



WARREN'S Consumer Electronics Daily

The Authoritative News Service of the Consumer Electronics and Allied Industries

FRIDAY, AUGUST 10, 2007

VOL. 7, NO. 154

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'Innovators' versus 'Imitators'

Blockbuster Snaps Up Movielink; Netflix Sees No Need to Parrot

As a price war continues between Blockbuster and Netflix in online DVD-by-mail rentals, the companies are diverging on the need for an even broader set of options for consumers. Blockbuster acquired Movielink, which offers downloadable movies and TV shows for purchase or rental and is owned by MGM, Paramount, Sony, Universal and Warner Bros. Blockbuster now can offer customers every possible way to consume video -- short of streaming, the only significant avenue for Netflix outside mail delivery (CED Jan 25 p4). And Netflix said it's fine with that.

The deal caps a year-long effort by Blockbuster to buy Movielink, which rejected Blockbuster's \$70 million offer in 2006. Talks resumed this year, with a \$50 million price floated. Terms of the deal, which closed Wednesday, weren't released, although some reports pointed to unnamed sources citing a price under \$20 million. Blockbuster will combine "elements" of Movielink into its online business, but fully integrating the two is "a ways off," a Blockbuster spokeswoman said. The spokeswoman declined to add details, including when parts of the Movielink service might start appearing on Blockbuster Online. Blockbuster Online will promote Movielink, though the timing isn't set, the spokeswoman said.

Movielink has about 60 employees at its Santa Monica, Calif., headquarters. Blockbuster will run Movielink as a separate service for the "foreseeable future," the spokeswoman said. The service has licensing agreements with 30 other studios, television-content distributors and foreign and independent content providers, besides the five studios that founded Movielink in 2002. Movielink, which had about 1,000 films for purchase and 1,500 for rental, was said to deliver about 75,000 downloads a month.

The Blockbuster spokeswoman declined to comment on whether Movielink will continue video-on-demand tests begun in 2006 with AT&T and EchoStar's DSL-based Home Zone service in Ohio, San Antonio and San Diego. Movielink also had a download-to-burn agreement with Sonic Solutions.

Netflix said it couldn't care less about Blockbuster's upping the ante. "There are innovators and there are imitators," a spokesman said, with Netflix first pioneering online rental and mail delivery and then on-demand movie streaming at no additional charge. "We don't do any downloading. That's not part of our lexicon." A bevy of services offer permanent or tethered movie downloads, and "none of them have caught the significant attention of consumers," he said.

That's not to say Netflix won't "continue to evolve," the spokesman said. But the company has finely tuned its core competency, taking two-thirds of the home DVD rental market, which "has been and will continue to be profitable." The market is large enough for services that provide video in many ways without Netflix needing to pile on new delivery methods to compete, he said.

The company isn't taking chances on the security of its streaming video, though. A hacker named "DizzIE" at forum.rortanet claimed to have broken through the copy protection in Netflix's streaming video so that users could rip and keep content permanently. The spokesman said users have streamed video more than 5 million times since the feature went live in January, and though "we're using the best technologies available to protect our partners' content... no technologies are infallible." The exploit -- which the hacker said Netflix had fixed temporarily after the original circumvention instructions were posted -- is the same one used to strip Microsoft DRM from subscription tracks (CED Sept 28 p8). Netflix can't disclose how it tracks the ripping of its streaming video, but the spokesman said it's monitoring the "illegal activity." -- *Mark Seavy, Greg Piper*

Consumers in the Dark

HDMI Port Added to Premium Xbox 360 Console

Microsoft added an HDMI-out port to its Premium Xbox 360 console, fitted with a 20-GB hard drive, the company revealed. The move left the entry level Core console, \$279.99 after across-the-board price reductions this week (CED Aug 8 p7), the only 360 without an HDMI port.

Until now, Microsoft's Elite console, now \$449.99, was the only 360 with an HDMI port. The move could hurt sales of the Elite unit, whose only advantage over the \$349.99 Premium 360 is a 120-GB hard drive.

The decision to add the HDMI port became clear Wednesday at a N.Y. media showcase at which Microsoft Xbox Platform Marketing Director Albert Penello showed the upcoming limited-edition *Halo 3* version of the Premium console (CED Aug 9 p9). That version also will come with the HDMI port, but will be \$50 more, at \$399.99, when it ships in time for the Sept. 25 launch of Microsoft's third *Halo* game.

The added HDMI port may be a selling point for the Xbox 360 for few buyers this holiday season. An NPD Group study found low awareness of next-generation consoles' advanced features.

The lack of awareness is "more pronounced" in regard to some systems more than others, the research firm said. For example, PS3 owners are downloading more content as often as 360 owners, "but unlike 360 owners, the

majority of owners and likely purchasers are simply unaware that this is even possible on a PS3," NPD said. Download activity on PS3 probably would rise if more owners knew, NPD said.

And 71 percent of PS3 owners and likely buyers rated backward compatibility as the most important PS3 function, but only 37 percent know it's built into the PS3, NPD said. In online gaming, Nintendo DS users were more likely than PS3 owners to use their systems to play games with friends using wireless connectivity, and 360 owners were more likely than PS3 users to use their systems to play games with friends online, NPD said.

The study information "verifies what many of us already know: Features related to playing games are by far the most important to consumers of videogame systems," said NPD analyst Anita Frazier: "To make headway in this 'next-gen' race, manufacturers still need to be primarily concerned with the quality and entertainment value of the games themselves." The April study analyzed online survey responses by 6,260 members of NPD's online consumer panel, ages 6 to 44, who owned at least one next-generation system, NPD said. -- *Jeff Berman*

Changing Format

EQ-Life Shifts to Health Services from Retail

Former Best Buy affiliate EQ-Life (CED Oct 7/04 p3) is fast becoming a footnote as a stand-alone retail concept, morphing into a health services business. Two of its three Minneapolis-area stores closed and its remaining outlet in St. Paul has dropped a pharmacy and an expanded selection of CE products.

When EQ-Life opened its first 18,000-square-foot store in Richfield, Minn., in January 2005 (CED Jan 24/05 p6), it caused a stir. As a limited liability company owned by Best Buy, EQ-Life sought to marry health, beauty and technology. But the mash-up of pharmacy, spa, wellness center, Geek Squad counter, coffee bar, digital audio players and notebook PCs was too confusing or farsighted. PrairieStone sold the drugs, with java by Caribou Coffee at the Richland location. "The technology just hasn't emerged as sophisticated as I had hoped it would be by now," said Mike Marolt, EQ-Life founder, president and CEO.

EQ-Life was spun off from the CE retailer after the second store opened, in St. Paul. Best Buy still owns 20 percent of Eq-Life. EQ-Life opened a third store, in Oak Park Heights, Minn., as it closed the original outlet in Richfield. But the Oak Park location closed this year, leaving Eq Life only in St. Paul, Marolt said. The St. Paul store still is open, but with no pharmacy. EQ-Life got into the pharmacy business through PrairieStone, but it wasn't profitable, he said. "Of the three, downtown St. Paul is the best location," said Marolt. "It continues to improve in terms of sales growth each month and each comparable month."

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EQ-Life remains a health services consulting business, advising hospitals on retail technique. "I believed all along that there is a role that retail needs to play in the health care equation," Marolt said. "I just thought we could do it in a free standing store. The need is there, but we just need to do it closer to the doctor's office." -- *Laura Heller*

Ownership Change

DirecTV to Gain Flexibility under Liberty Media

DirecTV will enjoy more flexibility to forge business alliances under Liberty Media's ownership than it had under News Corp.'s stewardship the past four years, CEO Chase Carey told analysts in an earnings call. News Corp.'s sale of its stake in DirecTV to Liberty Media is expected to close this year.

Under Liberty Media, DirecTV will be able to consider options in its own interests rather than those of a larger corporation, Carey said. News Corp. also has interests in Gemstar TV Guide, software developer NDS and British Sky Broadcasting.

Early evidence of this improved flexibility may be DirecTV's relations with TiVo. The companies parted ways in 2005 as DirecTV switched to NDS's PVR platform. But there have been signs TiVo and DirecTV are working more closely again, including recent plans for upgrading TiVo's combination Series2 PVRs and DirecTV satellite receivers by early 2008.

DirecTV, like EchoStar, also recently struck a resale agreement with Clearwire, although Carey didn't disclose when sales might begin. The Clearwire service, and its WiMax alliance with Sprint, are in the "early stages," Carey said. He said the Clearwire business "has the potential to grow" because of its application for mobile communications.

DirecTV also is continuing development of an all-in-one set-top receiver to deliver both video and broadband services, Carey said. Though the hardware could "be done within a month" if necessary, distribution through DirecTV's telco partners, including Qwest and Verizon, still needs to be set up, he said.

The satellite service also will launch DirecTV On Demand by fall, offering 1,000 movies that can be accessed from the receiver after being downloaded over a broadband connection. The service promises "better integration" of broadband combined with an on-screen guide designed to improve a customer's experience in an "easy to use way," Carey said. DirecTV will have a 70-channel package of HD programming available by late third quarter and plans 100 channels by year-end, Carey said.

DirecTV's second-quarter net income narrowed to \$448 million, from \$459 million a year ago, partly from an increase in cash paid for leased equipment, the company said. Costs tied to the DirecTV program to swap out MPEG-2-based receivers for MPEG-4 models increased by \$30 million in the quarter, compared with a \$10 million rise a year earlier, company officials said. DirecTV customers upgrading their set-tops to MPEG-4 are charged a \$299 up-front fee, and they sign a two-year service agreement. DirecTV's second-quarter capital costs rose to \$546 million from \$423 million -- about 60 percent of the increase tied to components like MPEG-4 modules, company officials told analysts. Subscriber acquisition cost also increased to \$688 on average from \$642, the company said.

North American operating profit declined to \$722 million from \$775 million, as revenue rose to \$3.73 billion from \$3.13 billion. Revenue per subscriber increased to \$76.73 from \$71.69 amid a 50 percent rise in demand for HD or DVR, company officials said. DirecTV had about five million subscribers to its HD or PVR-based service June 30. DirecTV added 128,000 net subscribers to end the quarter with 16.32 million, as

demand for HD PVR/satellite receiver increased four-fold from a year earlier, company officials said. Monthly churn declined to 1.58 percent, from 1.59 percent a year ago.

DirecTV Latin American swung to a \$41 million operating profit from a \$13 million loss a year ago as revenue jumped to \$409 million from \$202 million. The improved earnings were largely tied to DirecTV's purchase of Darlene Investments' stake in Sky Brazil, which added 869,000 subscribers to its rolls. DirecTV owns 74 percent of Sky Brazil and has investments in Sky Mexico (41 percent) and PanAmerica (100 percent), the latter including Latin America. Revenue per subscriber rose to \$47.59 from \$39.78. DirecTV Latin America added 141,000 net subscribers to end the quarter with 2.94 million, up from 1.73 million, the company said. Monthly churn dropped to 1.38 percent from 1.46 percent, it said. -- *Mark Seavy*

Loaded USB Keys Considered

Dell Bullish on Flash as Hard-Drive Substitute

SANTA CLARA, Calif. -- Dell, the first major PC maker using solid-state drives, based on flash memory, in place of hard drives, has found demand for its small assortment of SSD notebooks and is eager to find new uses for the technology, executives said. "These have been very popular" among those with specialized needs, Kevin Kettler, the company's chief technology officer, said this week at the Flash Memory Summit.

Selling USB flash drives loaded with applications and other content is being considered by "a number of people in the industry," including Dell, Kettler said in Q-and-A. He didn't elaborate.

Flash "could actually add another layer" to the usual PC hierarchy of storage and memory "for performance reasons," Kettler said. Besides replacing hard drives, flash can be used as an internal cache, inserted between the main memory and the hard drive to improve performance, he said. "It's a cost-affordable way to get a boosting or a turbo effect off of the device."

Dell might replace desktop PC hard drives with solid-state drives, Kettler said. It's also working with Microsoft, Intel and other companies on a group promoting standards for the PC host controller interface for nonvolatile memory, he said.

Dell's PCs need higher-performance flash than CE devices require, as well as removable storage, Kettler said. He expressed concern that his company's need might be at cross purposes with the flash industry's direction.

Company executives didn't quantify sales of laptops in the XPS gamer, Latitude and Precision Mobile Work Station lines that use flash drives for storage, or say how well they met expectations. The Latitude ATG model, short for All-Terrain Grade, for example, is billed as rugged and having a display that's easy to view outdoors.

There's "a tremendous opportunity to go across all platforms," said Munif Farhan, Dell's flash-storage segment leader in client storage engineering. The company plans to go beyond its current efforts to substitute flash for 1.8- and 2.5-inch hard drives, he said without elaborating. "It's a key technology for us," Farhan said.

But SSD imposes about a \$500 price premium over hard-drive models, Kettler said. "Often the product itself is priced at \$499" for an entry-level laptop, he said.

Dell is neutral in debates over how best to expand use of flash in notebook storage, Farhan said. "I'm not endorsing one technology [over] the others," he said of solid-state drives, hybrid hard drives and Intel's Turbo Memory. "If it provides my customers a benefit," he's all for it, he said. Farhan was responding in part to arguments at the con-

ference between Seagate, a maker of hard drives that contends hybrids of that technology with flash will beat solid-state drives in notebook storage, and Samsung, investing in both approaches. (See separate report in this issue.)

Dell sees advantages to adapting flash to notebook storage, the executives said. These include faster boot-up, improved responsiveness, more durability, environmental benefits, quieter operation, increased reliability, adaptable mechanics and reduced weight.

Solid state drives are expected to be as much as three times more reliable than conventional hard drives and to tolerate more than the double the shock, Farhan said. Having “no moving parts enhances reliability,” he said. The extent of power savings in storage means little for the system overall, since storage accounts for only 8 to 12 percent of total power requirements, he said. But the proportion will rise with arrival of “ultralow voltage systems,” and SSD enables “very aggressive power management states, which makes a very good story,” Farhan said.

But capitalizing on the benefits must be weighed against other considerations, Farhan said. Trade-offs exist between performance and battery life, capacity and attractive design and product life and low cost, he said. “You get what you pay for.”

Other big challenges remain to broader use of flash, said Farhan. “Standards need to be developed to deal with specific issues with flash,” he said. It would be “not very wise” to transpose standards devised for hard drives, Farhan said. The “800-lb. gorilla” of problems is making SSD more affordable, not only in the component price tag but also in the “total cost of ownership.”

'Peak of Hype'

Hybrid Booster Seagate Says Solid-State Drives Not Ready for Prime Time

SANTA CLARA, Calif. -- Solid-state drives haven't shown they can replace hard drives in PCs, said an executive of Seagate, which makes the conventional drives and is promoting hybrid drives combining them with flash memory. SSD is “at or near the peak of the hype cycle,” said Josh Tinker, Seagate's PC market development manager.

"In every case" in which SSDs have replaced hard drives, "the only thing that changed was the price," Tinker said at this week's Flash Memory Summit. “They've not delivered on the promises that have been made.” SSD has seen “no major innovation” and shown no major benefit “in real user experience,” he said. Flash makers generally aren't expert at delivering storage to OEMs, and “there's a large premium out there through the end of the decade,” Tinker said.

In contrast, 2.5-inch hybrid hard drives have proven superior to conventional hard drives in boot time, power consumption, weight and reliability, Tinker said. The “marginal premium” in hybrid price will drop over time, as their value rises compared with that of conventional drives, he said. Flash can't promise that, Tinker said.

Tinker admitted that Seagate and others hyped hybrids. They don't make Windows machines “instant-on,” increase performance on Vista machines as measured by PCMark or demonstrate all their benefits on non-SATA PCs, as promised, he said. Tinker conceded that PC systems must be optimized to take full advantage of hybrid drives.

Seagate began shipping 160 GB drives at 5400 RPM with 256 MB of flash memory during the summer in “pretty small volume” from production facilities in Asia to “select OEMs,” Tinker told us. He said they're \$20 to \$25 more than equivalent-sized hard drives, which generally run \$80 to \$100. Sony and LG are selling notebooks with Seagate hybrid drives, said an industry source. “We're planning our channel launch this quarter” to broaden distribution to smaller customers, Tinker said.

"We believe that SSD [adoption] is something that really takes place this year," Y.R. Kim, a Samsung Semiconductor director of technical marketing, said in response. But the parent company isn't betting everything

on SSD. "Hybrid hard drive is the next revolutionary step in notebook PC performance," said Debasis Baral of Samsung Information Systems America's HDD Labs.

Samsung has been shipping hybrid drives since March to "quite a few customers," Baral told us, without identifying them. The company is making 80 and 160 GB drives at 5400 RPM with 256 MB of flash in South Korea and shipping them by the tens of thousands a month, he said. Baral wouldn't comment on pricing.

Hitachi is the third hard-drive maker to announce hybrid drives, Tinker said. The only three other makers of 2.5-inch hard drives, Fujitsu, Toshiba and Western Digital, belong to the Hybrid Storage Alliance promoting the technology, along with Seagate, Samsung and Hitachi.

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A Samsung executive cracked that he would love a shortage of NAND flash memory because it would raise prices. But Kim told us he couldn't comment on fears that power outages at Samsung plants in South Korea would tighten supplies.

Digital TV

The FCC and NTIA should get cracking on their DTV transition duties, Sen. Claire McCaskill, D-Miss., said last week. In letters to FCC Chairman Kevin Martin and NTIA Administrator John Kneuer, McCaskill said that since NTIA set no date by which manufacture of coupon-eligible boxes must start, "there is no guarantee boxes will be available for consumers to purchase January 1, 2008, when coupons will be available for consumers." McCaskill asked NTIA to report on commitments from industry, and to details its plan for testing converter boxes, including field tests. "I am concerned that NTIA has not taken adequate steps to publicize the coupon program," she said, asking that NTIA provide a month-by-month plan for promoting the coupon program and eligible converter boxes. NTIA needs to get broadcasters to air public service announcements on the program as soon as possible, the letter said. McCaskill made similar demands of the FCC, urging it to require broadcasters to run PSAs, with stipulations that a certain number air in periods of peak viewership. The FCC should move faster on rules for alerting consumers to the transition, including "strong reporting requirements to ensure that the PSA rules are followed," she said. Satellite and cable should have to educate subscribers through bill inserts or other means, with the FCC setting a date and frequency for inserts, according to McCaskill. "I am also hopeful you will look closely at other proposals for cable and satellite providers to inform their customers," she said.

Retail

Best Buy is pursuing a "New Blue" brand strategy to put product categories together in cohesive solutions, company officials told analysts at an analyst conference in Richfield, Minn., Thursday. The goal is to put hardware, software, accessories and services together in way that communicates solutions in realistic settings, said James Damian, senior vice president in the chain's experience development group. "It's the environment, the operations and the people," he said. "A work stream that marries all of these under one brand." The term was coined in November 2006, and Best Buy is testing the concept at stores including one in Eden Prairie, Minn., near the chain's headquarters. The New Blue strategy wasn't part of the presentations, but came up during a question and answer session between Best Buy executives and analysts. Darren Jackson, executive vice president and chief financial officer, let the term slip. "Have we even told anybody what New Blue is yet?" CEO Brad Anderson asked Jackson. Best Buy isn't ready to talk about the strategy in depth, but Jackson called it part of Best Buy's effort to reinvent itself and reinvigorate stores. -- *LH*

Industry Notes

Audiophiles soon will be able to use high-end analog turntables to transfer vinyl LPs to an MP3 player or iPod, rather than having to use inexpensive lower-fidelity units. Next month U.K. company Henley

Designs will release its \$150 "Pro-ject Phono Box," which connects between a turntable and a PC to convert analog audio for use on digital portables. The device, as big as two cigarette packs, has an external power supply and uses ordinary phono leads to take analog stereo from a conventional turntable with moving magnet cartridge and send it digitally to a PC by standard mini-USB cable. The PC uses conventional conversion software to produce a digital music file for portable play. Henley also is launching a USB turntable, based on the company's existing Debut model. For about \$400, the new USB model has line-level outputs for use with stereo systems, and a USB output for use with PCs. It also has a built-in phono pre-amp, so it can be used with the increasing number of stereo receivers and amplifiers that no longer provide turntable inputs. The turntable comes in black or silver finish, and runs at either 33.3- or 45 rpm. An optional \$150 "speed box" can alter electrical power to boost speed to 78 rpm for older monaural platters. A stylus for the turntable is available from Denmark's Ortofon for about \$75, Henley said (www.henleydesigns.co.uk) -- **BF**

Courts

Time Warner Cable settled a lawsuit against DirecTV alleging that the satellite provider's ads touting the superiority of its HD service to cable's were misleading, the companies said. A Time Warner Cable spokesman said the settlement came several weeks before a ruling Thursday by the 2nd U.S. Circuit Court of Appeals in New York upholding a district judge's preliminary order that DirecTV stop airing televised ads featuring Jessica Simpson and William Shatner, because they seemed misleading. In banner ads on various websites, DirecTV displayed a clear picture from its service next to highly pixelated video labeled as coming from another TV provider. The court agreed with DirecTV's argument that no one would believe that the pixelated image was genuine, and disagreed with the lower court. "It is difficult to imagine that any consumer, whatever the level of sophistication, would actually be fooled by the Internet advertisements into thinking that cable's picture quality is so poor that the image is 'nearly entirely obscured,'" wrote Judge Chester Straub. Judges Amalya Kearse and Rosemary Pooler agreed. "The Internet advertisements' depictions of cable are not just inaccurate, they are not even remotely realistic." DirecTV and Time Warner Cable officials said their settlement made the ruling moot. They wouldn't disclose the terms. -- **JM**

LodgeNet Entertainment will "vigorously defend" itself against a patent suit filed against it July 10 by Advanced Satellite Research in U.S. District Court, Salt Lake City, the company said in a Tuesday 10-Q SEC filing. The on-demand provider of movies, music and Nintendo videogames to the lodging industry does not infringe U.S. Patent No. 7,117,251, issued Oct. 3, 2006, it said, adding it "other substantive defenses" not cited in the 10-Q. The patent covers a method and system for providing "high-speed, satellite-based information delivery." The suit claims LodgeNet infringes the patent by using, selling and offering video on-demand services and by conducting other business, including supplying TVs to hotels in Utah. Advanced Satellite seeks unspecified damages and a permanent injunction against LodgeNet to prevent further infringement.

Broadband

The use of ultra-wideband technology for wireless home networking will become legal in the U.K. Monday, telecom regulator Ofcom said Thursday. A license has been required to use UWB. Ofcom said it eliminating the requirement so consumers can connect PCs, digital cameras, music portables and other devices wirelessly. It also noted that UWB, which can transmit data at about 2 Gbps over a 100-foot range, consumes less power than other wireless technologies, extending battery time for portable devices. It also said that because UWB gear, such as hubs, is widely available in the U.S. and Japan, large volume efficiencies developed for those markets will make the products affordable to U.K. consumers. UWB equipment will be made license-exempt in

the U.K. by law though the introduction of the Wireless Telegraphy (Ultra-Wideband Equipment) Exemption Regulations 2007. Ofcom said it participated in negotiations with other European countries to develop technical standards for UWB. Over coming months, other EU members are expected to introduce legislation to allow approved UWB equipment to be used without a license in their countries, Ofcom said. "Radio spectrum is an essential raw material in the development of converged communications services," said Ed Richards, Ofcom's CEO. "Where possible, we want to remove restrictions on the use of spectrum to allow the market to develop new and innovative services -- such as UWB -- for the benefit of consumers."

Videogames

Licensing company 4Kids Entertainment has another deal in the works with Microsoft, 4Kids CEO Alfred Kahn told analysts in a conference call Thursday morning. The companies previously teamed on *Viva Pinata* for children, developed by Microsoft's Rare studio as a game for Xbox 360 and made into an animated TV show by 4Kids. Kahn described the new project as a "branding deal using Xbox" and a "broader deal than just a children's property," but offered no details. The companies always are involved in "conversations about what else we can do" together, he said. "We expect Microsoft Xbox to begin contributing substantially to revenue later this year," he added, later saying it will "take a while" before the pact with Microsoft produces the profitability that 4Kids has found through similar arrangements with Nintendo. Nintendo and 4Kids have a long history together on properties including Pokemon. Rare's decision to bring *Viva Pinata* to Nintendo DS, announced late last month at the Comic-Con International convention in San Diego, is "important" for 4Kids because it will take the game to more members of the company's young target audience, Kahn said. The move was unusual, because it's rare for a game hardware maker to provide software for a rival's systems. It was also another sign that Microsoft has no plans to offer a handheld system soon. Rumors had that happening, and the company hadn't ruled it out. But Microsoft may have shelved that tack for now to focus on maintaining its market share lead this console cycle. Microsoft also is bringing *Viva Pinata* to PCs through a Games for Windows version and plans to ship a sequel, *Viva Pinata: Party Animals*, for 360 in November. Microsoft's efforts to boost the franchise figure in a larger effort to expand the 360 customer base beyond core gamers to younger players and families. Kahn spoke as 4Kids posted weaker results for its second quarter ended June 30. Sales tumbled to \$12 million from \$16.7 million, with a \$2.2 million loss (17¢ per diluted share) reversing the small, \$34,000 profit (zero cents) of a year ago. It was "another difficult and challenging quarter" for 4Kids, Kahn said, adding "we certainly are not happy" with the results. The company put off launch of its long-awaited *Chaotic* trading card game and accompanying website from the spring, with an October launch now posited. The game will ship then and a public beta test will start. A mass market launch won't come until first quarter 2008. Kahn said that was always the timing that the company planned. The company is upbeat about that franchise and it plans to expand its website advertising as it updates its 4Kids TV website, he said. It also is shifting branding of the 4Kids.TV website to "Game Station" this fall to stress the site's game offerings amid the game industry's largest revenue-generating year ever, Kahn said. Help also will come from expansion of its 4Kids on-demand service, Kahn said. June saw more than 1.75 million 4Kids TV downloads through the service, which Comcast will roll out nationwide, eventually offering on-demand 4Kids programs to all Comcast digital subscribers, he said. 4Kids is "in conversations with Fox" to extend their TV deal, Kahn said, predicting the partnership will continue "a long time." The company likes its direction and is "getting to the place we need to be" overall, Kahn said of 4Kids. The company invested more than \$3 million the first half into its digital assets, the 4Kids.TV website, its trading card company TC Digital Games LLC and new website company TC Websites, now building out the www.chaoticgame.com website, he said. -- **JB**

Carriers are increasingly embracing original mobile games because they "want to see new ideas come to market," Glu Mobile Chief Financial Officer Rocky Pimentel told the Needham Internet and Digital

Media Conference in N.Y. Thursday. Glu keeps adding original games, which are becoming a growing part of the company's revenue, he said. The company plans to introduce several new games over the next two quarters and throughout 2008, he said, adding that its "objective" is to release two to four original games a quarter as it continues to "build the momentum" in the original game category. Glu now sells more than 130 games and has deals with videogame publishers including Activision, Konami, Microsoft, Sega and Sony, Pimentel said, adding "we'll continue to" sign deals with "major, leading brands." Glu last week reported second quarter sales soared 43 percent to \$16.4 million and its loss narrowed to \$898,000 (3¢ per share) from \$2.7 million (55¢) on strong demand for the new releases *Transformers*, *World Series of Poker Pro Challenge* and *My Hangman*. The company expects to report sales of \$16.7 million to \$17.2 million and a loss of \$900,000 to \$1.3 million (3 to 4¢) for Q3, and revenue of \$68 million to \$69.5 million and a loss of \$2.9 million to \$3.5 million (12 to 15¢) for 2007, it said. -- **JB**

Electronic Arts increased its holding of voting shares in rival Ubisoft to 24.86 percent and now owns 15.37 percent of Ubisoft's capital, Ubisoft said Thursday. The increase followed the allotment of double voting rights on registered shares that EA Nederland owned for two years. EA Nederland now owns 6.99 million shares representing 13.98 votes, but has not bought new shares of that kind since 2005, published reports said. EA didn't comment by our deadline. But published reports said the publisher indicated that it reserves the right to further increase its stake in Ubisoft, depending on market conditions, over the next year. But EA reportedly doesn't plan to try to nominate board members, though that could change with a major shift in Ubisoft's business.

Consumer Electronics People

Jason Lindvall, ex-Jsonics, named Remote Technologies director of product integration, new post... **John Schappert**, ex-Electronic Arts executive vice president, joins Microsoft Interactive Entertainment Business as corporate vice president of Live, software and services, new post... **Barry Cottle**, ex-Quickoffice CEO, joins Electronic Arts as EA Mobile senior vice president and general manager.

Consumer Electronics Daily

(ISSN 1537-3088)

PUBLISHED BY WARREN COMMUNICATIONS NEWS, INC.

Warren Communications News, Inc. is publisher of Communications Daily, Warren's Washington Internet Daily, Consumer Electronics Daily, Washington Telecom Newswire, Telecom A.M., Television A.M., Television & Cable Factbook, Cable & Station Coverage Atlas, Public Broadcasting Report, Satellite Week and other special publications.

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