000 subscribers, while Insight is adding systems in Ga., Ill., Ind. and Ohio with 280,000 customers. Deal expands Insight Midwest's total reach to 1.4 million cable subscribers, almost entirely in Ill., Ind., Ky., Ohio. In conjunction with transaction, Insight said it closed on new \$1.75 billion credit facility to finance expanded venture.



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**NAB said 6 more** TV stations had begun broadcasting digital signals, raising industry DTV total to 172 stations in 60 markets. New DTV stations are: (1) WALA-DT Mobile, Fox affiliate owned by Emmis Communications. (2) KTXA-DT Dallas, UPN affiliate owned by Viacom. (3) WVIA-DT Scranton, PBS station licensed to Northeastern Pa. Educational TV Assn. (4) KXAN-DT Austin, NBC affiliate owned by LIN TV. (5) WNBC-DT N.Y.C., NBC owned station. (6) KDNL-DT St. Louis, ABC affiliate owned by Sinclair Best. Group.

# Consumer Electronics

A Section of *Television Digest* with Consumer Electronics

## STATE OF THE INDUSTRY

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

	DEC. 23 - DEC. 29	1999 WEEK	% CHANGE	DEC. 16- DEC. 22	52 WEEKS 2000	52 WEEKS 1999	% CHANGE
TOTAL COLOR TV	529,605	503,711	+ 5.1	502,546	30,355,101*	28,869,000	+ 5.1
DIRECT-VIEW**	501,016	472,124	+ 6.1	478,591	29,139,205*	27,637,310	+ 5.4
TV ONLY#....	439,070	389,857	+ 12.6	428,172	24,175,344*	23,218,839	+ 4.1
TV/VCR COMBO.	61,946	82,267	- 24.7	50,419	4,963,861*	4,418,471	+ 12.3
PROJECTION...	28,589	31,587	- 9.5	23,955	1,215,896	1,231,690	- 1.3
TOTAL VCR**...	267,707	463,929	- 42.3	292,178	28,035,402*	27,227,429	+ 3.1
HOME DECKS...	205,761	381,662	- 46.1	241,759	23,071,541*	22,808,958	+ 1.2
CAMCORDERS.....	103,146	76,218	+ 35.3	80,923	5,848,023*	4,790,302	+ 22.1
DVD PLAYERS....	317,033*	164,242	+ 93.0	143,967*	8,498,545*	4,071,938	+108.7

**Direct-view TV 5-week moving average#:** 2000-508,590; 1999-418,595 (up 21.5%).

**Projection TV 5-week moving average:** 2000-28,490; 1999-32,472 (up 12.3%).

**VCR deck 5-week moving average:** 2000-296,614; 1999-387,923 (down 23.5%).

**TV/VCR 5-week moving average:** 2000-83,071; 1999-73,234 (up 13.4%).

**Camcorder 5-week moving average:** 2000-108,709\*; 1999-77,609 (up 40.1%).

**DVD player 5-week moving average:** 2000-260,618\*; 1999-129,258 (up 101.6%).

\* 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.

**DVD REWRITABILITY QUEST NOW GOES BEHIND CLOSED DOORS:** Announcement at Las Vegas CES came as little surprise that RW Products Promotion Initiative (RWPI) would conduct "feasibility study" to fashion framework for building "dual-compatible" recorders capable of accommodating DVD-RW and DVD+RW media in single chassis.

Announcement lacked dramatic fanfare of 1995 truce when warring Super Density and Multimedia CD sides vowed to unify their mutually incompatible disc proposals into single system that became DVD. Agreement then, which predated commercial introduction of first DVD products by 2 years, was hailed universally as being in best interests of consumers because it averted bloody format war. By comparison, parties involved behind RWPI drive to bring dual-compatible recorders to market generally were applauded as coming up with best possible solution under less than ideal circumstances.

Pioneer's Masao Sugimoto, gen. secy. of RWPI, defended dual-compatible approach at Las Vegas news conference when he told reporters that "at this very late stage, it is not practical to talk about the merger" of DVD+RW and DVD-RW into single format because each technology is on verge of market introduction. Sugimoto said: "The alternative is to offer a product that accepts both -RW and +RW blank media." He said under circumstances, dual-compatible player was best way to minimize confusion in marketplace. However, some observers challenged Sugimoto whether added confusion would result given inevitable introduction this year of dedicated DVD+RW and DVD-RW, with first dual-compatible recorder not due from Sony (and perhaps others) until mid-2002.

Sony had unveiled dual-compatible prototype at Las Vegas news conference on CES eve. Masakazu Sonoda, senior gen. mgr., DVD Div., Sony Network Entertainment Group, explained that "Sony plans to offer consumers

the combined benefits" of DVD+RW and DVD-RW "on a single hardware platform." He said "compatibility with the 2 formats will give consumers not only the assurance of a single clear product, but also the benefits of playback capability with widely available DVD players."

Sugimoto said feasibility study was proposed by 3 companies he said he wasn't at liberty to identify, but Sonoda freely admitted that Sony was one of them. We later learned that Philips and Pioneer were other 2. Companies already have loose collaboration under way in proposing next-generation HDTV-quality rewriteable disc system called DVR-Blue, prototypes of which were demonstrated at CES by Pioneer and Sony, but not Philips, which feared DVR-Blue would overshadow DVD+RW, which it was really in Las Vegas to promote.

Addition of NEC and Thomson as RWPI's 40th and 41st members created only minor surprise. There was political irony in Thomson's announcement of joining morning after restating plans to deliver DVD+RW deck in 3rd quarter. Greg Bosler, vp-video product management, Thomson Americas, said: "Compatibility with the millions of existing DVD players is one of Thomson's chief concerns as the industry begins to offer devices to record on digital discs. In fact, compatibility and ease of use have long been hallmarks of the RCA brand. We also believe that consumers will demand compatibility with their existing DVD playback products. A product that is backwards compatible is easier to explain, easier to use and easier to sell."

Later, he said RCA was committed to its plan to market DVD+RW deck despite joining RWPI that was more partisan to DVD-RW system. However, he didn't preclude future Thomson product plans of any sort, saying key would be which configuration would provide quickest path to consumer acceptance and yield most widespread compatibility with DVD-Video. From business standpoint, Bosler said, given Thomson's diversified status as key component supplier as well as finished goods producer: "It's important for us to [join RWPI] to understand the direction of DVD-RW because of our prominence in the marketplace."

Thomson decision to join RWPI leaves Philips as only major DVD+RW supporter on outside looking in at RWPI proceedings. But Sugimoto indicated at Las Vegas news conference that Philips's days as outsider could be numbered. Responding to claim day earlier by Philips Exec. Vp Guy Demuynck that his company wouldn't consider RWPI membership until group put DVD+RW on "equal footing" with DVD-RW, Sugimoto said change in mission statement to suit Philips's conditions for joining RWPI could come up for vote at next general RWPI meeting.

Although Sugimoto referred in Q&A to "the dual-compatible recorder we are developing," he denied RWPI would engage in setting standard or proposing one to DVD Forum. That's apparently just as well, given hostile reception such overture probably would face from Forum's DVD-RAM supporters such as Hitachi, Matsushita, Toshiba. We sought reaction from Matsushita's outspoken DVD point man, Sakon Nagasaki, who didn't mince words when asked about RWPI move to begin dual-compatibility feasibility study. Sugimoto had taken conciliatory tone in prepared remarks, saying that although DVD Forum-approved DVD-RAM and DVD-RW systems often were described as competitive, Pioneer's view was that "the 2 systems are actually complementary." Nagasaki warned sternly that he hoped Pioneer had no plans to propose changes in DVD-RW because "the specification is set and cannot be changed."

**NEW XBOX DETAILS UNVEILED BY MICROSOFT AT CES:** To play DVD-Video movies on Microsoft's Xbox, customer will have to buy special remote package as add-on accessory. That was one of details about Xbox we learned at CES.

But Microsoft still didn't provide pricing for game system, nor provide specific rollout date beyond reiterating that it would ship in fall in U.S. and Japan and in Europe in spring 2002.

Microsoft Chmn.-Chief Software Architect Bill Gates unveiled game console, along with system's game controller, as grand finale of his keynote speech. Throughout his speech up to that point, console had been in center of stage, literally under wraps.

As it turns out, console itself is black with what Microsoft is calling green "jewel" on center of top of box, which also prominently features large "X."

Although Gates's Xbox presentation was long on entertainment — including guest appearance by WWF wrestler The Rock — and short on specifics, Microsoft Games Publishing Vp Ed Fries was able to provide us later with some details

and address some rumors about system. In addition to confirming rumor that DVD movie functionality was not being included right out of box, he confirmed reports that specs for Xbox's GPU had indeed changed to 250 MHz from 300 MHz (TVD Jan 8 p15). Explaining reason for change, he said: "We've been balancing all sorts of different aspects of this system to make sure that the graphics performance is balanced with the processor and balanced with the memory performance. So we took actually the performance of the CPU — the Intel processor — up from 600 [MHz] to 733 and we brought the graphics performance down from 300 to 250, which is still far and away the most powerful graphics processor out there." In comparison, Microsoft said, PlayStation 2 has 147.456 MHz GPU and Nintendo's Gamecube is expected to have 202.5 MHz custom chip.

On DVD movie front, Fries explained: "Our intent was never to build a DVD player. The fact that we happen to ship games on DVDs and the games... use MPEG compression for their videos really kind of makes it so that it's dumb for us not to have it play DVDs because we have all the technology there. We're trying to build a game box for gamers. So when we started to look at added costs to the box just so that people could use it as a DVD player, we said: 'Hey, this doesn't make sense. Let's charge the people who really want to use it as a DVD player for a remote and things like that that they really need to make any realistic DVD player. And let's not charge every single gamer that price.' So that's why we decided to separate these components." He said: "My understanding of what you'll get is a remote control and an infrared receiver that'll plug into one of the controller ports so that you can then talk to the box and tell it to play your DVDs."

Although Fries couldn't provide pricing of DVD controller, he said it would be "inexpensive," saying: "The goal isn't to make money on that. The goal is just not to charge every gamer for DVD [movie] playback capability."

Meanwhile, Thomson spokesman confirmed for us that his company was supplying DVD drive for Xbox as well as its MPEG technology.

Xbox DVD tray is front-loading. Also on front of machine are 4 game controller ports that Microsoft said allow for easy multiplayer gaming and enable other peripherals, including game pads and voice-activated headsets. Ethernet port for online gaming via broadband also will be included. Console has 8 GB hard drive, which its competitors don't offer. Gates said in his Xbox introduction that there also would be built-in "rumble" feature on system and hailed system's ability to support HDTV movies and games.

Fries said only part of Xbox design that wasn't ready yet was "the most advanced part in the entire box" — GPU from nVidia, which he said would be ready later this year, before Xbox debut.

After Gates unveiled game system, Seamus Blackley, advanced technology mgr. of Microsoft's Games Div., gave first public demonstrations of games on system. Shown were sequences from 2 games under development: *Oddworld: Munch's Oddysee*, first party title published by Microsoft that was created by Oddworld Inhabitants, San Luis Obispo, Cal. and *Malice*, developed by U.K.-based Argonaut Games. Visual quality of games, as well as their sound, were indeed impressive. But Blackley said console was working at only 20% of its full capability and should be at 100% by time it shipped.

Also on software front, Microsoft confirmed that future versions of games *Tony Hawk Pro Skater 2* from Activision and *WWF Raw Is War* from JAKKS Pacific and THQ "will be optimized for Xbox." The company has yet to say how many games will ship at Xbox's rollout, but Fries told us: "Between first and 3rd party, we'll have a minimum of a dozen games at launch — probably more than that." (See other reports on CES interactive game news in separate reports, this issue.)

**EXCLUSIVE—DIRECTV-TIVO SET VoD PRODUCT:** DirecTV and TiVo will formalize agreement for video-on-demand (VoD) service within 60 days, we have learned. It will use portion of hard drive in current combination receiver, DirecTV Global Digital Media Pres. Lawrence Chapman told us. Meanwhile, DirecTV/AOLTV product has been postponed until later this year, marking 2nd time service debut was delayed.

Many details of proposed VoD service, including name and pricing, haven't been finalized, but at start it probably will rely more on niche and specialized programming rather than movies, Chapman said. To date, only one major film studio — MGM — is participating in DSL-based VoD test being conducted by Blockbuster and partner Enron. DirecTV has said that it might rely on premium programmers such as HBO and Showtime as well as original content (TVD Oct 30 p17).

Chapman declined comment on whether Blockbuster would have role in service, but told us companies would discuss it. Blockbuster announced VoD agreement with TiVo early last year and sells DirecTV service. It also is expected to take over DirecTV's 55-channel pay-per-view (PPV) service in first half once it hits sales milestone, source close to DirecTV said. PPV service will carry Blockbuster name, dropping DirecTV's DirecTicket banner, source said. Blockbuster spokesman wasn't available for comment.

VoD will use "idle capacity" on DirecTV's satellite fleet to "feed the hard drive" of combination product, Chapman said. Philips-branded DirecTV/TiVo receiver has 40 GB and 15 GB hard drives and 2 tuners, with only one activated. Second tuner is expected to be turned on in Feb. and could be used for VoD or allow user to record 2 programs while watching third off hard drive, source close to TiVo said.

Among other possible programming partners is Starz Encore which has separate agreements with TiVo and DirecTV. Starz Encore has long been proponent of VoD and last year unveiled plans for VoD and subscription VoD (SVoD) services. Starz Encore spokesman declined comment, but noted that programmer has been "aggressively promoting" VoD with MSOs and satellite services. "I think it's a question of the onus being on them [DirecTV] to be ready to do this because they're launching a whole lot of new services," Starz Encore spokesman said. "We're ready to go today, but we have to come to terms on sort of agreement."

TiVo CEO Michael Ramsey declined comment on possible service, but said agreement with DirecTV allows for allocation of bandwidth, "so we could use it for that kind of thing."

DirecTV rival EchoStar is expected to remain out of VoD fray for now. While it's investor in ReplayTV, which also has partnership with Starz Encore, no service is imminent, Satellite Services Vp Mark Jackson said. EchoStar CEO Charles Ergen said company was "taking a look at" ReplayTV's new business model that focused more on services and licensing and less on selling hardware. "I think they have a lot of good features and that makes them attractive to us, but we haven't come to a final conversation," Ergen said.

Chapman declined comment on when AOLTV service would be available, but told us delay was tied to "combination of software issues and consumer strategy." AOLTV shipped Plus one-way service last fall, but had slow sales that sources attributed to Internet company's focusing more on starting 6.0 version of its software. One-way AOLTV also suffered from \$249 price point, which wasn't competitive with Microsoft WebTV at \$99, sources said.

Meanwhile, EchoStar and DirecTV again locked horns when latter's affiliated company, Hughes Network Systems (HNS), began DirecPC's 2-way satellite-based Internet access service at CES. Pricing for DirecPC won't be finalized until March, but hardware is likely to be more expensive than \$149 receiver used in current one-way DirecPC service, said Paul Gaske, exec. vp-gen. mgr. of HNS' Consumer Div. Monthly service fee, \$49 for existing one-way service, will be competitive with cable modem and DSL offerings in \$30-\$40 range, he said. Two-way DirecPC service probably will be packaged with newly acquired Telocity's DSL. Telocity has 40,000 subscribers, but DirecTV said it was aiming for 200,000 total by 2002. Pricing for combined package hasn't been set.

EchoStar, which had focused on developing partnership with DSL provider, now will shift strategy toward seeking agreement with RBOC, Jackson said. Many DSL providers, including Covad and Northpoint Communications, have run into financial problems in recent months. "If you look at how DSL works, you want to partner with an RBOC," Jackson said. "The DSL providers are highly dependent on provisioning with the RBOCs so at the end of the day, the RBOC controls the market."

EchoStar and partner Starband (formerly Gilat-to-Home) already have begun 2-way satellite-based service that carries \$69.95 monthly charge and has USB box (\$300) that attaches to PC. Next generation of EchoStar receivers will have USB port to connect to box, Jackson said. EchoStar also is continuing to pursue 2-way Internet access service based on Ka-band satellites operated by WildBlue Communications (formerly iSky). First of satellites is expected to fly late this year and WildBlue is "on track and they're running hard and heavy," Jackson said. Separately, VisionStar filed request with FCC to transfer Ka-band satellite slot at 113° W to EchoStar. VisionStar received slot in May 1997 in first round of Ka-band allocations.

Pegasus Communications, meanwhile, has started marketing 2-way DirecPC service and is requiring dealers sign exclusive sales agreements. Pacts have come under fire from some dealers, who already were carrying Starband service. "We are in the marketplace early, have working technology and know it functions correctly,"

Pegasus Product Development Vp Christopher Walczak said. "We're proud of it and the dealer is going to be asked to make a choice." DirecPC Express hardware is priced at \$499, while service has \$69 monthly fee for non-DirecTV customers, \$59 for subscribers.

At same time, Pegasus also will market DirecPC Express Classic one-way satellite service that will use phone line for return channel. Classic receiver has \$199 price, while monthly fee is \$59 and \$49. In offering Classic, Pegasus will pick up mantle of HNS's original DirecPC, which offered similar service for 2 years but attracted only 40,000-50,000 subscribers in U.S. Existing DirecPC customers will be made aware of Classic service, but Pegasus won't have specific promotion targeting them, Walczak said. Major improvements over former DirecPC service include established dealer network and national ISP agreement with Genuity, Pegasus CEO Marshall Pagon said.

"Our primary commitment will be to the 2-way service and we hope to capture a portion of the existing service for it," Pagon said.

\* \* \* \* \*

**BellSouth's decision** to abandon plans for regional satellite service could benefit EchoStar. Latter has agreed to make Digital Sky Highway (DISH) service available to BellSouth's 120,000 former MMDS customers, with RBOC responsible for making conversions, Ergen said, but he declined to release details of agreement. BellSouth, whose MMDS service offers 73 channels in Atlanta, Jacksonville and Orlando, charged \$29 per month. Pricing of EchoStar package hasn't been established, DISH Top 100 sell for \$29. Hardware will be switched free. BellSouth will maintain MMDS through transition to DISH in early 2002. BellSouth, which first aired plans for satellite service in March (TVD March 27 p12) and had signed on Pace as hardware supplier (TVD July 31 p16), said decision to scrap plans was part of effort to focus on DSL business, which had 200,000 subscribers at year-end. BellSouth's decision also signaled end of last remnants of Americast VoD system. Americast, which was introduced amid much hype in 1996 (TVD Aug 26/96 p5), once included Zenith as hardware supplier and GTE, SBC Communications and Walt Disney Co. as partners.

**CES SEES BROAD RANGE OF TECHNOLOGY ENHANCEMENTS:** Usual high-tech atmosphere enveloping CES was even headier last week in Las Vegas on strength of new digital underpinnings for audio and video. Indeed, term "analog" seldom was heard as vendors downplayed commodity products such as VCR, light-and-play TV, loudspeakers, amps fed by digital sources.

Besides technology statements from acknowledged leaders, Jan. 6-9 show witnessed contributions from relative newcomers, such as DataPlay and TDK-partner Calimetrics in area of optical storage. And although not entirely evident on show floor, big influx of Chinese and Taiwanese manufacturers demonstrated high-tech wares behind closed doors offsite, with obvious aspirations of leap-frogging from margin-poor roles as commodity vendors. Following are technological highlights in AV displays, playback and recording technologies from CES. Reports on specific CES product developments appear throughout this issue.

**High-definition displays:** RCA parent Thomson unveiled new LCD rear-projection system for HDTV on eve of show, and Philips more quietly demonstrated similar product at its booth. RCA L50000 is 50W display that uses liquid crystal on silicon (LCOS) to achieve 1,280x720 progressive scan HD picture in package just 18" deep and under 100 lbs. Philips showed 36W prototype with same resolution and relative economies in depth and weight.

Thomson said LCOS uses reflective light-valves to project HD image on rear of screen. White light generated by lamp is processed into beam, then separated into red, green and blue components by optical prism. RGB light streams are directed to 3 color-specific, 0.78" LCOS imagers, each modulated with HD video signals, then recombined in same prism to form single image stream. That is magnified 70x by 11-element lens for final display.

Brightness is 5x greater than CRTs and uniform across screen, which has 2.76 million actively lit pixels, Thomson said. Set will have 3 color temperature settings, including NSTC-standard 5,600° Kelvin favored by videophiles. Thomson said 30 of its engineers in Indianapolis worked on \$25 million development project. Company also acknowledged cooperation on system from ColorLink (optical prism), Corning Precision Lens (illumination and projection optics) and Three-Five Systems (microdisplay silicon imagers). Set has integral tuners for terrestrial and DirecTV HDTV signals and is due to ship in 2nd quarter at \$6,000-\$8,000, Thomson said.

**Digital video recording:** While war of words continued amid some signs of conciliation among rival rewritable DVD camps, JVC announced it soon would start selling D-VHS videocassette recorder for high-definition content — and playback of prerecorded movies on HD tape.

Announcement came as 3 Hollywood studios pledged support for High Definition Copy Protection (HDCP) system JVC developed, although studios' endorsements fell short of promising prerecorded movies for D-VHS. Nonetheless, Fox, Universal and Warner-affiliate New Line lent movie clips to JVC for CES demonstration. Involvement of New Line was intriguing, because Warner is known to oppose new digital prerecorded formats that might distract attention from DVD juggernaut. Sony's Columbia Tri-Star similarly have expressed no interest in prerecorded D-VHS.

D-VHS format is capable of recording 4 hours of HD programming at 1080i resolution and can play and record standard VHS. HDCP's own content encryption is abetted by use of Digital Video Interface (DVI) connector found only on HDTV sets, which alone have HDCP decoder. DVI hookup and HDCP decoding aren't included PCs — reassurance to movie industry fearful of content's being retransmitted digitally on Internet. Other copy-protection claim for D-VHS is that it doesn't compress digital video, making it impractical for pirates to upload large, slow image files. Pending other copy protection issues, first D-VHS deck should ship in U.S. in spring at about \$2,000, JVC said.

**Digital audio recording:** In compressed audio category, Thomson used CES to demonstrate new MP3 codec that New Business & Intellectual Asset Management Vp Henri Linde called "an improvement of the MP3 software." He said new coding-decoding format "basically doubles" music compression capacity for flash memory "while maintaining the quality" of current, widely used MP3.

New MP3Pro delivers "even stronger audio performance" than MP3, enabling 128 kbps performance quality at 64 kbps encoding rate, Thomson Worldwide Audio Vp Mark Redmond said. Company also said higher quality at lower bit rate would help Internet radio broadcasters by lowering their bandwidth costs. Thomson said new codec was being developed for it and licensing partner Fraunhofer Institute by Coding Technologies, privately held European company.

New codec is backward compatible, so it can be played on any digital audio player that can play MP3, Thomson said. Company also said MP3 content could be decoded by MP3Pro players to be manufactured in future by Thomson and its competitors. But company pointed out that user must have MP3Pro-compatible device to actually hear better sound quality of MP3Pro file. Thomson said MP3Pro would be implemented first for Windows 98 and ME, Macintosh and Linux systems. New codec will be implemented in digital audio devices later this year.

Thomson said it expected MP3Pro to replace MP3 eventually. Meanwhile, makers of compressed-music playback devices said they would be making players codec-upgradable to accommodate heightened promotion of AAC and Windows Media Audio platforms.

**Optical storage:** Downsized optical discs and more capacious ones in standard CD-size made debut at CES.

DataPlay — dollar-coin-size disc with 500 MB storage for personal recording or prerecorded material — had large CES exhibit with supporting hardware and content vendors. DataPlay devices for music, electronic books, digital photos and other content are expected to arrive in U.S. later this year, Boulder, Colo.-based DataPlay said. Manufacturing partners include Imation, Samsung and Toshiba, with EMI and Universal Music pledging software support (latter also is largest DataPlay equity holder). CE makers demonstrating DataPlay devices at show included CMC, Creative Labs, Eiger Labs, Microsoft, Samsung, SonicBlue, Toshiba.

Meanwhile, MultiLevel (ML) Recording Alliance of TDK and Calimetrics got new partner for CD-size rewritable disc with 2.1 GB capacity — 3x that of current blank CDs and 50% more than Philips/Sony Double Density CD. At CES, ML Alliance announced that Sanyo Semiconductor would provide Calimetrics-developed chipsets that enable conventional CD recorder to write triple-density data on \$2 ML-enhanced discs. Sanyo said chipsets would be available in 3rd quarter, enabling consumer recorders to hit market by year-end. Sanyo also took "significant" but unspecified equity position in Calimetrics.

\* \* \* \* \*

CEA reported that 122,422 persons from 120 countries visited Las Vegas CES during its 4-day run. Group said 2001 attendance slightly exceeded 2000's record of 122,244, but was far above CEA projections of 110,000. Independently audited final attendance figures will be released in spring, CEA said.

**MORE NUON SUPPORT FOUND:** Latest DVD hardware manufacturer to jump aboard Nuon bandwagon is LG Electronics (LGE). VM Labs announced agreement with LGE at CES in Las Vegas, while also revealing variety of other deals expanding support for its Nuon interactive DVD technology.

Other companies now backing Nuon include 20th Century Fox Home Entertainment, which will ship industry's first DVD movie, *Bedazzled*, March 13 at \$26.98 in U.S., and Fremont, Cal.-based Logitech, which will ship Nuon-enhanced game pad in Feb. at \$29.95.

VM's agreement with LGE increases total of DVD player hardware manufacturers supporting Nuon technology to 4. Before LGE deal, Chinese DVD hardware powerhouse Oritron was last manufacturer we learned had jumped on Nuon bandwagon (TVD Jan 1 p10). Only other DVD hardware manufacturers currently utilizing Nuon technology are Samsung and Toshiba. VM lost early licensee and investor RCA when its parent, Thomson Multimedia, opted to back equity-holder Microsoft's Xbox instead. VM spokesman said company was "hoping that by adding hardware manufacturers," it would be able to get "much broader distribution" for hardware that used its technology.

LGE said it would incorporate Nuon technology into select DVD players that it manufactured. Explaining why his company decided to support technology, which replaced MPEG decoder chip inside DVD players, LGE Engineering Design Senior Gen. Mgr. J.H. Choi said: "There seem to be limitless possibilities with Nuon technology as a compelling value-added feature set for the next generation of DVD players. In addition to driving the existing DVD market with its expansive functionality, Nuon creates an extra enticement for consumers considering the migration to the benefits of digital video products."

But LGE has yet to provide specifics on when its first Nuon-enhanced DVD players will be available and how many models are planned. All Choi said was: "We are currently deciding which DVD models will incorporate the Nuon technology and will announce specific products that will be launched in 2001 shortly." Zenith spokesman told us Fri.: "Nuon technology is not in Zenith's current DVD product plan for 2001. But we will have the option of including it in future models, based on our assessment of the market."

Meanwhile, fact that Fox was first movie studio to support Nuon technology came as bit of surprise in light of fact that that company was one of last major holdouts on DVD-Video. Fox has yet to release some of key movies from its catalog on DVD, most prominently *Star Wars* series.

Fox Sell-Thru Mktg. Senior Vp Peter Staddon said: "Incorporating Nuon into the DVD release of *Bedazzled* will allow fans of the film — and the format — a much more robust entertainment experience." VM demonstrated video at CES. Among modest interactive benefits was that it allowed viewer to call up scenes instantly from throughout movie showing various pieces of wardrobe that star Elizabeth Hurley wore. VM said that Nuon also allowed user to access abbreviated version of audio commentaries on DVD — good for those who would rather not wade through full 2 hours or more of audio commentary to get just handful of choice comments.

*Bedazzled* was only movie on DVD using Nuon technology announced by our deadline. But VM COO-Exec. Vp Paul

Culberg told us there could be as many as several dozen titles by year-end. One report said 15 movies were planned for year so far, including additional 4 from Fox. It was unclear which other studios would be jumping on Nuon bandwagon.

VM also said that by year-end consumers also would be able to download additional material for DVDs from Internet. One new aspect of Oritron's DVDi900 that emerged at CES made it unique among Nuon-enhanced DVD players. Deck will have built-in modem, OPM Managing Dir. John Rowe said. That will enable users to access online Nuon content, Internet links and perform other interactive functions through TV-DVD setup in living room, without need to play Nuon disc in PC's DVD-ROM drive, Rowe told us. Oritron DVDi900 originally previewed at Hong Kong Electronics Show also could play DVD-Audio discs. But Rowe said that feature would be shelved in effort to trim costs and until greater quantity of DVD-Audio music discs was available.

From studio's vantage point, VM said Nuon technology was easy to add to DVD because it took up only 4 MB of memory and used content that already existed on disc for its interactive features, so studio didn't have to do any extra work. VM also said studio didn't have to do 2 separate versions of DVD for consumers with and without Nuon-enhanced DVD players. *Bedazzled*, for example, is standard DVD that will play on any DVD player, although user would have to have Nuon-enhanced deck to access Nuon content.

Separately, Logitech Interactive Entertainment Vp-Gen. Mgr. Ted Hoff said his company was "continuing to move our products beyond the PC and into the living room" and deal with VM would help it do exactly that. Logitech said deal would expand its "customer base into mainstream game products, going beyond an audience of hardcore gamers currently playing games on dedicated consoles and PCs."

VM also said at CES that number of games supporting Nuon technology was growing. In addition to Hasbro Interactive titles it already had announced — *The Game of Life* and *Monopoly* — VM said *Breakout* also would ship, all 3 in 2nd quarter. VM also signed deal with game maker Taito that will see at least 3 titles in 2nd and 3rd quarters: *Bust-A-Move 4*, *RC de Go*, *Space Invaders 2001*. Nuon games that already are being shipped include *Freefall 3050 A.D.*, *Merlin Racing* and *Tempest 3000*, all part of distribution deal VM signed with DVD International. *Next Tetris* is game included with Toshiba SD-2300 DVD player, while *Ballistic* comes with Samsung DVD N2000. Other titles planned include *Iron Soldier* and *Myst*.

Retailers carrying Nuon games so far include Amazon.com, BestBuy.com, DVDPlanet.com, 800.com, Good Guys, Laserland, Wiz. VM spokesman said company was "shooting for 5" DVD games using Nuon each quarter "throughout the year." He said company was looking to "have 25 or so out by the end of the year."

Service Merchandise (SM), struggling to right itself after more than year in bankruptcy, said last week it would cut 23% of employees — 1,750 of 7,600 — in cost reduction effort that will cut across 218 stores in 31 states and Nashville hq. SM will consolidate field structure and space at hq, moves that, along with job cuts, will produce \$35 million in annual savings, it said. SM filed for bankruptcy protection in March 1999.

**SPACE TIGHT FOR NEW DISPLAYS:** As manufacturers roll out new array of display technologies, they're finding space for them to be tight at retail.

For most part, retailers say they will carry limited amounts of new displays as they hedge their bets on which ones will be successful. And while retailer buyers' choice for TV once was limited to direct-view or projection, they now are faced with sets based on Digital Lighting Processing (DLP), Liquid Crystal on Silicon (LCoS), ferroelectric LCDs (FLCD), direct-drive image light amplifier (D-ILA, others).

"Over time these will replace CRTs, but right now they're high-end niche pieces," said Glenn Rodgers, video buyer at Ultimate Electronics, which carries 7 SKUs of plasma displays. "As good as they may or may not be, we're going to make our investments carefully. We're trying to make sure we're exposing customers to all of the new products without investing in them all because we will get only a small return."

Size of investment required increased significantly at recent CES where manufacturers unveiled new display technologies in variety of sizes and shapes. Thomson debuted 50W rear-projection set based on Three-Five Systems' 0.78" LCOS display that will ship by midyear at under \$8,000, while Philips showed 36W prototype featuring 0.79" home grown version of same technology (see related story, this issue).

"At a mainstream price with the kind of performance that has been shown, these could be hot products," Philips Projection TV Vp-Gen. Mgr. Michael Lease said. He said final version of LCOS-based set would be larger than 36W prototype at CES and would target sub-\$5,000 price.

On DLP front, Philips affiliated company Marantz will ship 55W model by midyear using Texas Instruments' (TI) 0.7" chip, joining Hitachi, Panasonic and Mitsubishi in market. Marantz, along with Runco, also expanded plasma line to include 50W sourced from NEC that has 1,365x768 resolution and will sell for around \$20,000. NEC panel has split screen and 3x digital zoom, latter enlarging area of screen up to 300%. It also operates with 26 decibels (dB) fan noise.

"You have a lot more companies coming out with product than there are retailers to display it and to display it, so you have to be very careful with the terms," Sound Advice Exec. Vp Michael Blumberg said. For example, Pioneer limits retailers' inventory risk for its 50W plasma by shipping display to them within 2 days of their selling it. "That's going to more important as time goes on," Blumberg said.

Manufacturers said goal is to break new technologies into mainstream market at prices on par with high-end CRT-based product. Matsushita has told dealers it will increase plasma production in May-June with target of achieving vaunted \$100 per inch price for plasma in 2002. Samsung, which last fall shipped limited quantities of 43W rear-projection set (\$5,000 street price) based on Displaytech's 0.76" FLCD, expects to begin full shipments of 43W and 50W (\$6,000 street price). Displaytech partner Miyota is to begin volume production of FLCD panels in first quarter, said James Sandusky, mktg. dir. for visual media products at Samsung. Samsung delayed rollout of sets several times as it moved to boost brightness to 300 lumens (TVD July 31 p14).

While retailers are unlikely to have tonnage sales generated by commodity-priced TVs, new displays will offer better margins and take up less space than CRT-based models, Sandusky said. "There is a pent-up demand for these types of products and whoever is first to market is going to gain some sales ground," he said.

Many hurdles for new technologies still must be overcome. Lamp life remains issue, with 150 w bulb in Thomson set having 2,000-hour life, while 100 w version in Philips model has 10,000 hours. Picture quality still requires further improvement, although most displays have HDTV resolution, and production has been limited. Only Matsushita shipped 52W DLP rear-projection sets last fall, while Hitachi and Mitsubishi postponed full debut until first quarter. Matsushita is expected to expand DLP line, possibly with 65W model in 2002, Wolff said.

"They're [other technologies] all working hard on it, but they're not there yet," TI Electronics Technology Development Mgr. Peter van Kessel said. "Like our technology, there are a lot of practical problems between lab prototypes and volume production. We've crossed that and are in volume production and can back that up with a history." Indeed, TI currently is producing 0.7" using 13.8-micron process, but also will use 17-micron production for "higher performance" displays, van Kessel said. While 0.55" DLP chip is conceivable, smaller version of display isn't expected for 18 months, he said.

While retailers adjust to new technologies, they also are preparing for new entrant in direct-view CRTs. Sony took wraps off 40" flat-screen Wega set (\$4,000), but none of its competitors are expected to introduce competitive model in immediate future. Thomson comes closest with 38W Proscan and RCA digital TV, which was recalled last fall (TVD Nov 20 p15) after tests in company's labs revealed potential for color purity problems in some models. Only few thousand that shipped since last summer experienced color blotching in lower screen corners.

"There is a market for this type of product, but it's a fairly small one and there's only room for one or 2 players," said H.J. Lighart, technology program mgr. for CRT product & process development at Philips Components. "It also will have a higher cost, but still remain competitive on price."

Production capacity for 40" glass could come on line in U.S. in 2002, said Timothy Hickey, pres.-CEO of Techneglas, whose parent Nippon Electric Glass built panel in Japan for Sony set. Larger size may be added to Techneglas's Columbus, O., plant using existing equipment, he said.

Emergence of larger direct-view sets comes as DTV prices start decline. Matsushita is expected to deliver 47W HD-ready set \$1,999 by midyear that has 720p native resolution (TVD Jan 8 p7), while Zenith will ship 27" model at \$999.

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As new display technologies shrink depth of some rear-projection TVs under 20", Philips is attempting to do same with big-screen models. It showed 36" Cybertube Slim flat-screen tube at CES that increased deflection angle to 120° from 110° to shrink depth of set 4" to 17.7" from 21.6" in previous model. Increase in deflection angle typically requires greater power consumption, Philips' goal is to have little or no change, Lighart said. New tube is expected in early 2002.

**INTERNET TVs REAPPEAR:** What is old was new again at CES last week as TVs with Internet access were out in force again, at least one HD-ready model carrying heavily subsidized \$199 price.

But while models in past from variety of makers including Thomson-Compaq, Zenith, Gateway and Curtis Mathes heavily accented PCs aspects (TVD May 27/96 p8), this year's versions were decidedly TV-centric.

Leading charge were Ch. 1 and EspriTV, each offering Internet and entertainment platforms but with decidedly divergent strategies. More established brands included Panasonic (27" at \$549, 32", \$849), Daewoo and Zenith, all built around Telecruz's chipset for Internet access via TV. Panasonic partnered with Earthlink for Internet access and has interface designed by TeleCruz partner TeleCast. Zenith is planning 27" model (\$600) that uses TeleCruz chip combining 32-bit RISC processor with 64 MB SDRAM (TVD Dec 11 p15). TeleCruz chip is designed around OpenTV's Mosaic browser that it inherited in buying Spyglass.

"One of the problems early on was that the original products were WebTV-like with a computer, but this is not going to be thought of that way because it [Internet access] is just going to be another feature in the TV set," said Panasonic Asst. TV Gen. Mgr. Edward Wolff.

Ch. 1, subsidiary of same holding company that owns Princeton Graphics, took by far most aggressive position in partnering with NadaPC, which made mark in low-cost PC market. Venture will market 27" HD-ready monitor equipped with 56 kbps modem and NadaPC's ISP service, but no internal memory or removable storage. To qualify for \$199 offer, consumer must commit to 3-year ISP contract (\$21.95 per month) with NadaPC.

Ch. 1 platform, designed around browser and operating system from QNX, will function as ISP with variable monthly fee starting at \$8.95. Users will be able to browse Internet, send e-mail and create favorites lists. It also has enhanced TV feature that will allow users to access Web pages in picture-in-picture box while live programming is being displayed.

To move platform to slightly higher prices, PG has integrated it in 32" and 36" (\$3,499) sets. New 32" has flat screen, while 36" has progressive line doubling that supports all HDTV formats including 1080i and 720p. Unlike NadaPC model, however, larger sets have 64 MB memory and National Semiconductor chip with processing speed equivalent to Pentium II, PG Business Development Vp Rey Roque said. PG also is weighing HD-ready 60W rear-projection set based on Ch. 1 platform, he said.

Rather than taking subsidized approach favored by NadaPC, EspriTV offered full-priced 27" (\$998) and 16" (\$798) TVs with PlanetWeb's browser/OS, 133 MIPS processor from Acer and 8 MB each of DRAM and flash ROM. EspriTV service will allow consumer to use own ISP, but also will offer 2-5 "preferred" providers that will charge still-to-be-determined monthly fee, Pres.-CEO Mark Presser said. EspriTV is expected to bow in U.S. later this year and in Europe next year, Presser said.

Earlier Internet TVs suffered from inability to upgrade speed of microprocessor, but EspriTV models have "more

power than you need," Presser said. Indeed, software currently deployed in sets occupies only about half of memory available, he said. Use of Acer's 133 MIPS embedded processor should eliminate need to upgrade constantly since "speed of development is never the same as in PCs," Presser said. Sets have tubes with 640x480 resolution using tubes supplied by Thomson (27") and Philips (16"). All new Internet TVs have 56 kbps modem, but have connectors necessary for cable modem or digital subscriber line (DSL) services.

While EspriTV and Ch. 1 have taken larger screen approach, OEM supplier Lanplus showed Integra 15" LCD monitor paired with 800 MHz Pentium processor (\$1,699), TV tuner, 96 MB SDRAM, 20 GB hard drive, 56 kbps modem. It's being sold via Lanplus' [epcdirect.com](http://epcdirect.com) Web site and will be marketed under Northgate brand at Heilig Meyers (HM). Lanplus also is likely to package product with phone to allow for voice-over-Internet applications, source said.

"This a computer adapted to a TV and that is a whole world of difference from earlier attempts in terms of quality," said HM Appliance & CE Mds. Vp Malcolm Ballinger. "People don't run and buy a new TV because they've heard there is a new one on the market. They accept the TV at face value and I wonder if that doesn't become the case with these new convergence products."

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While EspriTV is new venture, it's using time-honored manufacturer to assemble sets. Former Nokia TV Div., renamed Turku TV when it was formed in April 1999, operates plant in Turku, Finland, that assembles 16-38" direct-view sets under Finlux, Luxor and Salora brands. It also markets GuestLink interactive communication system in hotel industry. Nokia abandoned TV business in mid-1990s to focus on cellular phones, selling it to Semi-Tech. Otrum Electronics later bought Turku from Semi-Tech, which has been operating under bankruptcy protection.

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**Orient Star Holdings (OSH)** is continuing to snap up OfficeMax stock. OSH, holding company of Mexican businessman Carlos Helu, bought 380,000 and 400,000 shares in 2 separate transactions at \$1.80 and \$1.75 Dec. 7-8. OSH now controls 16.8 million shares or close to 15% of OMX, which is cap imposed as part of shareholder rights program adopted by chain's board last year (TVD March 20 p14)... **Ultimate Electronics** CFO Alan Kessock acquired 20,000 shares at \$2.75-\$3 Dec. 5 and sold them off same day at \$28.25. Shares were part of options granted in Jan. 1997. He owns 94,000 shares... **Acclaim** board member James Scibelli purchased 140,000 shares in 4 transactions Dec. 6-7 at prices of 50-62¢. Purchases were in 800-65,000 shares. With acquisition, Scibelli owns 233,750 Acclaim shares.

**Hybrid DVD/CD** will be released March 13 by Artisan Home Entertainment. Studio said one side of disc carries DVD movie *Book of Shadows: Blair Witch 2*. Flip side is music CD of movie's soundtrack. Studio is using DVDPlus and DVD+CD technology duplicated by Sonopress and patented by Dieter Dierks. Hybrid combines 0.6 mm DVD layer and 1.2 mm CD layer, so compared with standard 1.2 mm DVDs and CDs it's not clear how thicker disc will work in disc drives, or if focus of laser pickups will be affected. Artisan was first conventional studio to issue movies on higher-capacity DVD-9 and DVD-18 discs.

**ELECTRONICS SPUR AMAZON SALES:** As online companies continued to report troubles (see separate report, this issue), Amazon.com posted reasonably upbeat picture of its business last week. And at press briefing at CES in Las Vegas, executives said Amazon was continuing in discussions with electronics manufacturers to gain direct relationships with them.

Reporting its preliminary 4th-quarter results, Amazon said it expected to report on Jan. 30 that sales jumped to \$960 million from \$676 million in same period year ago — up more than 40%. It said it also expected to report gross profit for last quarter of more than \$210 million, 140% increase in year. Pro forma operating loss for quarter is expected to be less than 7% of sales, compared with 26% year ago, Amazon said.

Growth in electronics, kitchen and tools helped drive sales in quarter, it said. CEO Jeff Bezos said: "More than 35% of U.S. customers made purchases during the quarter from a store [at Amazon.com] other than books, music or DVD/video." He said that, for 2nd consecutive quarter, electronics store at Web site "was the 2nd-largest U.S. store, behind books."

Also commenting on results was Amazon CFO Warren Jenson, who said: "We're pleased that during a period of broad softening in consumer spending, we delivered sales within our guidance, and at the same time met our bottom-line objectives." Jenson also said: "We expect to report an inventory balance for year-end of less than \$175 million, while also reporting an increase in gross profit of over 140%. We're entering 2001 in a solid financial position with approximately \$1.1 billion in cash and marketable securities."

Picture wasn't completely rosy. After all, company still continues to operate at loss, although it said once again last week that it was progressing toward profitability. Meanwhile, Merrill Lynch Web analyst Henry Blodget said he was planning to cut his \$4 billion revenue forecast for Amazon this year by \$300-\$500 million, Reuters reported. It said Blodget had been expecting Amazon to post \$1 billion in sales as its estimate for quarter.

Amazon touched on variety of issues — most of them on electronics front — at Vegas briefing. In terms of sales, Bezos said: "We had an absolutely banner 4th quarter in electronics." He said he expected electronics eventually to top books in sales. Electronics sales at Amazon.com were 3 times greater in recent holiday season than in 1999, Bezos said, adding that peak day sales during period were 5 times greater than year ago.

Bezos said Amazon "increased our SKU count by a factor of 6" and now has "23,000 items in our electronics store," compared with "roughly 3,500 items" year ago. While doing that, he said: "We have increased inventory levels only about 25%." Bezos said Amazon had "970,000 electronics customers" in 2000.

As for vendor authorizations, Electronics Vp-Gen. Mgr. Christopher Payne said, "we have over 200 direct relationships today" and called maintaining them "critical for us if we are to be successful."

Electronics Product Mgr. Richard Chin told us Amazon was continuing to talk with JVC and Sony to sign direct relationships. Only product at Amazon.com Web site that company had been authorized to sell from Sony as of last week was eMarker, which was one of Amazon's top sellers in holiday season.

Commenting on arrival of Xbox in fall, Bezos said: "I suspect it's going to be huge."

As for current state of dotcom industry, Bezos said: "I predicted [last year] that there would be a consolidation and I predicted that there will be thousands of failures. But I did not predict and I am very surprised by the [speed] at which it came, and the compression of time there has really been extraordinary."

Despite fact that troubled eToys has been biggest online toy competition for Amazon/Toysrus.com's online business in recent months, Bezos said of rival's current plight (TVD Jan 8 p13): "It's a shame" because "we want a thriving field of competitors." He said: "We are always very distressed when a company like eToys falls on hard times." Bezos also said: "Others do not have to lose for us to win. And what we really like to see is lots of thriving e-commerce companies because what they do is they, in aggregate, all teach people that e-commerce is a great way to shop."

As for why he thinks eToys wound up in its current financially strapped situation, laying off 70% of its staff, he said, "I really don't know." He said he thought eToys's TV ad campaign represented "some of the best television advertising I've ever seen."

But Bezos also said many e-commerce companies had not used money they had raised from investors in appropriate way. "That's when you saw irrational behavior like spending half of \$60 million on 3 months of TV" for advertising. Many dot-coms don't seem to realize "you don't build a national brand in 3 months — no matter how much you spend," Bezos said.

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**Polaroid introduced** Digital Picture Frame at CES. Product is part of strategic alliance Polaroid said it signed with L.A.-based Ceiva Logic, company that already had been marketing its own digital frame via retailers including Amazon.com. Polaroid-branded frame has 5x7" color LCD screen and is shipping at \$249.95. However, company said its frame was initially available on only limited basis. To use frame, consumer must have access to phone line and be connected to Ceiva Network through PolaroidDigital.com Web site. Service costs \$59.95 per year, \$4.99 per month. Polaroid Consumer Electronics Mktg. Mgr. Richard Campbell told us Polaroid decided to come out with digital frame because "50% of American households don't have a computer" and there are many consumers without PCs who would like to be able to send and receive digital photos. Polaroid also unveiled PhotoMax MP3 digital camera at \$249.95 that can shoot images at 640x480 VGA resolution and play music in MP3 format. Polaroid is offering MP3 camera, which comes with 16 MB CompactFlash storage card, online only. Campbell said company decided to introduce model with MP3 capability as way to reach out to "a slightly younger [consumer] with our digital cameras." He said Polaroid last year "retained our position as number one" brand in food/mass/drug channel and number 4 brand overall in U.S. Also new from company is PhotoMax PDC 2300Z, its first consumer 2.3 megapixel resolution model, at \$399.

**Spatialight faces delisting** from Nasdaq SmallCap Market. Microdisplay developer said Fri. it had fallen from compliance with requirement that it maintain minimum market capitalization of \$35 million for 10 consecutive trading days. Nasdaq is expected to rule on whether Spatialight is in compliance by Feb. 7.

**SD SUPPORT GROWS:** Growing strength of Secure Digital (SD) memory card support was clear at CES in Las Vegas, where more manufacturers than ever unveiled wide variety of products using SD standard.

Secure Digital Assn. (SDA) sponsored SD Pavilion at show, where sampling of 181 manufacturers now supporting standard demonstrated products that use postage stamp-sized flash memory storage card.

At CES press briefing, executives of Matsushita, Palm, SanDisk and Toshiba touted benefits of SD format, especially its built-in security functions and small size.

SanDisk System Engineering Vp Yoram Cedar said he was convinced SD "will be the dominant standard moving forward" for products including cellphones, digital still cameras, handheld devices, Internet audio players.

Although SD memory cards currently are available only in capacities of 8-64 MB, much higher capacities are planned. For instance, 256 MB card was demonstrated, but it was unclear when card with that much storage space actually would be making its way to consumer market.

When asked whether growth of SD category ultimately would mean death of SmartCard, Toshiba Strategic Partnership & Licensing Vp Koji Hase said: "Absolutely not." He said Toshiba believed SmartCards and SD cards each had their benefits, depending upon application. Hase said: "It is the policy of Toshiba to make them co-exist for years to come."

Not surprisingly, manufacturer that showcased SD in widest assortment at CES was Matsushita, which, along with SanDisk and Toshiba, developed card standard. SD products unveiled by Matsushita included SV-SD05 e-wear headphone SD audio player weighing 3.2 oz., shipping this month at \$399.95, that features dual built-in decoders for AAC and MP3 decoding. Matsushita also bowed similar SV-SD75 e-wear unit shipping this month at same price that can be worn on arm or wrist, around neck or attached to pocket or belt. Company also unveiled CQ-SRX7000 that it said was "industry's first in-car SD audio player." Unit, which also plays CDs, ships in March at \$1,399.95.

In digital still cameras (DSCs), Matsushita introduced PV-DC3000 ipalm that can save images on either MultiMediaCard or SD card. It has begun shipping at \$899.95. SD also is in 3 of company's 4 new digital camcorders.

But not all companies supporting SD standard have gone as far as Matsushita in making it part of their product lines. For example, new PDR-M65 3.3 megapixel DSC from Toshiba, shipping next month at \$599, uses that company's own SmartMedia cards, not SD cards.

Nintendo's presence at SD Pavilion was limited to Gamecube showcase. Although Gamecube console, controllers and SD Digicard Adapter were on display, no one from Nintendo was present to field questions about it and no demonstrations were being given.

**Correction:** Blaupunkt said its press materials for CES incorrectly identified technologies for its self-diagnostic autosound system reported in our Jan. 8 issue. Systems are called Digital Sound Adjustment (DSA) and Dynamic Noise Covering (DNC).

**GOOD GUYS TESTS STRATEGIES:** Good Guys has placed plans for new stores on hold for another year as it tests new strategies including expanding Tower Records (TR) store-within-a-store format, Pres. Kenneth Weller said in interview at CES.

Decision on whether to expand 2-store TR test that began in Las Vegas last fall will be made within 90 days, Weller said. Under agreement, TR handles music and video sales in separate department. If test expands, format is likely to be deployed in stores in Portland, Ore., or Seattle, Weller said. GG has said first test results produced sales increases for chain, but that "we have to make sure it works better for Tower." (TVD Dec 11 p20). GG also has increased assortment of "grab and go" products at L.A. area stores including telephones, boomboxes, personal stereos, etc., Weller said. Tests are most recent GG has conducted since founder Ronald Unkefer returned to chain in 1999. It since has shut down home office and personal electronics departments.

Decision to hold off on expanding 79-store chain came GG sought "more consistent execution" in sales across its outlets, Weller said. GG will increase training and seek to "upgrade quality" of some store-level personnel, he said. As part of effort, GG in first half will add kiosks to stores that will be used for training and give store staff access to additional product data via [goodguys.com](http://goodguys.com) Web site, he said.

GG also has no immediate plans to expand Wow store joint venture with TR (5 stores) and will move to toward blending of its store designs over next several years. GG operates stores based on original, Expo and Generation 21 formats, latter 2 of which have been started since 1994. To further differentiate GG from Best Buy (BB) and Circuit City, chain in next 1-2 years will seek to increase percentage of its products not offered by rivals to 75% of merchandise from current 50%, Weller said.

As for impact of BB's acquisition of Magnolia Hi-Fi, Weller said GG had fared well in head-to-head competition with Kent, Wash.-based chain. Magnolia opened first stores in GG's home San Francisco market last fall. With BB's plans for opening 150 stores using Magnolia-like format, GG would appear to be possible acquisition target. But there have been no discussions between chains, although BB's proposed purchase of Magnolia has boosted GG's market value into \$800 million range, said Weller, former BB executive who rejoined GG last Aug. He conceded, however, "there will be some consolidation" among fast-growing specialty CE chains, most aggressive of whom have been Ultimate Electronics and Tweeter Home Entertainment.

In online business, [goodguys.com](http://goodguys.com) will add another 1,000 SKUs in next 60-90 days, increasing total available through Web site to 3,000 from 65-70 vendors, Weller said. Goodguys.com, 19% owned by Good Guys, had planned to hit 3,000 SKUs by year-end (TVD Nov 27 p14).

Greater-than-usual floor traffic at Krell Industries' CES exhibit last week could be attributed to guest appearance there on opening day by N.Y. Mets baseball catcher Mike Piazza. All-Star player signed autographs of photo picturing him with high-end audio manufacturer's sound system and loudspeakers.

**Clarification:** Aiwa plant in Wales, U.K., hasn't been shuttered, as our Dec. 18 report said. Instead, company said plant still was operating to serve British market but no longer builds products for European continent.

**THOMSON GAME ACCESSORY LINE COMING:** PC gaming peripherals in 2nd quarter will be first products to ship from Thomson Multimedia in new arena for company, we learned at CES.

Thomson will ship 4 PC gaming peripherals under RCA brand as first step in what Accessories Mktg. Mgr. Mark Schaffner told us would "be a universal gaming strategy" by company. He said Thomson already had formed "a whole gaming division now" to handle category.

Schaffner told us first 4 PC gaming peripherals would include flight simulation controller, joystick, 2 game pads. Model numbers and pricing weren't available. Company took advantage of Las Vegas show to talk to retailers about its plans in category, he said. But it didn't make game accessory plan focus of its presentations to media in news conferences at CES, preferring — not surprisingly — to focus on its new TVs and digital audio products, along with new mp3pro codec (see separate reports, this issue).

Although Thomson already had indicated it had plans to introduce peripherals for Microsoft's Xbox, no specific products and shipping dates have been announced. But Schaffner said first console gaming products were likely to start shipping late this year. As we have reported, Xbox begins shipping in fall and Thomson is supplying its DVD drive and MPEG technology. Although Thomson has yet to say anything about any possible relationships with Nintendo, Sega and Sony, Schaffner said: "We're exploring all opportunities."

Thomson is seeking to "differentiate" its products in category from those of its competitors, Schaffner stressed. "Our concern is we don't want to be just a me-too" company and "just slap the RCA name" on something, he said. Schaffner said company planned to leverage its strengths as TV manufacturer to develop gaming peripherals that would provide better gaming experience for consumers than existed today.

Company has "a short-term and a long-term strategy" in that area, Schaffner said, and Thomson is "going to crawl before we walk." While 2nd-quarter product launch apparently is crawling stage, plans that company might announce at this year's E3 (or news conference before show) may be part of move onto walking stage. Schaffner said Thomson would be attending E3 for first time in years.

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**EchoStar will scrap WebTV-based combination product as it offers similar device based on OpenTV platform.** OpenTV receiver, which will have 30 GB hard drive, arrived last fall as EchoStar sought product to counter UltimateTV unit that combines DirecTV and WebTV technologies. EchoStar kicked off personal video recorder craze in Jan. 1999 when it introduced DishPlayer 500 based on WebTV platform. "If you want the Internet on a TV set, WebTV is a fine product, but it's not the mainstream and it represents a minority of consumers," EchoStar CEO Charles Ergen said. "We found that the consumer sampled the technology and then decided that the vast majority of it was features they didn't want." EchoStar also took wraps off Pro 301 receiver (\$199), first in line of products that will feature slimmer chassis and 108 MHz processor for faster channel navigation. On programming side, EchoStar will increase monthly fee \$1-\$5 for packages starting in March. Increases will range from \$1 (\$29 to \$30) for Top 100 package to \$5 for Top 150 (\$69 to \$74) that includes premium services such as HBO and Showtime. Price increases were caused by higher programming costs, Ergen said.

**EGAMES CUTS STAFF 25%:** eGames announced 25% work force reduction in move it said would save company \$150,000 in labor costs per quarter. It also said it would reduce use of outside service vendors as further means of tightening belt.

Moves came as eGames said it expected to report loss of \$250,000-\$350,000 for 2nd quarter ended Dec. 31 (per-share loss of 2-4¢) on 11-13% drop in sales from year earlier. Pres.-CEO Jerry Klein blamed several factors, including: (1) "Disappointing" overall retail sales sparked by "a general softening in demand" for new PCs. (2) Competitive price erosion in sale of consumer software. (3) Intent of "certain" office superstore chains to "reduce their commitment to value-priced software products following the holiday season, necessitating increased return provisions for the quarter."

Referring to work force cuts, Klein said: "We are responding to the current difficult market environment by increasing our focus on effectively managing our cost structure." He said that although company was disappointed with its financial performance in holiday quarter, "we remain committed to our business plan."

In separate development, Mich. Attorney Gen. Jennifer Granholm reached agreement with eGames to settle charges that company had invaded privacy of its customers. State alleged that game maker had embedded "spyware" program in its commercial games that would install itself in customer's computer, monitor Internet usage history and send reports on user's online activity to specific address, all without individual's knowledge or consent. Unlike viruses, which try to change things in computers that they infect, spyware simply watches and reports, so it doesn't trigger commonly used virus detectors.

Company also was accused of using "cookies" on its Web site to surreptitiously collect personal information about those who were browsing site. Had settlement not been reached, Granholm's office had said it was ready to sue eGames for violating state consumer protection laws that require full disclosures in any business dealings. In settlement agreement, eGames agreed to remove spyware from future versions of its games and to post notices on its Web site about spyware, along with programs that would deactivate spyware on existing games. Company also must post notices that its Web site collects personal information from visitors. Granholm said this was state's first case involving spyware in commercial software products, but she said 16 other companies were under investigation for similar invasions of customers' privacy.

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**Hollywood Entertainment** said Fri. it would report 4th-quarter loss that included charges for store closings, excess and obsolete inventory and other possible items. Same-store sales for quarter dipped 1%. However, consolidated revenue rose 5% to \$332 million from \$316 million year ago as chain added 22 stores. Same-store sales for fiscal 2001 will be flat to negative and adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) will fall \$175-\$200 million below projections, it said.

#### THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥116 = \$1, except where noted.

Internet users spent more time e-mailing and sending e-greetings than shopping this holiday season, study by Pew Internet & American Life Project found. In survey of 3,493 persons, 2,038 of them Internet users, Pew discovered "12 epiphanies of holiday shopping": (1) People went online more to socialize and celebrate than to buy; 53% of Internet users sent e-mails while only 24% purchased gifts online. (2) Browsing is more important than buying. (3) Even online shoppers did most of their purchasing offline. (4) Many buyers have been turned off by their Internet experiences and online retailers haven't made up difference. (5) Questions of price, reliability, trust and preferences kept many buyers from online purchases. (6) Close to one in 4 browsers stopped before completing their online purchases — same number (24%) as those who bought gifts on Web. (7) Many of those who purchased online said they did so for convenience and savings. (8) Many Internet users shopped at work. (9) Internet shopping prompted some impulse buying: More than 34% of those who bought online said they did so only after seeing gift on Internet. (10) Online gift lists were becoming popular: 5% of users set up online wish lists this year. (11) Northerners were more active purchasers and price comparers than those in other parts of the country, while Westerners e-mailed more often. (12) Women with Internet access were more likely than men to go online for shopping, socializing or celebrating, while men with Net access seemed to value online gift shopping as time- and price-saver.

Violence in videogames and way it's presented to children were subjects of summit held by International Game Developers Assn. (IGDA). IGDA said summit's main goal "was to elicit feedback from a handful of game developers in order to help set the direction of a dedicated committee to address developers' roles in the creation and marketing of its content." Organization said its new Violence Committee's goals included building greater awareness of Entertainment Software Ratings Board ratings system among game developers, exploring best ways to coordinate efforts with Interactive Digital Software Assn., working to provide recommendations on ESRB's ratings. Committee includes representatives of game makers including Electronic Arts, Infinite Machine, Konami, LucasArts, Ronin and 3DO, as well as others familiar with issue of violence in media, including Dr. Henry Jenkins, media studies prof. at MIT. EA Vp in Charge of Production Richard Hilleman said: "It is critical that developers take artistic responsibility for the content they create. The IGDA's Violence Committee will work to help developers understand what they can do to address this issue conscientiously."

Gathering of Developers said it would continue its support of Macintosh this year with release of what it described as "several triple A titles" for computer platform. Titles announced included *Myth III: The Wolf Age*, developed by Irvine, Cal.-based Mumbo Jumbo, which Gathering said would ship worldwide for Mac and PC in Nov. Gathering parent Take Two Interactive acquired *Myth* from creator Bungie Software in May. Newly formed Mumbo Jumbo is run by Mark Dochtermann and Ron Dimant, formerly of Ritual Entertainment. Other games for Mac from Gathering will include: *Fly! II* (March), developed by Terminal Reality; *Oni* (late this month), developed by Bungie; *Shadowbane* (summer) from Wolfpack Studios; *Tropico* (April) from PopTop Software. Mac games for 2001 announced by Gathering so far represent 2 more than company published in 2000.

U.K. retailer Dixons reported greater-than-expected profit for first half of fiscal year ended Nov. 11. Net income for period was £70.6 million (\$105.2 million), up from year-earlier £70.4 million. Chain said it was expecting strong 2nd half, too, based on 6% increase in holiday sales.

## Consumer Electronics Personals

Lawrence Weaver retires as Techneglas sales & mktg. vp, replaced by James King, technical products gen. mgr... **Masayoshi Morimoto**, senior exec. vp at parent Sony, appointed pres. of subsidiary Aiwa, succeeding **Kozo Osone**, who remains Aiwa chmn... **Dale Skivington**, Eastman Kodak staff attorney, promoted to chief privacy officer... **Shin Tanabe**, exec. dir.-TDK Recording Media Europe, named TDK Mediactive pres.-COO... **Patricia Barron**, N.Y.U. prof., elected to Ultralife Batteries board; **Nancy Naigle**, ex-Xerox, named worldwide sales vp, replacing **James Sullivan**, who resigns... **Katherine Vick**, Outpost.com pres., adds CEO title... **Steve Morgan**, ex-Millennium Futures, named Electronics Boutique senior store operations vp... **Katie Trinchard**, ex-Republic Technologies International, appointed Handleman applications development & maintenance vp... **Rick Bergman** named ATI Technologies desktop business vp-gen. mgr... **Coleman Sisson**, Liberate Technologies COO, adds pres. responsibilities; **David Limp**, senior corp. development vp, promoted to exec. vp-chief strategy officer; **Donald Fitzpatrick**, senior professional services vp, advanced to exec. vp-sales & service... **Ken Williams**, vp-retail and distribution sales, Paramount Home Entertainment, promoted to exec. vp-sales and mktg. for N. America.

Matsushita will invest \$1.2 billion in information technology by end of March 2004 as it realigns current business segments into 4 key groups, it said last week. Matsushita's digital AV and mobile communications unit is targeting sales of \$43 billion for 2003-2004 fiscal year, up 19% from March 2002 goal. Sales of semiconductors, display devices, electronic components, motors and batteries are expected to total \$26.7 billion in same period, also up 19%. Matsushita is seeking shareholder approval for acquisition of semiconductor production subsidiary Matsushita Electronics Corp. In cost-cutting measure, 35 departments at Osaka hq will be reduced by 1/3 and series of domestic consumer sales and distribution reforms will yield saving of \$517.2 million. Latter is amount company intends to spend on promotions aimed at gaining 25% share of Japan market by fiscal 2004. Overseas sales are expected to increase 10% as part of 3-year plan... **Canon** is targeting sales of \$34.2 billion by 2005 under 5-year business plan, up from group sales of \$23.8 billion in business year to Dec. 2000. Pretax profit of \$3.4 billion could be achieved by 2005 if dollar remains above ¥105, Canon said. Canon is projected to post pretax profit of \$2.3 billion for 2001, up from \$1.9 billion in 2000. Under restructuring, Canon USA will become holding company to control 34 group firms in U.S., while Japan hq oversees Asian operations. Canon said it would consider forming global hq in Japan or U.S. in early 2006. It also will set up \$862 million fund for promoting development in steppers, printers, digital cameras, camcorders.

Men's preoccupation with CE devices is having profound impact on their life-style activities, said Mantrack survey of 750 males for *Playboy* magazine. Although only one in 12 said they were having sex less often because of time they spent with CE equipment, survey found that more than half were spending less time watching TV or going to movies as result (55% and 54%, respectively). Of those polled, 36% said they were spending less time outdoors and 33% were exercising or playing sports less often. Average male in survey owned 7 CE devices, with PC, cellphone, PDA and DVD player most popular. Men continued to dominate CE purchasing decisions by 53% majority, survey said.



# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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## SUMMARY-INDEX OF WEEK'S NEWS

### Broadcast - Cable

**FCC AFFIRMS VSB**, begins DTV tuner NPRM. FCC backs 8-VSB modulation, starts rulemaking on DTV set tuners. NAB, MSTV say tests show COFDM has few advantages. (P. 1)

**EEO RULES REJECTED AGAIN** by appeals court. Broadcasters elated, FCC disappointed. No 'compelling interest' seen. (P. 2)

**BUSH SAYS LITTLE ON FCC:** No new chmn. seen near, despite pressure for answer. Generic response given to 'advisers.' (P. 4)

**KENNARD LAUDED, CRITICIZED** by broadcasters, cable, as he leaves office. 'Overreaching' and integrity cited. (P. 5)

**FCC APPROVES ITV INQUIRY**, backs away from rulemaking. Definition, effects of vertical integration sought. (P. 6)

**STUDIOS EXPECT STRIKE** among program producers. Type, quality of shows reported likely to be affected. (P. 6)

**FCC AFFIRMS VSB, BEGINS DTV TUNER RULEMAKING:** In series of DTV technical decisions, FCC affirmed 8-VSB modulation, started rulemaking on requiring TV sets to have DTV tuner and took several other DTV actions late last week. Departing FCC Chmn. Kennard said decisions would give broadcasters "the clarity and flexibility... to accelerate the buildout of their DTV operations." He said he was pleased DTV tests "put... to rest" debate over modulation standard. Comr. Ness said FCC actions removed transition uncertainty and it was "time for all industries involved in the digital broadcast food chain to come together and redouble their efforts to achieve a speedy transition."

Comr. Furchtgott-Roth dissented on all-channel receiver provision, saying: "I have concerns about the government forcing technology on the public rather than letting the marketplace take the lead." He said govt. manufacturing standards rarely benefitted public and questioned whether FCC had authority to impose rule. Comr. Tristani also dissented, arguing that "any mandate that increases the cost of TV sets to facilitate the transition... unfairly burdens consumers" and reduced likelihood that less expensive alternatives would be developed.

In other DTV actions, FCC: (1) Set Dec. 31, 2003, date for commercial broadcasters to choose posttransition digital channel, year later for noncommercial. (2) Said broadcasters didn't have to replicate their entire Grade B service area with their DTV signal, but they would lose interference protection for unserved areas if they didn't by Dec. 31, 2004, year later for noncommercial. (3) Said commercial stations must provide stronger signal to communities of license by end of 2004, year later for noncommercial. (4) Refused to set performance standards for digital receivers. (5) Set procedures for handling mutually exclusive DTV expansion applications.

In starting rulemaking on DTV reception capability, FCC said it recognized broadcaster concerns that there weren't enough digital sets to make DTV broadcasts financially viable. Rulemaking asks whether all-channel receiver capability

### Consumer Electronics

**DTV MAKERS LAUD DECISION** by broadcasters that reaffirms 8-VSB modulation system as standard, thus eliminating uncertainties. (P. 10)

**SONY READIES \$8,000 PLASMA** 42W monitor with high-definition resolution, establishing low end for category. Pioneer cuts price on 50W. (P. 11)

**STRICT ENFORCEMENT THREATENED** for DVD licensing and royalties, but Chinese manufacturers balk at costly terms. DVD sellthrough hit 6.5 million in U.S. last year. (P. 12)

**TWEETER EARNINGS RISE** in first quarter to \$9.7 million from \$8.1 million on 31.2% gain in revenue. (P. 13)

**BEST BUY'S MUSICLAND PLANS** to begin with test sales of CE products at Sam Goody soon after acquisition closes. National rollout expected in fall. (P. 14)

actually would help, how best to implement requirement, whether production volumes would bring down receiver prices quickly enough. Commission suggested possibility of first imposing DTV reception requirement on sets 32" or larger, because DTV tuner would be smaller percentage of price, and asked whether requirement should be phased in over time. It also noted that requirement could be met by separate set-top boxes, and asked whether sets without DTV reception capability should be labeled.

Ness said she was pleased that rulemaking only asked questions, drew "no firm conclusions" about FCC's authority to implement all-channel requirement and its desirability: "We need to weigh very carefully the cost to the consumer of such a requirement, as well as its impact on the digital transition... Today the retail cost of digital receivers is prohibitively expensive for all but the most enthusiastic early adopters [and] many of the sets sold today are incapable of receiving an over-the-air signal." She said Commission would continue to monitor DTV receiver quality and "take appropriate action on receiver standards as necessary."

FCC action Jan. 19 came days after NAB and MSTV decided there was "insufficient evidence" to continue DTV transmission tests of 8-VSB and COFDM and said industry should stick with 8-VSB as standard. Action was taken by NAB TV board, MSTV board and digital steering committees of both groups in Carlsbad, Cal., following digital "summit" of TV broadcasters in Washington (TVD Jan 15 p1). Straw vote of participants at Cal. meeting was 29-3 in favor of 8-VSB — with dissents from Pappas Telecasting, Pax TV, Sinclair Bcstg.

NAB TV board also approved financing to start public campaign to "educate consumers on the benefits of digital TV." To get under way in spring, planning will begin Feb. 6 at joint meeting with co-sponsor MSTV, NAB said. Cost of effort wasn't disclosed, but broadcaster said "we've already spent hundreds of thousands" on engineering studies to determine that 8-VSB standard should be favored over COFDM. To date, public reception, as indicated by purchase of DTV receivers, has been "very nearly nonexistent, and there's a prime need to jump-start the whole thing now that we have a for-sure standard," broadcaster said. Broadcasters blame FCC's lack of action on DTV must-carry and other issues for lack of public acceptance of DTV. NAB's DTV task force, headed by Michael McCarthy of Belo, also recommended "accelerating research and development for purposes of advancing 8-VSB performance."

VSB creator Zenith immediately lauded NAB/MSTV decision as end of VSB-COFDM conflict. "Having lost at the FCC last year and now having suffered yet another stinging defeat, COFDM zealots should abandon the politics of obstruction and admit that their delay strategy has failed," Zenith Senior Vp Richard Lewis said. "The VSB standard has been vindicated and, with this announcement, the industry can move forward with VSB enhancements." CEA Pres. Gary Shapiro said broadcaster decision meant "the debate over the modulation standard is over" and broadcasters should "re-commit" to DTV transition.

NAB board said there was "an urgent need for swift and dramatic improvement" in U.S. digital transmissions. NAB pledged to take "all necessary steps" seeking "rapid improvement of VSB technologies and other enhancements to digital television." Board directed its staff "to develop a plan and promptly submit it" for approval. While resolution didn't mention FCC, broadcasters have been highly critical of that agency's failure to take further actions.

Vote came after what was called "considerable discussion" of new COFDM field tests done by Sinclair, we're told. Sinclair said new tests showed that prefiltering COFDM receiver could significantly change outcome of tests. Sinclair submitted new memo to MSTV and NAB boards before meeting, raising 10 objections to endorsement of 8-VSB over COFDM. In memo, Sinclair recommended that another round of tests be held before decision was made — citing obligation to smaller broadcasters who weren't as "well-heeled" as member of DTV steering committee. They should "be given the maximum opportunity to compete and not be saddled with a standard that because of its lack of functionality may cause their ultimate downfall," Sinclair argued.

**EEO RULES REJECTED AGAIN:** U.S. Appeals Court, D.C., again overturned FCC's broadcast EEO rules, this time saying both minority-based and gender-based rules "put official pressure upon broadcasters to recruit minority candidates, thus creating a race-based classification that is not narrowly tailored to support a compelling governmental interest." FCC Chmn. Kennard and Comr. Tristani lamented decision, and Minority Media & Telecom Council said it would appeal. Exec. Dir. David Honig said: "Unless reversed, this decision could put a halt to 32 years of progress in desegregating some of the nation's most influential industries."

Decision came same day as NTIA issued report saying that even though minority ownership of radio stations increased over last 2 years, minorities' share of TV market actually declined in 2000. Commerce Secy. Norman Mineta said "clearly there is reason for concern." NTIA survey showed that consolidation in industry threatened survival of minority and single-station owners, he said.

Court ruled only on constitutionality of 2nd option (Option B) for broadcasters to meet EEO requirement, but said Option B wasn't severable from first option so it threw out entire rule (TVD Jan 24/00 p1). Kennard called decision "a defeat for diversity. At a time when many Americans are outraged at the lack of minorities in prime time and in the boardrooms of America, the broadcasters have once again used the courts to strike down even a modest outreach effort." Tristani said court rejection "will make it even more difficult to achieve a broadcast industry that reflects America's rich cultural diversity." She said she was particularly disappointed that court rejected rules entirely, even parts that might have been constitutional.

Without commenting directly on decision, NAB Pres. Edward Fritts said broadcasters "strongly" endorsed congressional legislation to reinstate minority tax certificate program, "which proved extremely effective in attracting more minorities into the ownership ranks of broadcasting." He said broadcasters also would continue implementing "creative initiatives" to boost minority and female ownership.

Those attending NAB board meeting were overjoyed by decision. Despite removal of license revocation threat, Fritts urged broadcasters to intensify their efforts to create opportunities for minorities. Dwight Ellis, NAB vp-human relations development, said Assn. made presentations in last 12 months at 9 minority media conferences. Board adopted resolution praising various state associations for their efforts to help minorities, saying: "We remain committed to these initiatives and urge all broadcasters to continue and to add to their efforts."

"It is far from clear that future employment in the broadcast industry is a public benefit for which the government is constitutionally responsible," court said in opinion written by Judge Douglas Ginsberg for Judges David Sentelle and Karen Henderson. It said court didn't even have to decide on compelling interest issue because FCC Option B "places pressure upon each broadcaster to recruit minorities without a predicate finding that the particular broadcaster discriminated in the past or reasonably could be expected to do so in the future." Court called that "the antithesis of a rule narrowly tailored."

As for severability, court said Option B was integral part of overall rule, so it couldn't allow Option A to stand without it. Core of rule, court said, is to give broadcasters 2 options for meeting EEO requirements: "Presumably, the Commission would not have created Option B if it believed that Option A by itself was sufficient to achieve the Commission's goals." Allowing Option A to stand after ruling Option B unconstitutional would make Option A mandatory, court said, which would "undercut the whole structure of the rule."

Court also said it wasn't acceptable simply to delete all references to minorities from rule, saying that in *Lutheran Synod* case when court said rules were unconstitutional for minorities, FCC also dropped rules for women. "It is clear that severing all references to minorities would severely distort the Commission program and produce a rule strikingly different from any the Commission has ever considered."

Decision also rejected FCC claim that it wasn't specifically trying to aid minorities or women, only to require licensees to make "broad outreach" for applicants. Court said if that were true, Commission "would scrutinize the licensee's outreach efforts, not the job applications those efforts generate." It said even threat of possible investigation by FCC provided "powerful incentive" for licensees to focus recruitment on women and minorities.

NTIA Dir. Gregory Rohde said trend of consolidation in industry imposed very serious barriers for future expansion of minority ownership and there was strong need for developing consensus definition of what constituted minority ownership, given various definitions being used now. NTIA report said that in 2000, 187 minority broadcasters owned 449 full-power commercial radio and TV stations, accounting for 3.8% of 11,865 stations in U.S. However, report said half of 0.9% increase over 1998 was result of improved methodology in identifying minority owners. In radio, where minority owners made some gains, 175 minority broadcasters owned 426 stations — 4% of 10,577 AM and FM radio stations in 2000 compared with 305 stations in 1998. Minority share of ownership of TV market hit lowest level since 1990 when NTIA's Minority Telecom Development Program (MTDP) began issuing reports. Minority ownership fell to 23 full-power TV stations in 2000 (1.9% of country's 1,288 stations) compared with 29 in 1990 and 38 in 1995-1996. Since 1998, there has been loss of 5 Hispanic American and 4 African American-owned stations and new identification of 2 Asian American stations for net loss of 7 stations, report said. At time when single-station owners are struggling to remain competitive, 70% of minority owners operate standalone stations, it said. BET CEO Robert Johnson said at briefing that ability of individual, standalone broadcasters to enter market became difficult when public policy opened doors to consolidation and concentration of ownership. Tax credits served only as means to bring minorities into business without partner, he said: "It's a hook, not an answer."

Meanwhile, percentage of minorities working in PTV stations dropped slightly in 1999, with minority employment growing marginally less than overall total, CPB said in annual report to Congress. However, minority employment in public radio grew 4.7%, vs. 2.8% overall staff increase. Public broadcasting stations blamed situation on tight job market and fewer resources to spend on recruitment and salaries than larger for-profit corporations, making hiring and retention of all qualified employees, including minorities, difficult.

**BUSH TEAM SAYS LITTLE ON FCC:** Telecom officials didn't get answer from Bush Administration advisers last week as to who would be named FCC chmn., and when, we're told. Industry officials, primarily contributors to campaign, met with Bush transition officials Jan. 17 in what was described as "very generic and nonspecific" meeting. Most of attention focused on FCC reform, expedited agency decision-making and similarly broad issues, we're told.

"They didn't name any names or give any timing" on chairmanship, one source said. Participants submitted ideas week earlier on policy priorities for FCC, but one source said: "I have no delusions that it has been read yet by a single person." Another source reported being urged to keep thoughts to single page, prompting much editing. Source said Bush team asked 6 similar questions, "all variations of the theme, 'What do you see as being the major issues?'" Questions didn't reveal much knowledge of or leanings regarding FCC, source added: "They could have been applied to virtually any agency."

Participants said they told transition officials it was important to have at least acting FCC chmn. in place, if only for administrative purposes. "There's still an awful lot going on" at FCC, one participant said. But another source said it seemed policy transition was "on a separate track" from personnel transition, and advisory team had been told little more about new Administration's thinking on personnel matters than had others in industry. Advisory Team has swollen to 34 members from initial 5 and now represents virtually all major industries before FCC, plus several conservative think tanks.

It's not that Bush officials "are being lazy," one source said, blaming slow transition on contested election that led to late start. Source praised FCC transition leader Kevin Martin, as well as other members of team, Bush's Tex. policy dir. Becky Armendariz and former Wiley, Rein & Fielding lawyer and current Capitol Coalitions partner Amy Mehlman. "They seem very open to chat, but indecisive about providing information," source said. "This is the most informal of all informal transition processes." Also in room was former Rep. Bill Paxson, who is higher up in transition process.

Lack of action on chairmanship raised questions about conventional wisdom that Comr. Powell would be named to head FCC, one source said: "If he is the guy, what are they waiting for?" However, another remained confident Powell would get nod, saying Bush transition, which has had half as much time as normal transition, simply hadn't focused on FCC yet: "Right now they're worried about getting a Deputy Secy. of Defense and of State. This is a big government and they can't get to everyone right away. We think of this as the center of the universe, but they've got some bigger things to deal with."

More than one industry official wondered out loud whether Powell really wanted to be FCC chmn. Conventional wisdom, they said, was that Powell had his eye on higher office, and they wondered whether different govt. slot would better suit that goal. One source said FCC chmn. typically was "nicked up" politically because of issues that FCC deals with. None would speculate, however, about what other slot might interest him.

One theme that emerged at meeting was that "the timeliness of the decision-making process at the FCC needs to be corrected and corrected in a big way," industry source said, with length of merger reviews cited as example. Another

"across-the-board issue" was concern about imposition of conditions on licenses that had been granted, source said.

Meanwhile, speculation about replacement for Kennard continued. Among latest rumors: (1) One telecom source speculated Bush might name Powell interim FCC chairman while also appointing Texas PUC Chmn. Pat Wood to Commission. Under this scenario, Powell would eventually move to high antitrust enforcement post in administration, allowing Wood to take over as FCC chairman. Source also speculated that Republican Comr. Furchtgott-Roth would leave Commission soon, opening another seat for Bush nominee. (2) Another source said one of FCC's Democratic seats may be filled by Ivan Schlager, former Democrat staff dir. on Senate Commerce Committee and now at Skadden, Arps, at request of Sen. Hollings (D-S.C.), ranking minority member of Committee.

Although she hasn't announced her resignation, FCC Cable Bureau Chief Deborah Lathen said she planned to leave Commission soon after its new chairman takes over. Lathen, who has run Cable Bureau since spring 1998 and presided over further deregulation of cable industry, told us Jan. 12 that she hadn't decided on departure date but "will ensure a smooth transition" to next bureau chief. She said she also hadn't decided what she would do next. At recent Western Cable Show in L.A., Lathen said her plan was to complete AOL-Time Warner merger review and then "wiggle my toes in the sand."

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**FCC didn't meet regulatory flexibility requirements with rulemaking on DTV children's TV obligations (MM 00-167),** Small Business Administration (SBA) said in letter to agency. SBA said it didn't question regulatory goal of improving children's TV, but said Commission "did not describe a vast majority of the compliance requirements... and their impact on small firms. Nor did it discuss significant alternatives." FCC should submit supplemental Regulatory Flexibility Analysis required by Regulatory Flexibility Act, SBA said. Although FCC listed rulemaking proposals, SBA said it didn't provide adequate information about costs and alternatives of such proposals as requiring broadcasters to devote 3% of their air time to children's programming. It said that proposal would require broadcasters to add programming whenever they added channels, and FCC didn't provide information about cost of additional programming. SBA raised same questions about other proposals, including technical format rules, menu approach, daily core programming obligation, datacasting, providing content information to publishers and others, preemption rescheduling, commercial tie-in limits. FCC should consider alternatives such as delaying enforcement of rules because of cost to small broadcasters of DTV transition itself, SBA said, as well as setting reduced requirements for small broadcasters that have access to fewer resources. Meanwhile, in comments on rulemaking, state broadcast associations said it was too early to impose "burdensome" children's TV rules on DTV because they "would hamper innovative uses of the digital spectrum." State groups also said FCC didn't have legal right to impose quantitative requirements for programming, and rules would raise First Amendment concerns. Center for Media Education rejected constitutionality argument, Pres. Kathryn Montgomery saying, "The public owns the airwaves, not the broadcasters."

**Eight Chris-Craft TV stations will remain UPN affiliates** under new agreement announced last week. Stations, which are being bought by News Corp., had been considered possible candidates for switch to Fox network. Deal runs through 2001-2002 TV season. Terms weren't disclosed.

**KENNARD LAUDED, CRITICIZED:** As FCC Chmn. Kennard departed Jan. 19, he left legacy as extremely decent man who might have been more effective if he were more of politician, industry officials told us. "He is a prince of a man, honorable, honest," said one telecom lobbyist. "But I don't believe he's a politician at heart and it's hard for that kind of person to survive the political cauldron in Washington." No one we talked with disputed Kennard's honorable nature. Even his ideological opposite, Comr. Furchtgott-Roth, said he viewed Kennard's departure to make way for Republican as "somewhat bittersweet" because Kennard was "one of the finest, most decent individuals I've ever met."

Most Washington insiders credit Kennard with making telecom services more accessible to people with disabilities, residents of tribal lands, those living in urban poverty areas and other underserved groups. One lobbyist said he also was very effective in extending FCC's competitive telecom model to other countries through frequent meetings with overseas regulators.

Kennard — former NAB intern and then staffer in NAB legal dept., after getting his law degree — shocked broadcasters, and caused uproar in Congress in first week of his chairmanship in 1997 when he called for free air time for political candidates and announced plans to open inquiry looking toward eliminating or setting restrictions on beer and wine ads. Neither project got off ground for several reasons, including opposition from Hill and from other commissioners. All broadcasters we talked with — including minorities — criticized Kennard for not giving industry credit for efforts that it had made in employment, ownership, diversity in programming.

Broadcast executives and NAB staffers interviewed in Cal. last week at NAB's board meetings generally were reluctant to speak unkindly publicly about Kennard — although many had private comments, some of them unprintable. "I say good riddance," TV group exec. told us. "I can't say anything nice about him." Added another: "How mean do you want me to be? He didn't leave much of a legacy." Another: "I'm trying to find one thing he's done right." Or this: "Has it just been 4 years? It seems like 8."

NAB Chmn. James Yager, pres. of Benedek Bcstg., didn't try to hide his disappointment in Kennard's tenure. "He didn't take the time or make the effort to understand that he was regulating," Yager said. "He had total disregard for the technical standards [of broadcasting] and he did nothing to foster digital... His term was a disaster." NAB Pres. Edward Fritts was more diplomatic, calling Kennard "a dedicated public servant who honestly believed in the issues he promoted. While we didn't always agree, I respect him personally." NAB TV Chmn. Ben Tucker, Fisher TV, said he wished outgoing chmn. well: "He was a principled man... but he didn't give the industry enough credit for all the good things broadcasters have done in making our industry more diverse."

Outgoing radio board member Al Vicente, Pamal Bcstg., called Kennard "a visionary at a time when the winds weren't favorable to his agenda... He was very naive." Michael Carter, Carter Bcst. Group, said "methodology" used by Kennard "caused a lot of turmoil" and was a mistake: "He had the right thing in mind, but he should have tried to work with broadcasters." NAB Radio Vice Chmn. John Dille of Federated Media said Kennard was "thoughtful and sensitive about things that were important to him and his agenda." Added Preston Padden,

Washington representative for Disney: "I admire the conviction he has for what he really believes in," praising his attempts to help minorities. "On a personal level, he's a good guy," said Cullie Tarleton of Bahakel Communications and chmn. of Fox TV Network affiliates assn. "But he disappointed me in that he didn't help close the gap on digital."

Unlike broadcasters, cable officials praised Kennard for not making many regulatory moves on TV front. In particular, they saluted him for not imposing DTV must-carry rules and open access requirements on cable. While Commission has been considering both, it has refrained from acting, cheering cable operators and disappointing cable critics. "Chairman Kennard has had the courage to let the free market guide the development and deployment of new services," NCTA Pres. Robert Sachs said. "History will show the wisdom of his approach."

Kennard departs with reputation on Hill for overreaching, several there said. Too often, "he tried to enact policy rather than carry out policy mandated by Congress," said Ken Johnson, spokesman for House Commerce Committee Chmn. Tauzin (R-La.). At same time, Johnson put much of blame on White House. "It was clear to us that in all too many cases, he was getting his marching orders directly from the White House," he said, pointing to free air-time controversy in which President Clinton essentially ordered Kennard to proceed despite congressional criticism. "We believe he was put in a difficult position."

Other decisions that raised ire of Hill members, especially Republican majority, included Kennard's insistence on pushing low-power FM (LPFM) rules and controversial interpretation of educational TV rules that would have excluded some religious broadcasters from reserved spectrum. In each of cited instances, Kennard got little for his trouble but criticism. Free air-time rules never coalesced, religious broadcaster rules were rolled back under congressional heat and LPFM rules were curtailed by act of Congress.

Consumer advocates praised Kennard's efforts on behalf of minorities, disabled and development of low-power FM, among others. They also gave him high marks for preserving Commission's authority and implementing Telecom Act despite often-hostile Congress and many unfavorable judicial decisions. "Under the circumstances, he got a lot of work done and did very well," Media Access Pres. Andrew Schwartzman said. "The implementation is the hard part."

But consumer advocates also expressed disappointment and dissatisfaction with Kennard, particularly on such issues as cable open access, media concentration, interactive TV access. "I think there was a lost opportunity with Bill," said one source. "The job of the FCC chairman is not just about making the telecom trains run on time.. He ducked many of the central public interest issues."

Public broadcasters' DTV transition will produce \$779 million shortfall with no funding increases from federal govt., White House said in final Economic Outlook report. PTV made list of "pending policy proposals" — Clinton Administration budget items that were cut severely by Congress — after receiving only \$44 million of requested \$110 million for FY 2001. White House also said FCC's spectrum auction authority had reaped \$20 billion since 1994, and failure to renew it past 2008 would cost federal govt. \$500 million annually.

**FCC APPROVES ITV INQUIRY:** By 4-1 vote, FCC adopted notice of inquiry (NOI) on interactive TV (ITV) services Jan. 18, starting formal proceeding that it promised when it approved AOL's acquisition of Time Warner (TW) week earlier. But Commission backed away from more urgent proposed rulemaking on ITV issue that its Cable Bureau staff had recommended, bowing to strong lobbying from cable, to disappointment of consumer advocates and other cable critics. Move followed regulatory conditions imposed on AOL-TW deal last month by FTC that prohibited new company from interfering with content supplied by other ISPs and ITV providers or discriminating against such competitors (TVD Dec 18 p2).

In 22-page NOI, FCC seeks comment on "a suitable definition of ITV service." It identifies 3 major technical "building blocks" for ITV service — video pipeline, high-speed Internet connection and ITV set-top box — and asks whether cable or any other pay TV provider "will have a substantial advantage in delivering ITV services." Agency also asks whether vertically integrated pay TV provider that offers its own ITV services "would have the incentive in addition to the ability to discriminate against unaffiliated ITV service providers." NOI explores idea of imposing "a nondiscrimination requirement" on cable operator or other pay-TV provider "with a substantial advantage in delivering ITV services." Finally, inquiry seeks comment on FCC authority over ITV services.

Now-departed FCC Chmn. Kennard, who pledged action on ITV Jan. 12 after agency approved AOL-TW deal, called proceeding "valuable step" in ensuring "a robust, competitive [ITV] marketplace" for public. "ITV service has the potential to bring huge benefits to the American consumer, not to mention substantial revenues to service providers," he said. "Although ITV services are in the early stages of development, the Commission would do well to get ahead of the curve." He expressed concern that "a vertically integrated ITV service provider might have the incentive and ability to discriminate against unaffiliated ITV service providers."

Democrat Comr. Tristani, who voted for inquiry, said she wished agency had gone further by undertaking proposed rulemaking. "The world of communications is constantly and rapidly changing," she said. "This Commission must move promptly to ascertain the public interest in nascent industries to ensure appropriate measures are timely vetted and resolved."

Republican Comr. Furchtgott-Roth, sole opponent of ITV proceeding, said it was "much too premature" for FCC to address issue. Although NOI is less heavyhanded than proposed rulemaking, he said, "it is no less damaging to raise the specter of government regulation... for services that are still in their gestational period." Furchtgott-Roth also expressed "serious reservations that the Commission has the legal authority to address cable interactive services."

Cable officials, who lobbied heavily against proposed rulemaking, applauded FCC's move to tread more lightly on ITV but questioned need to do anything at all. "We're pleased that the Commission has decided to conduct a fact-finding inquiry rather than a rulemaking which presumes a regulatory outcome," NCTA Pres. Robert Sachs said. "But asking dozens of hypothetical questions about regulating a business which has yet to take form still puts the cart before the horse, in regulatory terms."

Disney officials, consumer groups and others welcomed move by FCC to examine ITV market. But, after pushing for proposed rulemaking, they criticized Commission for not moving faster and more aggressively. "Once again, this is too long in coming here," said one consumer advocate. "This has been a Democratic Commission without any kind of courage or spine."

**STUDIOS EXPECT STRIKE:** TV programmers agreed with network officials that there would be program production strike this spring by one or more of Hollywood guilds, they told TV critics in Pasadena last week. Seven studio heads predicted strike, saying it was "inevitable" and would be "devastating." If writers and/or actors go out, it would drive viewers away, cause "incalculable" loss of jobs and hurt quality of programming — with reality shows, as planned by networks as substitute (TVD Jan 15 p6) not acceptable alternative, producers said. Strike "seems inevitable because both positions are entrenched," said Dana Walden of 20th Century Fox.

"I think a strike would be devastating," said Peter Roth of Warner Bros. TV: "The real impact is on the viewer... A strike drives viewers away from network television at a time when we can least afford it," many of whom won't return. Eric Tannenbaum of independent Artists TV Group said strike "especially concerns us... as a new company and the core of our business is to produce scripted series for the prime-time networks."

With slump in network ads and "continuing erosion" of network viewers, "this is a terrible moment for a strike," said David Kissinger of Studios USA. Roth said industry couldn't afford "additional losses and erosions of audience in a weak marketplace... given the number of choices now available to the viewer." Thomas Mazza of Columbia TriStar TV said strike predictions were based on statements by both sides, which "leave a little door of... optimism for the months ahead... I'd like to think something positive will come out [in negotiations] over the next 6 months."

Some of programmers said they were attempting to prepare for work stoppage by writers and/or actors. Walden said his firm "accelerated" production of 2 new series. Said Roth: "I absolutely do question the qualitative impact of this kind of rushed production." Walden said nothing was being done on reality programming by 20th Century Fox (as opposed to co-owned Fox TV network, which is heavily involved in reality). Kissinger said "we're already beginning to see the [reality] trend burning itself out... Good, solid scripted programming will prevail."

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Demand for applications will drive growth for public network and enterprise markets, Telecom Industry Assn. (TIA) said in *2001 MultiMedia Telecommunications Market Review and Forecast*. Enterprise spending on equipment and software reached \$92.1 billion in 2000, and network service providers spending hit \$53.2 billion, report said, and despite significant factors creating downward pressure, "we believe there are stronger factors creating upward pressure on spending." Telecom growth factors include growth in supply of bandwidth, which has caused drop in its price and has led to necessity for bundling applications with bandwidth to stimulate usage and increase margins, TIA said. Demand will lead to further investments in bandwidth and will generate new uses such as emerging hosted applications industry and wireless broadband, report said.

**FCC turned down petition** by advocacy group Rainbow-PUSH Coalition to deny license renewal application of U. of Mo. for noncommercial radio station KWMU(FM) of St. Louis U. for alleged violation of EEO rules, but fined university \$8,000 for "willfully omitting" material facts about employment discrimination complaints in information provided to Commission. Rainbow alleged that station had discriminated against several black applicants and former station employees, citing declarations by 2 former staffers and 2 applicants. In order adopted Dec. 20 but not released until Jan. 17, Commission said Rainbow had failed to make *prima facie* case in its petition to deny.

**NAB IN GOOD SHAPE:** NAB Pres. Edward Fritts told board that group was in great shape and had "a deep war chest and our projections for both near and long term are impressive." At board meetings in Carlsbad, Cal., he said congressional scaleback on FCC's LPFM plans in last-min. appropriations bill was "a huge win" that showed "what can be accomplished when we speak with a loud and unified voice." NAB Chmn. James Yager of Benedek Bcstg. agreed NAB's "financial house is in order" with record revenue in fiscal 2000 (ending March 1). Assn. is expecting another record year beginning April 1 of \$66 million in revenue — leading group to declare 2nd straight 3-month holiday for member dues payments. Radio membership is up 300 stations in last 12 months and now stands at "its highest level ever," said Radio Exec. Vp John David, with TV membership up 29 stations since June.

Board approved budget for fiscal year starting April 1 with expectations of just under \$66 million in revenue, with expenses well below that. Of income, about 2/3 will come from April convention in Las Vegas, as has been case for last several years.

James May, exec. vp-govt. relations, told board NAB "achieved virtually all of its legislative goals in 2000" — citing LPFM, satellite TV loan guarantees, spectrum integrity legislation and preventing any content legislation or analog spectrum tax proposals. Industry issues coming up in new Congress, he said, include election reform, new pushes for content regulation and public financing of campaigns, among others.

As for incoming Bush Administration, Fritts said "we expect a lighter regulatory touch." In House, he said "we can expect various coalitions... to hold the balance of power on many issues. And in the Senate, we can expect the actions of one senator to be more meaningful" because of 50-50 Senate split among Democrats and Republicans. TV board once again visited long-time contentious issue of FCC's 35% TV station ownership cap and on motion by William Sullivan, WSBT-TV South Bend, voted "overwhelmingly" to reaffirm its support of that cap.

NAB's 8-year-old database must be replaced, Exec. Vp-Operations Jack Knebel told board. New system is "critical" for NAB to provide services to its membership, he said, with Accenture retained to help find vendor to provide new system. NAB also is developing NAB-X.com, with help of AnswerThink, to provide "year-round, virtual trade show" Web page. Prototype will be demonstrated at NAB convention in April. TV Vice Chmn. Paul Karpowicz, Bylaws Committee chmn., said membership overwhelmingly approved bylaws changes recognizing board members' "fiduciary responsibilities" to NAB — designed, in part, to give Assn. means to punish board members (including removal) for leaking information to reporters (TVD Jan 1 p3).

NAB Senior Vp-Science & Technology Lynn Clady reported on in-band, on-channel (IBOC) tests of digital radio. Assn. soon will start field-testing IBOC technology promoted by newly formed iBiquity Digital Corp. Tests will be conducted at 8 radio stations, he said, with NAB to consider establishing marketing task force to study terrestrial radio and its impact on marketplace. Exec. Vp Henry Baumann said recent ruling by U.S. Copyright Office that simultaneous streaming of broadcast signals on Internet was subject to performance fees was "directly contrary to congressional content." Gen. Counsel Jack Goodman said there were "many problems" with FCC rulemaking to redefine radio markets (as advocated by Comr. Tristani) and radio board came out in opposition to proposal.

**AOL TIME WARNER STARTS WORK:** AOL Time Warner announced plans to repurchase up to \$5 billion of joint company's common stock and file universal shelf registration statement for \$10 billion. After holding its first board meeting Jan. 18, AOL Time Warner said it would begin \$5 billion stock buy-back program next month, making purchases from time to time over next 2 years, depending on market conditions. It also will use \$10 billion shelf registration to cover issuance of debt securities, common stock, series common stock, preferred stock, warrants. Company said moves would give it "greater financial flexibility" to take advantage of marketplace opportunities, boost return on capital, build shareholder value.

Financial moves came after AOL Time Warner unveiled its new 16-member board, consisting of 8 members each from AOL's and Time Warner's old 11-member boards. New board consists of: (1) XO Communications Chmn.-CEO Daniel Akerson. (2) Barksdale Group partner James Barksdale. (3) Hilton Hotels Pres.-CEO Stephen Bollenbach. (4) AOL Time Warner Chmn. Steve Case. (5) Kleiner, Perkins, Caufield & Byers partner Frank Caufield. (6) CGLS Fund partner Miles Gilburne. (7) Hills & Co. Chmn.-CEO Carla Hills. (8) AOL Time Warner CEO Gerald Levin. (9) Colgate-Palmolive Chmn.-CEO Reuben Mark. (10) Former Philip Morris Chmn.-CEO Michael Miles. (11) AOL Time Warner Vice Chmn. Kenneth Novack. (12) AOL Time Warner Co-COO Richard Parsons. (13) AOL Time Warner Co-COO Robert Pittman. (14) Fannie Mae Chmn.-CEO Franklin Raines. (15) AOL Time Warner Vice Chmn. Ted Turner. (16) Vincent Enterprises Chmn. Francis Vincent.

FCC's Jan. 11 approval of AOL-TW deal received generally good early reviews among Hill staffers. While instant messaging (IM) conditions won't have immediate impact, said one, at least "FCC has put its imprimatur on IM interconnection." Less pleased was economist Rick Warren-Boulton of Microeconomic Consulting Research & Assoc. (MiCRA), which submitted report to FCC detailing dangers of allowing AOL not to interconnect to IM competitors. Warren-Boulton told us FCC's conditioning its IM interconnection requirements on AOL-Time Warner's (TW) offering new broadband IM services wasn't "the kind of thing that an economist would construct." He said there were 2 possible outcomes, and FCC's order wasn't ideal either way: (1) AOL-TW offers new services quickly, in which case FCC "would be better off saying just do it." (2) AOL-TW delays new offerings to avoid requirements, creating "problem for technical change in general."

In one interesting footnote to FCC's deal approval, consumer groups that had fought for strong regulatory conditions on deal ended up urging Commission to okay it even though they and other critics didn't gain interoperability of AOL's current instant messaging (IM) services. Recent ex parte filing revealed that Media Access Project's Andrew Schwartzman and Consumers Union's Gene Kimmelman pressed Comr. Tristani, last holdout in IM fight, to vote for approval because agency had won as much as it could. Despite their strong support for "full interoperability of instant messaging services," Schwartzman and Kimmelman said, "the net value of the relief the Commission could provide to consumers and the public from a properly crafted decision justified acceptance of an order which did not provide full interoperability." Consumer advocates also feared what might happen if merger review lingered beyond former Chmn. Kennard's tenure, which ended Jan. 19.

Separately, AOL Time Warner CEO Levin donated \$10 million to new National Cable Television Center and Museum in Denver in honor of his late son, Jonathan, N.Y.C. high school teacher murdered several years ago.

**DBS GAINS ON CABLE:** To no one's great surprise, cable TV remains dominant technology for delivering video programming to consumers, according to 7th annual video competition report released by FCC. Commission said cable had 67.7 million subscribers in June 2000, up one million (1.5%) from 66.7 million in June 1999. DBS continued to make steady inroads into cable's market share, adding almost 3 million subscribers over same period to reach nearly 13 million, up 29% from year earlier. Cable now has 80% of pay-TV market, down from 82% year earlier, while DBS now commands growing 15.4%.

Latest video competition report, which is required by Congress, also said cable rates continued to rise faster than inflation. In June 1999-June 2000 span, cable prices increased 4.8%, compared with 3.2% in Consumer Price Index. But report said MSOs also were spending more than ever, with plant upgrade costs up 89.3% over 1998, network licensing fees up 12.2% and programming expenses up 16.2%. It also said cable operators had responded to "effective competition" in many markets by cutting rates, adding channels, improving customer service, introducing such new services as interactive TV.

FCC said noncable multichannel video programming distributors (MVPDs) together had total of 16.7 million customers last June, up nearly 18% from 14.2 million year earlier. It credited most of increase to rollout of local-into-local service by DBS in last year. Commission said 40 large markets now receive local-into-local from one or both DBS operators, with DirecTV active in 38 markets, EchoStar in 34 and both competing in 32. Both DirecTV and EchoStar now rank among top 8 MVPDs in nation, along with 6 biggest MSOs.

Other cable video rivals were losing ground, Commission said. Wireless cable subscribers slipped 14.7% to 700,000 in June 2000, giving MMDS systems just 0.8% of pay-TV market. C-band satellites fell 17% to 1.5 million as small dishes replaced large ones. Telcos largely began leaving video facilities market, with only BellSouth showing intention of hanging onto its alternative cable systems.

Although FCC has certified 25 open video system (OVS) operators in 50 markets since Telecom Act enactment 5 years ago, new regulatory framework hasn't been popular. Commission said RCN Corp. owns only operating OVS operations in nation, with service in parts of Boston, N.Y.C., San Francisco and Washington areas. Total OVS subscribers remained constant at just 60,000, slightly less than 0.1% of all pay-TV customers.

SMATV, alone among cable rivals, did register growth over last year. FCC said SMATV systems increased their customer base 3.5% to 1.5 million in June. SMATV operators, who mainly serve apartment complexes, now account for 1.8% of MVPD market.

Despite earlier predictions of saturation, overall market for pay-TV continued to grow briskly. Latest video competition report put total MVPD market at 84.4 million households, up 4.4% from 80.9 million in June 1999. Pay-TV penetration of U.S. TV homes edged up 2.4% to 83.8%.

As market grows, cable consolidation continues. Commission said 10 biggest MSOs now serve close to 90% of all cable subscribers and regional cable clusters now cover 44 million (2/3) of cable customers. But vertical integration of national programming services with cable operators slipped again, with

top 5 MSOs now controlling 35% of all national networks, down from 37% year earlier. Number of satellite-delivered networks also dipped slightly, to 281 from 283.

**Broadcasters are averaging** 4 hours of children's TV programming per week, one more than FCC's 3-hour guideline, FCC Chmn. Kennard said in letter to Capitol Hill. Letter accompanied FCC reports on children's TV rules and on DTV public interest standard. On kidvid, Kennard said more still needed to be done, including limiting preemption of children's programming and publicizing availability of shows. On DTV public interest, report listed 11 possible ways for broadcasters to "fulfill their statutory duty to serve the public interest," Kennard said. He said principles should "provide useful guidance" for congressional discussions with broadcasters. Principles cited in report include airing local issue-oriented programs, carrying PSAs, "enriching children," protecting children from harmful programs, "enhancing democracy," providing disaster and emergency information, protecting consumer privacy, making programming accessible to disabled, using technology to enhance service.

**Canada's Copyright Board** is moving forward on Internet Webcasting tariff that could give legitimacy to such sites as iCraveTV and JumpTV (TVD Oct 30 p8, Oct 2 p7). Board Secy. Gen. Claude Majeau sent letter to parties calling for interim hearings March 12 on JumpTV's application for Internet retransmission tariff. Majeau said hearings would address JumpTV request for interim tariff for offering over-air TV signals on Internet. He asked participants to consider whether board's proposed royalties and interim tariff for 2001 would apply to over-air signals on Internet, even though tariff formula might not exactly suit JumpTV's business model. Majeau said additional considerations are whether board should handle JumpTV's request in fashion similar to proposed prosecution of iCraveTV before Ontario Superior Court and, finally, whether board should certify 2 tariffs, one for Internet retransmissions and another for all other retransmission. JumpTV intends to begin streaming TV broadcast signals this year.

**PanAmSat Net36** and Hughes Network Systems (HNS) said Net36 would provide additional streaming content delivery for DirecPC services. With addition of new service, Net36 now has access to half of N. American broadband households via satellite-to-edge servers. Meanwhile, HNS said it was expanding its relationship with Telkom SA Ltd. of S. Africa. HNS will supply Telkom SA with 14,000 very small aperture terminals (VSATs) that will meet 90% of nation's VSAT needs. HNS technology will support delivery of Telkom SA's VSAT service to provide advanced communications systems for election monitoring, air traffic control, rapid financial transactions, multimedia, other services. No terms were disclosed.

**FCC released** 2000 biennial regulatory review that included details on items that agency accepted for further review that were part of staff report released last fall. FCC Comr. Furchtgott-Roth said he was "heartened" by more detailed analysis in 2000 Biennial Review issued by agency. Review includes staff report that analyzes regulations on "subpart-by-subpart" basis to determine whether they are needed, action that Furchtgott-Roth has championed in past. That level of detail offers "meaningful opportunity for debate about each section of our rules," he said. He urged regulated companies to take active role in commenting on process that he said was "opportunity to keep our regulations consistent with marketplace and technological change."

**Personals**

**William Moll**, ex-pres.-gen. mgr., WKRC-TV Cincinnati, appointed pres., Clear Channel TV, succeeding **Ripperton Riordan**, who plans to go into ministry... **Jacqueline Bosque** adds Tucson office leadership to vp-gen. mgr., Radio Unica, Phoenix... Changes at Sinclair Bcst. Group: **Scott Sanders** adds gen. mgr. of WRLH-TV Richmond to gen. mgr., WTVZ-TV, Norfolk; **William Lane** adds station mgr. to gen. sales mgr. title... **Steve Wexler** promoted to vp-gen. mgr., Journal Bcst. Group-Omaha Operations... Promotions at Belo: **David Muscari** to vp-strategic alliances, WFAA-TV Dallas/Ft. Worth; **Lawrence Nicholson** to vp-mktg., WFAA-TV; **Mike Devlin** to vp-news KHOU-TV Houston; **Jay Cascio** to vp-programming & creative services, KING-TV Seattle; **Deborah Wilson** to vp-sales & mktg., KING-TV.

**Jed Petrick** advanced to pres.-COO, WB TV Network... **James Packer**, ex-Disney, appointed exec. vp-N. America TV sales, MGM Worldwide TV Distribution... **John Damiano** advanced to exec. vp-affiliate relations, NBC... **Michael Norten**, ex-WPGH-TV and WCWB Pittsburgh, appointed vp-sales and news, Video Networks.

**Jessica Wallace**, legislative asst. to Rep. Tauzin (R-La.), is latest staffer to follow him to House Commerce Committee, where she will be telecom counsel... **Terry Haines**, ex-Boland & Madigan and former FCC chief of staff, named staff dir. and chief counsel for newly created House Finance Services Committee... **Ann Marie Cumming**, NAB dir.-media relations, resigns to move to Germany with her husband, CIA official... **Yolanda Macias**, vp of DirecTV Para Todos and International Services, DirecTV, joins board, T. Howard Foundation.

Changes at CNN: **Ken Jautz**, n-tv Germany, named exec. vp-gen. mgr.-CNNfn after merger of those units; **Teya Ryan**, exec. vp, domestic networks, CNN News Group, appointed gen. mgr-exec. vp, CNN Headline News... Changes at Starpower: **Don Mathison**, ex-Media General Cable, named gen. mgr.; **Andrew Nigolian**, ex-Time Warner, appointed division vp-Philadelphia... **Michael Yorick**, ex-A&E TV Networks, moves to vp-emerging businesses, USA Cable... **Ann McGowan** promoted to dir.-business development, Showtime Networks... **Janice Cooley** advanced to dir.-work force planning and talent acquisition, Cox Communications... **Patrick Esser** promoted to exec. vp-operations, Cox Communications, succeeding **Maggie Bellville**, resigning Feb. 2.

Promotions at AOL: **Ray Oglethorpe** to pres.-America Online; **Jan Brandt** to vice chmn.-chief mktg. officer; **Ted Leonsis** to vice chmn.-new product officer; **Jonathan Sacks** to pres.-AOL Service; **Audrey Weil** to pres.-CompuServe; **Donn Davis** to pres.-Interactive Properties Group; **Myer Berlow** to pres.-Worldwide Interactive Mktg.; **Mark Stavish** to exec. vp-human resources; **Randall Boe** to senior vp-gen. counsel... **John deGarmo**, ex-Scripps Networks, named senior vp-affiliate relations, Moviewatch.

**Fox** agreed to stop running ads for *Temptation Island* following complaint in letter from FCC Comr. Tristani to News Corp. Chmn. Rupert Murdoch. She said "many parents" had complained about ads for show airing during children's viewing hours, saying "children should not be exposed to advertisements for programming that is inappropriate for children."

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Obituary

**Tom Paro**, 77, pres. of MSTV 1979-1988, died Jan. 11 at Suburban Hospital near Washington, of Parkinson's disease and pneumonia. Before his stint at MSTV, Paro was an NBC vp and gen. mgr. of WRC-TV Washington. Survivors include his wife, 3 children, 2 stepchildren, brother, 8 grandchildren.

# Consumer Electronics

A Section of *Television Digest* with *Consumer Electronics*

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Jan 5, first week of year:

	DEC. 30 - JAN. 05	1999 WEEK	% CHANGE	DEC. 23- DEC. 29	52 WEEKS 2000	52 WEEKS 1999	% CHANGE
TOTAL COLOR TV	206,259	235,430	- 12.4	529,605	30,355,101*	28,869,000	+ 5.1
DIRECT-VIEW**	198,302	224,905	- 11.8	501,016	29,139,205*	27,637,310	+ 5.4
TV ONLY#....	162,777	192,184	- 15.3	439,070	24,175,344*	23,218,839	+ 4.1
TV/VCR COMBO.	35,525	32,721	+ 8.6	61,946	4,963,861*	4,418,471	+ 12.3
PROJECTION...	7,957	10,525	- 24.4	28,589	1,215,896	1,231,690	- 1.3
TOTAL VCR**....	112,140	185,354	- 39.5	267,707	28,035,402*	27,227,429	+ 3.1
HOME DECKS...	76,615	152,633	- 49.8	205,761	23,071,541*	22,808,958	+ 1.2
CAMCORDERS.....	30,332	33,390	- 9.2	103,146	5,848,023*	4,790,302	+ 22.1
DVD PLAYERS....	77,649*	44,191	+ 75.7	317,033*	8,498,545*	4,071,938	+108.7

**Direct-view TV 5-week moving average#:** 2000-404,789; 1999-375,225 (up 7.9%).

**Projection TV 5-week moving average:** 2000-22,814; 1999-27,977 (up 18.5%).

**VCR deck 5-week moving average:** 2000-206,868; 1999-334,942 (down 38.2%).

**TV/VCR 5-week moving average:** 2000-59,658; 1999-63,031 (down 5.4%).

**Camcorder 5-week moving average:** 2000-66,079; 1999-62,146 (up 6.3%).

**DVD player 5-week moving average:** 2000-174,094\*; 1999-107,941 (up 61.3%).

\* 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.

**DTV MAKERS LAUD DECISION ON MODULATION STANDARD:** Final and unambiguous endorsement of DTV's 8-VSB modulation system by NAB and MSTV last week, along with decision to shelve further study of rival COFDM standard used in Europe and elsewhere, came as welcome news to DTV set makers we canvassed. Manufacturers also praised public education campaign for DTV that NAB and MSTV will jointly finance and kick off in spring. Meanwhile, at our Fri. deadline, FCC announcement was expected on DTV issues, possibly including all-channel receivers. (Separate report on DTV modulation appears in Bcst.-Cable section.)

Although Sony said it was studying modulation situation and might release statement later, executives of other DTV vendors were outspoken in expressing their relief that uncertainty on broadcast standard had been eliminated. Last year, Sony sent shivers through broadcast and CE industries when it said it would postpone product plans for integral DTVs until dust settled on VSB vs. COFDM debate. Thomson spokesman's comments were typical of others in applauding NAB/MSTV decision. RCA parent has been strong supporter of 8-VSB, and company's persistent DTV promotions include commercials on HD telecast of NFL playoffs and upcoming Super Bowl XXXV on CBS.

"Obviously, Thomson feels strongly that this news on VSB is very good for the industry," spokesman said. "We consider this a solid endorsement of our strategy for integrated HDTV sets as well. One thing the broadcasters have been clamoring for is integrated TV products that receive digital programming."

With uncertainty on DTV modulation system now eliminated, Thomson will increase product flow, spokesman told us. "We are now going to step up our production of 61", 65" and 38" high-definition sets. We're now shipping the 61" and 65" to retailers. Prices have come down precipitously on those products and we think that curve will continue." At this month's CES, Thomson took wraps off LCD-based 50W integrated DTV rear projector. New RCA brand L50000,

which ships in midyear at \$6,000-\$8,000, uses liquid crystal on silicon (LCOS) to achieve 1,280x720 progressive scan HD picture in package just 18" deep and under 100 lbs.

Toshiba also will boost DTV output. At CES, company said it would increase assembly of HD-ready sets 50% at its Lebanon, Tenn., plant — level it hadn't expected to reach until 2002. Toshiba began assembling 50-65W sets at factory last year.

"We've been proponents of VSB," said Scott Ramirez, Toshiba asst. vp-mktg. "We consider the issue to be over, and we will move forward with our plans," he told us. "This really clarifies things, and I think you will see a lot of people moving forward aggressively now," Ramirez said.

Also welcome news to DTV makers was NAB's pledge with MSTV to bankroll consumer ad campaign promoting DTV, Thomson spokesman said. "We anticipate that this endorsement eventually will mean more programming. And we hope that the FCC will take action soon on some of the other remaining issues, such as cable carriage and copy protection," spokesman said. "But for now, the big concern was about getting more broadcasters on the air with DTV. We hope the VSB endorsement breaks the logjam and helps them make their deadline in the next 16 months," he said, alluding to May 2002 mandate for all commercial stations to air DTV.

More DTV content ought to remedy lackluster sales, Toshiba's Ramirez said. DTV's lukewarm reception by consumers to date couldn't be attributed to modulation uncertainty, he said. "I don't think they were aware of it, because it was more of a manufacturing issue."

"The consumer didn't know or care about this and this debate was really by people who liked to read their own press," agreed Robert Perry, Mitsubishi mktg. dir. "We are happy with the decision, and we assumed it was going to happen based on the science of VSB. It's nice to see the science prevail rather than the politics," he said.

"This tells manufacturers that they can be comfortable with their DTV plans and move forward," Perry said. "Most of the technology debates are starting to come to an end, and you will see more manufacturers introducing integrated HDTV sets."

**SONY READIES \$8,000 HDTV PLASMA MONITOR:** Sony will start shipments later this month of 42W plasma display panel (PDP) with HDTV resolution and \$8,000 price, establishing low-end benchmark for category. Pioneer was said to have lowered retail for 50W with 1,024x768 resolution to \$17,999 from \$20,000.

While competitors have had 42W in \$6,000-\$7,000 range in past, most had only 852x480 resolution, not 1,024x1,024 by Fujitsu Microelectronics (FM). Fujitsu General (FG), which also buys its panels from FM for sale under own brand, recently dropped price on its 42W with 1,024x1,024 resolution to \$14,999 from \$16,000, but had no immediate plans to meet Sony, retail sources said. Sony earlier had \$16,000 price on HD panel based on FM's Alternative Lighting of Surfaces (ALiS) technology and has 500 lumens, 250:1 contrast. FG officials weren't available for comment.

New panel also will be first major introduction since Sony invested \$47.1 million for 15% stake in Hitachi-Fujitsu plasma joint venture (TVD May 1 p11). Sony, which has sourced panels from Fujitsu for several years, previously priced 42W with 852x480 resolution at \$9,999, while Fujitsu was at \$6,995 (TVD June 14/99 p15). Hitachi and Fujitsu formed joint venture in 1998 (TVD Aug 24/98 p16) that operates factory in Kyushu, Japan. Introduction also appeared to deepen Sony's commitment to plasma, although company has said some development on plasma-addressed liquid crystal (PALC) technology is continuing. Sony's PALC joint venture partners Sharp and Philips have moved project to back burner.

"It [new price] will open some new markets for us, but it's still priced at the high end of both the consumer and professional markets," Display Products Mktg. Mgr. Lisa Baldino said. Despite new offering, Sony will continue to sell PDP only through professional and custom installation groups, bypassing CE unit for now, she said.

"It will have some impact because you will have an HD monitor out there at less than \$10,000, but it's still not near the \$100-per-inch number," said Toshiba Asst. Mktg. Vp Scott Ramirez, referring to cost that's projected to bring technology into volume market.

Pioneer announced long-rumored price cut on 50W as it prepared to face first major competition in consumer market in screen size. Later this year, Marantz and Runco are expected to ship PDPs sourced from NEC. Matsushita and OEM customer Toshiba also will have displays. Rumors of price cut began circulating last fall (TVD Sept 4 p12) and mark 2nd time Pioneer has made such move. It lowered 50W to \$18,999 from \$25,000 in 1999 as it closed out first-generation product (TVD March 29/99 p14). Pioneer officials weren't available for comment. Toshiba, which is introducing 50W using Matsushita-built panel, will match price, Ramirez said.

Meanwhile, International Trade Commission last week voted to investigate complaint that plasma panels imported by Fujitsu infringed on patents held by U. of Ill. Competitive Technologies (CT), based in Fairfield, Conn., which administers licenses for technology, alleged that Fujitsu violated 2 patents that provide for energy recovery in flat-screen TVs and other plasma panels. Complaint, which has been assigned to Administrative Law Judge Debra Morris, seeks permanent exclusion and cease-and-desist order.

CT, licensor for inventions ranging from Vitamin B12 assay to gallium arsenide semiconductor inventions, said it filed complaint Dec. 21 because Fujitsu was unwilling to negotiate "fair" license agreement. Among 3 inventors listed on patent is Larry Weber, who sold his plasma display development firm Plasmaco to Matsushita in 1997 and works with Matsushita designing displays. Matsushita, which markets 42W plasma and has plans for 50W and 60W, has obtained nonexclusive license for patented technology, CT said. CT itself is small company with 10 employees and fiscal year revenues of \$4.1 million, up from \$3.6 million year earlier despite decline in net income to \$1.3 million from \$2.9 million.

**STRICTER ENFORCEMENT PROMISED FOR DVD LICENSE AND ROYALTIES:** DVD player sales to consumers hit 6.5 million last year, according to report expected this week from research firm NPD Intelect. Although tally widely missed group's earlier projection of 10 million sellthrough, perhaps more vexing concern among DVD vendors is growing flap over licensing and royalties.

Year closed with Dec. sales of 2.4 million players, said Tom Edwards, NPD senior video analyst. That trumped 1.1 million sold in Dec. 1999 but was less than expected, he said. Falloff was primarily in mass merchandiser channel owing to concerns about adequate product supply and lack of free-disc promotions compared with previous periods, Edwards told us. NPD sellthrough figures don't account for online or direct sales, DVD-ROM products or PlayStation 2 videogame console with DVD drive, he said.

Meanwhile, DVD patent holders have started to feel pinch from unlicensed brands and others that haven't been ponying up for royalties — predominantly manufacturers in China and Taiwan. In effort to collect on their intellectual property, patent groups now are vowing to enforce DVD licensing, to extent of having unlicensed DVD products impounded by U.S. Customs. License groups said they also would accelerate verification testing for product compliance with DVD technical standards.

High-level meetings took place in China and Taiwan last week between govt. and industry officials there and members of DVD Forum, including Toshiba Vp-Licensing Koji Hase, Forum's acting chmn. Chinese manufacturers have bridled at having to pay royalties that could amount to as much as 10% of deck's manufacturing cost, contending that royalty would pare already slim margins for DVD players and put their products at price disadvantage in world markets. Response from DVD Forum members has been that Chinese makers have been pricing their players aggressively because manufacturing cost doesn't include royalties.

DVD licensing and royalty landscape can appear as minefield to some manufacturers, owing to number of different entities claiming IP rights. They include 6C Group of Hitachi, JVC, Matsushita, Mitsubishi, Toshiba and Warner, which seeks 4% royalty on hardware. Other licensing pool consists of Philips, Pioneer and Sony, seeking 3.5% royalty. Others claiming right to payment include Dolby (for digital surround), Macrovision (for copy protection), MPEG Licensing Authority (for MPEG-2 compression), DiscoVision and Thomson (for optical technologies).

In countervailing move, China is threatening to adopt own DVD standard, called Advanced Video Disc (AVD), and to demand that foreign manufacturers selling in China license AVD and pay royalty. Although move is widely viewed as negotiating ploy over DVD licenses and royalties, China has implemented its own video standards in past. Most recently, govt. developed Super Video CD standard as upgrade to royalty-bearing Video CD from licensing group of JVC, Matsushita, Philips, Sony.

Observers we canvassed didn't see China making good on threat. They pointed out that Chinese need DVD player exports, just as foreign brands need to source entry-level DVDs from China. Sources said Chinese makers still depend on DVD components from overseas, and it's likely there would be incompatibility and supply problems between different components that might be needed for AVD and DVD. Others questioned how AVD format could have been developed without using prior art that's patented.

Participants in Beijing and Taipei meetings wouldn't comment on last week's proceedings there. Hase told us groups agreed with China's Ministry of Information Industry not to publicize discussions. But he confirmed that DVD Forum already had convinced U.S. govt. to prevent import of unlicensed DVD players from one Asian manufacturer, which he declined to identify except to say it wasn't China's Konka. Latter is big Chinese TV brand that encountered delay in DVD shipments to U.S. last year when it was learned that its decks lacked Macrovision copy protection.

That situation could befall yet another major Chinese brand trying to make mark in U.S. — Haier. Company is well-regarded appliance maker based in Qingdao, near Shanghai, that lately has branched out into TVs and PCs. Appliance plant in Camden, S.C., is scheduled to open in spring, and company has established U.S. sales and marketing arm in N.Y.C. called Haier America Trading (HAT) whose pres.-CEO is Michael Jamal, relative of family that once ran N.Y. area retailer Nobody Beats the Wiz.

HAT has been supplying 13-20" TVs and compact refrigerators to buying groups such as MARTA and NATM. It planned to have Haier-branded DVD player for recent holidays, but delivery now isn't expected until 2nd quarter, sources told us. Deck is single-play with MP3 and Dolby Digital decoding, component video output, with dealer cost around \$130 for retail pricing in \$150-\$200 range. But at recent CES, visitors to Haier exhibit came to believe that deck and TV-DVD combo shown didn't incorporate Macrovision copy protection. Haier executives at booth wouldn't discuss topic. In past, retail executives visiting Haier in China found company unable to discuss DVD Forum or Macrovision licensing.

Haier doesn't have DVD license, said Makoto Inabayashi, pres. of Tokyo-based DVD Format Logo Licensing Co. Similarly, company doesn't have Macrovision license, executives there told us. But Haier itself doesn't make DVD players, so technically doesn't need licenses as long as its OEM source has them. Last year, Haier was farming out DVD production to Great Wall, Hong Kong-based manufacturer with plant in China and recent CES exhibitor under name Great Wall Cybertech. Great Wall isn't DVD licensee, Inabayashi told us. But Macrovision said company does have license for its copy protection.

Licensing and royalties for DVD might be settled some day, but in meantime situation has been making some retail executives nervous. "I am just praying that the guys we are buying from aren't suddenly going to confess to not having set aside sufficient funds for royalties, or refusing to pay them," said one source whose chain imports large quantities of Chinese-made players. Executive told us that retailer's contracts with vendors specified that suppliers had full responsibility for any royalty payments.

**TWEETER EARNINGS RISE:** Tweeter Home Entertainment, despite slower-than-expected holiday selling season, reported fiscal first-quarter net income rose to \$9.7 million from \$8.1 million on 31.2% gain in revenue to \$161.9 million. Same-store sales were up 1.3%.

Gross margin slipped to 36.1% from 37% year earlier as video accounted for larger percentage of sales — 48.6% vs. 46.3%. Increase was related in part to recently acquired Douglas TV's greater percentage of revenue (67.9%) from video. Margin also was hit by higher distribution costs in Chicago market where warehouses serving United Audio (UA) and Douglas TV will shrink to one from 3 by March 1, CFO Joseph McGuire said. Douglas TV turned in better same-store sales than UA, he said in declining to release details.

Slower sales were evidenced by fact that inventory at quarter's end had grown to \$96.9 million from \$85.9 million Sept. 30. McGuire said chain "bought aggressively" before start of holiday season and conceded that it ended quarter with inventory that was \$8 million over "where we would like to be." Following disappointing season, Tweeter cut \$110,000 from ad budget that was targeted for promotions in 7 markets on Christmas Day because "we wouldn't have driven the extra \$1.2 million needed to pay for the ads," CEO Jeffrey Stone told analysts in conference call.

Digital products accounted for 43% of overall sales in quarter, up from 30% year ago. High-definition (HD) and HD-ready TVs provided 79% and 40% of projection and direct-view set sales, respectively. Sales of digital projection TVs, with \$3,700 average selling price, gained 19.3% and were 13.8% of overall revenue. DTVs produced 40% of chain's direct-view sales and 5.1% of total revenue. Direct-view DTV sales gained 12% gain and had average selling price in \$2,500 range, McGuire said. In

other categories, digital camcorders were 85% of overall camcorder sales and digital receivers 75%. By comparison, average overall sale across all product categories was \$400, company said.

Tweeter gained \$485,000 from e-commerce joint venture with Outpost.com, up from \$107,000 year ago on sales of \$6 million, McGuire said.

Stone said Tweeter would open 21 outlets in existing markets and relocate 9 others this year. Currently, 8 stores are under construction with openings set for 3rd and 4th quarters, he said. McGuire said Tweeter would continue to pursue acquisitions, but won't pay 8 times cash flow that Best Buy did to buy Magnolia Hi-Fi. Any acquisition will be in 4.5-5.5 times cash flow that Tweeter targeted in past, he said. "We won't step outside of that discussion," McGuire said. "We will be able to grow our storefronts at 25% per year with or without acquisitions."

To fund expansion, Tweeter will spend \$39 million on capital projects, portion of which will be derived from \$35 million cash on balance sheet at quarter's end. Tweeter is projecting \$18-\$20 million in cash at end of current fiscal year and will expand credit line to \$75 million from \$50 million, McGuire said.

As it grows chain, Tweeter also will expand custom installation business, which currently generates small portion of overall revenue. "A couple years from now it will be a substantial part of our business," Stone said. Tweeter currently employs 85-90 in custom installation and will add another 100 in next year, he said. Some stores are being designed to showcase home theater, including one that will be next to Home Depot Expo store, he said. Average custom installation sales are 25% higher than those in stores, he said.

**BEST BUY'S MUSICLAND PLANS:** Best Buy will start test sales of CE products through Musicland's Sam Goody shortly after expected close of purchase of chain later this month, Pres. Bradbury Anderson said.

BB's cash tender offer at \$12.55 (\$685 million) for Musicland is to expire Jan. 22 and if first tests prove successful, full rollout of CE to Sam Goody will begin in fall, Anderson said. BB has said it planned to transform Goody into "a technology and entertainment solutions provider to new and younger customers" (TVD Dec 11 p11). Other Musicland chains include Media Play, Suncoast Motion Picture Co. and On Cue, last potentially being expanded at rate of 75 stores annually over next 10 years, BB has said.

Anderson was slightly less aggressive on expansion of Magnolia Hi-Fi, which BB acquired at same time for \$85 million. While BB is targeting 150 locations in 26 markets, growth will occur over "several years" and only 3-4 stores will open this year in San Francisco, he said. Most of Magnolia's growth will be "organic," although acquisitions of other speciality CE chains also being considered, Anderson said.

BB also is testing wireless method for speeding checkout process at 45,000-sq.-ft. stores in Whitehall, Pa.; Arlington, Tex., Novi, Mich.; Ocoee, Fla. Stores are first that feature BB's new Standard Operating Procedure 2 (SOP2) format that it started in Aug. Test involves store staff armed with Palm Pilot VII-like handheld PCs capable of reading bar codes on product displays. Bar code has pricing info and other data on product that's available through in-store wireless network, Anderson said. Handhelds also can be used to check inventory in store or sales district and relay information to check out area. Wireless test is likely to be expanded in summer and could be added to new stores, he said.

"From a customer's point of view, having only to ask questions once and getting accurate answers immediately makes a big difference," Anderson said. "Our experience also illustrates some of the challenges. Our employees realize that it [Palm Pilot] is not as fast as some computers and if anything breaks down in the system then you have an unreliable experience."

Wireless test represents major advance in obtaining product information over ill-fated touch-screen kiosks that were deployed as part of chain's Concept III format (TVD Aug 22/94 p14). Kiosks were connected to printer that allowed consumers to get hard copy of product specs.

"We found that [with kiosks] we initially got a tremendous amount of interaction, but ultimately it didn't work," Anderson said. "That's because the customer was uncomfortable standing in front of a monitor providing information and our sales staff was embarrassed to use them because they had to go away from the product they were presenting. They also didn't want to acknowledge that they didn't have the information that was in the kiosk."

Meanwhile, **Future Shop (FS)** has emerged as unlikely white knight to help bookseller Chapters Inc. stave off hostile takeover bid by rival Indigo Books Music & More. FS, which operates 93 CE stores in Canada under own and CompUSA banners, said it would top Trilogy Retail Enterprises with offer of \$105.9 million for 100% of Chapters, bid that's supported by both companies' boards.

Under proposed acquisition, Chapters shareholders can choose either \$16 in cash — \$1 higher than Trilogy's bid (\$73.3 million) — or 2 FS common shares for each Chapters share. Trilogy, controlled by buyout specialist Gerald Schwartz and wife Heather Reisman, had intended to buy 50.1% of Chapters and merge it with Reisman's Indigo chain. Trilogy currently has 13% stake in Chapters. Schwartz, who has hinted that he might sweeten his offer that expires Jan. 24, complained previously to Ontario Securities Commission that Chapters adopted shareholder rights plan to expedite FS deal.

FS and Chapters said in joint statement that 30% of latter's shareholders had agreed to tender their shares. Chapters also waived shareholders rights plan. FS said it would mail offer to shareholders by mid-Feb., with closing expected month later. Agreement has \$10 million breakup fee payable by Chapters.

Companies will remain separate but will combine some back office and distribution activities and their online businesses.

Possible acquisition would mark new chapter for FS, which once had plans for major expansion in U.S. (TVD Sept 18/95 p19) but abandoned strategy (TVD March 15/99 p14) after opening 23 stores in Pacific Northwest.

**RadioShack (RS)** will expand "Select the Best" hiring program to all 200 sales districts by midyear, Holly Gathright, dir. of organizational design and performance at chain, said in presentation at NRF last week. Program, which involves "open house" prescreening process and written portion designed to gauge prospective employees' work habits and interests, has been tested since fall in 26 districts ranging from N.D. to Chicago, said JoAnn McMillan, senior vp, Bigby, Havis & Assoc., which worked with RS in developing program. Written segment will be shifted to online version that will be installed in stores later this year. Under new program, RS said district sales managers interviewed 750-1,000 employees, hired 300. New hires generated 6% "improvement in dollar sales," company said.

**Circuit City's CarMax** last week priced asset-backed securities at \$655 million, supported by future cash and car loans and guaranteed by bond insurer MBIA, Reuters reported. AAA-rated Class A1 securities were priced at 0.5% under 4-month London Interbank Offered Rate (Libor) to yield 5.6%.

**J&R Music & Computer World** completed multiyear quest in opening new 6-story, 50,000-sq.-ft. store in lower N.Y.C. last week. J&R worked for more than 4 years to get necessary approvals from N.Y.C. boards and commissions for new store, next to J&R's existing complex. Each floor specializes in different product category, including videogames, PC software, build-to-order PCs, digital photography, laptop and handheld PCs.

**Kingfisher** shares plunged 10% Jan. 16 following reports of holiday sales lag involving low-end goods and increased costs. Credit Suisse First Boston lowered year-end profit forecast to £595 million from £625 million and cut fiscal 2002 projection £30 million to £670 million. Kingfisher reported same-store sales for 9 weeks ended Dec. 30 rose 4.5%, topping analyst projections of 4%. Kingfisher's CE chain Comet posted 1.5% gain in same-store sales, vs. 4% by category overall.

**HMV Media** said same-store sales gained 5.9% in 5 weeks ended Jan. 6, benefiting from strong music releases in U.K. and growth in DVD market worldwide. HMV, 43% owned by EMI Group, said same-store sales inched up 3% in 2nd quarter.

**RETAILERS FACE NEW CHALLENGES:** New challenges have emerged for retailers because of growth of online commerce, attendees at annual National Retail Federation (NRF) Convention in N.Y.C. said last week.

For example, one major challenge for "brick-&-click" retailers is figuring out best way to balance their allocations of products, especially "hot products," for their brick-&-mortar stores vs. their e-commerce Web sites.

"You don't have to be a genius to sell a Sony PlayStation2," Toys "R" Us Chmn. Michael Goldstein told packed crowd for panel "supersession" on online retailing. But one big question for Toys "R" Us this past holiday season was figuring out how many PlayStation2s (PS2s) to sell at company's stores and how many to sell at online toy store it now runs with Amazon.com.

Goldstein said Amazon/Toysrus.com online store sold 5,000 PS2 bundles at \$500 each in only 23 sec. — but time he gave appeared to be off because Amazon's PS2 sales log indicated shortest time in which any allocation of game console sold out in since product's Oct. 26 bow was 30 sec. Amazon and Toys "R" Us have yet to reveal exactly how many PS2 packs they have sold. But Amazon Software Store General Mgr. Kirk Koenigsbauer recently told us (TVD Jan 1 p15) that when PS2 packs had been put up for sale at site to date, "it is generally within a range of a few thousand" and Amazon/Toysrus.com "never [has] put out only a hundred."

Amazon/Toysrus.com PS2 sales result was good news for online business, but Goldstein said: "You don't want to put too much hot product online [because that could] hurt your stores." However, he didn't say whether his company's online PS2 allotment cut into its store allotments.

Among other decisions that click-&-brick retailers are having to face is what products to sell online and what to confine to their stores. For example, Goldstein, calling his company still in "a learning mode," said "we can't afford to have a 99¢ Hot Wheels car online" — especially because of shipping involved.

On more traditional retail front, Toys "R" Us Pres.-CEO John Eyler said on another NRF panel that it had become necessary for his company to offer better salaries to find more talented salespeople and, once it found them, to then keep them for longer periods of time. One major reason, he said, has been his company's move to provide customers with better service on sales floors.

More online dealers now are facing another challenge as they attempt to expand into mobile commerce (m-commerce) to reach consumers via cellphones and PDAs. But speaking on NRF panel on multichannel shopping, Circuit City Internet Mdsg. Dir. George Barr said: "I guess we're behind the curve [on that front] and happy to be there." Echoing him was Williams-Sonoma eCommerce Vp Shelley Nandkeolyar, who said his company was "not in any rush" to jump full speed ahead into m-commerce.

**Correction:** Our report on new technologies in displays (TVD Jan 15 p17) should have said that Thomson set, like Philips model, has 100 w bulb rated for 10,000 hours of life. Thomson spokesman said that averaged out to 4 years of use (based on 7 hours of daily use 7 days per week).

**JVC TO TRIM LOW-END CE** JVC will trim low-end CE gear from product line as part of 3-year restructuring plan that will cut 1,600 jobs, it said last week.

JVC said it would shift resources to digital and networking devices including information and communication terminals and "hybrid" TVs. It also will increase "cooperation" with parent Matsushita, including joint development of digital TVs (DTVs) and cameras, parts and management of distribution and production consignment.

JVC said it will aim for group operating profit of \$311.3 million in fiscal year ending March 2004, compared with loss of \$68.9 million in year ended last March. Three-year plan also calls for increasing sales to \$8 billion for March 2004 fiscal year from \$7.3 billion in 2000.

JVC will cut work force by 1,600 (15.7%), to 8,600 by March 2004. It also will double number of engineers assigned to components and devices business to 200 to improve parts development structure.

Unclear is impact plan will have on JVC's U.S. operations. JVC officials weren't available for comment Fri. JVC's U.S. Div. last underwent major restructuring in 1995 when it closed 260,000-sq.-ft. Elmwood Park, N.J., TV assembly plant (TVD Jan 15/95 p7) and moved operations to Tijuana, Mexico (TVD Aug 12/96 p14). In addition to Wayne, N.J., hq, JVC has DVD replication plant in Sacramento (TVD June 9/97 p16).

Business plan, which covers period between April 1, 2001, and March 2004, was created in conjunction with release of Matsushita's midterm business plan.

**Eastman Kodak**, blaming slowing photography market including digital cameras, said 4th-quarter net income fell 59% to \$194 million from \$475 million year ago. Revenue dropped 6% to \$3.56 billion. While Kodak didn't lose any market share in film, industrywide volume fell 3% in U.S. It also stumbled in digital camera market, where Hewlett-Packard (HP) move to introduce one- and 2-megapixel cameras at \$199 and \$299, respectively, caught market leaders by surprise. Kodak's share fell to 15% in 4th quarter, down 7% from previous quarter, it said. It suffered similar fate year ago when Fuji, HP and Olympus led charge to \$299 for digital cameras with 1-1.3 megapixels (TVD Jan 31 p16). Kodak later responded by cutting price \$50 on entry-level piece and CEO Daniel Carp told analysts last week it again "adjusted our pricing and will roll out our new line." Despite stiff price competition, Kodak remains "committed" to digital camera business, even though entry-level models are "priced well below where they need to be to achieve industry growth," Carp said. Kodak said sales of digital products and services rose 1% in quarter to \$824 million as loss widened to \$60 million from \$5-\$10 million in each of previous 3 quarters. In addition to slower sales of digital cameras, Kodak was saddled with "pricing pressure" in writeable CD business. It suffered similar fate in 1997 when average realized price for CDs sagged to \$2 from \$4 (TVD Oct 20/97 p12) and company weighed selling manufacturing plants (TVD Nov 17/97 p16) it had opened in Ireland and Mexico previous year.

**Onkyo has changed address** to 18 Park Way, Upper Saddle River, N.J. 07458, telephone 201-785-2600, fax 201-785-2650. Company said Web site remains [www.onkyousa.com](http://www.onkyousa.com).

**ELECTRONICS LOSES GROUND ONLINE:** After placing 4th in Ernst & Young's list of categories U.S. consumers were buying most online in 1999, electronics fell out of top 5 altogether in 2000.

Latest Ernst & Young report, issued last week, said books were top-selling category online in 2000, up from 2nd year ago. Although computers didn't exactly have standout showing on sales floors in last quarter, category was 2nd-best selling category online in 2000, falling only one step from first place year ago. CDs remained in 3rd place, while apparel and tickets/reservations — categories that didn't even make it into top 5 year ago — rounded out top 5 this time. Falling out of top 5 along with electronics was toys.

Electronics was in top 5 last year in only 4 of 12 countries surveyed: Brazil (4th place), Israel (3rd), Netherlands (5th), Spain (5th).

Despite dot-com woes in 2000 that have continued on into this year (see separate report, this issue), Ernst & Young said online spending was up last year and consumers had become more satisfied with online shopping experience. Company also predicted that online sales would represent 10-20% of sales in many categories by 2005. Findings were based on surveys conducted in Nov. and Dec. of more than 4,400 online consumers in 12 countries.

Report indicated that online retailing in 2000 started to affect retail store shopping for first time. Ernst & Young said 57% of online consumers surveyed — and 76% of frequent buyers — said they already were shopping less at retail stores.

At 90th annual National Retail Federation (NRF) Convention at Javits Center in N.Y.C. last week, Ernst & Young Global Retail & Consumer Products Dir. Stephanie Shern said company predicted that by 2005, "online [sales] will account for 10 to 12% of all sales in categories" including apparel, accessories, toys. Despite electronics' losing ground in top 5, she forecast that 20-25% of overall CE sales, as well as book, music, software and video sales, would be online in 2005. But in panel discussion that followed, Goldman, Sachs Vp Anthony Noto said: "I don't know if the timing [of the prediction] is right," adding: "The mass market really hasn't come online to buy yet."

Shern also said 5 patterns had begun to emerge in online retailing space: (1) "Brand is king." (2) Multichannel approach by retailers would be important going forward. (3) Same consumers who bought in stores were ones buying online. (4) Consumers want "consistency" in shopping at brick-&-mortar stores as well as online at e-tail Web sites. (5) Consumers will continue to push companies to make their online technology work in way users want it to work.

"The real winners" in online retailing in next few years will be those who most successfully can "drive customers both to a Web site and to a store," Shern said.

Fred Crawford, exec. vp, consumer products retail and distribution, Ernst & Young, said that although Amazon.com still was most popular e-tailer, "there are now 4 multichannel brand retailers in the top 10, including Barnes & Noble [still in 2nd place], J.C. Penney [4th], Fingerhut [8th] and Toysrus.com [10th]." He said there also were "more established brands" with multichannel presence now, including Best Buy, Dell, Staples and Wal-Mart, in "next tier" of popular e-tail sites.

Panelists agreed that current shakeout among dot-coms would continue. Goldman, Sachs's Noto said there now were only 22 public pure play e-commerce companies, down from more than 30 last year. He predicted that "by the midpoint of 2001, it will probably be down to about 8," largely "because of the lack of capital." Noto added: "I think it's going to be much harder for private companies to become public."

Saying he wasn't too surprised about shakeout among pure play e-tailers, Toys "R" Us Chmn. Michael Goldstein said: "These were business models that made no sense whatsoever." He joked that he wasn't going to mention any specific company names, drawing laughs from crowd. He said business models of many of those companies "were based upon dreams that would never be realized because they were taking categories with low, low gross margin dollars... and saying that there would be so much volume that [they could] make money." Retailing, he said, just doesn't work like that.

Separately, NPD Group report released last week said online sales hit \$12.2 billion in Nov. and Dec. Although NPD said result was "slightly lower than forecast," it said "online sales nearly doubled" from same period year ago.

Heading NPD list of biggest categories was travel reservations, followed by computer hardware/peripherals, apparel, auctions, toys, electronics, books, financial services, music, flowers/greetings/gift items, computer software, movies/videos/DVDs. NPD said \$810 million was spent online for electronics in period. Videogames placed only 17th, taking in \$198 million, NPD said.

Not surprisingly, Amazon.com topped list of sites at which consumers said they spent most money during holidays, NPD said. Amazon was followed by eBay, BarnesandNoble.com, JCPenney.com, eToys, Toysrus.com, Wal-mart.com. Top 20 also included Buy.com, CDnow, KBkids.com.

Rayovac will close manufacturing plant and cut 280 jobs in restructuring that will see battery maker buy more products from 3rd parties and outsource some production. Rayovac will shut lantern battery and flashlight assembly plant in Wonewoc, Wis., by Aug., dropping 240 employees. It also will lay off 40 at Fennimore, Wis., factory. Changes, which come after Rayovac reported 12-13% decline in battery sales in first quarter, will occur in next 6-8 months. Company said it expected to post \$18 million charge for restructuring. For first quarter ended Dec. 30, it incurred \$16 million of those charges. Balance will be taken later in fiscal year. It said it expected annual savings of \$8-\$9 million from restructuring starting late this year. After closings, Rayovac will have 7 plants — 2 in Wis., in Fennimore (alkaline and rechargeable) and Portage (zinc air). It also has facilities in Mexico City; Tegucigalpa, Honduras; Guatemala City; Santo Domingo, Dominican Republic; Washington, England. Rayovac embarked on similar \$9.3 million restructuring in 1998 (TVD March 30/98 p19) that resulted in closing and combining of lithium coin cell plant in Appleton, Wis., with that in Portage.

Latest region-code free DVD player in U.K. is Minato G1, house brand now selling for £150 (\$225) at Tesco supermarket chain. Retailer's entry-level player previously was Wharfedale. Minato deck is unique in that it has controls for menu setup on front panel, presumably as backup in case remote control is misplaced.

**PS2 DEFECTS REPORTED IN U.K.:** Sony Computer Entertainment is playing down report that U.K. consumers are having problems with their PlayStation (PS2) consoles.

BBC One's *Weekend Watchdog* said it received 60 complaints on videogame console, most of them from customers saying their machines either never worked from moment they set them up or functioned for only short period. While Sony Computer Entertainment Europe (SCEE) said claims were "both exaggerated and misleading," Sony Computer Entertainment UK (SCE UK) spokesman called BBC One report nothing more than sensationalism.

BBC One report followed front-page story in London's *The Sun* Jan. 12 that said 5,000 PS2s had been returned by consumers.

SCE UK spokesman acknowledged that some consumers have had some difficulties with their consoles, but told us last week: "The thing to do is keep this in perspective. I mean, the failure rate on PlayStation 2 is less than the original PlayStation, which commercially we think [is] something to be pleased about... I mean, if you can use that word being pleased in the context of people's machines not working because, obviously, one being broken isn't good news for us."

But SCE UK spokesman said BBC One report was "trying to imply that there was some major fault or there was some sort of specific production problem — neither of which are true." He added: "The faults that we have had, which are [a] really small number... don't trend towards any one particular cause. It's just a gamut of different components that have, unfortunately, caused this small number of machines to give us problems."

SCE shipped 165,000 PS2 consoles in U.K. for system's debut Nov. 24. It was unclear at our deadline how many additional ones had been shipped since.

E-mails from people saying they were PS2 owners that BBC One's own online Web site posted last week offered mixed opinions on game systems they had bought. Some said they actually had had no problems whatsoever and some even criticized BBC One's program, others mentioned specific problems. But, backing up what SCE UK spokesman said, complaints weren't confined to one specific trouble. One user said only problems were that console's fan was "bloomin' loud and load times are absolutely awful," and another said "DVD playback is a big disappointment," particularly "in chapters where there is a layer change." Others complained that their consoles were having troubles playing CDs. Perhaps most damning was consumer who complained: "I am on my 3rd PlayStation. Each one just kept freezing up after a couple of days. So far the 4th replacement is working Okay... Fingers crossed."

SCE UK spokesman admitted there had been small amount of malfunctioning machines, but said at least some problems could be attributed to customers' not reading directions carefully enough. For example, although he said PS2 users can keep their consoles in either horizontal or vertical position, he said instruction manual tells them not to change position once disc is playing inside. Some consumers have disregarded that advice, causing discs inside to malfunction, he said.

Meanwhile, SCEE said that because of "unprecedented demand" for PS2 information, calls to company's U.K. Customer Care Line "significantly increased during the Christmas period." SCEE said "the majority of calls related to product avail-

ability or other general queries," but admitted increased number of calls often translated to long waiting periods for customers who had specific technical questions. But SCEE said it had "taken the necessary action to shorten consumer waiting times" and, "in the unlikely event that a PlayStation 2 does need replacing, Sony is aiming to have that unit replaced within 48 hours in the U.K." That, company said, is done "at the consumer's convenience, by courier and at Sony's expense."

PS2's March debut in Japan was met with variety of complaints from consumers on console troubles, especially memory cards (TVD March 13 p12). But in U.S., as of last week, no major consumer complaints had been reported other than difficulty in finding one and scams that cropped up as result of console shortage (TVD Dec 11 p13).

French officials backtracked last week on proposal to tax PCs after plan ran into strong opposition from industry, Paris press reported. Since 1985, France has taxed analog recording materials such as blank audiotapes and videotapes to compensate artists for private copying of their works. Tax was extended earlier this month to include digital products such as blank CDs and DVDs, French Embassy spokesman Remi Marechaux told us. In recent interview, Minister of Culture Catherine Tasca floated idea of taxing other digital equipment as well on ground that hard drives also were capable of making private copies of artistic works. Concept angered PC industry, provoked "fierce debate" in French National Assembly and was abandoned quickly, said Marechaux, who stressed his comments were not official position of his govt.

Thomson completed definitive agreement to acquire Technicolor from U.K.'s Carlton Communications, RCA parent said. World's largest video and film duplicator will become part of Thomson's Digital Media Solutions group, and gives Thomson foothold in digital cinema and digital rights management fields. Deal remains subject to stockholder and regulatory approvals and should be completed by March, Thomson said. Under terms of sale, Carlton will become 5.5% Thomson equity holder and gain seat on board and executive committee. Thomson will pay \$750 million for Technicolor at closing, and \$600 million plus interest over following 4 years, with option to pay up to half of deferred compensation in stock. Carlton, meanwhile, will invest \$15 million in TAK, Thomson's European joint venture with Microsoft for interactive TV. Carlton and Thomson also will form equally owned joint venture to develop Technicolor's theatrical screen ad business.

Sony standard 8mm camcorders, once hallmark of industry, have been dropped from company's line. At recent CES, Sony showed new 11-model lineup with Hi8mm anchoring low-end in 5 models (\$299-\$499). Entry-level Hi8 camcorder had color viewfinder, with line shifting to 2.5" LCD screen and built-in light at \$349. This year's Digital 8 camcorders start at \$599 with redesigned chassis that are said to shrink size of models 20%. Top-of-line piece has megapixel CCD, 3.5" LCD with 640x480 resolution and Memory Stick slot at \$1,299. Although company didn't unveil new Mini DV camcorder line at CES, Senior Product Mktg. Mgr. Linda Vuolo told us it still supported that format and would present new DV models at upcoming PMA show, along with new digital still cameras. Vuolo also told us she didn't expect digital camcorder shortage that hit industry last year (TVD June 12/00 p11) would recur this year. She said year ended with Digital 8 units "back in stock" and company "had a good Christmas" in category. Sony still is looking to expand digital camcorder market and said new \$599 entry-level price on Digital 8 should help. "We really think at \$599, it'll be embraced by consumers," she said.

**TROUBLES CONTINUE FOR DOT-COMS:** Since our last report on dot-com woes (TVD Jan 8 p13), bad news has continued for eToys while various other Web companies have reported their share of troubles as well.

Among latest apparent dot-com casualties is Audiohighway.com, which filed for Chapter 11 bankruptcy protection. Meanwhile, EMusic and Kozmo.com said they were making staff cuts. Latter said it was leaving 2 of its markets. Separately, Amplified said it was buying assets of troubled e-tailer Checkout.com, while Webvan posted another loss.

On eToys front, last week brought word that company had stopped paying at least some of its creditors. One of them, RemedyTemp, Aliso Viejo, Cal., said eToys "suddenly stopped making its payments under an explicit plan." RemedyTemp supplied temporary staffing for eToys' customer service center and distribution centers over holiday season.

RemedyTemp CFO-Senior Vp Alan Purdy said company was "extremely disappointed" that eToys had stopped paying — especially in light of "their history of consistent, prompt payments." As result of nonpayment, RemedyTemp said it expected to post nonrecurring charge of about \$2 million for its first quarter.

eToys' accounts payable department apparently stopped taking phone calls also, according to one report. Nevertheless, shares in e-tailer soared on Jan. 16 amid speculation that it was close to finding buyer. eToys spokesman didn't return call for comment.

Cupertino, Cal., online media destination Audiohighway.com, which also opened Mass Merchandise e-commerce Web site last year selling electronics and variety of other categories (TVD April 10 p16), said it was maintaining small technical and operations staff as it prepared to "file a plan of reorganization to restructure its debts in the near future."

Audiohighway.com blamed its woes on "a dramatic downturn in the financial markets and, in particular, the market for Internet companies" that made company "unable to attract sufficient additional financing to maintain normal operations."

Move didn't come as surprise. After all, Audiohighway.com said in Nov. that it was cutting back its business operations and laying off substantial part of its staff. In 1999, company said it was contemplating filing suits against companies it claimed were infringing on patent it received. Audiohighway.com said patent covered all portable devices that record and play back digital audio files from Web (TVD July 19/99 p22). Status of patent suits was unclear at our deadline.

Before transformation into dot-com, Audiohighway.com was known as Information Highway Media. In 1997, it shipped Listen Up, one of first portable digital audio players. However, it shifted its business away from hardware manufacturing in 1998, after going public.

Emusic, Redwood City, Cal., said it was cutting 66 jobs (36% of its staff) in corporate restructuring it said was designed to reduce expenses and focus company on its 2 core sources of revenue — ad and promotional revenue via RollingStone.com, and downloadable music sales through its EMusic.com Web site. Company said it expected to save \$16 million in cash ex-

penses this year through restructuring. It also said 3 of its executive officers were leaving company.

Kozmo.com, N.Y.C., said it was laying off 120 employees in closing its operations in Houston and San Diego due to lack of substantial interest in those markets. One-hour delivery e-tailer still was operating in 9 other markets, including N.Y.C. and San Francisco, where it said it had been profitable.

Kozmo Senior Mktg. Vp Andrew Resnick told us at National Retail Federation (NRF) Convention in N.Y.C. last week that his company didn't currently have business-to-business relationship with Amazon.com, but declined to comment beyond that. As we reported, Amazon invested \$60 million in Kozmo last year for 31% stake (TVD April 10/00 p20). At that time, companies said they signed 3-year strategic alliance in exchange for warrants for Amazon to buy additional shares in Kozmo.

As part of deal, Amazon was to start offering one-hour delivery option to its customers using Kozmo, on nonexclusive basis, as last mile service provider for certain book, music and toy orders. Although electronics wasn't one of categories named at time, Amazon Electronics Vp-Gen. Mgr. Christopher Payne told us then that his company wasn't ruling out one-hour delivery for category and he expected certain electronics items would be made available for similar delivery.

Amazon spokesman told us Fri. that his company still had strategic relationship with Kozmo. Although he said Amazon had yet to use Kozmo for last-mile delivery on any items, his company wasn't ruling it out in future.

Webvan, Foster City, Cal., e-tailer, said it expected to report pro forma loss per share of 23¢, with revenue of \$84 million in 4th quarter. It said that while loss per share apparently would be better than it expected for 4th quarter, anticipated revenue now was lower.

Commenting on results, Webvan CEO-Chmn. George Shaheen said: "In addition to the slowdown in retail spending, 4th-quarter revenues were affected by internal capacity constraints and fewer first-time orders as we reduced marketing expenditures and focused on customer retention and ordering frequency."

Adding another gloomy note to dot-com industry's troubles was report by Pegasus Research for *Barron's* financial newspaper that said more than 1/3 of publicly traded dot-coms would run out of cash by end of year.

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DVD players were 4th most popular CE purchase in recent holiday selling season, while videogame systems were No. 2 and 2nd-only to VCRs. So reports L.A.-based Centris market research firm, based on sampling of 1,461 households in first 2 weeks of Jan. DVD-Video players made strong showing in holidays, with 3.5 million decks purchased, Centris said. That's just behind cellular phones at 3.9 million. In all, consumers bought 6.4 million videogame systems during holidays, and Sony took top market share in gaming systems and DVD players in period, Centris said. For videogames, household penetration increased 17% on installed base during holidays, while DVD player installed base grew 30%, leading all categories and followed by digital cameras (21%) and PDAs (18%). VCR total for season was 7.4 million decks, increasing U.S. installed base to 94 million, said Centris ([www.centris.com](http://www.centris.com)).

**SDMI DEFENDS SECURITY:** Encryption and watermarking technologies for digital music are designed to make Internet copyright infringement inconvenient, but can't make it impossible, panelists said at Coalition for the Future of Music (CFM) conference in Washington that followed CES.

Leonardo Chiariglione, exec. dir. of music industry-sponsored Secure Digital Music Initiative (SDMI), acknowledged that 10-15% of users of online music trading services could break technology, but said it would be inconvenience. SDMI incorporates technology that encrypts, which makes file unreadable, or watermarks, which put supposedly inaudible "signature" in digital music file. Several panelists said "secure" format was needed to create legitimate marketplace with no copyright violations.

Panel pitted Chiariglione against Edward Felton, Princeton U. prof. who claimed to have broken several of file protection devices that fall under SDMI's umbrella. Felton, along with researchers from Rice U. and Xerox's Palo Alto Research Center (PARC), participated in SDMI challenge to break SDMI, and in Nov. said they had done so. But Felton's group hasn't published its findings yet and Chiariglione simply said he could only "take his word" that he was able to break system.

Felton told us group's research probably would be published, but not before extensive review of Digital Millennium Copyright Act (DMCA) by attorneys. Because Felton's group declined to sign nondisclosure agreement with SDMI and dropped out of competition, it could face civil or criminal liabilities if it published its result, panelists said. However, Felton told us case law on issue was unclear and he wasn't sure this was case to test issue.

Questions about SDMI's security sparked some heated exchanges. Agitated Chiariglione conceded technology had some chinks in armor that determined hackers could exploit, but defended it from criticism of its possible insecurities, saying "if you don't think SDMI is secure, don't use it." At one point, he shouted, "People want to kill me for MP3, now they want to kill me for SDMI," and said technologies weren't bad or misguided, but those who used them could be. Chiariglione chaired group that developed MPEG-1 Level 3 (MP3) compression.

Felton said there are 3 basic methods for discouraging copyright infringement in digital world: (1) Make it impossible. (2) Make it inconvenient. (3) Investigate and prosecute after fact. Panelists generally agreed best method was to make it inconvenient. Felton said making digital copyright infringement impossible was "physics equivalent of the perpetual motion machine." Some panelists argued that SDMI, which admitted in Nov. that some hackers had been able to break some of its watermarks, hadn't announced potential security lapses so as to create "security by obscurity." Most on panel also acknowledged that competent hackers probably would be able to crack system eventually without help of prepublished material to guide them. Meanwhile, controversy continued over supposed inaudibility of SDMI watermark, and still-secretive proceedings of "golden ear" listening panel.

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It's "crazy" to consider regulatory and legal changes while music industry is so unsettled, MP3.com CEO Michael Robertson said at CFM's first annual policy conference in Washington. New technologies are cropping up almost daily, he said, including 2 his company has developed — system linking separate parts of music system and device, called "Panja," that

makes online music collections available on TV or home stereos. Speed of innovation makes it impossible to regulate, Robertson said, adding that instead of trying to fix system, focus should be on creating open, free-market competition that will benefit artists, businesses and consumers. Moreover, he said, litigation against MP3.com, Napster and others has caused "legal stalemate" that's stifling innovation by scaring away investors. That may be good for his company, Robertson said, but it's not likely to benefit consumers. He also warned music industry players not to underestimate importance of copyright and other issues being wrestled with now because "all content will be distributed digitally" in future. There should be "common sense injected" in current copyright landscape, he said, such as "Music Owners Listening Rights Act" floated last year by Rep. Boucher (D-Va.). (Full reports on issues addressed at CMF conference, including future of DMCA, are available in Jan. 11-12 issues of our affiliated newsletter, *Warren's Washington Internet Daily*. For complimentary copies and subscription information, phone 800-771-9202.)



**C-Cube Microsystems**, seeking to succeed where others have failed, has begun Domino family of media processors that it said could help drive DVD recorder price to \$500 by 2nd half 2002. First products with processor, which is capable of handling 50 billion operations per sec. and has base 32 MB of RAM, are expected to be DVD recorders and personal video recorders (PVRs) that will ship late this year, C-Cube CEO Umesh Padval said. Chips will be start at \$15-\$25 in volume, but could range to \$150-\$200 for high-end commercial applications, he said. "The big issue [for cheaper DVD recorders] is getting the loader cost down and the media has come down to around \$10," Padval said. Unlike previous media processors, including those marketed by Chromatic Research, Equator Technologies, Philips and VM Labs, C-Cube's chip has built-in codec that can play back and record digital video feeds. Codec allows company to add recording functions to DVD player, while other media processors perform only playback. Domino could be at heart of multifunction set-top box (STB) that serves as DVD player, PVR, high-speed Internet connection or MP3 player. Among those that would appear to be potential customers for technology is Thomson, which has 1% equity stake in C-Cube. "They're an investor because they believe our technology is necessary and we work with them all the time, but we haven't reached an agreement yet," Padval said. C-Cube indicated earlier it had hoped to have agreement with Thomson by end of last year. C-Cube has 30% share of DVD decoder chip market, figure that will grow to "mid-30s" by year-end, Padval said.

**Banned & Censored** is title of latest collection of historical animations from Winstar Home Video. Studio earlier released collections of classic cartoons with digitally remastered video and soundtracks. Latest compilation includes 13 animations, including Betty Boop, that were screened in U.S. in 1930s before Hayes Commission imposed censorship standards. Although movies and shorts from that period usually don't get MPAA rating, *Banned & Censored* DVD and videotape carries Mature Audiences tag and Winstar posts parental advisory that cartoons "are not to be considered appropriate for children."

#### THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥119 = \$1, except where noted.

**VSDA RUNS DISTANT 3RD:** Video Software Dealers Assn.'s decision to align dates of its annual convention with CES might have given software retailers access to more information about new technology, but did little to boost sagging attendance of video dealers' own show. Nonetheless, issues such as DVD rental pricing livened up event.

Attendance at 20th annual VSDA Convention in Las Vegas was outshone even by AVN (Adult Video News) Adult Entertainment Expo colocated in Sands Expo & Convention Center. Throngs of conventioneers and even some of general public made annual Jan. trek to pack halls lined by very open adult video displays highlighted by personal appearances by adult video performers.

Officials said they don't break out attendance figures for VSDA Convention separately from Adult show; those are operated together by show management company Advanstar. However, VSDA Pres. Bo Andersen admitted that attendance at Adult show appeared to be up while VSDA had fewer exhibitors. Last year's attendance for combined shows was 11,000. Informal poll of attendees concluded that VSDA attendance alone this year was far less than half that figure.

Andersen said he planned to talk with CES about possible cross-promotion for next year. However, he also said that while VSDA Convention again would be held around same time as CES in 2002, VSDA probably would reduce competition with CES by overlapping larger show on only one or 2 days rather than its entire length.

Studios are taking increasingly smaller role at VSDA Convention. But VSDA's largest member yet most reviled by rank and file, Blockbuster, chose occasion to try to convince smaller video retailers to unite with it and urge studios to give video rental segment advantage in area that's becoming increasingly important to Blockbuster: DVD.

Blockbuster's quest to have studios change pricing structure for DVD and create rental window was top news story of VSDA. Blockbuster has been circulating study to studios showing that studios were losing income by letting DVDs go first to sellthrough instead of rental by pricing them high at outset, as they do with VHS. By pricing DVD movies generally under \$25 — and making them viable sale products in Best Buy and Wal-Mart — Blockbuster says studios are giving up higher income from rental.

Blockbuster Pres.-Worldwide Stores Nigel Travis, who sits on VSDA board, urged other board members at Convention to support Dallas-based chain's position. However, Blockbuster is up against 2 other schools of thought on VSDA board: (1) Independent retailers who think raising price on DVDs or converting them to revenue-sharing or leasing model would favor Blockbuster, which has size to negotiate better terms than independents. (2) Sellthrough retailers such as Best Buy and Tower, also on VSDA board, obviously see change from sellthrough pricing as counterproductive to their interests.

Although Warren Lieberfarb, pres. of DVD leader Warner Home Video, spoke out against idea of rental window, other studios, including Fox and Universal, already have taken steps away from day-and-date model that most retailers have encouraged by releasing some new titles on DVD several weeks after VHS rental debut. Latest to test move is Artisan, which announced delayed DVD release for sequel to *The Blair Witch Project* at convention.

**Book of Shadows:** *Blair Witch 2* is first hybrid DVD-CD, with movie on one side and soundtrack on other, leaving it unclear whether title was rentable. That is owing to CD content, and CD rentals haven't been permitted in U.S. to date, although it's big business in Japan.

Question also brings up another area in which VSDA will be involved this year: right to rent. In his opening comments at convention, Andersen said he foresaw day when retailers could rent movies to consumers via memory strips sent to personal data assistants (PDAs) — a right he believes retailers may have to fight for as they did to rent videocassettes 20 years ago, given studios' apparent plans to keep to themselves rights to digitally delivered material. Issue may bring VSDA retailers closer to CEA not only for conventions but in lobbying and litigation.

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DVD Entertainment Group chose convergence of CES and VSDA shows as time to release its year-end figures. U.S. consumers have purchased more than 14 million players since debut of new format in 1997, said Rusty Osterstock, Panasonic gen. mgr.-DVD and DVD Entertainment Group board member. Group expects consumers to buy another 13 million players in 2001 for total installed base of 27 million. In software, 182 million DVD movies and music videos were shipped in 2000, up almost 90% from 1999. Group now is shepherding introduction of DVD-Audio. David Mount, chmn.-CEO of Warner Music Group's WEA distribution division, which offered DVD-Audio late last year, said retailers had been very accepting of format so far: "They'll say to give them one of each title — they don't care what it is." By end of first half, 165 DVD-Audio titles are expected from various companies.

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**Zany Brainy** (ZB) has purchased Online Retail Partners stake in zanybrainy.com online business and formed new subsidiary, Online Pres.-CEO Henry Nasella said. "They felt they needed to integrate it and they are excited about it being a very profitable extension of their business over the next year," said Nasella, whose company continues to provide technical services. "This way they can leverage all of their manpower costs as a separate subsidiary." ZB has projected online unit will be profitable by 2002. ZB and Online formed joint venture in Oct. 1999 and contributed combined \$20 million to start business. Another \$12 million was added in March. As of Oct. 28, ZB's total investment in online business was \$11.9 million. Online had agreed to absorb losses up to \$20.1 million investment, figure that was exceeded last fall. As result, ZB pretax losses for online business were \$3.5 million and \$9.3 million for 13 and 39 weeks, respectively.

**STMicroelectronics** will acquire Ravisent Technology's CE business for \$55 million, further expanding its reach in DVD players and set-top boxes (STBs). CineMaster DVD software decoder technology, which Ravisent has licensed to Sanyo, Vestel and Yamaha, was developed in venture with STMicroelectronics and introduced in 1998. Sale, which also includes software-based HDTV decoder technology, will leave Ravisent focused on PC industry from which it has derived majority of revenue in past. Largest customer in year ended Dec. 31, 1999, was Dell, which purchased DVD decoders and accounted for 53% of \$29.4 million in revenue. Deal also will represent another transition for Ravisent, which switched focus to licensing and services business from hardware in last year. It also has been subject of variety of lawsuits, 11 of them class action filings in Feb.-March 2000 involving securities allegations. Ravisent reported net loss for year ended Dec. 31, 1999, narrowed to \$8.1 million from \$13.7 million as revenue slipped to \$29.4 million from \$30.2 million.

**DIRECTV CASH FLOW GROWS** Hughes Electronics' (HE) DirecTV, buoyed by increase in subscribers, reported 4th-quarter cash flow from operations more than doubled to \$59 million from \$27 million year earlier and revenue increased 23% to \$1.3 billion from \$1.1 billion.

Overall, Hughes said cash flow from operations, or earnings before interest, taxes, depreciation and amortization (EBITDA) jumped to \$153.8 million, reversing \$173 million loss year ago that included one-time \$272 million charge for discontinuing some wireless businesses of Hughes Network Systems. Revenue rose 21% to \$2 billion from \$1.6 billion.

DirecTV added 527,000 net subscribers in quarter vs. 519,000 year ago to end year at 9.5 million. For year, it signed on 1.8 million net subscribers. Revenue per subscriber inched up to \$59 from \$58 year ago but per-subscriber acquisition cost jumped to \$535 from \$500 (TVD Jan 24 p17). Churn was 1.5%, down from 1.6-1.7% in 3rd quarter. Company projected adding 325,000-400,000 net subscribers in first quarter.

DirecTV ended quarter with backlog of 110,000 orders, which HE Senior Exec. Vp Eddy Hartenstein blamed on severe weather and slower-than-expected installs. Half of orders were for 2 or more receivers, which take longer to install and majority of which were sold through Blockbuster, which started carrying DirecTV service last fall, Hartenstein said in conference call with analysts. Overall, orders for 2 or more receivers accounted for 25-30% of sales, DirecTV said. Backlog was expected to be cleared by end of first quarter as DirecTV's Home Service unit hit anticipated pace of 150,000 per month.

DirecTV Latin America (DLA) (formerly Galaxy Latin America), said EBITDA loss edged up to \$43 million from \$42 million year ago on higher marketing costs tied to gain of 169,000 subscribers, up from 136,000 year ago. Revenue increased to \$169 million from \$102 million. Overall, DLA gained 501,000 subscribers in year ended Dec. 31 to raise total to 1.3 million. Revenue per subscriber was \$35, down from \$36 year ago. DLA has begun interactive service in Brazil offering games, weather and banking, but with plan to add e-mail and messaging functions.

In combination products, TiVo and UltimateTV products have shipped but AOLTV receiver has been postponed to later this year (TVD Jan 15 p12). Latter postponed was 2nd, although Hartenstein denied it was at all tied to AOLTV's rollout in Time Warner Cable systems. "I don't sense that at all from our direct meetings with them," he said. "Clearly it was planned to get AOLTV to cable and then to DirecTV." Acquisition cost per subscriber is \$200-\$250 for UltimateTV and AOLTV subscribers, \$120 for TiVo and \$7 for Wink's Communications' enhanced broadcast technology. Wink had been installed in one million DirecTV receivers by year-end with goal of 5 million by late this year. Wink technology was projected last fall to be in 3 million receivers by year-end (TVD Oct 16 p14).

HNS, which builds DirecTV and DirecPC receivers, posted \$34.3 million EBITDA in 4th quarter vs. \$237.2 million loss year ago as revenue rose to \$389.5 million from \$386.5 million. HNS shipped 680,000 DirecTV receivers in quarter, down from 715,000 year ago when company was converting former PrimeStar subscribers. HNS also started limited production of 2-way DirecPC receivers but expects to build 30,000 units per month by late in first quarter. Under Powered by DirecPC program, Earthlink, Juno and Pegasus Communications are selling DirecPC service, while HNS gains \$30 per month based on

partner's absorbing subscriber acquisition costs, HNS Consumer Div. Exec. Vp-Gen. Mgr. Paul Gaske said.

PanAmSat, which is 81% owned by Hughes, said EBITDA shrank to \$136.1 million from \$152.9 million and revenue to \$202.9 million from \$206 million.

\* \* \* \* \*

**Satellite Notes:** News Corp. again emerged as potential suitor for DirecTV with *Financial Times*, quoting executives, reporting that Rupert Murdoch was reluctant to make investments or acquisitions outside U.S. until DirecTV negotiations were resolved. Deal, worth some \$40 billion, would be largest in News Corp.'s history. Hughes CFO Roxanne Austin declined comment on report, saying "we have nothing to add to our previous comments that we are engaged [in talks] with multiple parties." Hughes parent General Motors has shopped company for better part of year and has said it will reach decision on unit's future early this year... DirecTV ended 2000 with local channel service in 41 markets, while rival EchoStar had reached 34. DirecTV has said it could expand local-into-local service with launch of Boeing satellite in Sept.-Oct... MCI Worldcomm filed at SEC to sell one million shares of EchoStar common with value of \$26.5 million. MCI, which retains 7.2 million shares, gained stake in EchoStar in selling high-power satellite slot to company several years ago. EchoStar CEO Charles Ergen, who owns 240.8 million shares (50.9%), bought and sold 92,637 and 132,351 shares at \$2.12 and \$2.28, respectively, in separate transactions Dec. 7. Senior Vp-Gen. Counsel David Moskowitz, who controls 665,874 shares, purchased 225,628 at \$22.81 and disposed of 215,378 in 5 transactions Dec. 21-22. EchoStar Technologies Pres. Michael Dugan, who controls 525,380 shares, bought and sold 30,000 at \$2.12 Dec. 20.



**Noteworthy DVD titles** slated for release in near future include *Lawrence of Arabia* Limited Edition from Sony's Columbia TriStar. Added-value elements of 2-disc set (\$39.95) include making-of documentary, interview with Steven Spielberg, original newsreel footage and featurettes, DVD-ROM historical background, collectible inserts. Package makes debut April 3, preceded by Bloomingdale's-sponsored film screenings in L.A., Miami, N.Y. Making DVD debut Feb. 27 from MGM is screen adaptation of long-running musical *The Fantastiks* (\$24.98). Special edition disc has 30 min. addition footage, as well as extended songs, deleted songs and scenes, navigation menu that permits jumping to song tracks. For release same date are 2 DVD titles on Ireland's history and music, from Winstar and its Fox Lorber CentreStage label. *The Irish Empire* (Winstar, \$59.98) is 5-part TV documentary on Irish diaspora on 2 DVDs. *From A Whisper to a Scream* (Fox Lorber, \$29.98) documents evolution of Irish popular music since 1960s. Featured performers include The Cranberries, Van Morrison, Sinead O'Connor, U2.

**Combo CD-hard disc recorder** from Yamaha will make July debut. Company said new CDR-HD1000 (\$999) has CD-R/W drive and 20 GB hard disc — capacity equivalent to 30 CDs. Deck has 10x-speed CD to HD transfer rate for ripping CDs, 8x recording from hard disc to CD-R and 4x to CD-R/W, Yamaha said. Recording is linear PCM with 24-bit A/D and D/A converters, with automatic sampling rate conversion for 96-, 44- and 32 kHz signals. Deck permits manual setting of analog and digital recording levels and has Serial Copy Management System to prevent user from making digital copy of digital copy — including from CD copy to hard disc. Spokesman told us CDR-HD1000 wouldn't have MP3 playback or record function, as Yamaha looks askance at musical fidelity of audio compression medium.

**Clarion's Joyride** mobile Multimedia Entertainment System will ship in April, taking place of discontinued AutoPC system. In news briefing at CES, Clarion Sales & Mktg. Senior Vp David Black said company decided to reposition product as entertainment-based product after disappointing results of AutoPC. He said "we stubbed our toes" with AutoPC by sending out message that product could do "everything." Consumers, he said, wound up being confused by product, so company is now attempting to promote it in simpler fashion. Despite name change, system still is based on Microsoft's Windows software and performs many of same functions as AutoPC. In-dash, multizone system was designed so that those in front seat of vehicle could use CD player, digital audio player or DVD player while those in rear seat could listen to or watch something different. Clarion also is offering optional RGB output for navigation display. Basic Joyride system, including head unit, 6.4" monitor, IR remote and 32 MB flash card will cost \$2,999.99. But consumer can add 6 CD changer and AccuRoute Small Screen Navigation application for extra \$1,099.99 as part of "Level 2" package, or 6 CD changer, Large Screen Navigation application, 6.4" LCD monitor with RGB and composite input and RGB card with cable for \$1,899.99 over price of basic system as part of "Level 3" package.

**Could hunger for PlayStation 2 (PS2) in U.S. be declining already?** That might have appeared to be case if one looked at Amazon.com/Toysrus.com PS2 sales log last week showing game packs that became available at Web site shortly after 2 p.m. PST Jan. 12 took 48 min. 50 sec. to sell out. It certainly seemed to be unusually long period of time to sell out of packs. After all, on 8 previous occasions that PS2 packs went on sale at site, they took — at most — 9 min. 33 sec. to sell. But Amazon.com spokesman told us last week: "We don't see the product demand waning at all." He said Amazon's auction site still had PS2s up for bids at inflated prices. He also provided us with variety of possible reasons why it might have taken longer than usual to sell PS2s on Jan. 12. For starters, he said: "We had a little bit larger allotment that day to sell than normal. So it took a little longer just because we had more units available." However, company once again declined to say how many PS2s it sold that day. Spokesman also gave 2 other possible reasons for 48 min. sell-out: "We didn't do any [e-mails] warning" consumers ahead of time on that occasion that they would be going on sale and, "also of note, it was on a Friday afternoon after 5 p.m. east coast time. So many people who may shop from their computers at work maybe missed out."

**Silicon Image (SI)** has added audio capability to Digital Visual Interface (DVI) link. PanelLink transmitter and receiver, which will be priced at \$11 and \$5 in volume shipments, are said to be first chips to couple digital audio and video data on single interface that supports high-definition (HD) programming. Transmitter is designed for array of CE products including DVD players, satellite receivers and D-VHS recorders, with last to be marketed by EchoStar and JVC, respectively. DVI interface has High-bandwidth Digital Content Protection (HDCP). In adding audio to DVI, Silicon Image embedded it in electrical layer of interface. Chip will be able to support up to 3x current digital audio bandwidth or 25 Mbits per sec. and double sampling rate. New PanelLink products will be available in sample quantities in 2nd quarter. SI's introduction of new PanelLink chips signals effort to expand beyond PC industry, which generates 90% of its revenue, COO Steve Tirado said. CE currently represents 5-10% of SI's business, but goal is to have it and storage products each account for 1/3 of revenue. Push into CE comes as PC industry has been slow to embrace DVI, which is installed in 8% of monitors, Tirado said.

## Consumer Electronics Personals

**Mark Knox**, ex-Samsung, joins HWH PR agency as chief technologist... **Jeremy Tennenbaum**, ex-Wellington Management, named Seagate vp-strategic planning & business development; **Thomas Mulvaney** retires as senior vp, Internet solutions... **William Maggs** resigns as Palm chief technology officer; **Ruth Hennigar**, ex-Cobalt Systems, joins as vp-software development... **John Owen**, ex-Wal-Mart, joins Kmart as senior vp-gen. mdse. mgr.-hardlines... **David Handleman** retires as Handleman non-exec. chmn., remains chmn. emeritus; Pres.-CEO **Stephen Strome** adds chmn. responsibilities... **Paul Seal**, ex-Palm Beach County Urban League, named Office Depot work force diversity dir... **Robert Yingling** resigns as BigStar Entertainment CFO, remains consultant... **Kevin Conroy** ex-BMG Entertainment, named dir., AOL Music.

**Robert Jamieson**, BMG's RCA Records pres., advanced to BMG N. America pres.-CEO; **Richard Griffiths**, BMG U.K. & Ireland chmn. and central Europe pres., named U.K. and Europe pres... **Peter Johnsmeier**, ex-Spinway, appointed vp-sales for advertising at Emusic.com's Web sites including RollingStone.com... Leaving EMusic: **Joseph Howell**, CFO-exec. vp; **James Chapman**, exec. vp-business development; **Peter Astiz**, exec. vp-interim COO-gen. counsel; Astiz will continue to serve as gen. counsel through transitional period; **Emily Rupp**, vp-corporate controller, named CFO... **Devarajan Puthukarai** resigns as Musicmaker.com pres.-CEO, replaced by **James Mitarotonda**; **Seymour Holtzman** appointed chmn.; **Joseph Wright** joins board... **Lernout & Hauspie** changes: **Roel Pieper**, ex-Philips, resigns as chmn., to be replaced at annual shareholders meeting March 1; **John Duerden** departs as CEO, succeeded by **Philippe Bodson**, ex-Tractbel; co-founder **Jo Lernout** and former Microsoft Europe Pres. **Bernard Vergnes** resign from board... **Barry Petitt**, who left Hong Kong-based Starlight International Holdings last month, signs on as pres. of Great Wall Cybertech, Ltd., another CE maker based in Hong Kong.

**Quantum's Hard Disk Drive Group**, citing \$6.4 million in costs of planned merger with Maxtor, reported \$3.3 million 3rd-quarter loss vs. \$5.3 million profit year earlier as revenue fell to \$709 million from \$889 million. Minus acquisition-related costs, Quantum said it had \$3.1 million profit. Maxtor merger is expected to be completed in March-April. Quantum shipped 6.8 million drives in quarter including 6.1 million for desktop PCs. Compaq remained top customer, accounting for 13% of overall revenue, followed by Dell (11%) and Ingram Micro (10%). Revenue from Quantum's QuickView hard drive business for personal video recorders (PVRs) was \$100 million as group signed on 2 unidentified Japanese and European customers, company said. Quantum said it shipped 800,000-1 million drives for PVRs in 2000. Desktop business reported \$518 million in revenue in quarter on unit volume decline linked to shortage of key electronic component for drives.

**Harvey Electronics (HE)**, crediting strong sales of plasma displays and high-definition-ready TVs, said Dec. revenue jumped 14.2% to \$5.5 million on 11.7% gain in same-store sales. Sales increased in holiday season despite slowdown in store traffic. For first 2 months of fiscal 2001 first quarter, sales were up 12% to \$8.1 million on 9.4% increase in same-store sales. HE, which carries Fujitsu, Pioneer and Sony plasma displays, sold 200 panels in 2000, Pres. Franklin Karp said. In 2001, HE will expand with opening of 7,500-sq.-ft. store in Eatontown, N.J., in March. It also will renovate 7,000-sq.-ft. mid-Manhattan outlet in spring, picking up plans that had been set for last year.



# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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**MUST-CARRY LIMITED** tentatively to single channel by FCC. Congressional review sought. Signal downgrade possible. (P. 2)

**COST SHARING UNDECIDED:** FCC to let market decide who pays for moving TV off channels early. (P. 4)

**NAACP THREATENS BOYCOTT** of a network, citing 'snail's pace' in diversity efforts. (P. 5)

**SPECTRUM FEES BACKED** if stations keep analog past 2006. Impact of Kennard letter unclear. (P. 5)

**IGER SEES 'EXHILARATION'** at Disney. Technology seen boost, not threat. (P. 6)

**CHANGES EXPECTED AT POWELL FCC:** Broadcasters and others can expect new FCC under newly named FCC Chmn. Powell, including "a greater feel for the law... and a more humble approach," FCC Comr. Furchtgott-Roth said at ALTV convention in Las Vegas last week. Commission will regulate "only what the law requires... and it will be a greater day at the FCC," he said. Powell, who had been FCC chairman for just a few hours, said "my final sincere hope" is that agency would become "more efficient and responsive" to needs of those it regulated: "The greatest enemy of regulation is... uncertainty." After panel, longtime Washington lawyer told us: "We're in for a sea change of deregulation if you follow their comments to their logical conclusion."

Statements came hours after President Bush tapped Powell Jan. 22 as chairman, days after departure of FCC Chmn. William Kennard (TVD Jan 22 p5). Powell, who has been on FCC since Nov. 1997, had been widely viewed as front-runner for post, although official word came more slowly than some expected. Separately, executive memorandum issued by Bush Chief of Staff Andrew Card began circulating more widely at FCC. Although it wasn't clear how much authority Executive Branch has over decisions of independent agencies such as FCC, memo is intended to suspend regulations that agencies have approved recently but that haven't yet been published in *Federal Register*. Agency hasn't said how it will react to memo, although it does believe freeze is voluntary for independent agencies such as FCC, Commission sources said.

Powell said FCC involvement in antitrust matters "simply duplicates efforts" of FTC and Justice Dept. Sometimes there appears to be problem in merger when there really isn't, he said. But, he said, "I also have to criticize the industry slightly" on such issues. FCC should stay strictly out of content of programming, he said, even though in some instances it might have regulatory authority. He said he disagreed with "3 of 5 commissioners" making content decisions. Powell also disagreed with Commission's "8-independent voices" rule on duopolies: "Voice tests... It's not something the FCC

### Consumer Electronics

**ZENITH TO RESTRUCTURE RETAIL** to reduce number of dealers receiving direct sales; will combine some administrative functions at LG Electronics' N.J. hq. (P. 10)

**DIRECTV HAS ANTICOPY FEATURE** in DTV receivers that can degrade HDTV resolution to 480i at content owner's request. (P. 11)

**SONY TO FALL SHORT ON PS2** shipment targets for fiscal 12 months. Sega may stop manufacturing Dreamcast consoles. (P. 12)

**DIVX CODEC SEEKS LEGITIMACY:** Underground video compression format is offered as legitimate, copy protected way to put movies on Web and blank CDs at near-DVD quality. (P. 13)

**PS2 COSTS HIT SONY PROFITS:** Net income falls 23% on \$121-million operating loss in games sector. (P. 15)

should be counting... I'm clearly a skeptic about the government's role in content regulation." He said he placed great value on First Amendment, and said that in broadcasting rights "have been inhumanely tread upon." Asked about restrictions broadcasters might place on themselves voluntarily, Powell said: "I don't know that there's anything voluntary in a regulatee-regulator relationship." Furchtgott-Roth said no industry "has been punished more and harmed more by overregulation" than broadcasting.

Powell said he expected "a warm and working relationship" would evolve with Congress, which "appreciates [being] kept abreast of what's going on" and doesn't like to be "surprised" by agency actions. Furchtgott-Roth, former chief economist of House Commerce Committee, said "it goes without saying" that FCC relationship with Congress under Kennard had been "strained" and there was "reasonable expectation" it would improve under Powell.

On DTV, Powell said there were "a phenomenal number of variables, all of which must come together" — and most were under broadcasters' control. But, he said, "current time frame is extraordinarily optimistic to achieve." Furchtgott-Roth agreed, with both predicting extensions of current deadlines. Said Powell: "I am not a fan of the idea that we can somehow micromanage" transition to digital, and FCC's order "to get off by date certain" has caused confusion on part of public. Furchtgott-Roth said "it's difficult to see how broadcasters in small and medium markets can rationally make [required] investments in digital broadcasting... It seems suicidal at times. I have no doubt the [analog] spectrum will not be cleared by 2006."

Furchtgott-Roth was critical of Kennard FCC, saying it would "go off and do things that had nothing to do with the [Communications] Act," and for making decisions not based on past policy. No questions were asked of commissioners from floor, and many in audience said they were surprised that 35% station ownership cap wasn't brought up. "If I had known [ALTV's] Donovan wasn't going to ask it, I would have, but I didn't have an opportunity," broadcaster said.

Powell, whose designation as chairman drew immediate kudos from broad range of industry groups, earlier had been chief of staff for Dept. of Justice Antitrust Div. Chief Joel Klein. Announcement laid to rest rumors that decision on Powell's spot on FCC wasn't being made because he was holding out for another Administration post, possibly at DoJ. Before DoJ, Powell was associate at O'Melveny & Myers law firm.

"His leadership, intelligence, character and sense of humor are qualities that will serve him, and the American public, well as he guides the FCC during this dynamic time of progress and change," said Comr. Ness. Powell said in statement that he was "honored and privileged" to be designated chairman and that he looked forward to working with new Administration, Congress, commissioners and FCC staff.

Industry reaction to Bush's choice of Powell was predictably positive. NAB Pres. Edward Fritts called Powell "an outstanding choice." NCTA Pres. Robert Sachs cited his "firm command of issues before the FCC."

House Commerce Comm. Chmn. Tauzin (R-La.), long-time Powell supporter, applauded choice. He said watching FCC had been "like watching an old black-and-white movie. But now, with Michael Powell in charge, get ready for an FCC broadcast in HDTV." Telecom Subcommittee Chmn. Upton (R-Mich.) agreed that Powell "was my first and only choice."

**FCC DENIES DUAL-CHANNEL MUST-CARRY:** Delivering big blow to broadcasters, FCC "tentatively concluded" that cable operators didn't have to carry both analog and digital signals of TV stations during DTV transition. In order adopted Jan. 18 by 4-1 vote with one strong partial dissent, Commission said that, "based on the existing record, such requirement appears to burden cable operators' First Amendment interests more than is necessary to further a substantial governmental interest." But agency didn't rule out dual carriage requirement completely, seeking more comment on need for it to hasten digital transition, updated channel capacity of MSOs, cable's digital compression advances and status and scope of digital retransmission consent agreements between broadcasters and MSOs.

At same time, new House Commerce Comm. Chmn. Tauzin (R-La.) told our affiliated *Communications Daily* that Committee's upcoming DTV transition review would include "whole range of policy questions," including must-carry, standards, manufacturing. He said he had "very much an open mind on it. I just know we're off track. The first thing to do is to find out why. I don't think anyone knows that yet."

In its long-awaited DTV order and accompanying further notice of proposed rulemaking (FNPRM), FCC also delved into thorny issue of what digital station's must-carry rights covered. Commission said station's "primary video" channel entitled to mandatory carriage was limited to "a single programming stream and other program-related content," not full

multiplex of separate programming carried on single DTV signal. Agency said digital stations could choose which one of their unrelated multiplexed signals would be carried. But it left open question of "the proper scope of the program-related carriage requirement," seeking further comment on issue.

FCC decided cable systems didn't necessarily have to carry higher data rate, which determines overall quality, for digital broadcast channels than they did for any nonbroadcast cable channels. That means that cable systems carrying cable network HDTV feeds such as HBO's, which uses 24 frames per sec., could reduce full-quality broadcast HDTV to about half its usual data rate. Commission stressed, however, that cable operators could not carry DTV signals in lesser format or lower resolution than that afforded to any nonbroadcast digital channels that they also carried. It also ruled that DTV-only stations could demand that their signals be carried in analog format, giving them same rights as ordinary analog stations.

FCC did grant cable must-carry status to DTV-only station, WHDT-DT, preparing to start broadcasting in Stuart, Fla., part of Greater West Palm Beach market. In companion order, Commission ruled that "the licensing and impending operation of WHDT advances the digital transition and that guaranteeing cable carriage to digital-only stations will encourage other broadcasters to commence digital television service in a more rapid manner." As transitional measure, agency said, station can elect whether its signal will be carried as digital or converted analog signal, as station has proposed. While ruling immediately applies just to WHDT, FCC officials said it "would have broader applicability" to potential DTV-only stations in other markets.

However, FCC rejected effort by Paxson Communications to obtain mandatory cable carriage of its 6 digital multiplexed programming streams in Chicago area. In separate order, Cable Bureau denied Paxson's petition to force AT&T Broadband, Charter, Mediacom and 9 other cable operators and overbuilders to carry broadcaster's 6 channels on its digital signal (Ch. 46) instead of its WCPX (Ch. 38) analog station. Paxson argued that its 6 digital channels were entitled to must-carry because company was seeking to replace its analog signal with its digital signal, not gain dual cable carriage of its analog and digital signals. But Cable Bureau said it found Paxson's requests to be "inconsistent" with its broader DTV order. While DTV-only stations "may immediately assert their digital cable carriage rights," it said, TV stations broadcasting in both analog and digital modes can't assert such rights until larger DTV must-carry issue is resolved.

Among other DTV matters, FCC said: (1) Cable operators could remodulate digital broadcast signals from 8 VSB to 64 or 256 QAM. (2) Cable systems didn't have to carry "ancillary or supplementary services" transmitted on digital signal. (3) Cable operators didn't have to carry "Internet and e-commerce services" provided by DTV station if services were not related to primary video signal. (4) Mandatory carriage of electronic program guides was "subject to a fact-based program-related analysis." (5) Cable operators must carry such potentially program-related material as closed-captioning, V-chip data, Nielsen ratings data and channel mapping and tuning protocols. (6) Cable operators didn't have to provide subscribers with set-top boxes capable of processing DTV signals for display on analog sets. (7) There was no need to set DTV channel lineup requirements like those that exist for analog signals. (8) Cable systems must make DTV signals available to subscribers on their basic service tiers.

But Commission left other DTV questions open to more debate, seeking further comment on: (1) Proposals to allow cable operators to boost their basic service tier rates for each 6 MHz of capacity devoted to DTV carriage. (2) Application of digital cable carriage rules to DBS providers that offered local-into-local service. (3) Whether "educational" program streams broadcast by noncommercial stations should count as "program related" because of statutory language covering such stations.

Then-FCC Chmn. Kennard, new Chmn. Powell and Comrs. Ness and Furchtgott-Roth voted for order and FNPRM, although Ness strongly dissented in part and Powell raised questions about NPRFM. Comr. Tristani firmly opposed action, arguing that Commission ignored "public interest" and harmed "every American" by deciding primary video question narrowly. She blasted majority for denying must-carry status to PTV broadcasters using their digital signals to multicast several programming channels. In addition, she criticized Commission for deciding on definition of "primary video" without deciding on definition of "program-related" content and for "rushing the order out the door at the end of this [Clinton] Administration."

Ness said that while she supported "the majority of decisions in this order" and FNPRM, she disagreed with drawing tentative conclusion on dual must-carry. Calling such conclusion "gratuitous," "unnecessary," "premature" and "ill-timed," she said "the record is insufficient to accurately discern the impact on cable operators' speech posed" by such requirement. Ness said conclusion "addresses only one aspect" of U.S. Supreme Court's "intermediate scrutiny test" for First Amendment burdens. She also cited concern for PTV broadcasters affected by primary video issue, saying several "have developed innovative digital strategies that rely heavily on multicasting."

Powell said he believed order “provides the clarity that the cable and broadcast sectors have been anxiously awaiting” from Commission and “eliminated some uncertainties in our posture.” But he also expressed concern about impact of primary video ruling on public broadcasters seeking to do multicasting. He suggested that broadcasters go to Congress for redress if Commission’s “interpretation of this statute should negatively impact the development of digital television.” He also urged “continued flexibility on the part of broadcasters and cable operators” to work out remaining DTV issues.

Broadcast and cable industries reacted predictably. NAB Pres. Edward Fritts said his group was “disappointed” with FCC’s order but “this fight is far from over.” He stressed that broadcasters “welcome the opportunity to make our case before a new FCC and a new Congress.” NCTA Pres. Robert Sachs said cable was “pleased” by FCC decision. He said “the winners here are consumers, who will enjoy greater program diversity on cable instead of duplication of the same broadcast channels.”

Without broad audience guaranteed by cable carriage of digital signals, PTV stations will face additional difficulty raising money from local, state and national sources for DTV transition, heads of 3 public broadcasting organizations said. In joint statement, CPB Pres. Robert Coonrod, PBS Pres. Pat Mitchell and APTS Vp-Policy & Legal Affairs Marilyn Mohrman-Gillis said carriage of only one digital channel, if allowed, would undermine PTV stations’ plans to offer wide range of multicast educational services. They said they would use further comments to prove that dual carriage wouldn’t burden cable operators’ First Amendment interests.

**COST SHARING UNDECIDED:** FCC said rules aren’t needed on how to share cost of relocating broadcast stations from Ch. 59-69 to clear spectrum for wireless. Decision opted against cost caps or recovery guidelines. Spectrum auction is set for March 6. FCC ruling on 700 MHz spectrum will “demonstrate to shareholders the value of the television spectrum,” Pax TV said. Chmn. Lowell Paxson said new rules would allow market to determine adequate compensation for broadcasters to vacate spectrum early.

Cost-sharing guidelines, on which agency sought comment last year, are “not necessary or appropriate at this time,” agency said, leaving terms to “voluntary negotiations among new wireless licensees.” Commission also left implementation of secondary auction process for band-clearing rights to “private, voluntary efforts.” Earlier policy allowed voluntary arrangements for incumbents to exit spectrum ahead of Dec. 31, 2006. FCC expanded that to 3-way agreements, allowing Ch. 59-69 incumbents to relocate to lower band TV channels, which in turn would be cleared voluntarily by incumbents in lower band. Commission said it provided guidance on interference issues that could arise from proposal to relocate broadcaster to channel below Ch. 59. Agency also adopted changes to streamline review of regulatory requests needed to put private band-clearing agreements into force. Decision was backed by all commissioners except Comr. Tristani, who said band-clearing proposals needed case-by-case review. She said her earlier concerns extended to 3-way channel swaps.

“Although the Commission’s action purports to facilitate the DTV transition with only a temporary loss of service for today’s viewers of over-the-air television, I fear it will do neither,” she wrote. “Moreover, 3-way swaps may result in loss of service not only for viewers of channels 59-69, but in the core spectrum as well.” Tristani said she was concerned about impact on overall DTV transition: “Nothing in today’s decision requires a broadcaster to give up its analog operations in favor of digital-only service.” Instead, broadcaster could operate in analog format on digital channel allotment under 3-way swap. Citing “negligible penetration” of DTV sets, Tristani said that made it likely broadcaster would choose to continue analog operations on its only channel “and ‘free ride’ on the efforts of other broadcasters to complete the digital transition.” She also objected to majority’s treatment of single incumbent broadcaster who refused to leave spec-

trum block that otherwise was cleared of UHF operators. She said decision didn’t express view on mandatory relocation, but said FCC would revisit matter if needed.

Lowell Paxson said his company, which owns 18 TV stations in band, plans to “take a leadership position and set the tone for negotiations with the wireless telecom winners in the upcoming auction in an effort to speed the transition to digital television and monetize the value of our spectrum.”

Meanwhile, request by Verizon Wireless that FCC postpone 700 MHz auction received broader wireless industry backing, with comments by Cellular Telecommunications & Internet Assn. (CTIA) supporting postponement. CTIA repeated Verizon arguments that delay until Sept. 6 was warranted, in part to allow enough separation between current PCS auction and start of 700 MHz bidding. “Conducting the auction under the existing uncertainty would devalue the 700 MHz spectrum and increase the likelihood that the American public would not realize the full economic and public benefits of a 700 MHz auction,” CTIA said.

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FCC “strongly admonished” Disney and its outside law firm, Verner, Liipfert, Bernhard, McPherson & Hand, for breaching confidentiality of documents associated with AOL-Time Warner deal but declined to impose any sanctions. In 8-page order, Cable Bureau concluded that “principals of Verner Liipfert and Disney were not sufficiently diligent in complying with the protective order” issued by agency on merger documents. Calling breach “significant violation” of its protective order, Commission said actions of Disney and its law firm “have not reflected the standard of conduct the Commission expects of parties in our proceedings.” But, finding “no evidence that the violation was intentional or that it reflects a pattern of noncompliance,” agency said no further action was needed. It said parties already had suffered “substantial penalty” when they were barred from inspecting confidential documents during critical phase of Commission’s merger review in fall. In future, FCC said it would consider banning parties and their counsel from access to confidential documents beginning from time it discovers their violation of protective order until one or 2 business days after they have notified agency and submitting party of violation.

**NAACP THREATENS BOYCOTT:** It's "increasingly likely" NAACP will start boycott soon against one of Big 4 TV networks and its advertisers because of what NAACP Pres. Kweisi Mfume called networks' "snail's pace" in their diversity efforts after they all signed agreements last year to increase those efforts (TVD Jan 10/00 p4). At NATPE convention in Las Vegas last week, he also called for return of financial syndication (finsyn) rule that prohibited networks from having financial interests in syndicating programming, and for legislation requiring networks to air 3 hours weekly of programs written, starring and produced by minorities, citing FCC 3-hour kid TV rule.

Mfume (ex-Democratic member of Congress from Md.), cited his close relationship with many legislators, saying he would seek meetings with congressional leaders and FCC Chmn. Powell to push his agenda. He also said NAACP board would meet soon to consider "deeply sustained boycott." He said networks' failure to move on their own "leaves little hope that the networks understand or are willing to... work on the issue of diversity... in the executive, production and talent ranks." Continuing pace of consolidation in broadcasting and programming has caused "bottleneck" controlled by "a good-old-boy network" in opportunities for minorities to get programs on network schedules, Mfume said.

Suzanne de Passe of Passe Entertainment said that, "left to their own devices, the buyers and gatekeepers of the airwaves are not going to change the structure of who says no and who says yes" on programming that gets on air. Other panelists agreed with Mfume, but networks disagreed, saying they already had made giant strides. Coalition of minority groups began threatening boycott in summer of 1999 and, after long negotiations, agreements were signed with Big 4 that included hiring of diversity executive by each. All 4 networks — and all told TV critics they were living up to agreements, although "there's a lot more to be done," as CBS TV Pres. Leslie Moonves put it (TVD Jan 15 p6).

In session on advertising, Internet Ad Bureau's Rich LeFurgy said Internet advertisers get good branding results, and day-after recall figures from public are just as high as those for TV. Big mistake Internet advertisers make, he said, is wanting to be "publishers. They should put their ads where the audience is, not build [their own] big Web sites." He conceded some Internet sales people had promised more than they could deliver, from which industry now is trying to recover. Chris Rohrs, pres. of TV Bureau of Advertising, replied: "The Internet is a great communication, messaging and transactional medium, but it does a disservice to TV to equate its branding and image-building capabilities" with TV.

NATPE had record 19,834 attendees, up from final 17,250 at convention year ago in New Orleans. Of those, record 4,525 were from outside U.S. and 2,590 from new media. At close of convention, Jon Mandel of MediaCom took over for Steve Mosko of Columbia Tri-Star TV as NATPE chmn. Tony Vinciquerra of Hearst-Argyle TV will succeed Mandel as first vice chmn., with Marcellus Alexander, KYW-TV Philadelphia, and Carole Black, Lifetime TV, elected to Exec. Committee. Joining NATPE board are James McNamara, Telemundo Network; Jonathan Rodgers, Discovery Networks; Hans Seger, Kirsch Group of Germany.

**FCC reaffirmed** its Aug. 1999 decisions on TV ownership and attribution rules in decisions late Jan. 12. Among rules reaffirmed were local TV ownership limits, national TV ownership, mass media attribution.

**SPECTRUM FEES BACKED:** Broadcasters on TV Ch. 52-69 should have to give back their analog channels Dec. 31, 2006, regardless of whether 85% of U.S. households have access to DTV, outgoing FCC Chmn. William Kennard said in letters to Congressional leaders, and broadcasters on other channels should begin paying escalating spectrum fee to continue analog broadcasts. Changes were among several that he proposed to Congress as way to speed DTV transition.

Requiring that analog broadcasting move off higher channels also would "further the competitive bidding objectives" of Budget Act and make launch of 3rd-generation (3G) wireless technologies easier, Kennard said in letters. He didn't suggest specific spectrum fee for other channels, but said escalating figure would create incentive for speeding DTV transition, and revenue could be used to help fund DTV transition by public broadcasters.

Speaking at ALTV conference, Andrew Levin, chief minority staffer of House Commerce Committee, warned broadcasters that "your industry certainly is at risk for being blamed" if 2006 deadline for giving up analog channels isn't met. Commenting on Kennard's recommendations, Levin said if deadline weren't met, "you're going to see more and more of these kinds of proposals." Al Mottur, chief Democratic aide to Senate Commerce Committee, said broadcasters would have problem with past promises made — on digital and other issues — that critics in Congress would say hadn't been fulfilled.

Congress also should speed DTV transition by 2 other actions, Kennard said: (1) It should require that all new TV sets be able to decode DTV signals, beginning with small percentage of large sets, and moving gradually to larger percentage of small sets. FCC should be required to set specific pace of adoption, based on cost, status of DTV technology, public benefit of speeding transition. (2) It should step in if agreement wasn't reached on DTV copy protection.

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**Provision of entertainment** is merely incidental to cable operator's demonstrated function of transmitting clear, viewable signal, N.Y. State Supreme Court Appellate Div. ruled in overturning state Tax Appeals Tribunal's finding that 2 state cable operators were taxed properly as general business as opposed to transmission corporations. Acting on petition by NewChannels and Upstate Community Antenna challenging tribunal's finding, court in 5-0 decision termed as "entirely irrational" tribunal's conclusion that transmission was merely means by which cable operators conveyed their products to subscribers and therefore was incidental to their actual business of providing entertainment. Basis for tribunal's conclusion, court said, stemmed from its belief that focus of cable service wasn't transmission of signals but provision of entertainment. Court said record made plain that cable operators: (1) Have limited capacity to manipulate signals they capture from cable programmers and transmit to subscribers. (2) Have no control over content of signal received aside from getting "rid of ghosts," clarifying signal or amplifying it. (3) Can't dictate when or how many times particular program will be broadcast. (4) Can't sell ads on local or premium channels they offer. With exception of local origination programming they're required to carry, petitioners offered no original programming, court said. NewChannels and Upstate Community Antenna appealed state Dept. of Taxation & Finance decision to assess deficiencies against 2 companies on ground that they should have filed tax returns as general business corporation rather than transmission corporation.

**IGER SEES 'EXHILARATION':** Saying economic slowdown "is just a speed bump" and new technology offers his company exceptional opportunities, Disney Pres.-COO Robert Iger told us "we have a feeling of exhilaration at the Disney Company right now... as a company, we're extremely optimistic." He said, "I think the economy is still sound [but] a feeling of pessimism" has set in among industry executives and national advertisers that's causing concern.

Asked about concerns of TV executives on impact of technology on traditional TV, Iger said "we look at it the other way. We think it will allow us to do 2 things": (1) Acquire more access into homes. (2) Create better products for consumers. Disney-ABC is satisfied with conditions FCC and FTC imposed on AOL acquisition of Time Warner, but "we're not boasting about winning anything," he said in interview in his modest office at Disney complex in Burbank.

Iger was optimistic that Hollywood could avoid strike this spring by Writers Guild of America (WGA) and/or Screen Actors Guild (SAG), saying it was "premature" to predict walkout (TVD Jan 22 p6). Negotiations with WGA started last week with heads of all major studios — "an unprecedented" move, said Iger — and also unprecedented is fact negotiations were being held at WGA hq in L.A. WGA has set 2-week limit for talks to reach agreement, which Iger said was "impractical... impossible." He called "preposterous" speculation that studios and networks covertly welcomed strike (TVD Jan 15 p6). "I meet with my cohorts on this regularly," he said, and problem is proposal put on table by WGA.

In testimony before Senate Commerce Committee last fall, Iger called for universal rating system covering both TV and movies — proposal strongly opposed by MPAA Pres. Jack Valenti. Iger said he hadn't pushed idea because "I didn't sense that I had any allies... As a start, I would have to get Jack to agree [and] I sensed that it wasn't going anywhere, but I haven't given up on the philosophy." "Yes, it works," he said when asked about synergy Disney had expected in moving most of ABC operations last year to Burbank in new building adjacent to Disney complex. He said only handful of executives left ABC rather than move to Cal. Iger predicted network's heavy reliance on reality programming was "a trend" that won't last "very long."

On regulatory front under new Bush Administration, Iger said: "I think we're going to see the cap [35% of coverage of TV homes by any one owner] fall," along with deregulation in other areas. If cap is lifted, he said, ABC will be looking to acquire stations, but "we're not going to do it" if price isn't right. Asked where he spent most of his time, Iger said with "everything... in all of our businesses." At least monthly trips to N.Y. are on his agenda to take care of ABC matters.

**FCC decision endorsing VSB modulation for DTV** received good response from industry, but reaction to rulemaking on DTV reception capability (TVD Jan 22 p1) was mixed. Advanced TV Systems Committee Chmn. Robert Graves said FCC decisions would enhance prospects that other countries would adopt U.S. standard, and "the outlook for DTV services in the U.S. is bright." He said committee expected to issue request for proposals soon for enhancements to current DTV standard. CEA Pres. Gary Shapiro said FCC actions "will go a long way toward speeding the transition." However, he expressed "concern" about all-channel receiver rulemaking, calling it "anticonsumer" and likely to slow transition.

**DTV HOT AT ALTV:** Mandatory digital tuners in TV sets drew sharp exchanges at ALTV panel in Las Vegas last week, with CEA Pres. Gary Shapiro saying consumers shouldn't have to buy unwanted tuners, but Cox TV Pres. Andrew Fisher saying mandatory tuners were "a must... if we're going to get this [DTV] going." Paxson TV CEO Lowell Paxson said "I'm ready to go to the Supreme Court" on tuner issue, saying 1964 All-Channel Receiver Act "is the law."

Broadcasters need "good, solid programming" to attract consumers to digital, not mandatory rules, Shapiro said. However, Fisher said DTV sets "just aren't very good" — and if regulation isn't answer, then manufacturers must build better sets. He said broadcasters "really need help" in such things as requiring minimum standards built into TV sets. Fisher asked CEA to back mandatory labels on TV receivers purchased by consumers: "That seems like a simple request." Shapiro said endorsement of 8-VSB standard provided "more incentive" to manufacturers to build in tuners and improve sets.

Charles Sherman of NAB said industry was well ahead of FCC mandates for switch-over, but Paxson questioned whether industry would be able to meet deadlines — blaming what he charged was Commission inactivity. He said Pax TV had 16 operating DTV stations and "I'm waiting for 44 more" to be approved by FCC. He cited tower, equipment and zoning delays in saying industry wouldn't be able to meet agency's May 2002 deadline for handling DTV applications. Susan Fox, deputy chief of FCC Mass Media Bureau, disputed Paxson's figures, saying 1,890 applications had been filed and 915 had been granted (most within last 6 months). Of 975 pending applications, she said, "most are ready to go" and will be granted in next few weeks.

In state of industry address, ALTV Pres. James Hedlund called for regulatory "balance" at FCC for emerging industries. He was critical of ex-Chmn. William Kennard, saying he and "his predecessor [Reed Hundt] got their public policy positions wrong — dead wrong — when it came to over-the-air television... Why is it they kept trying to load us down with more and more money-losing regulations under the guise of public interest." In fight over cable must-carry, he said cable's claim of "capacity problems... are self-inflicted. They don't hesitate to expand capacity for their own program channels, for high-speed modems, or for telephony."

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**PanAmSat wouldn't comment** on rumor company might be sold to European operator SES Astra of Luxembourg. PanAmSat spokesman said rumor "is nothing new," and company had policy of not commenting on "speculation." No other details about sale were offered by source, but SES executive representative in U.S., Dean Olmstead said he couldn't say whether SES was negotiating with Hughes for PanAmSat, but if company were on market, SES definitely "would be interested."

**House Commerce Committee** will meet at 1 p.m. Jan. 31 to adopt Committee's new rules, including revised jurisdictions of its subcommittees and Republican/Democratic ratios. Republicans are scheduled to tap vice chmn. of full committee and appoint their members on subcommittees. Democrats also have time reserved to appoint subcommittee members, but it's expected that they won't be ready to do so, since Democratic Leader Gephardt (Mo.) reportedly won't have finished organizing by then.

**VERIZON SEEKS CABLE DEAL:** Verizon Senior Vp Thomas Tauke said company was seeking lobbying support from cable industry for new broadband deregulatory policy suitable to both telcos and cable. He emphasized that no formal coalition had been formed, although 2 sides have had "discussions." Tauke said he envisioned 3rd "basket" of regulations, separate from traditional cable and telephony models, that would apply only to broadband services. Under that scenario, broadband networks would be lightly regulated, along wireless telephony model, he said.

Such action would require legislation, although Tauke emphasized that concept was different from broadband relief bill in House last year that would have let Bells offer interLATA broadband services without getting Sec. 271 approval. Broadband "basket" would have only limited regulation, such as interference limits, standards and interconnection requirements so customers could communicate with each other. "That's the kind of model you have in wireless," Tauke said.

New drive by Verizon and other telcos comes as cable executives resist govt. efforts to impose open access and other conditions on Internet service over high-speed cable lines. In latest gambit, Comcast Corp. Pres. Brian Roberts urged policymakers Jan. 24 to "stay the course for success" and keep "removing barriers to true, facilities-based competition" between phone and cable industries. "Instead of more talk about regulatory parity between competitors, what we should talk about is deregulatory parity," Roberts told Economic Club of Washington. He said right way was to "find ways to deregulate the phone companies and satellite companies, not put more regulations from an old-style monopoly onto us."

Cable officials cautioned, however, that Roberts's call for deregulatory parity didn't mean that cable supported telco drive for new broadband regulatory scheme. They stressed that they still opposed reopening Telecom Act and didn't believe new regulatory model was needed. They also said they had had no discussions yet with telco counterparts on forming broadband reform coalition.

Nevertheless, Tauke argued that both cable and telephony could benefit from legislation that formed new middle ground. Neither side wants each other's regulations, he said. "Obviously they don't want to be included in Title 2 and we don't want to get caught in the cable trap, the local franchise world," he said. However, recent ruling by 9th U.S. Appeals Court, San Francisco, that cable-delivered Internet access is telephony service was making cable operators nervous, he said.

Tauke said plan would be on same lines as draft revisions in Title 7 of Communications Act that were under consideration during writing of 1996 Telecom Act but weren't included in final bill. He said Title 7 draft, like his plan, had envisioned separate regulatory structure for broadband services. He said wireless was good model for broadband because it had flourished under deregulation and had benefited consumers through innovative pricing and service plans. "You wouldn't have this kind of wireless environment if the FCC had made a strong regulatory move," he said.

Internet pioneer Vinton Cerf of WorldCom will keynote NAB convention in Las Vegas April 25, Assn. said. Speech will be on "The Future of Technology."

**NATPE CRITICIZED, ATTENDED:** Despite complaints of syndicators about value of NATPE convention in Las Vegas last week, and diminishing attendance by broadcasters — independent survey showed only 37% of potential U.S. customers for syndicators were present — convention set new attendance record. NATPE officials downplayed concern, saying only that Assn. would continue to adjust its focus as needed, as it has in bringing in international and new media interests.

Seven program syndicators speaking at ALTV just before start of NATPE said they saw little value for them in huge NATPE gathering — although only one said his company probably wouldn't continue to exhibit. "There's a good chance that we won't be back next year," said Robert Raleigh of Carsey-Werner Distribution. All 7 agreed that NATPE no longer was venue for program sales. But, said Steve Mosko of Columbia Tri-Star TV: "This has always been very important for us... We'll be back." All said major problem was cost (up to \$3 million for major exhibitors), with Steven Rosenberg of Studios USA saying less expensive economic setup was needed, "but we'll be coming back for the foreseeable future."

Syndicators and program sales aren't reason for NATPE anymore, "so I ask myself why do I spend \$3 million" to be here and exhibit, asked John Nogawski of Paramount. He said station executives who buy don't attend anymore. Said Dick Robertson of Warner Bros.: "As a selling convention, it has little or no value... It's a line in our budget that has long outlived its usefulness... Anyone who hasn't cleared a show before coming here should be fired." Richard Askin of Tribune Entertainment said his company was seeking to cut costs "dramatically" but Tribune would return to NATPE in 2002. Programmers unanimously said they wouldn't support standalone ALTV if it weren't held adjacent to NATPE.

Large TV station groups cut back number of people they sent to NATPE — and "you almost never see a program director," group head said. He said his program dirs. were told not to come and decision was left up to individual gen. mgrs. — with 6 of 24 attending. Another group head said he came to Las Vegas for only one day — to attend affiliates convention — and his gen. mgrs. stayed away. Networks also cut back — CBS had no meeting for its affiliates, NBC only for affiliates' board.

NATPE Pres. Bruce Johansen and outgoing chmn. Stephen Mosko of Columbia Tri-Star responded to syndicators' criticism. Johansen said Assn. would continue to adjust its focus as needed — just as it already had done to embrace international companies and new media. "We are about being an efficient outfit and how [exhibitors] do their business is their business."

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**Broward County, Fla.**, regulators are in talks with AT&T and Comcast on settlement of open access dispute, giving rise to possibility that county would drop its appeal against U.S. Dist. Court, Miami, ruling overturning its open access ordinance. "A draft agreement is in circulation," Asst. County Attorney Anita Lanczi told us. Declining to provide details or terms of talks, she said county would go forward with appeal in 11th U.S. Appeals Court, Atlanta, if settlement weren't reached. Asked why county now favored settlement, she said: "Nobody wants to litigate. It's expensive and time-consuming." AT&T spokeswoman wouldn't provide terms of talks, either, but confirmed that company was negotiating with county: "We are continuing to talk with them and hope to reach an amicable settlement."

**KIDS' PROGRAMMING 'BURDEN':** Programming for children under FCC's 3-hour mandate is "a terrible financial business for broadcasters... and we don't think the government should tell us to run 3 hours of kids programming," Madelyn Bonnot of Emmis Communications told NATPE convention in Las Vegas last week. With exception of Tom Lynch of program company bearing his name, other panelists agreed with Bonnot. "We have to be in there [kid programming]," Lynch said. "It's a public service. They're public airwaves." All that's needed, he said, is a hit children's show.

Bonnot said local spot advertising in children's shows totaled \$125 million 5 years ago but dropped to \$25 million in 2000, making it "a tough business to be in." Speakers said there still is no clear definition of what was acceptable as "children friendly" show under FCC rule. "I could not define what their [FCC] ruling is and what is prokids and what isn't," Lynch said.

Speakers said children's market no longer was vibrant because of inroads of cable channels such as Cartoon Network, Disney Channel, Nickelodeon. David Morgan of Litton Syndication said TV rating system for children's shows, designed for parents to use with V-chip, hasn't worked and "I think it's kind of backfired... As kids are becoming more sophisticated, they are looking for more adult material" — and ratings help them find such programming.

Also at convention, *Power of Attorney* star Gloria Allred said thousands of women were losing job opportunities in TV, and victims should go to court if private mediation didn't work. Entertainer Whoopi Goldberg said she didn't really like to work with women because they could become competitive and usually were afraid to agree with stronger woman — such as herself. "Female taste in [programming] material sucks," Goldberg said. TV host Christina Saralegui said many women lacked required financial assertiveness: "We don't know how to ask for a raise like a man... We'll say we're having a baby." Judy Sheindlin of *Judge Judy* said: "We work in a male-dominated business. Just walk the floor of NATPE" to confirm that.

Spring up-front ad buying on networks will be down from last year, predicted Jessica Cohen of Merrill Lynch at panel on ad outlook: "We're seeing signs of it getting pretty ugly." Kevin Carton of PricewaterhouseCoopers agreed "the ad market is in a bit of a dip, but we don't believe it's a major trough. We think it will be coming back soon." He said previous decade was "fantastic" for TV advertising, and predicted "a very robust [ad] market" over next several years.

Blair Westlake of Universal TV predicted new media eventually would be hit with consumers, but later than most predict: "Consumer habits are hard to change and don't evolve as fast as many might predict." He said VCR sales in 2000 were double those of DVD players. Mary Halford of Fox International Entertainment said that company already was receiving good consumer response to interactive TV, citing experiences of BSkyB in U.K.

Traditional 30- and 60-sec. TV spots soon may become thing of past through product placements such as in *Survivors* and made-for-TV movies, said panel of leading TV advertisers and agencies. Program-interruptive TV commercials soon may become least efficient way to reach consumers, said TBWA's Robert Kuperman: "In the future, you probably won't know when the commercial stops and the program begins."

Digital TV received prominent place throughout NATPE convention, with several workshops, exhibitor demonstrations and one major panel. On that, panelists suggested that recent tentative decision by FCC denying digital must-carry would cause broadcasters to move toward datacasting and other nonbroadcast services. John Abel of Geocast said broadcasters had relied on cable as "crutch" to reach consumers and as result spectrum was underutilized. By adding new services, result could be that public would re-install outside antennas to receive off-air signals. But, he said, "consumers have to see a service that is desirable on that antenna." Some ideas worth trying on multicast, said Kenneth Solomon of iBlast Networks, include music, games, movies and local public service programming.

**New FCC Chmn. Powell** appointed Marsha MacBride chief of staff and named his core transition team and personal staff. MacBride, 10-year veteran of FCC, is returning to Commission after being vp in Disney's Washington office. During years at FCC, MacBride was legal adviser to then-Comr. Powell for mass media and cable and exec. dir. of FCC's Y2K conversion effort. MacBride was in Political Programming Branch of Mass Media Bureau, Cable Bureau and Office of Engineering & Technology. She also was legal adviser to Comr. James Quello in 1997. Transition team includes Jane Mago, Enforcement Bureau, who will oversee Office of Gen. Counsel; David Fiske, who will oversee Office of Media Relations; Paul Jackson, special asst. to chmn., who will oversee Office of Legislative & Intergovernmental Affairs. Powell's current personal staff will move to Chairman's Office — Peter Tenhula continuing as senior legal adviser, Kyle Dixon and Susan Eid as legal advisers, Toni McGowan as confidential assistant and Dorothy Clingman as senior staff asst. Other staff appointed to Chairman's Office include Tommi Greely, Betty Freeman, Kim Anderson-Collins.

**Subjecting radio stations to copyright fees for streaming** their programming over Internet "could wreak havoc with over-the-air broadcast radio formats and stifle the offer of streamed over-the-air radio broadcast programming," NAB said in appeal filed in U.S. Dist. Court, Philadelphia. Appeal seeks to overturn ruling by U.S. Copyright Office that broadcast streamers are subject to same copyright fees as original Webcasters (TVD Dec 11 p4). NAB said Copyright Office decision violated intent of Congress, which wanted to exempt nonsubscription transmissions of broadcast programming from additional copyright costs. Copyright Office decision "could profoundly affect the ability of the broadcasting industry to keep abreast of modern technology by offering radio station programming on a nonsubscription basis over the Internet," NAB said. Decision could require radio stations to engage in "a multiplicity of individual negotiations" with copyright owners, it said, since conditions for compulsory licenses are "onerous and plainly were not drafted with the formats of over-the-air broadcasters in mind."

**AOL Time Warner** announced plans to lay off 2,000 employees, 3% of total staff, as part of its general postmerger restructuring. Cutbacks involve 725 at AOL, including 300 in Washington area, and 1,300 at Time Warner in N.Y., L.A., Washington and elsewhere. Company also said it intended to sell or close its 130 Warner Bros. retail stores, affecting another 3,800 employees. AOL Time Warner said it would consolidate some of Warner Bros.' Web sites and freeze hiring at its cable systems, cable programming networks, WB network. Moves come on top of restructuring CNN announced to eliminate another 400 jobs. Although they don't expect latest restructuring to generate big cost savings, company said AOL Time Warner was on track to meet its revenue growth targets of 12%-15% for year.

## Personals

Changes at NBC: **Barry Stoddard** promoted to senior vp-program research, West Coast; **Rosalyn Weinman**, exec. vp-broadcast content policy and East Coast entertainment, leaves network... **Philip Lelyveld** advanced to vp-digital industry relations, Disney... **Nicholas Wodtke**, ex-Columbia TriStar International, named senior vp-interactive TV, Sony Pictures Digital Entertainment... **Sarah Foss** promoted to dir.-mktg., Bcst. Communications Div., Harris Corp... **Jeff Bartlett**, ex-KHBS Ft. Smith, Ark., and KHOG-TV Fayetteville, Ark., named pres.-gen.mgr., WMUR-TV Manchester, N.H... **Mark Taylor**, ex-WWAV Rapp Collins Media, named vp, dir. of sales-Europe, Hallmark Entertainment Networks... **Sanford Litvack**, ex-vice chmn., Disney, elected to Compaq board.

Changes at CNBC: **Steve Sherman** promoted to vp-research; **Andrew Warren**, NBC, moves to vp-CFO... Changes at Discovery Networks International: **Rex Recka** promoted to vp-programming & sales operations; **Tony Harvin**, ex-Motown and Arista Records, named dir.-program sales... **Len Marino** advanced to senior vp-creative services and on-air promotion, Odyssey Network... **Barbara Zaneri**, ex-USA Bcstg., named senior vp-program planning & acquisitions, TNN... **Wendy Cutler**, ex-USA Networks, appointed dir.-member services, Cable TV Ad Bureau... **Neil Hoffman**, ex-WGN Cable, becomes senior vp-planning, scheduling & acquisitions, Lifetime Entertainment... **Scott Petre** promoted to vp-gen. mgr., Cox Business Services-Kansas... **John Buckley**, ex-Fannie May, becomes corporate vp, AOL Time Warner.

Departure of Democratic staffers at NTIA continues, with 2 more to leave Feb. 2, both starting their new jobs Feb. 5: Communications Dir. **Art Brodsky**, also ex-Warren Communications News, joins Simon Strategies as senior vp; Congressional Affairs Dir. **Cinnamon Rogers** joins Sen. Boxer (D-Cal.) as senior policy adviser... **Dale Hatfield**, ex-FCC, named technical adviser, Fantasma Networks... **Allison Remsen**, former NCTA staffer, promoted to press secy., House Minority Whip Bonior (D-Mich.).

**James Clifford** advanced to senior vp-CDMA technologies, Qualcomm... **Michael Jordan**, exec. chmn., Clariti Telecommunications International and ex-CBS, elected to ScreamingMedia board... **Stephanie Brownlee**, ex-United Video, becomes vp-interactive TV sales, SeaChange International... **Randy Livingston**, ex-OpenTV, named vp-business affairs and CFO, Stanford U... **Thomas Hicks III**, ex-Greenberg, Traurig, appointed partner, Wilmer, Cutler & Pickering... **Darius Withers**, ex-FCC, named associate, Kelley, Drye & Warren.

**In closed meeting** at NATPE, ABC TV Network briefed its affiliates — while admitting plans were very tentative — on future use of digital spectrum. One idea thrown out was “Blockbuster in a Box” pay-movie channel as 2nd revenue stream for stations. Several other proposals in early stages of development also are being discussed, sources said. Network and affiliates plan to form new committee to study and evaluate potential services through digital spectrum, with Robert Hubbard of Hubbard Bcstg. as head of station contingent. Source said ABC’s effort was to present unified effort with affiliates on new technology when not broadcasting HDTV.

**PBS Pres. Pat Mitchell** received \$315,000 salary, excluding bonuses or other incentives, in fiscal year ending June 30, 2000. Salary, more than double \$151,658 her predecessor, Pres. Ervin Duggan, received in FY 1999, when salary cap was in place.


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**FCC ordered GE Americom** to disclose information to Pegasus Development on its contract with Harris Corp. involving construction of GE Star Ka-band satellite system. Pegasus requested information Oct. 13. GE Americom received license to launch and operate 5 satellites in fixed-satellite service (FSS) in Ka-band. It was required to begin construction of first bird by May 1998, but had asked that contract be exempt from Freedom of Information Act disclosure requirements and withheld from public inspection. Pegasus, which wants to launch its own Ka-band satellites, objected.

# Consumer Electronics

A Section of *Television Digest with Consumer Electronics*

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending Jan. 12, and year to date:

	JAN. 6 - JAN. 12	2000 WEEK	% CHANGE	DEC. 30 - JAN. 5	2 WEEKS 2001	2 WEEKS 2000	% CHANGE
TOTAL COLOR TV	330,129*	270,453	+ 22.1	206,259	536,388*	505,883	+ 6.0
DIRECT-VIEW**	316,388*	254,625	+ 24.3	198,302	514,690*	479,530	+ 7.3
TV ONLY#....	279,752	225,794	+ 23.9	162,777	442,529*	417,978	+ 5.8
TV/VCR COMBO.	36,636	28,831	+ 27.1	35,525	72,161*	61,552	+ 17.2
PROJECTION....	13,741	15,828	- 13.2	7,957	21,698	26,353	- 17.7
TOTAL VCR**....	200,343	131,473	+ 52.4	112,140	312,483	316,827	- 1.4
HOME DECKS....	163,707*	102,642	+ 59.5	76,615	240,322	255,275	- 5.9
CAMCORDERS.....	41,311	48,168	- 14.2	30,332	71,643*	81,558	- 12.2
DVD PLAYERS....	135,568*	51,708	+165.4	77,649*	213,217*	95,269	+123.8

**Direct-view TV 5-week moving average#:** 2001-349,526; 2000-317,644 (up 10.1%).

**Projection TV 5-week moving average:** 2001-19,081; 2000-23,624 (down 19.2%).

**VCR deck 5-week moving average:** 2001-191,597; 2000-282,461 (down 32.2%).

**TV/VCR 5-week moving average:** 2001-52,072; 2000-55,183 (down 5.6%).

**Camcorder 5-week moving average:** 2001-62,650; 2000-55,100 (up 13.7%).

**DVD player 5-week moving average:** 2001-168,710\*; 2000-93,561 (up 80.3%).

\* 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 SET TO RESTRUCTURE DISTRIBUTION:** Zenith is expected this week to publicly announce major restructuring of dealer distribution that will focus direct sales on smaller number of accounts.

Revamping of dealer network comes as part of Zenith's move to reduce reliance on analog products and shift attention to step-up digital items (TVD Dec 18 p10), including flat-screen and digital TVs, DVD players and recorders, plasma display panels. Exactly how many accounts will be pruned from Zenith's direct sales ranks remained unclear at our deadline, but letters outlining changes were being sent to retailers this week. Coincidentally, Marta Buying Group, major Zenith distribution network, also is meeting this week in Orlando.

While Zenith has sought to revive its image many times in recent years, switch to digital products focus is its most profoundly visible effort because it's to be accompanied by multimillion-dollar promotional campaign. As evidence of change, one OEM supplier we polled said his company had written half as many Zenith orders for analog TV tubes as in past. Of dealers we canvassed last week who had heard promises of "new" Zenith brand before, many remained skeptical.

New strategy appears likely to loosen Zenith's ties to mass merchants and require tighter alliances with retailers that have floor sales force. But many of those retailers already carry step-up products from Hitachi, Mitsubishi, Sony, Toshiba and others. Also unclear was how Zenith's plan would affect rent-to-own (RTO) market — distribution channel where Zenith brand has high profile but accounts for small share of digital product sales. Zenith's major RTO dealer is Rent-Way.

Changes in distribution are most extensive Zenith has made since dropping its last 15 independent distributors in late 1994 (TVD Jan 2/95 p8) and moving to direct sales. Zenith was last to end what was widespread industry selling system

before rise of national chains and buying groups. Zenith then also had 6 company-owned distribution branches. It further refined model in 1996, when responsibility for accounts with annual sales lower than \$50,000 was shifted to Ill.-based telemarketing group (TVD April 15/96 p17).

In addition to new retail strategy, Zenith will combine some administrative functions later this year with those of parent LG Electronics at latter's Englewood Cliffs, N.J., hq. Zenith will have sales and marketing presence at N.J. facility, but also will continue to maintain operations in Lincolnshire, Ill., spokesman said. It signed 5-year lease for Lincolnshire building last fall after shutting Glenview, Ill., hq.

Combination of new dealer structure and streamlined corporate staff represents first major moves since LG purchased Zenith in late 1999 in reorganization plan that allowed CE manufacturer to emerge from bankruptcy. And while changes represent new Pres.-CEO Tokjoo Lee's first imprint on organization, LG, which purchased 57.7% of Zenith in 1995 (TVD Nov 13/95 p8), has long called for revamping. Former LG Chmn.-CEO Hun Jo Lee first pushed for restructuring in 1996 in pledging to work with Zenith to "strengthen operations." (TVD April 1/96 p16).

**DIRECTV HDTV RECEIVERS HAVE ANTICOPY FEATURE:** Collars and shoes got tight for some CE executives last week when we asked them to confirm that their DirecTV receivers for DTV could downgrade HDTV signal to 480i at request of content owners fearful of unauthorized copying. Situation is potentially embarrassing for CEA, which is battling cable industry over copy protection demands for HDTV.

Imposition of Copy Generation Management System (CGMS) covers all brands selling DTV-enabled DirecTV satellite receivers. They include Hitachi, Hughes, Mitsubishi, Panasonic, Samsung, Sony, Toshiba, Zenith and Thomson's ProScan and RCA. Hollywood content owners fear that consumers will use high-quality analog component video (Y-Pb-Pr or RGB) outputs on receivers to make copies on digital recorders. Point seems moot: Only DVD recorder now available, Panasonic's DVR-E10 for DVD-RAM, lacks component video inputs. Philips, though, has told us its upcoming DVD+RW recorders will have component inputs.

DirecTV receivers use CGMS codes to block HDTV 1080i or 720p signal from component video output. CGMS codes can permit unlimited copying, recording single copy, or prohibit any copying. When DirecTV invokes no-copy provision at content owner's request, receiver shuts off HD signal on DTV display, and on-screen message informs viewer that only SDTV 480i image is available. DirecTV wouldn't comment on issue. Movie industry similarly tried in past to limit HDTV quality on high-resolution LCD monitors that take direct digital video signal from PCs. But PC industry balked when studios suggested limiting DTV display to 640x480 VGA resolution. Instead, technical groups are working on system that locks HDTV display to monitor and prevents passthrough to recording devices or Internet.

DirecTV downgrade function was only copy protection method available that could allay content owners' fears and thereby obtain HD programming for DirecTV, manufacturers told us last week. In future, encrypted digital connections should be available, such as Data Transmission Content Protection, Digital Visual Interface, Extended Conditional Access (XCA). Vendors said it was hoped that those methods would eliminate stopgap measure of downgrading HDTV picture.

Comment by Hitachi Exec. Vp Gary Bennett was typical of others we canvassed: "As soon as everything is resolved on copy protection, picture quality will not drop down to 480i from 1080i." But others told us existing receivers with CGMS couldn't be changed, but content owners weren't likely to request picture downgrade once more secure digital copy protection was in place on future DTV hardware.

"Products in the year 2002 will have some type of interfaces built into them," Bennett said. "Whether we all have to build multiple interfaces to compensate for the various sources, broadcast or cable, that might have to be an option." He told us product planning for 2002 was in progress and engineering would be 80-85% completed by March or April. "You can still make changes, but if there are no agreements by June or July of this year, then the only thing you can do to protect yourself the following year is to build multiple interfaces."

Bennett and others, including CEA, conceded that potential for downgrading DTV's display conflicted with CE industry's longstanding position that nothing should impair or detract from functionality of products consumers purchase. "Yes, we do have concerns about selling consumers an HD device and they don't get HD when they turn on the set. Those people aren't going to be calling Burbank, they'll be phoning us," Thomson spokesman said. "We have the same concern about cable downgrading the signal to 480p and saying 'That's good enough'. It's a very slippery slope to approach."

CEA spokesman concurred. "This demonstrates the power of the content community, that they are able to withhold content and put service providers and manufacturers in a tough position that's not in the interest of consumers," he said.

DirecTV situation is "harbinger of things to come" with digital recording on DVD and PVR hard discs, Thomson spokesman said. "Consumers have to get their hands around the idea the rules in the digital age will be different. There are going to be a lot of angry people." He said legislative action might be needed on home recording and copy protection. "The concerned parties seem too far apart, and I don't believe the FCC can do it. There's got to be a congressional mandate to clear the air here."

CEA spokesman took same position. "It shows a critical need to address these issues in a way that balances copy-right with the established recording rights on consumers," he said. "This clearly needs to go to a legislative solution. I suspect we'll see some action on the Hill this year."

**SONY TO FALL 10% SHORT OF FISCAL-YEAR PS2 SHIPMENTS:** Sony used release of its 3rd-quarter financial results last week (see separate report, this issue) to acknowledge publicly for first time what many had been speculating would happen — that company would fall short of worldwide production shipments of PlayStation 2 (PS2) consoles for fiscal 12 months ending March 31. Company said Thurs. it would fall about 10% short.

Meanwhile, rumors were running rampant last week that Sega planned to stop manufacturing its Dreamcast videogame consoles by March 31 and start supplying titles to rival game systems.

Although Sony said it was "continuously increasing" PS2 hardware production, well-documented shortage of key components caused it to revise downward to 9 million consoles forecast it issued in Oct. that 10 million would be shipped worldwide for fiscal year.

Worldwide PS2 hardware shipments were 2.88 million consoles for quarter and cumulatively were 6.4 million through Dec. 31. Worldwide PS2 software shipments (including those from Sony and Sony-licensed 3rd parties) were 16.9 million pieces for quarter and 24.9 million cumulatively through Dec. 31. Sony Computer Entertainment America (SCEA) spokeswoman broke PS2 hardware sales down for us by region, saying 1 million were shipped in Europe and other PAL markets, 3.94 million in Japan, 1.46 million in N. America. N. America number indicated that Sony had indeed lived up to what SCEA Senior Vp Jack Tretton said last month when he predicted company would be able to ship in excess of 1.3 million units by year-end (TVD Dec 18 p14). SCEA spokeswoman said shortfall wouldn't have effect on company's forecast for PS2 shipments in U.S. and Europe "due to the demand" there. Company still expects to ship 3 million to each region by March 31, but is now predicting that it will move only 3 million in Japan, she said.

Although Sony said it was able to ship more than 1.3 million PS2s in N. America by end of Dec., some in industry were questioning whether company actually was able to achieve that. While some thought only 1-1.1 million were sold through end of year, others thought there might have been as few as 850,000. By most accounts, demand for PS2 continued to be high and retailers were selling out of whatever systems they managed to acquire pretty much as soon as consoles hit their shelves. Therefore, some were questioning why there was large difference between number of consoles Sony said it shipped and what many believed actually had been sold. But Gerard Klauer Mattison Senior Vp Edward Williams said discrepancy could be attributed, at least in part, to Sony's shipping many consoles in late Dec. that had yet to actually reach store shelves by end of month. PC Data senior analyst Sean Wargo said tracking research indicated that only 446,000 PS2s had been available in retail channels since first week of Nov. But he said "it is conceivable" that at least 1.3 million PS2s were shipped by year-end.

Williams said he didn't think there would be adequate supply of PS2s available at stores to meet consumer demand until late spring or early summer. Wargo said there was "not a lot of inventory in the retail channel right now" and he expected it was a "problem that's not going to be going away in the near future."

Amid rumors that Sega would stop manufacturing Dreamcast videogame consoles, industry analysts last week were calling that move wise one. Investors certainly seemed to agree: Shares of company jumped on Japan's stock market Jan. 23 once word of Sega's rumored decision started coming out.

But Sega was sending out somewhat conflicted message about rumors as of our Fri. deadline. Company spokesman in Japan went so far as to say that Sega was indeed considering restructuring its Dreamcast hardware operations worldwide — and ending console production was one of its options. But Sega of America (SOA) issued

statement saying: "The company reaffirms its commitment to Dreamcast," adding: "In fact, Sega has more than 100 games worldwide coming out for the platform in the next year. It is not Sega's policy to comment on rumors and the company has not made any statement regarding ceasing manufacturing of Dreamcast or development for other videogame platforms."

SOA spokeswoman also said company wouldn't comment on rumor that Microsoft's upcoming Xbox would be Dreamcast-compatible. According to report quoting "credible sources," Xbox will include Dreamcast chipset, allowing it to play all Dreamcast titles. Microsoft spokeswoman told us that company didn't "comment on rumors" either. However, possible deal like that between Microsoft and Sega might offer advantages for both companies (see separate report, this issue).

Statement by Sega Europe (SE) last week hinted that company was indeed considering dropping Dreamcast and explicitly stated what SOA still hadn't (as of our deadline, anyway) — that "Sega is in negotiations regarding the supply of our software to other gaming units including PlayStation 2 and Game Boy Advance."

SOA spokeswoman confirmed Fri. that Sega was "in discussions with a set-top box company to license the Dreamcast chipset technology into their box." One British report said Sega was close to deal with set-top box maker Pace. But SOA spokeswoman said: "I can not confirm who [the company] is." Pace spokeswoman said Fri. that her company would announce early this week that "it has developed a set-top box home gateway with integrated console-quality games from one of the leading digital entertainment media companies." But she didn't identify "leading digital entertainment media" company involved and another Pace spokeswoman also declined to name.

Gerard Klauer Mattison's Williams told us last week: "I don't know for certain that [Sega's dropping Dreamcast is] going to happen." But research analyst said if Sega did indeed stop manufacturing such consoles, "it wouldn't surprise me" and "it makes sense" for Sega. After all, he said, Sega is not in strong financial health while its "hardware competitors are very healthy." Sega is expected to announce its 4th consecutive year of losses in March. Its sagging financial situation continues as Sony's PS2 starts arriving in increased numbers and Microsoft and Nintendo gear up to ship their Xbox and Gamecube consoles.

PC Data's Wargo told us it was "looking more and more likely" that Sega would indeed be exiting its Dreamcast game console hardware business. Echoing Williams, he said "maybe it is a wise decision" for Sega to do so at this point. He said while "they've been having a lot of trouble with the Dreamcast" in terms of sales, Sega has history of faring well with its games. But going set-top box route also isn't necessarily going to be instant win for company, he said, because Sega still will face tough competition.

Analysts in Japan echoed some of Wargo's and Williams's comments. Reuters reported Toshihiro Koizumi, mgr. of Chuo Mitsui Asset Management Fund, said: "Ending Dreamcast production would be good news because the company had been caught in a situation whereby the more Dreamcast consoles they sold, the more they lost." Another analyst guessed that Sega has been losing ¥5,000-10,000 on each console.

Abandoning Dreamcast hardware business certainly would make sense in light of Sega's comments in Oct., when it unveiled major plan that would change company's focus to online networking and software sales (TVD Nov 6 p18). At same time, company said it was looking "to expand its business into other consumer devices including mobile phones, PCs and set-top boxes that offer Dreamcast-formatted content." But Sega stopped short at that point of saying it had plans to drop Dreamcast console.

**VIDEO COMPRESSION FORMAT SEEKS TO SHAKE SHADY IMAGE:** DivX video compression format is making attempt to emerge from illicit underground as legitimate, copy protected medium for posting near-DVD quality movies on Internet and recording them in space of single blank CD. Reaction to plan from Hollywood was muted.

Project Mayo, San Diego-based open hosting site for DivX technology ([www.projectmayo.com](http://www.projectmayo.com)), announced last week it would establish company called DivXNetworks ([www.divxnetworks.com](http://www.divxnetworks.com)) to build business model and develop standard for DivX as speedy and content-protected technology for high quality broadband video downloads. Company is offering license for others to develop new OpenDivX source code, sometimes also called Divx Deux, which is said to create files much smaller than original DivX.

"Serious advances in video compression technology, Internet security and the rapid adoption of broadband and broadband-ready platforms over the past year have created a harmonic convergence that will fundamentally change

the dynamics of the music industry," Jordan Greenhall, DivXNetworks co-founder and CEO, said. "DivXNetworks will leverage all of these critical technologies to deliver pure viewing satisfaction to movie enthusiasts, while allowing the film and video industries to profit from a new distribution channel for their high-quality content."

Greenhall said company later this year would announce DivX Distribution System, which he described as back-end infrastructure for downloading near-DVD quality video whose digital rights management technology would limit playback to those who purchase content. Company said DivX compression enables movie-size file to be downloaded in 25 min. or less over DSL or cable modem, and to be recorded on single 650 MB blank CD that has about 1/7th capacity of 4.7-GB DVD.

DivX codec began circulating underground in Dec. 1999 among desktop video enthusiasts, who soon began using it to upload movie trailers of box office and home video hits. It was regarded by some — apprehensively so in Hollywood — as having potential to become MP3 of video. Before DivX compression, large size of uncompressed movie files made Internet transmission unfeasible for most people, and required storage on multiple blank CDs in MPEG-1 format of indifferent quality. Although terms appear and sound similar, DivX isn't related to now-defunct Divx conditional-access DVD championed by Circuit City.

At time DivX emerged, variety of claims circulated about its abilities and origins. For example, its anonymous creators said DivX video quality could range between MPEG-1 Video CD and MPEG-2 DVD depending on variable bit rate selected for compression, but in any event would be at least as good as VHS. They also claimed compressed video file enabled 2-hour movie to be downloaded in about 4 hours using wide bandwidth T1 line, although transmission times would be longer using DSL or cable modem.

Creators at time also said that efficiency of DivX derived from use of MPEG-4 video compression that had just been approved as standard, and had been incorporated in Microsoft's Windows Media Player (WMP) to create AVI files. Anonymous creators claimed they had hacked WMP in order to continue making AVI files that Microsoft no longer supported. Soundtracks for DivX video used MP3 compression, supporters said.

DivX at outset also used another hacked technology to copy DVDs — DeCSS created by Norwegian group to circumvent DVD's Content Scrambling System (CSS) and posted on Web in Nov. 1999. By circumventing CSS, DivX users said disc played in PC's DVD-ROM drive could be copied directly as digital bitstream to PC's hard drive, then compressed with DivX for burning onto CD or uploading to Internet. Before emergence of DivX, threat from DeCSS had been downplayed by some in movie industry because uncompressed video files were so huge. But DivX quickly caught attention of MPAA, which began investigation.

At our deadline, www.divxnetworks.com Web site wasn't up, and executives there weren't available to clarify issues we raised: (1) Exact length of "movie" that 25 min. download represents. (2) Legal status of DivX codecs claimed to be adapted from Microsoft's WMP, and from MPEG Licensing Authority's MPEG-4. (3) Whether DivX soundtracks still use MP3 compression, and their potential for Dolby Digital or DTS multichannel surround sound. (4) Financial backing for DivXNetworks. (5) Extent of discussions with Hollywood studios and support from them, financial or otherwise.

Spokeswoman told us DivXNetworks owned all copyrights to Open DivX code, and company has disputed early claims on Web that original DivX was hacked from WMP. But legal status remains unclear on intellectual properties such as MPEG-4 that are used in foundation of DivX. Project Mayo site said that "any implementation of Open DivX must be in compliance with MPEG-4 standards." Licensing agreement also cautions that "the video technology space is thoroughly covered by patents... As a consequence, it is unlikely that any video technology will be created any time soon that is wholly 'free'... Ultimately, all these applications will require patent licenses..."

DivXNetworks is "talking to folks in the movie industry, but no arrangements have been made yet — it's still too early," spokeswoman told us. At our deadline, that couldn't be confirmed with studios. But MPAA's antipiracy task force was aware of DivXNetworks' gambit. Spokeswoman there said "DivX in and of itself isn't illegal, it's how you use it."

MPAA Internet Enforcement Dir. Hemanshu Nigam told us group's concern was that ability to put 4.7 GB DVD movie on single blank CD could create bigger market for pirated product. He confirmed that DivX had been used illicitly since codec emerged last year. "We have been sending letters to cease and desist regarding the use of DivX for illegal purposes," Nigam said, without disclosing scope of problem.

**PS2 COSTS HIT SONY PROFITS:** PlayStation 2 (PS2) cost overruns and general weakness in videogame business helped contribute to 22.8% decline in Sony 3rd-quarter consolidated net profit, company reported last week.

Sony used financial report to announce it expected to fall 10% short of its worldwide shipment target for PS2 consoles for fiscal 12 months ending March 31 (see separate report, this issue). Games business had operating losses of \$121 million (\$1 = ¥115) in quarter, largest of any reported Sony business segment. Sony blamed losses on software sales declines and on PS2 startup expenses. In particular, expense of sales in games sector rose mainly on higher cost of raw materials such as semiconductors for PS2, but higher depreciation and selling costs also figured prominently in wider losses.

Overall Sony revenues climbed 10.1% in quarter to \$18.35 billion, but operating income fell 10.8% to \$1.27 billion, pretax income declined 19.6% to \$1.16 billion and net income was down 22.8% to \$628 million. Sales in U.S. rose 8.6% to \$5.56 billion and were barely outstripped by revenue in Japan, which climbed 12.3% to \$5.63 billion. Sales in Europe dipped 0.3% to \$4 billion.

Electronics operations fared reasonably well in quarter, with operating income rising 52.8% to \$1.15 billion on 16% revenue increase to \$12.38 billion. For U.S. and Europe, Sony reported increases in sales of PCs, color TVs, camcorders, digital still cameras, DVD players. Sales in Japan were hurt by weak performance in home audio.

Overall, audio was only electronics category with sales decline in quarter, revenues falling 0.5% to \$2.32 billion. But there were increases: video up 19.2% to \$2.79 billion, TVs 14.4% to \$2.17 billion, information and communications products 30.5% to \$3.06 billion, electronic components 15.8% to \$2.04 billion.

For 3rd quarter, Sony's game sales were "essentially unchanged" from year-earlier quarter on local currency basis. But because of weaker yen, game revenues fell 2.1% to \$2.05 billion. Game revenue in Japan dropped because of "significant" decrease in software sales there, although hardware sales benefited from "favorable demand" for PS2 and PS One. Sales in U.S. rose from Oct. introduction of PS2 despite lower overall software sales. Similar results were reported for Europe.

For fiscal 12 months, Sony is projecting 8% increases in sales and operating income, but 4% decline in pretax income and 96% drop in net income. In electronics, Sony said it expected slowdown in U.S. demand for information technology products. However, it said declines could be offset by stronger than expected sales in Japan of cellphones, digital TVs and PCs.

In Japan, Sony has established new subsidiary, Sony Semiconductor Kyushu Corp., that starts operations in April to serve as "semiconductor manufacturing platform company" for entire Sony group. Subsidiary will "horizontally manage" all Sony semiconductor plants throughout world, including in Thailand and U.S. As streamlining measure, Sony in March will liquidate Taiwan subsidiary, where production of DVD players and other products was halted in Dec. Overseas procurement and other functions have been shifted to another subsidiary near Taipei.

**Pixelworks**, crediting strong sales of its ImageProcessor controller chips, reversed year-earlier \$1 million loss to post \$2.8 million 4th-quarter profit as sales soared to \$18.1 million from \$6 million. In quarter, 60% of revenue came from front-projector market, 33% from LCD display monitors. Recent design wins including InFocus front projectors and Sony's 42W plasma display panel (PDP). Despite strong sales, inventories stood at \$3.2 million at quarter's end, up from \$1.4 million year ago, increase Pres.-CEO Allen Alley blamed on receipts received late in quarter. Pixelworks also will have first samples of PW-111 processor for LCD displays with 1,024x768 resolution in 2nd quarter. Chip, expected to be in sub-\$15 range in volume, will be marketed with optional A/D convertor from Analog Devices. Combined with convertor, price will be around \$20. Pixelworks also is developing ImageProcessor with embedded Web browser, product that will be available in sample quantities in 2nd half, Alley said. Chip will be based on RISC processor, although Alley declined to disclose speed... **Genesis Microchip** introduced LCD controller chip last week aimed at monitors with XGA resolution. New chip has integrated A/D convertor, digital visual interface (DVI) receiver, \$20 price in volume... **Silicon Image** (SI), struggling with sagging PC market, said 4th-quarter loss widened to \$5.4 million from \$1.6 million year ago. Revenue rose to \$13 million from \$7.6 million year earlier, but was down from \$14.4 million in 3rd quarter. SI Pres.-CEO David Lee blamed revenue decline on "overall slowdown in the PC and PC-related markets." Downturn in PC market has forced SI to shift some focus to CE products (TVD Jan 22 p22). Inventory rose to \$3 million from \$765,000 year ago.

**Heilig-Meyers** (HM) is cutting back CE products sharply in new RoomStore format and, in some cases, will eliminate them altogether, sources said. Plans call for converting 75 HM stores to RoomStore concept that sells furniture in room settings, with another 40-45 to adopt format in 2002. Format will be rolled out in Richmond market, followed by Memphis in spring. HM bought 10-store RoomStore chain in 1997. Another 45 outlets will be revamped this year to focus on better grade of furniture that uses CE "as much for display, but also available for sale," source close to HM said. Latter revamp has been tested in Las Vegas and Charleston, S.C., markets (TVD Sept 18 p15). "They won't exit it [CE] but it will have a diminished role," source said and chain will eliminate 19-25 TVs, VCRs and camcorders from mix. TV selection will be cut in half to 10-12 direct-view and projection models, source said. New strategy, which eventually could include 165 RoomStore outlets, comes as HM prepares to announce another round of store closings this week. Minimum of 12 stores will close, on top of 302 shuttered last year when chain filed for bankruptcy protection (TVD Aug 21 p16). "It will be a challenge for us," CEO Donald Shaffer told *Richmond-Times Dispatch*. "I think we have come a long way in a short period of time, but we are certainly not out of the woods yet." At same time, 7 HM shareholders are suing chain, alleging its former CEO and current board members ignored their fiduciary duties and lied about retailer's financial condition. Shareholders, who filed suit in Richmond Circuit Court last week, own 2.54 million shares, most of which were purchased at \$6.50-\$13. Stock closed week at 9.5¢. Suit, which seeks \$60.9 million in damages, alleges that defendants "manufactured special bonus grants." Former CEO William DeRusha received \$500,000 bonus in 1999 for arranging sale of 2 company divisions, suit said. HM dismissed suit as "being totally without merit."

**Amplification:** Report last week on Thomson's Technicolor acquisition should have noted that latter received multiyear contract from Microsoft last month to manufacture and distribute DVDs for Xbox videogame system.

**DARS INTEROPERABILITY SEEN:** Interim step in making rival XM Satellite and Sirius Satellite Radio digital audio radio services (DARS) systems interoperable could be achieved by early next year, although full-scale integration won't come for 4-5 years, Sirius CEO David Margolese told us.

Margolese, in interview at C.E. Unterberg, Towbin conference in N.Y.C. last week, said vehicles would be prewired for DARS reception and device would be installed in trunk to accept either SSR or XM receiver. Interim step, which moves companies part way toward satisfying FCC mandate that competing DARS service be interoperable, is required under OEM agreements with Audi, Honda, Nissan and Toyota, he said. However, XM spokeswoman said interim step wasn't part of OEM pacts, but rather was "solution" companies were developing as bridge to integrated product. Full integration will require dual chipset, industry sources said.

"The thought is to prewire the vehicles and then have the dealer or the consumer decide," Margolese said. "The cars would come with the service and this could be done virtually overnight."

XM Satellite CEO Hugh Panero also confirmed that interim step was in works, but declined comment on availability.

Yet even as DARS companies move toward making their products interoperable, they're racing to deliver first-generation models. STMicroelectronics has completed development of 2 of XM's 3 receiver chipsets, with 3rd due by April, Panero said. Margolese said Sirius wasn't expected to have "first cut" of chipset being built by Lucent Technologies until March, with final version not expected until 3rd quarter. He said Lucent had completed development of 5 of 8 ICs in chipset, but needs to finalize software that allows signal to be "handed off" between satellites. Lucent had been expected to complete chipset last year.

To meet planned midsummer start of service, Sirius will use discrete chipset built by Matsushita with off-shelf components to make possible shipment of 10,000-50,000 units, sources said. In addition to Matsushita, Sirius has used AVT to supply chipsets. Use of discrete chipset could add \$150 cost on top of \$150 premium that would be charged for radio with DARS capabilities, UT Vp William Kidd said. Matsushita officials weren't available for comment.

XM said despite postponement of launch of first satellite at 115° W to Feb. 28 from Jan. 8, start of service will be delayed only 30-45 days. XM's 2nd satellite is expected to fly by late April to 85° W slot. Sirius has launched 3 satellites and expects to have spare completed by Aug. and available by Oct.

Still unclear is pricing for DARS receivers. XM models are expected to be in \$245-\$400 range, but Sirius hasn't released pricing. Much will depend on subsidies being supplied by auto manufacturers that projected at \$47 million in first full year alone, UT said. DARS receivers are being designed into automakers' 2002 lineups, with XM targeting General Motors' Cadillac, while Sirius plans haven't been finalized across brands sold by BMW, DaimlerCrysler, Ford. For long term, XM projected that 9% of revenue would be from OEM deals with GM, Honda, Suzuki. On other hand, Sirius projected that 15% of its "blended" overall revenues would be returned to auto makers, Margolese said. Sirius also expects to pay 6% royalty for music used in service, he said.

Cost of having DARS receiver installed in car is expected to be \$70-\$75, companies said. GM is likely sell receiver and one-year subscription to service as preferred option package at outset, Panero said. XM also has had discussions with GM on cost of building service into car lease. Sirius is largely focusing on cost of building DARS, including one-year subscription, into base price of car, Margolese said.

Companies' 100-channel service will be similar, although Sirius is planning 50 commercial-free stations while XM is projecting 10-15. Both will charge \$9.95 per month. XM will generate 55-60% of service programming, with rest from outside sources. It signed programming agreements with Discovery Channel, Firesign Theatre and National Lampoon last week.

Wild card could be DirecTV's investment in XM. DirecTV at start will provide XM with back-office support, Panero said, but alliance later will involve marketing service to DirecTV's customers and eventually integrating it into set-top receiver. Interim step could be adding "clip-on" antenna to DirecTV receiver that would enable user to gain access to DARS service, he said. Also being considered is providing "musical juke box," said DirecTV Global Digital Media Pres. Lawrence Chapman, who declined to disclose details.

"We're exploring some options, but it [DirecTV] would always be used as a complementary to a broadcast service like XM," Chapman said. "We have an investment in XM and we certainly intend to support them aggressively."

XM also is said to be in discussions with Pegasus Communications, which sells DirecTV service, on marketing DARS receivers. Panero confirmed discussions with Pegasus, but declined comment. Pegasus CEO Marshall Pagan also declined comment, but said DARS service "would be a natural" for company's rural markets.

**Rumor that Xbox** would be Dreamcast-compatible (see separate report, this issue) doesn't exactly sound outlandish for various reasons. For one thing, there's Sega's already-stated goal of expanding "its business into other consumer devices including mobile phones, PCs and set-top boxes that offer Dreamcast-formatted content" — and Xbox is, of course, consumer device. Also, Sega Europe indicated last week that Sega was looking to supply titles for other game machines. Microsoft would stand to gain as well from deal such as that because relationship would give its Xbox greater number of compatible games (including such popular characters as Sonic the Hedgehog) at system's bow last fall in U.S. and Japan. Companies also have collaborated in past on other initiatives and one rumor early last year was that Microsoft and Sega were close to agreement on some sort of Xbox accord (TVD March 13 p11). At least one report at time even suggested that Xbox could be 2nd-generation Dreamcast. SOA's Charles Bellfield told us then: "There have been many talks between Microsoft and Sega over development of new products in our industry and specifically the Xbox, on top of the strategic relationship Sega and Microsoft have together for Dreamcast." But he said "there is nothing in terms of any agreement at this point in time" although companies "continue to be close partners and talks will continue." Microsoft already provides customized version of its Windows CE operating system with "DirectX" services for Dreamcast. Industry analyst we talked with Fri. said Microsoft-Sega collaboration on Dreamcast was "within the realm of reason." But he added that it was nothing but "wild conjecture at this stage."

**DIRECTV ALL-IN-ONE RECEIVER:** Set-top box (STB) equipped with hard drive and capable of receiving DirecTV and at least 3 other services could be available by late 2002, DirecTV Global Digital Media Pres. Lawrence Chapman said.

Device would combine services that are or will be available in separate standalone DirecTV receivers this year including Wink Communications' technology, AOLTV and UltimateTV. Latter 2 are built around TiVo and WebTV personal video recorder (PVR) technologies respectively. All-in-one device could have 3 or 4 tuners as well, enabling it to receive several channels at same time, Chapman said. Current DirecTV-TiVo product, which shipped last fall, has 2 tuners, only one of which is operational, with 2nd due to come online midyear via software download, Chapman said. STB also probably would have DSL connection option, given DirecTV parent Hughes Electronics' proposed acquisition of Telocity.

"In the future we'll be able to consolidate on a platform that can run all these various services and let the consumers choose," Chapman said. "By that point we'll have a wealth of real-life market experience on testing these [standalone] strategies. What we're looking at is a sophisticated gateway device that sees multiple devices."

Gateway device also could play into DirecTV's strategy for offering video-on-demand (VoD), first portion of which is expected to be revealed first half of year in conjunction with TiVo (TVD Jan 15 p12). First VoD service is expected to consist of nontheatrical fare. But hard drive's current capacity of 40 Gb may be too small for VoD service offering choice of 100 titles, Chapman said. Service could take off as industry introduces drives with storage for 100-120 hours of video, he said.

"We could load those titles on a server overnight and have them ready for the viewer when they want to view them in VoD," Chapman said. "All kinds of [copyright] issues have to be sorted out, but we've got the capability from a distribution and collection standpoint."

While hard drive industry is supplying PVRs with single 20 GB platters, capacity is expected to double within 18 months, executive of hard drive supplier said. Indeed, Western Digital announced plans last week for 30 GB platter. Maxtor builds 80 GB drive that uses 4 platters.

"We could do 100 hours today, it's just a question of adding another platter," executive said. "I don't think it's as much of a question regarding the hard drive technology as it is one of whether there is demand for it right now."

As it revealed plan for all-in-one STB, DirecTV also conceded that expected AOLTV combo receiver might not be available until 4th quarter. Beta version of software is expected to be tested in lab in April, Chapman said. TiVo and AOLTV also are planning combo device for 2nd-half introduction although it was unclear whether that would include DirecTV or target cable industry. TiVo Vp Howard Cook declined comment, but company is said to have had discussions in recent months with cable STB suppliers Motorola and Scientific-Atlanta. TiVo also is testing sales of standalone PVR through Cox and Comcast.

"The AOL product is not as far along as an introduction as we'd hoped," Chapman said. "It is a sophisticated product and these require a lot of testing and debugging."

UltimateTV-DirecTV product ships this month and Wink technology is available in 2 million RCA receivers, number that he said would rise to 5 million by year-end. Increase will be tied to additional Wink-enabled DirecTV receivers including those from Philips and Samsung, latter scheduled to ship in 2nd quarter. Wink-equipped receivers will have links to 4 services — Barnes&Noble.com, ESPN, NBCi and Weather Channel, last of which is only one currently available. DirecTV's profit on Wink service is in "cents, not dollars," Chapman said. But DirecTV has "taken zero risk since they've [Wink has] done the heavy lifting with the programmers and response networks," he said.

Wink product is based on proprietary technology, but that could change, Chapman said. Wink will "look for ways to make a value-added proposition" for manufacturers that's not based on proprietary technology but rather "on response network or its operating tools for programmers," he said. Wink officials weren't available for comment. DirecTV's ties to Wink remain "quite strong" and company will "evolve with us," Chapman said.

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DirecTV and RCA announced promotion on Wink-enabled RCA satellite receivers that incorporate DirecTV Interactive. Companies said new residential customers could receive up to \$200 in mail-in rebates from DirecTV on purchase of any of 4 RCA receivers plus professional installation. Customers also must commit to one-year Total Choice premium programming package. Promotion runs through April 25.

Audiovox will plunge into handheld PC market late this year with model that combines PDA with CDMA-based cellular phone, company said. Device, which will be priced at \$800, will have Microsoft Pocket PC operating system and is likely to be marketed through Sprint and Verizon, both of which are Audiovox OEM customers. Additional specs including memory size weren't available, but typical Pocket PC handheld has 16 MB. Toshiba, which builds CDMA cellular phones for Audiovox, will manufacture combo product, with 250,000 units to ship in 4th quarter, Audiovox Communications Corp. (ACC) Pres. Philip Christopher told analysts in conference call. Profit could be \$100 per PDA/phone, he said. Audiovox unveiled new product as it reported that 4th-quarter net income shrank to \$5 million from \$11.3 million year ago on increased freight costs and \$2.4 million charge for exiting analog cellular phone business. Sales increased to \$510.1 million from \$410.4 million as shipments of cellular phones rose to 2.9 million units from 2.2 million. Digital phones produced 85% of revenue, up from 61% year ago, and average selling price rose to \$151 from \$142. Verizon accounted for 49% of revenue. Digital phones had 9 days' inventory at quarter's end and Audiovox has air-shipped most models for last year at cost of \$2.25 per phone, Christopher said. For year, Audiovox shipped 9 million cellphones, figure that he predicted would grow to 10.5 million in 2001 with analog shrinking to 500,000. Company shipped 2.3 million CDMA phones to Verizon in 2000, while GSM and TDMA models totaled 300,000 and 200,000, respectively. Audiovox reported annual revenue from CE and mobile video increased to \$277.8 million from \$242.5 million. Gross margin was flat at 21%.

Sony doesn't support CD-R playback on Super Audio CD (SACD) player sold in U.K., we have learned. New entry-level SCD-XB940, which sells for £500 (\$730), lacks twin optical pickup needed to read less-reflective CD-Rs. Sony U.K. spokeswoman told us player had only dual-focus pickup, mostly as cost-saving move. Higher end SACD players are CD-R compatible and eventually entire line will be, she said.

**LAFAYETTE BRAND REVIVED:** After years of lying dormant, once well-known Lafayette brand is being revived by iDVDBox Inc. for line of DVD players, audio products, TVs.

iDVDBox tested sales of products late last year and will roll out full line in 2nd quarter, including i2DVD player that combines Internet access, MP3 and DVD/CD playback. Also in line are flat-screen and digital TVs, micro and home CD systems, Dolby Digital processors, MiniDisc player, 5-CD changer. Color TV line will feature 13-35" conventional and 21-34" flat-screen models.

i2DVD player, at \$499, features National Semiconductor Geode chip, 27 MHz 10-bit DAC, Dolby Digital and DTS output and printer port. It also has Liberate Technologies browser, 56 kbps modem and USB Ethernet adapter for high-speed access connection. Key to player is proprietary BoxEngine Technology that allows users to link automatically to Web sites related to DVDs, even during playback. In addition to bringing out own products, iDVDBox is seeking to license BoxEngine platform design to CE companies.

While iDVDBox will target N. America at start, it also has had discussions with distributors in Europe and Middle East, Chmn.-CEO Steve Cavayero said. It also is in talks with ISPs to obtain preferred or default status on player. First deal that's on verge of being finalized is with Big Planet, based in Provo, Utah, which has more than 55,000 subscribers. i2DVDBox design, with some adjustments, also will allow owners to use their own ISP.

To further expand sales, iDVDBox is negotiating with ISPs for deal that would offer DVD player at subsidized price for consumers who make commitment to buy Internet service. ISP strategy is similar to one proposed year ago by browser company PlanetWeb, but later scrapped after service providers participating in program ran into financial problems. While stressing subsidized price would depend ultimately on ISP, Cavayero said, "In certain markets or certain ISP arrangements, a consumer could see \$99 out the door."

Cavayero said iDVDBox also was studying multiple marketing strategies in addition to conventional retail and was in discussions with "infomercial" companies for direct marketing campaign.

While iBoxDVD hasn't set prices for majority of products, Cavayero said, "we're going to target Middle America mid-stream retailers. We want to give the smaller retailers something special and let them support it and not have to worry about national retailers killing the price."

iDVDBox, which also has rights to market Philco products in Mexico, picked up Lafayette brand last year. It had been dormant at least since late 1980s, when it last was used by Wards/Circuit City, Cavayero said. Lafayette brand was started in 1924 by Thompson Mfg. Co., based in Jersey City, N.J., and renewed by publicly traded Lafayette Radio Electronics in 1964. It remained strong audio brand through 1970s.

First Lafayette products will be manufactured in China, but iDVDBox is building TV and DVD assembly plant near Guadalajara, Mexico, that will open by mid-year, Cavayero said.

**STARBAND PRODUCT SHORTAGE:** Starband's satellite-based 2-way Internet access service has suffered product shortage since launch last fall as parent Gilat Satellite Network struggles to ramp up production, Investor Relations Vp Dianne VanBeber said.

Starband service, which has been sold through RadioShack as add-on card as part of \$899 Compaq PC and as standalone USB box with EchoStar's Digital Sky Highway (DISH), shipped 25,000 units last fall, she said at C.E. Unterberg Towbin conference in N.Y.C. last week. It also is selling service via Starbanddirect.com, she said. Satellite modem is priced at \$399, while service carries \$69 monthly fee.

While RadioShack stores used Starband to demonstrate high-speed broadband service, "sales force had no idea [at launch] that it was from a satellite," VanBeber said. "We had hoped that the MSN [Microsoft Network] would have covered this [Starband]." RadioShack sales force was brought up to speed on technology within month of Oct. launch, she said. Sales have improved, but standalone device remains stronger seller, she said. RadioShack officials weren't available for comment.

Production of satellite modems is increasing and Gilat plans to add factories in Spain and Brazil to help ease shortage by 3rd quarter, she said. "Right now we're producing as much as we can."

Starband will upgrade current product with dual-tuner modem by year-end and is planning to launch 2 satellites — Starband 1 and 2 — in next 23-27 months, VanBeber said. First of birds will be Ka/Ku model that probably will be built by Boeing or Lockheed Martin, she said, with service from orbital slots owned by GE Americom or EchoStar. New satellites also will give Starband ability to multicast programs via "carousel" type service, she said. Dual-tuner modem, and other standalone model due in spring, are likely to replace add-on card in consumer line, VanBeber said, with card retained for corporate market.

Although Starband filed for, but never completed, IPO last fall, it now is seeking private equity or strategic investment in bid to raise additional funds, VanBeber said. Gilat has 45% stake in Starband, which could achieve breakeven this year with 8-12% gross margins, she said.

Leonardo Chiariglione said he would step down as exec. dir. of Secure Digital Music Initiative (SDMI) in next few months to lead new multimedia program at CSELT, corporate research center of Telecom Italia Group. Chiariglione has headed SDMI since it began meeting in 1999. He also is founder and chairman of Motion Picture Experts Group (MPEG). Process for choosing new exec. dir. was part of agenda at SDMI's meeting last week in L.A.

**Trilogy Retail Enterprises** boosted takeover bid for Chapters to \$17 per share from \$15 and white knight Future Shop (FS) refused to match it, leaving shareholders to decide winner. FS, which had bid \$16.80 for chain, said it had released Chapters' shareholders from lockup agreement, allowing them to tender to Trilogy if they so chose. Trilogy offer expires Feb. 1. Chapters board said it would weigh offers and make decision Jan. 29. Retailer maintained position that Trilogy offer was "a partial bid." Financial analysts had been puzzled by FS bid, given expected arrival of Best Buy. Indeed, FS stock plunged after it announced bid Jan. 18, but closed up \$7.80 on Toronto Stock Exchange late last week.

**SCEA TO SKIP TOY FAIR:** While never formally linked to videogame industry, American International Toy Fair held each Feb. in N.Y.C. had evolved into de facto game conference as hardware and game manufacturers rented hotel suites and held meetings with retailers to outline coming year. But that may be changing.

For starters, Sony Computer Entertainment America (SCEA) has decided to skip Feb. 11-15 Toy Fair this year in favor of holding separate event in Fla. following week. SCEA Senior Vp Jack Tretton confirmed move, telling us that while company had been able to use Sony offices on Madison Ave. in past, this year it decided to hold its own retail event far from hustle of N.Y.

Industry sources told us several major software companies had followed suit and would meet with retailers at Sony event instead of in N.Y.

Only apparent presence Sony will have at Toy Fair this year will be via booth of Sony Electronics' Entertainment Robot America Div., where company will be showcasing its Aibo robotic dog.

Nintendo of America (NOA) Mktg. Vp George Harrison, on other hand, said his company would be in N.Y. week of Toy Fair. "It's a chance for us to meet with buyers and analysts," he said.

Spokespersons for Microsoft and Sega told us last week that representatives of their companies would be in N.Y. as well. SCEA thus is only major videogame console maker ignoring Toy Fair this year.

Toy Fair, now in its 98th year, for 2nd year will feature TechnoPlay@Toy Fair pavilion featuring hottest products. Companies scheduled to be featured at pavilion, along with Sony and its Aibo, include Cybiko, Intel, LeapFrog, Lego, Texas Instruments. Subjects of conference sessions at event will include online toy retailing. Products will be displayed during show at Jacob Javits Center as well as at showrooms throughout Manhattan's toy district.

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eToys woes seemed to get larger last week as e-tailer posted 4th-quarter loss even larger than expected. Company said its loss expanded to \$85.82 million (-62¢ per share) from \$75.49 million (-63¢) year ago. Minus charges, company's net loss was \$74.51 million (52¢) vs. \$62.46 million (52¢) last year. Analysts had expected troubled online retailer to report loss of 46¢ per share, First Call/Thomson Financial said. eToys said much of loss could be attributed to cost of building up its infrastructure. It said capital expenditures alone were \$19 million ion quarter. However, sales continued to increase as eToys posted \$131.17 million showing, up from \$106.75 million year ago. It also said it "added nearly one million new customers in the quarter, bringing total customer accounts to nearly 3.4 million." Company said its "current cash and cash equivalents will be sufficient to meet its anticipated cash needs to approximately March 31, 2001, although there can be no assurance in this regard." It said: "In order to continue operations in 2001, the company will require an additional, substantial capital infusion." eToys warned earlier this month that its holiday results would be lower than planned (TVD Jan 8 p13). At same time, it announced it was cutting 70% of its staff.

**Expiration of some CD patents** will reduce royalty income for Philips by \$42 million beginning this summer, company announced. It and Sony jointly developed CD format, for which Philips gets 1.8¢ royalty per disc, Sony 1.2¢. Companies share 2.5% royalty on CD hardware.

**GAME DELAYS HURT EIDOS RESULTS:** Eidos warned last week that it had "significantly revised downwards its expectations for the full year" ended Dec. 31.

London-based game maker blamed its disappointing results on "delays in new titles originally anticipated for release toward the end of the first quarter." Eidos now hopes to ship *Commandos 2*, *Gangsters 2* and *Startopia* before end of quarter.

Eidos said it "also decided to defer the release of three PlayStation 2 titles to the first half of the next financial year in view of the current relatively small installed base of the highly anticipated PlayStation 2 consoles." Company said those games "are all in the final stage of development, and include 2 new franchises: *Herdy Gerdy* and *Eden*."

"Changes will result in significant revenues' moving from the final quarter of [2000] to [2001]," Eidos said. However, when it announces results for quarter Feb. 28, it expects to report that it "traded well" and "sales and profits were ahead of expectations, principally due to strong sales of *Who Wants to Be a Millionaire* in U.K. and German markets and strong sales of *Championship Manager: Season 2000/2001* throughout Europe." However, sales of those 2 games in U.S. were disappointing.

Looking ahead, Eidos said: "During 2001 the population of next-generation platforms, including PlayStation 2, Xbox and Gamecube, will grow substantially. Although in the short term the visibility of the new hardware may continue to create uncertainty in the marketplace, the company's strategy of platform neutrality will ensure that it benefits from stronger market conditions expected during the next financial year."

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**NPD Intelect said unit sales** of 47 CE categories it tracked rose 7.1% while same categories jumped 5.1% in dollars in 2000 over 1999. Meanwhile, unit sales for 45 computer-related categories NPD tracked increased 14.1% but dropped 6.3% in dollars. Commenting on results, NPD Intelect CE Dir. Jim Hirschberg said: "The softening economy is clearly evident in the numbers for both computer-related and consumer electronics products. Still, in both groups of products there were bright spots." That was especially true for digital products, he said: "From PDAs to portable DVD players, digital categories tended to fare well all year long." DVD players saw 108% growth, NPD said, while home CD recorders were up 70.3%, direct broadcast satellite up 57.6%, in-dash CD players up 42.6%, home-theater-in-a-box systems up 37.9%.

**Sony will slash 500 jobs** at PC monitor plant in Rancho Bernardo, Cal., as it shifts production overseas, spokesman said. Layoffs represent 15% of its work force on 2 production lines that made 15-17" tubes and will shut down by April. About 3,100 workers in 20 divisions will be retained, including those producing TV tubes. Sony began weighing cutback at plant in Dec. as it underwent worldwide restructuring, spokesman said. Shift in production was "necessary in order to enhance competitiveness within a market where price competition is rapidly intensifying," spokesman said. PC CRT production will be "absorbed" at other manufacturing plants including those in Asia, he said. Sony opened \$60 million plant in 1998 as part of Sony Technology Center. As it announced job cut, Sony also said 3rd-quarter net income plunged 23% to \$613 million (see separate story, this issue).

**Babbage's Etc.** is "in the process" of dropping "a couple of dozen" Funco employees from its ranks, Babbage's Brand Mktg. Vp Russ Howard told us Fri. He said job cuts were part of continuing consolidation process that started after Babbage's parent Barnes & Noble acquired Funco for \$161.5 million last year (TVD May 8 p18). But Howard said cuts were "much less than 1%" of company's more than 7,000 employees and were being made only in areas where company felt there was "duplication" in job duties. Jobs being dropped are at district mgr. level and higher. "This does not affect store managers at all," Howard said, and salespeople are not being targeted. Stressing that "very small numbers" were involved in cuts, Howard said company was "still going to grow aggressively" in adding stores and staffing. Number of employees it plans to hire as result of that growth will be "many, many more" than number being shed in current consolidation, he said.

**eGames reported results** last week for its 2nd quarter ended Dec. 31 that were in line with what Langhorne, Pa., game maker had predicted earlier this month, when it also announced it was cutting 25% of its work force (TVD Jan 15 p21). Company reduced loss to \$269,831 (-3¢ per share), from \$601,328 (-6¢) loss year ago. Sales dropped 11% to \$3.87 million from \$4.36 million. eGames said drop "resulted primarily from a \$1.5 million decrease in net sales to North American traditional consumer software retailers." But it said drop "was partially offset by a net sales increase of \$800,000 to North American food and drug retailers and a \$200,000 net sales increase to international customers." eGames Pres.-CEO Jerry Klein said: "On a positive note, we were pleased that the rollout of our store-in-a-store initiative began to pick up speed in advance of the holiday selling season and is now represented by permanent displays in more than 5,000 stores nationwide."

**Sony Computer Entertainment (SCE)** announced formation of new PlayStation.com (America) subsidiary that it said would "supervise and direct all activities pertaining to the company's North American PlayStation.com initiatives." Those efforts, SCE said, "include the evolution of the PlayStation brand online, the development and management of the PlayStation.com e-commerce strategies and eventual expansion of the site as a gateway into an entertainment content distribution system." Sony has made no secret of its plans for initiative since even before debut of PS2 in Japan.

**Funai Electric** is latest manufacturer to support DVD+RW rewritable DVD format. Company and DVD+RW Consortium member Ricoh announced agreement to jointly develop and produce DVD+RW and CD-RW drives. Funai will build CD-RW drives that Ricoh's Personal MultiMedia Products Co. will develop and market. Companies will develop DVD+RW drives for marketing this summer under their respective brands. They said purpose of alliance is to combine Ricoh's design and development capabilities with Funai's low-cost mass production at Dong Guan plant in China's Kuangtung province. Companies said shipments of CD-RW and DVD+RW from there will begin in spring and summer, respectively, and that combined output was expected to exceed one million drives in first year. Funai already makes DVD-Video players for variety of brands, including its own and licensed Sylvania brand.

#### THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥118 = \$1, except where noted.

#### Consumer Electronics Personals

Aiwa Vp **Tsuneo Aida** to resign Jan. 31, while 12 other executives, including 3 vps, are to be demoted effective Feb. 1... **Allan Thygesen** resigns as Wink Communications senior programming vp, plans unknown... **Ira Bahr**, ex-Sirius Satellite Radio, named EchoStar senior mktg. vp... Changes at Pace Micro Technology: **Timothy Fern**, engineering dir., promoted to chief technology officer; **Andrew Trott**, technology and strategic development dir., advanced to CEO of newly formed home networkings and Internet appliance division; **Neil Gaydon**, Pace Americas pres., named worldwide sales dir., replacing **Paul Ashmore**, resigned, plans unknown... **Judith Boynton** resigns as Polaroid CFO, replaced by Vp-Treas. **Carl Lueders** on interim basis... Appointments at Panasonic: **Rudolph (Rudy) Vitti**, Matsushita Technology Development Center, named national mktg. mgr.-consumer DVD; **Reid Sullivan**, asst. gen. mgr.-portable audio, promoted to gen. mgr... **Louis Provost** named RadioShack Sales Channels Div. exec. vp... **Paul Walters** resigns as Sears Canada CEO, succeeded by **Mark Cohen**, chief mktg. officer... Rainbow Rentals store mgrs. promoted to regional supervisors: **James Cave**, western Pa.; **William Duarte**, New England; **Pat Greer**, western N.Y.; **Perry Rees**, Pittsburgh... **Amar Bose**, founder of Bose Corp. and inventor of Wave radio, inducted into Radio Hall of Fame, receives its Emerson Award... MTV Pres. **Judy McGrath** to give keynote speech March 12 at NARM Convention in Orlando... **Randall Livingston**, ex-OpenTV, named Stanford U. exec. vp-CFO.

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**C-Cube Microsystems**, suffering from sharp increase in inventory, reported 4th-quarter net income fell to \$8.2 million from \$18.6 million year ago despite rise in revenue to \$73.9 million from \$64 million. Inventory was \$17.5 million at quarter's end, up from \$8.9 million year earlier. Gross margin slid to 52.3% from 60.7% year earlier and DVD decoders accounted for 36% of revenue in quarter. C-Cube, which says it has 30% share of DVD decoder market, said inventory at several large DVD customers caused them to delay orders. While inventory is expected to burn off in first quarter, "these order delays have effectively pushed out C-Cube's original growth targets by one quarter," Charles Glavin, analyst at Credit Suisse First Boston, said in trimming 2001 profit outlook to 47¢ from 61¢. In quarter, 67% of C-Cube revenue came from its expansion platforms that included DVD and set-top boxes, and 33% from video CD (VCD) business. Latter product, largely limited to Asian market, is expected to decline to 11-13% of revenue later this year, C-Cube Pres.-CEO Umesh Padval said. C-Cube expects to ship new Ziva-5 DVD decoder by mid-2001 at \$25-\$30 in volume shipments, he said. Chip could enable DVD recorders to hit sub-\$500 retail price by 2nd half, Padval said. C-Cube also is introducing chip for cable modems in 2nd quarter.

#### Obituary

**Philip Gerson**, 35, attorney and former consumer electronics journalist, died Jan. 22 at Greenwich Hospital, Greenwich, Conn., of cancer. Before becoming lawyer, Gerson worked for trade publications such as *TWICE* and now-defunct *Audio Times*, *Autosound & Communications* and *Consumer Electronics Monthly*, as well as consumer monthly *Fun with Computers & Games*. Survivors include wife, 2 children and father Robert, former *Television Digest* staffer and *TWICE* founding editor who became editor-at-large following retirement last year.