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BROADCAST ADS TARGETED: House Administration Committee referred to full House bill (HR-2360) by Chmn. Ney (R-O.) that would ban political parties from raising or using soft money contributions for federal election activities including broadcast issue ads. However, it wouldn't ban issue ads in and of themselves, rejecting such restrictions as unconstitutional. "The 25 years of court decisions, from the Supreme Court on down, have made it very clear that our Constitution does not permit the federal government to regulate issue advertising," Ney said. Bill also would increase disclosure requirements for political ads in all forms of media, not just in over-air broadcast as proposed by other measures.

Committee voted 5-3 in favor of Ney bill, and by same margin agreed to negative referral of bill (HR-2356) re-introduced by Reps. Shays (R-Conn.) and Meehan (D-Mass.). Ney said Shays-Meehan, as well as bill (S-27) by Sens. McCain (R-Ariz.) and Feingold (D-Wis.), which Senate passed earlier this year, would shift campaign power solely to wealthy candidates: "The fact is, aside from their attempt to restrict broadcast issue advocacy, Shays and McCain do absolutely nothing to restrict how unions and corporations spend soft money. Even under Shays-Meehan these groups can use soft money to buy broadcast ads more than 60 days before an election, and to fund attack communications of any other kind right up to election day."

Ranking Democrat Hoyer (Md.) said he didn't support Ney measure, but described it as "worthy alternative." While provision in HR-2360 would require disclosure of hard money support of ads, Ney bill "falls short" since it wouldn't end parties' dependence on soft money, he said. Conversely, he said, Shays-Meehan offers "a genuine end to soft money." Ney said Rules Committee advised him it would review bill by July 11.

Disclosure provision in HR-2360 would require buyers of political ads to reveal their identity within 24 hours after ad purchase. Ney bill would allow parties to raise and use soft money for: (1) Voter registration and "get-out-the-vote" drives. (2) Fund-raising. (3) Overhead expenses. It also would cap donor contributions to political committees at

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DVD RECORDER WAR MOVES TO PC EXPO: Panasonic to ship DVD-RAM portable player in Oct. at \$999 street price. Dell joins DVD+RW alliance. (P. 9)

TOSHIBA SCRAPS PVR UNTIL 2002, but readies Jan. CES introduction of microdisplay-based rear-projection TV. (P. 10)

SONY CUTS PS2 PRICING IN JAPAN: But N. American and European subsidiaries say they have no plans to follow suit. (P. 12)

PHILIPS TO TRIM SET-TOPS in U.S. as part of CE restructuring. Standalone TiVo recorders said to be among those under consideration. (P. 12)

HANDHELDS ABOUND AT PC EXPO: Typifying active week of introductions, Sony beefs up its Clie lineup with 2 new models. (P. 13)

\$75,000 that couldn't be used for federal election activities and would exempt from current aggregate limits hard dollar contributions to parties.

Public Citizen charged that Ney bill was “transparently phony reform.” It said it supported “the basic thrust” of Shays-Meehan, but blasted new provision known as Levin Amendment, named after Michigan Democratic Sen. Carl and Rep. Sander Levin, which would allow PACS to give \$10,000 each to political committees nationwide.

House Commerce Committee Chmn. Tauzin (R-La.) and other key members urged committee leaders not to move campaign finance reform measure that would require TV stations and other media to give preferential treatment to federal political candidates when selling ad space. Tauzin, ranking Democrat Dingell (Mich.), Rep. Green (D-Tex.) and House Telecom Subcommittee Chmn. Upton (R-Mich.) sent letter June 27 to Ney and Hoyer to shoot down attempts to adopt amendment by Sen. Torricelli (D-N.J.) that was attached to bill (S-27) that Senate approved earlier this year.

Broadcasters applauded effort to remove Torricelli amendment, with NAB Pres. Edward Fritts saying: “Far from being ‘reform,’ the Torricelli amendment would result in perpetual political campaigns and more negative attack ads.”

TECH CENTER CONSIDERED: Broadcasters hope to decide within 30 days whether to establish independent research center to improve DTV broadcasting, said MSTV Chmn. Gary Chapman of LIN TV. Key question is whether broadcasters will provide enough funding for project, which would be similar to CableLabs, he said after speech to Media Institute June 28. Still unclear is how center would be financed, structured and how large it would be, he said. Idea has been percolating for months (TVD March 19 p7).

There's “substantial evidence” that DTV falls short of goal of reaching nearly all TV households with signal that can be received adequately on simple indoor antenna, Chapman said in speech. In fact, he said, research shows that only 1/4-1/3 of TV households can get adequate DTV signal indoors. Improving signal is necessary to keep DTV broadcasting economically viable and to ensure “independent pipeline into peoples' homes” that's “fully competitive with cable,” Chapman said. He said solving technology problems “will be costly, but without it there will be no broadcast industry.”

Chapman said he was “optimistic” that signal quality could improve, but said it would “require a substantial investment” at time when broadcasters faced “challenging economic conditions.” He said “reasons are manifold” why DTV signal was inadequate, but cited particularly early decision to base DTV coverage areas on old analog coverage areas and on use of 30' outdoor antennas that were standard for analog.

In addition to working on improving DTV signal, Chapman said research center would be involved in such things as digital rights management issues, on-channel repeaters, reducing multipath interference. He said broadcasters faced “technological treadmill” with arrival of digital, and only way to keep up was joint research. New research center would be in addition to Advanced TV Technology Center in Alexandria, Va., Chapman told us.

At least some funding for center probably will be available through MSTV, Chapman said. Group has more than \$1 million in member contributions left over from earlier DTV testing effort, and has “generally received permission” from contributors to use it for research center, he said. Organizers also are seeking funding from NAB and other broadcasters.

Some potential DTV improvement efforts are under way, Chapman said. He said Zenith and NxtWave Communications were working on project to develop bi-rate transmission system for DTV that would make signal available to additional households. Zenith and NxtWave have tentative agreement to combine their individual proposals to improve DTV signals, officials confirmed. Although they would provide few details, they said proposals were for backward-compatible VSB enhancements. They also said both companies were continuing to work with other parties toward “a single best-of-the-best” technical solution to be submitted to ATSC later for approval.

Assuring DTV reaches more households is critical because cable isn't carrying DTV and because more than 100 million TV sets still get their signal over air (usually 2nd or 3rd sets in household), Chapman said.

Chapman, like most broadcasters, also pressed for govt. action on DTV must-carry and requiring DTV tuners in all new TV sets. He said it was “a government-mandated consumer fraud” that 30 million TV sets still were being sold annually without DTV tuners since govt. schedule theoretically meant that analog broadcasting would end in 5 years. “If the deadline is to have any meaning, there must be a requirement for digital tuners,” he said.

Govt. shouldn't dictate pace of DTV transition, Chapman said. Best estimate, he said, is that pure market-driven transition would take 20 years, and "to accelerate that by two thirds would essentially guarantee there will be no economic return for broadcasters." He acknowledged that 2006 deadline for turning off analog signals wouldn't happen because of "trigger" that says turnoff need not happen if DTV hasn't achieved 80% penetration. But Chapman said 2006 deadline still was forcing FCC to set other deadlines, such as 2002 for stations to begin DTV broadcasts, that don't include penetration triggers.

Chapman dismissed claim that broadcasters brought situation on themselves by proposing DTV, saying they had no choice because they would have lost their spectrum otherwise: "This is not in any way a voluntary act by the industry." He also said being last ad-supported mass medium was "an extraordinarily heavy burden in the 21st century," when most media will be subscription-based.

NAB's Digital Task Force had what was described as lengthy meeting June 27 as follow-up to TV board session earlier in month for Task Force and staff to determine "what's do-able" in DTV (TVD June 18 p4). "We discussed a range of options... from must-carry and cable interoperability to how to jump-start consumers [to buy sets] but changed no positions," participant said. Another said that Task Force, headed by Michael McCarthy of Belo, "is a clear indication to the government and public that broadcasters are dead serious in their efforts to push DTV... and to educate the public."

CEA and NAB officials, meanwhile, held what participants described as "real positive" meeting with "good vibes" last week in Squaw Valley, Cal., to push forward their joint effort to promote sale of DTV sets (TVD April 30 p7). Nationwide campaign will include special events with retailers, along with print and broadcast ads, in effort to "raise the [public] awareness of the products and programming options for digital television." Assns. will meet again this month to pick about half-dozen test markets before beginning nationwide campaign in fall. Budget for venture hasn't been determined.

POLITICAL RULES UPHELD: U.S. Supreme Court upheld govt. limits on campaign expenditures by political parties, reversing decision by federal appeals court that had shot down Federal Election Commission (FEC) restrictions on radio ad expenditures. Unlike curbs on independent political expenditures, Court said in *FEC v. Colorado Republican Federal Campaign Committee* that restraints on party expenditures were constitutional.

Senate Commerce Committee ranking Republican McCain (Ariz.) said decision "will give momentum to supporters" of campaign finance reform movement (TVD June 25 p1). House next month is expected to consider various reform proposals, including bill (S-27) by McCain and Sen. Feingold (D-Wis.) that would ban soft money and place restrictions on issue ads via broadcast, cable, and satellite media. "Clearly, this decision demonstrates that McCain-Feingold restrictions on campaign contributions are constitutional," McCain said. "Our opponents will have to find some other excuse not to enact laws to restore Americans' confidence in our political system."

Court in 5-4 decision rejected claims that better crafted safeguards already were in place. Justice David Souter said in majority opinion: "Parties are necessarily the instruments of some contributors, such as PACS, whose object is not to support the party's message or to elect party candidates, but rather to support a particular candidate for the sake of a position on one narrow issue, or even to support any candidate who will be obliged to contributors." Justices John Stevens, Sandra O'Connor, Ruth Ginsburg, and Stephen Breyer joined Souter in majority opinion.

Justice Clarence Thomas in dissenting opinion was joined by Justices Antonin Scalia and Anthony Kennedy, with Chief Justice Rehnquist dissenting in part. Thomas wrote: "In my view, it makes no sense to contravene a political party's core First Amendment rights because of what a third party might unlawfully try to do. Instead of broadly restricting political parties' speech, the government should have pursued better-tailored alternatives for combating alleged corruption."

Minorities now hold 24.6% of all jobs in TV newsrooms (21.8% at English-language stations), up from 21% year ago, according to annual study for RTNDA by Ball State U. Among news dirs., percentage of minorities fell to 8% from 14% year ago. Women in TV newsrooms held steady at 39.7%, with women percentage of news dirs. slipping to 20.2% from 24%. Among TV station gen. mgrs., women hold 12.6% of jobs, minorities 8.7%. In radio, minorities occupy 10.7% of all news-related jobs, vs. 10% in 2000 survey, while minorities hold 4.4% of radio news dirs. jobs, 5.7% of gen. mgr. slots. Also in radio, women occupy 37.4% of all news jobs. Women news dirs. increased to 21.9% from 20% and women gen. mgrs. held 12.6% of jobs in TV, 12.3% in radio.

Former NTIA Dir. Larry Irving joined Dallas-based Privacy Council (PC) as partner to expand privacy consulting firm's Washington presence. Firm is opening Washington office to focus on telecom and other businesses with D.C. operations, although Irving said he wouldn't be lobbying for company, which provides privacy technology solutions and other consulting services for companies. Growing volume of privacy regulations, including European Union directive and national laws on books in 40 countries, has created "a lot more information out there that businesses are concerned about," Irving said.

Applicants can't file some Universal Licensing System (ULS) documents electronically, even though electronic filing is allowed under FCC rules, Commission said in notice. FCC said it would announce when electronic filing was available, and in interim ULS documents must be filed manually.

White House formally sent nomination of Nancy Victory as NTIA dir. to Senate. Victory is a partner with Wiley, Rein & Fielding and has worked on numerous telecom issues. She is declining comment while her nomination is pending. There was no word on when Senate Commerce Committee would hold hearing on her nomination.

STATIONS PRESS NIELSEN: Very slow progress is being made in long-standing effort of consortium of TV stations outside Nielsen metered markets to improve firm's diary-based ratings (TVD Feb 5 p2), said group's spokesman John Tupper. Following June 4 meeting of group of broadcasters and 4 Nielsen executives, Tupper (principal owner of Fox affiliates WVSX Lewisburg, W.Va., and KNDX Bismarck, N.D.) said "Nielsen has made some improvements since we began our efforts" more than year ago. Nielsen refused to discuss meeting, saying only "we're continuing to talk."

A major complaint of stations in diary measured markets is that Nielsen audience reports fall far short of accurately reporting viewers 35 and under — principally because that age group is much less likely to fill out and return week-long diaries. Researcher is placing its efforts on improving cooperation rates and age representation of its sample, Tupper said, and recently increased its payment to \$5 for diary-keepers in households where top age was under 50. But, said Tupper: "Our view is that there are many other issues which create the differences in meter markets and diary-only markets. [They] fall into the category of response bias — such as diary-keeper fatigue, inaccurate recall and false reporting from those who do not want to admit that they watch Jerry Springer."

Before June 4 meeting, NAB's COLTAM gave Nielsen results of survey of NAB member stations on their satisfaction with Nielsen. However, said Tupper, NAB and Nielsen have refused to make results available to stations and NAB members "which paid for the survey." Also before meeting, stations submitted their own survey (by Franco Research Group) and recommendations to Nielsen. They included: (1) Test shorter diary period of one day or 4 days, rather than full week. Nielsen said tests of shorter diary periods had been "inconclusive." (2) Explore elements that cause diary bias, such as fatigue, family dynamics, recall. (3) Pay more (\$10) to diary keepers in younger households. (4) Provide list of local programs to all diary-keepers. "We're waiting to hear from Nielsen," Tupper said.

Nielsen is losing subscribers in diary-only markets because of stations' unhappiness with service. In April, Clear Channel's WXXA-TV Albany-Schenectady-Troy dropped service because "the current measurement of young adults in this market is dependent on too small a percentage of the population," Vp-Gen. Mgr. David D'Antuono said. "It has become much like trying to win the lottery. If you are a station that gets viewing recorded in some of the few diaries returned by young adults, you win. If you don't, you lose. This is increasingly evidenced by the fluctuations in viewing levels from book to book and station to station." Continuing to support Nielsen, he said, isn't "in the best interests of ourselves or our customers."

Pappas Telecasting, with 20 TV stations, is one of largest groups behind Tupper's consortium. Pappas start-up station KPWB Ames-Des Moines (which went on air Jan. 20 as WB affiliate) isn't Nielsen client. "I chose not to subscribe... I can't afford it," said Howard Shrier, Pappas senior exec. vp-COO. "To battle a company like Nielsen, a company like Pappas doesn't stand a chance," he told us. Group owner does subscribe for its KPTM Omaha, where it has been seeking meter measurements for several years. After competitor Arbitron folded in 1994, Nielsen for several years was very responsible in raising its rates, Shrier said. But more recently, he said, "Nielsen has raised its diary rates to unconscionable levels."

Canadian govt. began formal review of country's copyright law, depts. of Canadian Heritage and Industry announced. Amendments to Copyright Act, clarifying whether Internet retransmitters such as JumpTV.com, which wants right to rebroadcast TV programming, are equivalent to cable companies, may follow in late 2001 or early 2002, depts. said. Cable and satellite providers have guaranteed right under Act to retransmit TV signals by paying tariff, but "the issue is whether the compulsory licence should apply to retransmission of these programs over the Internet and, if so, how it should apply," depts. said. Canadian Assn. of Bcstrs. (CAB) Pres. Michael McCabe said review was "about preventing Canada from becoming a haven for copyright pirates by bringing our country in line with other industrialized nations and international trades agreements that Canada is party to. We look forward to the legislative changes by year-end that will make clear, once and for all, that Internet broadcasters — like all other broadcasters — can only use copyright owners' property with their consent." Issue of Internet retransmission also is before Copyright Board, which rules on tariff regime cable industry must pay to retransmit TV signals (TVD June 11 p6).

Sinclair Bcst. Group's 62 TV stations didn't renew their memberships in ALTV when they expired earlier this year. Sinclair official said stations left Assn. in economy move and at saving of about \$140,000. "It wasn't a decision taken lightly," he said, since Sinclair occupied seat on ALTV board. Ray Rajewski of Paramount Stations Group is current ALTV chmn. and there's much speculation that Viacom-owned group also will pull out — just as Viacom pulled its radio and TV stations out of NAB this spring. According to many, Chris-Craft stations also can be expected to drop out of ALTV once their purchase by News Corp. closes. News Corp.'s Fox TV stations dropped out of ALTV several years ago and canceled NAB membership more than year ago over 35% station ownership cap issue. However, ALTV said it's optimistic about its chances of keeping both groups. "Remember, ALTV stayed neutral on the cap," official told us. Meanwhile, ALTV promoted Anglia Jirox to vp-congressional relations, filing part of job to be vacated by David Donovan, who becomes MSTV pres. this week.

NBC TV bowed to pressure from its west coast affiliates and will permit them to delay live coverage of Winter Olympics next year from Salt Lake City. Network originally planned to carry games live, beginning at 5 p.m. in western states. Affiliates, including NBC-owned KNBC L.A., had lobbied hard for change over protests of NBC Sports Chmn. Dick Ebersol. In statement after network acted, he said "a domestic Olympics cries out to be telecast live across the entire country." Affiliates wanted delayed feed primarily to prevent live coverage from preempting early news, and NBC made change after surveying potential west coast viewers.

In one of first studies to measure online advertising vs. TV ads with single set of parameters, Harris Interactive found that "superstitious" Internet ads were as effective as TV ads. Internet commercials delivered key dimensions of recall, communications and persuasion on same level as similar TV ads, report said. Study, which used commercials for Mercury Mountaineer, Miller Lite and Nextel, said participants felt same desire to purchase or use product after seeing both forms of ads.

Several consumer electronics manufacturers have started to develop radios with Agere chip sets capable of receiving 100 channels broadcast from Sirius Satellite Radio, Agere said. Satellite radios are being developed by Alpine, Clarion, Delphi Delco, Jensen, Kenwood, Panasonic, Visteon.

MSOs DROP ADVANCED BOXES: Major MSOs are shying away from high-end digital cable set-top boxes that they planned to start deploying this year. Instead, cable operators are focusing on low-end digital boxes that they already have installed in 12 million customers' homes, seeking ways to cram such advanced services as video-on-demand (VoD), interactive TV (ITV) and personal video recording (PVR) into relatively inexpensive set-tops. "We have 3.5 million digital set-tops already in customers' homes," said AT&T Broadband Pres. Dan Somers, whose company has delayed its rollout of Motorola's high-end boxes. With technology allowing subscribers to do more with boxes than they could 2 years ago, he said, "we're going to exploit that."

Large cable operators also are seeking development of new midrange digital boxes that would more cheaply offer such services as PVR, ITV, programming guides and "walled gardens" of online content. In addition, they are exploring use of PVR "sidecars," which are PVR-enabled boxes that can be attached to lower end digital set-tops. For example, Adelphia Communications recently started testing PVR sidecars in Coudersport, Pa. "They've gone to Chevys and Oldsmobiles, as opposed to Cadillacs," said Dave Limp, chief strategy officer for ITV software developer Liberate Technologies.

At same time, cable equipment and software vendors are pitching ways to turn low-end digital boxes into souped-up set-tops. Besides designing PVR sidecars, they're reworking ITV software and applications for basic digital set-tops and promoting idea of network-based PVR services that would rely more on centralized video servers than individual boxes in homes. "You can store a much bigger library [of titles] in the network," said Dan Sheeran, senior vp, worldwide sales & marketing, nCube.

In making shifts, MSOs are turning away from advanced set-tops with embedded cable modems that would permit high-speed Internet access over TV. With 60% of Americans now having access to Internet at home or at work largely through their PCs, cable sources said consumers showed scant interest in surfing Web with their TV remotes. So cablers are focusing on video programming, time-shifting, music, games and other options instead. "What people seem to enjoy is fuller expressions of entertainment rather than bringing the Internet to television," AT&T Chmn. Michael Armstrong said.

Cable executives said they were implementing moves to offer VoD, ITV and PVR services faster and more cheaply while still laying groundwork for more advanced boxes in future. In particular, they're eager to roll out VoD widely because of strong consumer interest in it. They also see VoD as key to setting cable off from DBS, which has enjoyed much stronger pay-per-view (PPV) buy rates and revenues. "Satellite cannot provide true video-on-demand service," Charter Communications Pres. Jerry Kent said.

Indeed, analysts view VoD as cable's trump card in its escalating battle with DBS. In recent report, Forrester Research said aggressive rollout of VoD by MSOs would slice high digital cable churn rates, lure away DBS subscribers, generate hefty incremental revenues and whet consumers' appetites for more advanced on-demand services such as PVR. Consulting group predicted 1.9 million cable subscribers would have access to VoD service by end of year, with number growing to 5.7 million in 2002, 11.1 million in 2003, 19 million in 2004, 27.8 million in 2005, 36.1 million in 2006. "You have to deliver some-

thing different or something new," Forrester analyst Josh Bernoff said. "This is cable's time to win those [DBS] subscribers back."

Similarly, analysts see cable-delivered PVR taking off in next few years. Forrester said cable-PVR homes would grow to 20.6 million in 2006 from 100,000 at end of this year and 900,000 at close of next year. In another recent forecast, Carmel Group said cable-PVR subscribers would increase to 16.4 million in 2008 from 200,000 at end of this year and 700,000 at close of 2002.

But, while cable operators may have initial edge with VoD, satellite providers clearly have early advantage with PVR. DirecTV and EchoStar have been selling digital DBS set-tops with embedded PVR hard-drives for some time. EchoStar, for instance, has sold more than 200,000 DishPlayer satellite set-tops with PVR functions since introducing box 2 years ago and plans to unveil higher end PVR box with high-speed Internet capability later this year. "The only thing that causes cable to move is satellite," Bernoff said.

Not wanting its game telecasts to air on foreign-language station, NBA's Miami Heat went to court to prevent WAMI Miami from switching to Spanish. Telemundo took over station last month from USA Networks and said it would switch to Spanish-language format early next year, while continuing to air Heat and Florida Marlins baseball games in English. In lawsuit, Heat said new format would violate its contract and team would suffer "irreparable injury" by having its games carried in English on Spanish-language station. This fall, WAMI will begin 4th year of 5-year, \$15 million contract to carry Heat games. Marlins didn't join in suit.

AOL Time Warner said it was establishing \$100 million fund to invest in companies owned or managed by minorities and women over next 3 years. Company said new AOL Time Warner Opportunity Investment Fund would invest in firms that had significant diversity in their senior management, that targeted underserved markets and whose operations had strategic fit with its own businesses. Fund investments are expected to be mainly in \$7-\$10 million range. AOL Time Warner also named Rachel Lam managing dir. of fund and vp of company's investments unit. Lam, Wall St. private equity fund manager who previously worked at Time Warner, will report to Dolf DiBiasio, exec. vp.

DirecTV, escalating legal battle with Pegasus Communications, sued Pegasus for breach of contract, claiming it was owed \$23.2 million. In suit filed in L.A. Superior Court, DirecTV alleged that under agreement last Aug., Pegasus was to reimburse it for "certain costs" incurred when national or regional retailers who sold DirecTV activated new Pegasus customers. Pegasus, which along with NRTC has separate antitrust suit pending against DirecTV, has "evidenced its intent" to cease making payments and complying with terms of pact that extends until Jan. 31, 2002, suit said (see separate story, Consumer Electronics section).

Tulsa-based Williams Communications said it would invest \$20 million cash and \$10 million in services to form strategic partnership with iBeam Bestg., consortium of TV station groups on future use of digital spectrum. In return, Williams will receive convertible preferred stock totaling 49% of iBeam. As part of deal, iBeam said it would utilize Williams' broadband infrastructure and 33,000-mile fiber network.

DATA BILL TO KEEP FCC BUSY: Broadband deregulation bill (HR-1542) by House Commerce Committee Chmn. Tauzin (R-La.) and ranking Democrat Dingell (Mich.) would require “major undertaking” at FCC to contend with changes in agency regulatory functions, despite deregulatory nature of bill, FCC Chmn. Powell told Senate Appropriations Subcommittee June 28. Powell emphasized that he “generally doesn’t take positions” on legislation. However, when Sen. Inouye (D-Hawaii) pressed him on potential impact that Tauzin-Dingell would have on appropriations process, Powell said “whole host of regulatory proceedings” would sustain change as result of “new regulatory backdrop” of legislation.

Powell said it was up to Congress to decide which regulatory path FCC must follow. While some see competition in digital broadband market coming from various technology platforms — from phone, cable, wireless or satellite — “the other vision says there should still be competition within a technology,” he said. Subcommittee Chmn. Hollings (D-S.C.) told Powell: “The institution has made that decision” through 1996 Telecom Act, and Congress needed only to “get you folks to understand the law and the intent [of Congress] so you people can get the Bells moving.”

Powell said FCC, “strained by the cross-interests of industry,” needs Congress to approve its \$248.5 million fiscal year 2002 budget request. He said that although proposed budget is \$18.5 million over last year’s appropriation, most of additional money would come from increased regulatory fees. He reiterated request that Congress increase penalties that FCC could levy upon regulatory violators, citing ineffectiveness of hitting multibillion-dollar companies with million-dollar fines: “The penalties as far as I know have not even been increased to meet the pace of inflation.” Hollings agreed “the committee should give the entire amount you have requested,” criticizing plan on House side to give FCC \$9 million less.

Sen. Kohl (D-Wis.) lamented that cable rates were rising at nearly triple rate of inflation, part of which he said could be attributed to rental of set-top boxes. “Why can’t consumers buy set-top boxes right from the manufacturers?” Kohl asked. Powell said “manufacturers have struggled to make it cheap enough for consumers” and referred to displays at recent consumer electronics shows where additional consumer applications, above and beyond cable conversion, were being added to boxes, such as DVD and TiVo.

Sen. Stevens (R-Alaska) said he met recently with Dept. of Defense officials to address transfer of military spectrum to private sector for 3rd generation wireless services. He said he suggested to DoD that it be “really hard-headed” about getting substantial portion of funds from any sales of DoD spectrum. Powell said he was amenable to use of spectrum relocation funds for DoD modernization, as Stevens suggested. “I always wondered why we haven’t used spectrum proceeds to advance other public policy agendas,” Powell said.

U.S. Appeals Court, D.C., action overturning FCC EEO rules “should settle the matter,” Rep. Oxley (R-O.) said in latest letter to FCC Chmn. Powell. Powell had indicated interest in drafting new rules to promote media ownership by minorities, small businesses, others (TVD June 22 p3). Oxley said he would urge FCC not to “waste additional tax dollars by pursuing further legal appeals.” Oxley, who has opposed EEO rules for cable and broadcast in past, said he believed EEO program was “redundant and unnecessary” because EEOC and Justice Dept. already enforced civil rights and antidiscrimination laws.

Conus Communications has deal for its satellite news service subscribers. Saying it “recognizes that the news business is tough this year,” Hubbard-owned Conus will give station clients up to \$750 air-fare credit for one staffer to attend Sept. 12-15 RTNDA convention in Nashville. To receive credit, ticket stub must be taken to Conus booth at convention. News dirs. who drive to Nashville are being offered \$100 credit under same terms. Featured RTNDA session will highlight pressures on local news, including budgets, new technology, competition, ethics, interference from sales depts., affiliate-network relations. Panelists will include major group executives Andrew Fisher of Cox TV and James Yager of Benedek Bcstg., along with network and station news executives. Another session will explore last fall’s wrong election projections and steps to prevent recurrence. Others are on wireless technology, opportunities in DTV, industry convergence, Internet effectiveness and opportunities, diversity and TV news’ “tenuous [at] best” relationship with law enforcement groups.

Satellite Bcstg. & Communications Assn. (SBCA), DirecTV and EchoStar filed must-carry appeal (TVD June 25 p4) with 4th U.S. Appeals Court, Richmond, Va. Same court also granted SBCA motion for expedited hearing on appeal of FCC Report and Order on implementation of satellite must-carry rules. Oral argument is scheduled for Sept. 24. Appeal of FCC’s order raises many of same issues as must-carry appeal. SBCA Pres. Charles Hewitt said DBS industry was “committed to fighting satellite must-carry to a successful conclusion.” He said decision by 4th Circuit for expedited hearing meant court should issue decision before Jan. 1, deadline for implementation of must-carry rules. “We remain firmly confident that we will win this case on the merits of our constitutional arguments,” Hewitt said: “The satellite must-carry fight has just begun.”

Hughes announced major changes in executives at DirecTV. Roxanne Austin, 40, is moving up from CFO to COO, replacing Odie Donald, who is leaving to pursue other interests. Donald will continue as consultant until 2002. Michael Gaines, 43, was named to Hughes Executive and Management committees along with new title of Hughes vp and CFO of DirecTV. Patrick Doyle was appointed DirecTV treas., and Yvonne Perlberg and Jonathan Rubin corporate vps. Eddy Hartenstein will remain chmn.-CEO of DirecTV.

Already controversial broadcast ad program for Office of National Drug Control Policy (ONDCP) apparently overpaid ad firm Ogilvy & Mather, GAO said in report last week. GAO also said Ogilvy didn’t have adequate accounting system for bills it sent to govt. Ogilvy said it believed it underbilled govt. for some aspects of its management of ad program, overbilled for others. GAO also said govt. didn’t adequately manage parts of contract. Questions were raised about ONDCP use of sponsorship ID on programs that contained antidrug messages in return for exemptions from portion of PSA requirements (TVD Jan 1 p4).

Mediacom Communications said it raised \$626.7 million in its new offerings of common stock and convertible senior notes, \$85 million more than expected. Mediacom, which plans to sell another \$400 million of senior notes, reiterated that it would use proceeds to cover part of \$2.2 billion price tag for cable systems it’s buying from AT&T Broadband (TVD June 25 p10).

DirecTV said it seized several truckloads of equipment used to illegally reprogram its access cards and steal its signals from targets in Cal., Fla., Tex. Company said seizures were in connection with lawsuits in U.S. Dist. Court, L.A.

MORE ITV PRIVACY PROTECTIONS URGED: Warning that planned interactive TV (ITV) systems threaten consumers' privacy, several public interest groups called June 26 for greater federal and state regulation of ITV industry as well as more self-policing by ITV companies themselves. In report by Center for Digital Democracy, groups said ITV companies were working to build huge "new data collection infrastructure" that would gather detailed personal information about consumers without their consent and with few privacy safeguards. "The model that these companies are following combines the worst aspects of the Internet and mass media as the new systems are being designed to track not only every activity of users as they surf the net, but also the programs and commercials they watch as well," report said. "We believe that ITV data collection practices represent a new threat to personal privacy in America."

Consumer group leaders and privacy advocates also contended that ITV companies — which include such large "T-commerce" players as A.C. Nielsen, AT&T, Cisco, Gemstar-TV Guide, Liberty Media, Microsoft, News Corp. and Scientific-Atlanta — were skirting existing laws and regulations to create such personal information data bases. They charged that such industry groups as NCTA also were trying to weaken cable privacy laws to bring them "in line with the less stringent restrictions placed on general ISPs." "Basically, there's a total disregard" of laws and regulations by these companies, said David Banisar, deputy dir., Privacy International.

Advocates urged lawmakers and regulators not to let ITV develop along same lines as Internet, which continues to stir consumer privacy concerns. They said failure to act would cause same privacy problems still faced by Web after more than 6 years of rapid growth. "I think there needs to be this kind of national debate about whether or not we want this technology to be intrusive from the beginning," said Jeff Chester, exec. dir., Center for Digital Democracy.

Specifically, advocates called on FTC and FCC to probe alleged violations of 1984 Cable Communications Policy Act, main federal statute applying to ITV players. They also urged Congress to hold hearings and investigations on ITV industry practices. Chester said they already had spoken to FTC staff and planned to meet with Chmn. Timothy Muris in "the next few weeks." He said advocates had also spoken to Rep. Markey (D-Mass.), ranking Democrat on House Telecom Subcommittee.

Groups also want Congress to update and extend Cable Communications Policy Act to cover all interactive media, mandate oversight by FTC and FCC, allow agency enforcement of Act, permit class action suits and boost damages that can be levied. "The main flaw of the Act is with the enforcement provisions," Banisar said.

Besides those steps on federal level, consumer and privacy advocates urged states to enact their own ITV protection safeguards and ITV companies to "support meaningful privacy protection" and police themselves better. They also want digital cable set-top box and other consumer electronics manufacturers to build privacy protection into their new devices.

NCTA spokesman said there was little, if any, evidence to support groups' claims. "This report minimizes the fact that cable operators already operate under some of the strictest government privacy protections of any industry," he said. "Cable's ex-

perience with privacy protection heightens its sensitivity to privacy issues involving new interactive services."

Rep. Oxley shared "ongoing concern" about way FCC handled interference issue in Northpoint-DBS spectrum battle. In letter to Chmn. Powell June 26, Oxley said Congress had moved to policy of "favoring competition over regulation," but DBS operators had to be able to deliver clear signals to consumers and there was "justified concern" signal interference could be caused by terrestrial operators such as Northpoint. Oxley said that's why he joined House Majority Leader Arney (R-Tex.) in pushing for independent testing that resulted in Mitre report. Oxley wants Commission to "proceed with caution" in approving terrestrial services in DBS band. "There should be extensive tests of whether the mitigation techniques will work," Oxley said. He said new entrants shouldn't be allowed to compromise quality of existing service.

All but 2 states — Miss. and S.D. — now permit some form of broadcast coverage of their courts and progress is being made in 2 holdout states, RTNDA Pres. Barbara Cochran said. Addressing group's Washington chapter June 28, she said that in April, Miss. high court permitted installation of 5 voice-activated TV cameras and permitted stations to tape and air proceedings. Court's activities also are streamed on its Web site and it's considering permitting TV cameras in state's appeals court. S.D. Supreme Court held hearing June 19 on broadcasters' request to permit cameras into its courtroom — proposal backed by Chief Justice Robert Miller, Cochran said.

Comcast continues to lobby FCC against imposing regulations on interactive TV (ITV) market. In recent ex parte filing, Comcast representatives said they met with Comr. Copps and his legal adviser Susanna Zwerling to try to persuade them that ITV regulations would be "unnecessary, unlawful and harmful to investment and innovation." Comcast officials argued: (1) ITV services were too young, fragile and uncertain to regulate. (2) Neither cable nor satellite acted as "bottleneck" to ITV delivery. (3) Regulatory advocates had shown no need or justification for ITV rules nor any existing problems. (4) Broadcasters pushing hardest for ITV regulation were "those already favored with special advantages by the government — and now they want more."

Concurrent Computer Corp. said VOD Pty Ltd had started using its software to offer video-on-demand (VoD) service in Canberra, Australia. Concurrent said its VoD system, installed on TransAct Communications' network in Canberra, would be made available to more than 100,000 homes and businesses. TransAct, which introduced VoD service in 3 Canberra suburbs in March, said it expected to sign up 25,000 customers by end of next year.

Memory for TV commercials is lower in programs that contain violent or sexual content, according to study by Iowa State U. Prof. Brad Bushman. Study showed 39% better average recall of ads among people who watched shows with neutral content. Report was publicized by Pax TV, which touts its family-friendly programming.

With eye toward future expansion, National Religious Bcstrs. (NRB) said it was buying 18,100-sq.-ft. hq building in Manassas, Va. NRB said renovation of property, purchased for \$1.8 million, would begin shortly and that it expected to move by Labor Day.

Personals

Steven South, ex-regional dir., Internet Bcstg. Systems, named mgr.-gen. sales, KTNV-TV Las Vegas... Gregg Siegel, ex-Avery-Knodel, appointed vp-national sales, Sinclair Bcst. Group... Ronald Kolessar promoted to vp-technology, Arbitron... John Davison advanced to pres.-gen. mgr., ABC Radio, L.A... Eugenio Bryan, ex-pres., Hispanic Media Sales, named vp-sales, radio div., Entravision Communications... Andrea Hartman promoted to senior vp-deputy gen. counsel, NBC.

Patricia Fili-Krushel, CEO, WebMD Health and ex-ABC TV Network pres., appointed exec. vp-administration, AOL Time Warner... Appointments at Time Warner Cable: Larry Fischer as exec. vp-operations, Thomas Coristine exec. vp-partner mktg., Larry Zipin vp-ad sales strategic planning... Mark Stieber named vp-corporate mktg. and business development, QVC... David Reese, ACTV pres., adds CEO... Matthew Hart, Hilton Hotels, elected to Excite@Home board... Tom Johnson, chmn.-CEO, CNN News Group, retires from day-to-day operations, remains adviser and consultant.

Nitin Shah, ArrayComm exec. vp, named to FCC's Technological Advisory Council (TAC)... Peter Doyle, ex-ASD deputy chief, appointed chief, Audio Services Div., FCC Mass Media Bureau... Gerard Lederer named of counsel, Washington law firm Miller & Van Eaton... William Kelly, ex-NBC Internet, appointed COO, Asian Pacific region, Extreme Group... Colleen Glynn appointed vp-affiliate sales & distribution, eastern region, OlympuSat.

Nancy Cullen, dir., executive communications, NAB, elected pres. of Washington Chapter, American Women in Radio & TV; Theresa Werner, WRC-TV Washington, vp-membership; Sallie Forman, Forman & Assoc., vp-programming... Changes at Cable TV Public Affairs Assn.: James Weiss, Turner Bcstg., appointed pres., replacing Bonnie Hathaway, Time Warner Cable; joining Exec. Committee: Anne Cowan, CTAM, vp; Ellen East, Cox, secy.; Bob Morrison, VH1, treas... Lynn Costa, ex-dir., staffing & recruiting, NBC, appointed vp-human resources, Lifetime TV.

Satellite Industry Assn. (SIA) and Satellite Bcstg. & Communications Assn. (SBCA) released study June 28 that they said showed satellite operators provided better service than other spectrum holders. Survey said cost of deploying high-speed broadband data and video to rural subscribers was 20% as much for satellite operators as for cable. Customer satisfaction ratings for DBS subscribers "are twice that of cable," SIA Exec. Dir. Clayton Mowry said. Terrestrial wireless services won't serve majority of U.S. economically, said survey by Regulatory Access, regulatory consulting firm for satellite industry. It said 434 of 493 Basic Trading Areas in U.S. had no terrestrial wireless provider for last-mile access.

Obituary

John Cannon, 74, pres. of National Academy of TV Arts & Sciences (NATAS), died June 22 in Cologne, Germany, of heart attack as he arrived for forum of International Council of NATAS. After long career as radio and TV announcer, he became pres. of NATAS in 1976. Wife, a NATAS employee, and daughter survive.



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Holding that "alternative" funding formula for public access stations backed by AT&T involved subsidization of smaller access stations by subscribers of larger cable systems, Conn. Dept. of Public Utility Control (DPUC) asked company to distribute community access funds to access stations based on number of subscribers in each municipality within its franchise. AT&T had backed formula put forth by Hartford Area Cable Advisory Council (HACTC), saying it represented reasonable compromise to foster meaningful public, educational and govt. access (PEG) programming throughout franchise.

Consumer Electronics

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STATE OF THE INDUSTRY

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

	JUNE 9- JUNE 15	2000 WEEK	% CHANGE	JUNE 2- 24 WEEKS JUNE 8 2001	24 WEEKS 2000	% CHANGE
TOTAL COLOR TV	341,048	562,394	- 39.3	376,879	10,854,461	- 10.0
DIRECT-VIEW**	330,220	545,069	- 39.4	366,300	10,455,829	- 9.6
TV ONLY#.....	278,226	482,283	- 42.3	312,969	8,698,971	- 9.2
TV/VCR COMBO.	51,994	62,786	- 17.2	53,331	1,756,858	- 11.5
PROJECTION...	10,828	17,325	- 37.5	10,579	398,632	- 20.7
TOTAL VCR**...	287,761	277,986	+ 3.5	224,550	8,222,917	- 25.5
HOME DECKS...	235,767	215,200	+ 9.6	171,219	6,466,059	- 28.5
CAMCORDERS.....	71,343	101,299	- 29.6	87,720	2,341,919	+ 0.9
DVD PLAYERS....	77,416	85,374	- 9.3	75,055	3,886,604	+ 65.3

Direct-view TV 5-week moving average#: 2001-418,673; 2000-539,025 (down 22.3%).

Projection TV 5-week moving average: 2001-12,770; 2000-19,001 (down 32.8%).

VCR deck 5-week moving average: 2001-284,864; 2000-429,915 (down 33.7%).

TV/VCR 5-week moving average: 2001-71,391; 2000-99,809 (down 39.8%).

Camcorder 5-week moving average: 2001-102,621; 2000-114,745 (down 10.6%).

DVD player 5-week moving average: 2001-139,226; 2000-129,569 (up 7.5%).

** 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.

RIVAL DVD-RECORDER CAMPS WAGE BATTLE AT PC EXPO: Panasonic used PC Expo news conference last week in N.Y.C. to announce Oct. availability of industry's first DVD portable capable of playing DVD-RAM discs. At same event, it again touted DVD-RAM as single format that best fulfilled needs of consumers and computer industry by bringing about "the seamless convergence of various digital media for consumer and business applications."

Day later and on opposite side of Javits Convention Center, multicompany DVD+RW alliance held news briefing to announce that Dell, world's leading computer systems company, had joined as newest member. To delight of others in alliance, Dell said it had acted because it believed DVD+RW was "the ideal format for customers who want a complete solution for creating custom videos on DVD or easily storing large capacity data."

So went another industry show in which DVD-RAM and DVD+RW proponents (Pioneer-backed DVD-RW camp had relatively low presence) traded claims and counterclaims much as trial attorneys would make closing arguments. Panasonic, which went it alone at show without support of other avowed DVD-RAM supporters, said its format was only one that actually had been available at retail for year, with additional, more mainstreamed-priced gear on way. For example, it said, new DMR-E20 recorder due in Oct. will have \$1,500 list price (compared with \$4,000 on first-generation DMR-E10).

Moreover, DVD-LA95 portable will have possible street price of \$999 when it debuts in Oct. Portable will have 9" LCD screen and built-in rechargeable battery as well as ability to play slew of other media, including DVD-Audio, MP3, write-once and rewritable CDs. Irony is that spokesman said Panasonic couldn't guarantee 100% playability of DVD-R media on DVD-LA95, except for discs recorded on new DMR-E20. As for affordability, Panasonic strongly emphasized last week that blank DVD-RAM media costs were declining, predicting that 3-pack bare-disc multipacks could be had this fall for less than \$30.

DVD-LA95 would become only 3rd known DVD player available in U.S. that's capable of playing DVD-RAM media. Company recently started shipping DVD-RP91 deck and this month debuts progressive-scan DVD-RAM-capable DVD-H2000 player for home theater enthusiasts at \$3,000 list. At PC Expo, Panasonic made scarce mention, as had Panasonic's European subsidiary at product introductions in April, that DVD-R functionality, as built into new DMR-E20 recorder, was required to achieve playback on millions of legacy DVD players (TVD April 30 p13).

Panasonic put greater emphasis on DMR-E20's PVR-like Time Slip function unveiled at European introduction. As we have reported, function is achieved with single laser that continually switches between record and playback. AV data are streamed at 22.16 Mbps, 2X normal DVD transfer rate, and fed to buffer memory that continually stores some data while rest are being read or recorded. Panasonic executives hedged answer to reporter's question whether DVD+RW or DVD-RW formats could build feature similar to Time Slip into their products. They said Time Slip exploited DVD-RAM's data transfer rate, which they said was highest of any format.

Claim was contested at DVD+RW alliance news conference by Hironobu Harima, of Sony's Optical Storage Div., who said if DVD-RAM rate of 22.16 Mbps equalled 2X normal DVD, DVD+RW's rate was 2.5X. He said decision to build PVR-like functionality into DVD+RW products would be made at discretion of individual manufacturers.

Sticking point at DVD+RW briefing was how first-generation products due late this summer and in fall could incorporate DVD+R write-once functionality when specifications for that proprietary format aren't expected to be completed until Aug. Hewlett-Packard (HP) DVD Product Development Mgr. David Burks said his company would study ways in which upgrade could be downloaded from Internet.

Philips Strategic Alliance Mgr. Frans Bos said more complicated firmware change would be required of his company's first-generation home recorder due on store shelves in U.S. and Europe around time of late-Aug. Internationale Funkausstellung in Berlin. Bos said aim is to shorten window of DVD+R write-once availability as much as possible. For those who buy first-generation recorders without write-once functionality, he said "it might just come down to making a deal with our customers" for upgrade. Bos gave little explanation why Philips was so late coming to table with DVD+R, only that it had put all resources toward developing DVD+RW first. Company revealed DVD+R effort officially only within last 60 days (TVD May 28 p15) and even after some executives had eschewed idea of write-once media at March CEBit show in Germany. Bos and Rick Koertge, Thomson planning mgr. for DVD recordable products, wouldn't speculate on first-generation pricing of their companies' machines. RCA-brand recorder is set for Sept. introduction in U.S., Koertge said.

Responding to reporter's question on performance differences between DVD+RW and DVD+R, Maureen Weber, HP DVD+RW product generation mgr., said compatibility with legacy machines would be better with write-once system. Hewlett-Packard's Burks said compatibility difference would be "slight," but lack of testing thus far made more definitive answer impossible. Tim Clatterbuck, Verbatim dir. of optical storage mktg., told us DVD+R could be considerably cheaper than DVD+RW discs due in 3rd quarter at about \$20 each. He said target introduction date for DVD+R media was Nov., with price similar to "DVD-R General" media — currently \$10-15 per disc, depending on sales channel.

TOSHIBA DELAYS PVR, BUT READIES MICRODISPLAY PROJECTION SET: Toshiba has postponed plans for personal video recorder (PVR)-based product until 2002, but will unveil microdisplay-based rear-projection TV at Jan. CES, company officials told reporters at line show last week in Marina del Rey, Cal.

Toshiba was scant on details of proposed "digital light engine" set, including whether it would use DLP, D-ILA or LCoS microdisplay. But Vp-TV Mktg. Scott Ramirez said company was developing picture enhancement technology that would work alongside microdisplay. There was speculation that Toshiba was likely to use Texas Instruments (TI) DLP technology because TI exclusivity agreements with Hitachi, Matsushita and Mitsubishi expire this year.

Ramirez said: "We're one of the last companies to get into the digital light engine technology, so we can't be just me-too. We have to do something different. This year will be a low-volume year for the digital light engine technology, but it will be part of [CE] industry's future."

Toshiba also used line show to unveil 13 HDTV-ready TV sets, including expansion of widescreen offerings to 7 models from 4. Although plans for Toshiba's first DVD recorder seem far from definitive, executives hinted strongly it could take form similar to PVR-functional combo product with 30 Gb hard drive introduced by Toshiba in Japan. In audio, officials left little doubt of their support for DVD-Audio, but also wouldn't definitively rule out adding Super Audio CD deck in future.

On PVR front, Toshiba year ago aired plans for device that would combine HDTV decoding with PVR or Internet access (TVD Aug 14 p11). But Ramirez said product now was likely for 2002. Toshiba is keeping HDTV decoder/DirecTV receiver in line at \$799 (down from \$899 year ago), but is dropping 65W DTV set that contained integrated HDTV tuner. "We looked at the market and talked to our retailers and the PVRs that were out there last year without DirecTV weren't selling," he said.

Overall TV lineup adds 42W, 50W, 53W models while dispensing with 40" and 56W models. Added to Cinema Series line of projection TV sets is new feature called IDSC Pro (for "Intelligent Digital Scan Conversion"). Technology is step-up differentiation feature from IDSC II introduced year ago and now extended to direct-view sets. It enables sets to upconvert 480p signals to 540p. By doing so, 540p and 1080i signals share same 33.7 kHz scan rate, creating single focus point and dispensing with need for separate 31.5 kHz processor for 480p.

Cinema Series also adds 4 widescreen models including 57W and 50W, up from single 56W year ago, and has TouchFocus button on front panel that allows user to return set to factory preset convergence within 20 sec. TVs also allow user to adjust convergence manually via on-screen display. Series has new PowerFocus HD Plus CRTs that Toshiba is building in Japan. CRTs are said to deliver 20% focus improvement over previous designs. CRTs are coupled with new 4-element lens system developed by Corning Precision Lens that's claimed to boost system contrast by 50% compared with 5-element versions. Toshiba uses Hitachi tubes in core line. To meet expected demand for HDTV-ready sets, Ramirez said, Toshiba has doubled capacity at Lebanon, Tenn., assembly plant.

At same time, Toshiba unveiled line of 14 FST Pure flat-screen TVs ranging from 14" to 36", making substantial push in category that it had planned to enter year ago. Toshiba then introduced 6 "pure" flat-screen sets (\$1,299-\$2,699), but Ramirez said models never were shipped because Thomson failed to deliver tubes. He said Toshiba since had switched to Philips for 27" and 32" tubes and this month, after several postponements, will start producing own 36" tubes at Toshiba plant in Horseheads, N.Y.

As it moved beyond CRTs, Toshiba unveiled previously announced 50W plasma display panel (\$15,999) sourced from Matsushita and is likely to add smaller sizes — 37W or 42W — in 2002, Ramirez said. But much of Toshiba's flat-panel future will rely on joint venture with Canon, which is developing surface-conduction electron-emitter displays (SEDs) that have individual electrons for each screen phosphor and promise improvements over PDPs. As first such SEDs now aren't likely before 2003 (TVD Aug 14 p12), Toshiba released few details other than to suggest they would fall into 30-50" range.

"It will be a replacement for plasma when it's ready, but we're not sure exactly when that is going to be, so the next 2 years is plasma for us," Ramirez said.

As it introduced new display technologies, Toshiba also weighed in on IEEE-1394 debate, saying it wouldn't ship 1394-capable product until there was "interbrand connectivity," Ramirez said. In wireless technologies, Toshiba is leaning toward 802.11 spec, he said. While Toshiba has played key role in Japan in development of Bluetooth-compatible products, Ramirez said one of Bluetooth's flaws was that it lacked ability to handle HDTV video.

In DVD, Toshiba added 3 universal players with DVD-Audio, including 2 progressive scan models. Overall DVD player line now numbers 11 models, up from 10 year ago. Despite limited availability of DVD-Audio titles thus far, Product Management Dir. Craig Eggers said projections he had heard were that 125 titles would be available by year-end, including first entries from 2 major labels. Toshiba has avowed commitment to DVD-Audio, but Eggers wouldn't definitively rule out marketing SACD component under Toshiba brand.

In Nuon-equipped DVD players, Toshiba is continuing model introduced year ago, but lowering price to \$249 from previous \$299 street. While Samsung added 2nd generation model earlier this year, Toshiba still was awaiting arrival of additional software that could take advantage of player's interactive features. Nuon platform, developed by VM Labs, has suffered from scarcity of movie and game titles, and VM Labs is said to be struggling to raise additional funding. "A lot of it depends on what happens on the software side and it's in a holding pattern right now," DVD Mktg. Dir. Jodi Sally said. "It's a shame because it's great player with all kinds of features."

New DVD portable player has been added to Toshiba line, but without progressive scan features in original model, which remains active product. Toshiba also introduced new, less expensive MP3 player (\$199) with 32 Mb memory and Secure Digital (SD) expansion slot to accommodate 64 Mb card. Earlier device had 64 Mb on-board memory and \$499 price.

SONY CUTS PS2 PRICING IN JAPAN: Sony Computer Entertainment (SCE) revealed last week that it had cut price on its PlayStation 2 (PS2) \$38.71 to \$282.26 from \$320.97, effective June 29.

SCE said price cut was limited to Japanese market, and spokespeople for SCE America (SCEA) and SCE Europe (SCEE) told us last week they weren't contemplating similar moves at this time.

SCEA spokeswoman told us: "We're still swiftly selling PlayStation 2 inventories as quickly as we can get it." Her comments were in line with what she told us last month when she said that, despite rumors to contrary that started surfacing before Electronic Entertainment Expo (E3), SCEA wasn't planning to change PS2's price this year (TVD May 28 p12). "We're very comfortable with the \$299 price point" despite Nintendo's decision to sell GameCube at \$199.95 in N. America, she told us then.

Explaining its rationale for price cut last week, SCE said: "Through making the price more accessible for customers, the company aims to bring in more PlayStation 2 into Japanese homes. The company has [also] decided on the price reduction of PlayStation 2 taking into account the release of *Final Fantasy X* by Square Inc. scheduled [to ship] July 19, 2001. [SCE] expects that the latest of one of the world's most favored series as well as *GT3 Racing Pack* already in stores will together support [increase of installed base of PS2] in the Japanese market."

Jupiter Media Metrix Analyst Billy Pidgeon told us last week that SCE's decision to drop PS2's price also could have been related at least in part to game market's being "a bit soft in Japan now." He said Sony could have chosen to reduce cost simply because it "could afford to cut the price right now" and get Microsoft and Nintendo worried at least somewhat in process as they geared up to ship, respectively, their Xbox and GameCube consoles.

Pidgeon suggested that if SCEA decided to change its mind and drop PS2's price in N. America this year, it probably would be "strategic" decision and "they're not going to say anything about it" until Microsoft and Nintendo begin major parts of their marketing campaigns for Xbox and GameCube. That's way such pricing moves usually are made in game industry, he said. Pidgeon said Sony might decide, for example, to reduce price after first Xbox and GameCube ads ran in retail ad circulars such as those of Toys "R" Us, when there's little Microsoft and Nintendo can do to retaliate.

Of course, it's highly unlikely that Sony could undercut GameCube's pricing anyway, Pidgeon said. If Sony did that, it would put itself in position of "hemorrhaging" because it would be losing so much money on console, he said. Ability to undercut Xbox's \$299 would be far easier. On other hand, SCEA "might not [cut price] at all" — as it has stated — or perhaps it will decide to come up with more PS2 bundles to sell at attractive prices.

Meanwhile, at least one Japanese game analyst predicted that SCE might have to cut PS2's price even more to expand platform's user base and overcome sagging software market there. Reuters quoted Tokyo-Mitsubishi Securities Analyst Nobumasa Morimoto as saying: "So far, only 2 software titles have become a best-selling hit selling over one million."

PHILIPS SET-TOPS TRIMMED: Philips will reduce its set-top box (STB) business in U.S. and seek partnerships in effort to stem losses in digital networks operations. Decision to abandon independent STB strategy and find partner for U.S. market is part of companywide restructuring it said was expected to result in elimination of 6,000-7,000 jobs.

STB decision spurred speculation that Philips might drop its standalone TiVo personal video recorders (PVRs) while continuing development agreement with DirecTV. Earlier this year, Philips cut price on 20 Gb PVR and has continued to market 60 Gb model. It also markets DirecTV/TiVo combo product. "It doesn't mean you stop dealing with [TiVo]," said Philips source. "It's just a matter of where you put development. We never had a lot of development behind [standalone] TiVo products because we took its reference design. But DirecTV is definitely a category that's continuing and we have a tremendous effort going on behind the development of the next series of programmable STBs."

Philips hadn't commented by our deadline. TiVo spokeswoman said that "as far as I know," Philips wasn't dropping standalone PVRs. Since Philips cut price of 20 Gb unit "sales have really strengthened and gained momentum," she said.

Philips has abandoned earlier projects such as AOLTV STBs. Digital networks operation had \$35 million operating loss in first 3 months of year and has been in red for 2 years, analysts said. Philips source said AOLTV decision was "a good example of something we decided early on that didn't look very promising so we couldn't afford to put the development behind it." Source said situation now was question of "taking a global look at what the commitments are and it's a reevaluation of where we're headed."

Revamping of digital networks group partly addresses criticism of analysts who said Philips was stretching itself thin by trying to produce dedicated STB models for — and forge relationships with — cable, satellite and terrestrial TV markets. Philips was among those that considered buying General Instrument (GI), but decided against it after determining deal would be too expensive. Motorola later bought GI in Jan. 2000.

Philips Pres. Gerard Kleisterlee told analysts last week that Philips would identify and deal with low-growth, low-return businesses to achieve its 3-5-year targets of 10% and 15% average annual growth in sales and earnings, respectively. In addition to STB business, Philips said it would shut its mobile handset operations and take \$258 million charge. Some assets of business will be transferred to joint venture with China Electronics Corp.

Restructuring of STB and mobile handset businesses are part of \$301 million charge Philips said it would take to trim thousands of jobs. Latter includes 2,500 in CRT joint venture with LG Electronics and another 3,000-4,000 in components business. Philips will take additional \$77 million charge in 2nd quarter to cover transfer of semiconductor production line from Albuquerque to Fishkill, N.Y.

Joint effort to boost consumer acceptance of Secure Digital (SD) memory cards and devices was announced at PC Expo by Palm and Panasonic. Companies said they planned to mount joint ad and promotion activities. They said aim was to promote broad adoption of SD standard by pushing compatibility among many electronic devices.

HANDHELDS ABOUND AT PC EXPO: Typifying active week of introductions in handheld PC category, Sony used PC Expo last week in N.Y.C. to beef up its Clie-brand offerings.

Previously, Sony had fielded only single device, but last week it introduced 2 new Clie models that target market's high and low ends. Clie PEG-S320 at \$200 comes with 160x160 resolution, 33 MHz Motorola Dragonball VZ processor, 8 Mb RAM and \$200 price. Step-up PEG-610C adds color 320x320 resolution LCD at \$400, undercutting similarly featured Palm m505 at \$449. Higher resolution screen is part of Sony's focus on handheld PC designed for multimedia applications. "Our inventory has been selling well and part of the reason is that we believe we are reinventing the category," Sony Vp Mark Viken said. "It's not just an organizer or a scheduler because you can play audio, show movie clips and we have a high-resolution display on top of the OS."

Both devices use version 4.0 of Palm operating system (OS) to display 16-bit color and have USB connection to synchronize with PC. Sony introduced wireless service for low-end S320 that uses GoAmerica's network and will require modem priced at \$299.

Rivaling Palm camp in price was Casio, which introduced Cassiopeia BE-300 based on Microsoft's Windows CE 3.0 OS at \$300, \$200 less than its next cheapest model. BE-300 Pocket PC uses 166 MHz chip from NEC and 320x240 color resolution. It also has CompactFlash slot, countering Secure Digital (SD) memory card technology being deployed by Palm through manufacturing agreement with Matsushita. Handspring licensee Portable Innovation Technology introduced MemPlug adapters for SmartMedia and CompactFlash cards and is said to be working on versions for SD and Memory Stick.

While Palm licensees have depicted Pocket PC's color screens, high processor speeds and other frills as drains on battery life, most concede that current Palm OS (based on 33 or 66 MHz Dragonball processor) must be upgraded to meet competition and demands of wireless services and multimedia applications. While Palm has indicated that 5.0 OS is due in 2002 and is likely to feature faster Arm Holdings core processor, Handspring and Sony said they had no immediate plans to quit Motorola camp, which is integrating Arm technology into Dragonball. "Time will tell whether it's required for the marketplace we're going for," Handspring Product Mgr. Michelle White said. "There are certain niches that companies will have to port over [to Arm processor], but there's also a 66 MHz chip from Motorola that will give it a bit more speed without having to do a full port." Latter is important since with complete switch to Arm "there's a good potential that most Palm OS applications won't work," she said.

As industry debates future of handhelds, wireless services that are key to its expansion underwent major shakeup last week. While GoAmerica gained alliance with Sony to offer its service for Clie (\$39 monthly fee) and laptops (\$50), Metricom, which operates high-speed Ricochet wireless network, said it would cut staff 23% but would continue operations in 15 markets. GoAmerica has alliance with Metricom. At same time, Aether Systems, investor in Metricom and provides wireless services, said it would cut costs \$78 million, including undisclosed number of layoffs. Sierra Wireless, which provides modems for Metricom, slashed revenue projections for 2nd quarter to \$18-\$20 million from earlier forecast of \$24 million. Sierra also introduced AirPath wireless adapter for Handspring's Visor (\$299).

Palm.net showed signs of slowing in reporting that subscribers rose 7% in 4th fiscal quarter to 203,000 from 190,000 in previous quarter.

Also still in formulative stages is wireless connectivity. While Intel's Xircom group is promising Bluetooth modules for Palm and Handspring devices, many manufacturers are backing 802.11 protocol, largely because of its lower cost. Integrating Bluetooth technology into handheld could add \$20 to manufacturing cost, White said. TDK and Toshiba also are developing Bluetooth modules for Palm handhelds.

"It's still fairly expensive right now," White said of Bluetooth. "And you need 2 sides of the equation to make it work," she said, noting current dearth of Bluetooth-enabled product.

Matsushita Electric Industrial was warned by Japan's Fair Trade Commission Fri. to stop instructing its dealers and wholesalers not to sell its products to discount retailers, Japanese news report said. Commission said Matsushita's "demands contravene the Antimonopoly Law," report said. Matsushita had been receiving 400-500 complaints each year from its core dealers about discounters' cutting prices of manufacturer's products by margins as much as 30%, report said. Manufacturer investigated distribution routes of its products to figure out how discounters were getting merchandise and was able to track down wholesalers responsible. Matsushita instructed them to stop selling products to discounters, report said, then cut number of products it sold or raised prices on merchandise to wholesalers who ignored its requests.

April factory sales of audio equipment fell 12.7% on declines in all 4 broadbased categories, CEA reported. Total shipments fell 12.7% in month to \$540.0 million and were down 4.1% through year's first 4 months to \$2.3 billion. Separate components fared worst in month and year, falling 23% and 12.2%, respectively. Only systems managed small 1.3% increase for year to \$534.29 million, but fell 14.3% for month to \$123.11 million. Despite generally lackluster report, CEA Pres. Gary Shapiro accentuated "tremendous growth" in home theater components as proof that consumers "are embracing the transition" to multichannel digital audio products." For example, CEA said overall speaker sales were up 22% in month because of solid 28% growth in THX receivers to \$3.6 million.

Image Entertainment rode coattails of DVD boom as profit climbed 180% in 4th quarter to \$4.79 million (28¢ per share) from year-earlier \$1.71 million (10¢) on 13.8% revenue rise to \$26.2 million from \$23.02 million. For 12 months, profit soared to \$8.43 million (50¢) from \$1.42 million (9¢) on 18.8% revenue increase to \$100.77 million from \$84.85 million. Pres.-CEO Martin Greenwald said it was first time in company's history that it had exceeded \$100 million in revenues. He said "the challenge before us is to continue the growth of our exclusive programming" for DVD, whose revenue jumped 25.1% in fiscal year to \$90.21 million from \$72.11 million.

JVC has started producing DVD players at plant in Berlin in bid to double worldwide DVD market share to 10%. JVC target is to sell 500,000 players in Europe in year ending March 2002, half to be produced in Berlin, rest to be imported from factories in Japan, Malaysia, Shanghai. Company said it sold just under 200,000 DVD players in Europe in year ended March 2001.

NINTENDO GBA SUPPLIES STILL SLIM: As Game Boy Advance (GBA) started shipping in Europe, hardware supplies continued to be hard to come by in U.S., retailers reported. While supplies have continued to arrive at some stores, they aren't nearly enough to satisfy demand, they told us last week.

Peter Roithmayr, merchandising vp of videogames at Electronics Boutique (EB), said GBA continued to be popular and "nothing has really changed" since system debut June 11. Hardware "continues to sell out," he said, with EB still selling only GBA hardware as part of \$199 bundles. Roithmayr said he expected 4th GBA hardware color — fuchsia — to be available at stores last week with "sellout on that, too."

Tie ratio of software to hardware has been running "over 3 to 1," Roithmayr told us. He said software supplies had been "much better than the hardware," but first party games had been "much tighter than the 3rd party" titles.

Roithmayr said most popular game so far had been Nintendo's *Super Mario Advance*, closely followed by *Castlevania: Circle of the Moon* from Konami. "Not far behind," he said, has been *Tony Hawk's Pro Skater 2* from Activision, followed by Nintendo's *F-Zero: Maximum Velocity*, although he told us last one hadn't been selling quite as well as 3 others.

KB Toys Sales Promotion Mgr. John Reilly told us: "We are receiving shipments of Game Boy Advance weekly. Demand is very good. We are running out quickly in stores and, here and there, there are some lines."

Best Buy spokeswoman told us her company was "very pleased with the response we have gotten" from consumers for GBA. As we reported, Best Buy has been among national retailers selling system for \$89.99 instead of \$99.95 SRP (TVD June 18 p11). She said company "sold over 90 percent of our inventory in [just the first] 4 days" system was on sale and "expect[ed] to get more product in the first part of July." Best Buy didn't even bother to include GBA in its Sun. ad circular week ago. While GBA hardware has been scarce, spokeswoman said software and accessories were in stock.

Meanwhile, NPD Group reported that GBA "earned approximately \$45 million in revenue in its first week at retail." NPD said its TRSTS data showed GBA hardware "took 76% of videogame unit sales during its launch week, while Sony's PlayStation 2 was pushed to 2nd place, capturing only 10% of hardware unit share, compared to 37% one week prior to the GBA launch." NPD said: "In its first week, Game Boy Advance software earned approximately \$18.5 million in revenue, with over 540,000 units selling through retailers in the U.S. alone. The average retail price (ARP) of Game Boy Advance software is \$33.99, almost \$9 more than its predecessor, Game Boy Color, which sells for an ARP of \$25.09."

Six GBA titles "sold more than 5,700 units combined during the week of June 3 through June 9, one week before the actual system was available to the public," NPD said. "At launch, 7 of the top 10 selling videogames were Game Boy Advance titles. The number one selling GBA title during that week was *Super Mario Advance*."

Commenting on results last week, NPD Interactive Entertainment Service Dir. Ilene Haase said: "The Game Boy Advance launch is a shot in the arm for the videogames industry.

Kids and adults alike were looking forward to seeing cutting-edge technology hit the portable market with the same fervor as the console market."

Spokeswoman for Nintendo of Europe (NOE) told us last week she was "just waiting for the final European numbers to come in" to say how many GBA units had sold through so far in Europe, where system hit stores June 22. But she did provide us with specifics on GBA's results in U.K. over first weekend — and figures, not surprisingly, indicated system was off to solid start.

GBA hardware sales hit 81,000 over weekend in U.K. alone, spokeswoman said. That figure — representing £7 million in sales — topped record set by PlayStation 2 last year by more than 20,000 units, British report said. GBA accessories easily pushed sales well past £10 million, spokeswoman said.

On software side, one in 4 GBA hardware buyers also bought *Super Mario Advance*. About 90,000 pieces of GBA software were sold over first weekend, representing £3 million worth of sales on their own, spokeswoman told us.

NOE had announced before debut that it would ship one million hardware units throughout Europe. Spokeswoman said all of those units weren't due to ship on Day One, but rather during "the first couple of weeks."

Microsoft expects industry to spend \$1 billion to promote new Windows XP operating system (OS) in fall, company said last week. Microsoft and Intel will spend combined \$500 million to market Windows XP, which is scheduled for Oct. 25 debut and PC makers and retailers will account for another \$500 million. Merrill Lynch projected that Microsoft would spend combined \$700 million on marketing Windows XP (\$200 million) and Xbox (\$500 million), while Intel adds \$300 million for rollout of Pentium 4 processor. Marketing plans were unveiled at Las Vegas meeting last week attended by 600 representatives of PC makers and retailers.

Sirius Satellite Radio signed on as title sponsor of U.S. Autosound Competition (USAC) World Finals set for Nov. 17-18 in Kansas City, Mo. Sirius said USAC participants represent same demographics of early adopters and mobile audio enthusiasts that it's targeting for satellite digital audio radio service rollout later this year. Meanwhile, Kenwood said it will work jointly with Sirius as "industry benefactors" to support 2001 mobile education tour by Mobile Electronics Retailers Assn., which represents 1,000 retail storefronts.

Hitachi will shift production of color TV sets away from Singapore to factories in China or Indonesia and cut 550 jobs in restructuring of Asian operations. Production shift will be completed by Sept. in bid to cut labor costs. Hitachi said it would spend \$14.8 million in severance and other costs related to Singapore job cuts, but said costs already had been factored into its earnings forecasts.

XM Satellite Radio said its 2nd satellite, "Roll," had started broadcasting in preparation for service's commercial debut later this summer. Bird was launched May 8 and is "performing beyond expectations," XM said. It said its "space infrastructure is complete."

4 MEGAPIXEL DSCs ON RISE: As manufacturers displayed their latest digital still cameras (DSCs) at last week's PC Expo in N.Y.C., one clear trend was increasing number of models featuring CCDs offering at least 4 megapixels of resolution.

At Olympus booth was 4 megapixel C-4040 zoom camera at \$1,099, shipping in Aug., that we reported on last week (TVD June 25 p14). Mktg. Support Rep Desmond Lee said model was company's 2nd 4 megapixel camera, arriving after E10 pro model that shipped in Nov. at \$1,999. He said Olympus was trying to reach out to broader customer base with lower priced C-4040.

DSC market leader Sony spotlighted DSC-S85 at \$799 that it announced last month. Model is company's first to offer 4.1 megapixel CCD. DSC Product Mgr. Mark Weir told us it would ship "within the month of July" and said it was one of few 4 megapixel DSCs unveiled to date that cost under \$1,100.

Toshiba Imaging Systems showed 4.2 megapixel PDR-M81, shipping this month at under \$1,000, that was shown publicly for first time last week. Vp-Gen. Mgr. Doug Freck said model was "ideal choice for photographers making the transition from analog to digital imaging, as well as for current digital camera users looking to upgrade to the next level."

Topping its competitors in megapixel department was Minolta, which showed off DiMage 7 DSC, offering 5.24 megapixels — albeit at expected higher price (\$1,499) than competitors' 4 megapixel units. Model ships this month. Digital Imaging Products Vp Jon Sienkiewicz said: "By building upon our past successes in this category and leveraging our strong heritage as a leading camera manufacturer, Minolta is committed to developing a new class of digital cameras that provide uncompromising image quality, performance that satisfies even the most demanding photographers and photo enthusiasts at affordable prices." Minolta also unveiled 3.34 megapixel DiMage 5, shipping next month at \$999.

Absentees in 4-plus megapixel derby at PC Expo included Nikon and Kodak. Latter's Digital & Applied Imaging Vp, Nancy Carr, told us her company had no current plan for 4 megapixel or greater consumer DSC because company didn't believe there was enough demand from mainstream consumers.

For 90% of Kodak's consumers, Carr said, 2.2 megapixels of resolution — most currently offered by Kodak consumer DSC — was enough. She said boost up to 4 megapixels also reduced number of images that could be stored on one disc and made e-mailing images more of problem. She told us 87% of Kodak consumers had expressed desire to use DSCs to e-mail and share images. But Carr said "nothing is stopping us from" making 4 megapixel DSC, and Kodak would consider introducing model like that when it gained more mainstream acceptance.

Meanwhile, average DSC pricing was continuing to drop as entry-level cost fell and DSC category won more mainstream acceptance. For example, new Olympus entry-level DSC — D-370 — is \$199, compared with previous D-360 at \$299. Olympus's Lee said there were "definitely more" traditional film camera consumers making jump to digital thanks to reduced pricing.

Sony's Weir said average DSC price had dropped 15-16% overall compared with last year and currently was about \$380.

But he said pricing varied somewhat by month. For example, average pricing dipped at Christmas before rising again. Interesting detail, he said, was that despite trend, average selling price last Christmas actually was higher than year earlier because there weren't as many \$299 cameras available at end of 1999.

Ubi Soft Entertainment (USE) and Capcom said last week they signed exclusive publishing agreement for 7 Game Boy Advance (GBA) titles. Announcement confirmed accuracy of reports week earlier that indicated Ubi Soft was in talks with Capcom to distribute Japanese game maker's GBA titles (TVD June 25 p21). Under deal, Ubi Soft will publish games — each of which is slated to ship between now and first quarter 2002 — in Western and Eastern Europe, Australia and New Zealand. Seven titles include *Breath of Fire*, *Final Fight One*, *Mega Man Battle Network*, *Street Fighter Alpha 3*, *Super Street Fighter II Turbo Revival*. Companies said titles "all belong to [a] cult series that [has] already enjoyed worldwide success on older generation consoles" and most of them "contributed to the success of the NES and Super Nintendo consoles." Commenting on deal, Alain Corre, USE Managing Dir. for Europe, Asia Pacific and S. America, said: "This agreement strengthens Ubi Soft's catalog of leading brands on the very promising Game Boy Advance format. This will let a very broad public become acquainted or reacquainted with these exceptional games on a portable format, with gaming quality close to that of a home console." Capcom Eurosoft Pres. Shigeru Ota said: "Capcom has been an ardent supporter of, and developer for, the Game Boy Advance format as is evident with these great titles. A partnership with Ubi Soft, with its wealth of publishing experience plus excellent sales and distribution network, will provide a high level of support for these quality Game Boy Advance titles and ensure their success during the crucial period of the format's launch."

Tetratel revealed investment bank Thomson Kernaghan had exercised options and warrants totaling \$123,500 of investment in company. Edmonton, Alberta, technology company said transaction "encompasses the exercise of a combination of 180,000 broker options and warrants at 20¢, and 350,000 warrants at 25¢." It said that in both series of warrants, one warrant entitled holder to one share. Tetratel Pres. James DuBarry said: "We are finding that many of the holders of warrants are choosing to exercise them. The company's condition is stronger than it has previously ever been, and investors are finding confidence in new management and the outlook of the company." DuBarry recently took place of Ken Tetterington as pres., with latter becoming chief technology officer. Tetterington told us last week: "The [management] change was made to apply our strongest attributes to the positions of Tetratel. My strength involves technology and marketing of technology products while James has numerous strengths in administration, company building, finance and public relations, among others. As the founder of [company], this was what Tetratel needed now as we enter into [a] growth stage." Company developed EyeFX 3D entertainment technology for computers and is trying to move into videogame console arena via "TIN Project" 3D peripheral for game machines (TVD March 5 p17).

MP3 Records label of Black Dragon Entertainment (BDE) said it would sign "several new and emerging MP3.com artists in time for an early first-quarter release next year." BDE Pres. Ray Carolin said: "With our exclusive MP3 Records label, we will be signing the most talented MP3.com artists, providing them with the professional marketing, promotional, radio support, and worldwide retail distribution they need in order for their music to be a success."

HANDHELD PRICES MAY STABILIZE: After months of being wracked by bloated inventories and plunging prices, handheld PC market is showing signs of stabilizing. But at same time, one of potential revenue generators for handhelds in future — wireless services — is restructuring.

Market share leader Palm, which has seen sharp rise in inventory and delays in shipping its m500 models, reported fiscal 4th quarter loss of \$392.1 million compared with \$12.4 million profit year earlier as sales fell sharply to \$165.3 million from \$350.2 million. Sales included \$146 million in hardware, \$11.6 million related to Palm.net wireless service, \$7.7 million from licensing.

Loss came as Palm took \$436.5 million in pretax charges to cover employee severance costs related to layoffs of 250 workers (\$15.1 million) and inventory write-offs (\$241 million). Last included \$105 million for raw materials and \$96 million for finished goods.

But Palm's inventory rose slightly to \$107.8 million from \$102.5 million in 3rd quarter with low-end m100 models, m500s and accessories each accounting for 33% of total, CFO Judy Bruner told analysts in conference call. Inventory stood at 10 weeks at quarter's end and Palm is targeting 4-8 weeks by end of first fiscal quarter, she said. Palm sold 681,000 devices in quarter, down from 2.1 million in 3rd quarter.

"The sellthrough has been restored to February levels," said Bruner, referring to time in which Palm was filling backlog of orders. At same time, market is showing "less aggressive pricing action," she said. Palm's average selling price (ASP) declined to \$177 from \$192 in 3rd quarter and \$262 year ago. Average will return to \$200-\$250 range over next "several quarters" as company bundles services with hardware to "protect the ASPs and keep them high," Vp Todd Bradley said.

Slight rise in ASPs would be welcome respite for handheld industry that saw retail spiral downward between March and May. Palm led charge in dropping price of high-end VIIx wireless model to \$99 after \$100 rebate, down from original \$299 (TVD May 21 p13). Handspring joined fray by trimming \$50 from its Visor Deluxe (\$199) and attaching \$50 rebate to Visor Platinum (\$249) (TVD May 14 p13). Handspring also had slight inventory bulge of \$6.8 million in 3rd fiscal quarter linked largely to components such as LCDs.

Audible said lawsuits recently filed against it in U.S. Dist. Court, N.Y.C., "have no merit whatsoever." Two securities class action suits accuse Wayne, N.J.-based spoken audio service provider of engaging in improper practices in its July 1999 IPO. Audible said "40 other public companies" had "been sued in nearly identical lawsuits [over] alleged internal practices by certain investment banks in connection with initial public offerings." Audible said it believed all those who had been sued were targeted, along with their directors and officers, "because these companies had [IPOs] that were underwritten by these investment banks." Audible predicted suits would wind up being consolidated into one case. Audible Chmn. Donald Katz said: "Each and every element of these claims against Audible and its directors is utterly preposterous. The company will defend itself to the full limit of the law and seek any available redress against these baseless and frivolous claims."

Infogrames laid off 40% of its Humongous Entertainment staff — 82 employees — in restructuring, spokeswoman for game maker told us. She said restructuring was prompted at least in part by consolidation in children's software market. Humongous, she said, is attempting to narrow focus on its popular Backyard sports games while moving all of its existing franchises — including Freddi Fish and Pajama Sam — to new game platforms. Process of moving those franchises to new platforms is "already happening," she said. But it was unclear which new platforms Humongous games were planned for. Spokeswoman said company was "leveraging the great library of titles we've got." While it will develop original titles, she said, Humongous will be very "opportunistic" on what new ones it decides to develop. Spokeswoman also confirmed accuracy of online report that at least some of employees who were laid off were angered at how their jobs were cut — apparently without advance warning — and employees found their card keys no longer would work. Spokeswoman said that was done to make layoffs "more orderly." Humongous is confident restructuring will allow division to "be more successful than we've been in the past," she said. Humongous, which has 117 employees after layoffs, was acquired by Infogrames in 1999.

Recoton Pres.-CEO Robert Borchardt has filed with SEC to sell 60,000 shares valued at \$1.17 million. He owns 1.19 million shares and has options for another 943,050. Recoton owns InterAct Accessories... THQ shareholder Worldwide Wrestling Federation (WWF) has filed to sell 201,660 shares worth \$11.1 million. THQ has developed several titles based on WWF... Activision Exec. Distribution Vp Richard Andrew Steele has filed to sell 30,000 shares valued at \$1.02 million and shareholder Daniel Hammett for 25,000 shares at \$887,500... Microdisplay developer Spatialight shareholder Yorkshire Newbury is seeking to sell 100,000 shares with value of \$292,000.

In another strong showing of support for DVD format, Chrysler Group said it would include DVD Rear Seat Video entertainment systems in select 2002 minivans available in Sept. at \$1,650 plus installation. Models that will feature DVD system include Chrysler Town & Country, Chrysler Voyager, Dodge Caravan, Dodge Grand Caravan. Chrysler said it decided to include DVD as another way to provide its consumers with greater selection. It said systems would be offered through Mopar, its original equipment replacement parts division. DVD head units will be installed in dash to allow adults to remain in charge of changing discs. Chrysler said auxiliary input would be integrated into middle row side window trim panel to accommodate camcorder, portable CD player or videogame consoles.

Correction: Our recent report on DVD price-fixing probe in Europe (TVD June 18 p13) contained incorrect reference. Excerpts from May 1, 1996, Toshiba memo sent to 8 studios appeared in our July 1, 1996, issue. Parenthetical reference in paragraph that followed was to fact that Turner hadn't yet been absorbed by Warner.

THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥124 = \$1, except where noted.

RENT-WAY RESTATES EARNINGS: Rent-Way (RW) has restated earnings for last 3 years to reflect total of \$129 million in accounting improprieties and year-end adjustments, slightly higher than forecast in May and capping 8-month investigation.

For fiscal year ended Sept. 30, RW said PricewaterhouseCoopers auditors discovered \$98 million in accounting improprieties, well above earlier estimates of \$25-\$35 million related to 3 quarters of FY 2000. RW had forecast adjustment of \$127 million (TVD May 28 p16). Of alleged improprieties in fiscal 2000, \$74 million worth relate to acquisition costs and day-to-day operations, CFO William McDonald said.

Remaining improprieties involved such accounting items as rental merchandise, fixed assets, accounts payable and vendor rebates, McDonald said. Significant cost overruns as high as 6-7% "were masked from us," CEO William Morgenstern told financial analysts in conference call. As result of accounting scandal, which broke last Oct. (TVD Nov 6 p17), COO Jeffrey Conway and Controller & Chief Accounting Officer Mark Marini were dismissed.

Result of restatement was loss of \$28 million for fiscal year ended Sept. 30. Revenue was \$592.7 million. For fiscal 1999, RW showed \$765,000 loss vs. reported net income of \$14.6 million on revenue that remained unchanged at \$494.4 million. Restated financials for fiscal 1998 resulted in \$5.8 million loss against stated loss of \$1.8 million. Revenue was unchanged at \$436 million.

Overstatement of earnings had 5-6% impact on operating margins, lowering them to current 6-8%, McDonald said. Goal is to increase operating margins to 9-11% by Dec., 14-16% by March 2002, he said. To boost margins, RW has increased weekly rental rates. For example, weekly rate for 27" TVs recently was raised \$1 to \$14.99, Morgenstern said.

RW also increased weekly fee for Gateway PC rentals to \$40. It has moved to prepaid ISP service from one that was packaged with PC, he said. RW has 80,000 PCS on rent, down from 90,000 earlier this year (TVD April 2 p13). It has purchased 100,000 units from Gateway since beginning program with company year ago. RW tested new referral program with Gateway in 80 stores earlier this year in which PC company turned over to rental chain customers who couldn't obtain financing for purchase. RW received 30 referrals in one-day test and will roll concept out chainwide later this year, Morgenstern said.

Meanwhile, RW's Dpi Teleconnect, which offers local phone service, increased subscribers to 55,000 from 50,000 in March (TVD April 2 p13) and is generating \$3 million monthly in revenue, Morgenstern said.

RW has no plans to open new stores this year, he said. It has closed or merged 20-30 stores and currently operates 1,130. While chain is in default on some terms of lending agreements, it remains "current" with vendors and banks, Morgenstern said. RW has \$345 million in debt, he said.

Liquid Audio said it had been awarded U.S. patent (#6,219,634) for "efficient" watermark technique used in distribution of secure digital music files. Company said technique required "significantly less" processing power than other systems because optimum level for watermark signal is determined using efficient mathematical algorithms.

INTEL, AMD BOW NEW PROCESSORS: Intel and Advanced Micro Devices (AMD) used last week's PC Expo in N.Y.C. to heighten processor speed race for notebook and desktop PCs despite dearth of such products on convention floor.

PC Expo was part of Technology Exchange Week in N.Y.C. that also included interactive TV conference. Unlike at past shows, this one was dominated largely by handheld PC category (see separate report, this issue), although Intel and AMD returned some of previous focus on desktop and notebook PCs.

Intel used show to tout its forthcoming Tualatin Pentium III processor that's designed to operate at 866 MHz-1.13 GHz in notebooks being marketed by Acer, Dell, Fujitsu, others. Compaq also is expected to include it in 2.5 lb. Evo mininotebook. Tualatin chips, built using 0.13-micron process, will ship for notebook PCs in July, followed by versions for desktop PCs and servers. Intel also unveiled 1.8 GHz Pentium 4 device. Intel will have Pentium 4 chips for notebooks, but Tualatin is expected to remain in line into 2003, company said.

AMD took wraps off Palomino desktop PC processor, which is based on its existing Athlon 4 mobile and Athlon MP work station/server chips. It's expected to be available in 3rd quarter at speeds starting at 1.5 GHz. At low end, AMD will boost Duron processor to 1 GHz in 2nd half, up from 950 MHz.

As AMD and Intel introduced faster chips, Transmeta said it had started shipping low-power TM5500 and TM5800 processors that operate at 700-800 MHz and 600-733 MHz, respectively. Chips are produced at Taiwan Semiconductor Mfg. Co., having shifted to 0.13-micron process from 0.18-micron. New generation of processors is said to have cut power consumption 20%. TM5800 is \$198 per device in quantities of 1,000, while TM5500 is \$85. New 1 GHz version of TM5800 is expected to be available in 2nd half. Transmeta has had chip designed into notebook and tablet PCs and Internet appliances from 14 manufacturers. One notable holdout remains Compaq, which is investor in Transmeta.

Microsoft opened Web site, retail.xbox.com, that it said it "created to assist Xbox retailers." There wasn't much information at site at our deadline, but it told visitors: "As programs are announced, we'll keep this site updated with the information retailers need to make Xbox products available to their customers." Among few pieces of information provided at site was list of Xbox distributors and what appeared to be only partial list of 3rd party game publishers that had signed deals to publish games for upcoming console. Latter included game titles those companies have committed to make so far. Distributor list included only Pioneer Distributors, Van Nuys, Cal., and Mecca Electronics, N.Y.C. Microsoft also told visitors to site that Xbox training information would be "coming soon."

Viewsonic used PC Expo to unveil ViewPad 100 SuperPDA (\$1,099) based on Windows CE 3.0 OS. Device, which has 10" LCD with 800x600 resolution, 206 MHz processor, 32 Mb flash and 64 bB SDRAM, harkens back to Microsoft's pre-Pocket PC days, when companies such as Everex, LG Electronics and Sharp marketed full-size devices. Donald Feldman, Viewsonic product mgr. for mobile and wireless products, said: "You're looking at a time now where Windows CE and Pocket PC are starting to become more popular and resellers are creating applications for these types of devices."

DIRECTV SUES PEGASUS: DirecTV, escalating legal battle with Pegasus Communications, has sued programming distributor for breach of contract, claiming it's owed \$23.2 million.

In suit filed in L.A. Superior Court, DirecTV alleged that under agreement signed last Aug., Pegasus was to reimburse it for "certain costs" incurred when national or regional retailers who sell DirecTV activated new Pegasus customers. Suit said Pegasus, which along with National Rural Telecom Cooperative (NRTC) has separate antitrust suit pending against DirecTV, had "evidenced its intent" to cease making payments and complying with terms of pact that extends until Jan. 31, 2002.

Pegasus is \$25.8 million in arrears under contract and has disputed \$2.6 million of total, amount that's "under investigation," suit said. If Pegasus doesn't honor rest of agreement, DirecTV will suffer more than \$45 million in damages, lawsuit said. Pegasus had no comment, but said in SEC filing that DirecTV had breached agreement in "numerous aspects."

Suit was filed in Cal. because it relates to Pegasus subsidiary Golden Sky, which also sold DirecTV service in certain regions of U.S. and was purchased by Pegasus in late 1990s. Golden Sky's territory included sections of Cal.

NRTC, which includes Pegasus and Golden Sky, bought rights to sell DirecTV service for \$100 million in 1992. Agreement runs for life of DBS-1 satellite, which could run more than 15 years, meaning NRTC affiliates paid less than \$6.5 million per year for rights, DirecTV said. In exchange for \$6-\$10 million payment in 2000, Pegasus and NRTC received gross revenue of \$1 billion, suit said.

Nintendo of America (NOA) unveiled new Nintendo.com Web site, developed by global Internet solutions company Blast Radius, that integrates latter's content management system supporting details for as many as 650 games. NOA said goal in re-designing site "was to focus on its most popular element: game play information." New site offers features including "Members" area and search tools including "Game Finder." Blast Radius and NOA called Web site redevelopment "a significant pinnacle in the relationship between" companies, following recent debut of Zelda.com and Oct. 2000 bow of *The Legend of Zelda: Majora's Mask* Web site, also developed by Blast Radius. Companies also said Nintendo was "seeking tactical gains from the new Nintendo.com such as reducing the number of calls to the call center by empowering gamers to find game play information on the site and capturing knowledge useful in making future business decisions." They said content management application came with open Application Program Interface (API) that "will enable Nintendo to extend its capabilities in the future" and "uphold Nintendo's investment through an adherence to open standards, because the company has not bought into a proprietary architecture such as those offered by other content management applications." Features include content authoring, publishing and archiving, application management for polls, surveys, sweepstakes, game ratings.

Samsung may have inside track on supplying LCDs for Palm's m500 handheld, following up on agreement for Palm IIIs, DigiTimes.com reported. Taiwan-based Picvue, which has been major supplier to Palm, suffered another blow when Handspring approved Wintek mono LCD sample, report said.

Consumer Electronics Personals

Richard Sharp to resign as Circuit City chmn. and a dir. when his one-year term expires next June... **Roxanne Austin**, Hughes Electronics CFO, named DirecTV pres., replacing **Odie Donald**, resigned, remains consultant into 2002... **Peter Dea**, Barrett Resources CEO, elected to EchoStar board... **Carl Vogel**, formerly Liberty Media senior vp and onetime EchoStar, named On Command chmn., succeeding **Jerome Kern**, who resigned June 1... **Cliff Wright** advanced to mgr., business units, at Sony Disc Mfg. in Springfield, Ore... **Thomas Werner**, ex-U.S. Robotics & 3Com, appointed CEO, Cypress Semiconductor subsidiary Silicon Light Machines... **Richard Lepley** shifts to pres. of Office Depot operations in Japan from similar post for Eastern Europe... Babbage's co-founder **Gary Kusun** appointed Kinko pres. and assumes CEO post from **George Tamke**, who remains chmn.

Midnight munchies snackers have DVD treats aplenty coming this summer, although bill of fare might cause broken sleep among some couch potatoes owing to indigestion or bad dreams. MGM on Aug. 21 will serve up double-trouble midsummer night's eve menu of *Hannibal* and *Silence of the Lambs* at \$29.98 and \$24.98, respectively, for 2-disc, 4-hour collector's editions with usual DVD side dishes of restored footage, option of alternative last course, commentaries by respective maitre d's Ridley Scott and Jonathan Demme and bevy of studio canteen "wannabees." Collector set DVDs have undergone de rigueur high-definition film-to-DVD transfer and come with boutique doggie bag of trailers, stills, theatrical poster art. Meanwhile, available now for late-night denizens of greasy spoon beaneries, MGM has cooked up menu of 1950s drive-in flicks from "Killer B" director Roger Corman. Chalkboard at MGM's DVD diner includes *X-The Man With X-Ray Eyes* with late Ray Milland in title role, as well as chiller theater adaptations of Edgar Allen Poe stories *The Pit and the Pendulum* and *The Fall of the House of Usher*. Noteworthy to movie buffs and literary viewers will be rare, previously cut prologue sequences now included for *X-The Man* and *Pit and Pendulum*, as well as Corman's commentaries. MGM discs hit new DVD pricing low at \$14.95 each MSRP. They're likely to become \$9.99 price-leading traffic builders, especially at big-box chains. In recent walk-through at local Kmart we found catalog DVDs as low as that, and public domain pressings at \$6.99.

Soundview Technologies said it signed patent agreement with Thomson for V-chip technology used in its TV sets, settling patent infringement suit. Terms weren't disclosed, but Soundview said it would receive royalty for all past and future sales of sets using technology. Soundview said it also recently licensed its technology to Daewoo, Funai, Hitachi, L.G. Electronics, Philips, Pioneer, Samsung, Sanyo. Soundview, subsidiary of Acacia Research, said it still had outstanding patent and antitrust suit against manufacturers and CEA, which it said induced infringement on patent.

Palm expanded distribution at Sears chainwide, while Handspring continues to pursue regional deals with accounts such as Circuit City, Datavision, Fry's Electronics, Office Depot, OfficeMax. In separate development, Palm reached agreement with one-time acquisition target Extended Systems to sell its server software as Palm-branded product. Palm scrapped proposed \$260 million purchase of Extended Systems earlier this year amid downturn in earnings.



TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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DTV WAIVER REQUESTS COMING: NAB says hundreds of stations may miss May 2002 deadline. It lobbies FCC for simple waiver process. (P. 3)

COURT UPHOLDS FCC on TV reception rules covering renters. Decision favors DBS, foils building owners. (P. 4)

CABLE FEARS VIDEO STREAMING: ESPN-Charter dispute spotlights issue. MSOs want strict streaming limits. (P. 5)

COURT VOIDS BIDDING RULES: D.C. Appeals Court overturns FCC license bidding for public and educational stations. (P. 6)

COPPS JOINS TRISTANI INDECENCY CAUSE: Providing first glimpse of his public policy priorities, new FCC Comr. Copps teamed with Comr. Tristani to lash out at Enforcement Bureau's handling of 2 indecency complaints against radio stations. In statements issued July 2, Copps and Tristani criticized Enforcement Bureau for not aggressively investigating listener complaints against Chicago station WKQX(FM) and Burlington, N.C., WDCG(FM). Copps and Tristani, 2 Democrats on Commission, called on Bureau to take more steps in enforcing broadcast indecency regulations instead of dismissing many complaints because station didn't provide record of broadcast. "Lack of information about what was said and when it was broadcast should not be allowed to derail our enforcement of the laws," Copps said. "If something is said on the public airwaves, a strong argument can be made that it should be part of the public record." Copps raised similar concerns in interview with *Communications Daily* last month (TVD June 18 p3).

While Tristani has made stronger enforcement of federal indecency rules one of her signature issues at FCC, Copps is new to cause. In his statement, he said stricter enforcement "will be an important priority for me as I begin my service on the Commission." Arguing that "Americans have a right to expect their government to enforce the indecency laws of the United States," he said he wants to "ensure that the Commission investigates vigorously the complaints filed by citizens."

In Chicago case, listener David Smith filed 3 complaints over 5 incidents of allegedly indecent broadcasting by WKQX last year. Enforcement Bureau issued notice of apparent liability against station for 2 of incidents but dismissed remaining 3 because they didn't seem to be indecency violations on their face. All 3 incidents occurred in morning broadcasts hosted by Eric (Mancow) Muller, who, among other things, discussed adult-child sexual intercourse in detail and claimed that he had once had sex with 9-year-old girl when he was 27. Enforcement Bureau said it couldn't conclude that Mancow discussion was indecent because it didn't have "sufficient context in terms of the words and language used."

Consumer Electronics

DVD INVENTORIES BULGING at million decks. Implications of glut open to wide interpretation. (P. 9)

THOMSON ROLLS VIDEO OPERATIONS into global business unit, completing restructuring that began 2 years ago. Executives facing new duties. (P. 10)

RENT-WAY FINANCING PROBED by SEC and U.S. Attorney. Chain moves to extend agreement with lenders beyond July 31. (P. 11)

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CMC SEEKS GAIN in MP3 market, but Taiwan manufacturer's hardware is yet to be sold via brick-and-mortar channel in U.S. (P. 13)

PC AUDIO GETS MIXED REVIEWS from some retailers that may be asked to carry Compaq and HP CE products. (P. 13)

Tristani criticized Bureau's judgment in case, arguing that WKQX clearly violated indecency law. "If ever there were a case for a per se violation of the indecency laws, this is it," she said. She also bashed Bureau for not going beyond letter of inquiry and asking Smith for more details. "The Bureau took the correct first step when it sent a Letter of Inquiry to the station," she said. "The problem is that the investigation ended when the station failed to provide any evidence implicating itself."

Tristani said that in such cases "contacting both the station and the complainant should not impose unreasonable burdens on Commission staff" and "would undoubtedly result in more thorough records to evaluate indecency complaints." Copps agreed, contending that most broadcasters "already retain recordings of their broadcasts" for "good management" and other reasons. He said he was interested in "looking at how the Commission could encourage universal retention of broadcast programming to aid in its indecency enforcement."

In Burlington case earlier this year, listener Joyce Moller complained that WDCG aired joking discussion about masturbation that offered prizes to callers who would masturbate during program. Enforcement Bureau dismissed complaint after finding that program did not meet its 3-prong test for obscenity. It also said material was "not sufficiently explicit to conclude that it is patently offensive so as to constitute indecency."

Arguing that Moller's complaint "deserved a careful investigation rather than the summary dismissal it received," Tristani said, bureau "should have contacted the station to request a tape or transcript of this program." She said such move "might well have led to the finding" that station had violated indecency rules. "Without a change in the Commission's process for enforcing the broadcast indecency regulations, far too many complaints will be dismissed for 'lack of context' when all that is required for reasoned decision-making is a minimal amount of follow up," she said.

Copps agreed again, calling anew for greater agency action. "The process by which the FCC has enforced these laws places an inordinate responsibility on the complaining citizen," he said. "It seems to me that when enforcing the indecency laws of the United States, it is the Commission's responsibility to investigate complaints that the law has been violated, not the citizen's responsibility to prove the violations."

CAMPAIGN REFORM DEBATED: Congressional recess for July 4th holiday didn't bring hiatus in debate over campaign finance reform. In newest round of charges and countercharges on issue, Paul Taylor, exec. dir. of Alliance for Better Campaigns, said July 3 that claims being made by NAB "are blatant and it is spreading flat-out falsehoods." NAB Exec. Vp James May countered that TV campaign cost figures cited by Taylor "aren't representative, and they aren't even accurate." May said Taylor was "not only comparing apples to oranges, but his apples are full of worms."

Bill (S-27) by Sens. McCain (R-Ariz.) and Feingold (D-Wis.), which Senate passed earlier this year, contains amendment by Sen. Torricelli (D-N.J.) that would require broadcasters to set lowest unit charge (LUC) based on reduced rates typically charged to bulk buyers of nonpreemptible air time. Reps. Shays (R-Conn.) and Meehan (D-Mass.) recently reintroduced bill (HR-2356) with similar provision. Alliance and other supporters said provision would close loophole in campaign finance law and prevent broadcasters from spiking ad rates in months leading up to primaries and elections. NAB says Torricelli amendment is unconstitutional and would result in "perpetual" federal campaigns that would limit available air time for state and local candidates (TVD July 2 p1).

May and Taylor appeared jointly June 28 before "Blue Dog Caucus" of about 30 conservative House Democrats and amplified their positions in July 3 letters. They mostly debated disputed costs of TV spots for candidates in 17 hotly contested congressional races last fall. In his letter, Taylor argued: "The record is clear, and has never been refuted by NAB [that] in media markets that had heavy political activity last year, ad rates doubled and even tripled" in Sept.-Oct. He conceded candidates received "a slight discount off these inflated prices, but a 27% discount off a rate that has tripled is hardly a bargain."

Taylor said that if most TV stations "aren't gouging" candidates, as Alliance claims they are, "they have little to fear" from bills now under consideration to close loopholes in rates charged to candidates. Only stations that will be affected by including LUC provision in legislation, he said, are those that attempt to raise rates for all advertisers to take advantage of campaigns. Noting that LUC provision is part of McCain-Feingold bill that passed Senate 69-31, he warned that if "the broadcasters and their allies succeed in stripping it from Shays-Meehan" House bill, campaign reform will be substantially weakened and "subject to a perilous House-Senate conference."

In his letter to Blue Dogs, May didn't buy any of Taylor's arguments, contending he was "misrepresenting the facts." May said Brigham Young U. study cited by Taylor looked at only 17 "hotly contested" races in 2000. In accus-

ing Taylor of comparing apples and oranges, May said "this limited examination is not an accurate picture of what happened nationwide. Yet, Mr. Taylor uses nationwide averages [of TV rates] from 1999 [nonelection year] to make his point — and that is where his apple is full of worms." Overall, said May, TV rates in fall 1999 and 2000 increased 11% to 12% in both years — with only 5% rise in prime time from 1999 to 2000: "Stations followed the law but Mr. Taylor criticizes them because they did not use his formula to discount rates."

In July 3 memo to media, Taylor charged broadcasters and NAB with "spreading disinformation" about LUC by claiming it would provide lowest rate for 12 months before elections. In fact, he said, LUC would be available to candidates for same periods as under current law — 60 days before general elections and 45 days before primaries. "The NAB has also falsely claimed... that [provision] would enable candidates to purchase a 30-second spot on a televised [Washington] Redskin game for \$15," he said.

Meanwhile, Pew Charitable Trusts gave Alliance 2-year, \$1.4 million grant to promote voluntary and mandatory campaign reforms. Alliance said proceeds would be used for variety of purposes, including efforts to reduce cost of campaigning and to educate public about proposals to require broadcasters to give free time to candidates. Also under grant, Alliance said it would push for requirement that stations provide minimum amount of time for debates, news interviews and other forms of candidates' on-air appearances. Grant, in part, is contingent on Alliance's providing matching funds.

At same time, House Commerce Committee Chmn. Tauzin (R-La.) and Telecom Subcommittee Chmn. Upton (R-Mich.) urged House Rules Committee to strip provision from Shays-Meehan bill, which they expect to go to House floor for vote this week, that would extend LUC obligations of broadcasters to cable and satellite service providers. In July 6 letter to Rules Committee Chmn. Dreier (R-Cal.), Tauzin and Upton said that "by incorporating language already approved in the Senate, [Shays and Meehan] will be able to avoid a conference" on controversial LUC provision. "We respectfully request that the Rules Committee craft a rule which would delete any broadcast provision from the base text of the Shays-Meehan bill, yet permits its proponents to offer an amendment on the House floor to add it if they are so inclined," they wrote: "[Commerce Committee] was given an additional referral on both" S-27 and HR-2356, so "our jurisdictional and policy prerogative would be completely ignored by taking the broadcast provision straight to the floor."

NAB: DTV WAIVER REQUESTS COMING: Top NAB officials urged FCC to take steps to ease DTV buildout requirements for "perhaps hundreds" of smaller-market stations that may fail to make Commission's May 2002 deadline for transition to digital broadcasting. In June 25 ex parte filing made public last week, NAB Gen. Counsel Jack Goodman said he, Pres. Edward Fritts and senior executives Henry Baumann and Karen Kirsch met with Comrs. Tristani, Abernathy and Copps to press for simple extension waivers and looser buildout obligations. NAB executives warned agency that failure to take such steps could lead to agency's being swamped by waiver requests. "While we did not seek any blanket extensions of the buildout deadlines, we noted that an extension for smaller markets would reduce the burden on the Commission's staff of dealing with perhaps hundreds of individual requests," Goodman wrote.

In its 3-page filing, NAB said recent membership survey showed that broadcasters were "on track" to offer digital signals in markets covering more than 90% of TV households by May 2002, up from 68% of homes today. But it said "a number of stations would have difficulty meeting" deadline, "particularly in smaller markets." Group cited "unanticipated financial hardship" caused by next year's deadline. NAB also cited FCC rulings that require stations seeking to maximize their signals to erect those facilities by May 2002 and Commission's 2004 analog service replication decision, which group argued "had exacerbated those difficulties by increasing costs and straining limited tower and crew resources."

NAB officials urged FCC to "provide a simple form" for stations to use in seeking extensions. They said form should include "check-off" for stations to cite equipment availability,

tower problems and other issues and leave space for supporting information. They said Commission "should also allow stations to make a showing that they need an extension due to financial hardship." And they suggested that agency "delegate additional authority to the Mass Media Bureau" to grant buildout waivers.

In related move, NAB executives lobbied FCC to permit DTV stations "to operate with reduced hours and thus save electric costs" for undetermined period of time. They said stations should be allowed such latitude "at least until DTV set penetration becomes more significant."

FCC last week added 2 AM and 5 FM stations owned by Michael Rice to first-ever broadcast frequencies to be auctioned to highest bidder. Commission revoked Rice's licenses for 2 AMs, 3 FM's and construction permits for 2 additional FM's in June 1998 for misrepresentations to FCC after he had been convicted of "repeated" sexual abuse of children. Last March, U.S. Supreme Court refused to hear his appeal. In so doing, High Court upheld lower court rulings that FCC could use character as factor in granting licenses. Window for filing for AM frequencies (640 and 1230 kHz, both Terre Haute) opens July 16, closes July 24, and they will be added to 39 other AM frequencies slated to be auctioned. Mass Media Bureau said it would open Sept. 24-Oct. 5 window for FM filings, which will include frequencies assigned to Rice: 197.5 MHz Terre Haute; 98.3 MHz Columbia, Mo.; 103.5 MHz Huntsville, Mo.; 101.9 MHz Eldon, Mo.; 102.1 MHz Cuba, Mo. Rice has been ordered to shut down stations by July 13, but FCC said he could seek temporary authority to operate for 90 days "to preserve broadcast service to the affected communities." Commission said it would seek comments shortly on suggested minimum opening bids for frequencies to be auctioned.

COURT UPHOLDS FCC RULES: In decisive victory for satellite TV industry, U.S. Appeals Court, D.C., upheld FCC regulations July 6 that allow renters to install DBS dishes and other types of TV antennas despite property owner opposition. Panel of 3 judges roundly rejected petitions by building owners, building managers, homeowner associations and other real estate groups that challenged federal rules as unconstitutional and exceeding agency's authority. Judges also rejected petitioners' claims that FCC "acted capriciously and arbitrarily" in extending its rules on over-the-air reception devices (OTARD) to renters in 1998. While FCC's power is, "of course, subject to limitations," court said, "an OTARD rule that safeguards all viewers' access to these services clearly falls within this limitation" given "Congress's explicit (and exclusive) grant of jurisdiction to the Commission over direct-to-home satellite services and its broad responsibility to make communications services available to all individuals."

Writing for court, Judge Judith Rogers said OTARD rules, which were prompted by Sec. 207 of Telecom Act, fit within "very broad mandate" that Congress intended when it passed Act. Citing legislative history of section, Rogers said consistent and plausible reading of House Committee report on provision "would indicate Congress's intent to invalidate various types of private contracts under state law, such as homeowners' association contracts and lease agreements, that might interfere with a viewer's ability to receive certain types of satellite broadcasting signals." She dismissed comparisons with other real estate-related cases where FCC's power was overturned.

"In contrast to those cases, however, the issue here is not the extent to which a ruling by the Commission affects areas that are tangential to the Commission's jurisdiction, such as the height and location of a building," Rogers wrote. "Congress has expressly vested the Commission with exclusive jurisdiction and authority to ensure that all viewers may access direct-to-home satellite services."

Court refuted petitioners' arguments that OTARD rules amounted to illegal property "taking" under 5th Amendment. Rogers set case apart from 1982 *Loretto v. Teleprompter Manhattan CATV Corp.* case in which U.S. Supreme Court struck down N.Y. law letting cable company place its lines in private property owner's building without compensation. "Unlike the building owner in *Loretto*, whose premises were occupied without her consent, the landlord subject to the amended OTARD rule has ceded control of his or her property to a tenant with whom the landlord has a contractual relationship," Rogers wrote. "Thus, no 'third party' stranger to the property is involved."

In concurring opinion, Judge Raymond Randolph argued that "taking" clause didn't prohibit federal govt. from taking private property. Citing appeals court's decision in 1993 case, Randolph said clause "requires only that the government accomplish the taking in a particular way, namely, by paying for the property."

FCC Chmn. Powell is breaking precedent and will start his vacation immediately after agency's meeting July 12. Historically, Commission has met first week in Aug. with commissioners taking their vacations after that. Spokesman said that he didn't know where chmn. would be vacationing but that he would be back for agency's Aug. 9 meeting.

Kevin Martin was sworn in as FCC commissioner July 3 for term that runs through June 30, 2006. Due to paperwork error, he's last of 3 new commissioners to take oath. Comrs. Abenathy and Copps had been sworn in by Chmn. Powell in late May, although all 3 were confirmed by Senate earlier that month. Martin had been nominated for 2 terms, including remaining 32 days of former FCC Chmn. William Kennard's term followed by full 5-year term. But, due to mistake by either White House or Senate, Martin was confirmed only for 2nd part. Immediately before joining Commission, Martin served as special assistant to President Bush on economic policy, specializing in telecom issues. He had been part of Bush-Cheney transition team and was deputy gen. counsel for Bush campaign. Before that he was aide to then-FCC Comr. Harold Furchtgott-Roth.

Morality in Media Pres. Robert Peters assailed Playboy Enterprises' planned \$70 million purchase of 3 "hard core" cable sex channels — Hot Zone, Hot Network and Vivid TV — last week. "After 8 years of [President] Bill Clinton and almost no enforcement of federal obscenity laws, Playboy apparently now believes that with so much hardcore porn available, it must be accepted by the American people," Peters said. "Widespread availability of hardcore pornography, however, is not the same thing as community approval or acceptance." Peters said that during Clinton Administration, prosecution of obscenity cases dropped 86% from previous Administrations. He cited Wirthlin Worldwide study finding that 80% of Americans supported "vigorous enforcement" of federal obscenity laws.

Arbitron said it was buying Radar radio network audience measurement service from Statistical Research Inc. (SRI) for \$25 million, to be paid over 2 years. In transaction, 2 dozen of SRI's 75 employees will move to Arbitron, researcher said. Radar has been in existence since 1972 and in producing its estimates, SRI said it interviewed 12,000 radio listeners annually by telephone daily for 7 days. More than 40 groups — including networks, advertisers and agencies — subscribe to service. SRI Pres. Gale Metzger said acquisition by Arbitron "will benefit the radio community at large through a uniform currency and an expansion of the sample size."

Charter Communications, Comcast and Mediacom Communications closed on their previously announced deals to buy or swap cable systems with AT&T Broadband. In biggest of 3 transactions, Charter and AT&T consummated \$1.77 billion agreement in which Charter gained systems serving 563,000 subscribers in return for cash and small Sebastian, Fla., system. Charter also retained hold on its Miami Beach systems, which were part of original deal. In 2nd transaction, Comcast closed on its purchase of AT&T's Baltimore cable system for \$518 million in cash. Finally, Mediacom picked up AT&T's Mo. systems serving 94,000 subscribers for \$309 million in cash.

Defense Advanced Research Projects Agency (DARPA) is seeking research projects it can fund to develop ultra-miniature and ultra-low power technology for use in GPS receivers and ultra-high frequency communications devices. Agency is soliciting proposals to create microelectromechanical system that integrates chip-scale atomic clock. Goal of project is to "drastically improve channel selectivity and density for all military communications." DARPA specifically wants system that will enable "ultra-fast frequency hopping in synchronized spread-spectrum communications for improved security and jam resistance and strong encryption in data communications" (wtang@darpa.mil).

CABLE FEARS VIDEO STREAMING: Current battle over Charter Communications' carriage of ESPNNews on many of its cable systems throws spotlight on MSOs' deep fears about potential threat of video streaming to their businesses. Although only Charter has turned video streaming into fighting issue so far, other major MSOs have raised concerns about impact of such leading cable programmers as ESPN parent Disney's making video content freely available over Internet. At NCTA convention in Chicago last month, Charter Pres. Jerry Kent, Comcast Pres. Brian Roberts and Comcast Cable Pres. Steve Burke all publicly sought assurances from Disney, Viacom and others that they wouldn't use streaming video to circumvent cable operators' offerings.

Such concerns are at heart of ESPN-Charter dispute, which erupted over Charter's insistence that ESPN agree to strict limits on video streaming of ESPNNews programming over Internet. In latest move July 1, Charter pulled ESPNNews off cable systems serving 248,000 homes after it and ESPN couldn't compromise on video streaming restrictions. "If/when ESPN will come to the negotiating table with agreeable terms and conditions, whereby Charter customers will be protected from potentially paying for ESPNNews programming that ESPN could choose to distribute for free, or a lesser pay per view basis, we'll gladly sign a contract," Charter said in July 2 statement. "But certainly not before then." Charter executives and ESPN officials, who defend their right to "serve sports fans" on all platforms, declined further comment last week.

Responding to MSO entreaties, Viacom CEO Mel Karmazin and ESPN Pres. George Bodenheimer tried to reassure cable executives that they didn't intend to disrupt their core video business. In one convention session, Karmazin said Viacom wouldn't dare "jeopardize" its deals with cable operators, which account for 30% of its revenues. "We spend so much money for our content," he said. "The thought of just streaming it without a business model makes no sense." He stressed that Viacom didn't stream audio from any of its radio stations over Internet.

But, at same time, both Viacom and ESPN stirred MSO fears about video streaming threat at convention with plans for new services. Viacom Chmn. Sumner Redstone and MTV Networks executives described their plans to start MTV Live, which they labeled "the world's first dedicated broadband service," in U.S., Europe and elsewhere in July. MTV Live will offer live performances, music news, music charts, other information to PC broadband users. Redstone said in speech: "Like the other new platforms we're discussing, PC broadband will generate entirely new revenue streams for Viacom... including revenue from subscriptions for broadband services, sales of CDs, concert tickets and other products."

Bodenheimer spelled out Disney's plans to introduce new ESPN Broadband service in fall. He said PC-based service, aimed at cable modem users, would offer subscribers "access to on-demand, streaming audio and video highlights and current headlines." Bodenheimer said he couldn't rule out charging cable operators extra fees for broadband content. ESPN executives also said they would consider sharing advertising and subscription revenues with cable affiliates, as well as other possible arrangements.

Charter officials said they were more concerned about video streaming plans of Disney than of Viacom because of ESPN's harder line on issue. They said Viacom, like several other cable

programmers, already had agreed to strict limits on streaming. "We've had no problems with anybody else," Charter spokesman said. "Every contract that we've negotiated in the last year and a half has included some language on video streaming."

Bipartisan group of 14 members of Congress has filed strong protest at FCC opposing "any effort" to lift 35% cap on ownership of TV stations. Saying that "hallmark principles" of Communications Act are "localism and diversity," group said in June 29 letter to commissioners that "cap at its current level serves a critical role in preserving localism... We are committed to making sure that as the media industry evolves and consolidates, the voice of local broadcasters is not stifled or silenced." TV network challenges against cap "lack merit and we believe the Commission has an obligation to vigorously defend the cap," legislators said. They said Congress "established [cap] in the law... after lengthy debate" on 1996 Telecom Act "to promote diversity in ideas and speech and preserve competition" and FCC should not change that congressional mandate. Attack by Network Affiliate Stations Alliance on Big 4 TV network practices (TVD June 25 p5) "underscores the notion" that retention of cap "remains essential to prevent potential abuses" by networks, legislators to FCC. Letter was signed by 11 senators and 3 representatives, including Senate Commerce Committee Chmn. Hollings (D-S.C.), Minority Leader Lott (R-Miss.), and ranking House Commerce Committee Democrat Dingell (Mich.).

Labor peace descended on Hollywood July 3 when SAG and AFTRA agreed to new 3-year contract with Alliance of Motion Picture & TV Producers. Actors' contract with Alliance had expired July 2. Agreement followed similar 3-year contract Alliance reached in spring with Writers Guild of America (TVD May 14 p5) and assured that there would be no strike as new fall TV season got under way — as many had feared early this year (TVD Jan 15 p6). SAG-AFTRA agreement with Alliance gives actors 3% raise in minimum salaries first 2 years, 3-1/2% in 3rd year, increase in residuals for basic cable, increase in guest star payments and for stunt coordinators, increased studio and network contributions to actors' pension and health plans. Key issue unresolved for future consideration was actors' performance fees for appearances on Internet programming. Agreement must be approved by members of SAG and AFTRA, which combined represent 135,000 actors. Next major negotiations for TV and movie producers will be with Directors Guild of America, with that contract expiring in summer 2002.

KKMG(FM) Pueblo, Colo., has appealed FCC indecency fine of \$7,000 because station aired watered-down version of song "The Real Slim Shady" by Eminem in 6 a.m.-10 p.m. period when children were likely to be in audience. Station disputed Commission ruling song was indecent and said that to rule otherwise would have chilling effect on hip-hop artists. KBOO(FM) Portland, Ore., also is planning appeal of similar indecency fine. At FCC, new Comr. Copps has joined Comr. Tristani in calling on Enforcement Bureau to be more responsive to indecency complaints (see separate story, this issue).

Combined local and national spot radio revenues were down 9% in May, with local dropping 4%, national 21%, below revenues for May 2000, RAB reported. Last year, May radio revenues were up 25% — "making it the toughest comparison of the year," RAB said. "Radio will withstand the effects of the current economic slowdown because of its localism," RAB Pres. Gary Fries said. "When the turnaround comes, radio will be well positioned for growth."

COURT VOIDS FCC BIDDING RULES: Handing public broadcasters significant victory, U.S. Appeals Court, D.C., invalidated FCC order subjecting noncommercial educational broadcasters (NCEs) and public broadcasting stations to competitive bidding for licenses in unreserved spectrum. Acting on petition for review of Commission's order filed by NPR, APTS, CPB and state of Ore., court upheld public broadcasters' contention that Communications Act "unambiguously" forbade FCC from requiring NCEs to participate in auction to obtain licenses for any channel, reserved or unreserved.

Conceding that Act's language wasn't perfectly crafted, court said that because auction exemption referred to ultimate recipient of license and not to applicants, Commission apparently has authority to require NCE applicant to participate in auction as long as it doesn't eventually receive license. But to ensure that NCE never has to participate in auction for license that it ultimately receives, Commission must exempt all NCE applicants from such auctions, court said: "Inartful drafting is not the same as ambiguity."

Referring to Commission's argument that because statute was silent on question before court, it should defer to FCC's interpretation, court said that by failing to distinguish between reserved and unreserved channels, Sec. 309(j)(2) of Act exempted NCEs that applied for commercial licenses from participating in auctions. "True, nothing in the Act's text specifically says that NCEs applying for commercial are exempt from auctions. But general rules need not list everything they cover," court said. It also disagreed with Commission's argument that exempting NCEs from auctions for commercial licenses would undermine Congress's desire to recover value of spectrum through auctions. Notwithstanding Congress's desire to increase revenue, "it expressly exempted NCEs from participating in auctions, thus demonstrating that it understood that pursuit of this goal would be limited by the NCE exemption," it said.

Judge David Tatel wrote opinion for panel with Judges Douglas Ginsberg and Raymond Randolph. In separate concurring opinion, Randolph said he agreed that Commission's order must be set aside and case remanded to agency but disagreed that FCC on remand must adopt majority's interpretation of statute. Calling court ruling validation of public broadcasters' position, NPR spokeswoman said they were keen to work with FCC to craft process for "fair and equitable" award of spectrum.

FCC finalized regulatory fee schedule for 2001 in order issued July 2 and acted on requests for changes, rejecting WorldCom's objection to increased fees for Multipoint Distribution Service (MDS). WorldCom complained that 64% rise in MDS fees didn't reflect increase in regulatory costs but rather drop in number of MDS licenses. Company said agency's practice of spreading increases proportionately across communications services resulted in discriminatory treatment of MDS providers. FCC also turned down request for revision by Paxson Communications although agency said company raised "significant questions." Paxson said fee for UHF construction permits had increased 43% over FY 2000 and now was \$1,000 higher than one for VHF, even though Congress originally set lower fees for UHF. Paxson had argued that increase in UHF fees was inconsistent with lower fees paid by some faster growing services that presumably created more regulatory cost. FCC said it would reexamine UHF TV fees next year when new cost accounting system had been developed.

AOL TW SEEKS FTC OKAY OF ISPs: As expected, AOL Time Warner (TW) submitted Juno Online Services and High Speed Access (HSA) to FTC last week for approval as nonaffiliated ISPs, which AOL TW needs before it can offer AOL's online service on Time Warner Cable (TWC) high-speed cable lines. Proof of nonaffiliated providers is required by consent decree that AOL TW reached with FTC before agency approved AOL's takeover of TW in Dec. FTC already has approved EarthLink as first of 3 required independent ISPs, according to AOL TW's motion for approval to FTC (which redacted information about when EarthLink rollout would occur), leaving company to sign deals with 2 more unaffiliated providers. Motion said FTC had opportunity to "effectuate immediately the first wide-scale introduction of broadband multiple ISP service."

Juno, which offers free, pay dial-up and DSL service, announced June 7 it would merge with NetZero, another free ISP, motion said. Merged entity, which will be called United Online, would have subscriber base of more than 7 million and be 2nd largest ISP in U.S. Petition said HSA was 3rd largest provider of cable broadband ISP services. Microsoft co-founder Paul Allen, through MSO Charter Communications, owns 48.8% of HSA. Broadband Solutions, Cisco, Com21, Lucent Technologies and Microsoft also have stakes in HSA. "Through its experience with large-scale rollouts of cable broadband ISP service, HSA has accumulated knowledge and technical expertise that will enable it to compete immediately across TWC divisions," motion said.

Consumer groups have protested that Charter Communications' involvement taints HSA's role as independent ISP because Charter buys much programming from TWC and 2 MSOs team on other cable ventures. Motion said Center for Digital Democracy (CDD), in particular, had objected to HSA approval for that reason. AOL TW told FTC that HSA wasn't affiliated ISP because: (1) It shared no ownership with AOL TW. Consent decree established 5% as cap for nonaffiliation. (2) Charter and AOL TW had some programming deals but AOL TW couldn't exert any influence over HSA through agreements because there was only some overlap in HSA and Charter ownership. FTC is taking public comment on petition until July 31.

AOL TW, which plans to begin multiple ISP service over its cable lines in several markets later this year, declined last week to spell out exactly where and when it expected to start. Spokeswoman said company, which recently completed technical trial of service in Columbus, O., still was "finalizing" its rollout plans. "We're certainly on track to launch all 3," she said. "The process is working just as we thought it would."

National Assn. of Securities Dealers (NASD) is seeking comments on proposed new rules requiring analysts at brokerage firms to make detailed disclosures of all investments they or their companies hold in stocks they promote. If adopted, new rules would apply to analysts promoting stocks on TV-radio, in speeches and other public appearances. They will provide for such penalties as censure, fines, suspensions and expulsion from NASD. Proposed rules are "very concise, very targeted... about the relationship between analysts and the companies they cover," said Mary Shapiro, pres. of NASD Regulation. "It applies to all sales literature, advertisements and public appearances." Proposal, with comments due Aug. 15, comes 4 weeks after Securities Industry Assn. adopted its own set of guidelines (which carry no provisions for penalties) for analysts.

CABLE GETS SERIOUS ABOUT THEFT: Faced with loss of billions of dollars in annual revenue, cable operators are finally turning their anti-signal-theft rhetoric into action, several industry sources said. "There are signs that cable companies that were loathe to spend money to address problem of cable theft are changing their approach," industry official said. Change in attitude follows latest survey by NCTA's Office of Cable Signal Theft (OCST), which estimated that cable piracy bled industry of \$6.6 billion in revenue in 2000.

Besides detection of signal theft through better audits, MSOs' strategy is focused on conversion of illegal service households to paying customers. Cablevision Systems and AT&T have been in forefront of latest drive against cable theft, source said, with latter having invested \$60 million in systemwide audits. Anti-theft drive that involves tracking truck rolls and sometimes litigation is paying off, source said. NCTA spokesman said latest industry figures showed that average of 30% of illegal connections were being converted into paying customers.

Estimated annual loss of \$6.6 billion represents 17% of estimated gross cable revenue in 2000, survey found. OCST put percentage of theft of basic service at 11.5% of homes passed and that of premium and pay-per-view (PPV) service at 9.5% each. Theft rate for basic translates to loss of \$4 billion, for premium \$2 billion and for PPV \$558 million, survey said. Theft of basic service is easier to detect than premium, source said.

AT&T spokeswoman declined comment on company's dollar investment in systemwide audits, but confirmed that tap audits had been in progress in former TCI and MediaOne systems since Jan. Covering 15 major markets including Boston, Chicago, Denver, Pittsburgh and San Francisco, audits focus on testing every home passed against billing data. Illegal devices are disconnected and company follows up with effort to convert pirates into paying subscribers, she said. If they decline, check is conducted again in 30-90 days and only then is prosecution begun, spokeswoman said. Declining to give conversion rate for AT&T, she would say only that company was "very pleased" with program that more than paid for itself.

Cablevision spokesman said company was aggressively pursuing cable theft and vendors of illegal decoders. Success of its approach was reflected in \$29 million award it received in April from federal court in case against Ill.-based distributor of pirate cable decoders. That was largest monetary award ever for such offense, he said. He declined, though, to provide conversion rates in N.Y. metropolitan area, where Cablevision serves more than 3 million households.

NCTA said engineering analysis of more than 500,000 illegal devices seized by enforcement agencies in 1996 showed that 80% of units were capable of circumventing industry technology and allowing illegal reception of even PPV services. Over last 8 years, OCST has worked on seizure of more than one million illegal devices and shutdown of 2 million units. Under OCST's economic impact formula, they represented saving of more than \$10 billion to industry, NCTA said.

Industry also has sponsored bills in states to add teeth to existing statutes that it calls "obsolete and antiquated" to deal with new technology. Pa. was first state to revamp theft of services statute last year, boosting criminal penalties for offenders and expanding civil remedies for cable operators. Measure also

broadens definition of telecom services to include all broadband services and plugs loopholes in some statutes by widening scope of vendor prosecution to cover out-of-state suppliers. Pa. statute has served as model in industry, with Md. enacting similar legislation in May and Del. passing law now awaiting signature of Gov. Ruth Minner (D).

TV and radio ads and direct mail made up largest percentage (38%) of soft money political expenditures in 2000, while percentage of total expenditures for party-building activities (8.3%) ranked fifth, according to Brennan Center study. Despite "scare tactics" of antireformers, who claim that proposed restrictions on soft money would gut party spending, analysis indicated that drop in funds devoted to party-building efforts had "coincided" with rise in electioneering issue ad expenditures. For example, soft money spending between 1992 and 2000 increased to \$487.5 million from \$86.1 million while party spending on issue ads "skyrocketed" to 52% from 3% of soft money expenditures as state party expenditures on party building dropped to 10% from 14%, Center's Democracy Program Dir. Nancy Northrup said: "Soft money ushered in the era of political party as TV ad producer. Closing the soft money loophole will refocus parties on the activities for which they are uniquely equipped, [such as] voter registration and get-out-the-vote drives, broad message development and agenda setting." Legislation (S-27) by Sens. McCain (R-Ariz.) and Feingold (D-Wis.), which Senate passed earlier this year, and recently reintroduced bill (HR-2356) by Reps. Shays (R-Conn.) and Meehan (D-Mass.), would shut that loophole, she said. Spokeswoman told us that Center had plans to publish book that would integrate current findings with joint research that Center and U. of Wis. performed earlier this year. Study showed that: (1) 99.8% of party-sponsored ads funded with soft money mentioned candidates while only 8% mentioned parties. (2) Corporations and unions helped fund those ads, which advocated defeat or election of candidates, despite federal prohibition against such organizations' attempting to influence elections. (3) More than half (54%) of ads purchased by parties in last 2 months of election season were attack ads.

AT&T settled breach of contract lawsuit filed against it in Middlesex (Mass.) Superior Court by Cambridge Community TV (CCTV), nonprofit corporation that administers public access cable channels in Cambridge, Mass., with cash payment in lieu of damages. CCTV accused AT&T of failing to fulfill funding obligations under 15-year licensing agreement between City of Cambridge and AT&T's predecessor American Cablesystems. AT&T refused to make full payment of public access contribution for 2000, final year of agreement, CCTV charged. In its complaint, CCTV said license agreement provided that in final year, revenue of first 6 months would be used to determine gross annual revenue for that year and that final payment of 3% would be paid to CCTV. But, it said, after paying only one quarter of amount, AT&T claimed it had fulfilled all obligations and rejected any claims for further payments. CCTV had demanded damages of \$398,445 plus interest from Sept. 2000, CCTV Exec. Dir. Susan Fleischmann said. "Citing the cost and uncertainties of litigation as reasons for the settlement, AT&T paid \$383,993," she said. AT&T made no admission of wrongdoing or liability in settling case, Fleischmann said.

XM Satellite Radio said it redesigned its Web site to include list of stations and allow potential customers to sample sounds. Web site remains at <http://www.xmradio.com>.

Personals

Carter Todd, ex-Baker, Donelson, Bearman & Caldwell, appointed vp-gen. counsel and secy., Gaylord Entertainment... **Paige Anderson**, ex-Akin, Gump, Strauss, Hauer & Feld, joins Center for Democracy & Technology to work on global digital divide... **Richard DalBello**, ex-Spotcast Communications, named exec. dir., Satellite Industry Assn., succeeding **Clayton Mowry**, who moves to pres., Arianespace U.S. operations in Washington.

Prominent high-tech industry lobbyist will be nominated by President Bush to be Commerce Dept. undersecy. of technology, White House said July 3. **Phillip Bond** is dir. of federal public policy for Hewlett-Packard and previously was senior vp-govt. affairs for Information Technology Industry Council (ITIC). He spent 5 years as chief of staff to Rep. Dunn (R-Wash.) and worked in legislative affairs for Vice President Cheney when he was Secy. of Defense. Bond's nomination was praised by members of TechNet, lobbying group with which Bond has been active. "The Administration has tapped someone who has strong credentials in the technology community," said TechNet CEO Rick White. Microsoft COO Robert Herbold said Bond "combines solid experience in our fast-moving industry with an insider's knowledge of Washington, D.C.," while Cisco Systems Senior Vp-Corporate Affairs **Daniel Schneinman** said "this is a big win for the Administration and the technology industry."

GlobeCast will rapidly expand its world TV DBS network, adding 9 channels to its digital platform of foreign video and audio services on Telstar 5, company said. Foreign networks that GlobeCast plans to broadcast in N. America include channels from Croatia, Portugal and Turkey.

European Commission (EC) said private citizens had right to use satellite dishes without undue technical, administrative, urban planning, tax obstacles. EC said right to access radio, TV and Internet fell under principle of free movement of goods and services within European market.

Obituaries

Charles Tower, 81, NAB TV Board chmn. in mid-1960s, died of cancer June 21 in Riverside, Conn. He worked in NAB's govt. affairs section 1950-1962, then Corinthian Bcstg. until 1973, when he moved to Dun & Bradstreet. He retired in 1986 as vp-govt. affairs for D&B but remained there as consultant until 1996. He was member of Electronic Publishing Group in 1990s, consortium pushing for changes in telecom law. Survivors include widow, Leslie, and 3 children.

Marcus Cohn, 87, died July 3 at Suburban Hospital, Bethesda, Md., of heart and lung failures following long illness. Veteran communications attorney and law prof. in Washington, he received J.D. degree from Chicago U. in 1938, LL.M. from Harvard Law School in 1940. Shortly thereafter, he joined FCC and in 1944 co-founded Washington law firm Cohn & Marks, partly retiring in 1987 and becoming of counsel. Cohn was patron of the arts and served as officer and trustee for many years of Arena Stage in Washington and National Museum of American Art. He grew up in Tulsa and attended (but didn't graduate from) Okla. U. and for many years hosted 2 dozen OU law students each summer who interned in Washington. Son, daughter survive.



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FCC's July 12 agenda meeting will concentrate on telecom issues, with action scheduled on: (1) Colocation order in response to remand by U.S. Appeals Court, D.C. (2) Declaratory ruling and notice of rulemaking to streamline Sec. 214 process for transferring domestic interstate transmission lines in event of corporate acquisitions. (3) International Bureau presentation on changes in international services, decreases in consumer prices, increases in volume of calls and capacity.

Consumer Electronics

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STATE OF THE INDUSTRY

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

	JUNE 16- JUNE 22	2000 WEEK	% CHANGE	JUNE 9- JUNE 15	25 WEEKS 2001	25 WEEKS 2000	% CHANGE
TOTAL COLOR TV	460,870	503,737	- 8.5	341,048	11,315,260	12,568,036	- 10.0
DIRECT-VIEW**	446,172	487,787	- 8.5	330,220	10,901,930	12,049,350	- 9.5
TV ONLY#....	375,502	401,163	- 6.4	278,226	9,074,473	9,978,188	- 9.1
TV/VCR COMBO.	70,670	86,624	- 18.4	51,994	1,827,457	2,071,162	- 11.8
PROJECTION...	14,698	15,950	- 7.8	10,828	413,330	518,686	- 20.3
TOTAL VCR**...	342,494	452,251	- 24.3	287,761	8,565,340	11,483,352	- 25.4
HOME DECKS...	271,824	365,627	- 25.7	235,767	6,737,883	9,412,190	- 28.4
CAMCORDERS.....	100,804	104,268	- 3.3	71,343	2,442,723	2,425,557	+ 0.7
DVD PLAYERS....	125,249	90,678	+ 38.1	77,416	4,011,853	2,441,224	+ 64.3

Direct-view TV 5-week moving average#: 2001-418,852; 2000-531,826 (down 21.2%).

Projection TV 5-week moving average: 2001-13,219; 2000-19,260 (down 31.4%).

VCR deck 5-week moving average: 2001-290,030; 2000-404,025 (down 28.2%).

TV/VCR 5-week moving average: 2001-80,927; 2000-101,791 (down 20.5%).

Camcorder 5-week moving average: 2001-98,085; 2000-117,678 (down 16.6%).

DVD player 5-week moving average: 2001-141,214; 2000-131,085 (up 7.7%).

** 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.

INTERPRETATIONS VARY ON DVD HARDWARE GLUT: DVD hardware inventories have been bulging at about one million players in recent weeks. Moreover, 2nd-half prospects loom large for preponderance of \$99 decks not only from relatively obscure offbrand suppliers but also familiar name-brand vendors.

That's nutshell consensus of DVD industry watchers we polled on current trends in DVD hardware sellthrough and pipeline fill as format embarks on its 4th full year of national availability in U.S. There's little disagreement among pundits that hardware sellthrough slowed noticeably in April and May, only to recover nicely in June, presumably because DVD players became hot Father's Day gift item.

However, implications of DVD player inventory glut are open to wide diversity of interpretations. For format that spoiled observers into believing that last year's triple-digit increases could continue indefinitely, alarmists question whether recent DVD market palpitations might represent first signs of market saturation. They warn of rude awakening this holiday season if broader audiences resist temptation and balk at making DVD purchases despite prospect that name-brand \$99 price points will be advertised aggressively by national chains.

Optimists scoff at notion that DVD has lost its luster. They minimize April-May declines as typifying market fluctuations that are characteristic of any mature product category. They argue that as DVD grows more mature, it simply isn't as impervious as it once was to economic downturns that have stymied financial performance of major chains such as Circuit City and Best Buy. Some defenders we polled late last week even said they looked conservatively on CEA projections that DVD household penetration would climb to 20% in 2001. Some among the more aggressive optimists even see DVD as virtually certain to reach 25% penetration this year, and it's only a question how close it could approach 30%. Penetration was about 17% at end of June, according to some sources familiar with DVD trends.

As for current pipeline glut, we're told that inventory fill peaked at 1.2 million players in May (sources said that represented 2 months' supply), but fell back to one million at end of June on improved sellthrough that month. There's little doubt that high inventory levels had impact on retail buying activity. "Most retailers put a halt on all purchases as inventory grew in April and May," said Claude Frank, senior mgr. for digital convergence products at Samsung. "A lot of larger national accounts have now analyzed which SKUs are selling and which aren't and there's definitely some product that is not selling and those companies aren't getting any re-orders." Frank said industrywide DVD sales were "slightly off plan, but it was a very aggressive plan, so things are okay."

Sub-\$100 players gained foothold in May, accounting for 12.8% of overall sales, up from 0.6% in April, NPD Intellect analyst Thomas Edwards said. He attributed sharp rise in share of commodity-priced machines to plethora of entry-level promotions at retail. For example, Circuit City offered free Apex deck with purchase of projection TV, and Rex Stores did same thing with entry-level Toshiba player. To meet competition at \$99, Cowboy Maloney's Electric City marketed refurbished RCA and GE decks, Exec. Vp Eddie Maloney said. Edwards said that overall, Apex accounted for 93% of sub-\$100 sales and had average selling price of \$109.

Edwards said industry remained on target for consumer sellthrough of 11.4 million decks this year. He put high inventories in positive light, saying such pipeline fill was necessary to support projected increase in sales. CEA spokesman said group hadn't yet revised Jan. CES projection that industry would ship 12.5 million players to dealers this year, up 51% from 8.3 million in 2000. Shipments through year's first 25 weeks were up 64.3% from same 2000 period (see State of the Industry, this issue). Critics said weekly video shipment reports were understated on DVD because they didn't take into account increasing number of DVD players shipped to retail as part of factory-assembled systems. CEA groups systems under audio factory sales reported that are available monthly, not weekly.

Critics also have questioned accuracy of CEA shipment reports on ground that nobody knows for sure how many DVD players make their way to retail from sources that don't report figures to Assn, yet those decks are included in weekly shipment reports. CEA spokesman stood by accuracy of Assn.'s figures on DVD shipments and confirmed that its Market Research Dept. used extrapolations to account for volume of machines sourced from unreporting companies. He said Market Research Dept. estimated share accounted for by reporting companies (that figure isn't available for public disclosure, he said). Rest is estimated share of volume shipped by unreporting companies, which then is factored in to make up total.

Meanwhile, promotional price competition is showing few signs of easing as industry braces for fall selling season. Toshiba recently lowered street price of entry-level player to \$159 from \$179, while Samsung, which is at \$149, is readying mail-in coupon promotion for fall with Warner Home Video offering 3 free DVDs with purchase of deck. "A lot of companies came into this quarter with a lot of product, so shipments are way down," Maloney said. "Everybody is waiting for [the economy] to turn around and every time we see a little light and it looks like it's going to be good, it slows back down." Maloney said he was "encouraged" by recovery in June sales.

Prominence in mix of \$99 entry-level pricing began year ago with arrival of Apex and Oritron decks from China, but that price point also was being chased by national retailers such as Best Buy for major brands this fall, sources said. In keeping with reduced pricing trend, more and more manufacturers are shifting at least share of DVD player production to China to reap benefits of lower manufacturing and labor costs. Toshiba, among others, recently opened factory there. "I don't think we had any other option," Toshiba DVD Mktg. Dir. Jodi Sally said.

Manufacturers also have attempted to burn through existing inventory by putting "the brakes on" additional shipments from overseas, Toshiba America Consumer Products Pres. Toru Uchiike said. He said his company did just that between Feb. and April. Despite that effort, Uchiike conceded that "nobody knows what's going to happen" when fall selling season starts in earnest in Sept.

THOMSON TO COMPLETE RESTRUCTURING OF U.S. VIDEO OPERATIONS: Thomson is rolling video operations in U.S. into global business unit (GBU), completing restructuring that already covers TV tubes, multimedia, audio.

Company is expected to release details of restructuring at N.Y.C. news conference this week. Video, which includes TVs, VCRs and DVD, among other products, previously operated separate strategic business units (SBUs) for U.S., Asia, Europe. Under new structure, Michael O'Hara, senior vp, Thomson's Americas SBU, is to receive global responsibilities while TV Management Vp Gilbert Ravelette gets expanded marketing duties, sources said.

Video GBU is expected to be based at Thomson's Indianapolis hq, along with worldwide multimedia, which is headed by Vp Enrique Rodriguez. Audio is expected to remain under Al Arras, exec. vp-audio and communications worldwide.

Thomson previously split Multimedia and Services SBU into separate Multimedia Products and New Media Services SBUs (TVD July 26/99 p20) each of which was overseen by Americas Senior Exec. Vp James Meyer. He was expected to add responsibilities as result of new structure, but Thomson spokesman declined to provide details.

"This involves restructuring the remaining segments of the company that weren't previously organized globally," spokesman said. "This is the direction the company had elected to go earlier with other divisions and obviously you benefit from the meshing of all of the operations."

Thomson spokesman declined comment on whether restructuring would involve job cuts. Thomson earlier this year said it would close Scranton TV tube plant by Aug.

SEC PROBES RENT-WAY: SEC and U.S. Attorney's Office in Pittsburgh are conducting separate investigations into Rent-Way's (RW) financial reporting following disclosure of accounting improprieties that forced chain to restate earnings for last 3 years.

Rental chain disclosed investigation in annual 10K last week and said it was "cooperating fully" in probes. Investigation could have "material adverse impact" on RW's financial condition if it results in sanctions or assessment of penalties or damages, chain said. Federal probe is in addition to one conducted independently by law firms of Hodgson, Russ & Ross and Hardies that resulted in restatements of earnings.

RW restated earnings in late June to reflect total of \$129 million in accounting improprieties and year-end adjustments (TVD July 2 p17) uncovered in review that began in Nov. (TVD Nov 6 p17). Accounting scandal resulted in resignations of COO Jeffrey Conway and Chief Accounting Office Mark Marini. Alleged improprieties involved overstating earnings and "masking" costs including those involved in acquisitions and day-to-day operations, company has said.

Conway is receiving salary of \$275,000 in biweekly payments under severance agreement that expires Dec. 31, according to 10K. He also gets medical and life insurance benefits during period and \$150 hourly fee for any consulting that RW requires in connection with pending investigations, 10K said. Conway's original 4-year contract ran through Sept. 2002.

In addition to federal investigation, RW faces dozen shareholder lawsuits consolidated in U.S. Dist. Court, Pittsburgh, that allege chain violated federal securities laws by issuing financial statements that were "materially false and misleading," 10K said. Suits have yet to be granted class action status and RW said it was "evaluating these claims and possible defenses thereto."

As it disclosed federal investigations and lawsuits, RW also said its forbearance agreement with lenders expires July 31. Credit agreement with syndicate of banks led by National City Bank of Pa. allows chain to borrow maximum of \$76.1 million under revolving portion of facility. Borrowings under agreement totaled \$55.6 million as of May 31. Agreement also includes term loans of \$143.1 million and \$177.5 million. RW has been in violation of several covenants governing agreements since last fall, but has received 5 extensions. RW's debt totaled \$345 million as of May 31.

Elsewhere in 10K, RW reported details of 3-year marketing agreement signed with Gateway year ago, including that it's required to buy at least 170,000 PCs within 18 months. RW had pur-

chased 100,000 PCs as of May 31, CEO William Morgenstern has said. Chain is paying total of \$962-\$1,058 for 2 Gateways PCs, figure that includes \$854-\$950 for desktop models and \$108 for Internet service. RW pays maximum of \$9 per month per customer PC to Gateway for Internet service which can be provided by AOL, Compuserve or Gateway.net. For each customer PC purchased by RW, chain is required to prepay Gateway for year of Internet service. RW charges \$19.99-\$29.99 weekly fee for Gateway PCs and recently moved to raise price.

For fiscal year ended Sept. 30, same-store revenues rose 3.2% to \$476.2 million, with Gateway PCs accounting for \$4.8 million of increase, 10K said. Home entertainment products including PCs accounted for 47.1% of RW's \$592.7 million in revenue for fiscal 2000. In addition to sales through stores, RW and Gateway have formed joint operating review team that's charged with possibly expanding distribution via RW kiosks in grocery stores. It also is responsible for joint advertising, promotions and marketing as well as technology training at Gateway's Country Stores.

In addition to Gateway, dPi Teleconnect, which is 68% owned by RW, accounted for \$800,000 of chain's annual same-store sales increase. DPi sells prepaid local phone service through 780 RW stores and has 55,000 subscribers that pay \$30-\$65 each per month. RW retains 10% of customer payments as agent's fee.

RW, which has undergone management reshuffling since accounting scandal broke last fall, closed or combined 38 stores in fiscal 2000 and opened 34. It operates 1,134 outlets and has said no new stores will be opened this year.

Under contract that expires Sept. 30, Morgenstern received \$450,000 annual salary in fiscal 2000 and \$375,000 bonus, up from \$298,000 and \$200,000, respectively, year earlier.

Tweeter Home Entertainment, in sign of slowing economy, reported 3rd quarter same-store sales dipped 0.6%, short of chain's forecast of flat sales. Figure excluded results from recent acquisitions Douglas TV and Audio/Video Systems, down 21.5% and 18.9%, respectively, and Big Screen City, with 13.6% increase. Digital products continue to be driver in quarter, accounting for 43.2% of total sales. Projection TV sales rose 16.2% and digital models represented 89.3% of revenue. Plasma TV sales jumped 72.3% in year as Tweeter expanded product mix. It also continued to expand installation business that now has 121 custom installers, figure that's likely to double in next 12 months, Pres.-CEO Jeffrey Stone said. As it readies for Aug. 1 close of proposed purchase of Sound Advice, he said "the acquisition pipeline is still very active" and Tweeter was having "several conversations" with other specialty CE retailers on possible mergers.

MARANTZ SETS INDEPENDENT COURSE: First signs of new direction for Marantz in wake of recent Philips decision ceding majority ownership have emerged in form of 61W plasma display panel and indications that newly independent company may soften SACD-only product stance. "We have taken global strategic control. We are now physically and financially separate," said Terry O'Connell, Marantz Europe managing dir. and now first female dir. on board of Marantz Japan Inc. (MJI).

Philips, which had held majority stake in Marantz for 20 years, bought foothold in Japanese market and Asian manufacturing base by taking 50.5% share in MJI. Philips owned Marantz brand name, European and N. American divisions. In 1986, MJI became part of Philips' core CE operations. Philips since had used Marantz as flagship specialty high-end brand to support introduction of new formats and technologies. Now Philips has sold shares to reduce its holding to 49%, and MJI has bought back brand name and has full control. "Philips remains [our] single largest investor, so we continue to take their money, but we now make the decisions," O'Connell said. "We are in control of marketing, product planning and responsible for our own finances. We are free to introduce conflicting technologies. We do not have to fight format wars and we are free to work with other manufacturers."

Already there has emerged evidence of how that independent approach might be put into practice. New range of products, including some stylish life-style systems and low-cost multichannel receivers, comes with Sony-developed MiniDisc option that Philips had spurned. In upcoming technologies, Marantz said it had no commitment to support Philips DVD+RW format, but it hadn't committed to rival DVD-RW or DVD-RAM formats either. "We shall wait and see," said Ken Ishiwata, now officially called "Brand Ambassador" in recognition of his long Marantz service in that role. "It's too early to plan for DVD recording. We shall sit and wait. We started selling SACD when we were part of Philips. We'll continue, but if there is no additional software support and no demand we shall have to stop," he said, alluding to fact that Sony Music was only major record label offering SACD titles. "We shall wait and see about DVD-Audio, too," Ishiwata said. "We don't own either format so we don't need to drive the price down. Conventional CD will survive."

Marantz's decision to add NEC-sourced 61W PDP (1,365x768 resolution and 700:1 contrast) that will ship in Aug. at \$29,000 comes as manufacturer seeks to expand its video business. It will continue to market 42W PDP, also sourced from NEC, as well as 55", 60" and 64" CRT-based rear-projection sets and front projector based on Texas Instruments' Digital Light Processing (DLP) technology. Marantz has broken with Philips on PDP in past, buying product from NEC, while latter relied on Fujitsu. Also in line is 15" LCD TV (\$2,099) with 1,024x768 resolution that has LG-Philips-built panel. In DVD, Marantz will field entry-level piece with CD-R, CD-R and MP3 compatibility at \$399, then step to progressive scan single-play and 5-disc changers at \$649.

SACD will remain core of Marantz's U.S. strategy, but minus Philips's influence if "for one reason or another we have the conviction that someone else's product is better in the long run for Marantz, we will seriously consider it," said Mktg. Dir. Erwin van der Putten, with DVD-Audio among technologies considered.

But Marantz's only offerings for this year will be stereo and multichannel SACD players (\$2,800 and \$3,800, respec-

tively) that are priced significantly lower than debut deck offered year ago with \$6,000 street price. Substantial drop in price was achieved through higher volume production and by building models with "less componentry inside, but optimizing it so that you get the same sound quality-wise" as Marantz's first SACD player, van der Putten said. Step-up model adds such frills as High Definition Amplifier Module (HDAM) discrete output stages. It's compatible with Dolby Digital and Pro Logic II as well as DTS. "We had high expectations for the SA1, but there was a hurdle in the price," van der Pullen said, referring to last year's debut model.

Despite new freedom from Philips, Marantz will retain some ties. "There will be no change in our close working relationship on research and manufacturing," O'Connell said. "We shall also be distributing via Philips in Spain, Poland, Turkey and Ireland." Sales Vp Charles Boornazian said Marantz would continue to maintain factories in Japan and Singapore, but had no plans to add one in U.S.

H.H. Gregg, expanding from Indianapolis base, will open 8 stores in Cleveland-Akron-Canton by early 2002, COO Dennis May said. Five stores will open in fall — 3 in Cleveland and one each in Akron and Canton. Stores will retain chain's existing 30,000-sq.-ft. format and will consist largely of leased locations previously occupied by Office Depot, HomePlace and Giant Eagle Grocery stores. To supply merchandise to stores, Gregg also will open 60,000-sq.-ft. distribution center in Cleveland. Gregg will face competition from Best Buy and Circuit City, but not from major regional chain, last of which vanished from market when Sun Television & Appliances shut down in late 1990s... **Nationwide Computer & Electronics** has filed for bankruptcy and is closing Danbury, Conn., store. It may shut 2nd location in effort to sharpen focus on remaining Wayne and Woodbridge, N.J., locations, spokesman said. Privately held Nationwide, which expanded into Danbury in late 1990s, saw sales plunge 60% in 2000 to \$40 million as losses deepened to \$6.9 million from \$403,000 year earlier, local news reports said. Nationwide, hurt by slowdown in desktop PC sales, has checked history in N.Y.C. It was sued by JVC in 1992 for allegedly giving faulty demonstrations of camcorders in effort to step up consumers to other brands. Chain was among first to carry Divx players.

Aaron Rents (AR) warned late last week that 2nd quarter earnings could fall as much as 29% below year-ago levels and blamed weakness in division that caters to corporate customers. AR, which bought another 52 stores from Heilig-Meyers in late June, said it now expected to report 2nd quarter profit of 25-27¢ per share, down from 35¢ year earlier. Analysts had forecast AR earnings of 35¢. Revenue for quarter is expected to increase 9% above \$121.9 million year ago. Third quarter earnings are expected to be "similar" to 2nd quarter, with full year in \$1.10-\$1.20 range, down from \$1.37 year ago. As it revised earnings downward, AR said it would buy another 52 stores from Heilig-Meyers to go with 20 it purchased in Dec.

Zenith Electronics, citing dwindling number of shareholders, asked SEC to suspend its required filing of quarterly and annual reports. Zenith, now subsidiary of LG Electronics, has about 300 holders of its 8.19% senior debentures due in 2009. Zenith's decision marks formal end to its history as publicly traded company that dates to its first listing on N.Y. Stock Exchange in 1929. LG acquired majority stake in Zenith in 1995 and acquired rest 4 years later as part of prepackaged bankruptcy reorganization plan.

CMC SEEK TO GAIN STRENGTH: MP3 device market may be crowded, but that isn't stopping Taiwan-based data storage media and hardware manufacturer CMC Magnetics from jumping on bandwagon with line of products for U.S.

U.S. spokesman for CMC told us last week that company already had started shipping 2 devices and "will be launching additional products throughout the year."

Although CMC showcased various products at Comdex (TVD Nov 20/00 p16) and again at CES, spokesman said only ones that actually had begun shipping in U.S. to date were \$149 "jumper II" compact digital audio player, which arrived in Feb., and Cyberboy device at \$349, late last month. Latter is billed by company as "the most integrated personal digital assistant (PDA) ever offered to consumers." Device includes functionality of digital audio recorder, FM radio receiver, full-featured digital still camera (DSC) with VGA resolution, MP3 playback device, USB-connected full-motion PC camera. Company said device, weighing under 11 oz., was based on CMC-developed silicon core that integrates CPU and multimedia processing on single chip.

Robert Tsai, mktg. dir. of CMC's N. American Hotan subsidiary, said: "While many PDA vendors have offered optional, and often expensive, add-ons to build appeal for their products, the Cyberboy has everything consumers want in one complete package." Dublin, Cal.-based Hotan distributes CMC's products to retailers and select OEMs in U.S.

Spokesman told us company wasn't selling its hardware in U.S. through traditional brick-and-mortar channel yet, but via Web e-tailers only at this point. Gadget Universe, which has been selling Cyberboy at \$399.95, seemed to be only major account selling product last week. But spokesman said Buy.com would start carrying Cyberboy later this month. Brick-and-mortar dealers will come "down the pike," spokesman said.

Slated to ship this summer is CD/MP3 player that uses 3" mini CD-ROM and CD-R discs, spokesman told us. Focus for company in U.S. right now is strictly on MP3 devices, he said.

Meanwhile, as global demand for CD-R discs begins to rise, CMC and Ritek, another Taiwan-based CD-R disc manufacturer, have started to expand their production capacity to meet future needs, online report said. Overall market scale is expected to increase to 5.2 billion units from 4.5 billion estimated early in year.

CMC decided to establish more production lines in its Taiwanese factories, and it will consider increasing number of lines in its Mexico plant depending on market demand, report said. CMC said that moving its CD-R disc operation to China would not necessarily allow company to enjoy significant cost advantage because CD-R disc production already was highly automated. However, it will consider possibility as move for early positioning in Chinese market.

SanDisk used PC Expo to introduce 128-Mb Secure Digital (SD) memory card, doubling capacity of its highest capacity SD cards currently available. Company said new 128 Mb version would be capable of storing up to 4 hours of music or 40 min. of MPEG4 video. Production quantities of 128 Mb are expected in 3rd quarter at \$200 list.

PC AUDIO GETS MIXED REVIEWS: Compaq and Hewlett-Packard's plans for entering home audio market are getting mixed reviews from retailers that may be charged with promoting products.

While PC chains and national CE dealers such as Best Buy and Circuit City are likely to be prime targets for HP and Compaq audio, regional and specialty chains aren't sure how they fit into mix.

"I think they've got their work cut out for them in terms of gaining acceptance on the CE side," said H.H. Gregg COO Dennis May, whose chain carries HP and Compaq PC products. "It's difficult for a CE brand to be successful in home office or a home office brand to be successful in the CE channel."

Indeed, HP's and Compaq's audio ambitions are limited at start, but are likely to extend to networking of products, industry sources said. HP's Digital Entertainment Center consists of standalone component with 40 GB hard drive, high-speed and dial-up connectors, Linux operating system (OS). It connects to TV to allow viewing of music titles and lets user select them with remote control. Device is expected to be available late this year at under-\$1,000.

Compaq, meanwhile, has taken wraps off iPaq Music Center (TVD June 25 p17) which has 20 GB hard drive for storing 5,000 songs and dial-up 56 kbps modem. It's scheduled to ship this week at \$799. For Compaq, new audio product represents return to CE business, where it briefly and unsuccessfully marketed PC/TV device in 1996-1997 with Thomson.

To enter audio market, PC companies Dell, Gateway and Intel in addition to HP and Compaq need to deliver better-than-PC margins, Ultimate Electronics Pres. David Workman said. Indeed, desktop PC business slack has prompted companies to venture into variety of new categories including CE, industry source said: "I'm not sure they're equipped to do that [home audio] and I think their focus will be on the national chains and less so on the regionals."

Indeed, some regional chains, most notably Good Guys, which dropped PCs in 1999, are said to have sent feelers to Compaq, but thus far have received cool reception.

"[Home audio] is a natural fit for us and people will fall in nicely developing both hardware and software applications," HP spokesman said. "There are other opportunities as well and this is just the beginning because we're not going to stop here."

Indeed, given Compaq and HP brand recognition, companies could have major impact on CE market, Toshiba Field Sales Vp Rick Calacci said. And Compaq doesn't lack for CE managerial experience. Senior Vp-Gen. Mgr. Michael Larson, who heads its Consumer Products Group, previously held senior posts at Toshiba and Sony.

"We'll give it a look-see because we already have ties to them on the PC side, but it remains open whether they can transfer those skills to audio," said executive of midwest retailer.

Free shipping privileges were announced by Barnes & Noble.com for shoppers who buy 2 or more CDs, DVDs or other items sent via standard ground transportation to any U.S. destination, including Alaska and Hawaii.

MORE KIDS GAMES DUE FOR PS2: Nintendo clearly has its game system competitors beaten when it comes to availability of titles for youngest consumers. But number of children's games for Sony's PlayStation 2 (PS2) is about to get larger as system starts reaching more of mass audience.

Several kids games, including Ubi Soft's *Donald Duck: Goin' Quackers*, have failed to catch on with early adopter PS2 market. But there will be installed base close to 7-8 million by year-end, with growing percentage of that audience consisting of younger gamers and their parents.

Lego Software (LS) will seek to ascertain size of mass market PS2 in fall when it offers *Lego Racers 2*, sequel to surprising Nintendo 64 (N64) and PC hit, for Sony system. Meanwhile, competitors including NewKidCo also have several kids titles for PS2 planned.

"With the PlayStation 2 we may be a little bit early," LS Sales Dir. Leah Kalboussi told us. "A few kids titles have come and gone this year because of the price point and because most of the early audience are core gamers. But until you develop this market, until you bring the Lego brand and this age group to the PlayStation 2, there isn't any reason for parents to consider the system for younger players."

Unlike fellow toy giants Mattel and Hasbro, which stumbled badly with both PC and console games, Lego thus far has managed to carve out profitable business in interactive entertainment. Part of reason is that LS has been more cautious, keeping number of releases down and focusing on releasing games with global appeal on multiple platforms. "With 15 titles in our portfolio, we have a fraction of what Hasbro and Mattel have released," Kalboussi said.

Sales of *Lego Racer*, released in 1999, already have topped one million across all platforms, including impressive 442,000 for N64 in N. America (PS One game sales were 96,000). Much of *Lego Racer* success came in last 8 months with discounted sub-\$30 price. "With the N64 we were really fortunate that we joined the market just on its last legs and we've been able to attract a huge audience because the Nintendo consumer profile is probably similar to our own," Kalboussi said. While company has yet to announce GameCube titles, LS will be bringing out *Racers 2* for Game Boy Advance (GBA) and for PC.

Other key to company's software success has been much-maligned children's PC software market. Kalboussi said that by leveraging Lego brand, company has been able to maintain \$25-\$30 price for most new PC games, such as spring release of *Lego Island 2*. It also has been able to keep older PC titles on shelves longer, recently offering Lego Masterpiece series of 10 older games with new packaging and \$9.99 price points.

But it also helps to be lucky. In Oct., Lego is releasing *Lego Creator-Harry Potter*, just as hype over Nov. 16 movie *Harry Potter and the Sorcerer's Stone* begins to build. Lego Harry Potter title is based on book, not movie, but with \$29 price and 3-week head start over Electronic Arts's group of Harry Potter games based on film, Creator could carve out huge audience with early holiday buyers.

While LS does benefit from strong toy division that already is well established at many retailers, Kalboussi said software di-

vision still had to stand or fall on its own. But what LS does bring to retailers, she said, is toy-centric approach based on sellthrough and not just sell-in. "We can tell retailers with some authority that based on our history and based on our marketing, this is what we believe consumers will pull away from the shelves," she said.

Staples has settled lawsuit brought against by group of shareholders over chain's plan to buy back control of Staples.com. Under agreement, which must be approved by Del. Chancery Court, Staples agreed to disclose more detailed information about how it arrived at \$7 per share price for buyback and will pay \$2.7 million in attorney fees for shareholders. Shareholders filed suit in March alleging that \$7 per share price for Staples.com was too high. Stock had been offered mainly to Staples board members, executives and some venture capital firms. Shareholders will vote on proposed stock buyback in Aug. Meanwhile, Staples Chmn. Thomas Stemberg has jumped into bidding war for Boston Red Sox that could fetch as much as \$300 million. Stemberg, who founded Staples in mid-1980s, will join bidding group that includes millionaire concessionaire Joseph O'Donnell and mall developer Stephen Karp. Stemberg and Conn. businessman Craig Stapleton are expected to be limited partners in group, while O'Donnell and Karp are general partners, *Boston Herald* reported. Stemberg is considered key because of his experience in development of Staples Center in L.A. Other potential bidders include EMC Corp. co-founder Roger Marino, Cablevision founder and Chmn. Charles Dolan, American Skiing Co. founder Leslie Otten.

Datron Systems is attempting to fend off hostile takeover bid by L-3 Communications as it moves to close on \$51 million sale to Titan Corp. L-3 began effort to buy maker of mobile satellite dishes for DirecTV system last week with \$52 million offer. Datron, which confirmed having conversations with L-3 in past, announced agreement with Titan in late June. Datron Chmn. David Derby said L-3's bid didn't represent offer "superior" to that proposed by Titan. L-3 expressed "no interest" in Datron after performing due diligence last year, and Datron's board has "fulfilled its fiduciary obligations in good faith" by accepting offer from Titan, Derby said. At same time, Datron said it reached agreement with Audiovox's Mobile Electronics Div. to distribute its CruiseTV in-motion satellite TV tracking system. Audiovox will sell Datron's satellite products to mobile electronics and other CE retailers as well as car dealers and mass merchants.

JVC will cross-promote consumer video products with theatrical and home video releases of *The Lord of the Rings* movie trilogy in co-branded marketing agreement announced with New Line Cinema. Three-year deal worth \$40 million in ads and promotions will encompass print, radio and TV placements and will kick off with JVC billboard in N.Y.'s Time Sq. Also planned is retail sweepstakes offering tickets to Dec. premiere of film. Campaign will be trumpeted in co-branded DVD player and VCR packaging due in stores by Sept. featuring custom compilation movie trailers and other features.

Dixons is interested in possible purchase of Kingfisher's Darty CE chain in France, U.K.'s *Independent* newspaper reported. Dixons CEO John Clare told paper that if Darty became available "then yes, we would be interested." Kingfisher and Dixons have clashed in past. Dixons made failed bid for Kingfisher in 1986 when it was called Woolworths. Kingfisher retaliated with unsuccessful bid for Dixons 3 years later.

GTR GROUP POSTS LOSS FOR YEAR: GTR Group posted losses last week for its fiscal year and 4th quarter ended March 31 that it attributed largely to its recent decision to concentrate fully on its Mad Catz game accessory business. As part of that shift, GTR, based in Brampton, Ontario, last month sold its Game Trader line of value-priced videogames to GameStop Inc. for unspecified amount of cash, saying it would use proceeds to pay down all related debt, and said it was shedding rest of its assets not directly related to Mad Catz.

GTR said it lost \$31.57 million (Canadian), (-66¢ per share) for 4th quarter compared with \$756,331 (2¢) profit in same quarter year ago. For year, GTR posted loss of \$36.11 million (-80¢), reversing \$5.57 million (16¢) profit year earlier. Sales were down for quarter but up overall for year. GTR said it had sales of \$11.20 million in quarter — down from \$16.74 million year ago — and \$87.93 million for year, up from \$70.36 million.

In conference call with analysts last week, GTR Pres.-CEO Morris Perlis said: "Although [sale of Games Trader] was a difficult decision, we are confident that it is in the very best interest of all the shareholders." He said that while Game Trader "was a commodity, low-margin business, which was a drag on the company's ability to prosper in the future," its Mad Catz accessory business was "a highly innovative, higher margin business with a strong brand identity" that would allow company to find increasing success.

Perlis said results "came against the backdrop of a transition year in the games business [where] industry sales declined and Mad Catz sales increased approximately 4%. Mad Catz sales increased in North America 22%, which accounts for 83% of the company's total sales, [and] can be attributed to our success in growing new accounts and increasing penetration of the existing account base." He said that while "Mad Catz sales in Europe decreased by 39%... this was in line with the general performance of the industry there and consistent with management expectations." Perlis said: "During this fiscal year we plan to place a renewed focus on the European market and will implement a new business strategy aimed at duplicating the company's great success in North America."

Perlis also said that starting with its first fiscal quarter, ended June 30, company would be reporting in U.S. dollars. GTR also will be asking its shareholders whether they want to change name of company to Mad Catz to reflect new focus, he said, responding to analyst's question. But he said company wasn't looking to move its Canadian hq to San Diego, where Mad Catz is based.

In same conference call, Mad Catz Pres. Darren Richardson said: "PlayStation 2 is now our largest-selling format, replacing PlayStation" and company expects its PlayStation 2 sales to continue to be strong. He said Game Boy Advance (GBA) accessory sales also had been strong for Mad Catz since platform made debut in N. America last month. He said: "We had a great launch [and] Mad Catz was the first to market [in 3rd party accessory arena] with a number of our key retailers." Noting that more than 500,000 GBA hardware units were sold in first week of rollout in U.S. and supplies apparently were being replenished each week, Richardson said he expected GBA to "be a significant growth driver for the balance of the year."

Toshiba Notes: Toshiba will introduce products based on DataPlay's coin-size storage media next year. Toshiba, which signed licensing agreement with DataPlay earlier this year, is considering portable and other products, Product Development Dir. Craig Eggers said... Toshiba slimmed down line of portable phones to 9 models this year from 11 year ago. Pruned from line were one model each of 900 MHz analog and digital spread spectrum (DSS). It also expanded 2.4 GHz DSS line to 3 phones from 2. Phones ranged from entry-level piece at \$89 to top-end \$149 unit with digital answering machine and Caller ID, each down from \$119 and \$169 year ago. Target will carry derivative 2.4 GHz model at \$159 with keypad built into base, Telecom Product Mktg. Mgr. Mark Balinski said. Toshiba's analog line starts at \$34 street price, down from \$49 year ago as overall market battles inventories that have sent advertised re-tails to \$10. Uniden is Toshiba's phone supplier... Toshiba, which unveiled e-commerce strategy year ago in authorizing 8 retailers to sell its products online, has expanded roster to 13, Field Sales Vp Rick Calacci said. Additional 5 retailers were chosen from among 20 applicants in Phase II of Toshiba's e-commerce program, he said. Overall, Toshiba's dealer ranks have thinned to 190 from 200 year ago with high-end Cinema Series roster dropping to 74 from 82, Calacci said.

As Franklin Electronic Publishers makes push into electronic books, it's also beginning 2-to-3-year effort to "refresh" lines of organizers, reference products and language translators by adding expansion slots and touch screens, Assoc. Product Mgr. Stephen Rosenman said. As example, Franklin's Rolodex organizers recently have added touch screens to models starting at \$19. Despite arrival of Franklin's eBookman electronic reader, company will continue carrying standard Bookman that has slot for reference, entertainment, medical and other titles. Franklin markets 3 eBookman models starting at \$129 for unit with 8 Mb memory and USB port and topping out at \$229 for 16 Mb. It recently signed agreement with St. Martin's Press to develop electronic book titles. Among authors in St. Martin's stable is thriller writer Robert Ludlum.

First meeting was held in Tokyo last week of World LCD Industry Cooperation Committee, new group established by electronics and display technology trade groups from Japan, Korea and Taiwan to promote LCD development and address environmental issues raised by LCD production. Committee is chaired by Fumiaki Funada, deputy gen. mgr. of Sharp's Display Technology Development Group, and will meet periodically to exchange information on environmental protection issues such as safe disposal of waste LCD panels and implementing effective "countermeasures" on global warming. It said "members of the LCD industry share a strong desire to establish a mechanism for effective industry cooperation aimed at promoting the development of more advanced LCDs."

Take-Two Interactive Fri. reaffirmed its earlier projections that it would post robust financial results for 3rd and 4th quarters of year ending Oct. 31. It said it was basing its confidence on continued strong performance of its publishing business and distribution operations. Take-Two has said it expects earnings per share of \$1 on \$500 million in revenues for the fiscal 12 months, up from 90¢ on sales of \$387 million year earlier. As with other game publishers, Take-Two has said it expects to benefit in fiscal 2001 from growing market penetration of PlayStation 2 and June 2001 introduction of Game Boy Advance. It expects any benefits from fall GameCube and Xbox introductions to appear in FY 2002 results.

CALL IT EYES TECH REVOLUTION: After playing key roles in growth of PC and videogames, former Hasbro Interactive (HI) and Games.com executives Tom Dusenberry and Tony Parks now are hoping to play similar roles in wireless arena. As CEO and COO, respectively, of recently formed Beverly, Mass., company Call IT Entertainment, they are focusing on development and marketing of content for wireless devices, working with carriers, operators, service and gateway providers globally.

"Our primary focus right now is on content and brand acquisition," Dusenberry told us: "We're very much in the start-up mode and we have not signed any deals at this point, although we have made contact and had access to both carriers and handset manufacturers."

Call IT executives are well aware they have much work ahead of them. Although Dusenberry said company was looking at wireless industry from "a global perspective," he said "a lot of the initial opportunities will be in Europe and Japan." He explained: "Looking at the market, the first need is for a technology revolution to happen and that is beginning to show signs in Japan and in parts of Europe. So the bet is that that will happen throughout the rest of Europe and throughout the United States [as well]."

When asked what it would take for that technology revolution to happen in the U.S., Dusenberry said: "We're very excited about the U.S. market and I think that it just [is that] there hasn't [yet] been an application beyond voice communication to capture the imagination of the target audience, which is 15-to-30-year-olds. And I would say that it's something between SMS [Small Messaging Service] messaging [and] musical phone rings or one of those types of applications [that] will then allow consumers to think of the phone beyond just voice communication. And then I think that we'll have a red hot market." Dusenberry said SMS had been "the hot thing" in European countries.

Meanwhile, although games represent largest share of mobile entertainment market in Europe and Japan, bringing games into wireless space is challenge in U.S.

When asked when public could expect to see mass consumer base using cellphones and other wireless devices to play games in U.S., Dusenberry admitted it would take time. He said: "I think that it's going to be very much an evolution and I think what will be popular initially will be voice-generated games, such as murder mysteries or fantasy-type games. And I also think what will be popular will be text driven and low graphic type games, such as quiz games, trivia games [and] fast facts [type games]."

"I think for small companies like us it'll be a viable market in the year 2002," Dusenberry said, "and I think that for the industry giants, they'll probably start to pay a lot of attention to it probably in 2004."

Seed funding for Call IT is being provided primarily by Leo Capital Holdings (LCH), private venture investing company focused on early stage wireless entertainment and infrastructure, semiconductor and other technology companies. LCH was formed by Tiger Electronics founder and former CEO Randy Rissman.

CLASS-ACTION LAWSUITS FILED: EToys might be history, but online retailer still is managing to create controversy. Last week, class-action lawsuits were filed on behalf of shareholders who bought common stock in now-defunct e-tailer.

Charges in suit filed in U.S. Dist. Court, N.Y.C., July 5 by law firm of Beatie & Osborn were typical of those announced last week. Plaintiff in that suit alleged: "EToys, Edward C. Lenk, its president and chief executive officer at the time of its Initial Public Offering [IPO], and Steven J. Schoch, its chief financial officer at the time of the offering, violated the federal securities laws by issuing and selling eToys common stock during the offering without disclosing to investors that 3 of the lead underwriters, The Goldman Sachs Group, Inc., FleetBoston Robertson Stephens Inc., and Merrill Lynch, Pierce, Fenner & Smith Inc. had solicited and received excessive and undisclosed commissions from certain investors."

Complaint charged "that in exchange for 'kickbacks' in the form of excessive commissions, the 3 lead underwriters allocated eToys shares to their customers at the [IPO] price of \$20 per share. To receive the allocations, the customers had to agree to purchase additional shares in the aftermarket at progressively higher prices (a practice known on Wall Street as 'laddering'). This was intended to (and did) drive eToys's share price to artificially high levels."

End result was that "the underwriters and their customers" were able "to reap enormous profits by buying eToys stock at the \$20 offering price and reselling the stock to the public shareholders for prices as high as \$85 per share," complaint said, adding: "The customers were required to 'kick back' some of the profits earned from this scheme in the form of secret commissions."

Also alleged was that defendants violated Securities Act of 1933 because prospectus given to investors and registration statement filed with SEC to obtain regulatory approval for IPO "contained material misstatements regarding the commissions that the underwriters would derive and failed to disclose the additional commissions the underwriters earned from the 'laddering' scheme."

Suits also were filed in N.Y.C. last week by law firms of Cauley, Geller, Bowman & Coates, Lovell & Stewart, Sirota & Sirota, Milberg Weiss Bershad Hynes & Lerach, Schiffman & Barroway, Timothy Dennin.

Goldman Sachs spokesman told us Fri.: "We would have no comment on pending litigation." Robertson Stephens spokeswoman declined comment. Others named in suits couldn't be reached for comment by our Fri. deadline.

Limited understanding of benefits of broadband technology and concerns over pricing have hampered its wide-scale adoption. So said findings of June survey of 1,000 Internet users commissioned by CEA to probe why consumers weren't "jumping on the high-speed bandwagon," given Internet's popularity. It found that consumers were buying only as much bandwidth as they needed for their current browsing habits. But it saw strong potential for growth in broadband subscriptions as more and more "nontraditional" Internet uses such as high-speed digital entertainment delivery "proliferate in the home."

VETERAN GAME BUYER OPTIMISTIC: For years, one of most powerful — yet largely unknown — members of videogame industry was Chris Armstrong, game buyer for Wal-Mart and later Toys "R" Us. Recently, Armstrong switched sides, leaving retail to become sales dir. at San Diego-based peripheral maker Mad Catz.

As for short-term future of industry, Armstrong told us in recent interview: "I think this year is going to be good and next year is going to be fantastic. The Game Boy Advance is going to be very successful. If [Nintendo] can keep up with demand, that will bridge the gap, so to speak, until the new [consoles] get up and running."

Armstrong said game industry also had chance to dispel myth that 3 different systems could not survive in same market: "I think you'll have 2 different markets. GameCube is squarely aimed at a younger market. And you've got Xbox and PS2 that are aimed at the older audience. There's going to be a lot of marketing dollars pumped into the older audience and a lot of money pumped into the younger audience. You'll end up with the broadest mix of products for a wide audience."

For Armstrong, move to peripherals executive from retail buyer was natural one: "I grew up with videogames and I really see this is as a way to get closer to the business by getting on the manufacturing side." He said he opted for Mad Catz primarily because of company's potential. "It's a company that's poised for some pretty tremendous growth," he said of current No. 2 third party peripheral vendor.

Armstrong said his years at 2 leading retailers were both stressful and exciting because they took place during time when videogames exploded into mass-market phenomenon. "I started at the end of 1995 and the biggest change since then has been the sheer size of the industry and complexity that goes along with it," he said. "I had bought the entire category — hardware, software and peripherals — for Wal-Mart and Toys 'R' Us. Now a lot of major retailers have 2 or 3 buyers, each focused in subcategories like software and accessories."

Job of retail buyer is bound to get even more challenging in coming year, Armstrong told us, saying: "You've got 3 huge systems out this year. And you've got to juggle the legacy systems because that's where you're making your margins. On the older stuff you're making more markup than the new stuff, so it's really kind of a tightrope."

While he no doubt has picked up much experience in merchandising videogames, Armstrong said there was no real secret to retail success for publishers, hardware makers or accessory companies. "If you put out good products at the right price points and you market them creatively, you're going to have success. But that's not that easy to do... I wouldn't say [margins] are solely what a buyer is looking for, but this year it's becoming more and more important. You're just not going to make it up with software like you normally would, so that's why accessories have become so key."

In his years at Wal-Mart and Toy "R" Us, Armstrong said biggest mistake videogame vendors made was in making promises they couldn't keep. "It's not so much failing to deliver enough product in a timely manner. It's more making promises about either advertising or what they were going to do for you exclusive-wise or to promise to take care of you in a certain

way. Then reality sets in and they can't do what they said they would and that sets a bad tone." Armstrong also warned against vendors' cutting too many special deals with particular retailer at expense of other chains, saying there were few secrets in videogame retailing business. "You can look at the flyers and see prices go down and you can figure out what your competitors are getting from vendors," he said.

"The biggest thing that vendors need to do is really try to figure out what the goal of the retailer is," Armstrong said. "[For] some retailers [the] goal might be margins, while [for] some it may be gross dollars and [for] others [it] may be using the category as a loss leader. The vendors who really pay attention to what retailers say are the ones that ultimately establish those long-term relationships and get the business. The ones that come thinking they just need to sell their product in and that's it are the ones that end up being expendable."

After 6 years at 2 of industry's biggest retailers of console gaming, Armstrong said there was room in market for all types of stores. "The demographics of videogaming continue to become more and more mainstream and that leaves the large-scale mass merchants perfectly suited for growth. But at the same time the industry has grown so fast and the pie has gotten much bigger, so I really think there's always going to be a need for those smaller retailers, especially those that concentrate on offering higher service than the large retailers can match."

Armstrong also dispelled myth there was significant tension between retail community and major hardware manufacturers, most notably Sony Computer Entertainment America (SCEA). He said SCEA might have pushed some changes through retail channel, especially by decision to link future hardware allocation to past sales of consoles and first party software. But he said that ultimately ended up being good thing because it forced many chains to focus — for perhaps first time — on software-to-hardware tie ratios. "It was up to retailers to respond to that challenge because no one ever held them to that standard before — tying their allocation to sales. But if you did that, you were taken care of."

Funai will enter market for TV/DVD/VCR products with 19" (\$600) and 27" (\$800) Sylvania brand models that will ship by midsummer. Sets will have MTS/SAP stereo and 4-head hi-fi VCR. There was no word whether Emerson, which is sourcing product from Funai under agreement signed last fall (TVD Nov 6 p16), would introduce similar product. Emerson has said it expects to offer digital TVs and 19" TV/DVD combo later this year. Separately, Emerson said CE operating income slipped to \$895,000 in 4th quarter from \$961,000 year ago as net revenue fell to \$23.9 million from \$44 million. For year ended March 31, operating income rose 225% to \$17.3 million on 30% rise in revenue to \$264.3 million. On consolidated basis, which includes results from Sports Supply Group (SSG) in which Emerson has 50.1% stake, 4th quarter net income fell to \$782,000 from \$1.2 million despite revenue gain to \$56 million from \$43.9 million... Toshiba is shipping 9" (\$479) and 20" flat-screen (\$599) TV/DVD combos.

THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥126 = \$1, except where noted.

AD SPENDING AFFECTING GAME CYCLE: “The single biggest change” in current videogame hardware system cycle compared with “all prior cycles” is huge amount of money being spent on ads, Activision CEO Robert Kotick told William Blair & Co.’s 21st Annual Growth Stock Conference in Chicago week ago.

Kotick said much of reason for jump in ad dollars had been driven by Microsoft with its upcoming Xbox: “With Microsoft’s entry into this market, for the first time you’re seeing hundreds and hundreds and hundreds of millions of dollars being spent marketing and advertising videogames. In the past you’ve seen competitors like Nintendo and Sega and Sony enter the market. But it hasn’t really been the same kind of stakes that we see today.”

As he did at Deutsche Banc Alex. Brown 2001 Media Conference in N.Y.C. early last month, Kotick said more than 80% of his company’s revenues continued to come from proved, predictable franchises. Two main ingredients for success in industry today for game maker, he said, are creation of high-quality games and ability to continue coming out with games for proved franchises.

Explaining why Activision had chosen to continue growing its extreme sports line, Kotick said it saw that major league sports interest had been declining among 12-25-year-old gamers — its target audience — while extreme sport had risen among that audience. Activision is looking to sign up celebrity athletes along lines of Tony Hawk from every extreme sport for which it makes games, he said.

Kotick said Activision’s focus “over the next 5 years... is a little bit different than the last 5 years. The last 5 years was all about getting to a half a billion dollars in revenues, building out our geographical publishing capabilities, defining our studio development processes so that we can be other than Electronic Arts, the only institutional caliber company in the category. The next 5 years is really all about margin extension.”

This “is a business that could almost double over the course of the next cycle,” he said. “This is a market that’s going to grow very rapidly over the next 3 or 4 years.” As result, he said: “We have to over-invest early in the cycle to build our technology that we then leverage later in the cycle.”

RadioShack (RS) will buy back Microsoft’s 25% preferred minority interest in RadioShack.com for \$88 million and take one-time \$12.4 million pretax charge for settlement of note related to sale of former Computer City chain to CompUSA. Microsoft, which operates store-within-a-store format in RS retail stores, had been early investor in chain’s online business. Pretax charge writes final chapter in RS’s ill-fated venture in PC retailing. It sold about 100 Computer City stores to CompUSA in 1998 and latter then closed all but 30. RS said it received discounted payment of \$123.6 million, plus accrued interest, in settling \$136 million note receivable. RS said same-store sales rose 4% in June on strong sales of wireless products. Total sales in June were up 8% to \$356.6 million from \$331.4 million year ago. RS’s year-to-date sales were 5% higher, \$2.1 billion vs. \$1.997 billion a year earlier... **InterTan**, which has rights to use RadioShack brand in international markets, said sales at Canadian subsidiary rose 5% in June to \$27.1 million on 4% gain in same-store sales. InterTan, which operates 880 stores in Canada, has focused on market since selling off Australian subsidiary in April. It also previously operated chain in U.K.

Consumer Electronics Personals

Kathy Wolfe resigns as Zenith Sales Co. pres., plans unknown... **Myoung Woo Lee**, vp-gen. mgr., Samsung Digital CE Div., promoted to pres.; **John Garrison**, ex-AT&T Wireless and Amazon.com, returns to Samsung as exec. vp-sales & mktg., digital products... **Michael Perez**, ex-Intel, named CFO, Lexar Media... **John Foster** promoted to Odyssey Pictures chmn.-CEO, succeeding **Johan Schotte**, who will remain a dir.

Creative Technology adjusted its 4th quarter revenue expectations last week, saying its revenue “will come in at approximately 10% below original expectations of \$260 million.” Creative Labs Pres. Craig McHugh blamed change on “the back half of the quarter [being] much slower than anticipated in our European and Asian regions, with Europe being particularly soft in June.” He said: “Combined with a further downturn in the worldwide system builder market, we fell short of our revenue goal. In light of the current challenges we see in the system builder business, we intend to increase our focus on the retail market.” Creative said it would report its 4th quarter results in early Aug. Meanwhile, Creative shares jumped almost 9% last week after rumors said IBM might be taking stake in Singapore-based computer peripheral manufacturer. We were unable to reach Creative or IBM for comment by our Fri. deadline.

Electronic Arts (EA) will ship *The Sims Hot Date Expansion Pack* from its Maxis studio in fall — probably in Nov., EA Maxis spokeswoman told us Fri. Pricing was unavailable. Pack is new add-on disc for top-selling PC game of 2000 and 2001, *The Sims*. EA said add-on would feature “new characters, interests, romance objects, and an all-new Downtown area filled with restaurants, shops and parks.” Disc will be 3rd expansion pack for *The Sims*, following *The Sims Livin’ Large* (Sept. 2000) and *The Sims House Party* (April 2001). Combined sales for those 2 packs topped one million units in N. America.

XM Satellite Radio unveiled “upgraded” Web site to prepare for commercial service rollout later this summer, although specific date hasn’t been announced. Site now offers basics on how XM service will work as well as dealer locator and “Trivia Challenge” contest that can give prospective subscribers opportunity to win free concert tickets.

Sirius Satellite Radio filed shelf registration with SEC to raise up to \$500 million in stock offerings, proceeds to be used for general corporate purposes, including working capital. Company said again it had sufficient cash to fund operations through 3rd quarter of 2002, and that it had no plans for public offering now. CFO John Scelfo said shelf registration was filed to give Sirius “the flexibility to access the capital markets in the future.”

“**Ground Zero**” is title of new Kenwood 30-sec. TV ad spot, its first commercial supporting its Excelon high-end car audio brand. Kenwood said ad was targeted at males 15-30 and was spoof of top-secret weapons test. Spot is designed for local cable and broadcast use and provides for customized dealer tags at start and finish.

Implications were unclear at our Fri. deadline of Tokyo announcement that Hitachi Maxell would team with Mitsubishi Chemical and its storage products subsidiary on development of next-generation optical recording media. Joint statement said goal of collaboration would be to improve efficiency and reduce development costs for individual partners.



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SUMMARY-INDEX OF WEEK'S NEWS

Broadcast - Cable

TRISTANI RACE LIKELY: Comr. won't confirm plans for Senate, despite N.M. sources. Announcement likely soon. (P. 1)

COMCAST-AT&T BID seen likely to get regulatory okays, despite protests. Terms still not accepted by AT&T. (P. 2)

CAMPAIGN FINANCE on life support following House maneuver. Broadcasters pleased. McCain to try again. (P. 3)

CNN WON'T MERGE with CBS or ABC, Kellner promises critics. New shows to run on multiple networks. (P. 4)

AUCTION DELAY PLEASES NAB: New date for Ch. 60-69 to be set later. Paxson, other petitions cited in 5th delay. (P. 4)

AT&T DEAL WOULD RESHAPE cable business, analysts, others say. Merged firm would dwarf AOL Time Warner, get leverage. (P. 5)

TRISTANI WON'T CONFIRM FCC DEPARTURE PLANS: "At the moment, I'm focused totally on my FCC duties," Comr. Tristani told us last week. "I don't want to discuss my plans further until I have actually resigned." Comments were in response to our question whether it was true she would resign "very soon" — as we were told by prominent N.M. Democrat — to return to state to campaign for Democratic nomination for Senate to oppose Republican Sen. Domenici, who will be seeking his 6th term. "She's moved her timetable way up," N.M. Democrat said.

Another source told us Tristani had hastened her plans "a great deal" on when she would leave Commission. She is saying publicly only that she plans to leave by end of year and that she does plan to run against Domenici. No other Democrats have publicly made known plans to seek nomination in June primary, N.M. Democratic Party Chmn. Diane Denish said. She told us state "Democrats are very hungry for a credible candidate" to oppose Domenici, who "has been there long enough."

Of Tristani, Denish said "we've seen her in New Mexico quite a bit in the last 6 months..." She has kept her [political] contacts alive and well... She's a formidable campaigner and knows she has a daunting task" ahead of her in running against Domenici. Tristani, granddaughter of long-time N.M. Sen. Dennis Chavez, has run successfully for statewide office before and was member of N.M. Public Utilities Commission when she joined FCC in Nov. 1997. Her term expires June 30, 2003.

Denish said Tristani was prohibited from raising money for campaign as long as she remained FCC commissioner, but disputed reports that she would be starting out way too late to have chance to defeat Domenici. Denish said 55% of N.M. voters were women, and state's senior citizens had very high regard for Tristani and her relationship to Chavez: "She comes to the campaign with a lot of positive strengths."

Consumer Electronics

SOFTWARE HITS ARE KEY to DVD business exceeding expectations this year, Warner Home Video executive says in reacting to our report on hardware glut. (P. 10)

RCA DUMPS PRO-SCAN, ADDS 'SCENIUM' LINE high-end products to evade 'glass ceiling' of perception as 'value' brand. Says it won't enter videogame console melee. (P. 11)

CD COPY-PREVENTION SYSTEM READY: Macrovision's SafeAudio alters data to make CD unrecordable on PCs and block transfer to MP3 devices. Home decks not affected, but critics question sound quality. (P. 11)

RCA SCENIUM PRODUCTS DEBUT with HDTV sets and monitors as first offerings. Regular RCA line emphasizes DVD, home audio. (P. 14)

BESTBUY.COM STARTS PROGRAM allowing affiliated Web sites to earn commissions off consumer purchases. (P. 15)

Others we spoke to in and from N.M. didn't sound nearly as positive about Tristani's chances — disputing Denish's contention that she was well known in N.M. "She doesn't stand a chance in hell of beating Domenici," Albuquerque broadcaster told us: "She's really not known at all in Albuquerque." Another broadcaster said that it was much too late for her to enter race and that "Domenici is very popular."

ANALYSTS SEE COMCAST GAINING REGULATORY NOD FOR AT&T BID: Despite protests from public interest groups, Comcast's unsolicited \$58 billion offer for AT&T Broadband stands good chance of earning federal regulatory approval if it gets that far, public policy analysts said. They said Justice Dept. (DoJ) and FCC were likely to allow proposed deal to go through largely unscathed, especially if AT&T shed its 25.5% stake in Time Warner Entertainment (TWE) as Comcast has pledged. They also predicted that FCC's expected new horizontal cable ownership cap shouldn't be problem for proposed combination of nation's largest and 3rd largest MSOs, assuming Comcast won AT&T's consent. Nor did they see either govt. agency imposing such conditions as open access and interactive TV nondiscrimination on deal, even though those obligations were placed upon AOL's recent takeover of Time Warner (TW) and AT&T and Comcast co-owned Excite@Home, nation's largest cable ISP.

AT&T Chmn. Michael Armstrong pledged to give "serious consideration" to Comcast's bid. Addressing Boston Chamber of Commerce, he praised offer as "serious" but hinted that it might have to go higher to earn his board's approval and that other companies might be interested in bidding, too. He also indicated that AT&T still might go forward with its plans to spin off cable unit first as tracking stock and then as independent company. And he insisted that AT&T Broadband's sluggish operating performance was improving.

"While we have no current plans to sell our broadband business, Comcast's offer is serious," Armstrong said. "And we are giving it serious consideration. It recognizes at least some of the value that we've created in AT&T Broadband. The question is whether it recognizes the right value." Armstrong spoke day after cable mogul John Malone, head of AT&T's independent Liberty Media programming unit that's about to be spun off, abruptly resigned from board 4 weeks earlier than planned. In his resignation letter, Malone criticized Comcast's offer as "insufficient" and said he was leaving early because he had been excluded from board deliberations involving bid. He urged board to pursue sale of AT&T's minority stakes in TWE and Cablevision Systems as part of any deal with Comcast or other bidders.

Consumer groups immediately raised antitrust concerns about Comcast's bid to become nation's biggest MSO with estimated 22 million subscribers. Calling proposed transaction "a potentially dangerous merger," Consumers Union spokesman said it would make "the cable monopoly... more and more powerful" and lead to ever-spiraling cable prices for consumers. Center for Digital Democracy (CDD) also declared its opposition to proposed deal, arguing it would harm competitors, consumers, public. CDD Exec. Dir. Jeffrey Chester said proposal would permit Comcast to have control over "key bottleneck access points" such as digital cable set-top boxes and operating system software.

However, policy analysts brushed aside concerns. "The primary hurdle here is not the regulatory hurdle, it's the [AT&T] shareholder hurdle," Legg Mason analyst Blair Levin said. "The question would be whether the addition of Comcast creates antitrust problems that the AT&T takeovers of Tele-Communications Inc. and MediaOne did not," he said. "We don't anticipate that there would be a problem that would kill the deal, particularly if the TWE stake is not in the equation."

Precursor Group CEO Scott Cleland estimated that Comcast-AT&T deal had 65% chance of govt. approval as long as AT&T's stake in TWE was fully divested. He predicted deal would be approved by DoJ "because it would be a 'geographic extension' of cable properties, like the previously approved cable-cable and Bell-Bell mergers." If AT&T's interest in No. 2 MSO AOL TW is divested, he said, "it is unlikely that any remaining vertical integration issues would be deal breakers for the new Bush Antitrust Division."

Both Levin and Cleland also didn't see FCC's 30% cable ownership limit as major obstacle. They predicted that cable cap, recently struck down as unconstitutional by U.S. Appeals Court, D.C., and now being revised by Cable Bureau, almost certainly would be raised to as high as 50% or 60%. But even at 30%, they said, new enlarged Comcast probably would come under ceiling once it divested its attributable stakes in TWE and Cablevision. Cleland said "the primary FCC concern will be less about Comcast merging with AT&T Broadband and more about ensuring that the #1 and #2 cable companies are not cross-owned and possibly could collude in buying decisions of programming."

Comcast officials said they didn't view cable ownership limit as big problem, either. In July 9 conference call with reporters, Comcast Pres. Brian Roberts said proposed combination of 2 MSOs would have no more than 23 million to 24 million cable customers, even counting AT&T Broadband's various joint ventures with other cable operators. He said that figure still would fall below 25-26 million limit under FCC's now suspended 30% cap. "We're below a cap that's no longer operative," he said.

Although FTC and FCC imposed open access and ITV conditions on AOL-TW deal, policy analysts don't see govt. agencies' doing same thing to Comcast-AT&T. They said AOL-TW deal was different because AOL was biggest ISP by far. They also said that Powell, unlike predecessor FCC Chmn. William Kennard, had stated his firm opposition to placing such conditions on mergers. "If a Bill Kennard-led Commission didn't impose that kind of regulations on AT&T-MediaOne, I don't see why a Michael Powell-led Commission would impose it on Comcast-AT&T," Levin said.

FCC Cable Bureau spokeswoman declined comment on Comcast and AT&T moves. She would say only that Commission's drafting of proposed new rulemaking on cable cap remained "a high priority."

Despite their optimistic outlook for Comcast's bid, analysts cautioned that company didn't have lock on AT&T by any means. Even if AT&T eventually consented to deal, they said that Comcast, which lost bidding war for MediaOne to AT&T 2 years ago, faced possible challenges from such other aggressive MSOs as Paul Allen's Charter Communications, Cox Communications or even AOL TW. "I could conceivably see Charter or Cox with somebody else," Cleland said. But he and Levin ruled out Microsoft, which owns stakes in both AT&T and Comcast, and other noncable companies because of difficulties of entering business, achieving shareholder value, gaining govt. approvals.

CAMPAIGN REFORM SLOWED: NAB and Sen. McCain (R-Ariz.) believe campaign finance reform legislation isn't dead yet, but Assn. doubts House leadership will revive bill as quickly as McCain would like. Bill (HR-2356) by Reps. Shays (R-Conn.) and Meehan (D-Mass.) stalled on floor last week after disagreement on Republican-proposed changes in Rules Committee report. McCain, whose campaign finance bill (S-27) was passed by Senate earlier this year, said he hoped Shays-Meehan supporters "will be able to work with the leadership in the House as early as [this] week and move to the bill in an expeditious manner."

NAB Exec. Vp James May said House leaders privately were discussing when and how bill could come up again for debate. May said it was highly unlikely that House would revive bill this summer: "I don't think there's any way at all that this bill will come up before September or October." NAB intends to keep up fight against Shays-Meehan and push for support of rival bill (HR-2360) by House Administration Committee Chmn. Ney (R-O.) and Rep. Wynn (D-Md.). Shays-Meehan has language similar to S-27 amendment by Sen. Torricelli (R-N.J.) that would expand rules on lowest unit rate that broadcasters charge for political air time before primary elections. Provision also would be extended to cable and satellite service providers. Ney-Wynn doesn't contain Torricelli provision.

Assn.'s near-term strategy includes push to ensure up-or-down vote on Torricelli amendment language, May said. NAB seeks one of 2 possible measures: (1) "Self-enacting" rule from Rules Committee that would take Torricelli language out of bill, but preserve opportunity for bill's authors to offer that language as amendment. (2) Motion to strike Torricelli language from bill, action advocated by House Commerce Committee Chmn. Tauzin (R-La.), followed by up-or-down vote to eliminate that language.

McCain staffer said coalition of conservative House Democrats might circulate discharge petition to revive Shays-Meehan, and additional parliamentary options remained open. Discharge petition would require 218 votes, aide said. Considering that 230 members, including 19 Republicans, voted against proposed debate rules change, McCain views stalling of bill as "unfortunate, but not fatal, event," she said.

Meanwhile, Congressional Budget Office (CBO) released report on potential financial impact of Shays-Meehan, estimat-

ing that "net direct cost to the private sector could exceed \$300 million in a Presidential election year." CBO attributed estimate to Shays-Meehan provisions "banning the use of soft money for national committees and changing the rules that apply to broadcast rates for political advertisements."

Day before House floor debate, 14 members of Congress sent letter to Shays and Meehan urging them to drop amendment that would require TV and radio stations to provide candidates nonpreemptible time at lowest unit rate billed to all other advertisers. Opponents of amendment said it wouldn't reduce cost of campaigns or "increase public discourse," as claimed by proponents. Group said it would increase length of campaigns and their costs, result in more "attack" ads and reduce ability of candidates for state and local office to buy broadcast ads because of increased "pressure" for time by federal candidates. "However well intentioned, this amendment will not achieve the goals envisioned by its proponents and raises serious constitutional concerns," they said.

FCC Comr. Tristani warned July 13 that Comcast's unsolicited \$44.5 billion bid for AT&T Broadband could spur another, unwanted round of cable consolidations that regulators should scrutinize carefully. Speaking at Alliance for Community Media lunch in Washington, Tristani said potential new wave of consolidation could jeopardize "diversity and localism" of cable programming by handing control over programming to "fewer and fewer gatekeepers." Saying that TV is "a uniquely powerful and influential medium," she said "government regulators should think long and hard before approving another round of cable consolidation." Tristani dismissed notion that Internet would ensure diversity of voices, saying "the vast majority of Americans spend most of their free time in front of the television" and "the content of television has far more influence on what Americans know, what they think and how they govern themselves than whatever is on the Internet or in the newspapers." In speech, which was interrupted repeatedly by applause, Tristani also called for MSOs to set aside more of their digital capacity for public, educational and governmental (PEG) access channels, endorsing move by Vt. PUC to require cable operators to put aside 10% of their broadband capacity for PEG services. Tristani urged cable operators to "bring interactive functionality to PEG channels," including listing channels in their electronic programming guides (EPGs) so that PEG services received notice.

CNN WON'T MERGE: Jamie Kellner, new chmn.-CEO of Turner Bcstg., made it clear in presentation to TV critics in Pasadena July 12 that CNN wasn't looking for new partners. "There's not going to be a merger of news operations," he said, responding to speculation that both CBS and ABC were interested in merging with CNN: "We are not going to, in any way, merge CNN into any kind of a different structure. It will always be owned by AOL Time Warner and be operated independently."

Kellner acknowledged there had been some discussions "for the past 3 years, from one or both of the networks, about finding ways to combine resources and reduce costs." To that end, he said, "there is the potential that we could do some newsgathering for another network and provide some services as we do for over 600 television stations across America today. And those could create some wonderful opportunities to save money for another network. But it would be totally separate from CNN. It would not be any kind of merger or any type of formal arrangement."

Before introducing Walter Isaacson, CNN News Group's new chmn.-CEO, Kellner said: "In no way was Tom Johnson pushed out of the company. Tom is going to continue to work with me and Walter down there," although he didn't say in what capacity. Isaacson said his first emphasis would be relaunch of *Headline News* Aug. 6 and developing hour-long prime-time newscast. Kellner said he felt *Headline News*, which is run by Tera Ryan, was "obviously underutilized asset" and believed new look would broaden demographic without alienating core viewership. Also getting makeover will be CNNfn, which becomes CNN Money later this year.

Kellner also said of TNT: "I'm a big believer in multipurposing programming. I think in the future we are going to see more and more of this." Because odds are so great against developing hit original program, he said: "I want to legitimize the idea of multiplexing because it allows you to create more programming and share it between different services."

"We all know that all these new channels that have been put on the air have fragmented the audience more and more," Kellner said: "So less people are seeing even the most popular shows than ever before each year. That means there's more value left in the negative after the premiere run." Kellner said TNT already had purchased rights to run concurrent one-week window on *Charmed* as part of acquisition of back-end rights and was in negotiations with another unnamed WB series. Whether concurrent broadcasting will damage syndication value remains to be seen, but Kellner thinks it has potential to add value: "If you can establish a larger core audience, then there's the potential that the reruns will actually get higher ratings in prime time either on the WB or another network," which in turn could increase program's value in syndication.

Kellner also believes era of mergers is about to end because "I don't think you'll be able to get it through Washington. You're getting to a place where they are not going to let some of the biggest companies absorb too many other companies. So you will end up with 4, 5 or 6 major companies." Kellner said it was too soon to speculate on possible future use of excess digital spectrum.

DirecTV finished construction on DirecTV4-S spot beam satellite. Bird is undergoing testing before it's moved to Arianespace launch facility in Kourou, where Boeing-made satellite will be flown aboard Ariane 4 booster. No date has been set for liftoff.

AUCTION DELAY PLEASES NAB: Delay in auction of TV Ch. 60-69 (700 MHz) "is in the best interest of consumers as the nation converts to digital television," NAB Pres. Edward Fritts said. For 5th time, FCC Wireless Bureau postponed Sept. 12 auction of 700 MHz band, saying it wouldn't set new date until Commission acted on pending petitions for reconsideration.

Auction delay covers 747-762 MHz and 777-792 MHz bands now occupied by analog broadcasters that don't have to vacate band until 2006 or DTV penetration rate reaches 85%. Indefinite postponement marks first such delay under tenure of FCC Chmn. Powell. Way for delay was cleared in congressional budget resolution this year that addressed Bush Administration proposals for auction delays. Action came as industry and FCC officials increasingly acknowledged difficulty of clearing broadcasters from band by 2006.

Among petitions pending is one submitted by coalition of 21 broadcasters, led by Paxson, that urged agency to delay auction to provide more time to work out private deals to vacate band now occupied by analog broadcasters. That group represented 42% of 99 analog stations now operating in that band and had wanted the new auction date to be set in Jan. 2002. MSTV also asked FCC to reconsider its refusal to rule out use of mandatory band-clearing efforts. (Commission has indicated that it could revisit issue in future if necessary.)

Original auction date had been May 10, 2000, then June 7, 2000, to allow more time for bidder preparation. Later delays were to Sept. 6, then March 6, 2001, eventually Sept. 12. Latest delay came as little surprise since Administration first raised possibility of moving 700 MHz auction earlier this year. White House issued budget blueprint that would postpone both upper and lower band auctions for 700 MHz (TVD March 5 p1). Proposal indicated that if upper band auction were moved to 2004 from 2001 and Ch. 52-59 bidding to 2006 from 2002, budget offset of \$2.6 billion for fiscal 2002 would be provided.

CTIA Pres. Thomas Wheeler lauded decision: "While the industry faces a spectrum shortage, this delay reflects the facts on the ground. No one today can predict how or when this spectrum will be available or how it will fit into a national, long-term spectrum policy."

iBeam Bcstg. said it closed on \$40 million in new financing from 4 investors, including \$30 million in cash and services from Williams Communications (TVD July 2 p5). Other investors are Allen & Co., Lunn iBeam, TouchAmerica. In new arrangement, iBeam issued 2.4 million shares of convertible preferred stock, with Williams now holding 49% of iBeam voting stock. iBeam increased its board to 9 members from 7, adding Howard Janzen of Williams, John Bumgarner of Williams subsidiary Strategic Investments, Laura Kenny of Williams' Vyvx, Paul Gould of Allen & Co. Rich Shapero of Crosspoint Ventures Partners and Peter Wagner of Accel Partners, both companies original iBeam investors, resigned from board. Reflecting its "increased focus... on enterprise and entertainment" markets, iBeam, based in Sunnyvale, Cal., announced following promotions: Robert Davis to pres., Entertainment Services; Nicholas Balletta to pres., Enterprise Services. iBeam Pres. Peter Desnoes said it provided more than 100 million audio and video streaming services per month — including interactive Webcasting, ad insertions, syndicated and pay-per view programming — to more than 210 communications networks worldwide.

COMCAST BID WOULD RESHAPE PAY-TV: If successful, Comcast's bid for AT&T Broadband would lead to reconfiguring of multichannel video market in U.S., analysts and other industry observers said. They said enlarged Comcast, with at least 22 million basic cable subscribers after takeover of AT&T's cable operations, would be big enough to all but dominate cable business, dwarfing even No. 2 MSO AOL Time Warner. Observers said new Comcast also would gain tremendous leverage over programmers through its vastly increased size, possibly dictating carriage terms. In addition, they saw new Comcast boosting cable competition with DBS because of its practically national footprint and its aggressive rollout of digital cable, high-speed data and other new services.

With its 22 million subscribers, proposed new Comcast would control 31% of all U.S. cable homes and slightly more than 25% of all pay-TV households. Not even AOL Time Warner, with 12.8 million subscribers, or DirecTV, with just over 10 million, would come close. New Comcast would have at least 3 times as many subscribers as Charter, Adelphia, EchoStar and other major multichannel video players. "It'll create a cable giant like we've never seen," said Cynthia Brumfield, principal analyst, Broadband Intelligence.

Comcast executives said proposed Comcast-AT&T Broadband combination also would be "the largest broadband provider" in 8 of nation's top 10 media markets — Atlanta, Boston, Chicago, Dallas/Ft. Worth, Denver, Detroit, Philadelphia and San Francisco/Oakland/San Jose — and would have sizable chunks of subscribers in 2 biggest markets — N.Y. and L.A. Moreover, they said, enlarged company would have "strong presence" in 18 of top 20 markets, excluding only Houston and Phoenix. New Comcast would dominate eastern half of U.S., with multiple systems in every state except Me. and N.C.

Analysts said new Comcast could compete much more fiercely with DirecTV and EchoStar than Comcast and AT&T could separately, by synchronizing local and regional programming offerings, running nationwide promotional campaigns, selling national advertising. They said Comcast already was more aggressive against DBS than most MSOs, recently expanding its pilot dish buy-back program to lure satellite subscribers back to cable. In its first quarter conference call, Comcast said it was bringing back 20% of DBS customers and upped its estimate for year-end gain to 20,000 from 15,000.

Comcast also has been more aggressive than most MSOs in launching such new cable services as digital video and high-speed data. It closed first quarter with 1.55 million digital video customers, achieving penetration rate of 21.6%, and plans to pass 2 million by end of year. Similarly, it ended first quarter with 542,000 Internet access subscribers — almost 7% penetration rate — and intends to hit 750,000 by year-end. It also has been furiously rebuilding its cable plant, with 73% upgraded to 750 MHz capacity at close of first quarter and 86% of all systems scheduled to be upgraded by year-end.

But Comcast has been far less aggressive than AT&T in one key area — cable telephony. While AT&T Broadband has signed up more than 700,000 cable phone subscribers so far, Comcast has only 150,000 that it inherited from MediaOne systems after purchasing them. Comcast Pres. Brian Roberts said he would dampen spending on cable telephony until cheaper, IP-based telephony was ready to be introduced. He questioned moving ahead quickly with "yesterday's technology."

Industry observers see proposed new Comcast using its vastly increased size to hold sway over other cable programmers. Public interest groups already have voiced concerns that MSO would discriminate against independent programmers and keep its programming off such competitors as DBS and cable overbuilders. Comcast recently generated more concern when it fended off efforts by DirecTV and EchoStar to gain access to its local sports network in its hometown Philadelphia market.

Standard & Poor's and Moody's placed Comcast's debt on review for possible downgrade because of MSO's bid. Under deal proposed, Comcast would pay for purchase by issuing \$44.5 billion in stock and assuming \$13.5 billion in AT&T debt. Both agencies said they would likely keep their current high ratings on Comcast's debt if deal went through as proposed and probably would maintain investment grade rankings even if they lowered ratings somewhat. But they warned that they could downgrade ratings if Comcast had to increase its offer, as some believed it might, particularly by assuming more debt.

LMiV, consortium of 5 radio groups promising to "redefine radio's relationship with the Internet," opened its first 5 Web sites for FM stations owned by its partners, with plans for another 166 sites for affiliate radio stations in coming months. "For the first time, we've made the Internet serve radio's interests instead of the other way around," said LMiV co-founder Jeff Smulyan of Emmis Communications: "These are 5 unique Web sites, each designed to fit one station's personality and audience." Earle Veale, exec. of LMiV co-owner Corus Entertainment, said that "over time, we think listeners will use [LMiV] sites as the gateway to the Internet" instead of other way around. LMiV Pres. Jack Swarbrick said it had signed agreements with 20 content and technology providers. New sites programmed by LMiV are up on Emmis stations (all FMs) in Indianapolis, Corus in Canada and, among other partners, Bonneville International in Washington, Entercom in Portland, Ore., Jefferson-Pilot in Atlanta.

Public, educational and govt. (PEG) centers ideally should seek broadband bandwidth capacity rather than more channels in cable franchise renewals, panelists said at Alliance for Community Media conference in Washington. Demand for broadband capacity should be reasonable to ensure that channels don't remain empty for want of programs, said attorney Joseph Van Eaton. Since cable operators are providing telephone and high-speed Internet service over same line for which they're paying municipalities franchise fees, they don't see why they should pay additional fees for such services, Charter Vp-Senior Counsel Jerry Lambert said. Disagreeing, attorney James Horwood said franchise fee was revenue-based fee for use of public right-of-way, and cable operators were required to pay percentage of their gross revenue. Panelists agreed that possibility of eliminating franchising authority of municipalities was remote even though telecom convergence had given rise to such fears. As long as right-of-way issues remained, there still would be legitimate role for local govt.s, they said.

EchoStar will carry CBS HDTV programming under agreement for DBS operator to carry network's East Coast and West Coast HDTV feeds. Programming will be available only to EchoStar subscribers living within market served by CBS-owned station or within "white areas" without local TV programming. Deal also would allow programming to be offered to those whose local CBS affiliate decided to allow feed, officials said.

DIRECTV DEAL ALMOST FINAL: News Corp. and GM are inching closer to completing agreement for former to buy Hughes Electronics and DirecTV after 18 months of negotiations, industry reports and sources said last week. News Corp. Chmn. Rupert Murdoch reportedly has expressed confidence to close associates and business partners that he finally was "pulling off the deal," industry sources said. Satellite attorney and analyst close to negotiations said that despite similar reports in past, this time 2 sides "are very close." Industry attorney said "consummation of the agreement is very close," but "anything can happen at the last minute to make things fall apart." Analyst close to top officials of News Corp. and Hughes said "it looks like the deal is going to happen very soon." But he said reports indicating agreement could be days away weren't on target: "I would say we are still 2 or 3 weeks away. This is a very complicated deal."

GM spokesman also indicated situation was looking up: "Talks are going well. They're just defining the agreement." Another company spokeswoman said: "We do continue to make progress. It's a very complicated deal and there's a lot of work to do." But she wouldn't give timetable for finalizing agreement. EchoStar, which was also bidding for rival DirecTV, could be odd party out, said GM official, noting that board had asked for no new information on EchoStar recently. EchoStar spokesman said it had no comment on progress of talks with GM.

Among sticking points in GM-News Corp. deal are complicated tax impediments, industry sources said. One of things that moved talks forward is restructured agreement that "lessens tax liability" for GM, source said. News Corp. reportedly has removed some of assets such as NDS, its digital TV equipment company, which were part of deal. Both sides want to merge News Corp. unit Sky Global Networks with DirecTV to create global DBS operator. Cost of deal was estimated at \$40-\$55 billion.

Management of merged operation is hurdle that apparently has been resolved, sources said. Plans now call for Murdoch to become chmn. of merged company, but most of DirecTV management team would remain intact. Company recently reshuffled top management staff, following resignation of CEO Odie Donnell.

Coalition for Noncommercial Media (CNB) is entitled to hearing on its allegations in opposing sale of noncommercial WNEQ-TV (now WNLO-TV Ch. 23) Buffalo to LIN TV for \$23 million, group told FCC last week. CNB argued in petition for reconsideration that FCC Mass Media Bureau's order approving sale "contained 11 fatal flaws," including: (1) It misstated court's order approving change in Buffalo ETV reservation from Ch. 23 to Ch. 17. (2) It used language "more appropriate for an advocate than an unbiased decision-maker." (3) It characterized public broadcasting as "a format... a holding so radical that if the Bureau were correct, all protections for public broadcasting would be unconstitutional." (4) It cited 2 previous Bureau decisions "never considered by the Commission as though they were Commission precedent." Case is complicated because Western N.Y. Public Bcstg. Assn. operated WNEQ-TV on reserved Ch. 23, as well as WNED-TV Buffalo on nonreserved Ch. 17. As part of sale to LIN, FCC and court approved shifting educational reservation. Coalition said case presented FCC "with a stark choice between the public's expectations for the retention of noncommercial service and the private aspirations of an errant licensee" and called into question whether Commission "will continue its 4-decades-long commitment" to public broadcasting.

NIELSEN 'WORKING HARD': Nielsen told group of dissatisfied TV station subscribers in diary-measured markets (TVD July 2 p3) that it was "working hard to improve the diary methodology." In July 9 letter to group's leader John Tupper of High Mountain Bcstg., Nielsen Vp-Group Accounts Mgr. Patricia Dignam detailed steps research company had taken and was taking to improve diary ratings and attempted to answer questions raised at June 4 meeting with broadcasters.

Dignam said Nielsen's in-house diary improvement task force met in mid-June and began "a priority mail initiative" for diary keepers. In answer to other points raised by stations, Dignam said: (1) Test of shorter than one week diary-keeping period resulted in "lower quality" and when coupled with "cost and sample size issues far outweighed any benefits" of one-day diaries. (2) Nielsen already had embarked on several initiatives to improve diary response rates among younger adults, including adding questions to follow-up mail surveys of households that kept diaries. (3) "Multiple efforts" were under way to gather information and make recommendations to improve diaries.

(4) Payment for diary returns wasn't good idea because it had "the possibility to cause diary keepers to change their viewing habits or simply fill in more viewing to earn the remuneration." (5) Provision of program and channel information with diaries, as sought by broadcasters, wasn't feasible because of last-min. scheduling changes by stations and cable networks. Nielsen said it planned to establish Web site next spring "specially dedicated to providing assistance" for diary keepers. Research firm said it was "dedicated to making improvements in the collection of who is watching [TV] with every means available to us."

Hawaii continued push for better DBS service by asking FCC to examine issue. State charged DBS companies with violating rules that require them to deliver services and packages to Hawaii and Alaska comparable with those in continental U.S. DBS providers have "failed to meet this standard," Hawaii said in ex parte filing. Programming for Hawaii is "radically different and deficient" from mainland packages, FCC was told. EchoStar has made more progress toward programming equity and Hawaiian package is attracting interest, but "shortcomings still exist," state said. EchoStar and DirecTV have new satellites planned that state officials hope will improve service, but only if FCC "makes it clear" they must improve service to Hawaii and Alaska.

Bid by L.A. officials to levy taxes on satellites may have fizzled last week when state board moved toward declaring satellites off limits. However, L.A. County Assessor Rick Auerback said he planned to challenge ruling in court if he found Cal. State Board of Equalization had skirted state or federal law. State Equalization Board voted 5-0 to "fast track" rule that satellites could not be taxed even though Hughes Electronics was based in L.A.

XM Satellite Radio is deploying dozens of teams of testers equipped with radios to more than 20 markets to test service scheduled to start by end of summer. Road-testing of satellite service is being conducted by testers from XM and its business partners. Company said both satellites were broadcasting now from their final geostationary positions. Meanwhile, XM opened N.Y. office to produce shows and showcase talent.

END OF LOCAL OPEN ACCESS MOVES SEEN: Decision by 4th U.S. Appeals Court, Richmond, Va., that federal law bans localities from imposing open access mandates on cable operators is likely to halt efforts by cities and counties to enact such requirements, according to both open access proponents and opponents. With its unanimous ruling July 11 that cable modem lines were "telecommunications facilities" that couldn't be regulated locally, 4th Circuit panel joined 9th U.S. Appeals Court, San Francisco, and U.S. Dist. Court, Miami, in striking down local open access ordinances as violations of either Constitution or federal law. Although 3 courts differed on grounds for rejection and on regulatory classification of Internet access over cable lines, they all agreed that cities and counties couldn't impose restrictions on cable modem service. "The local authorities are becoming preempted out of this," said Andrew McBride, partner at Wiley, Rein & Fielding, who represented Verizon in case with *Henrico County v. AT&T and MediaOne*. "They [the courts] keep reaffirming the federal authority over this."

Henrico County (Va.) Attorney Joseph Rapisarda seemed resigned to that fate, saying county was leaning against appeal. He said commitments by AT&T and other MSOs to open their broadband lines to ISPs and fact that FCC was examining issue were reasons "we may not go forward." However, he said, county Board of Supervisors will decide what to do at meeting July 24. McBride said he didn't know whether Verizon would appeal decision to full 4th Circuit or to U.S. Supreme Court.

David Gershwin, aide to L.A. City Council Pres. Alex Padilla who drafted open access bill last year, blamed FCC inaction for 2 years that left "local municipalities no option but to seek open access provisions on behalf of consumers." He urged FCC to "step up to the plate" and provide "much-needed guidelines for this rapidly growing segment of the cable industry."

While expressing disappointment, National Assn. of Telecom Officers & Advisers (NATOA) said most cable operators had acknowledged that providing access to multiple ISPs made good business sense and was technically feasible. NATOA Exec. Dir. Libby Beatty expressed confidence that market would exert pressure on MSOs to provide consumers with variety of choices. "The bottom line for us is that the consumer gets what he wants and needs without corporations' dictating what they need," she said.

Like Beatty, Rapisarda tried to put positive spin on ruling, arguing that impact of court decision was not as bad as it would have been year ago. Several things had occurred after county had passed ordinance, he said, including commitment by AT&T to provide multiple ISP access after end of its exclusive contract with Road Runner. Court had made note of that commitment in its judgment, he said: "We may be on course on open access."

Cable officials were pleased they had won another legal battle against open access. "The Fourth Circuit's decision in the Henrico case offers the strongest judicial affirmation yet that public policy decisions regarding cable modem services are not within the jurisdiction of local governments," NCTA Pres. Robert Sachs said. AT&T Vp-Law Mark Rosenblum said ruling "affirms what we've argued since the 'forced cable access' debate emerged 3 years ago in Portland, Oregon: Federal law very clearly prohibits municipalities from requiring cable companies to provide telecom services or telecom facilities as a condition of obtaining a license to operate."

Both sides agreed that 3 court rulings heightened pressure on FCC to spell out national policy on open access. Indeed, in its decision, 3-judge panel of 4th Circuit noted that FCC had begun proceeding on issue. "The FCC, in its amicus brief, has diplomatically reminded us that it has jurisdiction over all interstate communications services, including high-speed broadband services," court said in opinion written by Judge Blaine Michael. "For the time being," he wrote, "we are content to leave these issues to the expertise of the FCC."

FCC Deputy Cable Bureau Chief William Johnson conceded "the pressure's on us to do something." Speaking at Strategic Research Institute conference in Washington July 12, Johnson said agency staffers hoped to produce report on open access in fall. "It's nice that the court treated the FCC deferentially," he told us later. "We've got to get on with it."

Cable experts said new legal debate over open access may erupt at U.S. Supreme Court as part of its review of pole attachment regulations in fall. Although pole attachment case doesn't directly concern open access, it "raises the issue of the regulatory classification of cable modem service in the context" of Telecom Act's pole attachment provisions, said attorney Frank Lloyd. Supreme Court will tackle 2 lower court rulings that FCC doesn't have authority to regulate pole attachment rates for cable-modem service.

DTV signals could easily outperform GPS and other technologies on location functions needed for E911 services, Rosum Corp. said in ex parte filing at FCC. Company said it already had begun discussions with primary cellular providers and handset makers. It acknowledged that process was starting late, but said many wireless providers were planning to seek extensions of Oct. E911 deadline. Filing backs granting extensions. System would use synchronization codes included in DTV signals, which it said were "very robust" and very accurate in determining distance from transmitter, even far in excess of where DTV signal was watchable. Because of high DTV signal power and other factors, receiver processing requirements were described as "minimal," keeping cost low. Technology requires no changes in DTV signal or in cellular base station, Rosum said. It said system also could be used for other applications, such as providing driving directions, maps, targeted ads, location-based information.

Senate Commerce and Judiciary committees each acquired new Democrat member to give each panel one-vote Democratic majority following passage of new governing resolution at end of last month. Sen. Edwards (D-N.C.), who already is on Commerce and was elected to Senate in 1998, was added to Judiciary and said his first priority would be increased hiring of law enforcement personnel nationwide. Sen. Nelson (D-Fla.), who holds seat on Budget Committee and was first elected to Senate last year with 51% of vote, joined Commerce formally by appearing at hearing on Internet privacy.

SBC and USTA are out of order in suggesting that cable modem providers are obligated to make universal service contributions, NCTA said in comments filed with FCC. Telco proposals also "are based on the faulty premise that cable modem service is a telecommunications service and cable operators providing cable modem service are telecommunications carriers," NCTA said, contending that they're not telecom providers.

BOUCHER TARGETING ACCESS: House Internet Caucus Co-Chmn. Boucher (D-Va.) vowed to introduce updated version of broadband open access bill that languished last year in House Judiciary Committee. Open access legislation "is still necessary, perhaps more necessary than ever," Boucher said in wake of 4th U.S. Appeals Court, Richmond, Va., ruling that affirmed states had no authority to impose open access (see separate story, this issue). Boucher's approach was endorsed by Simon Strategies Pres. Greg Simon and Consumers Union Washington Office Co-Dir. Gene Kimmelman.

Cable's efforts to control interactive TV and its fear of streaming video in wake of Charter's dropping of ESPNNews because of Internet feeds (TVD July 9 p5) left Boucher with "grave reservations" about allowing cable to escape further regulation, he said. Following some refinement, he said, his new bill to be introduced soon "does not lead to onerous burdens" on cable, but would promote competition and lead to regulatory parity with Bells. Simon said cable had created "an artificial scarcity of broadband" by dedicating only 6 MHz of its pipe to broadband service. "That's one of the most ludicrous arguments I've ever heard," responded NCTA Senior Dir.-State Telecom Policy Rick Cimerman. Cable modem service passes 60 million homes, he said, and has driven Bells to dust off dormant DSL technology, he said. Referring to Kimmelman comment that deploying advanced services was difficult for cable operators, Cimerman said: "Adding new layers of government regulation... would only complicate things further."

AT&T Federal & Regulatory Affairs Dir. Joan Marsh said she agreed cable modem networks should be open, but didn't see need for regulation. She praised recently concluded test in Boulder, Colo., that had 4 ISPs on AT&T system, and said 4th quarter rollout was planned in 6 communities around Boston for multiple ISP service. (AOL Time Warner also is moving in that direction as part of merger approval by federal regulators.) Julia Johnson, former Fla. Public Service Commissioner and now chmn. of Internet Task Force for Fla. Gov. Jeb Bush (R), said "open access is a good idea, but the question is how you get there." Her opinion was that "the market is in fact working." Kimmelman responded: "Free market? Government-issued [cable] franchises... That's about as opposite as you can get from a free market."

Public Bcstg. Caucus in Congress under leadership of Rep. Blumenauer (D-Ore.) has increased to about 80 members, CPB Chmn. Frank Cruz told board meeting in Washington. He said he held "series of meetings" with members recently to provide them with background information on issues facing public broadcasters. Saying members of caucus were highly interested and concerned about public broadcasting, he said group was "unique" in that it was "very bipartisan." CPB Pres. Robert Conrod said there was "unprecedented" level of cooperation among national public broadcasting entities — CPB, APTS, PBS, NPR, PRI. With each organization willing to recognize good work others were doing, there was "different" and much more positive relationship among them, he said. Increasing degree of cooperation in last 5-6 years bodes well for industry, Cruz said.

Paxson Communications said it successfully refinanced debt, partly via \$560 million in new credit facilities. Company said it obtained \$360 million bank credit in 3 separate loans, due Dec. 2005 and June 2006, to be used to repay debt, fund capital expenditures and cover general corporate purposes. Paxson also said it completed \$200 million offering of 10-3/4% senior subordinated notes, due in 2008, which was used to refinance debt.

ECHOSTAR ACQUIRING STARBAND: EchoStar will acquire majority of Gilat subsidiary Starband in deal that adds to EchoStar Internet service offerings while giving Starband cash and support it needs, companies said. Plans call for EchoStar first to increase its stake in Starband from 13% to 32%, ballooning to 60% once it begins construction of next generation satellite for Starband next year. Satellite analyst estimated deal to be worth \$300 million. Starband has been struggling financially since it opened 2-way Internet service, and EchoStar has been looking for ways to increase holdings and bundle Internet and DBS services. EchoStar wouldn't comment on how Starband deal might affect talks for DBS rival DirecTV, which reportedly was close to finalizing agreement with News Corp. (see separate story).

Starband spokeswoman said: "We had been looking for additional capitalization. It just makes sense for EchoStar." EchoStar is one of largest distributors of Starband service and one of its original investors. Companies expect deal to close within 30 days. Starband, EchoStar and Gilat boards approved deal, but regulatory approval is needed. As new managing partner, EchoStar will have 4 of 7 seats on Starband board, and Gilat Satellite 3, third partner, Microsoft, none.

New arrangement reduces Gilat stake in Echostar to 22% from 45%. Starband has 44,000 subscribers. "Now we are on a much more aggressive growth path," Starband spokeswoman said. No FCC license transfer is involved in deal for satellites because Starband has been leasing transponders from GE Americom and Loral. EchoStar will fund construction of new satellites as part of deal, companies said.

EchoStar spokesman said company still was working out arrangements for bird and "none of the satellite details are available yet." He said company had option of using another satellite planned for construction. Contracts for construction and launch vehicles also are pending, but satellite is expected to be built by end of year, spokesman said.

Technology company Zeros & Ones Inc. said its new digital video compression system, MC-10, had completed 2nd development phase and would move toward final development and commercialization. Company, based in Santa Monica, said MC-10 would solve many of problems of MPEG, particularly for high-end digital effects, including achieving compression ratios 3-10 times as high as MPEG-2 for same image quality. Firm is compressing 5 full-length movies onto single DVD to demonstrate effectiveness. Next step is to integrate all 100 compression processes into single tool, then move to commercialization, it said. Zeros & Ones also is seeking capital investment.

Time Warner will carry Hispanic TV Network (HTVN) programming in 7 new cities in 3 states in next 8 weeks under long-term distribution contract. Multimarket rollout will enable HTVN programming to reach more than 891,000 subscribers, companies said. Programming will include news, entertainment and sports from recently announced programming arrangement with CNI Canal 40 Mexico City in addition to HTVN productions, companies said. Markets covered are Austin, Tex.; Bakersfield, Chatsworth, Orange County, Palm Desert and S. Bay, Cal.; Kansas City, Mo.

Alliance for Better Campaigns — major player in efforts to reform campaign finance laws — moves today (July 16) to 1150 17th St., NW, Suite 600, Washington 20036, new telephone number 202-659-1300.

Personals

Appointments at Clear Channel Entertainment: **Steven Smith** exec. vp-COO, **Michael Trager** chmn.-TV, **Paula Balzer** chief mktg. officer, **Jeffrey Lewis** chmn.-sports, **Ed Stacey** exec. vp-CFO-chief administrative officer, **Dale Head** gen. counsel... **Thomas Stemlar**, ex-Katz Continental TV, named senior vp-sales, Emmis TV... **Princell Hair**, ex-news dir., WBAL-TV Baltimore, named news dir., Viacom TV Stations Group... Promotions at WB: **Carolyn Bernstein** to vp-drama development, **Tracey Pakosta** and **Mike Clements** to vps-comedy development... **Stephen McPherson** promoted to pres., Touchstone TV... **Rick Lane**, dir.-eCommerce and Internet Technology, U.S. Chamber of Commerce, appointed vp-govt. relations, News Corp... **Jon Richmond**, ex-Twentieth Century Fox and News Corp., elected to Fandango board.

Walter Isaacson, Time, appointed chmn.-CEO, CNN News Group... **Adam Shaw**, Fox Cable Networks Group, named senior vp-business operations and finance, FX... **Michael Berkman**, ex-consultant, named vp-creative dir., TNN... **Frank DeRose** promoted to vp-program scheduling, USA Network... **Julia Veale** and **Chris Hill** advanced to vps-business development, Showtime Digital Media Group... Changes at ESPN: **Sean Bratches** promoted to exec. vp-affiliate sales and mktg.; **Mark Shapiro** to senior vp-gen. mgr., programming; **Arthur Bulgrin** to senior vp-research and sales development; **Tony Tamburo** to senior vp-management information systems; **John Walsh**, senior vp and exec. editor, will oversee all news content.

David Sappington named chief economist, FCC, and **Jonathan Levy** deputy chief economist... Long-time FCC aide **Ginger Clark** has moved to Comr. Martin's office as confidential asst... **James de Castro**, AMFM, named to board, Museum of Best. Communications... Appointments at Pegasus Communications: **Macy Summers**, ex-EMS Technologies, as vp-technology; **Chuck Chakravarty**, ex-Chatterjee Group, vp-business development.

Broadband deregulation bill (HR-1542) by House Commerce Committee Chmn. **Tauzin (R-La.)** and ranking Democrat **John Dingell (Mich.)** poses "serious risk" to public, educational and govt. (PEG) access community, Alliance for Community Media (ACM) said. ACM Exec. Dir. **Bunnie Riedel** said bill's attempt to take away regulatory authority from states would set stage for legislation that would "eventually take away the power from local communities to regulate other telecommunications services such as cable." She said although there was talk on Hill that bill was dead, she didn't believe so: "It will keep coming back in various forms." If bill passed, cable operators would clamor for regulatory parity, she said, and would push for elimination of franchising authority of local govts. ACM also opposed HR-1697 by Reps. **Conyers (D-Mich.)** and **Canon (R-Utah)** on ground that it would set "federal standard" that dictated terms of compensation for use of local property.

Obituary

Stephen Ailes, 89, retired Washington lawyer who wrote charter for CPB, died June 30 of heart failure at his Bethesda, Md., home. Ailes drew up charter when he worked for Washington law firm **Steptoe & Johnson**. In 1970s, he also chaired board of Greater Washington Educational Telecom Assn., which supervised public broadcasting operations in area.



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Tandberg TV said it bought German company **AVS**, which provides RF technology and systems integration for electronic newsgathering (ENG), for \$2.75 million. Of that, \$1.52 million will be in cash, rest in Tandberg shares over 2 years. After completion of deal, Tandberg said it would offer RF and systems engineering expertise with "complete end-to-end [ENG] systems" for global market, as well as "standalone solutions" for individual clients. Tandberg said it planned to introduce newly designed ENG system at Sept. IBC show in Amsterdam.

Consumer Electronics

A Section of Television Digest with Consumer Electronics

STATE OF THE INDUSTRY

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

	JUNE 23- JUNE 29	2000 WEEK	% CHANGE	JUNE 16 JUNE 22	26 WEEKS 2001	26 WEEKS 2000	% CHANGE
TOTAL COLOR TV	803,457	943,649	- 14.9	460,870	12,118,717	13,511,695	- 10.3
DIRECT-VIEW**	776,585	912,219	- 9.9	446,172	11,678,515	12,961,569	- 9.9
TV ONLY#....	652,726	760,497	- 14.2	375,502	9,727,199	10,738,685	- 9.4
TV/VCR COMBO.	123,859	151,722	- 18.4	70,670	1,951,316	2,222,884	- 12.2
PROJECTION...	26,872	31,440	- 14.5	14,698	440,202	550,126	- 20.6
TOTAL VCR**...	599,256	887,390	- 32.5	342,494	9,164,596	12,370,742	- 25.9
HOME DECKS...	475,397	735,668	- 35.4	271,824	7,213,280	10,147,858	- 28.9
CAMCORDERS.....	160,091	188,384	- 15.0	100,804	2,602,814	2,613,941	- 0.4
DVD PLAYERS....	398,940	259,715	+ 53.6	125,249	4,410,793	2,700,939	+ 63.3

Direct-view TV 5-week moving average#: 2001-465,406; 2000-562,032 (down 17.2%).

Projection TV 5-week moving average: 2001-15,379; 2000-19,814 (down 22.4%).

VCR deck 5-week moving average: 2001-300,444; 2000-380,571 (down 21.1%).

TV/VCR 5-week moving average: 2001-80,745; 2000-88,027 (down 8.3%).

Camcorder 5-week moving average: 2001-107,128; 2000-118,879 (down 9.9%).

DVD player 5-week moving average: 2001-185,211; 2000-130,937 (up 41.5%).

** 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.

HIT SOFTWARE IS KEY TO 2001 DVD BOOM — WHV: It's plethora of box-office hits becoming available on DVD at affordable prices, more than availability of name-brand \$99 hardware, that will drive DVD business to new heights in 2001. So said Warner Home Video (WHV) Senior Vp-Sales Stephen Nickerson in reacting to our report last week that implications of DVD player inventory glut were open to wide interpretation (TVD July 9 p9).

With DVD business having expanded into mass market from early adopter stage, Nickerson said, availability of commodity-priced players isn't single most important factor anymore that would convince marginal households to jump off fence and jump aboard DVD bandwagon. He said WHV believed that DVD business this year would exceed even most optimistic projections. Central to its optimism, he said, is high expectations based on steady diet of new DVD releases and multiple DVD collections such as *The Godfather*, *Citizen Kane* and *Star Wars* planned for 2nd-half introduction.

Nickerson said there was proof of software's ability to drive hardware business in recent sales fluctuations that have baffled DVD industry observers, including April-May sellthrough slump that caused DVD hardware inventories to swell to one million players in recent weeks. Citing Nielsen statistics, he said, pickup in hardware sales can be correlated to rapid-fire succession of new DVD releases of box-office hits. Conversely, he said, hardware sellthrough has dipped when availability of DVD movies with box-office appeal has waned.

For example, Nickerson said, in March, which was reasonably good month for hardware sellthrough, studios collectively released 7 mainstream movies on DVD accounting for \$587 million in box-office receipts. He said DVD slate that month included 3 films that each grossed \$100 million theatrically — *Meet the Parents*, *Remember the Titans*, *Charlie's Angels*. In April, when hardware sellthrough noticeably began tailing off, Nickerson said, another 7 DVD movies were released but they accounted for only \$363 million at box office, none grossing more than \$100 million. Similarly, he

said, only 5 such films accounting for \$480 million at box office were released on DVD in May — another sluggish month for hardware sellthrough.

Although many we polled for our earlier report cited Father's Day as impetus that drove recovery in June, Nickerson suggested it was more because 8 blockbuster films accounting for \$781 million at box office were released on DVD (2 per week) that month. He said June slate included *Castaway*, *Crouching Tiger* and *Traffic*, although he said that "in the interest of full disclosure," actual street date of *Traffic* was May 29.

RCA ADDS 'SCENIUM' TO ESCAPE 'GLASS CEILING': Quest for higher profits than RCA brand can generate is reason Thomson Multimedia (TMM) will add "Scenium" line for high-end, high-tech, high-margin AV products to be sold in U.S. and worldwide. Announcement, made at N.Y.C. news conference last week, sounded death knell for RCA's now decade-old ProScan step-up.

TMM said it would retain regular RCA line as "better value" alternative to promotional General Electric (GE) brand and tout "RCA Scenium" for cutting-edge AV products targeted to well-heeled first adopters. "The RCA brand is limited by a glass ceiling of value," said Mike O'Hara, TMM exec. vp-worldwide mktg./sales, alluding to consumer perceptions. "Consumers will simply pay more for other brands of products."

ProScan never achieved high consumer awareness, said Jim Gatman, vp-consumer communications/mktg. "No more ProScan products will be introduced, and we're almost sold through," he said. Still, Thomson needs upscale brand to build profits not possible for RCA owing to price pressures on that brand. "We can't continue to survive on high-volume mainstream products," Gatman said. Scenium brand and line, sold by Thomson in Europe for last 3 years and successful there, tested well among U.S. consumers and retailers, Gatman said.

Announcement was important enough to pull Paris-based executive to N.Y.C. news conference. Session was opened and closed by Frank Dangeard, senior-exec. vp of TMM group and board member. He addressed TMM's current diversification, including gambits into fields such as broadcast and replication services, broadband products, videogaming. Dangeard said emphatically that despite company's various videogame ventures, TMM and RCA wouldn't dabble in retail videogame-console business.

"We don't want to be in game consoles. There are already enough competitors with enough dollars," Dangeard said. Instead, TMM will participate only as OEM supplier of key components and disc replicator for Microsoft's Xbox, licensing of its DVD patents, and as retail source of high-margin game accessories, as we have reported. (For details on new RCA products, programs and other announcements, see related stories in this issue.)

CD COPY-PREVENTION SYSTEM READY FOR USE: Inner workings have been uncovered for Macrovision's CD copy prevention system, which we first reported exclusively in July 12, 1999, issue and updated as recently as March 5. So-called SafeAudio system now is ready for record labels to use at their discretion, with availability of CD mastering tools from handful of service companies, Macrovision said.

As described in patents we studied, SafeAudio has changed significantly from original AudioLok proposal we reported — but still has effect of preventing PC-based CD-ROM drives and recorders from copying Red Book music CD. It does that by spoiling sound of recording, relevant patents (WO 01/41130, WO 01/15028) reveal.

Although digital copying isn't prevented with Audio CD recorders — on which consumer pays royalty for making digital copies — critics already have suggested that SafeAudio encryption added to CDs might impair sound of original discs. Other effect of SafeAudio prevents transfer of music to MP3-type flash-memory devices or portable CD players, because data can't be copied to PC's hard drive for compression.

SafeAudio copy protection, joint effort by Macrovision and Israel-based TTR Technologies, is elaboration on AudioLok Red system originally developed by CDilla, U.K. think tank that Macrovision acquired in 1999. It was CDilla system that we tested and reported on in July 1999.

Music industry's gripe isn't with "home" Audio CD recorders. Music CDs carry Serial Copy Management System (SCMS) code that's read by Audio CD recorder and prevents making digital copy of copy. More galling to record labels are CD-ROM drives and recorders in PCs. They don't detect SCMS, so there's no way to prevent daisy-chain digital copying, which isn't compensated by royalty levied as applied to home audio CD decks and blank Audio-CDs under

1992 Audio Home Recording Act. That is rationale Macrovision cites for developing SafeAudio. No royalty is applied to PC drives and blanks because they have "substantial uses" other than audio under law.

Macrovision says changes SafeAudio makes in music aren't "discernible" even to keen ears and unannounced tests run recently convinced it that SafeAudio discs were "99+%" compatible with installed base of CD players.

Although Macrovision told us it was "modifying" audio data on CD, company executives didn't disclose how SafeAudio worked. But we unearthed well-hidden patents filed by TTR that spilled beans on methodology for "copy-protected audio Compact Disc."

Patents reveal record companies will add bursts of hissy noise to digital audio signal by deliberately giving some of music code "grossly erroneous values". Error-correction codes on disc, which normally would execute mathematical tricks to correct digital errors, themselves are distorted. Deliberate mistakes cause CD's error-correction to fail, leaving gaps in music.

Typical home or mobile CD player automatically performs "interpolation" or concealment to bridge those gaps. Hardware studies music signal on either side of missing data and builds replacement section. CD-ROM drives in PCs do same, but only during analog playback for listening through speakers or headphones. CD-ROM drives can't repair digital data going to PC's hard disc. So hard drive either copies nothing or it records grossly distorted sound.

If deliberate errors are tailored carefully, repairs made by regular music CD player aren't noticeable, TTR patent says. Macrovision told us that to prove that it spent 6 months playing discs to 1,000 listeners and to unnamed and unnumbered "golden ears" at 2 of major record companies it didn't identify owing to nondisclosure agreement. Neither group could hear anything wrong from SafeAudio discs, Macrovision said. Macrovision and unidentified "major record label" sold 100,000 music CDs at retail in Cal. markets to gauge reaction.

"There was no increase in return rate or complaints," Macrovision Vp-Audio Technology Heinz Griesshaber told us. Query to Macrovision Pres.-COO Bill Krepick in Sunnyvale, Cal., elicited this e-mail response:

"Our statement about 'no discernable reduction in audio quality' means that (1) we've passed the 'golden ears' tests at a couple of the major studios (we're not releasing names of who has tested, but we have had two of the majors), and (2) we've tested 'live' with consumers when one of the labels released in excess of 100,000 actual albums and have not had any reported increase in return rate or complaints compared to noncopy-protected albums, and (3) we've done 6 months of concentrated internal lab tests and external consumer testing with 1,000 consumers and several contract 'listeners.'

"We are in fact, modifying the actual audio data on the CD, in order to make the signal nonstandard -- but we're modifying it so slightly that it is not discernable. We have utilized both automated 'A/B' testing and compared the automated testing with the contract listeners and golden ears. Our objective going into this program was to achieve 99+% compatibility or transparency with the installed base of hi-fi stereo CD players, portable players, PCs and CD ROM drives, boomboxes, etc. We believe that we have achieved that."

Other effects of SafeAudio aren't mentioned in Macrovision's public statements or published patents. Only on direct questioning does company acknowledge that system ultimately won't let people create compressed music files on PC for transfer to flash-memory portable players, such as Rio. It also is only when asked that Macrovision reveals SafeAudio disc can be copied with home Audio CD recorder such as those available from Philips -- and that analog output from CD-ROM drive can be fed back to PC's sound card for re-encoding.

As might be expected, SafeAudio quickly raised red flags among audiophile community when it was learned that system deliberately created errors on CD. Macrovision has earned good reputation over years for ensuring playback compatibility of copy-protected videos, so that originals play properly on most VCRs, DVD players, TVs. But critics contend audio is different ballgame and complain that pat-on-head, we-know-best reassurance on sound quality is reminiscent of Secure Digital Music Initiative's (SDMI) intransigent statements on its secretive watermarking tests. SDMI never would identify "golden ears" listeners or test methodology for its watermark trials.

That intransigence only fueled innate skepticism in AV community. Similarly, Macrovision won't divulge identities of "golden ear" types who participated or otherwise explain how TTR can verify there are no audible artifacts from SafeAudio encoding. Response to our query elicited following message from Griesshaber: "I am sure you will understand... that our research and tests are covered by nondisclosure agreements and we are thus not able to provide the information you request."

Although Macrovision says SafeAudio encryption isn't audibly discernable during CD playback, critics questioned whether that was accurate under all circumstances. While they agreed it was unlikely SafeAudio would do much to alter sound of highly-processed pop music on budget CD systems, they were skeptical that same was true of other music genres or when CD was played on high-quality audio equipment. Steve Harris, editor of U.K. enthusiast magazine *Hi Fi News*, already is calling for open tests. Martin Colloms, noted U.K.-based audio critic, immediately cited potential problems SafeAudio might induce.

Deliberately pushing player into interpolation can add distortion because player has to work harder and draw more power, Colloms said. It can upset shock protection on portables. Most CDs already have errors, from mastering and pressing, and dirt and dust add more. There's also wide variation in way players perform interpolation. Colloms said high-quality players with better optics would cope best, but optics in budget players actually could introduce errors when reading discs. He contended those factors all added — unpredictably — to deliberate errors SafeAudio created. Also, raising noise floor can cause intermodulation with music.

"This is bad news," Colloms said. "It's a dreadful, dreadful thing to contaminate the music deliberately. It's cynically expedient for the record companies even to think of this while engineers are trying to scrape the last drop of quality from CD. We all hate piracy but the idea of mucking up the sound of a recording is reprehensible. It's like slashing paintings in a gallery to stop someone stealing them. And it's contradictory to the error correction standards in the Red Book." Comment on standards from CD licensors Philips and Sony wasn't available at our deadline. As for Colloms' critique, Macrovision-U.K. Managing Dir. David Simmons said: "If hifi experts would like to give us details of what they discover over the coming months, we will be happy to investigate their findings."

Earlier this year, Macrovision said beta testing had been completed on authoring tools for SafeAudio. Test was conducted with "major record label" that Macrovision didn't identify. Although it said test of authoring tools came in advance of beta version for SafeAudio technology itself, we were told company already had tested actual SafeAudio-encrypted CDs among consumers in U.S. and U.K. Test was to confirm that those CDs were compatible with wide range of playback hardware encompassing home, portable, autosound and PC players.

SafeAudio is applied automatically during CD mastering, using existing replication equipment. Encryption applies solely to discs — no changes are needed in CD hardware. Late last month, Macrovision announced that technology had been adopted for replication equipment by DCA, Datarius Technologies, Eclipse Data Technologies, Toolex Data handling. Any decision to implement system would be up to individual record labels, Macrovision said.

Zeros & Ones, Santa Monica-based technology firm, said it had completed 2nd phase in development of high-quality digital video compression engine that it said achieved 3-10 times more compression than MPEG2 with same or superior image quality. To demonstrate capabilities of technology, which is code-named MC-10, company said it was in process of fitting 5 feature-length films on single DVD. Company said there was "huge" potential market for compression technologies such as MC-10, including DVDs, PVRs and satellite TV, and it planned to license MC-10 to others. It said it was seeking technology and investment partners to help bring MC-10 "to its full commercial potential." Company is publicly traded and lists Microsoft, Netscape, Sun Microsystems and game developer WildTangent in its SEC filings as among "strategic partners." Zeros & Ones Web site says founder and CEO Robert Holtz was member of Microsoft's Win32 Advisory Group that "guided the core of the modern Windows operating system." In recent 10-QSB report, Zeros & Ones said it met recently with WildTangent and companies agreed "to explore vehicles for expanding their existing strategic relationship and jointly pursue new opportunities." It said WildTangent created enabling "Web Driver" technology to "build richer, more exciting Internet experiences by blending 3D graphics, sound, animation and interactivity." Zeros & Ones said that as part of strategic partnership agreement it had "ahead-of-general-release" access privileges to WildTangent's advanced code technologies.

PlayStation 2 Regional Coding for DVD-Video can be reset with accessory from U.K.-based Datel. Company's DVD Region X is \$28 software/hardware bundle that enables Sony's PS2 videogame console to play DVD movies from any of world's 6 DVD regions. PS2, like standalone DVD players, is supposed to enforce movie industry's Regional Code system for DVD by refusing to play movie discs from regions other than where hardware is sold. However, DVD movie players sold in Europe routinely are modified to play Region 1 titles from N. America, which can be bought online. DVD Region X sample we received worked as promised on PS2, enabling us to switch among regional codes. Datel said DVD Region X didn't modify console hardware — user simply plugs "X-Key" module into either memory card slot, loads "Region X CD-ROM," then reboots console and follows onscreen menu for changing regions. Datel (www.datel.co.uk) said product wasn't "endorsed or approved" by Sony. It also offers "cheat" cartridge for PS2, called Action Replay 2.

U.K. retailer Dixons Group said turnover increased 20% to \$6.55 billion and profit tripled to \$43.7 million in preliminary results for year ending April 28. CE retailer said turnover excluded revenue from Freeserve ISP and reflected 4% increase in like-for-like sales. Results were attributed to sale of higher margin digital products and expansion in Europe and Scandinavia, Dixons said. Non-U.K. sales now account for 16% of group's profit.

RCA ADDS SCENIUM LINE: Inaugural products in new RCA Scenium high-end line will be HDTV sets and monitors including flagship L5000 liquid crystal on silicon (LCOS) rear-projection set (see separate report, this issue).

That 50" widescreen model with 18" depth and 100 lb. weight will carry \$6,999 sticker at fall debut, Thomson executives said at N.Y.C. news conference last week. It will be joined by 50W plasma HD monitor (\$14,999) and 65W rear-projection HDTV set (\$4,499). Direct-view HD monitors with 36" and 32" flat CRTs round out line at \$2,299 and \$1,699, respectively.

Direct view models have progressive scanning and 4:3 aspect ratio. Thomson said 16:9 models would join Scenium line in future, along with high-end audio products. Scenium name is derived from Latin proscenium, for archway defining stage area of theater where performance occurs. Mike O'Hara, Thomson exec. vp worldwide mktg./sales, said distribution for Scenium would have retail requirements different from those of RCA brand but didn't elaborate as they remained in formative stage. Although Scenium will have Web site (www.rcascenium.com) company won't sell products on Internet.

Balance of line showing involved new RCA products, including DVD. Thomson claims No. 2 unit market share in category and will have 10 models in fall. They include DVD/VCR combo, portable with 5.8W LCD screen, 5-disc changer. All RCA DVD players will have playback for CD-R, CD-RW and MP3 discs. As for DVD recorder, Thomson has postponed fall rollout of DVD+RW deck to next year. Greg Bosler, vp-video product management, said company continued to develop recorder and key components but "wants a product for a broader audience and at better value."

Analog TV offerings from RCA will shrink in future, Vp-TV Product Management Vic Theobalds said. Meanwhile, RCA and Scenium brands will have 17 DTV models — 4 integrated HDTV sets and 13 monitors. Company is investing additional \$9.5 million to expand DTV production in Juarez, Mexico.

Other additions in video include 4 MiniDV digital camcorders and selection of digital still cameras (DSCs). Exclusive feature on camcorders is detachable LCD display that acts as remote monitor and controller. It now has 6 ft. tether but could accommodate cord up to 15 ft. Camcorders also have zoom microphone that captures distant sound by tracking with video through zoom lens. New DSC, called X-Cam and targeted to youth market, has headphone MP3 playback through 16 Mb Compact Flash memory card.

Thomson touted new MP3 Pro music compression format it co-developed with Fraunhofer Institute. Company said sampler was placed on Web June 12 and achieved 600,000 downloads in 10 days. Executives emphasized codec's wide frequency response even at greatest compression ratio — "32 kbps low-complexity stereo" although conceded that stereo image was affected slightly here. They also said it was backward and forward compatible. MP3 Pro can play regular MP3 files, and Pro files will run on MP3 player, although without additional benefits. They include lower bandwidth needs and costs for audio streaming, without sacrificing audio quality.

In other audio areas, Thomson said it still hoped to offer RCA Internet Radio previewed last summer. Product has been

postponed with demise of Kerbango Radio Service that owner 3Com shuttered this spring. Mark Redmond, vp-worldwide audio, told us Thomson tried to buy Kerbango but couldn't agree with 3Com on price so Thomson now was looking for alternative service.

Overall in audio, RCA's revenues grew 27% last year, Redmond said. Company claims 2nd-place unit market share in digital audio system and 3rd place in home theater system units. RCA brand will build on positions with expanded lines of MP3 and other portables, adding MP3 playback to other audio products, Redmond said. Home-theater-in-box category will be augmented in 4th quarter with system that bundles combination DVD player/surround sound receiver. System has 250 w but slim profile owing to use of Tripath first-generation digital amps, Redmond told us.

Meanwhile, Thomson's OEM venture with Korea-based Total Technologies Corp. (TTC) continued to expand. Thomson, brought in to gain audio expertise, owns 75% of high-end audio design house and has 2 seats on board, Redmond told us. TTC now is serving as OEM producer of DVD players, receivers and other items for American, Japanese and private label brands. Scenium audio products are likely to emerge from TTC, Redmond said.

In broadband and DBS categories, Thomson will add DSL modems to cable modems and satellite delivery with recent acquisition of investor Alcatel's consumer modem business. Company said it expected great growth in broadband, mostly owing to implementation of modem standards worldwide. Thomson also will expand GE telephone offerings to include 2.4 GHz cordless at \$39, down from \$79. Price cut is in offering for RCA UltimateTV set-top with dual DirecTV receiver, hard disc recorder, Internet access. Current model drops to \$299 from \$349 in fall when upgraded interface and other services are downloaded, Thomson said.

Pirate DVD operation in U.K. was shut by authorities there week ago following 6-month investigation. Spencer Mott, film/video investigations mgr. for Federation Against Copyright Theft (FACT), said police raid seized 1,600 counterfeit DVDs and other contraband at 3 locations in Sheerness area of Kent traced to Web site operation www.dvdsilvers.co.uk. Man aged 34 and his wife, not otherwise identified, were arrested on charge of conspiracy to defraud, Mott said. Value of pirated discs seized was about \$197,000 in terms of potential lost revenue to copyright owners at movie studios. DVDSilvers site had operated since last Dec.; name denotes generic term for counterfeit DVD imports, which are mass-replicated copies, not DVD-R dubs. Discs are made in Southeast Asia and sourced through Singapore, where authorities now are attempting to shortstop shipments to other online retailers. Besides fake DVDs, raid seized counterfeit PlayStation and PC videogames as well as Region 1 N. America DVDs that lacked U.K. movie-ratings classification. Mott said lengthy investigation was necessary to identify suspects and locations concealed behind anonymity of Internet. Cooperating with FACT were U.K. Customs, security from airfreight companies, MPA, European Leisure Software Publishers Assn. Despite raid and arrests, we found other pirate DVD Web sites in U.K. still operating online last week.

"Sound.vision.soul" is new Pioneer slogan to be used worldwide in bid to boost company's brand identity. It said slogan underscores potential of its products to "share sound and visual entertainment that gives joy and uplifts the soul."

BESTBUY.COM STARTS NEW PROGRAM: Online affiliate program was announced by BestBuy.com last week. E-commerce division of Best Buy said program allowed members to earn commissions when their Web sites directed customers to BestBuy.com and purchases were made.

Amazon.com has been among prominent Web e-tailers to offer similar type of program. But BestBuy.com Mktg. Vp Barry Judge said his was "one of the first consumer electronics click-and mortar companies to offer an affiliate program." He said: "We feel this program will benefit our customers by offering them the opportunity to gain commissions by linking their site to a recognized and trusted brand name."

BestBuy.com recently expanded its online product categories with addition of home office merchandise (TVD June 25 p19).

Registration for BestBuy.com Affiliate Program is free and is being handled by Be Free, Marlborough, Mass.-based mktg. platform provider whose password-protected Reporting.net site enables members to create links and access reports on click-throughs, orders, commissions earned. Be Free said it provided uniform system for tracking, managing, measuring and analyzing all of business's online marketing programs.

Separately, Reuters reported Credit Suisse First Boston (CSFB) and Lehman Bros. (LB) raised their 12-month price targets for Best Buy — former to \$80 per share from \$65, latter to \$76 from \$67. CSFB said it raised target based on expectations for rebound in 2nd half of 2001, with possible "earnings surprises in the 3rd and 4th quarters." LB cited continuing market share gains of Best Buy. LB analyst Alan Rifkin said in report: "Our top pick in consumer electronics, we believe Best Buy continues to gain significant market share, capitalizing on customer migration from Circuit City Stores Inc. and the growing demand for digital products."

Best Buy also announced that its Musicland Group subsidiary had made cash tender offer to buy all its outstanding 9.875% senior subordinated notes due in 2008. Tender offer is to remain open through 9 a.m. Aug. 10. Best Buy acquired Musicland in Jan. (TVD Jan 8 p12) for \$685 million, including assumption of \$260 million in senior subordinated debt.

Webvan last week became latest e-tailer to bite dust. Foster City, Cal.-based Webvan Group said that it had "ceased operations in all markets and that it intends to file for protection under Chapter 11 of the U.S. Bankruptcy Code." About 2,000 employees were terminated. News hardly came as shock — company has racked up \$830 million loss since its debut in 1999. Further doubt about its future was raised in April when CEO George Shaheen resigned (TVD April 23 p13). Robert Swan, who succeeded Shaheen, said last week: "We've made significant progress in reducing our operating losses and burn rate, as well as improving the economics on each order we delivered. However, our order volume declined considerably during the 2nd quarter ended June 30, accelerating our need for capital. In light of the tough climate for raising new funds and our 2nd quarter order volume, we have made the difficult decision to end all operations effective immediately and to wind down the company's operations and sell our assets in an orderly manner." Webvan also said it would not implement 25-1 reverse stock split recently approved by stockholders. At our deadline, company said it expected its common stock to be delisted from Nasdaq.

SALES UP AT BABBAGE'S ETC.: Babbage's Etc. said last week that comparable-store sales leaped 21.7% in May and 28.8% in June. Videogame retail chain said its "better-than-planned sales were due to strong sales of Game Boy Advance, which launched June 11, and PlayStation 2 software."

Babbage's parent Barnes & Noble (B&N) said comparable-store sales for its "super" stores, which represents 92% of company's bookstore sales, rose 6.2% in May and 4.2% in June. However, news wasn't as good for B&N's bookstore mall division, B. Dalton, which saw only 0.5% increase in May and 0.5% decrease in June.

Company also warned that although "book sales are running well ahead of Street estimates for the quarter to date, the unfavorable comparison to last year's Harry Potter phenomenon is expected to produce negative comparison sales for the month of July, resulting in a quarterly cumulative gain of 2.5% to 3%, which is in line with previous guidance." B&N said: "In 2000, *Harry Potter* and *the Goblet of Fire*, which became the best-selling title in the history of bookselling, alone accounted for \$7 million of the company's 'super' store sales, 3% of company comparable sales for July 2000 and 1.1% of company comparable sales for the 2nd quarter of 2000."

B&N CEO-Chmn. Leonard Riggio said: "We are extremely pleased by our robust sales results, especially considering the current retail climate and the lackluster performance being reported by some of the major [book] publishers. Our business continues to be driven by backlist titles (front list accounts for only 25% of total sales), which increasingly come from smaller and independent publishers, and which tend not to be influenced as greatly by economic downturns. We are also encouraged with our videogame business, which is expected to show explosive growth for the balance of the year."

Company said it now planned to release comparable-store sales results each month and, on quarterly basis starting with 2nd quarter ending Aug. 4, also would post "more detailed segment accounting and forecasts where feasible, in an effort to provide better visibility to small and large investors alike."

Rambus posted revenue of \$23.3 million for its 3rd quarter ended June 30 — 31% over \$17.8 million in same period year ago. But it said result was down 25% from \$31.25 million for 2nd quarter ended March 31. Semiconductor company based in Los Altos, Cal., said pro forma net income for quarter was \$3.9 million, down from \$4.8 million year ago. It said net income reflected year-to-date adjustment in its tax rate "to more accurately reflect" its estimated tax liability. Without adjustment and excluding acquisition costs, Rambus said, its pro forma net income for quarter would have been \$2.8 million (3¢ per diluted share). It said operating expenses in quarter — at \$21.2 million — "were higher than expected" and were "driven by \$8.8 million in costs associated with the company's litigation activities."

Sega of America (SOA) optioned rights of its *Crazy Taxi* to Goodman/Rosen Productions, which will make movie version of arcade and console videogame. Filmmaker Richard Donner, whose many credits include *Lethal Weapon* movies, *The Omen* and *Superman*, will direct and produce cinematic version of *Crazy Taxi* "for a future summer release," SOA said.

ACCLAIM REVENUE SOARS ON PS2: Rechanneling of resources to development of titles for PlayStation 2 (PS2) and other next-generation console games helped Acclaim Entertainment report significant revenue and profit rise for 3rd quarter ended June 2.

Company said it achieved \$243,000 profit before \$7.1-million extraordinary gain from early retirement of subordinated notes announced June 18. With extraordinary gain factored in, profits were \$7.37 million for quarter compared with \$49.68 million loss in same 2000 quarter on revenue that soared to \$38.64 million from \$4.84 million.

Gross revenues by platform in quarter broke down as follows: 128 bit software, 70%; 32 bit software, 23.9%; portable cartridges, 3.8%. N. American operations accounted for 72% of revenue in 2001 and 2000 quarters. CEO Gregory Fischbach said just-completed quarter marked "an important milestone" for company and its shareholders as it was Acclaim's 3rd consecutive profitable quarter. Among other achievements, he said, Acclaim "shifted our product mix effectively" away from PlayStation and Dreamcast content to next-generation PlayStation 2 titles. Company credited its cost-cutting initiatives as having contributed "significantly" to its profitability for 9 fiscal months. It said it reduced operating expenses \$61.8 million (42%) in 9 months from year earlier as revenue fell to \$151 million from \$171.9 million.

Acclaim, among companies forecasting that videogames were poised for biggest boom ever, expects to post increases of 30% in revenue and 50% in profits for 2002 fiscal year when all of next-generation platforms will be available and in full swing, Fischbach told financial analysts in conference call. He said Christmas 2001 would "mark the beginning" of what prognosticators believed would be "the development of the largest videogame market that we have experienced to date." With 3 major console contenders vying for "mind share and market share," Fischbach said Acclaim buys into projections that see industry sales growing 30% annually for next 3 years.

As for current industry health, Fischbach, citing NPD as source, said Sony recently had been shipping PlayStation 2 (PS2) consoles at rate of 50,000 per week, which he said was "in line" with summer seasonal trends. He said Game Boy Advance was off to reasonably good start, with 540,000 handhelds sold through in first week of availability in June.

As would be expected in industry transition to new platforms, Fischbach said, Acclaim and others are seeing "steady declines" in sales of PS1 and similarly older products. For calendar 2001, he said, first-generation PlayStation (PS) hardware sales were expected to reach only 2-3 million consoles and 25 million pieces of software. By comparison, he said, PS2 volume is expected to climb to 5-6 million consoles and 35 million units. He said installed PS2 base could reach 7 million households in U.S. by year-end.

As for expected sales of other platforms in calendar 2001, Fischbach said Nintendo GameCube was expected to generate hardware sales of 1-1.2 million consoles and 4-5 million software pieces by year-end. He gave identical hardware and software projections for Microsoft's Xbox, which also makes debut in Nov. In handhelds, Acclaim projects Game Boy Advance hardware sales of 6 million units and software sales of 18 million. In Game Boy Color, it sees hardware sales of 2.5-3.5 mil-

lion units and 10-12 million software units. In rest of calendar 2001, Fischbach said Acclaim would release 19 software SKUs, including 9 for PS2, 5 for GameCube and one for Xbox, with rest divided among GameBoy, PC, PS.

Earful of Books audiobook-only retail chain went public last week after completing merger with public company American Absorbents Natural Products (AANP). Merger plans by Austin-based companies had been disclosed July 5. Earful CEO-Chmn. Paul Rush said Earful would "shortly file a proxy asking shareholder approval to change the name of the company to Earful of Books Inc." He said company would remain based in Austin and would "seek 'EARS' as its trading symbol." Total stock outstanding after merger is 17.8 million shares. Toronto-based Barso Global Management was retained to sell AANP's primary assets — what company said was nation's largest zeolite mine and plant in south-central Ore. Rush said: "Proceeds generated from the sale of AANP assets will be used to accelerate the national expansion of our 9-year-old, 15-store chain, as well as to reduce outstanding debt. Our new capital structure will also allow us to achieve our 3-year agreement with Blockbuster Video to relocate up to 150 Earful stores at existing premier Blockbuster sites by mid-2003. Four Earful units are already colocated at Blockbuster locations." Earful's current stores are in Cal., Md., N.C., Ohio, Ore., Tex., Va., Wash. Rush said 32 new stores were "under contract in those areas as well as Florida."

In posting sales results for last month, BJ's Wholesale Club said "video and DVD recordings were strong in June." Pres.-CEO Jack Nugent said results also reflected "strong sales in certain seasonal categories such as air conditioners." But wholesaler based in Natick, Mass., said TV, computers and computer software were among "weaker product categories." It said June sales increased 8.5% to \$508 million from \$468 million year ago as comparable club sales rose 4% for month and 4.2% year to date. BJ's said each of its "major markets reported comparable club sales increases in June that were generally consistent with the chain average."

CD recorders are driving home audio component market, Frost & Sullivan (F&S) report said. Overall component market generated revenue of \$625.7 million in 2000 and is projected to increase steadily to \$725.7 million by 2007, report said. F&S Industry Analyst Jenny Benavidez said: "Technology is driving the growth of the digital market, with only the limits of the imagination placing holds on how far and how fast the industry introduces new products." Creation of custom CD compilations "has been mainstreamed" largely via popularity of MP3 Web sites and services including Napster, report said.

Eiger Technology agreed to acquire 100% of privately held Voice over Internet Protocol (VoIP) company Onlinetel, terms not disclosed. Onlinetel will provide Toronto-based CE and computer peripheral manufacturer Eiger with operating subsidiary focused on emerging telecom technology companies. Eiger CEO Gerry Racicot said Onlinetel began free VoIP long distance calling service as test last fall and so far had built user base of more than 100,000 households and 10,000 businesses in Toronto area.

Pioneering PDA-maker Psion said last week it would discontinue making handheld PCs. U.K. company said it had suffered market share loss to Palm and would take \$41 million charge and dismiss 250 employees, 20% of work force. In future, Psion will focus business on software and services for Symbian format mobile phones.

RESTRUCTURING DUE AT InFOCUS: InFocus will take \$6-\$8 million in 2nd-half restructuring charges to streamline its U.S. sales and marketing organization and “increase the magnitude of our manufacturing outsourcing initiative,” company said last week in posting 16% drop in 2nd-quarter revenue.

Per-share earnings for quarter fell to 24¢ from year-earlier 40¢ as revenue slid to \$185.25 million from \$220.74 million. Chmn.-CEO John Harker blamed “spillover” to Asia and Europe of economic slowdown that began in U.S. He said although revenues in Europe grew 20% from year-earlier quarter, sales fell 10% “sequentially” from this year’s first quarter. In Asia, comparable drop-off from first quarter to 2nd was 22%, and in U.S. was 5%. Nevertheless, Harker said he was “generally pleased with overall company performance in difficult times,” with exceeding analysts’ expectations.

InFocus said it wouldn’t release details of restructuring until 3rd-quarter earnings release, but said it expected to realize annual savings of \$4-\$6 million.

Harker told financial analysts in conference call that Flextronics had produced more than 7,000 high-volume projectors in Malaysia under outsourcing agreement announced at release of first-quarter earnings (TVD April 6 p15). He said InFocus already had started reaping savings from Flextronics outsourcing plan “ahead of schedule.” He said company is in process of shifting production of 2 additional models to Flextronics — one from InFocus plant in Wilsonville, Ore., other from company factory in Norway. Harker said relationship with Flextronix was being expanded to conform with that of “contract manufacturing model.”

InFocus plans by year-end to ship consumer projector in separate “standalone” and “integrated solutions” versions, Harker said. Latter will use InFocus linkage technology to permit multiple signal sources such as HDTV and DVD to be patched into projector using single “category-5” coaxial cable. He said approach would reduce insulation costs for end users and installers. Harker said market strategy would use combination of OEM and branded product. He said OEM tack would involve “partners” that would help InFocus expand to markets it didn’t currently serve. For distribution of branded product, Harker said, company will have multitude of channels, including CEDIA installers.

As Microsoft gears up to introduce its Xbox game console Nov. 8, company said it expected to report net investment loss of \$2.6 billion in 4th quarter 2001. It said loss was “primarily due to a \$3.9 billion pretax noncash charge resulting from the impairment of certain publicly traded and private equity securities, particularly in the cable and telecommunications industries.” Software giant also said it expected to revenue for quarter “in the range of \$6.5 to \$6.6 billion, somewhat higher than management’s previously expected range of \$6.3 to \$6.5 billion.” Microsoft said: “Management expects results from operations to be in line with previous guidance. Including the non-cash charge, diluted earnings per share are expected to be [about 1¢].” CFO John Connors said: “Core revenue growth for the quarter was strong and reflects consumer enthusiasm for our products and services despite a slowing economy. With the recent launch of Office XP and the upcoming launches of Windows XP and Xbox, we are excited to see another strong product cycle for the company under way.” Microsoft said it would post full results July 19.

Microsoft’s UltimateTV product, sold under RCA and Sony brands, will get redesigned on-screen guide, faster processor and possibly adapter for ethernet connection by year-end, said Mark Mullen, senior dir. for brand user experience. New guide is expected by fall and also is likely to have improved search capabilities, he said. “We felt the guide was acceptable to ship as it was, but we heard loud and clear from reviewers and users that we needed to upgrade it,” Mullen said. UltimateTV, which combines 35 Gb hard drive with DirecTV receiver, probably will remain combo product and won’t also be brought out as standalone DirecTV receiver, he said, and there are no immediate plans for adding high-definition TV decoding. Addition of adapter would enable user to tap into 2 USB ports on back of UltimateTV box and allow for network of devices, but Mullen declined comment on specific plans. While UltimateTV recently rebranded WebTV section as Microsoft Network (MSN), there are no immediate plans to abandon standalone Internet access set-top boxes, Mullen said: “We’re certainly not going to walk from it. It will continue to be an affordable Internet access service in the non-PC household.”

Nokia and Genie reached agreement for Nokia Mobile Entertainment Service (NMES) to deliver mobile games for customers of Genie’s wireless Internet portal. First games under agreement will be available in 3rd quarter, but N. America apparently won’t benefit. Genie’s portal space currently is available to Web users in Asia and Europe. NMES supports standard WAP browsers and SMS-compatible handsets with b&w displays. In last year, NMES game offerings have grown to include titles from Activision, Eidos, h2g2, iomo, Kuju Entertainment, Morpheme, Net Entertainment, Oxford Softworks, Quiz Supplies, Rage. Separately, U.K.-based NGame will provide 9 wireless games for Canada’s Bell Mobility’s dot-com-ready phones. Ericsson, Motorola, Nokia and Siemens Information & Communication Mobile Group announced Mobile Games Interoperability (MGI) Forum to define mobile games interoperability specification for network-based servers.

Tokyo Dist. Court ruled in favor of SanDisk’s Japanese subsidiary, SanDisk K.K., denying petition by Mitsubishi Electric, SanDisk said. Petition had sought injunction to stop sale of CompactFlash memory cards sold by SanDisk K.K. in Japan. SanDisk said Mitsubishi claimed cards infringed on 3 Mitsubishi patents (JP2099342, JP2129071, JP2138047), although Mitsubishi withdrew latter 2 from case. Court then rejected petition by Mitsubishi for preliminary injunction on remaining patent. SanDisk Gen. Counsel Charles Van Orden said: “The court’s ruling brings to an end a litigation that SanDisk has consistently believed was unnecessary and ill-advised.” Comment was unavailable from Mitsubishi at our Fri. deadline.

Amazon.com has taken beating by many analysts in recent months, as have many of its competitors in technology arena. But good news arrived for online retail giant when Bear, Stearns analyst Jeffrey Fieler said he expected Amazon to beat revenue and per-share loss estimates for 2nd quarter. Fieler projected company would report revenue of more than \$700 million, up from \$678 million Wall St. consensus estimate. Amazon will report 2nd quarter results July 23.

Danish CE maker Bang & Olufsen said it would use e.Digital’s MicroOS-based customized digital software for its audio products. E.Digital technology links portable digital devices to Internet. Royalty and other payments weren’t disclosed.

SONY, EB REPORT STRONG TURNOUT: Two hundred eager PlayStation 2 (PS2) gamers lined up at Rockefeller Plaza Electronics Boutique (EB) store in Manhattan last week to be first to get their hands on eagerly awaited game *Gran Turismo 3 A-spec (GT3)*, EB and Sony Computer Entertainment America (SCEA) said.

EB Mktg. Dir. Liz O'Sullivan told us first consumers started lining up outside store by 10 o'clock night before game went on sale. "All of our customers are super excited about the game," she said, and "a very significant number" of presells had been made at EB for what she called "the hottest title of the summer." However, she declined to say exactly how many units EB had sold so far.

SCEA spokeswoman told us: "This is the biggest build we've ever done" for game, with one million units prepared for debut. No one who turned out for event to buy game went home empty-handed, she said, with more than 200 units provided to store.

Gamers also were able to test out game and tournaments were held in which consumers had chance to win *GT3* caps. First 100 consumers also received free Logitech steering wheel peripheral for game. *Gran Turismo* series creator Kazunori Yamauchi was on hand to autograph copies of game.

"In our eyes, this is a platform-driving product," SCEA spokeswoman told us, and company was confident there were "a lot of good products coming out" on software side for PS2 before year-end. Among upcoming titles she said also could be platform drivers were *Devil May Cry*, *Metal Gear Solid 2*, *Silent Hill 2*, "whole new line" from Electronic Arts."

SCEA spokeswoman said its \$329 *GT3* hardware-software bundle also officially became available last week. After interviewing SCEA Senior Sales Vp Jack Tretton last month, we were left with impression that company would stop shipping standalone \$299 PS2 console — for time being anyway — once *GT3* bundle began shipping (TVD June 18 p17). But SCEA spokeswoman said last week consumers still should be able to find solo consoles at stores. While she admitted there wasn't great deal of PS2 console inventory, she said company was "very efficient at managing our inventory" and production on PS2 and *GT3* hardware-software bundle SKU would be balanced. We were told by salesman at Rockefeller Plaza EB store that solo consoles were in stock, but store had yet to receive *GT3* bundle.

As for overall PS2 console supply situation, EB's O'Sullivan told us demand for system had been constant, but her company's stores had been receiving "continual flow of product." Consumers, O'Sullivan said, "still think it's the hottest thing out there," although she said Nintendo's Game Boy Advance also had been hot seller for EB.

Separately, videogame tour event/expo producer iGame announced PlayStation 2 Hot Summer Games Tour would be held July 14-Aug. 5. Eleven-city tour is being hosted by EB. SCEA Promotions Dir. Sharon Shapiro said: "We continue to focus on consumer demand while expanding the market for PlayStation 2. This tour is a perfect opportunity for existing and future PlayStation 2 owners to sample our latest first and 3rd party software offerings which encompass a broad range of genres for all ages." Featured on tour will be *GT3* and various other new games. Admission will be free. Tour will hit Baltimore, Chicago, Dallas, Houston, L.A., Las Vegas, N.J., N.Y.C., Philadelphia, San Francisco, Seattle.

'MC-10' CLAIMED TO OUTDO MPEG2: Zeros & Ones, Santa Monica-based technology firm, said it had completed 2nd phase in development of high-quality digital video compression engine it said would achieve 3-10 times more compression than MPEG2 with same or superior image quality.

To demonstrate capabilities of technology, code-named "MC-10," company said it was in process of fitting 5 feature-length films on single DVD. Company said there was "huge" potential market for compression technologies such as MC-10, including DVDs, PVRs and satellite TV, and it planned to license MC-10 to others. It said it was seeking technology and investment partners to help bring MC-10 "to its full commercial potential."

Company is publicly traded and lists Microsoft, Netscape, Sun Microsystems and game developer WildTangent in its SEC filings as being among key "strategic partners." Zeros & Ones Web site says founder and CEO Robert Holtz was member of Microsoft's Win32 Advisory Group, which "guided the core of the modern Windows operating system."

In recent 10-QSB report, Zeros & Ones said it met recently with WildTangent, and companies agreed "to explore vehicles for expanding their existing strategic relationship and jointly pursue new opportunities." It said WildTangent created enabling Web Driver technology to "build richer, more exciting Internet experiences by blending 3D graphics, sound, animation, interactivity. Zeros & Ones said as part of strategic partnership agreement, it had "ahead-of-general-release" access privileges to WildTangent's advanced code technologies.

Movie Gallery said it expected to post 2nd quarter earnings of 21-23¢ per share before extraordinary charges, up from profit of 17¢ per share in year-earlier quarter. Company said new estimate was "at the high end of the broader range" of 18-23¢ in projected per-share earnings announced with first quarter results. Company also announced completion of new 3-year \$65 million debt facility to replace existing one that was due to expire at year-end. Chmn.-CEO Joseph Malugen said same-store sales dipped 1.4% in quarter, "which was better than we originally expected," given that same-store sales in year-earlier quarter were up 8.5% on "an exceptional slate" of new title releases. Malugen said company was "very encouraged" by stronger-than-expected store traffic in May and June, which he attributed partly to "the growing popularity of DVD and favorable weather across many of our markets." Movie Gallery will report actual results July 25.

"Soft launch" test program was started by XM Satellite Radio to prepare for full-scale commercial rollout later this summer. Company said it had dispatched "dozens" of teams of testers with XM radios to 20 major markets. Teams, composed of XM employees and those working for XM's business partners, are "road-testing" quality of XM signals and "are providing feedback as we put our system through its paces in preparation for a commercial launch later this summer," XM Pres.-CEO Hugh Panero said.

Philips-AOL Time Warner alliance was strengthened last week with announcement that they would create online sites to promote sale of one another's products. Shopping cites will identify companies' retail partners. Agreement also includes Philips advertising across AOL Time Warner's print and TV properties.

MORE CONSOLE SUPPORT COMING: Encore Software has acquired exclusive worldwide licensing rights from Sony Pictures Consumer Products (SPCP) to develop, market, promote and distribute *Jackie Chan Adventures* for PlayStation (PS), PlayStation 2 (PS2) and Xbox, company told us late last week. Spokeswoman for L.A.-based, privately held software company described announcement as “a further big sign” of Encore’s “commitment to the console market” now that it has transformed from computer-only software maker.

Development Vp Sylvia Martinez told us PS2 version of Chan title would ship first in fall 2002. She said wasn’t ready to announce Xbox timing for title and “we’re evaluating the PlayStation” release. Title is based on Kids’ WB animated TV show and “will definitely not be a fighting game,” Martinez said. Rather, spokeswoman said, it will be adventure title appropriate for young gamers. Martinez said: “We’re hoping to have Jackie Chan involved in the production.”

Commenting on agreement with SPCP, Encore CEO-Chmn. Michael Bell said: “The *Jackie Chan Adventures* videogames will combine Jackie Chan’s star power, amazing athleticism and unique humor with a great cast of characters and compelling storylines. These attributes — which make the Sony Pictures Family Entertainment animated series so popular — lend themselves perfectly to the gameplay and excitement of the PlayStation and next-generation systems.” SPCP Exec. Vp Al Ovadia said: “We’re so excited to partner with Encore Software on videogames based on the highly successful Jackie Chan Adventures franchise. Jackie Chan Adventures is a tremendously popular property with kids, and one that is ready to explode at retail this fall with over 20 key licensees in a broad range of categories worldwide.”

Encore’s Chan game announcement followed company’s recent entry into console arena with *Zoboofoo — Leapin’ Lemurs* for PS and *Zoboofoo — Playtime in Zoboofland* for Game Boy Color. Martinez told us to expect more console titles from Encore in 2002 and subsequent years.

Company was founded by Bell in 1994 and has grown into top 10 games and education software publisher. On its transformation into console game maker, spokeswoman said: “We anticipate that almost half of our revenues by the end of next year will be in the console market. So that tells you the kind of commitment we have to that.” But she said: “That’s not to say we’re abandoning the PC computer market. We’ll continue to grow and support that in a very big way. It’s been our heritage and we think” there’s still life left in PC market.

Encore has “been profitable every quarter of our existence,” spokeswoman said, and June was its “largest month ever” in sales. She attributed that to shipping wide slate of new education titles in May.

As for online and mobile gaming fronts, Martinez said: “We haven’t really jumped into that. Because the company is so focused on profitability and we are a privately held company, we’re very, very careful before we move into new areas that haven’t really proven their profitability. So we’re looking at all of those. We have ideas and thoughts and we have a couple of Web sites but we’re not really moving forward with them. However, when it makes sense for a product to have an Internet connection, we’re definitely using that.”

Recent report by European Leisure Software Publishers Assn. (ELSPA) featuring videogame console market projections apparently took Sony Computer Entertainment Europe (SCEE) by surprise. Research in report predicted performance of main game systems over next 5 years and said because of upcoming arrival of GameCube and Xbox, Sony wouldn’t be able to win as much market share with PlayStation 2 as it had with original PlayStation. Article in *Financial Times*, which apparently was considered misleading by SCEE and even ELSPA, further annoyed Sony. Sales & Mktg. Vp David Reeves was quoted in British news report saying: “It is true to say that everybody at SCEE was completely baffled by the market shares and projections that *ELSPA/Screen Digest* chose to publish.” Details of dispute between SCEE and ELSPA were unavailable at our deadline.

Price reductions averaging 40% on Panasonic-branded SD memory cards will make them “more accessible to a wider audience,” company announced last week. New pricing, which went into effect July 1, lowers cost of 64 Mb card to \$99.95 from \$159.95 and 32 Mb version to \$59.95 (from \$99.95) and 16 Mb card to \$39.95 (\$69.95). Panasonic also said it had stepped up its development timetable on higher capacity SD media and planned to introduce 256 Mb version by this year’s holiday season and 512 Mb card in early 2002. It also said it was targeting introduction of 1 Gb card by end of 2002, 2 Gb card in 2003, 4 Gb card in 2004. It said 4 Gb SD card would be capable of holding entire feature-length DVD-quality movie.

LSI Logic will incorporate Gracenote’s music-recognition technology into its C-Cube ZiVA-5 DVD processor chips under “strategic relationship” agreement announced last week. Device will enable CE manufacturers to add audio jukebox capabilities to their DVD players. First devices will be available by 4th quarter, companies said. In separate announcement with Kodak, LSI Logic agreed to add Kodak Picture CD capability to ZiVA-5 processor. DVD players equipped with device will bear Kodak Picture CD “compatibility mark.”

Olympus will expand its digital voice recorder line with \$99 DW-90 Aug. 1. It said model was first on market with PC connection for under \$100. Device is targeted at business users, journalists and students, Olympus said. DW-90 offers 90 min. of recording time, connects to PC via USB interface and has built-in unidirectional/telescoping microphone. Device follows \$349 DM-1, company’s first combination digital voice recorder/MP3 player, which started shipping last month.

Listen Up, Denver-based AV specialty chain, has won Golden Web award from International Assn. of Web Masters & Designers. Award recognizes excellence in Web site design, content and originality. Announcement was made by KnowledgeLinks, which supplies ListenUp.com with eDNA e-commerce software technology.

Sony opened DVD player production line in Hungary as part of plant that had been manufacturing audio equipment. Factory is targeting production of 50,000 players per month.

THIS WEEK’S YEN RATE

Yen values have been converted to dollars in this week’s issue at ¥124 = \$1, except where noted.

BLOCKBUSTER RENTING GBA: Blockbuster is renting Game Boy Advance (GBA) hardware and software at select stores. It said it was offering customers hardware/software bundle at \$14.99, plus tax and deposit, for 5-day period.

Rental program actually wasn't first time Blockbuster had given handheld videogame system rentals chance, Nintendo of America (NOA) Mktg. Vp George Harrison told us: "About 2 years ago, Blockbuster did take in Game Boy Color, but it wasn't a huge market for them... They've been making an effort and have been grinding away." He said handheld game rental was "not as big as the home console rental market" but "they've been doing a nice job for 2 years, using their direct mail effectively and did a nice job with the launch of *Pokemon Gold* and *Silver*." Harrison said: "So it's not a completely new thing for them, but they certainly wanted to be in the front row getting rental started at the time of [GBA's] launch."

Explaining why his company decided to give handheld game system rentals another shot with GBA, Blockbuster Interactive Merchandising Dir. Brian Woodruff said: "By making this new system available for rental, Blockbuster customers will be able to use the hardware and see all the features before they decide to purchase. It also gives gamers access to a wide variety of games for their system."

Empire Interactive (EI) and Vivendi Universal Publishing (VUP) announced what they called "key distribution deal to launch 6 new franchises on PC and next-generation console platforms." Companies said N. American agreement includes 15 SKUs scheduled to ship beginning in fall. As part of deal, VUP has acquired rights to distribute 6 of EI's upcoming games in U.S. and Canada: *Antz Racing*, *End Game*, *Ghostmaster*, *Starsky & Hutch*, *Victorious Boxers*, *World Sports Cars*. EI said it planned to publish titles for multiple platforms. VUP N. America Senior Vp Philip O'Neil said: "Empire Interactive's history of developing compelling and profitable titles for multiple platforms makes this partnership a natural fit. We look forward to leveraging Empire's development strengths to further our commitment to creating and delivering a wide variety of games for consumers of all ages." EI CEO Ian Higgins said deal "gives us the opportunity to challenge the larger players in the market." He said "the combination of mainstream titles for multiple platforms, together with the strength of VU Publishing's distribution network, opens an exciting new chapter in Empire's history at a time when the games market is set for dramatic growth."

Nintendo of America (NOA) held media reception at club Pressure in N.Y.C. last week where it gave reporters and roomful of eager young gamers chance to play GameCube titles for first time. Company said it still was on target to ship system at \$199.95 Nov. 5 in N. America. But NOA has yet to provide specific shipping details such as how many hardware units can be expected at rollout. NOA Corp. Affairs Vp Perrin Kaplan said "we'll do better than Sony [with PlayStation 2] but it still won't be enough" to meet demand.

Infogrames expects to return to profitability in year ending June 30, 2002, with targeted net profit margin of 4%, European news reports said. Bruno Bonnell, chmn. of French interactive game maker, said he was comfortable with analyst forecasts that called for Infogrames to turn over 680 million euros in 2000-2001 and operating loss of 50 million euros.

Consumer Electronics Personals

John Collins, Vestey Group CEO, appointed deputy chmn. and nonexecutive dir. of U.K. retailer Dixons Group and successor to Chmn. Stanley Kalms following latter's previously announced retirement in Sept. 2002... **William Herz**, ex-CacheVision, joins Oak Technology as vp-technology & strategy, Corporate Business Development Group... **Kevin Bachus**, ex-Microsoft Xbox, named WildTangent senior dir. of mktg... **Jeff Blanc**, onetime IBM, Infogrames and Disney.com, appointed vp-mktg., Planetweb... **Jerrold Benjamin** and **John Gennari** join Valley Media as CFO and exec. vp-sales, respectively... **Martin Currie**, ex-Infogrames, joins Essential Reality, 3D gaming accessories supplier, as vp-business development... **Changes at Ubi Soft U.K.:** **Matt Smith** advanced to sales mgr., PC; **Ray Smith** named sales mgr., console products; **Phil Brannelly** shifts to trade mktg. mgr. from product mgr.; **Garry Edwards**, ex-Electronic Arts, appointed dir.-business development, northern Europe; **Louise Evans** named export sales administrator... **Draper Jaffray** named vp-sales, digital rights management firm SealedMedia.

Sony Online Entertainment (SOE) has licensed dynamic PVS (dPVS) videogame development middleware product from Criterion Software for use in upcoming 3D massively multiplayer games *Star Wars Galaxies* and *EverQuest: The Shadows of Luclin*. SOE is creating *Star Wars* title in conjunction with LucasArts Entertainment. Criterion said dPVS, powered by Umbra technology from Finnish development house Hybrid, "will enable these new games to present larger, richer, more compelling environments to their many users on the Internet through the use of a revolutionary new technology that dynamically determines what elements need to be drawn at any given time instead of relying on precalculated visibility information. This will dramatically speed up rendering and allow a nearly unlimited number of dynamic objects to co-exist in the game worlds at once." Criterion Pres. David Lau-Kee said dPVS "will be especially effective in online games, where you have extremely dynamic game worlds filled with hundreds of thousands of constantly moving players and other objects." SOE Pres. Kelly Flock said: "Criterion understands our goals and we're extremely pleased to be using dPVS for upcoming projects and as part of our development process as it will release our developers from the constraints of preprocessed visibility. This will help create 3D massively multiplayer worlds of unimaginable scale and scope and both titles will benefit from the ability to build totally dynamic environments."

Canon will ship XL 1S professional DV camcorder next month. New model has all features of current XL 1 but adds 27 new specifications, including improved picture quality and many new manual functions, Canon said. XL 1S kit will ship in late Aug. at \$4,699. It will include camera body, 16x IS II zoom lens, color viewfinder, CA-910 Compact Power Adapter, DC-900 coupler, BP-930 battery pack, WL-D3000 remote control, SP-100 shoulder brace, SS-1000 shoulder strap, S-150 S-Video cable, STV-150 stereo video cable, lens shade, lens, body caps. XL S1 Body Kit will follow in Oct. at \$3,299, minus lens and viewfinder so customers can select alternative lens and viewfinder of their choice at time of purchase, Canon said.

Recoton has been added to Russell 2000 and Russell 3000 stock indexes that track market capitalization of top 2,000 and 3,000 companies in U.S., respectively.



TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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COPY PROTECTION PACT signed by 2 studios, with rest expected. Deals seen as key to clearing blocks to DTV content. (P. 3)

CODE OF CONDUCT effort would be required under appropriations bill. Declining TV standards cited. FCC gets funding. (P. 5)

MARTIN EXPRESSES CONCERN on media consolidation. New FCC comr. highlights congressional role in interview. (P. 6)

COMCAST HAS UPPER HAND in AT&T bidding, some believe. Cable systems 'in play.' Price increase possible. Regulatory issues seen. (P. 7)

NBC TARGETING COSTS of talent as way to make business profitable. Reality shows defended. (P. 8)

ARBITRON TEST 'SUCCESS' in Wilmington. More extensive trial of people meters planned. (P. 8)

HOLLINGS TO ADDRESS 'DISAPPEARING' MEDIA DIVERSITY: Senate Commerce Committee Chmn. Hollings (D-S.C.) and House Commerce, Trade & Consumer Protection Subcommittee Chmn. Stearns introduced polar opposite media ownership bills July 17. Hollings bill (S-1189), co-sponsored by Sens. Inouye (D-Hawaii) and Dorgan (D-N.D.), would strengthen congressional and FCC oversight of media ownership and cross-ownership, while Stearns bill (HR-2356) would eliminate FCC's ownership rules.

As Hollings promised earlier last week in media concentration hearing, he introduced bill that addresses TV and radio station acquisitions of daily newspapers. However, rather than proposing specific restrictions on media cross-ownership, S-1189 would require FCC to begin "immediate review of a license for any AM, FM, or TV broadcast station held by any party... that acquires direct or indirect ownership, operation, or control of a daily newspaper." If FCC can't determine that acquisition would be "consistent with the principles of competition, diversity and localism in the public interest," agency would have to order divestiture, or revocation or modification of licenses.

Bill would require FCC to notify House and Senate Commerce committees 18 months before any proposed media ownership rule changes would become effective. It also would enable Congress "to scrutinize any alternative that the Commission devises to replace current media ownership rules," Hollings said. Congress then would determine whether another "ownership measurement mechanism" was necessary to better "promote localism and diversity."

Speaking July 17 on Senate floor, Hollings said bill "addresses the FCC's lack of enforcement of the newspaper-broadcast cross-ownership rule," which stems from FCC's practice of reviewing cross-ownership only when station's license is up for renewal: "When the rule was adopted, [TV] broadcast licenses were renewed every 3 years... Today,

Consumer Electronics

QUESTIONS REMAIN ON DTV PACTS: Sony, Warner will use 5C copy protection for cable HDTV; other studios ready over-air proposal. PVRs will have limitations, we're told. (P. 11)

VM LABS SEEKS FUNDING in hiring financial firm to raise \$40-\$50 million by Oct. Apex and Oritron plan Nuon-capable DVD decks for 2002. (P. 12)

PHILIPS TO CUT MORE JOBS: Additional reductions of 3,000-4,000 would lower work force 5% by year-end. (P. 13)

CEA LAUDS DTV 'MOMENTUM': Says 227,349 sets were shipped to dealers in 2nd quarter, with June particularly strong. (P. 14)

THOMSON TO CUT 185 JOBS in Aug., including 155 at Carmel, Ind., in another round of belt tightening. (P. 15)

HUGHES EBITDA LOSS in 2nd quarter grows to \$156.5 million from \$69.1 million as EchoStar posts \$2.1 million profit. (P. 20)

however, broadcast station licenses are renewed every 8 years, thereby creating a significant loophole in the cross-ownership rule."

Ranking Republican McCain (Ariz.) immediately opposed move, arguing that broadcast and newspaper-broadcast cross-ownership caps were "anachronistic and anticompetitive" since market was dominated not by broadcasters but by "multichannel mass media entities" such as cable, DBS, Internet providers. Hollings disagreed: "Diversity isn't anachronistic at all. It's disappearing."

FCC Chmn. Powell said he also opposed Hollings's bill, telling reporters at African telecom conference July 18 that he thought new newspaper ownership rules would have been out already if it weren't for changeover of commissioners. "I think it's important [to review cross-ownership rules] because they recognize that the media landscape and the context changes consistently," Powell said. He said he was trying to follow FCC's cycle of biennial reviews of ownership rules, but that had been "complicated" by court interventions.

Stearns bill would require FCC to eliminate rules that limit "granting or renewal" of AM, FM or TV station licenses "on the basis of the ownership, operation or control by such party of a daily newspaper." It also would prevent FCC from restricting ability of any person or entity from simultaneously owning broadcast station and cable system "serving the same community."

Meanwhile, House Appropriations Committee ranking Democrat Obey (Wis.) decided against introducing amendment to Commerce-Justice-State (CJS) appropriations bill on House floor to tighten media ownership caps. Withdrawal of plan to prevent further concentration of TV industry followed vocal opposition from House Commerce Committee Chmn. Tauzin (R-La.) and ranking Democrat Dingell (D-Mich.). Tauzin and Dingell, who sent "dear colleague" letter to House members earlier last week, denounced Obey's proposal as "unwise policy" that would result in "broad brush prohibition" against media mergers and acquisitions.

Although not supported by all Senate Commerce Committee members, preservation of localism and diversity was common theme raised by committee and panelists in media concentration hearing July 17. Sen. Wyden (D-Ore.) predicted that lifting ownership caps would lead to "most radical consolidation in this nation's history," resulting in one or 2 media giants that would swallow other national and local outlets. Sen. Breaux (D-La.) said "argument of localism is a smokescreen" and real issue was dispute over "bargaining power between the networks and affiliates."

Viacom Pres. Mel Karmazin said media conglomerate wanted to preserve localism at all of its TV and radio stations "and is prepared to demonstrate that commitment." But he emphasized that caps must be lifted for company to compete against satellite, cable, Internet and other communications and news organizations. Unlike subscriber-based services, which can pinpoint percentage of share in given market, over-air broadcasters are subjected to "arbitrary" 35% ownership cap that doesn't accurately reflect market penetration, he said.

Post-Newsweek Stations Pres. Alan Frank said localism was critical to success of network affiliates. He said lifting caps would enable networks to "nationalize and homogenize" news reporting: "If you lift the ownership caps, you'll place in peril the balance of networks and network affiliates."

"Merger epidemic" already is under way, WNET (PBS) N.Y.-Newark Pres. William Baker said. Despite increase in number of publicly available communications channels, "competition is not increasing." Lifting caps would make bad situation even worse, he said: "While the number of channels may be slightly on the rise, the number of owners is dropping. And, where free and independent media is concerned, it is the number of owners, not the number of stations or channels, that matters."

NAB spokesman said cross-ownership rule was "relic of a distant era that needs to be repealed." In light of "explosion in media options," it makes no sense to maintain rule crafted "in a 3-network world," he said. NCTA spokesman said it supported any attempt to lift restrictions of cable ownership caps, since there were other alternatives to combat anticompetitive behavior.

Proposed media cross-ownership limits have "no connection to the realities imposed by today's mass media marketplace," Newspaper Assn. of America (NAA) said. NAA Pres. John Sturm called Hollings bill "a sad vestige of the past, just like the newspaper-broadcast cross-ownership rule itself." Rules are being loosened for other media, Sturm said, and there "has never been any showing of harm, anticompetitive behavior or abuse associated with newspaper ownership of broadcast properties in the same market."

Consumers Union Washington Office Co-Dir. Gene Kimmelman said that despite “far greater variety of media” from recent explosion in media communications technologies, “this growth in variety has not been accompanied by a comparable growth of independent, diversely owned competitive communications services and media voices.”

Meanwhile, Disney COO Robert Iger sent July 16 letter to Powell, arguing that increasing national broadcast ownership cap wouldn't hurt localism. He said Disney's owned stations produced “as much or more local programming” as nonnetwork-owned network affiliates: “Each of these stations is as ‘local’ to the communities that they serve as are the stations owned by giant (nonnetwork) affiliate groups.” Disney stations provide average of more than 30 hours per week of scheduled local programming, Iger said, and nonnetwork media groups own more stations than networks.

Clash over impact on localism of media consolidation heated up July 18, mainly in response to claim by network official that ABC affiliate WPLG (Ch. 9) Miami was preempting children's educational programming for infomercials. Post-Newsweek's Frank said it was “unequivocally incorrect” that station ever preempted educational programming for infomercial and suggested network officials could be confused because station regularly ran programs on schedule different from network feed “with the network's blessing” to accommodate local news. However, ABC officials said WPLG consistently preempted 11:30 a.m. *Doug* show, which is FCC-approved educational show, during May sweeps to accommodate infomercials. Network said show wasn't moved to different time.

SONY AND WARNER BROS. SIGN DTV COPY PROTECTION PACT: Cracking Hollywood's solid wall of opposition to 5C digital copy protection technology standards, Sony Pictures Entertainment and Warner Bros. signed long-term licensing agreements with leading TV set makers and software developers. The 5 other studios were close to reaching similar agreements. As expected, accords between Sony and Warner Bros. and Digital Transmission Licensing Administrator (DTLA) mean studios' digital programming distributed through cable and satellite set-top boxes will be encrypted against copying by TV viewers and Internet users without studios' permission, with copying restrictions varying according to 3 general classes of programming. But deals don't cover over-air broadcasts, and many questions remain (see separate report in Consumer Electronics section).

Five other Hollywood studios — Disney, MGM, Paramount, 20th Century Fox, Universal — have all but signed off on proposed Memorandum of Understanding (MoU) that would endorse 5C standard, Disney said. Preston Padden, Disney exec. vp-govt. relations, said proposed agreement would be “substantially similar” to Sony-Warner Bros. pact. But, he said, 5-studio agreement also would include provision of watermark detection to control Internet retransmission of broadcast programming, clearing away main hurdle to copy protection pacts among studios and broadcast networks. “This would get all 7 studios in alignment,” he said.

Padden said proposed MoU, which awaits final approval by one unnamed studio executive, will be submitted soon to DTLA for review. He said he was “guardedly optimistic” that DTLA officials, who have been discussing watermark idea with studios, would approve proposal. “There are lots of signs that all of the parties are closer to a consensus than they have ever been,” Padden said. “I'm more optimistic than I have been.”

If all 7 studios conclude deals with DTLA, that would remove one of biggest obstacles to nation's DTV transition, which has lagged behind pace expected by lawmakers and regulators. Movie studios and their allied broadcast networks have steered away from producing much digital programming so far because of concerns about DTV copyright protection, particularly for over-air broadcasts that can't be protected by 5C software in cable and satellite set-top boxes. In recent months, studios and broadcasters have fiercely lobbied Congress and FCC for help, especially against unauthorized retransmission of their programming over Internet.

DTLA Pres. Michael Ayers said he had heard about proposed MoU in “the past 24 hours” but hadn't received anything directly from 5 studios. “We're certainly eager to look at whatever proposal Preston and his colleagues have come up with,” he said. “We'll see how it goes.” But he expressed reservations about watermarking detection concept for broadcast programming, raising technical and other issues.

In joint news release July 17, DTLA, Sony and Warner Bros. said their pacts would allow studios to “protect prerecorded media, pay-per-view (PPV) and video-on-demand (VoD) transmissions against unauthorized copying” by viewers. They said deals also would permit studios to “protect all content against unauthorized Internet retransmission, while assuring consumers' ability to continue customary home recording of broadcast and subscription programming.” They said deals “support new, proconsumer capabilities such as digitally displaying content paused on personal video recorders (PVRs), moving copies from PVRs to removable digital tape or disc recordings and transferring copies among servers located in different areas of the home.”

Specifically, new "encoding rules" will allow studios to prevent viewers from making any copies of PPV and VoD movies and events. But they will be able to record small portions of PPV programming, using their PVR pause controls. Less stringent copying standards would apply to basic and pay cable subscription channels, with viewers able to make "one generation" of digital copies but not copies of those copies. Broadcast programming delivered over cable lines or satellite dishes would be subject to even looser "copy freely" standards, allowing viewers to make unlimited copies but not retransmit programs over Internet.

"It's sort of a 3-way balancing scheme," Ayers said, as negotiators sought to satisfy set manufacturers, studios, consumers. "We anticipate that any business model the studios come up with will likely be analogous to one of those 3 categories." Ayers said studios' adoption of 5C standard "will unlock the real potential of consumer DVD players, digital set-top boxes, HDTV sets and digital disc and tape recorders." He said deals covered reception technology used in 85% of TV homes.

Warner Bros. and Sony officials said deals would allow them to bring crisp digital movies, shows and other programming into consumers' homes. But they declined to say when they would start encoding their digital productions. Ayers also declined to spell out timetable.

NCTA Gen. Counsel Neal Goldberg stressed that cable operators, who had adopted own copy protection standards complementary to 5C, weren't part of negotiations between set makers and movie studios. He welcomed deals as good start in drive for universally accepted copy protection standards but said more needed to be done. "We're encouraged to see progress," Goldberg said, but "we'd like to see some kind of consensus on copy protection standards."

CableLabs Pres. Richard Green called accord "a real step forward" because it was first deal between broadcast programmers and equipment makers. "It's very encouraging to us to see an agreement between the content providers and the hardware providers," said Green, whose group has developed similar copy protection software for digital cable set-tops. "We think that many of the things agreed to here are parallel to ours [our license]."

CEA also praised Sony-Warner Bros. deal. CEA Pres. Gary Shapiro said licensing agreement was "a laudable achievement that will benefit the digital television transition and American consumers." He called on other 5 studios to "follow the lead of Sony and Warner to help move the DTV transition forward." He urged all studios to "ensure that Americans' normal and customary fair-use rights are preserved in the digital age."

Spokesman for NAB, which has lobbied Congress and FCC to intervene on broadcasters' side, declined comment on deals. Spokesman for MPAA, which represents all 7 studios and has studiously remained neutral on issue, also declined comment.

News of studio movement on DTV copy protection came as lawmakers and regulators expressed growing frustration with slow pace of talks among broadcast, cable, consumer electronics and movie industries. In most recent case, FCC Cable Bureau Chief Kenneth Ferree complained that lack of interindustry cooperation was hampering digital transition. Speaking July 17 at New England Cable TV Assn. convention in Newport, R.I., he reportedly said his bureau might have to impose technical standards and rules if industries couldn't do so on their own. Ferree, who recently pretended to shop for DTV set at Best Buy store and was told that set wouldn't work with cable, said he was frustrated with issue and understood consumers' frustration as well.

Newly formed EchoStar-VisionStar Corp. asked FCC for "expeditious approval" of transfer of control application submitted in Dec. In July 18 letter to International Bureau Chief Don Abelson, companies said Commission was confronted with choice of allowing satellite owned by EchoStar-VisionStar group to begin providing service for customers or to allow orbital slot to "lie fallow" for several years and "indulge in the unproductive paper wars" of rivals Pegasus and TRW, company said. Meanwhile, EchoStar CEO Charles Ergen, admitting publicly for first time company had been rebuffed in attempts to acquire DirecTV, renewed attacks on DBS rival. Ergen blamed DirecTV for "serious piracy problem" in steering customers away from DISH network. As for DirecTV, Ergen said: "We think there would be tremendous synergies" between 2 companies, but parent GM didn't "share our enthusiasm."

USA Networks will acquire controlling interest in Expedia, online travel agency, through purchase of 75% of its shares, company said. Microsoft agreed to transfer all of its 33.7 million shares and warrants in Expedia. USA Networks also said it bought National Leisure Group (NLG), online cruise and vacation package agency, and would start cable channel called USA Travel Channel. Acquisitions, in addition to USA's interest in Hotel Reservations Network, will form USA Travel Group portfolio, which company expects to generate \$4 billion in gross bookings for calendar 2001.

Suppliers shipped 227,349 DTV sets to dealers in 2nd quarter, up 166.7% from 85,241 in same 2000 quarter, CEA said. Statistics include sales of DTV-ready sets and those with integrated decoders (see separate story, Consumer Electronics section).

BROADCAST CODE PUSHED: FCC would have to continue to work with Senate Appropriations Committee on possible “resurrection” of broadcast industry code of conduct, measure tied to appropriations bill that panel referred to Senate floor July 19. Budget bill was marked up by committee and cleared for action by full Senate. Committee report said members were “concerned about the declining standards of broadcast television and the impact this decline is having on America’s children.” Committee made recommendation while reminding FCC of agency’s Dec. 1999 Notice of Inquiry “regarding the public interest obligations of broadcasters during and after the transition to [DTV].”

Committee recommended \$252.5 million appropriation for FCC for fiscal year ending Sept. 30, 2002, up \$4 million from agency’s request. Nearly \$219 million would be derived from existing regulatory fees. Panel proposed that \$4 million be assigned to FCC’s Excellence in Engineering program that seeks to make Commission’s engineering staff “more fluent in technology than the entities it regulates.”

Over next 5 years, competition and innovation will greatly reduce “need for direct regulation,” thereby increasing FCC’s need to “maintain an independent technical engineering and economic expertise,” report said: “The advent of Internet-based and other technology-driven communication services will continue to erode the traditional regulatory distinctions between different sectors of the communications industry.”

Dept. of Justice’s Antitrust Div. would get \$10.2 million less than requested, for \$130.8 million total. However, committee devoted additional \$3.6 million of that amount over FY 2001 specifically for timely review of mergers: “The committee is concerned that the merger frenzy gripping increasingly massive industrial combines threatens to overwhelm the ability of the Antitrust Division to keep pace with complex merger proposals... [R]ecent market conditions will likely spark an increase in merger activity. The collapse of high-technology stocks, and the recent downward pressure on all stock prices, has created ‘fire sale’ opportunities for cash-rich corporations to acquire undervalued companies.”

Group of TV stations in diary-measured markets asked Nielsen to reconsider its decision not to offer diary keepers additional “incentives” — contingent on respondents’ returning properly filled-out diaries. Earlier, Nielsen wrote stations, calling themselves Fox Small Market Affiliates’ Council (FSMA), that it wouldn’t consider increasing payments to diary keepers to as much as \$10 (TVD July 16 p6). However, FSMA spokesman John Tupper wrote Nielsen July 13 that research company’s “hypothesis that contingent incentives cause bias in viewing habits may be correct, but the degree of bias, if any, is not known.” He said station group would support expanding Nov. test of \$8-\$10 incentives to more than black and Hispanic households to include “lower cooperating” markets. To Nielsen’s reason (outdated information) for not adding programming and channel listings for diary keepers, Tupper wrote that cable networks and TV stations would, “over time... learn to be on time and limit changes” to ensure more accurate ratings: “If 5% of the listings are inaccurate, the remaining 95% may provide a useful aid for increasing participation and accuracy.” Tupper countered that diary keepers using newspapers and TV guide listings “are biased by these instruments.”

Despite concerns that media and entertainment firms haven’t lived up to promises to protect children from violent content, House Telecom Subcommittee members last week expressed skepticism that legislative remedy was necessary. Industry can expect continued pressure from committee, however, as members said in July 20 hearing that additional measures must be taken by Hollywood, TV and radio broadcasters and videogame manufacturers. Similarly, Senate Appropriations Committee on July 19 marked up budget bill for consideration on Senate floor that would fund FTC-led initiatives to monitor industry’s progress in bolstering effectiveness of ratings systems. MPAA Pres. Jack Valenti hailed Hollywood’s efforts to educate consumers, particularly parents, on determining film’s rating, and “also the reasons why a movie received a particular rating.” He urged members to refrain from legislating mandatory approach to content ratings, citing high percentage of parental approval of system in recent survey. Lion & Lamb Project Exec. Dir. Daphne White lambasted industry’s subsequent response to critical FTC report as “woefully inadequate,” and said congressional action and industry marketing of such content was not only required but well within boundaries of First Amendment. Senate appropriators proposed following FTC-administered actions in that area: (1) \$500,000 for consumer research and workshops to conduct focus group and surveys of parents and retailers. (2) \$275,000 for underage shopper-retail surveys to assess industry compliance with self-regulatory efforts. That would include “mystery shopper” surveys to see whether retailers sold mature content and products to children. (3) \$135,000 so that FTC could contract with video monitoring, news clipping and movie trailer services “to check for inappropriate content and ad placement.”

Sen. Lieberman (D-Conn.), a leading opponent of violence on TV, doesn’t believe in censorship “but there’s a problem here,” his Communications Dir. Dan Gerstein said. Speaking July 17 on Media Institute panel, Gerstein said that’s why senator introduced bill last spring to give FTC authority to fine media companies that advertised violent movies and TV programs to children (TVD April 30 p5). MPAA’s Fritz Attaway said Lieberman’s legislation was “a terrible solution [and] patently unconstitutional.” He said bill improperly attempted to redefine any program or movie with “R” rating “as adult content.” Attaway agreed violence was considered problem by many parents “but there’s a whole long list of things [of concern to parents] before we get to media violence.” He said MPAA couldn’t and wouldn’t change its successful, 35-year-old rating system “simply because some members of Congress” want it to. On violence, First Amendment advocate and Washington attorney Robert Corn-Revere called televised Super Bowl “America’s premiere, ritualistic celebration of violence.” Gerstein said Lieberman bill wasn’t about violence of Super Bowl but “clear and intentional attempts” in ads to reach children. He said media ratings needed to be “specific and reliable” and legislation wasn’t attempt to replace self-regulation with govt. mandate. Problem, said Gerstein, is lack of adequate self-regulation. Attaway countered: “I’m proud of the [movie] rating system.”

State legislation to force cable open access to competing ISPs is unwarranted, Mich. PSC said in report. Agency cited potential conflict of state open access legislation with federal Telecom Act and proscription of state authority by federal jurisdiction, inhibition of nascent broadband industry and absence of compelling case as among reasons for reaching conclusion. Presence of numerous ISPs in most markets “suggests that they are not being squeezed out by ISPs affiliated with broadband networks,” PSC said.

MARTIN CONCERNED ABOUT CONSOLIDATION: FCC should explore potential impact of TV industry consolidation, new FCC Comr. Martin told our affiliate *Communications Daily* in his first media interview since taking office. But he declined to say where he might come down on issue or on such related items as agency's cable and broadcast ownership limits, which are either under review or scheduled to be reviewed later this year. "I think we need to seek out a record on it [consolidation]," he said.

Martin drew distinction between himself and his former FCC boss, former FCC Comr. Harold Furchtgott-Roth, on merger reviews. Furchtgott-Roth repeatedly criticized Commission for using its statutory authority over spectrum license transfers and general "public interest" mandate to impose anti-trust conditions and other broad types of restraints on media transactions. Martin appeared to take view of merger conditions more closely aligned with that of FCC Chmn. Powell, who has argued that such conditions should be merger specific. "When the Commission evaluates a potential merger and it determines that there's some kind of harm, the conditions that are imposed should be related to the harm that has been identified," Martin said, but he was "not opposed to the idea of conditions in general." As examples of lessons learned while working for Furchtgott-Roth, he cited his concern for economic implications that FCC decisions could have, either intentionally or unintentionally.

Martin was sworn in as FCC commissioner earlier this month for term that runs through June 30, 2006. He's native of Charlotte area, had been special asst. to President Bush on economic policy, with focus on telecom issues, and was deputy gen. counsel to Bush campaign and Bush-Cheney transition team. Previously, he had been associate at Wiley, Rein & Fielding.

Martin declined to say where he might stand on FCC's inquiries on cable open access or on interactive TV (ITV). He said that, in his 2nd full week on job, he was "still trying to get up to speed" on those and other pending issues before agency.

Questioned about sluggish pace of nation's DTV transition, Martin said he was aware that "everyone was hopeful it could have proceeded faster." He said he also knew that FCC, while having "set the technical rules of the game," still had such key issues as cable interoperability to tackle. But he declined to spell out any steps Commission should take on DTV-cable compatibility, digital must-carry and related issues, saying he needed more time to study them.

Turning to other media issues, Martin: (1) Showed little inclination to join crusade of Comrs. Tristani and Copps against indecent radio and TV programming. Although he called obscenity "an important issue that the Commission needs to be sensitive to," he expressed concerns about agency's becoming involved in "the regulation of free speech." (2) Said he had "no specific thoughts" about whether govt. should extend or expand cable program access rules, now set to expire next year. (3) Called regulatory parity between industries something "important to keep in mind" but said concept shouldn't be overarching concern of regulators. (4) Said he still was examining lengthy record before commenting on such matters as whether MMDS and Instructional TV Fixed Services licensees should be protected from having to relocate for 3rd-generation wireless services.

A top priority is regulatory stability, Martin said, which involves "quicker decision-making and also trying to take into account and be sensitive to the legal challenges that many of our orders have faced." Commission decisions should be "as close as possible to a constructive and easy read of the statute," he said. In his still sparsely furnished office, with boxes of files not yet arrived from Austin, he said: "That's kind of an overarching philosophy, that the government has limited but important roles. The Commission specifically is an implementer of congressional policy, first and foremost." Martin repeatedly emphasized role that competition played in protecting consumer interests and said "the government has a vital role in making sure that playing fields are level and fair." He also stressed importance of strong enforcement arm in maintaining level playing field.

Martin said promoting greater availability of broadband services would be one of his top priorities at FCC. Although he offered no specific proposals, he said encouraging broadband deployment "should be on the forefront" of Commission's agenda because of issue's importance and its "increasing interest to consumers and businesses" throughout nation. "It's an issue that cuts across the agency," he told us. Citing concerns about possible "digital divide" between broadband haves and have-nots, he said one of his goals was to "make sure no area is left behind" in telephone, cable and other broadband rollouts.

Increased interest in having federal govt. formulate national spectrum plan is "positive" although "the FCC only has a particular role," with other parts of govt. playing part as well, Martin said. In general, he said, "spectrum is in increasing demand and efficient management certainly needs to be a top priority." Spectrum is "critical issue" for govt. and will continue to be so as more wireless services are offered, he said.

Following its first full meeting in 18 months July 17, TV Ratings Oversight Monitoring Board pledged to "rededicate itself to raising public's awareness" of guidelines designed to help parents in monitoring their children's viewing, Chmn. Jack Valenti said. He said board had "a united goal of increasing parental usage of this helpful tool." He and members of Monitoring Board gave no indication how that would be accomplished, but we were told hiring PR firm wasn't "an option that's on the table at this point." Valenti, pres. of MPAA, said board would meet "every 4 to 6 months." In its 3 years of existence, it has considered only handful of complaints from parents and reportedly has objected only to cartoon series as violating its guidelines.

British govt. is proposing to set up single regulator for media and communications industries, to be called Office of Communications (OFCOM), Dept. of Trade & Industry announced. If given final approval, OFCOM would become fully operational in 2003. OFCOM would take over responsibilities of Office of Telecommunications (OfTel), Independent TV Commission, Radio Authority, Bcstg. Standards Commission, Radiocommunications Agency. Details are to be disclosed later in Parliamentary session. Agencies to be merged have 1,000 staffers in 20 offices, handle 250,000 licenses.

Greater Media said it completed purchase of 4 radio stations from N.J. Bcstg. Partners following FCC approval. Stations are WDHA(FM) and WMTR(AM) Morristown, N.J., WWTR(AM) Bridgewater, WRAT(FM) Monmouth-Ocean.

AT&T SUITORS TO MULTIPLY: Now that AT&T's board has basically put its cable operations up for grabs, analysts believe other large media companies may bid for AT&T Broadband. They also see possibly drawn-out battle for AT&T's cable unit as parent company angles for time, delays its spinoff plans and seeks to boost unit's financial performance to earn higher offers. Analysts predict that several other MSOs may end up with chunks of AT&T Broadband no matter who makes eventual winning bid. But they still view Comcast as favorite to win sweepstakes because of its strong balance sheet, highly regarded management team and relative lack of antitrust and other regulatory hurdles to overcome.

As expected, AT&T board unanimously rejected Comcast's unsolicited \$44.5 billion offer for AT&T Broadband July 18, saying that Comcast's proposal "does not reflect the full value of AT&T Broadband." In brief letter to Comcast Chmn. Ralph Roberts and Pres. Brian Roberts, AT&T Chmn. Michael Armstrong also expressed reservations about voting control that Roberts family would have over combined Comcast-AT&T Broadband operation. Under Comcast's July 8 bid for AT&T Broadband, Roberts family, which now holds 86% voting control of Comcast despite holding only tiny fraction of stock, would gain 45% to 49% voting stake in Comcast-AT&T despite its relatively small stock ownership.

Nevertheless, AT&T's board voted to delay completing and mailing proxy materials to its shareholders detailing company's plan to create separate tracking stock for broadband unit in fall. AT&T also said board directed management "to explore financial and strategic alternatives relating to AT&T Broadband, including the previously announced restructuring plans." Even though board "emphasized that it remains committed" to its restructuring plans, observers said those steps meant AT&T was likely to end up selling its broadband unit.

Analysts said list of possible suitors included such pure cable companies as Charter and Cox as well as such major media and other companies as AOL Time Warner, EchoStar, Walt Disney Co., USA Networks, Viacom, Vivendi Universal and even AT&T's own Liberty Media unit, about to be spun off as independent firm. In addition, analysts see potential for joint bid by 2 or more companies, possibly backed by Microsoft, Bell company or international carrier.

As result, industry observers think AT&T may drag out process for month or more to allow other bids to crystallize. They also see AT&T biding its time so it can demonstrate that its broadband unit is performing better financially and therefore deserves higher price. Indeed, in one such effort, AT&T said it planned to present "a comprehensive financial and operational update" on its broadband business to analysts and reporters through July 24 conference call and Webcast.

Although analysts differ over likelihood of competing offers for AT&T Broadband, they see such other MSOs as AOL Time Warner, Charter, Cox and even Cablevision Systems reaping benefits from Comcast's hostile bid. They suggest that Comcast might neutralize its possible rivals by giving them what they want most — offering AOL Time Warner carriage of AOL's service on its high-speed cable lines and selling and swapping systems with Charter and Cox. They also argue that steeper regulatory hurdle (in AOL Time Warner's case) and financial obstacles would make Comcast's competitors more attuned to striking such deals.

Even without actual competing bids, however, analysts foresee Comcast eventually sweetening its bid to appease AT&T's board and management, sway AT&T shareholders and wrap up deal faster. They think Comcast might do that by agreeing to buy AT&T's stakes in Time Warner Entertainment, Cablevision and Rainbow Media, as it has offered to do. They also believe Comcast could change its mix of stock and debt or offer stock price collar.

Financials: AOL Time Warner said it reduced loss to \$734 million in 2nd quarter from \$927 million loss year ago as revenue grew 3% to \$9.2 billion, led by 10% increase in subscriptions to \$4.1 billion. Earnings before interest, taxes, depreciation and amortization (EBITDA) jumped 20% to \$2.5 billion and free cash flow 55% to \$519 million, excluding merger-related costs. Time Warner Cable revenue climbed 14% to \$1.7 billion, subscription revenue 13% to \$1.6 billion and ad and commerce revenue 19% to \$142 million, benefitting in part from cross-platform ad agreements. Company said Networks' revenue was up 2% to \$1.8 billion, thanks primarily to increased subscription revenues. Networks' EBITDA grew 18% to \$444 million from \$376 million last year, reflecting cost savings, more efficient operations, merger synergies... Washington Post Co. broadcast operating profit fell 12% in 2nd quarter ended June 30 to \$37.8 million and revenue 6% to \$83.7 million. Company blamed soft ad market. Cable operating profit was down 67%, but revenue was up 8% to \$96.5 million... Tribune Co. broadcast and entertainment operating profit fell 21% in 2nd quarter to \$105 million and revenue was down 7% to \$387 million. TV revenue fell 10% to \$314 million... Arbitron profit dipped 7.5% to \$21 million in 2nd quarter ended June 30, despite 10.1% gain in revenue to \$50.3 million. Biggest changes were 69.7% jump in R&D expense to \$5.6 million and \$5.4 million increase in interest expense... EchoStar said revenue increased 49.5% in 2nd quarter to \$966 million. Company posted unexpected profit of \$2.25 million, reversing \$132.8 million net loss year ago... Scientific-Atlanta net income rose 24% to \$73.4 million in 4th quarter ending June 30, despite 21% drop in future bookings to \$507 million. Revenue increased 12% over year-ago period to \$619.6 million, thanks to 35% jump in subscriber product sales to \$432.8 million. But subscriber products showed 6% drop in orders because of "the uncertain economic climate," "reduced digital marketing efforts by cable operators" in summer, high customer inventory levels and slower-than-expected deployment of interactive TV services.

Vivendi Universal reportedly signed long-term deal to license its movies to major cable operators for new video-on-demand (VoD) services. Pact between Vivendi and InDemand, cable programming distributor owned by AT&T Broadband, AOL Time Warner, Comcast and Cox, would be first between major movie studio and cable industry. Under deal reported by *L.A. Times*, Vivendi will receive signing bonus under \$5 million and 60% of revenue that cable operators collect from customers ordering studio's films. Movies wouldn't be released for VoD play until 45 to 60 days after they appear in video stores for rental.

Emmis Communications' WKCF-TV Orlando began transmitting DTV signals, making it 200th station to make DTV transition, NAB said. Broadcasting group said WKCF, 7th WB Network affiliate to make digital move, joins 4 other new DTV stations — WWOR N.Y. (Chris-Craft, UPN); WNET N.Y. (PBS); WRB, Orlando (Chris-Craft, UPN); KLFY Lafayette, La. (Young Bcstg., CBS).

NBC TARGETING TALENT COSTS: Networks need to scale back talent costs, NBC West Coast Pres. Scott Sassa told critics in Pasadena last week: "What you're really trying to do is to change the structure in how the shows are produced and what they cost... There's going to have to be an adjustment in what people are getting paid. But we can only be mad at ourselves for writing those checks." Sassa cited recent sick-in by 4 *West Wing* actors over salary.

Problem isn't that successful shows are expensive, Sassa said: "What hurts you in television is failure, and failure right now is too expensive because we're making commitments to multiple episodes... One thing is to lower the prices, the 2nd is finding other forms of programming that will deliver audiences on a more efficient basis." Network's solution this summer has been reality programming, which Sassa says "deliver at about 2X, so they are twice as efficient."

Dismal summer viewership potentially is catastrophic, NBC Entertainment Pres. Jeff Zucker said, with ABC down 24%, Fox down 4%, CBS down 23%: "Ratings are at historic lows this summer... The biggest issue facing us as we look at the economic structure of prime-time television is this issue with regards to repeatability... If we don't figure out a way to deal with that, it will force a change in how we finance these programs."

Zucker defended shows panned by critics (*Fear Factor*, *Spys*) as economic necessities. "What we've done is brought people to network television this summer and... that's an incredibly important proposition." Lack of success of repeats of scripted shows is "the biggest story of network television this summer," Zucker said, "and that's a scary proposition." He brushed aside concerns reality would tarnish NBC brand: "As we move forward, if we ignore this part of the audience that's under 35 that likes these programs, where are we going to be in 5 years, when nobody under the age of 25 is watching NBC? Plus these shows give us a promotional platform for our fall schedule." He also said programs' index with \$75,000-plus audience was high, so advertisers had shown more interest than usual. Sassa denied NBC was diverting development resources for scripted material to cheaper reality offerings: "Let me say this: We are not going to make the mistake others perhaps have made and limit or hurt our development."

Cost concerns did fuel NBC's decision to get out of traditional network TV movie business, Zucker said: "We found this genre difficult for one principal reason — it takes 100 to 300 gross ratings points to sell a TV movie so you've got to ask yourself in this world of limited impressions is it a higher use to promote a series, which is an ongoing, enduring asset, rather than a one-time thing." He did say network still was "in the event movie business."

Zucker said: "The fundamental difference between what a real network can do is produce big shows that other people can't afford to do. And as we look 10 years down the road, we better have the distinction and advantage that clear over a USA Network or TNT, who have a hard time launching shows, that we can go and get you a sample. That's got to be our advantage."

Sassa declined to comment directly on speculation he might leave network: "I don't like to discuss contract negotiations, whether it's mine or anybody's."

ARBITRON CALLS TEST SUCCESS: First results of personal people meter (PPM) test of TV-cable viewing and radio listening in Wilmington, Del., have been declared successful by sponsor Arbitron. "The ratings results make sense," Marshall Snyder, pres., Worldwide PPM Development, Arbitron, told reporters: "We are encouraged." "The system works" and Arbitron received "a high level of cooperation" among 200-member Wilmington panel, he said.

Among major findings: Compared with current TV and radio audience measurements, PPM reported higher audiences for all dayparts for TV and cable than Nielsen, about same as for Arbitron's radio quarter-hour measurements but higher for full-day listening. It attributed increases to ability of PPMs to track out-of-home viewing and listening. Participating in Wilmington experiment are 36 radio stations, 8 TV stations and 8 cable networks, Arbitron said.

Wilmington test began in Dec. with PPM, pager-sized electronic device carried out of home by test participants. It automatically detects inaudible codes embedded in TV, cable and radio signals by participating TV and radio stations and cable networks and is equipped with motion sensor that allows Arbitron to monitor compliance of panel members — "unique in the realm of media research," Arbitron said. "It is the first electronic measurement device that automatically collects a person's exposure to encoded [TV, radio and cable] programming no matter when and where it occurs," Snyder said.

Arbitron has ordered equipment for much broader PPM test early next year in Philadelphia DMA with sample of 1,500, Snyder said. He said Wilmington experiment would continue for several months. Nielsen Media Research has been providing financial support and its "television survey research expertise" to PPM tests and has option to participate in any "commercial deployment" of PPM in U.S., Arbitron said. Snyder told reporters that Nielsen hadn't said whether it would participate further and there was no deadline for it to make decision.

Time Warner Cable and EarthLink said they would start offering latter's high-speed Internet service over MSO's cable lines in 2 markets in Sept., signaling start of Time Warner's much-anticipated rollout of multiple ISP service. Companies said they would begin pushing broadband version of EarthLink in Columbus, O., and Syracuse. Companies said they then would start marketing EarthLink's high-speed service in "a substantial number" of Time Warner's other cable systems before year-end, probably in at least 10 markets where its homegrown Road Runner service already was operating. Once it starts EarthLink, its first outside ISP, Time Warner will be free to offer AOL over its high-speed cable lines in same markets.

Fourth Circuit U.S. Appeals Court in Richmond granted motion of Satellite Bcstg. & Communications Assn. (SBCA) to combine its appeals of must-carry for broadcast TV signals. Court had granted SBCA's motion for expedited hearing late last month on FCC order implementing must-carry. Court will look at challenges to FCC order as well as U.S. Dist. Judge Gerald Lee, Alexandria, Va.'s, rejection of appeal of satellite must-carry rules. SBCA Gen. Counsel-Vp Govt. Affairs Andrew Wright said move wouldn't give SBCA advantage in case. "I think our case gives us an advantage," he said. NAB declined comment.

KELLNER HITS CONSOLIDATION: TV industry is in danger of becoming too integrated vertically, Turner Bcstg. Chmn.-CEO Jamie Kellner told TV critics in Pasadena last week: "I think it does have long-term ramifications. I think that we are going to see the industry continue to polarize towards a vertical structure, which is not good for the industry. I think it's much better if we can create new business models that allow networks to acquire programs from other suppliers that will prevent programs from jumping from one network back to the studio-supported network."

Kellner expressed concern about show his group had developed and passed on to Fox: "I thought they owed us something a little different than if it was something they had developed and brought to us." Kellner acknowledged that defection of *Buffy the Vampire Slayer* had resulted in WB's looking to "create models on a go-forward basis with certain suppliers."

Kellner also criticized NBC's role in current ad mire: "NBC recognized that there was less money in the marketplace and decided they would dive to take their share. They dropped what was at that point a fairly stable marketplace into a buyers' marketplace and drove a lot of money out of the television business this year." He suggested NBC "got themselves an extra \$50 to \$100 million out of that marketplace by dropping so quickly, but at the end of the day they drove the whole marketplace down." Kellner said contracting ad market was "not good for Hollywood, not good for the networks, not good for the syndicators... not good for anybody." Drop in market rates undoubtedly will affect future production, he said: "I think without question you're going to see less commitments to backup shows, you're going to see less development in the years ahead."

WB Pres.-Entertainment Jordan Levin and Kellner predicted WB would be in black by 2nd quarter next year. However, Kellner said: "We did not sell our inventory at the premium that we had expected to sell it," but "if we have good rating performance and if there is a scatter market, then we'll be profitable this year."

Although saying earlier WB had no need for 7th night of programming, Kellner said he now was eyeing Sat. as movie night: "One of the advantages that we have now being part of Turner is a very extensive movie library. That would be the most cost-effective way to schedule a seventh night." He plans to expand dayparts as well: "I think we want to extend the relationship with younger adults and teens into other places."

Meanwhile, acquisition of *Buffy the Vampire Slayer* and *Roswell* from WB has resulted in increased upfronts and expanded ad base, UPN CEO Dean Valentine told TV critics, and he said network was on track to surpass last year's \$165 million revenue mark: "In addition, 25% of our advertisers are new to UPN, a lot of it driven by *Buffy* and *Roswell*," including Maybeline and the Gap.

While admitting UPN still was in red, Valentine said "we're in the best financial position ever," although he wouldn't give specific numbers. In addition to better financial health, Valentine said network was strong in distribution base, with UPN now "reaching 88% of the country Tuesday and Wednesday nights," with Thurs. at 86%. He said greatest importance was Viacom's assistance in distribution via Chris-Craft deal, providing cross-promotional platform and programming, specif-

ically Paramount's latest *Star Trek* franchise entry, *Enterprise*: "We are benefitting from every platform in the Viacom family."

Valentine denied WB claim that UPN deal for *Buffy* also included a 2-year affiliation extension with the Fox-owned UPN affiliates in N.Y., L.A. and other major markets, in essence keeping UPN on air. "The *Buffy* negotiations started well before the affiliate renegotiations," which had one year to go, he said. Because *Buffy* deal was 2-year pact, "we couldn't make that deal until we knew affiliates were on board as well."

NETS DEPENDENT ON CABLE: Broadcast networks are becoming increasingly dependent on cable for revenue, Fox TV Group Chmn. Sandy Grushow admitted to TV critics in Pasadena last week: "The network television business is more challenged than ever as it relates to trying to make sense out of its cost structure. Network license fees cannot continue to increase. Indeed, they are going to have to come down... One of the ways to make sense of that, obviously, is to offset some costs through repurposing."

Like Turner's Jamie Kellner (see separate story), Grushow doesn't see any negative to backend value. Of greater concern is whether cable will continue to provide revenue stream to offset costs. "We'll know in the next year or so whether or not cable networks deem there to be sufficient value for the money they're paying, which is somewhere in the neighborhood of \$150,000 an episode," Grushow said. "I don't think we can go to sleep at night assuming that money is always going to be there... If it's not, we are really in trouble."

Ad downturn already is affecting production decisionmaking, Fox Entertainment Pres. Gail Berman acknowledged. "We did not end up using all of our budget because we just didn't feel that everything that was coming in the door was compelling enough to actually do a project on. And we'll be discerning again." Berman said Fox was committed to developing low-budget dramas: "I'm completely committed to that as a goal for myself this year and I have the blinders on to make it succeed and I don't just mean in the serialized drama area. I'm talking about it in the comedy area, in the general franchise drama area. I believe there is a way to turn the economics of TV programming around."

Fox's schedule again is peppered with unscripted programming. "No network can compete in this marketplace without unscripted programming," Grushow said. "Audiences have proven time and again they have an enormous appetite for it. Even advertisers, who were once resistant, we've gotten to embrace a significant percentage of them." But Grushow warned: "In the long run, networks that use unscripted programming to mask their inability to create new scripted hits, they're going to fail. We know — it happened to Fox. If you want to succeed with audiences and advertisers, you have to strike the right balance."

Despite faring well in summer, reality shows still are tough ad sell, Grushow said: "Most advertisers would rather spend their money on scripted programs that reach a far more appealing demographic." Although reality has helped ease audience erosion, Grushow said, "it's got to be a balance. There will never be a day when expensive dramas are not run in the summer. From an amortization standpoint, you simply can't afford to not rerun the high-end dramas, the *ERs*, *Ally McBeals* and *X-Files* of the world."

Personals

Cheryl Scully, ex-ANC Rental, appointed dir.-treasury and investor relations, Paxson Communications... Priscilla Pesci, ex-Impact Media, named senior vp-mktg., MGM Worldwide TV Group... Lucille Luongo, pres., Bridge Media, elected pres., Library of American Bestg... Robert Wise, ex-Discovery Communications, joins Mitchell, Silberberg & Knupp as partner... Erik Flannigan, ex-Walt Disney Internet Group, named vp-music services & programming, RealNetworks... Appointments at New Skies Satellites: Gerard Donelan, ex-London Satellite Exchange, as dir.-European sales; Ng Chin Hock, ex-Singapore Technologies Teleport, dir.-media solutions, Asia; Hussein Oteifa, ex-Orblynx, sales dir. Middle East; Chris Tarran, ex-Jtec Pty., as gen. mgr., sales & mktg., New Skies Networks Pty... Thomas Olson, CEO, National Cable Communications, elected to SeaChange International board.

Copyright Office decision to let 7 Internet radio companies participate in royalty-setting proceeding for online radio services was "a nice victory for the Webcasters," Digital Media Assn. (DiMA) Exec. Dir. Jonathan Potter said. Companies filed suit in early June after RIAA attempted to have them disqualified from Copyright Office Copyright Arbitration Royalty Panel (CARP). RIAA had claimed Webcasters provided "interactive services" that allowed consumers to influence what was played on Internet, so they weren't entitled to compulsory license. Webcasters said it was unclear whether their services were interactive and issue must be decided in court. In its July 16 ruling, Copyright Office agreed that CARP didn't have final authority to determine who was correct, and matter would have to be decided by federal court. However, office said RIAA's assessment of requirements for participating in CARP was wrong: "In order to be eligible to request rates and terms and to present evidence in support of the request, the party seeking to participate must have a 'specific interest' in the rates and terms to be adopted." All 7 Webcasters met that requirement, office said.

Charter announced new agreement with video-on-demand (VoD) technology provider DIVA to expand rollout of VoD to reach 1.7 million cable customers. Building on their existing agreement, Charter and DIVA will offer VoD to new markets across country, continuing strong momentum of DIVA's rollouts, companies said. Accord follows recent Charter deployments in St. Louis and 3 of 10 largest TV markets, L.A., Ft. Worth, Atlanta. Charter is deploying service on both Scientific-Atlanta and Motorola set-top boxes.

Obituary

Katherine Graham, 84, retired chmn.-CEO of Washington Post Co., died July 17 at St. Alphonsus Regional Medical Center, Boise, Ida., of head injuries received in fall 5 days earlier. At her death, she was chmn. of Post exec. committee. She graduated from U. of Chicago in 1938 and worked as reporter for *San Francisco News* and later *Washington Post*. She succeeded her late husband as pres. of Post Co. in 1963, becoming CEO in 1973. In mid-1970s, Graham became concerned that Post Co. would lose its waiver of FCC newspaper-broadcast cross-ownership rule to own both *Post* and WTOP-TV Washington, one of several TV stations owned by company. Without consulting then CEO of Post-Newsweek Stations, she swapped WTOP-TV for *Detroit Evening News*' WJR-TV (now WDIV) Detroit. She received Pulitzer Prize in 1998 for her memoir *Personal History*. Daughter, 3 sons survive.



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Senate Communications Subcommittee ranking Republican member Burns (Mont.) will keynote DTV Summit July 24, sponsored by CEA at International Trade Center in Washington. Following Burns's 8:30 a.m. speech, CEA will present up-to-date digital products and latest research. Lunch speaker will be David Donovan, who became pres. of MSTV July 1 after several years as chief lobbyist for ALTV. Panels are scheduled on cable-DTV issues, digital success stories and "The DTV Transition — What's the Rush?"

Consumer Electronics

A Section of Television Digest with Consumer Electronics

STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending July 6 and year to date:

	JUNE 30- JULY 6	2000 WEEK	% CHANGE	JUNE 23- JUNE 29	27 WEEKS 2001	27 WEEKS 2000	% CHANGE
TOTAL COLOR TV	169,471	235,273	- 28.0	803,457	12,288,188	13,746,968	- 10.6
DIRECT-VIEW**	164,068	227,309	- 27.8	776,585	11,842,583	13,188,878	- 10.2
TV ONLY#....	133,959	192,471	- 30.4	652,726	9,861,158	10,931,156	- 9.8
TV/VCR COMBO.	30,109	34,838	- 13.6	123,859	1,981,425	2,257,722	- 12.2
PROJECTION...	5,403	7,964	- 32.2	26,872	445,605	558,090	- 20.2
TOTAL VCR**...	154,970	267,379	- 42.0	599,256	9,319,566	12,638,121	- 26.3
HOME DECKS...	124,861	232,541	- 46.3	475,397	7,338,141	10,380,399	- 29.3
CAMCORDERS.....	61,239	61,474	- 0.4	160,091	2,664,053	2,675,415	- 0.4
DVD PLAYERS....	109,990	45,592	+141.2	398,940	4,520,783	2,746,531	+ 64.6

Direct-view TV 5-week moving average#: 2001-396,513; 2000-513,881 (down 22.8%).

Projection TV 5-week moving average: 2001-13,676; 2000-17,425 (down 21.5%).

VCR deck 5-week moving average: 2001-255,814; 2000-361,819 (down 29.3%).

TV/VCR 5-week moving average: 2001-65,993; 2000-79,353 (down 16.8%).

Camcorder 5-week moving average: 2001-96,239; 2000-112,989 (down 14.8%).

DVD player 5-week moving average: 2001-157,330; 2000-112,971 (up 39.3%).

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

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

QUESTIONS REMAIN ON DTV COPY PROTECTION PACTS: CE industry gave positive reaction to last week's announcements that Hollywood studios were closer to providing compelling content for DTV telecast. But observers said agreements and proposals were thin on details — and not entirely comprehensive.

Although Sony Pictures and Warner Bros. agreed to use 5C Group's Digital Content Transmission Protection (DTCP) system for DTV, CE executives said pact covered only programs transmitted by cable and satellite — not terrestrial DTV broadcasts. That's because DTCP controls use of content only among devices within home's IEEE-1394 based network. Also, at time of Tues. agreement of Sony, Warner and Digital Transmission Licensing Administrator (DTLA), CE executives expressed disappointment that other 5 Hollywood majors were missing from party.

That was mitigated next day when Disney executive told us that deal was close for remaining studios to endorse DTCP — and that their proposal had potential to open vaults of digital content for over-air broadcasts. Preston Padden, Disney exec. vp-govt. relations, told us provision for watermark detection was included in proposal by Disney, MGM, Paramount, 20th Century Fox and Universal. Addition of watermark to DTCP would prevent distribution of broadcast content beyond home and over Internet — main apprehension and sticking point for all 7 studios, Padden said.

Identity and source of watermark proposed by studios remains mystery. Padden wouldn't say, and other studio and CE executives close to discussions didn't return requests for comment. One possibility, though, is watermark being developed for DVD-Video at request of DVD Copy Control Assn. (DVD CCA).

Among contenders for DVD watermark is alliance called VWM (Video Watermarking) Group. It's composed of 7 companies that formerly touted rival Galaxy (Hitachi, NEC, Pioneer, Sony) and Millennium (Digimarc, Macrovision,

Philips) watermark proposals. New partners selected Macrovision as exclusive worldwide licensing agent for VWM technology, and Macrovision Pres.-COO Bill Krepick acts as spokesmen.

In April, Krepick told us VWM's technology could be added to DTCP and thereby provide over-air safeguards that studios and broadcast networks demanded. "Watermarking is complementary to DTCP and adds the advantage that it can help control unauthorized copying in both the analog and digital domain," he told us then. "If digital content ever gets transformed to high-quality analog, it obviously cannot be controlled by DTCP," he said, alluding to fear among content owners that digital signals converted to high-quality RGB analog could be recoded to digital with little visible loss.

Krepick said DTCP could carry and pass watermark from one DTCP device to another. When watermarked content arrives at digital recording or playback device with VWM detector circuit, copy control information within watermark would be acted on — for example, instructing device to permit no copies ("Copy Never") or one digital copy ("Copy Once") or to "Copy Freely," Krepick told us. He said there was discussion of DTCP's also supporting additional copy-control state that would corral content within home network, thereby preventing Internet distribution or Napster-like file sharing. VWM's watermark can carry that extra state, Krepick said. Last week, he wouldn't comment on VWM Group with regard to Padden's statement except to say "I certainly hope the watermark referred to will be the VWM Group watermark."

DTCP can accommodate watermark of whatever origin, DTLA Pres. Michael Ayers confirmed. DTCP doesn't incorporate own watermark but won't strip out one or more "consensus watermarks" that might be agreed upon by industry groups, he said — noting that several have been proposed to DVD CCA alone.

Meanwhile, bigger question last week was how hard disc PVRs would function under DTCP's "Copy Never" state, which content owners might apply to premium programming such as pay-per-view or VOD events.

PVRs will retain "pause" function that lets user resume viewing while program continues to be recorded in real time on drive, Ayers told us. "Copy Never" programs can't be stored permanently on DTCP-compliant PVRs or passed through to other recording devices such as analog VCR for archiving. But program meant for paid viewing only at time of transmission will remain accessible on PVR for series of "rolling windows" at least 90 min. long, Ayers said. In other words, if customer pauses PVR, portions of program already viewed no longer will be accessible but unviewed portions will remain available until at least 90 min. after program has concluded.

That's when meter begins ticking, not from start of transmission, Ayers told us. He said 90-min. countdown was minimum and most restrictive case, but viewing window could be more liberal at discretion of content owner. How program is made inaccessible for further viewing — such as by deleting listing or erasing data — is left up to PVR maker by DTLA license, Ayers said.

VM LABS HIRES INVESTMENT FIRM IN BID TO RAISE FUNDS: VM Labs, whose Nuon disc enhancement technology has slowly been gaining design wins, has hired Wit SoundView investment firm to raise \$40-\$50 million in financing round that ends in Oct.

In interim, Taiwan Semiconductor Manufacturing Corp. (TSMC), which manufactures Nuon chips, has invested in company to provide funding through current financing round, said COO Paul Culberg, who declined to disclose size of TSMC stake.

In making investment in VM Labs, TSMC joins Motorola, Samsung and Thomson in buying stake in company that has struggled for several years to convince hardware and software firms to add Nuon technology to products.

"Our balance sheet looks good enough that we will be there through the financing," Culberg said. "It's a 5-year-old company with 100 people and we have an operating cost of basic rent and payroll that's pretty significant."

Search for additional financing, which is being sought from existing and new investors, comes as Nuon technology appears to be finally gaining traction. Samsung, which recently offered 2nd generation Nuon-equipped DVD player (\$229 street price), and Toshiba (\$249) already have shipped product and will be joined by Oritron and Apex in 2002. VM also has "been in conversations with" Thomson about introducing product in 2002, Culberg said. Thomson spokesman declined comment. About 26,000 Nuon-equipped DVD players had been sold through retail since Samsung

shipped first model in Sept. with average selling price of \$280, according to NPD Intellect. Toshiba, which shipped player in Oct., has won larger percentage of sales than Samsung, NPD said.

Among other hardware hurdles is reducing Nuon technology to single chip configuration with progressive scan, first versions of which are expected to be available in 2002, sources said. VM spokesman confirmed plans.

On software side, VM Labs is nearing agreements with several major Hollywood studios that could yield Nuon-equipped DVDs by 4th quarter, Culberg said. Among them is 20th Century Fox, whose *Bedazzled* is only DVD movie currently containing Nuon technology. VM Labs also is said to have had discussions with MTV and World Wrestling Federation (WWF), although Culberg declined comment.

In videogames, VM Labs last week signed agreement with Activision, which will publish 3 titles with Nuon technology starting in 4th quarter with *Shanghai: Mah-Jongg Essential*, followed by *Star Trek: Invasion* and *Pitfall, The Mayan Adventure* in 2002. In addition to existing agreement with Infogrames, VM has "had discussions in theory" with Electronic Arts (EA), but hasn't signed any agreement, Culberg said. If agreement is reached, any EA titles probably wouldn't be available for at least 6 months, he said. EA spokesman had no comment.

Despite new pacts, VM still is short of goal of 20 titles (TVD March 13/00 p21). Nuon currently has 75 developer kits with software companies. With 14 different chip configurations designed for DVD players, "the authentication process is much more complex than I realized," Culberg said.

While none of Activision games features key franchises such as Tony Hawk Pro Skater, Spiderman or Vigilante 8, deal marks VM Labs' first successful courtship of traditional gaming publishers. Infogrames inherited VM Labs agreement in buying Hasbro Interactive which had released *Monopoly*, *The Game of Life*, *Space Invaders XL*, *Tempest 3000*, *Merlin Racing*.

"Our partnership with VM Labs allows us to be a part of bringing quality videogame entertainment to families of mainstream gamers," said David Anderson, Activision senior mgr. of business development and licensing. "Now we can appeal to a whole new market of consumers who are interested in playing games, but who may not own a dedicated gaming console." Deal also provides options for releasing additional Activision titles for Nuon DVD platform at later date.

In addition to U.S. market, Samsung will ship Nuon DVD player in Europe in Sept., said Claude Frank, senior mgr. of digital convergence products at Samsung.

PHILIPS POSTS 2ND-QUARTER LOSS, WILL CUT 3,000-4,000 MORE JOBS: Philips will take new pretax charges of up to 300 million euros (\$259 million) to reduce 2nd-half costs, including reduction of 3,000-4,000 jobs, company said in reporting 2nd-quarter loss of 770 million euros (\$661 million).

Analysts said newest round of job cuts, when combined with those already slashed in first half, would reduce Philips work force about 5% before year-end. Company had 212,390 employees at end of June, 7,000 fewer than at close of March quarter. It said most reductions were mainly in beleaguered Philips components sector.

Projected cuts were consistent with bleak market assessment, Pres.-CEO Gerard Kleisterlee said, noting that economic slowdown that started in U.S. "has spread to other parts of the world now." Although markets for telecom products, PCs and PC peripherals "continue to show weakness," Philips consumer electronics, semiconductors and components took biggest 2nd-quarter hits.

Quarterly loss of 770 million euros was in sharp contrast to year-earlier profit of 3.6 billion euros. Overall revenues fell 16.1% in quarter to 7.68 billion euros (\$6.62 billion). Consumer electronics sales dropped 18% to 2.53 billion euros (\$2.2 billion) on 9% lower sales volume and price erosion averaging about 10%. Sales declines were reported in all geographic areas, with N. America and Latin America hardest hit. Worst sales slumps occurred in VCRs and monitors, but DVD business grew 50% overall. Consumer electronics incurred operating loss of 498 million euros (\$430 million) compared with year-earlier profit of 126 million euros.

Noting that downturn in consumer electronics, telecom products and PCs "has accelerated" in 2nd quarter and spread to all geographic areas, Philips management board said it remained "very cautious about the economic development for the rest of the year, as visibility remains low." Board said capital expenditures had been cut back to 2.1 billion euros and "cost levels will be adjusted further to bring them in line" with lower sales expectations. Philips said it expected net income for full year before special charges to come in at breakeven or at small loss.

'STRONG MOMENTUM' IN DTV SALES — CEA: Suppliers shipped 227,349 DTV sets to dealers in 2nd quarter, up 166.7% from 85,241 in same 2000 quarter, CEA reported.

Statistics include sales of DTV-ready sets and those with integrated decoders. Dollar shipments climbed 90.5% in quarter to \$406.68 million from \$213.45 million as average selling price fell 28.6% to \$1,789 from \$2,504. For first 6 months of 2001, DTV sales to dealers surged 162.4% to 461,907 sets from 176,062 year earlier, and dollar volume 95.8% to \$868.76 million from \$443.76 million.

CEA praised DTV sales performance in June, when suppliers shipped 90,973 sets worth \$159.46 million. It said June increase represented 3rd straight month of sales growth year and 82% rise from June 2000. However, suppliers shipped 3.1% fewer DTV sets in this year's 2nd quarter than in first (227,349 vs. 234,558) and dollar volume fell 12%.

Nevertheless, CEA Pres. Gary Shapiro said 2nd quarter's strong finish was proof that "consumers are clearly sold on digital quality." He said "strong momentum" in DTV set sales should serve as "call" for broadcasters and other content creators "to provide more high-quality digitally originated programming" and for cable industry to resolve must-carry and cable-DTV product compatibility issues.

CEA is projecting sales to dealers of 1.1 million DTV sets this year, 2.1 million in 2002, 4 million in 2003, 5.4 million in 2004, 8 million in 2005, 10.5 million in 2006. Assn. releases figures on DTV sales to dealers only on monthly basis. Responding to our query, spokesman said CEA members thus far have balked at proposals, reasons undisclosed, to release weekly figures on DTV set sales as part of report that serves as basis for our State of the Industry table.

Polaroid's inability to gain strength in digital photography arena continues to take toll. Amid major restructuring, company last week reported it lost \$109.9 million (-\$2.36 per share) in 2nd quarter ended July 2, compared with \$26.6 million (59¢) profit in same period year ago. Sales dropped to \$333.5 million from \$485.6 million. Despite dreary results, company said it was making progress in its efforts to turn itself around and CEO-Chmn. Gary DiCamillo predicted Polaroid would return to profitability next year. In comparison, results reported by **Eastman Kodak** last week were considerably more upbeat even as that company's profit plunged 93% to \$36 million (12¢ per share) from \$506 million (\$1.62) year ago. Sales dipped slightly to \$3.59 million from \$3.75 million. CEO-Chmn. Daniel Carp said: "The quarter's results are consistent with the economic slowdown, and we have yet to see signs of economic recovery." He said: "We will continue to manage Kodak in recognition of this reality. This means cutting costs, strengthening our balance sheet and refining our digital strategy." Kodak said its EasyShare digital camera system introduced in April "has been met with strong acceptance in the consumer electronics and photography market."

Onkyo CD-ROM kit to upgrade 3 models of components for Dolby Pro Logic II and DTS-ES Discrete and Neo 6 processing is available for purchase through Onkyo USA Web site for \$49.95 plus shipping and handling. Upgrade can be installed through rear-panel RS-232 ports on Onkyo TX-DS989 and Integra DTR-9.1 AV receivers and Integra Research RDC-7 AV preamplifier/processor.

Three-Five Systems (TFS), suffering sharp slowdown in demand for its LCDs for cellular phones, swung to \$11.3 million 2nd quarter loss from \$4.3 million profit year ago as revenue sank to \$25 million from \$44.9 million. Loss came as TFS took \$7.4 million charges against earnings, including \$3.8 million write-off on investment in microdisplay developer InViso, which is seeking to raise additional funds. TFS builds microdisplays for InViso's near-to-eye applications including head-mounted display. Another \$2.4 million covered inventory programs cancelled by customers. "It's been a unpredictable market and activity has been sporadic with limited visibility," CEO Jack Saltich said. Gross margins were negative 17.3% in quarter. Motorola is TFS' largest customer, accounting for 80-81% of sales, but it is seeking to lower that to 60% by year-end as it expands into liquid crystal on silicon (LCoS) and organic light-emitting diode (OLED) technologies. TFS is supplying 3-panel LCoS display for Thomson 50W rear-projection set that's expected to ship in late summer and has agreements with 3M and Samsung for front projector and PC monitor, respectively. To sharpen focus on LCoS, TFS is moving LCD production to factory either in Manila or China from Tempe, action that will cut 30 jobs. LCD production will end in Tempe by late 3rd quarter and shift is expected to add 3-5% to gross margin, he said. LCoS business is forecast to generate revenue of \$15 million in current fiscal year, most of that in 4th quarter, Saltich said. "Our demand for [LCoS] product is currently outstripping our ability to supply it," he said. TFS also expects to deliver first OLEDs developed under joint venture with Dupont Displays by 2nd half 2002, he said. Taiwan-based Ritek will build displays... Intel, which has moved swiftly to invest in display technology companies, will buy stake in Taiwan's Prokia, which is developing 0.9" LCoS optical engines. Prokia, which has \$29.1 million in capital, plans to issue 30 million new shares at 35¢ with Intel expected to buy 5% of allotment. Move dovetails with Intel's investment in Viewsonic, which has shown prototype 36W rear-projection monitor with three 0.7" panels based on JVC's Direct-Drive Image Light Amplifier (D-ILA) technology (TVD June 11 p20)... eMagin has shipped more than 20 evaluation kits to potential U.S. and international customers for its 0.61" full-color OLED. Kit, which shipped in April (TVD April 30 p23), is priced at \$6,500.

Zany Brainy (ZB) expects to receive bankruptcy court approval by Aug. to transfer its assets and employees to newly created subsidiary funded by \$115 million from L.A.-based Wharton Management. ZB would receive \$68 million, with rest to be used as working capital for new subsidiary that would operate existing 187 stores. Under proposal, ZB, which sought bankruptcy protection in May, would file reorganization plan and disclosure statement within 60 days of closing of agreement with Wharton, SEC filing showed. Reorganization plan, which will require support of official committee of unsecured creditors, would have effective date of no earlier than Jan. 2 and no later than Feb. 17, SEC filing said. Wharton also would buy all stock of reorganized ZB for \$12.1 million provided reorganization plan was confirmed by Feb. 17. Half of amount would be paid on effective date of reorganization or by Jan. 31, rest to be released by July 31, 2002. Among conditions attached to closing of deal with Wharton are that on closing date — tentatively between Aug. 15 and 31 — (1) adjusted inventory value have minimum value of \$99.8 million, (2) sales in June-Aug. period be minimum of \$63 million. ZB has struggled since buying rival Noodle Kidoodle (NK) year ago and defaulted on credit agreement in March (TVD March 19 p22). It reached \$115 million debtor-in-possession agreement with Wells Fargo Retail Financial Services in June and since has moved to consolidate NK administrative functions at King of Prussia, Pa. hq. (TVD June 18 p16).

THOMSON TO CUT 185 JOBS: Thomson will cut 185 jobs, including 155 at Carmel, Ind., hq, starting in early Aug. in another round of fiscal belt tightening.

Layoffs will occur in 3 phases starting Aug. 3 and will hit salaried positions paying \$25,000-\$100,000, including directors, administrators, production managers, finance, design, sales, marketing, e-business, human resources and clerical personnel, company said. Sixty workers will be first affected and will be paid through Aug. 3. Another group will leave in Sept., with rest at year's end. Thomson employs 2,300 at Carmel hq.

Another 30 positions will be trimmed from accessories group in Deptford, N.J., sales office in Canada, factory in Juarez, Mexico, and logistics office in El Paso, Tex., that coordinates shipments from Juarez, Thomson spokesman said. Thomson has 24,535 employees in N. America.

Job cuts come as Thomson completes shift to worldwide business units from previous geographic structure. Last of groups to make transition was video business in N. America and at time Thomson declined comment on possible layoffs (TVD July 9 p10). In other cost-cutting measures, Thomson is scheduled to close Scranton TV tube plant by Aug. (TVD May 28 p15) and transfer some 27" production to Marion, Ind., facility where 25 salaried positions were eliminated earlier this year.

Thomson said, as it has in past, that layoffs were necessary for it to remain competitive in CE business, especially in cut-throat TV market.

As Thomson announced layoffs, **Toshiba** said it would shift much of its TV production for Far East to Dalian, China, factory. Toshiba also had weighed moving production to Indonesia, Singapore, Thailand and Vietnam, but settled on China because of factory's ability to meet quality control requirements and provide products for global market, Toshiba told *Digitimes.com*. Its investment in China has topped \$645.1 million and it has more than 10,000 employees there. Toshiba last year generated \$2 billion from operations in China, figure that's projected to rise to \$2.4 billion this year. It most recently opened DVD player factory in China.

As Toshiba shifts production to China, Chinese company **Apex Digital** is gearing up to start TV business in U.S. Apex, which has made name as DVD player supplier to Best Buy, Circuit City and Wal-Mart and has private label deal with Kmart, will ship 20" (\$249) and 27" (\$449) flat-screen sets in Sept., with conventional 32" and 36" digital TVs (DTVs) in 2nd quarter next year, Senior Vp Gary Bennett said. It also is weighing widescreen DTVs as well as projection models, he said.

Mitsubishi Electric said it was "regrettable that the Tokyo District Court has not acknowledged" its petition seeking injunction to stop sale of CompactFlash memory cards by SanDisk in Japan. Mitsubishi had charged cards infringed on 3 of its patents (JP2099342, JP2129071, JP2138047), although it withdrew latter 2 before court's ruling (TVD July 16 p17). Mitsubishi also said that, despite its disappointment: "We accept the significance [of court's] decision. Mitsubishi Electric Corporation is currently considering its options on how to deal with the matter in the future."

Zenith rolled out \$30 million TV and print ad campaign last week touting its new digital strategy, but at same time slowed plasma plans in putting 37" and 42W sizes on hold. Zenith had planned to introduce 37" and 42W in first half 2002, but recent price moves — especially in 42W where Fujitsu has lowered panel cost to \$5,999 — have caused company to pull back. "We haven't quite made up our mind yet," Senior Vp Wayne Park said. "It's a question of whether there is a good enough price gap to bring those out." Zenith parent LG Electronics is pushing ahead with production of 40W, with first expected this month, month behind schedule. New 60W will be delivered in Aug., Park said. "We've had some issues in the yield and we wanted to run the panels through some reliability tests before we started production." Plasma panels will be sold under Zenith brand in consumer market, but will be available under Zenith or LG banner for commercial applications, Park said. Zenith also is marketing 15.1" LCD TV at \$1,299 and cut price on 20.1" model to \$3,500 from \$4,299 before its shipping in June, Park said. Displays are at heart of two 30-sec. TV spots created for Zenith by Chicago-based Cramer/Krasselt and directed by Gerard de Thame. Commercials, which will air in variety of time slots on network and cable TV through mid-Dec., highlight 15.1" LCD TV and 60W plasma panel. Former is featured in "Parachute" in which person jumps from plane only to discover that pants and socks were packed into parachute bag by man on ground watching LCD TV. Other ad, "Nightclub," set in London night spot, features series of men emerging from restroom with wet spots on their pants. Reason is found in restroom where 60W plasma has been mounted on wall above urinals.

Spatializer Audio Laboratories retired its secured 10% short-term convertible notes held by entities of Liberty Capital Management, Santa Clara, Cal., audio technology company said Fri. Spatializer CEO Henry Mandell called it "another milestone in the strengthening" of company, noting convertible notes in question "arose from funds originally provided in the very early and difficult stages of our turnaround in 1999." He said decision to retire notes instead of extending them was "in keeping with our objective to minimize the possibility of future dilution." Company said it closed Woodland Hills office and didn't renew contract with MDC Group. Investor relations now is being handled in-house, Spatializer said. Company also has expanded its engineering team. That additional expense, along with continuing slowdown in semiconductor and PC sales of major account, will result in 2nd quarter loss of \$100,000, Mandell said. "Since we remain optimistic about our prospects and cognizant of the deals in the pipeline, we felt that we could opportunistically take advantage of the brief supply of high-caliber audio engineering talent in the market [caused by recent Silicon Valley restructurings and layoffs], even at the risk of sacrificing short-term profitability." Mandell said he looked forward to "improved 2nd half of the year."

Consumers who buy or lease GM vehicle and finance it through GMAC will have option of rolling monthly XM Satellite Radio subscription fee into monthly car payment, XM announced last week. GM is 12% owner in XM and has long-term agreement to integrate XM receivers into vehicles starting later this year. XM scheduled N.Y.C. news conference for this week at which it's expected to announce details of commercial debut this summer. XM said 2nd-quarter loss grew to \$38.48 million (-76¢ per share) from year-earlier \$5.09 million (-15¢) on zero revenue. Meanwhile, rival Sirius Satellite Radio announced agreement with ABC Radio Networks to broadcast 5 sports and entertainment channels — Radio Disney, ESPNEWS, ESPN Radio, ABC NewsTalk and channel dedicated to truckers.

SAMSUNG DVD-RAM RECORDER: Samsung will enter DVD recorder derby with Tantus brand DVD-RAM model that ships in Aug. at \$1,499.

Samsung's delivery of DVD-RAM recorder has been postponed several times, most recently to Feb. (TVD Dec 4 p16), as it awaited resolution of copy protection issues before shipping model with digital output. It also varied expected price from \$1,999 (TVD March 13/00 p13) to \$2,400, before settling on \$1,499 to meet Panasonic piece.

In introducing recorder, Samsung will have "small allocation" of product and is looking more toward 2002 for major push, possibly with universal model that would be compatible with DVD-RAM, DVD-RW, DVD-R and DVD+RW formats, said Claude Frank, senior mgr. for digital convergence products.

"We're not looking to bring a lot of [recorder] product in right now because we understand that recordable DVD sales have virtually disappeared and this is really a technology statement from Samsung," Frank said. "I'm sure we're going to sell our small allocation this fall whatever that is and next year you might see something different from us."

Indeed, since Panasonic shipped first DVD recorder year ago, slightly fewer than 1,000 units have been sold through retail, NPD Intellect said. Among other entrants in fall, Tweeter plans to carry Pioneer Elite DVD-RW model expected in Oct. at \$2,500, said Mdsg. Vp Bernard Sapienza, who conceded technology "won't represent a significant number" of units this year.

In core line DVD, Samsung formally unveiled promotion with Warner Home Video that will run Sept. 1-Oct. 31 and feature coupon for 3 free DVD movies packaged with company's DVD players. DVD titles include *Gone With the Wind*, *Austin Powers: The Spy Who Shagged Me*, *Any Given Sunday*. Samsung will support promotion with \$5 million print and on-line ad campaign, Frank said.

Samsung also will package ad for \$20 coupon for DVD rentals from NetFlix with players, with access gained by registering at NetFlix Web site. It also will continue promotion with RentMyDVD.com (TVD Feb 5 p21) that includes month's worth of rent-one, get-one-free coupons with player. Warner also will provide Spotlight coupon book offering \$2-\$20 off purchase of select DVDs.

Although Samsung has hit \$149 with entry-level DVD players and \$199 with progressive scan model, it has no plans to enter \$99 market dominated by Apex. "I can't deliver on that," Frank said. "It has to be a profitable product for us and the dealers."

Recent spate of DVD inventory (TVD July 9 p9) forced some retailers to "put the brakes" on purchases and change their buying habits, Frank said. "The retailers are looking at things a bit differently, but the open-to-buy dollars are really sacred now and you have to be very careful. They're really analyzing things now more than they ever did before."

Marantz America has relocated to 1100 Maplewood Dr., Itasca, Ill. 60143, telephone 630-741-0300, fax 630-741-0301.

Handspring, battered by price war and slowdown in sales, reported 4th quarter net loss more than tripled to \$67.2 million. And while revenues increased to \$61 million from \$51.8 million year ago, they were down from \$123 million in previous quarter. Handspring, Palm and others have been hit by economic slowdown in U.S. coupled with glut of inventory that touched off rampant price cutting in spring. As result, Handspring CEO Donna Dubinsky said company would "reduce rate of spending." It recently laid off 40 of 460 employees and eliminated some marketing programs, she said. Handspring has 8-12 weeks of inventory, but plans to cut it back to 6-10 weeks later this year by reducing production. It took \$26.8 million charge against earnings for excess and obsolete inventory, resulting in negative 31.3% gross margin. Handspring is projecting gross margin in "low-to-mid 20s" by 2nd quarter 2002 and return to profitability by end of fiscal year in June 2002. Improved earnings will hinge on release of integrated wireless product by year-end, device that's expected to have revamped graphical user interface (GUI), Dubinsky said, declining to provide details. Handspring last week cut price on VisorPhone springboard module, which turns handheld PC into cellular phone, to \$49 from \$249 for buyers who sign up for one year of mobile phone service from Cingular Wireless, Powertel or Voicestream Wireless Corp. Handspring had been running promotion that priced unit at \$99 when purchased with high-end handheld PC. "It [VisorPhone] hasn't met our expectations, but it has been a great learning experience and will help us get to the next-generation product," COO Edward Colligan said... Toshiba last week jumped into handheld PC fray with plans for device based on Microsoft's Windows Pocket PC operating system (OS). Toshiba's Genio handhelds, expected to be available in U.S. by fall, will have 206 MHz StrongArm microprocessor from Intel and expansion slots for secure digital (SD) and Compact Flash II cards. Standard version of Genio (\$560) goes on sale in Japan Aug. 20, while step-up, which has 1 GB microdrive, enters market in Sept. at \$806.

BizRate.com is providing nationwide in-store customer satisfaction monitoring program for Circuit City (CC), companies announced last week. CC already had been enabling its on-line customers to participate in satisfaction surveys from BizRate.com for almost year, retail chain said. But as part of new agreement with CC, L.A.-based comparison shopping Web site BizRate.com now will augment retail chain's existing customer satisfaction measures at CC's more than 600 brick-and-mortar stores. Checkout receipts at CC stores now invite customers to visit specially designed Web site to register comments on their shopping experience. Customers who take survey are registered automatically in CC Customer Satisfaction Sweepstakes. CC said sweepstakes prizes would vary but first drawings in Oct. would include \$10,000 grand prize, \$5,000 2nd, ten \$1,000 CC merchandise cards. Retailer called survey "latest component" in its "multifaceted approach to obtain feedback from consumers," noting it also "employs mystery shopping trips, exit interviews, focus groups and telephone surveys to measure customer satisfaction with the Circuit City shopping experience." CC Pres.-CEO Alan McCollough said: "We're determined to offer a level of customer service that is unmatched by any other national retailer in the [CE] industry." He said CC decided to expand relationship with BizRate.com because latter "has a proven track record at monitoring satisfaction and it offers unbiased, 3rd party neutrality when tracking consumer experiences."

Halloween comes early for kids this year on DVDs from Warner. Slated for Aug. 21 release are *Scoobie-Doo's Spookiest Tales* (\$14.95), *The Goonies* (\$19.95), *The Little Vampire* (\$19.98).

TWEETER EARNINGS: Tweeter Home Entertainment, crediting strong sales of digital products, reported 2nd-quarter profit rose to \$2.5 million from \$2.1 million year earlier. Revenues jumped 17.7% to \$110 million, but same-store sales were up just 0.6%.

Gross margins inched up to 36.4% from 36.3% year ago as DTV sets accounted for 89% of projection TV and 51.5% of direct-view sales, CEO Jeffrey Stone said. Digital projection TVs, which have \$3,200 average sale price, accounted for 18% of chain's total revenues, while direct-view at \$2,000 was 7%, he said. Tweeter also sold 120 plasma display panels in quarter with average ticket of more than \$9,500, Stone said.

Tweeter also entered digital satellite radio business, selling 2,900 receivers at \$300 and higher, Stone said. Digital satellite radios accounted for 22% of chain's car head unit sales in quarter, he said.

Head units still require separate \$300 outboard tuner to receive XM Satellite's radio service, first of which Tweeter expects to sell under Alpine brand in Tex. and San Diego markets in Aug., Mdsg. Vp Bernard Sapienza told financial analysts in conference. Tweeter has stores in Dallas and Houston that it acquired in buying Home Entertainment. Alpine, which is scheduled to start production of outboard tuner this month (TVD April 16 p12), is marketing 5 XM-ready CD head units (\$350-\$850). Alpine and XM officials weren't available for comment, but XM has scheduled N.Y. news conference this week to announce commercial rollout plans.

Impact of satellite-ready head units has been to drive up average sale for in-dash category to \$250 range, Stone said. Standard CD head units have average ticket around \$160, he said. Car stereo business also has gotten jump-start from LCD-equipped mobile multimedia products, which now represent 15% of Tweeter's 12-volt sales, Sapienza said.

XM rival Sirius Satellite Radio is "now at a point where it's about" 2002 for debut, Sapienza said. But Sirius CFO John Scelfo told us there was no change in company's previously announced plans to ship "limited amount" of 4th quarter product starting around Dec. 1, with total not exceeding 20,000 units. More "material" quantities of radios will follow in first quarter next year, Sirius has said.

Sapienza told analysts he wasn't "overly enthusiastic" on seeing meaningful business this year in digital satellite radios. "If it were 2 companies launching simultaneously and spending tens of millions in the marketplace promoting the business, I would feel pretty good that it was going to be a factor," he said. "As far as the business itself getting up and doing the go-go for 2001, I don't see it. I see it in 2002 as more of a rocket ship."

On down side in car audio, CD head units have reached "high penetration point" and prices continue to decline, Sapienza said. And while prepackaged home theater systems are strong sellers, home audio is "a tough sell and is not flying off the shelf," he said: "It lacks a bit of a reason right now for a consumer to get up and buy it." He said Dolby Digital receivers were last major advance to give home audio business shot in arm, but they now have been on market for 4 years and are priced less than \$200. "We're barely able to keep our heads above water [in home audio] in terms of the number of sales against last year," he said.

Tweeter remains on target to complete purchase of Sound Advice by Aug. 1 and expects to integrate chain's finance and accounting functions at its Canton, Mass., hq by Sept., CFO Joseph McGuire said. Dania, Fla.-based Sound Advice, which operates 33 stores, will focus on expanding presence in Fla. and Ariz. with 6-7 new outlets possible in next year, Stone said.

EchoStar has encountered minor glitches in EchoStar-6 and 7 satellites, but birds remain in operation, it said in SEC filing. EchoStar-6's problems knocked out stationkeeper thruster and 2 transponders in April while EchoStar-7 suffered problem in momentum wheel earlier this month. Insurance on EchoStar-6 expired July 14 and company has reserved \$60 million for it. EchoStar has been locked in dispute with satellite insurers for more than year stemming from failure of EchoStar-4. Company filed claim for \$218 million, which insurers sought to settle for \$88 million. When insurance covering EchoStar-1, 2 and 3 satellites expired last year, company was unable to renew it and later filed antitrust suit against insurance companies alleging collusion. It since has withdrawn suit, but continues to self-insure satellites, reserving \$74 million in 2nd quarter. EchoStar forecast spending \$300-\$500 million in 2nd half, including 40% of total on satellite construction, 60% on promotions and general corporate purposes, it said in SEC filing. It finished 2nd quarter with \$2.3 billion cash, \$1 billion of which was raised in spring in sale of 5.75% convertible subordinated notes due 2008.

Iomega will cut 800-1,100 jobs worldwide in 2nd half of year as part of corporate restructuring announced last week. Data storage and CE manufacturer based in Roy, Utah, said it lost \$35.9 million (-13¢ per diluted share) in quarter after \$40.4 million profit (15¢) same period year earlier. Sales slipped to \$184.1 million from \$303.6 million on lower revenue for its Jaz and Zip discs and drives. Werner Heid, who became company's 3rd CEO in 2 years on June 18, said company was "disappointed" with results but was "making good progress with our comprehensive review of Iomega's business and its short-term and long-term strategies." He said company "will be attacking our cost structure" and "focusing on creating demand to foster growth of our installed base, and we will be providing new applications for the Zip drive and other Iomega products people already own." Company plans to ship new Peerless drive system as well as 2 new Zip drives, in 3rd quarter. As Iomega restructures, it also said it planned to move U.S. hq to West Coast. Board approved one-for-five reverse stock split of outstanding shares of common to encourage more interest in Iomega.

May factory sales of audio equipment fell 13.7% to \$624.93 million from \$724.32 million on significant declines in portable audio, separate components, systems. Aftermarket autosound was month's only category to increase, up 9.1% to \$207.77 million on robust sales of in-dash CD players, which accounted for more than half of category's total sales. Despite 19.3% drop in separate components, CEA said surround speakers more than doubled to \$9 million and component tuners and amplifiers rose 15% and 26%, respectively. Biggest problem area for May was portable audio, which fell 31.7% to \$161.06 million. For year's first 5 months, total sales were down 6.4% to \$2.93 billion from \$3.12 billion. Aftermarket autosound market was flat at just under \$928 million, but separate components, portable audio and systems incurred declines of 13.7%, 11.8% and 1.7%, respectively.

FRY'S BIDS FOR OUTPOST: Fry's Electronics made 70¢ per share cash offer for Cyberian Outpost (CO), setting up showdown with PC Connection, which in May proposed buying e-tailer in stock deal.

San Jose-based Fry's, which operates 18 stores, bought 3.1 million shares (9.3%) of CO common for \$2.3 million in April and in late June increased stake to 10.9% in buying another 315,000 for \$207,900, it said in SEC documents. PC Connection had proposed buying CO in stock-for-stock deal valued at \$12.5-\$25.9 million (TVD June 4 p12). CO stock was to be converted into PC Connection common at exchange ratio that would vary based on CO's total revenue in July-Aug. PC Connection also received option to buy up to 19.9% of CO shares at 51¢.

In letter to CO Chmn.-CEO Darryl Peck dated July 9, Fry's CEO John Fry said his chain's proposed purchase of e-tailer's outstanding common represented "superior alternative" to that of PC Connection. Fry's offer represents 27% premium to stock's closing price July 6 and it plans to operate CO as separate company with same management, Fry said. It also said it would provide CO with working capital financing on "substantially the same terms" as PC Connection, which agreed to supply 2 credit lines — \$3 million for working capital, \$5 million for inventory.

Fry's proposal also differs from PC Connection's in that it doesn't have requirements for (1) price adjustment based on June-Aug. revenues, (2) \$1 million "walk-away" right, (3) lock-up warrant. Fry's said it also was willing to pay PC Connection \$500,000 break-up fee representing 3% of CO's current equity value. If PC Connection accepts offer, Fry's will increase its deal to CO shareholders by difference between \$1.5 million profit cap established in purchase warrant and termination fee, he said.

While Fry's had requested response from CO by July 11, spokesman said none had been received as of Fri.. If Fry's doesn't get response, it's prepared to take offer directly to shareholders and will vote against proposed sale to PC Connection, Fry said.

Fry's spokesman described proposal as "good offer," but declined further comment. PC Connection Pres.-COO Wayne Wilson said PC Connection was prepared to "move forward" with deal and would provide "maximum best results" for CO shareholders. PC Connection is "in complete compliance with its obligations" under agreement, he said. CO Vp-Gen. Counsel Christopher Walls wasn't available.

Proposed CO acquisition puts rare public spotlight on notoriously publicity shy Fry's, which is known for its bargain-basement prices and colorfully themed stores. It also would vault Fry's into e-commerce business, category it thus far has avoided aside from operating Web site with store information and selling Internet access. It operates 18 stores including 6 former Incredible Universe locations acquired from Tandy and recently opened 150,000-sq.-ft. outlet in Houston featuring oil industry theme, spokesman said.

CO, which had sales of \$335 million in fiscal 2000, has been searching for lifeline, having laid off 110 employees in April as it met with creditors to discuss payment options (TVD April 16 p11). PC Connection deal had been scheduled to close by Sept. In addition to operating online business selling PCs

and related products, CO has joint ventures with Brookstone and Tweeter Home Entertainment. Tweeter officials weren't available for comment.

As it reviewed Fry's offer, CO reported first quarter net loss grew to \$27.4 million from \$7.3 million year ago as revenue slipped to \$63.7 million from \$65 million. Earnings included \$18.3 million in charges, with \$14.9 million of total related to unamortized goodwill associated with shutdown of CO's business-to-business operation OutpostPro.com. About \$2.3 million was tied to restructuring and \$2.1 million to write-off of receivables and liquidation of inventory.

Meanwhile, PC Connection said 2nd quarter net income plunged to \$1.4 million from \$8.6 million amid slowdown in PC sales and decline in prices. Net sales fell to \$297.3 million from \$366 million and notebook PCs 38.8% to \$58.8 million. Net sales of desktop PCs declined 29% to \$37.7 million from \$53.1 million. Overall average sale price in quarter was \$1,120, up from \$1,040 in first quarter, but down from \$1,183 year ago. Desktop prices rose 2% in quarter and remain in \$1,050-\$1,100 range, while notebook PCs declined 6%.

In addition to CO, PC Connection is "open to and actively scouting out" other potential acquisitions, but "there are not a lot of quality acquisitions out there," CEO Kenneth Koppel said.

Sony will sell DVD-RW recorder for home video in Japan this fall but will stick to plan to offer "dual compatible" DVD-RW and DVD+RW deck exclusively in U.S. next summer, company said. New RDR-A1, sourced from Pioneer, is expected to sell for ¥220,000 (about \$1,760) when released Sept. 21. In addition to rewritable DVD-RW discs, deck will record write-once DVD-R blanks for compatibility with other DVD recording platforms and will have installed base of DVD-Video and DVD-ROM players. It also has playback for CD-R/W and Video CDs, progressive scan output, IEEE-1394 input for digital camcorder footage. Sony is founding member of rival DVD+RW Alliance but has said it won't pursue that format alone for home video use. Company already incorporates DVD-RW drives in its PCs.

Samsung has begun limited shipments of rear-projection TVs to Pro Buying Group dealers based on Displaytech's ferro-electric LCD microdisplay technology and gradually will ramp up production as manufacturer Miyota works out yield problems, Samsung Mktg. Dir. James Sanduski said. "The quality is there, but yield still remains an issue," he said, estimating that production was running at 1,000 units per month. Samsung is marketing 3-panel 0.78W FLCDS in 43W and 50W sets (TVD June 11 p15).

Phoenix Gold requested Nasdaq hearing Fri. after mobile audio manufacturer received notice that its shares of common stock were subject to delisting from SmallCap Market. Company said it was told it had failed to comply with minimum market value of public float requirement for continued listing in Nasdaq's Marketplace Rule 4310.

Harvey Electronics reported 15.7% increase in June sales to \$2.64 million, up 12.8% in 8 months ended June 23. Same-store sales increased 1.1% in June, 7.8% for year. Pres. Franklin Karp said overall July results also had been strong and "early sales results" of new Harvey store in Eatontown, N.J., had exceeded expectations.

SAMSUNG-AOL PACT: Samsung and AOL Time Warner's agreement last week to develop and build set-top boxes (STBs) was AOL's 2nd attempt in as many years to break out of online business and into CE market.

Alliance, which has been under discussion since Jan., will couple AOLTV interactive TV platform with TiVo personal video recorder (PVR) in Samsung branded STB. First product, which is likely to contain hard drive of 30 GB or more, will ship in first quarter 2002, said Anthony Goncalves, business development mgr. for digital TV strategy at Samsung. And while first device won't be tied to cable or satellite service, goal is to add feature by late next year, he said.

"We'd like to move in the direction of integrating a front end of some sort into that box and leveraging cable or satellite," Goncalves said. "It's integrating a standalone TiVo box with a standalone AOLTV box, which is not always easy to do. There will, however, be a lot of shared componentry and that will allow us to come out at an aggressive price point," said Goncalves, who declined to disclose possible price.

Integrating different technologies has proved vexing thus far for AOLTV, which had planned to introduce combo box with DirecTV under Philips brand, but since has put device on back burner. Philips had planned to ship product year ago (TVD June 26/00 p13), but pulled back in fall to focus on TiVo/DirecTV combo unit. Along with Hughes Network Systems (HNS), it builds hardware for AOLTV Plus one-way Internet access service that bowed last fall (TVD Oct 16 p14), but expansion has been slow. Philips and AOL Time Warner signed new pact earlier this month under which companies will co-develop new online marketing sites that will feature products and services from former combined with related content from latter. At same time, Philips is reducing STB projects in U.S. and while officials have declined comment, speculation has been that CE company would focus on combo products and lessen reliance on standalone devices.

Samsung-AOLTV STB with TiVo will have 56 kbps modem and USB port at start and eventually will add DSL and/or cable modem connections, Goncalves said. "Broadband penetration is too small right now to build a product with integrated broadband applications," he said.

Samsung and Microsoft also don't plan to integrate AOLTV/TiVo platform in TV or other CE device in short term. "Right now the market isn't demanding integrated TV sets for that type of product," Goncalves said. "But that doesn't mean that 18 months from now there won't be a demand for the product."

As AOLTV readied new strategy, rival Microsoft was said to have signed deal to develop upgraded version of its UltimateTV interactive TV technology for News Corp.'s Sky Global Networks. Microsoft, in e-mail to employees last week, indicated it hoped to aggressively expand UltimateTV, which is sold under RCA and Sony brands as part of combo product with DirecTV, to foreign markets in coming years, *Wall St. Journal* reported. Current version of UltimateTV STB has 40 GB hard drive for PVR and has e-mail features. Microsoft has told retailers it will release upgrades of UltimateTV software in Aug. and Oct., including revamp of graphical user interface (GUI).

Microsoft e-mail described pact with News Corp. as "consulting agreement" to develop future versions of UltimateTV geared toward various countries and languages, *Journal* said. UltimateTV has been slow seller thus far in U.S., with fewer than 30,000 subscribers.

Separately, Microsoft said it would rename WebTV service as MSN TV, capping process that began in spring as software giant grafted many WebTV features onto UltimateTV platform. Move will eliminate WebTV brand, which Microsoft acquired in buying company is 1997. Company had struggled in selling WebTV standalone STBs under Sony and Philips brands and customer base had stalled at one million.

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As it was unveiling agreement with Philips, Samsung confirmed that it had postponed plans for combo DirecTV/high-definition decoder until 2002. Samsung had planned to deliver product this year, but combination of "engineering priorities" and delays in integrating software forced it to postpone debut, sources said. Hitachi and Toshiba, which sourced combo product from HNS, encountered similar delays before introducing product in small quantities earlier this year. Hitachi had integrated DirecTV receiver in rear-projection TV, but since has dropped product.

Ubi Soft Entertainment (USE) said "series of significant changes" had started at Ubi Soft U.K. Game maker said 2001-2002 sales strategy for its U.K. division called for "restructuring internal sales departments as well as external distribution relationships." USE said "modifications" already had been made in U.K. sales dept. "to manage the increase in volume of releases more effectively." USE said that with recent acquisitions of companies including Blue Byte and Red Storm Entertainment and co-publishing agreements with companies including Crave Entertainment, it "now has the best lineup of PC products in the company's history in terms of quality, breadth and volume." It said its product breakdown now was 70% console and 30% PC. U.K. division of USE said it wanted to "ensure that [expanded] catalog is fully taken advantage of." It said it thus made "major alterations" in its distribution operations, which USE said "will provide a greater focus on the entire range [of titles]." As result, it said, PC CD-ROM product is being "split away from the console platforms" starting this month. USE said storefront distribution also was changing "to mirror the 2 new internal departments, with CentreSoft taking responsibility for the console platforms." Managing Dir. Rob Cooper said: "These changes are a major step forward for us in having an ever-growing presence within the U.K. marketplace, as well [as] offering better focus to all U.K. retail."

Kid-video on DVD about to hit stores includes who's-who of popular characters from TV as well as *Baby Doolittle World Animals* by Baby Einstein Co. (Artisan, \$19.98) — educational package that includes flash cards and classical music soundtrack. Among TV favorites on DVD are 2 Pokemon titles, *The Johto Journey: Flying Ace* and *Fire Power* (July 31, Pioneer, \$24.98). Theatrical feature *Pokemon 3: The Movie* arrives Aug. 21 from Warner (\$14.95). Also direct-to-video is first DVD from PBS series "Teletubbies" — *Baby Animals* (Warner, \$14.95).

Borders Books & Music will open 3rd store in San Antonio area this week. Ann Arbor-based retail chain said 22,000-sq.-ft. store would be in Forum Shopping Center in Selma, Tex. First Borders stores in market opened in 1997. New location will have interactive self-help computer station to search for book, music, video titles.

HUGHES LOSS, ECHOSTAR PROFIT: Hughes Electronics, plagued by piracy of DirecTV service that cut into earnings, said 2nd quarter loss soared to \$156.5 million from \$69.1 million year ago despite 8.1% rise in revenue to \$1.9 billion. Rival EchoStar posted \$2.1 million 2nd quarter profit — its first since going public in 1995 — against \$133 million net loss year ago as revenue jumped to \$966.3 million from \$646.1 million.

DirecTV posted increase in earnings before interest, taxes, depreciation and amortization (EBITDA) to \$75 million from \$26 million year ago. It added 175,000 net new subscribers in quarter to increase overall total to 9.9 million, but lowered forecast for year to 1.1 million from 1.3 million. About 38,000 of total were gained from NRTC territories largely covered by Pegasus Communications. EchoStar, by contrast, added 350,000 subscribers — at low end of forecasts — to raise total to 6 million.

DirecTV's woes were most evident in per subscriber acquisition costs that hit \$575 in quarter, \$50 of which was due to nonactivation of service presumably by subscribers who were receiving service through pirated means, Hughes said. DirecTV also wrote off 35,000 former Primestar customers acquired when it bought service in 1999 but weren't converted. EchoStar's per-subscriber acquisition costs were \$384, which doesn't include \$132 in capitalized expenses in equipment lease program that analysts estimated represented 35% of subscribers. DirecTV recently began similar lease program, but it generated "minimal dollars" in quarter, Hughes CEO Jack Shaw said.

DirecTV's average revenue per subscriber remained flat in quarter at \$59, but churn rose to 1.8% from 1.5% and it was working to improve operations at Boise customer service center, Hughes Corp. Senior Exec. Vp Eddy Hartenstein said. Shaw said in conference call with analysts that "we took our eye off the ball and focused too much on the transactions during the last several months. We're going to make changes that are going to fundamentally change the way we do business."

EchoStar, whose churn is believed to be in 1.5% range, had gain in average revenue per subscriber to \$50.02, up \$1.79 from first quarter and from \$45.22 year ago, something CEO Charles Ergen attributed to tying promotions to higher end product. Ergen, in conference call with analysts, criticized Hughes for "fundamental lack of discipline" in its inability to keep lid on subscriber turnover. "We don't want to fall into that trap," he said.

EchoStar subscription service revenue jumped to \$886.3 million from \$557.4 million year ago but equipment sales in Canada and Spain fell to \$47.1 million from \$60 million, EchoStar said in SEC filing.

Hughes Network Systems (HNS), which builds DirecTV and DirecPC receivers, reported negative EBITDA rose to \$36.8 million from \$800,000 year ago as shipments fell to 413,000 units from 913,000. Revenue declined to \$302.2 million from \$371.8 million. DirecPC service added 12,000 subscribers to 2-way Internet access service to lift total to 74,000.

Elsewhere on broadband front, DirecTV DSL, formed from Hughes's acquisition of Telocity, had negative EBITDA of \$41 million on \$7 million in revenue. It added 4,000 subscribers in quarter for total of 68,000. Per-subscriber acquisition cost was \$700, Hughes said.

EchoStar said 30,000 of its subscribers were receiving Starband's satellite-based Internet access service. It recently invested additional \$50 million in Starband to gain 32% stake with option to expand it to 60% with launch of new satellite. EchoStar and Starband have "worked out start-up problems" that plagued service earlier this year and forced EchoStar to halt installations. With Starband's recent introduction of new satellite modem, per-subscriber subsidy could decline \$500, EchoStar said. Subsidy had been \$1,000.

While EchoStar also maintains \$50 million investment in WildBlue, which is developing Ka-band Internet access service for launch in 2002, it appears to be hedging bets. "Ka-band will have its place, but it's a difficult one to bet your company on," Ergen said. "We're not in a position to control the destiny of WildBlue." In increasing stake, EchoStar gained control of 4 of 7 seats on Starband board. It's minority investor in WildBlue.

In Latin America, DirecTV's negative EBITDA narrowed to \$35 million from \$40 million year ago as revenue jumped to \$175 million from \$122 million. It added 25,000 net subscribers in quarter to increase total to 1.4 million.

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With Hughes's sale to News Corp. expected in next several weeks, EchoStar appears to have abandoned bid for company. "We were not able to come to an agreement and they [Hughes parent GM] did not share the enthusiasm that we had," Ergen said. GM, which along with Hughes executives, met with EchoStar, appeared to favor News Corp. offer because of anti-trust concerns. Once Hughes sale to News Corp. is announced, it may take year to gain necessary regulatory approvals, Hartenstein said.

Videogame makers who were sued by relatives of victims in Columbine H.S. massacre asked federal judge to dismiss case, Associated Press reported last week. Report said companies' lawyers argued in motion that suit should be dropped because it didn't allege particular game led Eric Harris and Dylan Klebold to commit murders and because videogames were protected as free speech. We were unable to get comments from game makers named in motion: Acclaim Entertainment, Activision, Capcom Entertainment, Eidos Interactive, Infogrames, Interplay Entertainment, Nintendo of America, Sony Computer Entertainment America. Report also said Square Soft, named in suit, was removed last week, although reason was unclear.

Patent infringement suit against Microsoft by InterTrust Technologies has been expanded to include e-books. Intertrust said its key inventions underlie digital rights management used for Microsoft's eBook Reader. Original suit, filed April 26 in U.S. Dist. Court, San Francisco, covered aspects of Microsoft's operating system, applications and server products.

U.S. movie theaters now have THX sound systems installed for 1,177 screens, Lucasfilm-owned THX said. Tally overseas is 1,159.

THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥124 = \$1, except where noted.

E-BOOK PIRACY CHARGED: In first case to apply criminal clauses of Digital Millennium Copyright Act (DMCA) to electronic publishing, Russian software writer was arrested in Las Vegas last week on charge of trafficking in product designed to circumvent copyright protection measures. In past, only civil aspects of DMCA have been invoked, as in MPAA's suit against online magazine *2600* on dissemination of DeCSS decryption program for DVDs.

In criminal affidavit, FBI alleged that Moscow resident Dmitry Sklyarov held copyright on software program — Advanced e-book Processor (AEBPR) — that decrypts copyright safeguards on Adobe's eBook Reader. FBI arrested Sklyarov after he spoke at Defcon-9 conference that reportedly bills itself as "annual computer underground party for hackers in Las Vegas."

AEBPR is distributed by Sklyarov's employer, Russian company Elcomsoft. Complaint charged that once e-book file was unlocked, it could be opened in any PDF viewer (such as Adobe Acrobat Reader) without restriction. Adobe told FBI that AEBPR program created "naked file" that enabled anyone to read e-book on any PC without paying fee to bookseller. Only one legitimate copy of encrypted e-book needs to be purchased originally and after protections are stripped by AEBPR, e-book can be duplicated freely and read on any PC. Last month, circulation of AEBPR on Web caused BarnesandNoble.com to stop selling Adobe-format e-books until Adobe upgraded encryption. Updated AEBPR defeated that, too, but let users decrypt only portion of book.

Sklyarov's arrest prompted strong complaint from Electronic Frontier Foundation (EFF). Software engineer and ElcomSoft contended his presentation and program were designed to point up shortcomings of Adobe's Acrobat Portable Document Format (PDF) for e-book distribution.

In similar situation, Princeton U. researcher Edward Felten and team that said it had defeated Secure Digital Music Initiative (SDMI) watermarks have argued they have right to present their findings that SDMI technology was flawed, but contend that DMCA cast specter of litigation for their doing so.

In cases now before courts, EFF is supporting their argument and that of *2600* that DMCA's anticircumvention clause stifles academic freedom and free speech. Felten and group sued RIAA and SDMI last month over perceived threat that music industry groups would use DMCA to prevent them from presenting their work. RIAA and SDMI filed motion July 12 to dismiss suit on ground that they had "plainly and unequivocally stated and repeat again that they have no objection" to publication of SDMI paper, planned for next month. EFF is trying to whittle down DMCA's scope, Gross said, by taking on causes such as Felten's and *2600*'s and is talking with Rep. Boucher (D-Va.) on amending law.

At our deadline, Sklyarov was in custody of U.S. Marshal for transportation to San Jose, Cal., where court appearance date will be set, spokesman for U.S. Attorney told us. If convicted of violating DMCA, Sklyarov could face 5 years in prison and \$500,000 fine, U.S. Attorney's office said. Adobe didn't respond to our request for comment.

Keynote speaker for upcoming CES (Las Vegas, Jan. 8-11) will be Samsung Digital Media Pres.-CEO Daeje Chin. Show dates this year run Tues.-Fri.

FLEXTRONICS INCOME FLAT: Flextronics International last week reported income, before amortization and one-time charges, of \$90.58 million — 14% over \$79.48 million in same quarter year ago. But Singapore-based electronics distribution and manufacturing service provider posted diluted earnings of 18¢ cents per share in quarter — same amount as year ago.

Flextronics said sales increased 16% — from \$2.68 billion year ago to \$3.11 billion this time.

Flextronics was tapped by Microsoft late last year to assist software giant in manufacturing Xbox and bolstering distribution capabilities for upcoming game console (TVD Dec 25/00 p16). Company also provides services for manufacturers including Compaq, Hewlett-Packard, IBM, Nokia, Philips.

Commenting on his company's results last week, Flextronics CEO-Chmn. Michael Marks said: "We continue to focus on improving all our operating metrics during this tough period in the market and are pleased that we are able to grow in the most difficult environment of our company's history." He said: "The opportunities in front of us are enormous, we believe, yet we plan our operations as though no new business will come our way. This allows us to remain profitable and competitive in a very tough market, yet positions us for improvement as opportunities arise. We believe that this is a defining period for our company, and we intend to emerge from this environment in the strongest possible shape."

In conference call with analysts last week, Marks said that although company was "disappointed" that its results in quarter didn't quite match gains it had made in recent quarters, "we are quite pleased with our results in the June quarter" nevertheless in light of overall industry conditions.

Flextronics last week also announced agreement with China PTIC Information Industry Corp. that calls for companies to create what they termed "a cooperative sales, manufacturing and R&D plan for the Chinese communication market."

Noteworthy DVD-Videos for demonstration or for collectible sales include *Akira*, landmark 1988 Japanese animation arriving as 2-disc special edition from Pioneer Entertainment (\$39.98). On Aug. 21, 35th Anniversary special edition of *Batman: The Movie* ships from Fox (\$22.98). Vintage jazz performances on DVD include *The Last of the Blue Devils* (Aug. 14, Kino, \$29.95), documenting 1974 reunion of Kansas City jazz greats Count Basie, Jay McShann and Big Joe Turner, and *Billie Holiday* (Aug. 28, Pioneer, \$24.98). Disc has 6 performance clips not seen in 45 years, selection of songs, audio interviews, photo gallery of "Lady Day."

LodgeNet Entertainment said extension of contract with La Quinta Inns would provide new interactive digital TV services to more than 300 of latter's hotels and would upgrade LodgeNet interactive TV services already in place as well. As part of upgrades Super NES videogame systems would be replaced by Nintendo 64 systems, Lodgenet said.

Franklin Electronic Publishers said it expected to report \$2 million 2nd quarter loss Aug. 6 owing to lower-than-expected sales of its eBookman handheld reader. Company offers 200 e-book titles.

PS2 HARDWARE SALES GETTING BOOST: Sony Computer Entertainment America (SCEA) said last week that sales of its *Gran Turismo 3 A-spec* for PlayStation 2 (PS2) had "exceeded all industry standards" and were "already driving hardware sales for the platform."

SCEA said since game's release July 10 (TVD July 16 p18), "retailers nationwide are hailing" title "as the most successful software launch ever with first-day sales surpassing those of any other game in history."

Senior Vp Jack Tretton said: "With an initial product shipment of over one million units, *Gran Turismo 3 A-spec* broke all internal production records out of the gate exceeding even our high expectations for the product. This unprecedented demand demonstrates the popularity and broad appeal of *Gran Turismo 3 A-spec*, and reinforces the fact that millions of consumers are making PlayStation 2 their first choice in entertainment systems." He said "we expect that, like the 2 *Gran Turismo* titles before it, *Gran Turismo 3* will become a mainstay on the top of sales charts and drive hardware sales along with it, further broadening the PlayStation 2 demographic user base to mass market levels."

Among retail chains praising game's performance last week was videogame specialty dealer Electronics Boutique, whose videogames merchandising vp, Pete Roithmayr, said: "Sony Computer Entertainment has truly set a precedent with *Gran Turismo 3 A-spec*. In the week since its release, this highly anticipated title has performed even better than we had expected. [It] is the fastest-selling PlayStation 2 software title at Electronics Boutique since the launch of the system last October." Echoing him was GameStop COO Dan DeMatteo, who said: "Consumer demand for *Gran Turismo 3 A-spec* has been astounding. Throughout our stores nationwide, we sold more units of [it] on its first day of release than any other game in our corporate history, and the title continues to fly off shelves at an unparalleled rate."

Gerard Klauer Mattison Senior Vp Edward Williams told us he had heard from retailers and consumers that indeed game was "bringing in a more mass market audience" to PS2. But he said he had yet to see data proving that.

Universal Interactive Studios will publish new game starring Crash Bandicoot for Nintendo's Game Boy Advance. Title will be available in first quarter of 2002 and will be developed by N.Y.-based studio Vicarious Visions, which created *Tony Hawk's Pro Skater 2* for Game Boy Advance. Game maker said "multimillion selling franchise has never before appeared on any console system other than a Sony system." Company said Crash Bandicoot was among best-selling character-based franchises in history of PlayStation platform, with more than 20 million copies sold worldwide, including 8 million in N. America.

VSDA Show might return to July scheduling next year. Assn. now is polling exhibitors and retail members on change as result of lackluster turnout this year at first Jan. show, timed to coincide with CES in Las Vegas. Adult Entertainment Expo will remain concurrent with CES. VSDA's contract with Sands Convention Center in Las Vegas runs through 2005 show.

Consumer Electronics Personals

Gary Bennett, ex-Hitachi, named Apex Digital senior vp with responsibility for TV Div.; **Kenneth Salky**, ex-Koss Audio Video Electronics, named Apex mktg. vp... **Peter Main** to retire Jan. 31 as Nintendo of America exec. vp-sales & mktg., succeeded by **Peter MacDougall**, currently pres., Nintendo of Canada... **Thomas Miller**, ex-Silicon Motion, named vp-gen. mgr., Three-D OLED, joint venture formed by Three-Five Systems and DuPont Displays... **Edward Colligan** promoted to Handspring COO from senior sales & mktg. vp... **Paul Arling**, Universal Electronics CEO, adds chmn. title, replacing **Camille Jayne**, who returns to Jayne Group consulting firm... **Eric Stang**, Lexar Media COO, promoted to pres.-CEO, succeeding **John Reimer**, who remains chmn... **Anthony Lucido**, ex-Lutron, named Crestron mktg. dir... **Thomas Madden**, ex-Arvin Meritor, named Ingram Micro CFO, replacing **Michael Grainger**, promoted to pres.-COO... **Steve Gottlieb**, TVT Records pres.-CEO, elected to Musicmatch board... **Kenneth Henderson**, managing partner in Robinson Silverman Pearce Aronsohn & Berman law firm, elected Activision dir., succeeding **Harold Brown**, resigned... **Ronald Burr** and **Stacy Haitsuka** resign as NetZero pres. and senior technology vp, respectively; Chmn.-CEO **Mark Goldston** assumes pres. responsibilities as company prepares for merger with Juno Online to form United Online.

First portable audio product equipped with Dolby Headphone technology was introduced by Sharp for sale in Japan starting in Aug., price undisclosed. MD-ST880 MiniDisc player has Sharp-produced ASIC chip for Dolby Headphone processing that's said to recreate performance of home audio speakers over regular stereo headphones.

Valley Media stock will continue to be listed on Nasdaq, company announced last week. Software distributor said it received Nasdaq confirmation in July 13 letter that stock now complies with requirements that it maintain minimum value of public float and minimum bid price of \$1 per share.

Subsidies for CES will be offered again to U.K. audio exhibitors through British Federation of Audio (www.british-audio.org.uk). Group said participants could qualify for 60% reimbursement of exhibiting costs, up to £2,300 (\$3,240). It distributed £50,000 in subsidies for 2001 CES.

Sampo said its plasma monitors would be distributed to corporate, educational and govt. markets by Electrograph Systems. Company's 42W display has Digital Video Interface for connection to PCs.

There are 102.2 million U.S. TV households, of which 99% have color sets, 41% have 3 or more sets, 86% have VCRs and 78% receive cable, Nielsen reported in figures for May.

Konami of America (KOA) said its eagerly awaited PlayStation 2 game *Metal Gear Solid 2: Sons of Liberty* would ship in Nov. at \$49.99. Game makes debut in U.S., followed by Japan in Dec., Europe later.



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TELEVISION DIGEST WITH CONSUMER ELECTRONICS

The Authoritative Service for Broadcasting, Consumer Electronics and Allied Fields

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DISNEY BUYS FOX FAMILY, consolidating its hold on kids' basic cable networks. Nickelodeon left as prime rival. (P. 1)

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NEW CABLE OWNERSHIP RULES coming in 'month or 2,' Ferree says. He says open access is on front burner. (P. 6)

XM PLANS SEPT. DEBUT of satellite radio service in Dallas, San Diego. It slates national rollout for Nov. (P. 7)

DISNEY EXPANDS ACROSS BASIC CABLE WITH FOX BUY: News Corp. sold Fox Family Channel and 6,500-episode children's library to Disney for \$5.3 billion July 23, with \$2.3 billion of that in debt assumption. In making deal, Disney purchased network for which it was outbid in 1997 by Fox and Saban Entertainment. That sale by Pat Robertson cost \$1.7 billion, which meant value of network increased 211% in 4 years, driven in part by Disney's desire to outbid AOL Time Warner, sources said. Purchase makes Disney, already preeminent provider of children's entertainment on cable, even more dominant and provides another outlet for repurposing programming in Disney's vast library.

Fox Family Channel is in 81 million homes, generally on basic or expanded cable, and it's rare that channel with such large penetration is on market. Sale was triggered when Saban exercised contractual right to force News Corp. to buy out its just-under 50% share of network. Along with channel, which Disney will rename ABC Family, Disney acquired 76% ownership in Fox Kids Europe (24 million subscribers), Fox Kids channels in Latin America (10 million subscribers), and Saban video library (with Mighty Morphin Power Rangers and Digimon as best-known commodities). Fox retains its own children's programming.

Disney CEO Michael Eisner said ABC Family would carry programming from ABC, ESPN and such Disney cable networks as Disney Channel and Toon Disney. Speaking to TV critics in Pasadena July 23, Eisner said "we have 600 million people a month watching these assets" around world. "But if you now add in the basic advertiser-supported channels of Fox Kids and over time re-branded Disney, you can see the dual ability between broadcast, cable and premium cable that this gives our company." Pres.-COO Robert Iger said purchase "obviously gives us the ability from a sales standpoint to offer advertisers more... by allowing them to buy time across platforms."

Disney also plans soon to debut Playhouse Disney, separate offering for young children. Among Disney's other holdings are SoapNet, 50% of Lifetime, 37.5% of A&E, Biography and The History Channel, 39.6% of E! Entertainment and Style.

Consumer Electronics

TV GLASS GLUT SHUTS FACTORIES as set sales slow, leaving industry saddled with inventory. (P. 11)

NEW CD ANTICOPY SYSTEM READY: Following Macrovision's SafeAudio comes Cactus system for copy-proof CDs that Sony has tested in Europe. (P. 13)

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DIRECTV PUSHES DVI SUPPORT in unveiling support for format by several studios and CE manufacturers, although none promises product immediately. (P. 17)

RADIOSHACK SHIFTS FOCUS to 27" and under TVs as it seeks to expand assortment of parts, batteries and accessories; RCA 36" HD-ready set put on clearance sale. (P. 18)

News Corp. Chmn. Rupert Murdoch promised to make Fox Family dominant force in children's programming when company bought network 4 years ago, but ratings never caught up to Disney. In statement July 23, Murdoch said that he and Haim Saban "have established Fox Family as one of the world's premier family entertainment groups. We've enjoyed a close and profitable relationship that has delivered quality programming to children and families around the world." Perhaps most disappointing for Murdoch was his failure to use Fox Family as vehicle to successfully launch and maintain 2 digital cable networks, Boyz Channel and Girlz Channel. Murdoch reportedly is looking to liquidate some assets as he seeks to buy Hughes, which owns DirecTV, from General Motors.

While Fox Family purchase extends Disney's domestic reach, perhaps its greatest impact will be in international marketplace through Fox Kids International, Iger said. Speaking to TV critics, Iger said what Fox Kids International "has been able to do over the last few years is to create a basic service that is ad-supported and reaches 35 million people worldwide." Iger said plan is to merge Fox Kids International into Disney International TV, which runs 14 Disney Channels around world. He said he believed that consolidation of companies would double Disney's international reach in 5 years.

Eisner and Iger sidestepped questions about whether Robertson's lifetime deal with Fox Family was good fit with overall Disney brand. Iger said he didn't feel addressing issue "would be appropriate," saying only "there is some flexibility" in terms of when Robertson's 700 Club could be carried, "but there's also some obligation. That's as far as I'll go."

Asked whether basic cable rates would rise because of acquisition, Eisner said prices were controlled by operators. "They blame us because we're an easy whipping horse but the fact of the matter is, their margins, their profits and their desire for acquisitions may have more to do with the price they're charging the consumers," he said.

Remaining as primary competitor to Disney for children's programming on cable is Viacom's Nickelodeon, with others such as HBO Family (pay channel) and Hallmark (formerly Odyssey) trailing far behind in households served. However, Disney's growth on that front didn't appear to upset media watchers who had railed against consolidation in AOL Time Warner merger. Wall St. analysts praised move as sign that Eisner was willing to spend to keep pace with newly merged behemoth, even though purchase price ended up 35 times above cash flow, considered quite high. Deal is scheduled to close in 4th quarter.

UBS Warburg found deal of 35 times cash flow to be "fairly priced on a per-subscriber basis," with Disney paying estimated \$43.50 per subscriber. Analyst Christopher Dixon said deal was "strategically necessary to help... better position the company against cross-selling arrangements now in place at Viacom and AOL."

Standard & Poor's (S&P) raised its outlook on Disney. It moved Disney to stable from negative and Fox Family Worldwide to developing from positive. Further review of Disney's financing and business plans is needed before it can conduct further analysis of Fox Family, S&P said. It said channel had underperformed, but Disney could rectify situation with ABC and Disney shows. All existing ratings for Disney and Fox Family were affirmed.

Disney CFO Thomas Stagg said good portion of \$2.3 billion that it assumed in debt would be refinanced. Although combined businesses generated only about \$150 million in operating cash flow last year, Stagg said "that number really isn't indicative of the underlying value of the business." He said ad revenue could increase 50% via Disney's consolidation plans, as well as "the opportunity to generate \$50 million" in other cost-saving that had yet to be finalized.

FCC CLEARS FOX BUY OF CHRIS-CRAFT: FCC approved purchase of 10 Chris-Craft TV stations and subsidiaries BHC Communications and United TV by News Corp. subsidiary Fox TV Stations (FTS) by 3-2 vote July 25, 11 months after \$5.35-billion deal was announced. In doing so, agency issued temporary waivers for 3 separate ownership rules — TV duopolies, 35% national TV audience cap and newspaper-broadcast cross-ownership cap. However, it's likely that some or all of those waivers will become permanent based on actions in U.S. courts and in FCC rulemakings, something that upset dissenting Comrs. Tristani and Copps. Tristani was particularly insistent in her opposition and found herself in written tussle with Chmn. Powell.

The deal "violates the Communications Act," Tristani said in separate statement: "This decision also shows the lengths the Commission will go to avoid standing in the way of media mergers." In response, Powell said in statement that while he and Tristani "may have a respectful disagreement over the public interest standard... this sweeping assertion is not only offensive, but absurd." Tristani and Copps took issue with fact that majority didn't require FTS to dem-

onstrate why acquisition was in public interest. In addition, Copps wrote: "Certain of these [conditions] are long-term waivers that appear to be based on the anticipation that prior to the termination of the waivers, the rules may be relaxed such that compliance never need occur." However, Powell wrote that conditions were "consistent with long-standing Commission precedent" and gave FTS "a reasonable amount of time to divest assets in order to comply with our rules."

In allowing takeover, FCC approved business plan placing 10 TV stations under FTS and moving nonlicensed FTS assets to new Fox subsidiary Newco, 85% owned by News Corp. Tristani said approval alone violated Sec. 310(b) of Communications Act banning more than 25% foreign ownership of broadcast licenses, although FCC has authority to waive that prohibition.

Conditions imposed on deal: (1) TV duopolies. Takeover creates Fox duopolies in N.Y., L.A., Phoenix, Salt Lake City. Only in Salt Lake City are both stations in top 4 of market, so Fox has 6 months to divest either KSTU (Ch. 13, Fox) or KTVX (Ch. 4, ABC). However, Justice Dept. Antitrust Div. last month ordered News Corp. to divest KTVX as part of its merger review, giving company 150 days.

(2) National audience reach. With 40.91% national audience reach, FTS will exceed 35% cap. FCC gave Fox 12 months to divest stations to come into compliance with rule. However, U.S. Appeals Court, D.C., is reviewing ownership cap, and as result Commission said it would "delay the effectiveness of this part of the order pending final disposition of the court case." (3) TV-newspaper cross-ownership. News Corp. owns *N.Y. Post* as well as WNYW (Ch. 5, Fox) N.Y. It's acquiring WWOR-TV (Ch. 9, UPN) N.Y.-Secaucus. Fox has permanent waiver for *Post*-WNYW cross-ownership and sought to have that extended to WWOR-TV, saying *Post* was money-losing proposition and would go out of business as no one would buy it. (Ownership rules don't forbid joint ownership of WNYW and WWOR-TV without *Post*.) However, FCC didn't accept Fox's argument, instead giving company 24 months to come into compliance with one newspaper-one TV station limit. That limit also could very well be abolished or modified in next 2 years.

Powell disputed charge by dissenters that FCC "has somehow abandoned its public interest obligation." He said conditions were consistent with past Commission actions and corresponded with past interpretations of public interest standard. He dismissed Tristani's charge that deal would quiet independent voices: "The New York market would still have 19 independent TV voices, over 120 commercial and noncommercial radio stations, 25 daily newspapers and hundreds of weekly papers." Comr. Abernathy agreed with many of Powell's points, adding: "Today's marketplace is extremely dynamic — delays of 10 months simply will not do."

Charles Hewitt is expected to announce his resignation as Satellite Bcstg. & Communications Assn. (SBCA) pres. at 2001 Convention & Trade Show in Nashville this week, industry sources said. Speculation on possible resignation of Hewitt and Senior Vp Andrew Paul was rampant on Internet and throughout industry last week, and while SBCA had no comment, it issued release announcing news conference for Aug. 2 at which Hewitt, Paul and Vp Govt. Affairs-Gen. Counsel Andrew Wright and SBCA Chmn. Stan Kozlowski were expected to discuss "directives initiated during the board meeting." Some sources said Wright was likely candidate to replace Hewitt. Hewitt, Wright and Paul weren't available for comment. DirecTV spokesman seemed to confirm resignation with statement: "Chuck will be missed. He did a tremendous job in leading the organization through a time of tremendous change and growth. We are grateful to Chuck and Andy Paul for their dedication to this industry." Hewitt is scheduled to deliver one of keynote addresses at convention. His departure would mean top 2 lobbying groups for satellite industry will have new leaders. Two weeks ago, Clayton Mowry resigned as pres. of Satellite Industry Assn. to become CEO of Washington operation of Arianespace. Change in leadership comes at time when satellite industry faces several critical issues, including constitutionality of must-carry, consolidation of DBS market, terrestrial use of satellite spectrum.

American Women in Radio & TV will celebrate its 50th anniversary Oct. 25 at Tavern on the Green restaurant in N.Y.C. It will feature publication of *Making Waves: The 50 Greatest Women in Radio and Television*, with many of those honored participating.

Although 40% of American parents now own TV equipped with V-chip, only 17% of those with V-chips are using it to block programs with sexual or violent content, according to Kaiser Family Foundation survey. In contrast, more than half of all parents have consulted TV ratings to decide what their children can watch, it said. More than half of parents with V-chip didn't know their TV was equipped with one, survey found, and of those who were aware, only 1/3 had programmed it to block programs. Survey said 56% of parents reported having used TV ratings system to determine what their children could watch.

All 50 states now permit some form of broadcast coverage of their courts. As last holdout, S.D. Supreme Court announced July 25 it would allow TV and radio coverage of oral arguments. Audio and video signals also will be Webcast and made available to all stations in state, court said. Miss., next to last holdout, began permitting experimental coverage of its Supreme Court last spring and is considering expanding that to appellate courts (TVD June 2 p7). Bipartisan bill is pending in Senate — introduced by Sens. Grassley (R-Ia.) and Schumer (D-N.Y.) — to permit cameras and microphones in federal courts, which still ban any broadcast coverage.

USA Networks trimmed quarterly loss to \$7.5 million from \$26.9 million last year. Company said that if stakes in USA Networks held by Vivendi Universal and Liberty Media were converted to stock, it would have quarterly profit of \$10.3 million. Earlier this month, USA Networks announced it would purchase online travel site Expedia.

LIEBERMAN TRIES TO ALLAY RATINGS FEARS: Senate Govt. Affairs Committee Chmn. Lieberman (D-Conn.) sought to allay First Amendment concerns of entertainment industry at hearing July 25 on effectiveness of content ratings systems: "That's why we're not talking about government regulation or legislation today." Despite testimony from medical and academic panelists criticizing industry for generally failing to improve their respective ratings systems, self-regulatory proponents blasted notion of creating single cross-industry ratings standard for consumers.

Lieberman had introduced bill (S-792) earlier this year that would empower FTC to punish companies for deceptive business practices involving marketing of adult content to children. He said purpose of hearing was to explore "reliability, visibility, understandability" of ratings: "Governments don't raise children, parents do," although govts. are well-suited to "provide a platform, find a common ground," and begin constructive dialog with private sector.

Sen. Brownback (R-Kan.) said hearing would expose "major problems with the various ratings systems" to public scrutiny, noting that "the disagreement between parents and the industry is deep and wide over products that are rated as fine for kids. What is even stranger is that, as the [FTC] reported, even when industry acknowledged that their products were so violent or vulgar as to be inappropriate for kids, they target-marketed to kids anyway. This is a sham, and a shame."

Sen. Thompson (R-Tenn.) said he shared concerns of committee members: However, he said "most, if not all" of industry activities in question were protected by First Amendment: "When it comes to legislation or the imposition of mandates, we do not have the power to do this... This is not a question of whether a line should be drawn, it's a matter of who should draw it." He also doubted whether govt., even if it had legal right to be involved, was capable of stemming tide of questionable content. He lauded parental activism on issue, including efforts to boycott commercial products that groups find harmful to kids.

Cato Institute Vp-Legal Affairs Roger Pilon said he was troubled that while some ratings critics weren't seeking direct govt. action against industry, they nevertheless wanted govt. "management" of industry ratings. He questioned whether critics had "hidden agenda" and rebuked committee for even tackling ratings.

MPAA Pres. Jack Valenti said industry had made great strides in responding to critical FTC report on its self-regulatory practices. He decried criticism of system, and said Lieberman bill would punish those who complied with ratings system while providing loophole for those who didn't participate.

U. of Cal. Prof. Dale Kunkel said Valenti's reliance on single Toronto study — which rejected evidence of impact of media violence on children — ignored quarter century of research on issue: "Notwithstanding Mr. Valenti's recent comments, it is well established by a compelling body of scientific research that television violence poses a risk of harmful effects for child viewers."

Actor William Baldwin, pres. of The Creative Coalition, said ratings were "extraordinarily valuable" but without "consistency and honesty," credibility of existing movie ratings sys-

tem suffered. However, he warned against allowing govt. to impose judgment on constitutionally protected forms of expression and agreed with critics of universal ratings system. While it was important to help parents guide their children, he said it was equally critical that schools implement "media literacy programs" to help kids deal with information from media.

CBS DEFENDS UPFRONT STRATEGY: CBS Pres.-CEO Les Moonves told TV critics in Pasadena July 24 that despite slow upfront ad sales market, he was bullish on CBS schedule. "Our upfront strategy was [that] we felt comparatively with NBC and ABC... our CPM [cost per thousand] growth would be more extensive than theirs would, and that turned out to be the case."

He admitted network "didn't sell as much inventory as we did last year — we sold about 65% to 67%, and last year we sold closer to 80%." But Moonves said he was "betting on our schedule maybe more than some of the other guys are betting on their schedule. We feel there's going to be scatter money available."

Because average age of CBS viewer has come down as result of *Survivor*, Moonves said, financial outlook has improved for network. "We think it's important to get younger and to get more younger viewers," he said. "That will never change but we are a broadcaster and we sell different shows in very different ways."

While acknowledging some advertisers continued to shy away from reality shows, Moonves said there was positive trade-off. "P&G doesn't want to be on *Big Brother* and that's okay," he said. "Advertisers pick the shows they're most comfortable with, and you shift your money around. However, we're getting a lot more movie money than we ever have before because we're getting more 18-34s than we used to get."

Moonves conceded that lower viewership for network broadcast of feature films had diminished demand for movies. "They have not performed as well as in past years so the amount of money you have to pay for them has come down as well," he said. "So we've been able to do some terrific deals."

Nancy Tellum addressed Internet component of network's summer reality entry, *Big Brother*, which costs \$19.95 for three months. "As of last week, we had about 14,000 paid viewers." She said CBS.com, parent of *Big Brother* site, saw Website traffic increase 300% to over 44 million page users.

RTNDA has protested new requirement of U. of Ore. prohibiting TV stations from airing more than 20 sec. of football and basketball highlights for 48 hours after game and to 30 sec. for next 5 days. By imposing such limitations, "you are asking [stations] to forfeit control of their newscasts," RTNDA wrote University Pres. David Frohmyer in letter signed by Society of Professional Journalists and Reporters Committee for Freedom of the Press. Such rule would permit "newsmakers" to "become the exclusive news providers, a contradiction to the role of a free press," groups said. News groups said requirement was imposed at request of ESPN, which obtained rights to Ore. games last fall — formerly held by KVAL-TV Eugene, Ore., which after losing rights reportedly routinely aired lengthy clips of Ore. football highlights.

NEED FOR MEDIA SEX STUDY: Portrayal of sex on TV and movies has major impact on youth sexuality but long-term analysis is needed before pinpointing media content as direct cause of risky sexual behavior, pediatric researchers said at Senate forum July 26. Although panelists had different ideas on how best to press entertainment industry into airing more responsible sexual messages, they agreed that media were one of top sources of sex education for children.

Harvard Pediatrics Prof. Michael Rich cautioned against notion that one episode of media sex or violence inspired kids to have sex or act violently: "There's very little data... on media exposure and sexual attitudes." However, Rich said "the evidence we have to date points in one direction" and suggested intensive study on "cumulative effect" of media on youth sexuality. Study should include analysis of amount and type of media viewing, he said.

"Each year television and movies offer 14,000 sexual portrayals, of which only 165 deal with risks of pregnancy, HIV or other [sexually transmitted] diseases," Rich said. "It seems unrealistic that society should place the sole blame on young people for engaging in early and unsafe sex when they have so much exposure to irresponsible sexual message and portrayals in media."

Forum followed House and Senate hearings on media violence last week (see separate story) and effectiveness of entertainment ratings systems. Sens. Lieberman (D-Conn.), Brownback (R-Kan.) and Dorgan (D-N.D.) sponsored event. "Although it's a lonely effort on Capitol Hill, it's truly supported by people around the country," Lieberman said.

Panelists at sex forum had mixed reaction to proposal at Senate hearing by actor William Baldwin to develop media literacy programs in schools nationwide. Baldwin, pres. of Creative Coalition, acknowledged that media ratings systems risked losing credibility without making improvements. However, he emphasized that ratings or warning "sticker on a videogame is not a bandage for a broken family."

Rich lauded Baldwin's recommendation. "Media literacy is ultimately the key" to helping kids perceive and process media messages and images, he said. "They are freed by that, and are able to make the right choices in determining what is real from what is not," he said.

Lion & Lamb Project Exec. Dir. Daphne White rejected Baldwin's proposal to work with Creative Coalition in development of media literacy curricula: "I'm afraid it's another case of the fox guarding the chicken house." White said media education programs already existed, but "kids laugh at them." She said such educational efforts "can't compete with the titillation" of violent and sexual programming: "Kids do need media education, but you can't put the toothpaste back into the tube."

Creative Coalition spokeswoman Kym Spell said it was "disappointing" that White wanted entertainment industry to stay out of media literacy initiatives. She said that "more inclusive approach" is best way to address marketing of programming to children and bombardment of messages from various forms of media: "Everyone needs a seat at the table, and only by working together can we solve this problem." She reiterated Baldwin's position that "there's no easy answer" in light of

myriad causes of youth violence such as drug and alcohol abuse, divorce, family breakdown.

U. of Mich. Prof. Monique Ward said although there were indications that viewing substantial amounts of sexually explicit programming might have negative impact on sexual attitudes, "there could be a number of benefits to depicting sex." Amount of viewer consumption, involvement of viewers in what they see, and peer influence all contribute to how media shape sexual attitudes, she said. Ward agreed with Rich that long-term analysis was needed to assess scientifically whether media-depicted sex had negative impact: "What needs to be done... is to look at media diets over time... We need to broaden our research."

Kaiser Family Foundation released report at forum saying that "2 out of every 3 shows on TV include sexual content, an increase from about half of all shows during the 97/98 season." Study's definition of sexual content referred to: (1) Discussion of sex. (2) Physical flirting. (3) Kissing. (4) Intimate touching. (5) Sexual intercourse strongly implied. (6) Sexual intercourse depicted.

When asked why survey categorized kissing and flirting as sexual content, Kaiser Vp Victoria Rideout said that while some said it wasn't relevant to survey's results, "others say it's very relevant." She cited example of TV program in which girl found stranger's bra while kissing boyfriend on couch: "I believe that it's fair to count that as sexual content on television."

Proposal for terrestrial DTV copy protection and encryption by 5 Hollywood studios has been delivered to Digital Transmission Licensing Authority (DTLA), Pres. Michael Ayers told us (TVD July 23 p3). Memo of understanding among Disney, MGM, Paramount, 20th Century Fox and Universal says they will embrace DTLA's Digital Transmission Content Protection (DTCP) for cable- and satellite-delivered DTV, as Sony and Warner have. Memorandum proposes digital watermark for terrestrial broadcasts, Disney Exec. Vp-Govt. Relations Preston Padden told us 2 weeks ago. Ayers said DTLA had no comment on studios' proposal yet, pending review by member companies. He confirmed, though, that DTCP standard could accommodate watermark technology designed to protect over-air broadcasts against unauthorized copying. Although 5C system doesn't incorporate own watermark, it won't strip out one or more "consensus watermarks" that might be agreed upon by industry groups, he told us. Ayers also offered additional details on how hard-disc personal video recorders (PVRs) would function under DTCP's "Copy Never" mode for time-sensitive pay-per-view or video-on-demand programming. Content owner would allow PVR to capture program and pause it during viewing for "rolling windows" at least 90 min. after each increment is received, Ayers said.

Digital cable subscriptions have increased 10% to 28% since 2000, CTAM said in study. Survey of multichannel video and online services usage found that cable customers had increased online service usage tenfold to 51% from 4% since 1994 and online users had doubled their pay-per-view purchases. CTAM said 55% of all households now had personal computer, vs. 32% in 1994, and 56% of cable subscribers and 69% of satellite customers owned computers. Growth in multichannel video services has been moderate, it said, with cable penetration remaining steady over last 7 years. Penetration rate has fluctuated between 64% and 69%, it said. Satellite, which experienced sharp growth in 1994-1997 period, has penetration rate of 16% now.

QUICK DTV SWITCH CALLED CRITICAL: Broadcasters should hasten digital TV transition for sake of industry's survival, FCC Plans & Policy Chief Robert Pepper said July 24 at Consumer Electronics Assn. conference in Washington. He acknowledged that "to date, the vast majority of broadcasters have met" DTV deadline. However, "the real deadline in the statute is when 85% of consumers in a market can receive digital signals. What's the rush for broadcasters? The rush is the survival of your business."

Pepper said broadcasters must ask themselves whether they can afford not to convert: "If you don't, consumers will go elsewhere." Pepper emphasized that "a couple of things have changed over the past 15 years," such as 65% cable penetration and rising satellite penetration. He said that currently "people are buying digital TV sets for movies. They're not buying them for over-the-air broadcast programming."

Sen. Burns (R-Mon.) said that no matter what govt. said or did, marketplace set pace of transition on conversion: "The marketplace probably will have more to do with that... than any other factor." He said May 2003 on-air deadline was unrealistic: "Next year we're really going to have to take a good look at that deadline." Burns said conversion to digital from analog depended on broadcasters' turning over analog spectrum: "The top end of the television market will convert and will be okay. But I tell you what, from the middle on down, it's going to take a long time."

Pax TV Pres. Dean Goodman said "a few issues that need to be addressed can be addressed expediently," such as imposing must-carry rules on cable: "What we need is an all-channel DTV bill" that would mandate date-certain digital-receiver transition for all TV sets: "We did it with AM-FM and it works."

MPAA Exec. Vp Fritz Attaway said "DTV broadcasting is not going to mature and the DTV transition is not going to take place until there is compelling content on DTV stations." However, he said content owners were not going to release content in unsecured environment: "Security is a must for TV to develop."

Attaway said MPAA was concerned that "consumers will distribute content to 100 million over the Internet" and wasn't concerned with "fair use" copies made at home: "That's a real problem for content owners, and it needs to be solved." He also said encryption and open access were not separate issues, but he saw difficulty in regulatory or congressional resolution: "Politically, it would be difficult to get the FCC to require DTV stations to encrypt their signal and require the consumer electronics industry to provide trusted television sets that could decrypt the signal." He said requiring watermarks on content also would require legislation, but saw equal difficulty that way: "Both of these alternatives are technically possible, but create public policy issues that aren't easily resolved."

Mitsubishi Digital Electronics America Vp-Mktg. Robert Perry said harmonious DTV equipment standard was of paramount concern. He said he supported govt.-mandated transition timetable: "In our business, we survive only when we deliver the products that consumers want," something that can't be accomplished when cable devices work in one area and not another. "Many broadcasters haven't set up financial models to make transition, and it's not govt. responsibility to ensure that they have changed those financial models, he said: "If you want to pay for spectrum, fine, if you want that spectrum for free," then comply with transition requirements.

Mark Cooper, research dir., Consumer Federation of America, said that while efforts of Baby Bells to control digital arena thus far had been resisted, broadcasters, who were given billions of dollars worth of digital spectrum, "have let the most fertile fields lie fallow." He said nation needed "content revolution, not a capacity fix... we need content that stimulates [DTV] demand." He suggested taking spectrum back from broadcasters and selling it to highest bidder.

NEW CABLE OWNERSHIP CAP DUE SOON: FCC will issue further notice of proposed rulemaking "in the next month or 2" on cable ownership limits, Cable Bureau Chief Kenneth Ferree told reporters in his first media briefing July 25. U.S. Appeals Court, D.C., in March remanded ownership rules, which limit given provider to 30% of cable and DBS market, back to FCC. Ferree, referring to harsh language criticizing Commission's decision-making in court decision, said: "We want to be very careful to support whatever we do the next time around... I will not have a case sent back with the kind of language that was in the last ownership reversal." He also dismissed any link between cable consolidation and rising cable rates, and said bureau was working "feverishly" on open access issue.

Cable ownership issue has dominated bureau's agenda this year, with FCC giving AT&T waiver on conditions surrounding company's MediaOne purchase after court's remand. In addition, some on Capitol Hill have called for raising or eliminating cap, move supported by NCTA. Speculation among analysts is that FCC will raise limits to as high as 50-60%, which no existing operator would approach. That could change, however, if AT&T Broadband, largest MSO in U.S., were sold to Comcast or AOL Time Warner (see separate report, this issue).

FCC will need to show court why ownership cap below antitrust threshold was necessary. "I always have Judge [Harry] Edwards sitting on my shoulder," Ferree said, referring to appeals court judge for whom he once clerked. "We're going to have to look closely at what limits are appropriate and do a rigorous analysis to really justify those limits," he said. Ferree said he was "sensitive" to concerns about rising cable rates, but repeatedly said he had seen no evidence that consolidation of cable providers would lead to higher rates: "I'm not so sure there's a correlation."

Ferree called open access "a high-priority proceeding." Comment period on notice of inquiry closed some time ago and he said bureau staff was working on it. "We don't have a definite timeline" for release or know whether it would lead to rulemaking, he said. However, he acknowledged that pressure was mounting on FCC to act: "Court cases are still bubbling up all over the country, and the FCC has to take a position on the issue."

Responding to queries about his personal TV habits, Ferree said he has Cox cable service with cable modem but not digital cable. He had few complaints about his service, "always, inevitably" finding something to watch among 100 or so channels on his system. But he admitted that until recently he watched little TV because he and his wife imposed stringent restrictions on viewing by their 7-year-old daughter and 5-year-old son.

Rogers Communications said it would invest \$2 million in **MetaTV**, interactive TV provider. It thus joins other MSOs Comcast and Cox Communications as backers of service, boosting MetaTV's capital financing to more than \$30 million.

XM SATELLITE RADIO PLANS DEBUT: XM Satellite Radio became first of 2 satellite digital audio radio services (DARS) providers to spell out start of its commercial service, saying receivers and 100 channels of programming would be available for \$9.99 monthly subscription fee in Dallas-Ft. Worth and San Diego starting Sept. 12. Service will be expanded to southwestern states encompassing 25% of U.S. in mid.-Oct., followed by nationwide debut in early Nov., senior XM executives told N.Y.C. news conference July 24.

Debut will be supported by \$100 million ad and promotional blitz that will include \$45 million in crucial 4th quarter, XM Pres.-CEO Hugh Panero said. Keystone of national ad campaign will be 60-sec. commercial in 300 movie theaters for one month starting Aug. 10. Commercial will be repeated for 2nd one-month showing in Oct. Seven derivative 30-sec. spots targeted to enthusiasts of various music genres will appear on broadcast and cable during ramp-up period. B.B. King, David Bowie and Snoop Dogg are among artists featured in commercials.

Panero estimated that XM receivers would be available in 5,000 storefronts when national rollout reached peak in Nov. and build momentum toward holiday selling season. He estimated 50,000-60,000 XM receivers would be sold by year-end, which he said would represent high end of range of analysts' projections of 25,000-75,000. Vast majority will be aftermarket radios from suppliers such as Alpine, Pioneer, Sony. Panero said GM, which is 12% owner of XM, plans to install unspecified quantities of OEM receivers in Cadillacs starting this year, with more car models to be added in 2002. He said XM's receiver partners had collective capacity to produce 50,000 receivers monthly and could ramp up quickly to 80,000 per month if demand warranted.

Lee Abrams, chief programming officer, said XM would feature 71 music channels, 30 commercial-free. Abrams, veteran of early FM days, said programming would break mold of traditional radio with individual channels promoting particular "point of view, without compromise." Remaining channels encompass news, sports, weather and comedy programming, with at least 2 targeted for children. Company announced its latest programming agreements with E! Entertainment Network, Fox News, CNN Headline News.

Panero said XM revenues at start would be 90% generated from subscriptions, rest from advertising. He said that within 5 years, ratio could evolve to 60-40 in favor of subscriptions.

Panero conceded that XM's buildout of terrestrial repeaters might be problem. He said network ultimately would number about 1,200 repeaters nationally, with about 400-500 now completed and 600 in "different phases" of installation. However, he expressed confidence that all would be finished by Nov. rollout date.

Rival Sirius Satellite Radio hasn't yet specified actual launch date and has downscaled projected 4th-quarter sales to fewer than 20,000 receivers. But Sirius Senior Vp Douglas Wilsterman said his company's introduction will be "a nationwide coast-to-coast service," not "a city-by-city rollout" like XM's. He said all 50 of Sirius' music channels would be commercial-free, in comparison with fewer than half of XM's. Wilsterman said company also continued to believe Sirius's \$12.95 monthly subscription fee wouldn't put it at competitive disadvantage to XM's \$9.99 because research showed \$3 differential had little "material" impact on consumer decision to buy.

LACK SAYS NBC PERFORMED WELL: NBC's Pres.-COO Andrew Lack told TV critics in Pasadena July 20 that network's ad performance was better than expected. Speaking at TV Critics Assn., Lack said NBC "got a little more market share than we had year-to-year, which was important to us." He said advertisers had warned rates and volume would be down and "we reacted, we responded... And it looks to me like we are maybe \$150-\$200 million of where we expected to be as a result."

Lack said prime-time ad sales came to \$1.95 billion "looking at 2," down from last year's \$2.2 billion. Although he hadn't seen other numbers yet, he said "Olympics look good... We are in better shape, quite honestly, than I thought we were going to be 2 months ago."

Despite downturn, Lack stressed that last year was "arguably the best year ever. I mean *ever*. We essentially, as you've seen through the economy, had 2 sectors disappear - telecoms, the Internet and technology really folded on us. So that's essentially the difference. But we held pretty nicely in just about every other category."

Under repeated questioning, Lack denied network strong-armed West Coast affiliates into tape-delaying upcoming Winter Olympic coverage out of Utah. "We didn't say no to our affiliates. It wasn't a New York or network decision. The stations and affiliates on the West Coast wanted the result that they've gotten. We came to a joint decision."

Lack defended Scott Sassa and Jeff Zucker's reality programming choices. "I'm not concerned that it would tarnish NBC's reputation. I'm not embarrassed by it. It's provocative programming for a particular segment of the audience that is not as well represented on network television as we would generally like. It's appealing to a much younger audience and that's great for network television."

Lack downplayed idea of competing against huge media firms. He also denied that NBC might opt for cable model, particularly if relations with affiliates worsened: "We are not in any discussions about dumping affiliates and going to a cable model. It isn't a conversation that we are having internally."

As for changing current business model, Lack pointed to PAX. "My hope is that we will find a path through PAX to gain a greater position and ultimately be able to use that channel to further net strength." But he said NBC executives have "got to figure out a model to deal with the difficulty in summer programming, the repeats of the dramas." He also acknowledged possibility NBC could boost stake in PAX to more than 50% in future.

Lack expressed determination to keep NBA on network — but not at all costs. "We want to keep it. And we know we are going to have to play aggressively to get it. And we know it's going to be very expensive and at a certain point if the numbers are going to choke us, we're going to walk away from it."

On technology side, Lack spoke to concerns over increased use of wide-screen formats when most viewers still have squarer screens. "These are first-class people who are executing in this format and we want to give them a little running room to experiment but I think we have to watch it carefully and make sure we're not alienating viewers."

AT&T BROADBAND BOOSTS NUMBERS: While speculation continued about possible rival offers to Comcast's bid for AT&T Broadband, AT&T's cable unit said its 2nd quarter earnings before interest, taxes, depreciation and amortization rose to 23.4% from 18.3% in first quarter, excluding \$100 million restructuring charge and other income. AT&T Broadband Pres.-CEO Daniel Somers said MSO expected to deliver \$500 million in annualized margin improvement by end of year and to "achieve industry benchmark margins within the next 3 years." AT&T Broadband officials said they also expected to generate positive free cash flow by end of 2003. Overall revenue for this year was expected to grow at midteen rate.

Somers said revenue from advanced services soared more than 60% in year. Advanced services drove company's monthly average revenue per subscriber to \$55.34 in 2nd quarter, well above industry average. While digital video is highly profitable, high-speed data is expected to break even in the 3rd quarter and cable telephony in 9 months, he said: "Our investment in advanced services is paying off." Somers said company had penetration levels of 22% for digital video, 10% for high-speed data, 14% for telephony.

On pro forma basis, AT&T Broadband said it added 553,000 advanced service customers in 2nd quarter, up 46% in year, he said. As of June 30, company had 848,000 customers for telephony, 1.3 million high-speed data and 3.1 million for digital video for total of 5.3 million advanced services subscribers. Although company's basic subscriber growth rate was negative 0.6% in first half, it was expected to turn positive in 2nd half to produce positive overall growth rate for year, executives said.

AT&T Broadband said it planned to spend \$3.6 billion in capital in 2001, mostly on providing advanced services and plant upgrades. In last year, company reduced cable head-ends to 40 from more than 200, consolidated 200 call centers to 30 and cut employee base to 43,000 from 53,000. Company expects to reduce work force another 3,000 this year.

Press reports last week said several other media giants were weighing bids for AT&T Broadband, including AOL Time Warner, Walt Disney Co., Charter Communications and Cox Communications. But Legg Mason analyst Blair Levin cast doubt on any AOL Time Warner offer, arguing that it would face steep regulatory obstacles. "For AOL to buy AT&T Broadband would be like Napoleon going to Moscow," Levin said. "It's a battle they should not fight and ultimately could not win." Recent report co-authored by Levin and fellow analyst Michael Balhoff said rumored deal "would raise numerous problems, entail a lengthy review that would be enormously painful and might not succeed."

Levin and Balhoff said any sort of approval would require "protracted government micromanagement" of AOL Time Warner to ensure that company offered nondiscriminatory treatment to competitors, including broadcasters, telecom firms, ISPs and satellite companies. "It could also lead to the devaluing of the very synergies upon which AOL Time Warner sold its original merger to Wall Street," report said, and approval probably would require divestitures.

In briefing reporters last week, FCC Cable Bureau Chief Kenneth Ferree acknowledged that AOL purchase of AT&T

Broadband would have more vertical ownership issues than Comcast. But he said "it's pure speculation at this time that one would be more problematic than the other."

ABC SEES TV BUSINESS MODEL CHANGING: Top ABC executives Stu Bloomberg and Lloyd Braun told TV critics in Pasadena July 22 that year-round programming had become economic necessity — as well as economic concern — as networks aired fewer repeats and paid for more original content. While Braun said: "I think that the summer has proven to be a very rich place to launch the right kind of show," he also admitted: "It's hard, it's really hard. You're constantly challenged with looking at inventory and trying to figure out ways to pay for all of this."

One way to redefine cost structure is to make longer deals with studios. Braun said "we're going to have to constantly think of new ways of getting income in the door for all of us and new ways of getting more and more eyeballs onto these shows in a very fragmented world."

Bloomberg credited *Who Wants to be a Millionaire* with enabling ABC to improve overall development by allowing "us to spend more time and money on development, and I think really now we're able to preserve its specialness by having it on twice a week." Responding to criticism that *Millionaire* was overexposed last season by airing 4 days in week, Braun said: "I don't think there were shows that we had that were on the cusp of becoming hits that we took off the air because we put *Millionaire* on. What we did by having *Millionaire* on was we were able to provide a halo effect to the rest of our schedule and then take the time to develop and then launch new shows."

While economic and programming importance of reality fare was readily acknowledged, Bloomberg stressed that network's brand wouldn't be compromised. "We believe that you can put on that type of reality programming and still maintain a certain level, not only of execution, but also of ad revenue," he said. "You won't see *Fear Factor* on ABC and you won't see *Spy TV* on ABC." Braun agreed: "I don't think the answer would have been any different in the days before ABC was owned by Disney, quite honestly. We just don't think that's what this network is."

Looking to new season, executives admitted taking risks, including upsetting producer Steven Bochco by moving *NYPD Blue* out of its long-held Tues. slot into Wed. opposite *Law & Order*. "Listen, it's really competitive out there," Braun said. "I mean, the truth is there's virtually no free ride anymore for any network in any time slot on any night."

Risks notwithstanding, ABC TV Pres. Alex Wallau cited network's overall financial and strategic health, arguing that "ABC reaches more people in prime time than any other network. We are the broadest of the broadcast networks. And we also, in terms of our business, reach more adults 18 to 49 every week in prime time than any other network."

Study examining "family hour" TV shows will be presented by Parent's TV Council in news conference Aug. 1. Sen. Brownback (R-Kan.) will participate in discussion of report, *Sour Family Hour: 8 to 9 Goes From Bad to Worse*. Sen. Lieberman (D-Conn.) is invited guest. Event will be 10:30 a.m. on Hill, location to be announced.

CBS VOWS ELECTION COVERAGE CHANGES: Addressing TV critics in Pasadena July 24, CBS News Pres. Andrew Heyward said changes would be instituted for 2002 mid-term elections to ease problems that arose in 2000 Presidential election. "We are investing among the partners millions of dollars in Voter News Service to shore up whatever problems came to light as a result of the very aberrant 2000 election," he said. "But the big change the viewers will see is that the language will be more tempered."

60 Minutes Exec. Producer Don Hewitt said CBS would be more careful about "calling" elections: "Calling an election is up to the secretary of state of a state," he said. "I think that word is what got all of us into the most trouble." However, he said network hadn't formally "adopted that policy" of not predicting outcomes. Instead, he said, "that spirit is absolutely going to inform all of our coverage. We're going to be careful not only in how we characterize races, whether we use the word 'call' or not, but when we do it."

Hewitt reasserted his belief that networks should combine their respective evening newscasts into one, saying "it's a way to attract the same audience at a third of the cost." He said "if competition is what drives you, explain to me why the *New York Times* got better after the *Herald Tribune* folded." Hewitt said he thought "a lot of the screw-ups that happened election night [were] triggered because of competition. If they weren't competing with each other and there were one broadcast, like when there's a debate and one network feeds everyone else, those mistakes wouldn't have been made."

Heyward disagreed: "I think the notion of competition is important to the evening news broadcast and the distinctiveness of the evening news broadcasts is their only hope for salvation. If they were all the same, it's not going to encourage distinctive journalism." As for election night, Heyward said, "there was a consortium where all the networks did get together to gather data and the bad data resulted in bad calls. So you could actually read the election both ways."

Executives said any partnership with CNN seemed doubtful. "There are obvious areas where we and CNN complement, both in terms of our needs and our abilities," Heyward said. "At the same time, there are tremendous obstacles in doing anything together, residing in the separate cultures of the organizations and, frankly, in the parent companies." Heyward said he was "guardedly pessimistic that anything could ever be done."

Responding to criticism of *CBS Nightly News*' lack of coverage on Chandra Levy-Rep. Condit story, Hewitt warned against "pack mentality" of shows: "It turned out to be a courageous decision in the face of this pack mentality that was the journalistic order of the day. It would seem to me that harsh criticism should be directed at the end of the spectrum that's guilty of tabloid excess as opposed to exercising restraint."

CBS's deal with BET raised questions about layoffs and lack of diversity. Heyward took umbrage at question of whether mostly white news division should be presenting news on BET: "I'm always very careful here because the implication that whites shouldn't be doing journalism for African-Americans, to me, is as offensive as the implication African-Americans shouldn't be doing journalism for whites. But having said that, I understand the sensitivity. This will not be just a new BET graphics drafted onto an existing program."

Calling efforts to improve local news programming "a hot potato," Heyward said network had limited control.

DirectTV, EchoStar, CableLabs, 4 major TV programmers and Thomson Multimedia all endorsed Digital Visual Interface (DVI) with copy protection standard for cable and satellite HDTV set-top boxes. In joint news release, companies and organizations, which also included Satellite Bestg. & Communications Assn., said DBS providers and cable operators would use DVI interface with high-bandwidth digital content protection (HDCP) standard to protect HDTV video programming transmitted from set-top boxes and TV monitors. DirectTV said all its licensed consumer electronics manufacturers would begin incorporating DVI connector with HDCP in DBS provider's new HDTV set-tops next year. EchoStar called DVI with HDCP "a key component" in expanding its HDTV programming and equipment offerings. CableLabs said its "commitment to DVI/HDCP added to the flexibility of the cable industry's digital platform by expanding the set of digital interface capabilities supported by cable." Entertainment companies embracing new standard include Fox Entertainment Group, Sony Pictures Entertainment, Walt Disney Co., Warner Bros.

FTC cleared WideOpenWest's proposed purchase of Ameritech New Media cable systems in 4 states from SBC Communications. With antitrust clearance, WideOpenWest now needs FCC and local approvals of deal. WideOpenWest said 11 municipalities already had okayed cable franchise transfers.

Obituary

Erik Barnouw, 93, widely recognized as chronicler of broadcast history in 3 volumes and founder of Library of Congress Bestg. and Motion Picture Div., died July 19 in Fair Haven, Vt. Cause of death wasn't given. Born in The Netherlands, Barnouw moved with his family to U.S. in 1919, when he was 11 years old. He showed writing ability as Princeton U. undergraduate, after which he joined ad agency in 1929 and was supervisor for such radio programs as *The Camel Quarter Hour* live variety show. He started teaching script writing at Columbia in 1937 and was script writer-editor at CBS, then NBC Radio, 1939-1944. Barnouw headed Armed Forces Radio Services' education division until end of World War II, after which he was a founder of film, TV and radio division at Columbia, serving as chmn. until 1968 and retiring from University in 1973. He later joined Library of Congress, where he remained until retiring in 1981. Author of more than dozen books, he was commissioned by Oxford Press in mid-1960s to write trilogy on American broadcasting. First installment, *Tower of Babel*, dealt with evolution of radio through 1933; 2nd, *The Golden Web*, covered next 20 years; final volume, *The Image Empire*, chronicled development of TV and its impact on America. Another book — *The Sponsor: Notes on a Modern Potentate* — published in 1978, dealt with influence of advertisers over TV programming and uncovered insistence by sponsoring natural gas associations that word "gas" not be used in televised dramatization of Nuremberg trials. In 1970, Barnouw was unsuccessful in attempting to sell 16-min. documentary on atomic bombs dropped on Hiroshima and Nagasaki, Japan, toward end of World War II. Widely acclaimed program later was aired on public TV. Formidable critic of commercial TV, Barnouw labeled networks' reliance on ratings "one of the worst things that [ever] happened." Wife, son, 2 daughters survive.

Personals

Named regional vps-programming at Radio One: **Kathy Brown**, **Carl Conner**, **Tony Fields**, **Darryl Huckaby**, **Lance Panton**, **Robert Scorpio**, **Jeff Majors**, **Jerry Smith**... **Valari Staab**, ex-KFSN-TV, Fresno, appointed pres.-gen. mgr., WTVD-TV, Raleigh-Durham, replacing **Bruce Gordon**, resigned... **Karen Spacek**, ex-Harrah's Entertainment, named senior vp-systems-communications, Gaylord Entertainment... **Dennis FitzSimons**, exec. vp, Tribune Co., promoted to pres.-COO, succeeding **John Madigan**, who remains chmn.-CEO; **Jack Fuller** elected to board... **George Watson** retires after 38 years with ABC News, including post of vp-Washington bureau chief... **Rebecca Marks** promoted to senior vp, NBC Entertainment Publicity, West Coast, succeeding **Shirley Powell**, now with Turner Bcstg.

Appointments at Cablevision Systems: **Keith Cocozza**, ex-Rainbow Media Holdings, as dir.-media relations, video services; **Kimberly Kerns**, ex-Burson-Marsteller, Chicago, dir.-corporate communications; **Heather Robinson**, ex-GCI Group, dir.-media relations, Internet services... **Betsy Frank**, exec. vp-research and planning, MTV Networks, elected a dir. of Cable & Telecom Assn. for Mktg., replacing **Nicole Browning**.

Changes at DirecTV: **Bill Casamo** resigns as exec. vp-sales and mktg. and pres.-merchandising; **Larry Chapman** named acting exec. vp-mktg. and advertising; **Bob Meyers**, exec. vp-CFO, named acting exec. vp-customer satisfaction... **Eric Zahler**, pres.-COO, Loral Space & Communications, elected to board. Appointments at Intelsat: **John Sponyoe**, CEO, Lockheed Martin Global Telecommunications, named chmn.; **Conny Kullman** named CEO and a dir.... **Konrad Hilbers**, ex-Bertelsmann, named CEO, Napster, replacing interim CEO **Hank Barry**.

Stacy Robinson named mass media adviser to FCC Comr. **Abernathy**... Changes at Wilmer, Cutler & Pickering: **Charlene Barshefsky**, ex-U.S. Trade Representative, named senior international partner; **Robert Novick**, ex-gen. counsel, U.S. Trade Representative's office, named partner, practicing in Washington office.

Rep. Harman (D-Cal.) told FCC Chmn. **Powell** she had "serious concerns" about Northpoint proposal to share spectrum used by DBS service providers. She said in letter July 24 that DBS companies such as DirecTV, which is based in her congressional district, would sustain unacceptable levels of signal interference if FCC changed its spectrum-sharing rules: "It would be unfair to the nearly 1.8 million households in California and the 16 million households nationwide that have invested in DBS equipment and service to now change the rules and jeopardize the high-quality services they currently enjoy... I urge you to protect DBS subscribers by continuing the Commission's policy of keeping the DBS spectrum free of terrestrial services." She urged **Powell** to consider recommendation of **Mitre** report to study interference further.

USA Media Group said it was deploying interactive TV (ITV) in Half Moon Bay, Cal., using OpenTV's ITV content package on Motorola set-top box. USA's ITV deployment features 29 interactive applications including e-mail, instant messaging, shopping, games, news, weather and sports, it said.



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Wink Communications said its Enhanced Bcstg. services now reached one million cable homes. Service is available in 44 cable systems in N. America, up from 17 year ago, it said. Wink is deployed in Adelphia, AT&T Broadband, Charter, Comcast and Time Warner systems, with Adelphia, Charter and Comcast including it as standard feature for digital customers. "Active service in more than one million cable homes moves Wink into the position of being the de facto industry standard for enhanced broadcasting in the U.S.," Wink Pres. Maggie Wilderotter said.

Consumer Electronics

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STATE OF THE INDUSTRY

Sales to dealers, from CEA, for week ending July 13 and year to date:

	JULY 7 - JULY 13	2000 WEEK	% CHANGE	JUNE 30- JULY 6	28 WEEKS 2001	28 WEEKS 2000	% CHANGE
TOTAL COLOR TV	274,795	425,285	- 35.4	169,471	12,562,983	14,172,253	- 11.4
DIRECT-VIEW**	266,714	408,442	- 35.1	164,068	12,109,297	13,597,320	- 10.9
TV ONLY#....	203,608	342,696	- 40.6	133,959	10,064,766	11,273,852	- 10.7
TV/VCR COMBO.	63,106	65,746	- 4.0	34,109	2,044,531	2,323,468	- 12.0
PROJECTION...	8,081	16,843	- 52.0	5,403	453,686	574,933	- 21.1
TOTAL VCR**...	199,444	234,406	- 14.9	154,970	9,519,010	12,872,527	- 26.1
HOME DECKS...	136,338	168,660	- 19.2	124,861	7,474,479	10,549,059	- 29.1
CAMCORDERS.....	65,319	80,237	- 18.6	61,239	2,729,372	2,755,652	- 1.0
DVD PLAYERS....	116,576*	77,254	+ 50.9	109,990	4,637,359*	2,823,785	+ 64.2

Direct-view TV 5-week moving average#: 2001-328,804; 2000-435,822 (down 24.6%).

Projection TV 5-week moving average: 2001-13,176; 2000-17,904 (down 26.4%).

VCR deck 5-week moving average: 2001-248,837; 2000-343,539 (down 27.6%).

TV/VCR 5-week moving average: 2001-67,948; 2000-80,343 (down 15.4%).

Camcorder 5-week moving average: 2001-91,759; 2000-107,132 (down 14.3%).

DVD player 5-week moving average: 2001-165,634*; 2000-111,723 (up 48.3%).

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

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

TV GLASS GLUT SHUTS FACTORIES AS SET SALES SLOW: In business that has veered between feast and famine in recent years, TV and PC monitor glass and component makers again are saddled with inventory forcing factory shutdowns that are rippling across industry.

Glass glut, resulting largely from worldwide economic slowdown that has put brakes on TV sales, comes as TV manufacturers cut back overtime and switch to 5-day from 7-day production weeks. Glass and aperture mask producers have shed some jobs and idled factory lines.

PC monitors, along with small and medium-size TVs, have been most affected by industrywide downturn. Indeed, 19" sales to dealers plunged to 2 million units through June, down from 2.5 million year earlier, and 27" to 2.2 million from 2.3 million, industry officials said. Meanwhile, 25" was flat at 1.7 million, while 32" inched up to 1.07 million from 1.04 million and 36" tumbled to 460,000 from 500,000. Overall, direct-view TV sales to dealers decreased to 11.8 million from 13.1 million year ago (TVD July 23 p11).

"Worldwide CRT production is down and because of that there is a lot of excess capacity, which makes the tubes more available and more likely to be imported into NAFTA at lower prices," said Corning-Asahi Video Commercial Dir. Alan Herklotz, whose State College, Pa., plant production line has been shut down for much of year and will close for 8 weeks starting in Aug. for annual maintenance on 3 funnel tanks.

Reaction to inventory glut has been swift. BMC Industries shut down TV mask line at Cortland, N.Y., plant in 2nd quarter and closed entire facility for 3 weeks July 19, 1-2 weeks of which were for annual maintenance, CEO Paul Burke said. BMC also halted production of PC monitor masks July 9 at Mullheim, Germany, factory for 8-10 weeks, but will continue to operate 2 TV lines there for "limited periods," he said. About 3 weeks of total will be for routine maintenance.

nance, he said. Despite closures, Burke said he viewed slowdown in receiver business as “temporary issue” and that business would be “revived” by late this year, although he conceded that PC business would be slower to recover. TV manufacturers generally have limited overtime, reduced production schedules and extended shutdowns for regularly scheduled maintenance, Toshiba Senior Engineering Mgr. Michael Milostan said, and company has added 1-2 weeks this year to regularly scheduled shutdowns at Horseheads, N.Y., tube factory.

Techneglas laid off 300 of 1,500 employees at Columbus, O., TV glass factory earlier this year and is moving to eliminate production lines for smaller panels. In S. Korea, Hankuk Electric Glass, saddled with 9 million units of CRT inventory in late June — roughly 1/3 its annual capacity — closed one of 3 glass furnaces July 20 for 4 months of maintenance. In Nov., as one furnace reopens, another will close as part of production cutback that’s expected to continue into early 2002, company said.

Hit even harder has been PC monitor business. Hitachi said last week that it would halt production of CRTs for PC monitors at plants in Japan, Singapore and Malaysia by year-end and seek buyer for factories. Hitachi said slowdown in desktop PC business had led to sharp drops in monitor prices and that with future demand is expected to shift to LCDs, “there are no prospects for growth in the monitor CRT market.” Plants had combined capacity for 5 million units, with largest being in Singapore at 2.5 million. Factories combined had 2,700 employees. Malaysia plant also made electron guns for monitors with annual capacity of 4 million units.

Impact of global slowdown also has been felt on companies’ bottom lines. BMC reported \$7.5 million 2nd quarter net loss after \$10 million deferred tax asset valuation reserve against \$5.5 million profit year ago. Overall revenue plunged 16% to \$78.7 million from \$94.2 million. Buckbee-Mears group, which includes Mask and Micro-Technology operations, reported sales fell 21% to \$44.1 million from \$55.6 million. Sales of 30" and larger and 24-29" masks were down 19% in quarter and those of PC monitors declined 31%. Operating income dropped to \$5 million from \$7.2 million year ago as gross margin shrank to \$6.2 million from \$8.4 million. Also cutting into sales were delays in qualification process with customers for BMC’s advanced mask products including those for flat-screen TVs, Burke said. Qualification process is expected to be completed in 2nd half, he said.

BMC’s mask customers “held back orders and adjusted inventory throughout the quarter,” he said. Company also suffered from Thomson’s decision to close Scranton, Pa., plant for which it had been “building substantial excess inventory.” Scranton factory, which is expected close formally Aug. 24, produced 27" tubes. BMC’s inventory increased to \$87.9 million at quarter’s end from \$82 million Dec. 31.

“It will be a challenging environment for PCs and TVs until the inventory adjusts to supply,” BMC CFO Kathleen Pepski told analysts and investors in conference call last week.

Also suffering financial impact was Corning, which in reporting earnings said revenue from TV glass business in U.S. in 2nd quarter was down 16% to \$73 million and similar venture with Samsung in Korea had 20% decline. Corning Precision Lens, which supplies projection TV lenses, said sales increased 9% to \$58 million and consolidate revenues from LCD business jumped 14% to \$87 million. Corning’s Information Display segment, which encompasses LCDs, projection lenses and TV glass, reported operating income fell to \$47 million from \$60 million year ago as net sales rose to \$218 million from \$216 million.

Overall, Corning reported \$4.76 billion 2nd quarter loss that included \$4.8 billion in charges related to absorbing inventory, goodwill write-downs and factory closings in Photonics Div., which produces optical components that guide light over fiber networks. Charge related largely to acquisitions of Pirelli’s optical components business (\$3.2 billion) and goodwill from acquisition of NetOptix (\$1.6 billion). Total revenue rose 5.2% to \$1.87 billion from \$1.78 billion.

In face of prolonged downturn in telecom industry, Corning has said it will cut more than 5,000 jobs, although thus far TV glass business has been largely unscathed. Corning Asahi Video has had “some reductions” in State College force of 1,000 employees, but “not a tremendous amount and I don’t think there are going to be any long-term major layoffs,” Herklotz said. “We’re hoping the business stays strong enough so that we don’t have to have a long period of down time later in the year,” he said.

Corning’s outlook contrasts sharply with that of year ago when glass makers were seeking 8-30% price increases across all sizes as they battled supply shortage (TVD Sept 18 p12). Worldwide shortage at time was estimated at 200,000 panels, but situation began to reverse itself late last year as economy slowed, industry sources said. Year earlier, Corning was forced to close parts of State College plant (TVD Aug 2/99 p13) as it struggled with oversupply of big-screen TV glass in reverse of situation in 1995 when company imported 5-6 million panels to keep pace with twin booms in TVs and PCs (TVD Jan 30/95 p15).

ANOTHER CD ANTICOPY SYSTEM READIED: Even as CE industry's reaction to Macrovision's SafeAudio copy prevention (TVD July 16 p 11) mounts, system will have competition from yet another CD recording spoiler that's been tested by Sony Music with claimed success. Meanwhile, observers questioned whether inserting deliberate errors on discs to foil copying violated CD standards. If so, sources contend equipment makers have legal right to incorporate electronic countermeasures against such discs.

Latest anticopy measure to emerge isn't new, but is system that flunked badly in test-marketing last year. It's Cactus Data Shield (CDS) from Israel-based Midbar Tech (www.midbartech.com). When record label BMG tested Sonopress-made CDS discs in Germany last year, majority wouldn't run at all in wide range of legacy CD players. Midbar and Sony said system had been improved and now worked effectively and compatibly with installed base of CD players.

U.S. patent (6 208 598) we unearthed reveals CDS works differently from SafeAudio but has same effect of preventing CD "burning" and "ripping" in PC-based copiers.

CDS also could stymie royalty-paid home audio CD recorders, which SafeAudio doesn't attempt to do. "We can stop all kinds of copying, even on domestic recorders," Midbar's Eyal Shavit said in phone interview last week.

More troubling to some, Midbar concedes system is "potentially damaging" to circuitry and components in consumer playback equipment, such as loudspeaker cones. That's because it seems to insert harsh square-wave signals in place of music as means of spoiling copy, according to diagrams in patent. Shavit wouldn't discuss spoiler signal encoded on CDS disc. But he acknowledged it would be "unacceptable" to harm consumers' equipment deliberately and told us CDS system was set in way not to damage loudspeakers, amplifiers or other output circuitry.

Macrovision's SafeAudio works differently and in way that wouldn't harm equipment. Under system developed with another Israeli company, TTR Technologies, record company deliberately will add digital errors to music CD while also deliberately upsetting error correction codes. That causes gaps in music. Although ordinary CD player bridges gaps by guessing what's missing and interpolating new data, CD-ROM drives in PCs can't repair gaps. So, when PC tries to copy music onto its hard drive for transfer to blank CD or portable flash-memory player, SafeAudio errors are carried over intact. As result, PC either can't make copy at all or music is spoiled by noise in uncorrected gaps.

Midbar takes different route to confounding CD recording device. Patent explains that music CDs store mixed bursts of music code and control information. Music is flagged with zeros, which direct player to decode digital data, convert it to analog signal and send it amplifier and speakers. But control information is flagged with ones, which instruct player not to decode digital "housekeeping" data for analog transfer and playback, which would result in unpleasant distortion if audible.

Midbar's system provokes just that. CDS replaces parts of music with false data and labels it as control information. That creates gap in music, which regular player disguises by interpolation to bridge gap. Pursuant to Red Book CD standard, regular CD player doesn't decode control information. So, original CDS-encoded disc should play without problems and should sound normal except perhaps to extremely critical listeners, who might pick up interpolation. "There is little or no net difference in audio quality," Midbar patent claims. But company wouldn't identify "golden-ear listeners" it said had auditioned system.

Problems kick in when CDS-encoded disc is copied. CD recorder is tricked into wrongly labeling false data as music. That's to say, "one" flag for control info is read as "zero" flag for music. Because false data have been authorized for conversion to analog, when copied disc is played there are bursts of audible distortion as CD player attempts to decode hash. Midbar's patent says playback distortion not only sounds bad but is "potentially damaging" to output circuitry. Shavit told us damage would occur only if added noise were shaped suitably, and said Midbar hadn't done so.

"We have had no problems with loudspeakers," he said of tests with Sony CDs in Eastern Europe. Although Shavit acknowledged it would seem "unacceptable" to harm consumers' equipment deliberately, he told us Midbar could bolster CDS if necessary: "It's sweat engineering. We can add extra lines of defense as people use new attacks."

It's long-known fact that large square-wave pulses can damage sensitive circuitry and fry speaker drivers. That's because high frequencies that define sharp edges of square-wave can generate rapidly repeating high energy peaks that are beyond levels that amps and speaker-drivers can handle. However, impact of square-wave "noise" is dependent upon its amplitude and duration, independent engineers told us.

Brief burst at low wattage shouldn't cause damage, said Frank Barr, veteran CE engineer and pres. of Advanced Product Evaluation Lab that tests CE products for our publications and others, major retailers, govt., institutions. Barr

said square-wave was used regularly to test amps and speakers. In those tests, time of square-wave burst is limited to 30 sec. and power input to one watt. "I would say that if they're [Midbar] in fact using a square wave and they claim they haven't caused any damage, then they're monitoring their level and time," Barr told us. "I'll tell you something else. Whatever the signal values, a square wave coming through your headphones or loudspeakers is going to sound like hell."

Sony Music tested CDS on 7,000 discs sold in Czech Republic and 3,000 in Slovakia last winter, but Sony and Midbar wouldn't identify titles to allow independent testing. Companies said only that there were no complaints or returns from consumers owing to incompatibility with installed base of CD players. As for inability to make copies of discs, Zbynek Knobloch, managing dir., Sony Music/Bonton, said: "Our consumers did not feel that the protection limited their experience. We didn't receive any complaints, and the feedback from our sales force was only positive."

Midbar announced last month it had signed un-named but "major" record labels for CDS-encoding, but Sony wasn't among them, spokeswoman for corporate parent Sony Music Entertainment told us. Midbar also said it had distributed "hundreds of thousands" of CDS-encoded discs in Europe, none of them identified by label or title. Company said discussions were in progress to release CDS in U.S., too. At our deadline, Midbar's claims couldn't be verified. Macrovision has said it test-marketed SafeAudio CDs in U.S. with major record label and encountered no problems. Sources said BMG label has been using SafeAudio on promotional CDs distributed to radio stations and music reviewers.

Meanwhile, reports on nonstandard and copy-proof CDs have gotten attention of CE industry and Wall St., with stock analysts now questioning how SafeAudio will affect performance of companies that provide CD recording products for PCs and playback devices such as MP3 portables. Comment from those companies has been delayed, with spokesmen citing need for key personnel to study Macrovision and Midbar patents. Potentially affected parties include vendors of flash-memory portable music players, whose customers wouldn't be able to copy legitimately owned CDs to PC to make compressed MP3-type files for playback in flash-memory portables such as Creative's Nomad, Diamond's Rio, Samsung's Yepp or Thomson's RCA Lyra. Last was quick-to-trigger in response to Macrovision's SafeAudio.

"It's a troubling development for a company such as ours that not only licenses MP3 technology but also replicates discs and sells a multitude of CD products," Thomson spokesman told us. "I don't know that it's a crime to buy a CD and make copies for personal use on another device you own. To us, it's a question of preserving perfectly lawful uses. If the record companies introduce the uncopiable discs at some price difference cheaper than regular CDs, it could be a reasonable proposition."

More relevant to questionable status of CD anticopy systems will be response from Philips, which controls CD licensing standard as joint developer with Sony. Philips told us last week it was evaluating Macrovision and Midbar systems to determine whether they violated standard by short-shrifting music CDs and players of safety margins built into Red Book CD system to cope with naturally occurring errors such as dirt, dust, scratches.

Issue of nonstandard CDs raises ante and legal point in hardware-software tango, said sources we queried. They said key clause in Digital Millennium Copyright Act left hardware makers free to incorporate countermeasures to software that didn't adhere to standards. Upgrading error correction or otherwise modifying players to account for nonstandard discs wouldn't be considered circumvention of copy protection under law, they said.

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Correction: July 16 report twice referred to SafeAudio as encryption. Macrovision says that SafeAudio does not encrypt data on music CDs, although its SafeCast and SafeDisc technologies could be used with SafeAudio to add encrypted files.

XM SATELLITE RADIO TO ROLL OUT NATIONALLY IN NOV.: XM Satellite Radio last week became first of 2 satellite digital audio radio services (DARS) providers to attach specific dates to debut of its commercial service, saying receivers and 100 channels of programming would be available for \$9.99 monthly subscription fee in Dallas-Ft. Worth and San Diego starting Sept. 12. Introduction will be expanded to southwestern states encompassing 25% of U.S. in mid.-Oct., followed by nationwide rollout in early Nov., senior XM executives told N.Y.C. news conference.

Pres.-CEO Hugh Panero said announcement on XM's commercial availability marked "a watershed event for radio." Given "historic" announcement, Panero said, it was fitting that news conference was held at Museum of TV & Radio. He said introduction of satellite DARS and specifically commercial launch of XM "will change radio the way cable and DBS changed television."

Activities will be supported by \$100-million ad and promotional blitz that will include \$45 million in spending for crucial 4th quarter, Panero said. Keystone of national ad campaign will be 60-sec. commercial to be shown in 300 movie theaters for one month starting Aug. 10. Commercial will be repeated for 2nd one-month showing in Oct. Emphasizing commercial's wide reach, Panero said it would be shown on 19,000 screens nationally during each one-month period. By comparison, he said, hit movie *Jurassic Park III* was available on only 3,400 screens in its debut weekend. Seven derivative 30-sec. spots targeted to enthusiasts of various music genres will be carried on broadcast and cable TV during ramp-up period. Spots were created by TBWA/Chiat/Day ad agency and around XM corporate theme, "Radio to the power of X." B.B. King, David Bowie, Snoop Dogg are among artists featured in commercials.

Panero estimated that XM receivers would be available in about 5,000 storefronts when national launch reaches peak in Nov. and builds momentum toward holiday selling season. He estimated 50,000 to 60,000 XM receivers would be sold by year-end, which he said represents high end of range of analysts' projections that 25,000 to 75,000 would be sold in that period. Vast majority will be aftermarket radios from suppliers such as Alpine, Pioneer, Sony. Panero said GM, which is 12% owner of XM, plans to install unspecified quantities of OEM receivers in Cadillacs starting this year, with more car models to be added in 2002. Panero said XM's receiver partners had collective capacity to produce about 50,000 receivers monthly and could ramp up quickly to 80,000 per month if demand warranted. Immediately in wake of XM's N.Y.C. announcement, Alpine and Pioneer released separate statements that they would ship XM tuner modules in Sept. Modules work with various models of XM-ready in-dash units that have been available at retail for several months. Alpine said it already had sold more than 70,000 such head units.

Lee Abrams, chief programming officer, said service would feature 71 music channels, 30 of which would be commercial-free. Abrams, who is veteran of early days of FM, said programming would break mold of traditional radio. He said individual channels would promote particular "point of view, without compromise." Remaining channels encompass news, sports, weather and comedy programming, with at least 2 targeted for children. Company used news conference to announce its latest programming agreements are with E! Entertainment Network, Fox News, CNN Headline News.

Panero said XM revenues at start would be 90% generated from subscriptions, rest from advertising. He said that within 5 years, ratio could evolve to 60-40 in favor of subscriptions.

Responding to questioner, Panero said purpose of rolling out in steps was to gain experience in individual markets before "we flip the switch" and go national. He said company also wanted to build momentum toward Christmas when consumer electronics industry did huge portion of its annual business. He said gradual ramp-up also would give consumers and retailers better ability grow accustomed to new product and service such as XM. He acknowledged that company's buildout of terrestrial repeaters also might be factor. He said network ultimately would have about 1,200 repeaters nationally, with 400-500 already completed and 600 in "different phases" of installation. However, he expressed confidence that all would be ready by national start in Nov.

XM rival Sirius Satellite Radio hasn't yet specified actual debut date and has downscaled projected 4th-quarter selling activities to point of estimating that fewer than 20,000 receivers would be sold by year-end. However, Sirius Senior Vp Doug Wilsterman, reacting to XM announcement, said his company would start with "a nationwide coast-to-coast service," not "a city-by-city rollout" as is being mounted by XM. "We think it's important to deliver on the fundamental promise of satellite radio," Wilsterman said, including "uninterrupted" coast-to-coast signal and digital-quality commercial-free music. He said all 50 of Sirius's music channels would be commercial-free in comparison with less than half of XM's. He said Sirius also continued to believe its \$12.95 monthly subscription fee wouldn't put it at competitive disadvantage to XM's \$9.99 because research showed \$3 differential had little "material" impact on consumer's decision to buy.

SONY POSTS \$243 MILLION LOSS, DOWNGRADES FORECAST: "Difficult" business conditions spurred declining demand, product oversupply and severe price competition, hitting Sony consolidated results hard in first quarter ended June 30. Dismal results caused Sony to downgrade forecasts for full fiscal 12 months in virtually all sectors except videogames.

Sony consolidated sales rose 4.6% to \$13.21 billion (\$1 = ¥124), but operating income fell 90.2% to \$24 million. Although ¥30.08 billion (\$243 million) loss was substantially less than ¥92.44 billion loss in year-earlier quarter, that loss included one-time charge related to change in U.S. accounting rules on Sony's movie business.

Electronics lost \$7 million on 5.8% higher sales to \$9.9 billion. Sales on local currency basis dipped 1% and electronics went from operating profit year earlier to unspecified loss. Sony blamed "the significant deterioration" in profits on lower sales in all geographic areas and severe price erosion due to stiff competition in face of declining consumer demand. In U.S., camcorder sales rose in quarter, but digital still cameras and computer displays declined.

Year-to-year electronics sales comparisons were made more difficult as Sony changed product classifications in latest report. For example, former broadbased category for electronic components and other products has been split into individual classifications for semiconductors, components, other products. Components now includes audio and video recording media, which previously were classified under audio and video equipment sales, respectively. Sales of Aiwa subsidiary, which previously were spread among variety of electronics categories, now are reported under "other."

Audio sales rose 5.1% to \$1.37 billion on higher sales of personal audio, video equipment revenues climbed 10.3% to \$1.62 billion, semiconductor sales increased 2.3% to \$422 million. However, TV sales fell 4.5% to \$1.07 billion, information and communications products 1.5% to \$2.24 billion, components 3.1% to \$1.07 billion, other products 19.6% to \$878 million.

Company said it reduced operating losses in its game operations on higher overall sales of PlayStation 2 (PS2). However, first-quarter report revealed first subtle blemishes in PS2 effort. For example, for first time, PS2 hardware sales in quarter fell in Japan and worldwide game inventories swelled by \$679 million since close of March 31 quarter.

In Sony's game business, sales on local currency basis rose 29% and operating losses declined 39% on cost reductions for PS2 hardware. However, company benefited from weaker yen as consolidated sales jumped 38.6% to \$1.25 billion and operating losses plunged 83% to \$25 million. Noteworthy was Sony's revelation that PS2 hardware sales fell by unspecified rate as did sales of first-generation PlayStation software. However, overall game sales increased "significantly" in U.S. on higher sales of PS2 hardware and software. European game revenues also rose on strong PS2 hardware and software sales but also PSone consoles.

Sony said it shipped 4.34 million PS2 consoles worldwide in quarter, up from 1.13 million year earlier, with cumulative shipments rising to 14.95 million at close of June 30 quarter. Worldwide shipments of PS2 software (including Sony titles and those from 3rd party licensees) increased to 11.5 million pieces in quarter from 1.7 million year earlier, with cumulative shipments as of June 30 climbing to 49.8 million.

Sony CFO Teruhisa Tokunaka said in conference call that company currently was meeting its target of shipping 1.5 million PS2 consoles monthly, although 4.3 million reported as having been shipped in 3-month period ended June 30 would indicate it fell slightly short of averaging 1.5 million shipments monthly. Sony said games inventories stood at ¥188.9 billion (\$1.52 billion) or ¥84.2 billion higher than at the March 31 close of last fiscal year. Tokunaka acknowledged that first quarter game inventories exceeded those of Sony's April forecast, but said inventory levels were "not particularly worrisome."

Game business was among few sectors in which Sony didn't revise April forecast for 12 months ending March 31, 2002. Despite higher inventories and lower-than-expected sales in that sector, company said it was satisfied with forecast "given that the nature of the game business is such that a significant proportion of sales occurs during the seasonal peak from autumn till year-end, and because cost reductions for PlayStation 2 hardware are advancing steadily."

National Record Mart (NRM) hadn't responded by Fri. to petition filed by major record label seeking to force it into Chapter 7 (liquidation) bankruptcy. NRM faced July 26 deadline for responding to petition (TVD June 25 p18). While NRM hadn't filed response, it said in 10K filing with SEC that it was in discussions with lender on debtor-in-possession (DIP) financing should it seek Ch. 11 bankruptcy protection. Five major record label filed petition with claims totaling \$18.7 million, including \$8.3 million owed Universal Music. NRM said it had received waiver from Chase Manhattan Bank through Oct. 15 on \$15 million senior subordinated notes that were due April 15. Chain also received waivers through Aug. 15 on covenants governing its \$35 million revolving credit agreement. NRM also said it had closed 22 stores in first quarter of fiscal 2002 after shutting 29 in previous fiscal year ended March 31. NRM currently operates 129 outlets under Music Oasis, Music X, NRM Music, Vibes and Waves banners.

Correction: Report last week on Apex should have said that DVD brand supplies proprietary model to Kmart — Apex Model AD-1500 that retails for \$99 or less — not "private label" player.

Alpine Electronics developed Web-based brand strategy using alpine.com domain name. Mobile electronics manufacturer said new strategy follows settlement of legal dispute with Internet Holding Group (IHG) asset AlpineSys. Alpine said U.S. Dist. Court, San Jose, authorized entry of consent judgment against IHG affirming Alpine's worldwide ownership of brand name "Alpine." Manufacturer said order permanently enjoined IHG from claiming any right or interest in Alpine name, including use of names "AlpineSys" and domain name "alpine.com." Alpine Brand Mgr.-Aftermarket Product Dir. Toyomi Furuse said: "The securing of the alpine.com URL represents a significant step in Alpine's global Internet strategy. As a brand that continues to evolve with the ever-changing consumer behavior, Alpine is in development of a global brand gateway that will facilitate worldwide consumer access to Alpine corporate and product information, as well as provide direct click-through to the regional markets' Web sites."

THIS WEEK'S YEN RATE

Yen values have been converted to dollars in this week's issue at ¥124 = \$1, except where noted.

DIRECTV PUSHES DVI SUPPORT: With DirecTV leading charge, several studios and CE manufacturers expressed support for digital visual interface (DVI) and high-bandwidth digital content protection (HDCP) last week, but few promised immediate availability of products containing technology.

Cablelabs, DirecTV, EchoStar, Fox Entertainment Group, Satellite Bestg. & Communications Assn., Sony Pictures, Walt Disney Co., Thomson Multimedia and Warner Bros. were said to be backers of uncompressed DVI format. Timing of announcement, following DTV Summit in Washington, appeared designed in part to take some focus away from rival Digital Transmission Content Protection (DTCP) system that has been proposed by 5C Group — Hitachi, Intel, Panasonic, Sony, Toshiba. DTCP earlier this month received formal endorsement from Sony and Warner Bros. and is expected to complete pacts with other studios by fall.

While DirecTV said its licensed manufacturers, which include Matsushita, Samsung, Sony, Thomson, Toshiba and others, will begin to incorporate DVI connector into high-definition decoder/DirecTV receivers in 2002, few CE suppliers had formalized plans. Sony, which is introducing rear-projection TVs with rival IEEE-1394 connector, has no immediate plans for DVI-based product, spokesman said.

"It's an affirmation of that technology, but as far as product plans go, we haven't got anything formalized yet," Thomson spokesman said. "We've endorsed the technology and obviously you're going to see DVI inputs on certain DirecTV receivers, but what it means beyond that, I don't know."

Absent from list of supporters was JVC, which has shown 61W rear-projection TV based on its D-ILA technology with DVI input. Samsung and Matsushita officials weren't available for comment. Matsushita had developed HD decoder/DirecTV receiver last year with IEEE-1394 connector, only to strip it from product after DirecTV objected (TVD March 19 p11)

Reasons for DirecTV's strong support — release naming DVI backers went out under its letterhead — appear linked in part to possible new relationship with Fox, which has opposed DTCP. Fox parent News Corp. is negotiating to buy DirecTV parent Hughes Electronics from General Motors and agreement is expected within next several weeks.

Fox Senior Vp Andrew Setos said DVI/HDCP, along with IEEE-1394/DTCP, provides consumers with "choice of protected connections" for different applications. "Everyone wins as consumer expectations for high quality images and functionality will be met, and at the same time these technologies will protect the content they carry," he said.

But several industry officials have criticized DVI/HDCP because it doesn't allow consumers to record and say such feature would benefit studio's pay-per-view business by requiring consumers to pay "each time you want to watch" premium satellite or cable programming.

"DVI is bad for our industry because it eliminates the consumers' right to record," Mitsubishi Mktg. Vp Robert Perry said. Company has developed rear-projection TVs with IEEE-1394/DTCP.

"There is a whole host of products that will become part of the home networking environment and none of them will occur

if the only way the customer can watch premium programming is DVI," he said.

Palm late Fri. said it would form subsidiary consisting of platform group to "separate it more distinctly" from main company and allow it to operate independently. Platform group develops Palm operating system (OS), which it licenses to Acer, Garmin, Handspring, Palm's own Solutions Group, Sony, Symbol. Move will "bring greater clarity of mission, better serve licensees and increase shareholder value in the long term," CEO Carl Yankowski said. Palm OS licensees will form advisory council to consult on subsidiary's objectives and "provide a direct channel for communication with platform group," Palm said. Decision to form subsidiary came after week in which it formed Palm OS Ready program and granted development licenses to Intel, Motorola and Texas Instruments to build platform's basic software into their ICs. Palm also has separate pact with Arm Holdings... Taiwan-based **Global View** will market low-end handheld PC in China based on own proprietary OS and add Linux OS for step-up model. Higher priced handheld will have Toshiba MIPS processor, Bluetooth and GSM wireless interfaces.

DVD-related criminal prosecutions under Digital Millennium Copyright Act (DMCA) are likely to result from several continuing investigations, Macrovision executive told us last week. Company is working with U.S. Attorneys and FBI on several cases, said Carol Flaherty, Macrovision Sen. Vp-Video Copy Protection. She said company continued to operate "very aggressive copy-protection enforcement program" and would seek civil and criminal prosecution against companies and individuals that circumvent its technology. Macrovision is collaborating with authorities on "3 nasty little cases" that involve retail sales, Internet advertising, illegal copying and distribution of movies, Flaherty told us. Details and charges are expected to emerge soon. In enforcing its DVD copy protection, Macrovision already has worked with U.S. Customs to block importation of noncompliant players from 3 Asian manufacturers, she said. Company also works with 4 major retailers in U.S. and Europe to prevent sale of players that circumvent copy protection and has stopped more than 700 eBay auctions of same, Flaherty said.

DVD-player maker Apex Digital said it would use new multiplatform chip from ESS Technology in upcoming product line. Vibratto from ESS is single-chip solution that can be programmed to processes DVD-Video, DVD-Audio, Super Audio CD, progressive-scan output, Kodak's Picture CD, Internet browsing. Apex COO Ancle Hsu said company would use Vibratto in Model 7701 with above features, to be introduced at CES. Apex brand's market share in players was 2nd only to Sony's as of May, according to NPD Intellect. Apex had 15% of market, Sony 21%.

DVD with 5 full-length movies has been completed using MC-10 compression engine, inventor Zeroes & Ones said. Company claims technology yields 3X to 10X compression with same or better resolution than MPEG-2 compression now used for DVD. Disc used 5 hit Hollywood movies and will be demonstrated to "select strategic parties" in near future, company said.

Classic pop-recording *Moondance* by Van Morrison will be released as multichannel DVD-Audio disc, Warner Music spokeswoman confirmed. Album, released in stereo in 1970, was remixed to 5.1 channels for DVD-Audio by producer Eliot Shiner with Euphonix R-1 digital multitrack recorder.

RADIOSHACK SHIFTS FOCUS: RadioShack (RS) will shift TV focus to smaller sizes as part of move to free up space for expanded assortment of higher margin parts, batteries and accessories (PBA), Pres.-COO David Edmondson said.

RCA Digital Entertainment Centers, which began as store-within-a-store format last year (TVD June 12/00 p13), currently feature 36" (\$1,697) high-definition-ready TVs and 32" analog 2-tuner set. But 36" has been subject of clearance sale at corporate-owned stores in recent weeks. RS will continue to carry 32", which is "still big enough to reflect the home theater feel" of RCA format, Thomson spokesman said. RS franchisees are expected to continue sales of 36" set including some that also offer projection models, he said.

RS also is expected to continue to offer smaller TVs including 5" color (\$249) and b&w (\$79) models as well as DVD players, A/V and DirecTV receivers.

"This is not a change in course, but rather an emphasis on our first anchor [PBA]. We are still very, very committed to the other categories," CEO Leonard Roberts said. "There is clearly an emphasis on the PBA business, and even if we pare down some of the other products, the fact is that if we improve traffic by driving more PBA we can move forward with all our product lines."

In renewed emphasis on PBA, RS will add SKUs for wireless phones, digital cameras, PCs, MP3 players, PDAs and others, Edmondson said. How many additional SKUs will be brought into mix wasn't clear, but goal is for RS to have 20% share of \$25 billion consumer accessories business by 2005, said Roberts, who estimated RS's current market share at 5%. New strategy also will feature placing accessories near products they can be used with, company said. In boosting PBA assortment, RS will prune some SKUs from store merchandise mix, spokeswoman said, citing as example CB radios, which may continue to be sold through RadioShack.com. Addition of PBA products is continuing process that's likely to run into 2002, RS spokeswoman said.

New video strategy came as RS reported that 2nd-quarter net income fell to \$41.2 million from \$75.4 million year ago as sales rose to \$1.04 billion from \$1.02 billion. Gross profit declined to \$512.4 million from \$533.6 million and inventories to \$974.1 million from \$1.1 billion.

Decision to refocus business on PBA also calls into question RS's earlier goal of being home connectivity store. It currently sells Excite@Home cable modems through 400 stores, but agreement to market Starband's 2-way satellite Internet access service is likely to be called into question now that DirecTV rival EchoStar owns majority of it. RS spokeswoman said, however, that chain would rely on Microsoft to supply high-speed services and that there were no plans to end StarBand agreement. RS also was forced to find new DSL supplier after Northpoint shut down in March.

Unit sales of DirecTV receivers declined in quarter, but "overall profitability" of business improved under new sales agreement, Roberts said. Companies renegotiated accord after RS criticized residual structure. Residuals are tied to activation of DirecTV customers, which slowed earlier this year (TVD June 11 p17).

Copy protection proposal by 5 Hollywood studios for terrestrial DTV copy has been delivered to Digital Transmission Licensing Authority (DTLA), Pres. Michael Ayers told us. As we reported last week, memo of understanding among Disney, MGM, Paramount, 20th Century Fox and Universal embraces DTLA's Digital Transmission Content Protection (DTCP) for cable and satellite DTV, as Sony and Warner have, but also proposes digital watermark to control copying of terrestrial broadcasts and prevent them from being retransmitted over Internet. Ayers said DTLA wouldn't comment on studios' proposal until member companies could review it. Meanwhile, he gave us additional details on how hard disc PVRs would function under DTCP's "Copy Never" mode for time-sensitive pay-per-view or video-on-demand programming. Content owner would allow PVR to capture program and pause it during viewing for "rolling windows" of at least 90 min. after each increment is received, Ayers said. For example, if 2-hour movie is paused 15 min. into viewing, increment of program beginning at 15th min. would be accessible for at least next 90 min. Same 90-min. viewing window would apply to all subsequent pauses, he told us. Studios are free to offer less-restrictive windows, but 90 min. is minimum viewing period, Ayers said. After increments are viewed, they no longer will be accessible from PVR. Pause increments needn't be time-based but could be counted according to frames, megabytes transmitted, etc., Ayers told us.

Pegasus Communications has stopped participating in year-old marketing agreement with DirecTV. Pact is at center of legal battle between companies in which DirecTV alleged in suit filed in June (TVD July 2 p18) that Pegasus had breached agreement by failing to reimburse it for "certain costs" including those incurred when national or regional retailers who sell DirecTV activated new Pegasus customers. DirecTV said it's owed \$23.2 million. Pegasus responded with cross-complaint that alleged DirecTV had breached pact and had "engaged in unlawful business practices" under Cal. state law. Agreement, which requires written notice of 90 days before ending pact, allows Pegasus to continue supplying HBO, Showtime, Cinemax and The Movie Channel pending outcome of suit, Pegasus said... **StarBand** has begun content program for its 2-way satellite-based Internet access service. Content, which includes news site The Feedroom and medical information from Healthology, is available through Starband.net online site. Also introduced was application allowing StarBand customers access to e-mail from any location... **DiracTV** unveiled Web site enabling customers to pay monthly programming bill online. DirecTV.com will allow customers at start to pay bill via electronic deduction from checking account and later will add credit card option.

Universal Electronics (UE) expects to gain "significant traction" from LCD-based Mosaic remote control by early 2002, CEO Paul Arling told analysts in earnings conference call last week. Mosaic, which will be able to control up to 15 different products, will have RF option allowing it to display on-screen program guides and other data, he said. It will be targeted at OEM cable and satellite applications as well as retail. UE said 2nd quarter net income rose to \$2.3 million from \$2.1 million year ago as sales inched up to \$29.1 million from \$28.2 million despite slowdown in deployment of digital set-top cable boxes. Technology business, which includes OEM sales to cable and satellite operators, posted 6% gain in revenue while retail business fell 9% due to reduced orders from retailer in Germany, Arling said. UE's gross margin increased to 41.7% from 40.5% and it ended quarter with cash balance of \$27.8 million.

DIGITAL RIGHTS ISSUES DEBATED: Debate over copyright issues involved in digital music raged on yet again at 6th annual Plug.In Music Forum in N.Y.C. last week. But unlike in past conferences, most of anger and frustration expressed came solely from digital music/dot-com company side of argument as opposed to record industry in panel on "Legislation and Digital Rights: Protect or Control?"

Digital Media Assn. (DiMA) Exec. Dir. Jonathan Potter complained about record industry's demand for "perfection" in determining acceptable overall business model: "Perfection is the enemy of the good and the very good and in this industry the record companies' fears and concerns for perfection — perfection in the technology, perfection in the business model, perfection in the price point — has in fact been what's squelched 90% of the companies that were in this room last year."

But RIAA Govt. Relations & Legislative Counsel Mitch Glazier argued that Potter's assessment was "too simple." He said it wasn't actually "perfection" that record industry had been looking for, but rather search for security system and technology that would "make sure that the rights of [all] parties could be respected."

Potter also expressed fear that govt. could end up granting major record labels even more power. He said: "I think that it's important to point out that it will be ironic if after all that this industry has been through in the last couple of years that the only thing Congress takes up and moves this year is a set of legislative initiatives which advance the major labels' business plans but don't do anything to empower [others] that have developed sound business models [and] have the technology to deliver music."

Napster Corporate and Policy Development Vp Manus Cooney complained that govt. actions so far already had given more power to major labels: "In the wake of the Feb. 12 9th Circuit decision against Napster, we're not seeing the labels run out and enter the marketplace and start licensing more companies on their own [although] we're seeing some example that they're buying [digital music] companies. [Rather,] the first thing they did was they cross-licensed one another. They entered into a collaborative arrangement — a joint venture in the form of MusicNet. That was the big announcement in April. And I think that that is something that consumers are going to become frustrated with and certainly something that Washington is taking an interest in as well."

MusicNet Web music subscription service, due to arrive later this summer, has backing of 3 of major record labels' parent companies — AOL Time Warner, Bertelsmann AG and EMI — as well as Real Networks. Meanwhile, parent companies of record industry's other 2 major labels — Sony and Vivendi Universal — have joined forces for their own alternative to Napster — Pressplay, expected in Sept.

Cooney later said: "We have established industries that don't want to see competition develop in the marketplace and rather than compete they're cross-licensing one another. At the very least what this marketplace should insist on is that if the 5 major labels get together and cross-license one another and invest in a joint venture than [every other company] here ought to be able to have the same rates, the same terms, and the same conditions that they gave to themselves." Last comment drew applause from audience.

XBOX DEBUT DELAYED IN JAPAN: Microsoft denied rumors last week that Xbox's Nov. 8 U.S. debut would be delayed. And it said videogame system's start in Japan would be "not too far behind" that in U.S., although it gave no promise of year-end rollout, Reuters report from Tokyo said.

Company said late last year that Xbox would be introduced in U.S. and Japan this fall and in Europe in first quarter of 2002 (TVD Dec 25/00 p16). Delay in Japan could represent major blow because that would mean Microsoft would miss holiday selling season and fall further behind competing game systems GameCube from Nintendo and PlayStation 2 from Sony. Reuters report said Microsoft spokesman indicated specific Japan details would come in about month. Spokeswoman for Microsoft in U.S. was unable to offer more details by our Fri. deadline.

Meanwhile, Microsoft demonstrated its upcoming exclusive Xbox game *Shrek* last week at company's annual financial analyst meeting. Title character, taking cue from its big-screen green ogre counterpart, fights off his enemies by belching and breaking wind. Microsoft also showed upcoming title *Dead or Alive 3*. It said it expected to ship 4.5-6 million Xbox consoles through June 30 — end of Microsoft's fiscal year.

Earlier in week, Microsoft Pres.-COO Rick Belluzzo outlined company's broadband strategy at Cable & Telecom Assn. for Mktg. (CTAM) show in San Francisco. He described how company would optimize key products, including Xbox, Microsoft TV platform, MSN and Windows XP operating system for broadband services. Included was Xbox demonstration and explanation of how game system would create content for broadband services. Belluzzo said: "Microsoft is committed to helping make the broadband experience more useful, fun and engaging for consumers while making broadband services more profitable for the cable industry." But he said: "The challenge is for the leaders from the key technology and media industries to develop the kinds of services that will really make a difference in people's lives and stimulate new business opportunities."

Electronics Boutique (EB) created dedicated shelf for all of its in-mall EB stores that's geared to youngest gamers. EB Videogames Mds. Vp Peter Roithmayr told us Fri. EB "negotiated with several" game makers to include their titles in section, including Infogrames, Lego, NewKidCo, THQ. Roithmayr said section was conceived and put together by Asst. Buyer Christopher Lax, primarily as way to help parents. Now, Roithmayr said, mothers don't have to navigate through "6,000 titles" to find something appropriate for their young children. He said section was thought up around E3 and implementation at stores began this month. Although only PlayStation games are being featured in section now, Roithmayr said EB was considering expanding it to titles for other platforms.

Nintendo and its game development subsidiary filed copyright infringement suit against Japanese software retailer Enterbrain and its software developer. Enterbrain started selling software in May that Nintendo charged was similar to what Nintendo had marketed since April 1990. Nintendo also said engineer who helped create its software now headed Enterbrain's software development team. In lawsuit, Nintendo is hoping to suspend sales of game software and get ¥258 million in damages. Neither company had comment by our Fri. deadline.

VIDEO CHAINS WEIGH CHANGE: Blockbuster, which broke ranks with fellow video rental chains in signing revenue-sharing deals with movie studios, now is weighing phasing out VHS program as DVD becomes larger share of its revenues, CEO John Antioco told analysts last week.

Chain may let VHS revenue-sharing agreements lapse as they expire, although it's said to have reached agreement on renewal with Universal. Antioco declined to disclose which agreements would expire this year, but MGM, Paramount and Columbia TriStar were among first to sign pacts with Blockbuster.

Possibly phase-out comes as DVD, which isn't subject to revenue sharing, becomes larger part of rental chain's revenue. DVD represented 16% of Blockbuster's \$1.23 billion in 2nd quarter sales and 12-13% of Movie Gallery's (MG) \$82.9 million. Blockbuster and MG forecast that DVD would account for 30% and 20% of their respective revenues by year-end. Margins on DVD are said to be 10% greater than VHS based on \$15 per disc wholesale cost, sources said. Under revenue-sharing agreements, minimum guarantees to studios are \$30-\$35 per videocassette, sources said. Pacts also require that retailer carry many VHS titles not released theatrically.

"Antioco has said previously that he wouldn't buy VHS on a standard program again and now he's saying Blockbuster may not extend the revenue share deals," studio executive said. "That raises a question of whether they have another program because they've said they wouldn't buy under a standard one."

Antioco said "market conditions" could force Blockbuster to move to acquire VHS titles in "ways other than revenue sharing," but he declined to be specific. To boost its DVD business, Blockbuster recently began carrying JVC entry-level player at \$150 packaged with 13 free rentals, spokesman said. Player is merchandised at checkout area and has been marketed as part of summer promotion, he said. JVC model is likely to be limited to stores where RadioShack (RS) store-within-a-store format hasn't been installed since Thomson's RCA player is part of latter's merchandise mix. RS has opened format, which features 150-600-sq.-ft. "store," at 120 Blockbuster outlets in Austin, Las Vegas, Norfolk and Tulsa in test that runs through year-end.

Increasing prominence of DVD in rental channels also begs question whether it will become subject to revenue sharing. Studios executives said they had had discussions with rental chains on DVD revenue sharing, but nothing had been finalized. If DVD becomes part of revenue-sharing pact, possible decrease in profit margins could be offset by increased transactions and revenues, Antioco said.

"I think over time you will see revenue-sharing deals with DVD, and it's a question of whether that's the best thing for us," MG Chmn.-CEO Joseph Malugen said. "We have been buying more copies than we have to both to stay ahead of demand and create a library of DVD movies to draw from."

Revenue-sharing agreements, most signed in late 1990s, allowed rental chains to increase depth of title selection since \$30-\$35 per disc cost was roughly half what had been charged previously.

PC Connection's proposed purchase of Cyberian Outpost has been postponed until late Oct., month later than planned (TVD June 4 p12), it said in quarterly report to SEC. While PC Connection had proposed buying CO, which operates Outpost.com Web site, in all-stock deal valued at \$12.5-\$25.9 million, online retailer since has received rival bid from Fry's Electronics (FE) (TVD June 23 p18). Fry's, which owns 3.4 million shares of CO common (10.9%), has proposed buying company for 70¢ per share. Fry's had requested response to its offer from CO by July 11, but none had been received as of Fri. Under agreement with PC Connection, CO Pres.-CEO Darryl Peck will receive \$250,000 cash bonus if he retains post through completion of sale, filing at SEC said. CO also revealed that it had agreed to pay Hook Media \$193,228 for ad placement fees and assume \$930,000 in payables to 3rd party vendors that had previously accepted ads placed by Hook on behalf of company. Hook had sued CO in Feb. seeking fees. As of May 31, CO had \$4.6 million in cash and cash equivalents, amount that's expected to carry e-tailer through merger with PC Connection, it said.

Criminal charges against Russian computer scientist under Digital Millennium Copyright Act (DMCA) won't be supported by Adobe Systems, whose eBook Reader encryption was defeated by program written by Dimitri Sklyarov. FBI arrested him July 16 at Las Vegas hackers conference on charge of distributing device to circumvent copy protection. Case, rare example of invoking criminal instead of civil charges under DCMA, carries \$500,000 fine, 5-year jail term. Adobe announced it wouldn't support criminal charge following public outcry over arrest, and challenge by Electronic Frontier Foundation. It's not yet known whether Justice Dept. will persist in prosecution.

Revenue for RCA parent Thomson rose 16% in first half to 4.717 billion euros (\$4.172 billion) in 2000 period, company said. Group's net result was 111 million euros (\$98 million), 32% over first half last year. By division, first half revenues included 3.1 billion euros from consumer products, up 1.4%, but displays and components business dropped 7.2% to 714 million euros. Thomson forecast "difficult trading environment" would continue through year and possibly into 2002, and said outlook for full 2001 year was 20% revenue growth.

Paramount is opening vault to release some movie classics on DVD Aug. 14. Titles include *A Place in the Sun*, 1951 scorchier with Elizabeth Taylor and Montgomery Clift that won Oscar for director George Stevens. Other releases are *Ordinary People*, multi-Oscar winner that marked Robert Redford's directorial debut, and *Funeral in Berlin* with Michael Caine in 2nd of 3 movies based on Len Deighton's popular Harry Palmer spy novels. All titles have \$29.99 MSRP. Separately, Warner will release cult classic *Waiting for Guffman* Aug. 21.

Samsung will focus rear-projection TVs based on Displaytech's ferroelectric LCD (FLCD) technology on 43W and has postponed plans for 50W, Mktg. Dir. James Sanduski said. New 43W has shipped in limited amounts to Pro Buying Group members and production will ramp to "mid-hundreds of units" by fall, he said. Rear projection has 3-panel 0.78" FLCDs (TVD June 11 p15).

Lower pricing on DVD-R and DVD-RW media was announced by Pioneer, which said it hoped actions would make recordable DVD discs "even more attractive for a growing number of mainstream consumer and business applications." Write-once DVD-R discs now will sell for \$9.95 list and rewritable DVD-RW media will list for \$19.95.

BLOCKBUSTER NARROWS LOSS: Blockbuster, crediting strong DVD revenues, reported 2nd quarter loss narrowed to \$15.6 million from \$27.9 million year earlier as revenue edged up to \$1.23 billion from \$1.21 billion despite 2.7% decline in same-store sales.

U.S. same-store sales fell 5% because there were “no [movie] releases of note” in quarter until *Castaway* arrived in June, Blockbuster CEO John Antioco said, but international same-store sales increased 9%. DVD accounted for 16% of revenue (see related story, this issue). DVD players are in 30% of homes of Blockbuster’s “active members,” and chain has 45% share of DVD rental market, Antioco said.

Chain was “pleased” with sales of DirecTV receivers in quarter, 40% of which were “impulse buys,” Antioco said. Blockbuster and DirecTV also began pay-per-view (PPV) service and promoted it with “Last Chance Special,” which offers movie at \$1 off standard \$3.99 rate during film’s final 2 weeks in PPV lineup, spokesman said. Blockbuster also has marketed double feature at \$3.99 consisting of independent films acquired by its DEJ Productions subsidiary, he said.

Blockbuster didn’t release results thus far of 120-store test of RadioShack’s store-within-a-store format that began in June in Austin, Las Vegas, Norfolk, Tulsa. Retailers have promoted format via direct mail and will add radio and TV spots in Austin and Norfolk in Aug., spokesman said.

In videogames, Blockbuster is considering store-within-a-store format, although plans haven’t been finalized, spokesman said. Chain added Nintendo Game Boy Advance handheld system to merchandise mix earlier this month (TVD July 16 p20). Videogame rentals were flat in 2nd quarter but will increase by 4th quarter and be “double digit positive” in 2002, Antioco said, citing expected release in fall of Microsoft’s xBox and Nintendo’s GameCube.

Meanwhile, Movie Gallery (MG), taking \$177,000 charge for early acquisition of debt, said 2nd quarter profit narrowed to \$927,000 from \$1.9 million year earlier. MG had taken \$1.6 million nonrecurring charge in first half to cover amendment to distribution agreement with Rentrak.

MG, which bought \$121 million senior secured bank debt of one-time rival Video Update (VU) in May at 90% discount (TVD May 21 p20), is weighing acquisition of 300 of chain’s stores as part of reorganization plan of bankrupt rental chain. VU currently operates 380 stores using \$5 million debtor-in-possession financing from MG. Hearing on proposed reorganization plan is expected in “next several weeks,” MG said.

Proposed acquisition of VU stores would be cheaper than adding standalone MG outlets, which cost \$150,000 per store to open, CFO Steven Roy said.

Recordable CD blanks in 3" size with 185 MB capacity will be offered in more packaging configurations by Memtek-owned Memorex brand in response to wider use in MP3/CD portables and digital camcorders. Company said 3" write-once CD-R and rewritable CD-RW blanks would be offered in 10-packs for \$14.99, 50-disc spindles for \$39.99. Memtek already offers 5-packs.

AMAZON LOSS NARROWS: Amazon.com last week posted improved results for its 2nd quarter ended June 30.

E-tailer reported sales of \$667.63 million, up from \$577.88 million in same period year ago. But this year’s 2nd quarter revenue was slight drop from \$700.36 million in first quarter (TVD April 30 p22). Amazon loss narrowed to \$168.36 million (-47¢ per share) from \$317.18 million (-91¢) year ago.

At same time, e-tailer revealed AOL had invested \$100 million in its common stock, priced at what it said was “the lower of \$15.282 per share of the average closing price of common stock in the company” between July 24 and July 30.

In SEC filing last week, Amazon said it expected to use proceeds from AOL investment “for general corporate purposes, including, without limitation, to fund our ongoing operations, to expand our core businesses, to invest in new businesses, products and technologies, for capital expenditures, to repurchase outstanding debt and generally to strengthen the company’s financial position.”

As part of common stock purchase agreement, Amazon said AOL “has agreed, for 2 years... not to sell, transfer or otherwise dispose of the shares.” While some observers were left wondering whether accord indicated AOL might be intending to acquire Amazon, elements of pact would make that highly unlikely — for at least 2 years, anyway. That’s because as part of deal, Amazon said in filing that AOL agreed not to buy more than 5% of e-tailer’s common stock or attempt “merger, asset sale or other change of control transaction affecting us” for 2 years. Amazon also announced expanded strategic alliance with AOL last week, saying that Amazon’s e-commerce platform now would power AOL’s Shop@ destinations.

Amazon’s pro forma loss in 2nd quarter, including net interest expense, improved 50% to \$58 million (-16¢) from \$116 million (-33¢) year ago and pro forma operating loss from operations improved 69% to \$28 million, which company said represented 4% of sales, compared with \$89 million loss — 15% of sales.

Commenting on results, Amazon CFO Warren Jenson said: “We continue to make progress toward reaching pro forma operating profitability in the 4th quarter of 2001. This quarter, the U.S. [Retail and Services segment of its business] was profitable on a pro forma operating basis for the first time, and this is our 6th sequential quarter of improved absolute pro forma operating results.”

Company said its U.S. segment’s pro forma operating results jumped to \$2 million profit from \$55 million loss. It said it expected 3rd quarter sales to be \$625-\$675 million and absolute pro forma operating loss “flat with to very slightly down from” 2nd quarter.

Fluorescent Multilayer Disc (FMD) with potential to store scores of hours of DVD or HDTV video will be co-developed and manufactured by Warner Advanced Media Operations (WAMO). FMD inventor is N.Y.C.-based Constellation 3D, which announced that agreement with WAMO also included cross-licensing of patents for high-capacity optical disc and cards. WAMO was pioneer and innovator in DVD manufacturing processes.

Just before reporting results for 2nd quarter (see separate report, this issue), Amazon announced variety of new initiatives. On CE front, it started offering monthly fact sheet highlighting buying trends and statistics based on purchasing information from its electronics store. Amazon said CD/MP3 players "continue to gain in popularity... with current sales almost matching sales for the initial MP3 players at launch." Also performing well have been CD-RW drives, with sales up 145% over last year, Amazon said. E-tailer said sales of hands-free cellphone accessories "have surged 139% at Amazon.com since March with increased awareness about cellphone safety." Separately, Amazon announced agreement with AT&T giving latter's Digital PocketNet Internet-ready wireless phone customers access to e-tailer's wireless Web site. It also announced new regionalized shipping rates for non-U.S. customers. E-tailer now has segmented shipping rates and transit times into 10 regions: Africa, Asia/Asia Pacific, Australia, Canada, Europe, Island Nations, Israel, Japan, Latin America, Middle East. Prices and delivery times now are based on distance of particular region from U.S. distribution centers and volume of exports to that region. Company also opened e-Documents store where Amazon said consumers could access digital versions of magazines and other texts that are difficult to find in print.

Sega of America (SOA) was keeping quiet on Fri. about reports saying it planned to cut price of its Dreamcast to \$79.99 from \$99.99 Aug. 14 and then to \$49.99 around Christmas or early next year, depending on inventory levels. Reports also said Sega would include games *NBA 2K1* and *NFL 2K1* as part of All-Star line of titles at \$19.99. SOA spokeswoman told us Fri.: "Sega has made no announcements regarding a price drop on Dreamcast hardware. It is Sega's policy not to comment on rumors or speculation." Separately, Sega.com revealed it was transferring SegaNet subscribers to EarthLink and opening its online platform to all online game players. SegaNet subscribers will continue to pay \$19.95 for ISP service although they are becoming EarthLink subscribers, and regular subscribers of latter service recently had their rates increased \$2 to \$21.95 each month. Sega.com Strategic Partnerships & Alliances Dir. Marc Connor said agreement "allows Sega.com to continue to offer high-speed, low-latency gameplay while concentrating on building the best community and content for online console gamers." Company said that "as new consoles come online later this year, Sega.com plans to open its high-speed network to a wider audience of online gamers."

Emerson Radio will receive minimum of \$4.3 million in annual royalty payments under 3-year agreement it signed with Funai last fall (TVD Nov 6 p16). In fiscal year ended March 31, Emerson was paid \$1 million, it said in 10K filed with SEC. Pact allows Funai to build and sell Emerson branded DVD players, VCRs, digital TVs, set-top boxes (STBs). Funai replaced Daewoo, which had been Emerson supplier since mid-1990s and will continue to build microwave ovens. Daewoo remained Emerson's top supplier in fiscal 2001 in accounting for 21% of company's product purchases, down from 30% year earlier. Following Daewoo were Avatar Mfg., 20%, up from 17%; Tonic Electronics, 17% (11%); Kysho, 16% (0); and Imarflex, 12% (11%). Emerson said CEI Geoffrey Jurrick was paid \$411,600 salary and \$88,000 bonus in fiscal 2001, same as previous year, while Consumer Products Pres. Marino Andriani received \$385,000 salary and \$865,412 bonus. Jurrick remains Emerson's top shareholder with 14.5 million shares (45.6%).

Consumer Electronics Personals

Changes at DirecTV: William Casamo departs as exec. vp-sales & mktg. and as pres. of DirecTV Merchandising; **Roxanne Austin**, pres.-COO, will head sales operations on interim basis; Global Digital Media Pres. Larry Chapman named acting exec. vp-mktg. & advertising; Exec. Vp-CFO **Bob Meyers** becomes acting exec. vp for customer satisfaction; **Mike Palkovic**, senior vp-business management, assumes duties as acting CFO... **Rob Payesko**, national product mgr., JVC Consumer Video Div., promoted to mdsg. mgr... **Changes at Clarion:** David Black resigns as Clarion Sales Corp. senior sales & mktg. vp, as sales division is merged with Clarion Corp. of America (CCA); **A. Imoto** named senior vp, CCA's Retail Div.; **Jack DeBiasio**, ex-engineering dir., appointed CCA product planning dir.; **Frank Pierce** named retail sales & administration vp... **Patrick Murray**, ex-Motion Systems, returns to Emerson Radio as senior sales vp..

Robert Lilleness, ex-Microsoft and Trilogy Software, named Universal Electronics pres.-COO... **George Harrison** advanced to Nintendo of America senior vp-mktg. & corporate communications, assuming additional responsibilities for company's retail merchandising... Sprint Chmn.-CEO **William Esrey** to give CES keynote speech Jan. 10... **Richard Vitelle**, ex-Smtek Corp., named CFO, California Amplifier... **Changes at Kodak:** Pres.-COO **Patricia Russo** elected a dir.; **Eric Rodli**, Entertainment Imaging vp-COO, advances to pres. Sept. 1, succeeding **Joerg Agin**, who retires; **David Monderer**, corp. business development managing dir., adds vp title... Oak Technology Pres.-CEO **Young Sohn** assumes chmn. post, replacing **David Tsang**, who has left company to pursue other interests; **David Rynne** elected a dir., filling seat vacated by **Ta-Lin Hsu**, who also has left company... **Perry Grace**, ex-Ramp Networks, named Zilog CFO, replacing **Gary Patten**, who joins Indian Motorcycle Co..

Konrad Hilbers, ex-BMG Entertainment, named Napster CEO, replacing **Hank Barry**, who remains on board... **Ted de Buhr**, Wolf's Camera exec. vp-COO, advanced to pres.-COO, succeeding **Chuck Wolf**, who remains chmn.-CEO... **Thomas Weyl**, ex-Martin/William Advertising pres.-chief creative officer, appointed to Navarre board... **Laurie Lutz**, ex-Reed Exhibition Companies, joins CEA as staff dir. of operations for CES... **Changes at Audible.com:** **Thomas Baxter** resigns as CEO but remains on board and will serve as senior adviser to management team; **Donald Katz**, chmn., to reassume CEO title; **Robert Kramer**, chief technology officer, named pres... **Detlev Kunz**, National Semiconductor Europe vp-gen. mgr., promoted to senior vp-gen. mgr.-worldwide mktg. & sales.

Lexar Media revenue dropped to \$17.3 million for 2nd quarter ended June 30 from \$24.8 million same period year ago. Meanwhile, Fremont, Cal. digital storage media developer saw its loss widen to \$17.4 million (-30¢ per share), including stock-based compensation and other one-time charges, from \$10.8 million (-\$1.27) year ago. Despite loss, Lexar Pres.-CEO **Eric Stang** said: "We realized a number of key goals during the 2nd quarter and received positive market feedback in the form of increased sell-through at our top accounts, increased licensing and controller sale revenues, and the signing of a number of important partnership agreements." He added: "Our recent agreement with Samsung began to contribute to our results last quarter" and "significant new license partners" include Olympus Optical and SMART Modular Technologies. Lexar CFO **Michael Perez** said: "Despite cautious revenue growth assumptions in a difficult economy, we are reiterating our goal of 4th quarter profitability on an operating basis excluding non-cash stock based compensation charges."