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By Reuters

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**Sony and Toshiba are in talks to develop a common standard for next-generation DVDs and end a fierce battle over formats that has been threatening to stifle the industry's growth.**

The two companies, heading rival groups, have waged a three-year battle to have their new technology standards adopted by the industry and gain pole position in the multibillion dollar markets for DVD players, PC drives and optical disks.

While a final deal is still far from certain, both camps are well aware that a drawn-out fight would likely confuse consumers and hinder the industry's development, just like the famous spat between the VHS and Betamax video tape formats two decades ago.

"Toshiba believes a single format will benefit consumers. We are in talks (with the rival camp and related parties) and we will continue engaging in the talks," a Toshiba spokeswoman said.

Sony's Blu-ray technology is backed by a group including Dell, Samsung Electronics, Philips Electronics and Matsushita Electric Industrial, maker of Panasonic brand products.

Toshiba, with NEC and Sanyo Electric, has been promoting a technology called HD DVD.

At the core of both formats are blue lasers, which have a shorter wavelength than the red lasers used in current DVD equipment, allowing discs to store data at the higher densities needed for high-definition movies and televisions.

Electronics companies hope the technology will spark a new wave of purchases for DVD players, and Hollywood's movie studios hope to benefit from a new round of buying of advanced DVDs.

Sony and Toshiba have reportedly already begun briefing Walt Disney and other Hollywood movie studios for approval of a unified standard, paving the way for the signing of an agreement between the rival camps.

A unified format would be favorable for profitability across the industry because consumers would be more comfortable about buying next-generation products and manufacturers could achieve lower production costs.

A PC maker, for example, would not have to equip its computers with hard drives compatible with both formats.

"This is essentially a good thing because if they can bring the two standards into a single standard it will lower the cost to consumers and lower the cost of adoption for the industry," said Dresdner Kleinwort Wasserstein analyst Damain Thong.

### **Which tech goes where?**

In an interview with Reuters earlier this month in France, Yukinori Kawauchi, the general manager in charge of the new format for Sony, said his company was "open to discussions" on creating a single technology standard.

Kawauchi said at the time that specific proposals had yet to be tabled, but the Nihon Keizai Shimbun business daily reported that Sony has proposed using Blu-ray's disc structure and HD DVD software technology as the basis for a new format.

Toshiba, for its part, has suggested using the HD DVD disc structure and employing Sony's multilayer data-recording technology, the paper said.

In HD DVD discs a memory layer is sandwiched between two substrates, while in Blu-ray a layer to hold data is put on the surface of a substrate and covered by thin protective layers.

The dominant industry view has been that since HD DVD discs have virtually the same structure as current discs, makers can use much of their existing manufacturing equipment to offer low-priced discs, a critical factor in winning consumers' support.

Either way, the clock is ticking on the planned launch of DVD players based on the new formats by the end of the year.

Toshiba, while admitting it is in talks with Sony and others on a unified format, said it has not changed its plan to launch HD DVD-based DVD players and notebook computers equipped with HD DVD drives in the fourth quarter of 2005.

"Now I'm interested to see how soon the makers can come out with products with standardized technology," said Daiwa Institute of Research analyst Kazuharu Miura. "The move could slow down the launch (of products) and let rivals such as Taiwanese makers, that came into the market later, advance in the competition."

The move to a unified format also puts into question the launch of Sony's next-generation PlayStation 3 (PS3), which has been expected to be released in 2006. Sony has said the new game console would be compatible with Blu-ray technology.

"It could take both camps some time to develop products based on a new standard, which leaves the risk of development delays for Sony's next-generation game console," Goldman Sachs analyst Yuji Fujimori wrote in a note to clients.

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By Dawn Kawamoto

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**Thomson announced Friday it that it will enter the HD DVD market with a line of players and that it will also manufacture HD DVD and Blu-ray discs.**

Thomson is the latest company to throw its support behind the next-generation DVD formats. And while the debate continues over whether the industry will ultimately favor the HD DVD format or the Blu-ray format, Thomson is pushing ahead.

"Our tradition is based on being a trusted service provider to content owners, independent of format choices," Quentin Lilly, president of Thomson's Technicolor Home Entertainment Services business, said in a statement.

NEC and Toshiba are main advocates for the HD DVD standard, while Sony and a larger number of technology powerhouses, including Dell, Hewlett-Packard, Matsushita Electric Industrial, Royal Philips Electronics and Samsung Electronics, support the Blu-ray format.

Supporters of both HD DVD and Blu-ray say their respective format will pave the way for higher-capacity DVDs, which in turn will result in higher resolution for video and audio, Web connectivity and other advancements.

Thomson's Technicolor business will manufacture both the HD DVD and Blu-ray discs. However, the company is planning to only provide HD DVD players--they're scheduled for release by the latter part of next year--and has no immediate plans for unveiling a Blu-ray player, said Monica Coull, a Thomson spokeswoman.

The next-generation DVD players will be sold through Thomson's RCA brand in the United States and through the Thomson brand in Europe.

"While HDTV is just beginning in Europe, our experience with other digital entertainment products tells us that the steady growth of HD content will fuel continued growth of the category," Mike O'Hara, a Thomson executive vice president, said in a statement.

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By Richard Shim

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**Apple Computer has sided with the Blu-ray Disc Association, as it enters the debate over which specification will become the next-generation DVD format.**

The association, which includes the likes of Sony, Dell and Hewlett-Packard, on Thursday announced Apple as its latest member following a bimonthly meeting in South Korea hosted by electronics maker Samsung. Apple will lend its expertise in high-definition and DVD authoring to the development of the Blu-ray Disc specification, which is backward-compatible with DVDs and allows for the storage of up to 50GB of data. Current DVDs can hold up to about 8.5GB of information.

Blu-ray Disc's ability to store such large amounts of data is one of its key advantages over the HD DVD specification. HD DVDs hold up to 30GB of data and are backward-compatible with current DVDs. Proponents of HD DVD say players and discs will be cheaper to make than products based on the Blu-ray Disc specification. The two incompatible formats are the main technologies being considered by electronics and PC makers, as well as entertainment studios, to succeed the highly popular and profitable DVD.

DVDs spawned a billion dollar industry, and executives are wary of tampering with a hit. However, all signs are pointing to the growing high-definition video market--and high-definition content requires more storage capacity than DVDs can sufficiently support.

"Consumers are already creating stunning HD content," Apple Chief Executive Steve Jobs said in a statement, adding that consumers are "anxiously awaiting" a way to burn content to high-definition DVDs.

Apple also will participate in the promotion and marketing of the Blu-ray Disc format, according to Josh Peterson, director of optical storage at HP.

"We're hoping to tap their marketing and creative genius when it comes to that area," Peterson said.

Peterson added that Blu-ray Disc products are still scheduled to come out as early as the end of 2005 and as late as the beginning of next year. The "gating factor" is copy protection, and on that front, a number of proposals are being mulled, including the use of Advanced Access Content System, or AACCS, one protection technology that HD DVD is also considering.

The Blu-ray Disc Association is finalizing the list of interactive features it plans to support in the first Blu-ray Disc products.

Manufacturers are expected to come out with devices that read and write to DVD, Blu-ray Disc and CD.