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ABERNATHY SEEKS FASTER FCC, MARTIN RUNS INTO DELAY: Reflecting her background as Commission staffer and corporate lobbyist, new FCC Comr. Abernathy said one of her top priorities is to speed agency decision-making and make its processes more "transparent" so public can better track issues. In interview with our affiliated *Communications Daily* June 1, Abernathy said Commission's delay in ruling on News Corp.'s proposed purchase of Chris-Craft Industries TV stations was one example of why she believed changes ought to be made. "That's [the delay is] unfortunate," she said, noting that Chris-Craft license transfers had lingered at agency for 8 months. "I'd like it to move faster," she said, while declining to say how Commission should rule on issue of local station concentration.

Abernathy said agency was working on Web-based tracking system for pending items that would help lobbyists and other outside parties keep up with issues and would help FCC operate more efficiently. "You shouldn't have to know someone at the FCC in order to find out the status of an item," she said. Tracking system would eliminate unnecessary calls to agency staff to check progress, saving time for outsiders and agency workers alike, she said. As lobbyist, she remembers not wanting to constantly bother agency staff to check timing but also not wanting to miss "window of opportunity" when agency officials were ready to discuss particular issues. "Timing is important," she said.

Abernathy's experience in communications ranges from international to wireless to ILEC to CLEC, with stint at FCC. She was federal affairs dir. for Comsat 1988-1990, legal adviser to Comrs. Sherrie Marshall and James Quello 1990-1993, federal regulatory vp for AirTouch 1993-1998, vp-regulatory affairs U S West 1998-1999. In 2000, she moved to start-up building access provider Broadband Office, which went bankrupt earlier this year.

Abernathy said her regulatory philosophy was honed during her stint in wireless industry, where she saw competition explode once regulations were eased. But while she is supporter of competition rather than govt. regulation, she said she

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PC CONNECTION TO BUY CYBERIAN OUTPOST in stock-for-stock transaction valued at \$12.5-\$25.9 million. (P. 12)

knows there are exceptions. For example, regulation is necessary to advance policy goals such as children's TV programming, she said. "Even in a truly competitive, open market, government still has a role to play," she said.

Abernathy said regulation also might be needed when competition hasn't taken hold fully. For example, she said, interconnection rules wouldn't be needed if local markets were fully open. Finally, she said, regulation can be needed to "protect property rights," for example protecting spectrum against interference. "What value is spectrum if someone can come along and interfere?" That's why spectrum management is so important and why ITU is important, she said.

Despite her strong telecom background, Abernathy made it clear that she didn't want to be pegged as "telecom" commissioner. There was time when commissioners were thought to specialize in particular areas of communications, she said, but "with convergence, that's probably not appropriate anymore." She said she would rather be known for her "openness" and emphasis on making agency efficient and up-to-speed on technology issues. "I'm not comfortable being put in a category" because technology is eliminating distinctions, she said. "I care just as much about the mass media-cable side" as telecom-wireless issues.

Even though she has focused almost entirely on telecom issues in her career, Abernathy showed awareness of several major media issues now before FCC. She said she "agrees with the concept" of Commission's re-evaluating its various ownership caps for broadcasting and cable industries, as directed by Congress. While she termed it "just too soon" to take stand on eliminating or relaxing caps, she said she would examine First Amendment, diversity, localism and other issues involved. She also expressed need for Commission to "keep pace" with speed of technological changes sweeping through TV and radio industries.

Questioned about nation's lagging switch to digital TV, Abernathy conceded that move had run into unexpected delays. "I know the transition has not gone as fast as anyone had hoped," she said. But she argued that most, if not all, of transition problems, including high DTV set prices and lack of high definition and other digital programming, were beyond FCC's control. She said she was "dedicated to ensuring" that Commission not create or foster any hurdles to speedy transition. "I just don't want us to be the problem," she said.

As mother of 5-year-old girl, Abernathy said she was concerned about proliferation of adult, violent and other offensive programming on TV during children's viewing hours. But, calling herself "a firm believer in the Constitution and free speech," she said "incredibly complex" and "fascinating" issue called for "difficult balancing act." While she had not previously immersed herself in "a lot of nitty-gritty details" of offensive programming issue, she said, she will now. She noted that FCC, Congress and courts had struggled with issue for 20 years.

Meanwhile, because of error in Kevin Martin's confirmation papers, he won't be able to join other new FCC commissioners until at least this week, agency sources said. All 3 were confirmed by Senate by voice vote May 25 but Martin's term doesn't begin until July 1, unlike other 2, who can be seated now. Error occurred because Martin should have been nominated and confirmed for 2 terms: (1) Remaining 32 days of ex-FCC Chmn. William Kennard's term. (2) Full 5-year term after that. Because of mistake by either White House or Senate, Martin was confirmed only for 2nd part, leaving him in limbo until July 1.

Problem can be fixed fairly quickly if White House sends new nomination for first, shorter term, which could be confirmed by Senate when it returns June 5 from Memorial Day recess, FCC official said. Some industry sources speculated that White House might even issue recess appointment by this week, although FCC source questioned whether there was time for that. "There's work afoot to correct it," FCC spokesman said.

Ironically, Martin is in situation because he was given favorable treatment by White House, gaining full 5 years instead of partial terms given to other 2 commissioners. Copps is filling former Comr. Harold Furchtgott-Roth's remaining 4 years, Abernathy is completing 3 years left on former Comr. Susan Ness's term. Industry sources said giving oath of office to Copps and Abernathy first might put Martin at disadvantage, giving him lowest seniority on Commission. However, FCC official said seniority wasn't big issue on Commission, and Chmn. Powell would swear in other 2 as soon as White House papers arrived. In fact, Powell later swore in both Abernathy and Copps May 31.

New commissioners already are starting to move their belongings into their new offices and nameplates have been hung by doors: (1) Seated Comr. Tristani is moving to office vacated by Ness. (2) Abernathy is moving into office Powell used as commissioner. (3) Copps is moving into Furchtgott-Roth's office. (4) Martin will take Tristani's old office. Newcomers already are selecting staff. For example, Abernathy has selected Bryan Tramont, ex-aide to Furchtgott-Roth, as her wireless adviser and Tjuana Price, ex-aide to Ness, as her staff assistant. Martin reportedly has hired Dolly Johnson, ex-Furchtgott-Roth aide, as his staff assistant. Copps told agency he plans to use interim staff of people from elsewhere in agency until he's settled in.

President Bush will send 2 more nominations to Senate for Commerce Dept., both with previous Commerce experience: (1) Consultant Linda Conlin to be asst. secy. of Commerce for trade and development. She was exec. dir. of N.J. Commerce and Economic Growth Commission 1994-1999, and served in first Bush Administration as asst. secy. of Commerce for marketing. (2) House Administration Committee staffer Otto Wolff to be asst. secy. of Commerce for administration as well as agency's chief financial officer. He was deputy asst. secy. of Commerce for administration 1981-1993.

NEW CABLE BUREAU HEAD PLANS REORGANIZATION: New FCC Cable Bureau Chief Kenneth Ferree said he was focusing first on retooling Bureau to make it more efficient and forming group of staffers to grapple with complex broadband and convergence issues. Questioned in his 3rd floor office at agency hq May 31, Ferree expressed his aversion to regulating such new cable services as high-speed data and interactive TV (ITV), preferring to let free market rule. He also showed little desire for Commission to intervene in such issues as DTV-cable compatibility standards and copyright protection issues. But he indicated interest in extending and possibly expanding program access rules due to expire next year.

In his first interview since taking office May 21, Ferree said his initial priority was to "make sure it's [the Cable Bureau is] a model" of efficiency and speed. "As a former private attorney, I know the frustration of waiting for the Commission to act on things," he said. Reflecting Chmn. Powell's focus on management issues, Ferree said he was "talking to folks throughout the Bureau" about ways to improve unit's performance, including restructuring divisions and moving staffers around. While he has drawn no conclusions, he said he aimed to make evaluations in next few weeks and begin carrying out changes in month or 2. "I want to resolve this soon," he said.

As part of retooling, Ferree said he wanted to create special team or task force to deal with "new issues related to broadband advanced services." He said he already had started to put group together, citing appointment of Sarah Whitesell as assoc. bureau chief. Whitesell, most recently legal adviser on common carrier issues for Comr. Tristani, has legal experience primarily on telecom side. Ferree said he also planned to bring in technical broadband experts.

While stressing management issues, Ferree declined to say much about idea of creating umbrella TV office by combining Cable Bureau, Mass Media Bureau and satellite unit of International Bureau. He said he had held "a couple of discussions" with chairman about FCC overhaul but had "no insights" on his conclusions. But, while hedging his bets, Ferree said he liked concept. "There's a lot to be said for some sort of functional reorganization," he said. But, he quickly added, "I don't know whether it's do-able or not. If it would be a good thing, I would like it. If it would be a bad thing, I wouldn't like it."

Ferree also steered away from discussing cable regulatory forbearance proposal of his predecessor, Deborah Lathen (TVD May 21 p5). Saying he hadn't seen proposal, he declined comment on its specifics. But he said that on principle, he would "be in favor of anything giving the Commission additional flexibility" to refrain from regulating new cable-related services. "In theory, more forbearance authority would be a good thing," he said.

Ferree didn't stake out position on open access or ITV inquiries at FCC. But, while supporting idea of openness, he expressed strong resistance to regulating markets for such new services, particularly such ones as ITV that were "not really well defined." "My predisposition is not to regulate unless there's a demonstrable case of market failure or [there are] consumer protection concerns," he said. "The emphasis is on demonstrable," he said, and he's not apt to "act on inchoate fears or speculation."

Unlike Lathen, Ferree said he wasn't sure whether there should be some type of cable horizontal ownership limits, following recent ruling by U.S. Appeals Court, D.C., striking down current 30% cap as unconstitutional. While "a number of economists will tell you horizontal ownership limits don't make economic sense," he said, "I'm not convinced of that." Despite his uncertainty, he said Commission's planned further notice of proposed rulemaking on issue, now being drafted by Cable Bureau, would abide by Congress's wishes and suggest new, higher cap. "We're confined by the statute," he said. "We're going to come up with a standard and defend that standard rigorously."

Like Lathen, Ferree hinted at inclination to retain and possibly expand program access rules. As veteran communications lawyer who represented such private cable operators as Optel in past, he said he had seen how limited access to cable programming had hampered cable rivals. "I'm sensitive to the needs of competitive MVPDs [multichannel video programming distributors]," he said. He also expressed concern about problems caused by law's limited applicability to satellite-delivered cable programming and vertically integrated programmers.

Ferree said he didn't see need for FCC to intervene further in DTV-cable compatibility and copyright protection disputes among broadcasters, MSOs, CE makers, movie studios. He said Commission would "continue to monitor discussions" and "have the topside look" at issues but probably would refrain from imposing any new mandates. He also all but scotched idea of Cable Bureau's making any new regulatory moves to spur cable rivals.

CBS AND STATIONS MOVE TOWARD MAKING UP: CBS and its affiliates tried to emphasize their unity, rather than their disputes, in affiliate meeting in Las Vegas last week. CBS appeared to be making positive move toward better relations with its affiliates, and several station executives said it essentially had withdrawn its statement of March 27 that "it is no longer possible for us to work effectively with the current affiliate advisory board."

Relationship of major networks with affiliates changed dramatically when affiliates of ABC, NBC and CBS filed petition at FCC in March seeking broad inquiry into network practices. "We feel we got a bum rap [in charges made by affiliates at FCC] with CBS lumped together with the other networks," CBS TV Pres. Leslie Moonves told affiliates. Complaining that network was given no advance warning of filing, he said that in affiliation contracts, CBS hadn't made demands that other networks have — fact conceded by affiliates in filing.

CBS and its affiliates "really have a lot in common" and should "agree to disagree" on 35% station ownership cap issue and work together on other things, Moonves said. Speaking at opening session of affiliates' convention, he said: "What works for us works for you... The network-affiliate relationship remains extremely important to us." Viacom CEO Mel Karmazin agreed "there are far, far more issues that we agree on" than divisive ones, such as 35% TV station ownership cap which has gotten most attention: "We have so much more in common... We are interested in having you guys make as much money as you can."

Network-affiliate partnership still is best business model today, Karmazin said: "If we believed there was a model that was better for us, believe me we would have done it... The fact is, there is no better model. So, we're going to work together." He promised total support of CBS by parent Viacom: "We are totally committed to winning and we're going to give all the resources Leslie [Moonves] needs... in order to make [network] as successful as [CBS owned] stations are." Although network now is profitable, he said, "we make our money from the [owned] television stations... We are on the exact same side of the table as you are." Viacom and CBS are "really working together as one company" and there are many ways affiliates can benefit as result, he said.

Reason CBS wants ownership cap lifted is "because of our love for the television business," Karmazin said. Mainly because of NAB and affiliates' opposition to lifting of that cap, NBC, Fox and ABC canceled their affiliate conferences this fall. "It's to our advantage to have this meeting," Karmazin told affiliates. "Hopefully, it's productive for all of you... We're having it and the other guys are not. I think they're wrong," he said in statement that brought sustained applause. However, when Karmazin was asked at closed meeting whether CBS would host conference in 2002, he didn't make firm commitment. "That's up to Les and Peter [Schruth, pres. of affiliate relations]" Karmazin said.

Moonves listed several things CBS stands for in affiliate relations "so there's no misunderstanding": (1) Cooperative approach in efforts to utilize digital spectrum to best advantage of affiliates and network. (2) "Responsible and limited repurposing" of network programming on cable — but not to extent of other networks, which he said had been "more aggressive" in repurposing. (3) Permission for affiliates to sell stations without reworking contracts to disadvantage of buyer —

something in which NBC has been heavily involved, many affiliates told us. (4) "Reasonable preemptions" of network programs, while acknowledging "the critical importance" of affiliates' airing network shows.

Moonves said: "Just take a look around you. You are attending the only major network affiliate conference" in 2001. Several group executives also said they planned to push Fox, NBC and ABC to resume their affiliate meetings next year "as very productive and needed," as CBS Affiliates' Chmn. Ray Deaver of Gray Communications put it.

Affiliates begin process of electing new members of board in mail balloting in June, and network has made no attempt to influence those elections, affiliates said. "CBS has faced reality... and now will work with whoever the affiliates elect," group executive said. Peter Schruth, pres. of CBS affiliate relations, sent letter to stations March 27 following filing by National Affiliated Stations Alliance (NASA) at FCC seeking inquiry into practices of networks. NASA told CBS affiliates in Las Vegas — as it said in FCC filing — that "while the most grievous offenses have been committed by networks other than CBS... it is important that the industry remain strong and committed... to efforts to halt the proliferation" of networks' alleged illegal practices in dealing with their affiliates.

NASA's big fight has been retaining 35% cap on station ownership (which networks are pushing hard to have repealed) and now that Democrats have gained control of Senate "it's a whole new ballgame" in favor of stations, NASA official told us. That's because Sen. Hollings (D-S.C.) — avowed opponent of deregulation — will again become chmn. of Commerce Committee. Republicans had scheduled June 12 hearing on ownership issue, but that now is in doubt with Democrats taking control of Senate, we're told.

Affiliates' Chmn. Ray Deaver, KWTX-TV Waco, said affiliates gave their board "an overwhelming vote of confidence" at meeting. "We want a good, positive relationship with the network," he said.

Saying plaintiffs had demonstrated *prima facie* case of invasion of privacy, Cal. Court of Appeals (4th Dist.) denied Time Warner motion to strike complaint of 8 players and 2 coaches of Highland, Cal., Little League team whose team picture was featured in Sept. 1999 article and program on child molestation in *Sports Illustrated* and HBO. Program was aimed at illustrating stories about adult coaches who sexually molested youths playing team sports. Team's manager pleaded guilty to molesting children, plaintiffs said, but they sued TW for invasion of privacy and infliction of emotional distress. Court of Appeals said parties seemed to agree that disclosure of information connecting person with sexual molestation could offend reasonable person, but TW argued that photograph of plaintiffs was not private and its publication met test of newsworthiness. "The courts do not, and constitutionally could not, sit as superior editors of the press," TW said. Court said claim of right of privacy was "not so much one of total secrecy as it is of the right to define one's circle of intimacy — to choose who shall see beneath the quotidian mask."

Broadcast data firm iBeam Bcstg. isn't in compliance with Nasdaq rules for listing, stock exchange said in letter. Decision is based on trading price below \$1 per share. Price must top that by Aug. 8 to avoid delisting.

HILL JOBS CREATED, DESTROYED: When Senate returns June 5 and Sen. Jeffords (I-Vt.) hands leadership of body to Democrats, key committees will be looking to hire more Democratic staffers and some Republican jobs could be in jeopardy, Hill sources said. All staff positions, majority and minority, on given committee are funded from fixed total, and majority party controls how that money is allocated. Soon-to-be Majority Leader Daschle (D-S.D.) will move new organizing resolution to replace power-sharing deal authored by current Majority Leader Lott (R-Miss.). Once it's known how many Democrats will be on panels, it will be clear how much staff balance will shift.

Despite potential staff upheaval that could cause, it could be lot worse, sources said. "We're going to make some changes," said David Carle, spokesman for Sen. Leahy (D-Vt.), who will be chmn. of Judiciary Committee. "But they won't be nearly as dramatic as they would have been without the power-sharing arrangement."

Lott raised ire of some Republicans earlier this year when he agreed that Senate divided 50-50 would have equal number of members of each party on each committee, and staff resources would be divided evenly. It wasn't unprecedented for one party to have one- or 2-seat majority in Senate and keep about 2/3 of committee staff funds. As result, committee minority staffs already are at record levels, so it won't take much hiring for Democrats to have staffs comparable to majority staffs of past.

No Republican staffer on Senate Commerce Committee will lose job, committee spokeswoman Pia Pialorsi said. She said Chmn. McCain (R-Ariz.) and chmn.-to-be Hollings (D-S.C.) had worked out deal to ensure no job losses, although respective staffs would have to switch offices so Hollings's could be in office attached to Russell Bldg. hearing room.

It was less clear whether any GOP jobs were in jeopardy in Senate Judiciary Committee. One source said it appeared that even staff ratio of Republicans and Democrats would remain and there would be no physical relocation of offices, but that conflicted with Leahy's commitment to hire more staff. Several staffers said it was hard to know for sure what would happen until Senate reconvened and passed new organizing resolution.

There will be hiring, as well as job shifts from senators' personal staffs to committees, Carle predicted. He anticipated that would occur on Judiciary Committee. It's unlikely any familiar Democratic faces on Judiciary or Commerce will be supplanted by staff from personal offices because staffs will grow to accommodate new members, we're told.

That growth will almost have to come at expense of Republican jobs, given static budget of Congress. At this point, it's unclear who might be in danger, we're told, but much will hinge on size of vote margin that Democrats take on each committee. GOP, claiming power-sharing deal was more magnanimous than was necessary, is asking Democrats to reciprocate by taking only one-seat advantage per committee but some Democrats want 2-seat edge. Most GOP staff jobs would be in jeopardy, sources said, if committees were adjusted by removing Republican senator or 2, rather than adding one or 2 Democrats to each panel.

How many GOP jobs are in jeopardy should be clear this week. Once Senate reconvenes, Democrats will be motivated to pass organizing resolution quickly. Without resolution, Senate reverts to committee posts in last Congress, leaving senators elected last fall — nearly all Democrats — with no assignments.

CBS EYEING INTERNET: Viacom CEO Mel Karmazin said CBS had hired many former Internet company salespeople to go after dot-com advertisers and that network also was targeting newspaper and magazine advertisers. He gave presentation last week at affiliates meeting in Las Vegas. CBS officials also highlighted network's continuing emphasis on HDTV and said station groups should urge other networks to do so.

"We would much rather take away business from magazines than from ABC," Karmazin said. Viacom-CBS had "somewhere around \$25 billion" in 2000 revenue, he said, with half of that coming from advertising, "making us the largest advertising company in the world." If Viacom could buy NBC, he said without explaining, "the first thing I would do is shut down CNBC." He confirmed that Viacom signed major deal with Procter & Gamble last week, reported at \$300 million, for advertising on CBS and Viacom's cable networks. "I'm not going to confirm the details," Karmazin said, "other than to say that [it's] the largest single deal I've ever gotten in my life."

In today's economy, Karmazin said "advertisers are having a field day... It's a buyers' market [and] advertisers, unfortunately, are able to buy our spots at less than they should be... The scatter market in television is soft." Karmazin said CBS was "very hopeful for a strong upfront" market — with networks beginning upfront sales in last 2 weeks. However, analysts report, and networks privately concede, that sales of fall TV time are going very slowly. However, CBS is said to be in best position, primarily because of success of *Survivor* and its planned return this fall.

As he did last year and year before, Exec. Vp Martin Franks urged networks not to sign away their extra digital spectrum until CBS could come up with joint plan to benefit both. And, that could happen by end of year, he said. "Everywhere but at CBS, the transition to digital is stalled," he said: "We are determined to keep our options open and, in many ways, to advance the ball." But, Franks conceded, "our efforts to forge an Internet partnership with you had some fits and starts... We remain determined to find a formula that makes our Web success a combined effort with all of you." Recently, he said, CBS HDTV program couldn't be shown in major market because affiliate there telecasting in HDTV had committed portion of its spectrum to data reseller.

Franks said transition to digital and HDTV "is alive and well at CBS. Unfortunately, only at CBS," which is "already doing everything we can to advance the transition." He suggested that groups "have a chat with your other network partners to see if they are doing everything they can" to promote switch to DTV. He said advertisers were approaching CBS "with deals that make sense to them" for ads on DTV and Internet. In order to judge affiliates' interest in cooperative effort, CBS distributed questionnaire to be mailed back.

Attendance at CBS affiliates meeting showed huge drop from last year at same site. Network brought only 60 staffers, down from 160 year ago. On affiliate side, there were 60 fewer stations represented than last year.

Quincy Newspapers completed its acquisition of 5 TV stations in Wis., broker Kalil said. Stations, all ABC affiliates, are WKOW-TV (Ch. 27) Madison, WXOW-TV (Ch. 19) La Crosse, WQOW-TV (Ch. 18) Eau Claire, WAOW-TV (Ch. 9) Wausau, WYOW (Ch. 34) Eagle River. Deal gives Quincy 11 TV stations. Terms weren't disclosed.

CANADA STALLS JUMPTV: Canadian govt. outlined proposed changes in country's Copyright Act that would entirely block or place "limitations and conditions" on Internet retransmission of TV signals by companies such as JumpTV.com, which wants same license as cable for retransmitting broadcast TV signals over Internet. In letter to coalition of broadcasters, producers and movie distributors, govt. said options for modifying compulsory retransmission licensing regime provided only that: (1) Retransmission licensing regime could expressly exclude Internet. (2) Retransmission licensing regime could "require compliance with new limitations and conditions appropriate to the unique concerns raised by Internet-based retransmission."

May 21 letter from Industry and Heritage depts. said govt. would release consultation paper "before this summer" on "whether persons engaged in the Internet-based retransmission of over-the-air TV or radio signals should be entitled to rely on the Copyright Act's compulsory retransmission licence."

Media content coalition applauded govt. probe of attempts by Internet companies "to exploit a grey area of the Copyright Act in order to make unauthorized use of Canadian TV programming." "We cannot allow people to make money from our productions without our consent and ruin our market for these productions all over the world by abusing a possible loophole in the law," Epitome Pictures Exec. Vp Stephen Stohn said. Media group said it would ask for a stay in the copyright board hearings expected this fall, pending the govt. review. Stohn said JumpTV.com's Web rebroadcasting was global threat, rather than just Canadian issue, since Internet-delivered programming was fully competitive with TV programming from anywhere in world.

JumpTV.com, which believes it should be treated like cable company that pays tariff for guaranteed access to TV signals, should negotiate directly with media groups for rights to their content, coalition said. JumpTV.com's plan to run ads around the programming also threatens media groups, Stohn said. Epitome Pictures, which produces TV series, is negotiating separate Internet rights for its productions, he said.

Letter showed that big media "can buy the laws in this country," JumpTV.com CEO Farrel Miller charged: "The federal government should be embarrassed to disseminate a letter which is clearly so one-sided, without any due process first." Miller said that "if in fact the government has prejudged the issue, it raises substantial issues regarding fair due process... JumpTV has always represented that application of retransmission laws in Canada must be applied in a technology-neutral manner."



Newly appointed to NAB radio board to fill 4 vacancies: Dist. 8 (La., Miss.) — Stephen Levet, WCKW-AM-FM Metairie, La.; Dist. 19 (Okla., N. Tex.) — Jerry Hanszen, KGAS-AM-FM Carthage, Tex.; Dist. 24 (Guam, Hawaii, Southern Cal.) — Val Maki-Candido, KLAC-AM-KPWR-FM L.A.; major market designated seat — Alfred Liggins, Radio One. New directors will attend their first board meetings June 12-13 in Arlington, Va.

FCC released latest edition of its *Emergency Alert System Handbook*. It said latest version included only minor changes from 1998 version.

Fox Sports International (FSI) and TeleRed Imagen S.A. of Argentina (TRISA) announced agreement to combine their Spanish-language sports TV assets in N. and S. America. Companies said new joint venture would bring together FSI's Fox Sports World Espanol and Fox Sports Latin America channels and TRISA's TyC Sports network. Venture will be managed jointly by partners and will be based in Buenos Aires. TRISA will take over day-to-day management of TyC Sports and Fox Sports networks in Latin America, where they reach 6.7 million and 9.8 million households, respectively. FSI will manage all N. American operations.

Dissatisfied with response to its inquiry into cable practices, W.Va. Attorney Gen.'s Office is contemplating either lawsuit or further investigation, govt. source said. Inquiry lasting more than 6 months focused on cable operators' alleged practice of imposing "debt collection" fee that's barred under state consumer protection law. Deputy Attorney Gen. Norman Googel sought information from cable companies last Sept. on connection, disconnection, reconnection and late fees as part of investigation of consumer complaints. Cable operators' responses have been "ambiguous" and "unsatisfactory," source said, and option now is either to file suit or order further investigation.

FCC Cable Bureau Fri. extended filing deadlines for comments and replies in latest round of long-running battle between AOL Time Warner and Gemstar-TV Guide International over cable carriage of independent electronic program guides (EPGs). Move follows AOL Time Warner's May 9 petition for expedited declaratory ruling that cable operators have right to block EPGs from other service providers. Commission set new June 18 deadline for comments, June 28 for replies.

FCC Cable Bureau ordered Charter Communications and Union Electric Co. to sit down with Bureau staff to try to settle former's lingering pole attachment rate complaint against Union. Acting on May 23 request from Charter, which Union Electric opposed, agency told "the parties to meet together with Cable Services Bureau staff to discuss the issues pertinent to a settlement of the complaint" in week of June 11. Under order, each side must provide Cable Bureau staff and each other with brief outline of unresolved issues and list of meeting attendees by June 8.

Delivery of "complete DTV experience" to consumers tops list of issues Consumer Electronics Assn. (CEA) wants to discuss with recently confirmed FCC Chmn. Powell and new Comrs. Martin, Abernathy, Copps. "We're naturally eager to engage these new commissioners in conversations about some of the tough policy issues, including those related to the transition to DTV, such as cable compatibility and cable carriage," CEA Pres. Gary Shapiro said.

Courts should establish clear legal means for challenging lower court decisions limiting public access to court proceedings and documents, RTNDA said in amicus brief filed with Kan. Supreme Court. Trial court in 2 Kan. murder cases denied request by KWCH-TV Hutchinson-Wichita and *Wichita Eagle* to intervene and challenge denial of access to case documents, prompting appeal.

Motorola validated integration of Concurrent Computer Corp.'s video-on-demand (VoD) software and WorldGate Communications's interactive program guide in equipment manufacturer's digital cable set-top boxes. With validation, Concurrent said its MediaHawk Broadband VoD system could be available in more than 14 million Motorola DCT-2000 digital boxes.

DIRECTV-ECHOSTAR DEAL: DirecTV-EchoStar agreement to extend deadline for lawsuit could pave way for agreement between 2 DBS providers for merger, industry officials believe. "It opens the door" for possible merger deal, satellite analyst said. EchoStar reportedly is putting together bid for its larger rival despite months of negotiations between News Corp. Chmn. Rupert Murdoch and DirecTV.

EchoStar filed federal antitrust suit against DirecTV more than year ago, accusing rival of threatening economic reprisals against retailers that offered both DirecTV and EchoStar services. Agreement puts suit on hold temporarily, possibly removing major hurdle in EchoStar effort to bid for Hughes and DirecTV. DirecTV filed motion for summary judgment in suit.

EchoStar was required to file opposition to motion last week, but agreement gave it extension until June 12. "By that time, both sides hopefully will know where they stand," said industry official close to talks. DirecTV has countersuit pending against EchoStar charging false advertising. Company said in SEC filing that GM, which controls Hughes and DirecTV, was willing to hold talks between legal and financial advisers. EchoStar Chmn. Charles Ergen could present outline of plan to acquire Hughes-DirecTV within 7 days, industry sources said.

Ergen reportedly has discussed plans with several companies, including AOL Time Warner, BellSouth, Deutsche Telekom, GE, SBC Communications, Verizon. He also has talked with several financial groups about backing proposal. If strategic partner doesn't join effort, Ergen may leverage investment so company can bid alone, industry source said. Most analysts estimated it would take up to \$50 billion to close deal.

FCC turned down request by RCN Corp. to extend program access rules to terrestrially delivered cable programming. In 13-page order approved 3-1, Commission backed Cable Bureau decision that access rules applied only to satellite-delivered cable programming. Majority also agreed with Cable Bureau that Cablevision Systems didn't engage in "unfair acts and practices" when it moved its overflow local cable programming from satellite to terrestrial links in N.Y. market. FCC dismissed RCN's contention that other sections of 1992 Cable Act gave agency authority to extend access rules. Comr. Tristani dissented, saying FCC should approve RCN's discovery request so that it would have "a full and fair opportunity to litigate its claim." In 4-page statement, she said "the Commission's reluctance to authorize appropriate discovery in these cases undermines the confidence in the ultimate decisions, frustrates the competition intended by Congress and conflicts with well-settled litigation principles."

Coalition of public interest groups urged FCC to enforce its suspended conditions on AT&T's \$44 billion purchase of MediaOne Group last year. In joint reply comments filed with Commission, Consumers Union, Consumer Federation of America and Media Access Project disputed AT&T argument that merger conditions should be dropped because of recent decision by U.S. Appeals Court, D.C., striking down 30% cable ownership cap as unconstitutional (TVD May 21 p3). Consumer groups said divestiture requirements imposed on AT&T should remain because they were "fully justified by the Commission's factual findings with reference to the public interest standard." They also argued that D.C. Circuit's ruling "does not vitiate the Commission's analysis supporting the divestiture it required of AT&T."

SBC DEVELOPS DSL ALTERNATIVE: SBC said it was rolling out new technology to extend broadband service to smaller businesses and residential areas, but regulatory treatment will determine how quickly it spreads. Technology called broadband passive optical networking (BPON) is alternative to SBC's Project Pronto, providing high-speed service without scattering unsightly remote terminals throughout neighborhoods. BPON uses small splitter about size of chewing gum package.

New technology extends fiber much closer to homes and offices than Project Pronto's traditional DSL service, offering higher capacity broadband service that's less expensive to deploy, said Ross Ireland, SBC senior exec. vp for services. Each fiber carrier sends multiple signals to splitter that divides signals for transmission to homes or businesses.

How quickly BPON spreads to residential areas also will depend on what conditions regulators place on it, he said. In particular, SBC is concerned about what kind of unbundling will be required and at what price, Ireland said. Conditions placed by Ill. regulators on Project Pronto have slowed DSL development there, he said. Ill. regulators asked SBC "to unbundle in so many places that it would cost me more than I could ever make on that technology," Ireland said.

In battle somewhat reminiscent of last spring's Time Warner Cable-ABC programming flap, Charter Communications and ESPN are squabbling publicly over use of video streaming by latter's ESPNews cable network. ESPN, owned by Walt Disney Co., said it would pull ESPNews from Charter's cable systems June 30, following breakdown in year-long carriage negotiations. ESPN, which wants right to stream sports-related video content to its Internet sites, said it made move after Charter refused to negotiate further on video streaming issue. But Charter, which wants limits on free video streaming because it might compete with cable programming, disputed that account, insisting that it still wanted to reach agreement. ESPNews, which reaches 22 million cable and satellite homes, now is in at least 1.2 million of Charter's 6.3 million households.

New satellite sales tax passed by Fla. legislature may be "unconstitutional," Satellite Bctg. & Communications Assn. (SBCA) said. Assn. said measure would levy 10.8% tax on satellite providers as well as on cable and telcos. SBCA said 1996 Telecom Act exempted satellite TV industry from local taxes but not from state taxes. Cable rate is 6.8% in state, 4.9-5.1% for local govts. depending on whether operator pays permit fees to municipality. SBCA presented opinion at request of Gov. Bush (R-Fla.), who signed bill last week. "We have been advised by tax counsel that the new tax rates could possibly be a violation of federal law in that they differ between satellites and cable, irrespective of what is paid to the localities," SBCA Pres. Charles Hewitt told members.

Deadline for filing conflict resolution agreements for non-commercial educational broadcast licenses was delayed to July 19 from June 4, FCC Mass Media Bureau said. However, it said, June 4 remained date for determining comparative qualifications. Bureau said extension was warranted because software still was being developed to use 2000 Census data for calculating population within service areas and because of errata in FCC report on settlement groups. Bureau also said petitioners warned they were having unforeseen difficulties reaching settlements.

Personals

Tom Russo, ex-senior vp, long-term programming, Paramount Network TV, named senior vp-current programs... **Jonathan Barzilay** adds senior vp-gen. mgr., Toon Disney, ABC, to senior vp-gen. mgr., ABC Kids... **Cindy Clark** promoted to vp-productions, dick clark productions... **Robert Wussler**, ex-CBS, joins Team Sports Entertainment board.

Louis Borrelli, ex-exec. vp-COO, Marcus Cable, appointed senior vp, AOL Broadband... **Bruce Thomas**, ex-senior vp, OneMediaPlace, named vp-integrated mktg., A&E TV Networks... **Robert Perez** promoted to vp-International Integrated Advertising Sales, Discovery Networks... **John Malone** of Eastern Management Group elected to American Fiber Systems board.

Frustrated by RIAA's attempt to disqualify them from Copyright Office proceeding aimed at setting royalty rates for online radio services, group of Webcasters sought ruling from U.S. Dist. Court, San Francisco. They asked that consumer-influenced Web radio sites be held not interactive and therefore eligible to take part in compulsory license proceedings under Digital Millennium Copyright Act. Question is whether sites that allow consumers to influence choice of music they receive have same compulsory license rights as sites that, for example, simply stream radio station programming. Squabble began when RIAA asked Copyright Office to exempt consumer-influenced services from Copyright Arbitration Royalty Panel (CARP) proceedings, Digital Media Assn. Exec. Dir. Jonathan Potter said. Webcasters want court to make clear that they can participate in CARPs. "That's the only way these companies will be allowed to flourish," Potter said. Webcasters are "committed to paying royalties," Potter said, and they're unhappy about the "sledgehammer of litigation" that's been dropped on them by the recording industry. The lawsuit is an "entirely defensive action," and that's unfortunate, he said.

N. American broadband service providers added average of 119,000 new residential customers per week in first quarter ended March 31 to reach total of 9.3 million subscribers (8.2% penetration rate), said Kinetic Strategies. Consulting group said MSOs continued to dominate market in U.S. and Canada with 6.4 million customers (70% of overall market) after adding 986,000 in quarter. Group said DSL providers added 560,000 subscribers to end quarter with 2.9 million — 30% of market. Of 9.3 million residential broadband total, U.S. accounted for 7.6 million and Canada for 1.7 million, group said.

House Judiciary Committee plans hearing June 5 on bill (HR-1542) by House Commerce Committee Chmn. Tauzin (R-La.) and ranking Democrat Dingell (Mich.) that would relax limits on Bell companies' providing data services across in-region interLATA boundaries. House Speaker Hastert (R-Ill.) gave committee until June 18 to review provisions of Tauzin-Dingell that would restrict U.S. Attorney Gen.'s oversight of issues related to Sec. 271 of Telecom Act. Hearing is at 2 p.m., Rm. 2141, Rayburn Bldg.

Latest Pax TV joint sales agreement is with Raycom-owned WTNZ (Ch. 43, Fox) Knoxville, companies said. Station will provide sales and marketing infrastructure for Pax's WPXK (Ch. 54, Pax) Jellico, Tenn., and Pax station will repurpose local newscasts. Pax now has similar agreements for 50 of its stations and says it plans similar deals for remaining 11.



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RespondTV and Jacobs Rimell said they teamed to develop DTV testing labs in San Francisco and London. Companies said new labs would allow network operators and content providers in U.S. and Europe to try out enhanced broadcast TV and other interactive TV (ITV) applications in digital environment before deploying new services. While labs eventually will support software of all major ITV players, RespondTV and Jacobs Rimell said they were giving priority to Liberate Technology because of its "preeminent position in the European digital cable market."

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STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending May 18, and year to date:

	MAY 12 - MAY 18	2000 WEEK	% CHANGE	MAY 5- MAY 11	20 WEEKS 2001	20 WEEKS 2000	% CHANGE
TOTAL COLOR TV	388,460	451,813	- 14.0	414,023	9,090,661	9,725,984	- 6.5
DIRECT-VIEW**	376,009	437,158	- 14.1	402,127	8,742,860	9,303,598	- 6.0
TV ONLY#....	323,015	360,448	- 10.4	349,530	7,328,558	7,741,393	- 5.3
TV/VCR COMBO.	52,994	76,710	- 30.9	52,597	1,414,302	1,562,205	- 9.5
PROJECTION...	12,451	14,655	- 15.0	11,896	347,801	422,386	- 17.7
TOTAL VCR**...	298,990	571,789	- 47.7	271,010	6,715,052	8,954,271	- 25.0
HOME DECKS...	245,996	495,079	- 50.3	218,413	5,300,750	7,392,066	- 28.3
CAMCORDERS....	123,481	89,600	+ 37.8	101,784	1,950,480*	1,837,166	+ 6.2
DVD PLAYERS....	115,310*	83,097	+ 38.8	88,546*	3,310,998*	1,785,798	+ 85.4

Direct-view TV 5-week moving average#: 2001-330,306; 2000-366,507 (down 9.9%).

Projection TV 5-week moving average: 2001-14,879; 2000-18,275 (down 18.9%).

VCR deck 5-week moving average: 2001-288,022; 2000-447,145 (down 35.6%).

TV/VCR 5-week moving average: 2001-67,878; 2000-95,973 (down 29.3%).

Camcorder 5-week moving average: 2001-124,209*; 2000-107,736 (up 15.3%).

DVD player 5-week moving average: 2001-156,694*; 2000-102,187 (up 53.3%).

* 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.

SEARS DROPS NINTENDO PRODUCTS FROM VIDEOGAME LINE: In surprising move, national mass-merchant retailer Sears has dropped Nintendo as vendor and won't be carrying Game Boy Advance (GBA) or GameCube systems, both parties confirmed to us last week. Sources told us retail chain sent Nintendo of America (NOA) letter week before Electronic Entertainment Expo (E3) in L.A. notifying NOA of its decision.

Ray Brown, Sears vp-gen. mgr. of home electronics and home office, told us late last week that it was "an amicable parting," noting that his company had carried Nintendo product at its stores ever since Japanese game giant entered U.S. market. Explaining decision to drop Nintendo product now, he told us: "Based on our revised strategy and the direction for the [videogame] industry we're only going to support platforms that have the potential to be the gateway into a home and Nintendo has positioned themselves as purely a game platform." Brown said: "It has to do purely with the strategic direction that we're taking with respect to videogames."

Nintendo has indeed positioned its GameCube purely as game machine. On keynote panel at E3 in L.A. last month, NOA Exec. Vp-Sales and Mktg. Peter Main said that while GameCube had capability for online gaming and broadband connectivity was built in, company was "not trying to cram that down anybody's throat — developers or game players — until the product is there and ready to go" (TVD May 21 p15). He said: "We don't think it's relevant right now, today." In terms of building online network for GameCube, Main said Nintendo had had experience with that type of thing before — for example with cellphones. But he said: "We'll bring that into our product when we see a compelling game idea that really makes sense to gamers and definitely makes... sense to our shareholders."

Brown said he expected Sears stores to go through their Game Boy and Nintendo 64 (N64) hardware and software inventory by end of summer. He said it wouldn't be "fire sale," but rather "gradual glide" that closed out remaining inventory.

Sears will continue to sell PlayStation 2 (PS2) hardware and software and will carry Xbox product when that system arrives in Nov., said Brown. To make up for Nintendo product, he told us Sears would carry expanded assortment of accessories and software for Microsoft and Sony game systems.

Both Sears and NOA vehemently denied suggestions from sources of dispute that allegedly stemmed from retailer's anger that NOA had been playing favorites with retailers, giving some chains — Wal-Mart, in particular — more favorable pricing on Game BoyColor hardware. Companies also didn't indicate decision had anything to do with Nintendo's controversial new pricing and profit structure with retailers for GBA that pegs profit margins on software to amount of product stores order and sell (TVD March 26 p9).

While N64 hardware sales have slowed dramatically in last year, entire Game Boy platform has been solid, and on occasion spectacular, performer at most N. American retail outlets for quite some time. That momentum is expected to continue with June rollout of GBA and, more importantly, GameCube generated great deal of positive buzz coming out of E3 that was further heightened when NOA announced \$199.95 price for hardware — full \$100 below PS2 and Xbox (TVD May 28 p11).

NOA Mktg. Vp George Harrison said sales of Nintendo products had suffered at Sears since chain moved its game department out of boys clothing department (where it was known as Funtronics) and into Brand Central electronics section (TVD Feb 7/00 p20). "The shift into the electronics area has not been a particularly successful move for us," he said: "They have commissioned salespeople who are more interested in selling a high-end TV than they are in selling a \$40, \$50 or \$60 game." Harrison said Sears also found it difficult to properly advertise Nintendo products in electronics section. "The whole experience has been disappointing for about the last year and they decided to take the final step and go only with Sony and presumably Microsoft when they launch."

Harrison told us other retailers already were interested in picking up Sears' allocation. "We had people calling us as soon as they learned of it saying, 'Can we take their product?'" he said.

THOMSON PROPOSES EXTRA COPY PROTECTION FOR DTV: Seeking to break impasse over DTV copy protection, and given demand by broadcasters and content owners for more secure system to protect DTV broadcasts, RCA parent Thomson Multimedia offered proposal last week for encryption system that could provide additional layer of protection for 5C Group's embattled Digital Transmission Content Protection (DTCP).

New SmartRight technology from Thomson uses renewable smart cards to keep programming encrypted within consumer's home network and prevent it from leaving home setup such as for unauthorized distribution over Internet. System is embellishment of Extended Conditional Access (XCA) system developed by Thomson and Zenith and offered in past as alternative to DTCP and other methods. Difference is that SmartRight isn't being proposed as alternative but as complementary to DTCP and Digital Visual Interface (DVI), and Zenith isn't directly involved but supports SmartRight.

Thomson said SmartRight could operate on its own, but its architecture made it feasible to work with other copy protection systems. Thomson said "smart cards" ensured renewability of copy protection in case system was hacked — feature not possible with DTCP. Besides ATSC system used for DTV in U.S., SmartRight could be used with DTV systems worldwide, company said. Spokesman told us it also could be extended to devices that used prerecorded programming, such as DVD-Video and DVD-Audio where digital output and copying remain contentious issues.

SmartRight always keeps content scrambled in transmitting among devices in consumer's home network until it's displayed or played, Thomson said. Descrambling is done by removable security module or "smart card" attached to presentation device. Content owners can select options that allow consumers to "View Only" or to "Copy For Personal Network" or to "Freely Copy" encrypted content, Thomson said.

System will enforce those rules within home network, giving consumer ability to share recorded content with other home or portable devices in the home but restricting redistribution of that content outside consumer's "personal network" of products. "We do expect that consumers will want to do in their digital living room what they already do today in an analog environment. They'll want to record their favorite shows, time-shift, store copies for future viewing and share that content with other devices in their own home," said Jean-Charles Hourcade, Thomson senior vp-research and innovation. "All of these functionalities will be part of the SmartRight system, as will technology preventing unauthorized redistribution of digital content," he said.

SmartRight also will work with conditional access or digital rights management systems implemented by content providers, Thomson said. Technology was disclosed week before last at Copy Protection Technical Working Group (CPTWG) meeting in L.A., and Thomson will be pitching system to individual hardware and content vendors in future, spokesman told us.

SAMSUNG FLAT TVs AND FLCD: Samsung will extend flat-screen TV technology down to 14" (\$249) analog model and also ready first shipments of rear-projection sets based on ferroelectric LCDs (FLCD).

New analog 14" (\$249), 20" (\$349) and 27" (\$599) will anchor low end of DynaFlat line and serve as complement to entry-level 27"-32" (\$999 and \$1,499 street prices, respectively) digital TVs (DTVs) that will feature screen capable of displaying 1,080i or 480p picture. Entry-level DTV sets then shift to 27," (\$1,099) 32" (\$1,699) and 30W (\$2,199) step-up models that boost audio to 45 w from 30 w and feature 3D Y/C comb filter, Invar mask, picture-in-picture (PIP). Lower priced 27" and 32" DTVs will lack 2-tuner PIP and will be packaged with standard remote control vs. joystick-equipped version for step-up models.

Flat screen has been evolving technology for Samsung, starting with 27" flat tubes in 1996 and progressing to "Pure Flat" series of 27-32" sets last year that were capable of handling 480p digital signal but not 1,080i. Flat-screen sets currently are built and assembled in Korea, although eventual goal is to move production to Tijuana, Mexico. Mexican plant currently builds up to 25-27" conventional tubes, and Samsung has hinted at adding 32" by 2002.

"We'll keep the commodity product, but our focus will be to add more and more features," Samsung TV Products National Mktg. Mgr. John LaVoie said.

While Samsung line continues to lack 36" that tops out most direct-view lineups, it continues to "study" category but has no immediate plans to add screen size, LaVoie said. Possible candidate to fill gap would be 37W plasma display panel (PDP), although pricing still remained well above direct-view level.

Among more featured TVs will be 50W rear-projection DTV based on Displaytech's FLCD technology that's used with 0.78" microdisplay panels. Samsung, which has delayed introduction of FLCD sets several times, most recently postponed first quarter rollout as it continued working to increase yields, Vp James Sanduski said. New 50W (\$7,000) will ship in Aug. with 43W in Oct. at \$6,000, he said. Initial quantities will be small — 100 units — but production will increase from there, he said.

In other display technologies, Samsung may test consumer sales of 42W PDP later this year, but major thrust will be for commercial applications, Sanduski said. Consumer version of PDP is likely to have external box attached to display containing components including tuner, he said. Samsung also will carry over 40W LCD rear-projection set that shipped in mid-2000, he said.

Acer signed licensing agreement with Palm and plans introduce handheld PC based on its operating system (OS) early next year, targeting Asian market. Acer will work with Palm in developing Asian language versions of OS, which already is available in English and Japanese. Acer's handheld will feature wireless technology and 3.8" reflective TFT LCD sourced from Unipac Optoelectronics. Unipac earlier said its 3.8" products would be shipped in package of reflective TFT LCDs at \$80-\$100. In entering handheld PC market, Acer becomes Palm's 6th licensee following Handspring, Kyocera, Nokia, Samsung, Sony. It already had dabbled in handheld market, once developing model based on Linux OS.

MITSUBISHI TO CUT DTV TAGS: Mitsubishi is expected to lower prices on 55W and 65W digital TVs (DTV) \$500 June 28 as it moves to clear inventory in advance of new models, retail sources said.

Models 55807 and 65807 are expected to drop to \$2,499 and \$2,999, respectively, as Mitsubishi follows industry toward lower pricing for DTVs. It lowered 46W to \$1,999 from \$2,599 in April (TVD April 2 p10). Minimum advertised prices for 55W and 65W haven't been set, but average dealer cost was cut \$200, retailers said.

"I don't see how they had much choice but to meet the competition," one dealer said. Mitsubishi officials weren't available for comment.

Indeed, Matsushita is said to have started shipments of 47W HD-ready set that started price battles earlier this year when it was introduced at \$1,999.

Panasonic last week took wraps off new DVD-RAM deck that has PVR time-shift function and DVD-R write-once recording with 6-hour mode, as we reported April 30. New DMR-E20 will be available in Japan next month and in Oct. in U.S. at \$1,499.95 — steep drop from current DMR-E10 introduced at \$3,999.95 last Aug. and recently advertised for \$1,299.99. TimeSlip enables simultaneous playback and recording similar to hard disc drive PVRs. Application is possible owing to format's high 22.16 Mbps data transfer rate, Panasonic National Mktg. Mgr. Rudy Vitti said. Newly revealed function wasn't implemented in original DMR-E10 or touted at time for reasons Panasonic had yet to explain at our deadline. Meanwhile, Vitti confirmed that DMR-E20 can record 6 hours on write-once DVD-R, action it disclosed at European line showing in April when company compared feature to just 2 hours of DVD-R recording on Pioneer's DVD-RW format. Not explained at time was data-rate used for 6-hour mode or level of video quality. Vitti told us feature was possible because DMR-E20 used Variable Bit Rate to allocate most data to complex video images. Data rate is somewhat below 2 Mbps, he said. Panasonic still hasn't characterized resolution in 6-hour mode. DVD-R recordings can be played in current DVD and DVD-ROM drives, Panasonic said. DVD-RAM recordings will run in Panasonic's current DVD-RP91 and DVD-H2000 players and portable coming later this year. They also will run on PCs with DVD-RAM drive and Video Recording Format support — application available from 3rd party software vendors. Panasonic will make and sell DVD-RAM and DVD-R blanks. Double-sided 4/12 hour RAM has \$37.99 sticker. Single-sided 2/6 hour blanks come in 3-pack for \$39.99, making rewritable disc slightly cheaper than 2-hour write-once DVD-R to sell for \$13.99 each.

Pioneer is supplying Sony DVD-RW recorder drives for Sony's new Vaio PC — RX490TV Digital Studio (\$2,499.99). New PC has build-in tuner to record TV shows to its hard disc drive. Sony is member of DVD+RW Alliance that's rival to DVD-RW format, but has been working to bridge these. Company in past has said it supports DVD+RW as PC storage format, but not for home video. Other PC makers who have adopted DVD-RW include Apple, Compaq, NEC/Packard Bell.

Warner Bros. Online (WBO) now is offering gamers *Zeta Quest 3D* at company's Web site, www.warnerbros.com. Game is based on Kids' WB animated TV series *The Zeta Project*.

PC CONNECTION TO BUY OUTPOST: Struggling Cyberian Outpost (CO) was given lifeline last week when PC Connection agreed to acquire it in stock-for-stock transaction valued at \$12.5-\$25.9 million.

CO, which laid off 110 employees in April as it met with creditors to discuss payment options (TVD April 16 p11), will keep offices in Kent, Conn., in operating as subsidiary of PC Connection. Deal is expected to close in Sept.

Each share of CO stock will be converted into shares of PC Connection common at exchange ratio that will vary based on CO total revenue in July-Aug. PC Connection received option to buy from Cyberian up to 19.9% of its shares at 51¢ each. PC Connection also will provide CO with 2 credit lines — \$3 million for working capital, \$5 million for inventory. Credit lines will be secured by all assets of CO, which operates Outpost.com Web site.

Not affected by sale will be Fry's Electronics' acquisition of 3.1 million shares (9.9%) of CO in April for \$2.3 million, CO Vp-Gen. Counsel Christopher Walls said. Fry's CO investment will be converted to PC Connection common, he said. Fry's officials weren't available for comment, but 18-store chain has sought to jump-start online business, which to date has consisted of sales of Internet access but not CE.

Companies said combination would generate savings, but declined to quantify amount. CO and PC Connection will merge distribution operations at Air Borne Express hub in Wilmington, O. PC Connection has 205,000-sq.-ft. facility there and ships 62% of products through Air Borne, it said in 10K. CO has 100 employees and PC Connection 1,654. PC Connection posted sales of \$1.2 billion in fiscal 2000, while CO had \$335 million.

"There are not very many options available to dot-coms these days, and just a few weeks ago this [deal] was very much in doubt," CO CEO Darryl Peck said. "We knew this [CO] wasn't going to be another dot-com failure and we had to suffer through some difficult times in the past several weeks." In reducing work force, CO dropped business-to-business reselling operation to focus on consumer market.

Purchase will move PC Connection, which has focused primarily on business desktop/notebook PC market that generated more than 30% of its \$1.45 billion in revenue in 2000, into CE marketplace. CO has separate joint ventures with Tweeter Home Entertainment and Brookstone that are expected to continue after deal closes, Walls said. Tweeter officials weren't available for comment. CO had similar agreement with Wolf Camera that ended several months ago, Walls said.

Companies also appear balanced in PC market despite some overlap in product categories. While notebooks produced 24% of PC Connection's revenue in 3 months ended March 31, they represented 13% of CO's sales. On other hand, CO generated 20% of revenue from desktop PCs and servers in same period and PC Connection 13%. Among PC platforms, 91% and 9% of PC Connection's sales were Windows and Apple-based, respectively, while ratio was 75%-25% for CO.

CO had edge in active customers — those who have made purchase at Web site in last 12 months — with 750,000, while PC Connection had 589,000. CO has focused largely on consumer

market, PC Connection has catered to small-to-medium-sized businesses with 20-1,000 employees and used Ingram Micro and Tech Data for distribution. It also publishes 2 catalogs — *PC Connection* for Windows-based products and *MacConnections* for Apple PCs and related products.

Virgin Interactive Entertainment has paid Interplay \$3.1 million for past due balances, resolving dispute on international distribution of latter's titles. Virgin and Interplay signed distribution agreement in 1999, but former disputed amendment in Jan. 2000 and contended Interplay was obligated to pay \$9.3 million in overhead costs. Interplay had amended agreement to eliminate clause requiring it to pay overhead fees and minimum commission. Also under settlement, Interplay agreed to pay Virgin one-time marketing fee of \$333,000 for period ending June 30. Overhead fee was revised to require Interplay to pay total of \$111,000 for 9-month period that began in April and \$83,000 per month starting in Jan. 2002. Interplay used \$3.1 million it received from settlement to pay down previous line of credit, it said. Interplay retains 43.9% stake in Virgin, which sells its titles under 7-year exclusive agreement covering Africa, Europe and Middle East. Before settlement, Virgin had owed Interplay \$12.1 million as of March 31, while Virgin was due \$4.8 million, filing said. International market accounted for 25% of Interplay's overall revenue in fiscal 2000. Interplay has struggled in recent months, posting losses of \$8.4 and \$12.1 million for first quarter and year, respectively. To shore up funding, Interplay obtained \$15 million line of credit in April, part of which was secured by \$2 million personal guarantee from Chmn. Brian Fargo. Guarantee is part of \$3 million loan Fargo made to Interplay that's due next May. Interplay also provided additional details of advance payment it received from Microsoft (TVD May 7 p15) for publishing exclusive version of game *The Matrix* for Xbox. Interplay received \$5 million advance, which must be repaid at \$20 per unit upon sale of product, it said in SEC filing. If full amount of advance isn't repaid by June 2003, remaining outstanding balance is subject to interest at prime rate plus 1%, SEC documents said. Interplay's license to develop games based on *Star Trek* will expire next year, it said. Licenser Viacom Consumer Products signed pact to transfer rights to another publisher, Interplay said.

Rex Stores reported first-quarter net income dipped to \$3.10 million from \$3.24 million year earlier on sharp drop in sales of major appliances and small screen TVs. Sales slipped to \$104.1 million from \$107.1 million on 13% decline in same-store sales. Downturn in profits was offset by sharp gain in income from synthetic fuel limited partnership to \$3 million from \$1.2 million year ago. Minus partnership income, Rex earnings were 14¢ per share, against 53¢ without it. Partnership also generated tax credits of \$10 million that could be carried forward against future earnings, CFO Douglas Bruggeman said. Rex has 20% stake in another partnership that's not operating now but could add income in 2002, CEO Stuart Rose told analysts in conference call. DVD players and 35" and larger TVs were strong sellers in quarter, although "HD isn't booming like it should be" in some of Rex's smaller markets, Rose said. He put chain's share of big-screen TV market at 3%. Major appliances dragged down earnings, with air conditioner sales "weak" and "no weather forecast that says it will get better," Rose said. Rex has said it will trim appliances and add to office furniture mix (TVD April 2 p18). Rose also hinted at possible store closures, saying "there may be some stores in some markets that are not performing the way they should be." He declined to identify markets and said Rex would open 10-15 stores in current fiscal year.

ONKYO ADDS CATEGORIES: Onkyo will parlay its audio specialty expertise this summer in expanding into home-theater-in-a-box (HTIB) bundles, upgrading home theater systems and adding new category of high-quality sound peripherals for PCs and videogames. Meanwhile, company will burnish image in AV receivers with new models incorporating Dolby Pro Logic II across price range.

"We have not been enamored of home-theater-in-a-box until consumers could understand there are differences in the category," Onkyo Senior Vp. Mark Friedman said. "It's funny when the average price is \$299 and the step-up is \$399. We will not be compromising performance for price points."

Company's first HTIB weighs in at \$499 for HTS-490 system, whose electronics are derivative of 5-channel 55 w entry level TX-DS494 receiver, minus phono input. Package comes with Onkyo-developed and made speakers, 50 w subwoofer. Step-up HTS-493 at \$699 adds company's new entry level DV-353 DVD player with component video output, coaxial and optical digital audio outputs.

Onkyo's next Envision Theater DVD home-theater system will be upgrade of current Envision LS-V900 but will carry same \$1,200 MSRP at Aug. debut. Combo 5-channel receiver/DVD player of new LS-V925 puts out 35 w per channel compared with 30 w in LS-V900, and will have other electronic upgrades that Onkyo executives didn't divulge. System is buttressed by 60 w powered subwoofer compared with existing 50 w sub. Onkyo executives said combo wasn't closed system, as were some on market, but had wide selection of inputs for other AV sources. Besides subwoofer, Envision Theater includes D-105 speaker system whose center and 4 satellites are 6 ohm models designed and made by Onkyo.

D-105 package also will be marketed with new DVD and AV receiver package from Onkyo. DV-L5 player and TX-L5 receiver are slimline components to be sold together as \$800 package, without speakers. D-105 system will be offered separately at \$599, Onkyo executives said. Company also showed self-made speaker system with stereo minitowers and woodgrain cabinets, but decision to offer them hasn't been made.

Onkyo will extend HTIB concept into multimedia space with Digital Theater Station (\$329.95) for use with PCs, videogame consoles or other sources. To upgrade sound from PCs, Onkyo will offer outboard Digital Audio Processors that override need for sound card in PC.

Outboard audio processors will be available for Apple Macintosh and for Windows PCs. Onkyo said outboard processor eliminates need for consumer to open PC to add soundcard — and also isolates audio processing from noisy electrical environment within PC.

Like company's home audio products, processors use single-bit digital-to-analog and analog-to-digital converters, and discrete-component analog preamps. Mac model, MSE-U33HB (\$199), also functions as USB hub with 3 ports and has microphone/line input for Macs lacking audio inputs. Processor for Mac or Windows PCs, SE-U55 (\$249) is slim tower that connects to PC's USB and has multiple inputs and outputs to connect wide selection of AV sources, including game consoles. Onkyo-developed CarryOn Music software package for Win-

dows is audio processing application for analog or digital sources, and includes high-speed MP3 and Windows Media Audio encoding through PC.

Outboard processor can connect to Digital Theater Station, which houses all amps and electronics in subwoofer with LED display panel, including decoding for Dolby Digital, Dolby Pro Logic II, DTS. Power is 10 w each to cube-shaped center and 4 satellites, 25 w to subwoofer.

In components, entire Onkyo receiver line will have Dolby Pro Logic II this year and all retain phono inputs. Update kit will be available soon at "nominal cost" to add DTS-ES and Dolby Pro Logic II to flagship TX-DS989 receiver. Kit consists of CD-ROM and RS-232 cable that lets current owners of 989 update it through PC. New Dolby and DTS systems will be preloaded on 989 models coming onto market. On DVD front, Onkyo will drop 6-disc carousel changer this year for 5-disc model and will add single-play DV-S555 (\$299) with MP3 playback from CD-R/W. DV-S555 has subwoofer output, quick-start disc transport system and can output PLUGE (Picture Line Up Generation Equipment) test-pattern signal to calibrate black level of video display used with player.

Telegen's first-quarter loss widened to \$1.9 million from \$454,848 year ago as company failed to post revenue while it continued development of high-gain emissive display (HGED) technology. General and administrative costs soared to \$1.6 million from \$359,641 and total operating expenses to \$2.1 million from \$439,848. R&D costs rose to \$500,220 from \$80,207, including \$358,063 for HGED and \$142,157 for Telegen's wireless datacasting subsidiary Telsair. Accumulated deficit was \$37.1 million at quarter's end. Sharp rise in costs was largely tied to Telegen's emergence from bankruptcy protection last June and hiring of new staff... Emagin CEO Gary Jones was paid \$227,863 in fiscal 2000, up from \$188,377 year earlier, while George Cone, pres. of subsidiary Virtual Vision received \$165,000 vs. \$156,000. Travelers Insurance Co. remains top stockholder with 7.4 million (29.8%) of shares outstanding. Gary Jones and his wife Susan, who is exec. vp and chief strategy officer, control 1.4 million shares each (5.6%)... Spatialight acting CEO Robert Olins, who is pres. of company's largest investor, Argyle Capital Management, was granted options for 750,000 shares at \$1.50, but was paid no salary in fiscal 2000. Olins replaced former CEO Michael Burney in Aug. 2000. Burney was paid \$170,722, down from \$200,000 year earlier, and exercised options on 500,000 shares in first quarter. Argyle is top shareholder with 2.6 million shares (10.36% of those outstanding) followed by Sabotini, 2 million (9.2%). Burney had 549,127 shares as of Dec. 31, but after exercising options retained 49,127.

800.com started mailing "Dads 'n Grads" catalog to its customers. Catalog includes more than 250 products in 15 categories. Items were picked from among online electronics retailer's Web site that offers more than 250,000 products. Company said its growth plans include increased focus on direct marketing as well as continued gains in online sales. Spokeswoman said: "We intend to take full advantage of the close link between online retail and direct marketing. We believe there is intrinsic value in being able to thumb through a catalog — it gives shoppers something to mull over. It also provides a tangible expression of 800.com's full-service approach." Catalog purchases can be made through toll-free phone number or online.

NEW USE FOR GAME CONSOLES: Enroute is betting that consumers who own PlayStation 2 (PS2) are ready to use next-generation system for more than just playing games. Specifically, Palo Alto, Cal., company is trying to build awareness for its FirstPerson immersive video technology, which essentially allows viewer to watch concert footage or any other type of video in 360° form.

Company said it selected PS2 as first platform to use its technology based largely on installed game console. But Sony Computer Entertainment (SCE), of all next-generation console makers, might have been most receptive considering its own philosophy for PS2. After all, PS2 was envisioned by SCE as entertainment hub in home not only for watching games, but also for watching DVD movies, listening to audio CDs and, soon, online activities.

Enroute recently revealed that it had joined SCE's tools and middleware program, allowing it to develop and offer tool kit to authorized PS2 software developers. Kit will allow game makers to build FirstPerson formatted content into whatever titles developer wants it in. With PS2, users will be able to experience 360° full-motion video at what Enroute says is broadcast quality and to control perspective of title's image with standard PS2 controller.

At Electronic Entertainment Expo (E3) in L.A. last month, Enroute gave taste of what it has to offer via demonstrations of first title using company's immersive technology for PS2 — yet-to-be-named Britney Spears 360° interactive video DVD.

Specifics were scant last week on Spears title. It also was unclear who publisher would be, how much it would cost or exactly when it would ship. But Enroute Exec. Vp Paul Cha, who founded company in 1996 with Chief Technology Officer Leo Blume, told us that information would come soon. As for availability, company said only: "The first titles containing FirstPerson content will be delivered to the retail channel in early 2001." Cha said pricing would be up to publisher but he suggested cost would be more than typical DVD movie and less than PS2 game.

Cha told us company wanted to transform what had largely been "passive" experience into "active" one for consumers. As to why company picked Spears first, he said Enroute was trying to find biggest star it could to introduce technology to consumers. He said Enroute hoped that in future its technology would be used by videos for wide range of types of musical acts, including ones for consumers older than Spears's typical fans, who seemingly are not exactly in line with PS2's current target audience. Cha said company already was "talking to [other acts] right now."

Enroute also hopes its technology will be used for nonmusic videos as well. For example, he said, one compelling use of technology might be with racing game that could be mix of videogaming action and real video footage that might have celebrity racer taking viewers on ride to show what it's like to drive race car. Enroute, he said, is in talks with other publishers, although nothing has been set in stone yet.

Cha said company's technology today wouldn't work with traditional DVD-Video players because they didn't have enough processing power. But he said he hoped that future generations of DVD players would be able to use Enroute's technology. He said

the technology also could be used for PCs and in GameCube and Xbox, saying it's "very agnostic." But he said no deals had been signed yet with Microsoft and Nintendo to achieve that. Cha said he couldn't be sure GameCube and Xbox would even make sense for Enroute on economic level. That could happen only if enough of upcoming console systems sold, he said, and 20 million units shipped through might be "feasible" level. Company also hopes programs can be broadcast via satellite or pay-per-view that use same immersive technology.

Explaining to us last week how technology works, Cha said immersive video like one featuring Spears used 8 special cameras shooting multiple streams that then were edited into single stream.

Cha declined to say whether Enroute had been profitable yet, saying it was private company. But he said it definitely was goal "to make money." As to whether he was looking to take Enroute public at some point, he told us it was in no hurry: "When it happens it happens."

3DO CEO William (Trip) Hawkins Fri. criticized various parts of Bloomberg news report we referred to last week in which he attacked Xbox (TVD May 28 p20). Although he admitted to us that he questioned system's chances for success, he said Bloomberg report "also missed the point and failed to say other things that result in [the] piece being sadly 'out of context.'" He said: "For example, I said that Nintendo (not Sony) stole the [E3] show, and I said very positive things about Nintendo's prospects with GameCube. At present, 3DO has zero GameCube and zero Xbox games in development. But the Bloomberg piece implied that the only reason I bashed Xbox is because I am doing Sony games, not Xbox games. [The report had its] cause and effect backwards. Sony will be a strong #1 in this battle and Nintendo will be a solid #2. Microsoft will either get much more aggressive or they will be getting out and licking their wounds by 2003. I would also add that Nintendo's announcement about a \$199 price point will no doubt trigger a price war that will drive industry hardware sales and be of great benefit to software publishers in general."

EGames sold its U.K. subsidiary to Greenstreet Software for \$300,000 cash. Greenstreet paid \$150,000 at closing of sale, and \$150,000 next year. Greenstreet also becomes distributor of eGames software in U.K. and Europe. EGAMES international business has struggled in recent months with sales plunging \$299,000 in first quarter to 15% of \$2.8 million in revenue from 47% year earlier, SEC filing showed. In same period, eGames said overall loss dipped to \$794,367 from \$797,480 and staff was cut 25% (TVD Jan 15 p21) as it struggled to regain compliance with credit agreement. EGAMES received bank waiver (TVD Feb 26 p15) after falling into violation of covenants of \$2 million credit facility by failing to maintain effective minimum of net worth of \$3.1 million, figure that rises to \$3.7 million June 30. Company expected to remain in violation of covenants for its credit pact through June 30, it said. It had \$1 million outstanding balance on facility as of May 11, it said. EGAMES has separate \$225,000 facility for U.K. subsidiary that expires Sept. 30.

Tweeter Home Entertainment announced Fri. it had completed acquisition of 3-store Charlotte chain Audio Video Systems for \$3.75 million in cash and 40,717 Tweeter shares. Tweeter said Audio Video Systems, which has operated in Charlotte for 13 years, has had annual sales of \$15 million. Tweeter said acquisition would serve as "hub" for growth into other parts of N.C., S.C., Tenn.

MIDWAY EXITS E3 ON HIGH NOTE: After posting reduced revenue and increased loss for its 3rd quarter last month (TVD May 7 p16), future already is looking brighter for Midway Games.

Chicago-based game maker entered Electronic Entertainment Expo (E3) in L.A. with announcements on variety of new titles for next-generation systems that showed promise. Since show, analysts and investors have indicated growing sense of confidence that Midway would indeed benefit in 2002 from its decision to drop production of variety of legacy system games to concentrate on titles for PlayStation 2 (PS2) and other next-generation game systems.

Shares in Midway leaped more than 21% to new 52-week high May 29 after UBS Warburg analyst Michael Wallace raised his rating to "strong buy" from "hold," Reuters said. He predicted that Midway would have "breakthrough" year in 2002. Reuters also quoted Dougherty & Co. equity analyst Paul Kaump as saying: "Clearly, Midway is taking the right approach with respect to the console market."

Gerard Klauder Mattison Senior Vp Edward Williams told us last week: "I thought Midway had some pretty good-looking products for calendar year 02" at E3. "In general, I thought the software [from companies at E3] looked a lot better this year than a year ago," he said, and also was impressed by titles from Electronic Arts, Konami, Square (especially its *Final Fantasy* entry for PS2), Take-Two Interactive Software. But he said quality of some of Midway's upcoming games was "more of a surprise," largely because he tends to "have a very high standard for some of the other companies" already. However, he said some of those games still were in their very early stages of development. Regardless, Williams said he was "more comfortable" with Midway's upcoming slate of titles coming out of E3 than he had been going into show.

Highlights of Midway's E3 announcements included more information on next-generation games, although company already had provided some of same specifics in earnings conference call earlier in month. For example, Midway said *Ready 2 Rumble Boxing: Round 2* would ship this month as first title for Game Boy Advance (GBA). Company also said it was developing *Arctic Thunder*, snowmobile racing title for PS2 and Xbox (fall 2001); version of its arcade hit *Defender* for PS2 (2002); *Fireblade* for PS2 (spring 2002); *Gravity Games Bike: Street. Vert. Dirt.* for next-generation systems (spring 2002); *Legion: The Legend of Excalibur* for PS2 (fall 2001); new version of *Mortal Kombat* for GameCube and other next-generation systems (fall 2002); *NFL Blitz 20-02* for GBA, GameCube, PS2 and Xbox (fall 2001); *Red Card Soccer* for next-generation systems (2002). Midway said it had yet to propose *Gravity Games* and *Mortal Kombat* titles to Sony Computer Entertainment America for PS2. It did say it had started shipping open-wheel racing game *CART Fury* for PS2.

Trailers for upcoming games were shown to analysts and investors at Midway presentation at E3. CEO Neil Nicastro once again stressed that "our focus now is 100% on next-generation titles." He also promised that company's upcoming *NHL Hitz 20-02*, slated to ship in fall, "is going to be more fun and it's going to outsell the competitors' hockey games." Nicastro expressed similar confidence in much of rest of company's slate, although he admitted *Arctic Thunder* was "good" game, but not nearly as good as some of other upcoming titles from Midway.

Midway is feeling very "bullish" about its prospects, Nicastro said, and was even more confident about next-generation games that will be part of its next cycle. What makes him even more confident, he said, is that its recently released *Gauntlet Dark Legacy* for PS2 has been top-selling title despite fact that in his opinion it's good, not great. "The games we have coming out are substantially better than that," he said.

Nicastro also said again that Midway planned to ship at least 31 SKUs for next-generation console systems in calendar 2002 (12 PS2, 10 Xbox, 9 GameCube) and more than 40 new titles following year.

Midway also said it completed private placement of \$40 million of Series B convertible preferred stock and warrants to sell its common to 2 institutional investors. Company said Nicastro also bought \$2 million of new preferred shares on same terms and conditions as institutional investors. Game maker said new preferred was convertible into Midway common at \$9.33 per share, subject to adjustments, and carried 4% dividend, payable quarterly in cash or additional preferred stock at company's option.

Midway said initial conversion price of new preferred represented 10% premium over weighted average price of company's common in 40 days ended May 18. Through May 21, institutional investors and Nicastro had option to buy up to additional \$12.5 million and \$625,000, respectively, of Series B preferred that was convertible into Midway common at \$10.60 per share. Institutional investors and Nicastro also received 3-year warrants to buy up to one million and 50,000 shares, respectively, of common at exercise price of \$9.33.

Company said it "expects to use the net proceeds of the private placement of approximately \$40 million for development of [our] games for the next generation of videogame platforms, and working capital to finance inventory and receivables."

CompUSA will cut 700 jobs in restructuring designed to focus chain on core retail business and improve service to commercial customers. CompUSA, which employs 18,000 and operates 218 stores, will take \$4 million charge against 2nd-quarter earnings to cover restructuring. Plan should generate \$30 million in savings, Pres.-CEO Harold Compton said. Job cuts are among most recent actions CompUSA has taken since being acquired by group headed by Mexican businessman Carlos Slim and taken private. It has revamped many of its stores in past year to feature more "open" layout with better signage... Office Depot warned last week that it might fall 1-2¢ short of Wall St.'s 2nd-quarter earnings expectations if weakness in sales and strengthening of dollar against foreign currencies continued. Analysts had projected earnings of 13¢. CEO Bruce Nelson said same-stores sales would be in low negative double-digit range and while April sales were worse than expected, there were signs of improvement in May. Downturn in sales was caused largely by high-ticket items such as technology products that posted lower average selling prices, Nelson said. International sales were strong in April, but showed signs of weakness in May amid strengthening of dollar against euro and pound, Nelson said. Office Depot also said it reached agreement to acquire Officesupplies.com, terms not disclosed. Online office supply retailer will continue to operate site for 90 days and contact its customers about transferring accounts to Office Depot.

THQ INCREASES MARKET SHARE: As THQ prepares to release broad slate of new titles, Calabasas Hills, Cal., game maker said increased its console market share in April to 6.4%, up from its 5.8% in same period year ago.

Company said it also became No. 2 independent software publisher and No. 3 software publisher, according to NPD's TRSTS Video Games Summary, trailing only Nintendo of America and Electronic Arts in market share in April.

THQ Pres.-CEO Brian Farrell offered optimistic take on recent achievements, as well as opportunities for videogame industry overall. He said: "Coming out of E3, there is a lot of excitement in the category, and we look forward to continued market growth in anticipation of Microsoft's Xbox, Nintendo's GameCube and Game Boy Advance systems as well as increased penetration of Sony's PlayStation 2. Last week's highly anticipated release of *Red Faction* for PlayStation 2 as well as upcoming summer releases including *MX 2002 Featuring Ricky Carmichael* for PlayStation 2 and our premier Game Boy Advance launch title, *GT Advance Championship Racing*, position us very well for the near and long term."

Income and sales dipped in first quarter but, like competing game makers including Midway (see separate report, this issue), THQ said it was confident it would see big gains as increasing number of its titles for next-generation systems started making their way to market later this year.

At E3, THQ said it planned to ship 27 titles by this winter — 41 when factoring in multiple versions of same games for various platforms, including Game Boy Advance (GBA), Game Boy Color (GBC), PC, PlayStation, PlayStation 2 (PS2), Xbox. Significantly absent from list of platforms was GameCube. But THQ Licensing Vp Germaine Gioia told us at E3 that "THQ is extremely bullish on Nintendo" and company has said it will indeed support GameCube. For example, although THQ will ship only GBA, PC and PS2 versions of *Tetris Worlds* this fall, GameCube version will follow in 2002, company said.

Although she had only positive things to say about GameCube, Gioia said company's Nintendo focus this year clearly would be on handheld systems. She said THQ planned to ship at least 15 GBA titles by year-end and at least 3 more GBC titles by end of fall.

In addition to *GT Advance*, *MX 2002*, *Red Faction* and *Tetris*, other standouts at THQ's E3 booth included Xbox exclusive *New Legends* (fall) — action-adventure game set in futuristic China — and *Jimmy Neutron, Boy Genius*, based on upcoming Nickelodeon animated movie of same name, for multiple platforms.

Gioia said THQ had finished making games for Nintendo 64 console. Although there "could be some opportunities there" that THQ may indeed be losing out on because of that decision, she said what was happening now at retail didn't seem to suggest that would happen.

On Xbox front, Gioia said THQ had 7-10 titles in development through 2002. Three games for Microsoft's upcoming system were on display at THQ's booth at E3, each slated to ship in fall: *Dark Summit*, *New Legends* and *WWF Raw Is War*. In comparison, she said THQ had 7-10 new PS2 games in development.

Like many of THQ's competitors, company is trying to be platform agnostic — at least officially, anyway. Gioia said there very well could be 3 videogame console systems that survive upcoming battle. Future of videogame industry, she said, "looks extremely bright" and what is especially exciting now is that features and power of new console systems can "open up new categories" for whole industry.

Gaston Bastiens remained in R.I. detention facility without bond at week's end as he awaited extradition hearing on charges of fraud, insider trade and stock market manipulation in collapse of Lernout & Hauspie. Bastiens, who oversaw debut of Philips' CD-I product in early 1990s before joining Apple Computer, was hired as Lernout & Hauspie CEO in 1999. He was arrested at Winchester, Mass., home May 26 on warrant issued in Belgium charging him with several acts of fraud including forging documents. Bastiens allegedly purchased 625,000 shares of L&H stock for \$25 million in July 2000 after company founders Jo Lernout and Pol Hauspie gave bank personal guarantees to lend him money, according to complaint filed in U.S. Dist. Court, Boston. Bastiens allegedly bought shares for more than they were worth on stock market. Profit on transaction was recorded on L&H's accounting books to manipulate firm's revenue, complaint said. Bastiens filed for bankruptcy in May claiming liabilities of \$10-\$50 million and assets of \$500,000-\$1 million.

Name change is in works for Edge Audio, home theater speaker maker that sells exclusively via Internet. Company will change name to Aperion on Aug. 3 to pursue international sales with exclusively registered name, it said. Aperion is fabricated word with roots in Latin verb aperire, meaning to reveal or make clear. Name change will coincide with new products and manufacturing methods, company said. Cabinets henceforth will use high-density fiberboard for enclosure interiors for greater sonic damping than is possible with solid woods now used. Exteriors will have cherry hardwood veneer stained to medium finish. First new product will be 8" subwoofer with 150 w amp followed by upgrade of current 12" sub with 250 w amp, said company based in Tigard, Ore. Model 502D satellite speakers will get new enclosure, which has walls 1" thick vs. original 3/4" wood cabinet. Satellites use patented DiAural phase-coherent circuitry in place of conventional crossover network. Visitors to current www.edgeaudio.com Web site will be forwarded automatically to new www.aperionaudio.com site when name change takes effect.

Digital Class-D amps on chip and other microprocessor-based platforms for digital AV products were unveiled by Cirrus Logic at recent Audio Engineering Society show in Amsterdam. Company said its TrueDigital CS44210 delivered up to 50 w at 90% efficiency and enabled designers to shrink amp size by factor of 4. Compared with conventional systems that feed 100 w to amp for 50 w output to speakers, 90% efficiency rating requires just 55 w for same output with 100 dB dynamic range. Controller chip provides 24 bit sampling at rates up to 96 kHz, Cirrus said. It also is offering Class D TrueDigital CS44L10 headphone amp with same dynamic range and sampling specs, and energy efficiencies that can reduce yearly battery consumption 20%. Samples will be available this month. Cirrus also showed 2 DVD Solution Kits: Crystal CS4360 multichannel digital-to-audio converter (DAC) and CS5333 analog-to-digital converter (ADC) for 2-channel, 24 bit/96 kHz performance. DAC can deliver 6 channels at DVD-Audio specs and supports 192 kHz sampling rate. Kits perform DVD navigation and all AV processing functions, including MP3 decoding, Dolby Digital and DTS output support, Cirrus said.

NEW PC, WEB GAMES INTRODUCED: Although Microsoft understandably is devoting most of its attention on game front this year to its upcoming Xbox console, software giant says it still is trying to broaden audience for online and computer games. To that end, company's booth at Electronic Entertainment Expo (E3) in L.A. managed to make room for demonstrations of its newest computer games and latest offerings at The Zone — Microsoft's Web site, www.zone.com.

While *OutSmart* was standout entry on online front, Microsoft spokesman said company was trying to bring "a lot more broad mainstream attention" to PC games via such titles as *Zoo Tycoon*. He said "goal is to make [PC games] more accessible" and latter title should help achieve that because it's so simple to play — even without reading instructions.

OutSmart is interactive celebrity-based trivia game, designed much like TV game show, incorporating real audio of featured celebrities and allowing players to compete against their favorite stars.

Eddie Ranchigoda, lead product mgr. for Microsoft's Online Games div., told us pilot version of *OutSmart* featuring actress Jessica Alba of Fox TV show *Dark Angel* was offered at The Zone last month and "so far, the reaction has been very strong." Full rollout of game comes this month, when 2nd and 3rd featured celebrities will be named, he said. Games with new celebrities will be posted at Web site twice each month. Ranchigoda said Alba and other celebrities would be archived at site for at least one year.

Title, developed for Microsoft by Jellyvision, already has created cross-promotional opportunities for software giant. For instance, Ranchigoda said Microsoft ran cross-promotion with Fox for final episode of *Dark Angel* last month.

Video footage of celebrities might be added, Ranchigoda told us. He said that "as we get a faster connection" with broadband there will be that and other possibilities for game. Meanwhile, Microsoft also wants to broaden gaming base for *OutSmart* internationally by localizing title in countries including Italy and Japan.

Ranchigoda said company recently redesigned its Web site, whose other games have included *Bejeweled*, played by more than million and half gamers. Peak time for that game has proved to be at noon, presumably because many gamers are playing at work during lunch breaks.

Microsoft said The Zone so far had attracted 18 million members and thousands of Web visitors each day. While only 30% of its gaming audience is outside U.S. now, that number may increase as it gains more popularity in countries such as Australia, Canada, Korea, Singapore. "International is growing faster than the U.S. right now," Ranchigoda said.

While competitors such as Sony Online Entertainment have recognized popularity of TV games shows in Web gaming arena via titles such as online *Jeopardy*, Ranchigoda said Microsoft had no plan to go that route. He said it preferred now to unveil original games such as *OutSmart*. For one thing, there's no concern of original title's living up to comparisons with popular TV show like *Jeopardy* or *Who Wants To Be a Millionaire*. Obtaining licenses from company such as ABC obviously increases costs, he said.

GAME MERGERS COMING: Consolidation among videogame industry's major software makers is "on the horizon," Take-Two Interactive Software CEO Kelly Sumner predicted in interview on CNBC's *Power Lunch* cable TV show last week.

Sumner said that now that "we've seen the majority of the smaller companies have been consolidated into the major players... I think the next cycle is mergers and consolidation between the major players such as Electronic Arts, Activision, THQ and ourselves."

But Sumner said Take-Two didn't have any current plans for such move: "I don't think there's a need for any of these players to consolidate. But I think that's the next phase. Whether that's next month, next year or 2 years' time, that's definitely going to be the next phase. But there's no need for anybody [to do such thing now]. We just came out of a major transition... The industry has got a great future ahead of us. We've got the first full year of the PlayStation 2 [on the market]. We've got the Game Boy Advance [and] we've got GameCube and Xbox all being launched this year. So I don't think anyone's actively looking at consolidation at the moment. But I think that will happen in time."

Although Take-Two acquired 26 gaming companies in last 4 years, Sumner said his company had been "relatively quiet" recently as it tried to make sure all those acquisitions could pay for themselves. However, he was quick to add: "I'm not discounting that we may actually acquire [more companies] in the future — but not at the same rate as we have done historically."

When asked whether consumers might reject new game systems because they already had more than one console in their homes, Sumner said players seemed to be "quite willing to have multiple ownership of machines." He said: "You've got 3 major powerhouses fighting for the living room space or the den, which [are] Nintendo, Sony and Microsoft." While consumers may indeed already have multiple systems in their homes right now, he said: "The new machines bring so much more power and so much more reality into the living room that people are going to go out and buy those machines. The games that you will see this Christmas are remarkably different even from the games that you would have seen last Christmas."

On Internet front, Sumner said: "I think online gaming is going to be a significant market." But he said: "It's one of these markets that people keep on saying is going to be [big in] 2 years time, 3 years' time — and that 2 or 3 years keeps on rolling. We're certainly looking at online gaming and massively multiplayer games, but we don't think it's realistic to invest heavily into that market [right now]." However, Take-Two will "keep on reviewing that situation," he said.

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RadioShack shares tumbled 18% May 30 to \$26.90 after it issued 2nd-quarter profit warning indicating lower-than-expected sales of mobile phones and pressure on profit margins. As result, RS said earnings for full year could fall 10% short of \$1.84 per share year ago. Reaction on Wall St. was swift. Goldman Sachs retail analyst Matthew Fassler lowered his full-year earnings estimate to \$1.70 from \$1.95 and 2002 forecast to \$1.95 from \$2.15. "RadioShack continues to fight the headwinds of slowing consumer spending and deceleration in its core businesses, pressured further by transitional but impactful company-specific issues in its core wireless and DTH segments," Fassler wrote in research note.

EIDOS HAS AMBITIOUS GAME PLANS: As *Tomb Raider* videogame promotion reaches all-time high with its debut in film form on movie screens, Eidos Interactive (EI) said it was out to show gaming community that it had much more to offer gamers than Lara Croft. To prove it, EI is preparing to ship full slate of new titles this year and early next, many of them underlining its support for next-generation game systems.

At recent Electronic Entertainment Expo (E3) in L.A., EI showed cross-section of games across various genres that offered much promise. Among standouts spotlighted at Eidos booth was *Herdy Gerdy*, shipping in fall for PlayStation 2 (PS2), developed by Lara Croft/*Tomb Raider* creator Core Design. EI spokeswoman said eagerly awaited title had been in development for 3 years. Other standouts at booth were *Mad Dash Racing*, exclusive for Xbox slated to arrive in fall, and *Soul Reaver 2*, shipping in Sept. for PS2. Each was developed by Crystal Dynamics.

EI Pres. Rob Dyer explained company's position on 3 major console systems: "Our strategy really is we are supporting PlayStation 2 very deeply, we are supporting the Xbox and we are still doing our research on the GameCube." Meanwhile, he said, company would continue to support PC as well.

Dyer admitted that past Eidos support for Nintendo's Game Boy and N64 systems had "no real depth." He attributed that to fact that cost of goods made it hard for Eidos to make money from those systems. Eidos still thinks cost of goods issue is concern, so Game Boy Advance is "not something that we're currently looking to develop for," he told us.

But Dyer was quick to say "we're excited about GameCube." He said he didn't believe that would be only for younger kids, as some industry observers have suggested. He said Nintendo seemed to be trying to appeal to "a much broader demographic this time around" via such key genres as sports.

Some game makers we queried at E3 said their companies were hesitant to enter into exclusive licensing deals with Microsoft, Nintendo or Sony for game titles. But EI offered different take on issue. Dyer said his company was "looking at opportunities for doing [additional] exclusive titles."

"We see the first parties being aggressive about that and we're willing to listen to them." He said console makers tended to provide "a much greater [level] of support" for exclusive 3rd party titles. For example, Sony offered Eidos "above-average support" for *Tomb Raider*, which went on to become one of biggest sellers for original PlayStation and made Lara Croft one of most popular videogame characters of all time, Dyer said. Oscar-winning actress Angelina Jolie plays Croft in film.

Meanwhile, despite rumors to contrary, games *Deus Ex 2* (DX2) and *Thief 3* (T3) will be released for PC before any console versions of either title, said Warren Spector, dir. of EI's ION Austin studio. "It never ceases to me amaze me how quickly rumors spread in this business and how willing people are to accept rumor as fact," he said. "Let me assure you that we have no plans to release a console version of DX2 or T3 before a PC version or to compromise one version to accommodate the needs of any other version we might develop. Both DX2 and T3 are a ways off — making immersive simulations takes time! — and official announcements regarding these projects will be made in the future." He promised that when titles finally did arrive, gamers "won't be disappointed."

Separately, EI's London-based parent last week reported pretax loss of \$38.3 million (38.3¢ per share) for 4th quarter ended March 31 on 26% decline in revenue to \$32.1 million, citing "challenging" period marked by industry transition to next-generation platforms.

Eidos said "disappointing financial performance both for ourselves and many other leading publishers of interactive videogames" resulted from "hiatus in demand" among consumers awaiting deliveries of next-generation consoles. It said situation was "exacerbated" by price and profit erosion. It said decision earlier in year to delay introduction of PS2 titles "was taken to allow the installed base of such consoles to increase following manufacturing difficulties and delays initially encountered by Sony."

Ironically, Eidos said, lackluster results helped "mask" year in which company had "good performance" in publishing. For example, it said it shipped 20 new titles during year, including 8 with more than 350,000 copies each. Moreover, its *Who Wants to be a Millionaire* shipped nearly 2 million copies for PC and PlayStation in U.K. and Germany, making it best-selling and fastest-selling overall title in British history.

Company also revealed it was trying to raise £51.7 million to help it recover from its sagging sales in last quarter. Eidos said once "rights issue" was successfully completed, it "will be correctly positioned both in terms of its financial resources, origination and publishing profile to take advantage of the improved market conditions which we and many other industry participants expect now that the next generation consoles are becoming well established in the marketplace."

"We have made the decision not to release a *Tomb Raider* title in this financial year," company said. "Instead, we are investing significant time and resources so that the next iteration of the *Tomb Raider* franchise will utilize the enhanced features of the next-generation game consoles and enhance the quality of the franchise. The *Tomb Raider* film is due for release by Paramount in June (U.S.) and July (U.K.) and we expect this will build further awareness of the franchise in the mass market."

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"Try-before-you-buy" approach will be adopted for 30 Panasonic products through use of Internet-based interactive simulations supplied by LiveProducts unit of N.Y.C.-based e-Sim. LiveManuals simulations also will be used for product education, troubleshooting and customer support after purchase, companies said. They will be accessible at e-Sim (www.livemanuals.com) and Panasonic Web sites (www.panasonic.com).

"DVD Fundamentals" is title of 46-city series of seminars by Sonic Solutions through Sept. to help "creative professionals" learn more about latest developments in DVD technology, with special focus on automated DVDs and Web-enabled DVDs. Seminars are targeted to multimedia publishers, video post-production facility owners and managers, DVD title authors, others — Sonic Solutions, Paul Lefebvre, 415-893-8000.

THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥120 = \$1, except where noted.

UBI SOFT SEEKS JOIN TOP 5: Now one of top 10 game publishers worldwide, Ubi Soft Entertainment (USE) is out to crack top 5 by end of 2005. That's what Ubi Soft USA Pres. Laurent Detoc told us at recent Electronic Entertainment Expo (E3) in L.A., where company made it clear it planned aggressive support for all next-generation game platforms and to continue strong backing for PC gaming space.

Detoc said company's recent acquisitions had particularly helped strengthen position in PC game arena. Among companies USE acquired in recent months were Red Storm Entertainment in Aug., German game developer Blue Byte Software in Feb., entertainment division of Learning Co. in March (TVD March 12 p20). Detoc said Red Storm acquisition, in particular, "gave us some stability of revenue flow."

So far in 2001, USE is top 10 PC game publisher in U.S., said U.S. spokeswoman for Paris-based game maker: "By year-end, we aim to reach the 5th largest PC publisher thanks to genre leaders such as *Myst 3: Exile*, *Ghost Recon* and [the] just announced *Battle Realms*."

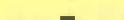
Among more intriguing of USE's announcements at E3 was word that it had acquired worldwide license from Sony Pictures Consumer Products (SPCP) to develop and publish games based on hit Oscar-winning film *Crouching Tiger, Hidden Dragon*. DVD version of movie ships this week. Ubi Soft said first *Crouching Tiger* game would ship next spring for platforms including Game Boy Advance (GBA), GameCube, PC, PlayStation 2 (PS2), Xbox.

Whether Sony Computer Entertainment was disappointed *Crouching Tiger* games wouldn't be exclusively for its PlayStation and PS2 was unclear. Considering that it's Sony film, it might be assumed that company wanted to keep games based on movie for its own systems. Sony Computer Entertainment America spokeswoman didn't respond to our request for comment.

Also coming from USE is *The New Batman Adventures*, based on Warner Bros. animated series, for PS2. Title is being developed internally at USE's N.Y. and Montreal studios and is to ship in Sept. Version for GBA also is being developed, USE said. Also coming for PS2 in fall is 3D adventure videogame *Disney's Tarzan*.

Detoc told us USE currently has 34 PS2 games in development, along with 19 for GameCube, 11 for GBA (7 of them to ship this year), 5 for Xbox. Working on those games are 1,300 developers in 18 countries, he said.

Detoc said having internal studios gives company "a very strong flow of products." He said 60% of its current revenue comes from internally developed games. He told us company wasn't ruling out additional acquisitions but said it took "a selective approach" to buying others: If something comes along that makes sense for USE, it will consider another acquisition, he said. Detoc said USE had avoided acquiring large companies because it was harder to integrate them into USE, but it hasn't ruled out buying larger ones. He said that although USE wanted to boost its presence in online gaming arena, it had nothing specifically to announce.



Eidos Interactive said demonstrator of its game *Startopia* was available now online for download.

Tetratel gained ground at Electronic Entertainment Expo (E3) in L.A. Edmonton, Alberta, company said it started royalty negotiations with 7 companies that are using its recently patented 3D technology. But it was unclear at our Fri. deadline what 7 companies Tetratel was referring to. Tetratel Pres. Ken Tetterington didn't respond to e-mail for comment. Tetratel said it also "held discussions" at E3 "with businesses interested in the company's patented Laser Projection Technology (LPT) project, as well as with distributors vying for the worldwide retail distribution rights of the company's EyeFX 3D videogame console system." Whether Tetratel held talks with any of game industry's main players was unclear. Company also said it received order for its EyeFX 3D computer kits from private distribution company Multi-Media Service Brokers for delivery of 10,000 units over 12-month period. As part of deal, Tetratel said Multi-Media would distribute kits, along with CD-ROM and DVD titles, to retail and Web markets involved in N. American adult entertainment industry. Tetratel said it would ship 2,500 kits to Multi-Media on quarterly basis starting this month and would supply initial 2,500 unit order out of inventory. For first shipment, Multi-Media will pay \$30 per unit in advance of delivery for basic PC kits. Then, starting with 2nd shipment of 2,500 units, Multi-Media will buy newer EyeFX 3D console kits at \$45 each, Tetratel said.

Sony Online Entertainment (SOE) announced 2 alternative payment methods that it said would be available for *EverQuest* and company's other massively multiplayer online games. SOE said Game Cards would be sold at retail stores in fall throughout Australia, Europe, Japan, Korea, N. America. Similarly, Japanese Credit Bureau (JCB) cards are being accepted in Japan and other Asian countries. Up to now, SOE required American credit card number to subscribe to *EverQuest*, which company said had limited its growth abroad. Game Cards, SOE said, will allow gamers whose only available form of payment is cash to play online game in 90-day increments. For SOE, alternate payment options are part of increasing effort to expand online gaming community for *EverQuest* and other titles. As part of effort, SOE will be deploying native servers internationally. SOE recently started localization for select games at its Web site, www.the.station.com, in another move aimed at boosting global online gaming community. SOE said *EverQuest* had more than 385,000 active subscribers.

Specs have been finalized for Mt. Rainier Initiative that standardizes way PCs handle CD-RW media. Initiative, spearheaded by Compaq, Microsoft, Philips and Sony, promotes ease-of-use and cross-brand compatibility by enabling PC's operating system to format blank CDs automatically in background without any need for user instructions. New standard permits content to be copied to blank CD by "drag-and-drop" mouse clicks. Goal of initiative is to let CD replace floppy diskette as universal storage medium usable on all PCs. Vendors said eliminating legacy floppy drive would lead to lower PC prices.

Sony will skip European Computer Trade Show (ECTS) this year in favor of holding its own consumer game event, Sony Computer Entertainment Europe (SCEE), spokeswoman told us. She declined to offer specifics on why company came to that decision. When and where SCEE plans to hold its show was unclear. SCEE isn't first major videogame company to opt to skip ECTS this year — Nintendo of Europe (NOE) said it wouldn't be exhibiting at annual London show Sept. 2-4 (TVD March 21). NOE instead will hold Nintendo Show 2001 Sept. 1-2 in London.

RETAILERS BACK ESRB CAMPAIGN: At least 4 major U.S. videogame retailers are taking part in latest effort by Entertainment Software Rating Board (ESRB) to raise awareness and use of its rating system.

ESRB Pres. Arthur Pober said Babbage's, Best Buy, Blockbuster and Wal-Mart all agreed to air ESRB's new video public service announcement (PSA) on their in-store TV networks: "I am confident that other retailers will follow their example." Pober told us Electronics Boutique (EB) also was about to support initiative. EB spokeswoman told us her company was "currently evaluating" whether to back campaign, but "most likely we will."

Explaining why company decided to back ESRB's campaign, Wal-Mart Community Affairs Dir. Keith Morris said: "Wal-Mart has worked very hard to educate our customers" about ESRB videogame rating system and wanted "to continue in its education efforts" by agreeing to show PSA spot in its stores.

Blockbuster Senior Vp-General Mds. Mgr. Joyce Woodward said: "Blockbuster is committed to working in partnership with our members to ensure that our younger customers have access to the movies and games their parents feel are appropriate. This PSA allows us to continue to educate our members on the rating system and further supports our goal to work hand-in-hand with parents on this matter."

Pober said PSA spot also was being sent to TV stations around country. Spot features N.Y. Yankee shortstop Derek Jeter, who urges parents to "check the rating" when buying or renting computer and videogames for their kids. Pober said Jeter was 2nd major sports celebrity to appear in ESRB PSA, following golfer Tiger Woods. Pober said Jeter agreed to take part in education campaign at request of *All-Star Baseball 2002* maker Acclaim Sports.

Explaining importance of campaign such as this to get message out to parents about ratings, Interactive Digital Software Assn.(IDSA) Pres. Doug Lowenstein said later: "One thing that we recognized from the start is that ratings work only when people know about them. And that's why from the very beginning back in 1994 we worked very hard to build public awareness of the ESRB and the rating system because the parents don't use the ratings if they don't know about the ratings."

FTC recently issued follow-up report to its Sept. 2000 study on marketing of violent entertainment content to children. FTC gave videogame industry relatively good marks. However, it blasted recording industry, saying it had "not visibly responded" to agency's original report. Commission said it found no ads for M-rated games on popular teen TV programs reviewed. It said print ads nearly always included game's rating icon, TV ads gave both audio and video disclosures of game's rating, and more than 80% of official game publisher Web sites displayed game's rating.

However, on negative side, FTC said game industry continued to place ads for M-rated games at same rate as before in gaming magazines with "substantial under-17 audience." FTC also found: (1) Rating icons and descriptors in print ads often were smaller than required by industry code. (2) TV ads never included content descriptors. (3) Little more than half of Web sites studied displayed rating "clearly and conspicuously." (4) Only 25% of sites displayed content descriptors anywhere on site.

Bentley Communications reached agreement to acquire BroadcastDVD, producer of ad and e-commerce supported promotional and corporate DVDs. Terms weren't announced by L.A.-based Bentley. BroadcastDVD's award-winning Filmfest DVD is bundled with Toshiba DVD players. Merged company will be located at BroadcastDVD's current hq at L.A.'s Wilshire Courtyard.

Macrovision licensed its SafeCast digital rights management software to Diggibag (www.diggibag.com), online games portal based in Scandinavia. As part of deal, Diggibag will handle online payment transactions and digital distribution of game software while acting as reseller of Macrovision security technology to software publishers. Macrovision said license agreement was significant step "into new European markets, as Scandinavia has a much higher Internet uptake and use of broadband than is current in the rest of Europe."

Progressive-scan TV/PVR combos made Japan debut from JVC. Company said its Network HDD sets had 28W and 32W flat-screen CRTs and were compatible with satellite HD broadcasts through add-on receiver. Not clear was whether TiVo's recently granted patents on hard disc time shifting might affect such products from JVC, Microsoft Ultimate TV, Pace Micro, Panasonic/Replay, others.

Third Stream Media signed licensing agreement with N.Y.-based entertainment product information company Muze, terms not announced. Companies said deal would allow Denver-based media technologies company Third Stream to incorporate Muze's video, music, game and book content into its in-store kiosk solution for retailers. Third Stream said its Touch Stand interactive kiosks would be up and running in stores this summer. Unclear was what retailers Third Stream had signed deals with.

Accessory that transcodes DTV's component video output (Y-Pr-Pb) for display on high-resolution VGA monitors is being offered by N.Y.C.-based Key Digital Systems (www.keydigital.com). Small module takes DTV's 480p, 720p and 1,080i/540p component signals and reprocesses them as VGA for PC monitors and data-grade front projectors. Company also offers transcoder that converts VGA monitors' RGB output to DTV's component video scanning frequencies.

Web site for HCD (High Definition Compatible Disc) is offering e-mail newsletter updates on CD and DVD recordings that use improved resolution audio process as well as compatible hardware. HCD is described as "A Windows Media Technology" since Microsoft's Sept. purchase of originator Pacific Microsonics (www.hcd.com/signup).

Interlink Electronics and Snap2 said they formed strategic partnership to provide Snap2 Games for Interlink's IntuiTouch-enabled digital set-top boxes. IntuiTouch technology allows users to play games on their TVs using simple "one-touch" actions on touch pad area of Interlink broadband remote control, Interlink said.

Seagate hard disc drive will be used in PDHercules Digital Recordable Jukebox from Perception Digital Ltd., companies said. PDHercules enables MP3 compression from variety of analog or digital sources without need for PC. Seagate hard disc can store equivalent of 500 CDs with MP3 compression. Perceptual's patented Rapid Archive System enables user to compress and store 60 min. CD in 10 min., company said.

UNIVERSAL MAKES GAME PUSH: As Universal Interactive Studios (UIS) announced its transformation into multiplatform game publisher from production company, newly appointed Pres. James Wilson told us UIS was "very much focused on next-generation" titles.

Wilson, promoted from senior vp-gen. mgr., said in phone interview that decision to move into 3rd party game publishing was "purely driven by the merger between Vivendi and Seagram" last year.

Now division of Vivendi Universal Publishing (VUP), UIS is in position to leverage content synergies between Vivendi Universal's TV & Film and Publishing businesses (with such properties as *Jurassic Park* and *The Mummy Returns*), as well as VUP's global distribution capabilities, Wilson said. He said merger had given UIS sales and distribution capabilities it had lacked. That infrastructure already is operating in about 40 countries, he said.

Other VUP interactive game divisions include Blizzard Entertainment, Coktel, Knowledge Adventure, Sierra.

Although UIS will be concentrating on games for next-generation platforms Game Boy Advance, GameCube, PlayStation 2 (PS2) and Xbox, Wilson said it also planned to publish PC-based titles. VUP's traditional strength has long been in latter, while UIS's has been on console side, especially PlayStation. But Wilson told us UIS wasn't likely to spend much time on PC games until 2002.

To date, UIS's biggest claim to fame has been as creative force behind making of *Crash Bandicoot* and *Spyro the Dragon* franchises. As we reported, UIS said it was making its first *Crash Bandicoot* game for PS2 (working title *Crash Bandicoot — The Wrath of Cortex*), which will ship in Nov. (TVD April 2 p20). Other games from UIS include *The Mummy Returns*, which Wilson told us would be its last title — for now, anyway — for Game Boy Color.

In light of UIS's gain, Wilson said company was expanding staff. He said it had 25 employees, all working out of Cal., but "will have 50 to 55 people" at offices in Cal., Paris, Tokyo. More additions are likely be announced soon, he said.

Before joining UIS, Wilson was mktg. vp, Universal Studios Consumer Products Group, responsible for all brand and marketing strategies. He also was Philips Media mktg. dir. and held mktg. positions at Disney Consumer Products Group.

As pres., Wilson reports directly to Vivendi Universal Games CEO Hubert Joly, who said: "UIS's strong console-based games portfolio of best-selling character franchises and highly visible studio-based franchises delivers additional depth to our leading games business. UIS's evolution into a games-publishing entity comes at a key time as the worldwide console games sector is poised for enormous growth with the introduction of next-generation console and handheld platforms. It also represents a milestone in the exploitation of revenue and cost synergies within Vivendi Universal."

LodgeNet Entertainment said it now served more than 750,000 hotel rooms in U.S., Canada and 13 other countries, Sioux Falls, S.D., company said. Interactive TV services include Nintendo videogames and on-demand digital movies.

Yepp digital audio players from Samsung are being preloaded with 5 full-length music tracks, manufacturer announced last week. With exception of Blues Traveler's "Girl Inside My Head," tracks announced so far are from lesser known acts such as Black Eyed Peas, Cold, Monster Magnet, Samantha Mumba. Songs are being included on Samsung's new Mini Yepp, as well as on its Hip Hop and Techno Yepp models, all shipping this month. Songs also will be included with Photo Yepp II, slated to ship later this year, company said. High-resolution photos of rock group Blues Traveler will appear on Photo Yepp II's LCD as track is played, company said. Samsung Electronic America Digital Convergence Mktg. Mgr. Russ Bleeker said: "We are thrilled to bring this unprecedented value proposition to our customers. While other companies are struggling to find their footing in this fast-paced environment, Samsung is proud to be leading the emerging crossover market between what have traditionally been PC applications and the growing digitalization of CE products."

Best Buy Children's Foundation (BBCF) board is awarding \$428,000 in grants to 88 nonprofit groups in 20 states. BBCF said largest grants went to groups in its home state of Minn., with \$20,000 going to Junior Achievement of the Upper Midwest and \$30,000 each to Boys and Girls Clubs of Twin Cities and Minnesota Historical Society. Other 85 nonprofits are sharing remaining \$348,000, BBCF said. BBCF Pres. Susan Hoff, who also is spokeswoman for Best Buy (BB) retail chain, said Foundation had seen "steady growth" and "current quarterly grant total is more than the annual contributions from the first 3 years of the Foundation's existence." BBCF was started by BB in 1994 to support community-based youth programs and is funded primarily by annual Best Buy Charity Classic golf tournament.

Free upgrade is now available that allows owners of Iomega HipZip digital audio player to receive Audible spoken audio service. Consumers who own current HipZip units can upgrade their players online via firmware upgrades at Audible.com or Iomega.com. Companies said HipZip devices were expected to ship this summer with full "AudibleReady" capabilities.

MyDVD for CD video publishing software for CD-R/RW users began shipping at \$49.95 from PC software developer InterVideo. New software, developed with Sonic Solutions, uses simple drag-and-drop interface that allows users to combine video, audio, text and pictures into "video postcards" with up to one hour of high-quality video on low-cost CD recordable disc. Fremont, Cal.-based InterVideo said software was compatible with Windows 98, 98SE, 2000, Millennium Edition. Software is available online at www.intervideo.com.

Loudeye signed deal with AOL calling for Seattle digital content service company to provide ISP giant with music samples, music catalog encoding, metadata services. Multiyear agreement covers select AOL online properties, including Spinner.com. Kevin Conroy, head of AOL Music, said: "A critical part of AOL Music's integrated music platform includes the power to enable a seamless and high-quality listening experience. Loudeye's solutions will help provide us with greater flexibility and enhance the audio quality of our programming across our range of music services."

'Toys For Everyone' promotion was started by JVC, giving consumers who buy select DV camcorders from manufacturer chance of winning free aluminum scooter valued at \$99. Camcorder purchases have to be made by end of July, JVC said.

EMachines, already struggling with delisting from Nasdaq as it positions itself for possible sale, will discontinue \$400 CompuServe rebate offered with its PCs by end of June. AOL, which offers rebate, decided to discontinue agreement signed in June 1999 and scheduled to run through 2004, eMachines said in SEC filing. "Termination of this or other similar rebates that we offer may make consumers less inclined to purchase our PCs, and our revenues may decrease," eMachines said. EMachines received \$2.7 million in bounties and royalties from AOL under agreement in fiscal year ended Dec. 30. Ending of rebates effectively would increase prices of eMachines PCs, it said. AOL's decision to end rebate was surprising, considering that it (6.1% of outstanding common) along with TriGem America (20.1%), Korea Data Systems America (19.8%) and idealab! founder William Gross (8.6%), owned 57.3% of eMachines' common. At same time, former CEO Stephen Dukker registered to sell 8 million shares (5.5% of outstanding common). Dukker had served as CEO from eMachines' founding in 1998 to March, when he was replaced by former Best Buy Vp Wayne Inouye. EMachines also tentatively settled trademark infringement suit filed against it last Sept. by Monster Cable Products over use of Emonster brand. Terms of agreement, which hasn't been finalized, weren't available.

Blockbuster and DirecTV formally unveiled repackaged pay-per-view (PPV) service last week. Blockbuster Ticket will offer up to 44 movies in PPV block of programming. In addition to providing one-time viewing of films, service offers blocks of programming such as double features and/or independent films acquired by group within Blockbuster. Video rental chain will share in PPV revenue with DirecTV, although spokeswoman declined to disclose details. PPV films will be \$3.99, same as DirecTV's previous 55-channel service. Blockbuster Ticket will provide movie premiere each week, with films starting every 30 min. It also will offer "All Day Ticket" under which viewer can order once during day and have film available following morning. PPV service is outgrowth of agreement Blockbuster and DirecTV signed last year that led video rental dealer to begin selling satellite equipment via in-store kiosks. That deal since has been amended to move responsibility for hardware into new RadioShack stores within Blockbuster outlets that are scheduled to open in 4-market test starting with Austin in June. Blockbuster will handle PPV sales.

Rainbow Rentals closed 2 stores and sold 3rd to Rent-a-Center (RAC) as it consolidated chain. It shut stores in West Haven, Conn., and Newport News, Va., and combined them with outlets in nearby New Haven and Hampton. Third store in Indiana, Pa., which had about 500 customer accounts, was sold to RAC for undisclosed sum. All 3 stores were part of Blue Ribbon Rentals chain that Rainbow acquired in 1999. Rainbow will take 2¢ per share charge against 2nd-quarter earnings to cover closings, spokesman said. RAC, which operates more than 2,000 stores and recently also bought outlets from Rent-Way, sought Pa. location to expand base in state where it has 84 company-owned (79) and franchised (5) locations, CEO Ernest Talley said.

Gemstar-TV Guide signed 18-month advertising agreement with Ford and its agency J. Walter Thompson last week as it moved to generate ad revenue from interactive program guide (IPG) platform. Latter consists of TV Guide Interactive that serves as on-screen guide for many cable systems and Guide Plus, which is built into digital TVs and VCRs. Platform currently reaches 12 million U.S. TV households. Agreement calls for quarterly ad schedule that runs through 3rd quarter 2002, and IPG technology to be used in Ford's marketing campaigns.

Consumer Electronics Personals

Gary Bennett departs as Hitachi exec. vp, plans unknown... **Robert Bandel** appointed Emerson Radio national sales mgr... **Hank Dawson** and **Ray Aboyan** advanced to Best Buy vps of property development and retail operations, respectively... **Howard Diamond**, ex-Good Guys, joins GetPlugged.com as vp-gen. mgr... **XM Satellite Radio** Senior Vp-Technology **Stelios Patsiokas** expands his responsibilities to include oversight of all of company's engineering efforts... **Jeffrey Freimark**, ex-Grand Union, named OfficeMax CFO, succeeding **Jeffrey Rutherford**, resigned... **Noel Sobleman**, ex-Iomega, and **Richard Doub**, ex-Televerde, join Mobility Electronics as worldwide vps of mktg. and sales, respectively... **David Ingram**, ex-Rent-a-Centre Canada and Kingfisher, named RTO Enterprises CEO, replacing **Bruce Reid**, resigned... **Al Zagorniak** retires as Sears dir. of contract sales, will retain seat on board of Assn. of Progressive Rental Organizations (APRO) until Aug... **Evan Stein** advanced to Acclaim Entertainment vp for brand management... **Kenneth Grady**, ex-Payless ShoeSource, appointed KB Toys vp-gen. counsel-secy... **Shahi Ghanem**, ex-Eotec consulting firm for high-tech startups, named DixVNetworks COO.

Pixis Interactive said its *Virtual Pornstar: Bunny Luv* "will be among the first in a series of virtual sex simulators for the Xbox videogame system from Microsoft." Company — among earliest entrants into PC adult entertainment field at advent of CD-ROMs — said game "is also scheduled to ship in June 2001 for the Sony PlayStation 2 computer entertainment system or, as the Pixis team calls it, the PornStation 2." Pixis Product Development Vp Mark Media said: "By developing it for the Xbox — or as we at Pixis like to call it, the SEXbox — we've transformed the most powerful game machine into the most powerful sex machine. It combines 2 of the most compelling subjects that will keep hardcore gamers hooked — sex and games." Pixis said title would feature its "patent pending Touch Feel User Interface (TFUI), which allows for full interactivity with a virtual actress from any angle and position from the first person point-of-view." Media told us title would cost \$39.95 and, not surprisingly, isn't officially sanctioned or licensed for either game console. But he said simulator "will be compatible with those systems." Media said version released for PlayStation 2 also would work in DVD-Video players and DVD-ROM drives, while other version would be "optimized for the Xbox." He said: "The first release will be compatible with all DVD capable machines. The latter will be more Xbox-centric but also compatible with all DVD players as well."

EchoStar and DirecTV agreed to extension of key filing in antitrust suit that could help former in putting together bid for its larger rival. EchoStar, which is making bid for DirecTV parent Hughes Electronics to counter one being offered by News Corp., filed antitrust suit in U.S. Dist. Court, Denver, in Feb. 2000, accusing Hughes and DirecTV of threatening economic harm to retailers who offered DirecTV and EchoStar services. DirecTV had filed motion for summary judgment, and EchoStar was required to file opposition to motion May 30, but they reached agreement to extend filing deadline to June 12. As it readied bid for Hughes, EchoStar was reported to have reached out to SBC Communications and BellSouth, among others, as possible partners that could get equity stake in EchoStar-Hughes combination. SBC already sells DirecTV service and BellSouth abandoned own plans for regional satellite service late last year.



TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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NAB TO PROMOTE DTV: Plans to be unveiled at board meeting. Broadcasters expected to seek delay in transition deadline. (P. 4)

TAX RELIEF COALITION FORMING: Group seeks more opportunities for small media, telco, tech firms. It's crafting tax relief proposal. (P. 5)

FEW HOT PUBLIC POLICY ISSUES LOOM OVER NCTA SHOW: As cable operators, programmers and vendors trek to Chicago for annual NCTA convention that starts today (Mon.), they face relatively few pressing public policy issues or controversies. Unlike last spring's show in New Orleans, which was dominated by discussions of Time Warner-Disney programming flap week earlier and cable industry's possible rebellion against retransmission consent obligations, this year's convention promises little talk about retransmission fights with broadcasters. Nor are such other once-hot issues as open access mandates, DTV-cable compatibility, digital must-carry rules, rate re-regulation or major merger reviews creating much stir because they have either been settled or are considered unlikely to be threats in Bush presidency. "The [public policy] issues are not on the front burner," NCTA Pres. Robert Sachs said. "The focus is really on the business."

Indeed, show organizers plan to largely spotlight business issues facing cable industry, including continued growth of rival DBS and DSL services, continued rollout of digital cable and cable modem services, early debut of video-on-demand product and fledgling efforts to offer IP telephony and personal video recorder (PVR) services over cable lines. With DBS stalwarts DirecTV and EchoStar continuing to make inroads against cable and with basic cable penetration rate leveling off, industry executives are seeking ways to draw more revenue from their existing base of customers by selling them multiple services. "If there is anything the industry will be focusing on, it's simply execution, execution, execution," said cable lawyer and consultant Steve Effros. "We don't need big splashes."

American Cable Assn. (ACA) Pres. Matthew Polka said he would be focusing on programming issues at show, including rising costs, "uneven bargaining," retransmission consent, possibility of DTV must-carry rules. He said he also would be battling perception fostered by Pegasus Communications CEO Mark Pagon that smaller cable op-

Consumer Electronics

TWEETER TO ACQUIRE SOUND ADVICE as consolidation among regional CE specialty chains continues. (P. 10)

WATERMARK CODEBREAKERS SUE to publish data on hacking SDMI copy protection. RIAA concerned about more breaks. Xerox possibly involved in SDMI tests. (P. 12)

LCOS, PLASMA JOCKEY FOR POSITION at SID as successor to CRT-based rear-projection TV. Fujitsu unveils low-cost manufacturing solution. (P. 14)

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THOMSON-MATSUSHITA JOINT VENTURE being discussed for CRTs with focus likely on sharing technologies rather than outright merger. (P. 19)

erators were endangered species because of DBS inroads. But, he said, biggest industrywide issue still is its poor image among consumers, regulators, lawmakers. "We indeed should congratulate ourselves for bringing new services to market," he said, "but until we get serious about changing the attitudes of our customers and our congressmen, senators, state and local officials, etc., then we will continue to experience problems. No amount of talk will fix that. Only our actions."

Nevertheless, public policy matters may well emerge at convention, as such percolating issues as cable ownership caps, pole attachment rates, extension of program access rules and Tauzin-Dingell telco deregulation bill rise to top. In case of Tauzin-Dingell, which would make Bells more formidable competitors in high-speed data arena, cable executives have largely taken hands-off stance on issue, chanting their mantra that they're not opposed to deregulation of rivals. But some supporters of Tauzin-Dingell have taken out ads to attack AT&T and other MSOs in Washington and key congressional districts. Bill proponents also have warned of dangers of cable monopoly over data, raising cable executives' ire. "If the war spreads, we may re-evaluate [our stance]," one source said.

Despite its focus on business issues, NCTA convention has lineup of major public policy speakers scheduled. New Senate Majority Leader Daschle (D-S.D.), who will speak at luncheon today (June 11), and House Speaker Hastert (R-Ill.), who will cut ribbon opening exhibit floor earlier today, head list of lawmakers and regulators slated to attend. Show also will feature keynote address by FCC Chmn. Powell June 12, first major trade appearance by new Comr. Abernathy and first industry appearance by new Cable Bureau Chief Kenneth Ferree. Viacom Pres. Mel Karmazin, AT&T Chmn. Michael Armstrong, AOL Time Warner CEO Gerald Levin, Comcast Pres. Brian Roberts and Charter Communications Pres. Jerry Kent will speak in general sessions.

POWELL SEES LIMITED GOVT. BROADBAND ROLE: FCC Chmn. Powell disagreed with "immediate assumption" broadband wouldn't be so deployed without govt. intervention, in keynote June 5 at Supercomm 2001 in Atlanta. When telephone system was built, "we literally had to wire the entire country," he said. "Broadband is a kind of system upgrade" and DSL deployment is "a new layer on top of a system that reaches virtually everywhere." Cable systems, another broadband option, pass 98% of U.S. population and systems will be upgraded systematically, he said.

Any govt. intervention on behalf of rural broadband should be limited and carefully targeted to specific population and service, Powell said: "Right now, the vast majority of North America gets a subsidized telephone service, and a substantial number of them don't need it. I wouldn't want to repeat that environment in the broadband world."

Powell also said he saw little change in way he would run Commission with Democrats in power in Senate. "We take pride in the independence of the FCC. I am not a member of the President's Administration. I am not a member of Congress," he said. Powell said change wouldn't affect way he envisioned he would run agency that had priorities driven more by "imperatives than by political preference." He said he had worked with each member of oversight committee, including Sen. Hollings (D-S.C.), new chmn. of Commerce Committee, for 4 years. "Sometimes there will be a difference of emphasis," he said, but he expected continuation of good relationship with senator.

Powell repeated familiar themes and emphasized need "to focus competition policy on the right regulatory framework to foster innovation" and investment in advanced infrastructure and experimentation. "A commitment to markets in a time of experimentation is not a bow to big business," he said. FCC will allow markets to pick winners.

While acknowledging need to oversee anticompetitive behavior, Powell said Commission should watch rapid developments that could lead to "unbridled market power." But he said he would demand "clear demonstrative evidence of anticompetitive effects and insist on seeing the emergence of persistent dangerous trends before intervening in the marketplace." FCC shouldn't be used by companies in attempt to gain competitive advantage "because they lost out on a technical innovation," he said. Powell again called for "dramatically" increased enforcement power "to put teeth and meaning in our enforcement efforts."

With financial markets affected by uncertainty of regulations, Powell said FCC must make decisions quickly to stabilize markets: "Uncertainty increases risk and places a cloud over the marketplace... and a decision too late is no decision at all."

BASIC CABLE TAKE RATE STALLS: Despite success in pitching digital cable and cable modems to consumers, MSOs apparently have hit wall in bids to boost take rate of their core product, basic cable, according to our latest semiannual survey of top 50 operators. Even though they continue to sign up more basic subscribers each year, MSOs are merely adding number proportionate to overall rise in U.S. TV households, our report shows. As result, basic cable penetration rate has stalled at 65% for last 2 years while rival DBS industry, still growing steadily, continues to make inroads in pay-TV market, according to data collected for Warren's *Television & Cable Factbook*.

In latest period, 50 largest MSOs boosted their customer totals by 401,420, barely passing 65 million household mark as of March 1. But that 0.62% gain only matches increase in homes passed, which rose same 0.62%, or 615,791 households, to just over 100 million. Our list of top MSOs also includes such cable overbuilders as Ameritech New Media, RCN Corp., Verizon and Knology, which now have more than 800,000 video customers among them after cherry-picking cable subscribers in some markets.

Industry executives and analysts, many of whom have long warned that basic cable penetration would stall or even drop, cited continued surge of satellite TV stalwarts DirecTV and EchoStar. While DBS growth has slowed this year, satellite industry still is gaining on cable as it rapidly approaches 16 million subscribers, nearly 16% of pay-TV market. Carmel Group recently estimated that EchoStar had gained 614,000 subscribers through first 4 months of 2001 and DirecTV 454,000 for total of more than one million.

Analysts and executives also blame stalled basic cable growth on current economic slowdown and heavy industry focus on selling digital cable, high-speed and such new services as video-on-demand (VoD). Seeking additional revenue streams and ways to compete better against satellite, cable operators now have signed up 12 million digital video, 5 million cable modem and one million cable telephony customers. As result of marketing blitzes for those services, some say, basic cable can get lost in shuffle. Indeed, at least one large MSO, Classic Cable, reported basic subscriber losses in first quarter ended March 31.

Despite basic cable's sluggishness, take rate for pay cable services still is climbing. In our latest survey, pay penetration rose to 80.3% of basic cable units, up from 79.3% last fall. Total pay units increased by 961,384 (1.9%) to total of 52.2 million pay units, highest take rate in at least 4 years.

Those trends occurred as 10 largest MSOs further increased their hold on cable industry. Although few significant deals closed in latest 6-month period besides AOL's takeover of Time Warner, such leading operators as AOL Time Warner, Comcast, Adelphia Communications, Insight Communications and Mediacom all picked up notable numbers of new subscribers while 2nd tier of MSOs reported fewer total customers. Both Mediacom and Charter Communications stand to make big gains later this year, thanks to deals each swung with AT&T Broadband earlier.

Unlike our last few surveys, relatively few cable operators traded places in rankings this time around. In most notable shifts: (1) RCN moved up 2 notches to 14th place, passing Tele-Media Corp. and Northland Communications. (2)

Verizon, Knology and several others rose one place apiece, thanks to Adelphia's buyout of GS Communications. (3) Centennial Communications jumped 11 slots to 29th place with its purchase of Teleponce/TPC Cable TV. (For full chart of top 50 MSOs, see June 11 issue of *Warren's Cable Regulation Monitor*.)

Six financial supporters believe updating computer systems used by Voter News Service (VNS) will help solve problems and false projections of 2000 Presidential election, they said in announcing renewed support for service for midterm 2002 elections and again in 2004. VNS came in for much criticism, including congressional hearing, following missed Fla. calls last Nov. VNS was formed in 1990 as money-saving device for election reports, with participants contributing about \$5 million each. System had worked well until last Nov., backers said. FCC Enforcement Bureau had turned down request to investigate VNS, saying incorrect projections weren't sufficient grounds. Financial supporters include Big 4 TV networks, CNN, AP. All made their own in-house investigations of what happened in Fla. and had June 1 deadline to renew support for VNS.

News Corp. must divest KTVX (Ch. 4, ABC) Salt Lake City before it can complete takeover of Chris-Craft stations, Justice Dept. Antitrust Div. said in proposed consent decree and final judgment on antitrust complaint. Comments on settlement can be filed with U.S. Dist. Court, D.C., within 60 days. Justice Dept. said that without divestiture, merger would "substantially lessen competition" in ad sales in Salt Lake City market. Agreements also require News Corp. to maintain competitive independence of KTVX until divestiture. Settlement gives News Corp. 150 days to complete divestiture.

Congress should eliminate public interest standard that's basis for much FCC regulation, Randolph May of Progress & Freedom Foundation said in article in *Federal Communications Law Journal*. May said standard probably violated First Amendment, and Congress should move now to eliminate it instead of waiting for courts to overturn it. He said Congress should "ask itself anew whether the public interest standard is indeed sufficiently 'concrete' to fulfill Congress's responsibility to set communications policies for the Information Age, or whether it is so vague that it can mean whatever 3 FCC commissioners say it means on any given day."

Excite@Home said it was talking with Comcast and Cox on possible "restructuring of its commercial relationships with these companies." Excite@Home, cable high-speed ISP that has exclusive carriage pacts with AT&T, Comcast, Cox and other MSOs, said it had extended June 4 deadline for Cox and Comcast to decide whether to end their exclusive agreements. New deadline is June 18. Under deal signed by 3 companies in March 2000, Cox and Comcast agreed to give Excite@Home 6 months' notice before terminating their exclusive contracts or their entire commercial relationships with ISP each June 4 and Dec. 4. Separately, Excite@Home named Matt Jones, former CEO of Lipstream Networks, to newly created position of COO under new Chmn. Patti Hart. Excite@Home also announced pending departures of Exec. Vp Byron Smith and Exec. Vp Mark O'Leary in July to "pursue other opportunities."

AWRT's traditional reception for new FCC commissioners will be 6-8 p.m. July 11 at NAB hq in Washington, group said. New Comrs. Abernathy, Copps and Martin are expected to attend — 202-429-5416.

SENATE MANEUVERING CONTINUES: Final structure of Senate committees and staffs in wake of Senate takeover by Democrats remained unclear as week ended, with parties still negotiating on power sharing. One likely impact: transfer of majority power to Senate Democrats will increase chances of moving bill that would permit federal trial and appellate judges to allow broadcast coverage of courtroom proceedings, said Sen. Schumer (D-N.Y.), who took over as chairman of Judiciary Committee's Administrative Oversight & the Courts Subcommittee.

Democrats proposed one-seat majorities on all committees but one (2-seat majority was proposed for Finance) with that ratio being achieved in part by dropping Republicans from panels. Preference of Sen. Hollings (D-S.C.), who became Commerce chmn., "has been to see the committee decrease in membership," his spokesman said. "He's a veteran of the committee, and feels it's getting too big." Republicans countered with plan to give Democrats one-seat majority on committees by adding Democrats.

New Majority Leader Daschle (D-S.D.) was negotiating with 5 GOP senators — Domenici (N.M.), Gramm (Tex.), Hatch (Utah), McConnell (Ky.) and Specter (Pa.) — for new governing resolution to replace one passed earlier this year creating committees of equal numbers of Republicans and Democrats. Without new governing resolution, committee assignments revert to that of 106th Congress, unseating freshmen senators from their committees as well as more senior senators who undertook new committee assignments this year. Eight of 11 freshmen elected in 2000 are Democrats, meaning that without new resolution Democratic chairs find themselves with majority of Republicans on their committees.

It was unclear how long it would take to reach agreement on new governing resolution. While Democrats have a 51-49 advantage now on Senate floor, Republicans can filibuster. Minority Leader Lott (R-Miss.) and others said during recess that GOP wouldn't be afraid to filibuster to protect rights of Republican minority.

Schumer and co-sponsors Sens. Grassley (R-Ia.) and Allard (R-Colo.) said his bill would provide public with greater knowledge of and respect for judicial system without interfering with administration of justice. "The best way to maintain confidence and a better understanding of the judicial system, where the federal judiciary holds great power, is to let the sunshine in by opening up the courtroom to public scrutiny through broadcasting," Grassley said. Judges have been opposed to allowing cameras.

Schumer said bill would give discretion to judges in deciding whether to allow cameras in court, but would put burden of proof on judges to justify why cameras or other electronic recording devices should be barred or removed from particular proceeding. On House side, Constitution Subcommittee Chmn. Chabot (R-O.) said he and Judiciary member Delahunt (D-Mass.) were determined to develop and move companion bill. "Other branches of government are open... but not the courts," he said. "And that has to change." Schumer and Grassley had introduced bill in 1999, but it died in Senate. Chabot that year also offered sunshine bill that died after clearing House.

Meanwhile, Commerce Committee seat of Sen. Allen (R-Va.), who has expressed interest in Internet issues, hung in balance. Under scenario backed by Democrats to restructure committee assignments, Allen would lose his seat entirely, as well as chairmanship of Science, Technology & Space Subcommittee. "We hope he'll continue to be on the [Commerce] committee," ITAA Internet Counsel Mark Uncapher said.

NAB TO PROMOTE DIGITAL: As it has for years, transition to digital TV once again will be major issue at June 12-13 meetings of all 3 NAB boards in Washington. NAB staff will present for approval what we're told is "new, very comprehensive plan" to deal with all facets of where digital is likely to take industry and public. It will include marketing, legal, congressional and joint public awareness campaign with CEA announced last April at NAB convention (TVD April 30 p7) — cost of which hasn't been determined. Meetings overall are expected to be devoid of major controversy, several board members said.

"Several unresolved issues" continue to stand in way of DTV transition, said NAB, which blames FCC for most roadblocks. Among issues are cable compatibility and must-carry, minimum performance standards for receivers such as mandatory tuners in all sets (comments on FCC inquiry into issue are due today, June 11), digital public service requirements. Along with several other groups, NAB is expected to ask FCC for delay in May 15, 2002 deadline for digital capability for most stations.

Other TV board issues include Senate-passed campaign reform bill that would require stations to provide candidates with lowest unit charge assessed any advertiser in previous year, ever-present 35% station ownership cap supported by NAB that led to withdrawal of CBS, NBC and Fox TV, satellite and streaming copyright issues and what's likely to be included in upcoming FCC biennial review mandated by Congress. NAB also seeks "nondiscriminatory policy" by govt. as best way to provide interactive TV to consumers on "distribution platform controlled by cable operators."

On radio side, we're told some board members said they would seek explanation of loss of 170-plus Infinity stations as members. When CBS took its network and TV stations (representing loss of \$400,000 in dues) out of NAB in March, owner Viacom also pulled co-owned Infinity radio stations — costing NAB just over \$1 million, about 1.5% of Assn.'s annual budget. As one dir. put it, "we want to know what can be done to prevent something like this happening again." Also up for discussion by radio board will be terrestrial digital audio broadcasting, EEO, low-power radio, mandatory electronic filings at FCC.

No contests have developed this year for 5 posts on NAB boards. Radio Board Chmn. David Kennedy of Susquehanna Radio Corp. is scheduled to replace James Yager, Benedek Bcstg., as joint board chmn., with Radio Vice Chmn. John Dille, Federated Media, in line to succeed Kennedy. Dille had term as radio chmn. 1985-1986. Virginia Morris, Hubbard Bcstg., is unopposed as radio vice chmn. On TV side, Vice Chmn. Paul Karpowicz of LIN TV will replace Ben Tucker (who goes off board), Fisher Bcstg., as chmn. and Michael Fiorile, Dispatch Bcst. Group, is to become TV vice chmn.

Board gathering begins unofficially today with NAB's Service to America Awards recognizing efforts of TV-radio stations "to strengthen the bond between the community and the media." Panel sessions on diversity in media and "When Local News Becomes a National Story" are scheduled during day. Awards will be presented in evening to retired boxer Muhammad Ali and several stations for outstanding public service. Host will be 1976 Olympic Gold Medal winner Bruce Jenner, with actors Barbara Eden, Lindsay Wagner and Elliott Gould presenting awards.

Andrew Corp. will provide DTV antennas, filters and switching equipment for 15 Cosmos Bcstg. stations. Terms weren't disclosed.

TAX RELIEF COALITION FORMING: Coalition of broadcast, telecom and ad groups is expected to emerge in near future that aims to educate members of Congress on benefits of cross-industry tax relief legislation, bipartisan effort that group believes will benefit small businesses and larger industry players that work side-by-side with such businesses.

Coalition, which will formally unveil its partners and supporters soon, is drafting legislative proposal that expands previous telecom- or broadcast-only tax relief efforts into additional avenues of technology and content distribution. Legislation Sen. McCain (R-Ariz.) introduced last year giving tax breaks to telcos selling assets to minority-owned businesses will be staging ground for this legislative effort.

Talib Karim, telecom attorney at TEC Law Group in Washington, said draft bill seeks to provide incentives to technology companies, content distributors, ad buyers and agencies to do business with smaller and traditionally disadvantaged groups. "In that context, we see an innovative approach to creating more opportunities for smaller entrepreneurs and business owners, as well as diversity of ownership and diversity of viewpoints," he said.

Efforts to gain bipartisan support are at top of group's agenda, with particular emphasis on House Ways & Means Committee. "Any tax relief initiative will need the blessing of [Committee Chmn.] Bill Thomas (R-Cal.)," Karim said. Group currently has discussed its efforts with NAB, American Assn. of Advertising Agencies and "traditional civil rights groups," he said. Tax relief proposal will be "good in the context of policy, but also good in the context of business."



In new study of out-of-home TV viewing, ESPN Research said 17.1 million men watched broadcast and ad-supported cable networks in bars, restaurants, colleges, offices, hotels/motels, 2nd homes and other locations not measured by Nielsen Media Research. Study conducted for ESPN and ABC Sports said 12.5 million men watched broadcast TV and 9.7 million cable in out-of-home locations each week. As result, it said ESPN's average adult male audience was 10% larger than reported by Nielsen, ABC's *Monday Night Football* audience was 5% higher and ABC's college football audience 15% higher. Study also said out-of-home viewers were younger than overall TV audience.

With FCC target deadline fast approaching for making 3rd-generation (3G) wireless spectrum allocation decision, Dept. of Defense continues to take hard public line on risks of sharing or vacating military-occupied bands for commercial users. Rear Adm. Robert Nutwell told TechNet International 2001 panel that although relocating incumbent military users might be feasible — given enough time and money — strategy still would carry risks for Pentagon. Timing and finding comparable spectrum remain 2 large impediments, he said, calling 3G "number one" spectrum issue for DoD right now. He said DoD estimates of up to \$4.3 billion in relocation costs were bit low. "I guess given enough time and money, you could do almost anything," Nutwell said of relocation option, saying main impediment was where comparable spectrum could be found.

Pegasus Communications said it seized equipment used to access satellite TV illegally, including access cards, in what it said could be largest-ever seizure. Seizures in Austin, Corpus Christi and Round Rock, Tex., came after company involved FBI and U.S. Attorney's office, it said. U.S. Attorney will bring cases to federal grand jury for possible indictments of as many as 10 people, FBI said.

Key DTV must-carry issue isn't whether Congress would impose dual-carriage now but whether "plain language of the Cable Act requires" it, broadcasters said in latest FCC filing. NAB, MSTV and ALTV, in reply to cable group's opposition to reconsideration of latest DTV must-carry decision, said "the basic rationale behind must-carry has not changed" because cable's dominance of TV households has only increased since analog must-carry decision. They also said: (1) Congressional limit on percentage of cable channels devoted to must-carry seldom had been reached and "it would be hard to imagine it being reached with the temporary addition of digital must-carry." (2) Clear reading of "primary video" requires cable to carry all broadcast multicast channels. (3) It would be impossible to monitor acceptable degradation of broadcast signals, so cable shouldn't be allowed to "tamper" with bit stream. They also said there was no cost for cable to carry broadcast signal in original digital format, but converter was required to change to new format.

House and Senate Appropriations Committee members can expect to receive letters today (June 11) from coalition of media activists seeking to dissuade govt. from advertising on Primedia's Channel One. Dozens of groups including Commercial Alert, Junkbusters, and Eagle Forum asked appropriators to stop govt. agency acquisition of ads from Channel One, which provides free TV monitors and satellite receiver equipment to schools in exchange for what coalition describes as "advertising assault" on pupils. "Channel One shows about 10 minutes of news, banter, music and filler, and 2 minutes of ads, to a captive audience of roughly 8 million children as young as 11 years of age, in 12,000 schools each day," group said in letter. "Compelling impressionable young children to view commercials during their limited time is repugnant, and removing Channel One from our nation's schools is a high-priority education reform across the conventional political spectrum."

Despite public indications of dissatisfaction, NBC TV affiliates' board is "pleased and happy with tone and tenure" of most recent conversations with network officials, Affiliates' Chmn. Jack Sander of Belo said. Answering reporters' questions in teleconference June 7, he said board had "a very good dialog" in May meeting with NBC. "For every one issue that we are at odds with [NBC] on, there are 30 issues on which we are in concert," Sander said. "That one issue" — 35% station ownership cap — gets all the attention, he said. About 80% of West Coast affiliates have indicated they would much prefer airing prime-time coverage of Winter Olympics from Salt Lake City on tape delay, with network still considering whether to permit that change, Sander said. "I clearly do not expect an NBC meeting [with affiliates] in 2002," he said in answer to question. As to whether network resumes annual meeting after hiatus this spring, "that is not an issue for the [affiliates'] board, he said.

Scaling back its ambitious plans to offer interactive TV (ITV) services over advanced digital cable set-top boxes to most of its cable subscribers, AT&T Broadband said it intended to promote development of new midrange digital set-tops that would have personal video recording (PVR) features. Confirming press reports, spokeswoman said AT&T also would retrofit 240,000 advanced set-tops sitting in its warehouses with less complex software to place them in customers' homes this year. She said MSO also would try to "squeeze" more advanced applications into its current low-end digital box. AT&T said it would continue to order and deploy some advanced set-tops and would continue to work with ITV software rivals Microsoft and Liberate Technologies to develop software for all 3 boxes. Spokeswoman said MSO was developing specifications for proposed midrange box and was talking with major box manufacturers.

BROADBAND MARKUP NEARING: Time constraint House Speaker Hastert (R-Ill.) has imposed on Judiciary Committee to review data deregulation bill requires panel to hold one-day marathon markup of that and competing measure, Judiciary Chmn. Sensenbrenner (R-Wis.) said in June 5 hearing on Tauzin-Dingell bill. Committee will tackle bill (HR-1542) by House Commerce Committee Chmn. Tauzin (R-La.) and ranking Democrat Dingell (Mich.). It also will mark up one of 2 bills (HR-1698) that Judiciary's ranking Democrat Conyers (Mich.) and Rep. Cannon (R-Utah) jointly offered as alternative to Tauzin-Dingell.

"Given the short time of that referral," Sensenbrenner said, markup is planned June 13: "I want to ensure that all sides of this debate get the chance to put forth their proposals and get them debated." He said he still was "listening [to] and learning" from all stakeholders, although he indicated interest in provision in Conyers-Cannon that would bolster antitrust remedies for disputes related to Telecom Act.

Judiciary should refrain from amending Tauzin-Dingell since it "effectively stops the application of rules for voice networks to broadband networks," Verizon Senior Vp Thomas Tauke said at hearing. BellSouth Exec. Vp Margaret Greene chimed in that "broadband needs investment, and lots of it. Passage of [HR-1542] is necessary to reach the promise of the Digital Age."

Top 2 members of Judiciary Committee strongly defended panel's jurisdiction over broadband services and more broadly over any legislation related to Telecom Act. Both Sensenbrenner and Conyers made clear to witnesses that no major changes in high-speed Internet regulation would occur without their input, with Conyers using his entire question time to lecture witnesses: "I'm slightly stunned at the nerve of companies that control 96 to 98% of local lines... when they say: 'We need more, give us more.'"

Meanwhile, changes in legislation by Cannon and Conyers are being considered, including adjustment in how HR-1698 would set standard of proof in antitrust cases, Cannon said. One change under consideration is lowering bill's proposed standard for courts reviewing findings of Telecom Act violations, he said.

In bill's current form, courts that review subsequent private actions could use such regulatory findings as *per se*, or automatic, evidence of antitrust violations. However, Cannon is likely to adjust higher standard by allowing courts to deem previous regulatory rulings as *prima facie*, rather than *per se*, evidence of antitrust violations, he said. That would require companies accused of antitrust violations to prove why rulings weren't evidence of antitrust violations, congressional source said. Source said details of other potential revisions were being worked out. Cannon-Conyers bills were offered as alternatives to HR-1542.

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CBS said it planned to stop hosting Web site for its TV affiliates in mid-Sept. Site was used by 152 stations when it started couple of years ago and figure now is down to 37, network said. However, CBS said it planned to develop new Web site that would include all properties of parent Viacom. As part of that, network said, it plans to negotiate content agreements with affiliates and "maintain our partnership in this area of our mutual efforts."

CANADA BROADCASTERS BLOCKED: Copyright Board of Canada denied broadcaster application to suspend JumpTV proceedings before board, JumpTV said. Application was submitted by Canadian Assn. of Bcstrs. (CAB), Canadian Bcstrs. Rights Agency (CBRA), Communications Research Centre (CRC), Media Content Coalition (CCC). Board hearing is scheduled in fall, group said. JumpTV, meanwhile, "will soon be delivering the ABC, CBC, CBS, CTV, Fox, Global and NBC TV networks to visitors from Canada" via Internet, CEO Farrel Miller said.

CCC had attempted to suspend proceedings based on recent letter from Deputy Ministers of Heritage Canada and Industry Canada (TVD June 4 p6). Letter, addressed to CAB and Canadian Film & TV Production Assn. (CFTPA), said govt. planned to review copyright laws to accommodate Internet retransmission. CAB Pres. Michael McCabe said he asked board to stay hearings in light of govt.'s broader review of Copyright Act. CFTPA head Elizabeth McDonald agreed that "the role of the Copyright Board is not to set policy, at this point. What the government has clearly said is that there are problems with our copyright legislation, and we have to look at that."

JumpTV's Miller again said "the retransmission laws of Canada, and corresponding tariffs, must be applied in a technology-neutral manner to various forms of TV retransmission technology, whether that technology be cable, satellite, wireless or Internet. These other retransmitters pay a royalty tariff and JumpTV will do the same. These other retransmitters substantially restrict their retransmission within Canada, and JumpTV will do the same. JumpTV is simply offering Canadians a fourth alternative [through Internet] by which to receive TV channels."

Michele Gervais, dir.-Intellectual Property at Industry Canada, said Industry Canada draft consultation paper wouldn't preempt Copyright Board hearing on JumpTV because board was independent judicial body, separate from Industry Canada. Sources said, however, that Industry Canada hoped to make its move before Copyright Board hearing in order to keep issue under its political control.

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Digital cable and DBS continue to score big market gains as more TV viewers switch to digital pay-TV service from analog, new study by Horowitz Assoc. and S. Liebmann & Assoc. said. Study found that digital cable penetration more than doubled to 21% of all cable households in last year and predicted that figure could rise as high as 41% by next year. It also said digital cable churn "remains constant," with 5% of cable customers in surveyed markets describing themselves as former digital subscribers. As for satellite TV, study said 8% of cable households in digital cable markets had obtained dishes so far. It said that number could double to 16% by next year. Horowitz and Liebmann also predicted that addition of local-station packages could boost satellite penetration rate even further to 22%. Between DBS and digital cable, study said, total market potential for digital service was 57% of current cable universe. Consumers continue to cite more channels, better picture quality and good value as leading reasons for upgrading to digital service, study said. Once they have digital service, subscribers list picture quality and interactive program guide as their favorite features. Survey also revealed growing consumer interest in interactive TV (ITV) features, with 13% of cable subscribers calling themselves likely or very likely to buy TiVo personal video recorder (PVR) machines and service.

DSL TOPPING MODEMS: Growth of residential DSL could be twice that of cable modems, but operational problems are likely to slow rollout, Gartner Dataquest survey found. Survey showed "high-speed Internet access in the U.S. is in the mainstream and quickly replacing dial-up," Dataquest Vp-Chief Analyst Kathie Hackler said at Supercomm 2001 in Atlanta. In U.S., high-speed Internet access (cable and DSL) grew 67% in 2000, compared with 7% gain in dial-up connections. One-quarter of U.S. households could have high-speed Internet by end of year and broadband access will account for 45% of consumer Internet access by 2005, Hackler said.

In Feb. 2000, 3.4 million households with dial-up Internet access planned to purchase cable modem Internet access, compared with 2.2 million considering DSL, Hackler said, but by Nov., interest in cable remained at 3.4 million while interest in DSL increased 47% to 3.8 million households. In homes without Internet access, Dataquest found interest in cable modem and DSL about equal. Operational issues could thwart rollout to level below consumer demand and regulation could continue to be significant factor in broadband evolution, in general slowing deployment, Hackler said: "DSL will still continue to lag cable in the next few years as cable enjoys its 'first mover' advantage."

SBC spokesman sought to dispel "conventional wisdom" that DSL rollout was fraught with technical problems, saying problems had been solved, at least with carrier. "The news you've been reading about DSL disasters is probably old news," said Thomas Starr, who also is vice chmn. of DSL Forum.

Cisco Systems Mktg. Dir. Enzo Signore, citing Jupiter Research figures, said 98.7% of businesses would have broadband Internet access by 2005, compared with 41.3% this year.

FCC still isn't taking "formal position" on adoption of broadcast industry code of conduct, it said in letters to Congress, but it noted that "government involvement in a new code raises potential First Amendment problems." FCC Chmn. Powell also said litigation left "unresolved antitrust questions concerning the validity of such codes." Letters accompanied report to Congress on code, which was required by FY 2001 appropriations directive. In conclusion section, FCC said there was "disagreement concerning the legal issues associated with such a code, including issues associated with creating an antitrust exemption [and] the willingness of the industry to adopt such a code is affected by differing views on the value of such a code." Broadcasting faced little competition in 1950s, when NAB adopted code, which was abandoned in 1983 after sections of it were overturned by courts on antitrust grounds, Commission said. Since emergence of cable and DBS, FCC said: "The broadcast industry might be less willing to subject itself voluntarily to programming restrictions that do not apply to its competitors. Moreover, given the multiplicity of options available to viewers today, a code that only applies to broadcast television might be less effective today than it was in the 1950s."

Countering claims by broadcasters, NCTA urged FCC to revise its earlier ruling that new DTV-only stations were entitled to mandatory cable carriage in analog format. In its latest replies to opposition from NAB, MSTV and ALTV, NCTA argued that "there is no statutory basis for requiring analog carriage of digital-only stations." Cable group also contended that such carriage requirement "does not promote the purposes of must-carry or any other rational public policy." NCTA said "mandatory carriage in analog format would not survive First Amendment scrutiny."

DIRECTV FOR SALE: Sale of Hughes Electronics' DirecTV unit to News Corp. remains top priority for GM, but company has been unable to close deal and is considering other options that may include EchoStar, GM Pres. Rick Wagoner told shareholders at annual meeting in Wilmington, Del. Wagoner called News Corp. offer "the most interesting" but admitted there had been "periodic input" from DirecTV rival EchoStar. Despite 18 months of negotiations, Wagoner said, "there had been a lot of progress, but some issues still needed to be worked out" before agreement could be solidified.

Satellite analyst said GM shareholders "are getting excited" about receiving top dollar for Hughes while U.S. auto business struggles. In another move related to possible sale, GM Vice Chmn. Harry Pearce retired last month to take over top spot at Hughes. Some believe Pearce will speed up pace of talks. Wagoner also told shareholders Cadillac would begin offering Sirius commercial-free satellite radio.

Meanwhile, EchoStar is pushing service issues in battle for subscribers with cable operators. It announced improved customer service system using Red Oak Software Legacy Integrator. Upgraded network will integrate multiple proprietary applications housed on IBM System 3090. System allows customers to view and pay accounts over Internet, EchoStar said.

Satellite Bcstg. & Communications Assn. (SBCA) urged FCC to push for extension of cable program access rules beyond next year and for expansion of rules to cover terrestrially delivered programming. In letter to FCC Chmn. Powell, SBCA said it strongly supported extension of rules because of "important role" they had played in "the successful development" of DBS services. It argued that rules remained critical to increasing choice and competition in pay-TV market. SBCA also encouraged Commission to push Congress to "close the loophole whereby a vertically integrated program service can evade the program access rules by switching its program distribution" to terrestrial links from satellite delivery. Group charged that "this evasion reduces competition and violates the intent of Congress that all multichannel video program distributors have the opportunity to acquire vertically integrated programming on a fair and nondiscriminatory basis." But, unlike some other cable critics, SBCA didn't call for expanding rules to cover such nonvertically integrated programmers as Disney, NBC, News Corp., Viacom. With program access rules due to expire in Oct. 2002 unless Congress acts, Powell has said he plans to start agency proceeding on possible extension later this year.

FCC will offer new e-mail service to apprise consumers of developments at agency, to disseminate consumer information materials prepared by Commission to wide audience and to invite comments from other parties on regulatory proposals. Service is operated by Consumer Education Office in FCC's Consumer Information Bureau. Among items available via e-mail distribution list are FCC fact sheets, consumer brochures and alerts, news releases, public notices, notices of proposed rulemaking, reports and orders, other consumer-related information: subscribe@info.fcc.gov.

Radio revenue in 2001 continued its decline in April, with combined local and spot advertising down 9% from same month year ago, Radio Ad Bureau (RAB) said. During month, local spending was down 5%, national 22%. For year to date, RAB said, local radio ad spending was down 3%, national 20%. However, said RAB Pres. Gary Fries, "while we still have May ahead of us with the biggest and toughest comparison" with 2000's "blistering pace... the outlook for the 2nd half of 2001 remains positive."

CANADIAN OWNERSHIP REVIEW: Foreign ownership of Canadian telecom and cable companies will be "one of the major recommendations" in task force report expected week of June 18, Canada's Minister of Industry Brian Tobin said. He indicated his dept. would act on expected recommendation of National Broadband Task Force to "urgently review" rules limiting U.S. and other countries from owning more than 46.7% of Canadian cable companies and facilities-based signal carriers (TVD May 14 p5).

Established under Industry Canada, Broadband Task Force said its mandate was to advise govt. "on how to make high-speed broadband Internet services available to all Canadian communities by the year 2004." Easing of foreign ownership rules could provide industry capital required to build Canada-wide broadband network, Tobin said. "Remember, we are asking the industry to roll out billions of dollars in capital investment to take us where we need to go as a country in the context of high-speed broadband," he said: "We're not saying as a government that 'this is our policy, we'll pay for it.' We're saying 'this is our policy, we'll partner with you. By and large, we expect you to pay for it.'"

"One reason why foreign ownership restrictions are under review is because it may be a way to leverage increased investment for Canadian infrastructure," said Gaylen Duncan, chmn. of Information Technology Assn. of Canada (ITAC), which has been lobbying for removal of ownership restrictions. He said govt. should eliminate foreign ownership restrictions in context of trade negotiations "where we could get something for them."

Michael Helm, Industry Canada dir. gen.-telecom policy branch, agreed impetus for changing rules was coming from industry rather than govt.: "My guess is that money's hard to come by in this sector now. Two or three years ago you could raise your hand and say 'telecom' or 'Internet' or any of those magic words and you would be buried in mounds of cash."

Tobin said Canadian content requirements weren't open for review: "We are not talking about content. We're not talking about culture. We are only talking about who owns the pipes, who owns the means of carrying Canadian content into households and businesses." On issue of how govt. would draw line when same company owned both content and infrastructure, Tobin said: "That's one of the reasons why we won't quickly say 'yes' to this and we want to look at it very carefully. That is, in fact, the main question that we have to address."

Movie, video and TV raters "seem to be grading [programming] on a very easy curve," especially for TV, according to David Walsh, lead psychologist in study of rating systems in June issue of *Pediatrics*. Study by National Institute on Media found that 50% of TV programs rated TV-14 "clearly were inappropriate for teens," with 20% of parents surveyed saying videogames also should have stricter ratings for teens. "Results show that if parents were doing the ratings, they would be a lot stricter," Walsh said. Without improvements, "children will continue to be exposed to harmful material," said co-author Douglas Gentile. Specific recommendations for improvement include universal rating system "that can be applied consistently" to all media — system sought by Disney-ABC Pres. Robert Iger but roundly rejected by other networks (TVD Oct 2 p1). Study also recommended establishing outside board to assign and monitor ratings for all media for accuracy. Current TV ratings are monitored by board of broadcasters and public interest leaders chaired by MPAA Pres. Jack Valenti. It rarely meets and has issued no critical reports since its formation 2-1/2 years ago. Valenti's office and TV networks didn't comment.

Consumers Union and Consumer Federation of America said they would drop their active lobbying campaign against bill sponsored by House Commerce Committee Chmn. Tauzin (R-La.) and ranking Democrat Dingell (Mich.) that would ease restrictions on Bell companies providing data services across in-region interLATA boundaries. Consumers Union spokesman said consumer groups still opposed Tauzin-Dingell legislation and preferred rival Cannon-Conyers bills as substitutes but had decided to "wash our hands of the entire situation" because of recent long-distance price increases by AT&T, high-speed data rate boosts by both cable operators and Bells and "latest revelation" that MSOs were refusing to run DSL commercials of their competitors. In June 7 letters to Tauzin, Dingell, House Judiciary Committee Chmn. Sensenbrenner (R-Wis.) and ranking Democrat Conyers (Mich.), consumer groups said they would like to see Tauzin-Dingell and Cannon-Conyers bills broadly revised to tackle such rate increases and anticompetitive moves. They called for opening up Telecom Act to more sweeping changes to protect consumers but didn't propose drafting new legislation.

Group of Long Island public access programmers said it planned to sue Cablevision Systems over what it charged was company's refusal to allow its facilities to be used for partisan political programming. Many provisions in Cablevision's revised public, education and govt. (PEG) access package released April 1 are illegal, said Robert Goldberg, coordinator of Public Access Movement of Long Island (PAM), and while PAM was leaving it to individual producers to accept or reject package, it had decided to challenge provisions in court. Cablevision defended its decision to forbid independent producers from using its studios for political programming on ground that it amounted to "implied donation." Company spokesman said MSO had "no objection at all" to carrying political programming on PEG channels and it was prohibiting use of its equipment and employees only for creation of such programming.

Review of federal prison cable TV policies could be forthcoming, U.S. Attorney Gen. John Ashcroft told House Judiciary Committee June 6 at Justice Dept. oversight hearing. Responding to questions from Committee member Rep. Keller (R-Fla.), who expressed dismay that "violent criminals like Timothy McVeigh enjoy perks like cable TV and HBO," Ashcroft said he was "always willing to review the expenditures of the Bureau of Prisons" to assess whether agency was achieving its objectives. "That would be true about whether or not [the prison system] has the right opportunities for information and, quote, 'entertainment,'" Ashcroft said. "I don't think of our prisons as entertainment centers."

AT&T Broadband said it successfully concluded its 6-month technical trial of multiple ISP access in Boulder, Colo., and was on track to roll out commercial service broadly in mid-2002. AT&T, which offered choice of 4 in-house and outside ISPs to more than 300 users in Boulder, said it would extend trial another 2 months to 80 Boulder users to further test its choice of software, billing and customer service operations. It said it also would proceed with its planned market trial in Boston area in fall, when it offers commercial service to 1,000 users.

To comply with Justice Dept. consent decree, Clear Channel Communications (CCC) said it was selling 8 million common shares (price not announced) of outdoor company Lamar Advertising through underwriter Deutsche Banc Alex. Brown. CCC will retain 10.3 million (10%) Lamar shares and is largest outdoor company worldwide with 160,000 displays in U.S. and more than 700,000 throughout world. Consent decree was reached in connection with CCC's purchase of AM-FM radio stations.

Personals

Richard Sheingold named pres.-CBS TV spot sales and exec. vp-sales, Viacom TV Stations... **Greg Schaefer** appointed vp-station mgr., WCBS-TV N.Y... **Jonathan Schwartz** ex-U.S. Justice Dept., named gen. counsel, Napster... **Troy Dow** promoted to MPAA vp-counsel, Technology and New Media... **Ted Garcia**, exec. vp-COO, KETC St. Louis, named gen. mgr.-CEO, KNME-TV Albuquerque.

Alan Sternfeld appointed senior vp-planning, scheduling, acquisitions, Lifetime Entertainment Services... **Patrick Scott**, exec. vp-gen. mgr., Weather Channel Networks, promoted to pres... **Matt Jones**, ex-Lipstream Networks, appointed COO, Excite@Home... **Bonnie Clark** promoted to vp-PR, QVC... **Chris Kelly** advanced to dir.-product developments, Cox Interactive Media... **Bill Brand**, ex-VH1, appointed senior vp-Reality Programming, Lifetime TV.

Barbara Esbin, ex-Dow, Lohnes & Albertson, named assoc. chief, FCC Cable Bureau... **Thomas Horan** appointed senior legal adviser, FCC Cable Bureau, succeeding **Clint Odom**, leaving to become dir.-federal regulatory affairs, Verizon... **Marlene Dortch** appointed acting dir., FCC Office of Communications Business Opportunities... **Tony Werner** named Qwest exec. vp-strategic technology... **Andrew Lev** promoted to MetaTV pres.-CEO, succeeding **Ranjit Sahota**.

Appointments at CableLabs: **Paul Whitehead**, ex-U S West, as vp-strategic assessment; **Bernd Lutz**, ex-Proflowers.com, as dir., CableHome project; **Perry O'Neil**, ex-Formus Communications, as dir., Cable Industry B2B Interface Program; **Raji Raman**, ex-FAA, as dir., Project Requirements for Strategic Planning; **Anthony Sachetti**, ex-Level 3 Communications, as dir., strategy development; **John Eng**, ex-Lucent Technologies, as dir., Data Over Cable Service Interface Specification Platforms. Added at OpenCable project: **James Fahrny**, ex-Rainbow Technologies, as senior security architect for application programs and services, and **Frank Sandoval**, ex-3DO, as senior software architect. **Joseph Weber**, ex-Quindi, named senior technologist-advanced platforms and services.

News Corp. subsidiary NDS Group will help launch first digital satellite broadcasting operation in Korea under \$30 million contract. Korea Digital Satellite Bcstg., founded in Jan., will be only provider of satellite broadcasting service in country, beginning later this year. Another News Corp. spinoff, BSkyB, introduced Sky Digital Personal Planner that allows viewers to create their own personalized TV schedules. Company said personal planner feature had been downloaded to 5.4 million digital set-top boxes.

XM Satellite Radio signed deal with CNBC to provide programming from business cable network on continuous basis to XM subscribers.

Obituary

Kevin C. Cox, 58, co-founder and partner of broker Media Services Group, died June 5 at his Berwyn, Pa., home after long battle with Lou Gehrig's disease. Before forming Media Services in 1990, he was with Chapman Assoc. and from 1973-1998 was vp-sales & mktg., NBC Radio Network. Cox started in broadcasting at WIP(AM) Philadelphia, becoming gen. mgr. before joining Metro Radio Sales as mgr. and later exec. vp of RKO Radio Reps. Wife, daughter, son survive.



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DirecTV and **NFL** are close to deal on litigation involving out-of-market NFL Sun. Ticket package that now would be offered on week-to-week basis. Settlement proposal document sent to affected customers said option of purchasing out-of-market NFL game broadcasts on weekly basis would become available for upcoming full season. Single Sun. package would be \$29.99, proposal said, with season-long packages optional. Litigation settlement involves subscribers who bought package between Jan. 1, 1994, and May 25, 2001.

WRH

Consumer Electronics

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STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending May 25, and year to date:

	MAY 19 - MAY 25	2000 WEEK	% CHANGE	MAY 12- MAY 18	21 WEEKS 2001	21 WEEKS 2000	% CHANGE
TOTAL COLOR TV	558,488	789,857	- 29.2	388,460	9,649,149	10,515,841	- 8.2
DIRECT-VIEW**	542,415	761,185	- 28.7	376,009	9,285,275	10,064,783	- 7.7
TV ONLY#....	417,648	540,640	- 22.7	323,015	7,746,206	8,282,033	- 6.5
TV/VCR COMBO.	124,767	220,545	- 43.4	52,994	1,539,069	1,782,750	- 13.7
PROJECTION...	16,073	28,672	- 43.9	12,451	363,874	451,058	- 19.3
TOTAL VCR**...	548,092	1,073,484	- 48.9	298,990	7,263,144	10,027,755	- 27.6
HOME DECKS...	423,325	852,939	- 50.4	245,996	5,724,075	8,245,005	- 30.6
CAMCORDERS.....	114,878	182,378	- 37.0	123,481	2,065,358*	2,019,544	+ 2.3
DVD PLAYERS....	178,956	260,454	- 31.3	115,310*	3,489,954*	2,046,252	+ 70.6

Direct-view TV 5-week moving average#: 2001-358,155; 2000-403,208 (down 11.2%).

Projection TV 5-week moving average: 2001-15,010; 2000-20,362 (down 26.3%).

VCR deck 5-week moving average: 2001-326,451; 2000-537,953 (down 39.3%).

TV/VCR 5-week moving average: 2001-77,394; 2000-115,248 (down 32.8%).

Camcorder 5-week moving average: 2001-128,744*; 2000-126,654 (up 1.7%).

DVD player 5-week moving average: 2001-172,785*; 2000-138,958 (up 24.3%).

* 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.

TWEETER TO ACQUIRE SOUND ADVICE AMID CONSOLIDATION: While emergence of Best Buy (BB) and Circuit City (CC) as national chains rankled ranks of CE-major appliance regional dealers and swept many from market in 1990s, BB, Tweeter and Ultimate Electronics are emerging as major forces in 2nd wave of consolidation that targets regional CE specialty chains.

Tweeter, which last week announced proposal to acquire 33-store Sound Advice (SA) in stock swap valued at \$150 million, has moved rapidly across U.S. in snapping up smaller specialty chains in transforming chain that was once New England-based retailer into one with more than 100 stores. Combined chains would have annual revenue of \$750-\$900 million by year-end, analysts said. Ultimate, on other hand, for most part has concentrated on internal growth with plans for expanding into Oklahoma City and St. Louis this year. BB purchased Magnolia Hi-Fi late last year (TVD Dec 11 p10) and has pledged to build it into 150-store chain, prospect that may cut even deeper into ranks of regional dealers.

"You have your Best Buys and Circuit City and now you see the electronics specialty chains moving in a similar direction," Samsung Electronics Mktg. Dir. James Sanduski said. "It's all about the big getting bigger and the smaller chains disappearing or getting bought out."

Yet some smaller dealers viewed consolidation of specialty chains as avenue for securing additional business, arguing that Tweeter would find it increasingly difficult to provide local touch as they expanded and rebranded their network of regional dealers they had acquired with single name. Bryn Mawr Audio/Video and Dow Audio/Video have been changed and Hi-Fi Buys is expected to follow suit in 2002.

"I just think there is going to be a place for us in all of this," Bjorn Dybdahl, pres. of single-store Bjorn's Audio/Video in San Antonio, told us last week. He said: "I still think that when they're [Tweeter or others] that size, no matter what they hope to pull off, it's going to be very difficult." Dybdahl added: "What they want to do is specialty branding with specialty kinds of services and I don't know if you can pull it off when you're that big."

But Tweeter CEO-Pres. Jeffrey Stone told Wall St. Analyst Forum in N.Y.C. last week he was confident his company could hold onto its specialty detailer cachet as it continued its march to become national chain. For one thing, Stone said, no matter how many other chains Tweeter buys, it will remain focused on service, unlike its "big box" competitors. He said: "We are absolutely religious and fanatical about service and the only way you can do that in our type of business is through salesperson education and we are relentlessly focused on it." Tweeter also remains selective about what retail chains it attempts to acquire, and Sound Advice and other retailers it has purchased clearly have met its criteria, he said. If anything, SA also will give Tweeter opening into increasing amount of high-end products. Stone said: "They carry B&W speakers, which is probably the prominent high-end speaker in the industry; Krell amplifiers; Bang & Olufsen products. So really where they've added to our merchandise mix is they carry a broader line of the higher end products. That's really the main point of differentiation."

Tweeter's proposed purchase of SA — its largest acquisition to date — is expected to close "on or about September 1," Stone said. Acquisition would give chain strong presence in Miami and surrounding markets. Chains have had discussions "on and off" for years on possible merger, but they intensified once Tweeter increased its stake in SA to 9% (336,000 shares) in Feb. (TVD Feb 26 p10). "I think it made it easier for them to approach us," SA Exec. Vp Michael Blumberg said. "The timing was right and they were offering us a premium for our stock and it was a good deal for shareholders."

Stone and Tweeter CFO Joseph McGuire said last week that timing was indeed right for acquisition. They also said there were other factors in play. For one thing, Stone said: "We were in competition for the purchase of the company" — and he believed it was BB that it was competing against. (BB declined comment Fri.) Stone said: "Everything has to do with price. [Initially] they weren't willing to sell at a particular price. And Best Buy jumped into the fray with Magnolia and that changed the landscape a bit. It changed the landscape for what we were willing to pay." In terms of the price both companies ultimately agreed on, McGuire said: "We went in and spent time on their financials [and] their income statements, while not lining up with ours, are looking a lot closer now than [they were] a year ago."

SA stock will be converted to Tweeter common at one-for-one exchange ratio based on 5-day average market price of Tweeter stock's being \$21-\$30 per share. If share price exceeds either minimum or maximum price parameters, exchange ratio will be increased or decreased to maintain \$21-\$30. If 5-day average of Tweeter stock is below \$18 per share at closing of deal, proposed sale can be terminated. Tweeter stock was trading at \$27.15 after falling \$2.45 when deal was announced June 4, while Sound Advice was at \$25.35 after rising \$9.20 on news.

For time being, Tweeter is expected to make few changes at SA. It will continue with SA's previous agreement to operate Bang & Olufsen (B&O) stores and will open new outlets in Sept. and Oct., Blumberg said. SA also has 2 stores in Scottsdale, Ariz., via acquisition of Showcase Entertainment last year, latter also operating store-within-a-store at Sears' Great Outdoors there. It also has tested Electronics Environment concept that involves home theater-type store adjoining B&O outlet.

McGuire said last week: "If anything, we went into the discussions with Sound Advice probably a little confused about the B&O format stores.... And when we got a chance to really look at the numbers, the return on investment capital for those stores is huge and has absolutely caught our attention and, in fact it's caught our attention to the point that we're going to see if we can try a couple of those other format stores in some of our other markets. What's fascinating is they've opened up these concept format stores. They're small. They only cost about \$300,000. There's no inventory beyond the display and they pump about [\$2.5 million] dollars of high-margin sales out of this little box that's completely leveraged. So there's no additional marketing, there's no additional distribution... So what happens is the return on capital for that particular unit is enormous. So that has absolutely attracted our attention and it's something I think we'll try in a couple of other markets."

Stone said Tweeter had no desire to make many changes at SA overall, including any change in store name — for now, anyway. "Sound Advice will continue to operate independently. Their buyers will buy. Their marketers will market. Their custom guys will custom. Their training guys will train. The human resources people will recruit and administer benefits." But he said: "We'll dissolve the [SA] accounting department. All the financial reporting will come out of our office. That will all be centralized." He added: "Probably some time over the fall we will analyze their benefits

and integrate those things where there [are] cost efficiencies. But the strategy is for Sound Advice Peter Beshouri, the CEO, [to] become the president of the Sound Advice division after the merger, and [he] will report to me. Peter will run his business and his folks will continue to focus on growth in Florida and growth in Arizona and the Tweeter management team will continue its acquisitions and open up all the stores that we have planned for next year. And over the next 12 to 24 months we will slowly learn about their business and sometime within the next 12 to 24 months we'll be looking at more typical integration."

While SA management is expected to remain on after sale, 13 employees have severance agreements that expire Feb. 1. Blumberg's and Beshouri's 3-year employment contracts also end Jan. 31, according to SEC documents. Severance pact, which applies to change of ownership, calls for employees to receive lump sum payment equal to half gross wages for 12 months before change, according to SEC filing.

When asked last week whether there was possibility BB could make larger counteroffer for SA, Stone said: "They can do whatever they want. But we tied management up [at SA] with a voting rights agreement where they cannot vote for a competing deal. As directors of a company they [have a] responsibility for their shareholders, so if Best Buy comes in with a \$45 [per-share] cash bid and they think they've got to offer it to [their shareholders, they can but] they can't vote for it." Stone said only shareholders could vote. That, along with amount of SA stock Tweeter now controls, made him confident of his company's position, he said.

Tweeter's acquisition of yet another fellow member of PRO Buying Group — it purchased Home Entertainment and United Audio — also raised questions about group's continued existence. "There comes a point where the actual size of Tweeter becomes such a big part of the overall group business that at what point do they break away?" one CE executive asked rhetorically last week. "For right now, Tweeter figures their membership in the group gives them more economic benefits than if they were out on their own. But at some point they have to evaluate that."

McGuire told us: "My guess is that at this point we can get any deal on our own that we can get with the group." But he was quick to say: "We love the PRO Group... It's a club where we get to hang out and meet vendors and make deals and talk about business." While he said "the value of the PRO Group is hard to define" or "put a dollar value on," he called it "a helpful forum — a healthy environment," adding: "There are no immediate plans to suspend the PRO Group."

SCIENTISTS SUE TO GIVE REPORT ON CRACKING MUSIC SECURITY: Researchers are taking music industry to court for freedom to publish report detailing how they cracked watermarks and other security technology developed for Secure Digital Music Initiative (SDMI) after latter issued open challenge last fall. Lawsuit comes 6 weeks after Princeton Group cancelled presentation of paper following warnings from RIAA and SDMI that publication might violate Digital Millennium Copyright Act. In mysterious twist, occupation of one hacker has been obscured in court filing and references to his participation removed from group's Web site.

Bankrolled by Electronic Frontier Foundation (EFF), Princeton U. scientist Edward Felten and research associates filed suit against RIAA, SDMI Foundation, watermark developer Verance and Justice Dept. (DoJ). EFF Legal Dir. Cindy Cohn said suit had 2 goals: (1) Affirmative court ruling that would insulate Felten from lawsuits or prosecution that could result if he published report at Aug. 13 USENIX security conference in Washington. (2) Constitutional interpretation rejecting language in 1998 DMCA that makes publishing reports such as Felten's illegal. Suit was filed in U.S. Dist. Court, Trenton, N.J., and seeks declaratory judgment — type often sought in situations involving rights to free speech under First Amendment.

Princeton Group claimed it broke 4 watermarking technologies developed for SDMI, which is searching for way to distribute digital music that can't be copied. Last Sept., SDMI challenged all comers to try to break software coding. Challenge involved 4 watermarks and 2 nonwatermark technologies. Although SDMI does not divulge identities of developers, it subsequently became known that one was Verance. Others are cited in lawsuit as John Doe's 1 through 4.

Felten said group turned down \$10,000 prize awarded by SDMI for cracking technologies because it wanted to publish results to scientific community — accepting prize would have required nondisclosure agreement preventing publication. SDMI disputes that, saying group would violate terms of challenge participation if data were disclosed. Regardless of Princeton team's results, SDMI doesn't recognize its efforts because it shunned nondisclosure agreement. SDMI said that only one watermark was broken, by 2 different parties in challenge.

Felton, who described SDMI technologies as “weak,” said system needed to be discussed because many were investing in those technologies. “We aren’t going to change the weaknesses in the system by publishing this paper,” he said. “People are asked to buy into a system that’s not going to work.”

Cohn said issue of academic freedom to publish would surface repeatedly if suit didn’t challenge DMCA. “The protection for encryption research written into the bill is woefully inadequate,” she said of DMCA. Attorney Gino Scarselli, outside lead counsel for case, described DCMA as law that could restrict scientific study and said case revolved around “classic First Amendment” issues. Felten said “the recording industry’s interpretation of the DMCA would make scientific progress on this important topic illegal.”

RIAA and SDMI sent Felten warning letter April 9 that his report could be in violation of terms they claimed team had agreed to before entering cracking challenge. Letter, sent before Felten tried to have report published at April 26 cryptography conference in Pittsburgh, said publication of such information would facilitate hacking of SDMI technology and thereby violate nondisclosure clauses of DMCA. Although Felten and EFF team contend letter was threat from RIAA and SDMI to sue, RIAA said neither planned legal action.

But Felten and EFF said there was speculation Verance would sue. In April letter, RIAA said Verance watermark already was in commercial use and report could assist others to remove watermark and “jeopardize the technology and the content it protects.” RIAA has since said sending letter was well-intentioned attempt to protect “crown jewels” of watermark developers, but “clearly a mistake.”

Verance spokeswoman said “it’s never been our intent to sue.” Verance said Felten could publish his results without “specific, detailed instructions” and still could accomplish scientific goal. Cary Sherman, RIAA senior exec. vp-gen. counsel, said in letter for June 11 issue of *Industry Standard*: “Why publish unnecessary and sensitive proprietary data that could damage Verance’s core technology if the academic purpose of the paper can still be achieved?”

Verance, RIAA and SDMI questioned why Felten would sue, and Cohn said it was necessary for negotiations over research paper. “We felt negotiations would be fruitless without the lawsuit,” she said. RIAA and SDMI said decision to sue was “inexplicable,” but EFF rejoinder said it sought “clear legal determination that no one needs the permission of the record companies before publishing and presenting scientific work.”

Court complaint said that before cancellation of Felten’s April 26 presentation, he and Verance tried to work out changes in paper that was sent to Joseph Winograd, Verance exec. vp-chief technology officer. Although paper was for Verance’s use only, Winograd acknowledged he had briefed SDMI and others on its content. Complaint alleged that on April 17 Verance requested 25 changes — more than half of them about team’s attack on technologies that weren’t Verance’s, although Verance or representatives of other IP owners didn’t say so.

Suit said changed paper “would have been rejected by any respectable scientific conference.” Instead, Princeton Group withdrew from conference, claiming that industry’s “threat of suit was [not] anything other than one to be taken with great seriousness.” Fear of litigation also caused one Princeton researcher to omit chapter on SDMI challenge from her doctoral dissertation. EFF suit also seeks to extend protection to dissertation and other paper written by scientist.

USENIX Assn., computing engineering group, also is plaintiff in case. Attorney for USENIX said it wanted to protect itself from liability before it agreed to publish report for Aug. conference. Another plaintiff, computer scientist Richard Drews Dean, is employee of Xerox Palo Alto Research Center (PARC) and originally was identified as one of participants trying to break SDMI technologies.

For reasons not clear at our deadline, lawsuit doesn’t give Dean’s affiliation as PARC researcher, and there was no mention of PARC in EFF news conference on suit.

More puzzling, all reference to Dean and PARC has been deleted from Princeton group’s Web site, maintained by Felten (www.cs.princeton.edu/sip/sdmi). Dean’s PARC affiliation was published on site when group first announced its hacking results last Oct. — as attested by hard-copy we printed out at that time and retained. Although it’s not known when information was removed, Web site posting we found gives some indication — as well as clue to one of “John Doe” SDMI developers.

“The corresponding file was removed due to a request of Xerox,” said April 24 notice on ftp.iks-jena.de Web site in Germany that had carried but removed leaked 15-page draft of hacker’s paper, *Reading Between the Lines: Lessons from the SDMI Challenge*. Message, reproduced here verbatim, goes on to say:

“Mr. Nola Mae McBain from the Xerox Corporation Patent Counsel informed me about Xerox Proprietary Information contained in this third party work.

“Mr. Kinkeldey from the law firm Grunecker, Kinkeldey, Stockmair & Schwanhausser in Munich told me, that civil action might be considered against all people which are involved in creating tools able to damage third party rights (MPAA) even if the protection scheme is braindead. Publishing leaks is considered as support to create such damage.

“Mr. Kinkeldey promised to urge Xerox to mail me a detailed list of there IP claims. He was not able to communicate them, because he was not properly prepared by Xerox itself.

“Furthermore he told me, that this paper was revoked from the upcoming conference. Mr. Felten’s speech about this subject will be brushed up to protect the interests of the MPAA and Xerox.”

Requests for comment by Felten and others about German Web site posting and possible Xerox involvement in SDMI weren’t returned by our Fri. deadline.

Meanwhile, Cohn said SDMI case was different from one EFF already was fighting — current MPAA suit against hacker magazine 2600 that published and distributed hack for DVD’s Content Scrambling System (CSS). MPAA is suing to keep information about DeCSS hack from being published or linked. Magazine’s appeal is now before 2nd U.S. Appeals Court, N.Y. Cohn said while that case was about media rights, suit against SDMI was more about academic and research rights.

LCOS AND PLASMA DISPLAYS ADVANCE AT SID, WAIT FOR MARKET: New generation of rear-projection TVs based on liquid-crystal-on-silicon (LCoS) made first tentative steps toward market last week, while plasma display panel (PDP) manufacturers moved to blunt effort with promises of lower manufacturing costs.

Technologies jockeyed at Society for Information Displays (SID) show in San Jose to be anointed as successor to time-honored CRT-based rear-projection technology, while rift developed among LCoS developers over whether one or 3 panels would be way to achieve lower prices needed for consumer market.

Most significant development was Fujitsu’s pledge to lower PDP manufacturing costs 20% this year to hit \$150 per inch primarily through new low-voltage drivers that, in case of 32W, could dispense with need for cooling fans. Costs could be reduced another 50% in 2002 en route to PDP holy grail of \$100 per inch by 2003, Fujitsu-Hitachi Plasma Display (FHP) Senior Exec. Vp Yoshito Tsunoda said. In case of 32W, which Hitachi started shipping in Japan in spring at \$4,500 for finished product (\$2,400 for raw panel), new drivers costing 50% less than those used previously helped cut voltage in half to 80 v, he said. As result of lower prices, PDP sales will hit 2 million pieces by 2003, 75% of which will be for TVs, Tsunoda said.

New 32W, which has 1,024x852 resolution, 650 candelas and 500:1 contrast ratio, uses Technology of Reciprocal Sustainer (TERES) to lower voltage requirements but maintain power consumption at 200 w. TERES is based on new power-distributing circuit that changes voltage being sent to address driver and can result in 53% cost reduction. Other option is to connect power-distributing resistor to address driver IC’s power supply terminal, which would result in 33% lower costs.

New PDP, like 37W and 42W models, uses Alternate Lighting of Surface (AliS) technology introduced 3 years ago to double screen resolution without increasing number of electrodes. At same time, FHP invested \$360 million in new factory in Japan that’s expected to triple joint venture’s monthly manufacturing capacity to 30,000 units this year and 60,000 in 2002, Tsunoda said. Lower cost follows Sony’s move earlier this year to drop price on 42W monitor with 1,024x1,024 resolution to \$7,999 from \$13,000-\$14,000 range (TVD Feb 19 p8).

Among other cost-cutting plasma developments introduced at SID were LG Electronics’ Low-Temperature Co-fired Ceramics on Metal (LTCC-M) technology that integrates back panel with driver ICs in replacing base glass plate with thin metal sheet for fabrication. Method also would reduce total weight 30%, LG said.

“Lowering the cost of the panels is essential for expanding the business,” Tsunoda said. As Fujitsu promised lower prices, NEC, which formed plasma joint venture with Thomson earlier this year, promoted 61W that it said would be in

production by midyear with 853x480 resolution, 600 candelas brightness, 50:1 contrast. Panasonic's Plasmaco also continued to show 60W, which had been scheduled for production in 2nd half. Fujitsu also is setting sights on 60W-and-up market for 2002, abandoning earlier plans for 50W, Fujitsu Microelectronics Business Promotion Mgr. Takeshi Komine said. "It's already a competitive screen size so we decided to skip it and go straight to 60W," he said with nod toward 50W's incumbent manufacturers Matsushita, NEC and Pioneer, among others.

LCoS developers were even more aggressive in setting pricing targets, with \$1,500 possible for light engine and microdisplay in 2002, Displaytech Program Mgr. John Valiulis said. Lower priced display probably would be based on Displaytech's planned single panel 0.78W ferroelectric LCD (FLCD) with 1,280x768 resolution 350 lumens and 200:1 contrast that's expected to be available next year in volume at \$250-\$300, Field Operations Vp Anthony Artigliere said. Samsung, which is scheduled to ship 3-panel 50W (\$6,000 street price) and 43W (\$5,500) rear-projection later this year based on Displaytech technology, has studied plans for single panel, but has yet to make final decision, Mktg. Dir. James Sanduski said. Three-panel configuration is better suited for 40" and up TVs since it provides brighter picture than single-panel which would be better targeted at 30-40" displays, Sanduski said. At same time, Displaytech temporarily has shelved plans for 0.85" FLCD with SXGA resolution and will focus on smaller sizes, Artigliere said. LCoS chips possess "great potential" for displaying high-definition full-motion video since they possess fast switching speeds, Samsung Senior Digital TV Mktg. Mgr. Steve Panosian said.

"Going forward, our focus will be on single panels where we feel we have a long-term sustainable advantage," Artigliere said. "It provides our customers a lower bill of materials cost, simpler optical system designs and the ability to compress the package size." Among cost advantages is being able to perform convergence of red, green and blue colors on single panel, Valiulis said.

Joining Displaytech in single-panel push is Philips, which took wraps of 1.3" LCoS display with 1,280x768 resolution, 400:1 contrast. LCoS display will be at heart of 64W rear-projection TV that's expected to be available in early 2002 at \$5,000-\$6,000, said Guido Voltolina, sales & mktg. dir. for Philips Components LCoS Projection. Philips also showed 36W version that boosted contrast ratio to 450:1. Unveiling of LCoS panel represents end of long road for Philips, which first showed prototype TV 10 years ago using technology developed by Kopin. Meanwhile, Philips has scrapped plans for 25" PC monitor that used 0.79" with 1,600x1,200 resolution, ceding that market LCDs, which have witnessed rapid decline in prices, Voltolina said.

Three-Five Systems (TFS), which has developed LCoS technology for Thomson's RCA 50W that's scheduled to ship in late summer at \$6,000-\$8,000, is backing 3-panel approach. New 50W uses 0.78" with 1,280x1,024 resolution, 600:1 contrast ratio and optical engine developed by Corning Precision Lens (CPL). Sets will be assembled at Thomson plant in Mexico. Company is expected to begin beta test of set in coming weeks using 20 or so internal employees and external executives to run it through paces with DirecTV receiver, DVD players and other products, sources said. Thomson officials weren't available for comment.

Among other 3-panel supporters is SpatiaLight, which is expected to have 0.77" display available later this year with 1,280x1,024 resolution, 350:1 contrast, Manufacturing & Engineering Vp Miles Scott said. Display has response time of "well below" 16 milliseconds, he said. SpatiaLight signed agreement with Fuji to provide light engine (\$1,600) and has deal with unnamed 3rd party to supply chip fabrication. Fuji pact calls for minimum production of 10,000 light engines per month when manufacturing starts late this year. Introduction of product would be major milestone for SpatiaLight, which has struggled financially and went through management breakup in last year that saw investor Robert Olins take over as interim CEO.

"It's our view that 3-panel does have some cost advantages because you can make each individual chip smaller with higher yield and lower cost and that will work itself out over time as you begin ramping to volume production," TFS Senior Vp-Chief Technology Officer Robert Melcher said.

One area where LCoS was absent was in front projectors, where Texas Instruments' Digital Light Processing (DLP) technology has achieved strong hold on market for lightweight models. TFS has been developing 0.53" LCoS chip with 1,024x768 resolution and 600:1 contrast ratio with InFocus for inclusion in projector that could hit \$1,500 price. However, Acer is said to be readying model using TFS' 0.78" panel that's expected to be available later this year. Among other LCoS providers, Zight (formerly Colorado MicroDisplay), which counts InFocus among its investors, is focusing attention on camera and camcorder viewfinders. "They [InFocus] want us to be successful as a company first and then when the timing is right, we'll expand our work into the projection product," Zight Mktg. Dir. Rainer Kuhn said. Front-projector market also involves "a lot of small OEM orders" and "the focus for use is to get large TV manufacturing deals," Scott said.

In viewfinder market, Zight introduced new version of 0.47" display with 800x600 resolution that reduced power consumption to 10 milliwatts from 15, boosted fill factor to 93% from 87% and moved to 0.45-micron process from 0.8, said Kuhn, whose company uses Hana Microdisplays to build displays. New 0.47" will be available in sample shipments at \$400 in July, \$70 in volume by 4th quarter, he said. Among new customers are I-O Display Systems and Visys for headmounted displays. I-O Display is marketing technology for use with notebook PCs and portable DVD players, while Visys is employing it in series of nightvision products for hunting and marine applications. Displaytech, meanwhile, is continuing to marketing 0.24" and 0.19" displays with 320x240 resolution for camcorders and cameras, respectively, and expects to have color version of former by 2002, Artigliere said. Miyota, which is building displays for Displaytech, shipped 500,000 units in first half, 80-90% of which were 0.24" and 0.19", he said. Production is expected to hit million units per month by year-end, he said. Among customers for smaller displays are JVC (digital camcorders, \$199) and Concord Camera and Minolta (digital cameras, \$1,000).

Meanwhile, raft of other display technologies showed signs of progress at SID. Candescent made advances in its field emissive display (FED) technology as it scrambled to raise \$400 million needed to start pilot production, while iFire added bright blue phosphor to inorganic electroluminescent technology and launched discussions with CE manufacturers about scaling technology for 28-40" flat panel TVs that could be priced in \$2,500 range by 2003. Rainbow Technologies, which developed tiling technology that enables stitching together of LCD panels, is expected to start preproduction of 2,000 units of 37.5W model in Aug., Senior Vp Edward Zinni said. Preproduction will run 9-12 months using LCD panel from Hosiden, he said. Display has 852x480 resolution, 500 lumens, 500:1 contrast ratio, 16 milosecond response time. Philips, which has 27% stake in Rainbow, is expected to have one-year exclusive on distribution of display to transportation market, Zinni said.

Candescent, which counts Sony among its investors, boosted brightness on 5.3" display to 800 candelas from 100-150 year ago, while maintaining resolution at 320x240 while reducing depth to 10mm from 17mm by removing some high-voltage electronics, Mktg. & Business Development Mgr. Nils Welin said. Power consumption dropped to 6 kilovolts from 8 and Candescent switched to new drive supplier, he said. Major hurdle for Candescent will be securing additional partners as it seeks to raise funding for pilot production, which had been slated for late this year but was postponed when company pulled IPO. While Sony also showed 13" organic light emitting diode (OLED) at SID (see related story this issue) and technology will complement, not replace FED, Welin said. While OLED is aimed at cellular phones, FED will be directed at larger sizes, he said.

iFire unveiled triple-patterned phosphor technology that enabled it to achieve saturated blue color on par with that achieved by CRTs. Demonstration of 8.5" display showed deep blue color and improvement in brightness of green through use of new sulfide phosphor. With filter, display achieves 1.5-2 lumens per watt. Few details were available on progress of Ifire licensee TDK, which is using technology for displays 12" and smaller. But TDK is said to be readying production late this year or early 2002.

SID Notebook...

Sharp Electronics, which had postponed plans for rear-projection TV based on its continuous grain silicon (CGS) LCD technology because of cost issues, appeared to be reviving it for smaller displays. Sharp showed 2.8" and 7W versions, latter having 320x240 resolution and 25 millisecond response time. Brightness and contrast haven't been set, but low cost is expected to be achieved by integrating drivers and controllers on CGS panel, company said. "The main issue with this isn't making it, it's producing it economically," Sharp executive said. "The key is, we're breaking all the things down and getting a good production process."... Telegen unveiled 12" prototype display with 640x480 resolution that uses its high-gain emissive display (HGED) technology... CRTs took back seat to new displays at SID, but Philips engineers unveiled transposed scan technology that could reduce depth of TVs by enabling deflection angles of up to 135°. Efforts to increase deflection angle beyond 120° typically have been hampered demands of spot uniformity, raster and convergence, dynamic focus. But Philips engineers proposed transposing scan direction to eliminate most of problems and possibly reducing depth of current generation of slim CRTs another 15%. Philips has developed algorithm that combines deinterlacing and video rotation to enable co-processor of DSP to convert transpose scan YUV data to RGB format... Flat-panel displays (FPDs) are expect to achieve parity with CRTs in terms of market share next year and widen gap as market posts \$63 billion in sales in 2005, DisplaySearch said. "CRTs are going to lose a lot of ground" in PC CRTs, DisplaySearch Pres. Ross Young said. "But it will be slower in the TV space because of their cost advantage."

Faulty PCs accounted for nearly 16% of 15.9 million sold to U.S. households in 1999, ConsumerReports.org said. Of 2.5 million PCs that had problems within first month of ownership, 800,000 were totally inoperable out of box. Publication classified 240,000 PCs as "lemons" — those where at least 3 components needed replacement in first 16 months.

Elkjop, subsidiary of U.K. retailer Dixons and leading CE chain in Scandinavia, has acquired 7-outlet superstore chain SuperRadio from Denmark's Fredgaard Radio. Stores will be renamed El-Giganten, doubling Elkjop's superstore chain in Denmark. In all, Elkjop has 140 of outlets in 1,150-store Dixons Group. Latter said SuperRadio price was \$33.5 million.

RADIOSHACK XBOX PLANS: RadioShack has reached "accord" with DirecTV on new compensation plan and will be part of Microsoft's Xbox videogame console debut in fall, Pres.-COO David Edmondson told analysts.

While DirecTV agreement hasn't been finalized, companies "worked very hard to get a model that we both like," said Edmondson, who declined to disclose details. DirecTV officials weren't available for comment. Companies had been negotiating new agreement for several months after RadioShack criticized residual structure. Residuals are tied to activation of DirecTV customers, which slowed late last year as company worked through backlog of installation.

Despite possible change in ownership of DirecTV parent Hughes Electronics, Edmondson said he didn't expect it to alter agreement. Hughes Electronics parent General Motors has been in talks with News Corp. on possible sale of company. EchoStar also recently made play to enter negotiations. "We don't anticipate that that is going to be an issue," Edmondson said. "We're going to be very strategically important to whoever is at the management level."

At same time, RadioShack, which doesn't carry current generation of videogames hardware and software, will "play a unique roll" in Xbox rollout in fall, Edmondson said. Microsoft currently operates store-within-a-store format at RS for sales of its Microsoft Network (MSN) Internet access service for dial-up as well as digital subscriber line (DSL) and Starband satellite-based networks.

In light of Xbox introduction as well as that of Nintendo's GameCube in fall, RadioShack is likely to carry greater assortment of videogames accessories as part of its test of store-within-a-store format at Blockbuster. RadioShack won't carry GameCube. Test, which covers more than 100 stores, will begin in Austin market this month, followed by others in Las Vegas, Norfolk and Tulsa in July-Aug. Test will run through end of year.

RadioShack will spend \$10 million on test that includes installation of format and staffing of stores, Edmondson said. Design of store-within-a-store format is nearly complete and versions of it have been tested at single stores in Dallas and Ft. Worth for 4 weeks, Edmondson said. While Edmondson declined to release results from 2 stores, he said Blockbuster outlets would operate differently from traditional RadioShack outlets.

"It will have to change a lot more than we do in our traditional stores and it will have to be more fluid from a merchandise standpoint," he said. "From the outside [in Blockbuster store] it has to be vibrant and dynamic and be a magnet to the consumer."

RadioShack store will have point-of-sale system separate from Blockbuster's and won't rent videos, nor will Blockbuster sell CE products, Edmondson said. RS will register sales and Blockbuster has right to audit receipts.

In overall merchandise mix, RadioShack will be "much more aggressive" by 4th quarter in terms of selling MP3 digital audio players and will add 3 lines of handheld PCs in addition to Compaq iPaq it already carries, Edmondson said. In bolstering handheld PC lineup, RadioShack also will carry line of accessories targeting device.

On broadband services front, RadioShack is "reasonably happy" with sales thus far of Excite@Home cable modem service in more than 400 stores. In light of DSL provider Northpoint Communications' filing for bankruptcy protection and subsequent sale of assets to AT&T, Microsoft "has done an extremely good job" of finding replacements for service. RadioShack sold Northpoint service through Dallas stores and was investor in company.

In telecom, wireless phone business hasn't been "as robust as it needs to be," CEO Leonard Roberts said. Despite now selling Verizon and Sprint PCS services, RadioShack "hasn't been able to drive both business simultaneously" yet, Roberts said. Verizon and Sprint operate store-within-a-store formats at RadioShack, former having joined mix on national basis this year.

RadioShack issued profit warning in late May (TVD June 4 p17) indicating that earnings for full year could fall 10% short of \$1.84 per share year ago due to lower-than-expected sales of mobile phones and pressure on profit margins.

Former Concord Camera CEO Jack Benun is suing company for \$4 million in stock options and guaranteed amounts. Suit, filed in N.J. Superior Court, Camden, also seeks to modify arbitor's award in March of \$1.13 million to Concord for, among other things, fees that company has paid attorneys since litigation began in 1994 shortly after Benun was fired amid allegations of fraud. Suit seeks to lower award to \$1.1 million. Benun's suit also seeks fees for allegedly guaranteeing Concord's debt and damages for company's failure to provide him with options for 50,000 shares. In SEC filing, Concord revealed that it was working with unnamed customer to ensure collection of \$15.7 million of past due accounts receivable. Concord also reserved \$4 million on balance sheet to cover future payments to Fuji as part of settlement of lawsuit stemming from latter's attempt to end licensing agreement covering single-use camera technology. Concord had filed suit in 1997 seeking to block Fuji from ending agreement and has been granted, as part of settlement of lawsuit, worldwide (excluding Japan) nonexclusive license for single-use technology through Jan. 1, 2005. Concord reported 3rd-quarter loss of \$3.7 million, against \$2.1 million profit year ago, as gross margin shrank to \$1 million from \$8 million on increased sales of lower margin digital cameras.

Web-based tele-home care system from Panasonic made debut after year of FDA-compliance testing with Veterans Administration health care group in Conn. and Focused Health Solutions. Latter provides home health care services and monitoring for self-insured employers. Panasonic system, latest diversification for CE giant, consists of patient terminal, software for health provider's terminal, network server. Patient's terminal has color LCD touchscreen and video camera, gives patient voice and on-screen guidance for measuring vital signs such as blood pressure, temperature and others through variety of sensors. Data, including video of patient, are uploaded automatically through toll-free dial-up modem for monitoring by health care provider, which can send patient text messages or conduct videoteleconference. When doctors or nurses log onto network, they're informed if patient's vital signs have gone beyond range of preset maximum or minimum levels. System will be leased to institutions for \$15,000 over 3 years — \$400 monthly per patient, Panasonic said.

GAME BOY ADVANCE SHIPS: Nintendo's Game Boy Advance (GBA) finally makes its way to U.S. retail shelves this week, although there are likely to be many consumers who go home empty-handed. By most accounts, supplies won't come anywhere close to matching demand for \$99.95 next-generation handheld system at its rollout.

As we reported, Nintendo of America (NOA) said it would be shipping only 500,000 GBA units to retailers on first day of system's N. American debut, with all of them going to retailers in U.S. (TVD April 2 p15). But NOA said it then would "work closely with retailers to tactically replenish product where it is most needed in order to best meet consumer demand." By end of this month, NOA said it expects to "supply U.S. retailers with more than one million units."

Nintendo said it sold 1.6 million units of system in its first 5 weeks in Japan, where GBA became available March 21. GBA will make bow in Europe June 22.

EB declined to say how many GBAs it was allocated for debut. But Peter Roithmayr, merchandising vp of videogames at Electronics Boutique (EB), told us Fri.: "Every one we're getting has been presold." He said EB started preselling GBA systems in mid-April and had to stop 2 weeks ago once it presold what it believed would be its allocation. "Basically we presold them all in 5 weeks," he said, although he said EB's online store still was preselling GBA last week. EB "probably" could have presold "3 times" as many as it did if it "had been allocated more," Roithmayr said.

Although many customers are aware that buying GBA at outset without having made preorder will be difficult, Roithmayr said he still expected crowds at EB stores this week. Lines could be even longer at stores selling GBA on first-come, first-served basis. With GBA "extremely hot" now among gamers, Roithmayr said consumers would be even more excited about system when they "get it in their hands."

For GBA bow, Roithmayr said EB decided to try out new presales initiative. As part of what appears to be growing trend among videogame retailers overall — especially online — EB decided to not presell solo handheld systems on their own, but rather only as part of \$199.99 bundle, he said. Roithmayr said bundle included GBA machine, 2 games of consumer's choice, battery pack. Price, he said, could be somewhat less than \$199.99, depending upon what games consumer opted to include. (GBA games will retail for \$29.95-\$39.95.) Consumers also get to select what color system they want of 3 colors (Arctic white, Glacier translucent blue or Indigo violet). Version of bundle EB is preselling online essentially is same as at stores, but is title-specific so customers can't select particular games they want to be included, Roithmayr told us, saying that was done because of more complex logistics issues involved in online selling.

Roithmayr also told us Fri. that EB decided not to hold any GBA midnight events at any of its stores night before as chain has done with other game systems in past. That decision was made, he said, largely because of fact that NOA decided to unveil system on a Mon. "Sunday at midnight just doesn't work," he said. Therefore, EB won't start selling GBA systems until this morning, when its stores open their doors.

Although GBA hardware isn't available at stores until today, that hasn't stopped many consumers from buying GBA

games at EB already. Roithmayr said EB had begun receiving 3rd party games, including Activision's *Tony Hawk's Pro Skater 2*. EB said sales of that title had been "brisk" since it arrived with various others 10 days earlier. "It's always intrigued me that we can" sell games before hardware to play them actually is available, Roithmayr said.

But EB said it wouldn't begin selling first party games for GBA until today, when 2 first party accessories — AC adapter and link cable — also become available.

Meanwhile, Best Buy (BB) spokeswoman told us Fri. that her company's stores wouldn't start selling GBA consoles until Wed. — 2 days after official start — because BB didn't expect to receive its allocations on Day 1. She said BB would be selling GBA on first-come, first-served basis and was expecting long lines. BB presold GBA software only and "it did pretty well," she told us, declining to say how many games BB was able to sell before arrival of hardware. "We're excited about the launch," she said, and said GBA was "kicking off" what could be "exciting" year for game category with Nintendo GameCube arriving Nov. 5 and Microsoft Xbox Nov. 8.

NOA said last month that 17 games would be available at outset, including its own *F-Zero: Maximum Velocity* and *Super Mario Advance*. In addition to Tony Hawk game, other 3rd party titles were to include: *Army Men Advance* (from 3DO), *Castlevania: Circle of the Moon* (Konami), *ChuChu Rocket* (Sega), *Earthworm Jim* (Majesco), *Fire Pro Wrestling* (BAM!), *GT Advance Championship Racing* (THQ), *Iridion 3-D* (Majesco), *Konami Krazy Racers* (Konami), *Pinobee: Wings of Adventure* (Activision), *Pitfall: The Mayan Adventure* (Majesco), *Rayman Advance* (Ubi Soft), *Ready 2 Rumble Boxing: Round 2* (Midway), *Namco Museum* (Namco), *Super Dodge Ball Advance* (Atlus).

NOA already has begun \$25 million GBA marketing campaign in U.S. that includes three 30-second TV spots (TVD April 16 p16). So far, one of few negative things reported about system is that its LCD screen might be difficult to see under certain lighting conditions. By most accounts, even if that problem exists — and we haven't noticed it ourselves — it isn't likely to stop GBA from being major success that retailers are counting on.

While game industry eagerly awaited GBA in U.S. last week, European Computer Trade Show (ECTS) producer CMP Europe was criticizing Nintendo of Europe (NOE) for latter's decision to run its own Nintendo Show Sept. 1-2 — same weekend as ECTS. CMP spokeswoman confirmed accuracy of U.K. report last week that quoted CMP Europe Exec. Dir. Clive Ellings as saying: "We want to make it clear that we're appalled a company that is normally as responsible as Nintendo has chosen to pull a cheap stunt like this. It is clearly free-loading off the ECTS exhibitors." We were unable to reach NOE spokesperson for comment by our Fri. deadline.

Musicmatch introduced "gold version" of its latest Jukebox software, Jukebox Plus. San Diego company said Jukebox Plus, now available as download at www.musicmatch.com for \$19.99, was only jukebox software that offered multitask and multisession burning, allowing users to more quickly and easily mix and burn custom CDs while working on various other projects, such as surfing Web or word processing. Software became available in beta form in May. Company said that for short time consumers who have prior versions of its jukebox can download new one for only \$9.99.

MATSUSHITA-THOMSON CRT PACT?: Matsushita and Thomson are discussing possible CRT joint development and production agreement, Japanese financial daily *Nihon Keizai* (NK) reported.

Matsushita Pres. Kunio Nakamura and Thomson Chmn. Thierry Breton met in Osaka in late May, but spokesman for former denied companies were near agreement, AP said. NK said goal was to combine operations to cut costs and raise global competitiveness. Thomson is said to have had similar talks with Toshiba in past.

Indeed, Thomson has been moving to reduce costs of CRT business, deciding recently to close tube plant in Scranton by Aug. Industry sources we contacted doubted companies would choose outright merger, but rather would opt for increased sharing of technologies. Thomson was said to be interested in Matsushita's slotted tension mask (STM) technology that it developed for flat-screen sets. Key component of STM is lighter frame — 2.5 kg vs. more than 6 kg for Sony's aperture mask. Manufacturers have been seeking way to reduce weight of flat-screen tubes. Matsushita has developed STM for 27" and 25" sets.

Any combination of companies would involve substantial manufacturing operations in U.S., including Thomson's tube plant in Marion, Ind., and Matsushita's in Troy, O. Thomson also has CRT glass plant in Circleville, O.

"We are studying various options. However, we categorically deny the fact that the two companies are in final talks over integrating their CRT business," Matsushita said. Thomson officials weren't available for comment. Under plan, Matsushita and Thomson will set up joint venture at yet-to-be-decided location in Europe to develop and produce new display products, NK said. Other details, including scale of joint venture firm and date of its establishment, have yet to be finalized, it said.

Meanwhile, LG.Philips Displays will be name of CRT joint venture formed by LG Electronics and Philips last fall. It will produce CRTs for TVs and CRT monitors. Folded into group will be LG's plasma display panel (PDP) business, sources said. LG and subsidiary Zenith will market 40W and 60W PDPs this year.



Harman International has closed factories in Argentina and U.K. and cut 250 jobs as part of restructuring of international business that included \$36.3 million pretax charge against 3rd-quarter earnings. Harman reported \$18.3 million 3rd-quarter loss vs. \$22.3 million profit year earlier. Charge included \$8.6 million for inventory write-downs at Studer subsidiary and overall international business; \$6.5 million for severance in layoffs and \$5.9 million for closing factories. Gross profit margin fell to 22.1% from 29.3% due largely to inventory write-downs at Studer and international consumer business. Harman also suspended common stock repurchase program pending lowering of working capital, which increased to \$414.3 million from \$309.6 million year ago. Through March 31, Harman had repurchased 2.2 million shares at cost of \$67 million. Consumer systems group said net sales increased to \$325.2 million from \$315.8 million, but it had \$2.6 million operating loss against \$30.8 million profit year ago due largely to restructuring. Professional group had \$9.1 million operating loss vs. \$9.4 million profit but sales rose to \$110.3 million from \$108 million.

Koss and Jiangsu Electronics amended licensing agreement to cover Canada, Mexico and U.S. and extended it through Dec. 31, Koss said in SEC filing. Orient Power subsidiary, which has had agreement to market Koss-branded A/V products since mid-1990s, has option to renew agreement for one-year periods. Koss also extended brand licensing agreement for speakers with Logitech to June 30, 2008, from July 1, 2003. Under amended pact, Logitech will pay minimum royalties ranging from \$241,000 in period stretching year from July 1, 2003, to \$292,000 for similar period ending June 30, 2008. Koss reported decline in royalty income in 3rd quarter to \$116,277 from \$240,802 year ago. Overall net income edged up to \$1.2 million from \$1.1 million despite dip in net sales to \$8 million from \$8.2 million.

Sub-\$200 laser printer with 12 ppm B&W output is shipping from Samsung for home PC or small business users. Company said new ML-1210 for iMac or Windows has 600 dpi resolution, USB and parallel port connectors, 150-sheet paper supply. One-touch "toner saver" button reduces coverage density slightly to consume 40% less toner, extending cartridge life to 3,500 from 2,500 pages. Energy consumption is 250 w in use, 10 w in sleep mode, Samsung said. Company also introduced 17 ppm model for larger businesses. ML-1650 has 1,200 dpi resolution, 650-page paper supply, costs \$550.

ARUSH Entertainment announced availability of *Primal Prey*, first-person dinosaur hunting game developed by Deer Hunter game series creator Sunstorm Interactive. New title is part of RealNetworks's new RealArcade online game service, now available as part of free beta release at www.realarcade.com. Game will be offered soon at www.arushgames.com and across Gigex Syndicated Network at www.gigex.com/Top50, said Scottsdale, Ariz.-based Web videogame publisher ARUSH. First few levels of first "episode" of title are free, but each additional level costs under \$5 each.

Philips will bolster its MPEG-4 business by acquiring Israel-based Veon, it said. Latter's technologies create, deploy, manage and measure interactive broadband content on Internet. Veon will be incorporated in MP4Net, Philips's company for Internet streaming and content delivery. Price wasn't disclosed.

Microsoft may have selected March 15 for its Xbox debut in Europe, British news report said last week, spokeswoman didn't return call for comment by our Fri. deadline. Company so far has been silent on date of game console's bow in Europe. All Microsoft had said officially said by Fri. was that system would be available in Europe in first quarter 2002. U.S. Xbox unveiling is set for Nov. 8 (TVD May 21 p10).

Gemstar-TV Guide is subject of antitrust probe by U.S. Justice Dept., Reuters reported late Fri. Investigation is said to center on Gemstar-TV Guide's alleged efforts to monopolize market for interactive program guides for cable and satellite systems. Gemstar and TV Guide, which merged last year, have zealously defended former's IPG patents. But company also has been sued by EchoStar and Scientific-Atlanta on antitrust grounds.

Sharp Electronics supplied 2.9" reflective TFT LCD for Nintendo's Gameboy Advance that's shipping this week. Display has 240x160 pixel resolution, 30:1 contrast ratio, 45% reflectivity and 80 millisecond response time, Sharp said. Contrast ratio and reflectivity are double that of display used by Gameboy Color, which Sharp also supplied.

INTEL PUSHES DISPLAY MARKET: Intel quietly has been investing "tens of millions" in display technology companies as it seeks to boost monitor resolution to keep pace with ever-increasing speeds of its microprocessors.

While stopping just short of calling on display companies to improve resolution to rate on par with microprocessors that double speed every 18 months, New Business Development Vp Claude Leglise said goal was to push for "faster, better displays." Intel so far has invested in at least 9 companies including microdisplay developer Zight (formerly Colorado MicroDisplay), display controller designer Pixelworks, OLED manufacturer Ritek. Pixelworks is working with Intel to extend digital visual interface (DVI), for which chipmaker has developed copy protection system, to applications requiring UXGA or better resolution, Pixelworks spokesman said.

While microprocessor and graphics chip markets have grown at 45% and 40% rates, respectively, in recent years, display category has expanded at only 8% rate, Leglise said in keynote at Society for Information Display (SID) show in San Jose last week. "The question is, is it possible to create an inflection point in the display area such that we can make resolution grow more like 45% than 8%?" he asked. "Can we apply Moore's law to the display area?" he asked, referring to Intel founder Gordon Moore's theory that microprocessor speeds double every 18 months.

Several manufacturers, while noting that pace of advancements in resolution had picked up, doubted that Moore's law could be applied successfully to display industry. "Display technologies may in some cases take years to develop and there may not always be a ready market for them, so simply increasing resolution at a certain rate won't always apply," CE executive said.

Intel's investment in display industry also comes at time when PC industry faces slumping sales and chip maker is looking to expand business into new areas. Intel has avoided making "pure investment" in companies in seeking to strike technology-sharing arrangements, Leglise said. "We've been investigating pretty aggressively what it means to have photons hit silicon and what are the fundamental barriers" to increasing pace of advancements in resolution.

Goal is to have monitor capable of handling 10-megapixel display of full-motion video in real time within 5 years, Leglise said in noting that most devices currently topped out at 2 megapixels. As evidence, he showed IBM's 22" LCD monitor with 3,840x2,400 resolution (9.2 megapixels) at 204 pixels per inch (PPI) and used 16 Pentium 4 processors to run 16 DVDs simultaneously at 720x480p through 1 GB connection. PPI enables users to view display as if it were paper.

Intel's interest in display market also comes as microprocessors move past 1 GHz barrier and chipmaker looks for way to spur interest in high-speed chips. "It's a question of how do you create pull for that faster processing?" CE executive said. "Video takes a lot of processing and if you want it to look good, you need some high-resolution displays on the other end to pull it through."

While it has invested in range of display technologies, Intel is "leaning toward" liquid crystal on silicon (LCoS)technology that has targeted microdisplays of less than 1", Leglise said.

Technology appears "economical" to manufacture and "we are fairly convinced that we can build tiny pixels that do not exhibit fundamental limits" of LCDs, he said.

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Among Intel's investments is in Viewsonic, which showcased 36W rear-projection display with three 0.7" panels with 1,280x768 resolution based on JVC's Direct-Drive Image Light Amplifier (D-ILA) technology. Additional specs on display weren't available, but JVC in past has targeted 800 lumens and 1,000:1 contrast for 0.7" chip. Display is expected to ship later this year and while pricing hasn't been set, JVC has marketed D-ILA-based 61W rear-projection TV with 1.2" panel at \$5,999. Monitor will target professional applications at start and "various other sizes" will be added in 2002, Viewsonic Advanced Technologies Business Development Dir. Gene Ornstead said. Viewsonic sells front projectors based on Texas Instruments' Digital Light Processing (DLP) technology as well. "Scalability was the primary reason we chose D-ILA for this display and it's a reliable device with good contrast and brightness, but that's not to say we won't use other technologies as well," Ornstead said.

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Handspring shares plunged to 52-week low June 8 after it cut projected fiscal 4th-quarter revenue in half citing product price reductions and slowing consumer demand. Handspring hit \$8.02 in early trading June 8 and ended week at \$7.95, surpassing previous 52-week low of \$8.50 May 18. Revenue for quarter ending June 30 now is projected at \$60-\$65 million, down from most recent forecast of \$130 million. Handspring reported revenue of \$123.8 million in 3rd fiscal quarter. It also began program offering \$100 rebate on Visor Edge product to consumers trading in any brand of handheld PC. Program, which runs through July 1, effectively cuts price of Visor to \$299. Handspring rival Palm also slashed prices as it sought to clear inventory backlog in face of new models... **Toshiba** will ship module for m500 and m505 Palm handheld PCs with Bluetooth wireless technology. Unit fits into device's SD memory card slot and is likely to be part of line of handheld PCs that Toshiba is said to be planning for fall.

Car Toys and Sonicblue's Rio division announced start of retail partnership last week. Car Toys is selling new Rio Car removable in-dash digital audio players, storing more than 1,000 hours of music, at mobile electronics retailer's 40 stores and e-commerce Web site. Rio Merchandising Vp Tony Storino said: "A top car audio retailer, we believe Car Toys brings the right mix of sales expertise and customers to help us quickly and more effectively move Rio Car into the mobile electronics market. We will seek to further expand this retail presence nationally and to establish strong OEM partnerships that will place the Rio Car and follow-on product offerings in the forefront of the premium car audio market." Car Toys Pres.-COO Rik Tokuno said Rio Car "represents a revolutionary new audio technology that we believe car enthusiasts will be quick to adopt." Car Toys has stores in Colo., Ore., Tex., Wash.

Amazon.com will add PCs to its online mix by year end, online retailer told analysts at meeting in Seattle last week. News didn't come as shock because e-tailer already sells CE products and computer software, along with peripherals including digital still cameras. Company also said in recent earnings conference call with analysts that it expected to add new categories (TVD April 30 p22). But Amazon didn't say what those categories would be. It said last week it also was planning to open business bookstore at its Web site.

OLEDS, POLY OLEDS ADVANCE AT SID: After years in shadows of display industry, organic light emitting diodes (OLEDs) and polymer organic LEDs (PLEDs) are attracting attention of major manufacturers.

Three-Five Systems (TFS) and DuPont Displays unveiled plans for joint venture at Society for Information Displays (SID) conference in San Jose last week, while Toshiba surprised many with full-color 2.85" active matrix (AM) PLED featuring 6-bit gray scale, 144x176 resolution, 0.38mm pitch, with production due next year.

Sony showed 13" OLED with 800x600 resolution, 200:1 contrast, 500 lumens brightness, availability in 2003. Eastman Kodak postponed plans for 10" prototype with 800x600 resolution, focusing instead on AM 2.4" and 5.5" displays produced as part of joint venture with Sanyo. Kodak declined to release many of details of joint venture with Sanyo, including where it will be located and when production will start. Kodak recently established separate display group within company leading to speculation it might be spun off. Kodak declined comment.

"I think there could be a first wave of consolidation in a sense that there are those technologies that are ready and there are those that are not and the latter won't be able to participate as the ramp up of production starts," said DuPont Displays Pres.-CEO Chester Pribonic, whose company has made of wave of acquisitions and investments in elbowing way into PLED business. OLED market, which generated sales of \$27 million in 2000, is expected to increase to \$1.6 billion by 2007 with AM accounting for 32% of business, Stanford Resources said.

Ramp up of production for small molecule-based OLEDs and PLEDs will begin in earnest next year. Three-Five/DuPont joint venture expects to start preproduction of 1-5" passive matrix PLEDs with 320x240 resolution by 3rd quarter at DuPont subsidiary Uniax's facility in Santa Barbara. Uniax plant will have capacity of 10,000 units per month, company said. Sample and volume production will begin in 2002 using 6" substrates at factory operated by Taiwanese manufacturer Ritek in which DuPont took 8% stake earlier this year. Ritek, which also is Kodak licensee for OLED, is projected to hit production of million PLEDs per month by late 2002, Pribonic said. Final assembly will likely be at Three-Five facilities in China or Malaysia. Goal is introduce AM color OLEDs by 2003, Pribonic said.

Joint venture will be 51% owned by Three-Five, which will supply management, while DuPont holds rest. It will be based near Three-Five's hq in Tempe. Companies have invested \$1.5 million each in venture, which is expected to carry business until first customers are signed in 2nd half next year, Pribonic said. Companies' PLED will target cellular phones at start and potential customer could be Motorola, which is LCD customer for Three-Five. Motorola now markets phone using passive matrix mono OLED from Pioneer, which is Kodak licensee.

"We will concentrate on low-volume, high-margin opportunities in the beginning and that will allow us to understand the process so the solutions that we offer are very robust," Three-Five CEO Jack Saltich said.

Major difference between small molecule OLEDs and PLEDs, in addition to latter's lower operating voltage, is manufacturing process. Small molecule OLEDs are produced by depositing materials at low vacuum that excludes water and oxy-

gen and using shadow mask to pattern red, green and blue (RGB) phosphors on substrate. PLEDs use ink jet printing, process currently deployed by Seiko-Epson and Toshiba, to get RGB on substrate. Toshiba has developed method to form polymer on low-temperature polysilicon thin film transistor array. Toshiba also is major supplier of low-temperature polysilicon LCDs.

Seiko-Epson demonstrated 2.5" full-color 16-gray level AM display using light emitting polymer technology licensed from Cambridge Display Technology (CDT). Display, which has 200x150 resolution, is expected to start pilot production in 2002 at CDT facility in Godmanchester, England. Other CDT licensees include Philips, which showed 1.4" display at SID, Osram and Delta Electronics. LEPs, like other polymer-based displays, require 2-3 v and can achieve high efficiency at 100 candelas.

Among Kodak licensees, eMagin expects to start production later this year of 0.61" display with 800x600 resolution at \$80 in volumes of 10,000 units per month.

"They [OLEDs and PLEDs] don't enable new applications and they will take share away from vacuum fluorescent, LEDs and passive matrix LCDs," Stanford Resources Vp David Mentley said.

Disney Interactive (DI) for first time is providing *Who Wants To Be a Millionaire* interactive game players with ability to download additional question sets with title's 3rd edition, spokeswoman told us. Additional questions are available now for free download at Buena Vista Interactive Web site. DI is shipping PC/Mac version of *Who Wants To Be a Millionaire — 3rd Edition* at \$19.95. PlayStation version of game also started shipping early last week.

Game Developers Conference (GDC) producer The Gama Network (GN) announced last week that entries for 4th annual Independent Games Festival (IGF) were due by Sept. 1. IGF is held each year at GDC. Games for all platforms that don't currently have publishing deals are eligible to enter. GN also announced call for abstracts for GDC 2002. All speaking proposals and topic ideas can be submitted via online form at official GDC Web site, www.gdcconf.com/speakers/. Deadline for proposals is July 3.

Gameplay's CEO Mark Bernstein, didn't return call by our deadline to confirm report saying struggling U.K. company was cutting most of its remaining staff. Reuters report also said Gameplay still was working on sale of what remained of its operations and had disposed of its Spanish boxed games unit and online CentroMail game business to Electronics Boutique Plc.

3DO said "patch" for its game *High Heat Major League Baseball 2002* now was available online, featuring updated information and correcting minor glitches.

THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥121 = \$1, except where noted.

LCD PRICES STABILIZE: LCD manufacturers, rocked by sharp drop in revenue, are showing first signs of calling truce in pricing war that has pushed retail prices for finished 15" monitors below \$500.

LCD revenues plunged 15% in first quarter as prices fell 10% per month, dropping cost of raw panels for desktop and notebook PCs and monitors under \$300, DisplaySearch said. Overall, prices are expected to fall 40% for year, it said.

Sharp downturn in pricing was largely due to huge influx of manufacturing capacity in 2000, industry officials said. About 520,000 substrates were added each month, DisplaySearch Pres. Ross Young said. About 40% of LCD revenue was tied to capital spending in 2000, figure that is expected to drop to 24% this year, he said. Nonetheless, LG.Philips will add production line with 1x1.2 m mother glass next year, Exec. Mktg. Vp Bruce Berkoff said.

However, pricing is showing signs of stabilizing, with Berkoff even predicting shortage would emerge in 2nd half of 2002. LCD manufacturers also have shifted some capacity to smaller sizes that are less sensitive to pricing pressures, Stanford Resources Vp David Mentley said. While large LCDs of 12" or more generate revenue of \$2 per sq. in., smaller versions provide \$10, he said. Overall, LCDs accounted for 89% of \$17 billion flat-panel display market in 2000, DisplaySearch said.

Pricing "is flattening out because it has to," said Berkoff, whose company had 16.2% share of LCD market for notebook PCs in first quarter, and "\$499 [for 15" monitor] is a sustainable price."

Constant peaks and valleys in LCD pricing could be leveled out by standardization of production. Standard Factory Working Group (SFWG), which was formed last year, met at SID last week for 3rd time and is likely to convene again later this year to establish membership dues, Berkoff said. SFWG will be 4-year process: 2 years to form group, another 2 to set standards, Berkoff said.

Yet even as SFWG was meeting and discussing LCD standardization, new sizes emerged at SID. Fujitsu showed 23.1" panel with 1,600x1,200 resolution, 250 lumens and 500:1 contrast ratio as well as 17.4" with same resolution but 220 lumens. Samsung introduced 15.4W with 1,920x1,200 resolution, 200 lumens, 200:1 contrast ratio, 0.17mm pitch. "We're finding that these displays that are not mainstream will find niche applications," said Fujitsu Display Sales Mgr. Robert Wong, as 17.4" has found way into tram at Bellagio Hotel in Las Vegas. LG has scrapped 15.7" LCD it introduced last year because it faced narrow market.

"Did we price it too high and keep it too nichey? Yes," Berkoff said. "But we will continue to pursue other sizes."

Meanwhile, he denied rumors that LG.Philips was negotiating to buy LCD production lines from Hynix, formerly Hyundai Electronics. Hynix said last week it would spin off LCD group.

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Release of 2nd generation of digital visual interface (DVI-2) has been postponed until year-end as Silicon Image (SI) adds color space conversion (CSC) to accommodate CE applications, SI COO Steve Tirado said. SI had planned to release DVI-2 by midyear... CSC is used to convert YGB to RGB. "The only reason we delayed introduction of our chip is that we wanted to make sure we put in all the connections," Tirado said... Pixelworks is expected to introduce IC later this year combining 2 digital signal processors on single chip. Chip, capable of handling up to UXGA resolutions, will have microcontroller and enable split screen and multi-PIP.

Consumer Electronics Personals

Dan Cole, CEA dir. of sales from 1996 to 1998, returns to CEA as interim vp-sales; **Jayne Dalton** promoted to CEA staff dir.- promotional sales from dir. of CES operations... Changes at Sonance: **Susan Chen**, ex-Ricoh, joins as sales analyst; **Julie Hazard** promoted to U.S. district sales mgr... Electronics Boutique Senior Vp **Jeffrey Griffiths** promoted to pres.-CEO, succeeding **Joseph Firestone**, retiring but will remain a dir. and special adviser; **John Panichello** advanced to COO, replaced as CFO by **James Smith**... **Anthony Artigliere** advanced to Displaytech vp from dir... **Mark Willner** relinquishes Zight CEO title to Pres.-COO **Kenneth Roberts**, but remains chmn.; **Michael Cherniawski**, ex-Motorola, joins Zight as operations vp; **Sherel Horsley**, ex-Texas Instruments, and **Stuart Chapman**, 3i pres., elected to Zight board.

Interplay Entertainment is being "very tight-lipped" about status of talks with unnamed 3rd party that game maker said last month was considering buying it, Interplay spokesman told us last week. Company said in late May no binding or definitive agreement had been reached with 3rd party and there was no assurance talks would culminate in deal. Paris report last week said French videogame maker Titus Interactive was discussing with strategic partner sale of its 34% stake in Interplay. Meanwhile, another report identified Japanese division of Chinese telecom company Pacific Century Cyber Works (PCCW) as 3rd party Interplay was in talks with. Report said PCCW had attempted to buy Activision in March but failed. But Interplay spokesman told us last week there was nothing he could "confirm or deny at this point."

Amicada signed agreement with online game community Theglobe.com that calls for latter to use Amicada's proprietary PACS technology to put full-screen, full-motion TV commercials on Web for both online and offline viewing. Commenting on deal last week, Theglobe.com CEO Chuck Peck said: "We believe the rapidly growing online games communities will become one of the most powerful channels for delivering engaging branding and advertising messages. Amicada's system empowers marketers to determine how each of their brand communications affects consumers by delivering TV quality emotional advertising. This allows brand managers to confidently address the complex questions of what is and is not working for their brand." Theglobe.com's online game properties include Games Domain, Happy Puppy, Kids Domain.

Thomson Multimedia announced memorandum of understanding to acquire consumer broadband modem business of investor Alcatel. Move enables RCA parent to expand from cable modems into DSL phone modems, where Alcatel sold 1.7 million last year for 22% market share. Thomson said stock-swap deal was valued at 456 million Euros (about \$388 million) and should be completed by year-end.

Bankrupt Lernout & Hauspie (L&H) said its speech recognition products would be distributed in U.S. by The Learning Co. Agreement was approved by U.S. Bankruptcy Court, Wilmington, Del. Despite problems resulting from alleged accounting fraud that's still under investigation in U.S. and Belgium, L&H said its PC speech recognition software had 70% share of \$35 million U.S. retail market for category.

Eidos Interactive said its game *Startopia* had officially gone gold.



TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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NBC'S WRIGHT: DISPUTE INEVITABLE between nets, affiliates. Changing business cited in interview. Ownership issue 'political.' (P. 1)

COPPS TO BE 'ACTIVIST' on content, shows skepticism on changing ownership rules. Merger concerns raised in interview. (P. 3)

NAB SEEKS WAIVERS of DTV deadlines, not extension. DTV marketing campaign okayed by board. Network issues, campaign finance discussed. (P. 4)

FINANCE REFORM OPPOSED at Hill hearing. Limits on broadcast ads called unconstitutional. (P. 5)

POWELL WARNS CABLE on competition and blocking DTV transition. (P. 5) NCTA Convention Notebook. (P. 6)

SMALL MSOs WANT NETS PROBED by FCC on carriage issues, including bundling. (P. 7)

CHANGE MADE AFFILIATE DISPUTE INEVITABLE — **NBC'S WRIGHT:** Citing changing TV industry and emergence of new competition, NBC Chmn.-CEO Robert Wright said TV networks' dispute with their affiliates couldn't have been avoided. "There just are a number of people [large group TV station owners] who don't want to see those rules [35% station ownership cap] change," Wright said in interview: "They're very fearful of losing their position in their market, and that's really fundamentally what this is all about." Despite that, Wright said he received good reception from affiliates' board last month at upfront presentation: "We had a good discussion... I just said we have to be pulling together. I think we really don't look smart when we're fighting with each other at a time of some severe economic issues and with so much other competition and rising program costs."

When old cap of 7 TV stations was adopted by FCC in 1960s — new cap in Telecom Act is coverage of no more than 35% of U.S. TV households — it was antitrust issue. Now, said Wright, "it's a political problem, not an antitrust problem, and I've explained this situation to people and they said: 'My God, we never thought of it that way.'" NBC is making pitch in Washington that any remaining cap should be based on actual audience (i.e., Nielsen ratings) rather than potential viewers (TVD May 21 p1). Said Wright: "If I owned every single NBC affiliate... my total national audience would be 16%... And when you say we can only own 35% of the geography, that's 35% of 16%... I've [explained situation] to members of Congress. And I've done it with people at the FCC. I did it with the last chairman [William Kennard], who got it in a second. But he just said: 'Listen, your problem is political.'"

Wright, asked whether NBC already had lined up stations to buy if cap were repealed, said: "We'll certainly be looking around. The cap is just part of historical limitations that really don't work as well today... There's no other business [except TV] that's operating under 50-year-old restrictions."

Consumer Electronics

GAME BOY ADVANCE BOWS IN U.S. with retailers split on pricing. Some stick to Nintendo's \$99.95 SRP, while others drop to \$89.99. (P. 11)

EU PROBES DVD PRICING: Trust-busters in Europe giving Hollywood 3rd-degree on possible role of DVD Regional Coding for higher disc prices there. Australia also investigating. (P. 12)

NEW TI DLP CHIP could mean lower prices for rear-projection TVs, say executives at Infocomm show. (P. 14)

THOMSON TO LAY OFF 80 at Marion, Ind., TV plant as it battles inventories of direct-view tubes. (P. 16)

SCEA TO HALT \$299 HARDWARE-ONLY PS2 SKU — for now, anyway. Sony will ship only \$329 *Gran Turismo 3* hardware-software bundle starting in July. (P. 17)

FRONT-PROJECTOR RETAIL MARKET emerges as business product makers target home theater applications. (P. 20)

Network chances of getting ownership cap relaxed "probably haven't gone up," Wright said, in part because of power shift in Senate that returned Sen. Hollings (D-S.C.) — who has been critic of many deregulatory efforts in past — to chmn. of Commerce Committee. Wright predicted Hollings's "first impression would be not to change anything, but I certainly wouldn't say that regulatory changes are out of the question." Before lifting of national station ownership cap, radio industry had same situation as that now faced by TV, Wright said. Radio owners were content with cap "for many years... until the business got to be lousy and all of a sudden everybody wanted the caps off. I hope we don't arrive at the same situation in television... waiting for a financial disaster before everybody decides to re-look at the rules."

Wright defended NBC's effort to buy affiliate KRON-TV San Francisco, during which he wrote controversial letter to station and its banker that critics charged was attempt to hold down price and threat to take away affiliation if NBC weren't successful. "I never said that," Wright told us. "I wrote a letter... saying that you cannot sell the affiliation: 'If you want to have a smooth transaction then you should have the buyers [Young Bcstg.] meet with us.'" Young waited until after it had agreed to buy station to approach NBC "and they didn't like the terms of the affiliation agreement that we proposed. And, that's just about as simple as it is... You cannot sell the affiliation."

NBC's insistence on renegotiating contracts when affiliate is sold is one of major issues raised by Network Affiliated Stations Alliance (NASA) in its petition asking FCC to investigate network practices (TVD March 12 p1). According to NASA, Fox and ABC engage in same practice while CBS was cheered by its affiliates at recent conference in Las Vegas when network said affiliation contracts as is could go along with station sales (TVD June 4 p4).

In return for reverse compensation to NBC, San Francisco affiliation will switch to Granite Bcstg. Jan. 1 in deal widely criticized. Wright said other reverse compensation deals were in works by NBC and "they're confidential, but we have a number actually." Most other new NBC affiliation contracts (generally for 5-6 years) "have compensation going to zero at the end of the term," Wright said. "They go down [each year], depending on the positions of different people and depending on the economic positions of people." (Note: NBC affiliate in medium-sized market told us he recently signed new contract with reduced compensation at start and going down 20% each year.)

On preemptions (another subject of NASA complaint), Wright said affiliate should have right to preempt NBC programs. But, he said, stations that preempt "have to recognize... that they have to compensate us in some way for the programming that they've elected for whatever reason not to air." Preemption for breaking news isn't issue, he said, but most preemptions "are for the insertion of rerun movies... to get some extra money for the station." Also, he said, "if an affiliate elects to eliminate whole nights of [NBC] programming... that's a problem... It's when an affiliate enters into a contract for money [such as sports] with somebody else and [to] not run our programming, that's where the issue comes in."

Network may be about to offer olive branch to affiliates. NBC's 75th birthday occurs next May and Wright said: "We certainly can't have a 75th anniversary celebration without including the TV affiliates in some meaningful way." He put emphasis on "meaningful," but didn't give any indication of NBC plan, except we were told to expect special on-air programming.

Partly because of high programming costs, Wright was asked if NBC was considering following Fox's lead and returning 10-11 p.m. to affiliates. "I don't think the affiliates would like that," he said, although CEOs of 2 large groups told us they would. "It doesn't really work for affiliates because they would have to supply the programming" for time period, Wright said. "And I don't think many of them want to drop back and do their late news at 10 [p.m.]... So I don't think there's any real support to do that from the affiliate side."

Wright said he received some "very heated, thoughtful viewpoints" about what we can and can't do on the air" in response to his memo to NBC executives and others on possibility of airing cleaned-up version of HBO's *Sopranos* on NBC. He sent memo, he said, because "we have a lot of people that work for us that are heavily involved in programming [but] they don't get to vote on the schedule." He said that in its current form, *Sopranos* couldn't be aired on NBC and "if you took out the language and the sex and the violence it probably wouldn't get any ratings." But, he said, over-air standards have changed "and we have to be mindful of that and we have to spend a lot of time... understanding what audiences like and don't like."

In response to analyst suggestions that NBC must grow or be taken over by someone else (with Viacom's Mel Karmazin expressing interest), Wright said NBC spent "a lot of time looking for opportunities to grow and... we can't just accept the status quo, especially in poor markets like this. We have to look for ways to spread our cost base and ways to reach more viewers." On outside efforts to take over NBC Wright said only: "We have conversations with various people. There's certainly an interest today that's very strong to consolidate in media properties."

New Pres. Andrew Lack was announced recently as taking over that title from Wright, who moved to chmn.-CEO — partly because of increased demands on his time by parent GE, where he is vice chmn. and member of Executive Committee. Wright's duties have been increased at GE, with result being "I have a lot more meetings to go to today than I did a year ago," he said. "There's a lot of other responsibilities [at GE] that I've got myself involved in and [also] being fulltime here at NBC was putting a bit of a strain on the system." He said about 70% of his time still was on NBC.

Despite XFL football fiasco, Wright was quick with response to question of his biggest mistake in his 16 years as NBC CEO. "Not taking advantage of the rules change to get back into radio" station ownership, he told us. NBC sold its radio stations early in Wright's stewardship.

COPPS TO BE 'ACTIVIST' ON CONTENT ISSUES: New FCC Comr. Copps said he was "more disposed to be activist than pacifist" on broadcast indecency and violence because it's "such a concern of the American people." He also said in interview that burden of proof was on those seeking to ease ownership rules, and indicated he was reasonably satisfied with DTV transition.

Asked whether more fines for inappropriate programming would be enough, Copps said penalties could go beyond fines, including license forfeitures. He said Congress gave FCC authority to pursue violations, and "a few letters of inquiry doesn't meet the needs of the American people." Copps said he was "surprised" how agency had handled complaints in past, including requiring complainants, rather than stations, to supply tapes or transcripts of alleged violations. He called that "an inordinate burden of proof," echoing view of Comr. Tristani.

Right to use airwaves includes public responsibility, he said, and that could include requiring stations to retain tapes of broadcasts that could be used in investigations. Copps said he was "keenly aware" of First Amendment implications of indecency and violence actions and was strong supporter of free speech. "But there is more we can legally do to enforce the law," he said. He said agency also could use "bully pulpit" to encourage quality programming.

In response to question about mergers and ownership issues, Copps said "people are always concerned about excess concentration and threats to diversity of voices and choices." He said "the burden of proof is on supporters of change" in broadcast ownership rules: "I know some of our own rules didn't come down to us on stone tablets, but someone has to show me the benefits to be gained by changing the ownership rules." World has "changed dramatically in the last 20 years," Copps said, and global economy means "big business is here to stay." But he said there was "always a need for sentinels at the gates."

Copps acknowledged DTV transition was "not moving as fast as many had envisioned," but he said it "is happening" and it was "largely market driven, not government driven." FCC "may be of service in lowering the rhetoric in the blame game," Copps said, but he didn't discuss specific actions on issues such as must-carry, cable compatibility, tuner requirements. On DTV, like other telecom technology issues, Copps said he was "a big optimist" and predicted that "10 years from now this little [economic] blip will look like exactly that — a blip. This is not the beginning of the decline of the telecommunications revolution."

Regulation shouldn't "dictate" what type of businesses companies enter "when technology and good common sense might indicate they should be somewhere else," he said. Copps said FCC had big challenge in "staying ahead" of regulatory arbitrage that could occur as companies tried to take advantage of regulation. Having "clear, transparent" rules is step in right direction, he said. "When the market does come back, if we have our act a little more together, having a regulatory system that sings a little more harmony than the present systems does" will help companies know what's expected of them, he said.

Asked whether FCC's efforts to reorganize bureaus was good step toward dealing with convergence, he said he had "never been a believer in reorganization just for reorganization's sake." Agency's efforts are good step but "I've never found a perfect organization. You can move around the boxes to make more efficiency and you really have to do that in a technology like this that's moving so fast, but we're never going to come up with the ideal organization for the next 20 years. This industry and the technology move too fast."

Copps, filling FCC's 2nd Democratic slot, joins FCC after 8 years at Commerce Dept., first as deputy asst. secy. for basic industries and later asst. secy. for trade development. Before that he was senior vp for legislative affairs at American Meat Institute, spent 15 years on Capitol Hill as aide to Sen. Hollings (D-S.C.) and was asst. prof. of history for 3 years at Loyola U. in New Orleans.

NAB SEEKS STREAMLINED WAIVERS: NAB TV board voted last week to back several staff proposals to "streamline and extend" FCC's DTV launch waiver process, rather than seek overall deadline extension. Decision reportedly followed "a great deal of discussion" involving Commission, Congress, set-makers, cable industry. There had been speculation board would seek postponement of May 2002 FCC deadline for all stations to begin DTV, as recommended by outgoing Joint Board Chmn. James Yager and TV Chmn. Ben Tucker, but we're told, "the board was not enthusiastic about the idea of a blanket delay" and subject never came to actual vote.

Michael McCarthy, head of NAB DTV Task Force, and NAB Senior Vp John Orlando will meet June 20 in Lake Tahoe with CEA officials on joint effort to educate public on digital transition. That will be followed later this month by Washington meeting of DTV Task Force seeking "innovative ideas." Main focus will be to extend waiver process for stations needing economic relief from FCC digital requirements and to "sell what's doable" in Congress and at FCC.

NAB wants FCC to extend requirement for cable must-carry to DTV during transition as well as that all future TV sets have built-in DTV tuner (opposed by CEA) and FCC rules requiring cable interoperability. "Is some or all of this doable?" NAB dir. asked: "We intend to find out."

Board approved multimillion-dollar DTV marketing and promotional campaign, as expected. In addition to promoting DTV itself, board told NAB staff to work with "industry partners" to "break a public policy log jam over issues such as cable carriage, DTV tuners and interoperability that has resulted in viewers' being denied access to over-the-air DTV signals." TV board said it encouraged "all content suppliers" to provide more HDTV programming, as well as interactive TV and multicasting opportunities.

On other issues, NAB vowed to intensify its fight against Senate-passed campaign reform bill that would require TV stations to charge any candidate same lowest unit charge (LUC) they charged any advertiser for full year. NAB now expects bill (see separate story) to reach House floor week after July 4th holiday without LUC provision — but effort is expected to add it on floor. Radio rates currently aren't included in reform bill, but if it becomes law, lobbyists are convinced audio industry will be added.

Stepping down after 2 years as NAB joint board chmn., James Yager warned Assn. that loss of major members over differences in philosophy was "not a reason to compromise our basic principles... We must recognize that as the structure of our industry has changed, the interests of some of our members may no longer be consistent with those of the majority." And, he said, to alter those principles "would do more to undermine the long-term effectiveness of this association than the resignation of any member or group of members."

Yager, pres. of Benedek Bcstg., was referring to withdrawals in last 18 months of Fox, NBC and CBS TV networks — "unfortunate and somewhat inevitable" — plus Infinity's 170 radio stations when co-owned CBS pulled out over NAB's strong stance (led by large group TV owners) against relaxing 35% station ownership cap. Those defec-

tions have cost NAB more than \$2 million in annual revenue. Yager was critical of U.S. Copyright Office ruling that radio stations that streamed their signals over Internet must pay separate fees to record industry. He said NAB would "work vigorously" to overturn ruling "and against the entire concept of paying for something twice."

Yager said NAB board "must provide clear guidance to staff on major policy issues... That is an extremely difficult task with just 2 meetings a year and random conference calls." Yager urged newly constituted Exec. Committee to hold "a strategic planning session" with staff participation and report back to full board in fall.

George Vradenburg, exec. vp-global & strategic policy, AOL Time Warner, is stepping down to become full-time advisor to company. Vradenburg, who in more than 4 years at AOL bolstered company's Washington lobbying efforts, spearheaded its original drive for open access mandates on cable operators and shepherded its takeover of Time Warner through FTC and FCC, said he would shift his focus to "Internet building activities beyond policy organization," including elimination of digital divide and other technology and education issues. Vradenburg, 2nd senior AOL Time Warner executive to take new post since companies completed merger in Jan., said switch came after several months of conversations with Chmn. Steve Case. AOL Time Warner said Vradenburg would be replaced by Robert Kimmitt, now pres.-vice chmn. of Commerce One and former U.S. ambassador to Germany, effective July 1. Vradenburg is former executive of both CBS and Fox.

Mandating changes in Emergency Alert System (EAS) in midst of cable's EAS rollout "may cause disruption, increase costs and result in less participation," NCTA said in comments on EAS rulemaking (EB 01-66). NCTA said some changes proposed by Society of Bcst. Engineers (SBE) and National Weather Service might be good, but others were "redundant or bothersome." If FCC decides to adopt changes, it said, they should apply only to new equipment, with retrofit on existing equipment optional. SBE, in its comments, defended its proposal to lengthen monthly test window, require maximum modulation of EAS codes, make mandatory retransmission of alerts by NOAA and state and local govts. Washington State Assn. of Bcstrs. said it supported efforts to improve EAS, but FCC shouldn't support proposals that "may have the undesired effect of reducing EAS participation."

Canada's TV regulator gave go-ahead for cable companies to own controlling interest in analog specialty TV channels, Canadian Radio-TV & Telecom Commission (CRTC) announced. Regulatory approval no longer will be required to own more than 10% of analog specialty channels, but still will be needed to own more than 30%, regulator said. Move is viewed by some analysts as prelude to opening up industry's foreign ownership restrictions.

FCC official denied recent front-page article in *L.A. Times* claiming that "federal agents... are deep in a 4-year probe of corruption in the radio business." Official said: "Currently, there is no in-depth, ongoing investigation of alleged widespread payola in the radio industry... There are isolated allegations of alleged illegal actions which we are reviewing."

FINANCE REFORM OPPOSED: House Administration Committee won't "kill" or "gut" campaign finance legislation, but intends to scrutinize and perhaps modify or eliminate provisions in bills that raise questions of constitutionality and fairness of limits on broadcast ads, Chmn. Ney (R-O.) said in one of 2 hearings on legislation last week. Proposed restrictions on ability of interest groups to buy issue ads, while ignoring unrestricted purchase of ads by wealthy individuals, are areas that committee will continue to explore, he said. Impact of campaign finance reform on broadcasters, cable and satellite operators will be focus of House Telecom Subcommittee hearing June 20. Witness list wasn't available. Session will be at 10 a.m., Rm. 2123, Rayburn Bldg.

Legislation (HR-380) by Reps. Shays (R-Conn.) and Meehan (D-Mass.), and (S-27) by Sens. McCain (R-Ariz.) and Feingold (D-Wis.) that Senate passed earlier this year contain language where "abridging freedom of speech seems pretty clear to me," Ney said. In addition to "soft money" ban, bills would restrict groups from buying broadcast ads within 60 days of general election or within 30 days of primary. Hearing didn't address "lowest unit charge" candidates could pay for air time.

Ranking Democrat Hoyer (Md.) said he rejected "cynical and false view" that campaign contributions resulted in widespread impropriety by elected officials, but said: "These bills aim to improve the appearance and reality of our democracy... I am confident either one, when it becomes law, will withstand the scrutiny of a court challenge." Provision on "sham" issue advocacy ads won't conflict with constitutional protections, said attorney Donald Simon of Common Cause. Although it "no doubt" impinges on First Amendment, it also meets test of limiting corruption or the appearance thereof, he said. Current loophole in election law enables ads to skirt contribution limits and disclosure requirements "by avoiding the use of 'magic words' such as 'vote for' and 'vote against,'" he said.

Attorney Cleta Mitchell said Congress should limit its zeal for campaign finance "regulation" before its efforts lead to "modern-day McCarthyism," suggesting committee focus on actual instances of corruption when they arise. Attorney James Bopp said bills' biggest victims would be small organizations whose members pool resources to make their voices heard. He said bills would "attack" small groups while allowing wealthy individuals to open their wallets to affect elections.

Campaign finance reform opponents railed against proposed restrictions on advocacy broadcast ads at June 12 hearing by House Judiciary Committee's Constitution Subcommittee, but remained divided on how to address "big money's" influence on legislative process. Chmn. Chabot (R-O.) held hearing to assess how S-27 might undermine First Amendment rights. ACLU Pres. Nadine Strossen said it could "egregiously" violate free speech rights of advocacy groups by restricting their ability to buy air time, but wasn't receptive to financing federal campaigns publicly.

Subcommittee focused on provision in McCain-Feingold that would restrict groups from mentioning political candidates in issue advocacy ads. Such "electioneering communications" would be barred 60 days before primary and 30 days before general election. Similar provisions in HR-380 also came under fire.

POWELL WARNS CABLE: FCC Chmn. Powell praised cable's emerging "convergence platform" but strongly advised industry not to risk its competitive advantage by abusing that position. Speaking at NCTA convention in Chicago June 12, Powell said cable was "uniquely well positioned" to deliver broadband services to consumers and become "viable competitor" to incumbent local phone companies. He said cable had "all the tools it needs" to succeed, including technology, financing and most favorable regulatory environment it had enjoyed in generation. But he reminded industry that it had long track record of tripping over itself.

Powell warned cable not to risk its competitive advantage by abusing its power. Specifically, he urged industry not to impede DTV transition. He also advised cable not to use its emerging position as "one of the digital gateways" to deny program access to competitors and consumers. He said providing "variety and choice and innovation" of broadband and interactive (ITV) services "on commercially reasonable terms will be essential."

Powell, who somersaulted onto stage after performance by young local gymnasts, also warned cable that it would spur renewed calls for regulation if it "thwarted" consumers with continually rising prices and limited choice. Making fairy tale analogy, he argued that cable, which he said was once "viewed as a toad in the communications industry" despised by regulators, investors and consumers alike, had been transformed into prince through magic of "digital kiss." "Now I know it's a tall order," he said, referring to high expectations for industry, "but it is a challenge worthy of a prince."

NCTA Pres. Robert Sachs, who reminded cable of its public policy obligations much more gently in June 11 convention speech, praised Powell's comments. "I think Powell gave the industry very good advice," he said. "No one in this industry wants to go back to a period like the mid-90s."

One consumer advocate took exception to Powell's speech. Jeffrey Chester, head of new Center for Digital Democracy, called Powell's fairy tale analogy "a scary nightmare for consumers." With MSOs boosting rates, "closing access to the Internet," continuing "unprecedented consolidation" and committing new consumer privacy violations, he charged, FCC chmn. ignored pressing public concerns. "Mr. Powell is out of touch with consumers," he said. "His speech is Babbittism of the worst sort."

FCC rules requiring sponsorship identification are most needed if govt. is sponsor of programming, Media Access Project (MAP) said in comment on Ad Council request for waiver of rule (DA 01-1169): "While the American people will not be served by an attempt to hide the government's attempt to persuade them, the American people will be served by maintaining the basic principles of democracy and accountability embodied in the sponsorship identification rules." Case is based on White House Office of National Drug Control Policy effort to get antidrug messages embedded in programming. Ad Council wants FCC to say no sponsorship ID is needed, even though programmers benefit financially from deals, saying impact of messages would be diminished if true sponsorship were disclosed. MAP said it didn't object to messages, but need for identification was "not changed by the prestigious nature of the organizations" providing financial benefit.

NCTA NOTEBOOK: New Senate Majority Leader Daschle (D-S.D.) showed little inclination to open up Telecom Act to revision in speech at NCTA convention in Chicago last week. Expressing satisfaction with cable rollout of broadband to schools, libraries and sections of his rural state, Daschle said Congress spent years "crafting" Act to spur telecom competition and lower prices for consumers. In "this fast-changing world, that foundation must remain stable," he said to applause. Daschle also called Telecom Act "great example of bipartisanship" and model for getting business done in closely divided Senate. He also said Senate Democrats were "setting the ambitious goal of delivering broadband access to every American by the end of the decade," and he encouraged cable operators to work with political leaders to accomplish that goal.

House Speaker Hastert (R-Ill.) made brief, low-key appearance at convention, welcoming industry to Chicago, cutting ribbon opening exhibit floor and quickly darting down floor to nearest VIP exit elevator. Asked about rising cable rates, he said House Republican caucus faced choice of either reregulating cable operators or spurring more competition to industry. "I'm a competition guy," he said. But, fending off questions about Tauzin-Dingell bill that would deregulate Bell provision of data services across in-region, interLATA boundaries, he declined to say how House might accomplish that.

AT&T Chmn. Michael Armstrong and **AT&T Broadband Pres.** Daniel Somers both sought to dismiss strong speculation that they would be leaving their current posts soon. In separate sessions at convention, each said he planned to stay put and defended parent company's plans to spin off broadband unit as independent firm this summer. Armstrong, rumored to be interested in Somers's job after spinoff, said AT&T board had said nothing about subject to him and "I haven't asked for anything." He said he would be fully occupied carrying out planned restructuring of company into 4 separate units over next 20 months. Armstrong also denied reports that AT&T Broadband might be up for sale.

AOL Time Warner CEO Gerald Levin lambasted federal govt. for taking one year and one day to approve AOL's purchase of Time Warner in Jan., calling it "outrageous" that FTC and FCC took so long and scrutinized merger way they did. In wide-ranging talk with CNN's Larry King at NCTA convention in Chicago June 13, Levin took federal agencies to task for "trying to apply 19th century concepts to 21st century reality" in merger review. "So many of these rules were put in place at a time to take care of a situation that doesn't exist anymore," he said. Without naming them directly, he criticized such rivals as Disney and Viacom for lobbying for strict merger conditions while pursuing regulatory relief for themselves.

Levin also took issue with federal agencies for exploring possible imposition of rules on nascent interactive TV (ITV) market and his company's ITV plans. While he has been "enthralled" with ITV for 20 years, he said, it's still so amorphous that "nobody can tell you what it is." He ridiculed idea that regulators could shape competitive landscape this early in ITV's development. "It's very hard to answer antitrust questions for an area that hasn't developed," he said.

ESPN is starting ESPN Broadband in fall, PC-based service that will offer sports, sports news and video streaming highlights on demand. ESPN Pres. George Bodenheimer said his company was sensitive to concerns of operators on video streaming plans. He was responding to assurance sought by Comcast Pres. Steve

Burke that cable programmers wouldn't use streaming video to circumvent cable operators' service to customers. It wouldn't be problem if what was being shown was highlights that enhanced cable program, he said, but if it were 24-hour equivalent of ESPN program it would be problem. Earlier, CTAM Pres. Char Beales said streaming video caused concern for both operators and programmers. Programmers were vying to get on every platform, she said, and operators were insisting that programs they were paying for not be given away on another distribution medium.

Despite recession in media ad spending this year, Viacom Pres. Mel Karmazin said his company enjoyed best first quarter ad sales in its history and would finish June with its best-ever 2nd quarter. Fresh off \$300-million cross-platform ad deal with Procter & Gamble, Karmazin said ad market looked bad this year only because last year's growth was so great. "It's not a terrible ad market," he insisted. While market looks "terrible compared to the aberration" of 2000, he said, it looks fine compared with 1999. Karmazin termed last year "equivalent of Super Bowl year" for ad spending because of so much "dot-com funny money" showered on broadcasters and others. "Our Internet strategy was brilliant," he quipped. "It was 'take as much money from the dot-coms as possible.' Karmazin also joked that media companies such as his would be "fighting" to siphon \$300-per-person tax rebates from consumers this summer. "What's a better way to stimulate the economy than to have the money come to Viacom?" he asked.

Karmazin pressed crusade for elimination of broadcast network and radio station ownership limits, saying govt. should allow major network such as Viacom's CBS to own one of other Big 4 networks because of growth of cable, satellite and Internet as competitors to broadcast TV: "I think that rule is past its life cycle." He also called for govt. to scrap broadcast TV duopoly restrictions in local markets as well as limits on number of radio stations in each market that one company could own. "I think we need to do the 2002 Telecom Act," he said. Karmazin reasserted his interest in buying NBC and CNN if either ever went up for sale, assuming in NBC's case that regulators dropped dual network rules.

Wall St. analyst urged cable operators to ignore capital markets and cash flow concerns and instead focus on return on investment and long-term growth. Richard Bilotti of Morgan Stanley Dean Witter said not one of analysts had run company: "You know more about creating long-term wealth than we do." Saying cable was entering golden age, Bilotti said industry would have 14-16% growth rates in next several years. Jessica Cohen of Merrill Lynch said any rebound in ad market could spur rotation into diversified media stocks. Long-term projections are bullish, she said, with accelerating revenue and growth in earnings before interest, taxes, depreciation, amortization (EBITDA). Niraj Gupta of Solomon Smith Barney said industry's revenue and capital were expected to grow 12-15% in next 5 years, driven by new services such as digital and data.

Cable executives acknowledged "undeniable" slowdown in local ad revenue, but said it was short-term phenomenon that would be corrected by 2002. With flurry of consolidations in last 2 years, MSOs are in position to offer one-stop shopping for advertisers in most major markets such as L.A. and Chicago and that could be long-term strategy for building business, they said. Cox Exec. Vp-Operations Patrick Esser said ad business grew more than 20% annually in last 7-8 years and business now was taking breather. CableLabs Pres. Richard Green said when financial community took more careful look at financial models, cable would come out ahead.

SMALL MSOs WANT NETS PROBED: Group representing small cable operators urged FCC to investigate retransmission consent practices of major broadcast networks and take steps to curb “tying” of retransmission-consent rights to carriage of networks’ cable channels. Picking up cause embraced and then abandoned by major MSOs and NCTA last spring, American Cable Assn. (ACA) charged that Disney/ABC, News Corp./Fox Network, GE/NBC and Hearst-Argyle had forced “costly tying arrangements on smaller cable companies,” making them carry unwanted cable networks. ACA, which represents 931 operators with 7.5 million subscribers, also charged that major broadcasters had taken control over retransmission consent rights from their own local stations. “By themselves, ACA and its members have not been successful in changing the behavior of media conglomerates like Disney, News Corp. and others,” group said in FCC filing last week. “To the contrary, retransmission consent tying is getting worse.”

In submission to Commission, ACA cites examples of: (1) ABC’s tying its stations’ retransmission consent rights to carriage of Disney Channel, Lifetime, Soapnet, other Disney cable properties. (2) News Corp.’s tying its rights to carriage of Fox Sports, Fox News, FX, National Geographic Channel, Fox Health Channel. (3) NBC’s doing same for carriage of CNBC and MSNBC and payment of surcharge for its cable networks’ Olympics Games coverage. “For ACA members, these examples show a marketplace suffering from serious malfunction,” group said. “The network owners wield overwhelming market power over smaller cable systems.”

ACA Pres. Matthew Polka said group’s submission to Commission was just first step in broader effort to stem what it saw as marketplace abuses by most, if not all, major TV programmers. He said ACA would unveil “very detailed plan” for reforms next month, including “very specific legislative proposals and regulatory ideas” that could include changes in federal antitrust laws, prohibitions on tying arrangements and program bundling, elimination of nondisclosure clauses in network licensing pacts and extension and expansion of cable program access rules. “It’s the start of a very coordinated, detailed campaign to educate Washington about the problems we have with the programming industry,” he said.

Although ACA’s filing spared Viacom/CBS, Polka said he expected that broadcaster to follow leads of Disney, News Corp. and NBC in next retransmission consent cycle now that Viacom owned CBS, UPN and MTV, TNN, Nickelodeon and several other cable networks. Under current 3-year cycles, next set of retransmission consent pacts must be concluded by end of next year, meaning that broadcast-cable negotiations should start in earnest next spring. “We have no choice but to act and act forcefully,” said Polka, sounding like one of rebellious network affiliates also challenging broadcaster practices at FCC. “It really is a matter of survival.”

Questioned about small operators’ crusade, NCTA Pres. Robert Sachs said he had “a lot of sympathy for the concerns ACA expressed” but didn’t favor any legislative or regulatory action. Sachs, whose organization represents programmers as well as operators, unlike Polka’s, said he feared “the law of unintended consequences” if cable industry sought govt. aid. “We don’t go to the government to solve business issues,” he said.

Polka, who spent time in Chicago trying to recruit larger MSOs to ACA’s cause, said he didn’t expect NCTA to join effort because of its diverse constituency. “We expect to go it alone,” he said, noting his group represented more operators than did NCTA: “We’re the only ones who can do it.”

DBS DEAL ‘A CONCERN’: Whether News Corp. or EchoStar buys DirecTV, deal probably will face heavy scrutiny by lawmakers and regulators, key Hill staffers said. Speaking at NCTA convention in Chicago last week, congressional aides said either scenario would raise competitive concerns in Washington, potentially complicating efforts by new DBS company to compete against cable operators and other video rivals. But they said concerns would differ greatly, depending upon which buyer succeeded. “It’s 2 completely different set of competitive issues,” said Victoria Bassetti, chief counsel for Senate Antitrust Subcommittee.

Bassetti said EchoStar buyout of DirecTV would raise antitrust concerns in DBS market, particularly in rural areas with limited access to cable. With up to 30 million homes in satellite TV’s core rural market, she said, govt. officials couldn’t ignore that impact. “There would be 30 million people who’d see 2 competitors go into one,” she said. “It’s procompetitive in some respects and anticompetitive in others.”

If Rupert Murdoch’s News Corp. succeeded in winning DirecTV, Bassetti said, combination would stir concerns of vertical integration. She said lawmakers would worry about possibility of DirecTV’s signing exclusive programming deals with its new parent company, shutting off Fox broadcast and cable channels from EchoStar and cable operators. Vertical integration issue is “less of a concern on the Hill but it’s still a concern,” she said. Noting cable industry’s firm opposition to extension or expansion of program access rules set to expire late next year, she said “it would be interesting to see cable’s reaction” to program access issue if shoe were “suddenly on different foot.”

FCC PLAN DUE: First proposals on how to reorganize FCC under initiative led by Mary Beth Richards, special counsel to FCC Chmn. Powell, are due out this summer, she said. Proposal is first phase of Powell’s FCC reform project, and recommendations will focus on short-term changes suggested by Commission staff, industry, consumer groups and others, she told American Mobile Telecommunications Assn. (AMTA). Second phase is “much more comprehensive,” probably spanning 1-3 years and “completely changing the FCC along functional lines” rather than traditional divisions between buckets of technologies, Richards said. She cited spectrum management as one possibility.

One area on which Richards said she wants feedback was whether it made sense to divide licensing and authorization of service from policy or rulemaking functions. One line of argument, she said, is that licensing and broader policy functions should stay together, with division instead based on areas that have public interest component, such as content issues, and those that don’t, such as wireless. Any proposed organizational changes still face approvals from full Commission, union and ultimately Congress as part of congressional budget purview, she said. Structural review of FCC has been high priority of Powell, who said in Feb. he wanted changes so agency could respond better to technology and other developments. Possible organizational changes are part of broader reform plan, including effort to bolster agency’s engineering staff and lab facilities.

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FCC shut down its Electronic Comment Filing System (ECFS) until June 18, saying hardware failure June 13 “rendered the system unavailable.” Commission said comments still could be made on paper. Industry officials have been critical of ECFS system (TVD May 22/00 p4), although FCC officials have said many of problems have been resolved.

MUST-CARRY SPARRING REPEATED: "On the basis of their digital efforts to date, broadcasters have no legitimate claim to preferential digital carriage," AT&T said in comments on FCC must-carry rules (CS 98-120) that, like others, generally repeated earlier arguments. Company said broadcast DTV efforts had "lagged significantly," while cable started more than 60 new digital channels: "Even in upgraded systems, dual must-carry would deprive consumers of innovative and diverse video and nonvideo services." Other cable groups agreed, but broadcasters continued to press for carriage. Public broadcasters, meanwhile, unveiled what they considered to be compromise plan.

Imposing DTV must-carry on cable would violate First and Fifth Amendment prohibitions on "taking" property, Cablevision Systems said. It said DTV must-carry "would place the broad diversity of programming offerings that cable consumers currently enjoy in extreme peril." It said it had invested billions of dollars in upgrading systems, but bandwidth already was fully utilized. American Cable Assn. said there was "serious malfunction" in market since TV networks were tying retransmission consent to requirements to carry "unwanted programming." Group asked for FCC investigation into retransmission consent and prohibition on nondisclosure obligations imposed by networks. HBO agreed that even though cable channel capacity was increasing "there is increasing demand for that capacity from new and enhanced cable networks," many of which are owned by broadcasters. C-SPAN said its experience starting C-SPAN 3 and other channels showed must-carry was limiting cable channel capacity.

Broadcaster comments also generally raised same issues as in past. Fox affiliates said FCC should reverse earlier decision not to require dual carriage, saying cable operators had "stranglehold" on DTV transition. As result, affiliates said, "only those companies with significant economic leverage have any chance of securing carriage of their digital signal." They said DTV must-carry would survive court scrutiny because it was narrowly tailored. If FCC doesn't think it has authority to impose DTV must-carry, affiliates said, it should ask Congress for legislation. Disney said multicasting was among DTV technologies that would "transform the way consumers relate to and interact with television," and most recent FCC decision wouldn't guarantee all multicast channels would be carried on cable: "Unless the Commission alters its present construction of the must-carry statute, consumers likely will be denied the benefits of diverse enhanced digital services that broadcasters otherwise could provide." Paxson said its proposal to allow multicast channels to be downconverted and carried on digital cable channels would ease burden on cable, potentially allowing 20 TV stations to be carried on significantly less than 1/3 of upgraded cable system's capacity.

Requiring cable carriage of only one of station's DTV channels "forces broadcasters to make a choice that is ultimately detrimental to consumers," CEA said: "Without assurance that digital broadcast signals will be carried during the DTV transition, broadcasters and programmers will have little incentive to produce original digital programming [and] consumers will have less incentive to purchase digital receivers." CEA said must-carry could be based on system channel capacity, and "fears are grossly exaggerated" about impact of must-carry on cable network carriage because channel capacity is increasing "dramatically" and not all broadcasters will seek carriage at once. Satellite Bcstg. & Communications Assn. (SBCA) is "vitally concerned" over dual carriage and legal

grounding of satellite must-carry regime, it told FCC. "Considering DTV-related issues in the context of satellite carriage at this point is premature," SBCA said. EchoStar said it strongly supported Commission decision not to impose dual carriage requirements.

Free, over-air TV "may not survive a prolonged transition" to DTV, public broadcasters said in ex parte filing at FCC containing what they called "working draft" of transition plan. Plan calls for establishing FCC task force, possibly headed by particular commissioner, to coordinate all FCC DTV activities, including carriage and cable interoperability. Plan "must include some limited transitional digital carriage requirement" for cable, said APTS, PBS and CPB in filing, since lack of carriage to date shows "the market alone will not assure consumer access to digital signals." However, they said all regulation should be transitional and limited. Govt. interest in speeding transition is "even more compelling" than its interest in analog must-carry, public broadcasters said, including protecting broadcasting and getting ability to auction broadcast spectrum. Among their proposals: (1) Must-carry, up to cable system capacity cap, would apply in top-30 markets plus any market with at least 2 DTV stations on air. (2) Only cable systems upgraded to 750 MHz would have immediate must-carry, with rest to follow year later. (3) Small cable systems would be exempt. (4) Channel cap could be lower than 33% for analog, or there could be combined cap for analog and DTV. (5) Public broadcasters said they would work with FCC on carriage provisions for non-commercial station that would "generally limit the proportion of cable capacity devoted to noncommercial stations consistent with the analog rules." (6) Station buildout requirements should be linked to national DTV receiver penetration levels, with stations not affiliated with networks having extra year for buildout. Penetration level wasn't set. (7) Must-carry could sunset at some receiver penetration level, such as 60%. (8) DTV tuner requirements should be phased in and be fully effective within 4 years. (9) FCC should set requirement for full cable interoperability if industry hadn't achieved it.

Hill staffers at NCTA convention said Congress was reluctant to intervene in market by setting dual carriage rules for cable operators during nation's current DTV transition. While lawmakers want to speed pace of transition, aides said, they don't want to accomplish that by imposing new burdens on another industry. "My boss is still grappling with the issue," said Courtney Anderson, legislative assistant to Rep. Shimkus (R-Ill.): "It is a difficult issue." Kurth expressed hope that broadcast and cable industries could yet find compromise. ■

Fox TV Network begins series of about 2 dozen regional meetings this week with its affiliates outside major markets, replacing canceled spring convention for all stations. At that time, Fox said it planned large videoconference for all affiliates but instead decided on small regional meetings. Of Big 4 networks, only CBS held full-scale affiliates' convention this spring (TVD June 4 p4); NBC and ABC are planning series of regional meetings. Meanwhile, Fox agreed to stations' long-standing request to permit them to air weekday children's block 2-4 p.m., instead of 3-5 p.m., starting this fall — but there's kicker: Affiliates that make shift will be required to return station inventory to network for it to sell. Network is attempting to sell Fox Family Worldwide and, if it's successful, Fox reportedly has told affiliates children's block will be canceled. But Fox will retain option to program afternoon time period, with affiliates hoping it will be with programming for adults.

CABLE EXECUTIVES CHEER DIGITAL: Despite nation's economic slowdown and depressed media ad spending, cable operators last week painted bright picture of industry's future, boasting about success of their digital video and high-speed data services. Speaking at NCTA convention in Chicago, heads of 3 of 4 biggest MSOs said they would continue to roll out digital, data and even newer services such as video-on-demand (VoD) and home networking briskly over next couple of years because of unquenched consumer demand. They also said slowing economy had had little impact on their core video products so far. Economy "really hasn't held us back," Charter Communications Pres. Jerry Kent said.

Cable officials said they still were bullish on prospects for VoD despite reluctance of Hollywood studios to make much content available or provide favorable release windows. They said VoD would help drive digital cable penetration up several percentage points. Comcast executives, who are testing VoD in 4 or 5 markets, repeated their intention of offering service to 2 million cable subscribers by end of 2002. Kent said Charter, which now offers limited VoD service in 4 cable markets, would boost that number aggressively to create competitive edge over DBS because "satellite cannot provide true video-on-demand service." AT&T Chmn. Michael Armstrong, whose company also is tinkering with VoD in selected markets, said MSO would start large pilot in L.A. market later this year and then would "be scaling" in 2002.

However, movie release windows remain big obstacle. Viacom CEO Mel Karmazin said his company, which owns Paramount, favored "creating and expanding, not collapsing, windows" to spur development of VoD as new revenue source for Hollywood. But, calling it "sensitive" subject, he said Viacom needed to protect revenue generated by its current distribution outlets. "The margins for movies are not as good as in other businesses," he said. "We don't want to damage our long-term business."

Although bullish about most new services, cable executives expressed great concern about impact of one proposed service — free video streaming of TV programming over Internet — on their operations. Kent, whose company is fighting Disney's ESPN over latter's plan to stream sports programming over Internet, said free streaming could hurt cable's business model.

Saying his company received 30% of its revenue from cable, Karmazin sought to reassure MSOs that Viacom-CBS didn't intend to follow Disney's streaming lead, at least not yet. "We spend so much money for our content," Karmazin said. "The thought of just streaming it without a business model makes no sense." He said Viacom didn't stream audio from any of its radio stations over Internet.

Several top MSO executives advanced unusual idea of seeking legislative help to curb soaring sports programming costs. Kent, AT&T Broadband Pres. Dan Somers and Insight Communications Pres. Michael Willner all backed concept of asking Congress to scrap or limit federal antitrust exemptions for pro sports teams. Failing that, Kent called for new law that would let cable operators offer sports networks on a la carte basis, rather than just in programming bundles. "When I stay up at night, I worry about 2 things," Kent said. "One, of course, is my kids, and the other is sports programming costs."

Led by Kent, cable executives charged that antitrust exemptions, which allow teams to pool their individual TV

rights and split proceeds among themselves, drastically drove up costs of those rights for cable and broadcast networks and encouraged teams to pay ever-spiraling salaries for players. They said those costs then were passed on in full to cable systems, which couldn't raise their customer rates nearly enough to cover increased expense. "Our margins for our core video business have been declining for several years," said Kent, whose company has been battling ESPN and Fox Sports in separate rate disputes: "We can't raise our rates any faster."

While less gung-ho on sports rights crusade than Kent, both Somers and Willner said they also would support legislative remedy to problem. "Sports inflation is a problem," Somers said, saying it hurts broadcasters, MSOs, DBS providers, teams: "I'd love to deal with it as a family but if we can't, we will go elsewhere."

Kent, who hasn't started lobbying lawmakers on proposed bills, conceded that "the odds are pretty slim right now" of passing that type of legislation. But he said "the odds grow" as rights fees "continue to escalate and sports programming becomes a bigger problem." Willner said "something has to give" when sports network licensing fees keep climbing 20% each year.

However, other media executives at cable show expressed strong doubt that legislative campaign would succeed, or sidestepped issue entirely. NCTA Pres. Robert Sachs said sports rights inflation was "an easier problem to identify than to fix." He said "the root of the problem is player salaries," subject not easily addressed by govt. regulation. He also said lifting antitrust exemptions would be "a very difficult thing to do."

Karmazin said networks probably would keep paying higher sports rights fees because "you really do need these 'oh, wow' events." He also predicted TV rights fees would continue to rise because online companies soon would start competing for Internet streaming video rights to games: "There will be more bidders." He argued that "AOL will potentially be a bidder for sports rights," along with Yahoo.

High digital video churn also is mounting problem for MSOs. In recent report by Forrester Research, top 8 MSOs put their digital disconnect rate at 5% or more per month, more than 3 times rate for DBS rivals. Forrester analyst Josh Bernoff urged cable operators to roll out VoD and such other new services as personal video recorders (PVRs) quickly to cut high churn rate and lure subscribers back from satellite TV. "This is cable's time to win those subscribers back," he said, predicting that cable's success would cause DBS industry to "top out" at 22 million subscriber level eventually.

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"Family Friendly" TV script development initiative sponsored by Assn. of American Ad Agencies (AAAA) and 45 national advertisers said it had placed its 2nd show on TV network since its beginning 2 years ago. *Raising Dad* will be on fall schedule of WB, network that also is airing Family Friendly Programming Forum's first successful effort — *Gilmore Girls*, AAAA said. Forum also is responsible for development of 9 scripts that will be carried on WB in fall. ABC, CBS and NBC also are participating in Forum's effort, but so far haven't accepted any family friendly programs for airing, source said.

Personals

Named to staff of new FCC Comr. Abernathy: **Bryan Tramont**, senior legal adviser; **Tijuana Price**, staff asst.; **Ann Monahan**, confidential asst. Interim aides to new FCC Comr. **Copps**: **Jordan Goldstein**, ex-legal adviser to former Comr. **Susan Ness**, senior legal adviser and common carrier specialist; **Susanna Zwerling**, Mass Media Bureau, legal adviser on mass media and cable issues; **Lauren Van Wazer**, Wireless Bureau, legal adviser on wireless and international issues... **Julie Barrie**, FCC Mass Media Bureau, named senior legal adviser, Planning and Negotiations Div., International Bureau... **Bryce Dustman**, ex-dir.-communications, House Ways & Means Committee Chmn. Rep. **Crane** (R-Ill.), named chief of staff, Rep. **Wilson** (R-N.M.)... **WB Network** co-Pres. **Susanne Daniels** leaves at end of month, but may remain with parent AOL Time Warner; co-Pres. **Jordan Levin** becomes pres... **Bradley Siegel**, pres.-general entertainment networks, TBS, will oversee Cartoon Network Worldwide, whose pres., **Betty Cohen**, steps down... **Kim Bondy**, ex-NBC, appointed vp-senior exec. producer, CNN... Promotions at Pearson TV: **Simon Spalding** to head of worldwide licensing, **Tony Stern** to commercial dir.-International and Enterprises Div., **Tara Buckwell** to exec. vp-legal and business affairs for same division... Promotions at CBS News: **Marcy McGinnis** to senior vp-news coverage, **John Frazee** to senior vp-news services, **Betsy West** to senior vp-prime time... **Rick Attanasio** named senior vp-engineering, Comcast Business Communications.

Changes at Weather Channel Networks: **Alex Kaminsky**, vp-mktg., named vp-integrated mktg.; **Daryn Pustilnik**, dir.-affiliate mktg., to dir.-integrated mktg.; **Libby Goldschmid**, dir.-consumer mktg., to dir.-affiliate mktg... **Hilda Chazanovitz**, ex-Hilda Chazanovitz & Partners, appointed exec. vp-mktg. and new media, National Geographic Channel... Changes at Starz Encore Group: **Jillaina Wachendorf**, senior vp-sales and affiliate relations, promoted to senior vp-affiliate mktg.; **Bill Giorgio** advanced to senior vp-sales and affiliate relations for cable; **Debbie Egner**, ex-HBO, named senior vp-sales and affiliate relations for cable... Changes at MuchMusic USA: **Gregory Sneed** promoted to vp-financial and strategic planning; **John Baghdassarian**, ex-Comedy Central, joins as vp-affiliate relations for western region; **Jeffrey Jaworski**, ex-PAX-TV northern region, joins as dir.-affiliate relations for eastern region... Elected at Public Service Advertising Organization: **Edward Reilly**, American Management Assn., as chmn.; **David Bell**, True North Communications, vice chmn.-agency; **Andrea Alstrup**, Johnson & Johnson, vice chmn.-advertising; **Burts Drake**, AAAA, secy.; **John Sarsen**, Assn. of National Advertisers, treas... Changes at Ad Council: **Leslie Pankowski** and **Melissa Unger** promoted to vp, **Kristen Palmer** to media outreach mgr... **Larry Goldberg**, dir.-Media Access Group, WGBH Boston, named to FCC Technological Advisory Council.

Obituary

Wallace C. Dunlap, 80, retired Westinghouse Bcstg. senior vp, died June 12 at Arlington (Va.) Hospital following heart attack while visiting Washington for ordination of his daughter as Presbyterian minister. Dunlap retired in 1986 as head of Westinghouse Washington office and moved to Bradenton, Fla. He began broadcasting career while in high school in New Orleans and after Air Force duty in World War II he joined Mutual Network in N.Y. as producer-announcer. He moved to Westinghouse in 1962 as KDKA-TV Pittsburgh sales mgr. and held several managerial jobs before moving to Washington in 1982. He was pres. of Bcst. Education Assn., Bcst. Pioneers and National Leukemia Society. Wife, 2 daughters, son survive.

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CableLab's B2B royalty-free pool has signed up 20 participants, group said. Pool is for sharing intellectual property for specifications for automation of routine business communications between cable operators and Internet content providers. Senior Vp David Reed said pool would "reduce the uncertainties vendors may encounter in producing related software products." He said more companies were expected to join pool, which was modeled after pools for its DOCSIS and PacketCable programs.

Consumer Electronics

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STATE OF THE INDUSTRY

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

	MAY 26 - JUNE 1	2000 WEEK	% CHANGE	MAY 19- MAY 25	22 WEEKS 2001	22 WEEKS 2000	% CHANGE
TOTAL COLOR TV	492,341	453,132	+ 8.7	558,488	10,141,245	10,968,973	- 7.5
DIRECT-VIEW**	478,423	433,226	+ 10.4	542,415	9,763,453	10,498,009	- 7.1
TV ONLY#....	374,552	355,019	+ 5.5	417,648	8,120,513	8,637,052	- 6.0
TV/VCR COMBO.	103,871	78,207	+ 32.8	124,767	1,642,940	1,860,957	- 11.7
PROJECTION...	13,918	19,906	- 30.1	16,073	377,792	470,964	- 19.8
TOTAL VCR**....	451,884	404,505	+ 11.7	548,092	7,715,028	10,432,260	- 26.0
HOME DECKS...	348,013	326,298	+ 6.7	423,325	6,072,088	8,571,303	- 29.2
CAMCORDERS.....	115,682*	90,927	+ 27.2	114,878	2,181,040*	2,110,471	+ 3.3
DVD PLAYERS....	249,393*	135,423	+ 84.2	178,956	3,739,347*	2,181,675	+ 71.4

Direct-view TV 5-week moving average#: 2001-338,563; 2000-355,334 (down 4.7%).

Projection TV 5-week moving average: 2001-13,106; 2000-16,452 (down 20.3%).

VCR deck 5-week moving average: 2001-308,671; 2000-432,144 (down 28.6%).

TV/VCR 5-week moving average: 2001-78,595; 2000-97,213 (down 19.2%).

Camcorder 5-week moving average: 2001-114,004; 2000-104,028 (up 9.6%).

DVD player 5-week moving average: 2001-154,524*; 2000-117,772 (up 31.2%).

* 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.

GAME BOY ADVANCE PRICE VARIES AT N. AMERICAN DEBUT: Many in game industry have been expecting N. American rollout of Nintendo's Game Boy Advance (GBA) to be major force in speeding current transition to new platforms — transition that, of course, has resulted in slumping sales for game makers and retailers alike. But in light of \$89.99 pricing that at least 4 national retail chains selected for GBA hardware, it seemed questionable last week just how much — if any — profit GBA actually could be translating into for at least some key retailers.

Best Buy (BB), Circuit City (CC), Kmart and Target were among retailers advertising GBA for \$89.99 — \$10 less than pricing Nintendo announced as SRP for its next-generation handheld game system.

NOA Mktg. Vp George Harrison told us last week move to \$89.99 was "strange" and "a little surprising to us, I guess" — especially in light of how hot GBA was expected to be, that supply would not be meeting demand initially and that those retailers "probably can sell anything they can get." He added: "It seems like they're giving away \$10."

But Harrison also said there was nothing NOA could do about situation because his company had no control over price retailers set. Although Nintendo has had voluntary MAP incentive program that rewarded retailers with "bonus money" for advertising MAP pricing for Nintendo 64 system (TVD Dec 20/99 p15), he told us there had been no such program for Game Boy. Harrison also said "volume pricing" for GBA hardware was \$88, so retailers at \$89.99 apparently were making only \$1.99 on each piece of hardware sold.

Jupiter Media Metrix Analyst Billy Pidgeon said retail margins traditionally have been extremely low on videogame hardware — albeit perhaps not quite as low as GBA's margin is. He suggested that retailers who had opted to sell GBA at \$89.99 were just "trying to undercut" their competitors or made decision to try "making money more on volume."

CC spokesman told us his company decided on \$89.99 because "this is a competitive industry" and it also wanted to send signal to consumers to "make sure that people know we are a gaming destination." BB spokeswoman declined to say why her company went with \$89.99 other than that it was "competitive" issue.

Certain retailers selling GBA for \$89.99 last week also were selling software titles for system lower than \$29.99 and \$39.99 their competitors were charging. As examples, Kmart was selling games for \$34.99 and \$24.99, while Target advertised titles at \$25.88, \$33.88, \$34.88, \$39.99. But BB apparently decided not to cut its profit on software as it did on hardware: It advertised games at \$29.99 and \$39.99 in Sun. circulars. Nintendo's Harrison said retailers were paying \$28 for at least some first party titles, although they could qualify to get \$4 rebate per title as part of new margin plan we reported in March (TVD March 26 p9). As part of that arrangement, retailers can pick up rebate provided they sell sufficient amount of product.

Retailers we spoke with last week who weren't selling GBA at \$89.99 were either unavailable or declined to comment on what their competitors were doing. But it seemed likely they weren't happy about \$89.99, especially when some retailers already were unhappy with NOA's new margin plan.

Dates when consumers actually could find GBA hardware on store shelves varied last week. CC's spokesman called June 11 "a little misleading" as result. Specialty interactive game chain Electronics Boutique had systems in stock June 11 only for consumers who preordered systems and was selling only \$199.99 bundles we reported that contained hardware, 2 games, battery pack (TVD June 11 p18). Software Etc. store we phoned in Midtown Manhattan June 11 was selling hardware at \$99.99 but also had only enough systems for those who had preordered. KB Toys Sales Promotion Mgr. John Reilly told us June 11 that machines were being express delivered to his company's stores and he expected they would be available to consumers "probably very shortly." He said he expected GBA hardware would be available for consumers who had preordered system, along with possibly "a few more" for persons buying on first-come, first-served basis.

But other retailers advertised June 10 that they would not have any GBA systems on their shelves until June 12 or 13. BB, CC, CompUSA and Target were among retail chains that advertised that they wouldn't have hardware until June 13. Coconuts advertised in its Sun. circular that devices would be available June 12. Most, if not all, retailers made it clear in their ads that units would be in short supply at their stores last week.

Harrison told us when retailers received GBA hardware last week depended upon type of shipping they had requested. Certain accounts, he said, were paying more to get shipments faster. But he said June 11 that he expected all of 500,000 GBA units NOA said would be available at outset would be on their way to retailers by end of that day.

Although GBA allotments were small last week, at least some retailers seemed confident more units would be arriving soon. KB Toys's Reilly told us he expected "another good amount" in about 2 weeks and after that "steady supply" probably would be available. CC spokesman said: "I think there will be some spot shortages... from time to time" in coming weeks. He was quick to add, however, that he didn't expect that obtaining additional GBA hardware supplies would be as difficult as was PlayStation 2. Supplies vs. demand, he said, should "even out a lot quicker" with GBA.

At our Fri. deadline, it still was unclear how many pieces of GBA hardware, software and accessories had sold through in N. American introduction of system so far. Harrison told us that information probably wouldn't be available until today (June 18) at earliest. But he said N. American start was "going quite well" and first shipment of hardware was "expected to be sold out" by June 17 across board. He said NOA would be shipping more units this week and by mid-week retailers should be "back in shape" with allotments.

Although Harrison admitted supply wouldn't meet demand in N. America right away, he said one million units would have been shipped in U.S. alone by end of this month, with additional 300,000 arriving in rest of N. America by same time. While units were shipping to Canada June 11, Harrison said Latin America would lag behind by week. He said Nintendo expected 2 million units of GBA hardware to be produced worldwide each month by end of July and, by early Aug., U.S. should be receiving 700,000-800,000 of those each month.

EUROPE PROBES ROLE OF REGION CODES IN DVD PRICING: Scrutiny of antitrust regulators in Region 2 Europe has turned to Hollywood studios and DVD regional coding system that prevents movie discs destined for each of world's 6 regions from playing on hardware sold in others. As in current investigation of music CD distribution in European Union (EU), penalty is high if price maintenance is proved: 10% fine on all disc revenue.

Australia already has similar probe under way to determine impact of regional coding on Region 4 disc prices. DVD isn't under investigation yet in U.K., Region 2 nation where public outcry has been loudest over regional coding and system regularly is flouted through hardware modifications to play Region 1 discs imported from Region 1 N. America. But CD pricing is being probed there, where fine is 10% of annual turnover for up to 3 years of infringement.

EU probe is "direct follow-up to the concerns of individual consumers" about DVD pricing there, said Mario Monti, EU's commissioner for competition policy, in speech in Stockholm last week. His office received "significant number of complaints" charging 'DVD prices are higher in the EU than in the U.S.A.', Monti said. Consumers complained that regional coding system enabled Hollywood studios to charge higher DVD prices in Europe "because EU consumers are artificially prevented from purchasing DVDs from overseas," Monti said.

Regional coding "could be used as a smokescreen to allow firms to maintain artificially high prices or to deny choice to consumers," Monti said. Europe now is 2nd largest DVD market after U.S., and accounts for 50% of home video sales outside of U.S. Average DVD can cost more there in local currency compared with U.S., at least at manufacturer's suggested retail. For example, recently released *The Natural* lists for \$24.95 in U.S. but £19.99 in Britain — \$27.99 at current exchange. Price at online retailer there was £17.99 (\$25.19) for Region 2 version, while Region 1 title retailed for \$19.99 in U.S. Prices quoted in Britain include 17.5% value-added tax, whereas excises, if any, aren't cited in advertised prices in U.S.

Spokesman for Monti said EU sent queries to 7 studios on pricing and regional coding June 8: Columbia-Tristar, Disney, Fox, MGM, Paramount, Universal and Warner. At our Fri. deadline, all but one had declined to comment on investigation. Disney said studio would cooperate with "preliminary stages" of EU's inquiry.

Ostensibly, regional code system was implemented to protect staggered theatrical windows in markets outside U.S. Usually, by time movie opens in theaters overseas, it's available as prerecorded video in U.S. Studios feared high quality of DVD's video would hurt box-office overseas if foreign audiences could obtain discs from U.S. before movies opened in their markets. Regional coding system was meant to prevent that by not permitting discs from Region 1 N. America to run on players sold elsewhere. Sanctity of system has been circumvented almost from start with players that can be modified to accept other-region discs. Region 1 DVDs can't be retailed legally in U.K. and some European countries, but it's not illegal for individuals to purchase them, such as from U.S.-based online sources.

Other avowed purpose of coding was to prevent piracy and transshipping. Effect of transshipping on prices was concern of studios from earliest days of DVD negotiations, based on May 1, 1996, memo we obtained and first published in July 1, 1998, issue.

"Secondary objective" of regional coding "is to protect home video from the adverse impact of differential pricing, parallel imports and piracy," said letter to 8 studios (Turner hadn't been absorbed by Warner yet from Toshiba executive co-chairing DVD Consortium of player manufacturers.) Letter for first time detailed reason why Mexico was severed from Region 1 with Canada and U.S. It rationalized that Mexican theatrical openings were "harmonized" with those of Latin America. More telling, though, was following statement, reproduced here verbatim:

"Mexico was excluded... to protect the U.S. market from imports, since Mexican DVDs may require lower pricing than the U.S. due to lower per capita income. Note that Warner Home Video's sellthrough cassettes sell for \$8-\$10." Cassette prices were allusion to dollar equivalent of Mexican sellthrough price that was lower than those in U.S. at time.

Letter also cited potential for parallel imports as reason for splitting NTSC countries Japan and Korea from NTSC Region 1 (titles sold in Japan and Korea would have English sound tracks), and for grouping English-speaking Australia/New Zealand into Region 4 Spanish-speaking countries instead of Region 3 Pacific Rim market. In those cases, local ability to understand English-language sound tracks on discs could abet parallel imports that would undermine pricing structures in those markets.

"Japan and Korea were included in Region 2 (as opposed to Region 1) [sic] to offer an additional measure of protection (beyond language, packaging and trade law barriers) from U.S. DVD imports," letter said, also noting that theatrical releases "are harmonized" in Japan, Korea and Region 2 Europe. Theatrical windows were same for Region 3 (which includes Hong Kong) but letter said Australia and New Zealand were split off because "there is a high risk of parallel imports. Australia and New Zealand were therefore separated from this region and grouped with Latin America" [Region 4].

Meanwhile, "undeveloped theatrical markets" (for import movies such as Hollywood's) China, India and Russia were dumped into 5th region. Letter said "DVD imports in bulk would adversely impact future market development, es-

pecially in China and Russia, where piracy risk is high.” Reference to future market development meant cinematic imports — MPAA last year successfully negotiated with China to increase number of U.S. movie imports. Prophetic and current piracy concerns caused DVD companies to create separate Region 6 for China, although Hong Kong remains in Region 3 despite July 1997 reunification with mainland.

Since establishment of regional coding, time-lapse has shortened for international theatrical windows as well as for DVD releases among different markets. For example, Disney movie *Pearl Harbor* opened in major overseas markets within week of May 25 U.S. premiere. In DVD, Columbia TriStar’s *The Patriot* was available in Region 2 Europe within month of Region 1 release last fall (release was supposed to be simultaneous, but was delayed in Europe). DVD of baseball movie *The Natural*, cited earlier, is another example: 1984 catalog title appeared at same time this spring in Regions 1 and 2 although it has yet to hit retail in Region 4 — ironically, inasmuch as baseball is popular in Australia but is only niche sport in Europe.

Puzzling situation in international DVD releases emerged last week when Paramount announced Oct. 9 debut for long-awaited cycle of *The Godfather* films (see separate story, this issue). Movies become available on DVD same day in Region 1, Region 4, most of Region 2 Europe and generally in all but Regions 5 and 6 within 3 weeks of debut. Despite nearly simultaneous release worldwide, which eliminates market appeal and marketing liability of Region 1 version, all *The Godfather* DVDs have regional coding for each market.

Asked why studio bothered to regionally encode, since near-worldwide release leaves little incentive for *Godfather* buffs overseas to glom-up collection that otherwise might be available only in Region 1, Paramount spokesman told us “we support Regional Coding, and all our titles fully support Regional Coding,” including catalog movies. Paramount has priced collection at \$75 in U.S. Pricing overseas wasn’t available.

Meanwhile, DVD software prices continue to plummet in U.S. in catch-up mode with hardware stickers that are long south of \$99 (see separate report, this issue). Sony’s Columbia TriStar last week announced slate of catalog titles slashed to \$14.95 and \$19.95 effective Labor Day weekend.

DLP PROMISES LOWER PRICES, PLASMA COUNTERS: Texas Instruments (TI) is readying new widescreen version of its Digital Light Processing (DLP) chip that could enable rear projection TVs containing its technology to hit price points as low as \$3,000 in 2002, company officials said. Meanwhile, plasma display panel (PDP) manufacturers, seemingly in response to competitive threats from DLP and liquid-crystal on silicon (LCoS) microdisplays moved at International Communications Industries Assn. (InfoComm) show in Las Vegas last week to cut prices.

TI’s new 0.8W DLP chip, which will have 1,280x720p resolution, 1000:1 contrast and 300 nits brightness, will benefit from new controller that comprises 1.4 million gates vs. 400,000 in previous generation and reduces number of external memory devices needed to one from 4. New chip also would increase viewing angle to minimum of 45°, and possibly 60°, and enable reduction in depth of rear projection set to 12", TI Tabletop Business Unit Mgr. John Reder said. Chip will be targeted at 3-panel applications for 43-50W rear projection sets, Reder said.

Emergence of 2nd generation chip for TV applications would represent substantial advance from current sets which are priced in \$13,000 range. It also will coincide with ending of one-year exclusive that Hitachi, Matsushita and Mitsubishi have enjoyed for rear projection sets this year. Officials from 3 companies weren’t immediately available for comment on whether they would implement new chip next year. Current models use 0.78W. Other DLP advances include new Sequential Color Recapture (SCR) technology that allows red, green and blue to be present simultaneously on display. Previously only one color at time could be present on single panel. TI also has increased DLP’s tilt angle to 12° from 10° and has shifted production to 8" wafers from 6". TI also will likely have 0.6" DLP for front projector applications by 2003 with XGA and SVGA resolutions, panel that would shift in manufacturing to 12-micron process from current 13.8 micron, Reder said. Smaller DLPs including 0.55", already available in SVGA version, will likely enable projector weight to dip below 2 lbs. with InFocus said to be considering 1.5 lbs. model for 2002.

As TI rolled out new DLP technology, plasma manufacturers made price moves, with Fujitsu dropping cost \$1,000 on 42W PDP with 640x480 resolution to \$5,995, while Pioneer was said to be weighing move on 50W to \$14,999 from current \$16,999. Pioneer spokeswoman denied price was being reduced. Pioneer also unveiled new version of 50W that boosts brightness to 800 lumens from 600, while lowering power consumption to less than 400 w from 480 w. Display also has slots in back that allow additional circuit boards to be installed for specific applications. Fujitsu General, meanwhile, introduced 50W (\$17,000) that will ship in Sept. with 1,024x768 resolution, 700 lumens and 500:1 contrast. Among those also entering 50W derby was Viewsonic, which sourced panel from Pioneer. Meanwhile, InFocus, better

known for its front projectors, showed prototype 42W and has sampled product from Pioneer and Fujitsu with goal of introducing PDP by year-end, Vp Candace Peterson said. Decision on source will be based on any exclusivity that InFocus can receive and length of warranty for product, she said.

Number of companies entering PDP market coupled with additional production capacity being brought into market from LG Electronics, Samsung and Chungwha, could result in lower prices. Latter is said to have acquired some plasma manufacturing equipment from Mitsubishi with goal of entering market by 2002. Taiwan's National Science Council also has embarked on 3-year project with Acer to study PDP voltage waveform, digital signal processing and image quality. Goal of study is to enable Taiwanese companies to free themselves of technical restrictions set by U.S. and Japanese companies, which hold most of key patents governing technology, National Taiwan U. Professor Chen Chern-lin told *Digitimes.com*.

"It's all going to be based on production levels," Samsung Professional Products Mktg. Mgr. Andrew Fliss said. "These factories are coming on line and the volume in the marketplace is going to push the prices down. But I would really prefer that the market hold its legs [on pricing] for a while."

Other PDP wild cards could be NEC-Thomson joint venture and Sony, which is said to be weighing dropping out of partnership with Fujitsu and Hitachi after not supplying funding. Sony spokesman declined comment on Sony's plans for joint venture or whether it would seek other plasma sources. NEC-Thomson venture, which is expected to be finalized by year-end, will have companies focusing on professional and consumer markets respectively. Thomson is expected to ship 50W PDP by 4th quarter with first beta prototypes due later this month, sources said. In addition to NEC's manufacturing capacity in Japan, Thomson also has done some assembly in France. "We're going after the plasma business as a financial partner and as a 50-50 joint venture," source close to Thomson said. "It's a display technology that our company has a lot of belief in." NEC, which left CE market in U.S. in late 1980s, has no plans to return because "at this point we see a better synergy there with Thomson," said Direct View Display Mktg. Mgr. Michael Piehl, whose company showed 61W plasma that it's also expected to supply for Marantz.

Yet Thomson, along with several other manufacturers, is also weighing introducing LCoS-based product, while JVC renews aggressive push to license its Direct Drive Image Light Amplifier (D-ILA). Thomson is expected to introduce 50W based on Three-Five Systems' 3-panel 0.78" microdisplay later this year and plans to market it alongside PDPs. "The LCoS project is funded by the Americas [division] and supported by Europe, but the top executives in France also have a deep interest in plasma," source said. Samsung also showed 43W rear projection monitor based on Aurora's 3-panel 0.97" LCoS chip with 1,368x1,024 resolution, 400 candelas, 200:1 contrast and 430 w power consumption. Samsung also has used Three-Five and Displaytech LCoS displays for PC monitors and rear projection TV respectively.

Other LCoS-based product at Infocomm came in form of front projectors from Hitachi and 3M, which will market model built by Acer that uses Three-Five's 0.78" chip. Hitachi and 3M projectors have 1,365x1,024 resolution with 1,500 lumens brightness, but former uses 0.9" chip and has developed technology internally. Potential impact of LCoS, which uses semiconductor manufacturing process, can be seen in Hitachi and 3M's ability to price projectors with SXGA resolution at \$7,995 street price, roughly same as some models with 1,024x768 (XGA). Hitachi's projector also operates at 36 db and uses technology that lowers video "noise" by determining whether signal exists in either past or present frame and reducing it if it doesn't.

"It's [LCoS] is a developing technology that we need to be aware of and if it makes the market dive again and accelerates discounting, it will be an issue," said Plus Corp. Sales Dir. James Hurst, whose company market lightweight DLP-based projectors.

In D-ILA, JVC formally took wraps off front projector with 2,048x1,536 resolution that is designed for digital cinema and added home theater model that will be sold under CineLine brand. Latter has 1,365x1,024 resolution, 1,000 lumens and 600:1 contrast. D-ILA projectors overall have generated \$25 million in "current" revenue on sales 1,500-2,000 units, company officials said.

In addition to own products, JVC is relaunching licensing program that it abandoned 2 years ago after failing to achieve needed production capacity and finding too many similarities between brands. Rather than supply finished product as it did previously, JVC is only providing chip, enabling licensee to design unit and find engine supplier. "We have a full line and full production now and we've overcome the problems of before," JVC Video Imaging Systems Vp Scott Watson said. For time being, JVC won't license manufacture of D-ILA chip until possible patent conflicts with LCoS technology are resolved, Victor Co. of Japan Managing Dir. Hajime Takashima said.

So far JVC has licensed D-ILA to half dozen manufacturers including Primax for front projectors and potentially Prokia, which is still finalizing details of agreement. Viewsonic also is developing 36W rear projection monitor. Prokia showed 53W rear projection monitor containing 3-panel, 0.9" D-ILA with 1,280x768 resolution, 900 lumens and 500:1 contrast with production expected by first quarter 2002, Projection Display Sales & Mktg. Mgr. Kevin Cheng said. Pricing hasn't been set, but is likely to be more than \$3,000 since cost of chip and engine alone are in mid-\$2,000 range, he said. "This will be purely for private label because brand marketing is not our forte and we don't want to enter that battle," Cheng said.

Infocomm notes: In new twist on DLP, 3M showed digital 60" white board with arm that extends from top with built-in front projector containing 0.9" chip with 1,024x768 resolution. Unit, which weighs 70 lbs., has replaceable screen with dry erase (\$10,500) and digital whiteboard (\$12,000) options... Silicon Video, which spun off from Genesis Microchip year ago, made Infocomm debut of svW1 image processor that has been built into 3M's Wall Display and Kaiser Electronics' helmet-mounted display for military applications. Processor, which can handle up to 1,280x1024 resolution at 60 Hz, integrates several features including picture-in-picture, on-screen display, scaling and automatic input format. Device, which is being manufactured for Silicon Video by IBM, is priced at \$89 in volumes of 10,000 units. Target is to push resolution to UXGA in 2002, company officials said... NEC showed 50" rear projection monitor featuring 3-panel 0.9" LCD with 1,024x768 resolution and 19" depth. Plan is to shrink depth to 10" in moving to DLP, Product Line Mgr. Daniel Zubic said. Among other rear projection systems, Clarity showed UXGA version of Lion 67" monitor that contains single 15.4" LCD and is priced at \$28,000, while Hitachi had 70" with 15" panel containing 1,024x768 resolution, 700 lumens and 750:1 contrast ratio.

THOMSON TRIMS JOBS: Thomson plans to cut 80 jobs at Marion, Ind., TV tube plant as it battles to reduce inventories in face of slowing sales.

Thomson, like most of its competitors, has been saddled with direct-view tube inventory as economy slows, and moved to cut number of production shifts to 3 from 4, Vp Thomas Carson said. In reducing work force, Marion plant will move to 5-day, 24-hour production from 7-day schedule, Carson said. New 5-day schedule will run July-Sept. and, in addition to curtailing weekend hours, Thomson will subcontract 4 additional production days, Thomson spokesman told *Marion Chronicle-Tribune*.

To help offset job reductions, early retirement plan will be offered under provision in recently ratified contract with IBEW Local 1160. Thomson employs 1,745 hourly workers and 255 salaried employees at Marion plant. It cut 25 salaried positions earlier this year.

Changes will be made primarily at plant making 30-38" tubes, and production of 25-27" tubes will continue at adjoining facility, Carson said. Thomson is in midst of transferring manufacture of 27" to Marion from Scranton, Pa., plant that's scheduled to close Aug. 24. Production of 27" will be handled at Marion pending completion of Mexicali, Mexico, plant that is to open in July with 32".

"What we're trying to do is make sure that in a real uncertain environment that we keep a lean inventory," said Carson, who declined to disclose extent of inventory. "We have higher inventories than what we need given the market conditions."

Separately, Carson and Thomson spokesman declined comment on possible CRT agreement with Matsushita. Companies have had discussions, and speculation has ranged from merger of CRT businesses to joint venture and sharing of technologies.

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DataPlay, developer of coin-size optical disc with up to 500 Mb storage capacity, said it had raised \$55 million in additional financing, increasing total capital raised to date to \$119 million. Company expects entertainment content and CE hardware that use its system will become available in 4th quarter.

Baker's dozen of classic films is being released on DVD simultaneously with airing on TV. Collaboration between Sundance Channel and videophile label Criterion Collection is releasing one DVD title per week up to Labor Day weekend coupled with Thurs. telecasts under Sundance Classic World Cinema marque. Selection is eclectic mix of foreign movies, all broadcast in widescreen letterbox format and at original cinematic length. DVDs will have supplemental materials typical of Criterion fare since analog Laserdisc days. Titles include Jacques Tati's *Mr. Hulot's Holiday*, airing this week, as well as Henri-Georges Clouzot's *Wages of Fear* (July 5), Ingmar Bergman's *Wild Strawberries* (July 12) and *The Seventh Seal* (Aug. 2). Series concludes Aug. 30 with Akira Kurosawa's *The Seven Samurai*. American adaption of that 1954 classic — 1960 Western *The Magnificent Seven* — was released on DVD for first time last month by MGM at \$19.98. Most Criterion titles are \$39.95. They will be advertised on Sundance Channel before street dates and will carry sticker reading "As seen on the Sundance Channel." Sundance also will give link to Criterion Web site (www.criterion.com) for background filmography and to Amazon.com for purchasing discs. Partners said selections were culled from 75 movies made between 1930 through 1969, in order to expose audience to films other than predominantly post-1980 titles on American Film Institute's "100 Greatest Films" roster.

Zany Brainy (ZB) has reached agreement with Wells Fargo Retail Financial Services on \$115 million debtor-in-possession (DIP) financing that will fund retailer as it operates under bankruptcy protection. Among those contributing to DIP package is Hilco Capital (\$15 million). As part of DIP, ZB is required to pay \$1.3 million and \$450,000 in arrangement and origination fees, respectively. ZB also has extended employment contract with CEO Thomas Vellios through Feb. 1, 2003. Under pact, Vellios, who was named acting CEO last Sept. following resignation of Keith Spurgeon, will receive annual salary of \$500,000, \$1 million retention bonus to remain with chain through Feb. 2, 2002, and severance equal to 2.99 times annual base salary if he is terminated after Feb. 3, 2002, SEC filing showed. ZB also disclosed that Ingram Industries ended book distribution agreement with chain effective June 3. Chain also has consolidated Noodle Kidoodle's (NK) administrative functions at King of Prussia, Pa., hq and plans to close 3 stores this year. ZB, which purchased NK year ago, operates 187 outlets.

SCEA TO END \$299 HARDWARE-ONLY PS2: In somewhat mysterious move, Sony Computer Entertainment America (SCEA) will stop shipping original \$299 PlayStation 2 (PS2) hardware-only SKU when its \$329 *Gran Turismo 3* hardware-software bundle arrives on store shelves next month.

Move in effect means SCEA is doing something just about unheard of in videogame industry — increasing cost of console after system has been available less than one year in N. America. And it comes with 2 competing systems — one of them (Nintendo's GameCube) at \$199.95 — just around corner this fall.

SCEA Senior Sales Vp Jack Tretton confirmed move, telling us: "We shift our production over to the bundle as of July 10. The quantity of the product doesn't change and the flow of the product doesn't change. It's just that the July shipments will be the bundle as opposed to the core SKU."

Tretton said halting of original core \$299 PS2 would be "for an undetermined amount of time," adding: "A great deal will depend on how the consumer reacts to the whole thing." He conceded that by mid to late Aug., original \$299 solo PS2 might be sold through, leaving only \$329 *GT3* bundle on shelves.

"We feel that *GT3* is a title that defines what the PlayStation 2 game experience is and we want to bring that experience to as many consumers as possible," he said. "They'll save \$20 over what they'd spend for the PlayStation 2 and *GT3* separately."

Sony move does make sense on some levels because it quickly will drive installed base of one of Sony's key first party titles at same time as it helps company reduce some of widely reported losses it's incurring on each hardware unit sold. But it also raises questions as to what SCEA has in store for fall.

Tretton wouldn't comment on whether move at least would position SCEA for possible hardware price cut in fall by eliminating amount of channel inventory company would need to price protect with price drop. He told us in April that SCEA had no plans for any changes in PS2 — or PS One — hardware pricing this year. Despite rumors to contrary, Tretton told us, Sony was sticking to its guns on PS2 pricing once again at Electronic Entertainment Expo (E3) in L.A. last month. SCEA spokeswoman also told us after Nintendo revealed its GameCube pricing that Sony was "very comfortable with the \$299 price point" for PS2 this year (TVD May 28 p11). News reports said SCE Europe last cut PS2 hardware price in U.K. to £269 to reflect changes in currency rates.

One gaming executive, who requested anonymity, questioned Sony's move, saying retailers were concerned that hardware pricing on PS2 already was too high for mass market. "I think they're going to hit a brick wall," executive told us. Bundle also could hurt 3rd party game publishers, at least in short term, because bundled game at purchase made it doubtful some new hardware owners would pick up as much software early on. "It's bound to impact 3rd party software sales," executive predicted.

Free trial memberships for 2 weeks are being offered by Netflix to consumers who qualify to participate in one of 23 class-action suits against Blockbuster over contested late fee charges. Netflix announced offer shortly after Blockbuster agreed to settle suits. Online DVD rental store said it doesn't charge late fees. Free trial offer ends July 31.

DataPlay closed \$55 million financing round that Boulder, Colo.-based digital media company said brings total amount of capital it has raised since inception in Nov. 1998 to \$119 million. Company said new financing included "significant investments from leading consumer electronic device manufacturers, technology companies and retail distribution." Investors in latest round included Intel, Kodak, Olympus, music retailer Trans World Entertainment (TWE), musician David Crosby. DataPlay's digital media format enables over 11 hours of music downloads or 5 complete pre-recorded albums of CD-quality music, hundreds of high-resolution photos or dozens of games to fit on one 500 MB disc. Company has already signed deals with growing list of record labels who have agreed to make their releases available in DataPlay format, including BMG, EMI, Universal (TVD March 19 p20). DataPlay also has signed deals with manufacturers including Creative Labs, Eiger Labs, Samsung and Toshiba, who have agreed to make devices supporting format. DataPlay Mktg. Vp Raymond Uhlir told us in March that it was planning official launch of format in 4th quarter, when "hundreds of titles" would be available in format, as well as blank media and variety of CE devices. TWE CEO-Chmn. Robert Higgins called DataPlay digital media "ideal solution for today's technology-savvy consumer," adding: "By offering DataPlay products through our retail stores, we are continuing to satisfy our customers' demand for the most advanced entertainment choices." TWE operates stores under Camelot, Coconuts, FYE, Record Town and Strawberries names.

Vintage and recent TV on DVD is yet another burgeoning software category for digital video format. Proportion among library can't be quantified: DVD Entertainment Group doesn't classify current 10,000 Region 1 DVD titles by type, although it's estimated that long-form music videos account for 1,500-2,000 titles and "adult" or porno DVDs 1,000-1,200. But flow of repurposed TV specials and series on DVD increases monthly from studios' vaults. Latest includes *Dean Martin: That's Amore* (Capitol/EMI) culled from late-crooner's popular show that began its 20-year TV run in under NBC's color peacock in 1965. DVD includes 25 songs with video taken from 2" color master tapes. Early color TV footage is also where A&E has decided to kick off its DVD collection of *The Saint*, starring Roger Moore as debonair man-of-intrigue. Although series ran 118 episodes 1962-1968, A&E will begin collection with first color broadcasts from 1966-1967 series — 6 episodes each on 2 sets of 2 DVDs (\$39.95 per set). Strategy is similar to that A&E pursued with other popular British suspense films such as *The Avengers*, before delving into earlier B&W episodes that require more intensive AV digital remastering from archival film reels. In new-but-old category, A&E is offering 2-DVD set of recent TV documentary *Egypt: Beyond the Pyramids* (\$39.95) aired on The History Channel. Archaeological DVD has Web site(www.historychannel.com/egypt) where "Indiana Jones"-like videogame with interactive shockwave feedback can be played.

Pair of car CD players capable of playing MP3-encoded discs highlight new Jensen line demonstrated for reporters last week. Shipping this week is flagship MP5010K (\$279 list), followed by slightly less powerful MP3510 (\$229) in about 6 weeks. MP5010K is most powerful head unit in Jensen line (60w x 4). Both decks are CD-R and CD-RW compatible and are said to have features absent from competitive models selling for higher prices. For example, "last position memory" feature, when activated, returns to precise point on disc, even if it's in middle of song. Both also feature 12-character display that details artist, album and track information according to user's preferences.

GODFATHER HEADING TO DVD: Paramount Home Entertainment (PHE) announced last week that *The Godfather* films finally would be making their way to DVD. PHE said it would ship 5-disc *Godfather DVD Collection* worldwide in Oct., with U.S. among countries getting it first, Oct. 9.

DVD package will include all 3 *Godfather* films and separate 3-hour bonus disc with special features. Latter includes making-of documentaries, storyboards from *The Godfather Part II* and *III*, "The Corleone Family Tree" cast and character biographies, photo galleries, theatrical trailers. *The Godfather* and *The Godfather Part III* each takes up one disc, while *The Godfather Part II* is on discs 2 and 3. All 4 discs include audio commentary by director Francis Coppola.

Announcement was made last week in elaborate outdoor news conference in Park Slope, Brooklyn, where street was closed off to public and attendees were treated to Italian-style street fair. Attending were Coppola and PHE executives, as well as Kim Aubry, technical dir. and engineering-technology vp of Coppola's American Zoetrope. PHE Worldwide Pres. Eric Doctorow said Aubry, Coppola and Zoetrope "have been involved in all aspects of bringing these films to DVD" and "even authored and compressed the films digitally at their state-of-the-art facility in San Francisco."

Explaining why it took so long for *Godfather* movies to be released on DVD, Doctorow said: "Since we began releasing our movies on DVD in late 1998 the question that everyone has asked us from the beginning was 'When are you going to bring *The Godfather* movies out?' Well, just like a bottle of Francis's wine, which gets better with age, we feel that way about *The Godfather* movies. We didn't want to release them on DVD until we believed that the DVD market had matured enough at both the retail level and the consumer level to properly support what these extraordinary films required."

Coppola said later he "was originally and remains a tremendous fan of the DVD format," saying: "I've really upped my consumption of movies [since advent of DVD], so I'm obviously happy now that *The Godfather* has joined a lot of other pictures." Despite his fondness for DVD format, he said: "It was true that in the early days of the DVD they didn't quite have [authoring process] down." On "some of the early DVDs" that were released, he said, "the techniques weren't mastered yet." But he added: "We're looking at these films today almost in an optimum of what is possible."

Despite near-simultaneous release in major video markets worldwide, Regional Coding will be implemented for *The Godfather* discs in each region where sold, PHE spokesman told us. Given closeness of DVD release dates and option to offer "Region All" discs usable in any player, we asked studio why it would even bother to apply Regional Codes. PHE spokesman said it was because "we support regional coding, and all our titles fully support regional coding," including catalog titles that don't jeopardize theatrical windows in overseas markets. "We believe that a fair price and simultaneous release will go a long way toward encouraging people to buy legally," spokesman said.

Collection will sell for \$74.95 in U.S., presumably higher in other markets where value-added tax applies. Discs also carry Macrovision copy protection, PHE said.

PHE Exec. Sales & Mktg. Vp Meagan Burrows said "Paramount Home Entertainment and Zoetrope have been working

on this DVD collection since last October," and company believed it had "the potential for success based on the unbridled growth of the DVD market." She said: "The timing of *The Godfather DVD Collection* coincides perfectly with our industry's exciting year ahead in regard to the consumer's continued appetite to own DVD players. According to the Consumer Electronics Association, DVD installed households will number 20 million this October and 23 million by year's end. We are proud to launch our largest marketing campaign ever for a DVD title during this incredible year."

Burrows said release would be backed by major marketing campaign designed to make sure there was as much universal awareness of DVD set as there was of *Godfather* films themselves. There will be "2 waves of marketing and ad support," she said — "a month-long street date campaign and a holiday campaign." She said "both are designed to drive consumers into retail throughout the 4th quarter." Street date campaign will include national TV, spot TV, print, out-of-home ads, extensive point-of-purchase material. Awareness generated by ad campaign, she said, "equates to 95% of all United States households seeing our *Godfather DVD Collection* message 10 times." Burrows said: "At the holiday we'll come back with a national print campaign that stresses the gift-giving message and during the Christmas season when DVD penetration will soar, *The Godfather DVD Collection* will be the perfect gift."

Noting that DVD installed base was on rise throughout Europe and Japan, PHE International Pres. Philip Jackson said: "Like the U.S.A., the timing of international release is just right, with many markets experiencing DVD hardware growth rates far greater than anyone's prediction." He said: "By the end of this year it is expected that the U.K. will be at 12.5% penetration of TV households and Germany and France around 6%. But Japan will be at a huge 29% penetration... All of this presents us with the opportunity to make this release our biggest DVD campaign ever, and the fact that this will be a simultaneous worldwide release means that our retail customers will benefit from... the huge awareness created from the U.S.A. campaign."

Steep DVD price cuts are coming for catalog titles from Columbia TriStar Home Entertainment vassal of Sony and Sony Pictures Entertainment. Hollywood-based DVD marketer will try to juice usually slow Labor Day Weekend sales with \$14.95 come-ons for 20 catalog titles, including hit movies *Five Easy Pieces* and *sex, lies and videotape*. Columbia also will reprise 15 top-selling DVDs to \$19.95, including *Madeline*, *The Fifth Element*, *Tommy*, *Universal Soldier: The Return*. Down-pricing trend in DVD now has become evident — even predictable down to slow or hot holiday promotions, as with VHS sellthrough titles. To date, Warner Home Video has led charge worldwide in dropping DVD software stickers to lure mass market, what with DVD player prices now below \$100 in U.S. and approaching equivalent threshold in Europe and elsewhere. Sony's Columbia also has been price-aggressive but on selective basis, as has MGM. This is to chagrin of other major Hollywood studios, which have said they still believe DVD is new market mostly populated by first-adopters who will pay \$30-\$35 for disc. Meanwhile, latest industry statistics show 16 million installed base for DVD players in U.S., with shipments to retailers nearly doubling each month over previous year. Europe, too, has shown marked increase over last year in DVD player penetration, although software consumption remains roiled owing to Regional Coding issue that last week became focus of antitrust investigation there.

SONICBLUE IN TALKS WITH LOEWE: SonicBlue is negotiating to extend agreement with German TV maker Loewe as part of planned purchase of Sensory Science (SS), Pres. Kenneth Potashner told financial analysts in conference call

SonicBlue expects to close this month on purchase of SS, which signed joint development agreement with Loewe in late 1990s and since has introduced line of 27-36" direct-view sets capable of displaying 480p picture. Potashner made comments as SonicBlue took \$120 million charge to slash work force 30% and cover write-offs for raw materials inventory and investments in Internet companies.

"We're negotiating with Loewe regarding the next stages of the agreement and it's a work in progress," Potashner said. Agreement expires this year. Loewe-brand sets have had "strong product benefit" and SS's agreement with company has been "positive," he told analysts.

In other product categories, SonicBlue is likely to keep SS's DVD player/VCR product. But dual-deck VCRs, which were flagship product for SS in its Go-Video heyday, will be "less critical to us over time," Potashner said. Dual-deck VCRs, which have been sold under RCA brand in addition to Go-Video, have suffered amid collapse of VCR pricing that has seen bulk of market move to under \$100. SS's line of RaveMP digital audio players will be phased out to focus on SonicBlue's Rio products, Potashner said.

While SonicBlue is targeting return to breakeven by early 2002 and 50% annual revenue growth in next several years, its projections for SS growth are more modest. Rio digital audio players are forecast to achieve annual revenue growth of 35%, while SS, which competes in "more mature [CE] space," probably will grow at 5% annual rate, CFO John Todd said. In short term, SS is expected to account for half of SonicBlue's annual revenue, with Rio providing rest. ReplayTV, which SonicBlue also is acquiring, ultimately could grow to become 10% of business based on licensing of its personal video recorder (PVR) technology, Todd said. SonicBlue's Frontpath group, which is marketing Internet appliances, also will account for increasing share of revenue. It recently installed ProGear Web pad appliance at restaurant in Mandalay Bay hotel in Las Vegas, Potashner said. Likely to be smaller part of SonicBlue's business will be modems, which company inherited in buying Diamond Multimedia in 1999.

As part of restructuring, Todd said SonicBlue would "remove all the waste in the supply chain," reference mainly to unsold inventories of Rio digital audio players. To hasten that process, he said company would revamp return policies for Rio products. Actions are expected to boost gross margins to 20-25% by 2002 from current negative range, Todd said.

SonicBlue said it would use derivatives to raise tax-free funds from half of \$461 million investment in Taiwanese chip maker United Microelectronics (UMC). SonicBlue also expected to receive \$50 million dividend on investment in July. Company, which acquired stake in UMC in 1995, will use money for operating cash flow and "growth needs," Todd said.

MP3Pro, next-generation music compression algorithm developed by Fraunhofer Institute and RCA parent Thomson, is being downloaded for demonstration on www.rca.com and www.thomson-multimedia.com.

DVD has sparked renaissance for long-form music video that sputtered but never took off on videotape. Music video category accounts for 15%-20% of 10,000 titles that DVD Entertainment Group says are now available in U.S. Newfound success of genre probably is attributable to improved digital sound on DVD, breadth of genres that cuts across all musical tastes, format's ability to let viewers access different camera angles of video, for instance, individual performers. Compared with VHS, where new releases fizzled out, DVD music video titles continue to proliferate monthly, with BMG and Pioneer labels being most promotional among major contributors. Upcoming title from latter, *Nine Hundred Nights*, documents rise and fall of late rocker Janis Joplin of band Big Brother and the Holding Co., legendary performers from Haight-Ashbury section of San Francisco during psychedelic 1960s. It makes debut June 26 at \$24.98. BMG is releasing summer slate of music videos that's eclectic in genre. Available this week are rock titles *Deep Purple: Come Hell or High Water*, *Foghat: Two Centuries of Boogie* and *Rory Gallagher: Irish Tour*. In ethnic-music genre, Irish-born classical flautist James Galway teams up with Ireland's premiere traditional-Celtic troupe in *James Galway and The Chieftains in Ireland*. Celtic heritage is evidenced also in *Gather at the River: A Bluegrass Celebration* featuring various artists live at annual hoe-down in Owensboro, Ky. BMG slate rounds out July 2 with release of hard rockers *Joan Jett and the Blackhearts: Live*. BMG discs range from \$15 to \$17.

Antipiracy investigators in Britain said they had uncovered first pirate copies of Disney movie *Pearl Harbor*. Counterfeits on Video CD and VHS cassette arrived in U.K. from Southeast Asia just 12 hours after movie opened in British theaters, Federation Against Copyright Theft (FACT) said. Group said pirated copies were being sold on Internet and at public markets, where FACT made its seizures. Other recent hit movie making quick appearance on illicit Video CD and tapes is *Shrek*, FACT said. Elsewhere in Britain, authorities seized Region 1 N. America DVDs from retailers at Manchester movie fair who had applied false U.K. film rating stickers in attempt to avoid charge of selling movies without proper classification by censors, FACT said. Meanwhile, in Scotland, FACT was investigating illegal rental and sale of counterfeit tapes by pirates operating as ice cream vendors in trucks.

Extradition order sending longtime CE executive Gaston Bastiaens to face insider trading charges in Belgium was signed Thurs. in Mass., spokeswoman for D.A.'s office in Boston said. Bastiaens, age 54, is being held without bail pending transfer to Belgian authorities Tues. Former CEO of Lernout & Hauspie (L&H) — also ex-Philips and Apple Computer — is charged with insider trading, stock market manipulation and cooking books at bankrupt speech-to-text company. He was arrested at Mass. home late last month by U.S. marshals acting on arrest warrant from Belgium, where L&H is based. Bastiaens had filed for personal bankruptcy last year. Belgian case entails complex series of L&H stock transfers, as we have reported previously. Boston D.A.'s spokeswoman said Bastiaens agreed to extradition order.

Handelman-owned video label Anchor Bay Entertainment U.K., branch of U.S.-based video independent of same name, said it would expand its film library with acquisition of U.K.'s Digital Entertainment and Equator Group, 2 other independents. Handelman's labels offer diverse assortment of titles, with particular strength in children's and suspense/horror genres.

FRONT PROJECTORS ENTER HOME: After years of toiling on fringes of retail, front projectors appear poised to enter mainstream as business products suppliers InFocus, Plus and others ready CE strategies.

InFocus is expected to have general manager for new consumer group in place by mid-July, while Plus has set up home entertainment group and hired ex-Warner Bros. Exec. Masahiro Nonaka to head up effort. Others like Sony and Toshiba have already shown hands with plans for front projectors containing widescreen LCD panels.

Push into retail by projector makers coincides inventory glut in business segment that has lowered street prices for some models with 800x600 resolution and 1,000 lumens to \$2,000. Prices fell 10% in first quarter and manufacturers from InFocus and Epson to Sharp and Toshiba have slashed prices, industry officials said. Toshiba dropped prices \$300-\$1,000 across line effective June 1.

Most manufacturers concede that interest in home theater market and major thrust into retail also represent opportunity to clear out inventory that includes 70 brands and 13 manufacturers. Epson has set up in-store kiosks at select CompUSA outlets to display its model 50c SVGA projector (\$2,200). It also will sell product through Staples and Office Depot using mock up of unit with finished version shipped to customer, Epson Senior Product Mgr. Mark Pickard said.

Sony also is said to be seeking space at CompUSA, while InFocus has marketed some projectors through Costco's business centers. "They [retailers] view it as a great revenue opportunity and it gets me more eyeballs because most people who come into CompUSA, Office Depot and Staples don't know that Epson is in the projector business," said Pickard, whose company already sells digital cameras and printers to chains. New projector push also appears to dovetail with CompUSA's smaller, 5,000-sq.-ft. store format that opened in San Diego last week.

But Epson has no immediate plans to enter home theater business and real test will come when InFocus, Plus and others attempts to establish brand in CE stores. InFocus has trimmed planned product offering to single DLP-based model with 1,024x768 resolution and networking capability and postponed planned start to Sept. from July, Vp Candace Peterson said. "We just decided to combine the networking feature rather than have 2 separate models," she said.

Plus unveiled 4.4-lb. front projector at International Communications Industries Assn. (Infocomm) show in Las Vegas last week that specifically will target home theater market with sub-\$3,000 price. Device has single 0.67" DLP chip with 848x600 resolution, 450 lumens, 600:1 contrast. Fan noise has been lowered to 33 dB and unit has 130 w lamp.

As manufacturers ready retail plans, they also dealing with pressing issue of inventory and falling prices that are combining to consolidate market. Davis, which was among early DLP backers, is said to have shut down N. American div.

Large chunk of inventory appears concentrated in sub-5-lb. projectors, many of which had brightness levels below 1,000 lumens, which has become de facto standard for business market. "Those aren't selling as well as everyone thought they would be-

cause people don't think they're going to get enough brightness because of the size," said Gerald Ganguzza, LCD products mktg. dir. at Sharp, which sold 3-lb. model and recently switched to Optoma from Plus as supplier. "They really are a niche market and the market is narrower than everyone believed."

Nevertheless, Plus and Acer led charge to 2-lb. models, with former expected to have model by early fall with 1,024x768 resolution, 700 lumens, 400:1 contrast ratio, price not set. InFocus and possibly OEM customers Toshiba and IBM, are expected to follow suit in Nov. InFocus and others are said to be setting sights sub-2-lb. unit for 2002. "The weight alone won't sell the product, it's what you add to it," said Peterson, whose company is expected to market lightweight projectors with networking capability and wireless functions.

Despite advent of single panel, lightweight projectors Sony and Epson are continuing use 3-panel 0.7" LCD approach. "We are focused on 3-panel technology," said Sony Projector Mktg. Mgr. Jonathan Holmes, whose lightweight projectors are in 5-lb. range. "Three panels in that size gives us linear color which is very important in the reproduction of video."

But Sony also is DLP licensee for large venue models, something Epson and Sanyo have yet to do. "We don't get any broad pressure" from dealers to enter DLP market, Pickard said. "But it is reasonable to believe that at some point in time we will address that." Epson is focused now on making projectors "more portable and we don't see the urgency of the issue," he said.

Sanyo has shown front projectors with widescreen panels that may be sold in home theater market and has made push to introduce large venue models with increased brightness. Sanyo unveiled front LCD projector with 1,600x1,200 resolution, 800:1 contrast, 7,700 lumens, \$49,995 price.

Aside from size, brightness and price issues, projector manufacturers appear to be opting for digital visual interface (DVI) connection over IEEE-1394, largely out of deference to PC market. While notebook PCs, which most projectors are connected to, must add DVI, most manufacturers are packaging accessory to enable connection. In some cases, vendors have added DVI and IEEE-1394 connection. Sanyo's high-end projector, which carries \$49,000 price, has 1394 and dual DVI interfaces.

"Until the PC manufacturers feel that it [IEEE-1394] is important, there is no need for us to go in that direction," Pickard said.

Infocomm's traditional shoot-out that features projectors, plasma panels and other products display side-by-side for comparison, had several fewer entrants this year. Sony didn't participate last year and InFocus, Epson and NEC opted out this year. "When you're in the shoot-out you're comparing products to products, but you're not looking at a company's service," Projection Systems Product Line Mgr. Daniel Zubic said. "And in the darkness [of shoot-out], 800 lumens looks as good as 800 lumens..."

Website www.divx.com has been set up by DivXNetworks to disseminate news and information about DivX algorithm that creates efficient, high-quality compression for motion video. "MP3 of video" is MPEG-4 compliant codec for uploading video on Internet.

HEAD-MOUNT DISPLAYS RE-EMERGE: Head-mounted displays (HMDs), which have struggled for years to gain retail distribution, are re-emerging with promises of higher resolutions and lower prices.

Driving improvements in resolution and lower costs are arrival of SVGA-level microdisplays that eventually could enable prices of consumer head-mounted displays to fall to \$500-\$600 range from current \$1,000. Yet even as HMDs promise lower retail tickets, executives we polled conceded that for category to survive it must be packaged with other products rather than sold as standalone device. "Everybody had always said that if you make [HMDs] high resolution and low cost you could take off with volume," I-O Display Systems Pres. Jeffrey Ferguson said. His company was formed from remnants of HMD maker Virtual I/O, which burned through \$60 million in funding in mid-1990s before collapsing. "That's part of it, but it has to be high resolution, low cost and integrated with other products. This is not a completed product by itself. It's a monitor and you need something to connect to it with a port and power."

While Sony and Olympus have introduced high-priced standalone HMDs, smaller manufacturers are scrambling to sign packaging agreements with marketers of notebook PCs and portable DVD players. For example, I/O Display, which is marketing product called i-Glasses based on Zight's 0.47" microdisplay, is near agreement with one notebook manufacturer, Ferguson said, declining to identify potential partner. I-Glasses currently are \$999, price point that he conceded was "too high" and might be reduced later this summer. "That's one of those prices that says that everyone gets rich but the consumer and that's the price where we can't find enough consumer applications," Ferguson said at recent Society for Information Displays conference in San Jose.

Among suppliers that apparently have achieved lower pricing is inViso, which plans to ship its eShades model by 4th quarter at \$500-\$600. Company postponed delivery of product from midyear (TVD Dec 25 p18) as it sought to better integrate outboard electronics needed to drive HMD, Senior Engineer Corey Smith said. EShades will "transition" to factories in Asia in summer with production expected to reach "several thousand per month" by year-end, Sales & Mktg. Vp Steve Timmerman said. Product will be "order-driven" in 2002, he said. Other inViso microdisplay-based device to emerge — eCase handheld designed for viewing Web pages — has been shelved and remains in prototype, said Engineering Sales Dir. Michael Jacobs.

InViso product uses 0.47" microdisplay from investor Three-Five Systems that has 800x600 resolution, 100 lumens, 50:1 contrast. "We're really committed to ergonomics" being a key part of making any of this work," Timmerman said. He said ergonomics were "especially" important in headset design because users needed to "see the image quickly and wear it comfortably for an extended period of time."

HMD designers also are attempting to move much of required electronics into product to eliminate external boxes that currently are needed to drive them, supplier executives said. "We eventually want all the electronics onboard because that makes it even more of a portable product," Ferguson said. His company's i-Glasses has VGA port, which he used to demonstrate ability to connect product to Handspring handheld PC.

TWEETER UPBEAT ON OUTPOST SALE: Proposed PC Connection acquisition of Cyberian Outpost (CO) (TVD June 4 p12) was being viewed as positive development by Tweeter executives. They also said sale wouldn't change their online joint venture relationship with CO.

Speaking at Wall St. Analyst Forum in N.Y.C., Tweeter CEO Joseph McGuire said: "We know the folks at PC Connection. They were actually one of the people we talked to when we were investigating an Internet strategy. The fact that they're a financially viable partner with over a billion [dollars] in revenue behind Outpost we think is great... and we couldn't be happier about it."

McGuire and Tweeter CEO-Pres. Jeffrey Stone also said they were pleased with way CE joint venture with CO was going and they had no desire to go own way in e-commerce sales arena.

McGuire said: "One of the reasons I'm glad that [CO is] going to survive is because they are really, really good at what they do. That ability to run that Web site, fulfill the next day and so forth is very powerful and really it would cost us tens of millions of dollars to have to go try to duplicate that quickly... We would just burn through millions and millions of dollars to do that and I'd much rather put it into stores."

Stone said Tweeter didn't have sort of large marketing budget that competitors such as Circuit City (CC) and Best Buy (BB) had for independent Web site to make economic sense. He said CC and BB had "hundreds of millions of dollars in a marketing budget so they can go talk to the American public and drive them into their site. We don't have that type of clout. Cyberian Outpost has hundreds of thousands of customers and tons of eyeballs going to their site every day. The reality is that if we stopped tomorrow and started going on our own site, our [online] business would be reduced by probably 60 or 70% because the traffic that is coming into the Outpost site and flipping into the Tweeter site once they visit are people who are buying the product from us."

McGuire agreed, saying that "60% of the sales that happen on the Net still [come from] states where we have no store."

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Columbia House (CH) may be on auction block. Reports last week said "sources familiar with the situation" indicated AOL Time Warner and Sony were in talks about selling off their joint direct music/video club CH to Bertelsmann. AOL-Warner and Sony spokespeople couldn't be reached for comment and Bertelsmann spokeswoman declined comment. Reuters said negotiations apparently were latest in series of attempts by AOL-Warner and Sony to sell CH off to Bertelsmann, owner of BMG Direct — CH's main competitor. One scenario being discussed would call for Bertelsmann to pay cash for 80% of CH and either AOL-Warner or Sony to retain rest of company, reports said.

THIS WEEK'S YEN RATE

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

800.COM GETS MORE FUNDING: Online CE retailer 800.com last week announced \$35 million infusion of financing. It said \$20 million of it came via close of Series E round of venture capital funding, with rest as \$15 million line of credit.

Latest round of financing boosted total equity funding to \$121 million, said e-tailer based in Portland, Ore.

New funding arrived only one month after company acquired assets of competitor Roxy.com/Everything Wireless in deal that could significantly boost 800.com's annual sales of \$48 million (TVD May 14 p15). 800.com said last week acquisition and additional funding were "fueling 800.com's leadership in direct-to-consumer electronics retail as well as hastening its path to profitability."

E-tailer said it would use new financing as working capital as it forged ahead with plans to broaden its penetration into additional CE categories, explore new channels of distribution, expand its direct marketing efforts both online and off via catalogs.

800.com Mds. Vp Frank Sadowski told us last week funding represented "a vote of confidence in the [company's] business model." Significant, he said, was that new funding came mostly from returning investors.

Backing up Sadowski's take on funding was Gerry Langeler of lead investor OVP Venture Partners, who said additional financing demonstrated "full appreciation for 800.com's business model." He said: "800.com has the brands, the product expertise, the selection, the management team and the infrastructure of a major retail enterprise. In today's challenging market this is a serious win — 800.com's continued growth and imminent profitability are assured." Fleet Retail Finance (FRP) Pres. Ward Mooney echoed Langeler's assessment of company. FRP is new financial partner for 800.com and provided e-tailer with \$15 million line of credit.

Although new funding is likely to make it easier for 800.com to find profitability, Sadowski told us: "The funding in and of itself does not affect our timetable for a public offering." That, he said, will be determined by market, and it still wouldn't make sense for dot-com to go forward with IPO in current market conditions.

800.com filed for IPO in March last year (TVD March 27/00 p20) but later asked SEC to withdraw it (TVD July 3/00 p21). Pres.-CEO Greg Drew said 800.com was putting off going public temporarily because it believed "terms obtainable in the marketplace at this time are not sufficiently attractive to proceed with the sale of the shares."

Sadowski said last week company believed it could reach operating profitability "as early as" end of current fiscal year, March 31.

THX said theaters using its sound system increased 15% worldwide last year. Greatest growth came in Europe, Japan, Mexico. THX said it expected another 120 movie houses to receive certification by year-end.

Consumer Electronics Personals

Joseph Pagano advanced to Best Buy senior vp-enterprise entertainment, new post... **Masahiro Nonaka**, ex-Warner Bros., named Plus Corp. deputy dir.-home entertainment mktg... **Greg Suarez**, ex-Electronics Arts, joins Acclaim Entertainment as vp-business development... **Michael Mitchell** promoted to vp-gen. mgr., Sony Disc Mfg. in Terre Haute, succeeding **Mike Moran**, who is retiring... Promotions at Maxell: **Mike Westermeier**, dir.-consumer product sales, to vp-retail sales; **Rich Gadomski**, national mktg. mgr.-data storage, to mktg dir.-consumer and data storage products; (Tom Grieco, information systems dir.-N. and S. America, to vp-systems operations... **Gregory Rizzo**, ex-Audio Plus Services, joins Vidikron as vp-sales & mktg... **Werner Heid**, resigns as InFocus Systems exec. vp-worldwide sales, plans unknown... **Nils Welin**, ex-Aditi Technologies, named Candescent Technologies mktg. mgr... **Scott McGregor**, Philips Semiconductors vp-emerging businesses, promoted to pres.-CEO... **Lewis Chew** appointed National Semiconductor CFO, replacing **Donald MacLeod**, advanced to COO... Geoworks Pres.-COO **Steve Baker** to resign in Aug., CEO **David Grannan** to assume pres. responsibilities; **Mark Thomas**, ex-Inktomi, joins Geoworks as vp-business development... **Nina Petty**, senior dir.-corporate real estate, RadioShack, promoted to vp.

Obituary

Neil Vander Dussen, 69, former pres.-COO of Sony Corp. of America, died June 9 of brain aneurysm. Before holding various positions at Sony 1981-1992, Vander Dussen worked for RCA. Survivors include wife, 2 daughters, 4 grandchildren.

Amazon.com opened online music, video and DVD stores in Japan last week at www.amazon.co.jp selling Japanese and imported merchandise. Company had unveiled site in Nov., but was selling only books before last week. Although Japanese site doesn't offer wide variety of categories that U.S. site provides, company said Japanese version did have many of same features, including advanced search capability and customer reviews. Commenting on addition of new categories, Amazon Senior Vp-International Gen. Mgr. **Diego Piacentini** said: "The continuing addition of new products to all 4 of our international sites is an important part of Amazon.com's drive to profitability." Company said it opened electronics store in May at its U.K. site and software/videogames store in April in France. Amazon also said its Amazon.de site will add electronics and "further initiatives will be launched at all 4 international sites in the coming year." It said that in last year, electronics had grown to become Amazon's 2nd largest business in U.S., behind books (TVD Jan 15 p19).

High-definition DVD playback and recording is coming closer to realization with announcement by Nichia last week that it would begin producing diodes for necessary short-wavelength violet lasers next spring. Company said it would make laser that could generate 30 mw — strong enough to write data compared with 5 mw read-only laser diodes it has made since 1999. Compared with red lasers, shorter wavelength of violet ones would increase DVD capacity fivefold. Press reports from Japan said Nichia would produce 250,000 violet diodes monthly beginning in April. Company didn't announce price of first units, but said it expected cost to be ¥5,000 (\$42) each in 2003. Philips, Pioneer and Sony have been cooperating on development of next-generation DVD hardware.



TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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SUMMARY-INDEX OF WEEK'S NEWS

Broadcast - Cable

CAMPAIGN REFORM MOVING: Bill with limits on TV ads to be debated in July. Congressional hearings heated. (P. 1)

CONTENT RULES CONSIDERED: House to consider version of Lieberman bill. Groups call for new ratings system. (P. 2)

EEO RULES REJECTED AGAIN by divided Appeals Court. Powell to seek new rules. Decision could be appealed. (P. 3)

COURT UPHOLDS SHVIA carriage requirement for DBS. Appeal expected. Broadcasters claim victory. (P. 4)

NASA ATTACKS NETWORKS again in FCC filing, seeking quick decision on affiliate issues. (P. 5)

DEREGULATION 'NONSENSE' — HOLLINGS: Bells blasted for seeking broadband opportunities. Senate action said to be unlikely. (P. 5)

ELECTRONIC FILING HITCHES remain, lawyers and engineers say. FCC says any problems are minor. (P. 6)

CAMPAIGN REFORM BILL MOVING, DESPITE CONTROVERSY: Campaign finance reform bill with limits on TV ads will be debated by full House in week after July 4 recess, House Speaker Hastert (R-Ill.) said. Announcement came in hearing on reform by House Administration Committee, whose members disagree on best solution but are committed to marking up legislation as early as this week. Committee Chmn. Ney (R-Ohio) said House Speaker Hastert (R-Ill.) had made it clear that he wanted to bring campaign finance debate to floor within one week after Congress returns from recess.

However, provision in campaign finance reform bill on political ads "not only would fail to reduce [candidate] spending, but also would unfairly burden broadcasters, cable operators and satellite providers," House Telecom Subcommittee Chmn. Upton (R-Mich.) said in separate hearing. Upton led chorus of subcommittee members who agreed on need for campaign finance reform, but questioned effectiveness of amendment to bill (S-27) by Sen. Torricelli (D-N.J.) that Senate passed earlier this year. Amendment to bill by Sens. McCain (R-Ariz.) and Feingold (D-Wis.) would expand use of lowest unit charge (LUC) — discount rate typically applied to bulk purchasers of nonpreemptible air time — from over-air broadcasters to satellite and cable companies in months before primaries and elections.

Debate on reform was heated in 2 separate hearings last week. Ranking Democrat Hoyer (Md.) agreed with panelists who advocated disclosure of sponsors of campaign ads, but questioned validity of proposals to single out interest groups, such as nonprofits, that supported issue ads. Ney reiterated his concern that provisions of S-27 might not withstand constitutionality test. Rep. Hutchison (R-Ark.) said he had "serious concerns" with amendment to McCain-Feingold by Torricelli that would restrict issue ads in months before primaries and general elections.

Committee member Linder (R-Ga.), who also was panelist at hearing, warned of "media elite" pushing for current campaign finance bills, who would benefit from such legislation. "By reducing the number of opportunities for voters to

Consumer Electronics

DVD PRESALE TESTING NOW REQUIRED in effort to keep substandard or incompatible players and discs from market. (P. 11)

PHILIPS CONTINUES BRANDING PUSH with sponsorships, collaborations. Plans 'content delivery' services too. (P. 12)

PIONEER BETTING ON PLASMA and DVD improvements. Says it will exploit technical edge in digital products while dropping 'declining categories.' (P. 13)

CIRCUIT RETHINKS STRATEGY AGAIN as it embarks on new store concept in Washington area. CE stores post \$9.6 million first-quarter loss. (P. 15)

BEST BUY TO SELL BONDS to replenish cash used for Musicland and Magnolia acquisitions. It says profit decline beat Wall St. expectations. (P. 16)

PHILIPS TO SUPPLY XBOX DVD drives. But Thomson remains 'preferred' supplier for upcoming game system. (P. 17)

hear about candidates through paid television and radio ads, McCain-Feingold would significantly increase the influence of news organizations," Linder said. "The news networks and media editorial boards — themselves subject to the pressures of larger corporate parents who own them — would then be free to communicate their biases to the Americans public. Candidates would have little opportunity to respond to criticisms levied against them by media elites."

Provision in S-27 that attempts to restrict broadcast of "sham issue ads" wouldn't impede ability of special interest groups to skirt election laws, but rather would drive those groups to rely on e-mail and other electronic media to disseminate political messages, Rep. Wynn (D-Md.) said. He said if bill became law, and issue ad prohibition was upheld by courts, voters ultimately would be deprived of information at critical phase of electoral process. Rep. Terry (R-N.D.) said that in opinion of Supreme Court, "issue ads are a form of political expression that must be left untouched by Congress."

Upton said members were well aware of political ad rules and cost of running ads, "but we cannot overlook the fact that advertising is the sole source of income upon which broadcasters rely to pay their bills so they can serve their communities." Broadcast industry source later said: "It was clear from today's hearing that a bipartisan group of House members has concluded that the Torricelli amendment accomplishes none of the goals set forth by its Senate sponsor."

Ranking Democrat Markey (D-Mass.) said provisions of Torricelli amendment as they applied to broadcasters could be beneficial for democratic process in some form, but agreed with others who opposed extending political ad regulations to cable and satellite service providers. He has supported legislation in House by Reps. Shays (R-Conn.) and Meehan (D-Mass.), but said its scope was limited to broadcasters: "I'm not sure if it's necessary to include satellite or cable advertising in this regime," since those ads aren't nearly as expensive as broadcast ads.

Rainbow Media CEO Josh Sapan testified: "While many senators argued that some broadcasters increase advertising rates during periods when air time for political candidates is critical, the cost for advertising on cable was not cited as a rationale for amending the current law. In fact, there is nothing in the Senate record to suggest that cable systems have charged excessive rates to political candidates. Cable systems, like radio broadcasters, have long been viewed as a lower cost alternative for campaign and other advertisers."

Inclusion of cable industry in campaign finance bill was afterthought and "it's not surprising" that upon full review subcommittee members questioned validity of proposed rule extension, NCTA spokesman said later. "Now that they've had a chance to review it, they've seen that the cable industry is a little bit different when it comes to these issues... It's nice to hear that [politicians] see the value of cable and can work with us as is."

Alliance for Better Campaigns Exec. Dir. Paul Taylor, sole proponent of Torricelli measure on panel, said amendment would close loopholes in law by guaranteeing that candidates wouldn't be preempted: "Last year, the broadcasters used the public's airwaves to gouge candidates and profiteer on democracy. This year, they're spending some of their windfall profits from the 2000 campaign to try to kill substantive campaign finance reform. All this from an industry that has been granted tens of billions of dollars worth of scarce public airwaves in return for a pledge to serve the public interest."

Representing NAB, Belo Pres. Jack Sander said amendment would have negative impact on commercial advertisers and would increase, rather than decrease, intensity of federal political ads: "Political discourse also suffers. Stations have a limited number of spots that can be sold. With an increase in the amount of federal candidate advertising who have a right of access, state and local candidates will find it difficult to advertise on television. And, if experience is any guide, most of the increased advertising will be negative attack ads." Rep. Stearns (R-Fla.) said bill would adhere to "law of unintended consequences" since increase in federal candidate ad requests would "force" stations to restrict ad sales to state and local candidates.

HOUSE TO CONSIDER LIMITS ON ADULT ENTERTAINMENT: Bipartisan measure was introduced in House by Reps. Israel (D-N.Y.) and Osborne (R-Neb.) as companion to Senate bill (S-792), proposed Media Marketing Accountability Act (TVD April 30 p5), that would give FTC authority over promotion and advertising of adult-themed entertainment. House bill was praised by Senate sponsors of identical measure, Sens. Lieberman (D-Conn.) and Kohl (D-Wis.). They wrote "Dear Colleague" letter seeking support of other senators, as well as letter to President Bush for same purpose. Said Lieberman: "We are brought together by a common concern about the cumulative impact of all the sex, violence and vulgarity our children are exposed to in today's 500-channel universe."

In related effort, medical and child advocacy groups, in letter to members of Senate and House, called for "a standard universal rating system" for TV programming. Letter, endorsed by American Medical Assn. June 20 and signed by

American Psychological Assn. and various academics and groups, also said there needed to be standardization between movie and TV ratings and of what ratings meant: "The fact that the ratings are decided by different and unknown criteria by the different networks compounds parents' confusion." Letter cited studies saying none of ratings systems consistently accurately identified sensitive material in programming, and parents generally would assign stricter ratings. Letter also suggested creating independent ratings oversight committee including parents, academics and child advocates, as well as industry, to replace TV industry oversight committee that hasn't met regularly. Letter seeks congressional support.

MPAA Pres. Jack Valenti attacked Israel-Osborne bill as unconstitutional: "The bill is fatally flawed. It also violates the First Amendment in that it would grant a government agency regulatory authority over free expression... The end result of this bill would be less information for parents about entertainment and an intrusion on the Constitution." Valenti is chmn. of TV industry's monitoring board for its self-regulatory ratings.

Accountability Act is directed primarily toward promotion of adult-oriented movies, videos and music, but lawyers told us it also could be applied to TV ratings and programming rated for mature audiences. Israel had anticipated Valenti's reaction. "Some in industry will frame this as a First Amendment issue," he said, "but for them it isn't about protecting speech, it's about protecting their profits. Our Constitution... doesn't give anyone the right to target our children and undermine their parents in the search for higher profits."

Act would give FTC authority to prohibit companies from marketing adult entertainment "to targeted audiences of minors." Violators would be subject to cease-and-desist orders from FTC and to fines of up to \$11,000 per day for each specific violation. Introduction of House and Senate bills followed FTC report in April finding that movie and electronic game industries had "made some progress" in promotion and advertising of adult-themed material since agency's report last summer criticizing self-regulatory efforts.

EEO RULES REJECTED AGAIN: FCC Chmn. Powell said he was "disappointed" that full U.S. Appeals Court, D.C., refused to rehear case in which it rejected Commission's EEO rules. He said he would "recommend" to other commissioners that agency draft new EEO rules that would withstand constitutional scrutiny and not unduly burden industry. Minority Media & Telecom Council said it was reviewing decision and could appeal.

Court rejected bid for en banc review of decision by 3-judge panel striking down FCC's EEO rules (TVD Jan 22 p2), repeating its early decision that so-called Option B for broadcasters to comply with rules couldn't be severed from rest of agency's order. Commission had argued that rest of EEO rules, including Plan A, should be allowed to stand (TVD March 26 p4). Divided court said FCC itself said Plan B was added to give broadcasters added EEO flexibility, one of its 2 main goals in order: "Option B played an integral part in the Commission's evaluation of the rule as a whole; indeed... the Commission never once considered the implications of promulgating an EEO rule without Option B."

Court also rejected virtually without comment bid by National Organization for Women to at least leave rule intact for women. Dissent written by Judge David Tatel with Chief Judge Harry Edwards and Judge Judith Rogers said court "departed from the basic principles of judicial restraint" in rejecting EEO rules at all, based on speculation about how FCC would enforce rule and how broadcasters would react. Dissenters also disagreed that Option B triggered strict scrutiny and said when agency said it preferred that portion of order be severable, court generally agreed. Tatel said there's "no reason to believe" broadcasters would disadvantage nonminorities if new rules took effect.

Powell, in speech June 21 to FCBA, said "maximizing consumer welfare is the paramount goal of public policy," but often best way to do that is to let markets work. Powell also said, however, "deregulation for its own sake is not good policy" and

deregulation should only follow careful analysis. FCC "must acknowledge that consumers can be harmed" by market abuses, Powell said, and Commission is emphasizing consumer protection. Other key FCC roles, he said, include: (1) Managing expectations about new technologies. (2) Clarifying confusion in marketplace. (3) Resolving consumer complaints efficiently. (4) Accommodating special needs, such as those of disabled.

NCTA annual convention in Chicago last week drew smallest turnout in years, attracting even fewer people than cable show organizers had expected 6 weeks ago. NCTA spokesman said final attendance was 24,042, down more than 22% from 31,110 in New Orleans last year and nearly 20% from 29,510 in Chicago in 1999. Group officials blamed decline on industry consolidation, much tighter budgets for business travel and drop in number of exhibitors. They also blamed dot-bomb. Show drew 342 exhibitors taking total of 315,000 square feet of booth space, down 10% from 350,000 square feet in New Orleans. Despite unprecedeted drop-off in booths and attendance, NCTA Pres. Robert Sachs professed little concern and said 60 new tech companies exhibited at convention this year. "I think we had a pretty strong floor," he said. "I think it's an evolving and growing industry." NCTA officials said they planned to make next year's show in New Orleans more compelling, possibly by beefing up panel sessions and urging cable networks to demonstrate more programming and marketing initiatives to operators at their booths. But they stressed that they weren't worried that attendance had peaked. "No one's panicking," group spokesman said. "We've had huge growth the last 2 or 3 years."

AT&T said it planned to spin off Liberty Media Group as independent company Aug. 10. Under spinoff plan, each tracking share of current Liberty Media stock would be exchanged for share of new Liberty Media Corp. AT&T also reiterated that Liberty Media Chmn. John Malone, vocal critic of parent company, would step down from AT&T board once spinoff was completed.

COURT BACKS DBS CARRIAGE: Satellite Home Viewer Improvement Act (SHVIA) carriage requirements don't violate either First Amendment or Fifth Amendment, U.S. Dist. Judge Gerald Lee, Alexandria, Va., said in rejecting appeal by DBS interests. Lee upheld motion by govt. and broadcaster interests to dismiss appeal by Satellite Bcstg. & Communications Assn., DirecTV and EchoStar (TVD Sept 25 p1). SHVIA required DBS operator that carried any local TV station programming to carry all stations in that market.

"Of course we're disappointed that Judge Lee dismissed the case, but it's just the first inning of a 9-inning ballgame and we certainly think that we're going to prevail on that," Andrew Wright, gen. counsel and vp-govt. affairs, Satellite Bcstg. & Communications Assn., told us. However, NAB Pres. Edward Fritts said broadcasters were "pleased the court has vindicated the constitutionality" of SHVIA. He said decision represented "a victory for dish owners, who will be guaranteed access to the rich array of program options offered by local television stations."

SHVIA provisions are subject to intermediate scrutiny under First Amendment, Lee said, and they don't violate DBS operators' speech rights because: (1) They're not content based. (2) They are within govt. authority under Copyright Clause. (3) They further important govt. interests. (4) They are no more restrictive than necessary to meet govt. interests. Wright disagreed: "This is indeed a content-based decision because you're preferring one kind of speakers, which are nonbroadcast stations, to broadcast speakers." Spokesman for DirecTV asked: "Why should consumers be deprived of their local channels because we have to use our capacity for seldom-watched channels in larger markets?"

Lee also rejected DBS operators' claims that provisions would be "taking" of property forbidden by Fifth Amendment. He said there was no taking because DBS operators "may choose to accept or decline a free copyright license to retransmit local programs of any given market." Lee said SHVIA's free copyright license had "the potential to expand the value of satellite carriers' property" by providing local-into-local DBS service. Again, SBCA disagreed, Wright saying: "The government is requiring us to use our property in one way without compensating us."

DBS won't be able to expand local-into-local services beyond about 40 largest markets if industry loses appeal in 4th U.S. Appeals Court, Richmond, or in U.S. Supreme Court, Wright said: "They won't have to shut off markets they're already in, [but] it just limits expansion into new markets." DirecTV spokesman said: "We offer local channels with 41 markets. If we didn't have to comply with must-carry, we could offer local channels in more than 70 markets."

Satellite interests filed appeal last fall after concluding they had little chance of convincing Congress to change so-called "carry-one/carry-all" provision of SHVIA, they said then. DBS interests also said they believed they had stronger case than cable must-carry laws, which ultimately were upheld by U.S. Supreme Court, mainly because DBS isn't as dominant as cable. "We think our case is easily distinguished" from the Turner decision on cable must-carry, Wright said. Basis for that decision was "a bottleneck monopoly" by cable TV in multichannel market. "There's no way to argue that satellite is any kind of monopoly because we only have 15% of the market."

Impact of decision on other TV carriage issues was less clear, particularly since court wouldn't even necessarily handle any appeal of other must-carry rules. NAB Gen. Counsel Jack Goodman said of decision: "Once again the validity of the must-carry rules as a reasonable exercise of government authority has been upheld." He said decision meant another court had said carriage rules didn't infringe on cable or satellite First Amendment rights. Public broadcasters called court decision "significant" victory for PTV stations. Marilyn Mohrman-Gillis, APTS vp-policy and legal Affairs, said public broadcasters are "very gratified" that court had extended critical legal principle established by Supreme Court for cable carriage to carriage of local signals by DBS. APTS, CPB and PBS had filed as intervenors in case.

American Cable Assn. (ACA) praised court ruling too. ACA, which represents smaller cable operators, argued that if court had acted otherwise, it would have warped level playing field for cable and DBS. "To set up a double standard in the law between cable and DBS — particularly in smaller markets and rural areas — would have created a greatly tilted marketplace that would be contrary to the goal of fair competition among providers in a given marketplace," said ACA Pres. Matt Polka. "This decision evens the score and slams the door on the DBS industry's attempt to circumvent the rules they agreed to, including must-carry, in the local-into-local act."

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Specter of universal broadband Internet access is sending chills down spine of movie industry, MPAA Pres. Jack Valenti said at Center for Strategic & International Studies workshop on cyberfraud. Only 8-9% of American homes have broadband, he said, but it eventually will spread, allowing users who have broadband and compression software to download full-length films in 12-15 minutes. Online movie piracy is problem even now, Valenti said: By one estimate, 300,000-350,000 movies are being pulled off Internet illegally every day, figure predicted to swell to one million in near future. Valenti said MPAA antipiracy staffers were able to download *Gladiator* in watchable form after it had been in theaters for only one week. To counter expected onslaught of cyberpiracy, MPAA recently created Digital Strategies Dept., and was attempting to open dialog with manufacturers of software, computers, recording devices and other products about intraindustry copyright protection standards. Studios want ability to encrypt their movies and take advantage of whatever digital rights management and watermark technologies are available, Valenti said. That's easy to talk about, he said, but "goddamn difficult" to get done. MPAA members are pushing to develop services in which first-run films are placed online at same time in distribution sequence as they're dispatched to pay-per-view audiences, he said. However, he said, although studios hope to roll out the services by end of year, "we're not there yet."

Circuit City Stores continues to press FCC for rule changes promoting development of competitive digital cable set-top boxes with same capabilities as those offered by cable operators. In recent ex parte filing with Commission, Circuit City representatives said they made oral presentation to new Cable Bureau Chief Kenneth Ferree and aides William Johnson and Deborah Klein on need for regulatory help. Circuit City, RadioShack and Consumer Electronics Retailers Coalition are pushing for Commission to make MSOs stop selling proprietary set-tops earlier than existing deadline, provide greater support for use of OpenCable software standard in competitive boxes and extend their current set-top subsidies to cover competitive boxes.

NASA RENEWS NETWORK ATTACK: In what it termed "streamlined and targeted process" for FCC consideration of charges against Big 4 TV networks, Network Affiliated Stations Alliance (NASA) asked Commission to issue declaratory rulings in 3 areas where it said one or more of networks had "demanded affiliation terms" that were counter to Communications Act and FCC rules. NASA charged one or more of networks had "asserted excessive control" over affiliates in programming decisions, future use of digital spectrum and to "interfere with or manipulate" proposed sale of stations (CBS is specifically excluded from last charge).

NASA asked FCC for early action on 3 "disputed areas... that most impair affiliate independence and thus undermine localism, diversity and local licensee control over the programming and operation of television stations." NASA filed pleading 31 days before deadline for comments, it said, "to facilitate Commission consideration of the central issues" raised in its charges against networks filed more than 3 months ago (TVD March 12 p1).

Under FCC rules, declaratory rulings are appropriate to "terminate controversy" or "remove uncertainty," NASA said in filing: "There is no question that a controversy exists here and that uncertainty" about FCC rules were at issue. NASA said that because of "growing imbalance of power" in favor of networks, "the network view increasingly carries the day in affiliation negotiations — notwithstanding affiliates' belief that certain of provisions insisted upon [by networks] are inconsistent with existing law."

NASA said its lengthy filing, which included many examples of controls it said networks exercised over affiliates, "clearly and pristinely" defines issues separating affiliates from their networks and gives Commission enough information to resolve issues based on only pleadings and counterpleadings. Networks have said disputed issues should be settled in "business negotiations," NASA wrote, "but the legal principles at issue here are fundamental issues of licensee control that Congress and the Commission have determined may not be negotiated away."

Eight lawmakers, including House Commerce Committee Chmn. Tauzin (R-La.), urged FCC Chmn. Powell to give "due consideration" to DTV spectrum-sharing plan negotiated by American Hospital Assn. and Itron. Agreement works out way for wireless medical and utility telemetry devices in 1427-1432 MHz to operate without causing harmful interference to each other. Lawmakers said licenses for utility telemetry on secondary basis in that band were renewed in 1999. "As Congress intended, these wireless applications have enhanced the nation's efficient use of energy and help keep consumer utility bills low," said letter signed by Tauzin, Commerce Committee ranking Democrat Dingell (Mich.) and Reps. Nethercutt (R-Wash.), Gutknecht (R-Minn.), Telecom Subcommittee Chmn. Upton (R-Mich.), Price (D-N.C.), Deal (R-Ga.), Thurman (D-Fla.). Last year, FCC order set aside 14 MHz of spectrum for wireless medical telemetry on primary basis, including 1429-1432 MHz, to protect that equipment from interference, particularly from DTV.

FCC extended comment deadline on its broadcast auxiliary service rulemaking (ET 01-75) to July 9 from June 25, replies to Aug. 7 from July 24. MSTV had sought delay to allow additional time to examine proposals.

DEREG 'NONSENSE' — HOLLINGS: Senate Commerce Committee Chmn. Hollings (D-S.C.) and witnesses blasted Bells last week for questioning legitimacy of Telecom Act and for seeking legislation to give them more broadband opportunities. Hollings decried "weeping and wailing on the House side, calling for deregulation of the law" and described arguments for deregulation as "the biggest bunch of nonsense I've ever heard."

Bill (HR-1542) by House Commerce Committee Chmn. Tauzin (R-La.) and ranking Democrat Dingell (Mich.) would deregulate, but Sen. Dorgan (D-N.D.) said: "The solution is not to take apart the '96 Act. In my opinion, Tauzin-Dingell will get slowed down in the Senate, and I think it should." Senate may not be only place Tauzin-Dingell encounters resistance. House Rules Committee must reconcile Commerce Committee bill with negative recommendation of Judiciary Committee before floor vote can be taken, but Rules Committee Chmn. Dreier (R-Cal.) said he wasn't in any hurry: "Nothing's happening right now."

Tribune Co. has divested \$2 billion in after-tax "nonstrategic businesses" in last 12 months, Exec. Vp Dennis FitzSimons told analysts at Mid-Year Media Review in N.Y. June 19. He said company had repurchased more than 27 million of its shares while keeping debt at "conservative 2 times cash flow and maintaining a strong 'A' bond rating." He said Tribune expected to generate \$175 million in incremental cash flow this year, with \$40 million coming from new revenue, while costs would be reduced \$145 million. Appearing before same group, Belo CEO Robert Decherd cited "continuing deterioration of financing for Internet-related companies" in saying that Belo "expects to write down substantially all of its remaining \$33 million investment" in that business. He said largest part of that investment related to digital convergence, which June 8 was shifted into "a maintenance mode in order to extend its current funding as long as possible." Belo Exec. Vp-CFO Dunia Shive told analysts company's broadcast revenue on comparative basis had "been at the top of the peer group this year." But, for 2nd quarter, Shive said TV spot revenues were expected to be off 8%, "with a resulting decrease in operating cash flow in the midteens." Belo has frozen hiring except for "limited number of critical positions."

Proposals to lift foreign investment restrictions for Canada's telecom and broadcast sectors were included in Canada's National Broadband Task Force report released last week, as expected. "Current legislation restricts the amount of foreign capital to which domestic telecommunications service providers and cable companies can get access," report said. Foreign owners are restricted to 20% of voting capital of telecom and broadcast operations and 33.3% of capital of holding companies, but report said: "Expanding the availability of broadband services to all Canadians will require huge amounts of capital investment."

Promotion of competition in cable and satellite video markets is at top of Senate Judiciary Committee's Antitrust Subcommittee's remaining 2001 agenda. Chmn. Kohl (D-Wis.) and ranking Republican DeWine (O.) said subcommittee would examine how it could: (1) Ensure that multichannel video programming providers had "reasonable access to programming." (2) Develop "competitive navigation devices market." (3) Ensure that media industry consolidation didn't "diminish diversity of viewpoints available to consumers." Subcommittee also will focus on oversight of FTC and Dept. of Justice Antitrust Div. in effort to increase their effectiveness and efficiency.

ELECTRONIC FILING HITCHES RETURN: FCC electronic filing requirements and procedures once again are under attack by attorneys and engineers required to use Consolidated Database System (CDBS) for most of filings for clients. Making matters worse, one lawyer said, is that "there's a complete lack of communication" on electronic filings between bureaus. Such communication is "absolutely necessary" for system to work, lawyer said, because, for example, Wireless Bureau handles broadcast auxiliary applications while Mass Media handles all other TV-radio applications. Lawyers especially complained that attachments to electronically filed documents weren't placed with corresponding applications until days or weeks later. Electronic filing system was criticized year ago, and recently was shut down for overhaul.

Typical of complaints from lawyers: "Each bureau has developed its own program for online filing and there's no coordination. They don't mesh... It's a shambles." Engineers, too, have electronic filing problems, mostly dealing with data bases, we're told. Assn. of Federal Communications Consulting Engineers (AFCCB) has committee headed by Donald Everist of Cohen, Dippell & Everist that's meeting regularly with Commission staffers. He and AFCCB Pres. Joseph Davis of Cavell, Mertz & Davis were unavailable for comment last week.

Most of lawyers' complaints were dismissed as inaccurate by Chuck Ziedzic, asst. chief of Mass Media Video Services Div. While he said it was impossible to comment on individual complaints without knowing applications involved, he told us "overwhelming" percentage of attachments were properly placed with their applications. He also said there was "no lack of communication between bureaus that I'm aware of." FCC forms that are required to be filed electronically include 301 (construction permits), 302 and 347 (license applications), 304 (license renewal), 314-316 (transfer of control), 317 (low-power TV), 323 (ownership report), 346 (major changes) 398 (TV programs for children) and new Form 601 for auxiliary facilities.

"When the system works, it works fairly well," said John Burgett, partner in Wiley, Rein & Fielding. On other hand, he told us, "we've had many glitches... a whole sordid laundry list." He mentioned: Attachments "mysteriously disappearing"; "random documents that we did not file mysteriously appearing as attachments" to documents that firm did file; FCC staff unable to open documents that were filed properly; "inaccurate" Form 159 (fee remittance) filings; occasional failure of staff to "connect" fee filing to proper application — "thus requiring constant attorney vigilance and follow-up."

Lawyer at another firm, who asked not to be identified, said exhibits "almost all the time" don't get properly attached to their applications and often there's delay of weeks before FCC calls to inform attorney that attachments are missing. When attachments and applications aren't connected properly, FCC staff often asks for paper copy, "and that can be a real problem," attorney said. Newest problem, same source said, arose 2 weeks ago when questions on employment diversity were added to sales applications (Form 314) and "the staff didn't even know about it, [thus] causing a little bit of panic."

Another situation involved use of taxpayer ID for auxiliary applications with password (assigned by FCC). Applicant, we're told, called FCC from her home and party on other end of line wouldn't accept her password because she wasn't calling from office phone. In many cases, we're told, Wireless doesn't know Mass Media has approved sales application and so refuses

to approve request for auxiliary facilities. Also, applications for digital auxiliary services aren't being granted: "There's a whole slew of applications for DTV just sitting there."

Dziedzic said: "As soon as we're made aware of a [filing] problem, it's attacked immediately... Sometimes the problem is on our end and sometimes it is not." He called it "simply inaccurate" to say most attachments aren't properly placed at FCC with their applications.

Earlier this month, *Radio Business Report* filed "emergency petition" asking FCC to "immediately shut down" electronic filings to Mass Media Bureau. Trade publication said it took action following "months of frustration with incomplete and inaccessible filings." Publication listed 79 such incomplete applications, with attachments for one of them (CP for Bainbridge, Ga.) finally opening up "as 410 pages of gibberish." Commission hasn't acted on emergency petition and Dziedzic said most of problems that publication cited had been fixed.

Interactive advertising and shopping will drive consumer adoption of interactive TV (ITV), panelists said at IBDNetwork panel discussion in Palo Alto last week. Focused advertising, which targets viewers of particular program, then steers them toward products related to program, is key to ITV success, Microsoft TV Mgr. Shari Glusker said. But process of shopping via ITV needs to be refined and simplified before consumers will embrace it, she said. Although adoption of ITV hasn't reached 10%, growth potential is large and providers are targeting savvy consumers who already understand value of high-speed access, said Diane Meier-Phelps, Excite@Home business development dir. Spiderdance CEO Steve Hoffman said Interactive TV couldn't be monetized as "lean-back" experience, said. Viewers need to participate fully in interactive applications and providers should respond by merging interactive content with t-commerce, he said. Emotional connection between viewers and shows, specifically "reality shows" such as talk programs and sporting events, is "killer app" of ITV, Hoffman said. But in most homes with broadband access, PCs have "migrated" to TVs, Meier-Phelps said, and ITV can succeed as "lean-back" experience. Viewers can channel-surf and shop more easily using TV remote than with keyboard, she said. Companies hoping to monetize ITV should create enhanced content and invest in network operators, Microsoft's Glusker said.

Ten groups of MMDS and ITFS licensees asked FCC Chmn. Powell to add report and order to upcoming further notice that would remove their bands from consideration for 3rd generation wireless services. "The regulatory delays created by this proceeding have caused and will continue to cause great and needless harm to education and fixed broadband deployment," groups wrote to Powell. American Assn. of Community Colleges, American Assn. of School Administrators, American Council on Education, Assn. of Educational Service Agencies, Catholic TV Network, National ITFS Assn., National Rural Education Assn., Network for Instructional TV, Nucentrix Broadband Networks and Wireless Education Broadband Now signed letter. Groups said uncertainty over which band govt. would select for additional 3G spectrum was slowing deployment of those broadband systems into "unserved areas" where they would compete with cable and DSL. Groups also said "ample spectrum" for 3G could come from existing cellular and PCS allocations, Enhanced Specialized Mobile Radio (ESMR) spectrum, 1710-1755 MHz, 2110-2145 MHz and 700 MHz bands.

FCC TO TV PLAYERS: WORK IT OUT: Tired of squabbling between broadcasters and cable on DTV matters, FCC officials urged them to settle their differences and move ahead. Speaking at recent NCTA convention in Chicago, Commission staffers particularly warned broadcasters not to count on agency for regulatory rescue. Federal regulators also hinted that they might intervene further in digital TV copyright area if industries couldn't reach agreement and DTV transition stalled as result.

Mass Media Bureau Chief Roy Stewart laid down law to broadcasters, telling them not to expect FCC to reverse its tentative ruling in Jan. and impose dual-carriage requirements on MSOs. He said broadcasters "better wake up to the possibility that the Commission might not give them must-carry" and, more importantly, that U.S. Supreme Court might find it unconstitutional. "If the broadcasters think they're entitled to it, they'd better make a better showing than they have so far," he said.

Despite problems that small market and noncommercial stations face in meeting FCC's respective May 2002 and May 2003 deadlines for digital buildouts, Stewart also urged broadcasters not to assume that FCC would bail them out by pushing back deadlines. He said agency remained committed to those dates even though it recognized that "undertaking is significant" and time frame is aggressive. "If we have to face something down the road, we'll do it," he said.

Susan Eid, aide to FCC Chmn. Powell, called for "cooperation and partnership" on DTV issues among cable operators, broadcasters, content producers and consumer electronics manufacturers. Saying agency already had issued construction permits to 65% of DTV stations, Eid said much of "what will facilitate the DTV transition is really in the industry's hands." Calling DTV must-carry issue "this scary chicken-and-egg situation," she said broadcasters wanted dual-carriage rules so they could "go to the bank for financing" DTV buildouts.

Amy Nathan, senior legal counsel, FCC Office of Plans & Policy, said digital copyright issues had proved to be much thornier than expected. She blamed "Napster situation," which has made programmers fear that their video content would be distributed freely over Internet without their receiving just compensation. "No one really anticipated how much of a roadblock copy protection would be in the digital transition," she said. "I think it [Napster controversy] has really slowed things down."

Nathan and Deputy Cable Bureau Chief William Johnson agreed FCC had very limited jurisdiction in copyright area. But both warned that agency would step in — reluctantly — if TV players couldn't settle differences. Johnson said Commission could use its authority over navigational devices to intervene in copyright dispute. If copyright stalemate were sole factor blocking DTV transition, he said, "it's not entirely impossible that the Commission might get more involved."

Bill Roberts, senior attorney in U.S. Copyright Office, said his agency would be happy to help out in DTV copyright negotiations even though it usually wasn't as proactive in industry talks as FCC. He said dueling parties didn't come to his office for aid because it was unfairly "viewed as being in the pocket of copyright owners." "If the parties had interest in us assisting, we'd certainly be willing and open to that," he said.

FCC Office of Plans & Policy Chief Robert Pepper said digital set-tops hadn't appeared on retail shelves nearly year af-

ter end of govt. deadline for commercial availability of boxes. Although cable executives have told him that they would like to see more digital boxes purchased by public, he said, he's hearing that consumer electronics retailers might not see market for them. He questioned whether it made economic sense for consumers to buy digital set-tops for \$200-\$300 each when set-top technology was changing quickly and they could rent boxes from cable operators for \$3-\$4 per month.

Despite all that, FCC officials contended that DTV transition wasn't going all that badly. Stewart said he thought transition was "pretty much on target" given challenges faced by broadcasters and aggressive deadlines set by Congress and agency. Eid agreed, citing slow early take rate for VCRs as comparison. "These types of things take time," she said. "But I don't think it's going as badly as some in the media and some on the Hill would lead you to believe."

NCTA and NAB dueled again over whether cable operators should have to carry independent electronic program guides (EPGs) distributed through vertical blanking intervals of broadcast TV signals. In fresh set of comments to FCC on long-running analog battle between AOL Time Warner and Gemstar-TV Guide International, NCTA said it supported former's petition for declaratory ruling. It argued that Commission should clarify its stance signaled in its DTV must-carry order in Jan., when it ruled that "program guide data that are not specifically limited to the video content of the digital signal being shown cannot be considered program-related and, therefore, are not subject to a carriage requirement." Cable group said there was "no reason not to issue a ruling that puts all doubts to rest." NAB countered that "the Commission should consider EPG information as 'program related,' and therefore entitled to mandatory cable carriage, under any reasonable interpretation of that term." If FCC rules on AOL Time Warner's petition, NAB emphasized "the importance of — and the difficulties inherent in — defining EPG information precisely so that any relevant cable carriage rights are clear." Broadcast group also stressed that "any such decision must not prejudge the Commission's pending consideration of broader issues pertaining to program relatedness and EPG information in the digital, interactive future."

In bid to get back into streaming media business, Clear Channel signed deal to use Hiwire ad insertion technology, with scheduled rollout at 250 radio stations next month. Clear Channel was among several radio group owners that decided to stop streaming their station programming over Internet because of failure of ad agencies to negotiate new union contract covering streaming, potentially exposing them to large royalty payments for music in ads (TVD April 16 p3). Hiwire ad insertion technology allows broadcast ads to be replaced automatically with royalty-free ads that target specific listeners, Clear Channel said. "With the remarkable growth of Internet audio over the last several years, Clear Channel vowed to find a comprehensive approach to streaming that made both legal and financial sense," said Kevin Mayer, CEO of Clear Channel Interactive.

EchoStar and DirecTV filed emergency petition with FCC for cease-and-desist order against MDS America to prevent company from conducting experiments and freeze further experimental licenses in 12.2-12.7 GHz band pending congressionally mandated evaluation of interference risk for DBS service. Companies said FCC "stunningly disregard[ed]" evaluation based on findings in Mitre report that new service in band would create "significant interference" to DBS.

FCC TOUTS CABLE RIVALS: FCC opened its 8th annual video competition inquiry, once again asking cable operators, DBS providers and cable overbuilders to document their growth, spell out their new services and detail their costs. In notice of inquiry (NoI) approved unanimously June 20, Commission said it also planned to seek such new information as cable and DBS provision of streaming video, interactive (ITV), other convergence services. Agency said it would explore how many households "rely on over-the-air reception of local television stations on one or more of their television sets." Finally, FCC said it would treat broadband service providers as separate category from overbuilders.

In his first appearance at Commission agenda meeting, new Cable Bureau Chief Kenneth Ferree played up growth of overall pay TV market and surge in cable competition since FCC released its first report in 1994. Ferree said total pay-TV penetration rose to 84% last year from 70% in 1994, while cable's share of market fell to 80% from 93% 6 years earlier. He credited much of change to "rapid growth" of DBS, which now commands more than 15% share of multichannel video market.

Ferree also emphasized cable's role in upgrading its plant and introducing new digital services in last few years. Citing industry statistics, he said MSOs had invested more than \$50 billion in new plant and plant upgrades since 1994 and had signed up 5.5 million digital cable and 3 million cable modem subscribers by mid-2000. He also said national cable networks nearly tripled to 281 between 1994 and 2000 while portion of MSO-affiliated shrank to 35% from 53%.

FCC Chmn. Powell said he was "struck" by satellite TV's continued strong growth, particularly in rural areas. He cited statistics showing that satellite penetration had reached 41% in Vt., 38% in Mont., 33% in Wyo. Despite analysts' predictions that DBS growth would top out at some point, he said, satellite providers continued to make inroads.

Powell said he was "very interested" in seeing cable telephony develop into viable alternative to traditional Bell service. Referring to cable telephony as "greatest hope" for spurring phone competition, he got carried away, claiming cable telephony subscribers had surged from 19 million to 20 million in 1999 to "something approaching 100 million" today. In reality, MSOs now have slightly more than one million telephony customers. FCC spokesman later said Powell misread confusing briefing chart that showed cable telephony subscribers growing to one million in 2001 from 198,000 2 years ago.

Separately, number of major MSOs responded to FCC's voluntary survey of cable channel capacity and retransmission-consent negotiations. Survey, part of agency's further notice of proposed rulemaking in DTV must-carry proceeding, found operators generally boasting about their plant upgrades but complaining about continued bandwidth constraints. They argued that dual-carriage requirements during nation's digital TV transition would sap capacity needed for video-on-demand, interactive TV, cable telephony, high-definition TV, other new digital services. "Dual carriage would confiscate an additional 6 MHz of scarce channel capacity for programming services that do not even exist yet, or may never exist," Insight Communications said.

Several MSOs said they had signed or were negotiating digital retransmission consent deals with broadcasters. AT&T

Broadband said it had agreements with Fox and NBC and Comcast with "several network owned-and-operated station groups" that it declined to identify. Cable One said it had "completed agreements that require the carriage of digital signals under a variety of contingencies" and was "actively negotiating agreements for approximately 15 television broadcast stations." Insight and Cablevision Systems said they had no deals yet.

Rep. Boucher (D-Va.) will push legislation similar to last year's failed attempt to open access to cable and other broadband infrastructure, he told Computer & Communications Industry Assn. (CCIA). Boucher, member of House Commerce Committee and co-chmn. of House Internet Caucus, said bill, along with providing access to cable by ISPs, would prohibit cable companies from interfering with interactive TV. Cable companies could strip "triggers" from interactive TV content providers, Boucher said, even though there's no added burden for cable to carry additional signals. Bill is "ripe for consideration" and would apply to all Internet "transportation platforms," including wireless, but now is most relevant for cable, he said.

Cable modems will continue to dominate global high-speed data market over next 5 years, although DSL will narrow gap, Allied Business Intelligence (ABI) said in new study. Study predicted that worldwide cable modem subscriber base would more than triple to 48.7 million in 2006 from 14.2 million this year. Similarly, think tank said, cable modem subscriber revenues will triple to \$22.2 billion in 5 years. In report, analyst Mark Fox predicted that cable modems would continue to prevail because "DSL providers have been sitting on their technology for too long and, in the last 3 years, have been in too much of a race to catch up with cable access to satisfactorily resolve issues of supply, deployment and shared infrastructure access."

Liberty Media will buy 6 German cable companies owned by Deutsche Telekom for estimated \$4.7 billion. Deutsche Telekom said it would sell its entire interest in 6 of its 9 regional cable firms, with total of more than 10 million subscribers, to Liberty, and expected to sign definitive agreements next month. Liberty originally intended to lead consortium buying controlling 55% stake in cable systems for \$2.5 billion under letter of intent signed in Feb. Separately, Liberty said it reached agreement in principle to grant Klesch & Co. option to buy up to 24.9% stake in regional cable firms. In original deal, Klesch would have been part of Liberty-led consortium from start.

As expected, baseball's world champion New York Yankees plan to start their own regional cable sports network next season. Network, which will compete against existing Madison Sq. Garden Network and Fox Sports N.Y. channels, at outset will feature Yankees and N.J. Nets telecasts, as well as N.J. Devils games eventually. Yankees will pay \$30 million to Cablevision Systems, parent of Madison Sq. Garden Network, to regain TV rights to 85 games in 2002. YankeesNets Chmn. Harvey Schiller has said regional Yankees channel could at least double team's local TV income of \$52 million in 2001.

China Central TV gave PanAmSat 5-year extension of contract to distribute programming via 4 satellites in Atlantic Ocean, Indian Ocean and Pacific Ocean regions, terms not disclosed. Service on 2 of satellites is expected to be transferred to one Indian Ocean Region bird later this summer.

STREAMING MEDIA POISED: Given current slump in everything Internet-related, Streaming Media West conference in Long Beach, Cal., last week had surprisingly optimistic tone, with speakers, attendees and panelists all predicting issues such as slumping broadband installed base and lack of advertising model would be overcome in coming years — much as it had in other media. Keynoter Disney Internet Group Exec. Vp Richard Glover said industry should stay Internet course, reminding them that cable went through similar growing pains in early 1980s.

Glover said his previous employer, Westinghouse-backed Group W, gave up on not only Satellite News Channel 2 decades ago, but also on opportunity to buy ESPN and regional networks that eventually became Fox Sports. "They were proven wrong just as companies today who have given up on the Internet will be proven wrong," Glover said. Despite Disney's decision to shut down Go.com portal, Glover said company retained its belief in Internet as delivery platform and pointed to thus far modest successes such as Enhanced TV, ESPN.com and subscription-based Disney Blast as proof that audience would come in droves for compelling content. Alluding to buildup of Disney's Internet infrastructure and converting content for online delivery, he said: "We have already done the hard part."

Growth of business use of high-speed Internet access has been faster than expected, AT&T Global IP Network Services Vp Rose Klimovich said. Bad news is that "the consumer side is coming slower than we would of thought," she said. Klimovich and others blamed high cost of delivering streaming video, lack of viable business models and still unresolved Digital Rights Management issues. Streaming media over broadband still is plagued by small, choppy images, freezing and buffer issues, which means that it still isn't nearly close enough to movie or TV broadcast to get average viewer to pay for it, speakers said. However, Excite @Home Senior Vp-Gen. Mgr. Hemant Vaidya said: "We are at critical mass."

Real Networks used conference to announce its long-awaited digital rights management solution, RealSystem Media Commerce Suite, and said MusicNet — joint music subscription service of AOL-Time Warner, Bertelsmann, EMI and RealNetworks — would be among first customers when it's offered later this year. "The launch of the RealSystem Media Commerce Suite will ignite the market for commercial media distribution," RealNetworks Chmn. Rob Glaser said. Product is squarely aimed at letting traditional music companies benefit financially from the booming online MP3 market created by Napster and other free peer-to-peer Internet services. Among early clients is Sony Pictures Digital Entertainment.

RealNetworks is positioned not only in direct competition with Microsoft and its Windows Media Player, but also against companies and broadcasters pushing the MPEG-4 compression standard for online content. Gary Greenbaum, RealNetworks' head of Codec Technology, provided lone opposition in panel on future of MPEG-4, when he said decompression standard would stifle technology. But others, including Apple executives Tim Schaaf and Phil Schiller, defended MPEG-4 as much-needed agreement that would enable hardware, software and infrastructure companies to build interoperable devices all capable of accessing and playing MPEG-4 content.

Panel on Webcasting and Internet enabling for broadcast facilities focused largely on business-to-business. Globix Streaming Media Div. Mgr. Dan Rayburn suggested many com-

panies might be erring in rushing to bring Webcasting to as many people as possible as quickly as possible: "I rather have 5 people on my Webcast have a great experience than 100,000 who have an unsatisfactory one," suggesting positive word of mouth was more important for fledgling streaming industry than huge audience right now.

C-SPAN New Media Dir. Christopher Long said inconsistent video image quality remained big issue for traditional broadcasters as they moved to Webcasting content, but broadband should erase many of problems. Long, whose network Webcasts all 3 of its channels live and has additional 1,200 hours of archived content on its site, suggested real challenge could simply be educating consumers so they knew they could access television content on their PC as well as on their TV.

R.I. Attorney Gen.'s office closed without recommendation its inquiry into whether telecourses offered by nonprofit educational institutions were entitled to free carriage on cable's public, education and govt. (PEG) access channels or should be deemed commercial offering that must pay for leased access space. Review of policy followed controversy over Cox's offering leased access time for Community College of R.I. (CCRI) telecourses that public access programmers said were entitled to free carriage on PEG channels even if college collected tuition from students. Asst. Special Attorney Gen. William Luekar said arrangement wasn't unusual in other states. If nonprofit educational institution wanted in advance specific block of time for telecourses, such leased access arrangement sometimes was preferred. That also was done to ensure that telecourses weren't bumped by govt. programs on PEG channel, he said. Investigation is being closed without further action because there isn't any complaint from CCRI.

Condom ads on TV now are acceptable to most Americans, new study by Kaiser Family Foundation said. Findings include: (1) 71% favor allowing condom ads. (2) 37% said they could air any time. (3) 34% said they should be aired only at certain times, such as after 10 p.m. (4) 25% said no condom ads should be allowed. (5) Acceptance is much higher among younger viewers, with only 60% of those over 50 approving such ads. (6) More people (34%) oppose beer ads than condom ads. Three of 6 major broadcast networks now allow condom ads, which had been barred for years.

Excite@Home said it would end its exclusive carriage deals with 2 of its owners, Cox Communications and Comcast, in early Dec., 6 months earlier than planned. Excite@Home, which has gained more than one million of its 3.2 million cable modem subscribers through its exclusive deals with 2 MSOs, said it still was discussing "restructured commercial relationships" with Comcast and Cox, including revised split of monthly fees for Internet access. Calling discussions "complex," Chmn. Patti Hart said negotiations "may take some time to complete." But she said company was "pleased with the current state of the discussions and optimistic about the prospects for our future relationships."

WideOpenWest (WOW) said it filed municipal applications for transfer of all 115 Ameritech New Media cable franchises to it. WOW, broadband service provider that agreed to buy Ameritech's cable systems with combined 315,000 subscribers from SBC Communications in late May, said each local franchise authority had 120 days to act on transfer application. WOW said it expected to close on purchase in 4th quarter.

Personals

Ian Moore, exec. vp, News America Mktg., appointed senior vp-human resources, News Corp... Spencer Neumann advanced to exec. vp, ABC TV Network... Edward Kosowski, ex-KGO-TV San Francisco, named news dir., KHDH-TV Boston, replacing Nancy Nydam.

Bill Brand, ex-VH1, appointed senior vp-reality programming, Lifetime TV... Mark Stieber promoted to vp-corporate mktg. and business development, QVC... Jerry Gepner, former exec. vp-operations & engineering, Fox Sports Network, appointed pres., National Mobile TV... Robert Sherman, ex-pres.-CEO, Roberts Radio, named pres.-ad sales, Time Warner Cable... Jake Tauber, exec. vp, Game Show Network, resigns... Edward Schor, ex-Wolf, Block, Schorr & Solis-Cohen law firm, named dir.-multiple ISP development, Time Warner Cable.... Chris Dinallo, ex-Netspeak, appointed chief technologist, Pace Micro Technology Americas... Elected to NCTA board: Michael Willner, Insight Communications, chmn.; Jerald Kent, Charter, vice chmn.; John Rigas, Adelphia, secy.; Brian Roberts, Comcast, treas.

Appointments at FTC: Rafael Cruz, ex-Dept. of Justice, to dir.-Office of Policy & Planning; Sean Royall, ex-Gibson, Dunn & Crutcher, deputy dir.-Bureau of Competition; Alden Abbott, ex-Commerce Dept., asst. dir.-policy and evaluation in Bureau of Competition.

CableLabs said it concluded its 18th certification wave of interoperable cable modem equipment, putting its stamp of approval on another 17 modems for retail sale. CableLabs said 3 new companies — Hitron, Infinite and US Robotics — joined list of equipment suppliers certified under consortium's Data over Cable Service Interface Specification (DOCSIS) program. Another 9 companies — Ambit, D-Link, Ericsson, High Speed Surfing, LinkSys, Net & Sys, Thomson Multimedia, 3Com and Toshiba — had DOCSIS modems recertified. CableLabs said it also was working on qualifying next generation of DOCSIS 1.1 products, with 12 cable modems and 8 CMTSs now being tested.

Industry alone won't complete DTV transition in England, ITV CEO Stuart Prebble said in speech June 19 to Royal Society of Arts & Industry: "It is the government that now needs to take the lead." He said govt. should set target date for final switchover, make it easier for broadcasters to cross-promote DTV, support requirement to include DTV tuners in all widescreen TVs, lobby European Union to reduce tax on DTV sets. Prebble also said BBC should stop using license fees to develop enhanced sport services that are available only via satellites, saying money should be spent on DTV services.

Wink Communications said it added "t-commerce capabilities" to NBC's newly renamed ShopNBC cable shopping channel. With those capabilities, Wink said, its 3 million cable and satellite TV subscribers now could buy products on ShopNBC with several clicks of their remote controls. ShopNBC, formerly known as ValueVision TV, said it reaches 46 million cable and satellite homes.

Fundamentals of Internet marketing is among several forums to be hosted by Assn. of National Advertisers (ANA) Aug. 6-8 at Rye Town Hilton Hotel, Rye Brook, N.Y. Other sessions are scheduled on TV and print media strategy, consumer promotion, creative advertising, building and managing brand equity, integrated marketing — www.ana.net or 212-697-5950.



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Mediacom said 2 of its new subsidiaries would sell \$400 million in senior notes due 2013 to help finance its pending \$2.2 billion purchase of cable systems from AT&T Broadband. Mediacom also announced pricing of its offering of 26 million Class A common stock shares and of \$150 million of convertible senior notes due 2006 to fund purchase. With its common A shares priced at \$15.22 each, company aims to raise more than \$400 million, along with at least \$550 million from sale of 2 notes.

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STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending June 8, and year to date:

	JUNE 2- JUNE 8	2000 WEEK	% CHANGE	MAY 26- JUNE 1	23 WEEKS 2001	23 WEEKS 2000	% CHANGE
TOTAL COLOR TV	376,879	532,932	- 29.3	492,341	10,518,124	11,501,905	- 8.6
DIRECT-VIEW**	366,300	518,485	- 29.4	478,423	10,129,753	11,016,494	- 8.0
TV ONLY#....	312,969	457,690	- 31.6	374,552	8,433,482	9,094,742	- 7.3
TV/VCR COMBO.	53,331	60,795	- 12.3	103,871	1,696,271	1,921,752	- 11.7
PROJECTION...	10,579	14,447	- 26.8	13,918	388,371	485,411	- 20.0
TOTAL VCR***...	224,550	320,855	- 30.0	451,884	7,939,578	10,753,115	- 26.2
HOME DECKS...	171,219	260,060	- 34.2	348,013	6,243,307	8,831,363	- 29.3
CAMECORDERS....	87,720	109,519	- 19.9	115,682	2,268,760	2,219,990	+ 2.2
DVD PLAYERS....	75,055	83,497	- 10.1	249,393	3,814,402	2,265,172	+ 68.4

Direct-view TV 5-week moving average#: 2001-433,055; 2000-501,187 (down 13.6%).

Projection TV 5-week moving average: 2001-12,983; 2000-17,691 (down 26.6%).

VCR deck 5-week moving average: 2001-281,393; 2000-440,581 (down 36.1%).

TV/VCR 5-week moving average: 2001-77,512; 2000-99,594 (down 22.2%).

Camcorder 5-week moving average: 2001-108,709; 2000-112,768 (down 3.6%).

DVD player 5-week moving average: 2001-141,452; 2000-126,684 (up 11.7%).

** 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.

PRESALE TESTING NOW REQUIRED FOR DVD GOODS: Effort to keep out-of-spec players and discs from tarnishing format's image has prompted change in DVD licensing agreement. Effective in Oct., hardware and software vendors can't ship products to market before testing for standards-compliance at DVD Forum-established verification labs.

License revision, which was triggered by player/disc problems, will be policed by DVD Format/Logo Licensing Corp. (DVD FLLC). "We will introduce this change for the benefit of the consumers," DVD FLLC Pres. Makoto Inabayashi told us. Under current licensing agreement, player and disc makers can sell products before verification, but must submit them for testing within 60 days.

"If it passes verification it may continue being sold," Inabayashi said, "but if it fails, the licensee would have to stop selling the products, in the worst scenario. That the players should be tested before going into the market is the basic idea." Requirement, which covers discs as well as players, was proposed at DVD Forum conference in Taiwan May 9. "The time before October is the grace period for adapting to the change," Inabayashi said. Licensees that didn't comply would violate license/logo agreement and jeopardize their ability to sell products legally. DVD FLLC already has cooperation of U.S. Customs in impounding unlicensed products.

Licensing change comes as DVD market blossoms, with 16 million players shipped launch-to-date in U.S. alone, 3 million DVD-capable PlayStation 2 videogame consoles from Sony, and Microsoft Xbox game console with DVD playback coming in fall. But stricter testing rules also coincide with mounting frustration among DVD patent owners over unpaid royalties — mostly by China-based hardware vendors, licensed or otherwise.

Some Chinese manufacturers have balked at royalties that could amount to as much as 10% of player's net selling price. That's defined as gross sales price before discounts, shipping costs, duties, taxes. Vendors in China contend that

royalty would pare already slim margins for DVD players and put their products at price disadvantage in world markets. Patent owners reply that Chinese makers price their players aggressively because their cost doesn't include royalties.

DVD royalty requirements are labyrinthine, owing to number of different entities claiming intellectual property rights. They include 3C Group of Philips, Pioneer and Sony and 6C Group of Hitachi, JVC, Matsushita, Mitsubishi, Toshiba and Warner. Besides those licensing pools, others with financial claims include Dolby (for digital surround), Macrovision (copy protection), MPEG Licensing Authority (MPEG-2 compression and MPEG-Audio), DiscoVision and Thomson (optical technologies).

Combined royalty claims of 3C and 6C alone add \$9.60-\$12.10 to player at minimum — 7.5% of net selling price. Higher figure applies to 3C claim for \$2.50 if Video CD playback is included. That group also asks 3.5% running royalty on net selling price, with \$5 minimum, and 60 cents for use of AC-3 audio technology. That's in addition to \$10,000 initial payment, half creditable to running royalties. Claim from 6C is 4% of net selling price with \$4 minimum per player. Minimums can be seen as hedge against falling manufacturing costs. Typical entry level player made in China goes for about \$99 today, down \$10 from last year.

For DVD software, 3C/6C royalty adds \$0.128 per disc. That breaks down as \$0.075 for 6C, \$0.053 for 3C (of which \$0.003 is for MPEG-Audio) along with aforementioned initial payment. DVD royalty of \$0.128 compares with just 3 cents for music CD payable to Philips and Sony. That patent expires in number of countries July 1, when no royalty will be due.

Royalty situation will become more complex and costly as DVD-Video players add DVD-Audio function, Super Audio CD (SACD) playback — or both. For Philips/Sony SACD format, co-developers have established \$25,000 initial payment, 2% running royalty on net selling price with \$1.50 minimum and \$40 maximum per player. There's no royalty for SACD software. To date, no royalty structure as been established for DVD-Audio. Steering committee continues to wrangle over copy protection, contractual and financial issues, sources told us.

Failure of original equipment manufacturers (OEMs) to pay royalties could cause awkward situation for OEM customers, such as those that buy players for redistribution under own brand, or to retail as house private label. Sources familiar with situation said that in most cases OEM would acquire DVD FLLC license and logo and licenses to use various DVD patent. OEM therefore would be responsible for paying royalties. But if OEM didn't pay, recourse would be at discretion of patent owner.

Possible course of action would be terminating patent license owing to breach of contract. Then, product would become nonlicensed and patent owner could make claim against OEM's customers (distributing brand or private label retailer). Executive of one chain that imports large quantities of Chinese-made players for house brand told us that to protect against that situation, retailer's contracts with vendors and OEMs specify that suppliers have full responsibility for royalty payments. Other option open to patent owners would be to require distributing brand or end seller to take patent license, instead of OEM. That, too, would be at discretion of patent owner, sources told us, and might improve opportunity to collect royalties.

PHILIPS OUT TO 'CONFFOUND' COMPETITION, CEO SAYS: "Consumer-inspired devices" and expansion into as-yet-undisclosed services will be focus of Philips in N. America, new CEO Larry Blanford told reporters at news briefing and product showing in N.Y.C. last week. Philips is committed to be "number 1 or number 2 in all segments where we participate," Blanford said. "We want to confound the competition by staying out in front with products and consumer experience."

Session gave equal emphasis to Philips's current brand-building activities and to new-product offerings, many of which have been announced previously.

Besides expanded advertising, marketing efforts will include variety of sponsorships, Blanford said. They include alliance with AOL Time Warner for popular TV show *The Powerpuff Girls* and 5-year multimillion-dollar deal with U.S. Soccer Federation that entails advertising and co-branding. Philips also will extend own "Philips Fusion" event it currently stages in Asia and Europe. That's outdoor music and sports festival where attendees get to see and try out company's AV products. First events will be in L.A. and N.Y.C.'s Central Park.

Philips is targeting 5 distinct consumer groups identified in recent studies it conducted, Blanford said. Effort is likely to result in revised merchandise mix and distribution. He said study identified 29% of consumers as "innovators" who focus on latest technology — and represent 40% of potential customers for Philips. Other good prospects are 30%

who crave performance or styling. Market also includes "reachables" (19%) and "basics" (12%) — older demographics that want bang-for-buck and mostly shop at mass merchandisers.

"Magnavox may very well suit an appropriate purpose going forward" among these groups, Blanford said. He said company had ceased all production of dual-branded Philips/Magnavox products, although there was inventory in pipeline. Philips brand will be used exclusively for top-shelf product. Blanford said that, in light of different target markets, "we also need to expand our merchandising mix and our customer base." Company has expanded TV offerings through Best Buy, Circuit City and others, and "also is doing more with specialty retailers."

In product, big push for widescreen TV is under way with Philips underwriting educational presentations by director Martin Scorsese. Company will have 10 widescreen sets this year, including 3 direct-view with flat 30" screens. None of HD-ready sets has DTV decoder — still outboard option. Philips also is committed to plasma displays despite recent showings of other technologies such as LCOS. "Plasma's still a huge wow with the North American consumer," Senior Vp-TV Des Power said. "It's still the only display you can hang on a wall."

As previously reported, Philips will introduce DVD+RW recording format for sale this fall with 2 models. It also is expanding MP3-compressed audio playback through its DVD, CD player and Audio CD recorder lines and will introduce slew of MP3/CD and MP3 portables. It continues to add CD recording to shelftop systems and progressive-scan output to DVD players.

Blanford also made intriguing allusion to developing "ways and services of getting content to consumers" but deferred further disclosures to "later date."

As company steps up its efforts to strengthen Philips brand name in N. America via increased ads and sponsorships, Blanford said company had "also been extremely busy building the Philips brand online." As part of that effort, it will be "launching a new Web site at the end of the month and in the near term... we will be adding links to that new Web site to several of our retailers — Sears, [J.C. Penney], Wal-Mart, others — to broaden our distribution online as well." Blanford later told us "there'll be more" retailer Web sites Philips will be linking to. Although he said Philips hoped Best Buy and Circuit would be among those, he declined to name any specific retailers that definitely would be involved.

Blanford also told us that although Philips had yet to outline specific e-commerce authorization policy, issue was "under discussion." He said company was in process of trying "to determine what was appropriate" method of "how we manage our site and the use of our brand and sale of our brand" online. Although he said he couldn't offer specific details on what Philips authorization policy might include, he was quick to say: "It's a very important question."

As for how Philips deals with retailers currently selling company's products online — presumably without authorization — Blanford said: "I really don't know exactly where we're at on that." He admitted issue "has not been at the top of my radar screen," but that it, too, "is an important question. I would suggest... that for any manufacturer... management of the brand [is important]... I'll tell you this. We need to be very concerned about [how] our brand [is presented] in any format."

Although competitors including Sony and Thomson have jumped into direct-to-consumer online sales, Philips hasn't and Blanford said there were "no plans to do that" at this time. He said that when consumer entered company's Web site, "you ideally would like to facilitate that consumers... understand your product [while you're also] actually facilitating the purchase of your product, if you can... To let the consumer get off your site and go to a competitor's site and miss the sale is a real issue. But there are technologies now available — and we are looking at them — that allow the consumer to actually enter your site and get all the product information that they want and actually shop your site, putting products into a shopping cart and then only when they go to check out do they have the opportunity to make a selection as to who they actually want to buy it from. And then the whole shopping cart would get transferred to that other site. And so we're looking at strategies along those lines."

Blanford said company was "working with our customers [and] our retail partners to figure out" best way to handle online presentation of Philips brand. "In my view, if we can leverage their core competencies as retailers and our core competencies, which is manufacturing of branded products, we probably can do that in a win-win way [and] that is probably the best result for the consumer, the retailer and the manufacturer." If that solution doesn't work, he said, "then we start over" and come up with alternative plan.

PIONEER BETTING ON PLASMA AND DVD IMPROVEMENTS: Despite economic downturn, Pioneer is coming off record year and will "dramatically increase funding efforts" to parlay success in digital products such as plasma displays,

Exec. Vp Michael Wakeman said at N.Y.C. briefing and line show last week. Meanwhile, company will restructure by combining commercial and consumer groups for greater synergy, he said. Formal announcement will come next month in L.A. (see "Personals" in this issue).

Restructuring comes as Pioneer readies new DVD-RW recorder that will be unveiled at this week's PC Expo in N.Y.C. in ramp-up to fall release. Wakeman tooted company's horn about DVD-RW format's recent adoption by leading PC makers Apple, Compaq, NEC-Packard Bell — and Sony, co-developer of rival DVD+RW format. In past, Sony said it supported DVD+RW for PC data applications but not home video.

Plasma will continue to be lead trump card for Pioneer in its efforts to exploit categories in which it has technological edge while dumping commodities and declining categories such as audio rack systems that it initiated 2 decades ago. New plasma plant in Japan will boost company's output threefold to 150,000 panels yearly, Wakeman said. For smaller displays, company had breakthrough in organic electroluminescent category with fabrication of full-color thin film panel.

In plasma, Pioneer showed 50W prototype with much-improved brightness, contrast and color saturation when compared side by side with current model. Executives said it would make debut late this year at undetermined price. Market shouldn't expect reduction in prices, though, said Matt Dever, vp-mktg./product planning. "There are still opportunities to improve picture quality in this category," he said.

Same applies to DVD-Video, although downward pricing trend will continue there. Pioneer will offer dual lines of progressive scan models that use either "true 3:2 pulldown" or "digital progressive" scanning. Dever said newer microprocessors bring improvements to each method, but enable digital progressive to compare favorably with "3:2" as implemented in low-price off-brand decks. "We'll be glad to stand this up side to side against entry-level 3:2," Dever said.

Also in DVD category, Pioneer will have combo decks that play DVD-Video, DVD-Audio and 2-channel Super Audio CD (SACD). One model each make debut from Elite and Pioneer in fall. Dever said company for time being will avoid multichannel SACD until more music software is available in that format. Consequently, models with SACD will be targeted to high-end retailers, he said.

Pioneer will increase training and promotional support to specialists this year. It will begin technical seminars with dealers in fall to educate consumers on DVD-RW, plasma and other products. Open-house sessions, about 150, will be held over 3 days and coincide with arrival of DVR-7000 DVD-RW recorder (\$2,800 MSRP) that's expected to retail for \$2,500. Deck won't have PVR-like function recently introduced as TimeSlip in Panasonic's \$1,500 DVD-RAM recorder, although Pioneer engineers said it's doable and could appear in next-gen models.

In digital radio, Pioneer said it was ready with hardware for Sept. debut that would roll out nationally in Oct. Company had cars with receivers at last week's event, playing 20 channels now available from XM. Autosound area will find growth in navigation and digital AV to offset decline in analog cassette/receiver category, Pioneer said.

Digital still cameras (DSCs) are expected to be out in force at PC Expo at Javits Center in N.Y.C. June 26-28. Among DSCs scheduled to be on display is new Camedia C-4040 Zoom 4 megapixel model at \$1,099 from Olympus. Company said last week that with C-4040 it was "establishing a new high-end category for Olympus C-Series cameras." Olympus said camera features "superbright F1.8 high-performance 3x zoom lens" and USB "Auto-Connect capabilities for fast and worry-free downloading without the need for any additional software or drivers." Optimum Image Enlargement Mode enlarges images up to 3,200x2,400 pixels, Olympus said. Toshiba last week announced 4.2 megapixel PDR-M81 that it said would be shown for first time at PC Expo. Toshiba said it expected camera would make it to store shelves in July with SRP "under \$1,000." Like PDR-M70 from last year, new camera features AVI movie mode that lets users film up to 3 min. of video at 160x120 resolution (15 frames per sec.) or 60 sec. at 320x240. Camera also features built-in microphone. Among other manufacturers expected to put spotlight on DSCs at PC Expo is Kodak.

Consumers gobbled up virtually all of 500,000 Game Boy Advance (GBA) handhelds shipped to retail in first week since June 11 rollout, Nintendo of America (NOA) said last week. But while it acknowledged that supplies of GBA were hard to come by at end of its first week on sale in U.S., NOA said it expected shortages to be only temporary, as it shipped additional 100,000 units to retail over weekend of June 16-17 and was "on track" to reach total of one million by end of this month. NOA hailed first-week response as "record-setting" for any new videogame platform. Exec. Vp Sales & Mktg. Peter Main said: "The good news is that we are able to ship approximately another 500,000 units by the end of June with further product to become available through July and August." Company said that "by achieving half a million sales in a single week, Game Boy Advance is clearly the fastest selling U.S. videogame system ever." Sales results for GBA accessories and software were unavailable but NPD spokeswoman told us data would be made public early this week.

CIRCUIT RETHINKS STRATEGY AGAIN: Circuit City, struggling to right itself after reporting sharp drop in first-quarter earnings, will embark on test of another format in Washington, D.C., market this summer, CEO Alan McCollough told analysts in conference call.

Circuit's overall first-quarter earnings plummeted to \$10.13 million from \$57.12 million, sales 23% to \$1.88 billion and same-store sales 25% — 13% minus major appliances, which Circuit dropped last year. Circuit's 627 CE stores posted \$9.6 million loss, against \$46.7 million profit year ago. CarMax earnings increased to \$6.8 million from \$3.5 million.

Dozen Washington-area stores will be redesigned by Sept. at per-store cost less than \$1.5-\$2.5 million spent in revamping outlets in Chicago and Va. Beach, Va. Circuit embarked on remodeling program last fall starting with Jacksonville market, but that proved too expensive at \$2.5-\$3 million per store. New layout enables Circuit to complete renovation of store within 60 days, McCollough said.

"With the new design we have found a way to draw the customer deeper into the store faster and make it more friendly to the browser," McCollough said. "In South Florida, we got rave reviews, but if you were just driving by it was not at all clear that anything was different."

As it revamps format, Circuit plans new flight of TV ads starting in July that will coincide with introduction of new logo, McCollough said. New "Find it, love it, give it" campaign began with redesigned print ads in May and will continue with TV commercials, McCollough said.

Circuit has maintained aggressive price strategy, advertising Nintendo's new Gameboy Advance at \$89 — \$10 less than suggested retail price — to meet similar moves by Best Buy, Kmart, Wal-Mart, others. Driving pricing decision was retail cost of product against manufacturers' suggested retail price, McCollough said. "We try to be priced where the market is," he said. "Don't get distracted by the minimum advertised price."

Desktop PC business was "weaker than we expected", but digital TVs, cameras and camcorders remained strong sellers, McCollough said. Circuit reduced inventory \$200 million in quarter and will continue efforts to "refine" product mix, he said.

Ultimate Electronics unveiled plans to open 13 stores in Dallas market in next 2 years including 10 in 2002. Stores, which will maintain same 30,000-40,000-sq.-ft. format as other Ultimate outlets, will represent first time chain has entered direct competition with fellow Pro Buying Group member Tweeter Home Entertainment. Latter purchased Home Entertainment chain with stores in Dallas and Houston in 1999.

"I don't think it [direct competition with Tweeter] necessarily fundamentally changes anything with regards to the group," said Ultimate CEO David Workman, noting that other buying groups, most notably NATM, had members competing against each other. "What has changed is that when you're directly competing with people, the information exchanges may be going to be a little different."

Ultimate is continuing with plans to add sales of broadband services to product mix by 4th quarter. It expects to have new

communications dept., which will be located at front of stores, installed by Sept. 1, Workman said. New department will combine broadband with cellular and handheld PCs (Sony, Palm), former having been pulled from in car stereo section, Workman said.

Harvey Electronics, blaming \$250,000 in operating losses and pre-opening expenses tied to new stores and Web site, reported \$147,430 net loss against \$222,270 profit year ago as sales rose to \$9.1 million from \$8.6 million and same-store sales were up 2.6%. For 6 months, Harvey logged \$420,000 in operating losses and pre-opening expenses, including those of Bang & Olufsen store in Greenwich, Conn., (\$110,000 operating loss), new Web site (\$120,000) and new Eatontown, N.J., store (\$50,000). Latter also had \$140,000 in pre-opening expenses. Increased sales were largely result of strength in digital products and continued gains in custom installation business, which accounted for 37% of \$7.6 million in net sales in first 6 months, up 29% in year.

Renovation of Harvey's flagship N.Y.C. store, which is expected to completed by July, "negatively affected" sales in April and May.

Overall gross margins slipped in quarter to 39.1% from 40.2%, decline that was driven by increased sales of digital video products, which typically carry lower margins than audio. Video accounted for 35.2% of sales, up from 28.8% year earlier.

Meanwhile, Harvey has parted ways with consultants Mesa Partners despite having retained them in March to help develop new business that would focus on installing home networks linking PC and CE products throughout home. Mesa's original agreement was for 12 months and carried \$20,000 monthly fee plus related expenses, Harvey said in quarterly report to SEC. Chain was paid \$34,000 consulting fee in 2nd quarter ended April 28, SEC filing said. Harvey also issued 3-year warrant to Mesa for purchase of 15,000 shares of common stock at \$3.

Harvey Pres. Franklin Karp said there was "potential" for longer agreement with Mesa, but after firm completed first leg of helping draft plan for home networking business, decision was made to end pact in effort to save money. Harvey has completed first phase of home networking by adding structured wire to custom installation operation and probably will introduce business formally late this year, Karp said. Home networking will be part of custom installation, he said.

Separately, Harvey reported net sales for month ended May 26 rose 14.1% to \$2.6 million on 3.5% gain in same-store sales. For 7 months, sales increased 12.5% to \$23.3 million on 7.8% rise in same-store sales.

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Rockford Fosgate (RF) Fri. revised 2nd quarter earnings downward to \$42-\$43 million range, blaming what it called "increasingly difficult trends in the consumer electronics retailing environment." While RF expects to continue to gain "significant" market share in mobile audio, retail slowdown in category "became much more pronounced" in April and May, forcing us to rationalize our near-term expectations for sales and earnings," Pres.-CEO Gary Suttle said. RF is supplier of car stereo amplifiers and speakers whose major customer is Best Buy. RF had scheduled teleconference with analysts to discuss revised earnings after our deadline Fri.

BEST BUY TO SELL BONDS: Best Buy said Fri. it would help replenish cash spent earlier this year on purchases of Magnolia Hi-Fi and Musicland by selling \$300 million in convertible bonds in private offering.

Best Buy said proceeds from offering, which "takes advantage of favorable market conditions," also would be used for other corporate purposes, including refinancing of higher interest rate bonds that were retired in March and May. Bonds in offering will mature in 20 years and won't be callable for 3 years. They would be convertible into shares of Best Buy common stock at \$86.87 per share, 37% higher than closing price last Thurs. if specific set of market conditions were met.

Earlier last week, Best Buy said its first-quarter results exceeded Wall St. expectations when its profit declined 23.6% to \$55 million (26¢ per share) from year-earlier \$72 million (34¢) on 3.1% drop in same-store sales. Total sales rose 25% to \$3.7 billion from \$2.96 billion with inclusion of data from 69 Best Buy stores added in last 12 months as well as 1,300 Musicland stores absorbed in acquisition. Musicland same-store sales fell 6.1% on softness in prerecorded music, which negated "significant gains" in DVD software.

Company said same-store sales at Best Buy and Musicland showed some strengthening in last quarter. It said Musicland results, which are "seasonally slower" in first half, took 6¢-per-share hit on company's bottom line. It said earning reduction was slightly better than management's expectations. In announcing Musicland purchase last Dec., Best Buy Chmn.-CEO Richard Schulze said acquisition would have 20-25¢ per share hit for first 3 quarters of current fiscal year.

Schulze said last week he was encouraged by "our strengthening sales trend" late in quarter and said Best Buy was "well-positioned to take advantage of the expansion of the digital product cycle and gaming trends, particularly as the economy improves." Nevertheless, he said Best Buy expected same-store sales growth to remain "essentially flat" in 2nd quarter as "continued weakness" in desktop PCs negated growth in other categories. However, he repeated that modest improvement was expected in same-store sales in 2nd half and company was standing by projection that earnings per share would finish at \$2.16-\$2.21 for fiscal 12 months ending next Feb.

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Wolf Camera, blaming ill-fated acquisition of Fox Photo in 1998, filed for bankruptcy protection last week listing more than \$100 million each in assets and debt. Alpharetta, Ga.-based chain, which operates 500 stores in more than 20 states, has "never" been able to digest Fox, which it bought from Eastman Kodak. "The Fox acquisition was a mistake, and I take full responsibility for the decision and for moving the company forward starting today," Founder & CEO Chuck Wolf said. Kodak was chain's top creditor at \$49.9 million, followed by Traveler's Insurance (\$20 million), Picture Vision (\$5.4 million), Canon (\$4.7 million), Nikon (\$3.3 million), Sigma (\$2.1 million), Pentax (\$1.9 million), Minolta (\$1.5 million), Olympus (\$1.4 million), Sony (\$993,041), InFocus (\$588,913), JVC (\$498,586). As Wolf sought bankruptcy protection, Kodak put \$650 million debt offering back on market June 21. Day earlier, Kodak said it would record \$75 million charge in 2nd quarter and delay bond sale as result of imminent bankruptcy filing of customer it didn't identify.

Royal Consumer Business Products has dropped line of printing calculators to sharpen focus on Genius handheld models featuring holographic color reflectors. New 10-model BriteView assortment, which represented first major revamping of line since introduction of EZVue in 1999, carry retailing ranging from \$2.99 for key chain version to \$14.99 for desktop unit. EZVue line, which included printing models, had ranged up to \$89. "We've put on the back burner all printing calculators because the application is getting smaller because of the different spreadsheet programs out there," Product Development & Mktg. Dir. David Joachim said. "We want to really concentrate on the handhelds because that is where there is the most growth and excitement in terms of the marketplace." DuPont Holographics, which has developed similar reflectors for Timex watches and Motorola pagers, supplies Royal with photo polymer and adhesive materials that are then affixed to calculators' LCD during assembly in China. Calculator with reflector has display that is 5-7 times brighter than standard model, said DuPont Holographics Market Development Mgr. Anita DiAndreth. Reflector adds "cents" to manufacturing cost of calculator, she said. Genius models feature less curved design than EZVue and have moved rubberized surface to outer frame from keypad. Royal's new line comes as calculators increasingly come under attack from handheld PCs that contain feature as standard fare. Many retailers have trimmed space dedicated to calculators to 6' from 8' and reduced assortments 20%, Joachim said. Even at Royal's major accounts — Kmart and Wal-Mart — only about half of its calculator will be carried, Joachim said. "It [handhelds] has definitely had an impact on the marketplace along with a lack of excitement and technology," Joachim said. "But we have something different and a lot of retailers don't want to see the same squared-off look."

New promotion allows consumers who buy select 2001 Toshiba DVD players to receive coupon for 5 free DVD rentals at RentMyDVD.com. Rentals are valid through Sept. 30. RentMyDVD.com Senior Mktg. Dir. Anthony Hicks said new promotion "allows us to reach the newest DVD enthusiasts, those purchasing new Toshiba DVD players." Toshiba America Consumer Products DVD Mktg. Dir. Jodi Sally said her company "has always recognized that the quality and variety of titles available on DVD was one of the essential factors in the success of the format." She called RentMyDVD.com's selection "astounding" and called exclusive promotion way "to provide an added value to our customers." Online DVD rental company told us in April that Toshiba promotion would start in June (TVD April 16 p19). RentMyDVD.com already has offered similar promotions in conjunction with Samsung and Cablevision's N.Y. metro area retail division The Wiz.

Amazon.com opened online music, video and DVD stores in Japan at www.amazon.co.jp selling Japanese and imported merchandise. It had introduced site in Nov., but was selling only books. Although Japanese site doesn't offer wide variety of categories that U.S. one does, company said it did offer many of same features, including advanced search capability and customer reviews. Commenting on addition of new categories, Amazon Senior Vp-International Gen. Mgr. Diego Piacentini said: "The continuing addition of new products to all 4 of our international sites is an important part of Amazon.com's drive to profitability." Company said it opened electronics store in May at its U.K. site and software/videogames store in April in France. Amazon also said its Amazon.de site would add electronics and "further initiatives will be launched at all 4 international sites in the coming year." Electronics in last year has grown to become Amazon's 2nd-largest business in U.S., behind books.

PHILIPS TO SUPPLY XBOX DRIVES: Thomson won't be only CE manufacturer supplying DVD drives for Xbox: Microsoft and Philips Optical Storage Group have signed deal for latter to supply drives for videogame console as well.

Philips Components spokesman told us his company would function as "secondary" supplier of DVD drives for Xbox. He said "contract is for more than 2 years" and "we will supply DVD drives for Xbox game consoles worldwide." Financial terms of deal weren't disclosed.

Commenting on his company's agreement with Microsoft, Philips Optical Storage CEO Hein van der Zeeuw said last week: "This supply contract with Microsoft underlines our capability to handle total functions based on our world-leading optical storage technology. We have the ability not only to design a specific DVD solution that is optimized for the demands of the Xbox application, but also to get it into volume production within the short time frame demanded by Microsoft. We are proud to be involved in this landmark project and look forward to the market launch and the expected major impact that this product is expected to have on the fast-growing market for high-performance game systems."

Thomson spokesman told us at CES that his company was supplying DVD drive for Xbox as well as console's MPEG technology (TVD Jan 15 p12). But he told us last week that word of additional supplier wasn't inconsistent with prior announcements by Microsoft and Thomson. He said Thomson had "multiple relationships" with Microsoft on Xbox front and "is officially the 'preferred supplier' for Microsoft Xbox DVD drives" — but not exclusive supplier. He said Thomson would be supplying "most" of game system's DVD drives.

Xbox Hardware Gen. Mgr. Todd Holmdahl said of Philips deal: "We are excited to have the support and involvement of Philips. As a leader in the optical storage market with proven technology capabilities in consumer DVD Video, we expect Philips will make a significant contribution to the Xbox as we launch this fall."

News of Microsoft-Philips deal came shortly after word that Microsoft and XBOX Technologies (XBOX) had settled their trademark dispute (TVD Feb 19 p11) over name "Xbox." Terms weren't disclosed. Companies said Microsoft would have all trademark rights to "Xbox" name and XBOX Technologies "in due course" would "change its corporate name." Microsoft said it still was on track to roll out Xbox Nov. 8.

In other Microsoft game news, company said it started shipping PC title *Train Simulator* at \$54.99. It said game would offer authentic "sights and sounds of famous trains past and present." Microsoft PC Games Gen. Mgr. Stuart Moulder said: "Microsoft has over 20 years' experience building the best PC-based flight simulation products in the market, and we were committed to ensuring that Microsoft *Train Simulator* meets the same exacting standards of quality and realism. While appealing to the existing core market, we are confident that Microsoft *Train Simulator* will also inspire a whole new generation of train enthusiasts."

Niles Audio signed on as Sigma Autosport sponsor for 5 races in FedEx CART Championship Series starting with June 24 event in Portland, Ore.

NETTV ROLLS OUT CATIPULT: NetTV, better known for its progressive scan digital TVs (DTVs), is rolling out multimedia player combining DVD with 75 Gb personal video recorder (PVR).

Catapult DVD device, which will be priced at \$4,999 and aimed at high-end CE market, has Pentium III 1 GHz processor, 256 Mb SDRAM, Hitachi progressive scan DVD drive, 12x CD-ROM. It can pass through Dolby Digital and DTS, has IEEE-1394, USB ports.

Player is equipped with Windows 2000 operating system, has Gemstar-TV Guide International electronic program guide (EPG), user interface developed by parent Lumenati. Unclear is supplier of PVR platform. Lumenati's financial backers include venture capital firms Pequot Capital Management and Encore Capital Management.

Introduction of multimedia player represents move by NetTV back into CE market, which it quit for educational channel several years ago. NetTV emerged along with likes of Compaq, Thomson, Zenith and others in mid-1990s as purveyor of ill-fated PC/TVs that sought unsuccessfully to merge processing capabilities of PC with video attributes of TV.

NetTV continues to market line of 27" (\$1,599), 32" (\$1,799) and 36" (\$2,000) DTV monitors to education market along with 42W plasma display with 640x480 resolution, 350 lumens, 580:1 contrast ratio. TV tubes are sourced from Toshiba, while Fujitsu supplies plasma, Sales Dir. Brent Vorous said.

"Mainly we are replacing analog sets [in education market] and the volume allows us to get back into consumer electronics," said Vorous, who estimated that NetTV sold 1,200 monitors per month to education market. It said it had an installed base of 25,000 units.

In returning to CE business, NetTV will target Cedia dealers through network of distributors, Vorous said.

Texas Instruments (TI) said Compaq selected its programmable digital signal processor (DSP) technology to enable audio encoding and decoding in new iPAQ Music Center, shipping in early July at \$799. Compaq's iPAQ Music Center, latest entry in iPAQ line, is digital audio device that serves as computer maker's first home entertainment system. Device is first TI-enabled product that allows users to digitally record music from almost any source and can store and organize thousands of digital music files without using PC. Companies said device, which is compatible with MP3 and Windows Media Audio (WMA), could hold up to 400 full-length CDs or 5,000 individual tracks. Music Center was co-developed by Compaq and OpenGlobe. TI Worldwide Internet Audio Mktg. Mgr. Chris Schairbaum said company "expects a whole new generation of TI-powered Internet Audio devices to emerge this year" and "the iPAQ Music Center offers the first glimpse of what's to come."

Movie Gallery announced return of its Power Play Discount Rental Card promotion. Video specialty retailer said deal, ending July 4, allows customers to rent 6 videogames or 8 DVD or VHS titles for one-time charge of \$19.99, which company called "a savings of up to 30%."

PRINCETON GRAPHICS ADDS LINUX: Princeton Graphics (PG) will upgrade its HD-ready monitors (TVD Jan 15 p18) to Linux operating system (OS), while Ch. 1, which created its interactive TV platform, has been spun off into separate company.

PG has sold "several hundred" of 36" Internet-ready TVs since bow in Feb. and has added 32" (\$3,299) as it shifts to Linux OS from QNX. Sylvania-brand 27" will be available in Aug. at \$899. Current owners of 36" will be able to upgrade to Linux via download, PG Business Development Vp Rey Roque said.

"QNX is a great operating system, but with Linux we get mass distribution and multimedia plug-ins become available," Roque said. "It's just easier to work with a platform that has that kind of distribution because it's an open system and you get whatever is developed in that community."

Splitting off of Ch. 1, subsidiary of holding company that owns PG, will allow company to better pursue licensing agreements for its platform, Roque said. Ch. 1 became separate company effective June 1, he said.

Still in flux is PG's agreement with NadaPC, which has proposed marketing heavily subsidized HD-ready 27" at \$199. Set, which uses multimedia tube sourced from Thomson, was to be packaged with 3-year ISP agreement carrying \$21.95 monthly fee. Product, which was designed around Ch. 1 platform, was to have shipped in April.

"All that is missing now are LCs [letters of credit] for purchases," said Roque, whose company is sourcing tubes for NadaPC. "They're still interested, but they have to line up the financial partners."

NadaPC Pres. Jonathan Strum said company had shifted immediate focus to Internet-ready 13" countertop TV that will ship in July, but plans to deliver 27" digital TV by 4th quarter. "We didn't want to compete with our own distribution efforts and we did some testing and found considerably wider acceptance on the consumer end for this product than an HDTV at this point," Strum said. "It [27"] is not off the drawing boards, but simply pushed back based upon product flow from other places."

As it continues focus on direct-view sets, PG is weighing entry into rear-projection TV market, although it has abandoned plans for CRT-based models, Roque said. Instead, PG is considering adding 50-60" sets based on either Texas Instrument's Digital Light Processing (DLP) or JVC's Direct-Drive Image Light Amplifier (D-ILA) technology, Roque said. "Because of the price points, CRT-based sets don't make sense for a niche player like us," Roque said.

Meanwhile, PG has put plans for progressive DVD players on hold. While development of product has been completed, it's awaiting decision whether DVD Forum will permit higher resolution formats, Roque said. PG has built 3 prototypes capable of handling resolutions up to 960p, he said.

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PG, which introduced 17" LCD monitor at \$899 earlier this year, is continuing aggressive posture. It has packaged LG.Philips-sourced 15" LCD monitor with \$40 rebate this month at Costco, effectively lowering price to \$359, Roque said. Monitor has 1,024x768 resolution, he said.

TOWER CLOSES STORES, TAKES CHARGE: Tower Records, taking \$23.8 million charge partly linked to shutdown of book store business, reported 3rd-quarter net loss grew to \$34.3 million from \$4.2 million year ago as revenue inched up to \$255.09 million from \$255.04 million.

Large part of pretax charge — \$17.8 million — was result of restructuring and assessment impairment. Tower has closed all but one of its 9 bookstores as well as 3 record and outlet stores. It also sold 2 frame/gallery outlets. Under restructuring plan implemented in Feb., Tower is selling or closing operations in Canada (2) and Argentina (5), entering into joint venture for chain in Hong Kong (2) and Singapore (3) and "monitoring" another 9 U.S. outlets for possible closure, SEC filing said. Tower currently operates 185 stores.

In closing stores, Tower also cut 250 jobs at retail and corporate level in positions ranging from clerks to management, it said. Tower and other music chains have suffered in recent months on slowdown in music sales and sharp pricing that has seen tags for some newly released titles drop to \$9.95 in ads.

Restructuring cut Tower's gross profit in quarter to \$70.9 million from \$85.4 million and gross margin declined as percentage of revenue to 27.8% from 33.5%. Tower's U.S. revenue increased to \$148.7 million from \$148.5 million but international slipped to \$106.4 million from \$106.5 million.

Tower also will be under pressure in coming months from lenders to get firm commitment by Oct. 1 from financial institutions to get debt or equity funding needed to meet Dec. reduction in credit facility. Tower reached agreement with Chase Manhattan and J.P. Morgan in April to extended \$225 million credit facility for year, but amount available gradually decreases to \$210, \$195 and \$100 million in July, Oct. and Dec., respectively.

Wherehouse Music, which has closed 34 stores since April, said 3rd-quarter loss widened to \$5.2 million from \$4 million year earlier as revenue plunged to \$150.6 million from \$176.8 million. About \$6 million of \$26.2 million decrease was due to store closings since April 30, 2000, Wherehouse said in SEC filing. Chain, which operates 490 stores, also continued to suffer from shutdown of CheckOut.com online business in Feb. Wherehouse said it lost \$20.6 million on CheckOut.com joint venture, including \$11.1 million for its share of operating loss and \$9.5 million for impairment in value of investment. Wherehouse bought 49% stake in CheckOut.com in 1999 (TVD Nov 29/99 p15) and merged Michael Ovitz-backed e-tailer with own online business. Wherehouse, which operated under bankruptcy protection in mid-1990s, grew rapidly with \$122 million purchase of 398 former Blockbuster Music stores (TVD Aug 17/98 p15).

National Record Mart (NRM) said major record labels had filed petition seeking to force it into bankruptcy protection. Petition was filed under Ch. 7 of federal bankruptcy code, which governs liquidation. Filing petition in U.S. Bankruptcy Court, Pittsburgh, were EMI, Sony, Universal and Warner Music, which collectively have claims against NRM totaling \$18.7 million. Topping list is Universal (\$8.3 million) followed by Warner (\$4.3 million); BMG (\$3.3 million); Sony (\$1.6 million); EMI (\$1.1 million). NRM operates 130 stores in 33 states and Guam under Music Oasis, Music X, NRM Music, Vibes, Waves.

BOSE SEEKS TO SHORE UP SHARE: Bose, seeking to shore up market share, is offering to increase dealer margins 7-14% across Discover speaker series provided retailer agrees to carry minimum of 12 Bose products, sources said.

Unclear is whether better margins would be achieved through lower dealer cost or increased funds for cooperative ads. Bose officials weren't available for comment.

Program is being applied to Series 901, 701, 501, 301 and 201 speakers, but doesn't include Lifestyle products, retailers said. Suggested retail price won't change, sources said. Price also comes as Bose readies introduction of new speaker including new tower version of model 701 (\$499 each) with powered amplifier. Top-end 701 currently has two 2-1/4" tweeters, single 6-1/2" midrange drive and two 8" woofers. It's compatible with receivers and amplifier rated at 10-400 w and has technology designed to widen speakers' "sweet spot" and blend reflected and direct sound.

Bose implemented new strategy as it sought to fend off incursions by Polk Audio and Klipsch. While Bose had 13.4% dollar share of overall U.S. speaker market in 2000, followed by Polk at 8.8%, gap through May had narrowed to 13% and 10%, respectively, dealers said. In May, Bose had 13.8% dollar share to Polk's 10.5%, dealers said.

"They [Klipsch and Polk] have made a product that sounds as good, if not better in some cases, than Bose and they are priced about 30 to 40% cheaper," midwest dealer said. "What they're trying to do is revitalize the line."

Revamping of product lines is expected to carry over to Lifestyle series, which is expected to add DVD (TVD April 16 p11) to mix in Sept.

Maxtor, major supplier of hard drives for personal video recorders (PVRs), is slashing 1,500 jobs in Singapore and U.S. as result of continued weakness in PC market. About 700 employees at Singapore plant will be laid off along with another 800 in U.S. Maxtor, which merged with Quantum's Hard Disk Drive Group in April, already had said it would lay off 530 workers as result of merger. Pres.-CEO Michael Cannon blamed job cuts on soft PC market coupled with weaker-than-expected demand for hard drives. Despite reducing work force, Maxtor continued to expand product line, taking wraps off 100 Gb, 3-platter drive with 5,400 rpm that will be priced at \$300. Drive, which will target high-end PC applications such as work stations, eventually will be made available to PVR market. At same time, Maxtor introduced 80 Gb model that carries \$229 tag. Largest drive currently deployed in PVR market is 60 Gb in Philips-branded TiVo model.

Virgin Entertainment Group (VEG) kicked off digital Preview System pilot at its stores allowing customers to preview music and video-on-demand. Company called system "most advanced entertainment system in the market today," saying it "will allow consumers to access a database of over 10,000 DVDs and 200,000 CDs through an easy-to-use touch-screen interface." Items can be previewed just by scanning barcodes. Virgin said system also provided recommended titles and soon would offer search, remote ordering and access to exclusive Virgin content and products. Company said system was "first stage in an ongoing initiative by VEG North America to integrate VEG's 'Click and Bricks' operations." System uses Virgin's proprietary network as well as Muze entertainment data.

Good Guys (GG), blaming softening in demand for CE products, said first-quarter loss grew to \$10.1 million from \$8.7 million year ago as sales slid to \$171.5 million from \$184.1 million on 8% decline in same-store sales. Chmn.-CEO Ronald Unkefer forecast "negative sales trends" into fall but held out hope that chain could turn profit in 4th quarter and for fiscal year based on planned expansion of selection of digital products. GG will post "single-digit" increase in sales in 4th quarter and will finish fiscal year flat with year earlier, Unkefer said. "The whole CE space is going to gain share of wallet" by fall when many consumers receive federal tax rebates, Pres. Kenneth Weller said. "Over the next 6 months the negatives will not be as heavy as we have seen." In effort to boost sales, GG is revamping its older stores by removing some walls to give them more "open" design and will spend \$2 million over 18 months renovating 20 outlets in San Francisco and L.A. markets, Weller said. New design will be coupled with expanded assortment of personal electronics and effort to secure "limited" distribution product lines, said Weller, who declined to disclose possible suppliers. Move to increase assortment of personal electronics comes year after chain eliminated department dedicated to category as it trimmed 315 jobs (TVD March 27/00 p14). GG also has installed new Nakamichi products display and will add one for mobile products such as handheld PCs and car stereo. GG continues to review plans for expanding for store-within-a-store format in which Tower Records sells music software, but is studying other options as well. GG has 2 stores in Las Vegas in which Tower sells software and also operates 5-store Wow chain with music retailer. "We're looking at different options and we may do some new merchandising in some of the stores ourselves and compare that to the results we are getting with Tower," spokeswoman said. GG has no plans to end joint ventures with Tower, she said. Tower also is under restructuring in closing its bookstores and cutting 250 jobs (see related story, this issue).

Olympus started shipping DM-1 digital voice recorder/MP3 player at \$349. Player comes with 64 Mb SmartMedia card, Digital Speech Standard (DSS) Player and MusicMatch software, USB cable, carrying case with belt clip, stereo headphones. Olympus said player offered up to 22 hours of voice recording or more than one hour of MP3 or Windows Media Audio (WMA) music recording time on 64 Mb card. DM-1 also is compatible with all SmartMedia cards up to 128 Mb, Olympus said. Although company is targeting player at business users, it said it was "geared for consumers and corporate road warriors," as well as students, journalists, doctors and lawyers. Company said DM-1 was "first MP3 player in the world to feature the WOW" sound system from SRS Labs. Olympus said WOW system allows "production of rich bass, clear 3-dimensional stereo sound and user-selectable 5-setting equalizer for settings from classical to rock."

BestBuy.com expanded its online product categories with addition of home office merchandise. Home office selection includes batteries, caller ID and answering devices, office furniture, paper, printer cartridges, telephones. Company said that as part of new home office area, BestBuy.com and select Best Buy stores also would offer Samsonite travel luggage. BestBuy.com Mds. Vp Dan Moe said: "The home office category is an important part of BestBuy.com's continuing expansion. The launch moves us one step closer toward our goal of having all product categories represented online."

Correction: Yen/dollar exchange rate in June 18 issue should have been ¥120 = \$1.

SEGA AND SONY SIGN EXCLUSIVE DEAL: Sega Corp. and Sony Computer Entertainment Europe (SCEE) signed exclusive distribution agreement under which latter will manufacture, distribute and market 7 Sega games for PlayStation 2 (PS2) in all of SCEE's PAL territories.

Companies said at least 2 of titles would ship in time for Christmas. Making up slate of 7 games are *Ecco the Dolphin*, *F-355 Challenge* (working title), *Head Hunter*, *K-Project* (working title), two *Space Channel 5* titles, *Virtua Fighter 4*. Companies said "other exclusive titles are expected to be announced during the course of this year."

Sega and SCEE — formerly major rivals in hardware games arena until Sega's retreat from hardware business earlier this year (TVD Feb 5 p11) — said all 7 titles "will be localized into the 5 major European languages."

Agreement was latest move by Sega to cut back on distribution side of its Sega Europe business. In April, Sega Europe said it signed deal with Bigben Interactive to handle Dreamcast product distribution in Europe (TVD April 23 p19).

Commenting on Sega-SCEE distribution deal last week, Sega Europe Pres.-COO Yoshio Sakai said: "These are very important titles for us. Our development teams are already working intensively to write the very best quality games exclusively for PlayStation 2. SCEE has demonstrated over the last 5 years that they are the best marketers in the business and we are sure they will work their magic on these dedicated PlayStation 2 games."

SCEE Pres. Chris Deering said: "We now have one of the best content creators in the world writing games for the most advanced computer entertainment system. It will be an exciting and winning combination not only for PlayStation 2 and Sega but more importantly for our consumers. We are very happy to be marketing and distributing for Sega and we cannot wait to take on this challenge."

News came only 2 weeks after Sega Corp. and SCEE parent Sony Computer Entertainment announced initiative to allow Sega Dreamcast and PS2 gamers to play same title online in move to boost Web game market. Plan represents first time in videogame history that competing consoles will be able to be linked.

Sega of America (SOA) said online cross-platform initiative by parent pertained only to Japanese market and it "has not yet announced plans for cross-platform gaming in North America." But SOA said: "The company is a pioneer in online console gaming and is constantly investigating new technologies and solutions for delivering the best possible online gaming experience to consumers. Sega of America is committed to online console gaming and will make further announcements at a later date."

Sega Corp. said it planned to ship first online cross-platform multiplayer game — *Guru-Guru Onsen 2* — this year. "In line with the company's strategy to publish videogames for all next-generation videogame platforms and multiple other devices, *Guru-Guru Onsen 2* will be playable online via Dreamcast, PlayStation 2 and the PC," it said. Sega said *Guru-Guru Onsen* series had attracted 3.5 million online players in Japan to date with average playtime of 100 min. per

session. Game allows users of each platform to play card games and "shogi" — Japanese chess — online, Kyodo News Service (KNS) said. Sega will ship game for Dreamcast in Aug. and for PS2 by year end, KNS said.

Sega also revealed it was entering game software market in China in new business alliance with Beijing-based Metrix Interactive Entertainment (MIE) that Japanese game maker said was designed to "accelerate Sega's multiplatform strategies." First 2 titles shipped in China as part of Sega-MIE deal were *The House of the Dead* and *Virtua Fighter 2* for PC, each arriving June 15. They were to be followed by *Sonic 4 IN 1* June 23 — just in time for Sonic the Hedgehog's 10th birthday. Sega said: "Other major content will be following within this year and later."

Sega said it decided to enter China market with PC titles now largely because "PC market is expanding" there. But it said it was looking to provide content for all game platforms worldwide.

Other upcoming PC titles for China include *Last Bronx* and *Virtua Cop 2* (each shipping July 5); *The Typing of the Dead* (July 19); *Sakura Wars* and *Sakura Wars 2* (TBD); *The House of the Dead 2* (Aug. 15); *Sega Touring Car Championship* (Sept. 5); *Sega Bass Fishing* (Sept. 15); *Sega Marine Fishing* and *Virtual ON* (Oct. 15).

MIE, led by Pres. Zhong Shaoyu, is subsidiary of Hong Kong-based investment company Hi Sun Ltd.

Separately, Sega announced worldwide release last week of *Sonic Adventure 2* for Dreamcast at \$39.95. Company said date marked 10th anniversary of its Sonic the Hedgehog mascot. Separately, Japan report said Sega Corp. was entering nongaming fields and was targeting ¥10 billion in sales in 2004.

In other Sega news, SOA introduced *Dreamcast Map Pack*, with 23 maps for game *Quake III Arena*, published by id Software. Pack can be downloaded at Sega's Web site.

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Sony Electronics said it would ship DSC-P20 Cyber-shot digital still camera at \$250 in Aug. Camera features 1.5" LCD and 1.3 megapixel CCD and can capture MPEG motion video. Exclusive ClipMotion animation feature allows user to take up to 10 photos that camera can combine to make single ClipMotion animation file. Sony said it would target camera at first-time digital photographers. Digital Imaging Product Senior Vp Takashi Kondo said model "is a fun camera that makes digital photography approachable, and it also has features that will continue to engage users as their product knowledge expands." Model can shoot up to 90 min. of continuous video using 128 Mb Memory Stick card, Sony said.

Matsushita has no plans to introduce 60W plasma display panel (PDP) until well into 2002 at earliest, company said. While there were plans at one point to have 60W by 2nd half of this year (TVD May 22/00 p13), new PDP plant that goes on line in Japan this summer has capacity for only up to 50W, it said. Matsushita is marketing 50W and may move to larger sizes in future. Plasmaco, which Matsushita bought several years ago, has shown 60W prototype that was hand built at its Highland, N.Y., facility. PDP has 1,366x768 resolution and 550 lumens.

OLEDs, POLY OLEDs ADVANCE: After years in shadows of display industry, organic light-emitting diodes (OLEDs) and polymer organic LEDs (PLEDs) are drawing attention of major manufacturers.

Three-Five Systems (TFS) and DuPont Displays unveiled plan for joint venture at recent Society for Information Displays (SID) conference in San Jose as Toshiba surprised many with full-color 2.85" active matrix (AM) PLED featuring 6-bit gray scale, 144x176 resolution, 0.38 mm pitch, with production due next year.

Sony showed 13" OLED with 800x600 resolution, 200:1 contrast, 500 lumens brightness, availability in 2003. Eastman Kodak postponed plans for 10" prototype with 800x600 resolution, focusing instead on AM 2.4" and 5.5" displays produced as part of joint venture with Sanyo. Kodak declined to release many of details of joint venture with Sanyo, including where it will be located and when production will start. Kodak recently established separate display group within company leading to speculation it might be spun off. Kodak declined comment.

"I think there could be a first wave of consolidation in a sense that there are those technologies that are ready and there are those that are not and the latter won't be able to participate as the ramp up of production starts," said DuPont Displays Pres.-CEO Chester Pribonic, whose company has made of wave of acquisitions and investments in elbowing way into PLED business. OLED market, which generated sales of \$27 million in 2000, is expected to increase to \$1.6 billion by 2007 with AM accounting for 32% of business, Stanford Resources said.

Ramp up of production for small molecule-based OLEDs and PLEDs will begin in earnest next year. Three-Five/DuPont joint venture expects to start preproduction of 1-5" passive matrix PLEDs with 320x240 resolution by 3rd quarter at DuPont subsidiary Uniax's facility in Santa Barbara, with capacity of 10,000 units per month. Sample and volume production will begin in 2002 using 6" substrates at factory operated by Taiwanese manufacturer Ritek in which DuPont took 8% stake earlier this year. Ritek, which also is Kodak licensee for OLED, is projected to hit production of million PLEDs per month by late 2002, Pribonic said. Final assembly is likely to be at Three-Five facilities in China or Malaysia. Goal is introduce AM color OLEDs by 2003, Pribonic said.

Joint venture will be 51% owned by Three-Five, which will supply management, while DuPont holds rest. It will be based near Three-Five's hq in Tempe. Companies have invested \$1.5 million each in venture, which is expected to carry business until first customers are signed in 2nd half next year, Pribonic said. Companies' PLED will target cellular phones at start and potential customer could be Motorola, which is LCD customer for Three-Five. Motorola now markets phone using passive matrix mono OLED from Pioneer, which is Kodak licensee.

"We will concentrate on low-volume, high-margin opportunities in the beginning and that will allow us to understand the process so the solutions that we offer are very robust," Three-Five CEO Jack Saltich said.

Major difference between small molecule OLEDs and PLEDs, in addition to latter's lower operating voltage, is manufacturing process. Small molecule OLEDs are produced by depositing materials at low vacuum that exclude water and oxygen

and using shadow mask to pattern red, green and blue (RGB) phosphors on substrate. PLEDs use ink jet printing, process currently deployed by Seiko-Epson and Toshiba, to get RGB on substrate. Toshiba has developed method to form polymer on low-temperature polysilicon thin film transistor array. Toshiba also is major supplier of low-temperature polysilicon LCDs.

Seiko-Epson demonstrated 2.5" full-color 16-gray level AM display using light-emitting polymer technology licensed from Cambridge Display Technology (CDT). Display, which has 200x150 resolution, is expected to start pilot production in 2002 at CDT facility in Godmanchester, England. Other CDT licensees include Philips, which showed 1.4" display at SID, Osram, Delta Electronics. LEPs, like other polymer-based displays, require 2-3 v and can achieve high efficiency at 100 candelas.

Among Kodak licensees, eMagin expects to start production later this year of 0.61" display with 800x600 resolution at \$80 in volumes of 10,000 units per month.

"They [OLEDs and PLEDs] don't enable new applications and they will take share away from vacuum fluorescent, LEDs and passive matrix LCDs," Stanford Resources Vp David Mentley said.

Columbia House (CH) may be on auction block. Sources familiar with situation said AOL Time Warner and Sony were in talks on selling off their joint direct music/video club CH to Bertelsmann. AOL-Warner and Sony couldn't be reached for comment and Bertelsmann declined comment. Reuters said negotiations apparently were latest in series of attempts by AOL-Warner and Sony to sell CH off to Bertelsmann, owner of BMG Direct — CH's main competitor. One scenario being discussed would call for Bertelsmann to pay cash for 80% of CH and either AOL-Warner or Sony to retain rest of company, reports said.

Select packages of JVC videocassettes and blank audio CD-R discs will contain coupons redeemable for free Domino's pizzas in promotion that runs through Sept. 30. Each coupon is redeemable through Dec. 31 for free medium-sized Domino's pizza worth up to \$30 with purchase of large pizza.

"All-format" release Aug. 28 of *Randy Travis Live: It Was Just a Matter of Time* was announced by Image Entertainment. Included with first pressing of DVD will be DVD-Audio recording of concert in high-resolution stereo and 6-channel surround as well as Dolby Digital 5.1 multichannel tracks. Concert was filmed Dec. 14 at Sun Theater in Anaheim.

Ubi Soft is in talks with Japanese game maker Capcom to distribute latter's Game Boy Advance titles, British news report said. But U.S. spokeswoman for French game maker Ubi Soft Entertainment told us last week it was "company policy not to make any comments on rumors." We were unable to reach Capcom for comment by our Fri. deadline.

THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥124 = \$1, except where noted.

RECORDABLE CD SALES SKYROCKET: Nearly one billion blank CDs were sold in last 15 months through U.S. retailers, mail order firms and resellers, market researcher NPD Intelect reported. Most discs are for recording on PCs, but audio CD-R category also is blossoming.

In first quarter alone, blank CD sales quadrupled and revenue jumped 76% from year-ago period despite documented slowdown in PC sales and increasing price for blanks, group said.

"Even as consumers slow their purchase of technology products they continue to find the advantages of CD recording compelling, as evidenced in the huge numbers of blank discs being sold each month," NPD Research Dir. Stephen Baker said. "The mainstreaming of this function will be tested over the next few months as CD makers and marketers implement recently announced price increases."

Increases have begun to reach store shelves, with average cost per-blank disc increasing to 55 cents in March, up 7 cents from Feb.. Average retail price for CD-R 10-pack climbed to \$11 in March from \$8 in Feb., NPD said.

"The growing need for more storage — for downloading music to archiving digital images — is driving sales of CD burners, which in turn continues to drive sales of blank discs," Baker said. "Even as PC sales slow, CD burners are attaining the status of a checklist item for computer buyers. This is demonstrated by the impressive market share held by computers with preinstalled CD recordable drives."

Robust sales growth of aftermarket CD recordable drives is one factor increasing consumer demand for blank CDs. Add-on drive sales climbed 136.4% in first quarter from 2000 quarter, NPD said. More PCs are being sold with CD recorder preinstalled — category grew 15% in same period. Systems equipped with CD-R represented 43.2% of retail PC sales in first quarter vs. 32.4% year ago, NPD said.

Home audio CD recorders also were fueling trend, with 71.1% growth in first quarter 2001 over 2000 quarter. "As prices for audio CD recorders have fallen to affordable levels, another nail is driven into the tape cassette coffin," NPD CE Dir. James Hirschberg said. He said average selling price of audio CD-R deck was \$363 in April.

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Kenwood reopened its Web site at www.kenwoodusa.com. Kenwood USA Pres. Joseph Richter said "customers will find the new Kenwoodusa.com user friendly and informative." Manufacturer said it wanted "to increase brand and product line awareness" when it decided to develop new version of site. It said new features were "added to ensure [brand's] value to consumers including cross-selling opportunities that educate customers about the variety of products available; easily accessible and more specific product data; and a more flexible, detailed engine that guides people through product comparisons." Kenwood said it used architecture of global Internet solutions company Blast Radius (BR) for new version of site. BR Exec. Vp Michael Dingle said "modular approach" used to rebuild Web site would make it easier for Kenwood to "add functionality or product lines in the future." BR's other clients include Atlantic Records, Casio, Lego, MTV, Nintendo.

Consumer Electronics Personals

Kazunori Yamamoto named pres.-CEO of newly reorganized Pioneer Electronics (USA) in addition to continuing as pres.-CEO, Pioneer N. America (see report, this issue). Advancing to pres. at each of Pioneer's 5 newly created divisions: **Susumu Kotani**, Mobile Electronics; **Tsutomu (Tom) Haga**, Home Entertainment; **Paul Dempsey**, Business Solutions; **Greg Pierson**, Strategic Services; **Ron Stone**, Customer Support... **Goran Lindahl**, ABB CEO, elected to Sony board... (Werner Heid, ex-InFocus, named Iomega pres.-CEO, replacing **Bruce Albertson**, who resigned last month... **John Loose**, re-elected Corning pres.-CEO; **James Houghton**, chmn.-CEO, named nonexecutive chmn., succeeding Roger Ackerman, named to one-year term on board... **Buzz Delano** advances to Sonance sales dir. western region sales mgr... **Mark Lucas**, ex-Iomega and Duracell, appointed Altec Lansing Technologies pres.-CEO... **Brendan Sherry**, Planetweb vp-Europe, named managing dir., Planetweb's new European office in U.K.... **Christopher Dinallo**, ex-Netspeak, appointed Pace Micro Technology Americas chief technologist... **James Marcum**, ex-Stage Stores, named Hollywood Entertainment exec. vp-CFO, replacing **David Martin**, resigned; **Exec. Vp Scott Schultze** advanced to COO from chief administrative officer... **Javade Chaudhri** promoted to Gateway senior vp-gen. counsel, effective July 1, replacing **William Elliot**, who remains special counsel and corporate secy... **John Muskovich** resigns as eMachines CFO, with Senior Vp-COO **Adam Andersen** and Vp-Finance **Corinne Bertrand** splitting duties... **Sanjeev Lamba**, ex-Disney Consumer Products licensing and mktg. vp, named Disney Interactive international vp... **Jim Welch** advanced to Konami of America vp-financial services from dir. of credit administration.

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Accessory kit for Intel's Pocket Concert Audio Player starts shipping this month at \$59. Intel Technical Mktg. Engineer Garrett Lindberg said last week that kit lets user connect digital audio device to car cassette player. Kit comes with weatherproof case, rechargeable batteries, home stereo docking station. Audio player itself, which shipped earlier this year, costs \$299 and comes equipped with 128 Mb of built-in Intel Strataflash memory for storing digital audio in MP3 or Windows Media Audio (WMA) formats. Lindberg said device could be upgraded to handle new compression technologies in future. Also shipping this month is Intel Play-branded QX3 Plus Computer Microscope — enhanced version of device that has been selling at computer stores, mass merchants, specialty retailers, toy stores. Like first-generation model, QX3 Plus is priced at \$99. Company said 2nd-generation model's enhancements include ability to take fuller advantage of Intel Pentium 4 processor and expanded operating system support for Windows 2000 and Windows Me.

Kalisto Entertainment signed deal with American investment fund Global Emerging Market (GEM) for what it said was "a reserved increase in capital that would amount up to 15 million Euros." Ailing game maker based in Bordeaux, France, said capital infusion would enable it "to restore its consolidated equity capital and finance its activity." Kalisto announced restructuring plan in March after revealing its consolidated loss for past year would "reach approximately" 175 million francs and that its consolidated equity capital "would reach a negative level of 55 [million francs (MF)]." Company said in April that it still was weighing its options, which included finding partner. But Kalisto said it wanted to hang on to its independence and was trying to avoid takeover.