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# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

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**POWELL PROMISES OWNERSHIP CAP REVIEW:** FCC review of broadcast station ownership caps won't focus solely on market concentration rule, but also will take programming diversity into consideration, Chmn. Powell said March 29. He told House Telecom Subcommittee that Commission in May also would review broadcast-newspaper cross-ownership restrictions. NAB spokesman said it was "delighted that the FCC is going to expeditiously review" cross-ownership issue.

Commerce Committee Chmn. Tauzin (R-La.) asked Powell whether FCC's biennial review "would provide opportunity under the law" to review national broadcast ownership cap, which prevents broadcasters from owning stations that reach more than 35% of households. "I would say it's more than an opportunity, but a legal obligation," he said. Powell said FCC either must "validate or eliminate" broadcast ownership rules. "The 35% ownership rule was promulgated, if I remember correctly, in the 1970s in an entirely different media environment than the present one and should be validated if it has any merit at all in the current context," he said. "The biennial review will provide a vehicle for that."

Rep. Stearns (R-Fla.) asked what principles would guide FCC in weighing merits of cross-ownership rules. Powell said basic tenet of communications policy was to assess competition in or effects of concentration on markets, approach used historically in antitrust cases. "[But] the trickiest one is the notion of diversity of programming that may or may not bear resemblance to concentration levels," he said. "The horizontal cable rule is a perfect example that the 30% cap, in all likelihood, can't be justified as the national cap for purely competitive purposes."

"It's also difficult because when it involves diversity, it usually means it involves media, which usually means you have to defend your rules against First Amendment scrutiny, which is higher than when our rules would be defended in a [market] concentration context," he said.

### Consumer Electronics

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Stearns asked Powell what impact FCC's rulemaking on carriage of DTV signals would have on "small, independent broadcasters, Christian broadcasters, Spanish-language and emerging network broadcasters." FCC tentatively concluded (TVD Jan 22 p1) that cable companies didn't have to carry both analog and digital signals of TV stations during transition to DTV. Powell told Stearns that ruling could indeed make it difficult for some digital broadcasters to obtain cable carriage, but that companies weren't without options.

"It is important to emphasize that nothing we said [in ruling] precludes any broadcaster from reaching a negotiated carriage agreement for those kinds of services," he said. "It's only that we can't interpret the must-carry statute to provide a government-preferred, absolute right to that carriage because of the statute's definition of primary digital signal."

Powell called on Congress to bolster agency's enforcement powers, measure he said was necessary to protect consumers as agency executed streamlined business plan that's "aligned with the realities of a dynamic and converging marketplace." He also told subcommittee that legislative approval was necessary to carry out his bureau restructuring plan, which still was being formulated, and his "policy vision" of making FCC more "efficient, effective and responsive." Powell said FCC, if given sufficient enforcement capabilities, would guarantee "fairness to all, and allegiance to none," but warned potential regulatory violators that Commission likewise would levy severe penalties. "If you cheat, I'm going to hurt you, and hurt you hard," he said. Ability to impose heavier fines and having fewer time constraints to carry out enforcement actions via changes in statute of limitations are 2 tools Congress could give FCC, Powell said.

Powell repeated concerns that FCC engineers weren't sufficiently compensated and often left for private sector, but said increasing compensation alone wouldn't resolve employee retention problem. He said increased pay could be complemented by agency's new "Excellence in Engineering" program, which will improve job development programs and increase job rotation. He also said FCC had critical need to improve engineering lab, especially facility in Columbia, Md.

Subcommittee ranking Democrat Markey (Mass.) urged Powell to be cautious in pushing deregulatory agenda. He said U.S. had best telecom system in world as result of work FCC had "done in the last generation" in implementing laws originated in subcommittee. Markey also asked Powell how Commission would proceed with case in which FCC-imposed cable market ownership cap on AT&T was struck down. Powell said FCC suspended 30% cap on AT&T, but still was assessing whether conditions imposed "are undermined by the court decision."

**CBS SAYS IT CAN'T WORK WITH AFFILIATES' BOARD:** Because of "events of the past several weeks," CBS told its TV affiliates March 27 that "it's no longer possible for us to work effectively with the current affiliate advisory board." In letter to affiliates and group heads, Peter Schruth, CBS pres. of affiliate relations, said "it's quite evident... that for some time now the [affiliates'] advisory board has not performed its primary function, that is to advise... the network and the affiliate body." Therefore, he said, CBS in future will work "with the entire affiliate body to reformulate an appropriate advisory group that will foster the kind of communication [between stations and network] we all have every right to expect and require."

In letter, Schruth made no mention of "events" that caused network to divorce itself from affiliates' elected leaders, but "they are obvious to one and all," another network official told us: (1) Filing earlier in March by Network Affiliates Stations Alliance (NASA) asking FCC to conduct inquiry into what group called "unlawful network tactics and practices." (2) Long-standing and active affiliates' opposition to lifting of 35% TV station ownership cap as sought by networks.

But Schruth told affiliates that "despite our differences, both the network and the affiliate body will benefit from the continuation" of annual convention — only one of Big 4 networks to host conference this spring. Thus, he said, it's still scheduled for May 30-31 in Las Vegas and will be "professional in tone and rich in content and dialog." And despite those differences, "CBS remains committed to the network-affiliate relationship [as] one of the most important foundations of our annual success — now and in the future," Schruth emphasized.

Affiliates' reaction to CBS intention to bypass board was universally negative. "Very bizarre," Affiliates' Chmn. Ray Deaver, KWTX-TV Waco, Tex., said of CBS statement that was meant as reaction to NASA filing at FCC. "It just shows how out of touch they are" with affiliates, he said. "We've been in very close touch," Schruth told us, "and very responsive." He said "size and composition" of board needed to be reevaluated, without explaining what he meant. Paul Karpowicz of LIN TV, immediate past chmn. of affiliates' board, said board's "primary function is working on behalf of the affiliates... We feel we have performed that function." He told us it wasn't up to network to disband board or say who should or shouldn't be members.



**NAB FACING NETWORK ISSUE:** Contentious issue for NAB is charge at FCC by Network Affiliate Stations Alliance (NASA) that TV networks are engaged in "unlawful tactics and practices" (TVD March 12 p1) and issue is receiving wide discussion in industry circles. And, while subject isn't on agenda for April 4 telephone conference of NAB TV board, question whether Assn. should file comments at FCC in support of NASA will be argued, we're told. "That's the scuttlebutt going around at Monterey" last week during NAB Futures Summit, said TV dir. who attended Cal. sessions.

April 4 meeting was called to discuss particulars of joint comments NAB plans to file May 7 at U.S. Appeals Court, D.C., in support of retaining 35% TV station ownership cap. TV networks have appealed FCC cap, and NAB's support of cap was major reason cited by Fox and NBC TV networks when they separately withdrew membership in Assn. more than year ago. TV board is split on involvement in NASA petition, with NAB TV Chmn. Ben Tucker of Fisher Bestg. very much opposed.

Affiliates' relations with their networks shouldn't be NAB issue, he told us, with hundreds of other TV stations that aren't NASA members to be considered: "But, having said that, I personally agree with the NASA position." He said NASA should seek antitrust exemption so affiliates of ABC, NBC and CBS could deal as one with networks. Tucker played major role in NASA's formation in 1982 as chmn. of CBS TV affiliates.

TV Vice Chmn. Paul Karpowicz of LIN Bcst. and others said that TV board couldn't act alone to endorse NASA position, that any position taken by NAB would have to be joint board action to include radio. Karpowicz also said it was appropriate issue for TV board consideration. TV board member Andrew Fisher of Cox, outspoken advocate of NASA charges, said of meeting: "It's always good to hear what others have to say" as he put emphasis on "broadcasters... not syndicators" in NAB's name. "A lot of informal discussions are going on, but there's nothing formal in the works for an NAB vote on the issue," another TV dir. said. "We have not formally brought this up yet seeking support from NAB... but that could happen soon," still another TV dir. said. However, no vote will be called for at meeting, he said: "We do not want to cause a war."

Preston Padden, ABC's representative on TV board, never has been reluctant to speak out — nor was he on NASA filing. "Some day this fight will be over and it would be a shame if we destroy the NAB in the process," he told us. "There is absolutely no reason to drag the NAB into this. A trade association shouldn't eat its own members."

**Campaign finance reform** legislation is "an assault on the First Amendment," NAB said in letters to all U.S. senators. Broadcasters also said they opposed bill because of "well-intentioned" amendment by Sen. Toricelli (D-N.J.) redefining lowest unit rate bill, saying it would create "nonpreemptible candidate-only rate" that would be substantially lower than that paid by even most-favored advertisers. Result, NAB said, would be more political ad clutter and "more campaign spending, not less." Amendment also would be unconstitutional because it wasn't least-restrictive regulation, broadcasters said. NAB strongly objected to separate amendment that it said would require disclosure of commercial ad rates in public files and "force broadcasters to be the policemen of campaign reform regarding independent expenditures, a role they are not suited to play."

**COPYRIGHT LAW ALIVE:** Copyright laws aren't dead but must be modified for digital environment, said speakers on Washington Legal Foundation panel questioning whether intellectual property (IP) rights were obsolete. Attorney for RIAA favored court solution, while Napster attorney hoped Internet IP issues could be resolved in Congress. Judge Edward Damich of U.S. Court of Federal Claims and former chief IP counsel for Senate Judiciary Committee, recommended creation of office in Executive Branch to handle copyright issues and special court to hear cases.

Napster Vp Manus Cooney said that although RIAA based its case on copyright issues, real key was marketplace control. Companies such as Universal and Sony, which are developing Napster-like services, won't be as successful as Napster since they can't offer complete catalog of music, he said. RIAA Counsel Charles Cooper said court documents showed Napster executives knew their system would be used to download copyrighted material, which is why service allowed users to remain anonymous.

IP and copyright issues in digital environment should be moved from courts and Congress, Damich said, and Executive Branch should create copyright office similar to one now part of Library of Congress. Such office could issue rulemakings and advisory letters similar to those of IRS that attach some measure of legal "safe harbor" should there be lawsuit. Disputes could be handled in national court of appeals, similar to one that handles patent issues. New copyright laws must be more flexible, Damich said, and must apply to citizens as first distributors of copyrighted music. Cooney said Napster was driving demand for both broadband and new personal computers.

Meanwhile, Napster and RIAA continued to spar over whether file-sharing company was complying with preliminary injunction requiring it to filter copyrighted songs. In report filed in U.S. Dist. Court, San Francisco, music labels and publishers said Napster's "so-called 'filter' utterly fails to exclude even those files Napster claims it was designed to filter.. Stuningly, every single song listed in the original complaint remains easily available on the Napster system."

Music industry wants to "change the subject rather than cooperate with Napster as the injunction implies," Napster CEO Hank Barry said. Although his company is taking blocking order seriously, he said, RIAA is trying to delay court's naming of technical expert and has shown "complete lack of cooperation" in supplying variations in artist names and song titles.

**FCC regulatory fees** would increase average of 7.75% for FY 2001, agency said in rulemaking released March 29. Proposed fees generally followed previous 2 years' practice of across-board increase to meet congressional mandate for FCC to recoup larger portion of its operating budget through regulatory fees. Congress required Commission to collect \$200.1 million in regulatory fees this year, up \$14.4 million from FY 2000. In early years, FCC attempted to base regulatory fees on actual cost of regulation, but it generally has used across-board increases since FY 1999. It said it hoped to have new cost accounting system in place in time for setting fees for FY 2002. Comments on fees are due April 27, replies May 7 (MD 01-76).

**Senate Judiciary Antitrust Subcommittee** will hold hearing April 4 on cable and video competition. Witnesses haven't been announced.



**BROADBAND COULD HURT BROADCASTERS' KEEPING SPECTRUM:** Because so few consumers get their TV over air, broadcasters may soon have difficulty justifying their continuing control of big block of spectrum unless they refocus on public service, analyst Thomas Wolzien said in speech opening NAB Futures Summit in Pebble Beach, Cal., March 25. Although he said figure probably was inflated by variety of factors, Wolzien said recent auctions indicated broadcast spectrum could be worth as much as \$367 billion, even though total market value of all existing TV stations is only about \$100 billion.

First Union Securities analyst Bishop Cheen suggested even higher value for broadcast spectrum — \$4.36 per pop per MHz. Even discounting that by 50% because of lower auction prices or other factors would mean value of broadcasters' spectrum alone was 18% higher than total value of TV stock, he said. Just for TV Ch. 59-69, value is about \$22 billion plus estimated \$3.7 billion for leaving spectrum early, he said. Cheen acknowledged that he was "not confident at all" that value of spectrum would remain high, given auction collapses and problems European spectrum buyers have had, but he said "it sure feels like a land rush" to acquire spectrum.

Only about 22% of households currently receive their prime time TV over air, with rest getting it through cable, DBS or other multichannel media, Wolzien said. He predicted that figure could drop to 5-10% within 10 years: "How can you retain your claim on the spectrum if you reach only a handful of households in 10 years?" Broadcast executives in audience said figures were overstated because many TVs in households still received signal over air, even if one or more was connected to broadband.

Broadcasters simply could continue to rely on lobbying to retain their control of spectrum, Wolzien said, but he suggested better approach would be to "demonstrate a renewed commitment to the public interest." He said biggest problem could be "purveyors of used TV" — stations that primarily carry reruns of old programs and similar content: "The use of the airwaves for programs that are not in the public interest hurts everyone. It is the public interest that will keep this spectrum for you."

Focusing on public interest also would help convince regulators to allow broadcasters to use portion of their 6 MHz channels for return path, allowing broadcast TV to become truly interactive, Wolzien said. He suggested that good DTV signal could be broadcast using 5 MHz of spectrum, with remaining 1 MHz committed to return path.

Other big development is emergence of broadband, Cheen said. He predicted number of broadband subscribers would grow to 108 million by 2005 from 30 million today. Since there are only 105 million TV households, that would mean more than one broadband subscription per household. Figures include satellite, DTV broadband and broadband wireless data, as well as DSL and cable modems. Rich media services (Web sites that include streaming media and other new services) are driving broadband demand, said Steven Canepa, IBM vp-global media & entertainment.

Jump to wireless Internet is another big trend, Canepa said. He predicted more people would use wireless to access Internet within 2 years than used personal computers. He said that meant there would be huge demand for "miniversions" of Web content. Canepa also said ability to easily repurpose and customize content would be key for broadcasters.

Broadcasters may be in best position to take advantage of new technology developments, said Skip Pizzi, Microsoft technology mgr.-TV standards. He said interactive TV might not be ready to take off because more people understood Internet and technology was "catching up" with interactivity. Broadcasters tend to think of personal video recorders as "death star" because they allow viewers to "zap" ads easier, but he said it "could be the best thing" for broadcasters by making possible new business models, much as VCRs created new business models for movie studios. Key, Pizzi said, is "flexible rights protection" that always moves with programming, allowing broadcasters to get revenue stream from every copy of program that's distributed via Internet and elsewhere.

Sridhar Iyengar of Intel's Architecture Labs said broadcasters already were moving heavily into "tele-Webbing," connecting their TV programming to Web content. He said most TV stations had Web sites as did most TV programs. For example, ABC has even moved successfully into directly connecting TV programs to Web sites, airing questions on TV game shows and allowing them to be answered via Internet, Iyengar said. He said that would accelerate as result of "hypergrowth" in broadband, which he said would increase to 46.7 million households by 2003, from current 5 million.

NAB Exec. Vp-TV Charles Sherman said broadcasters were "still trying to figure out what their opportunities are" as result of new technologies, including "when and how interactive TV will get here and how we will handle the return path." He said several companies that were on Futures Summit program at same site year ago no longer are in business: "There's a feeling of disappointment at all the miracles that were supposed to happen." However, NAB Pres. Edward Fritts said that, despite problems, "clearly the landscape of broadcasting is changing" as result of new technology. He said broadcasters were "looking for a lighter touch in terms of regulation" from new FCC.

Wolzien said it was "ironic" that there even was question about broadcasting's future in new era since broadcasters "reach every home." However, he said it might be difficult for smaller stations to remain independent in era of consolidation, because big media companies such as AOL Time Warner and Viacom would have to do attractive deals only with larger media companies. Broadcast-newspaper cross-ownership could help, Wolzien said, but lack of leverage with big media companies would mean even well-known TV firms would have to "consider consolidation."

Broadcasters don't really have choice but to adapt, NDS Americas Vp-Gen. Mgr. Dov Rubin said. For example, he said set-top boxes with personal video recorder-like storage capability would "fundamentally change the television viewing experience," giving viewers choice among 250-1,000 different programs rather than 100 or less on current multichannel services. Change will "challenge" ad models, he said.

Another big change is arrival of "Trojan horse" videogame consoles such as Playstation 2 (PS2) units being sold by Sony, consultant Diana Hawkins said. She said PS2s had more processing capability than highest-end cable boxes, have Internet capability and can be configured to download and store video. Sony is "potentially creating an incredible portal using its game machines," she said.



**TV, PHONE PLAYERS DUEL OVER ITV POLICY:** Broadcasters, MSOs, programmers, DBS providers, consumer electronics interests, Bell companies, ISPs, sports leagues, consumer groups and others battled over possible interactive TV (ITV) regulations at FCC. In comments filed in response to Commission's ITV inquiry, 28 entities debated whether federal govt. should regulate nascent ITV market in wake of AOL's Jan. takeover of Time Warner (TW). They also feuded over how govt. should define interactive services.

Pushing for "technologically neutral nondiscrimination safeguards" on such vertically integrated MSOs as AOL TW, group of major programmers urged FCC to mandate that all broadband distributors carrying any ITV signals provide signals for all programmers on their cable systems. Group, consisting of Disney, Univision, USA Networks and Viacom/CBS, also called on Commission to ban discriminatory routing or caching practices that would permit cable operators to transmit their affiliated programming at faster speeds than rival networks. Programmers contended that consumers shouldn't have to buy additional set-top box to receive unaffiliated ITV services.

Public interest groups, ALTV, APTS, BellSouth, EarthLink, Gemstar-TV Guide International, MSTV, NAB, PBS and SBC Communications all made similar arguments for adopting ITV rules. For instance, joint filing by Media Access Project, Consumers Union, Consumer Federation of America and Center for Media Education called on Commission "to move expeditiously to begin a rulemaking establishing open access for providers of enhancements on all platforms, whether cable, DBS, DTV or new technologies yet unknown." They contended that agency's failure to act would allow cable MSOs to "become the gatekeepers of what has thus far been a gateless online community" and devastate independent content providers.

Regulatory opponents countered that imposing ITV restrictions on cable systems would discourage them from starting new services, hampering development of emerging industry. Opponents, including AOL TW, AT&T, Cablevision Systems, Canal Plus Technologies, Charter, Comcast, NCTA, NFL, OpenTV, Progress & Freedom Foundation and group of 4 other cable programmers, declared it was too early to impose obligations on ITV providers. They said early regulation would be unworkable, creating administrative nightmare.

Calling even "the threat of regulation" of ITV market "a major mistake," NCTA, for example, argued that "there is simply no basis for assuming a problem and proposing regulatory solutions." Saying FCC deliberately had refrained from imposing similar rules on cable high-speed data services, which are much further along in development, NCTA said Commission should refrain from regulating ITV services for same reason. It also warned that agency had very limited authority to regulate ITV services under Communications Act and easily could violate First Amendment rights of cable operators if it tried to do so.

Taking different tacks, DBS providers DirecTV and EchoStar said in separate filings that they wanted FCC to keep close tabs on cable operators so they wouldn't use their market power to keep interactive TV services from other multichannel operators, including satellite TV companies. DBS companies said they were concerned that cable companies might have unfair advantage in marketplace if both industries were regulated in same way by Commission.

**Hughes Electronics** decided not to sell DirecTV to News Corp. because companies weren't able to agree on fair price, CEO Michael Smith said. "It doesn't make any sense to us and we won't do that deal," Smith said. "It's as simple as that. There's not enough value in the deal. End of story." There was no word on how decision might affect talks with other potential buyers. Smith said that despite fallout from failed News Corp. talks, other suitors still were interested, although he wasn't specific. AOL Time Warner and Comcast have been mentioned as possible buyers, but would face antitrust scrutiny. Walt Disney also has been mentioned and DirecTV rival EchoStar could be target, industry sources said. GM and Hughes continued to insist they would find buyer and would explore all of their options, including possible spinoff to shareholders, outright sale or keeping unit. News Corp. isn't giving up, and spokesman said negotiations with Hughes would continue, although no timetable was given to wrap things up: "I know progress has been slow, but talks are continuing."

In "Dear Fellow Cast Members" letter, Disney Chmn. Michael Eisner and Pres. Robert Iger informed company's 120,000 employees that work force would be reduced 3% (4,000 staffers) across board. They said cutbacks were part of "a wide range of strategic initiatives designed to help us achieve our goals for reasonable long-term growth and profitability..." "Staff cuts will be achieved 'to the greatest extent possible' through voluntary retirements, Disney said, with employees who choose to leave receiving special incentives, extended benefits, job placement services. After receiving additional information, eligible employees will be given 3 weeks to accept early retirement, and staff reduction is expected to be completed by mid-July. Cutbacks will save Disney \$300-\$400 million annually, said analyst Christopher Dixon of UBS Warburg, which reiterated its "strong buy rating on Disney" after announcement. Disney earlier had announced staff cuts in its Internet operations and had closed several retail stores. ABC official said Disney hadn't determined impact on broadcast and cable operations, although most of cuts were expected in theme parks.

**Current new media industry structure** is "fundamentally unsustainable," McKinsey & Co. analyst Michael Zeisser told broadcasters at NAB Futures Summit in Pebble Beach, Cal. Biggest problem is fragmentation of ad-supported Internet industry, he said, with only 10 of more than 9,000 companies accounting for 80% of all ad revenue, vs. 10-50% of companies accounting for 80% of ad revenue in other media. Result will be "a massive wave of consolidation" involving less-successful companies, Zeisser said. He said Web companies were "pricing themselves out of the market" for ads because ads were "vastly overpriced" compared with per-impression costs of traditional media, even if it were assumed that Web banner ads worked as well as traditional ads. As result, Web companies significantly overestimated their ad revenue, Zeisser said: "This industry does need a dual revenue stream." One overlooked factor is vast amount of consumer purchasing that's influenced by research done via Internet, Zeisser said. In top 5 categories of Internet-influenced buying, including autos and travel, research on Internet influenced 46% of all purchases — \$300 billion of purchases, he said.

**Shaw Communications** said it received Canadian govt.'s approval to purchase Moffat Communications. With CRTC's approval, Shaw said it would boost its cable dominance in western Canada, controlling more than 2.2 million subscribers in 5 urban clusters — Calgary, Edmonton, Vancouver, Victoria, Winnipeg. Overall, Shaw now has 2.8 million cable, DBS and Internet customers in Canada.



**CHARTER PLANS ADVANCED DIGITAL BOXES:** Ahead of its fellow MSOs, Charter Communications aims to introduce advanced digital cable set-top boxes in at least 2 major markets in fall. Charter spelled out its plans to deploy Motorola's DCT-5000 set-tops March 29 while announcing interactive TV (ITV) software pact with Liberate Technologies. Charter, which now has more than one million cable subscribers using low-end digital boxes, said it would rely on Motorola's advanced set-tops and Liberate's ITV software to offer customers Internet access, interactive program guide, TV e-mail, ITV portal services, streaming media.

Stephen Silva, Charter senior vp-corporate development & technology, declined to identify target markets but said company would carry out "multiple broad deployments" by year-end after completing current technical trial in St. Louis area and conducting beta tests in summer. "We're not doing a trial for the trial's sake," he said. "We're trialing to deploy." Charter hasn't yet set prices for new ITV services.

Although such other leading MSOs as AT&T, Comcast and Cox have tested advanced digital boxes and announced general intentions to deploy them, none has yet offered Motorola's DCT-5000s commercially, putting them years behind original schedule. Industry officials and other sources blamed postponed rollout on several factors, including box manufacturing snags at Motorola, ITV software delays from Liberate rival Microsoft, high box costs, service integration problems, changing needs of MSOs. "It's probably not fair to pin it on any one company," said one source.

For example, AT&T finally conducted technical trial of Motorola's set-tops and Liberate's ITV software in Denver area in Dec. and Jan. after postponing tests for years because of Microsoft software development delays and other problems. But MSO, while pronouncing itself "pleased" with results, still hasn't announced plans to offer advanced digital boxes more broadly or even test them again. "You're going to see some movement here definitely," AT&T Broadband spokeswoman said, promising more trials. But, she said, "it's more important for us to do it right than to do it right now."

Largely as result, most MSOs have proceeded with broad rollouts of such low-end digital cable set-tops as Motorola's DCT-1200 and DCT-2000 and Scientific-Atlanta's Explorer 2000 and Explorer 3000. AT&T alone has put more than 3 million low-end digital boxes in subscribers' homes, and all cable operators combined now have installed more than 10 million.

But those set-tops, while capable of delivering such elementary ITV features as enhanced TV service, interactive program guides and video-on-demand (VoD), cannot offer such advanced services as more robust interactivity, full Internet access, streaming media and personal video recorder functions, among other things.

Liberate executives, who have signed ITV software deals with AT&T, Charter, Comcast, Cox, and Insight Communications but have seen few actual service rollouts so far, said they were "delighted" to win deployment commitment from Charter. They said pact should help put their technology in 350,000 to 600,000 cable homes by year-end, up from 100,000-125,000 Insight households now. "Charter is a breath of fresh air in the U.S. market," said Dave Limp, exec. vp-chief strategy officer of Liberate. "They're actually committed to moving forward on these services."

**SES BUYS GE AMERICOM:** Sale of GE Americom to SES Astra of Luxembourg was announced last week, with newly formed SES Global acquiring GE Americom stock and other assets for \$2.7 billion in cash and 15.4 million shares in SES Global. Analysts estimated total value of deal at \$5 billion, giving GE 25.1% economic interest and 20.1% voting interest in SES Global. GE Americom had revenue of \$510 million last year. Combination will create world's largest satellite company with revenue of \$1.26 billion, analysts said.

"We believe that the satellite industry is really in a transition phase and it's going toward consolidation and globalization," said Romain Bausch, SES Dir. Gen. and chmn. of Management Committee. "We plan to remain an active player." Agreement came after weeks of negotiations and compromise related to tax consequences for GE and noncompete provisions after transaction closes. Bausch said he expected deal to close in Sept. SES supplies radio and TV broadcast signals for many of leading TV programmers in Europe, including BBC, BSkyB, Canal, Kirch Gruppe, Viacom.

Transaction, which fulfills SES goal of entering U.S. market, is expected to receive "expedited regulatory approval" from FCC and SEC, SES attorney Philip Spector said. Deal will be financed through combination of new equity and debt with listing on N.Y. Stock Exchange planned. "We just don't see any holes," Spector said. "The companies are in separate markets and there's no overlap of footprints." He said regulatory officials had been appraised of sale in preliminary briefings. "There aren't going to be any problems with foreign ownership" and "no competing interests" that could stymie regulatory approval, Spector said.

"This deal was a natural," GE Americom Pres. John Connelly said. SES Global will be holding company for subsidiaries SES Americom, which will retain hq in Princeton, N.J., and SES Astra, hub of European operations. SES Global also gets control of SES Multimedia, AsiaSat, NSAB and Star One along with GE Americom interests in Latin America and Asia. Company would own combined fleet of 28 satellites, 17 from GE Americom and 11 from SES Astra, in addition to 13 others from partnerships and investment interests that include AsiaSat (3), Sirius (3), Brasilsat (5) and 2 others through GE Americom interests in Latin America and Asia.

Bausch said he didn't think company would use assets and market position to become DBS competitor to DirecTV and EchoStar.

**Contrasting sharply** with 22% increase in radio ad revenues year ago, combined local and national spot were down 6% in Feb., Radio Ad Bureau (RAB) reported. Local advertising for month dropped only 2%, but national dollars were down 20%, RAB said. RAB Pres. Gary Fries predicted radio revenues would "continue to be more stable" in first 6 months of 2001 and "overall, radio will pick up momentum... with radio delivering a healthy increase" for entire year.

**PrimeTime 24** lost U.S. Supreme Court appeal March 26 that sought permission to transmit NFL games to satellite TV subscribers in Canada. Court turned down without comment PrimeTime 24 petition that suggested it could send games to subscribers without violating U.S. TV copyright laws. NFL holds copyright authority for broadcasts, but PrimeTime 24 argued that federal copyright law doesn't extend beyond U.S. borders.



**AOL LAWYER HITS FTC MERGER REVIEW:** Charging that FTC strayed far from antitrust law, attorney representing AOL in its takeover of Time Warner (TW) criticized agency's merger review that led to its AOL-TW consent decree. Speaking at American Bar Assn. conference in Washington March 30, Jones, Day, Reavis & Pogue partner Joseph Sims said FTC pushed for merger conditions that had nothing to do with any antitrust violations. He contended that agency based its open access and interactive TV (ITV) conditions on almost entirely unsupported theoretical "claims" that new AOL TW colossus already controlled high-speed data, ITV and instant messaging (IM) markets and would move quickly to quash competition in them. "I think what you see here is the antitrust equivalent of throwing deep," Sims said, making football analogy. "When you throw deep, you end up with a lot of interceptions and incompletions."

Sims hastened to add that AOL had no problem with consent decree itself, just process that led up to it. While he called FTC moves "unjustified and inappropriate," he said company accepted decree because conditions were cheaper and easier than litigation. "We're perfectly happy with the decree given the options before us," he said. But, he said, "we're unhappy with how we got there."

FTC Comr. Mozelle Thompson defended agency's action, putting blame on AOL and TW. He said FTC had "real concerns" about potential "antitrust harms," which he said AOL and TW had avoided addressing for many months. He said concerns were so strong that it wasn't clear agency would approve merger and consent decree until 30 minutes before commissioners met to vote. "I don't want anyone in this room to think we weren't ready to sue," Thompson said.

Thompson assailed AOL and TW for seeking to toy with merger review process with big early publicity blitz and not treating FTC with honesty, candor and respect. "Part of this is an issue of credibility," he said. "My biggest disappointment is that I'd ask questions and get answers not jibing with reality." He said he also "would have preferred a structural remedy had one been offered."

Center for Media Education Exec. Dir. Jeffrey Chester praised FTC for imposing strict conditions on AOL TW. Despite Sims's arguments about antitrust law and companies' promises that they wouldn't block ISP and ITV rivals, Chester said agency had to act to foster broadband and ITV competition and keep Internet open. "This was about the future of the Internet, the future of our democracy, the future of our media systems," he said. "It's not just a merger of giants."

Chester said FTC also had to act because FCC, in spite of its broad public interest authority, was "politically incapable of dealing with many of these issues." He said consumer groups would challenge AOL TW to "live up to the spirit, not just the letter, of the order" in opening up its high-speed cable lines to independent ISPs and ITV content providers. He said consumer groups also would pursue other MSOs to do same.

Attorney Marc Schildkraut, who represented Walt Disney in its fervent opposition to AOL TW merger, agreed FTC had to intervene because of TW's huge cable system and network holdings and AOL's dominance in online and IM markets. Schildkraut said both companies also had track record of

"exclusionary practices," including TW's removal of ABC and Gemstar from its cable systems in separate programming disputes and AOL's refusal to link its IM services to rivals'. He said merger shifted AOL's economic incentives away from its previously open business model to cable industry's closed model.

**R.I. Attorney Gen.** is investigating whether telecourses offered by nonprofit educational institutions are entitled to free carriage on cable's public, education and govt. (PEG) access channels or are commercial offerings that must pay for leased access. Action, which could have implications for cable operators in other states, came after controversy over Cox offering leased access time for Community College of R.I. (CCRI) telecourses that public access programmers said should be given free carriage on PEG channels even if college collected tuition from students. Asst. Special Attorney Gen. William Luekar, who is in charge of investigation, said inquiry was prompted by reports CCRI had been required to pay "several thousands of dollars" for carriage of its course offerings on Cox systems. John Wolfe, Cox New England vp-govt. & public affairs, said college approached MSO seeking to purchase leased access time. "We will be violating federal law if we do not honor their request for leased access time," he said. Because college wanted its program to be seen statewide, it sought leased access space, he said.

**House Telecom Subcommittee Chmn.** Upton (R-Mich.) said he was sympathetic to FCC pleas for more and better-trained engineers and equipment. He said he and Commerce Committee Chmn. Tauzin (R-La.) planned to spend half-day at Commission soon to "kick the tires" and reach their own assessment of state of FCC's equipment and personnel. He said Rep. Wolf (R-Va.), newly installed as House Appropriations' Commerce-Justice Subcommittee chmn., also had been seen as sympathetic, although he hadn't talked to Wolf yet. Wolf's views should become known shortly, since his subcommittee plans hearing on FCC appropriations April 5, 10 a.m., Rm. 2362, Rayburn Bldg. Upton also said he expected President Bush to name full contingent of FCC commissioners by end of May, although confirmations could take some time after that.

**New book published** by new National Cable TV Center in Denver focuses on role that early cable engineers and technicians played in promoting industry's development. *History Between Their Ears*, written by Archer Taylor, co-founder of Malarkey-Taylor (now known as Strategis Group), relies mainly on oral history interviews with technical staff of major cable equipment manufacturing companies to show how cable technology has evolved and industry has grown over last 53 years. Book stresses 1948-1975 developments, before launch of satellite-delivered programming networks transformed cable into major national business.

**Shaw Communications** said its net income more than doubled to \$189 million (Canadian) in 2nd quarter ended Feb. 28 as its revenue surged 55% over year ago to \$357 million. Shaw said its earnings before interest, taxes, depreciation and amortization rose only 4%, largely because of operating loss for its freshly consolidated Cancom satellite unit. Shaw, which has 1.8 million basic cable subscribers, said it added 32,000 digital cable customers to close quarter with 181,000. Canadian MSO said it also signed up 55,000 high-speed data subscribers to end quarter with 401,000 and 54,000 DBS subscribers to reach 562,000.



## Personals

**Michael Regan**, ex-NextWave Telecom, named senior vp-govt. affairs, News Corp... **Richard Bressler**, ex-AOL Time Warner, appointed senior exec. vp-CFO, Viacom, succeeding **Frederic Reynolds**, who becomes pres.-CBS TV Stations Div... **Mark Bentz** promoted to vp-gen. mgr., Journal Bcst. Group Tucson, replacing **Steve Wexler**, who moves to senior vp-gen. mgr., Journal Bcst. Group, Omaha... **Kathleen Pavelko**, pres.-CEO, WITF-TV Harrisburg, elected to board, Assoc. of America's Public TV Stations.

**Betsy Rella**, ex-Viacom, named vp-research, Lifetime Entertainment Services... **John Kelly** promoted to senior vp-ad sales, CNBC... **Randy Hymel**, ex-Radiofone, appointed gen. mgr., Cox Business Services, Baton Rouge... **Lori McCarthy** promoted to gen. mgr., CableRep.

**Donald Metzger**, ex-TeleCruz Technology, appointed senior vp-worldwide sales, iSurfTV... **Kathryn Strachan**, ex-StreamSearch, named vp-licensing and sponsorships, Zoom Culture... **Jay Fine**, ex-CBS, appointed managing dir.-National TeleConsultants... **Mark Worsey**, ex-AOL Time Warner, named vp-client services, Xign... **Andrew Bast**, ex-Road Runner, becomes COO, Verestar... **Mark Armstrong**, ex-Southwestern Bell Video Services, named exec. vp, 21st Century Broadband.

**Kevin Krufky**, ex-staffer for Senate Commerce Committee Chmn. McCain (R-Ariz.) on Communications Subcommittee, joins Sen. Brownback (R-Kan.) as legislative asst., duties to include telecom... **Lauren (Pete) Belvin**, ex-Wilkinson, Barker, Knauer and ex-FCC and Senate Commerce Committee, becomes head of Qwest's Washington office as vp-federal policy & law... **David Medine**, ex-White House Economic Council senior adviser, appointed partner, Hogan & Hartson... **Kirk Walder**, ex-office of Sen. Collins (R-Me.), named staff dir., Ways & Means Oversight Subcommittee.

**FTC should investigate** TiVo's alleged privacy violations, leading Democrats on House Commerce Committee told FTC Chmn. Robert Pitofsky. In letter, ranking Democrats Dingell (Mich.) of Commerce, Markey (Mass.) of Telecom Subcommittee and Towns (N.Y.) of Consumer Protection Subcommittee said they considered "serious" allegations by Privacy Foundation that personal video recorder company was collecting personally identifiable information. "Most consumers are not comfortable with having someone or something watch them while they watch television," lawmakers said, adding that Congress has acknowledged as much in passing privacy provisions in Cable Act and for video rentals. They said TiVo's assertion to customers that only "anonymous" information is collected could be grounds for unfair or deceptive practices action. Lawmakers asked for report on matter by April 25.

**CableLabs** said it concluded its "largest and most prolific certification wave" of high-speed cable modems and related headend gear March 29, placing its stamp of approval on 23 cable modems and 5 cable modem termination systems (CMTS). CableLabs certified modems from 6 new companies — Castlenet, Dakos, Global Teleman, Matsushita, Scientific-Atlanta and Texas Instruments — and recertified modems of 11 other equipment suppliers. On CMTS side, CableLabs certified headend equipment from one new company — Tellabs — and recertified equipment of 4 others.



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**Food & Drug Administration (FDA)** is taking 2nd look at its 1997 directive that opened door for manufacturers to advertise prescription drugs on TV. Agency said it planned 2 surveys — one of doctors, one of patients — in effort to determine whether guidelines should be changed or repealed. It also will seek to determine whether televised drug ads confuse consumers and "adversely impact" their relationships with doctors. Prescription drug ads on TV jumped to more than \$1 billion in 1999 (last year for which figures are available) from \$220 million in 1996.



# Consumer Electronics

A Section of Television Digest with Consumer Electronics

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending March 16, and year to date:

	MAR.10 - MAR.16	2000 WEEK	% CHANGE	MAR.03- MAR.09	11 WEEKS 2001	11 WEEKS 2000	% CHANGE
TOTAL COLOR TV	476,382	557,903	- 14.6	426,484	5,028,694	5,121,771	- 1.8
DIRECT-VIEW**	453,824	537,016	- 15.5	409,403	4,827,954	4,875,747	- 0.9
TV ONLY#....	400,475	461,467	- 13.3	353,621	4,102,245	4,134,166	- 0.8
TV/VCR COMBO.	53,349	75,549	- 28.1	55,782	725,709	741,581	- 2.1
PROJECTION...	22,558	20,887	+ 8.0	17,081	200,740	246,024	- 18.4
TOTAL VCR**...	204,009	380,894	- 46.4	205,955	3,383,068	4,173,280	- 18.9
HOME DECKS...	150,660	305,345	- 50.7	150,173	2,657,359	3,431,699	- 22.6
CAMCORDERS.....	93,386	96,877	- 3.7	67,456	868,619	826,175	+ 5.1
DVD PLAYERS....	196,316	60,322	+225.4	114,243	1,682,839	949,228	+ 77.3

Direct-view TV 5-week moving average#: 2001-482,641; 2000-516,409 (down 6.5%).

Projection TV 5-week moving average: 2001-20,253; 2000-24,202 (down 16.3%).

VCR deck 5-week moving average: 2001-250,667; 2000-359,099 (down 30.2%).

TV/VCR 5-week moving average: 2001-75,162; 2000-85,251 (down 11.8%).

Camcorder 5-week moving average: 2001-89,042; 2000-83,493 (up 6.6%).

DVD player 5-week moving average: 2001-167,635; 2000-94,016 (up 78.3%).

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

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

**'5C' TO GET CEA VIDEO BOARD BACKING:** CEA is expected to draft letter to FCC within 30 days outlining opposition to encrypted over-air broadcast of DTV programming and expressing CE manufacturers' nonexclusive support for Digital Transmission Content Protection (DTCP) system.

Decision to draft letter follows teleconference meeting of CEA Video Board working group March 28. Goal is to kick-start process aimed at establishing copy protection standard, effort that has stalled for several years as CE manufacturers negotiated with Hollywood studios. Nonexclusivity of support for DTCP is said to be nod to Thomson, which along with Zenith has championed copy protection rival Extended Conditional Access (XCA), but has said it's likely license system for use in cable set-top boxes in U.S.

Stalemate has shown signs of breaking in recent weeks. Sony Pictures and Warner Bros. are expected to sign copy protection licensing deal for digital cable and satellite with 5C group (TVD March 19 p10) — Hitachi, Intel, Panasonic, Sony and Toshiba — which developed DTCP. Other studios, including Paramount and Universal, appeared poised to sign similar agreements, but Walt Disney Co. and Fox remain opposed, sources said.

With Mitsubishi and Sony pledging to bring high-definition TVs to market in fall containing 5C copy protection, CE manufacturers said it wasn't necessary to have all studios on board to start product. Mitsubishi hasn't released details of integrated HDTV lineup, but sources have said it may consist of 55W, 65W and 73W rear-projection sets that will ship in Sept.-Oct. Mitsubishi officials declined comment.

"I think it's a matter of trying to get some momentum around a standard," CE executive said. "Once you have several companies announcing their support for 5C, it gets harder and harder for anybody to buck the trend and say 'no, we're not going in that direction.'"



Split among Hollywood studios over 5C also raises question as to what impact any changes made in the copy protection system might have on TVs that ship with current version. "Mitsubishi would object to any change that would impact the existing standard as it's being manufactured into products for consumers," Mitsubishi Mktg. Dir. Robert Perry said.

Some CE manufacturers have questioned decision to introduce 5C-compatible TVs when only 2 of 7 studios have far supported it so far. Thomson still is studying adopting 5C for TVs and while Hitachi, Samsung and Toshiba all back it, they won't introduce sets containing it until 2002. "From Thomson's point of view, we'd point out that only 2 of the 7 major studios have said 5C is adequate," Thomson spokesman said. "So, as a manufacturer, you have to ask whether incorporating that feature is a good investment."

Other area in which digital TV (DTV) is gaining momentum is in price declines. Mitsubishi is expected to drop price of 46W HD-ready model to \$1,999 from \$2,599 by mid-April and also lower tag on 55W to \$2,799 from \$2,999. Mitsubishi's price reduction and those being studied by other manufacturers are partly in response to Panasonic's plans to introduce 47W at \$1,999 in late May. Panasonic is said to be building 100,000 units of 47W and was requiring that dealers carrying lower priced set also sell 2 other projection models as well. Panasonic TV gen. Mgr. William Mannion declined comment.

Response to Panasonic's price move has been rapid. Thomson earlier this year lowered price on 38W integrated HDTV to \$2,999 from \$3,499, while Toshiba will drop retails \$500 this month on 56W and 65W sets to \$2,999 and \$3,499, respectively. Toshiba had planned to make price change May 1, but moved it up month to meet competition, Asst. Mktg. Vp Scott Ramirez said. Although Toshiba didn't formally sanction it, some dealers also have paired rebate for Microsoft's MSN Internet access service with 40W rear-projection set to effectively drop price to \$1,999 from \$2,299. Hitachi won't have immediate response, but is planning to deliver 43W by July to replace conventional model at \$2,199, Exec. Vp Gary Bennett said. Sony also is said to be weighing lower tag on 43W to \$1,999-\$2,199 range from current \$2,499, sources said.

"The real question is how far do manufacturers want to go between what they have to do to call it HD and what they should do to give it a good picture," Mitsubishi Product Development Mgr. Martin Zanfino said. "If you sacrifice picture quality, anybody can do it at \$1,999. But with picture quality, that's where it takes some smarts and some real careful cost accounting to get it down to that level."

Speed of HD-ready price cuts has taken industry by surprise and forced some to move up product introduction schedules. Panasonic will switch to all-digital projection TV lineup in June-July, moving up change by year, Mannion said. Panasonic carried 4 analog rear-projection sets last year and will maintain single model — 51" — this year for rental market, he said.

"The demand for our digital product was such that we felt it best to go digital entirely," Mannion said. "It's not due to our abandonment of analog. It's our capacity vs. demand for digital."

**EFFECT OF AIWA CUTBACKS UNCERTAIN IN U.S.:** Impact on Aiwa America won't be known for some time after parent company's announced draconian cutbacks in personnel, manufacturing and product lines last week. Aiwa's attempt to restore profitability through retrenchment came amid spate of similar restructuring statements by Japanese CE vendors clamping lid on end of dreary fiscal year.

"There are no immediate plans for layoffs in the U.S. as part of the recently announced parent company restructuring," said Eileen Toomey, gen. mgr.-mktg. at U.S. subsidiary. Aiwa Co. Pres. Masayoshi Morimoto said last week in Japan that company would cut work force by half to 5,000 over next year. Aiwa America Pres. Hideki Tafuku told us layoffs include 4,500 of 7,500 employees at Aiwa factories in Japan and abroad, with rest from 30% cut in staffs of corporate hq and sales companies.

Plant closings are severe: Aiwa will shutter 8 of 9 factories and they could include 3 "mother" factories, Tafuku told us: Iwata plant in Japan and one each in Indonesia and Malaysia. Company also has smaller plants in Indonesia (1), Japan (4) and Wales (1). Last serves only U.K. market because currency imbalance between strong British pound and Continent's euro make exports from Wales plant too expensive in Europe.

Aiwa hasn't decided which factory it will retain, or whether others will be closed permanently or sold, Tafuku said. Similarly, outsourcing plans — including cooperation with 50.5% parent Sony — have yet to be determined. More de-



tails will be announced April 26 when company releases year-end financial statement, which is expected to report ¥37.2 billion net loss (\$304.9 million).

Elimination of product lines will be on model-by-model basis and won't entail dropping entire categories as stated in some press reports, Tafuku said. One report from Japan said Aiwa would withdraw from unprofitable operations, such as TV production. In recent past, Aiwa has pegged goal of greater profitability of high-end or innovative video products. Tafuku said he would go to Japan this month for meetings to determine viable products. Parent company said that as result of discontinued SKUs, consolidated sales would drop 1/3rd next year to ¥200 billion (\$1.64 billion).

Despite sales decrease, Aiwa said retrenchment should bring company back to profitability by March 2003. It's floating shares valued at ¥30 billion (\$246 million) to build capital. Current majority owner Sony will acquire 50.6% of that, other shareholders rest. Sony also was to send 6 top executives to Aiwa effective April 1 to manage manufacturing and other operations. Aiwa Pres. Morimoto is recent Sony appointee.

Aiwa wasn't only CE company announcing restructurings in Japan last week. Panasonic parent Matsushita said it hoped to trim ¥85 billion (\$698 million) in costs in domestic market over next 3 years by consolidating 22 of 28 of its regional sales firms into new Matsushita CE Holding Co. Sanyo Electric said it planned to continue shedding employees over next few years, beyond goal of 6,000 jobs to be eliminated by next April. Since April 1999, company has eliminated 5,000 of those positions, mostly through retirements. Sanyo didn't give target for future cuts beyond current 6,000. Sony expects to report profit this year and will restructure by expanding cellular telephony and mobile computing businesses, creating separate divisions for them as additions to current 5 "network" companies. Toshiba also will boost efforts to expand its CE brands. Company last week created Corporate Brand Management Div. and named DVD point man Koji Hase as its gen. mgr. (see Consumer Electronics Personals).

**DVD-VIDEO WATERMARK SEARCH RENEWED:** Quest for copy-control technology to be used on DVDs has been reactivated, DVD Copy Control Assn. (DVD CCA) announced. Evaluations began in July 1999 but process was suspended last Jan. when differences among rival bids couldn't be resolved, DVD CCA said. Assn. is composed of licensees of DVD's Content Scrambling System (CSS), encryption that's fundamental copy prevention for DVD and was compromised in Nov. 1999 when hackers developed and disseminated DeCSS formula.

Original watermark evaluation focused on embedded data in video signal, but revived trials will consider any technology that can be used to identify copy status of AV work — including identifying unauthorized copies, DVD CCA Pres. John Hoy said

"There's a realization that since 2000 other technologies have come forward," Hoy told us. "It makes sense to look at any technology and presuppose nothing. This is not a closed process," he said, and DVD CCA will consider any systems that meet its requirements. Those include technology's visibility; implementation needs (processing power, memory); identification accuracy (immunity to false detections); and robustness (resistance to deletion or alteration, including from digital to analog to digital conversions).

Despite come-one-call-all invitation there's tight deadline for parties. DVD CCA's will invite expressions of interest by April 11, asking for summary of technologies. After evaluating them, DVD CCA will inform bidders around May 24 whose systems seem to meet its criteria. Next round of evaluation will require more detailed explanation of technology, terms under which it will be offered, 3rd-party testing under confidentially basis. Hoy said "rigorous schedule" was needed because "the people on the content side know hardware has an 18-month cycle. That's an eternity," given speed at which hackers have been shown to work.

Competing bidders in last round of watermark evaluation were Galaxy group (Hitachi, Intel, Matsushita, Sony, Toshiba) and Millenium group (Digimarc, Macrovision, Philips). "We'll be participating one way or another," Macrovision Pres. Bill Krepick told us last week. He said each group's technology was rated satisfactory in last trials and each had improved systems in hiatus. "We'll probably see the 2 groups trying to sort the patents and put something together," he said. "We're all searching for the same solution."

**Texas Instruments** introduced digital amplifier chip that it said was industry's first to operate up to 192 kHz sampling rate and 110 dB dynamic range as required of DVD-Audio specification. Volume production of TAS5015 is set for July and will be available at \$25 per device in quantities of 1,000, company said.

**XM Satellite** said Fri. that semiconductor supplier STMicroelectronics had completed production of chipset for digital radio receivers and shipped them to Alpine, Delphi-Delco, Pioneer and Sony for final testing and integration. XM released first samples of chips in Oct. and production began in Feb. Digital radio service is to begin this summer.



**XBOX TAKES SPOTLIGHT AGAIN:** After grabbing much of spotlight at Game Developers Conference in San Jose last month (TVD March 26 p15), Microsoft, repeated that achievement at Tokyo Game Show (TGS) Fri.

Revelation that Sega had signed "long-term alliance" with Microsoft that included 11-title commitment to develop and market Xbox software was biggest news to emerge Fri. in keynote speech by Microsoft Chmn. Bill Gates.

Sega said its Xbox title slate would include "next-generation" street action game *Jet Grind Radio Future* (tentative title); *Sega GT* (latest version); *Gunvalkrie*; *Panzer Dragoon*. Microsoft said Sega also would explore opportunities "to harness the Ethernet port and hard disc drive inside every Xbox console to create new online game experiences."

In announcing Sega's decision 2 months ago to pull plug on Dreamcast consoles (TVD Feb 5 p11), Sega of America Pres.-COO Peter Moore mentioned specific titles for Game Boy Advance and PlayStation 2 that Sega would support. However, he said company intended to provide titles for all major game platforms and already had begun talking with Microsoft and Nintendo on Xbox and GameCube titles. But Fri. announcement at TGS represented first time Sega unveiled slate of specific Xbox titles, as well as first time in which 2 companies announced they had finalized official agreement for Xbox.

Gates also confirmed what had been fodder for reports earlier in week — that Microsoft would introduce smaller version of Xbox controller for Japanese market. Microsoft said controller was designed with feedback from Japanese gamers, with buttons positioned "to best accommodate the styles of gameplay popular in Japan." Japanese controller also features 8-way D-pad, left and right analog sticks and shoulder triggers, 6 pressure-sensitive multicolor analog buttons, dual slots for memory cards and other peripherals, built-in "rumble" feature. Controller is wired to cord that's longer than 9-1/2 ft. "to give gamers the freedom to sit anywhere they want during gameplay," Microsoft said.

But other Xbox issues discussed in news reports early last week remained unclear at our Fri. deadline. For example, reports had speculated that Japanese Xbox entry would follow one month after U.S. in fall. But Microsoft didn't discuss specific launch time-tables for any market in its Fri. announcements. It also remained unclear whether Microsoft had boosted capacity of system's hard drive to 10 GB from 8 GB, as had been speculated last week.

Microsoft also used TGS to announce details of its Xbox Japan Div. to be based there. Besides managing all Xbox operations in Japan, including 3<sup>rd</sup> party relationships with Japanese game companies, subsidiary will house Xbox Games Production Group, which will develop and publish exclusive Xbox games under Microsoft label, including *Project K-X* fighting game that was demonstrated during Gates keynote. Production Group will be headed by Toshiyuki Miyata, who formerly managed Development Dept. at Sony Computer Entertainment (SCE) in Japan, where Microsoft said he supervised creation of PlayStation games.

Even before show was officially under way, Microsoft had announced variety of new partnerships on Xbox front in addition to deal with Sega. They included deal with NTT Communications to establish what companies called "a dedicated, high-quality, high-speed broadband online gaming service" in Japan for Xbox and another with Conexant Systems to provide video encoding solution for game system (see separate Xbox report, this issue.)

**BETS HEDGED IN DVD RECORDING:** By time CeBit show ended in Hannover, Germany, last week, some proponents of varied and incompatible DVD recording formats had begun to alter their tunes and express support for additional formats, at least for PC data storage.

DVD-RAM backer Panasonic quietly started to hedge bets with promise of DVD-RAM drive (LF-D311) later this year that also would record DVD-R write-once discs of format championed by Pioneer. DVD Forum recently released Version 0.9 spec for DVD Multi products that bridge DVD-RAM and DVD-RW formats.

Even DVD-RAM co-developer Toshiba might take multi approach. It will sell DVD-R and DVD-RW as well DVD-RAM "if there is a perceived need," said Thomas Frawley, European mktg. mgr.-storage devices. "The main barrier is price," he told us. "A RAM drive costs £360 [\$520]. A DVD-RW drive is well over a thousand" [\$1,440].

LG Electronics is spreading bets even more widely. Zenith parent already sells DVD-RAM drives, but said it would unveil DVD-RW and DVD-R drives in 3<sup>rd</sup> quarter of this year and promised DVD+RW drives "within 2001." Consequently, LG is backing all 3 formats.

Comparing them, LG told CeBit attendees that DVD-RW and DVD+RW could erase and overwrite discs 1,000 times while DVD-RAM offered 100,000 overwrites. LG said RAM and +RW data-reliability was "high" but -RW and -R reliability was "low". Recording "operation" is "easy" for RAM but "hard" for other formats, LG said. Company's comparison chart said RAM was good for PC and AV uses, DVD-RW best suited for AV and DVD-R for archiving and AV, while DVD+RW was suitable for PC or AV uses.

Questions remained on DVD-RAM's backward-compatibility. *CeBit News*, official show daily, criticized Tomikazu Ise, Panasonic Europe's top executive, for assuring that "all current DVD-ROM drives from Panasonic already included DVD-RAM compatibility." In fact, all Panasonic DVD-ROM drives for European sale, including latest Model 8586, cannot play DVD-RAM recordings. Successor Model 8587 now shipping in sample quantities can read RAM discs, Panasonic said. It also has begun shipping Model LF-201 DVD-RAM drive that can record dual-sided 9.4 GB blanks as well as 4.7 GB single-sided.

In DVD+RW camp, Philips still targets summer debut at Internationale Funkausstellung show in Berlin. Advance samples of DVD+RW media shown at CeBit promise 4 hours of video recording or 4.7 GB for data.

Other vendors demonstrating DVD+RW at CeBit included Dutch PC company Waitec. Ricoh showed DVD+RW drive for PC, with option to record onto blank CD-R and CD-RW discs — but not write-once DVDs. Philips DVD+RW home video deck and DVD+RW PC recorder also won't record write-once DVDs, company revealed at pre-CeBit news conference. It didn't offer technical reason, but said it assumed consumers would prefer rewritable media. When pressed on lack of cheaper and permanent write-once option, Product Mgr. Janny Hogen Esch told us "we're thinking about it."

**Maxtor and Quantum** shareholders approved merger of hard disc drive companies Fri.



**RENT-WAY RESTRUCTURES:** Rent-Way (RW) has cut 40 regional manager positions as it seeks to right itself following last fall's accounting scandal.

In trimming field staff, RW reduced number of regional managers to 150 from 190 and expanded oversight responsibilities to 7-11 stores from 5-6, CEO William Morgenstern told analysts in conference call. RW also has closed or merged 20-30 stores including half-dozen in which accounts were sold to Rent-a-Center (RAC) (TVD Feb 5 p18).

Morgenstern conceded that RW had "too much payroll and too many vehicles" at some stores. Those cuts coupled with reduction in corporate overhead to 9-10% of sales from 12.7% enabled RW to reduce debt \$20 million to \$370 million at end of 2000, CFO William McDonald said.

While PricewaterhouseCoopers has completed investigative audit, RW's 10K for year ended Sept. 30 and quarterly reports won't be released until later in spring, Morgenstern said. "The amount of time has exceeded our expectations due to the level of scrutiny by the auditors," he said. RW is expected to take \$65-\$75 million charge against 2000 pretax earnings (TVD Feb 19 p15) to cover merger and closing of stores as well as financial shortfall related to alleged fictitious entries in financial statements for last 3 quarters of fiscal 2000 (TVD Nov 6 p17).

In revamping business, RW increased number of PCs on rent through program with Gateway to 90,000 from 75,000 at year-end and is planning to add "pay-as-you-go" Internet services by fall, including training and games, Morgenstern said. He said that while Gateway had been reviewing retail business since return of founder Ted Waitte as CEO, he remained confident that RW eventually would have 150,000-200,000 PCs on rent. "Over time, we'll reach that number" Morgenstern said, noting that RW had 3-year agreement with Gateway. RW also is seeking to ensure that 85% of Gateway inventory at stores is on rent vs. previous 69.2%, he said.

RW's Dpi Teleconnect, which offers local phone service, has increased subscribers to 50,000, double number signed in 2nd quarter ended March 31, 2000. Revenue has risen to \$30 million from \$20 million and operation has turned profitable, McDonald said.

RAC, meanwhile, is phasing out Rentacenter.com Internet access service that charged \$5.99 weekly fee and has switched to free program offered by NetZero, CEO Ernest Talley said. BellSouth, which had provided Internet access for Rentacenter.com, will continue to maintain service for its 12,500 subscribers, he said. RAC had projected 70,000-75,000 subscribers and \$20-\$25 million in revenue in 12-month period starting with start last June (TVD May 1 p14). NetZero, which recently introduced pay services, offers 40 hours monthly of free access and provides program for Rainbow Rentals.

**DVD-Audio debut is postponed in U.K. until April 23,** Warner said. Introduction was scheduled for April 6 following listening presentations for news media, but label couldn't get sufficient stocks into stores in time, it said. Instead, prelaunch previews will take place at undecided London venue April 18-20. Warner said DVD-Audio sales in Germany and elsewhere in Europe would begin this week as inventory was adequate, but no presentations were planned there.

**SOFTWARE PIRATE BUSTED:** Aberdeen, Wash. woman was arrested on criminal copyright infringement charges for selling unauthorized copies of PlayStation and PlayStation 2 (PS2) games online between March 18, 1999, and March 19, 2001.

U.S. Attorney Katrina Pflaumer and FBI Special Agent Charles Mandingo, both in Seattle, said woman, Jillann Reeves, 34, made illegal copies of games as part of online business called Koolrcds.com. They said 2nd count charged Reeves with selling and distributing unauthorized copies of movies copyrighted by members of MPAA.

Visitors to Reeves' Web site apparently could buy more than 2,000 pirated PlayStation, PS2, Game Boy and other games for Nintendo systems, along with Nintendo and Sony PlayStation hardware, modification chips for PlayStation game systems, 140 pirated movies.

Exec. Asst. U.S. Attorney Lawrence Lincoln told us last week that FBI did "seize a number of titles and executed a search warrant." But he said many other details were "not in the public record right now" and information probably would not be available from his office until trial. Among details unclear at our Fri. deadline were number of games and movies seized and how Reeves acquired hardware. Lincoln said he was unable to tell us what systems pirated non-Game Boy Nintendo titles were for. Whether PS2 hardware was being sold at Web site also was unclear.

When we tried to enter Koolrcds.com Web site last week, it displayed statement: "Closed till further notice." However, we were greeted first with "disclaimer" when trying to enter site that said: "I am a backup service only!! It is my service to provide you with a backup for your original PSX title only. According to U.S. Copyright Law, in the case that you no longer own the original titles, your backup copies must be destroyed. By purchasing these CDR backup copies through me, you are stating that you are in accordance with the U.S. Copyright Law Section 117. If piracy is either implied or inferred, I will not provide you with the service of making CDR backups for your use."

Lincoln said Reeves was arrested March 22. Case was investigated by FBI's Seattle division, which said it had full cooperation and assistance of Electronic Arts, Interactive Digital Software Assn., MPAA, Sony Computer Entertainment America (SCEA). Grays Harbor Sheriff's Office in Montesano, Wash., assisted in search of Reeves's residence, U.S. Attorney's Office said.

SCEA spokeswoman didn't return call to comment on case and tell us whether PS2 piracy had been major issue since company's next-generation console system bowed in N. America in Oct.

**Shift in music sales** from specialty outlets to mass merchandisers continued last year, RIAA reported. Assn. said gap continued to narrow, with purchases at nontraditional music outlets climbing to 40.8% last year from 38.3% in 1999. Nonretail purchases, primarily through mail order houses or record clubs, dipped slightly from 1999, making up 7.6% of all purchases. RIAA said legitimate online music marketplace continued to grow from 1999, holding 3.2% market share last year.



**PALM POSTS LOSS:** Palm posted \$1.9 million 3rd quarter loss, reversing year-earlier \$11 million profit on sharp slowdown in sales and one-time \$6.25 million charge to cover settlement of 2 lawsuits.

Revenue rose 73% to \$470.8 million from \$272.3 million year ago, but down 10% in 2nd quarter. Palm also scaled back 4th quarter revenue to \$300-\$315 million, disappointing many analysts who had forecast more than \$500 million. It sold 2.1 million handheld PCs in 3rd quarter, up from 2.16 million in previous quarter.

Quarterly sequential sales in U.S. fell 15% in 3rd quarter to \$277.4 million but inched up 1% in international markets to \$193.4 million. Products and accessories were up 11% to \$451 million and licensing, OS, content and access revenue rose 28% each to \$8.6 million and \$11.2 million, respectively. Company said it recorded 60-65% of 3rd quarter revenue in Feb.

Overall, PC Data said industrywide handheld PC sales jumped 110% in Jan., but slipped to 59% increase month later. "The abrupt change was jarring to us," Palm CEO Carl Yankowski said in conference call with analysts. "Our channel partners were reporting sales increasing in February and then all of a sudden, without any sign or warning, we all saw a softness" resulting from slowdown in U.S. economy.

As result of slowing sales, Palm said it would lay off 250 employees and contract workers starting in late April and postpone construction of new hq in San Jose that had been scheduled to start in March. Palm has 1,524 full-time employees and 400 contract workers. Through reduction in work force and reevaluation of real estate needs, Palm will cut operating expenses for fiscal 2002 first quarter 10-15% from 4th quarter, CFO Judy Bruner said.

Palm expects to spend \$160-\$165 million in first quarter as it debuts Palm m500 and m505 as replacements for 3xe model.

In another sign of slowdown, inventory at end of 3rd quarter rose to \$102.5 million from \$33.8 million in previous quarter when Palm had component shortage that hampered sales. Inventory is projected to increase another \$200 million in 4th quarter in equal amounts of older models and new m500 series, Bruner said. Days sales outstanding, another sign of increased inventory, also climbed to 52 days in 3rd quarter, up from 42 days in 2nd quarter, she said. Gross margin dropped to 32.5% from 36.1% as average selling price declined to \$197 from \$212 in 2nd quarter and \$245 year ago. Lower prices were tied to \$50 rebate program and decision to cut Palm Vx retail price to \$349 from \$399. Gross margin is expected to shrink further in 4th quarter to 25-26% despite shipment of m500 series in May. Impact of m500 handhelds on gross margin isn't expected to be felt until fiscal 2nd quarter, Bruner said.

"We're going to cancel some incoming component orders and slow production for all products but the m500 series," she said.

Quarterly earnings also were affected by settlement of separate lawsuits filed by Telxon/Penright Corp. and WaveWare. Telxon alleged copyright infringement in contending that Palm operating system (OS) contained interface copied from its software. WaveWare sued former Palm parent 3Com for breach of contract in connection with its proposed acquisition of company. Latter suit had been scheduled for trial in Jan. Suits were filed in 1999.

**Sharp Electronics**, meanwhile, reportedly will revive Zaurus brand in U.S. in fall for Linux-based handheld PC. Model will benchmarked against Compaq's iPaq model that uses Microsoft's Windows Pocket PC OS, sources said. Sharp device will have 3.5" transreflective LCD with 320x240 pixel resolution. While size of memory and processor speed weren't available, they were expected to be similar to iPaq, whose current generation has 32 MB and 133 MHz. Sharp, which made early inroads into handheld market with device based on Apple's failed Newton product, also was early supporter of Microsoft's Windows CE OS with its Mobilon line. Zaurus line as is expected to adopt Sun Microsystems' Java technology.

"Linux is worldwide and it's an open standard and they believe that they can get more developers on board quickly," source familiar with product said.

Separately, Handspring signed distribution agreement with Ingram Micro that increases former's distribution to more than 300 resellers and retailers, up from 26.

**Gateway has closed 27** of its Country Store showrooms, slimming operations to 299 outlets and marking first major change in retail strategy since founder Ted Waitt returned in Feb. as CEO with pledge to refocus PC business. Gateway will open 3 stores this year and is closing those that overlap with existing outlets, spokesman said. It also said Fri. that it would close all 10 stores in Canada that opened last July, laying off 220 employees. Gateway operated stores in Vancouver (5), Toronto (2) and one each in Edmonton, Ottawa and Winnipeg. Also under review has been Gateway's store-within-a-store formats at OfficeMax and Rent-Way... **Former Office Depot** CEO David Fuente was paid \$8.6 million as part of his severance package. Retailer also froze senior manager salaries for 2001, it said in proxy materials filed with SEC. Fuente received \$5.4 million in severance and \$3.2 million for noncompete agreement after he resigned as CEO in July. He also was paid \$771,759 salary in 2000 and \$504,703 in other compensation and options valued at \$131,378 to purchase 250,000 company shares. Bruce Nelson, who took over from Fuente, received \$1 million in salary in 2000, up from \$630,032 year earlier... **Staples** shareholders are suing to block share buyback program that some call too generous. Suit, filed in state Chancery Court, Wilmington, Del., was in response to chain's decision to buy back Staples.com shares at \$7 per share. Shares of Staples.com were issued as tracking stock in 1999 as company considered taking it public. Under buyback, venture capital firms were paid \$6.10 per share for 3.8 million of 5.9 million shares purchased, while Staples board, 27 executives and corporate directors were to get \$37 million (TVD March 26 p14). Buyback requires shareholder approval. Staples spokesman said buyback represented "very sober valuation" of Internet business.

**DVD of multi-Oscar winner *Crouching Tiger, Hidden Dragon*** will arrive in Region 1 N. America June 5, Sony's Columbia TriStar Home Entertainment (CTHE) said. Chinese production had 10 Academy Award nominations and won 4 Oscars last week, including Best Foreign Language Film. Region 1 DVD will have Chinese, English and French soundtracks, \$27.96 MSRP. DVD of movie has been available in Region 3 Hong Kong for some time with English soundtrack and subtitles and is easily available worldwide over Internet. Region code-free pirated version also has been sold on Web. To prevent parallel imports before DVD is released worldwide, CTHE recently stopped issuing disc with English dub and subtitles.



**RETAILERS TO GET 500,000 GBAs:** Nintendo of America (NOA) will ship 500,000 Game Boy Advance (GBA) systems for Day One of next-generation game system's debut in N. America June 11, spokeswoman told us last week, all of them allocated to U.S. retailers.

Reports indicated that retailers had been expecting to receive one million units at outset, but NOA said it would "supply U.S. retailers with more than one million units of Game Boy Advance by the end of June."

NOA spokeswoman told us: "There'll be another million — or a total of [1.5] million — by the end of June to cover North and South America, with roughly 80% going to the U.S." That, she said, equates to 300,000 for S. America and 1.2 million for N. America. She said company expected 8 million Game Boy hardware units to be available this year in N. America — 3 million Game Boy Color and 5 million GBA.

NOA said decision to ship only 500,000 for first day was "for strategic purposes," adding: "We will then work closely with retailers to tactically replenish product where it is most needed in order to best meet consumer demand."

Meanwhile, British press report last week said Nintendo of Europe planned to ship one million GBA systems on first day of introduction there June 22.

On accessories front, Mad Catz said last week it would manufacture and market full line of peripherals for GBA that would ship in time for handheld system's bow in N. America.

San Diego-based Mad Catz, subsidiary of GTR Group in Canada, said it would showcase 11 GBA peripherals at E3 in L.A. next month. It said peripherals would ship in 3 colors to match game systems: Arctic (white), Glacier (translucent blue), Indigo (blue).

Mad Catz peripherals will include: (1) Battery grip with rechargeable Ni-Cad battery good for up to 15 hours of game play and AC adapter at \$14.99. (2) Car adapter that powers game system from standard auto power connection, \$9.99. (3) Docking station to recharge batteries, \$19.99. (4) Light and magnifier that illuminates GBA screen and magnifies it up to 150%, \$19.99. (5) MP3 player, using Smart Media Cards, for music storage and playback, \$19.99. It will come with USB cable. (6) Multilink cable that connects GBA for multiplayer compatible games or data transfer, \$7.99. (7) PDA game cartridge, \$34.99. (8) Roll cage of alloy metal rollbars and mounting harness that company said protected GBA from drop shock, \$9.99. (9) Stereo earphones, \$9.99. (10) Travel bag, \$19.99. (11) Travel pack including multilink cable, roll cage, light and magnifier, \$9.99.

Spokeswoman told us all Xbox peripherals from Mad Catz would ship in late May-early June, in time for GBA's June 11 start. Mad Catz also will ship rechargeable battery pack at \$14.99, she said.

Mad Catz Pres.-COO Darren Richardson said last week: "The Game Boy accessories category expanded by almost 60% last year and shows no sign of slowing. Mad Catz is well represented in the category with the #1 link cable, battery pack and travel pack as well as the #2 light. We're excited about the upcoming Game Boy Advance launch because we expect it to be

extremely well received by the market and continue to drive Game Boy's phenomenal growth for years to come. It's great news for the accessory category and will provide additional opportunities for creative accessories for which Mad Catz is famous."

In Nintendo 64 console news, we were unable to confirm report that Nintendo 64 game *Conker's Bad Fur Day* developed by Rare would ship in U.K. April 6 at unusually high price of £59.99. Report said pricing decision was "slammed by retailers, who claim that the 'extortionate' price will severely dent the sales potential of the title."

**Latest company to jump aboard Iomega's PocketZip bandwagon** is SONICblue's Rio division, which said last week it would incorporate 100 MB PocketZip drive in its future digital audio players. Explaining why his company decided to throw its support behind Iomega's PocketZip storage platform, Rio Pres. James Cady said: "We think it will be a solid addition to the mix of storage options we plan to offer in the future." Iomega said Rio was first OEM partner for its 100 MB PocketZip. Iomega itself manufactures and markets its own digital audio player with PocketZip drive — HipZip digital audio player. Until now, Iomega's PocketZip discs and drives have held only 40 MB. Iomega spokesman didn't return call by our Fri. deadline to tell us when we could expect to see 100 MB version of HipZip player on store shelves. One company that's banking on PocketZip's ability to gain additional support is I-Jam Multimedia, whose License Plate (LP) recording format uses Iomega's platform for secure method of distributing prerecorded music, books, classic radio shows, digital magazines. I-Jam Pres. Douglas Marrison told us at National Assn. of Recording Merchandisers (NARM) convention in Orlando last month that major CE company was close to finalizing deal supporting PocketZip platform (TVD March 19 p20), but he declined to name company. Marrison couldn't be reached for comment by our deadline to comment.

**Sony Computer Entertainment (SCE)** said it had no plans to develop portable gaming devices of its own and instead would rely on cellphones to add mobility to its PlayStation consoles, Reuters reported from Japan. Report said SCE spokesman Kenichi Fukunaga and SCE Network Business Development Dir. Yutaka Kagiwada said developing portable game hardware was too costly and didn't make much sense because cellphones already had become viable gaming platforms. Fukunaga also was quoted saying dedicated portable game device "would mean having to compete directly with mobile phones." Sony recently revealed that it would begin selling cables this month to connect PlayStation consoles to "i-mode" Web-enabled phones. Cables therefore will be arriving at about same time as Nintendo unveils its next-generation Game Boy Advance handheld game machine in Japan. Kagiwada also said SCE planned to ship new PlayStation One console with LCD display by year-end although move might be affected by market price of LCDs.

**'Pocket e-movie' GR-DVP3 DV camcorder** from JVC started shipping in Japan at ¥235,000 (\$2,009). Company introduced same model with different nickname — "micropocket" — for U.S. market at PMA show in Feb. (TVD Feb 12 p13). Model will ship in U.S. shortly at \$1,700. JVC said monthly production for camcorder had been set at 15,000 units. It said unit weighing 0.78 lbs. was world's smallest and lightest.



**NEW XBOX DEALS SET:** On eve of Tokyo Game Show (TGS) last week, Microsoft said it had entered into strategic alliance with telecom giant NTT Communications (NTT Com).

Arrangement with NTT Com was announced only one day before Microsoft Chmn. Bill Gates gave keynote at speech at TGS in which he provided more details about company's upcoming game system (see separate report, this issue.)

In announcing NTT Com deal, Microsoft confirmed reports that there would be no online gaming service for Xbox in Japan until next year. Companies said new service, "expected to launch in 2002, will offer gamers in Japan a new way to experience gameplay and propel the idea of connected gaming from a novelty into a necessity."

Although some gamers no doubt will be disappointed by word that online play on Xbox won't be possible until next year, Microsoft still has managed to eclipse Sony Computer Entertainment (SCE) on that front. While latter's PlayStation 2 (PS2) has been available in Japan for year and in N. America since Oct., SCE has yet to announce complete online plan for system. Sony has said all along that it intends to use PS2 as its platform for Web-based electronic distribution of digital content — including games — via broadband networking starting at some point this year (TVD Sept 20/99 p14).

Commenting on NTT Com deal, Gates said that "every Xbox console has built-in broadband capability," which he called "the technology of the future for online video gaming." He added: "This alliance with NTT Com will enable gamers to enjoy the best online game content and gaming experience available."

As part of Microsoft-NTT Com agreement, latter will provide Microsoft with access to telecom company's ADSL (asymmetric dedicated subscriber line) Web access service via broadband connection. Microsoft's Japan Xbox division will co-manage "build-out of online gaming service," companies said. Xbox division will also provide support for game developers creating online-enabled Xbox games, they said.

NTT Com is Tokyo-based subsidiary of Nippon Telegraph & Telephone Corp. that provides long distance and international service to more than 200 countries worldwide. NTT Com Pres.-CEO Masanobu Suzuki said: "With broadband entering a new phase, as evidenced by the rapid proliferation of ADSL, we consider 2001 to be the inaugural year for broadband services." He added: "I truly believe that the Xbox service will contribute greatly to the proliferation of broadband services among Japanese households."

Microsoft and NTT Com said they also were "collaborating to explore the future use of enhanced fiber-optic connections, with speeds up to 100 Mbit, to create more compelling online video game experiences." However, companies didn't announce how much online Xbox game service would cost. Microsoft also has yet to announce online plan for N. America.

One day before NTT Com announcement, Microsoft said it had selected Conexant Systems to provide video encoding solution for Xbox. Conexant's CX25871 video encoder solution will enable Xbox to be connected to digital and traditional analog TV sets worldwide, companies said. Conexant, semiconductor company based in Newport Beach, Cal., pointed out that

CX25871 was first introduced in Aug. Conexant says it's first video encoding solution to provide ATSC HDTV output capability, true international support, adaptive flicker-filtering in single chip.

Microsoft Games Div. Hardware Gen. Mgr. Todd Holmdahl said: "The superior image quality that Conexant's video encoder provides is one of the most critical elements for the success of Xbox. Features like HDTV output and adaptive flicker filtering, as well as the overall video quality of the CX25871, are unmatched in the industry, making it an ideal fit for the Xbox videogame system."

Separately, Radica Games signed license agreement with Microsoft to design, produce and market controllers and accessories for Xbox under Gamestar brand. Radica said peripherals would be shown for first time at E3 Expo May 17-19 in L.A.

Also, Stockholm-based CD/DVD test equipment manufacturer AudioDev AB said it signed contract with signal processing technology company DCA to supply equipment for electrical testing of Xbox games. AudioDev said "deal is of considerable sales value" to it, although it didn't provide any projections on how much money that might translate into. AudioDev's test equipment is marketed under name CATS in Asia, Europe, U.S. DCA's signal processing already has been used in Sega's Dreamcast. DCA said it had signed exclusive agreement with Microsoft to provide mastering and data verification systems for Xbox. Test systems will be integrated and delivered to Microsoft-authorized replicators and delivery of systems will start this spring, companies said.

In other Xbox partnership news, Agile Software said it was chosen by Microsoft to supply its Agile Anywhere e-commerce system to help in high-volume ramp-up of console's production for its launch. Agile said its products enabled supply chain partners to communicate and collaborate over Internet about new or changing product content, then source and procure required components.

**Viacom has scrapped plans to spin off 82% stake in Blockbuster**, but declined comment on whether it would buy back remaining 18%. Viacom took minority position in Blockbuster in Aug. 1999 at \$15, but shares collapsed to low of \$6.88 last Oct. Blockbuster's recent agreements to sell DirecTV satellite service and install RadioShack store-within-a-store format in its 4,800 outlets have renewed investor interest, driving stock to current \$14... **Hollywood Entertainment** reported 4th-quarter loss ballooned to \$455.5 million from \$21.7 million year ago as it wrote down inventory, cut staff and revealed plan to close 43 stores in 2001. Sales rose to \$331.7 million from \$315.5 million. HE also said it had reduced its revolving credit facility by \$37 million to \$262.5 million in 4th quarter and delayed payment due March 5. It said it made \$6 million amortization payment and was negotiating with 20 lenders to postpone remaining \$31.5 million until May 5.

#### THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥122 = \$1, except where noted.



**ROBOTS SEEK RETAIL SPACE:** With stream of robotic toys heading to retail expected to become torrent by fall, dealers are scrambling to find space on already crowded store shelves.

And while sales of robots soared in 2000 to \$119 million from \$5 million previous year, toy industry has yet to devise coherent strategy for selling them. Some chains have assigned buyer to category and are designing merchandise displays, while others simply are adding responsibilities to those handling boys or preschool categories.

"You might see a robotic theme this year, but there are no plans for a specific boutique," said spokesman for Kay-Bee Toys. Pittsfield, Mass.-based chain merchandised Poo-Chi, Tekno and others robotic dogs at front of stores last year and plans to follow similar strategy this year.

Some toy makers, such as Manley Toy Quest, have taken it step further and are designing own merchandise displays, but other retailers still are trying to see where it fits into product mix. While some robotic toys were sold in CE section, others found home in plush area including MGA Entertainment's Me and My Shadow dog, which had built-in voice recognition technology. But Nieman-Marcus, not necessarily known for carrying hi-tech, products, is adding Sony's 2nd-generation Aibo to mix at 6 stores. Outlets will carry special edition Aibo Deluxe Bullion package featuring gold robot with "life" software that allows consumer to "raise" dog.

"We have to be very cautious because we have a limited amount of space in our stores," said Babbage's Brand Mktg. Vp Russ Howard, whose chain sells robotic toys via Gamestop.com Web site. "We're not a toy store, but if our gaming community rallies around it, we'll give it a try."

Retailers will have wide selection of robots from which to choose, ranging from cats and dogs to turtles and submersible "fish" that can swim in tank of water. Most, like TE' top-selling Poo-Chi (\$24), have combination of light and touch sensors and are priced under \$100, but some such as Sony's Aibo are more than \$1,500. TE also is reintroducing I-Cybie (\$200), which had been scheduled to ship last July but was delayed as TE sought to refine toy. I-Cybie, product of more than year's work by 30-member team of puppeteers, computer programmers and engineers, has 16 separate motors. It also can sense when batteries are low and will follow infrared ray back to recharging base and plug itself in.

I-Cybie will head TE robotic line that also includes Poo-Chi and Super Poo-Chi (\$69), which adds voice recognition. Missing from Tiger line is Furby, once hot-selling toy that used simple interactive technology to jump-start category.

Also at high end are Manley Toy Quest's 16" robotic exotic birds (\$70). Birds can sing in round-robin style, wake user up at a programmed time or follow person with their heads as individual walks across room.

Most robots have less than 2 MB memory, infrared technology and microprocessors that measure speed in kbps. Exception is Aibo, which has 8 MB Memory Stick and relatively fast processor, specs not released by Sony.

"I think under-\$300 is still reasonable for these types of products, but then you're not really talking about a toy and not a

mass market," Manley Product Development Vp Robert Delprincipe said. "When you get under \$100 then you have something that is for the mass market. I think what you're going to see is retailers setting up certain sections of the store for robots so consumers know where to get them. It makes the display cleaner and easier to make a sale."

**Samsung will ship 25" PC monitor with liquid-crystal-on-silicon (LCoS) microdisplays by midyear at sub-\$3,000, Mktg. Dir. Frederick Garcia said.** Display, based on LCoS technology licensed from Three-Five Systems, has three 0.79" panels with 250 lumens and 250:1 contrast ratio. Current resolution is 1,024x768, but goal is to boost it to 1,280x1,024. Samsung planned to introduce LCoS monitor last fall but delayed delivery after running into yield problems (TVD Nov 20 p14). LCoS-based monitor will be marketed as separate category between 22" CRT and 21-24" LCD monitors, Garcia said. It will be sold through resellers for business applications, he said. Garcia declined comment on whether 15" LCD monitor recently promoted at \$499 after \$50 rebate would remain at lower price after program expired in June. Samsung's move to \$499 was viewed as defensive action to counter similar pricing strategy by Taiwanese suppliers. "That is going to be our price point leader and we will continue to set the pricing in the marketplace starting with the 15", said Garcia, who estimated Samsung's share of LCD monitor market at 9.5-10%. "So we are looking at what the consumer is willing to pay and what the competition is doing. If the market is ready for it we will set the price points at the retail level." Monitor has 1,024x768 resolution, 250:1 contrast, 200 lumens.

**DuPont Holographics' (DH) new long-term license agreement with Motorola is expected to produce products containing LCDs with holographic reflectors in 4-6 months, Mktg. Development Mgr. Anita DiAndreth said.** DH, formerly Krystal Holographics, previously supplied reflectors to Motorola, which owned patents covering technology combination. Reflectors are designed to enhance brightness. Under new agreement, DH will be able to market technology to other companies, with first applications expected to be cellular and cordless phones, DiAndreth said. Motorola had used technology for cellular phones sold in Asia and Europe while confining it to pagers in U.S., DiAndreth said. DH previously had rights to sell LCD/reflector combo for non-RF products such as digital watches, she said. "We licensed the rights to technology so that the rest of the world can practice it," DiAndreth said. "These LCDs can be used in a whole host of applications."... **Kopin's 0.24" CyberDisplay** has been designed into Oriscap Electronics' head-mounted display that's marketed with portable video CD (VCD) player. Optical system uses 2 CyberDisplays to deliver 300-line horizontal resolution with 21° viewing angle. Display has 320x240 resolution and earlier had been designed into viewfinders for JVC and Matsushita camcorders.

**Microsoft-Conexant deal** for Xbox video encoding (see separate report, this issue) arrived only 2 days after Conexant revealed it would be cutting 1,500 jobs — nearly 20% of its staff — because of disappointing sales in 2nd quarter. Newport Beach, Cal., semiconductor company said it expected sales to fall 35-40% from first quarter's \$410.4 million for per-share loss of 35-40¢ instead of 24¢ per-share loss analysts had expected. Conexant said it also would be eliminating 125 contract workers and had canceled plan to spin off Mindspeed Technologies division. Company blamed results on overall slowdown in technology market.



**IBM SHOWS NEW STORAGE:** Future cellphones will use single chip called Millipede to store 2 full-length movies, week's worth of MP3 music or information equal to stack of printed paper more than 650 ft. high, IBM said. Millipede is electromechanical data storage system conceived by IBM, which said recent breakthroughs at its lab in Zurich made research team confident of commercialization within 5 years. That's just when magnetic storage technology is expected to reach its physical capacity limits.

"It's a natural progression from magnetic to electromechanical storage," said Peter Vettiger, IBM scientist who heads Millipede project. "I can now dream of a new age when we store at the atomic level and process signals mechanically."

Magnetic discs now store 15 Gb of data per sq. in. of surface area and read it at 200 Mbps. Optical discs store less than magnetic discs but are cheaper. Solid state memory reads faster, but stores less, costs more and can lose data when power is switched off. Advances in magnetic recording are doubling capacity each year. But that will stop around 2004 at 100 Gb per sq. in. because of superparamagnetic effects by which magnetic domains such as tiny bar magnets become so small and tightly packed that they interfere with each other and self-erase.

Millipede technology originated in mid-1990s when Vettiger and Gerd Binnig, Nobel Prize-winner for his work on scanning tunneling microscope (STM), looked at possibility of using STM technology to store data. Instead of creating magnified image with electrical readings taken by nanometer tip probes, IBM used probes to indent smooth surface. Vettiger and Binnig experimented with spinning polycarbonate disc similar to CD, coated with polymethylmethacrylate (PMMA), but didn't predict when — or even if — technology might leave lab.

Instead of spinning disc, IBM said it used flat plate of hard silicon substrate, spin-coated with PMMA. Probes are cantilever arms, arrayed in 32 rows of 32 probes on silicon chip and chemically doped to make them flex and conduct electricity. That heats arms while moving them toward plate to indent coating, right down to substrate. Substrate chip steps past array chip while probes write data line by line.

For readout, probes are warmed lightly, and extra heat lost from contact with substrate is measured. Data are erased in blocks by heating targeted areas. Single tip already can store 500 Gb per sq. in., write data at 50 kbps, read at 1 Mbps. When all probes in scanning line are working together, data speeds increase proportionally, IBM said. Company conceded there's trade-off between speed and power consumption, so battery-powered portables and phones will run at slower speeds than CE equipment connected to electrical lines.

"The cost of nanometer electromechanical systems will be very competitive," Vettiger said, because Millipede technology can be mass produced like silicon chips on same fabrication lines. "We will be able to integrate as many mechanical devices on an array chip as transistors today, and the chip can be whatever size you like," he said.

**Latest victims of consolidations under AOL Time Warner** are prestigious Warner classical music labels Erato and Teldec. Although names will remain in Warner stable, Europe-based operations will be shuttered and marketing functions consolidated in London, company said. Speculation in recording community is that labels will lose many of their artists, either through releases or resignations.

**Strong systems market** spurred 3% rise in Jan. factory audio equipment shipments, CEA reported. Overall sales increased to \$503.43 million from \$488.73 million, helped mainly by 28.4% rise in systems to \$140.17 million from \$109.14 million. Portable audio also fared well in Jan., rising 7% to \$133.23 million from \$124.56. However, separate components performed poorly in month, falling 11.4% to \$103.98 million, as did aftermarket autosound equipment, which declined 8.4% to \$126.05 million. CEA said home-theater-in-a-box ensembles were shining star of systems category, accounting for more than 35% of that market's total dollar volume for month. CEA said that although separate components plummeted by double digits, shipments within that category of CD-R hardware grew fourfold compared with year ago. CEA Pres.-CEO Gary Shapiro said that with consumer interest in CD-R "continuing to grow at a rapid pace, it becomes increasingly important to preserve consumers' traditional and customary home recording rights." He said CEA would "continue to fight to strike the critical balance between intellectual property, home recording and fair use rights so we can help support the growth of CD-R and other digital audio recording and distribution products."

**Rex Stores**, citing slowing U.S. economy, reported 4th quarter net income declined to \$8.6 million from \$9.6 million year ago on 3% rise in sales to \$159 million. Same-store sales dropped 6%. Rex's earnings benefited from income from synthetic fuel limited partnership that tripled in quarter to \$3 million and was running at \$1 million per month, CFO Douglas Bruggeman said. CEO Stuart Rose in conference call with analysts said: "It is a soft economy and we are a luxury product and everybody is working a little bit harder to maintain profitability." Projection and big-screen direct-view TVs were strong sellers, but smaller sizes were soft, he said. High-definition (HD) has been slow to take off in Rex's markets, but chain will double number of HD-ready sets it carries this year to 8-10 from 4-5, including Hitachi, Panasonic, RCA and Sony models, Rose said. At same time, Rex will trim major appliances as it moves to "make sure that everything contributes" to bottom line. In cutting some major appliances, Rex will expand furniture selection to include office items, Rose said. Overall, in fiscal year ended Jan. 31, TVs accounted for 45% of sales, up from 38% year ago, major appliances were 18% vs. 22%, audio 16% and 17%, video (camcorders, VCRs, etc.), 13% and 16%.

**Microsoft will have** as many as 18 Japanese games available when its Xbox videogame console is introduced in fall in Japan, report said last week. There have been continued rumors that software giant had been having problems getting game developer support in Japan. If reports on 18 titles are correct, number would be nearly twice as many games as were available at start for Sony PlayStation2 last year. Report, which attributed information to Microsoft Managing Dir. Hirohisa Ohura, said games would include car racing, fighting and sports titles developed by Konami and others. It said Microsoft planned to have as many as 100 game developers and other staff in Japan by June to develop its own first-party titles. Microsoft spokesman didn't return calls for comment by our Fri. deadline (see separate Xbox reports this issue.)

**No DVD release plans** are imminent for new version of 1979 movie *Apocalypse Now*, Paramount told us. Director Francis Ford Coppola is preparing extended version *Apocalypse Now Redux* for theatrical release this summer, with extra 53 min. of footage and other restorations that extend title to 3 hours 17 min. Paramount spokesman confirmed that studio had home video rights, but said it was too early to announce DVD plans.



**CarMax** will open 25-30 stores in next 5 years as part of effort to double sales to \$5 billion by fiscal 2006, Pres. Austin Ligon said. Expansion, which is projected to generate annual sales growth of 15-20%, is reduced significantly from goal of 70-80 CarMax stores open by FY 2002. CarMax currently operates 40 outlets. "We found many stores were underperforming in sales and profits because of organizational stress brought on by rapid growth," Ligon said. CarMax has revamped strategy in last 2 years, moving to 45,000-sq.-ft. stores with more 300-500 stores from 75,000-100,000-sq.-ft. outlets with more than 500 cars. It also has 14,000-sq.-ft. satellite stores in existing markets that sell 200-400 cars per month. Result has been projected profit of \$43-\$45 million in fiscal year ended Feb. 28, Ligon said. CarMax plans to open 2 stores in fiscal year ending Feb. 28, 2002, in Sacramento, Cal. and Greensboro, N.C., 4-6 outlets in fiscal 2003 and 4-8 in each of fiscal years 2004-2006. Larger superstores are projected to generate \$50-\$100 million in sales by 5th year of operation and satellite outlets \$36-\$72 million.

**Duracell's** core copper-and-black line of batteries will receive facelift in form of \$100 million marketing plan aimed at stemming decline in market share. As part of program, Duracell is putting batteries' nickname, Coppertop, on all packaging effective in June. It has used slogan "the coppertop battery" in ads for several years. It also is increasing lifetime of batteries by adding some of performance-enhancing technology first used in premium Ultra line. In tests, Duracell said improved coppertop batteries lasted 25% longer than predecessor. Changes came as Duracell's copper-and-black batteries saw market share decline 32% in 12 weeks ended Feb. 25 from 36.5% year earlier, said Information Resources. Ads are first for copper-and-black batteries since 1997, year before Duracell introduced Ultra. Duracell premium batteries' market share stood at 9.6% as of Feb. 25, up from 7.2%. New campaign comes as parent Gillette, which acquired Duracell in 1996, seeks to turn around ailing division that had 5.5% decline in sales in 2000 as operating profit fell 27.6%.

**RealNetworks** is negotiating with 3 major record labels to license songs for use in online music subscription service, *Wall St. Journal* reported Fri. Report, which cited sources familiar with talks, said RealNetworks was negotiating with BMG, EMI and Warner Music to use record companies' songs in service tentatively called MusicNet. Companies are hoping to finalize deal this week, report said. RealNetworks and BMG spokesmen told us Fri. their companies had no comment on report and EMI and Warner Music officials didn't return calls our deadline. Report also said one proposal being considered was for MusicNet to be made available to other Web services and that companies were considering granting Napster opportunity to license service — albeit under strict conditions.

**Harman International** blamed U.S. economic slowdown in announcing that sales in quarter ended March 31 would fall 5% "below expectations" when it reports results April 25. It expected sales in quarter to be \$435 million, 2.6% higher than \$423.93 million revenue in 3rd quarter year earlier. Income from operations was expected in range of 15¢-25¢ per share before restructuring charge of 30¢-40¢. Harman said it anticipated "relatively strong" 4th quarter despite expectations that "current economic softness" in U.S. would continue. It estimated 4th quarter revenue of \$450-475 million with earnings of 55¢-65¢ per share. Harman said "fundamental businesses are very healthy and opportunities for growth remain very attractive." As result, company is forecasting record sales and earnings for fiscal 2002.

**Sampo America's** HDTV and plasma products will be serviced by Middletown, N.Y.-based 3rd party VAC Service Corp. Latter will provide in-home service through nationwide network of 53,000 technicians, Sampo said. Customers will reach VAC support through Sampo's toll-free number (866-SAMPO22). VAC will support Sampo's HDTV and plasma displays during and after factory warranty period, Sampo Americas Pres. James Chen said. Fee for postwarranty repairs under warranty program will be determined on case-by-case basis. Sampo, based in Baldwin Park, Cal., is recently formed sales arm of 65-year-old Taiwanese CE maker whose first DVD player, sub-\$200 Model DVD660, received favorite test report in our Dec. 25 issue. It plans line of DVD players, direct-view and projection HDTV, plasma monitors, digital still cameras and MP3 portables for U.S. market. Company ([www.sampoamericas.com](http://www.sampoamericas.com)) told us it would concentrate distribution on high-end specialty retailers, including independents and regional chains. VAC, formerly Video Aid Corp., said it was largest independently owned 3rd party service administrator in U.S.

**Sony demonstrated** its Open-R technology at Game Developers Conference (GDC) in San Jose. Technology enables developers to make hardware and software components for company's AIBO entertainment robot. Sony officials said their presence was to provide developers with first look, but they weren't sure how developers would embrace machine. AIBO \$1,500 robot dog has sold 50,000 units worldwide since start and currently is available in U.S. at Sharper Image, Sony Style and select Neiman Marcus stores, as well as online. U.S. consumers now have choice of 3 different software/personality options for their AIBO: AIBO Life (in which AIBO is raised from a puppy), Hello AIBO and Party Mascot — each at \$90. Programmers kit, AIBO Master Studio, is being readied for U.S. at \$500. In Japan, new software has been introduced that lets AIBO play card games such as blackjack and pretend to read picture books.

**Konami was to show** 4 Xbox games at Tokyo Game Show over weekend. Reports indicated that only one of 4 games demonstrated — *Airforce Delta II* — would be playable; other 3 were to be shown only in video form (see separate Xbox reports this issue). Meanwhile, we were unable to confirm by our Fri. deadline report that demonstration version of Konami's eagerly awaited game *Metal Gear Solid 2* that started shipping last week with company's *Zone of the Enders* apparently won't work on at least some PlayStation 2 (PS2) game consoles in U.K. We also were unable to confirm report that said Konami was developing Konamionline.com Web site for gamers to play titles online via computers and console systems. Report said company was to start testing site Sun. and hoped to begin it officially in summer. No membership fee will be charged, but consumers must pay for games, report said, adding that special adapter for PS2 will ship in July allowing console users to access Web site.

**Panja said Fri. it would cut** 10% of work force (47 jobs) in face of soft U.S. economy. Move will result in severance and unspecified charge in 4th quarter ended March 31. Panja, which supplies home automation gear and recently introduced MP3 product, has undergone major restructuring since return of founder Scott Miller as CEO in Feb.

**NPD Intellect retail sellthrough** research group said it had acquired PC Data, Reston, Va.-based point-of-sale tracking service for PC hardware and software industries. Until PC Data purchase, only aspects of PC business that NPD monitored were videogame and interactive entertainment software sales. Terms of acquisition weren't divulged.



**Organic Light-Emitting Diodes (OLED)** displays will expand to \$1.6 billion market by 2007 on annual growth of 67%, Stanford Resources (SR) said in report. OLEDs are projected to generate sales of \$84 million this year on sales of 3.2 million units, SR said. In 2007, 76% of displays will be used for CE and communications applications. Small graphics displays of 5" or less will dominate category, representing 67% of unit and dollar sales in 2007, SR said. About 100 million displays will be sold for cellular phone applications by 2007, 30% of which will be full color passive matrix and 6% active matrix, it said... **Three-Five Systems**, seeking entry into OLED market, is in "heavy negotiations with all the big players," Pres.-CEO Jack Saltich said in conference call with analysts. Goal is to create alliance within 3 months, he said. OLED technology would be natural fit for Three-Five, which is major LCD supplier to Motorola for cellular phones. Among applications OLED technology is targeting are cellular phones... **Universal Display Corp.** reported loss for year ended Dec. 31 grew to \$9.5 million from \$5.1 million year earlier as revenue slipped to \$492,756 from \$519,536. Sharpest drop was in revenue from contracts with Defense Research Projects Agency (DARPA), which fell to \$186,179 from \$419,536. Downturn was partly offset by \$112,113 in revenue from Small Business Innovative Research program. Universal had \$28.2 million accumulated deficit at year-end.

**Universal Interactive (UI)** was in N.Y.C. recently offering peek at its upcoming *Crash Bandicoot* title, which will mark popular game character's PlayStation 2 (PS2) debut. Now in its "pre-alpha" stage, Bandicoot game (working title *Crash Bandicoot — The Wrath of Cortex*) will be shipping in Nov., in time for Christmas, UI Studios Senior Producer Vijay Lakshman told us. He said that when UI decided to produce game for PS2, it wanted to take best elements of previous Crash titles and "leverage" capabilities offered by PS2 to come up with most fun entry in franchise to date. UI turned to U.K. game developer Traveller's Tales to help it achieve that. UI also tapped Daniel Suarez as producer for game. Lakshman said Suarez's work on last year's *Emperor's New Groove* game made him "the right person" for job. Although what we saw of game last week indicated that UI and Traveller's Tales had indeed managed to take graphics of a Crash game well beyond what we had seen before, Lakshman said "a lot of the graphics are going to be improved" before game hit retail shelves. For example, he said, more details including footprints and water ripples will be added to finished product. When game ships, it will offer users ability to play 30 different game levels. UI spokesman said Bandicoot franchise has sold 22 million units to date. UI also demonstrated its upcoming Game Boy Color (GBC) title *The Mummy Returns*, which spokesman said would ship in May at about same time as film of same name. Title will offer players 4 types of game play, including one unique for handheld systems — first-person shooter mode.

**Game maker Enix America** said sequel to its *Monsters* Game Boy Color title would ship in N. America in fall. New title from Seattle-based company — *Dragon Warriors Monsters 2* — actually features 2 games: *Cobi's Journey* and *Tara's Adventure*. In Japan, where it's known as *Dragon Quest Monsters 2*, sequel sold more than 500,000 units in its first week early last month, Enix said, and original game sold more than 2 million units worldwide. One of more intriguing features of new game is that players can join worlds of *Cobi's Journey* and *Tara's Adventure* via link cable. Sequel was created by game designer Yuji Horii, character/monster designer Akira Toriyama, composer Koichi Sugiyama.

## Consumer Electronics Personals

**Koji Hase**, Toshiba Japan vp-strategic partnerships & licensing, shifts to gen. mgr.-corporate brand management; in new assignment, he relinquishes post as acting chmn., DVD Forum, no replacement named... **Robert Heiblim**, ex-Denon and ETown.com, named Gemini Industries corp. strategy & business development vp... **Toshiyuki Miyata**, former mgr., PlayStation game development, Sony Computer Entertainment in Japan, appointed head of Microsoft's new Xbox Games Production Group in Tokyo... **Douglas Kraul**, SmartDisk vp-A/V products, promoted to CFO... **Arvin Goldberg**, ex-AT&T Wireless, named RadioShack senior div. vp... **Stephanie Norton**, ex-Napster, joins CyberRadio.com as special promotions vp. Panja Pres.-CEO **Scott Miller** adds chmn. responsibilities, replacing **Joseph Hardt**.

**Motorola** will ship digital set-top cable boxes (STBs) in 2nd quarter with VM Labs' Nuon multimedia processor while Samsung is expected to offer technology in European markets in DVD players by midsummer, sources said. Motorola has been testing Nuon in its Streamaster digital cable STBs and used it as part of Blockbuster-Enron brief video-on-demand joint venture. VM Labs expects to add new interactive games titles developed with Nuon technology by late April, bolstering what so far has been limited lineup. Samsung has packaged its Nuon-equipped DVD player with Eidos Interactive's *Ballistic*, while *Tetris* has been paired with Toshiba model, but VM Labs fell short of having 15 titles by end of 2000. "That's [15 titles] definitely achievable and it's still a goal," Mktg. Vp Gregory LaBrec said. Among new titles in development is version of arcade classic *Space Invaders*, sources said. VM Labs also plans to add interactive technology to DVD movies, although to date only *Bedazzled* has been released. "The whole implementation of this can be so fast and it's not like developing a videogame," LaBrec said. "All of the assets are there and it's just a matter of designing in the features." Separately, Hot Products Inc. and Logitech are expected to ship controllers for Nuon-equipped DVD players later this year. Hot Products reported that in 3rd quarter it had narrowed loss to \$295,492 from \$1 million year earlier despite drop in sales to \$154,504 from \$186,666. Downturn in revenue was tied to delay in Hot Products' receiving finished Nuon controllers from factories in China, it said in SEC filing. It plans to ship 2-3 other Nuon peripherals by fall. In releasing earnings, Hot Products conceded that cash flow had been "difficult" and remained "potential barrier" to growth. Company, which dropped PC and videogame peripherals in 1999 to focus on Nuon, road emergency and other products, said it hadn't "recovered from image and credibility" problems suffered when accounting firm Toback departed before filing of 1997 annual report. Hot Products sued Toback in 1999 seeking damages stemming from firm's "untimely resignation" as accountant.

**Nintendo of America (NOA)** will be shipping 500,000 Game Boy Advance (GBA) systems at N. American debut June 11, spokeswoman told us last week, all of them allocated to U.S. retailers. Reports indicated retailers had been expecting to receive one million units at start. But spokeswoman told us: "There'll be another million — or a total of [1.5] million by the end of June to cover North and South America, with roughly 80% going to the U.S." That, she said, equates to 300,000 for S. America and 1.2 million for N. America. Spokeswoman said company expected 8 million Game Boy hardware units to be available this year in N. America — 3 million Game Boy Color and 5 million GBA.





# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

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### **Broadcast - Cable**

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**BROADCAST INDECENCY RULES** detailed by FCC. Tristani fears 'how-to manual.' Few changes seen. (P. 3)

**BROADCAST FUTURE QUESTIONED** by Powell, based on declining over-air reception. FCC seen unlikely to intervene in market issues. (P. 4)

**AFFILIATES WAR ESCALATES:** CBS leaves NAB over ownership cap. Wright says NAB has been 'captured' by newspaper owners. (P. 5)

**SENATE PANEL FAULTS CABLE** over price increases, program exclusivity. Comcast absence criticized. (P. 6)

**CBS 'PREPARED' FOR STRIKE** with reality shows. Time Warner, cable could benefit. 'Big Picture' is told ad market is strong. (P. 7)

**WHITE HOUSE SELECTS WASHINGTON INSIDERS FOR FCC:** White House announced April 6 that it intended to nominate 3 Washington insiders as FCC Commissioners: (1) Kevin Martin, FCC transition leader for President Bush and former aide to FCC Comr. Furchtgott-Roth. (2) Kathleen Abernathy, vp of startup network provider Broadband Office Communications, who is former U S West regulatory vp and one-time adviser to ex-FCC Comr. James Quello. (3) Mike Copps, who worked for Sen. Hollings (D-S.C.) for 15 years before leaving Hill in 1980s to work in private industry and finally at Commerce Dept. in international trade area. Formal nominations won't be made for several weeks while paperwork is prepared and security clearances completed. After that comes Senate confirmation process.

Copps, sole Democrat, was named to rest of Comr. Ness's Democratic term, which expires June 30, 2004. Abernathy would fill remainder of Comr. Furchtgott-Roth's term, expiring June 30, 2005. Martin would take remaining seat, one ex-Chmn. William Kennard held, that will run for full 5 years ending June 30, 2006. That seat theoretically expires June 30 of this year but White House made clear Martin would be named for full term. All 3 had been rumored as leading candidates for several months and at least one, Abernathy, signaled announcement was imminent by resigning last week from Broadband Office, new firm in which ex-Comr. Rachele Chong also was involved.

Another candidate is being pushed for remaining Democratic seat that Comr. Tristani has said she plans to vacate by year's end. House Democratic leaders sent letter to Senate Minority Leader Daschle (S.D.) April 3 asking support for nomination of Andrew Levin, minority telecom counsel to House Commerce Committee. Letter from House Minority Leader Gephardt (Mo.) and House Minority Whip Bonior (Mich.) pointed out that Senate minority leadership had pushed for Copps and now support should be given for someone on House side for remaining seat. "In prior instances when minority party candidates were selected for FCC posts, deference has been given to the choices of Commerce Committee leaders from the same party on both sides of the Capitol," letter said. "Consistent with that honorable practice, we hope you will join us in supporting the nomination of Andrew Levin... for the second Democratic seat when it opens in the near future."

### **Consumer Electronics**

**E3 EXHIBITOR NUMBERS DOWN SO FAR** for annual electronic entertainment show, IDSA's Lowenstein says. But preregistered attendees top last year. (P. 11)

**ZENITH TAKES \$18.2 MILLION** charge to cover layoffs of 180 and dropping of accessories business; 4th-quarter loss grows to \$33.4 million. (P. 13)

**RCA INTERNET RADIO PLANS ON HOLD** as 3Com pulls plug on Kerbango tuning service. Thomson assessing its options. (P. 14)

**MAGNOLIA HI-FI PLANS** will include acquisitions as its expands, but growth will be limited to 25-30% annually, Best Buy executive says. (P. 15)

**RADIOSHACK/BLOCKBUSTER TARGET** for annual sales from new format is \$325,000 per store; RadioShack earnings slip. (P. 6)



House Commerce Committee Chmn. Tauzin (R-La.) said he would meet soon with nominees to discuss importance of FCC reform. "They may be incoming freshman, but there are no rookies in this class," Tauzin said. "All 3 of the nominees have impeccable credentials and fully understand the important role telecommunications plays in our global economy."

Rep. Dingell (D-Mich.) is fully supportive of nominations and had expected White House to give Hollings's endorsement of Copps first consideration, his spokeswoman said. Dingell remains hopeful that when Tristani formally announces her resignation President Bush will consider Levin to fill vacancy. "Mr. Dingell does not have any concerns with any of the nominees. They are eminently qualified for these positions," she said. "We hope that the White House will give [Levin] every consideration" when Tristani slot becomes available.

Of 3 nominees, industry sources seemed to know Abernathy best because of her earlier stint at FCC and her previous leadership of FCBA. One described her as "very capable" and "approachable" telecom attorney with "open mind" on issues. Another described her as "well-connected" and "very social and astute personally." Abernathy also worked as Washington representative for AirTouch in 1993-1998 before moving to U S West. Earlier in her career, she was legal adviser 1992-1993 for then-FCC Comr. Sherry Marshall and later served as Quello aide.

Martin joined Furchtgott-Roth's office in 1997 from Kenneth Starr's Office of Independent Counsel. He left in June 1999 to work in Bush campaign as deputy gen. counsel and moved to White House after election. He currently is special asst. to the President for economic policy. He is graduate of U. of N.C., received master's degree from Duke U. and law degree from Harvard U.

Copps appeared to be least known in communications circles. But one source described Democratic nominee as "an old Washington hand" who, like Abernathy and Martin, "knows this city inside and out." Deregulation advocates expressed hope that he would be "reasonable" Democrat. Although Copps has less telecom experience than 2 Republicans, Media Access Project Pres. Andrew Schwartzman said "his service with Senator Hollings has undoubtedly exposed him to the major issues that will arise and to the importance of promoting diversity and competition in telecommunications." After leaving Hill, Copps worked as govt. affairs dir. for Collins & Aikman, a Fortune 500 company, and American Meat Institute. He moved to Commerce Dept. in 1993 and in 1998 became Asst. Secy. of Commerce for Trade Development.

FCC Chmn. Powell made brief statement praising White House's move. "I am pleased that the President has moved forward today to announce his new FCC commissioner appointments," he said in 2-sentence statement. If confirmed by Senate, he said, each nominee "will bring important experience and expertise to the Commission and I welcome the opportunity to carry out the responsibilities of the FCC with them."

In separate statement, Furchtgott-Roth also praised Bush for choosing "very wisely" in selecting "3 very able Americans" as nominees. "I have every confidence that they will be a credit to the Commission and to the country," he said. Furchtgott-Roth said he was "particularly pleased" by President's selection of his former aide, Martin: "His [Martin's] first-hand experiences inside the Commission, keen intellect, good humor and strong commitment to public life will serve him well. Kevin will be an outstanding commissioner on the Federal Communications Commission."

Communications industry lobbyists, analysts and trade groups generally hailed Bush's 3 nominees as talented, experienced Washington insiders who were likely to support Powell's deregulatory agenda. In particular, they said they expected 2 Republican nominees, Martin and Abernathy, to advance deregulatory cause, giving Powell solid backing that eluded previous Democratic chairmen Kennard and Reed Hundt. "The bottom line is there will be a cooperative working majority for the first time in years," Precursor Group CEO Scott Cleland said. "The end of the dysfunctional FCC years should be behind us."

But consumer advocates expressed concern that new Republican-dominated Commission would be too focused on eliminating regulations and not focused enough on enforcing remaining communications laws and rules. They said they especially worried that Republicans Abernathy and Martin, based on their backgrounds and political allegiances, would be obsessed with deregulation.

"The 2 Republicans are talented communications lawyers who will surely hit the ground running," Schwartzman said. "The question we will have is, 'Which way will they run?' Too many deregulators have been eager to find ways around the laws rather than enforcing them. We intend to seek assurance that they will do what the law says rather than what they would like it to say."

Consumers Union used occasion to call again for revising Telecom Act, arguing that it "hasn't delivered" on many of its promises of lower prices and more choices for consumers in 5 years since its enactment. "The new commissioners face an enormous challenge," group said. "With the latest FCC report showing cable rates increasing another 6% last year, we believe it's time to reopen the law and find a better way to spur more competition in the telecom marketplace."



"I would assume that Kevin Martin, who presumably shares some of Furchtgott-Roth's views on the value of deregulation, would certainly be someone who would share Powell's views about deregulation," said Susan Lynner, analyst with Prudential Securities. Aside from being former staffer to Furchtgott-Roth, as White House aide in Bush Administration Martin has been involved with Bush budget proposal that would push back certain spectrum auction dates. (Martin also headed FCC transition effort for Bush and had been among names rumored as under consideration for NTIA dir.) "Kevin Martin has been associated with the idea that this has been a good time to pause and rethink the spectrum auction process, especially in terms of timing, until the whole framework is really thought through," Lynner said. "My guess is that it's going to be a pretty congenial group," Lynner said. In particular, naming of former Hollings staffer Copps should help to ease nominees through Senate Commerce Committee, she said: "I suspect that had Michael Copps not been included it would have been a lot more difficult to get someone through the Senate Commerce Committee."

NCTA and AT&T both issued bland, cautious statements praising White House for moving quickly on FCC appointments. But they, along with NAB, steered clear of commenting on individual nominees and their stands on specific issues. They also declined to predict how nominees might rule on telecom and TV issues facing Commission, calling it premature to speculate. "We're happy the appointment process is moving along in setting up a full FCC team," NCTA spokesman said. "We look forward to working with the commissioners once they're confirmed." AT&T spokesman seconded motion. Noting that "FCC faces enormous challenges," he called it "good that the Administration is moving forward in sending these nominations to the Hill." CompTel said that considering their experience in Washington, 3 nominees should "understand the issues and the importance of full and open competition in the telecommunications marketplace."

**FCC SPELLS OUT BROADCAST INDECENCY POLICIES:** Primary factor in FCC determination whether broadcast material is indecent is "whether the material appears to pander or is used to titillate" or was "presented for its shock value," Commission said in policy statement on indecency (FCC 01-90). FCC Comr. Tristani predicted statement would become "how-to manual for those licensees who wish to tread the line drawn by our cases." Comr. Ness said statement wouldn't solve problem and urged broadcasters to reinstate voluntary code of conduct. Comr. Furchtgott-Roth said FCC should deregulate broadcast content entirely. NAB was still reviewing document at our deadline.

Statement didn't appear to make any significant changes in FCC indecency rules, instead used examples of previous Commission decisions to highlight principles it would use in deciding on indecency complaints. Statement was required by 1994 indecency settlement with Evergreen Media, and Furchtgott-Roth said he was amazed it took so long to comply with terms of that agreement. Tristani said FCC really didn't need to issue statement at all. Statement was adopted March 14, but not released until April 6.

Policy statement sets several guidelines for indecency complaints that FCC is likely to uphold: (1) It retains policy that complaint must be well documented, with complete tape or transcript of broadcast, as well as information on date, time, call letters. (2) Broadcasts, to be indecent, must describe or depict sexual or excretory organs or activities and must be "patently offensive as measured by contemporary community standards for the broadcast medium." In footnote, Commission said that community standards were used to ensure that judgment wasn't based on "its effect on a particularly sensitive or insensitive person or group."

(3) "Full context" of material was critical in determining whether material was offensive. Commission said, for example, explicit language might not be offensive in newscast but "sexual innuendo that persists and is sufficiently clear to make the sexual meaning inescapable might be." (4) Other key factors to be considered include "explicitness or graphic nature" of material and whether material "dwells on or repeats at length" descriptions of sexual or excretory activities. (5) Long list of examples agency used shouldn't be used to compile "meaningful selection of words or phrases" that might be considered objectionable, like so-called "7 dirty words" of comedian George Carlin quarter-century ago. (6) Absence of "pandering or titillating nature" wouldn't necessarily prevent indecency determination.

Policy statement could establish "false safe harbors" for indecent programming, Tristani said in her dissent. She said she wasn't aware of any "rush of inquiries" by broadcasters for clarification of indecency rules and settlement of single indecency complaint "should not compel the FCC to adopt our most significant industrywide policy statement on this subject, particularly when doing so does not serve the public interest."

Policy statement alone "will not solve the festering problem of indecency on the airwaves," Ness said, but broadcasters can. In addition to urging them to restore code of conduct, she said Bush Administration and Congress should remove any antitrust impediments to code. She said FCC should make its complaint procedure more user friendly.

Any Commission action to enforce indecency guidelines "would set the stage for a new constitutional challenge" to content regulation, Furchtgott-Roth said. Content regulation is based on *Red Lion* and *Pacifica* court decisions, he said,



but "their continuing validity is highly doubtful" because broadcasting no longer is dominant medium: "As alternative sources of programming and distribution increase, broadcast content restrictions must be eliminated... Broadcast deregulation is not only warranted, but long overdue."

**POWELL QUESTIONS BROADCAST'S FUTURE: FCC Chmn.** Powell expressed strong doubts about future role of over-the-air TV in nation where more than 80% of households rely on cable and satellite for their TV viewing. In news conference on TV issues at Commission hq April 5, Powell said he didn't see agency intervening much further in such marketplace issues as disputes over DTV standards and network affiliate practices because he wasn't sure how most consumers were affected. With combined cable and satellite penetration seemingly on its way toward 90% of U.S. TV homes, he argued that such broadcasting battles were relevant to ever fewer viewers.

"I think there are real questions about the changing nature of TV," he said, specifically referring to "its distribution, content and how it uses its slice of the digital revolution." He said, for instance, that most early purchasers of DTV sets were "people who have dishes and cable," not old-fashioned "rabbit ears" on their sets. "If 100% of Americans don't get free, over-the-air TV, what are we protecting?"

While he "surely believes" that nation's DTV transition "could be quicker," Powell said he saw no "catastrophe" and virtually ruled out further major Commission actions to spur transition. He said "the really substantive issues are much more out there in the industry" or in Congress's realm, such as current battles over DTV technical standards and copyright protection of digital content. Although "classic approach" of "trade association world" is to blame govt. for any problems, he said, FCC already has done most of what it can to ease transition. "My own view is that I don't think they're [transitions] going all that badly," he said.

Powell repeated that govt. committed error by setting 2006 deadline for full DTV switchover. Noting that it had taken VCRs 30 years to reach 85% penetration in U.S., he said no major new technology took root in just 10 years. That ambitious schedule, he said, contributes to general sense that DTV transition is lagging. "The timelines we set out for success are unrealistic," he said.

Asked specifically about technical tests of competing DTV signal standards, Powell said he saw no reason for FCC to intervene further. He said tests conducted so far hadn't provided strong enough evidence for Commission to reverse itself on current 8-VSB modulation standard: "The problem with these tests is they never come out conclusively the way people want them to."

As for broadcast-newspaper cross-ownership limits, which FCC plans to start reviewing next month (TVD April 2 p1), Powell said "I'm pretty skeptical" about need for such continued restrictions. "It's a hard sell," he said. "I don't know why there's something inherent about a newspaper and something inherent about a broadcaster that means they can't be combined."

Without commenting directly on FCC's current interactive TV (ITV) inquiry, Powell all but ruled out any Commission action on subject. In general, he said, he sees no reason for govt. to regulate emerging market just because of some "pretty speculative anxieties" about how market might develop. "I am a very big skeptic about early government intervention," he said. "I certainly wouldn't support government intervention at this minute... That's often when government is at its worst, when it's trying to regulate phan-

toms." He said he has "a lot more confidence in post remedies. I generally prefer to wait for clear evidence of abuse."

In general, don't expect FCC to be as eager to place issue-oriented conditions on merging companies as past Commissions, Powell said in separate April 5 news conference on telecom issues. He said FCC votes depended on all 5 commissioners but he wouldn't be pushing for kind of conditions that were imposed on AOL-Time Warner, SBC-Ameritech, Bell Atlantic-GTE and other mergers.

If issues are important enough to include in merger approvals, they ought to be dealt with in rulemakings, Powell said: "I don't think mergers should be substitutes for rulemaking." Adding conditions when "you have someone over the barrel" because they want their merger approved, "creates distortions," he said. Sometimes conditions don't even solve perceived harm, but rather are added "to offset" harm, he said. Asked whether conditions placed on mergers by earlier Commissions were subject to reconsideration, Powell said "that's not my style." He said he might have disagreed with them, but they were law now. His job is to "work from here forward," he said.

There's no easy solution for spectrum shortage, which has been heightened by demands for 3G spectrum, he said, because no matter how much spectrum is made available, "demand is always going to outreach resources." Real solution is to find creative ways to use spectrum that don't use up as much of it, he said. With limited resources, it comes down to "fighting over value judgments," with each industry saying its use is more important, he said. In 3G area, he again pointed out power of Defense Dept. to get its way in such battles. Most "noise" on Capitol Hill has come from Commerce Committees, which represent commercial interests, but "you will hear from the Defense Committees," there's no question about that, Powell said.

Plan proposed by ICO-Teledesic Chmn. Craig McCaw to develop terrestrial cellular service using radio spectrum reserved for satellite systems is tough to handle because it involves 2 separate technologies, Powell said. Proposal highlights difficulty in dealing with those that cross technology lines under FCC's industry-specific rules, he said. "It's creative as Craig McCaw often is," but it also "gets to the issue of regulatory convergence," Powell said. "You can auction terrestrial spectrum but not satellite spectrum. When someone wants to do both in one system, it gets messy." Among other things, it raises "thou shall not come into our turf mentality" from industry, Powell said. "We understand the problem with technological convergence. We just don't have a solution yet."

On other issues, Powell said: (1) He had "doubts" about FCC's ability to evaluate competition and concentration concerns extensively when reviewing media mergers because of other agencies' greater expertise and Commission's limited authority and resources. (2) FCC's review of diversity concerns in mergers was "an easy thing to say but a much harder thing to do and do well" and defend in courts. (3) Validity of court challenges to various industry ownership caps "depends on the court case and what argument is being made." (4) He didn't think ownership caps generally worked because govt. wasn't very good at "calibrating market decisions" for long term.



**NETWORK-AFFILIATES WAR CONTINUES:** Very public fight between TV broadcast networks and their affiliates continued to escalate last week, with CBS withdrawing from NAB and NBC Pres. Robert Wright charging Assn. had been "captured" by station groups owned by newspaper publishers. CBS decision leaves only ABC among 4 major networks as NAB member. Despite reports that ABC would join others in leaving NAB to protest Assn.'s opposition to higher ownership caps, Exec. Vp Preston Padden told us that wouldn't happen: "I have no intention of leaving the NAB. We plan to stay and work to push the radicals out."

CBS said final straw came April 3 when NAB TV board, in teleconference, formally put its support behind Network Affiliate Stations Alliance (NASA) court pleading to keep 35% station ownership cap in place. Many NASA members — including its Chmn. Alan Frank of Post-Newsweek Stations — also are on NAB TV board. In 2-paragraph announcement, CBS said: "We have been proud NAB members for many years, but it has recently become clear that we have a fundamental issue on which we and certain of the NAB's television members disagree... It has now become clear that we cannot remain within an organization that is working actively against [CBS's] objectives." In pulling out of NAB, CBS also took along Infinity Bcstg. and its 170 radio stations, saying: "CBS and Infinity will continue to work with others in the industry" to protect free, over-air broadcasting.

CBS withdrawal prompted NAB Pres. Edward Fritts to call unusual meeting of all staffers. He assured them that, despite loss of 3 of 4 major TV networks in last 18 months, Assn. remained in great fiscal shape with strong reserves and that no cutbacks were contemplated. Because of radio dues it's losing, CBS-Infinity withdrawal will cost NAB about \$1 million annually — more than double financial impact of NBC and Fox withdrawals earlier. NAB just began new fiscal year April 1 with revenue of \$65 million projected, up from \$60 million for year ended March 31. In statement, NAB said simply: "It is regrettable when any member leaves the Association." ALTV Pres. James Hedlund was more outspoken. "I am very saddened" by CBS-Infinity pullout, he said. "With all of our challenges, now is the time to stick together and present the Congress and the FCC with a unified front. ALTV strongly supports the NAB and hopes that all of us in the industry can find ways to mend our internal fences."

Broadcast networks are likely to take on affiliates directly over issue of ownership caps and overall regulation of networks, Padden said. "We would prefer that all broadcasters be unified in support of broad-based and principled deregulation of broadcast ownership," he told us. "But if the big newspaper-owned affiliates try to keep the networks regulated, we'll start talking about the anticompetitive dangers of station cross-ownership with powerful monopoly newspapers." Padden said sentiment was widespread among networks, not just ABC, and move wasn't initiated by his network. Since there are 7 over-air TV networks, he said, broadcasting is much more competitive than newspapers, in which there often are only one or 2 major competitors per market. ABC "doesn't care much" about 35% national ownership cap because its stations reach only about 25% of national audience, Padden said, but "we have got to fight back."

Publishers who own TV stations were prime movers behind affiliates' petition to FCC calling for inquiry into Big 4 TV networks' "illegal" activities (TVD March 12 p1), Wright said at "Big Picture" conference in N.Y. He contended NAB (which isn't party to affiliates' FCC filing) had been "captured" by "publishers" who own TV stations. "They are the drivers of

NAB," Wright told us later. News Corp. Pres. Peter Chernin called affiliates' filing "clearly unfortunate" but had no comment on Wright's statement.

Cox Communications CEO James Robbins made no attempt to rebut Wright — even though Cox owns stations affiliated with 3 networks and its TV Pres. Andrew Fisher was major player in filing of petition and is one of most avid supporters on NAB TV board of retaining 35% TV station ownership cap — prime target of TV networks. Panelist Richard Wiley, Washington attorney and former FCC chmn., said that he was neutral in affiliate-network fight, with clients on both sides (his firm represents CBS), and that parties must find "solutions to solve these problems."

In action that will significantly limit number of LPFM stations to be licensed, FCC released decision saying LPFM stations must meet same 3rd adjacent channel interference protection requirement as full-power stations. Order implements requirements of rider on FCC appropriations bill signed into law in Dec. Commission expects to complete action on its LPFM licensing window in few months, it said in order, then will direct Mass Media Bureau to open window to allow LPFM applicants that didn't meet 3rd channel requirements to try to come into compliance. FCC Chmn. Powell said action allowed agency to begin granting construction permits for at least some LPFM stations, and it had begun independent testing to determine impact of LPFM stations on full-power FM stations and translators. In order, FCC also implemented congressional mandate that denies LPFM licenses to former pirate radio operators. FCC Comr. Furchtgott-Roth in separate statement said he supported move to implement congressional mandate but believed Commission should have delayed LPFM licensing while it went through rulemaking process in order to comply with Administrative Procedure Act.

NCTA defended cable efforts to create new retail market for competitive digital cable set-top boxes in ex parte filing at FCC. In letter to Comr. Ness, NCTA quoted from recent TechTrends market research report that indicated that "cable operators will begin to adopt new customer acquisition strategies, such as establishing a retail presence," in next year. In recent meeting with Ness and her staff, Sharp executives referred to that study, arguing that it showed retail market for digital cable boxes wouldn't develop until at least 2002. NCTA responded that study "also discusses how the emergence of leading consumer electronics companies, such as Philips, Sony, Pioneer and Panasonic, are expected to radically alter the competitive and distribution landscape for digital cable set-top boxes." For example, TechTrends predicted that Panasonic and Philips combined would account for one million of the 3.7 million digital set-tops that largest MSO AT&T Broadband was expected to deploy this year, with Motorola accounting for other 2.7 million.

FCC gave 3-6-month extensions of DTV construction deadlines to all 23 applicants in decision. Only applications that were opposed were those of 4 Denver stations, where Canyon Area Residents for Environment wanted DTV licenses rescinded entirely. Commission gave 3-month extensions to 4 stations that indicated that was all they needed, 6 months to rest. FCC Comr. Furchtgott-Roth said extensions should be up to May 2002. NAB, meanwhile, said WAVY-TV Norfolk began DTV broadcasting, increasing total to 186 stations in 64 markets.

Conus 1, world's first satellite newsgathering (SNG) vehicle, vintage 1983, was donated by Hubbard Bcstg. to Freedom Forum's Newseum in Arlington, Va. SNG permitted stations to report live from scene on news and sports without relying on TV networks.



**SENATE PANEL FAULTS CABLE:** Senate Antitrust Subcommittee criticized cable operators for raising prices faster than general inflation rate and withholding local sports and other popular programming from DBS and cable overbuilders. In April 4 hearing, they also questioned why retail market for competitive digital cable set-top boxes hadn't developed, more than 5 years after passage of 1996 Telecom Act. Senators lashed out too at 3 largest MSOs — AT&T, AOL Time Warner and Comcast — for declining invitations to testify, focusing most of their heat on Comcast.

Subcommittee Chmn. DeWine (R-Ohio) led questioning of cable, DBS, overbuild and consumer group officials, asking why cable prices still were climbing at 3 times general inflation rate despite greater DBS penetration and aggressive wiring efforts by such overbuilders as RCN Corp. He expressed doubts about consumer benefits of cable deregulation and wondered whether renewed rate regulation was needed. "Deregulation appears to have done little to halt the trend of increasing cable rates," he said.

Ranking Democrat Kohl (Wis.) denounced high cable bills and called for tougher program rules and other measures to spur competition. He urged Congress to: (1) Consider extending FCC's current program access rules beyond their scheduled expiration next year. (2) Close "loopholes that permit certain exclusive deals." (3) "Consider building access legislation that will open the bottleneck blocking the 'last mile' into the home." (4) "Explore the lack of competition" in cable set-top box market.

Sen. Specter (R-Pa.) faulted MSOs for boosting rates steeply, providing poor customer service and thwarting competitors by denying them long-term access to its local sports channel in its Philadelphia home market. Expressing "enormous concern" that RCN Corp. had backed out of Philadelphia because of Comcast's actions, he said federal govt. might have to intervene. "We'd prefer not to get involved but that requires a modicum of good faith and negotiations between the parties," he said.

Criticizing Comcast for declining to attend hearing, Specter said he planned to write letter to Comcast's president and hold another hearing in Philadelphia. He also lashed out at AT&T and AOL Time Warner for not appearing as invited.

Comcast spokeswoman said Pres. Brian Roberts didn't appear because his "schedule did not permit him to be there today." She also said MSO executives already had met with Specter to discuss RCN's complaints and would continue to do so.

NCTA and Charter Communications executives defended cable's record on price increases, blaming most of them on plant upgrades and soaring programming costs, particularly for sports. "We're experiencing a 24% increase in programming costs this year," Charter Pres. Jerry Kent said. "Until we get sports inflation under control, it's going to be hard for us to not increase our rates."

Cable officials also argued that despite rate increases, cable prices actually had stabilized on per-channel basis because MSOs kept adding more programming channels. NCTA Pres. Robert Sachs said latest FCC survey showed cable operators added average of 3 channels apiece. He said there should be "reduced pressure on cable rates" as cable operators added digital, video-on-demand (VoD) and other new revenue-generating services.

DirecTV's Eddy Hartenstein said company had been hampered by its inability to use Comcast's local sports programming in Philadelphia. Contending that "other cable operators are contemplating similar strategies to attempt to evade the program access law," he urged FCC to extend rules past 2002 and Congress to tighten law to cover terrestrially delivered programming.

Hartenstein also asked Congress to lift full must-carry requirements for DBS providers, slated to start Jan. 1. If law isn't changed, he said, DirecTV won't be able to offer local network stations in any markets beyond 41 that it currently serves. But without must-carry obligations, he said, DirecTV could extend local-into-local service to 80 markets, covering 79%-80% of U.S. households. He said 43% of all DirecTV customers now were buying local-channel packages, with take rate as high as 66% in some markets.

RCN Vice Chmn. Robert Currey also sought extended and tougher program access rules. In Philadelphia market, he said, Comcast has offered RCN only 3-month rotating contract for MSO's local sports channel rather than standard long-term deal. He repeated charges that Comcast so thwarted RCN's efforts to gain Philadelphia cable franchise that it finally gave up after more than 2 years.

**PTV stations** would commit one multicast digital channel for formal education services in exchange of greater federal funding for digital conversion under new strategy approved by APTS board April 1. PTV stations would offer equivalent of one multicast digital channel — average data rate of 4.5 Mbps — for formal educational services such as K-12, college telecourses and workforce training. They also would commit to providing broadband data services for educational purposes and educate viewers about benefits of digital broadcasting services. In exchange for wireless broadband digital capacity valued at \$2.4 billion per year, APTS would seek federal funding of \$699 million over 5 years out of total estimated transition cost of \$1.8 billion. As part of deal, PTV stations also would get cable carriage of PTV signals during transition and carriage of all DTV multicast streams. Calling it "2-pot" strategy, new APTS Pres. John Lawson said it consisted of getting "what you can out of PTFP [Public Telecom Facilities Program] but also getting what you can out of the CPB appropriations." Explaining rationale behind move, Lawson told board that problem with PTFP funding was that "committee that funds Dept. of Commerce that PTFP is now under never has the kind of funding final authority that the committee that funds CPB has. We have gone to Capitol Hill 3 times now without success in getting an authorization for more funds."

**FCC law judge denied Reading Bcstg. license renewal** for WTVE (Ch. 51, HSN) Reading, Pa., and granted license to competing applicant Adams Communications. In initial decision, judge said Reading Bcstg. didn't show it was qualified for renewal expectation and that comparative proceeding showed Adams was best qualified. Decision also said there was no evidence that Adams was trying to pay Reading Bcstg. to withdraw ("greenmailing").

**Radio-TV News Dirs.** Foundation received \$429,000 grant from Knight Foundation to begin study of electronic journalism at high school level, it said. At end of one-year grant, foundation is to develop plan for multiyear electronic media initiative.



**CBS 'PREPARED' FOR STRIKE:** If Screen Actors Guild goes out on strike May 1, as now appears likely, CBS TV Network is "totally prepared" with reality and other nonscripted programming and may even benefit financially because of greatly reduced program costs, Viacom Pres. Mel Karmazin said at "Big Picture" conference in N.Y. last week. He said scripted shows often cost 10 times more to make than reality programming: "I don't want a strike but it might be better if there is a strike."

AOL Time Warner CEO Gerald Levin said that if Hollywood strike occurred, "our company is in a very good position," primarily because of its huge film backlog. While he said he hoped strike didn't happen, it very well could help the many cable networks owned by AOL TW.

With economy in a dip and upfront ad selling about to start for fall season, he said "the [overall] upfront may not be good but [CBS] can have a great upfront." In May pitches to advertisers, he said he expected CBS TV Network would sell about 85% of its available time, Viacom-CBS cable channels 60%. "The 4th quarter and '02 are going to be good business," Karmazin said: "Advertisers are going to play [buy] in the upfront... or wait and pay a whole lot more in the scatter market." Citing CBS success on Thurs. nights this season (for years an NBC stronghold), he said TV Network had "a great, great opportunity [next] fall to pick up market share... We're feeling better than we have ever felt before in competing with the other guys... We're hot... and we have continued to build momentum."

Viacom-CBS has spent "billions" in acquisitions in last 12 months, Karmazin said, and still is seeking properties. He confirmed company was looking at Rainbow cable channel and major market radio stations: "We love the radio business. We love having profitable cable channels... If one day Discovery is for sale, we'd love to buy it... There are opportunities for us internationally, which we are continuing to explore." However, he said, Viacom-CBS isn't interested in less than majority interest: "One of the things we are bad at is being minority partner."

NBC Pres. Robert Wright said transition to DTV was "out of sequence right now" despite "well-intentioned" efforts of govt. and industry. He said NBC already had invested \$50 million in effort: "There's a tremendous amount of ancillary investments" required of networks and stations. Sony America CEO Howard Stringer said company was bringing out 3 new digital sets and "the cost will come down." Of networks' failure to provide lots of HDTV programming, he said transition would take time because "nobody wants to go broke."

Speaking at Big Picture lunch, FCC Chmn. Powell said diversity of ownership "is very easy to embrace, which I do," but it's very difficult to draft regulatory rules that assure such diversity without running afoul of "the constitutional amendment higher than any other — the First." He cited such things as "socially repugnant content" as falling under that same constrict. Finding more spectrum is "a challenge for the entire government," he said: "We are very much involved in finding more space [but] even if we are wildly successful, [users] have an insatiable appetite." On open access, he said "openness is a good thing [when] compelled by marketing conditions and not government intervention."

"Gerry [Levin] is CEO... He handles 99% of the issues," AOL Time Warner (TW) Chmn. Stephen Case said in their joint

appearance at Big Picture. Case said he concentrated on broad issues and overall strategy and "I don't think we've had a disagreement about anything" since companies merged. "It's a wonderful marriage," Levin said of merger. Levin said no more AOL TW layoffs were planned.

Case said that he didn't agree with contention that Internet was competitor to TV but that it was medium to provide more choices and "to reinvent television once again." He said "I'm a little bit disappointed but not surprised" in delay of deployment of broadband into homes. But he said deployment now was starting to get kind of "traction we're looking for" and will become reality in next 5 years.

**Objective of Network Affiliated Stations Alliance (NASA)** in seeking FCC inquiry into Big 4 TV networks' "tactics and practices" (TVD March 12 p1) was "not to weaken the networks or the affiliate relationship, but rather to strengthen it," said CBS TV Affiliates' Chmn. Ray Deaver, KWTX-TV Waco. In March 30 letter to affiliates scheduling May 30 meeting of stations in Las Vegas, he cited "a period of strained relations" between CBS and its affiliates, intensified by NASA petition. CBS officials are chagrined they weren't informed of FCC pleading in advance and said CBS shouldn't have been included in FCC filing. CBS said it was "no longer possible" to work with current affiliates' board (TVD April 2 p2). In response, Deaver told stations "confidentiality was a high priority" in filing of petition, which had been in works for more than 18 months. And, he said, "it is unfortunate" that CBS "should now be seeking the demise of the current affiliates board" whose 18 members are elected by stations: "We are hopeful that the network-affiliate bond can be restored to a healthier equilibrium."

**FCC's Mass Media Bureau** rejected emergency petition by Verizon Wireless that sought delay in actions on 2-way service applications for Multipoint Distribution Service (MDS) and Instructional TV Fixed Service (ITFS) licensees. Verizon had asked FCC to hold off on applications until decisions were made on additional spectrum for 3rd generation wireless services. FCC is studying bands, including 2.5 GHz occupied by MDS and ITFS systems, for additional spectrum, with NTIA analyzing military-occupied spectrum in 1.7 GHz. But bureau concluded that Verizon hadn't met legal requirements that would justify stay on processing applications, which are expected to be granted shortly. Bureau said Verizon hadn't shown it would be irreparably harmed without stay. Stay could "irreparably injure" MDS and ITFS licensees that are poised to deploy services "and potentially disadvantage these licensees with regard to other broadband services, such as DSL service," FCC said. Wireless Communications Assn. had objected to emergency petition, calling it anticompetitive.

**Satellite Bcstg. & Communications Assn. (SBCA)** won round in must-carry lawsuit with federal govt. U.S. Appeals Court, Richmond, rejected petition by U.S., NAB and others to stay constitutional challenge to FCC's must-carry rulemaking filed by SBCA and EchoStar. U.S. and NAB had asked court to delay hearing on appeal until after FCC ruled on several petitions for reconsideration filed against must-carry regulations. In addition, U.S. wanted case continued until after U.S. Dist. Court, Alexandria, Va., ruled on challenge to must-carry rules brought by SBCA, EchoStar and DirecTV Sept. 20. SBCA Pres. Charles Hewitt called it "significant victory" for satellite consumers, saying decision "brings us one step closer to resolving this contentious issue."



**OWNERSHIP CAP DEBATED:** Viacom's attempt to avoid complying with 35% national broadcast ownership cap shouldn't be allowed by court because it's procedurally flawed and because court isn't likely to overturn cap, FCC and Network Affiliated Stations Alliance (NASA) said in separate briefs. Viacom is asking U.S. Appeals Court, D.C., to stay ownership cap, citing court decision voiding 30% national cable ownership cap. Stay would prevent Viacom from having to divest stations by May 4.

Stay exceeds court's jurisdiction because Viacom didn't file timely appeal of original agreement with FCC allowing merger of CBS and Viacom, Commission said, and stay request shouldn't be considered as part of Viacom's overall challenge of ownership cap. There has been "no change in facts or law that would warrant relieving Viacom from the conditions" of merger agreement, FCC said.

NASA, which is opposing overall review of ownership cap, said even if court reviewed FCC decision in biennial regulatory review upholding ownership cap, it wouldn't actually invalidate it. Group said court at most would remand decision for further action. It said harm to public interest in granting Viacom stay "would be considerable" since Congress itself determined that 35% cap served public interest. Voiding cable cap doesn't necessarily mean broadcast cap will fall because broadcast cap was set specifically by Congress, NASA said. Viacom "is seeking relief from a situation of its own making," NASA said, since it agreed to comply with ownership cap as part of merger settlement. It also said Viacom "has known since May 3 that divestiture must occur."

Granting Viacom delay in complying with broadcast ownership limits would violate public's First Amendment right to diverse quality information, said Consumer Federation of America and United Church of Christ in their brief. Interim relief from cap could last for years while FCC considered remanded ownership caps, filing said, and that would "forc[e] the public to endure for an indefinite period concentration within the media on a scale the FCC determined is contrary to the public interest... and which Congress has determined is generally contrary to the public interest." Groups also said Viacom was unlikely to succeed in final decision, based on merits of its arguments, and it hadn't met procedural requirements.

**Adding DTV tuner** to analog TV sets would add \$200-\$300 to cost of analog sets in 2002, Thomson Consumer Electronics warned. In comments on FCC rulemaking (MM 01-24), Thomson said that would mean "doubling or tripling the prices of roughly 40% of the TV sets sold in the U.S.," which could create "a major obstacle to consumer acceptance of DTV and imperil the transition." Company also said FCC lacked legal authority to impose "forced integration" of DTV and analog sets. Thomson said there was no need to label DTV sets that were incapable of receiving DTV over-the-air because "there are no such products on the market at this time." Broadcasters, meanwhile, again said DTV tuner requirement was crucial to speedy DTV transition. In joint filing, NAB, MSTV and ALTV said FCC "must exercise its authority to facilitate cross-industry participation" in transition, including 100% tuner inclusion within 4 years. Other comments were due after our deadline.

**Stock of broadcast rating firm Arbitron** began trading independently on N.Y. Stock Exchange April 2 following spinoff from parent Ceridian Corp. Arbitron provides People Meter ratings for TV, conventional ratings for radio, ratings of streaming media services.

**DIGITAL FUND PROPOSED:** Creation of "a multibillion-dollar" Digital Opportunity Investment Trust, with much of proceeds earmarked for public broadcasting, was recommended in 2-year study released April 5. Fund would be financed by proceeds from future spectrum auctions, which Congressional Budget Office estimated would produce \$18 billion over next several years. Authors of report are Newton Minow, FCC chmn. in Kennedy Administration, and Lawrence Grossman, former pres. of PBS and NBC News. Recommendations would require approval by Congress for use of federal money before fund could be established.

Report compared new fund with Northwest Ordinance of 1787 (which set aside public lands for schools), Morrill Act of 1862 (which led to establishment of 105 land-grant colleges) and GI Bill of World War II. Trust would act as venture capital fund for non-profit educational and public service groups and would invest "in new and promising ideas and prototypes that use advanced telecommunications technologies," report said. Trust would be charged "to take full advantage of public broadcasting's" digital transmission system "in carrying out its educational and informational mission" and "to take risks and be bold."

Study was financed by Carnegie Corp., Open Society Institute and Knight, MacArthur and Century Foundations. About dozen outside papers on various phases of telecommunications were commissioned in effort.

**NCTA's law department** is working with cable programmers and operators to review legal language in campaign finance bill (S-27) that would require broadcast, cable and satellite providers to offer to political candidates lowest unit charge of Communications Act on nonpreemptible basis (TVD March 26 p3), provision that recently was introduced by Sen. Torricelli (D-N.J.). Senate passed bill 59-41, which now awaits House action. "Given all the free political coverage cable has provided, we're not sure why cable was included in the language [of Torricelli amendment]," NCTA Pres. Robert Sachs said. Cable industry source said it was understandable how Senate could impose LUC provision on public airwaves but questioned legality of imposing requirement on privately owned cable operators. NAB (TVD April 2 p3) reiterated opposition to bill in its entirety.

**Hastening telecom policy reform** is critical to restoring robust U.S. economy, House Commerce Committee Chmn. Tauzin (R-La.) said in Progress & Freedom Foundation paper. Tauzin reiterated position that FCC was "anachronism" and that Congress should have revamped agency in 1996 when it wrote Telecom Act. He said telecom and energy policy reform was needed "to make a huge difference in whether we can enlarge upon this economic expansion or whether we see the fear of a real economic downturn in the economy."

**New family of single-chip standard-definition video encoders** was announced by IBM. Chips are designed to improve video transmission over existing communications lines, cable headends and for functions such as newsgathering and videoconferencing, IBM said.

**FCC's new video description rules** violate First Amendment by "impos[ing] a scheme of compelled speech" on broadcasters, according to appeal filed in U.S. Appeals Court, D.C., by NAB, NCTA, MPAA. Petition also says video description rules (FCC 01-7) violate Communications Act.



**CROSS-BORDER DISHES SOLD:** U.S. residents are buying Canadian satellite equipment that can receive channels that have no rights to distribute programming in U.S., said Peter Classon, pres. of Canadian distributor Star Choice Communications. "It's a reverse gray market," he said, referring to typical schemes of Canadians' using U.S. addresses to receive U.S. channels. Classon said his company just became aware of problem and was investigating how widespread it was and what remedies were available.

Wis.-based Global Communications has been selling Canadian satellite receivers online through its Web-based business to "hundreds" of people, Pres. Michael Kohl said. He refers them to "programming broker" such as Winnipeg-based Freewaysupport.com which provides Canadian address and pays their bills. "The Canadian public has been purchasing the American-based receivers supporting DirecTV and Dish Network for years. In more recent times, American consumers have been purchasing receivers providing the Canadian services, ExpressVu and Star Choice," online programming broker said. "We are the support in Canada for the American-based satellite services, and in the U.S. for the Canadian-based satellite services. We do not get involved in the international politics of satellite service."

Global Communications sells dishes and receivers for Canadian programming beginning at \$319 for 75 cm dish, and includes recommended dish sizes for all U.S. states as well as Caribbean, Central America, Mexico. It also offers direct link to Freewaysupport.com, program packager that offers Canadian programming packages outside Canada for \$89 activation fee, plus monthly fee. Freewaysupport.com also offers DirecTV and EchoStar program packages outside U.S. for \$99 activation fee.

Legality of Canadian satellite reception "is somewhere between tearing a tag off a mattress and smoking a Cuban cigar in the privacy of your home," Global's Kohl said. "There may be a rule printed somewhere, but nobody is going to jail." Kohl said in Canada "it is a very gray area... There is no legal framework... On paper, you must be a bona fide Canadian resident in order to subscribe." Rules don't cover Canadians vacationing in U.S., Kohl said: "Now that both Star Choice and Bell ExpressVu have the physical ability to send a signal far outside of Canada's borders, how do you differentiate between a Canadian with a vacation home in the Sunbelt, traveling across Canada, the U.S. and Mexico in a motor home, or back at a normal Canadian residence?"

Big drawing card for U.S. residents is being able to access shows such as *Coronation Street* which were blocked in Jan. when Canada's CBC switched its C-band transmissions to digital from analog, Kohl said: "The British shows are a draw down here. We've got a lot of expatriates in Texas who have got to have them." Canadian services also are seen as bargain because of weak Canadian dollar. "With a dollar that is under 65¢, it's an obvious thing," he said. Despite investigation by Star Choice, Kohl isn't concerned about legal issues. "It's helping the Canadian economy, believe it or not," he said.

Canadian Radio-TV & Telecom Commission has no jurisdiction over satellite gray market, spokesman said.

**American Women in Radio & TV** plans gala May 31 at Plaza Hotel in N.Y. to hand out its annual Gracie Awards for programming that encourages positive and realistic portrayal of women — 703-506-3290.

**JUMPTV STREAMING PLAN HIT:** Allowing JumpTV to stream video of U.S. TV stations into Canada "could cripple, if not destroy, the [countries'] successful system of free, local, over-the-air television," NAB said in petition filed with Copyright Board Canada. NAB said JumpTV's promise to prevent U.S. consumers from accessing U.S. video from its site couldn't be proved and allowing Internet streaming into U.S. would violate international copyright rules.

If U.S. TV programming were available via Internet it "could cause incalculable harm to those stations and put their basic economics in grave jeopardy" because station businesses are based on exclusive carriage of popular programming, NAB said. It said advertisers would pay "much less to sponsor programming" if it also were easily available on Internet, and more than 110 million Americans had access to Internet: "The dimensions of this issue are huge."

JumpTV wants compulsory license to carry TV programming via Internet, situation similar to that of failed iCraveTV. JumpTV said its service should be more attractive than iCraveTV because it had "border-blocking system" that would limit programming to Canadians.

However, NAB said there was no evidence border blocking would be effective, noting that JumpTV claimed only that geographical blocking systems for Internet "are being developed." NAB also pointed out that U.S. Registrar of Copyrights recently told Congress she wasn't aware of any effective blocking systems, and even if they existed they were likely to be hacked quickly. "Given the enormity of what is at stake, the NAB respectfully submits that the U.S. and Canadian broadcasting industries should not be permitted to serve as experimental fodder for... basically untested developmental geographic blocking mechanisms," it said. NAB said even preliminary analysis of JumpTV's mechanism showed many problems, including classifying www.fbi.gov as U.K. Web site. NAB said Copyright Board Canada should at least require JumpTV to submit detailed description of its border-blocking system, along with witness who could be cross-examined about its effectiveness.

NAB also dismissed JumpTV claims that it would use other methods, such as lawsuits against hackers, to protect copyrights, saying JumpTV couldn't afford number of individual suits that would be required. It also said there was nothing to stop creation of so-called "mirror" Web sites that could recreate JumpTV content in jurisdiction where no copyright protection was available.

**Financials:** **Adelphia's** net loss doubled to \$255.8 million in 4th quarter ended Dec. 31 despite strong boost in revenue to \$804.6 million and slight growth in earnings before interest, taxes, depreciation and amortization to \$275.9 million... **UnitedGlobalCom's** basic net loss doubled to \$1.27 billion last year despite 74% surge in consolidated revenue to \$1.25 billion as international MSO continued to expand aggressively. United said its consolidated revenue in 4th quarter ended Dec. 31 rose 35% to \$350.4 million.

**FCC set deadlines** for comment on rulemaking on DTV must-carry issue, following publication of notice in *Federal Register*. Commission tentatively decided in Jan. against imposing dual-carriage obligations on cable operators during current digital broadcasting transition but left issue open for final determination. Comments are due May 10, replies June 25.



## Personals

Laura Nichols, ex-office of Rep. Gephardt (D-Mo.), named senior vp-corporate communications and public affairs, PBS... Joanna Lowery, ex-LMNO Productions and onetime CBS, appointed senior vp-communications, UPN... John Litvack advanced to exec. vp-current programming and prime-time scheduling, WB Network... Angel Hernandez, ex-WLRN-TV and radio, Miami, appointed vp-production, WITF-TV Harrisburg... Rick Grant, ex-Lighthouse Digital Systems, named chief technology officer, Sierra Video Systems... John Scelfo, ex-Dell, appointed CFO, Sirius Satellite Radio.

Eddie Dalva, ex-VH1, moves to senior vp-programming, co-productions & creative affairs, VH1 and Country Music TV... Terence McGuirk, Turner Bcstg. System, elected to Scientific-Atlanta board; Brad Turell promoted to exec. vp-communications, Turner Bcstg. System... Eileen O'Neill promoted to vp-programming, Discovery Health Channel... John Doherty, ex-USA Networks, appointed vp-advertising sales, eastern region, Lifetime TV... John Dyer, Cox, elected to CTAM board, replacing Maggie Bellville, resigning... Changes at Rainbow Media Holdings: Robert Sullivan advanced to exec. vp, Rainbow Advertising Sales; Arthur Minson promoted to senior vp-finance; Simone Pero advanced to dir.-external communications... Changes at Cox: Lem Meador promoted to technical dir.-field operations; Tim Aligheri, ex-MedAssets.com, named dir.-systems engineering; Jill Campbell advanced to vp-operations; Bob Larsen, ex-LocalBusiness.com, becomes gen. mgr., SoFla.com.

Daniel Barnathan, ex-ABC, appointed exec. vp-portal sales, Medscape... Latham & Watkins promotions to partner: Carlos Alvarez, Kim Boras, Karen Brinkmann, Steve Levine, Robin Struve, Marcellus Williamson... Cari Davis advanced to exec. vp-Devlin Video International.

American Cable Assn. (ACA) representatives met with FCC Cable Bureau staffers recently to press their case for no open access mandates on smaller cable operators. In March 27 ex parte filing in Commission's open access inquiry, ACA officials argued that "administrative burdens and costs of regulated open access combined with regulated rates would threaten the viability of offering these services" because of thin margins for high-speed data services in smaller markets. They also contended that connection costs from headend to Internet backbone could "result in unattractive, even negative rates of return for ISPs in smaller markets."

FCC said it would post new children's TV programming Form 398, which TV stations are required to file annually, on its Web site (www.fcc.gov.). It requires stations to file additional information on preemptions of network programs and on published program guides. Deadline for electronically filing new Form 398 is April 10.

Intelsat issued request for proposals to purchase next-generation broadband system. Deal includes one geostationary Ku/Ka-band satellite with options for up to 4 more birds. System is expected to support last-mile access for small terminals such as small office-home users.

Citicasters is subject to \$14,000 fine for broadcasting indecent language on KEGL(FM) Ft. Worth, FCC Enforcement Bureau said. Complaint included transcripts and pictures taken from station's Web site.



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**Most consumers understand what interactive TV (ITV) is, want it now and would switch from analog cable to digital cable or between cable and satellite services to get it, new study commissioned by 5 ITV technology companies found. Study by Boyd Consulting for ACTV, Liberty Livewire, Motorola, OpenTV and Universal Electronics, said 2/3 of consumers liked both single-screen TV overlay format of ITV and 2-screen system that used both TV and PC. Even more, 76%, said they liked "personalized" ITV service that relied on handheld touch-screen device to control on-screen viewing.**



# Consumer Electronics

A Section of Television Digest with Consumer Electronics

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending March 23, and year to date:

	MAR. 17 - MAR. 23	2000 WEEK	% CHANGE	MAR. 10 - MAR. 16	12 WEEKS 2001	12 WEEKS 2000	% CHANGE
TOTAL COLOR TV	541,870	460,746	+ 17.6	476,382	5,570,564	5,626,578	+ 1.1
DIRECT-VIEW**	521,317	438,405	+ 18.9	453,824	5,349,271	5,358,213	- 0.2
TV ONLY#....	401,180	416,064	- 3.6	400,475	4,503,425	4,550,230	- 1.0
TV/VCR COMBO.	120,137	66,402	+ 80.9	53,349	845,846*	807,983	+ 4.7
PROJECTION...	20,553	22,341	- 8.0	22,558	221,293	268,365	- 17.5
TOTAL VCR**...	405,890	454,495	- 10.7	204,009	3,788,958	4,627,775	- 18.1
HOME DECKS...	285,753	388,093	- 26.4	150,660	2,943,112	3,819,792	- 23.0
CAMCORDERS.....	93,587	102,167	- 8.4	93,386	962,206*	928,342	+ 3.6
DVD PLAYERS....	242,774*	98,134	+147.4	196,316	1,925,613*	1,047,362	+ 83.9

Direct-view TV 5-week moving average#: 2001-414,524; 2000-432,173 (down 4.1%).

Projection TV 5-week moving average: 2001-20,287; 2000-23,500 (down 13.7%).

VCR deck 5-week moving average: 2001-278,653; 2000-393,349 (down 29.2%).

TV/VCR 5-week moving average: 2001-90,455\*; 2000-83,207 (up 8.7%).

Camcorder 5-week moving average: 2001-99,817\*; 2000-93,323 (up 7.1%).

DVD player 5-week moving average: 2001-192,654\*; 2000-98,406 (up 95.8%).

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

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

**E3 ATTENDEES UP, EXHIBITOR NUMBERS DOWN:** With little more than one month left until Electronic Entertainment Expo (E3) in L.A. May 16-19, we learned that number of registered attendees was up from last year's show — but exhibitor space rentals were down.

Although all videogame hardware makers will be on hand to push their next-generation systems and majority of top game publishers will have exhibit space, at least some game makers who attended E3 in past apparently have opted to sit out this year's show.

One of few major game publishers who will not have booth space at E3 next month is 3DO. Explaining why 3DO decided to pass on exhibit space this time around, CEO-Chmn. William (Trip) Hawkins told us: "The issue with E3 is that it has become too big and too small at the same time. Many members of the retail, press and investor communities only attend E3 for 2 days, and there is so much ground for them to cover it ends up being nearly impossible to have quality meetings. The bottom line is that we felt that there were more effective ways to reach our audiences." However, 3DO spokesman said company still would have some presence at show — albeit at booths of Nintendo and Sony.

One industry source we talked with echoed Hawkins when he told us: "The amount of money that gets spent by any company that is at the show against what they actually accomplish doesn't equal out." Source said many companies "don't really do business there. Any of the major companies do their business at individual settings either by sales meetings or by calling on their customers. It's really just a dog-and-pony show. When all the profits are up and the economy's good and people have cash to buy \$40 to \$50 videogames, then it's easy to go out and put on a circus at a show."

Jupiter Media Metrix analyst Billy Pidgeon told us he wasn't aware of any specific companies that had decided to not buy exhibit space this year, but he wasn't surprised to hear that at least some companies were indeed opting out. "It



happens to some extent almost every year," he said. He said there was variety of valid reasons why company that had attended E3 in past might not go this time, among them fact that some companies had either left industry completely, recently been involved in merger or might be on verge of one.

At least some companies are finding alternative ways to make major showing at E3 outside of having booth at show per se. For instance, spokesman for game maker Gathering of Developers told us last week that company, as it had for last 2 years, was renting space directly across from L.A. Convention Center. He said company opted to go that route not for any financial reasons, but rather because it wanted "to go against the grain a little bit" and "stand apart from other game companies."

VM Labs Mktg. Vp Gregory LeBrec told us one of top software publishers indicated to him that it now had nobody around its space because all other companies that were supposed to be next to it had pulled out. VM Labs will be at E3 to talk with some developers and publishers, he said. LeBrec added: "We started out getting 2 meeting rooms, but even we're looking at whether we need 2."

However, Interactive Digital Software Assn. (IDSA) Pres. Douglas Lowenstein told us last week that situation was far from being gloom-and-doom scenario: "My sense of it is everything that I'm hearing privately indicates that E3 continues to be an extremely important event in the industry calendar and support for the show remains extremely strong." Lowenstein said indications were that attendance would be up. "Pre-reg attendance is up about 10-12% and conference registration numbers" as well, he said. (Lowenstein spoke to us before early registration, which allows attendees to save up to \$50, ended April 7.) E3 spokeswoman told us that as of March 29 there were "76 new exhibitors participating" this year that weren't there in 2000. One of those new attendees will be Universal Interactive.

Lowenstein said: "If you look at where we're off this year — and we are off [in terms of exhibitors], there's no question about that — almost all that is in consolidation. The difference we're seeing in square footage is not reflective of companies' reducing their presence at the show. It's mostly reflective of the consolidation that's been going on in the industry." Indeed, acquisition of major players such as GT Interactive and Hasbro Interactive as well as Mattel's sale of its interactive division are bound to have impact on show such as E3.

"You go down the list and virtually every leading publisher has a significant presence at the show," Lowenstein said. "There's no question that the combination of the transition year and the downturn in the economy is causing companies in this industry and every other industry to take a real hard look at where dollars flow. And [one] would fully expect that that would impact the show." But Lowenstein said: "I also know that the industry is anticipating an extraordinarily exciting growth curve over the next few years, so while there... is some cost-cutting going on today, as the industry begins to hit the sweet spot of this next transition cycle that'll begin to change again."

One of annual rites in game industry has been exhibitors' complaining about costs of E3, which quickly can run into millions for large company looking to make splash. Jupiter's Pidgeon said at least some companies "maybe... just don't have enough money. It's expensive to put up a booth." But he was quick to add that "it's expensive not to, as well" in sense that companies need to be out there to some degree and promote their products at major show such as E3.

To its credit, IDSA at least has been trying to take look at cost issue. "We have taken a series of steps to be sensitive to that," Lowenstein said. "The price of this show remains where it was in 1996. When the show moved back to L.A. 2 years ago, the IDSA decided to cap the size of booths. [Software publishers] can't have a booth in excess of 12,000 sq. ft. We [also] limited how much people could grow from year to year." Lowenstein said IDSA also "negotiated new labor agreements to try and squeeze costs as low as possible for on site setups. This year we did something we call E3 University, where we had a bunch of major exhibitors meet with the GES [general contractors] to talk about ways to manage costs."

Not surprisingly, Sega of America (SOA) is one of most prominent companies that will be having much less elaborate booth than in years past. SOA Mktg. & Corporate Communications Vp Charles Bellfield told us last week that company's booth this year would be 10,000 sq. ft., down from 33,000 sq. ft. in 2000. He said booth would be "closed" to attendees who didn't have appointment and would be limited basically to reception area and meeting rooms. SOA news was in line with what Bellfield had told us in Feb., when he said that in light of Sega's recent decision to stop making Dreamcast consoles and focus on games for multiple platforms (TVD Feb 5 p11), it had decided to maintain lower profile at this year's E3. That lower profile, he told us at time, would include no major preshow party as in years past. Rather, he told us, company would be focused on one-on-one meetings.

In terms of overall game console exhibitor presence at show, it was unclear at our Fri. deadline whether booths of Microsoft, Nintendo and Sony Computer Entertainment America would be comparable, smaller or larger than last year. Companies didn't return calls for comment.



There's no doubt that E3 is being affected by number of factors, such as consolidation on both software company side and retail side. Gone are days where E3 served as key meeting place between vendors and retailers. One industry source told us: "There are only about 20 or so buyers that are incredibly important now, and so you're probably seeing them every few weeks or so." But Lowenstein argued: "There are a number of values to E3 beyond the presence of retail and that's the press presence — both the mainstream national media and the trade media. If you have a successful E3 presence, it can have an enormous positive impact on your ability to garner consumer mind share. There's a nexus between press and retail. To the extent that... you create buzz, buzz drives retail."

As for whether E3 would admit consumers, Lowenstein said: "We've looked at that over the years, and it's something we're not inclined to do right now. We look at E3 every year. This show is very different from a Comdex that's put on by a for-profit entity. This show is run by the exhibitors. And to the extent that the board, which is a proxy for the exhibitors, believes that the show needs to change to meet their needs, we will change."

**ZENITH LOSS GROWS:** Zenith Electronics, taking \$18.2 million restructuring charge that included layoffs of 180 employees and possibility of sale or strategic investor for accessories business, reported \$64.5 million loss for fiscal 2000, reversing year earlier \$6.1 million profit. Fiscal 1999 earnings included \$70.2 million gain on early retirement of debt.

Sales slumped to \$559.4 million from \$739.9 million and gross margin to \$21.6 million from \$63.1 million. Downturn was tied to end of some international and OEM businesses and sale of Network Systems Div. to Motorola in Aug. for \$14.9 million. Network Systems, which manufactured and sold cable set-top boxes and modems, posted \$47.3 million in net sales in 2000, down from \$94 million year earlier. Zenith also sold parts and service groups to affiliate of parent LG Electronics for \$10.8 million in Nov. Sales to Circuit City accounted for 20% (\$113.4 million) of Zenith's revenue and Sears 10% (\$57.6 million).

Zenith's revenues also included \$32.9 million in royalty payments from tuner system patents covering TVs and VCRs. Royalties are expected to decline through 2003, when last of patents expires, company said in annual 10K. Royalties stem from licensing agreements that Zenith signed with TV and VCR manufacturers in 1992. Funai filed suit in 1998 challenging validity of patents and case is scheduled for trial in U.S. Dist. Court, L.A., late this year. Last of Zenith's patents covering multichannel TV sound (MTS), issued in 1984, also expired earlier this year. Zenith developed modulation system for MTS.

Restructuring charge included \$5.3 million to cover phase-out of analog sales and support positions this year, consolidation of Zenith's sales and accounting positions based in Mount Pleasant, Ill., with LG's in N.J. and replacing of company's computer operating system with LG's worldwide version, company said. Another \$9.2 million was for additional severance in connection with closing of manufacturing facilities in Mexico (\$3.8 million) in 2000 and "exiting" of some manufacturing and product engineering functions this year (\$2.3 million). Among latter is accessories business, which Zenith had promoted as late as Nov. with plans for introduced satellite dishes for DirecTV. Zenith employed 450 as of Dec. 31, 350 of whom were based in Chicago area. That's down from 3,950 year earlier, which included 2,150 at Reynosa, Mexico, plant that was transferred to LG in Jan. 2000.

Zenith also hired investment bank to find buyer or strategic investor for its accessories business, spokesman said. "It's a terrific business, but it's not part of our digital products focus," spokesman said. "We're looking for someone who will continue to maintain the accessories business." Unclear is whether potential buyer or investor will include brand name and accessories personnel in potential deal and spokesman said all options were being considered. In past, deals have largely involved brand name such as Gemini Industries' marketing of Philips accessories or Jasco's use of Emerson name.

New Pres.-CEO Tookjoo Lee, who took over from Ian Woods in Oct., was paid \$39,619 salary, 10K showed, while Zenith Sales Pres. Kathryn Wolfe received \$245,771 and \$516,188 bonus under long-term retention program that Zenith established in 1998 as it prepared to file for bankruptcy protection. Wolfe received \$422,000 under incentive program March 31 and Senior Technology Vp Richard Lewis \$209,000. Zenith created new retention bonus program in 2000 covering 81 key managers and employees as of Dec. 31. Program costs \$1.9 million and pays up to 50% of employee's base salary as of June 30, 2001.

Zenith also has received waiver of some covenants of senior credit agreement with Citibank in connection with its drafting plans to "exit substantial portions" of analog business in favor of pushing digital products. Zenith also was able to enter short-term credit agreements, including \$10 million uncommitted facility with Bank One in Dec. Agreement was secured by guarantee issued by LG.



In addition to backing credit agreement, LG provided \$1.9 million in 2000 for advertising and Zenith billed LG affiliate \$1.6 million for cost at Reynosa facility.

Among other revenues Zenith generated in 2000 were \$6.2 million from LG for engineering and research services; \$4.7 million from sale of merchandise to LG affiliate in Mexico and \$100,000 for patent rights to flat tension mask and TV tuner technologies. It also paid \$3.4 million to LG affiliate in Mexico for repair services and parts under warranty as agreement that began last May 1.

On legal front, age discrimination and other suits filed in connection with Zenith's restructuring in 1995 and 1996 in state and federal courts are scheduled for trial this year, company said.

**RCA INTERNET RADIO PLANS ON HOLD:** With Kerbango tuning service left off hook following owner 3Com's announcement that it would dump consumer broadband Internet radio and appliances, licensee Thomson Multimedia said its plan to incorporate Internet radio broadly across product lines was in holding pattern. Company's standalone RCA Internet Radio was to make debut soon at \$299.

"Fortunately, we haven't shipped any product yet," Thomson spokesman told us last week. "We were caught by surprise as was everyone else on 3Com's announcement." As part of shoring-up process in response to \$123 million 3rd-quarter loss, 3Com late last month said it was cancelling plans for consumer Internet appliances, including its own Internet radio and Kerbango Internet Tuning Service, which 3Com bought last summer for \$80 million. If buyer for Kerbango isn't found by May 31, 3Com will shutter it.

"We're still evaluating the product and expect there will at least be a delay. It does rely on the Kerbango service," Thomson spokesman said. Asked whether Thomson was considering buying Kerbango from 3Com, he said "we're in discussions with them. We're still assessing the matter."

Thomson planned to begin Internet radio offerings with standalone RIR1111, which uses broadband connection and has built-in modem to eliminate reliance on reception through PC. Company planned to extend feature to other audio products, including multipurpose Digital Media Manager, Dolby Digital AV receivers, bookshelf stereos and eventually clock radios. Also planned was Kerbango radio using 56 kbps dial-up modem. Work-in-progress continues on that model, Thomson spokesman told us last week.

"We're still very bullish on Internet radio. We think the concept is a good one, and a key part to other products," Thomson spokesman said. "We believe there is a market for broadband connections other than through a PC."

Kerbango service has software-based Internet Audio Directory that lets users search and tune about 5,000 stations on Internet. Directory also monitors signal strength and reliability of Web broadcasts. One alternative to Kerbango is iM Networks, whose service will be used for Internet radio in Philips' FW-i1000 minisystem due out this year.

EMusic.com entered into nonbinding letter of intent to be acquired in cash transaction by what it described last week as "a major publicly held media company." Report citing source close to deal said company negotiating with EMusic was Universal Music Group (UMG), which may be seeking to make EMusic distribution platform for its new Duet music service. Latter is joint partnership of Universal and Sony Music Entertainment (SME). EMusic spokesman didn't return call for comment by our Fri. deadline. Redwood City, Cal., online music company said proposed acquisition price was 57¢ per fully diluted share. EMusic said it agreed to short period of exclusive negotiations in which it wouldn't discuss possible acquisition of company with other parties. Company said Thurs. it "has no current plans to discuss additional details regarding these negotiations until a final outcome has been reached." But EMusic said it expected to report revenue of \$4.2 million for quarter ended March 31, with music revenue of \$2.2 million, compared with \$1.7 million for prior quarter. Company said it ended quarter with more than 10,000 active paying subscribers to its MP3 service — up from 4,500 at end of Dec. Separately, Universal and SME announced nonexclusive deal last week making Yahoo first platform for downloading and streaming music that Duet will make available to consumers.

Realignments at Panasonic U.S. sales and marketing operations were announced last week by Don Iwatani, chmn.-CEO, Matsushita Electric Corp. America. Company's Consumer, Industry and Systems sectors will be headed, respectively, by Pres.-COO Andy Takani, Joe Taylor, Steve Yuhas. Within CE division, group merchandising section has been reorganized into 5 groups reporting to Jeff Cove, CE Group vp-gen. mgr., and each headed by own gen. mgr. Groups are Entertainment (Reid Sullivan), Displays (Bill Mannion, vp-gen. mgr.), Network Development and Optical (each Andy Nelkin), and Communication (Cove for interim). Personal Products group under Vp-Gen. Mgr. Jerry Hayes was transferred from Home & Commercial Products Co. to CE company. Changes were effective April 1, Iwatani said.

Panasonic Hollywood Laboratory will be established in Universal City, Cal., to conduct R&D on digital video compression technologies for broadband distribution of video and other digital content. New lab, division of Panasonic Technologies, will be headed by Masayuki Kozuka as dir. It's latest Hollywood foray by Panasonic parent Matsushita. Company opened High-Definition Telecine Center on Universal Studios lot in 1993 and added Digital Video Compression Corp. DVD authoring center there in 1996.



**MAGNOLIA HI-FI PLANS:** Best Buy may make acquisitions in quest to expand newly acquired Magnolia Hi-Fi to 150 stores, but will limit chain's growth to 25-30% annually, Entertainment & Strategic Business Development Pres. Wade Fenn said.

Magnolia, which is expected to open 4 outlets in San Francisco market this year, will keep separate identity with own buying staff and will give Best Buy entree into custom install market, Fenn said.

"We're not integrating the 2 cultures at all, but there are elements of the inventory, advertising and best practices of Best Buy that will go into Magnolia," Fenn said in interview at Banc of America Securities Consumer Conference in N.Y.C. last week. "But I don't expect to see \$1,500 DVD players at Best Buy stores. Our full intent is to store out the country with a boutique strategy over time and take the learnings and incorporate them into Best Buy."

BB's imprint will be felt more fully on Sam Goody and On Cue chains that retailer purchased as part of \$685 million acquisition of Musicland in Dec. (TVD Dec 11 p11). BB already has begun 2-store test at Sam Goody in Minneapolis where it replaced "Hear It" section with "Listen to It" area stocked with MP3 and portable CD players. It also has added videogame hardware and software and handheld PCs. If first test proves successful it will be expanded to another half-dozen stores this spring en route to chainwide rollout to 650 outlets in fall, Fenn said.

"The initial take away is that gaming is hot and categories like PDAs merchandised as productivity products may not work," Fenn said. "PDAs are becoming more of a listening and entertainment platform and in the future we may merchandise it that way." Changes in format and products could increase SG's operating margins to 20% from 4%, he said.

In redesigning SG, BB will focus on customer that is more "fashion forward" and "technology savvy." Appeal will be more to female consumer than males that are typically drawn to BB outlets, Fenn said.

While Musicland had planned to open 30 On Cue stores this year, BB will scale that back as it remerchandises chain's 5,000-6,000 sq. ft. outlets to resemble "Best Buy Lite." On Cue, which operates 200 stores in markets with populations of less than 50,000, could open new stores at clip of 100 annually starting in fiscal 2003, Fenn said. On Cue outlets are most likely of Musicland's chains to be rebranded since BB has started opening 26,000-sq.-ft. outlets in markets with populations of less than 150,000, Fenn said. About 1/3 of 65 stores Best Buy plans to open in each of next 3 years will be in smaller format, he said. Overall, there is room for 700 On Cue stores in U.S., Fenn said.

"Musicland won't be fully stored for a decade," Fenn said. BB itself plans to enter Canadian market in 2002 with 15 stores.

Not currently part of growth plan are Musicland's Suncoast Motion Picture Co. (400 stores) and Media Play (77). Former is likely to see little change as result of its strong position in DVD software, while Media Play is "being evaluated," Fenn said.

"They'll find the economics in the mall are much different than they think they are," said RadioShack Pres.-COO David Edmundson, whose company once operated mall-based Video

Concepts stores. "I wish them well and they're a fine company, but I think they're going to have problems with this one."

Combination of Musicland stores and Best Buy will have 35% and 22% of DVD player and CD markets, Fenn said. Using strong position in music and video, BB is studying adding subscription-based download services to its stores in coming years. Fenn said he met with record labels and movie studios in Feb. to discuss possible business model that could help reduce size of chain's 10,000-sq.-ft. CD, prerecorded videocassette and DVD dept.

Major consideration in buying Musicland was that chain would give BB "a seat at the table" and "leverage" in negotiations with record labels and movie studios, Fenn said. BB earlier sold subscription services including 3.25 million in most recent fiscal including Microsoft's MSN Internet access (1.5 million) and DirecTV, he said.

**Liner notes for hybrid Super Audio CD (SACD) release** are causing confusion among first-adopters of new playback format. Most recent instance is hybrid SACD of Virgin Records's classic *Tubular Bells*. Disc available in U.K. has Red Book CD and SACD stereo version of 1973 Mike Oldfield hit as well as multichannel SACD version from 1975 surround-sound reissue LP. On that reissue, track called "March Around the Manor" was appended to original "Sailor's Hornpipe" finale. "March" is boozey trapeze recorded with multiple surround-sound microphones placed throughout "Manor," then home of Virgin founder Richard Branson, where LP that became Virgin's first hit (and part of *The Exorcist* soundtrack) was recorded. Hybrid SACD simulates 1975 liner notes for surround-sound *Tubular Bells* that hype addition of "March," and even printed contents for new SACD list added track. But it was nowhere to be found when we played disc in Sony stereo-only SACD deck. Reason is that "March" track is included only on disc's multichannel mix and is accessible only with multichannel SACD player, Philips SACD point man Paul Reynolds said. "It is up to the labels what they put on each area," he told us. "Usually, we see both stereo CD and stereo SACD being the same — it's easy and cheap to downconvert the CD layer from the SACD. But often, the multichannel can be different, as they are usually a different mix anyway." In its first-generation decks, Sony offered only stereo SACD playback in order to focus attention on format's musical fidelity and resolution. Company now is releasing players that replicate multichannel SACD as well.

**EMusic was sued** by Gail Zappa, widow of rock musician Frank Zappa, charging Web music company distributed her late husband's songs online without obtaining publishing rights to do so. Irony of situation was that EMusic only recently had filed complaint against Napster for "contributory and vicarious copyright infringement and unfair competition." Zappa suit was filed in U.S. Dist. Court, L.A. EMusic said: "Back in 1999, for approximately one year, EMusic sold a small collection of Frank Zappa tracks on its Web site through a licensing agreement with Rykodisc. That relationship concluded more than a year ago, when these songs were removed from the EMusic site." EMusic sold only "a very small number of Zappa tracks and has agreed — as is the case with all artists — to pay the full statutory rate on all the tracks sold," company said. EMusic said that "for over a year, the company has tried to negotiate in good faith to resolve the dispute," adding: "It is unfortunate that the Zappa estate has chosen to pursue legal action on an issue that represents such an extremely small dollar amount."



**RADIOSHACK/BLOCKBUSTER SALES:** RadioShack (RS) is targeting annual per-store sales of \$325,000 for new format being installed in Blockbuster stores this spring, Pres.-COO David Edmondson said.

Projection is based on 600-sq.-ft. stores' handling 30 transactions per day with an average sale of \$30, Edmondson said at Banc America Securities Consumer Conference in N.Y.C. last week. RS will test store-within-a-store later this year at 175 Blockbuster outlets in Austin, Las Vegas, Tulsa, Va. Beach. Test is to run through year-end.

New format will feature 900 SKUs including DirecTV, which Blockbuster had previously sold through freestanding kiosks. While Blockbuster sold "a little more than" 100,000 DirecTV systems in 4th quarter 2000, RS moved 280,000, Edmondson said. "People bought them [at Blockbuster] because they [Blockbuster] don't proactively sell things and that business gets folded into this," he said. Also added to merchandise mix will be MP3 players, which RS stores typically carry in limited amounts. "The merchandise mix will start with the fast-moving SKUs" from RS stores, he said.

Test of format will run through year-end with RS staffing store with 1-2 employees and hours of operation still being finalized, Edmondson said. Typical Blockbuster store is open 7 days, 10 a.m. to midnight.

As it rolls out new concept, RS also will rely on previous experience. Under RS Select program, which focuses on 600-sq.-ft. franchise locations, some dealers who also own video stores have added format. RS Select encompasses 550 outlets, 100 of which are in video stores, Edmondson said, but he didn't provide number in Blockbuster locations.

While Blockbuster carries videogames, new format won't signal RS's entry into category despite expected arrival in fall of new hardware from Microsoft and Nintendo. "The gross margins you start out with to sell the hardware are terrible and the software is not good either," he said. Indeed, hardware typically carries 3-6% margins, with software in mid-20% range, industry sources said.

However, RS will focus on selling cable modem service, which is available through 500 stores and is expected to expand to 1,400 by year-end, Edmondson said. RS's broadband strategy, which also includes selling Internet access via satellite and digital subscriber line (DSL), has been slowed by collapse of DSL provider Northpoint, which is selling some assets to AT&T. RS had sold Northpoint through stores in Dallas area and at one point was significant investor in company. It sold large portion of stake last year in reducing it to less than \$2 million and since has written off investment, RS said. Broadband services are largely to be sold through Microsoft's MSN store-within-a-store format at RS.

Chain also has suffered, along with other retailers, from slowdown in PC sales. But it has been somewhat protected by fact it sells derivative Learning series of PCs from Compaq. Companies recently revamped educational software packaged with PCs in signing agreement with Learning.com. Latter is providing 100 titles for PCs, first 20 of which are free, with rest available on subscription basis. RS and Compaq receive residuals from sale of software, Edmondson said. Compaq PCs previously were packaged with choice of 38 titles, first 9 of which were free and neither company received residual, he said. "The

computer business has been a little bit challenging in the first quarter, but not to the extent of everybody else," Edmondson said of category that generates 9% of chain's annual sales and delivers margins in 10-11% range.

Despite RS licensee Intertan's recent decision to retain investment bank to study possible sale of 1,000-store chain, RS had no immediate interest in buying it. Acquisition of Intertan would give RS instant access to Canadian and Australian markets and would fit into RS' plans for international expansion. But chain will likely first focus on opening stores in Mexico where Blockbuster would give it "low-capital way" of entering market. Blockbuster has 28 stores in Mexico.

"At some price we would be interested in [Intertan] Canada, at some other price we wouldn't be and would let somebody else have it," Edmondson said. RS has "irrevocable rights" to its name in Canada and Australia and new Intertan owner would have to negotiate licensing agreement. About 45-50% of products in Intertan stores carry RS brand, Edmondson said.

RS also plans to continue expanding business-to-business operation that so far has focused on building maintenance organizations in offering items such as surveillance cameras and fuses. It currently has 20 employees in telemarketing operation that produced \$140 million in sales in 2000. It has added another 45 to unit so far this year and plans to have 120 by year-end, Edmondson said. RS also is focusing on selling parts and accessories to its vendors such as cables to Compaq or batteries to supplier that builds RCA remote controls, he said.

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RS, blaming shrinking margins in PCs and DirecTV hardware, Fri. cut projected first quarter earnings to 31-33¢ from 34¢. Analysts had projected earnings of 35-39¢, with consensus of 38¢. As result, full year per-share earnings will rise 7-10% (to \$1.97-\$2.02), down from 15-20% forecast in Feb. Revenue will increase 6-8% for full year. Satellite business posted gains in units and dollars in quarter, but profit margin "dropped significantly" early this year due largely to "nonactivation" of purchased product and slowdown in installation. As result, RS has begun "vigorous negotiations" with DirecTV on new agreement and is weighing requirement that receivers be installed "professionally" or that customer provide credit card. "If the units aren't activated, DirecTV doesn't get a customer they can bill and we don't get any residuals," CEO Leonard Roberts said. "We will sacrifice top-line growth on DirecTV to improve our bottom line." Satellite business's 6-week change in profit margin in Jan.-Feb. had biggest impact on lowered earnings and were related to "calibration of commissions," Edmondson said. PCs also made up larger share of sales in quarter as margins narrowed below typical 10-11% rate, RS said. Margin decline was tied to sell-off of existing Compaq PCs that are being replaced by new models. And new program with Verizon for store-within-a-store format and national cellular plan hasn't "grown as expected." As result of slowdown in wireless and satellite, RS cut year-end residual forecasts to \$132-\$135 million from \$140 million and to \$270 million from \$300 million by 2004. Among other actions, RS has hired Bain Group to review product offerings and suppliers with goal of "consolidating to fewer vendors," Roberts said. Unaffected will be store-within-a-store partners that include Compaq, Microsoft, Sprint, Thomson and Verizon, he said. Chain will shift to contractor-based installation vs. own staff. Roberts received \$1 million salary and \$1.7 million bonus in 2000, up from \$850,000 for each year ago and was granted options for 350,000 shares. Edmondson was paid \$420,000 and given \$547,782 bonus and 160,000 options.



**PHILIPS NAMES NEW CEO:** New Philips Consumer Electronics Pres.-CEO Lawrence Blanford said he would consider "adding a little bit of external expertise" as he sought to continue burnishing company's brand in U.S.

Blanford, former Maytag pres., replaces Robert Minkhorst, who resigned last fall after 5 years at helm of Philips N. America CE business. With no previous CE experience, Blanford's appointment appeared to signal change for Philips, which traditionally has reached into own executive ranks to fill top CE post that oversees U.S. and Canadian markets.

"You can grow a great organization internally and add a little bit of external expertise that maybe has some different experiences and approaches," Blanford said. "That gives you the best of both worlds. I feel privileged to come in from the outside to build on the momentum and progress that Philips has been making."

Transition of analog to digital products gives Philips chance to "make sure" it's studying consumer trends "in a detailed way," Blanford said. Review may involve "enhancing" consumer research already under way, he said.

"There are many subsegments of consumers that we need to understand that have different expectations," Blanford said. "It's important that we sort through these groups and make sure we deliver the technology in a way that meets or exceeds their needs."

Most of push in consumer market will continue to be with Philips brand as Magnavox takes lesser role. While Philips co-branded product for last several years, it's relying now on own name and Blanford said he would "evaluate opportunities" for Magnavox brand. He declined comment on whether Philips would seek to sell Magnavox brand.

"We're going to continue to support the Philips brand strongly and may be even have stronger support," Blanford said. "That's very, very important to our business in North America and Philips global consumer electronics business."

Blanford wouldn't comment on whether he would make any changes in Philips' N. America sales organization, saying it was "too early" in his tenure to finalize any new strategies. Philips last year shifted profit-and-loss responsibility to regional business groups and away from product operation (TVD June 26 p13).

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**Long-lost sci-fi cult classic** *Incubus* will materialize on DVD and VHS May 8 after hiatus of more than 30 years. B&W movie made in 1965 stars William Shatner in pre-*Star Trek* role and was directed by Leslie Stevens (TV's *The Outer Limits*). Shatner plays injured war veteran who battles evil on island inhabited by demons. Movie is unique in that soundtrack is in Esperanto — artificial universal language created in 19th century — with English subtitles. Coincidentally, article in recent issue of U.K. journal *New Scientist* said more people now were fluent in Klingon — artificial *Star Trek* language — than in Esperanto. Movie's distributor, Fox Lorber, said digital restoration was funded by TV's *The Sci-Fi Channel*. DVD version (\$24.98) has commentary and interviews with Shatner and others. Spokeswoman for Fox-Lorber told us *Incubus* DVD would not have any regional coding.

**BEST BUY PROFITS UP:** Smiles at Best Buy and frowns at Circuit City were no surprise last week as industry's top 2 retail chains reported financial results for 4th quarter and 12 months.

Best Buy said profit increased 16% in quarter to \$189.7 million (89¢ per share) as sales jumped 27% to \$5.46 billion. Same-store sales rose 1.8% in quarter and 4.9% in year. Best Buy predicted same-store sales would decline by low single digits in first quarter, be flat in 2nd quarter, manage low single digit rise in 3rd and rebound to "solid" mid-digit growth in 4th.

Chmn.-CEO Richard Schulze told financial analysts in conference call that weak PC sales should lead to overall declines in home office segment this year, but CE sales would continue to grow faster than other categories, driven by consumer demand for "newly introduced digital products." He said DTV set sales in 4th quarter accounted for 10% of total TV set sales — fivefold increase in percentage terms from same quarter year earlier. Average DTV set sells at Best Buy for \$2,300, he said. Average price points are down about 10% from year earlier and could dip below \$2,000 by year-end, he said, "which should help drive continued expanded sales volumes."

Schulze said digital products were expected by 4th quarter to represent 18-19% of total sales vs. 15% in just-ended 4th quarter. DVD software sales at Best Buy are expected to benefit from increasing hardware base, he said: "We essentially made the market for DVD and continue to post triple-digit gains in sales of DVD software in the face of widespread distribution."

Responding to analyst questioner, Schulze said: "We continue to labor in New York trying to find suitable real estate and ramp it up in an efficient time frame." He said market entry into N.Y. "certainly has launched strongly, but candidly in the face of the economic environment, the sales numbers have not reached their projected levels." Targets were higher than in other markets because of population density of N.Y.C. area "and fact that we were understored." Other Best Buy executives told analysts that although chain was "behind plan" for sales and profits in that market, Best Buy operations in N.Y. were in black for 4th quarter.

At Circuit City, total income fell to \$103.2 million in 4th quarter from \$159.7 million year earlier on 4% overall sales decline, including 9% plunge in core Circuit City sales to \$3.18 billion and 11% same-store sales decline. Pres.-CEO Alan McCollough repeated much of what he told financial community month ago when he cited significant sales "falloff" in Jan. and Feb. that he expected to continue through fiscal first half.

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**First DVD-Audio title** from Pioneer Entertainment makes debut May 22 with release of *Bach Organ Works* (\$24.98). Besides 96 kHz/24 bit 6-channel surround for DVD-Audio players, disc has Dolby Digital surround soundtrack that plays DVD-Video decks, spokeswoman told us. She said Pioneer would release DVD-Audio on title-by-title basis and hadn't committed to fixed timetable or quantity. Bach disc was recorded on location in Waltershausen, Germany, on newly renovated Trost-Organ. Onscreen features include music analysis of each piece as it's performed. Other visual options viewable with DVD-Audio player include still photos of performance, glossary of musical terms, liner notes, performer profile of Bach specialist Hans-Andre Stamm.



**DIRECTV VoD SERVICE:** Blockbuster and DirecTV are continuing discussions with Hollywood studios in effort to secure movies for proposed video-on-demand (VoD) service, but no deal appears imminent, Hughes Electronics Corp. Senior Exec. Vp Eddy Hartenstein said.

While DirecTV had indicated at CES in Jan. that announcement on VoD's possibly involving Blockbuster and TiVo was possible within 60 days, negotiations are continuing to focus on early release dates for movies, Hartenstein said in interview at Sky Forum in N.Y. last week.

"The discussions are proceeding, but it's a little early to predict when we might get something out of there," Hartenstein said. Studios are considering releasing movies on select title basis for VoD with early release window to "see what the buy rates are," Hartenstein said. "If the quid pro quo is that we have to give a guarantee of an early release, we're pretty comfortable doing that because we know that it is going to sell."

Hartenstein declined comment on progress of discussions on sale of Hughes to News Corp., but said there "are transactions out there that could give General Motors what it wants." GM is majority owner of Hughes. Earlier, News Corp. Chmn. Rupert Murdoch said proposed satellite broadband company Sky Global would be "viable" regardless of whether it had U.S. presence. News Corp. spokesman said discussions with DirecTV were continuing (see related story this issue). In response to audience question, Hartenstein said merger with EchoStar had been "investigated for the viability of it," but any "merger or combination requires 2 willing partners." EchoStar spokesman wasn't available for comment.

As DirecTV forms VoD strategy, related division Hughes Network Systems (HNS) said it had delivered first quantities of DirecPC satellite modems to NRTC, Pegasus Communications and Earthlink. HNS is expected to hit production of 30,000 units per month by May, Pegasus CEO Marshall Pagon said. Pegasus has been conducting 100-unit test.

While Pegasus had planned to start selling Express service in early March, it postponed delivery to midmonth as it finalized registration software for service, Senior Vp John DiDio said. Pegasus has authorized 1,000 independent dealers to sell service along with distributor DSI. Satellite modem will be priced at \$499, while service carries \$69 monthly fee. Among other "Powered by DirecPC" vendors, Earthlink has started beta tests in Cal. and Ga., while NRTC also is receiving product. Troubled ISP Juno has yet to reveal DirecPC plans.

Despite focusing on sales of Express service, Pegasus will continue test of "TV-centric" system tied to phone line for Internet access. Test, which involves "couple of hundred" homes in Jackson, Miss., will continue through early fall, Pagon said. Slowdown in rollout of system also has postponed deployment of MetaTV's software, which had been expected to be implemented by first quarter (TVD Sept 25 p16). MetaTV operates portal for interactive TV that connects network operators, such as cable headend or satellite, with Internet consumer services like e-commerce.

**Gilat Satellite Networks**, 45% owner of satellite-based Starband Internet access service, said it would take \$28 million charge against first-quarter earnings to cover layoffs of 275-300 workers. Charge also includes dropping some products, including pagers, Investor Relations Vp Diane VanBeber said.

Starband isn't expected to be affected by restructuring, but plan to add production capacity for its satellite modems at factories in Brazil have been postponed until 2002, VanBeber said. Gilat had planned to boost production by 3rd quarter (TVD Jan 29 p18). Starband expects to have new satellite modem by May (\$399) and add dual tuner model by year-end.

Among those carrying product, in addition to RadioShack and EchoStar dealers, is NRTC, whose members are expected to sell service for \$40 monthly fee, down from \$69 currently charged, Exec. Dir. Robert Philips said. NRTC also has agreement with HNS for DirecPC, but dealers are unlikely to sell both services, Philips said.

Critical to Starband's future will be obtaining bridge loan that would fund service through year-end, VanBeber said. Goal is to have loan finalized by May, with private financing or strategic investment to be sought after it expires in early 2002, she said. Existing investors, including Gilat and Microsoft, will provide funding for bridge loan, expected to be in \$150 million range, sources said.

**RealNetworks**, along with AOL Time Warner, Bertelsmann and EMI, confirmed creation of online music subscription service we reported on last week (TVD April 2 p19). Companies said last week that MusicNet "will combine an extensive collection of downloadable and streaming music with advanced technology." They said "end result will greatly accelerate the rollout of online music subscription services for consumers across multiple distribution networks, including RealNetworks and the America Online family of interactive brands later this year." As part of deal, each company will own minority stake in MusicNet and music subsidiaries BMG Entertainment, EMI Recorded Music and Warner Music Group (WMG) will separately license their music to service on nonexclusive basis. Companies said MusicNet also will look to license music from record companies other than BMG, EMI, Warner. MusicNet will operate as independent company, they said, and at start it will license service to AOL and RealNetworks, each of which will start branded online subscription service later this year. But companies said MusicNet "will also license its platform to other distribution outlets, including Napster, provided such outlets satisfy legal, copyright and security concerns." Unclear at our Fri. deadline was cost of service to consumers and precisely when service would begin. Separately, RioPort said it signed deal with WMG to deliver secure commercial downloads from latter's artists to select e-tailers in RioPort online network. RioPort also signed similar deal with independent label Artemis Records.

**Online retailer Webvan** said in SEC filing it "expects that it will need to raise additional capital to fund operations during the fourth quarter of 2001." Company said it "will need substantial additional capital to fund continued business operations in 2001 and 2002." Independent auditor report included in filing provided even gloomier forecast for ailing e-tailer, saying "company has suffered recurring losses and negative cash flows from operations that raise substantial doubts about its ability to continue as a going concern." Webvan said it "expects to experience significant negative cash flow from operations for the near future." As of Dec. 31, Webvan had accumulated deficit of \$612.7 million. It posted loss of \$453.3 million last year.

**Taiwan Semiconductor Mfg. Co. (TSM)** said it had delivered GeForce3 GPU chips and other key processors for Microsoft's Xbox videogame console. TSM also said it had reached full capacity on 0.15-micron process used in production of those components.



**SIRIUS HINTS AT DELAY:** Sirius Satellite Radio shares plummeted early last week after senior management cautioned investors to be "conservative" in forecasting growth in consumer subscriptions because of possible delay in availability of service beyond Sept.

Sirius Chmn.-CEO David Margolese refused to be pinned down in conference call with financial analysts on when his company's digital audio radio service (DARS) might begin. "To the extent that the commercial launch is delayed beyond September," Margolese said, "subscriber acquisitions will be lower than expected." He said start would have to be by Sept. to satisfy Wall St. expectations on subscription growth for 2001. With no hard and fast commercial launch date at hand, Margolese said, "we caution investors to be conservative in terms of expected sub growth for this year. Having said that, our prognosis for sub growth over the next 12 to 24 months remains favorable."

Sirius said Agere Systems (formerly Lucent Microelectronics Group) had started shipping chipset samples to receiver makers and commercial quantities were expected to ship in Aug., with receivers incorporating those chipsets to follow soon thereafter. "We expect to make receivers available commercially once testing has been completed to our satisfaction," Margolese said. "We have secured factory capacity by Panasonic for these purposes, with a production line capable of supporting 12,500 per month at the start, and ultimately up to 100,000 per month."

At outset, receivers will use "off-the-shelf" components, migrating to Agere-based chipsets "shortly thereafter." Kenwood has 9 models of aftermarket car radios ready to accept Sirius modules and is shipping "tens of thousands" Sirius-ready radios monthly.

Ultimately, Margolese said, "the key value driver" in making Sirius service ubiquitous will be automakers' acceptance. He said: "It remains our objective to have our service included as standard equipment and not as an option in as many car lines as possible, and we continue to work very closely with our automotive partners on this integration into their platforms." However, he told analysts bluntly that while Sirius remained "cautiously optimistic" on signing up first OEM orders, "we have not delivered in that area at this point." Despite working diligently for 1-1/2 years to woo Detroit's support for building receivers into actual cars, Margolese said, "we simply have failed in this area."

Responding to persistent questioning from analysts on reasons why automakers hadn't committed, Margolese said "nothing fundamental" was hindering OEM acceptance. He blamed bureaucracies at major car companies for stalemate. He said Sirius maintains OEM liaison office in Detroit that has 20 employees and "they tell us we're moving along at lightning speed. So there's obviously a perceptual difference between lightning speed in Detroit and New York. The bottom line is that there's nothing fundamental holding us up, and I can't see why we can't get to where we need to get to." He said "good news" was that "we're not hung up on points of negotiations." However, "the bad news is that it is taking forever." Of major automakers, Margolese said: "These are supertankers that take 7 miles to turn."

Other aspects of Sirius DARS buildout are proceeding relatively smoothly, Margolese said. For example, he said all 3 satellites launched in 2nd half 2000 were "performing to specification" in terms of both power and "useful life." He suggested that recent reports on "flaws" in solar panels of Sirius satellites

were misleading. "Circuit failures" to which reports referred are endemic to all Loral satellites built in last 5 years and have no impact on Sirius operations, including power of broadcast signal and useful life of satellites, he said.

Buildout of terrestrial repeaters is on schedule for completion this quarter, with 71 sites done and 23 remaining to be finished, Margolese said. With recent financing, he said, Sirius has \$460 million cash on hand, sufficient to fund operations through at least mid-2002, assuming "an aggressive service ramp." With slower ramp than is currently anticipated, cash could be sufficient to last through the middle of 2003, he said.

Despite potential at Sirius for commercial launch delay, Hugh Panero, CEO at rival XM Satellite Radio, struck confident tone at Sky Forum conference in N.Y. last week, saying that DARS wasn't "going to fail because one guy falls down." XM's 100-channel service will debut by summer with licensees Alpine, Pioneer and Sony having combined OEM/aftermarket monthly production capacity of 50,000 units at start, Panero said. Companies can build up to 80,000 units per month on single production line, 300,000-400,000 with addition of 2nd line, he said, declining comment on when those volumes would be achieved.

XM's "Rock" satellite, which was launched in March to orbital slot at 154° W, will be "handed off" to company in May. Second "Roll" bird is slated for flight first week of May and will be available by July, Panero said, and service could begin with single satellite. Critical network of 1,300 repeaters in 70 markets will be completed by start of service and to date 600 are in "various stages of construction," Panero said.

Company is projecting hitting breakeven in 2004 with 4 million subscribers and is studying adding 2-way capability to service, Panero said. Two-way service could be achieved using cellular technology, although he declined to disclose details.

There's no truth to rumor in Asia, Europe and U.S. earlier this month on DVD license changes for regional coding, DVD officials told us. Scuttlebutt among manufacturers and retailers said DVD Forum had drafted memo in Japanese that said DVD license would be denied to vendors installing firmware that could be used to set or change player's regional code setting. That would be extension of current requirement that manufacturers not make regional code settings easily accessible to consumers, such as through remote control. Officials of DVD Forum and DVD Format/Logo Licensing Co. in Japan told us no such change was contemplated and, in any event, sanctity of regional coding fell under auspices of Cal.-based DVD Copy Control Assn. (CCA). DVD CCA Pres. John Hoy told us procedural spec for regional coding wasn't being changed. He said current spec didn't say how firmware could be used except that "user changeable" systems didn't meet group's requirement for robustness. As for possible root of rumor, Hoy said: "My guess is that some manufacturer, wholesaler or distributor is no longer able to supply a product that performed certain functions, and it's easier to shift the blame to someone else than to tell the client he can't deliver."

Thomson's acquisition of Technicolor from U.K.'s Carlton Communications has been completed upon approval by shareholders, companies said. Carlton Chmn. Michael Green has been appointed nonexecutive dir. of RCA parent Thomson Multimedia. Purchase still awaits regulatory approvals in Europe and U.S.



**ELECTRONICS BOUTIQUE FORMAT:** Electronics Boutique (EB) will make full-scale plunge into pre-owned software business with opening of new EB GameWorld format in central N.J. later this month and plans another 64 outlets in fiscal year 2002, CEO Joseph Firestone said at Banc of America Securities Consumer Conference in N.Y.

EB GameWorld, will be similar in some respects to Shop 'N Save stores that EB opened in 1995 that also sold pre-owned software. But new strategy will convert 15 existing Shop 'N Save stores to new 1,500-sq. ft. format that will target strip malls and be split between new (60%) and pre-owned (40%) titles, said Jeffrey Griffiths, senior vp-mdsg. & distribution. To jump-start concept, EB acquired inventory assets of Game Pro stores in N. and S. Carolina (7) and San Antonio (3). EB has linked stores to its inventory management system and is installing EB GameWorld signs, Griffiths said.

EB GameWorld will be slightly larger than EB's standard 1,200-sq.-ft. mall-based outlets of which it has 500. EB plans to open 65 or more EB GameWorld stores over next several years with goal of expanding chain worldwide to 1,000, Firestone said. Major advantage of new format will be expense. While mall-based EB costs \$163,000 to open, excluding inventory, GameWorld will be \$45,000, he said. Stores are projected to post sales on par with or better than Shop 'N Save outlets, each of which generates \$600,000 annually, Firestone said.

Push into new format also comes after EB lost bidding war last year for 404-store pre-owned software chain Funco to Babbage's parent Barnes & Noble. Major motivating factor behind concept is that pre-owned titles carry higher profit margins than new releases, which generally fall in mid-20% range, Griffiths said. "Their [pre-owned software] availability in our stores also tends to attract core game enthusiast customer," he said.

In addition to EB GameWorld,, EB plans to open 110 stores this year, including 65 in malls and 11 EBKids, which currently has 18 stores that target children 4-12 years old with mix of select toys and G-rated videogames. Remaining 34 outlets will be spread across Canada (15), where EB will open first units in Quebec, Australia (14), New Zealand (5). It also provides management services to 310-store EB-U.K. chain and 4 Borders-owned Waldensoftware stores, down from 15 in fiscal year ended Jan. 31, 2000.

Overall, EB is targeting 30% increase in sales in FY 2002 to \$1 billion, largely linked to debut of Microsoft's Xbox, Nintendo's Game Boy Advance and GameCube in fall and existing market for Sony's PlayStation 2 (PS2). EB's largest market share is likely be in Xbox, where it projects 14% of industry sales this year, followed by PS2 (8%), GameCube (7%) and Game Boy Advance (3%), Griffiths said. "Xbox will be targeted more toward the older consumer and that is more of our target audience," Griffiths said.

While Sony is projecting industrywide sales of PS2 at 7 million units for fiscal year ending March 31, 2002, Griffiths said EB's internal estimates were 5.5 and 26.5 million units for hardware and software, respectively. Ratio of software to hardware sales is expected to be 8-1 this year vs. 2.7-1 at start last fall, said Griffiths, who said machines' backward compatibility with existing PlayStation games and its DVD feature initially

ate into PS2 software revenue. Griffiths also predicted Sony would cut PS2 price by fall to \$249 and possibly \$199 in advance of Microsoft and Nintendo product debuts. "I think they would like to go to \$249, but they may go to \$199," said Griffiths, with EB's internal target at \$250.

In EBWorld.com online business, EB said it had \$25 million in sales for fiscal year ended Jan. 31, up from \$14.1 million in fiscal year 2000, but he declined to comment on whether e-commerce site was profitable. Chain also will change name of e-commerce site to EBGames.com by midyear to "better reflect our business," Griffiths said.

EB is planning 2nd quarter introduction of broadband videogames-on-demand service in venture with Enron and Into Networks. EBWorld.com will stream leading videogames for rental to broadband Internet customers with 4-6 titles expected to be available at start, Griffiths said. Enron's broadband unit will handle strategic, financial and operational support for Into Networks, which is providing secure platform to stream games onto PCs in real time. Consumers will be able to rent games for 2 days at price yet to be determined, he said. Consumers renting via broadband will be able to play only first 2 levels of game and will be referred to EB stores for full version, Griffiths said.

Broadband gaming service represents 2nd chance for Enron, which had similar plans with Blockbuster before deal collapsed earlier this year.

**U.K. e-tailer Gameplay** was on auction block at our Fri. deadline. Company said at its Web site that since it announced restructuring Feb. 2 to shorten its timetable to profitability, "a number of informal discussions with 3rd parties have developed about the future" of its Boxed Games and Technology divisions. As result, it said it appointed Commerzbank Securities "to assist it in a review of all the options available to Gameplay including progressing the discussions with 3rd parties." Gameplay, in restructuring, cut 275 jobs, split itself into Boxed Games and Technology divisions, sold off noncore business operations. In process, Gameplay's Vienna-based development studio, NEO Software Productions, was sold to Take Two Interactive in Feb. Company said that although board "remains committed to positioning Gameplay at the forefront of digital delivery of games [it] is equally committed to maximization of shareholder value, particularly in the light of stock market conditions and the company's current share price." Gameplay said "it believes that the current market valuation does not reflect the true underlying performance or potential of Gameplay." Its shares have been down for last 6 months but jumped 15% early last week once company revealed it was talking with potential buyers, Reuters reported. Company said board "will report on developments" in its talks "to shareholders as soon as possible and certainly by the time of the announcement of the group's interim results," due April 30.

**Audible.com** began "Tell a Friend" incentive-based customer referral program last week. Wayne, N.J.-based spoken audio service provider said new program would give its customers ability to send e-mail offer to buy any audio title at 50% off company's price to anyone not currently Audible customer. Once title is bought, customer who referred new consumer will get \$5 credit to Audible account. Company also said 3rd party affiliate registration to Audible service was averaging 80 new Web sites each day.



**XBOX STILL ON TARGET:** Microsoft last week denied accuracy of reports saying company had delayed shipping "beta" version of its Xbox Development Kit (XDK).

In light of those reports, some industry observers expressed concern that Xbox console might be delayed getting to market. Console is scheduled to start shipping in U.S. and Japan in fall and in Europe next spring.

Shares in Microsoft and Xbox game makers including Electronic Arts (EA) also dropped when reports surfaced.

But in written statement, Microsoft Sales & Mktg. Dir. John O'Rourke said late last week: "We are still right on track to deliver hardware and software for a launch in the fall of 2001. We've hit all major milestones to date and have more than 200 of the world's best game developers signed up for Xbox including Sega, Electronic Arts, Konami, Eidos, Infogrames, Capcom, THQ and Activision. There are currently hundreds of games in development, and many will be very playable at E3 in May. Our developer support and release process is also right on track."

*Financial Times* had reported that European and Japanese game makers were told by Microsoft that they would get final version of development kit in March.

But O'Rourke said: "Since last September, we've been telling developers that we'd deliver the beta Xbox Development Kits units before E3 and we're still on schedule. In fact, the last 12 of our hardware and software development kit releases were available on schedule." He added: "These regular development kit updates and releases help ease the migration to the more powerful Xbox hardware and software tools." Shares in Microsoft climbed back up before end of last week.

After reports of possible Xbox delay came out, Take-Two Interactive issued statement saying "any potential delay in the delivery of the Microsoft Xbox development kits would not affect its fiscal 2001 operating results." CEO Kelly Sumner said: "Take-Two's business model for the year ending October 31, 2001, does not include any Microsoft Xbox titles." He said company didn't believe potential Xbox delay would affect delivery of games for Take-Two's fiscal 2002.

Take-Two, along with Activision, Midway Games and THQ were among other game makers whose shares also dropped after reports of delay, but they weren't hit nearly as hard as EA, whose shares tumbled as much as 15% in trading April 4. Also apparently affected by reports was Xbox chip maker Nvidia.

Activision said Fri. its Xbox videogame development activities "are progressing at full expectation." Company said its most advanced Xbox title, *Tony Hawk's Pro Skater 2x*, "is moving along smoothly through its expected development process" and will be spotlighted at E3 next month. Activision also said it was "on track in the planning and development of several additional games" for Microsoft's console.

"We anticipate a successful launch for Microsoft's new platform," Activision CEO-co-Chmn. Robert Kotick: "Activision is eagerly anticipating the upcoming launch of Xbox." He said company received development kits for system last fall "and [we] have a number of teams deep in development on several exciting titles

for the platform." Activision said it intended to be "a leader on all the next-generation gaming systems," including Game Boy Advance, GameCube, PlayStation 2.

Separately, Microsoft spokesman told us last week: "An organizational decision was made to consolidate the Windows 3rd party gaming team in the U.S." British news report said Microsoft decided to shut down its U.K. DirectX office in London and move operation to company's Redmond, Wash., hq as result. But spokesman told us "the Microsoft U.K. offices are not closing per se." He said: "The number of employees on the DirectX/3rd Party Windows Gaming team remains the same, as does Microsoft's commitment to the game development community. Plans for DirectX have not changed. Development continues as it always has in the U.S. and marketing and evangelism will continue to be supported by the Redmond-based team." It was unclear at our Fri. deadline whether any jobs in London were being cut as result of consolidation.

Although Babbage's Etc. parent Barnes & Noble already has started referring to its videogame and entertainment software division as Gamestop, Inc., Babbage's Business Development Vp Russ Howard told us last week that company still was "in the process" of changing its corporate name. He said it also was "looking to consolidate the names [of stores] under one brand — and that will be a Gamestop brand." But he said he "can't say how quickly we'll get there systemwide" at all of its stores. Howard said: "We are letting our vendor community [know] that we're changing our corporate name." Babbage's currently operates under names Babbage's, FuncoLand, Gamestop, Planet X, Software Etc., SuperSoftware. In addition to brick-and-mortar stores, company operates Gamestop.com Web site. Babbage's had changed its name to Babbage's Etc. after it merged with Software Etc. in 1994. Barnes & Noble bought Babbage's in 1999 and acquired FuncoLand stores last year after outbidding Electronics Boutique (TVD May 8/00 p18). Howard told us in Jan. that Babbage's was "in the process" of dropping "a couple of dozen" Funco employees as part of continuing consolidation process spurred by Funco acquisition (TVD Jan 29 p20).

**DVD-Audio release** of 6-time Grammy winner Joni Mitchell's *Both Sides Now* hits stores April 10 from Warner's Reprise label (\$24.98). Album, which includes jazz-pop standards popularized by artists such as Ella Fitzgerald, Billie Holiday, Lena Horne and Nina Simone, won Grammy Awards for Best Traditional Pop Album and Best Arrangements earlier this year. It was recorded at Sir George Martin's studio in London with London Symphony Orchestra. Beside 6-channel DVD-Audio, mix has Dolby Digital surround mix and stereo tracks playable on DVD-Video decks.

**Latest *Pokemon* installments** from TV will appear on DVD (\$24.98) and VHS (\$14.98) May 29 from Pioneer Entertainment. Studio said *Pokemon 41: Mission Spinarak* and *Pokemon 42: Snow Rescue* each contained 3 episodes, *Pokemon* motion-card insert, new battle statistics.

#### THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥125 = \$1, except where noted.



**TIVO RESTRUCTURES:** TiVo is slashing 80 jobs and increasing price of lifetime subscription to personal video recorder (PVR) service to \$249 in bid to "eliminate dependence on fundraising" for current fiscal year, CEO Michael Ramsay said. Actions will generate savings of \$60 million, he said.

Increase in price of lifetime subscription, which had been \$199 and served as alternative to \$10 monthly fee, takes effect May 1. Lifetime program accounts for 60% of subscriptions to service and monthly charge for rest. "Clearly we are focused on raising cash and the lifetime service offers that," Ramsay said.

In eliminating jobs, TiVo said they would involve temporary and contract employees. Ramsey said company would introduce new PVR platform architecture later this year to reduce production and subsidy costs, but he declined to disclose details other than to say that reduction was "significant." Lower production and subsidy expenses will cut subscriber acquisition costs from current "mid-teens" to "high single digits," company said.

TiVo forecast adding 180,000-220,000 subscribers this year to raise total to 350,000 by Jan., Ramsay said. He declined comment on how many of new subscribers would be gained through DirecTV/TiVo combo box, but said satellite service was "increasing momentum." TiVo will continue marketing standalone PVRs, but much of promotional focus will be on combo products, it said. Annual revenues are forecast at \$20-\$24 million, TiVo said.

Despite news release last fall announcing agreement with Thomson (TVD Oct 23 p10), Ramsay said agreement hadn't been reached and "won't be in the near future." He also declined comment on possible video-on-demand service with DirecTV and Blockbuster. TiVo signed alliance with Blockbuster last year (TVD Jan 10/00 p24).

**Tweeter reported** 2nd-quarter sales climbed 36.8% to \$117.8 million on 3.6% gain in same-store sales excluding Douglas TV and United Audio Center chains. Douglas TV and United Audio had combined 7.4% decline in same-store sales, which CFO Joseph McGuire said was "pretty typical" as chain's acquisitions changed pay systems and product lines. Overall, same-store sales rose 12.2% in year. Sales of projection and direct-view TVs jumped 28% and 14%, respectively, in quarter as DVD margins improved 2.2% despite 9% decline in average selling price, McGuire said. Tweeter also signed deal to buy Charlotte-based Audio Video Systems for \$4.75 million in cash and stock. Purchase is expected to close June 1. Audio Video operates 3 stores and was building 4th at time of deal. Chain, which operates stores of 10,000-12,000 sq. ft., had annual sales of \$15 million. Tweeter also acquired naming rights for outdoor amphitheaters in Chicago and Camden, N.J., under 10-year agreements with SFX Entertainment. Terms weren't disclosed, but similar deal for amphitheater in Boston area was 9 years and \$12 million, McGuire said. Tweeter also owns naming rights for HiFi Buys Amphitheater in Atlanta.

**Foot-and-mouth disease** in U.K. took first toll on high-tech industries when Link2001 professional imaging show scheduled for April 8-10 in London was cancelled. Shows organizers attributed cancellation to increased travel restrictions in U.K. and between Britain and Continent.

## Consumer Electronics Personals

**Lawrence Blanford**, ex-Maytag, named Philips Consumer Electronics pres.-CEO in Atlanta... **Masayuki Murakami** retires as JVC mgr.-international PR in Yokohama after 17 years, succeeded by **Toshiya Ogata**, who shifts from JVC subsidiary in Singapore... **John Scelfo**, ex-Dell Computer, joins Sirius Satellite Radio as CFO, replacing **Michael Haynes**, who resigned to join unidentified investment bank... **Timothy Jensen**, Merisel exec. vp-CFO, advanced to pres.-CEO, replacing **David Sadler**, who joined Merisel last July as part of turnaround effort and will return to consulting business... **Peter Berger**, ex-Ventana Ventures, named CEO, Valley Media, succeeding founder **Barney Cohen**, who remains chmn.

"Computer and video game industry has grown at a strong and steady rate, and will undoubtedly continue to do so throughout the next decade," Interactive Digital Software Assn. (IDSA) said in its annual *State of the Industry* report last week. IDSA said "computer and video games generated \$6.02 billion in sales in 2000" and predicted it would "continue to show strong growth over the next few years." Among findings of IDSA's annual member survey was that 55% of CEOs said online games were either very or extremely important to their company's business strategy in next 12 months. But same member survey found that equal number of CEOs believed revenues from online games wouldn't exceed 20% of their company's revenues until at least 2004. To underline how far industry has come, IDSA said in its report "about 3 times as many Americans — or about 145 million people — played computer and video games last year as went to the top 5 U.S. amusement parks in 1999" and "about twice as many played computer and video games last year as attended Major League Baseball games in 1999."

**White LED that could replace incandescent lamps** and LCD backlights has been developed by Toshiba and Toyoda Gosei in Japan. They said product combined Toshiba phosphors and Toyoda's LED, which has high luminosity at low-power consumption and 380 nanometer wavelength. Samples are available this month in \$1.70-\$2.60 range, and full production begins in Nov., companies said. They will market LED separately under own brands.

**Consumer profile research** findings released by Recording Industry Assn. of America said "competition for young people's attention, specifically the Internet," was continuing to grow. At same time, RIAA said, "singles share of the music market dropped by an astounding 50% from this time last year." RIAA has been among most active opponents of Napster and has said rampant availability of free digitally downloaded recordings of copyrighted work had hurt sales.

**Creative Technology** made its C-series of Nomad digital audio products available online last week. Nomad Jukebox C player (\$269) offers 6 GB of storage capacity, while Nomad II C digital audio player (\$129) comes with 32 MB of onboard memory and Smart Media memory expansion slot. Company also introduced variety of new accessories, including Jukebox C accessory kit (\$49.99) with car cassette adapter, carrying case, 4 rechargeable batteries and Jukebox pouch; and Nomad II C-series accessory kit (\$29.99) with car cassette adapter, carrying pouch and remote.





# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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**WEB STREAMING STALLED** by union issues. Stations say revenue doesn't justify higher fees. Clear Channel, others on hold. (P. 3)

**GEMSTAR DROPS MUST-CARRY** bid in face of likely FCC rejection, cites voluntary agreements, chance to refile later. (P. 4)

**LIBERTY SPINOFF OKAYED** by IRS. AT&T to convert tracking stock. Malone to leave AT&T. Other options eyed. (P. 4)

**LPTV RULES CLARIFIED** by FCC. It declines to impose more must-carry, does allow data carriage. (P. 5)

**BROADBAND PLAYERS RETREAT** in face of Wall St. problems. Less competition for cable, others seen likely. (P. 6)

### Consumer Electronics

**DVD IS BRIGHT SPOT** in CE shipments through first 13 weeks, while other categories hold steady through economic slowdown. (P. 9)

**LINUX-BASED GAME SYSTEM SCRAPPED** as Indrema closes its doors for lack of funding. (P. 10)

**BOSE READIES DVD LIFESTYLE** products for Sept., will cut prices \$200-\$400 on existing CD-based models. (P. 11)

**ALPINE TESTING XM RADIO** for Sept. debut at \$299 target price, but won't offer DVD-Audio before next year. (P. 12)

**KENWOOD REJECTS WEB SALES** for new Sovereign line of limited distribution products that includes universal DVD mega changer and Entre 'entertainment hub.' (P. 13)

**GOOD GUYS EARNINGS RISE** as chain projects first profitable year since 1995. (P. 14)

**SPECTRUM FEES, PTV FUNDING HIGHLIGHT BUSH BUDGET:** End to advance funding for public TV and continued interest in spectrum fees for analog TV spectrum were among key mass media features of budget unveiled last week by President Bush. Proposed budget also called for increased funding for FCC for FY 2002 but no new money specifically for FCC engineers and leveling off of agency's spending over next 4 years.

As expected, budget outlined Administration's intent to introduce legislation that would delay FCC's 2 scheduled auctions for 700 MHz band (broadcast channels 52-69) and would create lease fee for analog broadcasters. Legislation, first signaled by Bush in budget blueprint released in late Feb. (TVD March 5 p1), would provide \$2.6 billion offset for FY 2002 as result of delaying Ch. 60-69 auction to 2004 from 2001 and Ch. 52-59 to 2006 from 2002. "The legislation will promote clearing the spectrum in channels 60-69 for new wireless services in a manner that ensures incumbent broadcasters are fairly compensated," budget said. Channel 60-69 auction now is set for Sept. 12, after being delayed for 4th time earlier this year. Last month, FCC approved notice of proposed rulemaking that started process for auctioning Ch. 52-59 under statutory deadline of Sept. 30, 2002 (TVD March 19 p1).

Existing deadline of 2002 for Ch. 52-59 band was established in 1997 balanced budget act at time when lawmakers eyed auction proceeds as way of adding up budget numbers, although current surpluses make that need less pressing. Budget includes projected offsets from spectrum auctions and "major asset sales" of \$2 billion for 2002, \$7.6 billion for 2003, \$14.2 billion for 2004 and \$2.8 billion for 2005. Budget documents said that delaying auction dates would increase auction proceeds by \$7.5 billion and that over next 5 years auction revenue was expected to be close to \$25 billion.

Budget makes good on Administration pledge several weeks ago to still move ahead on auction legislative proposal despite initially chilly reception on Capitol Hill, particularly from House Commerce Committee Chmn. Tauzin (R-La.).



Budget proposal also estimates \$198 million in revenue for FY 2002 from proposed analog spectrum lease fee, which would require statutory change. Plan said Administration would propose legislation authorizing FCC to create lease fee for analog broadcasters to expedite clearing of 700 MHz in face of 2006 transition target for DTV. Bill would direct Commission to implement rule "to apportion the aggregate fee amount among broadcasters," budget said. "Upon return of its analog spectrum license to the FCC, an individual broadcaster is exempt from the fee." Agency can recoup up to \$2 million from fee collections in fiscal 2002 to cover costs of developing and implementing program. Clinton Administration and previous Bush Administration each floated similar leasing fees that were shot down by Congress, and House Budget Committee already has rejected similar proposal this year. Budget documents released earlier this year said federal govt. expected to take in \$200 million annually from broadcasters until 2006.

Tauzin said he supported President's decision to postpone certain spectrum auctions, but "penalizing America's broadcasters — who are struggling to make the transition to digital — with punitive spectrum fees is a terrible idea, and I will fight it every inch of the way." Aide to Rep. Markey (D-Mass.) called Bush budget "confirmation of a lot of rumors... There's not a lot of surprises." He reiterated his criticism of White House "budget alchemists" whose spectrum plan is intended to "turn air into gold." Markey aide also was concerned about proposed end to forward funding for public broadcasters, saying "people who are trying to run a television network... have to have a more sound basis for programming decisions" than yearly appropriations cycle.

In keeping with its stated policy of limiting advance funding, Bush budget doesn't propose any advance appropriations for CPB for 2004. FY 2004 appropriation of \$365 million had been sought for CPB, which heretofore has been forward funded for 2 years in Labor-HHS bill. Administration said CPB should get appropriations like other programs that received federal assistance, so its 2004 funding request would be in FY 2004 budget. "It sets a dangerous precedent," APTS Pres. John Lawson said: "Forward funding has been a firewall for the editorial independence of PTV and public radio for the past 25 years." He said it was bad public policy to put public broadcasting on such "short funding leash," and expressed hope that Congress would restore advance funding for CPB as it had been doing. CPB Pres. Robert Coonrod said that although Administration's decision not to continue to provide corporation with advance funding was part of overall budget policy decision, "we believe that good public policy reasons exist to justify the continuation of advance appropriations for CPB." He said he hoped Congress would provide CPB exemption from restrictions on advanced funding.

Public broadcasters' bid to justify forward funding request as exemption for "programmatic reasons" apparently didn't work. APTS spokeswoman said PTV programs were developed on basis of money promised or seed money. "When we have funds committed it's easier for us to go out and get other money... to leverage other private and public money" for developing programs, she said. As for PTFP, which will help facilitate digital conversion of PTV stations, funding for FY 2002 is unchanged from current \$43 million, down from requested \$110 million. While grateful that PTFP funding wasn't cut, Lawson said it was ironic that Administration, which was "rightly concerned" about DTV transition, was doing so little to help public broadcasting's transition to digital.

Budget proposal would increase funds for FCC, but White House's long-term strategy is to level off agency's spending over next 4 years. Bush would increase Commission's FY 2002 budget to \$248.5 million from current \$230 million. Total proposed outlays, or "amount the [FCC] actually spends in a given fiscal year," would increase to \$320 million from \$301 million. Spending in FY 2003 and 2004 would drop to \$302 million, then increase by \$1 million in FY 2005 and FY 2006, respectively, under plan.

Nearly \$19 million of FCC increase would come from fees collected by agency. Additional \$30 million must be appropriated under White House plan, unchanged from last year. Despite plan to increase FCC budget through fee collection, Bush said long-term goal was to freeze total regulatory fees. FY 2002 regulatory fees would increase to \$219 million from \$200 million in FY 2001, but fees would remain at latter amount through FY 2006.

FCC said budget proposal included staffing level equivalent to 1,975 full-time workers. "Nearly 40% of the requested FY 2002 increase in the funding level (\$7,614,000) will cover mandatory increases for salaries and benefits and other areas and inflationary increases for contract services," it said. "The balance of the funding increase (\$10,997,000) includes funds to replace outmoded computer equipment, maintenance of electronic filing systems and productivity enhancements to the Commission's information technology infrastructure."

White House also said FCC in 2002 would "achieve 90 percent of licensing activities within established time frames" and "80 percent of all FCC applications will be filed electronically."

Bush ignored FCC Chmn. Powell's recommendations to bolster agency's engineering capabilities. Powell late last month told Telecom Subcommittee (TVD April 2 p1) that FCC needed increases in engineer compensation as well as



improvements in engineering facilities to attract and retain staff talent. Powell made "compelling case to Congress for the need for additional money" to address agency's "outdated engineering capabilities," Tauzin said. "Given the FCC's enormous responsibilities in the Digital Age, I will personally ask the White House to reconsider the agency's funding level."

Bcstg. Board of Governors will "actively solicit the participation" of private sector in competitive bidding for U.S. govt.-run international broadcasting contracts, budget proposal said. White House also wants board to "finalize and implement strategy, using private contractors when possible, that will improve the operating efficiency and reach of its broadcast network by taking advantage of emerging technologies."

**UNION ISSUES STALL WEB STREAMING:** Decision of several radio groups to stop streaming their programming over Internet because of union contract problems could "freeze the possibility" that Internet audio streaming would become major business enterprise, Washington lawyer John Kamp said: "There will eventually be a real business here, with profits for everyone, including the unions, but if they don't get realistic, it will stall." Several large radio group owners, including Clear Channel (CC), one of largest and most aggressive in using streaming, have at least temporarily stopped streaming their radio programming pending settlement with unions, including AFTRA.

"Streaming produces such minimal revenues that it doesn't begin to rationalize the expenses imposed by the combination of copyright and AFTRA fee license requirements," said Tom Owens, CC senior vp-programming. CC's streaming investment to date is "slight," Owens told us, and impact of halting streaming on revenue won't be material. He said, however, that "the future of the Internet is stronger than ever and we fully intend to position our company as partners, not adversaries, or worse yet victims of this rapidly emerging media."

"It is our intention to put the streams back up when it makes legal and financial sense," said Kevin Mayer, chmn. of Clear Channel Internet Group. He said company was "working hard to resolve outstanding issues" and was selecting and deploying technology to remove programming that would trigger higher fees.

Radio group decisions to abandon streaming are result of failure last fall of ad agency groups to negotiate new contract with AFTRA covering ads that are streamed. Industry officials said AFTRA was seeking agreement that would have paid artists 3 times as much in royalties for ads streamed on Internet as for those that were broadcast over air. "Everyone was hoping that streaming would be the great cash cow," Kamp said. "The union people thought it was their ticket to residuals and retirement." Union officials said they still believed it was unfair for stations to get benefit of streaming ads without extra compensation for artists.

Even though contract talks failed last fall, most stations continued to stream until ad groups distributed joint policy bulletin month ago warning that ads on streaming media weren't covered. That prompted ad agencies to begin writing notices into ad contracts and stations to become concerned about their legal situation, said Dorann Bunkin of Wiley, Rein & Fielding. Unions have indicated they will pursue all legal avenues to assure that ads aren't streamed without payments. Bunkin predicted that technology eventually would solve problem by allowing stations to cut uncovered ads, but "right now they are both losing."

Mayer said some talks were under way to solve problem, but Clear Channel officials would provide no details. Kamp and Bunkin said it wasn't clear what next step would be. Kamp said: "First, the unions have to figure out that the price they want is completely out of line." With streaming producing almost no revenue now, he said, unions would have to accept smaller artist fees if they wanted it to be good revenue source.

Although it's one of most aggressive in streaming its radio programming on Internet, CC certainly isn't only one deciding against continuing practice. Among other groups reportedly making same decision are ABC Radio, Bonneville, Radio One. Clear Channel owns more than 1,200 radio stations nationwide and CFO Randall Mays said 2 years ago that radio group planned to stream all of its stations as soon as possible.

Streaming audio and video on Internet could generate \$2.9 billion annual revenue just from wireless devices by 2006, according to study released April 11 by Webnoize. Report said consumers were "incredibly enthusiastic" about streaming media to wireless devices. Arbitron estimates that number of consumers regularly listening to radio via Internet had grown nearly 50% in last year, accounting for 7.3% of radio audience.

Microsoft, meanwhile, said "the tempest over ad fees" hasn't affected stations that use its Windows Media Technologies (WMT) for streaming. Spokesman said WMT includes built-in ad replacement technology to insert compliant ads in place of those that would generate additional union or copyright fees.



**GEMSTAR DROPS MUST-CARRY CASE:** Gemstar-TV Guide International abruptly withdrew its FCC petition for special relief in cable must-carry case after conceding that Commission was going to rule against company in its struggle with AOL Time Warner (TVD Feb 19 p3). In brief filing April 11, Gemstar said it was withdrawing petition immediately "without prejudice as a matter of right," allowing it to file new petition later if it wants. FCC, which had planned to vote on Gemstar's petition at its agenda meeting April 19, said it would rule on withdrawal after reviewing it.

AOL Time Warner declined comment. But NCTA said Gemstar "apparently concluded that it has overreached in its request for government intervention." Arguing that cable operators "are not required to subsidize the launch of new businesses by broadcasters nor third-party vendors," NCTA said "market-place negotiations, rather than the threat of government regulation, already provide a mechanism for companies such as Gemstar to work with cable operators."

Gemstar's move came just over year after it filed for special relief, charging that Time Warner Cable illegally had stripped its electronic program guide (EPG) from vertical blanking interval (VBI) signals of local broadcast stations in at least 9 cable markets. Gemstar, which has signed VBI carriage deals with local broadcasters in each Time Warner market, argued that must-carry rules applied because program guides were closely related to video programming presented by broadcast stations. But Time Warner, which claims right to charge for cable bandwidth use, contended that must-carry rules didn't apply to such ancillary services as program guides.

In its new filing, Gemstar said it was withdrawing petition because AOL Time Warner and other MSOs had stopped stripping its signal. TW restored Gemstar signal to its cable systems last year as it sought approval of its takeover by AOL. "We watched with care once the merger was completed," said Gerard Waldron, Covington & Burling attorney representing Gemstar in case. "There's been no stripping since then."

Gemstar said it also was dropping its earlier petition because "issues regarding the role of electronic program guides currently are being raised in other FCC proceedings — each of which presents in a different factual context questions of program — and signal — relatedness and the importance of EPGs to viewers." Gemstar said it reserved right to file new petition "should the practice of VBI stripping be resumed by any entity."

Commission watchers had expected FCC to rule against Gemstar after Cable Bureau recommended that agency reject petition. FCC also signaled its thinking on EPGs when it tentatively rejected dual cable carriage of analog and digital broadcast signals in its Jan. DTV must-carry order. In that order, Commission concluded that "program guide data that are not specifically linked to the video content of the digital signal being shown cannot be considered program-related and, therefore, are not subject to a carriage requirement." At best, sources said, FCC would have split 2-2 on petition, thereby upholding AOL Time Warner.

Industry observers expect Gemstar, instead of seeking free must-carry status on cable systems, to pursue digital cable carriage pacts with MSOs. Indeed, it has done exactly that in last 2 months, signing long-term deals with Charter, Cogeco Cable, Comcast. Gemstar also is negotiating pact with AOL Time Warner but no agreement has been reached.

**IRS OKAYS LIBERTY SPINOFF:** AT&T said IRS blessed company's bid to spin off its Liberty Media subsidiary as independent company. IRS ruled that proposed split-off would qualify as tax-free transaction for AT&T, Liberty Media and their shareholders, potentially saving them minimum \$2 billion in tax bills. As result, AT&T said it planned to convert its current Liberty Media tracking stock into separate asset-based security and start unit as new company by midsummer. AT&T also said Liberty Media Chmn. John Malone, as expected, would "retire" from parent company's board following spinoff.

With move, AT&T will execute one of 3 cable divestiture options spelled out by FCC in its order approving company's \$44 billion purchase of MediaOne Group last June. Commission gave AT&T choice of spinning off Liberty Media, selling its 25.5% stake in Time Warner Entertainment (TWE) or shedding cable systems with 9.7 million subscribers to comply with agency's 30% cable ownership cap. While AT&T eventually said it wanted to both spin off Liberty Media and sell TWE stake, FCC ruled that it needed to shed TWE to comply. But Commission suspended its MediaOne compliance conditions last month following U.S. Appeals Court, D.C., ruling that struck down cable ownership limits as unconstitutional (TVD March 26 p2).

Industry sources said AT&T now could proceed with Liberty Media spinoff, shedding TWE interest and other cable asset sales on its own timetable. AT&T spokeswomen indicated that company planned to do exactly that and that it continued to discuss sale of TWE stake back to AOL Time Warner. "We're still in the process of negotiating," one AT&T spokeswoman said. "Our goal is certainly to do it in the most expedient way possible."

AOL Time Warner spokesman said "discussions are ongoing" with AT&T over TWE. AT&T spokeswomen said their company hadn't set deadline for completing negotiations, still believed to be deadlocked over sales price. Earlier AT&T deadline of March 15 quietly expired but both companies extended date.

AT&T said it would continue to pursue sale of most or all of its 30% stake in Cablevision Systems as part of its effort to raise cash and pare debt. AT&T also is trying to sell its stakes in programming networks it inherited from MediaOne. Company recently sold cable systems with total of more than 1.3 million subscribers to Charter and Mediacom and is rumored to be looking to dump more.

In meantime, industry sources expect FCC to proceed carefully with examination of whether its MediaOne conditions still should apply to AT&T in light of cable cap ruling. They predicted that Commission would issue low-key public notice to seek comment on matter and review comments before making ruling. If agency goes that route, notice could come out this week.

**Result of final independent tests conducted by Mitre Corp.** of Bedford, Mass., to determine whether Northpoint-Broadwave technology would interfere with DBS systems is due early this week, industry source said. Once results are made public, issue will be put out for public comment. Source said FCC could make final ruling "any day" and didn't have to wait for all comments. DBS industry has objected to use of Mitre, which they call "unqualified" to evaluate Northpoint's system.



**LPTV RULES CLARIFIED:** Low-power TV (LPTV) stations that qualify as Class A stations protected from interference don't have same must-carry status as full-power broadcasters, FCC said in order on reconsideration of Class A rules adopted year ago. Commission rejected claims that congressional Class A legislation intended to give Class A stations must-carry, saying Congress was silent on issue. It said, however, Class A stations will continue to have same carriage rights as LPTV stations.

Decision also clarified procedures when full-power DTV station wants to maximize its service area, potentially interfering with Class A station. Commission said DTV station must show that adjustment is technically necessary, but said station doesn't have to prove it's only option. Commission did say, however, stations may be required to offset their signal by 10 kHz in order to reduce interference.

FCC narrowed its definition of locally produced programming that qualifies station for Class A status. Among other things, it said programming must be produced at commonly owned station with physically contiguous grade B contour. However, Commission rejected request that it require that local programming address interests of local community "in any specific manner." Commission also refused to exempt Class A stations from main studio requirements of full-power broadcasters, saying there's need for "a local responsive presence" of station management. It did, however, say main studio for group of commonly controlled and contiguous stations could be within contour of any of stations.

In other decisions: (1) FCC said Class A stations that convert to DTV will have same rights as full-power broadcasters to offer ancillary telecom and other data services. It noted, however, such services will be subject to same fees as full-power stations. (2) FCC declined to change criteria for stations that are protected from Class A interference.

**Webcasters urged Copyright Office to set royalty rate for Web radio that's fair to artists but won't stifle growth of fledgling online broadcasting.** In documents filed in Copyright Arbitration Royalty Panel (CARP) proceeding, Digital Media Assn. and companies such as Launch Media, Netradio.com and RealNetworks said Copyright Office should set compulsory license royalties for Webcast performance rights of sound recordings at \$.0015 per listener hour, rate that could generate hundreds of millions of dollars for recording industry (TVD Dec 11 p4). Unlike radio broadcasters, which pay royalty fees solely for performance of musical composition, Webcasters are required by Digital Millennium Copyright Act (DMCA) to pay for both performance of underlying song and sound recording. That — and fact that, unlike broadcasters, Web radio companies must pay for bandwidth to stream programs to each customer — makes it harder for industry to make money, said RealNetworks Vp-Govt. Affairs Alex Alben at news briefing April 11. Webcasters will try to convince 3-member arbitration panel — which hasn't been selected yet — that it should adopt model that will pay artists but recognize Web radio companies' costs and risks, said Ken Steinthal, who's representing Webcasters. Economist hired by Webcasters studied what performance rights societies such as BMI and ASCAP received for performances over broadcast radio, he said, and will testify that appropriate Web radio royalty rate for sound recording performances should be derived from adjusting value of underlying composition performances in broadcasting.

**Seeking to differentiate cable from broadcasters,** NCTA said MSOs "will comply voluntarily" with FCC's equal employment opportunity (EEO) rules even though they recently were struck down by U.S. Appeals Court, D.C. In resolution unanimously approved by its board April 11, NCTA adopted "self-enforcing version of the FCC rules," committing each cable operator to conducting at least 2 annual diversity recruitment efforts. Cable operators also agreed to spell out details of their outreach programs in their public inspection files. NCTA said it was instituting certification program to ensure compliance with voluntary guidelines. Board also approved funding of 6 National Assn. of Minorities in Cable (NAMIC) scholarships to CTAM's Advanced Executive Program at Harvard Business School in June. Unlike broadcasters, who fought EEO rules in court, NCTA has backed FCC's new regulations. FCC Chmn. Powell praised NCTA for committing to "a program of voluntary outreach to minorities and women to fill job vacancies." Stating that "diversity in the work force is good policy and good business," Powell said "much can be accomplished through this kind of voluntary program."

**In ruling against Rogers Cable,** World Intellectual Property Organization (WIPO) arbitrator Philip Argy said company may have fabricated bad-faith evidence and exaggerated severity of public confusion in its bid to control rogersvideo.com domain name. Argy said he hoped his decision would deter future complainants from using bad-faith arguments, saying "attempting to characterize the respondent as a cybersquatter, and the making of unsubstantiated allegations in order to attract the operation of the policy, is an entirely inappropriate solution." In support of its claim against Dutch erotic video provider Arran Raja Lal over domain name www.rogersvideo.com, Rogers claimed Dutch site was confusingly similar to its own. Cable company admitted it had operated solely in Canada under name Rogers Video since 1988 and held no goodwill or trademarks outside Canada. Lal said he registered name rogersvideo.com in 1994 and business name Roger's Video in Netherlands. WIPO said businesses applied to different jurisdictions and site name consisted of generic words.

**Viacom said it was "extremely pleased" by stay of compliance with FCC ownership cap issued by U.S. Appeals Court, D.C.** Decision means Viacom won't have to divest some of stations acquired in takeover of CBS pending review of overall ownership cap. FCC Comr. Furchtgott-Roth, who dissented when Commission rejected Viacom petition to suspend national ownership cap, said he wasn't surprised by court decision but said he was surprised that agency had filed brief with court saying stay request should have been dismissed on procedural grounds. Stay request was based on same First Amendment argument that court upheld in Time Warner cable ownership cap case, Furchtgott-Roth said, but FCC brief generally ignored that argument: "The D.C. court stay puts the FCC in an unfavorable light." He said whenever court upholds First Amendment argument, FCC ought to actively review any rules that might be subject to same argument.

**Cablevision Systems said it won more than \$29 million in damages in case against Ill. distributor of "pirate" cable decoders.** Cablevision said damage award, largest ever under federal law, included enhanced damages of \$50,000 and yet-to-be-determined attorney fees. U.S. Dist. Court Judge Ruben Castillo granted award against 7 allied companies and their principals and employees last week, nearly 2 years after Cablevision filed suit in May 1999. Castillo found defendants had sold one or more pirate decoders to 2,756 Cablevision subscribers.



**NEW BROADBAND PLAYERS RETREAT:** Broadband service providers (BSPs), new breed of cable and telco overbuilders heralded as future of communications industry less than year ago, have fallen on hard times. Stung by Wall St.'s refusal to pour more money into capital-intensive business since last summer, most BSPs have either scaled back their construction plans drastically or dropped out of market altogether. Even RCN Corp., "granddaddy" of overbuilders backed by Paul Allen, has cut back, turning its attention away from new regions to focus on areas where it already is building plant. "Everybody got crunched," said Mark Haverkate, CEO of WideOpenWest (WOW), another leading BSP. "The [capital] markets have changed quite a bit."

WOW, for example, once aimed to build competitive systems for cable, telephone and high-speed Internet service in Dallas/Ft. Worth, Denver, Houston, St. Louis and Tucson areas. But, having run through much of its initial \$53.5 million in capital, it's focusing just on Denver, where it plans to start service soon and sign up 20,000 customers by year-end. Capital crunch has "kind of made us focus on one market for now," Haverkate said. "Instead of trying to do everything at once, we're doing it more sequentially."

Overbuilders also blame their woes on stiff cable and telco resistance to their competitive forays, particularly in Boston, N.Y., Philadelphia. They cite unfavorable court and FCC decisions and reluctance by many cities to license BSPs under new, less regulatory open video system (OVS) framework set up by Congress in 1996 Telecom Act. "Unfortunately, the OVS model has not proven as attractive as one might have hoped due to a variety of factors," RCN Vice Chmn. Robert Currey said in recent testimony before Senate Antitrust Subcommittee. While RCN operates OVS systems in some areas, it's now pursuing traditional cable franchises in Cal., Chicago, Northeast.

As result, cable operators, phone companies and ISPs find themselves facing fewer potential rivals than they did last spring, when more than 15 BSPs were building or planning to build fiber-rich systems. In Philadelphia, for example, RCN recently pulled back from its intent to build \$200 million system that would have competed against Comcast's cable system and Verizon's phone network. While RCN officials say they withdrew from Philadelphia because of lengthy franchise delays and Comcast's role in blocking franchise and access to local sports programming, cable and other observers pin blame on financing squeeze.

Similarly, Western Integrated Networks (WIN) postponed plans to build rival cable-telecom networks in Austin, San Antonio, San Diego, Seattle. While overbuilder is moving ahead with construction in its first 2 cities — Sacramento and Dallas — it has put 4 other systems on hold. "Clearly, we have not been immune to the goings-on in the capital markets," said WIN Vp-Business Development Shiraz Moosajee. "The important thing is, we're still around."

Same couldn't be said for several other BSPs that got off to later start than RCN, WIN, WOW. At least 2 younger overbuilders — Digital Access and American Broadband — dropped by wayside before they could connect first customer despite raising up to \$450 million apiece. Digital Access shut its doors early last month after winning franchises in 4 large metro areas and beginning construction in Kansas City. "The [business] model works if a reasonable amount of leverage [debt] is applied to equity," said CEO Joseph Cece, who also was targeting Indianapolis, Jacksonville, Milwaukee, Nashville. "That leverage is simply not there right now."

Despite pulling back, BSPs said they remained bullish about business prospects. But they're far less bullish about outlook for capital markets over next few months. "I think you need to ask somebody named Greenspan about that," Moosajee said.

**Striking back at broadcasters,** NCTA came out against joint petition for reconsideration of FCC's DTV Biennial Review Order filed by NAB, MSTV and ALTV last month (TVD March 19 p6). In 7-page filing April 12, NCTA called on FCC to dismiss reconsideration petition because of "the broadcasters' efforts to shift the blame to other industries for their inability to meet Commission deadlines and other requirements." NCTA faulted broadcasters for blaming cable for lagging DTV transition, arguing that DTV-cable compatibility problems, other technical obstacles and lack of dual-carriage obligations have not led to transition delays. Countering charge that MSOs were "dragging their feet" in promoting DTV transition, NCTA said cable industry had spent \$42 billion over last 5 years to roll out new digital services, signed up 10 million digital cable subscribers and introduced 60 new digital channels. Group said MSOs also had signed digital carriage deals with broadcasters and technical pacts with CE makers. "Neither the cable industry nor any other industry has stood in the way of their [broadcasters'] transition," NCTA said. "Broadcasters should stop blaming others and take responsibility for making their transition to an over-the-air digital service successful."

**Third-generation DTV** receivers showed significant improvement in reception capability over first- and 2nd-generation receivers, FCC Office of Engineering & Technology (OET) said in preliminary analysis. Using early data collected in field study in Washington area, OET said median signal-to-noise ratio, which generally determines reception quality, improved by 2-3 dB overall and by 6-7 dB for sites with strong-signal, high-multipath characteristics, such as those in which COFDM was supposed to outperform U.S. 8-VSB system. OET said DTV signal was viewable without impairments for 99 of 100 sites for outdoor 30-ft. antenna, and 85% of sites with indoor antenna, even though only 27% of sites had high-quality NTSC picture. "Statistically significant" improvement was attributed mainly to improved channel equalizers in newer receivers. OET said new receivers meant indoor antennas in latest field study outperformed outdoor antennas in 1998. Field study data collection is about 50% complete in D.C. area, OET said, and similar study is planned for Baltimore area.

**Univision signed long-term carriage deals** with Charter Communications and CableOne that will extend reach of Univision's Spanish-language networks. Companies said agreements would place Univision's broadcast network in more than 3 million additional cable homes and its allied Galavision cable network in more than one million extra cable households.

**NBC won't meet** with affiliates during NAB convention in Las Vegas April 23, although stations will have their own session, network said in letter to affiliates. Decision is part of NBC withdrawal from NAB as result of dispute over ownership issues year ago. Network said none of its staffers would attend convention.

**Number of DTV households** worldwide will double annually every year through 2006, reaching 87 million by 2006, vs. 1.3 million at end of 2000, Allied Business Intelligence study said. Firm said DTV consumer electronics market would increase to \$32.5 billion in 2006 from \$1.6 billion in 2000.



**SERVICE STANDARDS SET:** Cable engineers, fresh off their successful efforts to develop open technical standards for high-speed data service over cable lines, now are trying to do same for next generation of digital cable services. At CableLabs, engineers are drafting specifications and testing equipment for "PacketCable" standards that would allow MSOs to offer IP telephony, video telephony, video-on-demand, multimedia services, interactive gaming, streaming media, home networking and other advanced services on any upgraded cable system. Engineers expect to complete their first set of standards for cable telephony and enhanced multimedia services before year-end, in time for MSOs to start offering them with next wave of cable modems.

Glenn Russell, dir. of PacketCable effort for CableLabs, said initiative was crucial part of industry's effort to "define an architecture for providing IP services over cable." Using packet-based technology to move bits of information over cable lines, he said, engineers started with standards for voice-over-IP and now are moving on to specifications for multimedia, interactive, gaming, streaming media and other advanced video services. He said engineers began testing cable modems and other equipment for compliance with early specifications in Dec. and are in midst of conducting 6 "waves" of compliance tests this year.

At same time, Russell said, 6 MSOs in U.S. and Canada are testing early version of PacketCable protocols to deliver IP telephony. List includes AOL Time Warner in Portland, Me., Comcast in Union, N.J., Charter in St. Louis, Adelphia in Buffalo and 2 Canadian MSOs in Montreal. "There's great learning going on here," he said.

Mark Coblitz, Comcast senior vp-strategic planning, said cable engineers were trying to use Internet protocol, not Internet itself, to deliver new services, starting but not ending with IP telephony. PacketCable "isn't about voice services but the platform upon which we put voice services," he said. Key question, he said, is "how do we take this [PacketCable] and make this the building block" for advanced services. Coblitz said new PacketCable technology could be incorporated into digital cable set-top boxes, but more likely would be put in cable modems. Plan calls for embedding new "multimedia terminal adaptor" (MTA) into next generation of cable modems slated to debut later this year.

Cable executives are figuring out business models for new services. On IP telephony side, they're exploring whether to offer "primary line" service or "voice enhancement to data service" that would replace conventional 2nd phone lines. Coblitz said 2nd business model seemed preferable because it would allow MSOs to offer phone-like services while skirting traditional phone regulations. "The telephone business is hard," he said. "It's not just about streaming wires or putting bits across the line... When you are a phone company, you have to be a phone company."

**Ky. municipal utility** Glasgow Electric Plant Board (GEPB) said it acquired for \$3 million Comcast cable system with 3,400 subscribers in Glasgow and neighboring communities. Hybrid fiber system being operated by utility already had 4,200 customers, GEPB Superintendent William Ray said. Comcast's 200-mile plant that overlaps utility's system will be upgraded and integrated with GEPB system that's providing advanced services including high-speed Internet access. Municipal system had saved community more than \$20 million in lower cable rates during its 13-year operation, Ray said.

**FCC KA-BAND ACTION SOUGHT:** Making 2nd round Ka-band spectrum allocations hasn't been high priority at FCC, but U.S. eventually may lose valuable spectrum slots at ITU "if nothing is done," Pegasus Communications CEO Mark Pagon said in interview: "A lot of other things seem to be more important [to Commission officials]." In meeting this month with 2nd-round Ka-band applicants, Commission said it would resolve outstanding licensing issues by end of summer, according to industry source who attended meeting with FCC International Bureau.

Pagon said upstart companies needed spectrum to offer broadband, but they had been hurt by slow licensing process and political nature of Commission. "A lot of companies are holding on to licenses they don't intend to use" as way to deter competition, Pagon said. "New companies that want to do something can't shake the licenses loose." Incumbents "seem to get preferential treatment," he said, pointing to companies such as Hughes, which has 16-20 Ka-band licenses while others such as Pegasus and Cellsat are struggling to get first license. Pegasus has been waiting 40 months for FCC to approve license application.

Pagon said U.S. "faces danger" of losing valuable spectrum that might otherwise be used for important Ka-band services. "They are going to have to move real fast" to beat the deadline of spring 2005. Pegasus officials cited March 14 letter from Motorola to FCC asking that its Ka-band license be transferred to Teledesic, which wasn't among first- or 2nd-round applicants.

**Supporters of federal broadband tax credit legislation** are pointing to perceived success it has had in one state that has passed such bill and introduction of similar bills in 2 other states this year. "Based on my experience with a Montana broadband tax credit, I support the approach you set out in S-88," Mont. PSC Comr. Bob Rowe told Sen. Rockefeller (D-W.Va.). Under Mont. program, created in 1999, companies compete for total of \$2 million annually that's credited toward their state telecom excise tax payments. Rowe, member of committee that evaluates applications, said he saw many good applications from companies working alongside local groups. Bills introduced this year in N.C. (SB-807) and Va. (HB-2806) would more closely follow approach in Rockefeller's bill, although the N.C. version also would cover funds used for renewable energy equipment. Each would provide for \$750,000 in tax credits per year.

**NBC agreed to acquire rest of NBCi Internet portal** from public shareholders and said it would revamp or close operation. Agreement calls for shareholders to receive 46% premium over closing price April 6. NBC previously owned 38.6%, in partnership with Xoom.com and Snap.com. Deal followed sharp drop in NBCi stock price and continuing deficits. NBCi CEO Will Lansing said conditions in Internet market "have made it difficult for NBCi to remain competitive." He said NBCi immediately would begin cutting work force and scaling back its business. NBC Pres. Robert Wright said company was reexamining its strategy for using NBCi assets, with overall plan to be developed over several months. "This transaction lays the groundwork for future decisions about our online presence," said Mark Begor, pres. of NBC Business Development & Interactive Media.

**Paxson lined up support of 10 more broadcasters** in its bid for FCC reconsideration of rules for vacating Ch. 59-69 (TVD March 26 p3), clearing them for use by wireless and other industries. Paxson said additions meant petition was supported by licensees of 53% of analog TV stations operating on channels.



## Personals

William Kennard, ex-FCC chmn., joins Handspring board... Reed Hundt, ex-FCC chmn., nominated to Intel board... Ari Fitzgerald, ex-deputy chief, FCC International Bureau, becomes partner, Hogan & Hartson Communications Group... **Rebecca Beynon**, common carrier adviser to FCC Comr. Furchtgott-Roth, moves to Office of Management & Budget as asst. gen. counsel, succeeded by **Samuel Feder**, ex-Harris, Wiltshire & Grannis... Ex-Sen. **Slade Gorton** (R-Wash.), becomes of counsel, Preston, Gates & Ellis... **Robert Raben**, ex-U.S. asst. attorney gen., establishes Raben Group, legislative consulting and lobbying practice in Washington... **Jeff Grove**, ex-staff dir., House Technology Subcommittee, named dir., Assn. for Computing Machinery Public Policy Office.

Changes in NAB board: **Madelyn Bonnot**, WVUE New Orleans, joins to complete term of **Cindy Velasquez** for 10 weeks before starting her own term... **Paul McGuire**, ex-UPN, becomes senior vp-network communications, WB... **Barry Stoner**, ex-Stoner Productions, Seattle, appointed senior vp-content development, WITF-TV-AM-FM Harrisburg... **Stephen Solomon** resigned as pres.-Univision Sports Div... Changes at Vivendi Universal: **Bruce Hack** advanced to exec. vp-strategic planning & business development, succeeding **Agnes Audier**, promoted to co-CEO, Vivendi Universal Net... **Matt Mills**, ex-senior vp-gen. mgr., WJMN-FM, Boston, named vp-gen. mgr., Greater Boston Radio Group, Greater Media.

**Dolf DiBiasio**, ex-McKinsey & Co., named exec. vp-strategy & investments, AOL Time Warner... **Robert Marcus**, exec. vp, Time Warner Digital Media, moves to senior vp-AOL Time Warner... **Deborah Malone**, ex-CNBC International, appointed dir.-international development, B2BWorks... **Lou Dobbs** resigns as CEO, Space.com, to become anchor, CNN *Moneyline Newshour*... **Lavonne Johnson**, ex-LBJ Communications, named dir.-communications, N.J. Cable Telecom Assn... Changes at Cox: **James Sutton** to head company's operations in N. Virginia; **Paul Golden** takes over mktg. and sales strategy in Atlanta; **William Fitzsimmons** promoted to vp-accounting and financial planning... Changes at Weather Channel: **Sarah Davis**, ex-Kurt Salmon Assoc., appointed vp-strategy and development; **Mardell Artis**, ex-PricewaterhouseCoopers, and **Harold Lewis**, ex-eLaunchpad, named dirs.-corporate development.

OpenTV CEO **Jan Steenkamp** promoted to chmn. and becomes CEO, MIH Technologies, with **James Ackerman** stepping up from COO to succeed him as OpenTV CEO... **Robert Rast**, ex-Dolby Laboratories, named pres.-CEO, DemoGraFX.

**ABC and successor to Children's Bcstg. Co. (CBC)** will go back to court in their long-running suit, but only to decide issue of damages, following ruling by 8<sup>th</sup> U.S. Appeals Court, Minneapolis. Lower court had said ABC and parent Disney misappropriated CBC trade secrets, violated confidentiality and violated contract in 1995 agreement for ABC Radio to handle ad sales, affiliate development and consulting for CBC. Appeals Court rejected appeal of basic decision, but said new trial must be held on amount of damages that ABC and Disney must pay, overturning jury award of \$40 million damages. Suit was filed after ABC cancelled contract and started its own children's programming format in 1996. CBC successor iNtefilm said it was "very pleased" with Appeals Court decision and would pursue new trial on damages.



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**FCC will hear Mass Media Bureau presentation on status of transition to DTV broadcasting from analog and "various actions and proceedings associated with the transition" at its April 19 agenda meeting. Commission also will consider report and order to resolve dual network rule (MM 00-108). NPRM issued last June proposing to change part of broadcast ownership rule that precludes ownership of UPN or WB networks by ABC, NBC, CBS or Fox. Change is seen as laying groundwork to let Viacom-CBS retain ownership of UPN network.**



# Consumer Electronics

A Section of Television Digest with Consumer Electronics

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending March 30, and year to date:

	MAR. 24 - MAR. 30	2000 WEEK	% CHANGE	MAR. 17- MAR. 23	13 WEEKS 2001	13 WEEKS 2000	% CHANGE
TOTAL COLOR TV	894,035	786,900	+ 13.6	541,870	6,464,599	6,413,478	+ 0.8
DIRECT-VIEW**	863,448	751,110	+ 15.1	521,317	6,212,719	6,109,323	+ 1.7
TV ONLY#....	718,061	597,234	+ 20.2	401,180	5,221,486	5,147,464	+ 1.4
TV/VCR COMBO.	145,387	153,876	- 5.5	120,137	991,233*	961,859	+ 3.1
PROJECTION...	30,587	35,790	- 14.5	20,553	251,880	304,155	- 17.2
TOTAL VCR**...	799,639	931,386	- 14.1	405,890	4,588,597	5,559,161	- 17.5
HOME DECKS...	654,252	777,510	- 15.9	285,753	3,597,364	4,597,302	- 21.8
CAMCORDERS.....	242,067	194,599	+ 24.4	93,587	1,204,273*	1,122,941	+ 7.2
DVD PLAYERS....	409,763*	136,263	+200.7	242,774*	2,335,376*	1,183,625	+ 97.3

Direct-view TV 5-week moving average#: 2001-461,164; 2000-441,471 (up 4.5%).

Projection TV 5-week moving average: 2001-22,262; 2000-22,547 (down 12.7%).

VCR deck 5-week moving average: 2001-333,570; 2000-416,529 (down 19.9%).

TV/VCR 5-week moving average: 2001-95,513\*; 2000-89,999 (up 6.1%).

Camcorder 5-week moving average: 2001-130,902\*; 2000-105,073 (up 24.6%).

DVD player 5-week moving average: 2001-241,498\*; 2000-82,512 (up 192.7%).

\*Record for period.

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

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

**DVD IS BRIGHT SPOT AS CE HOLDS OWN IN QUARTER:** As DVD enters 5th year on U.S. market, player and software sales appear immune to doldrums afflicting other sectors of U.S. economy — and even some CE product categories just trading water as evidenced by CEA's tally for first 13 weeks of year.

More than 70 million DVD movies and music videos shipped to retail in first quarter, according to figures compiled by Ernst & Young for DVD Entertainment Group (DVDEG). That's more than double volume of 2000 quarter, and brings March 1997 launch-to-date total to 380 million discs, DVDEG said. More than 9,000 titles in all genres are now available on DVD, group said.

Meanwhile, player shipments to retail reached 2.34 million in quarter, CEA said — 97.3% increase vs. year ago and obvious record. That brings retail shipments to 16.5 million players since 1997 U.S. launch, of which DVDEG estimates 16 million have been sold through to consumers. Group speculated that if growth continued at that pace, industry would see 17 million players shipped this year. More than 125 models from about 50 brands are now available in U.S.

Despite perceived economic slowdown, major CE categories seemed to be holding their own through first 13 weeks of year. Total color TV shipments were slightly better than flat compared with this time last year, despite 17% decrease in projection sets for current period. Direct-view TV segment has risen nearly 2%. Last month, annual study by Corning Precision Lens forecast that sluggish economy would limit projection TV growth to 23% this year from 27.8% year ago. TV/VCR combos continued gains, up 3% to 991,233 record for period. That slightly mitigated figures for overall VCR shipments, down 17.5% but off nearly 22% for standalone decks over last 13 weeks. Camcorders posted record for period, up 7.2% to 1.2 million shipped.



**LINUX-BASED VIDEOGAME SYSTEM SCRAPPED:** San Francisco start-up Indrema has ceased operations, scrapping plans for its Linux-based game videoconsole that was scheduled to ship this year.

Indrema posted announcement at its Web site last week saying company was “terminated” as of Fri., April 6. Online note said: “This decision marked the end of a prolonged and unsuccessful attempt to secure subsequent-round funding to support continued operation. Our vision to empower independent game developers to take control of their future and re-define the next generation of interactive entertainment lives on in the hearts of many hopeful and ambitious creators, artists and innovators. The revolution will continue without Indrema.”

Responding to word of Indrema’s demise, Gerard Klauer Mattison research analyst Edward Williams told us last week: “I don’t think it’s terribly surprising.” Executives of game developers we have talked with in last few months told us they either hadn’t heard of Indrema system or had no plans to support it.

Indrema founder-CEO John Gildred told us last week retail and grass-roots development interest was there, but financial markets had turned sour on technology start-ups. “We made an announcement about 30 days ago that we were having financial trouble and we were doing a rigorous search for a subsequent round of funding. We had one last iron in the fire and I had warned that it was not a good outlook but that we were hopeful. Early last week we found out the deal was not going to happen and on [last] Friday we made a determination to close doors,” he said.

“It’s just that the timing in the capital market right now is extremely terrible,” Gildred said. “And it’s one of those things where you can’t convince investors that you’re not going up against Sony and Microsoft. The way they saw it was that there was no way you wouldn’t end up being positioned against those 2 in the end and it was just too scary of a prospect... We’re looking at what to do with the IP [Intellectual Property] that is salvageable. There are some developers who are leaving that want to take it and keep it proprietary. At this point we are not sure that anything’s going to stay open-source, but there’s a chance.”

Gildred conceded Indrema technology could be ported to other devices such as DVD players, but told us “it would increase the cost of the DVD player significantly because the technology was so game-focused and very advanced.” Asked whether he had learned any lessons from Indrema’s rise and fall, he said: “Timing is everything.” Another lesson he learned was to keep lower profile early on. “There was a tremendous amount of interest early on and we kind of entertained that, which sparked more interest and more questions. We sort of became this big visible thing before we had even released product, and I would have rather if most of the announcements had been held until the product was finished.”

At its peak, Indrema had staff of just under 50, all of whom are now out scrambling for new opportunities. Gildred said he would be joining large Japanese consumer electronics company “on a very aggressive next-generation interactive TV platform.” He said: “It won’t be game focused... but we are looking very hard at having 3D capabilities so that could be extended later.”

Indrema announced at E3 last year its planned to ship \$299 Linux-based gaming system with 600 MHZ processing chip as early as this past holiday season (TVD May 29 p12). Company said at time that its first system, L600, would be backed by 30 game titles, including *Heavy Gear II*, *Quake 3 Arena*, *Sim City 2000*, *Unreal Tournament*. Indrema boldly predicted developer support would leap twentyfold in 2001.

But system was delayed. Gildred told us in Nov. that console wouldn’t be available until “late spring” 2001 (TVD Nov 13 p18). He also said that prototype for first-generation hardware would be ready by end of 2000 and hinted strongly that it would have processing chip greater than 600 MHz processing chip previously announced. But it remained unclear what company actually would be manufacturing hardware. Gildred said he expected at least one manufacturer to ship Indrema hardware in 2001 that would be available online and at brick-and-mortar retail. But he didn’t say which stores would be carrying system.

Despite fact that Microsoft and Nintendo had announced plans to ship their Xbox and GameCube videogame consoles by end of 2001 and Sony already had started with PlayStation 2, Gildred told us in Nov. he was convinced there still was room for another player. Sega at that point had yet to announce it was dropping its Dreamcast console.

Indrema system then was delayed yet again. Gildred told us in Feb. that company planned to ship system — complete with DVD movie playback capability — in 2nd half of this year (TVD Feb 26 p17). That plan would have put Indrema up against GameCube and Xbox. He said developer support and consumer and retail interest were at level where company remained confident it could reach its sales and support goals.

“We don’t realistically think that we’ll sell as many boxes as Xbox because we don’t have the money that Microsoft has,” Gildred told us then. “Fortunately we have so much buzz and so much strong word of mouth that we’ll probably have a successful launch at the level that we expected. We don’t need to be a mass consumer product right out the door. We know we can appeal to a core consumer, somebody who’s interested in the latest functionality and technology.”



**BOSE READIES DVD LIFESTYLE:** Bose, one of last companies to sell CD-only product line, will add DVD to Lifestyle series in Sept. starting with entry-level piece at \$999, retail sources said.

New line of 3 models will replace existing Lifestyle 50, 30, 15 and 12 systems, which have been sold at retail in recent weeks with \$200 store credit toward purchase of any brand of DVD player. Bose itself has sold Lifestyle products through Web site coupled with free Onkyo single disc player or \$100 for upgrade to 5-disc changer.

To hasten clearance of inventory, Bose is cutting prices on CD-based Lifestyle line \$200-\$400 effective May 24. Dealer cost already has been lowered by roughly same amount, sources said.

"They realize it was a tactical error not having DVD up until this point, which is why they have had the DVD player offer to offset the strategic disadvantage," retail source said.

Despite DVD onslaught, Bose has stuck by CD-based Lifestyle series even though higher end models such as 30 series, which combined 6-CD changer with five 4½" Jewel cube speakers and Acoustimass subwoofer module, were \$2,999 and up. Details on new DVD line weren't available and Bose declined comment, but it traditionally has developed line with both changer and single-play models. Lifestyle 12 Series II paired single-disc CD player with satellite speakers and subwoofer at \$1,999.

"You can guess how the Lifestyle series has been doing when you're selling a CD player system at \$2,000 and DVD players can be had for less than \$200," another Bose dealer said.

Tightly controlled Bose, which is privately held, has been slow in adopting some newer technologies not developed in-house. Its current Lifestyle series was its first to have Dolby Digital decoding, something many companies started adding in mid-1990s. Company had developed Dolby-compatible VideoStage 5 decoding on its own, which it said provided advantages in imaging. Although Bose tinkered with pairing 42" Fujitsu plasma display with its speaker technology in mid-1990s, it never brought combination to market.

**NEC will start mass production of 61W plasma display panel (PDP) this summer, taking lead in push to larger sizes.** PlasmaSync 61MP1, which will be shown at NAB convention in Las Vegas next week, has 1,365x768 resolution and adds many of same features as NEC's smaller 50W panel. Additional specs, including pricing, weren't immediately available, but current 50W is \$23,000, with 1,365x768 resolution, 300 lumens. NEC, which has marketed 33W, 42W and 50W PDPs, has been studying move to 60W or more for several years (TVD Dec 27/99 p9). Unclear is whether Thomson will bring product to consumer market as part of PDP joint venture it formed with NEC earlier this year (TVD March 19 p16). Thomson spokesman wasn't available for comment but company introduced 42W panel after delay last year. Among other companies that have sourced NEC panels are Runco and Marantz, each of which is expected to introduce 50W later this year (TVD Jan 22 p11). Joining NEC in large-size PDP derby is LG Electronics, which is expected to start production of 60W in 2nd half.

**OpenDivX video compression technology** has been ported to all major operating systems and processing platforms less than 3 months after release of open-source version of code, DivXNetworks said ([www.divxnetworks.com](http://www.divxnetworks.com)). Latter is touting OpenDivX codec as standard for broadband digital delivery of full-screen, high-quality video over Internet Protocol (IP) networks. Open-source DivX project is at Project Mayo ([www.projectmayo.com](http://www.projectmayo.com)), DivX development site owned and operated by San Diego-based DivXNetworks. Group said since its Jan. 15 debut, OpenDivX had been ported operating systems including Amiga, iPAQ, Linux, MacOS and Microsoft Windows. Core technology of codec has been ported to variety of embedded processors such as MIPS, StrongARM and Philips' TriMedia, paving way for DivX support on handheld devices and set-top boxes. Under-scoring popularity of technology among developers and casual Internet users, DivX was 17th most searched term on Internet in week ending March 23 according to CNET, said DivXNetworks cofounder-CEO Jordan Greenhall. Project Mayo community now includes more than 1,500 registered members with more than 100 active co-developers on open source project, and site has recorded more than 1.5 million downloads of source code and actual OpenDivX technology since its Jan. release, Greenhall said. Original DivX compression formula emerged in wild early last year and caught attention of Hollywood studios for its use in unauthorized copying and Internet transmission of movies and DVDs.

**Outpost.com** will meet with creditors to "discuss payment options" and "explore other strategic alternatives" despite reporting smaller-than-expected 4th quarter loss. Outpost, which partnered with Tweeter Home Entertainment in sale of CE products, reported 4th quarter loss grew to \$10.1 million from \$9.8 million year ago as revenues increased to \$120.9 million from \$76.4 million. Fourth quarter loss excluding goodwill amortization was 30¢ per share, lower than analysts estimates of 33¢ and better than its own 31-34¢ forecast made in Feb. Meeting with creditors comes as Outpost.com struggles "to secure the required equity and working capital financing that we need," Chmn. Darryl Peck said. It added 293,000 new customers in 4th quarter to bring total base to 1.3 million. Outpost's accumulated deficit widened to \$99.9 million at quarter's end from \$69.6 million year ago, while cash and cash equivalents rose to \$21.9 million from \$13.2 million. Inventories increased to \$15.7 million from \$12.1 million year ago but were down from \$29.9 million in 3rd quarter. Its partnership program also has fallen short of goals. While it secured deals with Tweeter and Brookstone, it had planned to have 20 in place by year-end 2000 (TVD March 27/00 p17). Absent from earnings release last week was any mention of Wolf Camera, 700-store chain that signed on to form e-commerce site with Outpost last year.

**Yahoo exited X-rated video** Fri. following week of subscriber complaints and publicity generated by morality watchdog groups. Online network said it would remove adult-related products from its shopping, auctions and classified sections, including adult videos and DVDs. Yahoo said it wouldn't take new contracts for adult-related banner ads. Changes will go into effect over next few weeks, Yahoo said. Earlier in week, Morality in Media Pres. Robert Peters charged that online sale of adult videos by Yahoo "may carry the risk of federal prosecutions." He said federal statute makes it felony to distribute obscene material through interactive computing device. Peters cited *Miller v. Cal.*, U.S. Supreme Court case, saying ruling "agreed on concrete guidelines to isolate 'hard-core' pornography from expression protected by the First Amendment." Yahoo responded that it didn't view its actions as illegal and took care to prevent sale of pornography to minors.



**ALPINE READIES XM BUT NOT DVD-AUDIO:** Alpine is conducting beta test of 100 XM digital radios in-house, and plans to start assembling outboard tuners in July with goal of delivering product in Sept. But executives told us company wouldn't incorporate DVD-Audio until next year at earliest, when autosound environment could be modified for digital transmission.

Alpine is targeting \$299 price for tuner that's being paired selection of 5 XM-ready CD head units (\$350-\$850) and single CD receiver/changer marketed with 6.5" LCD monitor to create Mobile Multimedia Station (\$1,100), Witt said at regional dealer show in Edison, N.J. last week.

Timing of XM product is based on STMicroelectronics' starting mass production of chipsets in July, he said. Final version of XM software also is due shortly and is expected to combine menus in effort to limit amount scrolling user must do to access options, Witt said.

"The technology is sound and there is so much information that one of our final key issues will be how many menus does the driver want and how do we avoid them being distracted," he said.

While Alpine at outset is focusing on aftermarket sales of satellite radio, as much as 70% of company's revenues from product will be generated by car OEM agreements in 2-3 years, Witt said. Alpine is building OEM units for XM rival Sirius Satellite Radio, with first delivery due in first quarter 2002, he said. Sirius has delayed launch of its service "beyond Sept." (TVD April 9 p19). Among Alpine's OEM customers are BMW and Mercedes Benz.

XM also is expected to conduct beta test of product in July, with sales through select number of retailers, Witt said. XM's first "Rock" satellite was launched in March and is expected to be handed off to company in May. Second "Roll" bird is set to fly May 7 from Boeing Sea Launch vehicle. XM last week also announced agreement to equip Peterbilt trucks with service.

While Alpine is introducing XM product this year, it isn't likely to field DVD-Audio gear until 2002-2003 until vehicles can deliver "pure" digital signal, Product Promotion Mgr. Todd Van Zant said. Alpine already markets DVD-Video players and is planning 6-disc changer (\$1,299) by July, he said. "It is great to have something that is the best sounding, but the problem is it gives me an analog output and in the car's environment I have to alter too many things to make it sound good," Van Zant said. "So we want to be able to tune the car, but I can't with the head unit unless I put all of the processing inside."

On navigation front, Alpine is dropping CD-ROM-based hardware in favor of DVD unit, but will continue to offer mapping software for former at \$150, Van Zant said. Alpine, which develops DVD navigation titles (\$300) using Navtek's mapping software and Info USA's Yellow Pages-like database, currently has unit with 2x DVD-ROM drive, Van Zant said.

"The CD-ROM hardware doesn't make sense any more because everyone wants it [the drive] fast and coverage everywhere," he said.

In MiniDisc (MD), Alpine is continuing to market 3 head units, despite Van Zant's conceding that it's "a struggle cate-

gory" in U.S. Alpine builds product in Japan and ships units to U.S. "The biggest struggle is to get [mobile audio] dealers to sell it," he said. "They don't always show it so consumers don't always know about it and won't buy it." While Van Zant said MD was "fine technology," if it "were up to us, it's not worth the allocation of space based upon sales."

Alpine also is seeking larger share of upper end of mobile electronics market with new AlpineF#1Status series of products that includes multimedia manager with automatic time correction and Adaptive EQ with 31-band real-time analyzer (\$4,000) and tuner/CD player (\$3,000) that has digital filter and 5Hz-20 kHz frequency response. Line is likely to be extended eventually to include amplifiers and speakers. So far 48 retailers have signed on as authorized F#1 Status dealers, having completed 2-day training session and Alpine is targeting about 100, Van Zant said.

Closest speakers to F#1Status are new 4-model X-Series that ranges from \$330 for 2-way center channel with 200 w peak power, 5-1/4" midrange and 29 mm soft dome tweeter to \$850 for 3-way components with 6-1/2" woofer, 5-1/4" midrange and 300 w peak. Alpine is working with Vita/Scan-Speak of Denmark, which also does work for Sonus Faber, in engineering, designing and building speakers.

As it seeks to build market for DVD in cars, Alpine is looking for ever-larger LCD monitors including 10.5" and 13.5", Witt said. Alpine's current line tops out at 7" (\$799). It continues to market 4.6" LCD monitor for navigation applications, but has ceased selling it as standalone device, he said. Alpine sources LCD panels from Epson, Sharp and Toshiba but also has begun discussions with potential suppliers in Taiwan, Witt said. Elsewhere in display, Alpine has BioLite biochemical luminescence technology in 2 CD head units that's designed to increase brightness and provide wider viewing angle than conventional LED-based devices. BioLite displays were developed with TDK, Van Zant said.

**Dai Nippon Printing** has developed technology that will allow electroluminescent (EL) displays to be produced in several minutes instead of hour currently required, *Nihon Keizai Shimbun* reported. After applying EL material on plastic substrate measuring 15x15 cm and 0.25 mm thick, Dai Nippon was able to create text on display using electric current. Displays now are produced in vacuum by putting EL on glass substrate in clean room. New technology dispenses with need for clean room... **DuPont Displays** will spend \$15 million to build market development facility for polymer organic light-emitting diode (Poly-OLED) displays. Santa Barbara facility will start with preproduction quantities in 3rd quarter and deliver first displays by year-end. Displays are being developed by Uniax, which DuPont acquired last year. Uniax had been expected to start pilot production of 1-3" passive OLEDs with 200 lumens and 200:1 contrast by first quarter (TVD Dec 25 p19). Among licensees of Uniax's technology is Philips, which is expected to deliver 1-2" display for cellular phones this year (TVD May 22 p20).

**Hijacking of first DVD-RAM** products shipped to U.K. occurred at warehouse at London's Heathrow Airport last week. Container-load of Hitachi DZ-MV100 DVD-RAM digital camcorders was scheduled to go on sale later this month, Hitachi said. Company has posted £5,000 reward (\$7,500) for information leading to recovery of shipment. U.K. retailers were asked to inform Hitachi or Heathrow's Criminal Investigation Dept. if they were offered stolen digital camcorders for resale.



**NO WEB SALES FOR SOVEREIGN LINE:** New Kenwood Sovereign line of limited distribution products for U.S. market won't be authorized for any dealers to sell online, Kenwood Sales & Mktg. Vp Bob Law told us last week.

Sovereign line now includes 3 new DVD components and Entre "entertainment hub" (\$1,800, Aug.), jointly developed by OpenGlobe, that stores and streams compressed and uncompressed music files and Internet radio, while serving as main controller for other Kenwood Sovereign components. Sovereign products were spotlighted in line showing in N.J. last week.

DVD components include top-of-the-line DV-5900M universal DVD 400+3 megachanger (\$1,500, Sept.), DV-5700 universal 5-disc carousel (\$1,200, Sept.), DV-5050M DVD-Video only 400+3 megachanger (\$1,000, Aug.). Two higher-end DVD models feature progressive scan video technology from Faroudja and logo of latter company is displayed prominently on front of each unit's faceplate. Faroudja partnership, along with recent announcements in conjunction with OpenGlobe and Boston Acoustics (latter for new all-in-one DVD home theater system shipping in Sept. at \$1,000), is part of decision by Kenwood to join forces with outside companies on more frequent basis in areas that it doesn't specialize in, it said last week.

Kenwood revealed its plan for new Sovereign series at CES in Jan., where it indicated that products in newline would be distributed in much same way as its Excelon mobile products. Like Excelon, Sovereign retailers must sign separate dealer agreement with Kenwood. Also like Excelon, number of brick-and-mortar dealers who can carry Sovereign line is limited. Among dealers not being authorized for either Sovereign or Excelon are national accounts including Circuit City. But Kenwood spokesman last week pointed out that at least some nonnational brick-and-mortar accounts also weren't being authorized to sell Sovereign line. Although Circuit had been carrying Excelon products at one time, Kenwood changed its distribution policy for that line in Jan.

Law said last week Kenwood decided not to allow any online retailers to sell Sovereign products, in part because products require sort of explanation and installation that only specialty retailers can truly provide. Same is true of Excelon line, he said. Kenwood rigidly limits number of e-tailers authorized to sell company's regular line of mobile products, largely because of installation requirements that are especially crucial in 12-volt arena.

In fact, Law said last week, company even limits number of authorized online dealers for its Kenwood home line as well. Among few online dealers authorized to carry even portion of Kenwood's products online are Abt Electronics, Crutchfield, Circuit, 800.com, Sears and Tweeter, Law said. 800.com became first and, at this point, only pure play (Internet-only) retailer to receive Kenwood authorization in Sept. 1999 (TVD Sept 27/99 p12). In keeping with e-commerce policy communicated to us by Kenwood U.S.A. Pres. Joe Richter in 1999, Law said last week that company's basic policy was that it would authorize very limited amount of pure play dealers and "we'll do business" online also "with [our] brick-and-mortar retailers who want to have an online presence." But Law said most retailers who had been authorized by company so far hadn't been authorized for every single product manufacturer offers.

Kenwood apparently has been more aggressive in tracking down unauthorized Kenwood products online and figuring out how those items were sold to nonauthorized online dealers than many of its competitors. Law told us that Excelon products, for instance, all now have serial numbers embedded right onto them and "it's impossible" for those numbers to be changed or removed. In past, he said, transshippers and others merely removed serial numbers so items couldn't be tracked.

Law told us his company had even set up special unit at its offices that buys Kenwood products from unauthorized dealers and then traces them. If they find their authorized dealers are transshipping products, they terminate those dealers, he said: "We've terminated 7 or 8 that come to mind... within the last few months." But Law, as other manufacturer executives we have talked with in recent months with similar policy, declined to identify those terminated retailers.

Although Sony and Thomson are among growing list of manufacturers that have opened Web sites in which they sell their products direct to consumers, Kenwood — like Matsushita in U.S. — sells accessories only direct to customers. "There's no immediate plans" to start selling audio and video products direct to consumers at this point, Law said, but "I'm not going to say it's never going to happen."

Sovereign Entre has RS-232 port that enables it to connect to other Sovereign audio and video components, which also include 4 new A/V receivers. Entre has built-in CD recorder to burn standard, uncompressed CD audio tracks and compressed MP3 files onto CD-R and CD-RW discs. Spokeswoman said that unit won't allow user to upload songs from portable digital audio players and doesn't offer any sort of time-shifting, TiVo-like capabilities on video side.

Kenwood said Entre was capable of storing "hundreds of hours" of compressed music on its internal hard disc and simultaneously stream different programs to different rooms of one's house using Home PNA 2.0 protocol and standard phone line. Unit integrates all component's functions through on-screen menu displayed on video monitor. It also seamlessly integrates standard AM/FM radio with Web radio. Company said it also would ship Axxess remote portal in Oct. that would allow user to play streaming audio in any room with phone jack. Kenwood said it also would introduce application later this year that would allow transfer of both MP3 and Windows Media Audio (WMA) files from computer desk top to Entre and setup of Entre's Home PNA.

Services for Entre are provided by OpenGlobe and include access to Internet radio stations, access to Web databases including CDDB Music Recognition Service and OpenGlobe's MovieDB, ability to download CD and DVD information and graphics, interactive commerce capabilities. One crimp in plan for Web radio service may be fact that 3Com pulled plug on Kerbango tuning service, as we reported last week (TVD April 9 p14) — and Kerbango is service that OpenGlobe has been using, OpenGlobe Mktg. Vp Rob Hudson said last week. But he said his company was talking with other companies to find alternative service.

Thomson revenue rose 14.1% in first quarter to 2.2 billion Euros (\$2 billion), RCA parent said. Figure included results from recent integration of Technicolor, Philips broadcast group and Nextream. Excluding those, revenue increased 7.4% over strong 2000 first quarter, Thomson said.



**GOOD GUYS EARNINGS RISE:** Good Guys (GG), crediting strong sales of video products, reported net income in 5 months ended Feb. 28 rose to \$1.3 million from \$1.1 million year ago and sales 6% to \$415 million from \$391.5 million on 6% gain in same-store sales.

GG, which reported earnings for 5 months in switching to fiscal year that began March 1, said video increased to 56% of total revenue from 53% year ago, while audio and mobile electronics remained flat at 19% and 10%, respectively. Increased sale of video products, however, cut into gross margin in lowering it to 28.1% from 29.9% year ago.

Chain reduced selling, general and administrative expenses to 25.8% of sales from 27.7% and forecast first full-year profit since 1995, CEO Ronald Unkefer said. Reduced costs were result partly of chain's cutting 450 jobs at stores earlier this year (TVD March 5 p15) and moving to smaller hq in Alameda, action that will reduce real estate costs 50%, Pres. Kenneth Weller said. Layoffs were 2nd for GG, which shed 315 jobs last spring (TVD March 27/00 p14).

GG is testing remerchandising smaller, 12,000-sq.-ft. stores that opened in late 1980s and early 1990s, including adding section in center to focus on handheld PCs, Internet appliances. Space in stores was freed up when GG dropped home office products and personal electronics. GG has remerchandised 5-6 stores in L.A. and San Francisco areas and could reformat 15 this year if it moves forward with plan, Weller said. It has 30 stores with older format. Test is continuing of Tower Records' selling music software in 2 Las Vegas GG stores and chain will decide on possible expansion in 3-6 months, spokeswoman said. Test thus far has done "pretty well," Weller said. Earlier this year, he had indicated that GG might act by spring.

At same time, goodguys.com, which is 19% owned by GG, started sales of mobile electronics with 150 authorized products from Bazooka, Kenwood, Panasonic, Polk Audio, Sony, Steelhorse. Mobile section also will include "My Garage" feature that enables user to determine whether purchased items can be installed in vehicle. Feature, developed by former e-tailer turned content supplier MobileToys dot, can draw from a database of 6,200 vehicles and generate list of CD head units, VCRs, DVD players, speakers and amplifiers that meet car manufacturers' specs. Goodguys.com plans to add up to 500 SKUs, spokeswoman said.

Goodguys.com also opened "clearance" store of "open box" and discontinued products sold at discounts of up to 40% off list. Assortment consists largely of products returned to retailer by customers within 14 days of shipment and discontinued goods that are new and haven't been presold, Pres. Walter Mulvey said. Recent sampling of store included Toshiba DVD player marked down to \$240 from \$299 and Panasonic DVD deck with Dolby Digital to \$225 from \$299.

Goodguys.com, which began last fall with 1,000 SKUs and has increased offering to 4,000 from 80-100 vendors, will add communications product section in 4-6 weeks that feature cellular phones and rate plans. It also will start affiliate program within 30 days, forming alliances with up to 1,000 complementary Web sites that will receive 1-6% commission on sales that are steered to goodguys.com, Mulvey said. With new programs, goodguys.com remains on track to post profit by year-end, he said.

**STANDARD SET FOR MPEG-4 STREAMING:** In move that advances prospects for wireless and mobile AV reception, 3 international standards groups have accepted multicompany proposal for transferring MPEG-4 AV streams over Internet. MPEG-4 compression shrinks size of multimedia files to much greater degree than MPEG-2 now used for DVD and digital TV, thereby enabling interactive video to be transmitted more quickly among home and mobile receiving devices.

Announcement, made in Tokyo last week, provides support of International Telecommunications Union (ITU), Internet Engineering Task Force (IETF) and 3G Partnership Project (3G-PP) to file transfer format developed jointly by Panasonic parent Matsushita, NEC, NTT, Oki Electric, Toshiba. Support for standard is expected to bring uniformity to MPEG-4 content on Internet and delivered over mobile networks.

Co-developers said new transfer format was based on Real-Time Transport Protocol (RTP) standardized by IETF in 1996 instead of TCP/IP, which IP networks now use for their transfer protocol. If TCP/IP detects any loss of data during transmission, it automatically retransmits it. But practical result is delays in data transfers that are unacceptable for real-time transfers of audio/video signals, particularly in streaming video and audio. Nonetheless, RTP is suited for carrying real-time content, its supporters claim.

RTP provides support for applications with real-time properties, including timing reconstruction and loss detection, 5-company group said. Although RTP doesn't have re-sending process characteristics, it places RTP headers in each packet that contains time stamp — enabling synchronized display of audio/video signals at receivers — and inserts sequence numbers to support packet loss detection. Those characteristics make possible timely data delivery with less degradation, RTP's proponents said.

RTP is designed to define payload formats for each AV medium transferred, they said, area where 5-company proposal has been accepted for MPEG-4 audio/video signals. One characteristic of RTP payload format for MPEG-4 video is provision for MPEG-4 error resiliency tools to reduce packet loss. To improve transmission error resiliency, MPEG-4 coding exploits video packet approach by subdividing picture frames while coding.

MPEG-4 employs uses called Header Extension Code (HEC), 1-bit field introduced in each video packet. Co-developers said that if that bit is set, important header information that describes video frame is repeated in video packet. By checking that header information in video packets against information received at beginning of video frame, decoder can ascertain whether video frame header has been received correctly. If video frame is corrupted, decoder still decode rest of data in video frame using header information that's repeated in video packets.

Interoperability tests on transfer format confirmed its stability and reliability, 5-company group said. Format was adopted by IETF as RTP payload format for MPEG-4 audio/video signals, by 3G-PP in its packet-switched multimedia streaming service standard for 3G mobile phones, and by ITU Telecommunications Standardization Sector in its recommendation for multimedia conferencing over packet-based networks such as LANs and Internet. Standardization is expected to contribute greatly to high-quality audio-video distribution on Internet and to next-generation cellular phones.



**INFOCUS PROFITS DOWN** InFocus, taking \$5.4 million restructuring charge and suffering slow sales in U.S., said first quarter net income fell to \$7.1 million from \$17.6 year ago and revenue to \$202.7 million from \$214.4 million.

Charge covered job cuts, asset write-offs and advisory fees tied to InFocus's acquisition last year of Proxima, which itself had been bought earlier by Ask. InFocus markets 29 projectors under all 3 brands, lineup that's likely to be "streamlined," CEO John Harker said. It expects to take another \$4-\$6 million charge in 2nd quarter.

Hardest hit was U.S. market, where sales fell 16% in quarter, decline that was offset in part by gains in Asia (34%) and Latin America (14%). U.S. accounted for 53% of revenue in quarter, Europe 27%, Asia 14%. Overall, unit sales rose 9%, but average selling price dipped 3%. Slowdown in U.S. boosted inventory at quarter's end to \$121 million from \$95.2 million, split equally between finished goods and components, CFO Scott Hildebrandt said.

Drop in selling prices stemmed largely from oversupply of inventory that had riven prices on projectors with 700 lumens and 800x600 resolution to \$2,000 range, sources said. Inventory is confined largely to Japanese suppliers including Sony and Epson and creates "high potential" for price reductions aimed at moving products, Harker said. Prices for SVGA projectors fell 8% in first quarter 2001 and are likely tumble another 10% in current quarter, he said.

"The price pressure is really on there [in 700-800 lumens, 800x600 resolution]," Harker said. "We'll get in and battle for that because I don't want to give up in any quarter."

In effort to trim costs, InFocus signed agreement for Flextronics to "mass produce" select projectors in Malaysia plant starting in midyear. InFocus had handled production itself. Harker declined comment on which models would be built by Flextronics, but InFocus was expected to introduce first projectors targeting consumer market in July. Flextronics pact is forecast to result in savings of \$9-\$14 million in long term and \$5-\$7 million in current year, Hildebrandt said. InFocus is expected to open DLP projector plant in Norway in 2nd half.

InFocus is expected to field at least 2 consumer models based on Texas Instruments' Digital Light Processing (DLP) technology. InFocus has declined to release details, but projectors will be available in several resolutions including 1,024x768 and priced in \$2,000-\$5,000 range. InFocus recently pushed back planned delivery of product to bring consistent design across line, sources said.

"We know how to make digital video and high-definition images and we intend to bracket that [consumer] category from low to high," Harker said.

As InFocus posted earnings, **Three-Five Systems** said it had released developers kits for new 0.5" liquid-crystal-on-silicon (LCoS) microdisplay that would target front- and rear-projection products. Among potential customers is said to be InFocus, which is studying it for possible sub-2 lb. projector as well as \$1,500 unit (TVD Dec 18 p17). InFocus is said to have shared in development costs of display. Three-Five display has 1,024x768 resolution, 300:1 contrast, 800 lumens. Display, which Three-Five will manufacture at Tempe plant,

will be available in limited quantities by June. Developers kits, which include graphics card, is \$5,500. Three 0.5" microdisplays and driver will be sold as package at less than \$400. InFocus also has investment in Three-Five rival Colorado MicroDisplay, which has developed 0.47" and 0.25" microdisplays for near-to-eye applications such as viewfinders (TVD March 12 p11).

"It's not an impossibility that they'll [InFocus will] do LCoS this year," source close to InFocus said. "But the question is, do you do it with a 3-chip design or do you wait for the complete product? A lot of people can be first to market, but you have to make sure you have the right yield."

**Nintendo's Japanese** Web site began showing off pink Game Boy Advance system company said it would ship in Japan April 27. But Nintendo has yet to announce whether pink version of next-generation handheld system would make its way to N. America. Only colors to be available in N. America when system starts June 11 so far are Arctic (white), Glacier (translucent blue), Indigo (violet) (TVD March 12 p15). Separately, for those who weren't sure Nintendo of America (NOA) had sense of humor, company posted April Fool's Day joke news release at its Web site in which it announced new 256 MB cartridge to ship May 7 at \$59.95 that it said would transform Nintendo 64 (N64) console into MP3 player. News release seemed serious at first, but grew increasingly silly as it went along. At one point, company said: "Due to the underground and sometimes controversial nature of the MP3 format, Nintendo will market the product only under its secret code name, Mario Party 3." Big tip-off that release was joke came when company said cartridge was "specially coded to detect what kind of music is being downloaded by combining asymmetric partial-register instruction language with fully-oriented omnilingo." NOA said cartridge contained interactive control board that enabled consumers to use game system's controller to manipulate on-screen icons shaped like popular Nintendo characters including Donkey Kong, Luigi and Mario to play MP3 tracks. Company said characters would even have ability to change their appearances based upon type of music being played. For instance, if reggae were being played, Mario would grow dreadlocks, NOA said. For anybody not sure announcement was gag, NOA said at bottom of news release: "For more information about Nintendo's MP3 cartridge and other April Fools' jokes, please visit Nintendo's Web site, [www.nintendo.com](http://www.nintendo.com)."

**Rent-a-Center (RAC)** CEO Ernest Talley received 10% increase in salary earlier this year to \$550,000, according to proxy for annual meeting filed with SEC. In 2000, he received \$500,000 salary, up from \$400,000 year earlier, but no bonus or stock options. Pres. Mitchell Fadel was paid \$315,000, increase from \$245,000, plus \$76,600 bonus and options for 35,000 shares. Apollo investment group remains top stockholder with 10 million shares — 28.6% of those outstanding, followed by Talley with 4.9 million (19.5%) and board member Mark Speese, who resigned as vice chmn. in Dec. and controls 1.7 million (6.99%). RAC also filed with SEC to sell 4.4 million shares including 2.2 million held by chain, 1.7 million and 500,000 controlled by Talley and Speese, respectively. Proceeds from sale will be used to repay \$50 million debt and for working capital. RAC, which was purchased by Renter's Choice for \$900 million in 1998, had \$741 million in total debt as of Dec. 31. On legal front, hearing is scheduled April 27 in U.S. Dist. Court, Kansas City, on request for class action certification in race discrimination suit filed against chain.



**NINTENDO UNVEILS AD CAMPAIGN:** Nintendo of America (NOA) said Fri. that "the heart" of its \$25 million Game Boy Advance (GBA) launch multimedia "Life Advanced" marketing campaign would be three 30-second TV spots.

Spots will focus primarily on GBA hardware, but also include new *Super Mario Advance* game and full slate of GBA titles, NOA said, and TV spots will start airing April 30 in conjunction with kickoff of in-store presell efforts. GBA interactive stations will be placed in 6,000 stores by launch and NOA said consumers "can expect to see a full complement of point-of-purchase and merchandising support incorporating the 'Life Advanced' theme."

Additional \$75 million will be spent by year-end on GBA marketing, NOA said, and "the campaign will primarily target the 9-to-17-year-old market."

NOA Exec. Sales and Mktg. Vp Peter Main said: "Our aggressive marketing campaign for Game Boy Advance is designed to communicate the message that Game Boy Advance transforms downtime into playtime. There is incredible anticipation for this system and by the time it launches, consumers will be ready to live 'Advanced' in the place where fantasy and reality collide."

NOA said other elements of ad campaign would include: Airport "dioramas" in 11 top markets starting in May; backlit dioramas in high schools and junior highs nationwide starting in May, combined with ads on in-school TV network Channel One; consumer print ads in June and July issues of high-profile magazines; dioramas in 90 malls in June and July; Internet ads, e-mail campaigns and billboards starting in May. Company said consumers also would be able to sample GBA systems at high-traffic venues in 11 key markets May-Aug.

Marketing plans also include value-added promotions, including sponsorship of Planet Gruv, mobile dance party from *Teen People* visiting high schools nationwide, *Sports Illustrated For Kids* promotion called "Road Trip 2001" that will bring GBA sampling opportunities to kids in 20-30 markets via 18-wheel truck, promotion in conjunction with DC Comics. Consumer tie-in promotions will include ones with Frito Lay and Oscar Mayer Lunchables.

Separately, analysts said last week that Nintendo may raise its profit estimate for year ended last month by as much as 30% because weaker yen boosted value of its foreign-currency holdings, Bloomberg reported.

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**Vintage TV on DVD** includes *The Judy Garland Show* — Vol. 5 from Pioneer Entertainment. Studio said DVD (\$24.98), which arrives May 15, consists of 2 never-before-released episodes — series' Sept. 29, 1963, debut and Oct. 4 follow-up featuring Barbara Streisand. Each includes out-takes never broadcast. Programs were digitally restored from original 2" broadcast master tapes and discs have newly created 5.1 channel surround soundtrack as well as original monaural. Also coming to DVD are 8 episodes of *The Gene Autry Show* on 2 discs (\$14.99 each, May 1, from Image Entertainment), including July 23, 1950, premiere. Meanwhile, A&E Home Video has released DVD Classics series from British TV. Shows include *The Jewel in the Crown* (4 DVDs, \$79.95) and *Jeeves and Wooster: The Complete First Season and The Complete Second Season* (2-disc sets, \$39.95 each).

**KOZMO.COM SHUTS DOWN:** N.Y.-based e-tailer/one-hour delivery service Kozmo.com folded its operations in all 9 of its markets last week, shutting down its Web site and laying off most of its 1,100 employees. Kozmo said it was liquidating its assets and only small transition team was staying on to close operations.

Commenting on decision to shut its doors, Kozmo CEO-Pres. Gerry Burdo said: "Given more time and more hospitable market conditions, Kozmo would have succeeded in rounding the quarter and would have continued to grow. However, some decisions made early in the company's development combined with current market conditions prevented Kozmo from overcoming the challenges associated with conquering the last mile."

Reports citing source close to Kozmo said company decided to shut operations after merger talks fell apart with grocery delivery company PDQuick that had been expected to provide Kozmo with much-needed additional financing.

Amazon.com was among investors (TVD Jan 24/00 p20) in e-tailer, which rented videos and sold variety of merchandise including electronics, videogames, CDs and food — promising delivery within one hour.

Kozmo had formed several important alliances with other companies, including revenue-sharing deals with Columbia Tristar Home Video and Warner Home Video (TVD April 10 p20) since it began operations in 1998. It also recently reported profitability in 3 of its markets: Boston, N.Y., San Francisco. Kozmo even lost its main competition on its home turf of N.Y. in Oct., when Urbanfetch.com ended its consumer business (TVD Oct 16/00 p19).

But in end, Kozmo still was unable to find enough funding to continue. Among recent moves that didn't bode well for its future were another round of job cuts, decision to alter expansion plans while exiting Houston and San Diego markets, ending 5-year deal with Starbucks that had cost it \$150 million to have video rental drop boxes at coffee retail chain's stores. In recent weeks, Kozmo also started doing something that had been against its philosophy for much of its existence: Slashing prices on many of its CDs to under \$10.

Spokeswoman for Amazon, which had invested \$60 million in Kozmo, told us last week: "We're not at all affected by their decision to close their operations." She said Amazon already had recognized investment as loss last year.

Other investors in Kozmo apparently were keeping quiet last week about decision despite e-tailer saying all proceeds left after liquidation would be going to creditors and employee severance packages rather than investors, Reuters reported.

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**Easyplug is 50/50 venture** of Thomson Multimedia and Europe's Scheider Electric that will pursue home networking through powerline carrier (PLC) technology. PLC-based consumer applications such as in-home video distribution, PC- and Internet access are expected to generate one billion Euros revenue by 2004, partners said. Company will have hq in Grenoble, France, and operations in Princeton, N.J., and expects 40 million Euros revenue this year. First products include wireless telephone and modem jacks that connect to phone network through household AC outlets. Company said it would work with OEMs and systems integrators serving CE and home contractor markets — [www.easyplug.com](http://www.easyplug.com).



**HANDSPRING LOSS GROWS:** Handspring, battling “softness in demand” for handheld PCs, reported 3rd quarter loss grew to \$27.2 million from \$21.5 million year ago as revenue more than tripled to \$123.8 million. Excluding amortization and other intangibles, Handspring said it had \$6.7 million loss that met analysts’ estimates.

Handspring CEO Donna Dubinsky said slowdown in U.S. economy wasn’t likely to create “precipitous decline” in relatively young handheld PC market. But company did end quarter with \$6.8 million in inventory that consisted largely of “long lead time” components such as LCD displays, not finished products, CFO Bernard Whitney told analysts in conference call. Sales are projected at \$130-\$136 million in 3rd quarter, \$440-\$446 million in fiscal year ended June 30. For calendar year, Handspring has cut sales projections 5% from earlier forecasts to \$535-\$560 million.

Company’s inventory contrasts sharply with Palm, from which it licenses operating system (OS) for its Visor handheld PCs. Palm’s 3rd quarter inventories soared to \$102.5 million from \$33.8 million in previous quarter, forcing company to lay off 250 employees as sales slowed (TVD April 2 p14). Palm also responded by slashing prices on Palm m100 to \$129 from \$149; Vx, \$299 (\$349); and IIc, \$299 (\$329). Excess inventory came as Palm readied m500 series of handhelds. Handspring is readying more tempered response to sales slowdown by reducing planned growth in staff and keeping tight lid on costs, Whitney said. It will respond to Palm’s moves through promotions and “planned price reductions,” Dubinsky said.

“There is still a huge opportunity for differentiation between products and I don’t see it as a commodity game yet,” Dubinsky said in conference call with analysts. “We’re still a long way away from that.”

In seeking to expand market, Handspring will offer Visor handheld PC/cellular phone (VisorPhone) in Europe in May. Europe, Asia and Middle East accounted for 19.5% (\$24 million) of Handspring’s 3rd quarter revenue. In U.S., where VisorPhone made bow in Dec., Handspring has experienced “slow ramp-up” of sales through Best Buy, Cingular and Staples, Dubinsky said. Handspring plans to add Blazer Internet browser, developed by recently acquired Blue Lark Systems, to device this spring via free download. In Europe, introduction of VisorPhone had been delayed as Handspring sought to add browser and e-mail capability.

In new products, Handspring will introduce models with integrated wireless communications in fiscal year starting July 1, Dubinsky said. It currently offers wireless technology through module that slips in expansion slot.

Handspring also reached agreement with Palm to extend OS licensing pact through April 2009. Handspring has licensed Palm OS since 1998.

**Research in Motion (RIM)**, taking \$14.75 million one-time charge to write down value of several long-term investments, said it lost \$6.5 million in 4th quarter vs. \$3.2 million profit year earlier. Revenue rose to \$90.1 million from \$25.8 million and was up 46% over 3rd quarter, said RIM, which markets Blackberry e-mail pagers. It also reported pro forma net income of \$8.5 million for 2001 fiscal year ended Feb. 28 on revenue of \$221.3 million, up from \$10.5 million and \$85 million year ago.

**SENSOR CAN TRACK GRAY GOODS:** Patents filed by Motorola in U.K. reveal ability to identify and control “gray” or parallel imports by means of sensors built into CE products. If plan were adopted, cellphone sold in wrong country wouldn’t work and TV or VCR would shut down as soon as owner tuned it to local stations.

Although gray market hasn’t been serious problem for CE vendors in U.S., situation is different in Europe, where prices vary widely among neighboring nations. Manufacturers and some retailers there feel endangered when goods transshipped from one country undercut prices in another, and might welcome Motorola system. But if implemented, detection and control system would put Motorola on collision course with European law.

Patent application (GB 2 348 573 A) for system describes “location-dependent disablement of apparatus” devised by 2 Motorola U.K. engineers. “It is often desirable to control the marketing or use of products differently in different areas,” engineers wrote, contending that regional marketing strategies now used didn’t deter “grey marketer.”

Motorola device would enable equipment to secretly check its geographical location, compare it with longitude and latitude coordinates buried in memory chips and stop working if coordinates didn’t match. For example, cellphone could contain Global Positioning Satellite chip, or check for identification codes sent by cell network. TV sets and VCRs would confirm their intended location of use from normal station IDs and “are rendered useless” if broadcast IDs aren’t found in preprogrammed internal codes.

System faces hurdle because European laws encourage free trade among European Union states. U.K.’s Office of Fair Trading (OFT) recently began investigation of major record companies there that it suspected had been blocking parallel imports of cheaper CDs from other EU states. Fine under U.K.’s Competition Act is 10% of offending company’s annual turnover. European regulators are pursuing similar investigation, with similarly stiff penalty. “We would certainly investigate the Motorola scheme if there were a complaint or we thought it were anticompetitive,” OFT spokesman told us.

Any effort to prevent parallel imports also would meet opposition from consumer groups and some retailers. “Our research shows that if traders can purchase abroad they can reduce prices by up to half,” said spokeswoman for Consumers’ Assn., U.K. group similar to Consumers Union in U.S. and whose magazine, *Which*, plays watchdog role like *Consumer Reports*. Wal-Mart-owned U.K. supermarket chain Asda, heavy discounter of CE hardware and software, won’t welcome Motorola system. “We would absolutely resist anything that stood in the way of giving shoppers the best value through legitimate and legal purchasing,” spokeswoman told us. “We are encouraged by the OFT’s action on CD imports.”

Comment from Motorola on patent was long time in coming as it responded only last week to queries we made in mid-Feb.

“These were details described in a patent application, not on a current or planned Motorola product,” spokesman said. Patent application doesn’t imply plans to market product but enables company to protect its R&D investment, he said. As company with “strong ethical background” Motorola “would not knowingly seek to introduce products which were in violation of international or local legislation.” He said company in future would review wording of patents more carefully to avoid confusion over possible conflicts with laws.



**RETAILERS TOUGHEN POLICIES:** Growing number of retailers say they are trying to make it harder for youngsters to buy Mature (M)-rated videogames. CompUSA and Staples are among latest to either announce new policies or toughen existing ones.

Retailers that have toughened their policies in recent months include Ames Dept. Stores, Kmart, ShopKo, Wal-Mart (TVD Sept 11/00 p16, TVD Oct 9/00 p18). GameWorks announced plan in Oct. designed to prevent minors from playing arcade games at its GameWorks and GameWorks Studio entertainment centers. Sears and now-defunct Montgomery Ward went even further: They stopped selling M-rated games entirely.

CompUSA and Staples — and Office of Mich. Attorney General Jennifer Granholm — said retail chains acted voluntarily. Companies said that although they had policies in place, they were taking additional steps in Mich.

News came 4 months after Granholm, along with variety of Mich. organizations, called on retailers throughout state to implement policies to keep “ultraviolent” games out of hands of kids. That request came after Granholm’s office conducted what it called “an informal violent video shopping sting” at 35 Mich. stores and discovered that, on 31 of those occasions, children as young as 9 were able to buy such games.

Stores visited during sting included CompUSA and Staples, as well as cross-section of national and regional retailers, including Babbage’s, Best Buy, Circuit City, Kmart, Media Play, Meijer, OfficeMax, Staples, Target, Toys “R” Us, Wal-Mart.

Spokeswoman for Attorney Gen. told us Kmart and Wal-Mart were among companies in sting that since had taken steps similar to CompUSA and Staples to soothe concerns in Mich. But she said Best Buy didn’t respond to Attorney Gen., and Toys “R” Us said only that it had policy in place and denied there was way minor could have bought M-rated game in one of its stores. Toys “R” Us spokeswoman didn’t return call for comment by our deadline.

Best Buy spokeswoman told us her company had no policy on sale of M-rated games to children but said “every attorney general is doing this type of thing now” and Best Buy had been responding to each one’s concerns as it received them. If Best Buy didn’t respond to Granholm, she said, “it was an oversight.” She said her company had “been participating in different groups” around country to discuss issue: “It’s not like we’re not aware of it.” But she said: “Attorney generals don’t have a good understanding of the issue.” Checking IDs of consumers to make sure they’re old enough to buy M-rated games isn’t solution to problem, she said. One major reason it won’t work, she said, is that when people download games online, there really is no foolproof way to check consumer’s age.

“We think it’s more of an education issue,” spokeswoman said. In many cases, she said, “parents don’t understand the ratings system.” Best Buy has been using its stores and Sun. ad circulars to make parents aware of Entertainment Software Rating Board (ESRB) ratings system, she said. For example, Best Buy in recent circular posted ESRB’s phone number in videogame section for parents to call for more information on game ratings.

CompUSA Asst. Gen. Counsel Lynn Dow sent letter late last month to Granholm in which she said company already had nation-

wide policy to restrict sales of such games and other types of software (as well as R-rated movies) to consumers 17 and older. Dow said: “This policy was recently distributed to all CompUSA stores in the state of Michigan. All Michigan stores have been instructed to post CompUSA’s policy at the front of the store and in the relevant display areas of the retail floor... In addition, CompUSA anticipates that this policy will soon be prominently displayed at each check-out register, together with general educational materials explaining the ESRB rating system.”

Staples Midwest Div. Senior Vp Gary Cribb said all his company’s stores in Mich. “will be required to ask customers who appear to be less than 25 years old for proper identification to purchase an M-rated videogame or R-rated movie.” He said Staples stores in Mich. also had new signs informing consumers about company’s policy and ESRB’s ratings system.

After Staples announced its new policy, Granholm said: “I applaud Staples for stepping up to the plate and doing their part to help keep ultraviolent videos out of the hands of our children. I hope that Michigan consumers will exercise the ‘power of their pocketbooks’ to support those retailers who’ve pledged to be part of the solution to youth violence.”

Separately, U.S. Attorney Gen. John Ashcroft had criticized violent videogames in speech to American Society of Newspaper Editors. He blamed games at least in part for “the culture of violence” that has led to spate of recent school shootings. But Ashcroft said he didn’t think govt. programs cracking down on such games was solution to problem. Rather, he said all segments of society — including game makers and parents — needed to work together to teach kids that violent behavior was unacceptable. He suggested that one thing newspapers could do to help would be to write editorials praising retailers that enforced ESRB’s ratings system.

**Heilig-Meyers (HM)** will drop CE products as it closes remaining 375 stores and liquidates inventory, sources said. HM, which filed for bankruptcy protection last year (TVD Aug 21 p16), has asked court in Richmond, Va., for permission to start going-out-of-business sales at its namesake so it can concentrate on 54 RoomStore stores in Tex. and Washington, D.C., areas. RoomStore, which HM purchased as 10-store chain in mid-1990s, doesn’t carry CE products. Chain’s top CE brands included JVC, Panasonic, RCA, Sony. HM had experimented with new strategies for CE including merchandising products with mainstay furniture business at 4 stores in Las Vegas. It also dropped CE and major appliance prices 10-15% as part of test at stores in Beaumont area in effort to lessen reliance on lending business (TVD Sept 18 p15). HM’s downfall appeared tied to affliction that struck many subprime lenders in which too much competition lowered credit standards and more consumers defaulted on loans. “The problem was we weren’t able to attract a more upscale customer to stores that weren’t always in the best areas of town because we relied so much on the lending business,” source close to chain said. “That type of consumer wants a larger selection and more competitive prices than we were able to give.”

**NARM** released its 2nd classical music CD sampler, *A Classical Odyssey*, to commemorate Classical Music Month in April. NARM said with list price only \$1.98, sampler was designed “to broaden the listening base of classical music, introducing it to younger, newer audiences while maintaining the integrity that traditional classical listeners demand.”



**RENTMYDVD.COM CHANGES STRATEGY:** Redwood City, Cal.-based RentMyDVD.com has changed its videogame strategy — for now, anyway — we learned last week.

NetFlx competitor opened its Web site late last year and offers variety of DVD movie rental options, including pay-as-you-go plan and choice from 3 subscription plans. RentMyDVD.com Senior Mktg. Dir. Anthony Hicks told us in Nov. that company expected to add videogame rentals to mix as well — “probably within a month after we launch,” possibly in “early December” (TVD Nov 6/00 p21).

But Hicks said last week that company recently decided to sign online pact with online videogame rental dealer RedOctane (formerly WebGameZone.com) instead in order “to focus on the DVD [business] this year.” RedOctane has catalog of 750 videogames, including titles for Dreamcast, PlayStation, PlayStation2 (PS2). Consumers can rent as many games as they want for flat monthly rate of \$9.95 as part of RedOctane G3 Rental Program.

As part of RedOctane agreement, each company is offering link to other's Web site. RentMyDVD.com had games section at its site, but there was little information in that area and it still was referring to Nintendo's upcoming GameCube console by system's old code name, “Dolphin,” earlier this year. But games section has been completely overhauled at site. At this point, when user clicks games tab at RentMyDVD.com, link to RedOctane appears on screen.

Hicks said not jumping into videogames quite yet also would speed RentMyDVD's path to profitability. Another factor that fueled company's decision to not enter videogames yet, he said, was shortage of PS2 consoles when system made bow late last year. “RedOctane came along and it worked out to be an excellent complement,” he said, and it may add videogames to RentMyDVD.com next year. Exactly when RentMyDVD takes on games, however, “depends on our ability to get the DVD [segment of business] to profitability” at fast pace, Hicks said.

Hicks seemed confident profitability would come rather quickly despite company's short history. “We intend to be profitable by the first quarter next year,” he told us last week. He said company had no immediate plan to go public. For now, he said, it has enough cash on hand and doesn't need immediate funding. (He declined to name who had invested in company to date and company is not yet saying just how many subscribers it has attracted.) Hicks said he believed company could break even by 4th quarter and “can then sustain” itself “indefinitely” even without more funding — although he admitted additional funding would certainly help it perform even better.

Company is expecting traffic and subscribers to vastly increase once coupon promotion in conjunction with Samsung kicks into full swing. Coupons offering customers \$20 worth of free rentals are being included with Samsung DVD players and Hicks said similar coupons would be included with Samsung monitors (those offering free month of DVD rentals after subscribing for one month). He said company also formed alliances with Toshiba and N.Y. metro area retailer The Wiz. As part of Toshiba deal, consumers who buy Toshiba DVD player will get coupon for 5 free DVD rentals starting in June. Wiz coupons this month will allow consumers who buy DVD player from any manufacturer to get one month of free DVD rentals. RentMyDVD CEO James Kim told us company expected to

soon have more than one million coupons inserted with Samsung DVD players alone and another million with Samsung monitors. It's looking for similar deals with other companies, including DVD-ROM drive manufacturers.

As part of strategy, it has no intention of advertising in print or on TV anytime soon, Hicks said.

RentMyDVD.com has distribution centers in N.Y. and San Francisco but Hicks said it was seeking to open additional ones in Atlanta, Dallas, L.A. Goal is total of 15 centers. But Hicks said how many it could get up and running by end of year was “depending on the funding.” He expected company could have at least 4-6 by year-end.

DVD catalog at RentMyDVD.com offered 6,000 movies as of last week, although extensive database at site featured information on more than 11,000 DVDs. Hicks said company soon would have 8,500 DVDs available for rental, and soon after that more than 11,000. While site rents out movies that have not received any rating by MPAA, along with some “Not Rated” and “Unrated” movies, Hicks and Kim said they draw line at porno films.

RentMyDVD.com is getting its DVDs through distributors including Ingram and has no immediate plan for direct alliances with studios. Hicks said it was “more flexible for us right now to go through distributors.”

Updated version of the RentMyDVD.com Web site with advanced features will open in mid-May, Kim told us.

**Hot Products and VM Labs** have collaborated on development of Nuon pack-in game controller they hope will become standard component included in all Nuon-enhanced DVD players produced. Companies said Elite-Lite was low-cost version of standard full-featured controller Pro-Elite. VM Labs Peripherals Licensing & Promotion Dir. Don Thomas said: “In a recent survey, over 83% of [consumers who have bought a Nuon-enhanced DVD player] questioned stated that they have plans to purchase games for their Nuon player. These statistics reinforce our objective to encourage all OEMs to include the Elite-Lite as a value-added item with their Nuon-enhanced DVD players.” Companies said Elite-Lite also would ship as retail product in June at \$17.99 that will serve as Nuon's entry-level gaming peripheral. As we reported in Jan., VM Labs received additional support for its Nuon interactive DVD technology on hardware and software fronts (TVD Jan 15 p16). DVD player manufacturers now supporting technology include LG Electronics, Oritron, Samsung, Toshiba, software supporter 20th Century Fox Home Entertainment, game makers Hasbro Interactive and Taito.

**CEA expressed vehement opposition** to petition requesting FCC to consider developing mandatory performance standards for DTV sets. Protest came in brief filed with agency last week. “CEA and its members strongly oppose broadcasters' continued calls for government-imposed standards for digital television receivers,” brief said. It said market forces historically had fueled equipment improvements and innovations and said FCC lacked statutory authority to impose performance standards. Separately, CEA said mandatory inclusion of DTV reception in analog TV sets would be counterproductive to DTV transition and would place unreasonable cost burden on consumers for large percentage of analog TVs.



**DIGITAL AMPS PROLIFERATE:** Tripath will introduce 4-channel digital power amplifiers for autosound use by first half 2002, pricing not set, Mktg. Vp Neal Carney told us.

New configuration would be step up from current 2-channel design and probably could deliver 4x70 w, he said. Current 2-channel amplifiers — TA-2022 (\$16 in 1,000 unit quantities) and TA-3020 (\$14) — deliver 90 and 350 w per channel, respectively, into 4 ohm speakers. Carney said Tripath also expected to add digital interface to amplifiers with sample quantities by 4th quarter, volume production in first quarter 2002.

Among current products, Tripath's TA-2020 has been designed into Hitachi 32W plasma display panel (PDP) and Aiwa microcomponent system, which delivers 180 w of total power at 86% efficiency. Since Santa Clara, Cal., company's founding in 1998, Tripath amplifier chips have been designed into variety of products including Sony's combo DVD/home theater receiver, Apple Computer's G4 Cube desktop PC, Dell Computer's receiver for Internet radio. Still missing, though, is product from Sanyo, which has 9.6% stake in Tripath. "They're interested, but both companies have been busy keeping on their own product tracks," Carney said.

Tripath also will make push into digital subscriber line (DSL) market using its Digital Power Processing technology that combines advances in digital signal processing and power processing to improve amplifier performance while reducing power requirements, heat dissipation, cost. Company is designing line driver circuits for Alcatel's MTK-20850 DSL chipset that's expected by year-end. Goal, Carney said, is for DSL business to account for 35-40% of total annual revenue by end of next year. Tripath also is developing RF power amplifiers for CDMA cellular phones that will ship in 2002.

Tripath reported annual loss widened to \$41.3 million in year ended Dec. 31 from \$31.7 million year ago but revenue soared to \$9.3 million from \$648,000. Komatsu Semiconductor, Sony distributor, accounted for 59.6% of revenue and Natsteel, which builds PCs for Apple Computer, for 18.9%, annual 10K showed. TA2020 and TA1101 digital audio amplifiers generated 92.8% of revenue and former will remain in line despite new introductions since it's less expensive and "optimized" for 20 w applications, Carney said. Tripath also doesn't "expect any changes" in relationship with Natsteel despite latter's recently being acquired by Soletron, he said. Soletron since has moved to close Natsteel plants in Mexico and Hungary.

Macronix International said it signed agreement with Nintendo under which latter would buy up to \$75 million of semiconductor manufacturing equipment and lease it to Macronix. Taiwanese component maker said additional capacity would be installed at its wafer manufacturing facility in Hsinchu Science-Based Industrial Park, Taiwan. Macronix said it would use additional capacity for new products, including Nintendo's Game Boy Advance (GBA) and GameCube. It also will dedicate up to 3,000 8" wafers per month capacity for Nintendo. In addition to mask ROMs, Macronix said it would supply advanced high-density flash memories, dual-channel clocks and other components widely used in Nintendo products. Similar agreement, for \$35 million, was signed in 1995, before debut of Nintendo 64 console, Macronix said. Reports said deal also called for Macronix to manufacture large-scale integrated circuits (LSIs) developed by MegaChips, chip designer based in Osaka, Japan, that will be used in GBA.

**KALISTO CONSIDERS OPTIONS:** Kalisto Entertainment, game maker based in Bordeaux, France, is "considering going through an investment bank to help us find a partner," U.S. spokeswoman for company told us.

But she added: "We're also looking for other solutions, and no negotiation has been finalized yet." She said company "will cut 30 jobs," but "they only concern temporary workers and short-term contracts — therefore 10% of the total number of employees."

Spokeswoman said Kalisto would announce its first quarter turnover April 18. At that point, she said, company will provide more information on its financial situation, including potential partners and its cash flow situation. *Financial Times* report said company planned to cut 50 jobs — 17% of its staff — because Kalisto had enough cash to last only 2 months.

Kalisto spokesman told us last month that March news accounts on company's health had been "fairly dramatic" and "things are not as jet black as they are being painted."

Commenting on fiscal 2000 sales results last month, Kalisto, like many of its competitors, said it was negatively affected by stagnation in market because of current transition to new platforms. It said consolidated loss for year "should reach approximately" 175 million francs (1 ff = 13.6¢), ff40 million of which "concern the outcome of operations from the 1999 financial year having an impact upon the financial year 2000." Kalisto said: "Under these conditions, the consolidated equity capital of the company after appropriation of the result of the financial year 2000 and the allocation of self-checking shares would reach a negative level of 55 million francs." As result, company said it "established some reinforcement arrangements for its structure," among them plan for reducing expenses in France and abroad as well as seeking industrial and financial partnerships.

Kalisto said it also was putting in place "stricter arrangements for sales monitoring" that would be managed by new sales dir., Jean-Claude Ghinozzi, who previously was Infogrames France managing dir.

Although videogame manufacturers traditionally spend bulk of their marketing efforts appealing to children, 1/3 of adults 18 or over play electronic or computer games at home (70%) or at work (14%), Cable & Telecommunications Assn. for Marketing (CTAM) said. *Games People Play* is part of continuing series of research reports group is conducting. Other findings of report: Most adults (58%) play games on their PCs without using Web, while 46% of adults use videogame consoles; one out of 4 adults uses handheld device (25%) or Internet (24%); majority of adults (59%) spend up to 2 hours per week playing games, while one out of 5 (22%) of adults is frequent game player who spends 5 or more hours per week playing games. CTAM said report also indicated that while most adults used PC to play games, they tended to spend less time playing compared with those who played online. Report said participation and interest in playing multiplayer videogames was higher among those who played online, with 24% already participating and 49% interested in doing so. Top advantages to playing online, report said, were that Web offered wide range of games and opponents, including other players around world.



**MP3.COM DEFENDS BUSINESS MODEL:** MP3.com CEO-Chmn. Michael Robertson said he believed electronic delivery of music already was starting "to radically change" way consumers received their music. But he said it was "nonsense" to think CDs were going to disappear anytime soon.

"We think CDs are going to be around for a long time," Robertson said, noting that there are billions of CD players and discs in consumers' hands. Rather, he said, digitally delivered music collections were something that consumers would have in addition to their CD collections. Comments came in keynote speech at recent Internet & E-Business (iEB) Conference in N.Y.C.

Robertson said online service providers that would be most successful would be those that offered consumers choice of ad-based free service or pay subscription-based service minus ads.

Although many in industry have called online advertising nothing more than waste of money, Robertson said: "Advertising works wherever there's people." Saying computer owners already spent 10% of their time online, he said that number would only get larger in future, so it certainly made sense to advertise online.

Robertson also challenged perception of at least some that consumers liked idea of peer-to-peer business model, such as controversial one used by Napster. He said Web users liked Napster simply because it provided free music, which was "not going to be a peer-to-peer world."

Business model that makes most sense in online world is server system such as MP3.com's, he said. Server side system's benefits for music delivery include ability to provide security and royalty tracking for content being delivered, he said.

Among MP3.com's goals, Robertson said, is to expand its Instant Listening service. While that service currently allows consumers who buy select recordings at participating online stores to get digitally delivered version of recording instantly, before hard copy of CD arrives at their home, Robertson said MP3.com hoped one day to offer same service to consumers who bought CDs at brick-and-mortar stores as well.

Robertson said MP3.com was "moving towards profitability." But while profitability is important, he said, "companies still need to make investments in the long run" and MP3.com intended to continue making such investments.

Appearance at iEB came shortly before company opened MP3.com Japan Web site in conjunction with Beijing Group/BMF. Latter is part of one of Japan's largest music organizations, combining artist management companies, publishers, record labels.

MP3.com also announced new "raw stats" feature of its online music service — Artist Activity Logs (AAL) — that it said was tool that allowed music artists and others to gauge how and when people were using music in Web site's library of songs. Explaining new tool, Robertson said it "allows musicians to manage, strategize and modify their business model." Information that public receives from AAL service is "accurate" and provided on "instant" basis, he said.

Company also announced that top 10 music artists in its Payback for Playback program received more than \$54,400 in

March. MP3.com said that since start of program in late 1999, artists and record labels had earned more than \$14 million. Company said it would host Development Conference at its San Diego hq April 19-20 and had signed on as lead sponsor of New York Music and Internet Expo at Madison Sq. Garden in N.Y.C. April 21-22.

**Problems are imminent** among time-shifting owners of TiVo hard disc PVRs in U.K., what with general election now planned there for June. Candidates get free air time in U.K. for messages as long as 4 min. 40 sec., and political spots are slotted into regularly scheduled TV programs with little or no notice. Practical effect is that TiVo timers might fall short of recording entire show that time-shifters programmed. At recent CES, TiVo executives admitted that irregular scheduling and missed endings gave them concern in U.K. market. "We realize it as the most important issue in Europe," TiVo tech specialist Ted Malone said. "We will have an upgrade which provides 'overtime scheduling' for anything between one and 90 minutes," he said. "The upgrade will be software available within the next year as an automatic download by phone line. But no, we can't say when it will be ready," he said. Analog VCRs are less prone to problem, in that owners can program them manually in incremental minutes to account for possible overrun in broadcast time slots. But TiVo and other PVRs rely on downloaded Electronic Program Guide with rigid time-grids that can't be altered by end-user.

**Those game-sampler discs** stuck to covers of poly-bagged magazines nearly landed one U.K. retailer in hot water with authorities recently. Bookseller WHSmith faced \$7,500 fine because videogame excerpt on disc failed to carry rating classification required under Britain's Video Recordings Act — mandatory equivalent of ESRB classifications in U.S. Offending excerpt on free disc was from Interplay's *Kingpin*, which should have carried U.K. "18" certification for its violent content. On appeal, court ruled that WHSmith was entitled to its defense claim of "due diligence" for relying on information furnished by magazine publisher. Judge warned, though, that due-diligence defense might be rejected in future cases because magazine publishers weren't always reliable in furnishing accurate ratings information. Spokesman for Britain's Video Standards Council (VSC) said group was pleased WHSmith had been exonerated, but unhappy that retailer, not publisher, had been prosecuted. He said VSC had been urging its retail members to stock only magazines with legally classified discs or to demand magazine publisher submit those discs to VSC for voluntary ratings.

**Westwood Studios** will ship official *Command & Conquer Yuri's Revenge* expansion pack in fall, Electronic Arts division said last week. *Yuri's Revenge* will be largest expansion pack ever from Westwood, company said Fri. PC CD-ROM mission disc will ship under EA Games brand.

#### THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥125 = \$1, except where noted.



**UBI SOFT SHIFTS RED STORM STAFF:** All marketing functions of game maker Red Storm Entertainment have been shifted from its Morrisville, N.C. hq. to San Francisco office of parent company Ubi Soft.

Spokeswoman for U.S. division of Paris-based game maker Ubi Soft told us that when her company acquired privately held Red Storm last Aug., it planned to keep latter's marketing staff in N.C. But she said Ubi Soft had decided to have all of its product people under one roof in light of company's acquisitions of German game developer Blue Byte Software in Feb. and entertainment div. of Learning Co. (TLC) last month (TVD March 12 p20).

Before acquisition, there had been 9 marketing people at Red Storm — now wholly owned subsidiary of Ubi Soft, spokeswoman said. That number was reduced to 4 after deal, she said, and 3 of them decided not to move to West Coast to remain with company, while one person — PR Mgr. Marcus Beer — did move. Among 3 Red Storm team members who have left company is April Jones, who is being replaced by Beer.

Spokeswoman said some employees from TLC also were shifting to San Francisco. Six new hires already had made in Ubi Soft's office, she said, and streamlining would leave it with total of 70 staffers there. It was unclear how many Blue Byte employees — if any — would be shifting to Ubi Soft office.

Separately, Red Storm said it started shipping game *Tom Clancy's Rainbow Six: Rogue Spear* for PlayStation. Title is sequel to best-selling game *Tom Clancy's Rainbow Six* and it contains all new levels that were taken from PC version of *Rogue Spear* and PC mission pack, *Urban Operations*. In new game, Rainbow team must save world from Russian Mafia and Middle Eastern terrorist organization.

**TDK Mediactive (TDKM)** signed \$8 million loan financing agreement with TDK U.S.A. Corp. that provides working capital for company and matures in March 2002. TDKM CEO Vincent Bitetti said last week: "Mediactive is developing many new titles launching during the summer and the next holiday season. This financing provides us with significant working capital necessary to complete these titles." However, TDKM CFO Martin Paravato said: "Although we were able to obtain this funding through our major shareholder, the company will require additional funding to continue our plans to add new titles for launching during 2002." TDKM also said it signed 5-year worldwide licensing agreement with R&S Trading, owner of lifestyle clothing brand No Rules, giving it exclusive rights to develop and publish games featuring brand for current and next-generation videogame systems. TDKM said it also was granted rights for handheld devices including cellphones and PDAs. First title under agreement will ship in Nov. for Game Boy Advance, TDKM said, and it will ship it in 5 languages, including Spanish and French in N. America with simultaneous distribution across Europe via affiliated company TDK Recording Media Europe S.A. TDKM CEO Vincent Bitetti said: "No Rules is a brand that embodies the hip, urban lifestyle from top to bottom. We plan to capture this alternative attitude by combining fast paced gameplay with popular activities like snowboarding, skateboarding, and riding scooters." Calabasas, Cal.-based TDKM has exclusive technology and content licenses with companies including DreamWorks SKG, Microsoft, New Line Cinema, Nintendo of America, Sony Entertainment Corp. of America, Universal Studios. TDK U.S.A. is wholly owned subsidiary of TDK Corp.

## Consumer Electronics Personals

Realignments at Panasonic U.S. sales and marketing: Consumer, Industry and Systems sectors will be headed, respectively, by Pres.-COO **Andy Takani**, **Joe Taylor**, **Steve Yuhas**; CE Group merchandising section has been reorganized into 5 groups reporting to **Jeff Cove**, CE Group vp-gen. mgr., and headed by Gen. Mgrs. **Reid Sullivan** (Entertainment), **Bill Mannion** (Displays), **Andy Nelkin** (Network Development and Optical), with Communication Group headed by Cove for interim; Personal Products Group under Vp-Gen. Mgr. **Jerry Hayes** is transferred from Home & Commercial Products Co. to CE company... **Gene Kelsey**, Panasonic vp-gen. mgr. audio, appointed vp-gen. mgr. of company's newly formed Brand Strategy Group responsible for all Panasonic, Quasar and Technics marketing and communications functions... **Patricia Russo**, ex-Lucent, named Eastman Kodak pres.-COO, succeeding **Daniel Karp**, who remains CEO-chmn... **Mark Leckie**, ex-H.J. Heinz, appointed pres. of Gillette's Duracell battery unit, replacing **David Young**, resigned... **William Kennard**, ex-FCC chmn., joins Handspring board... **Robert Raben**, former U.S. asst. D.A., forms Raben Group intellectual property consulting/lobbying firm in Washington, first clients RIAA and Sony Music... **Patrick Fitzgerald**, ex-Citibank, named Buena Vista Home Entertainment sales & distribution vp... **Daniel Walker**, ex-Auto Zone, named Aaron Rents internal security vp... **Brian Rubenstein**, ex-Team Concepts N. America and former toy retailer, appointed national sales mgr.-electronic learning products at Oregon Scientific... **Clint Hoffman**, Sony displays mktg. dir., resigns, plans unknown... **John Lombardi**, ex-Community Rehab Centers, appointed Rent-Way vp-corp. controller & chief accounting officer.

**Sony Pictures Consumer Products** signed exclusive agreement with game maker Activision to bring series of new animated interactive adventures featuring E.B. White's famous mouse, Stuart Little, to Nintendo videogame systems. As part of deal, Activision acquired worldwide rights to develop and publish interactive games based on film *Stuart Little* for Game Boy Advance and Game Boy Color, as well as exclusive option to develop and publish GameCube title based on movie. Santa Monica game maker also obtained rights to develop additional games for Nintendo's systems based on film's sequel, *Stuart Little 2*, to be released in summer 2002. Activision Licensing Vp Greg Goldstein said: "The 'Stuart Little' franchise will further complement Activision's slate of family entertainment games." Separately, Activision said it started shipping *Tech Deck Skateboarding* for Game Boy Color (GBC) at \$29.99. Game is based on popular miniature action-sports toy line from X Concepts. Activision last week also provided full release slate of its upcoming Spider-Man and X-Men titles. Spider-Man titles will include *Spider-Man* for Dreamcast (this spring), *Spider-Man 2: The Sinister Six* for GBC (spring), *Spider-Man 2 Enter: Electro* for PlayStation (fall), *Spider-Man: Mysterio's Menace* for Game Boy Advance (GBA) (fall), *Spider-Man* for PC (fall). X-Men titles will include *X-Men: Wolverine's Rage* for GBC, *X-Men: Mutant Academy 2* for PlayStation, *X-Men: Reign of Apocalypse* for GBA — all to ship in fall. Activision already has found success with its first titles in each of those 2 franchises, which are based on Marvel comic book characters. *Spider-Man* for GBC, Nintendo 64 and PlayStation shipped last summer, as did *X-Men: Mutant Academy*, which coincided with release of film *X-Men*. Activision also said it would ship next installment of its *Tony Hawk's Pro Skater* — *Tony Hawk's Pro Skater 3* — on 6 platforms: GBA, GBC, PC, PlayStation, PlayStation 2 and Xbox.





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# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

APRIL 23, 2001

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## SUMMARY-INDEX OF WEEK'S NEWS

### Broadcast - Cable

**PTV CARRIAGE DEALS** making progress with big MSOs. Time Warner seen as template. Less pressure for must-carry called possible. NCTA says more deals are coming. (P. 1)

**DUAL-NETWORK RULES RELAXED** by FCC. Viacom allowed to keep UPN. Significant changes in broadcast competition cited. (P. 2)

**DTV SIGNALS ARE KEY** to quality reception, ATSC says. Modulation, receivers generally adequate. Changes needed for mobile reception. (P. 4)

**DTV 'GOING WELL,'** FCC's Stewart says in status report. Number of stations, receivers cited. Cable issues raised. (P. 5)

**CABLE RULES STILL STAND:** FCC misses deadline for reconsideration of ownership limits, could go to Supreme Court. (P. 6)

**DBS BID OPPOSED** by broadcasters in must-carry proceeding. A la carte pricing rejected, as is fiber delivery. (P. 7)

**PTV STATIONS, CABLE OPERATORS PURSUE DTV CARRIAGE DEALS:** Public broadcasters and major MSOs are starting to discuss digital TV carriage agreements that could short-circuit push by broadcasting industry for DTV must-carry rules. Cable and PTV officials said AT&T Broadband and Cox Communications were holding talks with special APTS/PBS MSO Advisory Committee, while Comcast, Charter Communications and other large cable operators had expressed strong interest in deals. APTS said it planned to approach Adelphia and Cablevision Systems, too, following landmark DTV carriage pact that APTS and PBS signed with Time Warner Cable last Sept. "I would expect to see more conversations between public stations and MSOs in the coming months," NCTA Pres. Robert Sachs said.

Voluntary commercial carriage deals, patterned after earlier agreement in principle that Time Warner Cable signed with PBS and APTS, would ensure that cable operators offered PTV multicast and HDTV programming in their markets during DTV transition. That means that public broadcasters would gain distribution of their PBS Kids channel, school instructional shows, adult education, job training, college courses and other proposed multicast services, as well as their prime-time HDTV programming. APTS Chmn. Beth Courtney told House Telecom Subcommittee last month that more than 95% of public stations planned to offer at least one educational multicast service and 75% to provide 2 or more.

MSOs would carry PTV digital programming on their own negotiated terms without having to offer DTV signals of every public station in their markets. In Time Warner's case, for example, MSO now carries digital signals of 7 PBS stations in 6 major cable markets — Albany, N.Y., Columbia, S.C., Houston, Kansas City, Minneapolis and Raleigh — offering 2 PTV digital feeds only in Minneapolis. "Obviously, we think it's a good deal for us," Time Warner Cable spokesman said. "It's very similar to the deals we did with the commercial networks [ABC, CBS and NBC]." Agreement calls for Time Warner eventually to carry digital signals of up to 140 public stations covering 12% of U.S. TV households.

### Consumer Electronics

**THOMSON COST-CUTTING MEASURES** include hiring freeze and layoffs in some business units and reduced travel. Workers at Marion, Ind. tube plant to vote on new contract. (P. 9)

**SIRIUS ACKNOWLEDGES DELAY** in delivery of first Panasonic receivers to 4th quarter. Fewer than 20,000 planned for this year. (P. 10)

**PHILIPS DROPS AOLTV/DIRECTV PLANS** for this year to focus on TiVo/DirectTV product; Hughes Network Systems will supply product in 2nd half. (P. 11)

**PIRATE-DVD QUALITY HIGH** despite bargain price, we find. Some titles have yet to be released on DVD. (P. 11)

**AIWA CLOSING JAPAN PLANTS** this year in quest for financial turnaround. Other plans to be announced this week. (P. 12)

**PHILIPS TO CUT 6,000 JOBS** in 'underperforming activities' in CE and components, forecasts 2nd-quarter loss. (P. 12)



In move to boost efforts for cable carriage of PTV digital signals, PBS appointed Jennifer Browning, senior adviser to Pres. Pat Mitchell, to newly created position of senior dir. of digital cable and DBS strategy. Browning will lead interdepartmental team at PBS in tandem with APTS to negotiate digital carriage agreements with cable and DBS providers. PBS is "dedicating more resources" to ensure that public will have access to expanded programming and educational services on their local PTV stations' digital signals, Exec. Vp-Member Affairs Wayne Godwin said.

Start of serious PTV-cable negotiations follows presentation by PBS and APTS leaders to NCTA board. Both cable and PTV officials said digital programming business plan, delivered by Mitchell and APTS Pres. John Lawson, scored points with top MSO executives. "They make a good case," Sachs said. Another source said: "The PBS people set up a nice little structure."

Lawson told us no specific carriage proposals were made to NCTA board. At meeting with board executive committee, he said "we described our state and local educational services" and pushed for Time Warner-type carriage agreements with other MSOs. He said public broadcasters didn't seek commitment from NCTA itself "because we understand NCTA is not in a position to do this." PTV executives also argued surveys showed that education was main factor driving sales of PCs and Internet access so PTV education-related services could help boost penetration of digital cable set-top boxes.

Asked whether Time Warner had agreed to carry all of PTV's multicast digital channels in its markets, Lawson would say only that agreement "provided for substantial carriage" of digital streams of PTV stations. As to whether such deals with cable operators would obviate need for digital must-carry rules, he said "we are keeping our powder dry on the issue." However, if public broadcasters could reach agreements with other MSOs along lines of one with Time Warner, "it would allow us to drop a regulatory approach to carriage."

APTS spokeswoman said public broadcasters had made digital carriage "overtures" to such MSOs as AT&T and Cox, but no formal negotiations had begun. She declined to divulge details of Time Warner carriage deal, which called for 80% of PTV stations in MSO's markets to sign agreement before it became binding. But she said Time Warner will "carry all our programs as long as they were related to our mission." MSO also agreed to carry analog signals of PTV stations during digital transition, she said.

Carriage talks come after public broadcasters conducted extensive lobbying campaign for DTV must-carry rules. In hearings in Congress and filings with FCC, public broadcasters have demanded cable carriage of all of PTV's digital multicast streams and dual analog/digital carriage during DTV transition. In House Telecom Subcommittee testimony last month, for example, Courtney argued that FCC's tentative ruling against dual-carriage requirements in Jan. was "unwarranted and will have serious public policy consequences."

Pressing cable's argument against analog and digital dual-carriage requirements at Media Institute lunch in Washington April 18, Sachs said more voluntary carriage deals between MSOs and PTV stations were likely "because public TV has a vision for using its digital spectrum." In contrast, he contended, "most commercial broadcasters don't have a business plan for how to use their free digital spectrum." He said commercial broadcasters, with "notable exception" of CBS, "are doing little or no HDTV, and some broadcasters, like Paxson Communications, see spectrum as valuable 'beachfront property' to be auctioned by them to wireless companies."

Sachs also used Media Institute forum to declare that broadcasters no longer deserved special treatment in communications policy because of fundamental shifts in electronic media landscape over last decade. With cable in 69 million homes and DBS in another 15 million, he said, only 15% of public still receives broadcast signals over-the-air. He also said each of 4 major broadcast network owners now had stakes in at least dozen cable networks and that commonly owned broadcast and cable networks now shared programming, promotion, management. "I believe it means that the special status broadcasting has held in First Amendment policy debates — debates like must-carry — is disappearing," Sachs said. Adding that "broadcasting's not the unique service it was even 10 years ago," he said "it should not be entitled to special treatment under the First Amendment, especially when special treatment shuts out the speech of others."

**FCC RELAXES DUAL-NETWORK OWNERSHIP RULES:** Clearing way for Viacom to retain UPN, FCC voted 3-1 to ease its restrictions on dual-network ownership, amending rules to allow Big 4 TV networks to own, operate, maintain or control emerging networks UPN and WB. Viacom, which already owned ailing UPN before buying CBS last May, will be able to keep both networks or sell UPN to any of other 3 major networks, and AOL Time Warner now could sell WB to any of 4 major networks, although it hasn't shown any desire to do so.



FCC Mass Media Bureau Chief Roy Stewart said agency's final order would allow Viacom to hold onto UPN even if it didn't take effect until after May 4, current deadline for Viacom to shed UPN unless it receives last-min. waiver from CBS purchase conditions. "We'll take some action," he said. "We'll put something in this document indicating that they don't have to get rid of UPN network."

In adopting dual-network change, FCC cited statistics that "significant changes in the video marketplace" had occurred since rules were last revised because of Telecom Act 5 years ago. Commission said that while number of commercial and noncommercial TV stations increased between 1996 and 2000, prime-time viewership among 6 broadcast networks fell to 58% from 71%. Agency also pointed out that combined cable and DBS penetration of TV households had grown to nearly 84%, providing greater competition to broadcasters. It said number of cable channels climbed to 214 last year, from 162 in 1996.

On diversity concerns raised by public interest and minority groups, dual-network R&O said rule change wouldn't affect diversity at local market level because that's province of network affiliates, not networks themselves. At national level, order concluded that merger of major and emerging networks actually would foster diversity by permitting emerging networks to keep delivering minority oriented and niche programming. Given UPN's precarious financial health, Commission said failure to amend rule could cause that network to go under, depriving viewers of its programming. Agency said network failure "could also imperil the position of many of that network's affiliates," hurting diversity of local stations.

FCC Chmn. Powell hailed dual-network change as "an important step" that "will not harm, and indeed is likely to promote, competitive efficiency and diversity." Saying "any efficiencies gained through such mergers would likely make the emerging networks more effective competitors," Powell said order affirmed Commission's earlier tentative conclusion that rule "no longer serves the public interest, and therefore should be repealed." He said Viacom's ownership of UPN was "essential to the continued viability of UPN and its local affiliated stations," and network's demise "would result in a loss of diversity" of national programming for minority and urban audiences: "Outlet diversity at the local level would also be jeopardized if the stability of the affiliates was put at risk."

Comr. Tristani delivered stinging dissent, saying rule change "will only further erode the already tenuous level of diversity on the public airwaves." While it might be true that "a duopolized UPN is better than a dead UPN," she said, she didn't see public interest justification for gutting rule. At most, she said, agency should have considered waiver request by UPN and Viacom, rather than eliminating rule: "Wholesale abandonment of well-settled rules is not the way to save a struggling network or promote the public interest... Decreasing the number of owners of broadcast networks is simply not a means to achieve greater viewpoint diversity. Sadly, the train of consolidation continues to run on time."

Comr. Ness said FCC chose not to relax its ban on mergers among Big 4 networks, which she said "would dangerously diminish source and viewpoint diversity" in U.S. She also argued that rule change "does not implicate other media ownership restrictions." She said she backed change even though it would reduce "source diversity" because it would "maintain outlet and viewpoint diversity... The net benefit to diversity through the preservation of small, niche-oriented networks leads me to support this action."

Comr. Furchtgott-Roth, who also backed amendment, said "my only regret" is that rule change didn't go further. Urging FCC to "get out of the game" of imposing competitive restrictions, he called for sweeping elimination of media ownership caps and other limits, saying such rules "reflected a time when the Commission mistrusted the antitrust agencies."

Viacom, which had been seeking waiver of May 4 deadline for shedding UPN if dual-network rules weren't changed, said it was "extremely pleased" by FCC's action. Saying that decision "correctly reflects the highly competitive nature of the broadcast industry," Viacom said it was "encouraged by the FCC's willingness to revisit and amend its traditional positions in light of the realities of communications in the 21st century." Company said it hoped that "the Commission will take additional actions in the future to rationalize other areas under its oversight."

Black Entertainment & Telecom Assn. (BETA), which represents African American professionals and executives, criticized FCC decision and asked Congress to investigate. BETA Pres. Talib Karim said change "would fly in the face of competition and media diversity, stated goals of the 1996 Telecom Act." He contended that "reduced competition spells reduced quality black programming as well as reduced opportunities for black producers, directors, writers, actors and other media professionals." Citing several recent Viacom programming moves and talent firings that "have disenfranchised many in the black community," BETA sent letters to Senate Commerce Committee Chmn. McCain (R-Ariz.) and House Commerce Committee Chmn. Tauzin (R-La.) urging hearings on FCC decision.



**DTV SIGNAL STRENGTH IS KEY:** Successful DTV reception depends more on received signal strength than on modulation scheme or receiver quality, according to in-depth report by Advanced TV Systems Committee (ATSC) Task Force on RF Performance. Report suggests that perceived DTV problems may be result of inflated expectations, that broadcasters shouldn't count on receiver improvements to solve any problems and that signal improvements, such as use of on-channel repeaters, could provide big reception improvements.

"I sometimes tell people that 'it's the power, stupid,'" said ATSC Exec. Dir. Mark Richer, mirroring President Clinton's election mantra. "People have been trying to blame the [8-VSB] standard, but most things come down to power and signal." Task force did consider studying alternative modulation standard, COFDM, but dropped idea rather quickly after determining it provided no significant reception advantage, Richer said.

"Indoor reception of DTV with set-top antennas may be... available only to a minority of viewers in some television markets," task force said, blaming problem mainly on weak signal. It said advances in DTV receivers could improve that, but "expectations of widespread indoor reception are inconsistent with the DTV planning factors and link budget variables." Report said indoor reception could be improved, for example, by cutting DTV's maximum data rate.

Key factor is amount of signal that arrives at receiver from transmitter, called link margin, report said, following year-long study. Consumers have "enormous influence" on margin, it said, through factors such as antenna selection, location, height, orientation. Antenna makers already have begun cooperating on "Smart Antenna" interface that would help antenna and DTV set work together, as well as electronically steered antennas and other technologies that would improve signal arriving at DTV set.

Both set makers and transmitter makers are doing generally adequate job with their portions of transmission links, report said. It concluded that transmitters "contribute minimally" to link budget degradation and "no significant DTV receiver innovations are needed" to avoid undue interference. It said some receivers didn't comply fully with FCC planning factors, but said they generally were improving rapidly.

"Unrealistic expectations" about DTV reception anywhere NTSC could be received are big problem, task force said. NTSC reception can be considered "acceptable" at signal levels below where DTV can function, it said, even though consumers wouldn't be willing to watch such TV pictures, causing "perceived failure" of DTV to replicate NTSC coverage. Richer said he was convinced that DTV already could be received anywhere there was truly acceptable NTSC reception.

FCC's DTV planning factors don't do adequate job of predicting who would be able to receive DTV signal, task force said. Richer said industry needed to develop new "metrics" for predicting reception.

Despite direct relation of power to DTV reception, Richer said he wasn't aware of any broadcasters' planning to seek DTV power increase, although some might become interested in on-channel repeaters (OCRs). OCRs (TVD April 12/00 p8, Sept 4/98 p3) are low-power cellular-like transmitters that re-

peat TV station's signal on same channel on which station broadcasts, making signal receivable in areas where main one is blocked. Richer said several transmitter manufacturers were working on OCRs, but it wasn't clear when announcement would be made. OCRs may require some FCC approval, but Richer said it probably would not be major proceeding. Key question, he said, is whether broadcast business model would justify cost of installing additional transmitters.

Broadcasters also should look to transmission improvements, rather than receiver upgrades, if they're interested in mobile DTV reception, task force said. It said fully mobile reception would be "major challenge" because of multipath and signal strength problems, and even reception at walking speeds, would be difficult for several reasons, including antenna design and height. It said portable reception would be possible over only "limited portion" of DTV service area.

Other findings in report included: (1) Signal strength might have to be increased by as much as 47 dB to make indoor reception as robust as current outdoor reception. Richer called that "worst case" scenario. (2) Signal strength at ground level is 12-16 dB lower than on 30' antenna, height used in original DTV service area planning. Study included results showing that DTV reception capability fell from 75% of all sites with 30' antenna to 32% of all indoor sites. (3) ATSC should study including more robust audio mode in DTV standard. (4) Lack of advertising standardization is confusing consumers in selection of antenna.

ATSC, meanwhile, said it received 10 responses to its request for proposals for ATSC transmission standard enhancements. Responses are to be evaluated on accelerated schedule, Richer said, with new specifications to be drafted by end of year. Responses came from ADC Telecom, Broadcom, Conexant, Merrill Weiss Group, Patel-Limberg-McDonald, NxtWave, Oren Semiconductor, Philips, Sarnoff, Zenith.

**FCC's order** subjecting noncommercial educational (NCE) and public broadcast stations to competitive bidding for licenses in nonreserved spectrum was effort to interpret "difficult" language of statute and not to expand its auction authority, agency told U.S. Appeals Court, D.C., April 20. Court was hearing oral argument on petition by NPR and others seeking review of Commission's order. NPR said Communications Act stated that FCC's authority to award licenses through competitive bidding didn't apply to NCE and public broadcasting applicants. Grey Pash, counsel for FCC, said statute provided several directives and it wasn't clear that Congress understood problems it could create. Saying it wasn't easy issue to resolve for agency, he said meaning of statute's language depended on context. Under NPR's interpretation, there would be fewer auctions and more comparative proceedings, he said. Most of questioning from 3-judge panel focused on language of statute, with judges seeming to concur that language wasn't specific. Judge Raymond Randolph said statute wasn't talking about applications, but licenses already issued. FCC can exempt applicants only after entire licensing process is over and agency's problem is what process to use to determine who gets license.

**FCC extended deadline** for filing public comments on its further notice of proposed rulemaking on DTV cable must-carry. Responding to request for more time, Cable Bureau pushed deadline for comments back to June 11, replies to July 21. Comments had been due May 10.



**DTV 'GOING WELL':** In its latest status report on nation's DTV transition, FCC said broadcasters continued to make strides but many challenges remained. "We believe the DTV transition is going better than many people give it credit for, although not as fast as some hoped," FCC Mass Media Bureau Chief Roy Stewart said in report to Commission. "Sometimes, technology takes time."

Stewart said 38 of 40 stations in top 10 TV markets now were transmitting digital signals, as were 67 of 79 stations in markets 11 through 30. Overall, he said, 190 DTV stations were on air, covering 64% of U.S. TV households. He said some DTV markets were particularly flourishing, with 8 operating digital stations in L.A. and 5 in Washington. Stewart said FCC had granted construction permits for 1,090 of 1,688 DTV station allotments, with 598 "nonroutine applications" still pending, largely because of interference or international coordination issues.

Bureau will "expedite processing for applicants ready and willing to build DTV facilities," Stewart said. He also cited CEA statistics saying manufacturers sold 648,000 sets to dealers last year, up 400% from 1999. But he also mentioned several "caveats": (1) Sales figures reflect set purchases by dealers, not consumers. (2) Even DTV sales to dealers amount to small fraction of overall TV set sales, which reached 25 million last year. (3) Most sales were of DTV display monitors, not sets with integrated digital tuners. (4) DTV set prices, while falling, continued to be high.

DTV-cable interoperability problems, lack of HDTV and other digital programming and digital copyright protection issues continued to hamper DTV rollout, Stewart said. Comr. Ness chided cable and satellite industries for not doing more to promote DTV transition. "I hope to see some voluntary progress by cable," she said, noting "lot of reluctance" by industry to carry digital broadcast programming. Ness said she was "pleased" to see discussions between cable operators and public broadcasters about DTV carriage deals (see separate story). She said she hoped carriage deal between AOL Time Warner and PTV stations would serve as "template" for other carriage agreements.

**RadioShack and Circuit City Stores** urged FCC to take several steps to "level the playing field" for competitive digital cable set-top boxes and speed DTV transition. In letter to FCC Chmn. Powell, RadioShack and Circuit City asked Commission to move up deadline for cable operators to stop leasing and selling proprietary cable set-tops with integrated conditional access and other functions to Jan. 1, 2002, from current Jan. 1, 2005. Companies also proposed that agency make MSOs abide by same OpenCable technical specifications for digital cable boxes that competitors would use. CE retailers suggested that FCC force MSOs to "extend the same level of subsidy, from pooling with analog converter costs," to consumers getting competitive cable boxes. Consumer electronics executives charge that cable operators unfairly subsidize their own digital customers, keeping digital box prices low by raising prices on analog converters.

**European Bcstg. Union (EBU)** said it developed way to increase protection against piracy of scrambled satellite video signals with 2nd layer of software-based encryption. Consortium of manufacturers developed Basic Interoperable Scrambling System (BISS) with ability to secure digital satellite newsgathering transmissions in all makes of equipment.

**Broadcasters** are unfairly blaming cable and consumer electronics industries for slow transition to DTV, CEA and NCTA said in separate comments on broadcasters' bid for reconsideration of DTV biennial review order (MM 00-39). CEA again said FCC shouldn't set receiver standards for DTV sets and "critical element" in transition was "an ample supply of high-quality" DTV programming. Group said FCC lacked statutory authority to impose receiver standards and there was "no congressional mandate, and indeed no need" for standards. NCTA criticized what it charged were broadcasters' "self-serving and disingenuous statements about the cable industry's role in the digital transition," particularly claims that broadcasters were only ones investing in DTV. "One would hardly guess that the broadcasters asked the government for a second 6 MHz channel of valuable spectrum," NCTA said. Meanwhile, it said, cable, which gets no new free spectrum, has invested \$42 billion since 1996 in digital cable capability and has signed voluntary agreements with consumer electronics makers to ensure DTV compatibility with cable.

**House Commerce Committee Chmn.** Tauzin will hold hearing April 25 on expected reintroduction of broadband deregulation bill in order to educate new committee members on issue, not to provide end run around Telecom Subcommittee involvement, spokesman Ken Johnson said. "We will absolutely not bypass the subcommittee," he said, emphasizing critical role of Subcommittee Chmn. Upton (R-Mich.) in reviewing all communications-related legislation. "I assure you that when we're ready to move the bill, it will go to the subcommittee." Bill, last year introduced as HR-2420 by Tauzin and ranking Democrat Dingell (Mich.), would lift Bell company restrictions against providing interLATA data services. HR-2420 had more than 200 co-sponsors, but wasn't considered by committee, then under leadership of former Rep. Tom Bliley (R-Va.). Some of newer committee members are less familiar with Tauzin-Dingell bill. Johnson said it "could be tweaked," but wouldn't vary much from HR-2420. "We'll see how the hearing goes" before scheduling markup of the bill, he said. There's "good possibility" that Tauzin will try to move bill out of House before summer recess, Johnson said. Hearing will begin at 10 a.m., Rm. 2123, Rayburn Bldg.

**Sirius Satellite Radio CEO David Margolese** said last week radio sets would be available in 4th quarter (see separate story). In conference call with investors, he said first receivers were being produced by Panasonic, with other manufacturers to follow, but "something under 20,000" radios will be available at start for consumers. "Retailers are clamoring for this product," Margolese said. Analysts said new date for rollout represented one-month delay but shouldn't affect company adversely. They have toned down projections for company, with most expecting few or no sales in 2001. Margolese said there weren't "software issues in the system that had delayed rollout." He said satellite radio network was "working spectacularly" and reiterated that company had been able to tap into \$150 million Lehman Brothers credit facility to obtain much-needed financing to carry it until next year. Sirius decided to start service with 12x12 radio that fits in trunk of vehicle, rather than eventual 8x8 model. Larger radios use off-the-shelf components instead of application-specific integrated circuit (ASIC) chipsets, but each worked same with satellite system.

**Paxson signed** joint sales agreement with NBC affiliates owned by LIN TV in Grand Rapids and Norfolk, companies said. In addition to sales and marketing, LIN stations will provide repurposed newscasts for Paxson stations.



**CABLE RULES STILL STAND:** Despite pressure from public interest groups, FCC passed on seeking reconsideration at U.S. Appeals Court, D.C., of last month's court decision striking down agency's limits on cable horizontal and vertical ownership. Commission, which had faced 45-day deadline for filing for reconsideration of decision at D.C. Circuit, quietly let that deadline pass April 16. Cable Bureau spokeswoman said agency hadn't yet ruled out appeal to U.S. Supreme Court but was focusing on responding to Appeals Court remand that Commission provide greater justification for its 30% horizontal ownership and 40% vertical ownership caps. Appellate court struck down and remanded caps last month, ruling that they placed too much burden on First Amendment rights of cable operators (TVD March 5 p3).

Undeterred by FCC's action, Consumers Union and Consumer Federation of America asked D.C. Circuit for reconsideration of cable cap decision. They urged full 11-member court to overturn earlier ruling by 3-judge panel. "This decision constitutes a sharp departure from established precedent of this court and of the Supreme Court and as a consequence is already derailing long-established rules and precedent concerning the legality of media ownership limits," consumer groups said.

In related move, FCC issued public notice last week seeking comment on whether its MediaOne merger conditions still should apply to AT&T now that cable ownership limits had been struck down as unconstitutional. In 4-page notice April 18, Cable Bureau asked for comments "regarding the effect, if any, of the court's ruling on the conditions imposed" in last June's MediaOne order. "In particular, the Commission seeks comment on whether to proceed with the conditions in light of the court's decision," notice said. Cable Bureau also set deadlines for comments on notice and related petition for reconsideration of cable ownership decision filed by Consumers Union. Comments are due May 11, replies May 25.

In press breakfast April 17, Comr. Furchtgott-Roth said he was heartened that Commission wouldn't take cable ownership case back to D.C. Circuit. He also said it was his "personal view" that FCC action was probably "strong signal" that agency wouldn't appeal cap ruling to Supreme Court. "I would be surprised if they referred it to the Supreme Court," he said. "I hope it's a signal" of not wanting to take appeal to high court, he said. In past, Furchtgott-Roth has said FCC should conduct fresh rulemaking on ownership issue rather than pursue appeal.

Furchtgott-Roth also expressed concerns about praise that FCC Chmn. Powell showered on NCTA, which said its MSO members would comply voluntarily with Commission's suspended equal employment opportunity (EEO) rules. NCTA move came after Appeals Court said EEO rules were unconstitutional. NCTA board approved resolution adopting "self-enforcing version of the FCC rules," which broadcast groups successfully opposed in court.

Furchtgott-Roth said he was "very disturbed" when NCTA, which had backed new EEO rules, said it would use FCC employment guidelines for women and minorities that had been at issue in D.C. Circuit ruling. While constitutional issues examined in decision centered on FCC's promulgation of rule, Furchtgott-Roth said adoption of language that raised such concerns wasn't "to be lauded." He put issue in context of earlier voluntary commitments, especially in some merger conditions for which companies were praised after fact. "Does that make it

right to violate an individual's equal protection rights?" he asked.

But Comr. Ness joined Powell in praising NCTA's voluntary pledge on EEO rules. Noting that NCTA's board members "represent some of the most successful businesses in America today," Ness praised MSOs for "reaching out to women and minorities in a spirit of inclusion." By doing so, she said, "those companies demonstrate that diversity and profitability can go hand in hand."

Separately, Furchtgott-Roth said he still was concerned about pace at which merger reviews were moving at Commission, citing pending News Corp.-Chris-Craft deal as example. Earlier, he had criticized FCC for taking far too long to approve such mergers as AOL-Time Warner.

**In \$97 million deal,** ITFS Spectrum Development Alliance plans to develop 2-way digital system with Clearwire Holdings, using financing from Goldman, Sachs and affiliate of Liberty Media. Alliance consists of members with licenses in ITFS and MMDS bands in nearly 100 cities, including Chicago and N.Y. Alliance said it represented largest group of ITFS national licenses and 4 local licensees. "Because the Alliance holds spectrum nationwide, the Clearwire partnership gives members the platform to build a national educational data network to serve schools, colleges, libraries and other nonprofit users," Alliance said. Clearwire said it would use remaining capacity to offer data services to businesses to compete with DSL and cable broadband offerings. Clearwire said it planned later this year to begin deploying 2nd generation technology for fixed wireless that operated in both 2.4 GHz unlicensed spectrum and 2.5 GHz ITFS/MMDS band. Companies said deal would give Alliance members funding to support educational activities as well as equity in Clearwire and seat on its board.

**FCC should quickly review** remaining broadcast ownership rules, House Commerce Committee Chmn. Tauzin (R-La.) and Telecom Subcommittee Chmn. Upton (R-Mich.) told Commission Chmn. Powell in letter last week. They said agency could do so through either new rulemaking or as part of biennial review. If Powell doesn't plan separate ownership rulemaking, lawmakers said, he should "accelerate the timetable" for biennial review.

**Sen. Burns (R-Mont.)** doesn't anticipate changing his legislative agenda when Senate returns this week despite recent treatment for colon cancer, spokesman said. Burns is recovering at his Va. home following cancer surgery at Bethesda (Md.) Naval Hospital. He announced that his physician was "very optimistic for a full and complete recovery." Burns, 66, is in 2nd term.

**FCC approved first batch** of low-power FM construction permits, it said in public notice (44965). CPs are for stations in Fresno, LeMoore, Lucerne, N. Edwards, Oroville, Porterville, San Clemente, Smith River, Turlock and Woodland, Cal.; Augusta, Colquitt, Ft. Valley, LaVonia, Louise, Tallapoosa and Trenton, Ga.; S. Bend and Valparaiso, Ind.; Mansfield, La.; Rockland, Me.; Ocean City, Oakland and Sherwood, Md.; Enid Okla.

**Ga. Gov. Roy Barnes (D)** signed bill to exempt DTV equipment used in state from sales tax. Bill applies to both broadcast and movie equipment.



**DBS BID OPPOSED:** DBS operators shouldn't be able to offer local TV channels on a la carte basis to subscribers or to require fiber delivery of TV signals, broadcasters said in several oppositions to DirecTV petition for reconsideration of local station carriage rules (CS 00-96). NAB said FCC had provided "virtually no justification" for pricing rules, which it said would create "incongruous" unfairness in treatment of different TV stations in same market. Some stations would be demoted to "2nd-class status" by a la carte pricing, particularly if most popular stations were offered as package, NAB said.

Paxson, in separate filing, said its ability to "compete and survive will be adversely affected" by a la carte pricing because many consumers were unlikely to pay extra for nonmajor stations: "DirecTV seeks the ability to segregate and discriminate among local broadcasters." Oppositions to a la carte pricing also were filed by ALTV and Network Affiliated Stations Alliance (NASA).

DirecTV wants to shift some of its signal quality requirements to broadcasters with its bid to require fiber delivery of TV signals to DBS uplink facilities, Paxson said. NAB said it would be "prohibitively expensive" for stations to establish fiber links to uplinks that were "scores, or even hundreds, of miles from the station's studio." Broadcasters also said fiber wasn't needed since cable usually received its broadcast signals at headends over-the-air, and even EchoStar had acknowledged that over-the-air delivery often was acceptable. NAB said requiring fiber delivery would create "large, and completely unnecessary, disparity between the regulatory regimes applicable to cable systems and satellite carriers."

Other comments on DirecTV petition included: (1) NAB said DBS carriage of vertical blanking interval (VBI) information was at most "transitional" issue that could be resolved easily. It said DirecTV had acknowledged its ability to carry all Line 21 data, which included most important information, and FCC could solve remaining problem by establishing 6-month transition period and requiring DBS to carry all VBI information for must-carry stations that it carried for retransmission consent stations. (2) Paxson said DBS shouldn't be exempted from carrying all noncommercial educational TV stations.

**Top Disney executives pressed FCC Chmn. Powell and Commission staffers to impose interactive TV (ITV) open access requirements on cable operators in several recent meetings.** Disney Chmn. Michael Eisner, Pres. Robert Iger, Exec. Vp Preston Padden and Vp-Govt. Relations Susan Fox met with Powell, legal adviser Susan Eid and staffs of Mass Media Bureau, Cable Bureau and Office of Plans & Policy, stressing potential for cable operators to discriminate against independent programmers by not providing return path for their ITV offerings. Disney executives also raised concerns about ability of vertically integrated MSOs to favor their own ITV services. They pressed their case for FCC to relax its broadcast ownership cap. Meetings, revealed in new ex parte filings, came just before agency, in response to petition from Media Access Project, extended deadline to May 11 for reply comments in its ITV inquiry.

**Cox and Comcast agreed to combine ad availabilities with other local cable operators, including Adelphia and Charter, in Washington, D.C., area.** Agreement will provide one voice for large regional and national advertisers in area, companies said. CableRep Advertising, ad sales arm of Cox, will be represented by Comcast in all national/regional ad sales areas served by both cable systems.

**FLA. ACCESS SUIT SETTLED:** Clearing one of remnants of open access legal battles that plagued cable industry in last 2 years, Broward County, Fla., reached agreement with AT&T and Comcast on settling lawsuit on issue. County Board of Commissioners approved settlement with cable companies, effectively short-circuiting county's appeal of U.S. Dist. Court, Miami, ruling overturning its open access ordinance.

Under settlement filed in Miami court, county will repeal ordinance passed in July 1999, with agreement saying that that action wouldn't "diminish or affect the existing and continuing commitments, duties and obligations, present, continuing and future as set forth in the franchise documents." Cable operators agreed to expedite rollout of high-speed Internet access in county subject to upgrade schedules and to "comply with all federal, state and local requirements relating to access to cable modem platforms for ISPs." They also agreed to waive all claims for compensatory or punitive damages, attorneys' fees and other expenses against county.

Last Nov., Dist. Court struck down Broward County ordinance on First Amendment grounds, marking its first invalidation of open access on constitutional basis. In open access cases in Portland, Ore., and Henrico County, Va., courts had invalidated open access ordinances on ground of violations of federal laws and regulations. With settlement, only remaining legal challenge is Henrico County's appeal that's under review by 4th U.S. Appeals Court, Richmond.

NCTA spokesman said county and GTE finally had realized that they were unlikely to prevail on appeal. "The District Court's opinion will stand as an important statement about the First Amendment rights of cable operators." AT&T Broadband spokesman said he hadn't heard of settlement while Comcast spokesman said settlement didn't have any adverse provisions on cable.

**Financials:** AOL Time Warner first-quarter loss shrank to \$1.37 billion from \$1.46 billion in same period in 2000. Bolstered by double-digit growth in cable and Internet businesses, revenue increased 9% to \$9.1 billion. Cable revenue climbed 12% to \$1.6 billion. Company's TV networks division saw its revenue climb 6% to \$1.7 billion and its earnings before interest, taxes, depreciation and amortization 34% to \$449 million... Tribune broadcast operating profit fell 11% in quarter ended March 31 to \$100 million and broadcast revenue 7% to \$290 million. It blamed lower dot.com and automotive ad spending. Overall net profit was up 4% to \$70.6 million and revenue 79% to \$1.3 billion because of acquisitions... Hughes Electronics posted net loss of \$105.3 million on revenue of \$1.89 billion in first quarter ended March 31. In same 1999 period, it had net loss of \$81.9 million on revenue of \$1.7 billion. DirecTV unit, for which company is actively seeking buyer, increased revenue 25% to \$1.3 billion... Scientific-Atlanta had 100% increase in first-quarter net earning to \$76.2 million. It said bookings increased 20% to \$712.6 million and sales 51% to \$663.7 million.

**Consumers who subscribe to or plan to subscribe to digital cable are more interested in interactive TV features than are DBS and likely DBS customers, new study by Statistical Research found.** It said digital cable and likely digital cable subscribers reacted more favorably to nearly all ITV features covered, including video-on-demand, high-definition video quality, access to more channels, ability to pause/rewind live TV shows, ability to create personal channels.



## Personals

Promotions at ABC TV Network: **Mary Holahan** to senior vp-gen. mgr., Detroit Sales Div.; **John Caruso** to vp-prime-time sales; **John Sadler** to senior vp-gen. mgr., Western Div. Sales... **Rick Rogala**, gen. mgr., WFLA-TV Tampa-St. Petersburg, moves to vp-gen. mgr., WXIN Indianapolis... Promotions to NAB vps: **Dianna Coleman**, TV membership; **David Gunzerath**, research and planning; **Joanie Heavey**, personnel and benefits.

**Laura Schupack**, ex-Viacom, named senior vp-creative services, Rainbow Media Holdings... **JoAnne Griffith** promoted to exec. vp-human resources, MTV Networks... **Scott Drake**, chief technology officer, CNBC.com, moves to vp-information technology, CNBC... **Kim Kelly**, COO-CFO, Insight Communications, promoted to chmn., Cable Ad Bureau board... **Roger Marmet**, vp-advertising and promotion, TLC, advanced to vp-programming.

Changes at Arbitron: **Kevin Smith**, ex-Wink Communications, appointed senior vp-cable services and PPM business development; **Les Tolchin** promoted to senior vp-PPM business development; **Jay Guyther** advanced to senior vp-international PPM marketing... **Terry Semel**, ex-Warner Bros., named chmn.-CEO, Yahoo... **Rich Westerfer** promoted to senior vp-operations, WorldGate... **Martin Leamy** advanced to pres.-COO, OpenTV, succeeding **James Ackerman**, named CEO... Changes at American Assn. of Ad Agencies: **Brendan Ryan** of FCB Worldwide elected chmn., succeeding **Philip Dusenberry** of BBDO N. America; **Ken Kaess** of DDB Worldwide becomes vice chmn.; **Marsha Lindsay** of Lindsay, Stone & Briggs Advertising, secy.-treas... **Brian Cabeceiras**, ex-Grass Valley Group, named vp-worldwide broadcast system sales, SeaChange International... **Leo Hindery**, chmn., HL Capital, elected to Legerity board.

**Coalition of media activists** urged President Bush to guard mass transit users "against compulsory TV watching" in public transportation systems. Commercial Alert and 20 others asked White House to "prohibit any expenditure of federal transportation funds on mass transit systems that coerce their riders to watch TV." It decried ad bombardment of "captive" travelers by providers such as Orbital Sciences and ITEC Entertainment, which earlier this year unveiled joint venture and pilot project for Orlando bus fleet. Orbital-ITEC partnership provides content and ads "via high-speed, land-based and wireless Internet connections" to transportation industry, companies said. Coalition said federal financing would hasten transformation of public transit into "commercial free-fire zone" and run counter to Administration's proposed \$5 billion literacy initiative.

**FCC denied** Real Estate Access Alliance (RAA) petition requesting that Commission delay implementing order that expanded rules preventing restrictions on installing antennas to cover wireless services. Landlords, state and local govts. and other 3rd parties can't restrict installing, maintaining or using antennas for TV broadcasts, DBS and multichannel multipoint distribution services, FCC said. RAA wanted Commission to delay order until further notice was resolved or U.S. Appeals Court, D.C., ruled on challenge to existing rule. FCC said RAA had "failed to make the requisite showing" of need for stay.

**Latest DTV stations** to go on air, according to NAB: KFSN-TV (DTV Ch. 9, ABC) Fresno, and KAET (DTV Ch. 29, PBS) Phoenix. NAB said 187 DTV stations in 64 markets now were on air.



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**Global market** for digital set-top boxes continues to show brisk growth despite rising concerns about U.S. and worldwide technology spending slump, Allied Business Intelligence (ABI) said. In new report, ABI predicted that worldwide digital set-top sales would climb to at least 36 million units this year, from 26 million last year. It said sales would keep rising after that, reaching 94 million by 2005. Research consulting group credited several factors for continuing rise in sales, including appeal of digital cable offerings, increasing price wars between MSOs and DBS providers, growing competition among digital set-top manufacturers.



# Consumer Electronics

*A Section of Television Digest with Consumer Electronics*

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending April 6 and year to date:

	MAR. 31 - APR. 06	2000 WEEK	% CHANGE	MAR. 24 - MAR. 30	14 WEEKS 2001	14 WEEKS 2000	% CHANGE
TOTAL COLOR TV	246,196	401,615	- 38.7	894,035	6,710,795	6,815,093	- 1.5
DIRECT-VIEW**	233,712	391,973	- 40.4	863,448	6,446,431	6,501,296	- 0.8
TV ONLY#....	206,386	335,048	- 38.4	718,061	5,427,872	5,482,512	- 1.0
TV/VCR COMBO.	27,326	56,925	- 52.0	145,387	1,018,559	1,018,784	- 0.0
PROJECTION...	12,484	9,642	+ 29.5	30,587	264,364	313,797	- 15.8
TOTAL VCR**...	119,282	320,194	- 62.7	799,639	4,707,879	5,879,355	- 0.2
HOME DECKS...	91,956	263,269	- 65.1	654,252	3,689,320	4,860,571	- 24.1
CAMCORDERS.....	52,207	80,059	- 34.8	242,067	1,256,480*	1,203,000	+ 4.4
DVD PLAYERS....	90,556*	46,591	+ 94.4	409,763*	2,425,932*	1,230,216	+ 97.2

Direct-view TV 5-week moving average#: 2001-415,945; 2000-437,254 (down 4.9%).

Projection TV 5-week moving average: 2001-20,653; 2000-20,186 (up 2.3%).

VCR deck 5-week moving average: 2001-134,234; 2000-399,995 (down 66.4%).

TV/VCR 5-week moving average: 2001-80,396; 2000-85,214 (down 5.7%).

Camcorder 5-week moving average: 2001-109,741; 2000-111,725 (down 1.8%).

DVD player 5-week moving average: 2001-210,730\*; 2000-79,580 (up 164.8%).

\* Record for period. \*\* Includes TV/VCR combinations. # Excludes TV/VCR combinations.

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

**THOMSON TAKES COST-CUTTING MEASURES:** Thomson Multimedia has implemented hiring freeze and imposed layoffs in some business units and reduced travel as part of corporate-wide effort to cut costs in face of continued plunge in TV prices.

Hiring freeze has been limited to select business units including Display and Components, which encompasses N. American Tube Div. with facilities in Indianapolis, Lancaster, Marion, Ind., and glass factory in Circleville, O., Thomson spokesman said. Actions to lower overhead costs have been left to discretion of individual business units, he said. At Marion plant, which builds big-screen tubes, 25 salaried positions were eliminated in first quarter, largely affecting supervisors and other management, spokesman said. Thomson curtailed unscheduled overtime at plants earlier this year (TVD Feb 12 p9) in moving to slow production of 19"-27" analog direct-view TVs as part of industrywide effort to reduce bloated inventories.

"All the business units took different actions to curtail excess costs," spokesman said. "If it was a position where the skills were critical you could hire, but overall every component of our business took a very close look at costs."

Cost-cutting measures came as Thomson tried to finalize new 3-year contract with unionized workers at facilities in Circleville, Indianapolis, Lancaster, Marion. So far, employees at plants in Circleville (324-187), Lancaster (19-3) and Indianapolis (35-9) have approved new agreement that replaces one that expired April 1. Lancaster facility consists of administrative and engineering personnel, while Indianapolis involves materials handling.

Workers at Marion plant, represented along with those at other facilities by IBEW, rejected contract April 10 by vote of 961-533. Second vote, scheduled for April 20, was postponed and hadn't been rescheduled as union officials contin-



ued to brief workers on terms of contract. Plant has remained open with employees working under extension of old contract. IBEW and Thomson bargaining committees hashed out terms of new IBEW Local 1160 that represents 1,700 hourly workers at Marion plant, which also has 290 salaried employees. Marion is split into 2 plants, with one building 19", 20", 25", 26" and 27" tubes, while other handles 31", 35", 36", 38W.

Thomson and union officials declined to release proposed contract terms, but sources said sticking point related more to work rules than wages. Union members told *Marion Chronicle-Tribune* that they were concerned about proposal to increase amount paid by employees for insurance and losing control of some working conditions. Employee Rhonda Bush told newspaper she was concerned that new contract would decrease her ability to determine which jobs at plant she was required to perform.

Labor issue came at critical time for Thomson, which went public in 1999. It closed Bloomington, Ind., TV assembly plant in 1998 in moving production to plant in Juarez, Mexico. And it's opening new facility in Mexicali, Mexico, in July that will build 32" across single production line. Thomson previously manufactured 32" at Marion plant and has sourced tubes from Hitachi in recent months pending opening of Mexicali factory.

**SIRIUS ACKNOWLEDGES RECEIVER DELAY TO 4TH QUARTER:** Sirius Satellite Radio expects first Panasonic trunk-mountable receivers to reach retail shelves in 4th quarter and company remains "cautiously optimistic" it will land agreements with Detroit by which Sirius digital radios will be built into cars as standard equipment. Those revelations were in company's 2nd conference call in as many weeks with financial analysts to "clarify comments" made April 2 in which senior executives counseled investors to act conservatively in buying Sirius shares because possible receiver delays would inhibit growth in consumer subscriptions for calendar 2001.

Earlier comments by Chmn.-CEO David Margolese and others that delivery of receivers could be delayed past Sept. and that Sirius had failed to sign up single automaker to install Sirius radios as standard equipment sent company's shares plummeting 36% day after announcement April 3. Stock later recovered somewhat but fell in value again for 2 days after last week's conference call despite attempt at damage control.

Margolese said last week that radio quantities would be "very limited" in 4th quarter: "An exact number is not clear to us right now, but my guesstimate is going to be something under 20,000 receivers this year in the market. I also expect material quantities of radios to follow very shortly after that and to be shipped beginning of the first quarter" of 2002. As expected, he said Panasonic-branded receivers would be first to market this year, based on discrete components being supplied by Matsushita. Additional products from other brands, including Kenwood and Jensen, are expected soon thereafter, he said. Receivers using chipsets sourced from Agere will follow to market after first of year, he said.

Vp Doug Wilsterman told us discrete-based receivers would have "same functionality" as those based on Agere chipsets. He said "tradeoffs" included fact that discrete-based receivers would be more "power-consumptive," as was typical of first goods off production line. He said discrete receiver also would be larger than that of Agere-based product, and although size gap had been narrowed and difference was not significant, "it is measurable." Sirius will eat incremental cost of discrete radios, estimated by some analysts to be as high as \$150 per receiver. CFO John Scelfo said absorbing incremental costs wouldn't have "material" financial impact on Sirius bottom line because only small base of receivers was involved.

Margolese sought to put delay in best possible light, saying it "gives us an extension of our cash burn and an opportunity to get things absolutely right." Company earlier had said that slower than expected market ramp-up would cause its \$460 million in cash reserves to last longer, perhaps well into 2003.

But getting OEM deal for building Sirius receivers into cars as standard equipment remains unfulfilled target, company said again last week. Margolese said "our best guess" was that automakers' sales of optional Sirius radios would start in 2nd quarter of 2002, and that "automaker-generated subscriptions will become material" beginning in 2003.

As for standard equipment deals with Detroit, Margolese said: "I want to say that while we're not there yet, and we're not on this call today to announce any specific program, I'm very cautiously optimistic that we will reach these agreements. We've been working very diligently on them for some time. We have no reason to believe that they're not going to happen. While they haven't happened as quickly as we would have liked, we remain optimistic that they will happen." He said automakers "continue to be very excited about satellite radio and each one of them is moving forward to make it available in their vehicles." Comment was significantly more conciliatory toward Detroit than 2 weeks earlier when Margolese blamed bureaucratic delays at large car companies for failure to land OEM agreement. "These are supertankers that take 7 miles to turn," he said then of major automakers.



**PHILIPS DROPS AOLTV PLANS:** Philips has dropped plans for AOLTV/DirecTV product for this year, leaving Hughes Network Systems (HNS) as lone supplier for chronically delayed combo device that's expected to be available by year-end.

Philips was major booster of product and at one point was among those expected to build it. But after series of delays that started last July and failing to reach supply agreement with AOL Time Warner, Philips has moved focus to DirecTV/TiVo device, sources close to CE manufacturer said. Philips had been lone CE manufacturer to back product, while Sony and Thomson opted for Microsoft's UltimateTV/DirecTV device.

"We backed off because there wasn't enough of a high-interest level for us," said source close to Philips, which as recently as last summer had shown AOLTV/DirecTV set-top box (STB) with National Semiconductor Geode 166 MHz processor and \$249 price (TVD June 26 p13). "DirecTV's near focus is making a success of the DirecTV/TiVo and now of course UltimateTV." DirecTV/TiVo product has sold 40,000 units since fall, while UltimateTV has shipped 5,000 since March, Hughes Electronics Senior Exec. Vp Eddy Hartenstein said in earnings conference call with analysts last week (see related story, this issue).

HNS Asst. U.S. Field Sales Vp Allen McCabe conceded that AOLTV/DirecTV had "taken longer than anyone expected" to bring to market, but said product would be available in 2nd half. "When you look at incorporating all of the things that DirecTV wants in the new set-top boxes like Wink, an electronic program guide and a hard drive, it's certainly an advanced box and that takes some time to develop," he said.

But with DirecTV/TiVo, UltimateTV and eventually AOLTV all vying for attention, some industry officials have questioned whether there's room for all 3 products at retail. McCabe said "power" of AOL brand and Internet company's ties to retail should guarantee distribution. AOLTV/DirecTV product originally was scheduled to ship to 55 Circuit City stores in Baltimore, Phoenix and Sacramento last summer, but test never materialized. One-way AOLTV Plus product has registered "strong sales" since debut last fall (TVD Oct 16 p14), largely through pop-up ads run in conjunction with AOL's Internet access service, McCabe said. Those responding to pop-up promotions are forwarded to HNS, which turns them over to one of 3 distributors, who schedule installation, he said. Among those carrying AOLTV plus is Circuit City, he said.

\* \* \* \* \*

EchoStar last week took wraps off promotion offering Digital Sky Highway (DISH)/OpenTV personal video recorder (PVR) at \$200 with minimum of one year of programming at \$39.98 per month. Promotion runs through May 31. Combo product also is available separately at \$399. EchoStar will begin program May 1 offering combo device, one additional receiver, America's Top 150 programming package, local TV channels and free installation for \$59 per month. Top 150 package and local channel services sold separately carry \$39.99 and \$5.99 monthly fees, respectively. Latter plan requires 12-month programming commitment and \$49 set-up fee... DirecTV, further tightening ties to AOL, will introduce program offering customers buying satellite receiver and one-year of Total Choice programming (\$41.99 or more per month) between April 26 and July 14, 12-month subscription to Internet access service at no cost. Total Choice carries more than 105 video and 31 audio channels.

**PIRATE DVD QUALITY HIGH FOR LOW PRICE, WE FIND:** Just 12-bucks-cheap buys DVD copies from U.K.-based operation — including some movies not yet released on DVD. Picture quality is pretty good, packaging snazzy and delivery prompt as we learned after buying selection of titles by mail order.

Source who's opposed to pirate DVDs tipped our European correspondent to mail order service Advance DVD, which operates Web site (www.advancedvd.com) and has address in Kent, 50 miles southeast of London. Site claims to offer more than 400 titles on DVD but we counted 263. None has regional coding, despite fact that legitimate versions do. Prime example was copy of Oscar-winner *Crouching Tiger, Hidden Dragon* — title so far available only as Region 3 Asian disc and not scheduled for Region 1 N. America release until June 5.

Offerings that caught our eye were 4 Star Wars and 3 Indiana Jones movies — none yet released for DVD. We bought *Star Wars Episode 4: The New Hope* and suspect DVD was mastered from analog Laserdisc in that video was softer than other DVDs sourced from pirate. Those included *The Lost World: Jurassic Park* and *Crouching Tiger*. Video on those was as good as any we've seen, although interlace was more obvious than usual because 525-line formatted DVD had to be expanded to 625 lines on our correspondent's PAL-standard widescreen monitor. That shouldn't be drawback on NTSC set. Impressive feature of *Star Wars* DVD was plethora of menus, probably authored for DVD by pirates.

We suspected scam at first or possible April Fools joke, owing to low pricing of discs and Advance DVD's business methods, such as payment terms. Discs cost £8.50 each (\$12.15) plus £1 postage for up to 4 titles, with postage free for 5



or more. Web site instructs shopper to e-mail order to [advancedvd@hotmail.com](mailto:advancedvd@hotmail.com), and phone with any questions. Number given is cellular phone, we learned.

After order is placed online, return e-mail instructs customer to send payment to address in Ramsgate, Kent. "Cash offers the quickest despatch time [same day] and change you are owed will be sent to you inside the DVD case for security," e-mail advises. Checks and postal money orders also are accepted, but line for "payee should be left blank" and discs won't be sent until check clears. Site said it would take credit cards in future but would have to pass along 9% surcharge from financial institution.

We placed orders with cash and check — and discs came with change and promptly as promised. Those bought with check arrived too, but cancelled check hasn't been returned by bank, so payee remains unknown. We did question Advance DVD about source of discs, and received following e-mail reply:

"Our DVDs are from Singapore. They are copies but digital transfer copies and 100% DVD. These DVDs are referred to in the trade as 'silvers,' they are not regionally encoded in any way. The quality of the product is exceptional, picture covers in English, picture discs, hard shell (Amaray) type cases."

Allusion to "picture discs" means studio's silk-screened artwork on nonplaying side of DVD is replicated — and artwork appeared obvious 2nd-generation copy to us. As for packaging, artwork seemed to be color xerography. Jackets carry usual Region Code symbol but with "ALL" inside globe. Packaging also carries boilerplate copyright notices, Dolby, THX and other logos — including that of 20th Century Fox on *Star Wars* DVD. Packaging had no obvious reference to Macrovision copy protection — but did carry standard notice "All copying is a violation of applicable laws."

**AIWA CLOSING JAPAN PLANTS:** Aiwa Pres. Masayoshi Morimoto said company would end production at its Japanese plants this year and close manufacturing subsidiary Aiwa Iwate by March 31 next year.

Announcement came last week as struggling Aiwa prepared to outline turnaround plan with this week's disclosure of disappointing 2001 losses. Restructuring plan announced March 26 includes cutting unprofitable products and reducing annual sales 30% from current ¥300 billion (\$2.4 billion) by FY 2002. Manufacturing will be consolidated into one plant from current 9. About 4,500 of 7,500 manufacturing employees will be cut, as will 30% of staff at Aiwa's corporate HQ and overseas sales companies in effort to downsize to 5,000 from 10,000 companywide.

Production will be decreased gradually starting in Sept. at Japan plants and end in Dec., Morimoto said. Plants will be closed completely by March 31. He said review found Aiwa Iwate labor costs considerably higher than company's other plants in Asia, and turnaround unfeasible.

Aiwa Iwate produces AV equipment including components and systems and portable DVD players. It will stop production by end of Aug., when work force of will be reduced to 200. Remaining personnel will continue to produce hardware under OEM agreements until Dec., and Aiwa plans to liquidate plant by end of March, Morimoto said. Company's help to employees to be laid off includes additional retirement benefits, severance pay and employment consulting services, he said.

**Chapter 11 filing** by troubled telecom company Winstar Communications doesn't affect its affiliated home video division, spokeswoman for Winstar New Media (WNM) told us last week. WNM is umbrella group for Winstar TV & Video, whose labels include Fox Lorber Films, Fox Lorber CentreStage, Wellspring Media, Mystic Fire, Winstar Home Entertainment.

**PHILIPS TO CUT 6,000 JOBS:** Philips shares plunged at least 10% on worldwide markets on announcement April 17 that company planned to cut 6,000-7,000 jobs to blunt financial blow of "underperforming activities" in consumer electronics and components.

Philips wasn't specific on job reductions, but said they were among steps being taken "to bring costs in line with revenue levels," and that "detailed plans will be communicated" in current quarter. Revelation came as Philips reported net profit plunged in first quarter to 106 million euros (\$93.3 million) from 1.14 billion euros year earlier on 1% decline in overall sales to 8.21 billion euros.

In CE sector, Philips said loss grew to 39 million euros from 8 million year earlier. It said performance was "negatively impacted by the slowdown of the U.S. economy, which left both manufacturers and retailers with high inventory levels in the first few months of this year." CE sales fell 5% to 2.69 billion euros. Sales of mainstream CE products increased "marginally," Philips said, hampered by U.S. slowdown. Overall CE sales were boosted by increases in branded monitors, DVD players and audio systems. However, Digital Networks operations posted "sharply lower" sales of set-top boxes.

Philips said it saw "no signs that the slowdown in economic activity in certain parts of the world," particularly U.S., "is near its end." As result, it said, it was likely to post 2nd-quarter loss, and capital expenditures have been cut to 2.5 billion euros "and will be further reduced if needed."

**Online sweepstakes** sponsored by Panasonic seeks to educate consumers about Energy Star power conservation program established by EPA and Dept. of Energy. Consumers can log on at [www.panasonic.com/energystar](http://www.panasonic.com/energystar) to read about program, then answer questions to qualify for \$6,000 Panasonic home theater system. Runner-up prizes include 5 DVD players and 200 Panasonic T-shirts.



**HUGHES POSTS LOSS:** Hughes Electronics posted wider first-quarter loss of \$105.3 million vs. \$81.3 million year ago as DirecTV subscriber acquisitions slowed.

Number of DirecTV customers acquired in quarter, net of those dropped, was 15% below year-earlier quarter as churn rose to 1.7% from 1.5% while average revenue per subscriber remained flat at \$59. As result, DirecTV scaled back by 15% its forecast for additional domestic hookups this year to 1.5-1.7 million new subscribers by year-end. Subscriber acquisition costs also were flat at \$535.

As evidence of slowdown, Hughes Network Systems (HNS), which builds DirecTV receivers, shipped 250,000 units in quarter, down from 980,000 year earlier, number that included subscribers transferred from former Primestar system that was acquired in 1999. Shipments also were down from 680,000 in 4th quarter. HNS's earnings before interest, taxes, depreciation and amortization (EBITDA) plunged to negative \$38 million from \$55 million year earlier. Hughes projected \$160-\$200 million EBITDA loss for HNS this year.

In effort to jump-start sales, DirecTV was to revive promotion April 21 offering free installation running through July 25. Meanwhile, it also will offer leasing program that coincides with introduction late last year of plan targeting customers who are moving. DirecTV also reduced order backlog of 110,000 at fiscal year-end by 80-85%, Hughes Senior Exec. Vp Eddy Hartenstein said.

New sales programs arrived as DirecTV came under fire from retailers amid slowdown in installations. RadioShack recently said it was seeking to renegotiate sales agreement with DirecTV after cutting projected first-quarter earnings to 31-33¢ from 34¢, due in part to shrinking margins on satellite hardware (TVD April 9 p16). Major issue among some retailers has been residual they receive when they step up existing customers to new receiver platform. Some retailers said they get half amount they would receive for signing on new subscriber. "I'm in a tough situation because we sell to early adopters and 80-90% of the boxes are sold to customers that already exist," dealer said. "I should be worth a lot of money because I'm taking 5- and 6-year-old customers and stepping them up." Hartenstein acknowledged in conference call with analysts that DirecTV was having continuing "set of discussions" with retailers aimed at improving "overall performance and getting new acquisitions."

Hughes's earnings also will hinge on production of new combo DirecTV set-top boxes (STB) including those with AOLTV, TiVo, UltimateTV. Hartenstein forecast 3 platforms would ship "several hundred thousand" units this year. Since debut last fall, DirecTV/TiVo product has sold 40,000 units and Microsoft's UltimateTV, has moved 5,000 since bow in March, he said. Prospects for AOLTV are unclear. Philips has dropped its AOLTV product plans to focus on TiVo, but HNS plans deliver device by 2nd half (see related story, this issue). Separately, About 2 million DirecTV receivers now contain Wink Communications' enhanced broadcast technology, with goal of reaching 5 million installed base by year-end, Hartenstein said.

In Internet access business, new 2-way DirecPC service, which is beginning limited rollout with Pegasus Communications and NRTC this quarter, is projected to have 200,000 subscribers by year-end. Former DirecPC, which was one-way service, had 60,000 after 3 years on market. HNS, which is building DirecPC receiver, is expected to hit production of 30,000 DirecPC receivers per month by late 2nd quarter, trailing earlier forecast of late first

quarter (TVD Jan 22 p21). Earthlink has started beta test of DirecPC, while Juno, which signed on as Powered by DirecPC partner last year, has yet to enter business.

In Latin America, DirecTV's unit added 101,000 subscribers in quarter to raise total to 1.4 million. DirecTV Latin America added 105,000 year ago (TVD April 24 p20) and 169,000 in 4th quarter. Average revenue per subscriber remained flat at \$36 as revenue increased to \$165 million from \$114 million year ago, but were down from \$169 million in 4th quarter. EBITDA loss grew to \$44 million from \$38 million year ago and \$43 million in 4th quarter.

Recently acquired DSL provider Telocity added 17,000 subscribers to end first quarter at 65,000 with goal of 100,000 by year-end, CFO Roxanne Austin said. Average revenue per subscriber was \$48.

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While DirecTV officials declined comment on possible suitors, *L.A. Times* reported Fri. that News Corp. was reviving bid. Newspaper, citing executives close to negotiations, said News Corp. Chmn. Rupert Murdoch would present offer to take control of DirecTV to group of General Motors executives in Detroit April 23. Microsoft CEO Steve Ballmer is expected to accompany Murdoch to meeting with GM Pres. Richard Wagoner and Vice Chmn. Harry Pearce, newspaper said. Microsoft has agreed to become partner in News Corp.'s Sky Global Networks satellite venture and invest \$3 billion, it said. DirecTV is part of GM's Hughes Electronics subsidiary, which has been negotiating with News Corp. for months. Discussions hit snag recently when Hughes Chmn. Michael Smith told Wall St. analysts that News Corp. offer was inadequate.

In yet another sign of online retail turmoil, Webvan Group announced resignation of CEO-Chmn. George Shaheen. He had been CEO since Oct. 1999 and chmn. of board since Feb. 2001, company said. Announcement came only 2 days after N.Y.-based e-tail delivery service Kozmo.com said it was shutting down its operations (TVD April 16 p16). COO Robert Swan is helming Webvan, based in Foster City, Cal. until board appoints successor. Company, which delivers products including videogames, music and electronics to consumers in select markets, said Shaheen "plans to take some time to evaluate his future and pursue personal objectives." In written statement, Shaheen said: "Webvan is an innovative business model, which redefines the future of retailing and the way people shop. Unfortunately, changes in the capital markets have altered the timetable and operating approach to the achievement of the model as originally envisioned. A different kind of executive is needed to lead the company at this time and as such, it no longer makes sense for me to continue in my role and I will be leaving the company. I am proud of the role I played in the launch of this pioneering business, in building a growing awareness of the Webvan brand and in defining a distribution channel which will dramatically change retailing as we have know it in the past. I am convinced, as I have been from the outset, that Webvan has a solid business model, which over time will alter retailing and the way people shop." Auditor report in company's recent SEC filing said Webvan "has suffered recurring losses and negative cash flows from operations that raise substantial doubts about its ability to continue as a going concern" (TVD April 9 p18).

Cambridge SoundWorks started shipping PlayDock PD200 speaker system at \$199.99. It said PD200 was developed to be used in conjunction with parent Creative Technology's line of Nomad Jukebox digital audio players.



**TWEETER EARNINGS RISE:** Tweeter Home Entertainment, crediting strong sales of digital TVs, reported 2nd quarter net income increased to \$3.78 million from \$2.71 million on 36.8% gain in sales to \$117.8 million. Same-store sales rose 3.6% excluding United Audio and Douglas TV chains, which posted combined 7.4% decline.

Tweeter said it was shipping products to e-commerce joint venture partner Outpost.com on cash-on-delivery (COD) basis and could be forced to write off portion of \$3.6-\$3.7 million that represents investment (\$1.6 million) and inventory (\$2 million) should e-tailer shut down. Outpost last week said it would cut 110 jobs in "refocusing" business on PC and CE products. Earlier, Outpost said it was "exploring strategic alternatives" in seeking to right itself (TVD April 16 p11). Tweeter formed venture in 1999 with Outpost.com (TVD Aug 9/99 p15) to sell CE products through site.

Overall, projection TV sales increased 28.3% in quarter, with digital models accounting for 79% of category's revenue. Digital projection TVs represented 17% of Tweeter's total revenue and carried \$3,500 averaging selling price (ASP), Pres. Jeffrey Stone said. Digital direct-view sets accounted for 44% of tube-based sales and 6% of overall revenue, he said. Sales of plasma displays rose 113% in year and had \$11,800 ASP. Custom installation business is generating \$700,000 in monthly sales, CFO Joseph McGuire said.

Inventories narrowed in quarter to \$81.5 million from \$97 million as Tweeter trimmed analog sets from its lineup. Tweeter forecast flat same-store sales in 3rd quarter on sales of \$110-\$122 million.

Tweeter, which recently began program to put Bryn Mawr Audio/Video, Douglas TV and United Audio under own banner, and is overhauling product mix at latter 2 chains. It won't complete process for 2 years, Stone said. Tweeter has added product from Boston Acoustics, Denon and Yamaha to 2 chains as it seeks to bring more audio into what had been largely video-only lineup, Stone said.

"The profitability at those chains has increased nicely from where it was when we took over," Stone said.

Overall, Tweeter plans to open or relocate 23 stores in May-Sept. span and has held "half-dozen conversations" recently to line up potential acquisitions. Its recent purchases of Big Screen City and Audio Video Interior are expected to close in May 1 and June 1, respectively, Stone said.

**Harvey Electronics**, also crediting sales of digital products, said net revenue for 5 months ended March 24 increased 13.8% to \$17.2 million on 11.4% gain in same-store sales. In March, sales rose 1.2% despite less than 1% (\$20,000) dip in same store-sales due to shutdown of 45th St. store in N.Y.C. for 3 days following nearby fire and building collapse. Harvey is renovating 45th St. store that's expected to be complete by summer.

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In developing UltimateTV platform for DirecTV, Microsoft is providing staff and increased co-op funding in select markets. About 50 Microsoft staffers have been deployed to Tweeter stores in Atlanta, Boston and Chicago to help sell product, Mdsg. Vp Bernard Sapienza said. Additional co-op money is being used to increase amount of radio and TV advertising in same 3 markets, he said. Among other retailers said to be involved in program is Denver-based Ultimate Electronics. UltimateTV and Ultimate Elec-

tronics officials weren't available for comment. Some 5,000 UltimateTV/DirecTV receivers have shipped since debut in March, DirecTV said last week (see related story this issue).

**Pixelworks** is developing next-generation ImageProcessor controller chips for displays based on microprocessor technology that powered Sony PlayStation 2 video game console. Pixelworks' new IC, code-named Jolt, will have RISC processor core developed by Toshiba and Sony (TVD March 1/99 p13). Pixelworks declined to disclose details of IC that's expected to be available in sample quantities in 2nd half, but EmotionEngine, as originally designed, had 400 MIPS processor, internal 128-bit buses that delivered 30 million polygons/sec. and bandwidth of 1.7 Gb/sec. Toshiba, which has manufactured Pixelworks ImageProcessor ICs in past and has financial stake of less than 5% in company, will build Jolt product using 0.18-micron fabrication process. New ImageProcessor also will have embedded Web browser and be designed for Internet appliances and digital TVs in addition to flat panel displays. Pixelworks agreement is first deal for ArTile, Toshiba America Electronic Components subsidiary formed to market EmotionEngine technology. Pixelworks has line of 6 Imageprocessors with outputs up to UXGA resolution and input clock speeds of 105 MHz. Pixelworks unveiled Jolt plans as it said first-quarter loss widened to \$34 million from \$5.1 million year ago as revenue jumped to \$21.3 million from \$7 million on strong sales of ImageProcessors for flat panels and front projectors. Pixelworks had \$37.1 million in noncash expenses in quarter including \$36.8 million related to \$127.4 million acquisition of Panstera (TVD Dec 18 p18), developer of reconfigurable digital signal processors (DSPs) for advanced TVs. Minus noncash expenses, Pixelworks reported \$3 million pro forma profit. Front projectors and flat panel displays split equally in unit shipments, but latter had 60-40 edge in dollars, CEO Allen Alley said. Advanced TV represented 6% of flat-panel revenue, partly due to first shipments of controllers with Sony plasma displays. Gross profit increased to 43.4% from 36.4% year ago and Pixelworks forecast revenue of \$22.5 million for 2nd quarter, \$90-\$97 million for year.

**Microsoft plans** to roll out Xbox in Argentina, Brazil and Mexico in March 2002, report said last week. Mauricio Santillan, company's top executive in Latin America, said manufacturing limitations were to blame for gap between N. American debut in fall and Latin American bow next March. Other Latin American countries apparently will follow initial 3-country start there. Santillan said he expected Xbox to act as "Trojan horse" for Microsoft "to enter the home market" of Latin America, report said. Xbox Product Mgr. James Bernard late last week wouldn't confirm or deny report. Bernard told us alone: "While we have not announced any specific ship dates for Xbox, we are still on schedule to launch in North America and Japan this fall, and in Europe in the first quarter of 2002." Reiterating what company said in Dec. when it revealed it would be staggering Xbox bows by region (TVD Dec 25/00 p16), Bernard said: "There are numerous factors that go into the decision as to when Xbox ships in a particular market, and we have a solid manufacturing plan to ensure that we ship the right number of consoles to meet initial demand in each region of the world. We'll have more information on specific shipping time frames in the next several months."

**Audible demonstrated** wireless audio downloads and other enterprise digital audio services at 11th Annual e-Learning Conference and Expo in Wash., D.C. last week.



**UNIVERSAL-SONY AGREEMENT:** Universal Display Corp. (UDC) and Sony signed joint development agreement for organic light-emitting diodes (OLEDs), bringing latter step closer to goal of reaching market by 2003.

Joint venture will focus on developing active matrix OLEDs for laptop PC, monitor and high-definition applications starting at 13", UDC Exec. Vp Dean Ledger said. Sony has said it will focus first OLED efforts on midsize displays while using low-temperature polysilicon LCD technology for cellular phones and handheld PCs (TVD Feb 12 p16). Sony's prototype OLED had 800x600 resolution, 200:1 contrast, 500 lumens.

In designing OLEDs, companies will use Sony facility in Japan and UDC's pilot production line in Ewing, N.J., Ledger said. Companies jointly will fund project, although Ledger declined to disclose details. He said Sony hadn't taken financial stake in UDC.

Companies will have extensive patent portfolio to draw from. Sony has said it has 140 patents pending, including 45 related to development OLED panel. UDC, meanwhile, licensed rights to more than 75 Motorola OLED-related patents last fall (TVD Oct 9 p16), fattening its portfolio to more than 100. Motorola's patents cover technologies related to OLED manufacturing including single-layer devices, packaging, plastic substrates, materials development and encapsulation methods. Universal, which had 30 patents of its own before Motorola agreement, had struggled to bring to market 2-tuner multicolor OLED technology that relied on "stackable" architecture that places red, green and blue pixels atop rather than alongside each other (TVD July 20/98 p19).

Separate from Sony pact, UDC will start pilot production of 2" passive matrix OLED later this year (TVD Dec 25 p 19) for cellular phone applications with goal of forming alliance to deliver displays to market in 2002, Ledger said. UDC had targeted pilot production for last Dec., but postponed start-up after delay in receiving and installing equipment, he said.

**SpatialLight** reported annual loss grew to \$7.8 million from \$7.4 million year earlier as revenue increased slightly to \$65,650 from \$62,000. Expanded loss was largely linked to increased R&D cost, which rose to \$3.3 million from \$1.9 million. Revenue was generated from sales of developer kits for SpatialLight's 0.75" microdisplay that started pilot production last year with 1,280x1,024 resolution. United Microelectronics produces silicon for SpatialLight displays, while Hong Kong-based Varitronix handles final assembly. SpatialLight ended year with working capital deficit of \$2 million against net working capital of \$319,331 year ago, raising questions about its ability to function as "going concern," SpatialLight said in annual 10K. As of Dec. 31, it had accumulated deficit of \$29.8 million.

SpatialLight has largely funded operation through \$6.8 million from transfer of convertible securities into common stock and new round of convertible debt financing. Some of financing was supplied by group associated with SpatialLight board member Steven Tripp.

**Pricing hit new low** for high-tech products last week when N.Y.C. retailer J&R Music World offered Philips CDR775 dual CD dubbing deck for \$299.99 after \$50 manufacturer mail-in rebate, and S-VHS Hi-Fi Stereo VCR from JVC for \$149.99. JVC HR-S3800U originally sold for \$199.99.

**SEGA RESTRUCTURING CONTINUES:** There will be more job cuts at Sega as company revealed it would chop its work force 28% to help it become profitable by next March.

Report from Japan last week said 200 workers already had left and Sega would continue reducing staff from high of 1,081 in Jan. to 700 by March — all at its Tokyo hq. Other reports indicated Sega planned to cut its debt ¥65 billion by March 2004 and sell or liquidate 20-27 of its 57 divisions at home and abroad, along with some subsidiaries, welfare facilities for employees — and maybe even its Tokyo hq building.

How — or if — new round of job cuts would affect Sega of America (SOA) was unclear at our Fri. deadline. Spokeswoman told us SOA couldn't confirm or deny specifics about Japan announcement.

Meanwhile, Sega said it expected to double annual game software sales to ¥120 billion in 2003 and achieve 15% operating profit margin by March that year.

Sega expects to post group net loss of ¥58.3 million yen for fiscal year ended last month, with large part of it attributed to decision to drop production of its money-losing Dreamcast game system and concentrate on developing game (TVD Feb 5 p11).

Company's shares rose as much as 5.2% to 13-month high last week before analyst meeting April 19 to discuss restructuring. Report said shares climbed as much as ¥120 to ¥2,420, with nearly 3.8 million shares traded — more than double company's 6-month daily average.

Sega also said it would develop and provide Java-based wireless game technology and content for cellphone maker J-Phone Group's new phones shipping in June under deal companies announced in Japan last week. SOA spokeswoman told us it had no plans for any sort of similar deal in U.S.

**Video Software Dealers Assn. (VSDA)** applauded U.S. Attorney General John Ashcroft for encouraging newspapers to carry editorials praising local retailers who enforce video and game ratings restrictions. Appeal was part of Ashcroft's recent speech to American Society of Newspaper Editors, where he urged communities and citizens to help create safer society and asked parents to "take responsibility for things their children come into contact with" whenever possible. "Bringing these two concepts together — recognizing retailers who enforce ratings while calling on parents to be more involved — points to precisely the solution promoted by VSDA," said Crossan Bo Andersen, retail group's president. "Retailers want to help parents remain in control." For last 7 years, VSDA has implemented and promoted "Pledge to Parents" movie and videogame ratings education and enforcement program, whose terms require parental consent for rental or sale of videos with "R" and "NC-17" MPAA ratings, "M" or "Adults Only" ESRB ratings on games. Program involves written agreement whereby parents specify what type of content they don't want their children to obtain. Information is kept on file in stores and is consulted at cash register when customers attempt to rent or buy videos or games. In Jan., VSDA announced "Parents in Control" program to certify and promote video retailers that have implemented its ratings policies. That program begins next month.



**GAMECUBE DEBUT DELAYED:** Nintendo delayed Japanese debut of its GameCube next-generation videogame console from July until Sept. 14. In announcing delay last week, Nintendo also said GameCube would go on sale in N. America in mid-Nov.

Nintendo of America (NOA) said "latest announcement out of Japan regarding Nintendo GameCube simply confirms that we are on track for a U.S. launch this fall as we have previously stated." NOA said its new console would arrive "before the all-important holiday season."

Nintendo said at Spaceworld last year that GameCube would ship in N. America 3 months after system's Japan bow in July (TVD Aug 28/00 p10). That suggested Oct. start was planned. Although NOA in recent weeks has been saying rollout would occur in Oct., NOA Corporate Affairs Vp Perrin Kaplan told us at Toy Fair in Feb. that it would be in Oct. or Nov. (TVD Feb 19 p9).

NOA said last week: "The Japanese launch date has been rescheduled for September to ensure that GameCube will launch with sufficient quantities of both hardware and great software. We have already delivered over 600 GameCube development kits to outside developers and many of these games will be ready for E3. We have high hopes for the show and are confident the games will impress and astound attendees."

Statement didn't address such issues as whether there might be shortage of GameCube components that some industry observers guessed could be reason Nintendo decided it couldn't deliver enough systems in July and decided to hold off on Japanese introduction until Sept. 14. Only other thing NOA said was: "Nintendo's priority has always been to develop the highest quality hardware and software at affordable prices — we will only bring out the very best, nothing less."

Word of delay didn't come as shock to analysts. Gerard Klauer Mattison Research Analyst Edward Williams told us: "I don't think it's terribly surprising" as he had "started hearing speculation of it" day before Nintendo's announcement. As for N. American market, he said: "I don't think it changes anything." Williams said one positive aspect of announcement was that at least now Nintendo had announced specific date for when GameCube hardware and software actually would be available to consumers. Now, he said, "we know it's actually going to debut this year."

Although Nintendo has insisted for several months that GameCube would indeed be shipping in Japan as planned in July, at least some in industry still doubted it. Company already had delayed system's introduction, along with its Game Boy Advance (GBA) handheld system, from 2000 (TVD March 20/00 p12). Nintendo said last month that GameCube's Japan debut might be delayed by month. But it stressed word "might" and told us last month that system still was on target for July in Japan (TVD March 26 p14).

Williams said that, regardless of when GameCube came out this year, "I still don't know if North American game publishers are going to benefit from it." Saying he was "not expecting that many" 3rd party GameCube titles to ship this year, he said he anticipated it would be "predominantly a first party launch." Indeed, 3rd party game makers only recently have begun official announcements that they will be supporting system.

Analysts quoted in reports out of Japan last week said they didn't think delay until Sept. would hurt Nintendo much. Important thing, they said, was that Nintendo ship system in time for holiday shopping season. Given declining Nintendo 64 (N64) console sales, company can ill afford to hold off release of its next-generation console until 2002.

Jupiter Media Metrix Analyst Billy Pidgeon agreed with Williams that it certainly was positive news that GameCube apparently wouldn't be delayed until 2002. But he told us mid-Nov. N. American bow seemed "really tight," although "doable." Pidgeon said Sept. or Oct. would have been best time to ship new console, adding: "You really want to get as much out of the 4th quarter as possible... Days and weeks will make a difference."

One important factor determining success of GameCube introduction was how many systems actually shipped at beginning — another detail Nintendo has yet to offer.

Like Williams, Pidgeon said he wasn't surprised GameCube was being delayed, saying game "systems are getting more complex" and it was becoming harder and harder for companies to get all important details in place to start on time. Besides, he said, after PlayStation 2's troubled rollout, "nothing is a surprise."

Nintendo also has yet to provide list of software titles for GameCube. NOA's Kaplan in Feb. said only that there would be "more than a few" titles that would be available at outset. Majority of GBA titles due to ship for that system's June 11 bow in N. America will be first party games. Analysts have long pointed out that Nintendo traditionally has not been as dependent on 3rd party games as its main competitor, Sony.

Also yet to be revealed by Nintendo is pricing for GameCube, although company has indicated that such information, along with at least some other details, may be announced at E3 next month. Source told us Nintendo was planning to offer more playable GameCube demonstrations at E3 than it had at 1996 E3, before Sept. 1996 bow of that system.

Even if Nintendo has smaller number of GameCube launch titles than Microsoft has for its Xbox start in fall, many still believe Nintendo won't lose many customers to its new competitor. For one thing, Nintendo's target audience always has been younger than its competitors and even Microsoft itself sees Sony as its direct competition. Another key benefit that Nintendo will have, of course, is its stable of popular game characters including Donkey Kong, Mario, Pokemon. Even if all those characters aren't available for GameCube at outset, many consumers no doubt are aware that they will arrive eventually. Although N64 began with only small number of titles Sept. 29, 1996, NOA said then that all 350,000 units shipped to stores sold out within 3 days (TVD Oct 7/96 p16).

**Dolby Labs** said its Interactive Content Encoder will be featured in upcoming Xbox videogame system from Microsoft. Encoder was described by Dolby as "a breakthrough technology that dynamically encodes multichannel audio into Dolby Digital 5.1." Dolby said technology "allows gamers to experience explosive, cinematic audio using high-quality home theater systems." Xbox, Dolby said, will be first game industry product to feature technology. It said: "We have chosen to incorporate the Dolby Interactive Content Encoder into the Xbox format because of its ability to deliver a superior multichannel audio experience to the gamer."



**800.COM STRENGTHENS CAR AUDIO:** E-tailer 800.com opened mobile audio store at its Web site.

Although company based in Portland, Ore., already offered 12 volt products at its site, Merchandising & Operations Senior Vp Frank Sadowski told us last week that changes were made: "The biggest difference is the car configurator technology is vastly improved. The database is much larger and more complete." Configurator, Car Wizard, has database matching specific products to requirements of more than 720 car models, e-tailer said.

800.com also was able to add 2 more key brands to its offerings — Blaupunkt and Phoenix Gold. E-tailer already had received authorization from manufacturers including JVC, Pioneer, Sony. Sadowski said 800.com was in discussions with other mobile audio suppliers and "more additions are to come."

As we have reported, mobile audio suppliers have been hesitant to authorize online selling of their products. For example, Kenwood Sales & Mktg. Vp Bob Law told to us earlier this month that his company had rigidly limited number of e-tailers who could sell its mobile line, largely because of installation requirements that are especially crucial in 12 volt arena (TVD April 16 p13). Kenwood is among suppliers that 800.com still is trying to gain authorization for, Sadowski said.

Sadowski said 800.com, from navigation standpoint, also has elevated mobile audio to its own separate tab on Web site. Content area has been expanded, offering more information, beginner tips, installation help.

800.com also "added a full-time associate buyer for mobile audio," Paul Looper, Sadowski told us. Looper had originally been hired by company as product specialist in its customer care center and "he worked out well" for company, Sadowski said, adding that mobile line up to now has been handled by same buyer as other audio products.

Company performed "soft launch" of enhanced mobile store about 2 weeks before official launch this month, Sadowski said. He added that company is backing launch with promotions through online affiliates and retail partners including MSN and Yahoo. 800.com is looking to perform additional online advertising of some sort as well and is including mobile products in off-line catalog mailed to customers. Company is still, however, opting to stay away from traditional advertising in consumer publications and TV, Sadowski said.

Rollout of expanded 800.com mobile audio store came as Goodguys.com introduced mobile electronics at its Web site with 150 authorized products (TVD April 16 p14). Goodguys.com mobile section has "My Garage" configurator developed by former e-tailer turned content supplier MobileToys.

**CDNow cut 40 jobs** — 10% of its staff. Company based in Ft. Wash., Pa., acquired by Bertelsmann last year (TVD July 24/00 p18), said reductions affected its L.A. office and variety of functions at its Pa. hq. CDNow said cuts were "to improve operational efficiency, and also to manage expenses." But it said: "Some reductions also resulted from closer cooperation with BMG Direct as the 2 companies work together under the new BeMusic organization." Bertelsmann had cut 55 jobs in Jan. when it folded CDNow's ad sales department, reports said last week.

**INTERLINK REVENUE DROPS 4%:** Interlink Electronics revenue fell to \$7.39 million in its first quarter ended March 31 — 4% dropoff from \$7.69 million in same period year ago, company said last week.

Interface technology developer said its operating income tumbled to \$429,000 from \$784,000 for same period. But it said its net income, including taxes and tax benefits, increased slightly — to \$733,000 (7¢ per diluted share) from \$712,000 (6¢) year ago.

Interlink announced in Jan. that its patented Force Sensing Resistor (FSR) technology would be used in Microsoft's upcoming Xbox videogame console. Company said FSR would enable Xbox to deliver enhanced user control of gaming action. Using FSR, 6 buttons near top of Xbox's controller will allow user to gain more precise pressure-sensitive control of slow character movements, it said.

Commenting on first-quarter results, Interlink CEO Michael Thoben said: "Slowing economies and the adverse market conditions worldwide impacted the performance of our OEM businesses this quarter. Our previous guidance reflected this downturn."

But he said: "We are confident that, as a more positive economic climate returns, our leadership position in the business communications market, together with our early market penetration and strong product offerings within the E-transactions opportunity, will reset the stage for accelerating revenues and earnings growth."

Interlink said its "financial position remains strong, maintaining a cash surplus of more than \$10 million. Both accounts receivable and inventory showed improvement from year-end and no additional debt was incurred." Company said: "Management's pro-active cost reductions in the first quarter of 2001 reduced operating expenses by 4% from the previous quarter without compromising sales and marketing programs and efficiencies."

OEM partners of Interlink, in addition to Microsoft, include Mitsubishi, NEC, Sharp, Sony, Toshiba. Interlink has offices in Tokyo and Camarillo, Cal.

**Lexar Media and Samsung** signed licensing agreement giving latter nonexclusive, worldwide, nontransferable, royalty-bearing license for Lexar's controller technology. Companies also said they signed supply deal in which Lexar "will purchase a substantial portion of its flash memory needs from Samsung." Samsung also "guaranteed a certain allocation of flash memory" and agreed to provide flash memory to Lexar on consignment basis that latter said would insulate it "from potential fluctuations in pricing and availability." Samsung Electronics Pres. Chang-Gyu Hwang said his company signed deal "because controller-based solutions are critical to the future of new applications." He added: "We anticipate that the Samsung-Lexar Media partnership will greatly expand Samsung's penetration into this quickly emerging market and allow us to offer our customers the best flash solutions." Lexar Pres.-CEO John Reimer called deal "a defining moment for Lexar Media" and added: "By integrating Lexar Media's patented controller technology into their products, Samsung will be able to produce a variety of low-cost, complex semiconductor devices." Samsung is 3rd licensee of Lexar's patents, following Sony and SanDisk.



**IOMEGA PROFIT SLIDES:** Iomega profit fell to \$9.83 million (4¢ per share) in first quarter ended April 1 from \$51.83 million (19¢) in same quarter year ago. But in conference call with analysts last week, Iomega CEO Bruce Albertson pointed out period represented company's 6<sup>th</sup> consecutive quarter of profitability.

Revenue fell to \$278.18 million from \$344.90 million largely because of decreased sales of Roy, Utah company's Jaz and core Zip discs and drives. But company said results in what proved to be "challenging period" were partly offset by higher CD-RW revenue. Tricky thing about CD-RW market, Albertson said, was that "cost-reduction initiatives must be faster than the retail price decreases" because he was dealing with "value-added product in a commodity environment."

Overall U.S. shipments by Iomega in quarter were higher than year earlier, Albertson said. Company said cumulative worldwide shipments (including licensee shipments) now exceeded 42 million Zip drives and 260 million Zip discs.

Albertson said he was confident company's newest products — including Zip-based FotoShow digital image center and HipZip digital audio player — and upcoming products, including 100 MB PocketZip drive, "demonstrate Iomega's commitment to develop growth opportunities in new and existing markets."

On digital audio hardware front, Albertson said: "We believe that the retailers and consumers are confused and that the channels have yet to decide what technology to adapt." He added: "In the first quarter, we took back significant quantities of [HipZip players] from office supply retailers that we plan on driving [them] back into traditional Zip and consumer electronics channels, where we believe we can generate better sellthrough." Albertson said company also had found digital audio player market to be seasonal in nature.

When asked by analyst whether company had any intent of possibly dropping HipZip from its product line and letting another company handle it, Albertson said: "I have no intentions of giving HipZip up to another company." But he said company was pleased Rio recently announced it would be using Zip format in its own digital audio players. He said introduction of 100 MB drive would only boost HipZip business.

Albertson also admitted that FotoShow was "off to a slower start than we anticipated." But he said company "already had initiated significant price reductions" that he believed would help give product boost. He said additions of Ritz and Wolf to list of retailers carrying product also would help. Albertson said 250 Ritz and 300 Wolf locations started carrying FotoShow in last few days and more would be doing so.

Company, meanwhile, has \$373 million of cash in bank and continues to drive down costs, Albertson said. For example, he said head count in last quarter was 16% down from same quarter year ago — and that was accomplished "without a mass layoff being announced." But Albertson didn't say exactly how that reduction in staff was accomplished.

Iomega also is continuing efforts to leverage its brand name on market so it isn't seen as maker of only one product because it had introduced products for CompactFlash and SmartMedia storage formats.

One positive sign in current quarter is that March shipments exceeded those of March 2000. But Albertson told analysts that was not intended to be used as guidance for Iomega's 2nd-quarter results.

Separately, hearing on class action lawsuit against Iomega is scheduled for 10 a.m. June 8 in Del. Superior Court, Wilmington. Company was sued by disgruntled customers who claimed Zip drives they bought were defective and corrupted their computers, causing them to lose data. Albertson declined to comment on specifics of suit, saying litigation was "still pending" and it wouldn't be appropriate. But he said: "We're happy to finally see it getting behind us."

**Blockbuster**, crediting strong DVD rental business, reported \$4.7 million first-quarter profit, reversing \$4.1 million loss year earlier on 8% rise in revenue to \$1.31 billion. Worldwide same-store sales increased 5.3%. Rental revenue was up 9.1% to \$1.12 billion, with DVD accounting for 14.6% of total, Chmn.-CEO John Antioco said. Overall gross margin increased to 59.6% from 59% year earlier despite 6% decline in same-store sales for videogames, downturn tied to pause in market before debuts of new Nintendo and Microsoft systems later this year, Antioco said. Videogames accounted for 9.2% of revenue in fiscal year ended Dec. 31. Blockbuster also opened prototype of store in Dallas containing 600-sq.-ft. RadioShack (RS). Blockbuster will test RS concept in 130 stores this year with decision on possible expansion to be made at year-end. RS will handle sales of DirecTV, service that Blockbuster marketed through kiosks last fall. Video rental chain will start selling pay-per-view service for DirecTV in June. Company said combination of PPV and satellite subscriptions could produce \$50 million incremental annual revenue if Blockbuster added one million customers to DirecTV service by year-end 2002. Blockbuster will spend \$150-\$170 million in opening 200-250 company-owned stores. Small portion of capital budget will fund installation of RS format, spokesman said.

**One week after** Lexar Media announced patent infringement suit against Memorex, latter company told us it already had filed countersuit. Memorex Pres. Michael Golacinski said Fri.: "We believe our flash [product] does not infringe on Lexar patents and we will prevail on the issue." Lexar charged Memorex infringed on its flash memory controller patents and said it intended to seek injunction on further sales of products. Lexar Technology Licensing Vp Eric Whitaker said: "It is with regret that we take this course of action, but Memorex has retreated from its commitments to sell noninfringing CompactFlash products." He said: "Lexar Media is committed to aggressively protecting its investments in patent and technology development against those who use our inventions. While a number of companies have recently agreed to purchase our controllers to produce CompactFlash cards, there unfortunately remain a number of new entrants in the flash market that do not respect the work that Lexar Media has put into developing these technologies — despite the fact that companies such as Sony and SanDisk have licensed our patents." Lexar also said it believed consumers who bought Memorex CompactFlash products or who built devices with flash memory controllers from unlicensed vendors such as C-One or Pretec that used Lexar's patented technology also could be infringing on its patents.

**NVIDIA said its GeForce2 3D graphics architecture and family of processors received EDN Innovation of the Year Award in multimedia category.**



Following example of home video studios, now even videogame business is seeking to make hay from next month's blockbuster movie *Pearl Harbor*. Simon & Schuster Interactive (SSI) said it would release *Pearl Harbor: Zero Hour* (\$19.95), 3 CD-ROM set for Windows PCs timed to coincide with \$135-million movie's May 25 debut. Arcade-style title, developed by ASAP Games, begins with fully rendered real-time enactment of Japanese attack on Pearl Harbor, then gives players choice of 14 vintage U.S. warbirds to go on offensive in 10 missions drawn from actual World War II battles in Pacific. Players can train with Flying Tigers, U.S. volunteer pilots who served with Chinese forces against Japan. As bonus, set comes with CD audiobook novelization of *Pearl Harbor*, itself \$24 value, SSI said. Meanwhile, *Outlaw Golf* will represent company's first offering for Microsoft's Xbox. SSI said game, to ship in spring 2002, "will take virtual duffers on a wacky golf outing through the garbage dumps of Newark, N.J. or the mosquito-infested swamps of Florida." Company said it would spotlight those 2 games at E3 next month, along with: *Bump for PC* (fall), "free-for-all" bumper car game that can be played either against computer in single player mode or up to 6 players online; adventure game *Darkened Skye* for PC and PlayStation (Oct.); *Farscape* for PC (spring 2002); real-time strategy (RTS) game *Real War* for PC (Aug.); *Ski-Doo: X-Team Racing* for PC (Sept.), snowmobile racing game that allows player to compete against up to 7 people in multiplayer online mode; *Star Trek Deep Space Nine: Dominion Wars* for PC (May).

Sega Europe (SE) announced change in its sales and distribution efforts, saying it had reached agreement with Bigben Interactive (BBI) to maintain full availability and distribution for Dreamcast products throughout Europe. SE said European distributor Bigben would handle sales and distribution of hardware, software and peripherals, although exact nature of responsibility would vary by country. But SE said it would "continue to take responsibility" for after-sales service and all customer services including Consumer Call Center. Commenting on deal, SE COO Kazutoshi Miyake said: "Sega is committed to ensuring that Dreamcast continues to be in full distribution to ensure consumers can enjoy the AAA software lineup already under way for this year." BBI has wholly owned companies in Benelux (Atoll Soft), France (Bigben Interactive), Germany (BBI GmbH), U.K. (Planet Distribution).

More blue-collar workers are getting home Internet access, study by Nielsen/NetRatings found. Factory operators and laborers accounted for 9.5 million of total Internet population who accessed Web in March 2001, up 52% from 6.2 million year ago. Their growth rate was more than double rate of Internet growth, which has increased 25% since March 2000, study said. Homemakers were 2nd fastest growing group, jumping 49% in last year to 2.5 million. Internet users working in service field grew 37% — 2.9 million — and those in sales 37% to more than 5.6 million. Workers in clerical or administrative field rounded out top 5.

New section at *Gamestop.com* is dedicated to Game Boy Advance (GBA). There, consumers can preorder GBA bundle at \$249.94, but not, in what has become growing online trend, solo game machine. Bundle features system, carrying case, "survival kit," 3 games: *Fire Pro Wrestling*, *F-Zero*, *Super Mario Advance*. Although consumers can select which of 3 GBA colors they want, Web site warns that it can't guarantee that particular color will be available because quantities will be limited and orders will be processed on first-come, first-served basis. *Gamestop.com* is Web site of Babbage's Etc., which is officially changing its name to *Gamestop, Inc.* (TVD April 9 p21).

Planetweb and Ergosoft Internet solution for PlayStation 2 (PS2) started shipping in Japan. Japanese version of Planetweb Web browser is being published by Ergosoft and is known as "EGBROWSER." It supports multiple USB modems developed for PS2 and can be purchased as bundled product with various USB modems, companies said, with USB keyboard and USB printer supported as options. Ergosoft, division of Koei, obtained exclusive sales and distribution rights for Planetweb PS2 Internet software and network middleware in Japan and is exclusive distributor for Planetweb PS2 browser products in Japan. Planetweb also announced partnership with Nifty Corp. that will make latter's @nifty site default ISP for Planetweb-enabled CE devices in Japan, including PS2. With more than 4.4 million subscribers, @nifty says it's Japan's top ISP. In announcing partnership with Nifty, Planetweb said consumers without their own ISP could use Planetweb interface to create account through @nifty server. Account information and password are saved on PS2 memory card.

MP3.com unveiled Enhanced MP3 feature at its Web site, viewable with WinRip software-based digital music jukebox from InterVideo, PC multimedia software company based in Fremont, Cal. Enhanced MP3 allows PC user to view synchronized lyrics and browse artist Web pages via links embedded directly into standard MP3 files. Companies said Enhanced MP3 was based on exclusive, patent-pending InterVideo Data Injection (IDI) technology. They said artists and computer users could use IDI to enter lyrics and other text manually or import them from other sources. Companies said WinRip Studio, special version of software, would be made available to consumers free and on limited-time trial basis to artists who posted music at MP3.com site. Downloadable version of WinRip includes 30-day trial of additional features as upgrade for \$19.95. Enhanced MP3s are backward-compatible with existing MP3 players, companies said.

EMusic.com losses narrowed in 3rd quarter ended March 31 to \$6.13 million (-15¢ per share) from \$22.53 million (-62¢) year ago. Results were released only days after Redwood City, Cal, online music company announced definitive merger agreement to be acquired by Universal Music Group (UMG) (TVD April 9 p14). EMusic said either company could terminate agreement if UMG's cash tender offer to acquire all of EMusic's outstanding shares at 57¢ per share wasn't completed by June 25. EMusic's revenue in last quarter jumped to \$4.28 million from \$2.10 million year ago. It said \$2.25 million of revenue in quarter was from music and \$2.04 million from ads, compared with \$450,000 and \$1.65 million, respectively, year ago. Company said revenue was 36% increase over combined EMusic/Tunes.com revenue of \$3.2 million year ago.

Latest dot-com casualties include online music company Musicbank, competitor to EMusic.com and MP3.com. Despite alliances with major record labels BMG, EMI, Sony, Universal and Warner, company was unable to survive. Message posted at its Web site last said only: "For over a year Musicbank has pioneered efforts to unite music lovers with their CD collections online. We are sorry to say that we are closing our doors." Musicbank didn't offer explanation and nobody from company responded to our e-mail request for comment. When we tried calling phone number listed at Web site, recording said it no longer was in service. Company had offered music "storage locker" service at which music fans could post their personal electronic music files. But commercial version of service never got off ground.

DVD-RW recorder for PCs from Pioneer will ship with Sonic Solutions' MyDVD video authoring software, companies said. Pioneer DVR-A03, priced under \$1,000, already comes with MyDVD bundle in Europe.



**INTERPLAY REVENUE JUMPS:** Interplay Entertainment said it significantly reduced losses for its 4th quarter and 12 months ended Dec. 31 on higher revenue.

Net loss for quarter fell 50% to \$4.77 million (-18¢ per share) from \$9.56 million (-35¢) as revenue rose 12.6% to \$30.77 million from \$27.32 million. For 12 months, loss was trimmed 71% to \$12.06 million (-45¢) from \$41.69 million (-1.86) and 2.6% revenues increased to \$104.58 million from \$101.93 million.

Game maker based in Irvine, Cal., said it derived 81% and 74% of its revenues for quarter and year, respectively, from PC games and console games accounted for 12% and 14% in those periods. However, Chmn.-CEO Brian Fargo told financial analysts in conference call last week that Interplay expected "a more balanced revenue mix" in 2001 as result of its strategic shift toward next-generation console games. Ultimately, he said, mix should be 50-50 between PC and console games.

CFO Manny Merrero told analysts that because of strong emphasis Interplay would place on next-generation console gaming, it expected overall revenue to climb 30-40% this year and sales to double in 4th quarter alone, assuming boost that's expected from holiday promotions and expectation that all 3 next-generation consoles will have arrived in market by then.

Responding to question on what financial impact might be if GameCube or Xbox didn't make it to market in U.S. late this year as planned, Fargo said: "We take a pretty big buffer against our revenues to take into account for any sort of slippage." He said if GameCube or Xbox both were delayed, "that could be an issue." But he said "we feel pretty confident from what Nintendo is telling us about the GameCube release that we don't have a lot of worry in that area yet." Company said it planned 8 next-generation console titles for release in 2001 — 6 for PlayStation 2, one for Xbox, one for GameCube. It said it planned to continue to support its historical niche in PC-based role-playing games.

Interplay also said it completed private placement of common stock, raising \$12.7 million in equity capital. It said investment banking company Roth Capital Partners arranged placement and sold shares at \$1.5625 to group of investors led by Special Situations Fund, with Fidelity Management & Research Company on behalf of funds it managed. Along with transaction, Interplay issued to each investor warrant to buy one share of common at \$1.75 — half of which could be exercised immediately and other half exercisable under certain circumstances based on future trading price of Interplay's common.

Company said it also secured new \$15 million, 3-year working capital line of credit with LaSalle Business Credit. Interplay said line of credit was subject to review and renewal by bank April 30 of each year and was secured by "substantially all of the company's assets, plus a \$2 million personal guarantee from the company's chairman and CEO."

Interplay said proceeds from working capital line of credit and private placement had been used to reduce debt, replace company's existing line of credit expiring this month and provide working capital for future operations.

It said it also "reduced its outstanding bank debt from \$25.5 million to \$5.5 million on the day the previous line of credit was replaced" and it "estimates that reduced borrowings under a

lower interest rate could decrease its interest expense by approximately \$1.5 million" this year.

Fargo said: "This recent financing has reduced our debt to the lowest point in several years. It improves our financial stability so that we can benefit from our investments in next-generation console games soon coming to market." He said: "As the industry gains momentum in the latter part of this year, Interplay should be well positioned to capitalize on the strongest titles planned for release in the next few months."

**EchoStar has slowed shipment of Starband's satellite-based Internet access service as it seeks to resolve cross-polarization that has occurred with systems installed at 300 sites.** Cross-polarization, key step in installation process, was misaligned in some systems, resulting in potential for interference with services on GE-4 and Telstar-7 satellites, EchoStar's Digital Sky Highway (DISH) said in letter to dealers. GE-4 and Telstar-7 operate at same frequencies as Starband, but on opposite polarization. Cross-polarization was caused in "many cases" by problems with Starband's automatic alignment system that was "often busy" when needed during installation, letter said. Result was some installers were on hold for hour or more and left believing that since customers could use service, cross-polarization alignment was "not important," letter said. Starband since has repointed satellite dishes in systems affected by misalignment, although 10-20 remain to be fixed, said Diane Van Beber, investor relations vp at Starband investor Gilat Satellite Networks. Reports of interference cropped up in March and Starband since has brought problem "under control," she said. Misalignment was largely limited to EchoStar installers, Van Beber said, and RadioShack, which also sells Starband, didn't appear to be affected. EchoStar spokeswoman wasn't available for comment. Cross-polarization is most recent issue to pester Starband, which recently scrapped plans for IPO and has struggled with product shortage (TVD Jan 29 p18). It has gained slightly more than 25,000 subscribers since debut last fall.

**247showroom.com** has shut down after failing to raise \$1 million needed to carry it to profitability by year-end, Pres. Charles Palko said. Ohio-based business, which developed and maintained e-commerce Web sites for CE and major appliance retailers, had been seeking two \$500,000 funding rounds, he said. "The process [of getting retailers on line] was slower than originally anticipated and we ran out of money before we could get the business model to bloom," he said. "It took us longer to get the Web sites up and the customer inclined to buy online." Company had 9 retailers online and another 20 or so in "various stages of construction," Palko said, and he will work with retailers to maintain their e-commerce business. Palko, former Lusk's and Roberds CE buyer who formed 247showroom in 1999, also suffered setback when first customer, Roberds, liquidated last year. "Their demise gave us a setback because they were one of our original customers and one of the biggest ones, but were able to pick up the slack fairly quickly," he said. Retailers brought online by 247showroom had collective store revenues of \$1.1 billion and if "we were able to move 2 to 3% of that business to the Internet we would have been extremely profitable," Palko said.

#### THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥122 = \$1, except where noted.



**Sony 37W plasma display** was shown to dealers as nonworking design to gauge interest in product, sources said. As outlined to retailers, display could have integrated HD tuner and speakers and carry \$5,500 price. One dealer who saw mock-up display said it was "cosmetically stunning," with design similar to products marketed by Bang & Olufsen. "Certainly they're [Sony] headed down the correct road and even if the picture quality isn't that great they will force moves by other suppliers simply because they'd have a product with everything built in," dealer said. Display was shown to get reaction from retailers and there were no "immediate plans" to introduce it, Sony spokesman said. Sony has been aggressive in marketing plasma displays, recently cutting price on 42W monitor with 1,024x1,024 resolution to \$8,000 (TVD Jan 22 p11) from \$15,000. Sony sources plasma panels from Fujitsu-Hitachi joint venture, but range of suppliers has emerged for 37W including Matsushita, Pioneer, Samsung. Pioneer is developing 37W panel targeted at sub-\$7,000 price (TVD Dec 11 p13).

**More confusion is on way** for already fractured DVD recording category. DVD+RW champion Philips told us last week it would introduce proprietary write-once blank disc for format, instead of DVD-R standard chosen by DVD Forum and used by otherwise incompatible DVD-RAM and DVD-RW decks. Disclosure by William Ripley, mktg. mgr.-digital video recording, came at Philips news briefing in London last week and was contradiction of company's recent stance. Just before last month's CeBit show in Hannover, Germany, Philips said it wouldn't make write-once recording available for DVD+RW. Philips spokeswoman confirmed Ripley's statement and told us write-once blank would be called DVD+R. Company was evasive when asked whether feature would be included in first generation decks to be released in fall, but said it believed they could be upgraded for write-once operation.

**Road warriors** who have longed for home-PC gameplay from their laptop portables are having their wishes answered. New mobile PCs from Dell and Toshiba now have horsepower to handle video-intensive games in way desktop PCs do. Dell's Inspiron 8000 and Toshiba's Satellite 2805-S402 achieve feat by putting NVidia's GeForce2 Go video controller under hood along with dedicated RAM — 16 MB in Toshiba's case and choice of 16 or 32 MB from Dell. Main processor in each brand is Intel's Mobile Pentium III; Toshiba mounts 850 MHz powerplant while Dell offers 700, 850, 900 MHz and 1 GHz engines. Dell's a la carte menu, as well as choice between 14.1" or 15.1" displays, accounts for variations in Inspiron 8000's pricing, which starts at \$1,639. Toshiba's Satellite comes with 15.1" screen and \$2,399 sticker. It also has DVD-ROM/CD-RW drive; that combination of DVD play and CD recording is among options from Dell. As bonus through Sept. 30, Toshiba's customers get one of 3 Ultimate Game Packs valued at \$100 each comprising 2 or 3 titles.

**New DVD label** has been announced by New Line Home Entertainment. Beginning with July 10 release of *Thirteen Days*, DVDs with special features will carry Infinifilm marque. Studio said brand would be reserved for DVDs whose features let viewers explore "beyond the movie." That includes supplemental information that can be accessed from pop-up menus during movie, such as historical background on scene or information on how segment of film was made. Infinifilm DVDs also will have special menus, such as to help viewers set up Dolby Digital or movie's aspect ratio. Pop-up feature can be deactivated by viewers who want to watch movie without onscreen prompts, or who consider pop-ups intrusive.

**Codemasters** said it was "back on track" after companywide reorganization announced in early Feb. (TVD Feb 5 p20) that attempted to cut operating costs. U.K. game maker said it was "restructuring its design and development facility by dividing it into 4 separate internal development studios to maximize creativity and encourage timely delivery of game code." Codemasters said "restructuring has enabled" it "to continue along its well-established path of profitable trading" and gave it "the foundations to build for the future." Company also said "a new game development project has been commissioned internally with a new team being put in place." Codemasters expects to ship 26 games in next financial year and 45 titles in following year. Those games, company said, will be from its 4 studios as well as outside developers. Each internal studio will start with work-in-progress projects for PC, PlayStation 2 and Xbox, with additional projects "allocated to individual studios based on synergies any one studio has to a particular game style or technology." Development Dir. John Hemingway said: "Codemasters continues to be a well-managed operation, one that can make the right moves at the right time to place it in the best position for the future. With the new studio environments, everyone is even more passionate about their ownership of a project and the teams are in more direct control to drive new ideas, have a closer relationship with other departments and better achieve that balance between timely delivery and outstanding content."

**"Future online convenience retailers will avoid** [Kozmo.com's] mistakes by targeting consumers that spend more money, optimizing delivery schedules with consumer incentives and providing cross-docking services," Forrester analyst Robert Rubin said. N.Y.C.-based online retailer/one-hour delivery service Kozmo said earlier this month it was shutting down its operations because of inability to find enough funding (TVD April 16 p16). Rubin said: "Net-enabled home delivery will only work if" companies also feature order minimums, "use yield management" like airlines, make deliveries for other businesses. Rubin said: "Even with delivery charges, small shopping baskets don't have enough gross margin to cover customer acquisition, operating overhead and delivery expenses." He said Toronto-based Grocery Gateway recently raised its minimum order charge to \$60.

**It was unclear** at our Fri. deadline whether Nintendo of America (NOA) had plans to sell Game Boy Advance (GBA) games direct to consumers when next-generation handheld system goes on sale June 11 in N. America. NOA's Japanese parent started selling GBA games online direct to consumers April 13. Competitor Sony Computer Entertainment already sells its game consoles and software direct to consumers online in Japan and N. America. Meanwhile, reports said Nintendo was packaging new golf game with adapter for Web-compatible mobile phones that company already had been selling for ¥5,800 (\$46.40) in Japan. There's no extra cost for golf game, report said. Separately, Nintendo revised its earnings estimate for year ended March 31, saying it now expected to report record profit of ¥95 billion — 22% over previous prediction of ¥78 billion. However, it said revenue would be 7.5% less than predicted — ¥462.5 billion instead of ¥500 billion. Company attributed decrease in sales to weak demand for games and hardware — including not only N64, but its Game Boy products as well. Nintendo also last week said it planned to buy back 10% — 14 million shares — of its outstanding stock.

**The Simpsons** are available on Sony's PlayStation in N. America for first time. Activision is shipping *The Simpsons Wrestling* game, featuring 22 characters from long-running, animated TV show priced at \$39.99. It was produced by Fox Interactive and developed by Big Ape.



**Three-Five Systems** reported first-quarter profit plunged to \$242,000 from \$3.6 million year earlier as it suffered slow-down in sales of wireless handsets for which it supplies LCD displays. Sales slipped to \$35.6 million from \$39.2 million as customers including its largest — Motorola — delayed LCD deliveries and reduced amounts purchased, CEO Jack Saltich said. Motorola accounted for 87% of revenue in quarter, but Three-Five won 23 design awards in 2000 that should allow it reduce share to 60% by year-end, Saltich said. Gross margin slid to 12.3% due to “pricing pressures,” he said. Despite downturn in earnings, Three-Five ended quarter with no debt and \$153.9 million in cash and short-term investments. It spent \$1.6 million on capital projects in quarter, most of which involved production upgrades and investments in manufacture of liquid-crystal on silicon (LCoS) microdisplays. Three-Five has developed 0.75" LCoS display for 50" Thomson RCA rear-projection set and InFocus is said to be considering 0.5" version for front projector... **Kopin**, also suffering from downturn in wireless handset market, posted \$6.8 million first-quarter loss, reversing year-earlier \$2.3 million profit as revenues skidded to \$15 million from \$19.7 million. Drop in revenue was largely tied to Kopin's heterojunction bipolar transistor (HBT) product used in wireless and broadband markets. HBT revenue declined to \$10.8 million from \$16.4 million. Sales of Kopin's CyberDisplay microdisplays jumped 22% to \$3.5 million from \$2.2 million as company resolved pricing issue with major customer (TVD Feb 19 p11). It didn't identify customer, but Matsushita and Samsung source microdisplays from Kopin for digital cameras and camcorders. Improved sales will enable CyberDisplay business to turn profit by 2nd half, CEO John Fan said. Kopin had projected breakeven for unit by end of 2000 (TVD Oct 30 p16)... **IFire Technology**, which is developing solid-state displays for big-screen TV, received \$19 million investment from Canadian govt. IFire, which has shown 8.5" model with 640x480 resolution and 17" version with 300 candelas, has said goal is to hit \$3,000 for 42" display (TVD March 20/00 p20).

**Gateway**, in reporting \$502.9 million first-quarter loss on 15% decline in revenue, said it would unwind relationships with OfficeMax and other retailers to focus sales on own Gateway Country stores, phone and Internet. Revenue for quarter fell to \$2 billion from \$2.3 billion year earlier. Gateway shipped 1.1 million PCs, down from 1.3 million. OfficeMax, which signed deal with Gateway last year, had installed store-within-a-store format in about half of nearly 1,000 stores. Chmn.-CEO Michael Feuer said chain didn't expect Gateway's decision to have “material effect” on its operating results for year. OfficeMax had leased space to Gateway and didn't recognize revenue on sales of its PCs, he said. Unclear was whether Gateway would maintain \$50 million investment it made in OfficeMax stock and debt. Decision to exit OfficeMax stores and some international retail markets will reduce revenue \$200 million per quarter, Gateway said. As Gateway announced plans to close some Country stores earlier this year (TVD March 5 p13), OfficeMax said it was considering other uses for space including build-to-order PC program or sales of wireless and Internet connectivity. Apparently unaffected by Gateway's decision will be Rent-Way, which will continue to rent company's PCs through its 1,000 stores, CEO William Morgenstern said.

**LodgeNet** made game *Dr. Mario 64* for Nintendo 64 (N64) videogame console available in hotel rooms in Canada and U.S. concurrent with title's release to retail stores. Steven Truckenmiller, vp of guest pay services for Sioux Falls, S.D.-based LodgeNet, said it also was just in time for spring break, when students were home from school.

## Consumer Electronics Personals

**Ken Shimoda**, Clarion Europe pres., appointed Clarion Corp. of America (CCA) chmn., and **Matt Matsuda**, CCA senior finance vp, advanced to pres., filling posts held by **Rick Tonari**, who returns to Japan as Clarion Device Co. pres... **Graham Williams**, Pace Americas engineering vp, promoted to technology vp... **Richard Westerfer**, WorldGate engineering vp, advanced to senior operations vp... **Christopher Cline**, ACTV Inc. senior vp, returns to CFO post, replacing **Joseph Dwyer**, who resigns... **George Shaheen** resigns as Webvan Group CEO-chmn.; **Robert Swan**, COO, will serve as CEO-chmn. until replacement is named... **Paul Williams** resigns as Outpost.com CFO, plans unknown, duties assumed by Finance Vp **Michael Dylag** and Financial Reporting Dir. **Michael Bishop**... **Paul Looper**, 800.com product specialist, promoted to assoc. mobile audio buyer... **Michael D'Ambrose**, ex-Citigroup, named Toys “R” Us exec. vp-human resources... **Anne Ireland**, ex-Burns International, appointed dir.-corporate development and strategy, CDW Computer Centers... **Arthur Levine**, ex-KVL Audio Visual Services, named pres.-COO, NewKidCo International; **Monica Bendriss**, ex-Mattel Interactive, joins as sales vp.; **Robert Leopold**, finance dir., advanced to finance vp... **Mark Strumwasser**, ex-One Voice Technologies, named vp-sales & market development, General Magic.

**Activision** acquired worldwide publishing and distribution rights — with exception of Japan — from Hudson Soft for *Bomberman* franchise and original title, *Pinobee: Wings of Adventure* for Game Boy Advance. Activision said that game, along with *Bomberman Tournament*, would join its previously announced *Tony Hawk's Pro Skater 2* as titles for next-generation handheld game system. Activision also said it signed agreement with Hudson Soft to acquire N. American rights to game *Bloody Roar 3* for PlayStation 2. As part of deal, Activision said it would publish and distribute game in U.S. and Canada. Game is to ship in June. Commenting on deal, Activision Worldwide Studios Exec. Vp Larry Goldberg said: “This agreement underscores our commitment to strategically seek out high-quality next-generation console games and bring them to the North American marketplace. The *Bloody Roar* franchise is known for its excellent design and intense gameplay. This version for the PlayStation 2 combines the best elements of the previous titles and takes the game into a whole new realm, capitalizing on the system's visual appeal and gameplay speed.”

**World music sales** dipped 1.3% to \$37 billion last year, International Federation of Phonographic Industry (IFPI) said. London-based group attributed result to declines in U.S. (1.5%), Latin America (1%), Southeast Asia (4.4%), Japan (4.5%). Revenue from U.S., top music market, was \$14 billion, as 2nd-place Japan had \$6.5 billion. Revenue in number 6 Canada dropped 7.5% to \$819 million. IFPI said U.S. loss came from 46% downturn in singles sales, which it blamed partly on file-sharing services such as Napster. Meanwhile, music market increased 1.4% in Europe overall, paced by Number 3 U.K. with 3.8% gain to \$2.8 billion. IFPI said that despite 2000 downturn, global CD sales increased 2.5% to 2.5 billion discs.

**Fuji** will take 70% stake in Chinese production company to build digital cameras for domestic market, where demand is forecast at 5 million by 2005. Local investment authority will own rest, Fuji said. It already has digital camera plant in China that builds for export markets.





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# TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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### Broadcast - Cable

**DTV DEADLINE FEARED:** Petitions for waivers, possibly general delay, of 2002 date expected. (P. 1) DTV Notebook. (P. 7)

**FCC DIVIDED ON CONTENT** regulation. Industry vs. govt. rules debated at convention. (P. 3) NAB Notebook. (P. 9)

**DTV TUNER RULE DEBATED:** Boucher backs legislation. Others disagree. (P. 4)

**BROADCASTERS PUSH MUST-CARRY:** NAB, MSTV, ALTV challenge FCC order on dual carriage. Multiple streams, degradation cited. (P. 4)

**LIEBERMAN PUSHES VIOLENCE BILL** to fine those pitching adult content to kids. (P. 5)

**CBS SEEKS HDTV HELP** from rivals, says content comes first, other networks should step up. (P. 6)

**POWELL SEES CONVERGENCE** on distant horizon, says broadcasting isn't dead. (P. 6)

**BROADCASTERS FEAR 2002 DTV DEADLINE:** Deadline next year for commercial stations to begin DTV broadcasting is "a daunting reality" for many station owners, NAB Senior Vp Lynn Claudy said at NAB convention in Las Vegas last week: "It's scary." At least one FCC official predicted stations would petition Commission by fall for extension of May 1, 2002, deadline, although consultant Joseph Kraemer said that could "reinforce the perception" on Capitol Hill that broadcasters were "reneging on their commitment" to quick DTV transition in order to return analog spectrum for other uses. CEA Pres. Gary Shapiro said broadcasters' bid to extend deadline would be "political dynamite" because there was "a sense that broadcasters are not providing enough HDTV programming."

In separate NAB speech, FCC Chmn. Powell said he realized that when May 2002 deadline arrived for analog stations to begin dual operations with digital transmissions, many wouldn't be ready to make switch. Vast majority of stations in major markets have met earlier deadlines, he said, and Commission doesn't plan to postpone 2002 date any time soon because "everybody has to keep moving" and broadcasters and manufacturers must work together to get TV sets in public's hands. Officials at convention repeatedly downplayed 2006 deadline for giving back analog channels, saying that would happen only if 85% of households had DTV receivers and that won't occur for years.

Broadcasters have been touting launch of DTV by 187 stations reaching 68% of U.S. TV households, but that still leaves more than 1,400 stations that have to begin DTV broadcasting within 13 months. One industry official said that meant one DTV station would have to be turned on every 6 hours in that time. Particularly with ad revenue down, in many smaller markets starting DTV is "not a rational act," Kraemer said. Others acknowledged that many stations in smaller markets probably wouldn't meet deadline. Without guaranteed access to audience, "none of the deadlines make market sense," Claudy said: "I do see this issue coming to an unhappy confluence."

### Consumer Electronics

**PANASONIC DVD-RAM ADDS PVR FUNCTION** with TiVo-like simultaneous record/playback. Write-once DVD-R recording touted for backward compatibility with legacy decks. (P. 13)

**RIVAL DTV COPY-PROTECTION PUSHED** by studios and PC makers, who prefer DVI link and HDCP to IEEE-1394-based 5C. Upgraded VSB proposed for better reception. (P. 14)

**DVD WATERMARK ALLIANCE FORMED** by formerly rival Galaxy and Millenium groups. Solution sought by Sept. (P. 16)

**STEEP YEAR-END PROFIT DECLINES** reported by Japanese majors, all blaming global economic downturn. Bleak outlooks are projected. (P. 17)

**PHILIPS CUTS WEBTV PRICE** as Microsoft starts to merge service with MSN in action that may see latter brand disappear. (P. 18)

**WEB A/V TECHNOLOGIES JOCKEY** for position as Microsoft readies Media Player 8. (P. 20)



Broadcasters that fail to anticipate wireless tower capacity bottlenecks will increase chance of missing FCC-mandated DTV transition deadline, said David Sparano, principal engineer in Harris Corp.'s Bcst. Communications Div. Companies in northern states that don't execute firm plans to deploy DTV antennas by Nov. "have virtually no chance of meeting" deadline since "tower work is difficult, if not impossible" in winter months. "Early predictions about a lack of capacity in the tower industry appear to be coming true," Sparano said. "Tower erectors are currently reporting that availability is very tight. In fact, if a broadcaster does not already have a firm commitment and time slot from a reputable tower service company, they are in trouble" for meeting deadline.

Companies unprepared to submit extensive documentation to state and/or local zoning and environmental agencies, as well as to FAA, will face additional impediments to timely DTV compliance. Transmitter site building additions and tower modifications "can add months, or even years, to a DTV implementation schedule," Sparano said. FAA review of new towers or changes in tower heights "usually takes 3 to 6 months and there always is a significant risk of rejection," he said.

Member of National Assn. of Tower Erectors told us his company had 17 tower crews and "all are booked" through end of year. But he said there still were hundreds of TV stations that weren't yet preparing for FCC's May 2002 deadline for switch to digital. "There's no way they'll be ready" by deadline, he said.

However, concerns about impact of shortage of tower crews on DTV transition probably had been overstated because "great majority" of stations don't need tower work, said Richard Chessen, associate chief of FCC Mass Media Bureau.

Concern about deadline may be overstated, FCC staffers said. David Goodfriend, aide to FCC Comr. Ness, said that Commission had approved virtually all justified requests for deadline extensions based on construction problems, and that would be "a no-brainer" for future similar requests. "What is really at issue is the economics of small stations," he said, and they will have to be considered on "case-by-case basis," but deadline remained important to focus attention on need to begin DTV service. Susan Eid, aide to Powell, agreed most requests for extensions had been granted. Broadcasters should seek mass extension of 2002 deadline, and Comr. Furchtgott-Roth would "look favorably" on such request, said his aide, Ben Golant. Golant called 2002 deadline "unreal and unrealistic" and said broadcasters should challenge it in court as arbitrary and capricious.

Referring to congressional goal of halting analog TV broadcasting by 2006, Kraemer said "if the plan is to turn off analog in 2020, we're in good shape. But if it's 2006, this is a debacle." NAB Deputy Gen. Counsel Valerie Schulte agreed that "if you want a fast transition, we are way behind the 8 ball." She blamed FCC, saying there were "pieces missing," citing lack of broadcaster "access to audience" because of lack of mandated must-carry, DTV-cable interoperability and DTV receiver standards: "If we can't get to the audience, they won't buy it."

Main problem is lack of compelling DTV programming, said Robert Pepper, head of FCC Office of Plans & Policy, and only CBS and PBS have made big commitment to HDTV programming: "If you offer compelling programming, cable will carry you." He said recent cable carriage deals with PBS showed that cable was willing to carry DTV if programming was good enough, but Paul Karpowicz of LIN TV, vice chmn. of NAB TV board, said cable wasn't signing carriage deals with CBS stations, even though 80% of CBS prime-time programming was available in HDTV: "If the government is mandating a timeline [for DTV transition], must-carry is one thing the government must mandate." CBS Senior Vp Joseph Flaherty said broadcast and cable already were delivering about 150 hours of HDTV programming per week and that was "starting to boost DTV sales."

However, there has been "a strong message from Washington" that DTV must-carry won't happen, Shapiro said. He said Powell had shown strong interest in letting market handle DTV carriage, and Congress wasn't likely to intervene: "This is up to the industry to work out." Schulte acknowledged that must-carry didn't fare well under former FCC Chmn. William Kennard and that Powell seemed even more market-oriented, but said FCC "has got to ask how fast a transition it wants." She also predicted U.S. Supreme Court would uphold DTV must-carry, despite close vote for analog must-carry, because there was "a compelling government interest" in DTV transition. However, Pepper said broadcasters shouldn't be focusing on required carriage of both analog and digital signals during transition, saying that wasn't nearly as important in long run as defining what portion of digital signal would be carried after transition was complete.

There's even less chance that Congress would enact law requiring all new TV sets to have DTV tuners (see separate story, this issue), Shapiro said, since he said that could triple cost of low-end TV sets. He also said "consumers should make their own decisions" on whether to buy sets with DTV tuners, and such tuners already were in nearly half of all TV sets over 25" that were being sold. With final agreement on VSB DTV standard in recent months, Shapiro predicted proliferation of DTV tuners and sets at CES in Jan.



DTV transition “is not a debacle by any means” because nobody ever believed 2006 goal for turning off analog TV, Shapiro said. Even must-carry isn't mandatory, he said, because of DTV being delivered by DBS and importance of DVD. He said 234,000 DTV sets worth more than \$500 million were sold in first quarter, with 15% of units sold being DTV tuners. Even though figure is only for sales to dealers, he said that wasn't significant because retailers weren't increasing their inventory anymore, so sales to dealers were close to figure for sales to consumers.

Debate between VSB and COFDM modulation was “the best thing that ever happened” because it forced set makers to focus on receiver quality, Claudy said, making pitch for govt. mandate on receiver standards. He said there had been significant improvement in many receivers, but “the problem is that not all manufacturers” are investing in quality, and there are no guidelines to help consumers make quality decisions. Market will solve that, Shapiro predicted, so there's no need for receiver standards.

New public interest obligations for DTV broadcasters are “DOA” (dead on arrival) at Powell-led Commission, NAB's Schulte predicted. On Bcst. Education Assn. panel, attorney Richard Wiley said such obligations would be “premature. Some-time down the road, if there is a lot of multicasting, there is plenty of time then” to impose new obligations, he said.

**FCC STILL DIVIDED ON CONTENT REGULATION:** Role of govt. in broadcast content regulation remained divisive among FCC officials at NAB convention last week. FCC Comr. Ness said content regulation generally shouldn't be govt. responsibility, but broadcasters “have a responsibility” to “draw a distinction between what sells well and what serves the public well.” However, Jay Friedman, aide to FCC Comr. Tristani, said idea that First Amendment foreclosed regulation of TV violence was wrong.

There are “real links” between TV violence and real violence, Friedman said, but Ben Golant, aide to Comr. Furchtgott-Roth, said studies weren't conclusive. Ness aide David Goodfriend said that even though govt. shouldn't be involved directly, it's “important not to hide behind sociological studies or legal parsing” on TV violence. He said broadcasters should engage in “collective citizenship.” In time that FCC spends on determining whether “anatomical references cross the line” in indecency cases, child can watch “15 more murders” on TV.

Referring to Supreme Court decision allowing regulation of indecency, Golant said “it's time to say *Red Lion* [case] is a Dead Lion.” Regulation of broadcast content should at least be subjected to intermediate scrutiny based on First Amendment, and possibly even stricter scrutiny, he said. Friedman said *Red Lion* wasn't even appropriate because content regulation wasn't based on spectrum scarcity but on “invasive nature” of broadcast medium and its impact on children. Golant said emergence of broadcast competitors such as cable and DBS meant broadcasting was “just another program service... It sends shivers down my spine that the government could make decisions on content.” Susan Eid, aide to FCC Chmn. Powell, agreed it was “scary” to have 3 appointed FCC commissioners defining community standards throughout country.

Acting FCC Gen. Counsel Jane Mago said there seemed to be “a circled-wagon mentality” on content issues and saw need for “open dialog” among proponents. Mark Lloyd of People for Better TV said there was “growing concern” about TV content, and govt. “is still trying to figure out what to do about it.” But, he said, Congress should stay out of dispute, and if NAB didn't adopt new code, then individual broadcasters should do it on their own. Washington attorney Donald Verrilli said content requirements in campaign finance reform bill passed by Senate “set off an alarm bell” on First Amendment issues that would be subject to First Amendment review by courts if they became law.

Role of broadcasting in environment of diverse media delivery systems is “an issue that the Commission needs to look at,” Eid said. “The business model has changed.” She said, however, that fact that 85% of households had access to multichannel delivery systems instead of relying only on broadcast was only one factor to consider when looking at broadcast ownership, public interest and other issues. Golant said diversity of broadcast ownership was “a 20th Century concept.” With cable, DBS and Internet, he said, “it's time to move on.” But Friedman said FCC shouldn't “give up on the idea” of mass media.

Eid said broadcast ownership cap probably would be part of next biennial review of broadcast rules, which probably would begin by end of year. Goodfriend said decision in Time Warner case on cable ownership caps didn't necessarily invalidate broadcast caps, since court decided only that FCC had to conduct “rigorous economic analysis” to justify caps. He said there still was public need for diversity of ownership of national resource as scarce as spectrum.

FCC Mass Media Bureau Chief Roy Stewart said one of “hardest areas” for agency was restrictions placed on ownership in smaller markets — as well as deciding what constituted such a market. He said Commission's order permitting dual TV-station ownership was “a pretty aggressive decision.” ALTV's David Donovan said it was “incumbent” on FCC to outline diversity priorities in small-market TV station ownership. “The land rush that people expected did not occur” when Commission relaxed dual-station ownership rule, he said.



**DTV TUNER RULE DEBATED:** Congress “absolutely must take” legislative action requiring manufacturers to build digital tuners into all TV sets, one of several measures needed to hasten transition to digital TV, House Telecom Subcommittee member Boucher (D-Va.) said at NAB convention. Fact that retailers last year sold 30 million analog-only TV sets was “not a particularly helpful statistic” for broadcasters striving to comply with May 2002 transition deadline, Boucher said. But House Commerce Committee leaders may not as be receptive to DTV tuner legislation as broadcasters, Rep. Barton (R-Tex.) said of House panel, of which he’s member. He said it was “probably open” to considering such measure but wouldn’t “automatically” endorse it. He said Chmn. Tauzin (R-La.) and others would be more receptive to market-oriented solution.

Jessica Wallace, telecom counsel to House Commerce Committee, later agreed Tauzin might not embrace digital tuner mandate. He “doesn’t feel it’s the right approach right now” since it would “take away flexibility from American consumers,” Wallace said. Will Nordwind, adviser to House Telecom Subcommittee Chmn. Upton (R-Mich.), said Upton hadn’t taken position on possible tuner requirement but “hasn’t closed it” as option.

Stanley Hubbard of Hubbard Bestg. predicted public mass purchase of digital sets “isn’t going to happen” without legislation requiring DTV tuners in all TV sets. Subject also was raised at legal panel by Washington attorney Richard Wiley, who pointed to all-channel (FM) law passed by Congress in 1964 as precedent. However, panel of FCC and Hill staffers raised question of cost to consumers — estimated at \$300 per TV set.

Boucher also praised NAB for playing critical role in drumming up congressional support for federal loan guarantee to implement nationwide local-into-local satellite TV service. Fiscal year 2002 appropriations process could make local-into-local reality, he said. With \$1.25 billion in loan guarantees authorized, Boucher said, “I think we’re well on our way to making sure it’s affordable to build a sufficient satellite capacity to expand local-into-local service on a true nationwide basis.”

Boucher said protections in guarding against copyright infringement in satellite and cable must be developed by over-air broadcasters. Group of recording equipment manufacturers and motion picture studios is “in the process of concluding” agreement to deploy “5C” (Hitachi, Intel, Matsushita, Sony, Toshiba) copyright protection technology, which equipment makers would install in set-top boxes to guard against unlawful copying or transmitting of programming. Expressing concern that 5C agreement would enable content providers to make “cable-exclusive and satellite-exclusive” premium programs, Boucher said that could shut down over-air broadcaster access to such content. Ensuring flow of quality content to broadcasters is critical in aiding DTV transition, he said.

Copyright law already contains protections against content pirating, and it’s not known whether additional laws in that area are needed, Julian Epstein, chief counsel to House Judiciary Committee Democrats, said. He acknowledged that ease of digital pirating posed threat to marketplace stability and that committee leaders therefore saw need for private sector development of regime similar to 5C agreements. Broadcasters and content providers then could protect their own rights without impeding “fair use” rights of consumers, he said.

**BROADCASTERS PUSH FCC ON MUST-CARRY:** Making fresh push for digital must-carry requirements during DTV transition, NAB, MSTV and ALTV jointly challenged FCC’s Jan. DTV order tentatively rejecting dual-carriage rules. In joint petition for reconsideration and clarification April 25, groups called on Commission to impose dual-carriage requirements to spur DTV transition. They also urged it to force MSOs to carry multiple streams of DTV video programming, not just single stream, to provide greater safeguards against material degradation of DTV signals and to require cable operators to use broadcasters’ program guide information in their set-top boxes and electronic programming guides.

“If left unchanged, the Commission’s decisions will undermine the statutory directives and intent of the 1992 Cable Act, impair the DTV transition and permanently hobble broadcast DTV service,” NAB, MSTV and ALTV said. Arguing that FCC’s Jan. order “constituted a potential death blow to an effective DTV transition,” they said agency “provided no rationale for its decision to deny dual carriage” on First Amendment grounds. They said FCC “does not have discretion to refuse to apply digital carriage requirements during the transition” against Congress’s will.

APTS, PBS and CPB, in separate joint petition for reconsideration, also pressed for dual-carriage rules, greater protection against signal degradation and cable carriage of all broadcast guide information. But they spent most of their petition pushing for digital multicasting requirements, stressing harm that “primary video” ruling would cause to their ambitious DTV plans: “These plans simply will not come to fruition, and much of the promise of DTV will go unrealized, if the Commission lets stand its overly narrow interpretation of the term ‘primary video’ as encompassing only a single stream of video programming. Without cable carriage of their multicast streams, non-commercial stations will be unable to deliver this programming to the 70% of American households served by cable.”

NCTA, which strongly backed most of FCC’s Jan. order, also filed petition for partial reconsideration. Cable group objected to Commission’s finding that new DTV-only stations were entitled to carriage of their primary video signal in either digital or analog format. “This preferential treatment for new digital-only stations is wholly unjustifiable, both as a matter of law or policy,” NCTA said. It said mandating carriage of DTV-only stations went beyond FCC’s authority and “serves no rational policy purpose.”

FCC Cable Bureau extended deadline for filing reply comments on its DTV further notice of proposed rulemaking. Replies now are due July 26.

**FCC Comr. Ness,** senior member of Commission, said she would be leaving by June 1 after 7 years. Ness, Democrat who was sworn in May 23, 1994, sought 2nd term after her 5-year term expired, but was stymied by Senate Commerce Committee Chmn. McCain’s refusal to confirm her, saying he didn’t approve of commissioners serving more than one term. Ness said she was making announcement now because “an orderly transition is best accomplished by announcing when my time with the Commission will end.” She didn’t announce her plans. Praise for Ness was widespread following announcement, including from FCC Chmn. Powell and other commissioners, CEA Pres. Gary Shapiro, NCTA Pres. Robert Sachs. If there’s delay in confirming new commissioners, Ness’s departure could leave only 3 commissioners and cause possibility of 2-1 Republican majority votes on certain proceedings, analysts said.



**LIEBERMAN PUSHES VIOLENCE BILL:** Despite progress by movie studios and videogame makers, Sen Lieberman (D-Conn.) April 26 introduced bill that would impose fines on entertainment companies that pitched adult content to children. Dan Gerstein, Lieberman's communications dir., said bill would empower FTC to pursue civil penalties against movie studios, videogame makers, record companies and others that used "false and deceptive marketing practices" to target adult-rated material to kids in TV and print ads. Speaking at American Ad Federation (AAF) seminar in Washington April 25, Gerstein said bill also would authorize FTC to conduct periodic evaluations of how well industries were complying with ad limits. "We said we would issue legislation if [industry] commitments were not made," he said, noting that only videogame industry had responded fully so far.

Lieberman's move came just 2 days after FTC, in 6-month follow-up report to Sept. study of marketing of violent movies, songs and videogames to children, said entertainment industry had "made some progress both in limiting advertising in certain popular teen media and in providing rating information in their advertising." Specifically, FTC said movie studios had sharply reduced their marketing of R-rated movies in teen magazines, while videogame makers have drastically cut their commercials for M-rated games on teen TV shows. But it faulted 2 industries for not going further and lambasted record companies for apparently not taking any steps despite their earlier promises to do so.

MPAA and RIAA wasted no time denouncing Lieberman's bill. They raised First Amendment concerns about bill and said it flew in face of FTC report recommending industry self-regulation. "There is a constitutional reality here that cannot be ignored, though the bill does just that," MPAA Pres. Jack Valenti said. "The government cannot devise and enforce its own rating system." MPAA and RIAA also charged bill actually would discourage movie producers and record labels from rating their products and providing information. RIAA Senior Exec. Vp-Gen. Counsel Cary Sherman said measure "could in fact create a disincentive to providing information" to parents by "essentially punishing those who adopt voluntary guidelines" but don't totally comply with them.

Opponents contended that Lieberman was proceeding despite little hard evidence that media violence helped promote real violence. "I'm afraid this is a case of regulation by anecdote," said Wiley, Rein & Fielding partner Daniel Troy, speaking on same AAF panel. Jonathon Yarowsky, Patton Boggs partner representing RIAA and National Assn. of Theater Owners (NATO), warned against "over-response" by lawmakers that could result in "bitter harvest." He also cautioned against "singling out the private sector" for blame when genetics, environment, parents and peer culture all played roles.

Troy contended that U.S. Constitution would impede congressional efforts to regulate media violence, particularly on content side. But Gerstein dismissed that argument, saying that Lieberman's attempt to restrict media marketing practices would not run afoul of Constitution because bill steered clear of content regulation. "The First Amendment is not a license to deceive," he said.

Separately, Rep. Harman (D-Cal.) said Lieberman's bid to regulate entertainment industries was "troubling" and would face congressional opposition from staunch defenders of First

Amendment rights. "I think the right approach is [industry] self-regulation," she said April at NAB convention in Las Vegas. Lieberman staffer said FTC already had power to act against misleading and fraudulent marketing claims, but said existing regulatory language made it hard for agency to go after entertainment firms. Despite opposition from Senate Commerce Committee Chmn. McCain (R-Ariz.), staffer said Lieberman expected to gain support.

Psychiatric Center CEO Michael Brody, who chairs media committee of American Academy of Child and Adolescent Psychiatry, and Gerstein criticized TV industry for doing little to promote and explain its new rating system to viewers. Gerstein said rating system had been "an abject failure" because of its complexity and industry's opposition to publicizing it. He also said TV networks had resisted Lieberman's proposal to air national media education campaign about new ratings.

**Major League Baseball** joined growing debate over interactive TV (ITV) policy at FCC, urging Commission to steer clear of adopting regulations that would diminish intellectual property rights of content owners. In ex parte filing in FCC's ITV inquiry, baseball commissioner's office said it "firmly believes that market solutions are favorable to government regulations, especially in a market as nascent as that for ITV services." Agreeing with earlier comments submitted by NFL, baseball commissioner's office said FCC "should recognize that content owners such as baseball have statutorily created intellectual property rights that protect the content owners from unauthorized uses of their content." It said proposed ITV nondiscrimination rules might interfere with those rights by allowing others to use baseball's exclusive content without permission. It also argued that content owners should be free to make their content available in market without regulatory restraints. "Put simply, governmental regulation is no match for the free market in providing content owners fair compensation and providing consumers with greater access to the content they desire," it said.

**Canadian Webcaster JumpTV** and broadcaster groups agreed on Copyright Board hearing schedule to take place later this year for retransmission tariff, JumpTV CEO Farrel Miller told us. "The hearing will focus on JumpTV as well as other delivery technologies, including Satellite DTH," he said. Second hearing on what tariff should be applied to Internet Webcasting hasn't been scheduled, Farrell said. "By the way, JumpTV has opened its site ([www.jumptv.com](http://www.jumptv.com)) with 8 channels and will be adding more every month, including, in due time, the over-the-air networks," Miller said.

**FCC Chmn. Powell** will be nominated for additional 5-year term, White House announced April 27. New term would begin July 2, 2002 and extend his tenure through June 30, 2007. Powell said he was "gratified by the confidence President Bush has indicated in my tenure." He said extension "will provide a positive and helpful continuity to the important work that I, and the new Commissioners who will be taking office later this year, will be engaged in." Senate must confirm new term.

**Microsoft and NBC** said they would merge their respective financial Web sites, MSN MoneyCentral and CNBC.com, into jointly run site distributed exclusively through MSN on Internet. Companies said new joint venture, to be known as CNBC MoneyCentral, would be similar to MSNBC cable and online news partnership they formed 6 years ago. Financial terms weren't disclosed.



**CBS SEEKS HDTV HELP FROM RIVALS:** Whether to begin producing programming in HDTV is “bet-the-business decision” but it “has to happen,” CBS Vp-Operations Barry Zegel said at NAB convention in Las Vegas last week. CBS realizes that “content had to come first” in DTV transition, he told NATPE-sponsored panel April 25 on digital programming, arguing that content would drive other parts of DTV transition.

“We decided we wanted to get a lot of HDTV on the air,” Zegel said. With exception of aging *Walker Texas Ranger* program, all dramas and comedies on CBS prime-time schedule are made and transmitted to stations in HDTV. “We hope the other networks will follow suit,” he said, adding that there were “some rumblings” that other networks would expand HDTV programming. DTV transition “is going to happen, but it’s certainly slower than we all hoped.”

Program producers on NATPE panel were divided on economics of HDTV production. Debbie Elbin, exec. producer of *100 Central St.*, said she chose HDTV production because it allowed her to cut per-episode cost to \$1.1 million from \$1.8-\$2.2 million. Show is shot with 3 cameras and switched live, significantly cutting number of production hours per episode, Elbin said, and video quality is “absolutely superb.”

But economics of HDTV production “just don’t work yet” for syndicated TV shows,” said George NeJame, vp-production and operations for Tribune Entertainment. Primarily because of cost of HDTV production equipment, he said HDTV still was too expensive, but “once the production costs come down, we will start seeing” HDTV productions.

Objective tests indicate that HDTV video quality is at least as good as 35 mm film, panelists said, but those more familiar with film still often prefer it. Crews, particularly, still prefer film, they said, in part because they’re more comfortable lighting and doing makeup for film rather than unforgiving HDTV. “There is a progression of understanding the abilities of HDTV,” Elbin said.

NeJame said “film will be here forever” for at least some uses, but in time HDTV will save so much that it will largely take over. Panelists also said HDTV had advantage for global distribution because it could be converted easily into any international broadcast format. They said HDTV, and at least 16:9 aspect ratio, also would retain program value longer, as early color productions were more valuable now than contemporary b&w.

**Multichannel Video Distribution & Data Services** (MVDDS) could cause “significant interference threat” to DBS unless “wide variety of mitigation techniques” are used, independent Mitre said in report released by FCC April 23. Study said mitigation techniques, if applied properly under appropriate circumstances, could greatly reduce potential MVDDS interference impact on DBS. Report stopped short of endorsing Northpoint or supporting DBS claims. Instead, it left final decision up to FCC, but did provide technical assessment of interference issues. “MVDDS/DBS bandsharing appears feasible if and only if suitable mitigation measures are applied,” report said: “Different combinations of measures are likely to prove best for different locales and situations.” Supporters of DBS and Northpoint both claimed victory. It was unclear whether results in report were enough to allow Commission to move forward to license Northpoint and other terrestrial companies seeking to operate in 12.2-12.7 GHz band, industry experts said.

**POWELL SEES MEDIA CONVERGENCE:** On distant horizon is “complete marriage” of all facets of all communications industries, “but not in the generation of anybody in this room,” FCC Chmn. Powell said at NAB convention in Las Vegas April 24. Questioned by ABC correspondent Sam Donaldson at standing-room-only breakfast, chmn. said “I have no idea what the future is” but he was confident that convergence of all communications segments would happen over time.

Addressing future viability of over-air TV, Powell said it was FCC’s job to pick up public “trends,” more and more Americans now were willing to pay for programming they received in homes and it was “naive” not to study such trends. But he said: “I don’t personally believe that over-the-air TV will ever be dead.” Asked about his earlier comments on rising cable rates, he said statement was taken out of context but that increases didn’t justify govt. intervention: “Cable prices don’t come close to what you pay for gas.” All services FCC deals with are very price sensitive, he said.

With 35% TV station ownership rule now in court, where stay was issued keeping rule in place for time being, “what are you going to do” at FCC, Powell asked. Of that stay and recent ruling by same court throwing out 30% limit on cable ownership, he said “many people see that as a gray sign for the life of the rules.” He said he didn’t favor diversity for diversity’s sake and that FCC never had effective way to measure value of ownership diversity. As for affiliates’ case against relaxing cap, burden of proof will be on stations, he said.

Auctioning analog TV channels and other spectrum is area that gives FCC as many headaches as any issue it faces, Powell said. That’s because “the demand is dramatically higher than the supply,” he said. Despite line items in President Bush’s budget, chmn. said auctions weren’t about making money but providing space to entities that valued spectrum most.

Powell said Internet already was regulated through “very heavy regulations of phone lines... What isn’t regulated is content, and that should always stay unregulated.” As for broadcast and cable content, he said: “We still have rules [but] we’re not in this like the Commission once was.” He said there were “times when we would like to make exceptions” to free speech guarantees “but we tolerate those things” that are objectionable.

**TV Music License Committee** estimated broadcast stations had saved \$900 million since 1992, year that court changed formula for determining ASCAP license fee payments. However, changes in competitive landscape of broadcast market and technology require different approach to determining “fair price for music we use,” Committee Co-Chmn. Catherine Nierle said. Committee currently has no contract with ASCAP, BMI or SESAC. ASCAP contract expired in March 1998 and BMI in March 1999 and SESAC “has requested arbitration,” she said. Blanket licenses, which enable broadcasters to play unlimited amount of licensed music, is “old and ossified” technique that has little relevance in technological environment where “every type of music can be monitored,” Committee Counsel Bruce Rich said.

**BBC will use IBM technology** to operate its network of local digital radio stations, companies said. IBM technology includes servers and station automation, some developed in partnership with Finnish firm Jutel. In bid to widen its role in broadcast market, IBM also unveiled suite of standards-based media production products. Technology is designed to facilitate production and repurposing of content for various media, officials said.



**NAB DTV NOTES:** Nationwide campaign to promote sale of DTV sets will be started in fall in joint effort by NAB and CEA, groups announced. Campaign will combine print and broadcast advertising and seek participation by local TV stations and retailers to raise "the [public] awareness of the products and programming options for digital television," they said. "This effort will both educate consumers... and serve as a reminder that DTV's time has come," NAB Pres. Edward Fritts said. CEA Pres. Gary Shapiro said research "shows us that consumers are excited about DTV, they want to buy DTV and they want to know what DTV programs are available in their area." Fritts said budget for campaign hadn't been set and ad agency hadn't been selected. He said NAB provided "seed money" to start campaign in selected markets that hadn't been chosen, with effort to go nationwide in 2002.

**House Commerce Committee Chmn. Tauzin (R-La.)** and **House Telecom Subcommittee Chmn. Upton (R-Mich.)** will hold "at least 3" hearings this year to weigh possible "hardening" of May 2002 digital TV transition deadline, said Jessica Wallace, committee telecom counsel. "He thinks that hardening the deadline will 'incentivize' the parties to come together to realize that they have to solve some of these issues" before Congress or FCC steps in with legislative or regulatory remedy, she said of Tauzin. Tauzin is proponent of DTV transition because he believes that "future viability of the broadcast industry really depends on it," Wallace said.

**Some small-market TV stations** are considering giving their DTV channels back to govt. rather than spending significant amount to upgrade to DTV, attorney Tom van Wazer said, because "investing where there is no market is not very attractive" to stations. Instead of operating both DTV and analog channels, van Wazer said, stations will continue operating analog as long as possible, then "flash cut" to DTV on their analog channel when they have to. He also predicted many of stations would seek extensions of 2002 deadline for beginning DTV broadcasting. Despite that, it's "premature" to say that DTV deadlines can't be met, said Richard Chessen, assoc. chief of FCC Mass Media Bureau. Attorney John Burgett said Commission's current main effort was being "in hyper mode" on processing DTV application, including notifying stations whose DTV applications weren't acceptable. Chessen said bureau also was dealing with "an unexpected number" of bids to maximize DTV service area, many of which may have been prompted by LPTV Class A applications, which could limit full-power stations' final service areas. MSTV Senior Vp Victor Tawil said FCC did need to work on definition of "material degradation" of DTV signal by cable systems. He said current definition could seriously damage DTV programming delivered by cable to viewers, and new definition should be based on number of megabits of data actually arriving. Tawil also said FCC carriage rules could "kill" DTV multicasting because cable would have to carry only single video stream. Broadcasters also continued to press for requirement that all TV sets include DTV tuner, allowing it to display DTV programming, though in standard definition. Tawil said all-channel tuner requirements in 1960s helped speed availability of UHF. Chessen said tuner requirements "may not have the same effect" this time because only 15%-20% of all TV sets actually receive programming over air instead of via cable or DBS. Amy Nathan of FCC Office of Plans & Policy said copy protection had "turned out to be a lot larger bottleneck to the DTV transition than anyone expected."

**Zenith announced** series of enhancements to its VSB modulation scheme for DTV, called "E-VSB." E-VSB trades

lower DTV data rate for additional signal robustness, much like competing COFDM modulation does. As result, Zenith said, VSB modulation can be easier to receive indoors and in mobile applications. It said E-VSB would be fully compatible with full-data-rate VSB and wouldn't require modifications to FCC's emission standard. Advanced TV Systems Committee, which sets U.S. DTV standard, has set up subgroup to explore VSB enhancements (see separate story).

**On-channel repeaters (OCRs)** for DTV are viable option for extending DTV signal, said R.W. Zborowski, chief technical officer of ADC Communications, which has done extensive research on OCRs. He said OCRs for DTV were easier than for analog because requirement for DTV antenna isolation was 25 dB less than for analog and because DTV power levels could be as low as few watts for some OCRs. High-power OCRs, which could be used to improve indoor reception, could "do more harm than good," Zborowski said, but problem can be resolved through single-frequency networks.

**NAB had one first-time exhibitor** in Las Vegas last week that wasn't exactly welcome and probably won't be back next year — Distilled Spirits Council of the U.S. Council's effort to induce TV stations to accept hard-liquor ads was aided by Sunbelt Communications' KVBC Las Vegas and its owner Jim Rogers. He appeared in spots on NBC affiliate in local breaks in *Today* show urging broadcasters to visit Council booth and to consider accepting liquor ads, saying "there has been complete acceptance from our viewers" to such ads on Sunbelt's 8 stations in West. Ads "are a great source of revenue," he said. Lisa Hawkins, Council vp-public affairs, said booth at NAB "has had steady traffic [and] we're receiving some great feedback" from station executives. Those who showed interest in accepting spots were given name and phone number of Council members to call. Council caused huge uproar in Congress and elsewhere 3 years ago when members lifted voluntary ban on TV-radio liquor ads. NAB executive said Council applied for space and it was routinely accepted, but Assn. would take harder look if it applied again next year. When asked, another NAB official said "there's no way they'll be back as exhibitor" in 2002.

**Panasonic officials** complained to FCC that delays in CableLabs' OpenCable standards process were stymieing development of competitive digital cable set-top boxes and integrated DTV sets for retail sale. In ex parte filing with Commission, Panasonic said "final implementation of important services such as electronic program guide (EPG) and impulse pay-per-view (IPPV) requires additional work in the CableLabs process," delaying production of rival digital cable boxes. Panasonic officials, who gave FCC staffers tour of their DTV development lab in Westampton, N.J., said they were studying alternative means of testing and delivering EPG and IPPV services in their planned set-tops but said cable operators and CableLabs had not cooperated. Panasonic also complained that CableLabs' PHILA license for digital copyright protection technology had device specifications that were "unnecessary and inappropriately rigid." Executives said they were eager to "develop 'cable-ready' products" and believed "such products would be well accepted by consumers."

**Sen. Byrd (D-W.Va.)** endorsed efforts of TV Turnoff Network, grass-roots group that urges TV consumers to shut off TVs or to reduce viewing time. "I regret to say that the sorry state of television is becoming the sorry state of America," he said on Senate floor April 26.



**FRITTS LAUDS NAB 'UMBRELLA APPROACH':** NAB Pres. Edward Fritts addressed split between Big 4 TV networks and their affiliates head-on at convention in Las Vegas April 23, expressing confidence that it would come out as strong as ever with its "umbrella approach" to broadcast issues in Washington. Because of that split, 3 TV networks have withdrawn from NAB but umbrella approach is "our strength, a strength that has given us many victories over the years," he said. NAB, he said, now faces "added challenge of division within our own ranks." But in losing NBC, Fox and CBS networks and their owned stations, "we are neither diminished nor demoralized," he said.

Vowing that NAB will carry on, Fritts said "we will continue to be a vibrant, aggressive advocate for free broadcasting." He said neither NAB's mission to defend free, over-air broadcasting "nor our credibility is about to disappear." Fritts took opportunity to "publicly... thank ABC for remaining with us... We value you standing side-by-side with us." (Note: Network-affiliate split was very evident last week, with affiliates holding their own meetings and Network Affiliates' Stations Alliance, which wants FCC to open inquiry into alleged "illegal" practices by networks, meeting separately.)

On other issues, Fritts said Rep. Dingell (D-Mich.) was "absolutely right" when he said "barriers to DTV transition may be 'too great to overcome without additional government intervention.'" TV stations, Fritts said, are committed to digital transmissions but there are 3 "obstacles standing in the consumers' path" that must be addressed by govt.: (1) "Cable gatekeepers" must be required to carry local stations' digital and analog signals during transition. (2) Manufacturers must put digital tuners in every TV set. (3) Issue of DTV-cable "interoperability must be resolved." Fritts also said millions of dollars already invested by TV stations "could be for naught" if cable "continues using its gatekeeper clout to thwart the consumer."

Fritts labeled McCain-Feingold campaign finance bill, which has passed Senate and awaits House action, "a clever means for politicians to buy even more air time for their negative ads" while putting more limits on lowest unit rate charges of stations: "What's happened here is that the politicians have voted to give themselves the cheapest rates during the most valuable time slots... They have granted themselves special privileges unavailable to the fast-food restaurant or the [local] auto dealership."

MPAA Pres. Jack Valenti said broadcasting now was "confronting the millennium of communications." He called it "a daunting confrontation" involving cable, wireless and fiber and "we are bombarded with felicities, an avalanche of information, overwhelmed by a tapestry of fragments, buried under data, chat rooms, millions of Web sites, hundreds of channels, all conveyed to our homes." He saw major threats to First Amendment as "too many college presidents and administrators sit by mute, fearful, hesitant, even approving, as they watch the slow undoing" of free speech guarantees. "It's not easy to be a First Amendment advocate," Valenti said. "You must allow that which you may judge to be meretricious, squalid and without redeeming value to enter the marketplace."

Valenti said that "in the White House, in the Congress and among the law firms and lobbyists... no one knows anything about the future." As for network-affiliate problems, he advised adversaries: "When you get into a corporate, political or creative struggle, never get personal."

Home Recording Rights Coalition warned against encrypting broadcast programming or limiting recording of over-air programming. Coalition Chmn. Gary Shapiro, pres. of CEA, said limiting access to DTV shows would slow DTV transition and "make orphans of the DTV receivers already in consumers' hands." He likened such efforts to 1980s effort to limit VCR recording of TV programming, which was rejected by U.S. Supreme Court in 1984. Coalition said it recognized concerns on Internet redistribution of TV programming, but said that didn't justify limiting consumer rights.

**AOL Time Warner** signed definitive agreement with Juno Online Services to carry Juno on MSO's high-speed cable lines. Agreement, which is subject to FTC approval, is 2nd national ISP distribution pact for AOL Time Warner, which earlier signed carriage deal with EarthLink. AOL Time Warner, which needs to sign 3rd ISP deal under its consent agreement with FTC before it can start high-speed version of AOL on its systems, said it planned to begin rolling out cable version of Juno Express service in 2nd half of year after completing system modifications for multiple ISP carriage.

**EarthLink** said it would conduct 6-month trial of its high-speed data service on Cox Communications cable system in El Dorado, Ark., starting in 3rd quarter. EarthLink said trial could lead to commercial agreement to offer its service over all Cox cable systems. EarthLink already is participating in multiple ISP trials over high-speed cable lines with AOL Time Warner, AT&T and Comcast and has FTC-approved deal with AOL Time Warner.

**Adelphia Communications** said it would buy cable systems in Northeast from AT&T for \$300 million in cash and stock. In SEC filing, Adelphia said it would pay \$227 million in cash and \$73 million in stock for AT&T systems with total of 115,000 basic subscribers — average of \$2,609 per customer. Earlier this year, AT&T agreed to sell larger blocks of cable systems to Charter Communications and Mediacom.

**OpenTV** said its net loss widened to \$130.9 million in first quarter ended March 31 despite doubling revenue to \$22.4 million. Interactive TV software provider said its pro forma net loss, which excluded one-time \$8.4 million marketing expense, deepened to \$3.6 million from \$2.4 million year earlier. OpenTV said its pro forma operating expenses more than doubled to \$38.1 million. With 41 network operators signed up as customers, company said its middleware now was in more than 13.9 million set-top boxes worldwide.

**Rep. Stearns** (R-Fla.) said he was pleased with results of Food & Drug Administration's 1997 decision to allow TV ads for prescription drugs, move he said created \$1 billion market. Drug ads make public more aware of health issues, he told American Ad Federation conference.

**XM and Sirius Satellite** Radio companies should lower expectations, but both are poised to create "thriving new businesses" that ultimately will challenge terrestrial radio, Webnoize Inc. said in new report. Webnoize estimated 19.1 million people in U.S. would sign up for XM or Sirius service by 2005, 9.3% of adult population.

**Interactive TV** (ITV) software developer MetaTV said it raised \$28 million in fresh financing from Cox Communications, Comcast, Liberate Technologies and 5 venture capital firms.



**NAB NOTEBOOK:** Leaders of Network Affiliates Stations Alliance (NASA) got what they wanted at meeting in Las Vegas last week when — with more than 300 stations in attendance — none objected to groups' request at FCC for inquiry into practices of Big 4 TV networks. There had been some talk of possibility of extending some sort of olive branch to networks in effort to start negotiations to resolve issues dividing groups, but that didn't happen at closed meeting, we're told. NASA Chmn. Alan Frank said affiliates were "enthusiastic in their support" of FCC filing. Stations from smaller groups, we're told, expressed resentment at networks' contentions that NASA effort was led by big groups and particularly at NBC Pres. Robert Wright's charge that NAB had been taken over by "publishers." Frank said there was "outpouring of support for what we're doing." However, group executive with mostly smaller market stations told us: "Don't quote me, but there has to be a negotiated settlement of the disputes somewhere down the line."

**House Commerce Committee Chmn. Tauzin (R-La.)** intends to hold hearings on campaign finance reform bill (S-27) passed by Senate and will focus on amendment by Sen. Torricelli (D-N.J.) on lowest unit charge for political campaign ads and limitations on broadcaster preemption of such ads, said Jessica Wallace, committee telecom counsel. She said Tauzin "indicated a desire to hold a hearing on the Torricelli amendment" and was receptive to discussion of "free air-time issues as well." She said Tauzin was "philosophically opposed" to govt.-imposed mandate that broadcasters give better ad deals to politicians than to private sector companies competing for same time slots. Setting of hearing date hinges on how well-positioned House leadership is in overall campaign finance review process, she said. Tim Kurth, policy analyst for House Speaker Hastert (R-Ill.), said it was "highly unlikely" House would take S-27 as written. Reintroduction of bill by Reps. Shays (R-Conn.) and Meehan (D-Mass.) is probable, and House Administration Committee would get first review, he said. "[Campaign finance] legislation would begin here" but "move quickly," Kurth said. Rep. Walden (R-Ore.) expressed need for House bill that would require clear identification of candidates in ads, saying if candidates wanted to qualify for lowest unit charge for ad rates, they should be required do their own ads at least 75% of the time. "If you want to get at the real issue Americans are upset about, it's the negative campaigning," Walden said.

**Attendance at NAB convention** was down from year ago — first drop in more than 15 years. At close of business April 25 (only figures made available), 112,776 had registered, down 2,500 from same day in 2000. Many exhibitors believed drop was even larger, saying many who registered appeared not to have actually attended. Attributing drop to economy, NAB said final figures wouldn't be available for several days. While CBS has withdrawn from NAB, action came too late to delete network references from convention program — which still had picture of Viacom-CBS Washington Vp Carol Melton as member of NAB TV board and CBS as hosting hospitality suite in Hilton Hotel.

**Las Vegas Convention Center** is adding 918,000 sq. ft. to its existing 1.04 million sq. ft. of exhibit space, which will be ready by NAB 2002 (April 6-11) convention. Several major exhibitors — including Sony, with 30,000 net sq. ft., Toshiba, Thomson — will move into new space next year. NAB said it also would continue to use Sands Convention Center where sat-

ellite, Internet/Streaming and TV/film/video companies will exhibit, anchored by Discreet Video.

**FCC Mass Media Bureau Chief Roy Stewart** gave bullish report on low-power TV (LPTV) at meeting of Community Bcstrs. Assn. (CBA). Declaring himself "a long-time supporter of your efforts," he said "I have watched your industry meet challenge after challenge to get where you are today [with] significant interference protection" and Class A status provided by FCC. Asst. Chief for Engineering Keith Larsen told LPTV operators that when DTV becomes reality, as long as low-power stations provide one free channel, "you're going to be able to do a lot of things" with excess spectrum. Among LPTV regulatory goals in 2001, said attorney Peter Tannenwald, is reduction in regulatory fees Class A stations now must pay (same as full-power station) and more flexibility in making minor changes, such as studio moves.

**Harris Corp.** will license iBiquity's in-band, on-channel digital audio broadcasting (DAB) technology for use in its broadcast transmitters, companies said. Technology will be integrated into new line of transmitters and exciters to be rolled out next year, Harris said.

**AP** said more than 50 additional broadcast stations had selected its Electronic News Production System as core of their newsroom operations, increasing total to more than 340 newsrooms in 32 countries. Among latest broadcast groups are Emmis, Fisher Bcstg., Hearst-Argyle TV, Raycom, Sunrise TV. AP also said Time Warner's local cable news channels and Orange County (Cal.) Newschannel would use system.

**Black Entertainment & Telecom Assn. (BETA)** urged Senate Commerce Committee Chmn. McCain (R-Ariz.) and House Commerce Committee Chmn. Tauzin (R-La.) to tell FCC Chmn. Powell to "uphold conditions of last year's merger of CBS and Viacom, specifically Viacom's obligation to divest itself of the UPN television network," despite Commission's easing of broadcast dual-network ownership rule last week (TVD April 23 p2). In separate but similar letters to McCain and Tauzin, BETA argued that dual-network limits should remain in place until Congress held hearing on "how the FCC's planned action would fuel the already rapid consolidation of the U.S. media, particularly as it relates to [the] dwindling number of black media companies." BETA also called for passage of McCain's Telecom Ownership Diversification Act of 2000, co-sponsored by Sen. Burns (R-Mont.), but suggested lawmakers add advertising tax deferral or credit to it. "Given the importance of advertising to the survival of black and other media outlets," BETA said, "such a tax incentive is truly needed to have a viable, diversified telecom industry."

**Three scholars** of Annenberg Public Policy Center urged FCC to monitor technical quality of all high-speed data services and mandate that all high-speed ISPs disclose service quality. In ex parte filing on Commission's open access inquiry, Hugh Donahue, Shawn O'Donnell and Josephine Ferrigno-Stack recommended that agency "articulate a specific policy for gathering and analyzing measures of such high-speed Internet service characteristics as cost, performance, down time, privacy, security and customer service." They suggested FCC also seek "data on, and audits of, the less technical aspects of service quality (adherence to privacy and security policies, access to third-party arbitration of disputes or the responsiveness of customer service)" to complement its hard data on network performance.



**DIRECTV DEAL STILL STALLED:** Despite April 23 meeting called by News Corp. Chmn. Rupert Murdoch, News Corp. and GM still are at impasse and "aren't any closer to striking deal" for Hughes Electronics and DirecTV, industry sources said. Murdoch and News Corp. senior executives met with GM board in bid to close deal that apparently fell apart because of reluctance of Hughes Chmn. Michael Smith, who is seeking to raise money to spin off unit independently. GM CEO Rick Wagoner also attended meeting.

Meanwhile, News Corp. is in advanced talks to buy all or part of UPN from Viacom. News Corp. spokeswoman confirmed companies were negotiating, but it was unclear whether that deal might affect News Corp.-DirecTV talks. News Corp. also is completing \$5.35 billion purchase of 10 TV stations from Chris-Craft Industries, largest owner of UPN affiliates. That deal is expected to close in May.

News Corp. and GM have been on brink of deal that would create \$70 billion global satellite TV business managed and controlled by Murdoch and News Corp. GM made no formal response to News Corp. presentation. News Corp., GM and Hughes had no direct comment on meeting, but News Corp. spokesman called talks "constructive." Resolution will come definitely by May 1 GM board meeting, industry official said. GM spokeswoman refused to discuss timetable for decision or whether progress had been made in meeting. "There is nothing to report," she said. "We have been evaluating strategy alternatives for many months and are actively engaged on a number of them."

News Corp. presentation reportedly argued that proposed deal would give GM and Hughes shareholders more value than any other plan under consideration, including Smith's proposal to spin off company. Included in News Corp. delegation were Murdoch, Pres. Peter Chernin, deputy CEO Lachlan Murdoch, CFO David DeVoe, Sky Global Networks CEO Chase Carey. Microsoft CEO Steve Ballmer, whose company is expected to chip in \$3-\$5 billion to News Corp. plan, also attended. Hughes Electronics Senior Exec. Vp Eddy Hartenstein and CFO Roxanne Austin were present, along with News Corp. bankers. Smith, whose opposition to plan has strained relations between 2 companies, didn't attend, sources said.

Murdoch told GM board his proposal amounted to final offer, and News Corp. would not raise price to close deal. Proposed deal would give News Corp. 35% stake in merged DirecTV-Sky Global business, with Carey taking over management. Both sides are anxious to either "close deal" or "bring talks to end," industry sources said. GM Chmn. Jack Smith, brother of Michael Smith, reportedly wants issue settled quickly. "A decision has to be made," industry lawyer close to talks said. "This can't go on forever." GM and Hughes gave no indication whether such earlier suitors as EchoStar still were involved in talks.

**Three communications** lobbyists have written how-to guide *FCC Lobbying: Handbook of Insider Tips and Practical Advice*. Authors Erwin Krasnow, David Siddall and Michael Berg practice at Verner, Liipfert, Bernhard, McPherson & Hand. Book is \$199 in print, \$179 on Internet — [www.tr.com](http://www.tr.com) or 800-822-6388.

**Ex-FCC Public Affairs Dir.** Joy Howell formed Cambridge Strategic Partners, public policy and marketing communications company with Precursor Group, Pulver.com and ex-FCC Chmn. William Kennard among its clients.

**FCC STEPS UP TOWER ENFORCEMENT:** FCC is stepping up tower enforcement activities and is focusing field investigations on repeat offenders to use Enforcement Bureau's field resources more efficiently, bureau Chief David Solomon said in NAB convention panel discussion in Las Vegas last week. Although patterns of violations will elicit greatest scrutiny from Commission investigators, Solomon said broadcasters and other wireless operators who voluntarily disclosed violations might lessen FCC penalties.

Barry Umansky, partner in Vorys, Sater, Seymour & Pease, and former NAB deputy counsel and ex-FCC, endorsed Solomon's assertion that companies that reported and then corrected violations often avoided more costly FCC judgment. "It's better to 'fess up than to cover up," he said. "Come clean and there will be a much happier ending."

"My plea would be to do it right the first time," said Jerold Jacobs, former FCC attorney and currently partner with Cohn & Marks. He also urged that firms renting tower facilities play more active role in determining whether tower owners were complying with FCC regulations. Broadcasters with tower leases "may be fined" under current rules, and "the forfeitures are very high," he said.

Easiest way for broadcasters to draw themselves into license revocation or other enforcement proceedings is by making misrepresentations in technical and administrative paperwork filed with FCC, Solomon said. "Misrepresentation could be the biggest problem for you at the FCC," he said. "If you're up front with us, if you come to us, if you're honest when we come to you, you could go a long way in avoiding what people sometimes refer to as 'the death penalty,' which is a hearing to potentially revoke your license."

**RIAA signed licensing agreement** with Internet music company Kickworks allowing latter to deliver music of all RIAA members on its Internet-based Broadcast Radio Network, they said. RIAA said license was consistent with compulsory license in Digital Millennium Copyright Act. Terms weren't disclosed.

## TELEVISION DIGEST NOW AVAILABLE IN PDF FORMAT

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**CONTINUING INTERNET GROWTH SEEN:** Despite dot-com shakeout, this is "still one of the most exciting times in history to be part of the communications industry," Worldcom Vice Chmn. John Sidgmore said April 24 in Las Vegas. In almost evangelical keynote at NAB convention, he said "central core" of Internet was "still very solid, still very valid," and predicted that e-commerce would be "huge" because of its inherent efficiencies. Later, JCI Corp. CEO John Marshall agreed that dot-com bubble burst was "just the starting point of meaningful opportunity" for Internet companies.

Dot-com companies continued to make up significant portion of growth of NAB convention this year, with whole sections of display floor devoted to streaming media and similar activities. There was some concern that many dot-com staffers who registered for convention didn't come, but it often seemed that 1/3 of convention badge holders hailed from dot-com firms.

One big goal is to reduce cost of streaming media, speakers said. Matt Jacobson, exec. vp of iBlast, which uses portion of DTV broadcast signal to deliver Internet content, said "success can kill you" in streaming media because of high cost of delivering each streaming signal. Broadcast delivery can help solve that because cost of delivering multiple streams is same as cost of delivering one, he said. iBlast will be able to deliver 150 Gbytes of data per market per day, he said, which is equal to 60 DVD-quality movies.

Another firm, iBeam, is using satellites to deliver streaming content to equivalent of Internet headends, which function as servers near end users. Senior Vp Tom Gillis said iBeam was streaming average of 600 events per month and delivered one billion video streams in its first 500 days of operation.

Broadband growth is moving interest toward streaming video, rather than just streaming audio. SightSound, for example, already has shifted focus to delivering movies via Internet, and CEO Scott Sander said its goal was to "save the movies from a fate worse than Napster" by creating way to distribute them without violating copyrights. SightSound already is distributing video in 65 countries, he said.

Broadcasters will be well-positioned to reap benefits of DTV transition if they learn to better exploit interactive Internet technology, particularly if they develop programming that enables viewers to make e-commerce transactions, said Jay Shrivatsa, consumer electronics analyst at Gartner Group Dataquest. Without pervasive broadband access, however, interactive TV won't reach its full potential, he said at NAB.

"The next step in accomplishing [success of interactive TV] is broadband access," he said. "And if broadband access does not happen, none of this broadband interactivity is going to be successful. We're at the point where broadband access is just rolling out."

TV keynoter Rob Glaser, CEO of RealNetworks, in making pitch for joint ventures with broadcasters, said response to failures of Internet companies was overstated: "I'm tired of talking about the economics of the Internet. In spite of the hype and the bubble, they are real and profound." Combining broadcasting's strengths with options of Internet provides "a great opportunity... for traditional broadcasters to connect even more deeply with consumers," he said, with Internet offering same economics as broadcasting and important role for both free and pay offerings.

Failure of NBC and Disney Internet portals doesn't mean Internet doesn't work, speakers said. NBC and Disney "executed

poorly on a grand scale," said Myer Berlow, AOL pres.-interactive mktg.: "They thought that because they are so big and powerful, they didn't have to execute well." David Moore, CEO of 24/7 Media, agreed that networks expected their Internet properties to grow faster in "go-go years... Internet advertising is not easy, not something that you can do overnight." Broadcasters "actually hoped the Internet wouldn't succeed because all their revenue comes from the other side," Berlow said: "This doesn't prove anything except that they failed." Local TV stations still have good opportunity in Internet because of their large amount of local content, WorldNow Exec. Vp Mark Zagorski said. However, Frank Magid Assoc. Exec. Vp Maryann Schulze said stations too often had used their ad time to drive viewers to Web sites with no compelling content, so viewers didn't go back.

Underlying demand for Internet, including streaming media, is "continuing to grow at a very astonishing pace," despite "dot.bomb," WorldCom Senior Vp Vinton Cerf said. About 5,000 radio stations already are streamed on Internet, along with 10,000-15,000 audio streams that originate on Internet, Cerf said, and convergence of video and the Internet is accelerating. He said he could "foresee billions of Internet-enabled devices" within few years, each with only limited or single function but costing only dollars or even cents. Michael Rockwell, Avid chief technology officer, said the rate of Internet adoption already was 5 times as fast as initial adoption of TV.

Worldwide audience for streaming audio already is approximating size of U.S. TV network audience, said Richard Lappenbusch, dir.-strategic planning for Microsoft's Windows Digital Media. He said Internet radio usage was going up 30% annually and proliferation of broadband infrastructure soon would mean similar growth for streaming video. Popularity of Internet video also will be spurred by video quality improvements, Lappenbusch said. He said Internet video images recently could be only postage stamp-sized and retain adequate resolution, but demonstrated wall-size display of streaming video that already exceeds HDTV quality, providing 1,280x720-pixel resolution at 24 frames per sec. Broadband networks capable of carrying such data rates remain rare, causing Richard Wolpert of RealNetworks to admit that quality of Internet video still was "challenging," but improving "every few weeks."

Key issue for streaming media remains finding workable business model, rather than workable technology, industry officials said. Lappenbusch remains convinced that it's "only a matter of time" before ad-supported Internet video can be profitable, partly because of higher value of Internet viewers, who can click through and actually buy products they see advertised.

Others said multiple revenue streams were necessary to make streaming video financially successful. Yahoo Vision Exec. Dir. Eric Scholl said multiple revenue streams should include advertising, supplemented by subscription fees and e-commerce, among other things. Tom Rogers, former top NBC executive who now is chmn. of Primedia, said streaming media's focus should be on niche programming markets that weren't being served by broadcast or cable TV programming.

Streaming media isn't likely to replace broadcast TV and radio anytime in near future, speakers said. "People like TV and radio because they do a good job, and they don't crash," said RealNetwork's Wolpert. "They [TV and radio] are not going anywhere." Officials did say, however, that streaming media would continue to grow as competitor for viewing time, making it even more difficult for broadcasters to attract audience and advertisers.



## Personals

Stephanie Levine promoted to senior vp-creative affairs, Regency TV... Univision changes: David Downs moves up to pres.-sports, replacing Stephen Solomon; Patricia Marrero, ex-Galavision, named vp-dir.-sports mktg... Annaliese Kambour, ex-Paul, Weiss, Rifkind, Wharton & Garrison, appointed vp-tax and chief tax officer, AOL Time Warner... David Abraham, ex-St. Luke's Communications, named gen. mgr.-networks for Europe, Africa and Middle East, Discovery Networks, Europe... Lynn McReynolds, senior vp-communications, Discovery Networks, leaving, no replacement announced.

John Young, ex-Cybermoola, appointed dir.-advertising and creative services, Comcast... Ray Gutierrez advanced to exec. vp-human resources and administration, Showtime Networks... Dallas Clement, senior vp-strategy and development, Cox, joins VSI Enterprises board... Amy Mansue, ex-HIP Health Plans, appointed N.J. area vp-communications, govt. and public affairs, Cablevision... Deepak Shourie, ex-Zee TV, appointed managing dir., Discovery Communications India... Therese Gamba moves from consultant to vp-mktg., The National Network (TNN).

Margarita Tapia promoted to press secy., Senate Judiciary Committee, by Chmn. Hatch (R-Utah)... Todd Dickinson, ex-Undersecy. of Commerce for Intellectual Property and ex-dir., U.S. Patent & Trademark Office, joins Howrey, Simon, Arnold & White as partner... Julian Shepard, ex-Verner, Liipfert, Bernhard, McPherson & Hand, named partner in Washington law firm Venable, Baetjer, Howard & Civeletti... Peter Lee, ex-MyPotential, named pres.-CEO, GeoVideo Networks.

MTV Networks said it reached long-term agreement with Adelphia for increased distribution of its CMT and VH1 Country programming on MSO's entire network. Adelphia will continue to carry MTV, Nickelodeon, TNN, TV Land and VH1 on all its systems. Cable operator also will start GAS, MTV2, Suite's Noggin and VH1 Classic services in systems that serve 6 million subscribers, MTV said.

Broadcaster and newspaper publisher Belo Inc. started personalized Internet news delivery service with ability to link to wired and wireless Internet devices. Free My News service provides content gathered by Belo's TV stations and newspapers in partnership with Strategy.com. Content from one TV station and one newspaper already is available, with rest of Belo properties due by Oct.

TV cameras will be allowed in courtroom during Sara Jane Olson trial beginning April 30, L.A. Superior Court Judge Larry Fidler ruled. Olson allegedly was member of Symbionese Liberation Army in 1970s. RTNDA Pres. Barbara Cochran said she was "thrilled" by decision.

ITU approved in-band, on-channel digital audio broadcasting (DAB) system for AM radio developed by iBiquity, company said. ITU had issued draft recommendation in Oct. iBiquity Vp-Gen. Counsel Al Shuldiner said company expected FM approval soon.

ISurfTV announced deal with Triveni Digital to develop complete advanced multimedia data delivery solution for former's interactive program guide. Companies said solution permits them to include graphics in digital TV's ATSC transport stream.



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OpenTV and Terayon Communication System announced joint marketing agreement to pitch integrated interactive TV technology to network operators. They said technology solution, designed to allow cable operators, satellite providers and broadcasters to add interactive content without using too much bandwidth, would combine OpenTV's OpenStreamer server with Terayon's CherryPicker line of digital video management and remultiplexer systems.



# Consumer Electronics

*A Section of Television Digest with Consumer Electronics*

## STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending April 13 and year to date:

	APR. 7 APR. 13	- 2000 WEEK	% CHANGE	MAR. 31- APR. 6	15 WEEKS 2001	15 WEEKS 2000	% CHANGE
TOTAL COLOR TV	314,551	507,114	- 38.1	246,196	7,025,346	7,322,207	- 4.1
DIRECT-VIEW**	305,511	489,901	- 37.6	233,712	6,751,942	6,991,197	- 3.4
TV ONLY#....	249,156	426,345	- 41.6	206,386	5,677,028	5,908,857	- 3.9
TV/VCR COMBO.	56,355	63,556	- 11.3	27,326	1,074,914	1,082,340	- 0.7
PROJECTION...	9,040	17,213	- 47.5	12,484	273,404	331,010	- 17.4
TOTAL VCR**...	227,674	359,327	- 36.6	119,282	4,935,553	6,238,682	- 20.9
HOME DECKS...	171,319	295,771	- 42.1	91,956	3,860,639	5,156,342	- 25.1
CAMCORDERS.....	72,957	95,485	- 23.6	52,207	1,329,437*	1,298,485	+ 2.4
DVD PLAYERS....	101,595*	44,648	+127.5	90,556*	2,527,527*	1,274,864	+ 98.3

Direct-view TV 5-week moving average#: 2001-395,052; 2000-447,232 (down 11.7%).

Projection TV 5-week moving average: 2001-19,044; 2000-21,175 (up 10.1%).

VCR deck 5-week moving average: 2001-270,788; 2000-405,998 (down 33.3%).

TV/VCR 5-week moving average: 2001-80,511; 2000-83,262 (down 3.3%).

Camcorder 5-week moving average: 2001-110,841; 2000-113,837 (down 2.6%).

DVD player 5-week moving average: 2001-208,201\*; 2000-77,192 (up 169.7%).

\* Record for period. \*\* Includes TV/VCR combinations. # Excludes TV/VCR combinations.

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

**NEW PANASONIC DVD-RAM HAS PVR AND DVD-R FUNCTIONS:** TiVo PVR-like "Time Slip" function will be feature of next DVD-RAM recorder from Panasonic, we learned at European product line introduction last week. Feature enables viewer to watch previously recorded portions of program while DVD-RAM continues recording.

In subtle but significant shift, Panasonic touted write-once DVD-R recording on deck for "playback on legacy players" that's not possible from rewritable DVD-RAM in Europe because company won't supply DVD-RAM compatible DVD players there until next year. One such DVD-Video player, Model DVD-RP91, just shipped to U.S. retailers this month.

New DMR-E20 recorder will be introduced formally Aug. 25 at Internationale Funkausstellung in Berlin and ship in time for holiday season at 4,000 German marks — about \$1,840 and less than half price of first-generation \$4,000 DVR-E10 recorder available in U.S. since Aug. In promoting Time Slip Function, Panasonic said user not only can begin viewing program from beginning after recording has begun, but even catch up with recording-in-progress by skipping past commercials or other material.

Heretofore unrevealed function is achieved with single laser that continually switches between record and playback. AV data is streamed at 22 Mbps, 2X normal DVD rate, and fed to buffer memory that continually stores some data while rest are being read or recorded. Panasonic executives in Japan and U.S. could not be reached for comment by our deadline on if or when feature would be offered in other markets. Spokesman for DVD-RAM supporter Toshiba told us company was unaware of Time Slip development.

In comparing DVD-RAM with rival DVD-RW recording format, Panasonic said DVD-RW didn't perform function similar to Time Slip. DVD+RW format wasn't mentioned as it's not among standards named by DVD Forum. But executives in rival camps told us their formats could perform TiVo-like hard disc playback if market indicated demand for Time Slip feature.



"The Time Slip Function is a new claim, so I don't know if this is written into their spec or is just a low-level application of the technology," said Andy Parsons, senior vp-product development at DVD-RW supporter Pioneer. "I can say that it's certainly possible to do this trick with DVD-RW as well, through the use of memory management and lossless linking. This would be easiest to do with relatively low bit rates," he told us.

"It's not magic, but for us it would appear to just be an application of existing -RW technology," Parsons said. "As for when we could do it, I suppose it depends on whether anyone really wants it or if it's just a 'gee whiz' feature." Last fall, Pioneer said it would offer combination DVD-RW/hard disc recorders.

Reaction from DVD+RW camp was much the same. "Technically it is possible to do this, but for all disc systems there are many constraints in terms of maximum bit rate, access time, etc.," said Chris Buma, Philips mgr.-digital recording products. "In this respect DVD+RW, being the only system that offers speeds as high as 25 Mbps and full Constant Angular Velocity, is better suited for such functionality than other systems," he told us.

"But there are still many constraints on maximum bit rate and therefore on picture quality," Buma said. "The fact that optical discs are removable media makes the functionality less attractive than on fixed media like a hard disc drive that can always reserve some capacity for this function. Currently, we do not plan to implement it for our DVD+RW products. It fits better in future HDD-DVD+RW combi players."

Panasonic's emphasis on DVD-R's backward compatibility with installed base of DVD-Video players raised question about availability of DVD player from company that can play DVD-RAM recordings. Panasonic introduced 2 DVD-Video and 2 universal players with DVD-Audio at line showing in Rhodes, Greece, but none can handle DVD-RAM. "There is no technical difficulty, its concept is different," engineers and managers told journalists there, promising fuller answer that has yet to be provided. What they didn't point out was that company delivered DVD-RAM compatible player in U.S. on schedule this month as promised at CES.

Among benefits of write-once DVD-R is ability to record 6 hours with DMR-E20, Panasonic said — making comparison with only 2 hours recording available from Pioneer's current DVR-2000. But company didn't give bit-rate or describe video resolution for 6-hour mode.

"We did indeed limit DVD-R recording capacities to one and 2 hours on our set-top decks," Pioneer's Parsons told us last week. "In order to fit 6 hours on a DVD-R, you need to use bit rates of about 1.5 Mbps, which is close to Video CD [MPEG-1] rates. I think most people expect compatible DVD-Video discs to look as close to movie titles as possible, so putting 6 hours on a DVD-R may result in relatively low quality."

Parsons said camcorder videos "would probably look especially bad due to low-light noisy conditions, random camera movements and the like that can cause MPEG encoders lots of trouble." He said as cost of DVD-R blanks dropped "it's pretty likely people would rather spend the extra few dollars to ensure the best possible quality for archiving their home videos. Meanwhile, we did allow up to 6 hours' capacity on DVD-RW media using the VR [Video Recording] mode, because this would most likely be used for time shifting or other temporary storage of content that would not likely be very important." Although VR Mode recordings aren't playable on current DVD-Video decks, Pioneer planned to introduce 3 players with "RW" logo that would play them.

**ALTERNATIVE DTV COPY PROTECTION METHODS PROPOSED:** Just as DTV makers close in on first licensing agreement with Hollywood studio over IEEE-1394-based Digital Transmission Content Protection (DTCP) for DTV, PC industry and some content owners used NAB show in Las Vegas last week to voice support for alternative connector and rival copy protection system they contend was more secure and better suited for uncompressed video signals.

Universal Studios, Microsoft, Intel and others are pushing Digital Visual Interface (DVI) connection coupled with High-Bandwidth Digital Copy Protection (HDCP) as alternative to DTCP developed by 5C group (Hitachi, IBM, Intel, Panasonic and Sony) for use with IEEE-1394 connector. HDCP is product of Digital Display Working Group (DDWG) consisting of Intel and others. HDCP-compliant silicon is expected to be available in July-Aug.

DVI is seen as better carrier for uncompressed HD video to high-resolution display, but main appeal to studios is its one-way, point-to-point connection to screen that precludes recording. IEEE-1394 is viewed as best suited for recording and 2-way networking of compressed signals. Unlike DVI, it allows devices such as set-top boxes (STBs), personal video recorders (PVRs) and DVD players to form network instantly without need for switches. EchoStar, JVC and Scientific-Atlanta, among others, have shown DVI-equipped STBs, D-VHS recorders, projection TVs. Although DVI initially lacked audio support, Silicon Image (SI) has developed new PanelLink A/V technology that supports embedded digital audio data within existing DVI signal.



Key driver for DVI is its greater bandwidth of 2-3 Gbps vs. 200-300 Mbps for IEEE-1394. Difference results in better rendering of 1080i cinema-quality video, said Skip Pizzi, Microsoft technical mgr.-worldwide TV standards & strategy. "Once you get beyond 480i, you're running into difficulty running a signal through 1394," he said in NAB presentation. "The best solution would be to design an interface for that last connection [before content is delivered to display] that can generate uncompressed content, a broadband-enough interface that can have all the decoding done upstream and then sent to the box in an uncompressed format."

Support from Hollywood largely stems from fact that DVI does not allow any recording and because volume of uncompressed signals it transports makes it less prone to illegal copying — and unfeasible to transmit on Internet.

Influence of Hollywood has been felt by CE manufacturers. EchoStar has been reviewing DVI since last year. DirecTV is exploring issue and recently asked Panasonic to strip IEEE-1394 connector from combination HD de-coder/satellite receiver. Conversely, on DTCP side, Sony Pictures has agreed to take 5C license and was expected to sign pact by shortly, sources told us. They said that among issues being finalized was procedure for dealing with possible perceived breaches of security so that "signal is not just turned off" from DTV set. Sony Pictures spokeswoman declined comment. Warner Bros. in Jan. 2000 endorsed DTCP but hasn't commented since.

"They [Sony and other studios] certainly want protection against retransmission over the Internet and they've been bringing in their broadcast divisions in recent weeks, which means they're deeper into the process," source said. "They've been trying to figure out ways that use 5C or an extension thereof that offers that type of protection in some way." (One method could be digital watermarking being developed for DVD — see separate report, this issue.)

DVI issue also raises dread specter for CE makers — namely, their having to include DVI and IEEE-1394 interfaces on products, requirement that would add cost in low-margin CE business. "The last thing we want to do is add cost to a product, but if the service providers want it, I don't see how we will have a choice," CE executive said. Sony and Mitsubishi have sought to force copy protection issue with studios by unveiling plans for IEEE-1394-equipped projection TVs with DTCP.

As debate on rival interfaces flared, manufacturers also grappled with ways to expand adoption of DTV, which sold just 27,000 integrated models in 2000, according to CEA. At NAB, manufacturers seemed reluctant to commit to underwriting of DTV programming or sponsoring of prime-time series, although CEA and NAB have agreed to jointly promote DTV this fall.

Trade associations plan print/broadcast advertising program with tie-ins to local retailers. NAB will provide "seed money" to start campaign in selected markets yet to be identified, and effort will go nationwide in 2002, NAB Pres. Edward Fritts said.

Promotions will be separate from any underwriting deals that CE manufacturers sign with networks. Mitsubishi, Panasonic and Sony have been prominent underwriters in past, but none had finalized deals for fall TV season as of last week. Panasonic has had discussions with CBS-TV with which it had underwriting agreement for current season, but also is talking with other networks, Panasonic Bcst. TV & Systems Pres. Frank De Fina told us. Panasonic sponsored ABC-TV's *Monday Night Football* during 1999 season. "I'd like to have something that's different from both of those," he said.

DTV production costs have fallen rapidly in past 3-4 years and now carry only 10-20% premium over analog NTSC, Panasonic Broadcast Business Development Vp Michael Brinkman said. "The ability to do HD is getting easier, and the cost difference is getting less and less and that will spur more production," he said.

Notably low-key at NAB was DTV datacasting, which had high profile year ago. Iblast said it had completed field tests and was preparing for national rollout. But other deals unveiled last year have failed to reach fruition. Alliance that formed around ATSC-sanctioned DTV Applications Software Environment (DASE) technology, which included Harris, NDS and Samsung, disbanded without meeting goal of having broadcasters implement service by end of 2000. Panasonic didn't mention Digital Bcst. Resources venture it formed with Tiernan Communications and Synergistic Technologies last year. And Geocast, whose investors included Philips and whose modem was to be made by Thomson-owned RCA brand, shut down earlier this year. "I think people are rethinking their approach to datacasting, but that technology still remains in most broadcasters plans," one CE executive said.

Nascent datacasting market could get boost from ATSC proposal to extend DTV's transmission-modulation standard (8-VSB) to make it more robust — in particular, boosting signal strength so it's received more easily by indoor antennas.

Proposals from Nxtwave Communications, Philips, Zenith and others would alter now-standard 19.4 Mbps data rate and slow it to 14-15 Mbps so signal-to-noise (S/N) ratio would decrease to 9.5-11 dB range from current 15 dB. So-called "E-VSB" extension is compatible with existing products, proponents said. In technology demonstration by Zenith, standard VSB timed out at 0.3-dB ghost signal, while enhanced version started to degrade only at 0.1 dB. ATSC



subcommittee is expected to choose "key" technologies in Aug.-Sept. for field test that probably would begin in Nov. Goal is to implement E-VSB by early 2002. It's likely that ATSC subcommittee will consider combining technologies in approach similar to that taken with "Grand Alliance" for DTV, sources said.

Major difference between Zenith and Nxtwave technologies appears to be claimed S/N ratio, with former at 11 dB and latter at 9.5 dB. "At these levels, a couple of dB, if it's real, is important," Zenith Vp Wayne Luplow said. "It's something that you have to be aware of, but are there trade-offs in compiled data rate or compatability?" Nxtwave officials said no trade-offs were made to hit lower S/N.

\* \* \* \* \*

DVI spec has produced first legal battle. SI filed suit in U.S. Dist. Court, Richmond, Va., against Genesis Microchip (GM), claiming 7 of its products infringed on patent granted in 1999 for "System and Method for High-Speed Skew-Insensitive Multi-Channel Data Transmission." SI is seeking injunction and order barring GM from infringing patents and selling chips in U.S. In March, GM outlined proposal for bringing audio content to DVI spec, providing first challenge to SI, which had been sole developer. GM Pres.-CEO Amnon Fisher, in statement Fri., dismissed suit as having "no credibility" and said company was considering filing countersuit "for this obvious meritless attempt to interfere with our customer relationships." GM's DVI CE, co-developed with Texas Instruments and Broadcom, uses time-domain audio multiplexing in sending audio information over DVI cable during blank period when video stream is inactive. SI's PanelLink A/V packs audio into falling edge of clock signals. Other DVI audio proposals include those from Intel as well as group consisting of Hitachi, Matsushita, Sony, Toshiba.

**ALLIANCE FORMED FOR DVD-VIDEO WATERMARK:** Within month of reactivated quest for DVD-Video watermarking technologies, formerly rival Galaxy and Millennium groups agreed to combine their efforts and submit proposal to DVD Copy Control Assn. (DVD CCA), which announced renewed search late in March after 15-month hiatus.

Groups were leading contenders in search for digital video copy protection solution that began in July 1999 but was suspended in Jan. 2000 when differences over rival bids couldn't be resolved. DVD CCA represents licensees of DVD's Content Scrambling System (CSS), encryption that's front-line defense against copying DVDs but which was compromised in Nov. 1999 when hackers developed and disseminated DeCSS format.

Galaxy and Millenium companies will be known as VWM Group (Video Watermarking), having signed binding Letter of Intent (LOI) to combine forces. Video watermarking technology is regarded as essential in preventing unauthorized digital-to-digital and analog-to-digital copying and providing recording and playback control for next-generation digital recorders and playbacks. Technology requires "bilateral" copy control that embeds invisible watermarks in film or video content and incorporating detector circuits in digital recorder and playback devices.

VWM Group includes 7 companies: former Galaxy members Hitachi, NEC, Pioneer and Sony, and former Millennium partners Digimarc, Macrovision and Philips. As part of LOI, group said it selected Macrovision as its exclusive worldwide licensing agent for VWM technology. In that role, Macrovision will be responsible for marketing, licensing, technical support, certification and license enforcement programs. Participating companies will contribute their respective technologies to develop joint solution and will license any necessary intellectual property rights for use by group. It said it expected to receive Dept. of Justice clearance in customary business review letter.

Agreement culminates more than year of negotiations, due diligence and engineering efforts by 7 companies, Macrovision Pres.-COO Bill Krepick said. He said VWM Group would offer watermarking solution in May for DVD CCA's request for bids. Reactivated evaluation process has Sept. target for completion.

Process involves testing watermarks for robustness (surviving multiple digital-to-analog and analog-to-digital conversions), security (resistance to hacking), transparency (invisibility in original video), absence of false positives (detecting watermark when none is present), economic implementation (minimal impact of detector on cost of hardware).

Group said VWM solution also would be applicable to DTV. That might be welcome news to broadcast, CE and entertainment industries since last sector repeatedly has rejected 5C Group's Digital Transmission Content Protection (DTCP) system as inadequate for over-air DTV broadcasts.

"Watermarking is complementary to DTCP and adds the advantage that it can help control unauthorized copying in both the analog and digital domain," Krepick told us last week. "DTCP is a transmission link encryption protocol that is designed to keep high-value digital video content encrypted during transmission between 'source' and 'sink' devices," he said. "If digital content ever gets transformed to high-quality analog, it obviously cannot be controlled by DTCP."



VWM watermark can be embedded in analog or digital content and is designed to survive multiple conversions between analog and digital, Krepick said. "The current thinking is that 5C will transparently pass the watermark from one 5C device to another. When the watermarked content arrives at a digital recording device or digital playback device that has a VWM detector circuit, the copy control information within the watermark would be acted on — either make no copies, make one digital generation copy or, in the absence of the watermark, make as many digital copies as you want," he told us.

Krepick said there was discussion about 5C supporting another copy control state that would restrict copies within home network and not allow them to be distributed over Internet or to be available in file-sharing mode. "The watermark has the capability to carry this extra 'state' information," he told us.

**JAPANESE MAJORS POST STEEP PROFIT DECLINES:** Stronger yen and economic downturn in many worldwide markets hit hard at Japanese profits in fiscal year ended March 31, according to round of financial reports released last week.

Sony, which reported 86.2% net profit decline to \$134 million (\$1 = ¥125) despite 9.4% sales increase to \$58.52 billion, typified other companies when it said worldwide economic conditions were "generally favorable" in year's first half. But "rapid deceleration in the growth of personal consumption" marked economic slowdown in U.S. in 2nd half, Sony said and economies of Asia, Japan and Europe followed suit.

Sony's electronics business posted \$2 billion operating profit on 17% revenue increase to \$39.9 billion. Audio was only electronics product sector with sales decline, revenues falling 1.2% to \$7.39 billion. However, video sales rose 12.4% to \$8.78 billion, TV sales 12.7% to \$6.4 billion, information and communications products 26.6% to \$10.66 billion, electronic components 17% to \$6.7 billion.

Sony games business had \$409 million operating loss as revenue inched up 0.9% to \$5.29 billion. On local currency basis and with the effects of stronger yen factored out, Sony said game sales rose 2% overall. In U.S. and Japan, sales increased on strong sales of PlayStation 2 (PS2) hardware and despite overall decrease in software blamed on industry transition to next-generation platforms. In Europe, where PS2 was introduced later, overall sales dipped slightly on lower software sales despite higher hardware sales. Operating loss was blamed mainly on start-up expenses for PS2 and higher cost of raw materials and depreciation expenses at manufacturing stage. Worldwide PS2 hardware shipments in fiscal 12 months reached 9.2 million consoles as of March 31 vs. 1.4 million year earlier, which included 3-week period from March 4, 2000, rollout in Japan to April 1 start of new fiscal year. Cumulatively, total worldwide shipments were 10.61 million consoles. In fiscal year, Sony said 35.4 million software units were shipped vs. 2.9 million year earlier, resulting in cumulative worldwide shipments of 38.3 million units through March 31.

Overall Sony sales in U.S. climbed 7.5% for year to \$17.44 billion, 13.2% in Japan and 18% in other markets of world. However, sales in Europe were relatively flat at \$11.79 billion. Sony is forecasting 795% rebound in net income for 12 months ending March 2002 on 9% rise in operating revenue. Sales increases are expected in "high-value-added" digital equipment, but declines are forecast for PCs and related gear.

At Matsushita, consolidate sales were up 5% for year to \$61.45 billion, with credit given mainly to strong performance in industrial equipment sales, including mobile communications products. Matsushita said sales of consumer products showed "moderate" recovery, rising 2% to \$24.58 billion, on strong expansion of digital AV products such as DVD. However, one-time restructuring charges and other costs led to 54% decline in pretax income to \$806 million, while net profit fell 58% to \$332 million.

Like its rivals, Matsushita forecast "setbacks" in operating results for new fiscal 12 months, blaming "the negative effects of the U.S. economic slowdown" and "severe worldwide market conditions" in information technology industry. Consolidated sales are expected to fall 2%, but on positive side pretax and net profit are expected to climb 32% and 37%, respectively, as benefit of comparison with year earlier when one-time restructuring charge was recorded.

Meanwhile, gloomy economic forecasts were depicted in financial reports released by independent affiliates of Sony and Matsushita. For example, JVC said global economy "still faces a great deal of uncertainty," and slowdown in U.S. economy "will affect capital investments and exports around the world." JVC's bottom-line assessment is to "expect the business environment to grow increasingly severe during the year." Overall JVC sales were up 7.4% to \$7.54 billion on "substantial" growth in DVD players and DV camcorders. However, sales declined for color TV sets and VHS video decks. At Aiwa, news was even gloomier. Company had consolidated net loss of \$314.88 million as sales dropped 10.7% to \$2.36 billion. Sales of core audio products fell 15.6% to \$1.85 billion and overall revenues were down in all world regions. Japan was hardest hit, with sales off 19.4% to \$452.79 million, while sales in N. and S. America fell 9.1% to \$950.55 million.



**PHILIPS CUTS WEBTV PRICE:** Philips is cutting price on WebTV Classic package \$30 to \$99 as Microsoft combines service with MSN in strategy that could see brand disappear by year-end.

Microsoft already has rebranded as MSN former WebTV section in its UltimateTV platform for DirecTV and is transitioning WebTV set-top boxes (STB) to its Internet access service. Philips, which had sold WebTV Classic standalone STB at \$99, now will package it with keyboard and RF module at same price, Philips source said.

Philips will continue selling hardware, which has remained essentially unchanged with 1.1 Gb hard drive since 1997, through year-end, source said. WebTV Plus, which contains interactive services, will remain at \$199. Unclear is whether Sony, which also has marketed WebTV STB, will continue selling product. Sony officials weren't available for comment.

"Ever since we purchased WebTV it has become more integrated with MSN," Microsoft TV Planning Dir. Edward Graczyk said, with features such as Buddy List added to WebTV over time. "Ultimately you'll have one network and one set of services that you can get to whether you're coming from a PC or through a TV. WebTV as a brand will disappear."

While accessing Internet through TV is important, "the majority of people are not really looking for these low-cost Internet appliances," Graczyk said. "What we have learned they're interested in is a rich entertainment experience" such as that of UltimateTV.

MSN, with nearly 5 million subscribers, dwarfs WebTV, which stalled at 800,000-1 million largely because of high churn rate, sources said. But Philips continues "actively providing and building" WebTV STB, source said. WebTV was founded in 1996 by Steve Perlman, who sold it to Microsoft in 1997.

Perlman since has left Microsoft and formed Reardon Steel Technologies that's backed with \$67 million in venture capital. After 15 months in development, Reardon made formal debut last week with first round of financing that included as investors AOL Time Warner, Cisco Systems, EchoStar (which marketed WebTV/satellite receiver), Macromedia Ventures, Washington Post. Also joining financing were Barksdale Group, Mayfield, Vulcan Ventures. Reardon strategy is to design hardware, software and networking products that streamline digital entertainment, Perlman said. Reardon, which has 38 patent applications filed, has 100 employees and digital film technology studio in San Francisco.

As Microsoft firms up WebTV strategy, it's readying software upgrade for UltimateTV in May that's designed fix bug found in product shortly after debut in March. Bug, which also is being fixed via software patch, occurred when user tried to delete program from hard drive while device was in pause mode.

"To the user it looked like it was being deleted, but it wasn't," Graczyk said. "So even though it was not showing up in your listings it was still taking up hard drive space." As result, 4 hours of programming could appear in listings when there were 10 hours on hard drive, he said.

Microsoft received less than 15 telephone calls about problem, Graczyk said. DirecTV earlier this month said 5,000 UltimateTV units had been shipped under Thomson's RCA brand, although it was unclear how many subscribers had signed on for service.

UltimateTV hardware (\$449) was expected to ship under Sony brand this month but is said to have slipped into May. Sony officials weren't available for comment.

Microsoft has had slower rollout of TV platform in cable systems. It has agreement with AT&T Broadband to conduct test later this year along with Liberate Technologies, but no date has been set, Graczyk said. It has deployment in about 300 units with Portuguese cable operator TV Cabo, test that could expand to 1,000 by year-end, although no formal agreement has been reached, he said. Thomson also has deployed MicrosoftTV software in dozen TVs being sold in France with plan to move distribution to Germany in 2nd quarter, Graczyk said. Sets use TAK interactive service that's operated by company 70% owned by Thomson and 30% by Microsoft.

Microsoft also reported agreements last week with SpinTV and Avid to port content development and editing tools, respectively, to TV platform.

\* \* \* \* \*

As UltimateTV works to fix software bug, TiVo has discovered one of its own in personal video recorder (PVR) platform. Software glitch has caused some combo DirecTV/TiVo STBs to reboot repeatedly, preventing viewers from watching their saved programs. TiVo confirmed problem with PVR software and began uploading fix to customers earlier this month. TiVo spokeswoman said small group of subscribers was affected by problem, but declined to specify how many. Problem originated in 2.0 version of TiVo's software that was released in late 2000 and related to WishLists and searches for actors with single names like Madonna or Cher, spokeswoman said. DirecTV has reported 40,000 subscribers to combo service that's priced at \$22-\$83 per month depending on package. STBs (\$399) are sold under Hughes, Philips and Sony brands.

Rockford Fosgate said first-quarter income rose to \$1.99 million from \$1.92 million year ago on 94% gain in sales of Lightning Audio car audio products. Overall sales rose 8% to \$37.4 million from \$34.6 million. Gross margin slipped to 35.5% from 39%, due partly to "more aggressive pricing," CEO Gary Suttle said. Days outstanding for receivable jumped to 74 days from 60.6, but ending of 90-day terms program in Dec. has shrunk gap, CFO James Thomson said. Indeed, Rockford collected \$4.2 million in early April, lowering figure to 64.4 days, he said. Lightning Audio, which Rockford acquired year ago, ended quarter with 0.5% share of car amplifier market, Suttle said, quoting NPD Intellect report. Overall, while industry's car amplifier unit sales dipped 1.5% in quarter, Rockford boosted share to 25.9% from 17.4% year ago, Suttle said. Subwoofer share jumped to 18.7% from 15.4% and speakers to 8.2% from 6.7%. Best Buy, which recently picked up Lightning Audio Bolt products, accounted for 17% of revenues in quarter. Shipments of car audio OEM products to Nissan will start in 3rd quarter with first revenues forecast for 4th, Suttle said. On home electronics side, Fosgate Audionics line of home theater receivers and speakers has gained "good initial reception" from retailers, he said. Subwoofers and satellite speakers are scheduled to ship in 3rd quarter, followed by receivers in 4th quarter. "While this is a small venture to date, the potential is great," Suttle said. For year, Fosgate projects 14-16% gain in net income on 8-10% rise in revenue.

Dolby's new Pro Logic II is included in 3 Onkyo home theater receivers. System simulates 5.1-channel digital surround sound from 2-channel analog sources such as videotapes, Laserdiscs, TV, CDs, LPS. Models range from \$329.95 to \$829.95.



**PLASMA, WIDESCREEN LCDS AT NAB:** JVC and Panasonic formally entered 50W plasma display panel (PDP) race last week while Sanyo and Toshiba took wraps off front LCD projectors featuring widescreen panels.

JVC, which sources PDP from Matsushita, is expected to ship display for professional applications in May at \$18,000 with 1,365x766 resolution and 600 lumens. Panel won't be sold through consumer market at start, but could find way into customer installation, officials said at National Assn. of Broadcasters convention in Las Vegas last week.

Matsushita also formally introduced 50W that was scheduled to ship last fall but was postponed until spring. Matsushita will focus on larger size for U.S. market, leaving 36W for Japan, Chief Technology Officer Paul Liao said. "It's not obvious that there is a market for that [36W] in the U.S., but we have a had dispute internally over that because there are some people feel it would sell well," Liao said.

Manufacturers also are readying front projectors with widescreen LCD panels to target custom installation market. Sony has taken lead, but Sanyo (\$8,999) and Toshiba (\$8,000) have responded with models that will ship by midyear.

Toshiba projector uses own 1.2W panels that deliver 1,280x720 resolution, 1,000 lumens and 400:1 contrast and has built 2w speaker. Sanyo's PLV-60, with Sony-sourced 1.35W panels, has 1,366x768 resolution, 1,200 lumens, 700:1 contrast. Sanyo, which plans to ship 150 units of PLV-60 at start, overhauled projector after initial release after detecting deficiency in red color. It also added red filter that lowered brightness to 1,200 lumens from 3,000, said Gene Beckstein, Sanyo sales rep at Omnimedia. "They [Sanyo] know there is enough home theater interest out there and if they build and ship 150 boxes they're not going to get hurt," he said.

Established custom installed projector supplier Runco also was said to be in discussions with Barco on building consumer version of new G5 projector based on Texas Instruments' Digital Light Processing (DLP) technology, sources said. Barco has supplied CRT-based models to Runco in past, but has yet to sign DLP agreement. G5 (\$45,995) has 0.9" DLP panels with 1,024x768 native resolution, 5,000 lumens, 450:1 contrast. Runco Pres. Sam Runco said no decision had been made.

JVC plans to deliver 0.5" D-ILA chip in 2002 in 1,024x768 and 1,280x720p resolutions, said Thomas Stites, business development dir. for Professional Products Group. Smaller chip could serve as part of 3-panel rear projection set that would be successor to 61W (\$14,000), which has single 1.22" panel. JVC also sells 50W version in Japan. JVC will have 0.9" chip with 1,920x1,080i resolution this year that eventually could target consumer applications, Stites said.

As CE manufacturers touted new displays, NEC said it would cease production of LCDs for PCs, outsourcing requirements for notebooks to Taiwan manufacturer and Sanyo. NEC, which produces 150,000 LCDs for PCs each month, estimated revenue from business was \$825 million in fiscal year ended March 31. It will continue building LCDs for cellular phones and plans to increase production of PDPs at its plant in Kagoshima, where it has monthly capacity of 12,000 screens, *Nihon Keizai Shimbun* (NKS) reported. NEC also plans to end overseas production of DRAM chips, shutting factory in Roseville, Cal., this year and another in Scotland in

2002, NKS reported, and facilities in Shanghai will be scaled back. NEC produces 40% of monthly output of 25 million 64 Mb chips abroad.

**Hynix Semiconductor** (formerly Hyundai Electronics) formally offered to sell its TFT LCD business, including three 3.5-generation TFT LCD production lines, to LG.Philips, *DigiTimes.com* reported. If deal, valued at more than \$754 million, can be concluded successfully, it certainly will take debt repayment pressure off Hynix. Company recently was criticized severely for requesting further postponement of its \$452.4 million debt and offering to sell \$754 million of convertible bonds to its creditor banks. Addition of Hynix's TFT LCD division, which specializes in 14.1" panels for notebook PCs and 17" for LCD monitors, could further strengthen market position of LG.Philips, which is more concentrated in 15" panel production, although it has shown larger sizes up to 28". Their combined share of the global TFT LCD market reached 17.5% last year, slightly less than the 20% held by Samsung Electronics.

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As advanced display technologies enter consumer market, battle is brewing in local cinemas where DLP and D-ILA front projectors will square off late this year. DLP-based projectors, which have been field tested at 31 cinemas since last year, are expected to make major push at Infocomm trade show in June along with D-ILA models, that have 1.3" panels with 2,048x1,536 resolution, 5,000-7,000 lumens, 1,000:1 contrast. D-ILA and DLP cinema projectors are expected to be priced around \$200,000. Barco is expected to field DLP projector and while it hasn't released specs, its current top-of-line model has 2,000x1,280 (QXGA) maximum resolution, 12,000 lumens, \$134,999 price. "DLP cinema is the only proven mature technology and when D-ILA comes in later this year, it will be where Texas Instruments was 3 years ago and by then TI's technology will be widespread," Barco Projection Product Mgr. Lee Wolloff said. Stites countered that fact that DLP had been in market was "irrelevant" and that data gathered had helped JVC develop D-ILA technology as well. "We've been invisible in the space because we didn't have a solution," he said. "Our 0.9" was every bit as good in picture quality, but we couldn't provide the light output required for the larger screens. With QXGA we can deal with the light output."

**MP3.com** revenue jumped 24% to \$21.75 million in first quarter ended March 31 from \$17.50 million in same period last year, San Diego company said last week. But MP3.com said revenue dropped off slightly from 4th-quarter 2000's \$22 million and it had net loss of \$46.1 million (-69¢ per share) compared with \$18.1 million loss (-28¢). Dot-com narrowed pro forma loss to \$2.22 million (-3¢) from \$8.45 million (-13¢). MP3.com registered users hit record 14.5 million in quarter, company said, as number of approved artists grew 4.3% to 150,600 and content more than 21% to more than 967,000 song and audio files. Company said more than 174 million song or audio files were downloaded or streamed in quarter and average daily visitor traffic grew to 845,000 from 575,000. MP3.com said it recently entered into settlement agreements in connection with pending class action and derivative lawsuits for aggregate of \$35 million in cash and 2.5 million shares of MP3.com common stock valued at \$5.4 million. Company said it expected to receive required approvals from federal and state courts "in the next several weeks" and was looking to recover "full amount of these settlements from its insurance carriers." Two days before revealing financial results, MP3.com announced its first U.K. promotion with major music label — EMI/Chrysler — and first use of its Beam-it service in Europe. Latter service had been offered only in U.S.



**STREAMING A/V SEEKS SPACE:** Despite potential for 4 different and incompatible A/V Internet streaming technologies, content developers say there are applications to accommodate them all.

Microsoft's Windows Media Player 8, RealNetwork Networks' RealPlayer 8, Apple's QuickTime 5.1 and eventually MPEG-4 all are seeking piece of market with slightly different approaches.

"It's what the market bears and right now our customers want all of them," said Joan Holmquist, educational services mgr. at nCube, which has licensing agreement for its streaming media software with RealNetworks and is negotiating one with Microsoft.

While plethora of formats traditionally has been combined in order to expand market, competition in streaming technologies is producing rapid advances, industry officials said.

"If they weren't competing with each other, the quality probably wouldn't be as good," said Holly Reed, Osprey program mgr. at ViewCast, which markets streaming capture cards for RealNetworks and Microsoft platforms. "As a hardware manufacturer, I shoot myself in the foot saying that, but as a consumer we're better off for it."

Indeed, at National Assn. of Bcstrs. (NAB) convention in Las Vegas last week, Microsoft formally took wraps off Windows Media Player 8, which will be available only to consumers who upgrade to new Windows XP operating system (OS) due in 2nd half. Older version of Media Player, 7.0, will continue to be available as free, separate download, but will be shorn of some features of new version. New compression technology allows broadband delivery of near-DVD quality video (640x480 at 24 frames per sec.) at 500 kbps and near CD-quality audio at 48 kbps, improvement from 750 kbps and 96 kbps with 7.0, Group Product Mgr. Jonathan Usher said. Media Player 8 also has CD burning feature that lowers default rate to 64 kbps from 96 kbps.

Media Player 8 has open plug-in architecture that allows user to encode to MP3 file and doesn't include built-in software that prevents recording at fidelity rates higher than 56 kbps, Usher said. Microsoft had come under criticism for using new Media Player as part of effort to subtly wean consumers away from MP3, but Usher said setting of fidelity limit for file format was done in form of drop-down bar in beta version of software and wasn't intended to be part of finished product. "We didn't actually want consumers to do that and we included that 56 kbps capability so we could test that plug-in architecture," Usher said.

Release of Windows Media Player 8 will be key for Microsoft as it seeks to narrow market share gap with RealNetworks. RealPlayer has largest share at 28%, Windows Media Player 22% and QuickTime 4%, Jupiter Media Matrix said. Trying to elbow into market are MPEG-4 and Advanced Audio Codec format that was developed by AT&T, Dolby Labs, Fraunhofer Institut Integrierte Schaltungen, Sony. Philips has set up MP4 group to shepherd technology into market.

With flourishing of formats, question remains whether one standard will emerge. RealNetworks took Windows Media license year ago for playback of downloaded files, but market leaders don't appear near agreement.

"That's in the hands of the consumers and the content providers because there are tools available for all formats," Usher

said. "Within the industry there appears to be a pretty healthy competition."

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InterTrust sued Microsoft last week claiming software giant's Windows Media violated patents covering its digital rights management (DRM) technology. Besides limiting ability to make copies, DRM technology can be used to enforce an array of rules set by copyright holders. Among InterTrust's licensees are Bertelsmann and Vivendi Universal. Although tiny, compared with Microsoft — InterTrust had revenue of \$8 million in 2000 — company has a substantial patent portfolio by virtue of a head start in the field. The company says it holds 18 U.S. patents and has filed applications for 47 others.

RadioShack (RS) is nearing new sales agreement with DirecTV that would dispense with "activation rate triggers" and change in-store process for selling service, Pres.-COO David Edmondson told analysts in earnings conference call. Under new guidelines, store staff will contact DirecTV to set up new account and require that customer fill out paperwork. RS had seen slowdown in sales of DirecTV service as customers buying hardware didn't activate service immediately, thus delaying residual payments. "We're going to give up customers that don't activate and that's good for both of us," RS CEO Leonard Roberts said. DirecTV officials weren't available for comment. New agreement is expected to be in place by third quarter, Edmondson said. Overall, RS said first-quarter income fell to \$46.5 million from \$69.7 million year ago as chain took \$30 million provision against loss on investment in Internet company Digital Content, which failed in attempts at IPO and raising additional cash. Sales rose 9% to \$1.13 billion from \$1 billion on 7% gain in same-store sales. Gross profit margin slipped to 43.8% from 43.9%. To improve balance sheet, RS will impose "moderate price increase" on its private label parts, batteries and accessories and personal electronics that could add \$50 million to gross margin, Edmondson said. It also may trim by half number of vendors from which it buys private label products and negotiate better prices, actions that will yield another \$24 million, he said. On product side, wireless handset sales increased 12% in quarter, short of 15% forecast, Roberts said. Verizon's store-within-a-store format is expected to be installed in 1,500 outlets by May-June and Excite@Home cable modem service will be in 1,000 by year-end, he said. RS plans to test new store-within-a-store format that will be installed in 130 Blockbuster stores in 4 markets by July, Edmondson said.

More details were made available last week on patent countersuit Memorex parent Memtek Products filed in response to suit by Lexar Media (TVD April 23 p18). Memtek said it was seeking "declaration" from U.S. Dist. Court, L.A., "that sales of Memorex brand CompactFlash card products do not violate patent rights owned by Lexar Media." Memtek Pres. Michael Golacinski, expanding on comments he made to us week earlier, said: "Memtek filed its suit in response to repeated threats by Lexar Media, which we believe were designed to force Memtek into a license arrangement to which Lexar Media is not entitled." He said: "Memtek honors and respects valid patents and is not in the business of violating the intellectual property rights of others. If Lexar Media chooses to pursue a request for an injunction, as it has now publicly stated, we are confident that the court will reject that request, just as Memtek has rejected Lexar Media's threats. We are committed to our customers and will not be intimidated by Lexar Media's scare tactics." Status of case was unclear at our Fri. deadline.

MGM will offer major sign of support for DVD format in 2001. In announcing first-quarter results last week, studio said it "plans to release more than 350 DVD releases this year."



**Sega made it official:** It said it had started to develop games for Nintendo's GameCube next-generation videogame console. Although Sega said in Jan. that it planned to make games for all platforms after dropping its Dreamcast hardware production, its announcement at that time specifically mentioned only Game Boy Advance and PlayStation 2 titles (TVD Feb 5 p11). Sega of America (SOA) Pres.-COO Peter Moore said then that company had begun talking with Microsoft and Nintendo about Xbox and GameCube titles. Later, at Tokyo Game Show, Sega announced it had signed "long-term alliance" with Microsoft that included 11-title commitment to develop and market Xbox software (TVD April 2 p12). Meanwhile, Sega for first time said *Phantasy Star Online Version 2*, already announced for Japanese market (TVD March 26 p15), would indeed be making its way to U.S. as well. It said online game would be released soon in Japan and U.S. Sega added that in preparation for debut, the *Phantasy Star Online* gaming servers would be unavailable because of updating April 24-27, when servers became available for worldwide game play. During that time, players were unable to log onto *Phantasy Star Online* network. It said details on U.S. release of *Phantasy Star Online Version 2* would be announced soon. Separately, SOA is running online "You Don't Know Sonic!" contest through May 18 at <http://score.sega.com/games/Sonic2/contest/>. Company is giving away 300 T-shirts featuring one of new secret playable characters from game *Sonic Adventure 2*.

**Equator Technologies** signed manufacturing agreement with Taiwan Semiconductor Mfg. Corp. (TSMC), replacing Hitachi as its shifts next-generation media processor. TSMC is expected to start production in May of new MAP-CA processor that operates at 325 MHz, up from current 297 MHz, using 0.15-micron fabrication technology vs. 0.25-micron in previous generation. New media processor will continue with 32 MB memory and same chip architecture including hard-wired 3D accelerator and floating point engine. Processor will remain at \$40 in volumes of 200,000, but goal is to hit under \$25 as TSMC shifts production to 0.13-micron in Feb. 2002, Pres.-CEO Avi Katz said. Plans call moving to high-definition (HD)-capable processor operating at 450 MHz and drawing 1 v by late 2002, with 1 GHz version at 0.8 v in following year, Katz said. Shift of chip production to TSMC was significant since Hitachi delivered first Equator media processor in 2000, but Katz said Taiwan manufacturer's ability to employ 0.13-micron process was deciding factor. At same time, Equator signed agreement with Acer and Samsung to deploy 325 MHz media processor in cable and ADSL set-top boxes (STBs), respectively, by late this year. Acer STB, which will have 32 MB memory, will target cable market in Japan, where it has strong installed base, but also seek distribution in U.S., said Robin Wong, product mktg. mgr. for strategic accounts. Acer previously was STB supplier for U.S. West, which was acquired by Qwest Communications. For U.S. West product, Acer had used Broadcom chip, Wong said.

**Deeper technical collaboration** on one-bit digital amps is planned by Kenwood and developer Sharp, companies said last week. They previously had collaborated on MiniDisc technology and applications. With arrival of super-high-density audio data sources such as DVD-Audio and Super Audio CD, amplifiers with correspondingly more sophisticated digital signal processing technology will be essential for highest quality playback, they said. Kenwood said it would study potential applications across its entire range of products, including home, portable and car audio. Companies said they jointly would pursue development of components aimed at improving one-bit acoustics, creating smaller footprints generating higher efficiency. Cost competitiveness of one-bit amps can be brought down by volume production as number of models offered increases, they said.

**Rent-A-Center (RAC)** reported first-quarter net income increased to \$25 million from \$20.9 million year ago as sales rose to \$439.7 million from \$392.5 million on 8.8% gain in same-store sales. RAC also benefited from reduced interest expenses due to lowering of outstanding debt to \$703.1 million from \$100.8 million. General and administrative expenses increased to \$12.8 million from \$11.4 million as RAC spent additional \$1 million on TV ads, CFO Robert Davis said. RAC remains on pace to open 100-150 stores this year, including 20 in current quarter and 30-40 in each of 3rd and 4th quarters. PC business, which represented 10% of revenues in quarter, is gradually transitioning to NetZero free Internet access service from private label Rentacenter.com that it started year ago. RAC had 102,000 PCs on rent at quarter's end, up from 91,000 in 4th quarter. It had 7,000 of 13,000 Rentacenter.com subscribers remaining at quarter's end, all of whom will continue to receive service through Southwestern Bell until transition to NetZero is complete... **Aaron Rents** said first-quarter earnings rose slightly to \$7.3 million from \$7.2 million year ago as systemwide revenue jumped to \$189.4 million from \$161.7 million. Revenue from sales and lease ownership div. increased to \$97.8 million from \$79.4 million on 12.8% gain in same-store sales. Aaron's rent-to-own div. said same-store sales declined 0.5%. Sales at company-owned stores averaged \$105,000 per month in quarter, while franchise outlets improved to \$96,000 from \$79,000. Aaron's collected \$3.4 million in franchise fees in quarter. Chain opened 4 former Heilig-Myers (HM) stores in Fla., Ga. and Tenn. and plans to add another 20 in 2nd quarter, CFO Gilbert Danielson said. HM started liquidation sales at its remaining 346 stores last week... **Rainbow Rentals**, still suffering from decline in business last summer and costs of rebuilding it, reported first-quarter profit fell to \$531,000 from \$1.3 million year ago on 8.1% gain in revenue to \$24.2 million from \$22.4 million. Same-store sales were down 2.5%. Rainbow had "significant loss of units" in early April, prompting chain to lower forecast net income for 2nd quarter to 9-11¢, up from year ago but "still far below where we believe that Rainbow should be," CEO Wayland Russell said. General and administrative expenses rose slightly in quarter to \$1.85 million from \$1.61 million as Rainbow expanded number of regional managers to 13 from 8. It also completed \$274,000 purchase of 700 accounts from Rental Depot stores in Knoxville and Alcoa, Tenn.

**Following Japan plant closings** announced April 17, troubled Aiwa revealed more of its turnaround strategy last week with release of bleak FY 2000 results. Pres. Masayoshi Morimoto said company would retain 3 plants in Indonesia and Malaysia but cut 6,500 staff by half. Plant in Wales will cease making Aiwa products this summer but will retain OEM contract manufacturing for others. Company will make up any production shortfalls by sourcing from parent Sony and from Chinese OEMs, Morimoto said. Aiwa also will cut unprofitable product lines, first being TVs 25" and larger. It will review rest of TV line and all AV products to retain only high-margin goods. As result, company said it expected 2001 sales to drop 20%, to \$20 billion. Other cutbacks include 30% in work force at hq, domestic and overseas sales divisions. Morimoto said Aiwa would ask for voluntary resignations at head office to reduce staff to 1,400 from 1,950.

**TDK has ended** production of blank recording media in U.S. It said plants in Cal. made audiocassettes and floppy discs while Ga. factory produced blank CDs and videotape. It cited falling demand for audio and video cassettes, and worldwide overproduction of blank CDs, whose pricing fell 60% last year. Supply of blank CDs was 6 billion last year, double worldwide demand, TDK said. It will shift blank media manufacturing to its plants in Germany and Thailand. Facilities in U.S. will be retained as packaging and distribution bases and 250 of 580 employees will be retained.



**AMAZON EYES NEW CATEGORIES:** Amazon.com plans to take on new categories, online retailer revealed last week in reporting reduced loss of \$234.13 million (-66¢ per share) for its first quarter ended March 31 compared with \$308.43 million (-90¢) in same period year ago.

In conference call with analysts last week, Amazon CEO Jeff Bezos said: "We do expect to add some additional product categories both in the U.S. and internationally." But he declined to say what categories company was considering or when any new ones might be added.

Amazon said it also would like to form additional online partnerships with retailers along lines of its one with Toys "R" Us and recently announced deal with Borders Group under which Borders.com will return as co-branded Web site powered by Amazon's e-commerce platform. Amazon and Borders said they expected co-branded site to open in Aug. Reports have indicated that Amazon was in talks with Best Buy and Wal-Mart (TVD March 26 p12). But all 3 companies have declined comment on those rumors.

Online retailer said last week its electronics business remained its 2nd-biggest U.S. store in first quarter.

Company also once again admitted that creating direct relationships with as many suppliers as possible was one of its goals. CFO Warren Jenson said it was "now direct with all major music vendors." But same wasn't case with electronics. Among CE manufacturers, Amazon has yet to reach direct audio and video products relationship with Sony.

Underlining just how important direct sourcing is for Amazon, Bezos said: "A lot of the gross margin improvement in the electronics, tools and kitchen segment, as you would expect, is driven by vendor management. In large part, that means direct sourcing [as well as] by inventory management — making sure that we're buying the right things in the right quantities and having them in the right place, as well as, of course, things like shipping margin."

Bezos said "it takes time" to develop direct relationships with manufacturers: "It took a few years to go direct with all of the major music vendors and that's what we're seeing in our electronics, tools and kitchen business... [Amazon is] already direct with hundreds and hundreds of suppliers in these business and new ones are coming on board every week. And we're very pleased with the way that is progressing." On positive note, he said, vendors seemed more open in recent months to opening up new channels for their products than in past.

Amazon said sales expanded 22% to \$700.36 million in first quarter from \$573.89 million year ago and gross profit to \$182.60 million from \$128.13 million as pro forma operating loss fell to \$49 million from \$99 million. It said that excluding \$114 million that represented quarter's portion of previously announced restructuring and other charges and excluding net gain of \$23 million for certain other items, net loss for quarter would have been \$143 million (-40¢).

Results lived up to what e-tailer had predicted earlier in April. It also said noncash gains in quarter included \$22 million with termination of its services contract with now-defunct N.Y. online delivery service Kozmo.com, on which Amazon spokeswoman recently told us company took \$60 million loss for last year (TVD April 16 p16).

Cumulative customer accounts increased to more than 32 million in quarter, including 6 million international users, Bezos said.

Looking ahead, Amazon said it expected to report \$650-\$700 million in sales for 2nd quarter, with gross margin of 23%-26% on those sales, with absolute pro forma operating losses to be flat to slightly improved. It also said it expected cash and marketable securities to be \$600 million as of June 30 and \$900 million as of Dec. 31. For full year, Amazon forecast 20-30% increase in revenue.

Bezos stressed throughout conference call that achieving profitability was major goal of company this year. Jenson said Amazon was "on track to reach our objective of pro forma operating profitability in the coming December quarter."

**Change at helm** of U.K. retailer Dixons Group is planned for Sept. 2002 when Stanley Kalms retires as chmn. and takes role as pres. Kalms, 69, joined company in 1948 and created European CE, camera and white goods retail superpower from single London photography studio founded by his father in 1937. Espying post-World War II photo craze, he persuaded father to sell cameras and accessories and mount advertising blitz. By late 1950s, Kalms had direct buying links with Japanese camera suppliers, including for Prinz line of private-label products built to Dixons' specs. Retailer went public in 1962 and added Japanese-made audio products in 1967. House-brand A/V lines were introduced in 1982 and retailer continues that today under various brands with OEM/ODM product procured by in-house OmniSource group. Kalms assumed chairmanship from father in 1971. Chain now has 1,166 outlets, 1,000 in U.K. and Irish Republic. In 1999 it expanded throughout Scandinavian countries with acquisition of 154-store Elkjop chain and to Portugal and Spain with 12-store Ei Systems group.

**GT Advance Championship Racing** from THQ will be released day and date with Nintendo's Game Boy Advance when next-generation handheld system ships in N. America June 11, game maker said. Title was developed by Japanese game maker MTO Co. and already has shipped in Japan. Separately, THQ said it started shipping game *Rugrats: Totally Angelica* for PlayStation in conjunction with Nickelodeon. Calabasas Hills, Cal., game maker THQ said title, developed by ART Co. of Japan and already released for Game Boy Color and PC, "reinforces THQ's commitment to the growing number of younger gamers." THQ also said it was preparing its combat-driven, action-adventure game *New Legends* to be among first wave of Xbox titles in fall. Company said *New Legends*, now in development by Berkeley-based Infinite Machine, will transport Xbox owners to futuristic China gripped in war. THQ also has announced *WWF Raw Is War* for Xbox, and said other products were in development.

**Jukebox Deluxe 6.0** music software by MusicMatch now has major presence in retail stores, available at Best Buy and Wal-Mart stores nationwide, spokeswoman told us. She said software "will hit shelves wherever books and/or software are sold."

#### THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥122 = \$1, except where noted.



Telegen's accountants have raised "substantial concern" about company's ability to continue in face of "significant operating losses," it said in annual 10K. Telegen, which didn't generate revenue in 2000 as it continued developing high-gain emissive display (HGED) technology, has \$35 million in cumulative net losses. While it expects to have prototype HGED assembly line in place this year, no manufacturing licensing agreements are expected before 2002 and "significant production" (250,000 units annually) won't start until 2003, Telegen said. It has developed 14" HGED prototype, but says it needs \$10 million to hit annual production of 10,000 units next year. Among options being considered for raising funding are joint venture or public or private stock offering, Telegen said. It forecast R&D spending of \$7 million this year, up from \$1.1 million in 2000, as it develops display technology and Telsair wireless data network. Salaries of CEO Jessica Stevens and Exec. Vp Bonnie Crystal were lowered to \$200,000 effective March 1 from \$500,000 and \$450,000, respectively, company said in SEC filing. At same time, they were granted options for 500,000 shares each at \$1.93 that expire June 30, 2003. Telegen also extended repayment deadline for \$250,000 loan to Pres.-CEO William Swayne's WMS Financial Planners to Feb. 2002 from Jan. 31. Stevens remains top stockholder with 5.4 million shares (37.8% of those outstanding), and Crystal has 2.2 million (16.4%)... Emagin is taking orders for developer's kit (\$6,500) for its 0.61" organic light emitting diode (OLED) that's designed for near-applications such as viewfinders. Display, which is expected to reach volume production in 2002, has 800x600 resolution, 50:1 contrast ratio, 70 lumens. It's based on OLED technology licensed from Eastman Kodak... Kopin CEO John Fan received \$350,000 salary in 2000, up from \$325,000 year earlier, in addition to options for 310,000 shares. Fan is Kopin's top shareholder with 2.8 million shares (4.5% of outstanding), up from 1.7 million (3.7%) year earlier... Brillian is new name of Three-Five Systems' liquid crystal on silicon (LcoS) microdisplays.

Barnes & Noble.com said sales increased 23% to \$109.04 million in its first quarter ended March 31 from \$88.61 million year ago and loss dropped to \$39.84 million (-25¢ per share) from \$57.65 million (-37¢). Company said its pro forma loss for quarter narrowed to \$33.68 million (-21¢) from \$35.87 million (-23¢). Gross profit jumped to \$25.13 million from \$14 million and gross margin 23% from 15.8%. Barnes & Noble.com said it acquired more than 945,000 new customers in quarter, raising cumulative count to more than 8.7 million — up 12% in year. Company said that at end of quarter it had \$174.5 million in cash and marketable securities, with no debt. Vice Chmn. Steve Riggio said he was "pleased with our first-quarter results. We continue to achieve these gains with a minimum of promotional offers, such as free shipping, and no off-line advertising." He said: "A number of factors are contributing to our success, including improved efficiencies resulting from a companywide consolidation that has streamlined our distribution and fulfillment operations [and] a further expansion of our vast in-stock selection." CFO Marie Toulant said company's "focused marketing effort enabled us to achieve a 23% sales increase with significantly lower marketing expenditures, resulting in the dramatic decline in our marketing-to-sales ratio, which dropped to 12.7% in this quarter from 22.4% in Q1 2000." Looking ahead, company said it expected 2nd-quarter sales to be \$90-\$100 million, with gross margin of 22-24% and pro forma loss per share of 20-23¢ vs. 2nd-quarter 2000's \$81.4 million in sales, 16.8% gross margin and pro forma loss of 31¢ per share.

Yamaha's speaker production in Indonesia will be increased one year earlier than planned, company said. It originally scheduled ramp-up to 1.5 million speakers from one million by FY 2004, but said it would achieve that output by FY 2003.

Corning, despite continuing to suffer from "deterioration" in telecom spending, said first-quarter net income increased to \$132 million from \$77 million as sales rose to \$1.9 billion from \$1.3 billion. As result of slowing sales of fiber, which targets telecom market, Corning lowered projected annual earnings to 90¢-\$1 per share from \$1.20-\$1.30 and revenue to \$7.8-\$8 billion from \$8.2-\$8.5 billion. Corning's Information Displays business, which includes LCDs, projection lens and CRTs, said net income was flat on 7% gain in revenue to \$201 million. Revenue from CRT glass business increased "modestly" to \$86 million, but with NAFTA set sales projected to increase just 5%, revenue is expected to decline over rest of year, CFO James Flaws said. Corning Precision Lens, which makes lens for projection TVs, logged strong gain in sales to \$53 million with earnings "up slightly less than that," Flaws said. LCD glass revenue was flat at \$62 million. While unit volume was up 20%, weakening yen held down revenue. Teslecom business reported 58% gain in sales to \$1.4 billion... BMC Industries posted 3% decline in first-quarter net income to \$2 million from \$2.3 million as it battled slowdown in sales of masks for jumbo (30" and up) TVs and PC monitors. Overall sales fell 3% to \$85.8 million from \$88.8 million for BMC's mask, and microtechnology operations reported 4% decrease in sales to \$51.2 million from \$53.3 million on flat income. Entertainment masks unit sales weep up 16%, but were hampered as demand shifted to lower priced, smaller AK steel masks, from jumbo, Invar models. PC mask sales dipped 8%. Downturn in jumbo masks was largely result of "tepid consumer market" and buildup of inventory that forced slowdown in TV production, CEO Paul Burke said. BMC will take down 2 of 4 entertainment mask lines at Cortland, N.Y., plant in 2nd quarter for maintenance and addition of capacity for flat-screen high-definition (HD) jumbo masks. New capacity is expected to be on line by 3rd quarter, Burke said. Production yield improved at Cortland and Mulheim factories, benefiting from new automatic inspection equipment installed on entertainment lines.

Egghead.com continued its progress toward profitability in first quarter ended March 31. But Menlo Park, Cal. e-tailer said revenue plunged to \$85.30 million from \$152.05 million year earlier. Egghead.com blamed sales falloff largely on "combination of the company's elimination of low margin or 'empty calorie' sales and lower consumer demand for technology products." Loss narrowed in quarter to \$8.12 million (-19¢ per share) from \$25.06 million (-67¢), including merger costs. Commenting on results last week, Egghead.com Pres.-CEO Jeff Sheahan said: "We continue to make steady progress in executing our plan to build a business based upon profitable sales, stable margins and ongoing growth in the sale of technology products to business customers." But he cautioned: "2001 will be a challenging year for the technology products industry. Recognizing this, we have taken steps to get out in front of current business conditions with our recent right-sizing of the business. By streamlining and refining our business sales model, we now have a more efficient and productive operation from which to take the business forward." Senior Vp-CFO Mark Shepherd predicted that "beginning in the 2nd quarter, we will see a significant reduction in our operating expenses as a result" of those "right-sizing" actions Sheahan cited. Providing key metrics for quarter, Egghead.com said total number of customers rose 4% over 4th quarter 2000 to 3.9 million, but unique and new buyers declined. On plus side, average order jumped 15% to \$201 and gross margins to 11.1%, thanks in large part to increase in sales from business customers, company said.

Copyright royalty levy could be applied to PCs sold in Germany by Fuji Siemens. Tax of 30 euros (\$26.50) per machine would compensate artists for music copying with CD recorders built into PCs. German govt. last Dec. assessed levy on Hewlett-Packard for PCs shipped since Feb. 1998 with CD-R or CD-RW drive.



**AMAZON CONFIRMS SEC PROBE:** Amazon.com confirmed last week that SEC was looking into timing of stock sale CEO Jeff Bezos made in Feb.

Reports in March said SEC was looking into why Bezos sold 800,000 Amazon shares worth \$12 million shortly before negative analyst report was released (TVD Feb 12 p18), of which e-tailer received advance copy. Amazon spokesman told us in March he was unaware of any investigation but if there was one, company intended to help SEC in any way it could. He told us Bezos sold shares to raise money "for liquidity and diversification and it had nothing to do with [the] report." He said analyst report in question certainly wasn't first negative one written about Amazon and there was "nothing new in it."

Report last week, quoting same Amazon spokesman, said Bezos responded to SEC's request for information about sale of shares, adding: "They've asked us for some information and we've been happy to provide it to them and answer whatever questions they have."

Meanwhile, number of class action lawsuits against Amazon has risen. Law firms including N.Y.-based Faruqi & Faruqi and San Diego's Milberg Weiss filed suits against online e-tailing giant in March alleging Amazon, Bezos and other officers and directors had violated Securities Exchange Act of 1934. Suits claimed Amazon had misled shareholders about profitability of e-tailer's investments in other dot-coms to boost Amazon's share price. They also express concern about SEC investigation.

Law firms Spector, Roseman & Kodroff of Philadelphia; Cohen, Milstein, Hausfeld & Toll of Seattle; and Hagens Berman of Seattle are among law firms that have filed similar suits against e-tailer.

As he did when commenting on earlier suits, Amazon spokesman told us last week: "It's clear the lawsuits have no merit and we think they'll be dismissed." He said Amazon had "worked very, very hard to be very accurate" in all its filings and "we provide more information about our business than is legally required."

Logitech profit rose to \$14.18 million (\$3.01 per diluted share) in 4th quarter ended March 31 from \$9.39 million (\$2.02) in same period year ago on \$197.39 million in sales, company said last week. Sales year earlier were \$175.92 million. For year, Swiss computer peripheral company's profit grew to \$48.43 million (\$10.32) from \$30.04 million (\$6.87). Profit for year excluded \$3.3 million one-time noncash charge for purchase of in-process R&D in acquisition of Labtec. Sales for year jumped to \$761.36 million from \$615.66 million. Despite overall slowdown in PC industry, continuing success of company's retail business "fueled a 30 percent increase in annual retail sales, which accounted for 83 percent" of 4th-quarter revenue, Logitech said. It said it sold 6.9 million cordless products in year — up 80% in year — and more than one million cameras each quarter. For fiscal 2002, Logitech said it expected sales to increase 25%.

Sega.com is reducing its work force, "effective immediately, as it focuses its business in accordance with previously announced plans by Sega Corporation," company said last week. It added: "Sega continues to remain committed to SegaNet, the world's first high-speed online console gaming network and ISP, and there will not be any interruption of the SegaNet service as a result of this headcount reduction."

## Consumer Electronics Personals

**Robert Montenegro**, ex-Nakamichi America, named U.S. Acoustics vp-gen. mgr... **Roger Zwinger**, ex-Goodyear, joins Rent-Way as vp-advertising & mktg... **Howard Bailey** resigns as C-Cube Microsystems CFO, plans unknown... **Stefan Braken-Guelke** named Zilog gen. mgr.-COO... **Paul Gifford**, ex-Andromedia, appointed Digimarc pres.-COO; CEO Bruce Davis adds chmn. post, replacing **Philip Monego**, who retires effective with 2002 annual meeting... **Elizabeth Mackey**, ex-Softbook Press, joins Franklin Electronic Publishers as vp-content... **Richard Birnbaum** to retire as Circuit City exec. vp-operations in 2002... Elected to Audible board: **Gary Ginsberg**, News Corp. vp-investor relations; **Johannes Mohn**, Bertelsmann Technical Management vp; **Richard Sarnoff**, pres., Bertelsmann Random House New Media... **Michael Bolcerek**, ex-Mongomusic, named Liquid Audio CFO.

**More bad news** for online delivery service/retailer Webvan Group arrived last week as company announced first-quarter results. It said it was further modifying business plan by closing operations in Atlanta and reducing corporate staff. About 485 positions are being affected by Atlanta closing, it said, and another 400 jobs were being eliminated at its hq in Foster City, Cal., and in Kirkland, Wash. Company said it "currently employs approximately 3,500 workers." Webvan also said it was canceling service in Sacramento. Loss widened to \$216.97 million (-46¢ per share) in quarter from \$101.28 million (-23¢) year ago. Pro forma loss was \$86.08 million (-18¢) vs. \$75.42 million (-17¢). However, sales expanded to \$77.23 million from \$37.48 million. Company said it "was in preliminary discussions with certain existing investors regarding possible debt or equity financing of approximately \$25 million." Webvan said Goldman, Sachs was assisting it "in evaluating its financing and strategic alternatives." Only days earlier company had announced resignation of CEO George Shaheen (TVD April 23 p13). He was replaced last week by Robert Swan, who said company needed \$25 million in capital "to pursue a fully funded business plan, allowing us to fund operations up to the point when the entire company is cash-flow positive." He said: "We currently anticipate reaching this cash-flow milestone in the 2nd half of 2002." Gloomy auditor's report in recent SEC filing said there were "substantial doubts about its ability to continue as a going concern" (TVD April 9 p18).

## Obituary

**Walter Stanton**, 86, inventor of modern phonocartidge stylus, died April 16 in Palm Beach Gardens, Fla., cause not disclosed. In 1949 he developed slide-in stylus that enabled users to replace needle instead of having to ship entire phonocartidge to factory for stylus replacement. He bought Pickering & Co. in 1950, audio component manufacturer that first adopted his stylus, then founded Stanton Magnetics in 1963 to market Pickering-developed magnetic phonocartidge that improved sound. Other key Stanton Magnetics product was Gyroprise turntable whose platter floated on patented magnetic suspension. Stanton ran each company until retirement in 1991. As longtime campaigner for industry standards, Stanton was board member among founders of now-defunct Institute of High Fidelity. He also served as Audio Engineering Society pres. and was elected to Audio Hall of Fame in 1976. Survivors include wife, 3 daughters.