In the industry, CBS has already agreed to do three hours of children's programming, but they say they oppose a rule. NBC has proposed three hours as a guideline, provided that a broadcaster who does not do three hours could satisfy the Act with other efforts too. ABC has been reticent to commit to three hours and adamantly opposes a rule.

Now is the time for the Administration to bring the heads of the networks together to agree to support the rule. They should realize that they have more to gain by being proactive in support of children's programming than by losing the debate once we appoint a fifth commissioner. In addition, they need to cut their losses and get this issue behind them to facilitate the license renewal process. Finally it is in their interests to avoid this being an election issue against them , as opposed to Dole, who has never supported children's TV either in this context or through public broadcasting.

RECOMMENDATION

We should begin negotiating with the three networks in preparation for a meeting with you and the President in the month of June to announce their support for the rule on children's television. We should make it clear that we expect to prevail on the rule but prefer joining with them on this issue rather than using the bully pulpit against them. We should also explain that an agreement now avoids the possibility that the majority of the Commission would vote for even stronger requirements than now proposed.

Discussion

The Children's Television Act of 1990 required broadcasters to increase their efforts to serve the educational and informational needs of children as a condition of renewing their licenses. The FCC has proposed a rule to require at least three hours of educational children's programming per station per week to satisfy the Act. The television industry has strongly opposed the rule. Commissioners Quello (D) and Chong (R) oppose the rule; Hundt and Ness (D) support it. The President sent a personal letter supporting the rule.

Several factors have changed the dynamic of this issue. First, we hope to appoint in the next available recess a fifth commissioner who will support the rule. Second, Rep. Ed Markey has obtained the signatures of 220 House members in support of the rule. Third, it is license renewal season for broadcasters and the debate over the rule is delaying decisions to renew licenses.

Finally, primarily in response to the third point, Commissioner Quello announced recently that he could support a three hour minimum provided it is based on the industry average, not a government mandate. This is good because he recognizes the need for a quantitative standard. It is insufficient because he wants to use industry averages which can fluctuate rather than "mandate" three hours. (The industry claims it already averages three hours so the outcome is the same; without the rule though, the average could go down or be avoided by pseudo-children's programming).

THE NEW YORK TIMES
WEDNESDAY, MAY 29, 1996

TV Notes

A Three-Hour Rule

The tug of war at the Federal Communications Commission over whether to require broadcast stations to carry at least three hours of children's educational programming each week to comply with the Children's Television Act took a lurch yesterday in the direction of the chairman, Reed E. Hundt.

Mr. Hundt's chief adversary on the commission, James Quello, who has opposed a Government-set minimum, revised his position. He proposed requiring broadcasters to show "the industry norm," now an average of about four hours a week but obviously changeable, or to abide by a three-hour minimum.

"I think Jim is showing tremendous flexibility here," Mr. Hundt said. "This is an invitation for a conversation, not a finished product, but I've got to be very happy with the movement he's shown."

In a speech last week, Mr. Quello complained that there were many ways for parents to obtain educational programming short of requiring three hours a week from broadcasters. He suggested that parents buy VCR's and educational videotapes. Mr. Hundt likened that suggestion to Marie Antoinette's response when told the starving peasants had no bread: "Let them eat cake."

Advocates of the Hundt position began calling Mr. Quello's position the "Let them eat VCR's" approach. Mr. Quello said yesterday that Mr. Hundt had taken his VCR comment out of context, adding, "It was a cute shot, but it was a cheap shot."

LAWRIE MIFFLIN

Shuttle Planning Return

HOUSTON, May 28 (AP) — The Endeavour's six-man crew packed up today to return from 10 days of satellite work that required more precision flying than any other shuttle mission. The shuttle is scheduled to land at 7:09 A.M. Eastern daylight time on Wednesday at Cape Canaveral, Fla., but rain could force a detour to Edwards Air Force Base, Calif.

The astronauts accomplished everything they set out to do, including the release of two experimental satellites and three subsequent encounters with one of them.

Moody's Combining 2 Units In First Big Shift in Years

By KENNETH N. GILPIN

Moody's Investors Service, one of the two major bond rating agencies in the nation, announced yesterday what it said was the first major revamping of its operations in more than a quarter-century.

The principal change is a decision to merge the company's corporate and municipal bond rating operations into one group, which will be called Credit Ratings and Analysis.

Previously, the two units had operated independently. But while the shake-up prompted some high-level resignations, Moody's said it had decided that it was time for a change, citing a perceived need to realize efficiencies, among other reasons.

"The organization today is much the same as it was in the early 1970's, when we started to charge issuers for ratings," George Fasel, a Moody's spokesman, said. "But the market has changed since then."

In October, Moody's hired McKinsey & Company, the consulting firm, to advise it on the reorganization, and began a study of its operations. Many of the basic recommendations were already under review in March, when the company was hit by the sudden resignation of its president, John A. Bohn Jr. That month, the Justice Department told Moody's that it was conducting a wide-ranging investigation of its rating practices, but Mr. Fasel said the reorganization was unrelated.

"We didn't hear anything from Justice until more than four months after we began the study," he said.

William O. Dwyer, who succeeded Mr. Bohn as president in early April, announced the changes in a memorandum to employees. Mr. Dwyer said in the memo that job cuts were inevitable, though no number was set. But he said the company was intent on keeping "any reductions to an absolute minimum."

Moody's has just more than 1,400 employees, mostly in New York, where the company is based. Its leading competitor in the bond-rating business is Standard & Poor's, a unit of McGraw-Hill Inc.

Donald E. Noe, 41, was named head of the new Credit Ratings and Analysis unit. Previously, Mr. Noe had been head of structured finance.

The changes prompted the resignations of Thomas J. McGuire, the head of corporate bond ratings, and Daniel M. Heimowitz, who had run the public finance department.

Mr. McGuire, who is 58, had been contemplating early retirement to start work on a doctorate degree in history before the study of the company's structure was undertaken, Mr. Fasel said. Mr. Heimowitz, who is 43, was asked to stay on as head of public finance, but apparently balked at the idea of reporting to Mr. Noe.

Moody's is a subsidiary of the Dun & Bradstreet Corporation, which announced plans in January to split into three publicly traded companies. Moody's undertook the study of its structure last fall with no knowledge of Dun & Bradstreet's plans, Mr. Fasel said.

Investors Look To Education As Possibility For High Flier

By MARY B. W. TABOR

THE NEW YORK TIMES
WEDNESDAY, MAY 29, 1996

The 300 dark-suited investment industry executives sat crowded into heavily draped meeting rooms at the Plaza Hotel in New York, watching slide show after slide show about companies they had never heard of in an industry they know little about — the business of educating children.

"Who is your competition?" Thomas Lehrman, an analyst from Tiger Management, apologetically asked one presenter. "I really don't know your market."

So began Smith Barney's first Education Industry Conference last week, the second such meeting this year in which the world's biggest institutional investors, from J. P. Morgan to Fidelity Investments to Warburg Pincus, have come scouting for gold in the form of education companies that are — or might soon be — publicly traded.

"Education today, like health care 20 years ago, is a vast, highly localized industry ripe for change," said Mary C. Tanner, a managing director at Lehman Brothers, which held its first education conference in February. "The emergence of H.M.O.'s and hospital management companies created enormous opportunities for investors. We believe the same pattern will occur in education."

Until recently, the idea that schools could provide fertile ground for investors seemed almost absurd, especially in an era of budget cuts and spending limits. But with demands for more efficiency and enterprise in educating the nation's 44 million schoolchildren, many schools have turned to for-profit companies looking for solutions.

Five years ago, ambitious ventures like Education Alternatives Inc. and Christopher Whittle's Edison Project promised to run schools and school systems for profit. Their first attempts proved overly optimistic — E.A.I. lost most of its urban contracts; Mr. Whittle, a featured guest at both the Lehman and Smith Barney conferences, scaled back after overspending on development.

Today, many of the most successful companies are in specific niches, offering classroom instruction or tutoring, selling textbooks, software or technology, designing curriculums, providing consulting services or supplying cafeteria or janitorial services. A recent study estimates that for-profit companies take in $30 billion of the $340 billion that the United States spends each year on preschool to high school education.

Still, some education experts warn that there are inherent problems in viewing schools as a new market. "The dilemma is that we want to bring the efficiency of the market into an enterprise that we see is not very efficient," said John F. Jennings, director of the Center on National Education Policy. "On the other hand, we are dealing with the minds of children and the future of the country. That's not something you put into a box and sell."

The best investment opportunity since health care?

But businesses are forging ahead. To watch the emerging education market, Ms. Tanner, one of the first investment bankers to focus on health care as a profitable arena, set up a special group at Lehman earlier this year. Smith Barney, a unit of Travelers Group, did the same last month. And several smaller investment and venture capital groups, like Eduventures in Boston and Sterling Capital in Baltimore, have formed in recent years.

Some of the companies, like DeVry, Apollo Group and ITT Educational Services, which run post-secondary degree-granting schools, have been considered relatively low-risk investments because of their steady growth in enrollment and graduation rates and a predictable revenue stream.

Others, however, especially smaller companies involved in elementary and secondary schools, have left traders with their heads in their hands. Education Alternatives Inc., for one, saw its common stock plummet from $48.50 a share in November of 1993 to $3.688 a share yesterday on the Nasdaq exchange, a dive spurred by negative press reports and the loss of the second of its two high-profile contracts to run schools in Hartford and Baltimore. In the same period, Nobel Education Dynamics, which owns and runs 108 private elementary and middle schools and child-care centers in 12 states, has seen its stock jump to $17.75 from $3 on the Nasdaq small cap market.

The Education Industry Report, a newsletter that rates the performance of 25 publicly traded education companies, including Education Alternatives and Nobel, says that the stock price of those companies rose 32.07 percent between April 1995 and April 1996, compared with 13.15 percent for the Nasdaq composite index and 10.23 percent for the Russell 2000 index of small companies.

Many of the stocks carry exorbitant price tags, given their earnings, a sign that investors may be bidding up the prices.

At both the Lehman Brothers and Smith Barney conferences, attendance was between 250 and 300 people, twice that expected.

"I'm just trying to keep abreast of the confusion in the marketplace," said Bob Bohn, president of New York Achievement, who was scouting for Innovest Group Inc., the majority shareholder of his company. Mr. Bohn stood throughout the morning watching the presentations with 20 folders from various companies under his arm.

New York Achievement holds the New York City franchise for Sylvan Learning Centers. Sylvan's franchiser, Sylvan Learning Systems, has a $1.25 million contract with Newark to run a remedial education program in three local high schools.

Though more education related companies pop up each day, for-profit ventures that focus solely on education still account for less than $5 billion in spending, says Gerald Odening, a vice president at Smith Barney. And for every one that is publicly held, three other companies are still private, with public offerings perhaps two or three years down the road, if ever.

But Wall Street is hopeful.

"A number of companies are moving toward initial public offerings or partial spinoffs," said Mr. Odening, a vice president at Smith Barney, who organized the conference. "So we expect this will become a good investment area in the next year or two."

FCC's Quello Softens Opposition To Children's Educational TV Rule

Commissioner Stops Short of Endorsing Specific Time Requirement

By Paul Farhi
Washington Post Staff Writer

A government regulator who has been a key obstacle to a proposed requirement that TV stations air a standard amount of "educational" programs for children retreated from his position yesterday, saying he now supports the general idea.

But the official, James Quello of the Federal Communications Commission, stopped short of specifying how much time broadcasters should devote to such programs. That frustrated people who had wanted a firm three-hour per week commitment and had hoped for a clear break in a long stalemate on the issue.

Quello's softening comes as the FCC is feeling new pressure to go for a three-hour system. Rep. Edward J. Markey (D-Mass.), who wrote a 1990 law that endorsed the general concept of educational programming for children, said yesterday he would list 220 House members who have signed a letter favoring three hours.

"A majority of the members of the House now believe in this, and so do parents and the president," said Markey yesterday.

"Why doesn't Jim Quello?"

The FCC has been split for months over a proposal by its chairman, Reed Hundt, to require TV stations to air three hours of programs specifically created to meet the "educational or informational" needs of children 16 and under. Hundt has been unable to get the votes of a majority of the FCC's four commissioners.

FILE PHOTO BY RAY LUSTIG—THE WASHINGTON POST
REED HUNDT
. . . FCC chairman proposed rule

Hundt has gained the support of fellow Democrat Susan Ness for his three-hour plan. Rachelle Chong, a Republican commissioner, has opposed it, along with Quello, a conservative Democrat who often sides with the broadcast industry.

President Clinton and numerous child-advocacy groups have endorsed the plan. Last month, Vice President Gore injected the issue into the presidential campaign, challenging presumptive Republican nominee Robert J. Dole to support Hundt's idea. Dole has so far not taken a position.

Quello, a bitter rival of Hundt's, said yesterday that he still does not favor requiring broadcasters to air "a hard-and-fast number" of educational shows, adding that such a requirement would violate broadcasters' First Amendment rights.

But he seemed to take a step in Hundt's direction by suggesting that stations should match "the industry norm" for educational programming based on a survey of stations' current practices—roughly three hours per week based on the most recent data.

"There's no hangup on three hours a week as far as I'm concerned personally," Quello said in an interview, "but it should not be a government edict" as to how much.

Proponents of such a rule have been discussing imposing it indirectly by making a three-hour minimum a condition of renewal of TV licenses. But with no clear rules on the issue, and with the FCC's four commissioners evenly split, license renewals might be held up indefinitely as the agency struggles for a reso-

See KIDVID, D3, Col. 1

KIDVID, From D1

lution, one FCC official said yesterday.

Renewal applications for TV stations based in the District, Maryland, Virginia and West Virginia are due next Monday. These stations are in the first wave of hundreds of stations across the country that will ask the FCC to renew their licenses for eight-year terms.

In an interview yesterday, Hundt greeted Quello's statements as "a big breakthrough."

Said Hundt, "A majority of the commissioners now support the idea of a quantifiable standard, at long last. This is a very good thing."

But the broadcast industry's main trade group, the National Association of Broadcasters, was noncommittal.

A spokesman called Quello's statements "one of many proposals being floated" to resolve the issue.

She said it would be discussed among the group's board members.

Longtime children's TV advocate Peggy Charren expressed disappointment yesterday that Quello did not explicitly endorse a simple hourly requirement. She said setting a standard based on the industry average would permit broadcasters to offer "four hours per week one year, then a half hour per week the next. . . . This is self-regulation that won't work. It's meaningless."

THE WASHINGTON POST
WEDNESDAY, MAY 29, 1996

THE WASHINGTON POST
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Dole Names 'Old Friend' To Running-Mate Search

Former House Colleague to Expand Pool

By Dan Balz and Blaine Harden
Washington Post Staff Writers

Senate Majority Leader Robert J. Dole said yesterday he has asked attorney Robert F. Ellsworth, a longtime friend and former U.S. ambassador to NATO, to head the selection process for a vice presidential running mate and added that he wants to scour the country before making a final decision.

"He is an old friend of mine. We served in the House together," Dole told reporters traveling with him to California yesterday. "[He's] somebody I know very well and somebody I trust and somebody who won't talk to the media."

Although Dole has indicated he is in no hurry to settle on a running mate, speculation within the Republican Party and the news media has put retired Joint Chiefs Chairman Colin L. Powell at the top of most GOP dream lists. Powell, however, has repeatedly said he has no interest in the job.

Other speculation has focused on a group of current or former Republican governors, including several from midwestern battleground states, at least one senator and others. Dole said he and Ellsworth have not discussed names of possible vice presidential nominees, and said he hopes the team of people conducting the search process will look for candidates who are not necessarily in politics.

"I told them when the time came, I wanted to look outside of politics," Dole said. He added, "Let's take a look at the country, look all over the country. We tend to focus on people in our business."

Dole's choice of a running mate represents one of the most important decisions he will make between now and the Republican convention in San Diego in August. There had been some discussion about making that choice well before the convention, but aides have said they prefer to wait until closer to the convention to do so.

Dole said yesterday he wants "somebody I know or somebody I could get to know in the next three to four months pretty well, somebody I could have confidence in, somebody who understood how the process works, somebody who obviously could be president, whatever, and good, solid."

Dole said he asked Ellsworth several weeks ago to head a small team to oversee the process. He will be charged with coordinating background investigations on potential nominees and advising Dole on a final choice.

Ellsworth, 70, served three terms in the House member from Kansas from 1961 to 1967. He later served as ambassador to NATO in the Nixon administration and as deputy secretary of Defense during the Ford administration. He is currently a Washington lawyer and consultant.

Harden reported from California, Balz from Washington.

CORRECTION

An item in yesterday's Biz column incorrectly described the teams bidding to build a reusable space launch vehicle. The three teams are headed by Lockheed Martin Corp.; by McDonnell Douglas Corp. and Boeing Co.; and by Rockwell Corp. and Northrop Grumman Corp. The National Aeronautics and Space Administration's investment in the project also was misstated. NASA is investing a total of $941 million for the first two phases of the program.

CLARIFICATION

A statement in a story Monday on a new low-smoke cigarette incorrectly described how smoke from the new cigarette differs from that of a conventional cigarette. The new product's smoke contains lower concentrations of the thousands of chemicals found in standard tobacco smoke, not fewer of these chemicals.

Molly FYI

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release February 9, 1996

OPENING REMARKS BY THE PRESIDENT
TO FAMILIES IN V-CHIP DISCUSSION

Private Residence
Alexandria, Virginia

11:05 A.M. EST

THE PRESIDENT: First of all, I'd like to thank our host for welcoming us in, and to all the members of the press and our guests here. As you know, yesterday I signed into law the Telecommunications Act of 1996, which is the first major overhaul of our telecommunications laws in six decades.

That bill will do an enormous amount of good for our country. It will, for consumers, open up vast new opportunities for entertainment, vast new opportunities for information, vast new opportunities for different kinds of communications. It will create many, many thousands of high-wage jobs. But it will also bring a lot more images and messages into every home in America.

One of the things that the Vice President and Mrs. Gore and I like so much about this bill is that in addition to getting the benefits of the telecommunications revolution, it gives more power to parents to control what their young children see on television by requiring all new television sets to have a V-chip in them.

So we wanted to come here today to discuss with these folks how they feel about it and to give them and to give you a chance to see how this will work. So I'd like to turn it over to the Vice President and give him a chance to make a demonstration and to comment.

* * * * *

CLOSING REMARKS BY THE PRESIDENT
TO FAMILIES AT V-CHIP DISCUSSION

THE PRESIDENT: Let me just say one final thing about this. Maybe we ought to change the name from the V-chip to Parent Power chip. (Laughter.)

One of the things that we talk about all the time, to go beyond this, is that all these technological changes that are going on in the world are so wonderful in so many ways. They're making opportunities for people to do things they never could do before. But if we're not careful, they also make the majority of the people feel that they're losing control of their lives in many ways -- not just this way, in many ways. And I think anything we can do to harness the power of new technology, to give people more control back over their lives, their family's lives, the workplace, the community, that's a good thing. We don't want people to feel powerless.

One of the things that frustrates people in this country is they feel there are all these forces out there running around working on their lives and they have no control over them. And this is maybe just one small step, but it's a way of saying to people that

MORE

new technologies can put you back in the driver seat in your lives, not take you further and further out of them.

Thank you. Thanks again for having me here.

END 11:35 A.M. EST

DAILY POINTS

AMERICA'S CHALLENGE IN AN AGE OF POSSIBILITY: HOW THE TELECOMMUNICATIONS BILL CAN HELP OUR FAMILIES

February 9, 1996

Answering America's challenge. One day after signing the Telecommunications Reform Act of 1996, President Clinton meets today with parents and children to talk about the V-Chip portion of that legislation. The Violence Chip, or V-Chip will provide families with technologies to help them control the kinds of television programs that come into their homes.

" Our first challenge is to cherish our children and strengthen America's families. Family is the foundation of American life. If we have stronger families, we will have a stronger America. . . I call on Congress to pass the requirement for a V-chip in TV sets . . . [as] part of the important telecommunications bill now pending in this Congress."

-President Clinton, State of the Union Address, January 23, 1996

Meeting the challenge on families. In his very first challenge in the State of the Union, President Clinton called on Congress to give parents the tools to protect their children from TV violence.

* **V-Chip.** The Act includes a provision calling for a computer chip, the V-Chip, to be installed in every new television set. By helping parents screen out programs they believe are inappropriate for their children, the V-Chip will give parents who want to assume more personal responsibility for their children's upbringing an important tool to do so.

* **Television violence.**
  * **Challenge to media.** In his State of the Union address, President Clinton challenged the media to create shows and CDs they would have their own children and grandchildren enjoy, and challenged the broadcast industry to identify programming in ways that help parents to protect their children.
  * **Pervasive need.** This need was underscored yesterday by "a year long study of television programming, conducted by researchers at four universities, [which] concludes that 'psychologically harmful' violence is pervasive on broadcast and cable TV programs." - *The Washington Post*, February 6, 1996
  * **Constructive talks.** President Clinton invited media and entertainment industry leaders to come to the White House to work with him to improve what our children see on television, and announced yesterday that such a meeting will take place three weeks from now, on February 29.

* **Promoting our values.**
  * **Preserving family.** The V-Chip will reduce the chances that the hours spent in church or synagogue or in discussion around the dinner table about right and wrong will be undone by unthinking hours in front of a television set.
  * **Protecting children.** If every parent uses this chip wisely, it can become a powerful tool in the battle against teen violence, teen pregnancy and teen drug use.

...uled, that Gopac's frankly stated ... of developing a "farm team" of state and ...tive candidates as a prelude to taking over ...e of Representatives did not constitute a direct ...ntion in federal elections. He also ruled that

...state college. But the most serious ... Gingrich have always been those rela... Judge Oberdorfer's decision stands unc... committee ought to deal with the remaining ...com... against the speaker with dispatch.

V-Chip Ahoy

TWO MONTHS AGO network executives and TV producers were implacably opposed to the legislation mandating v-chips in television sets, declaring their intention to bring suit on First Amendment grounds if the measure passed. Thursday, they were at the White House, expressing their eagerness to go along with the v-chip and to develop the rating system without which the chip cannot function. There's no doubt that the bill's passage concentrated their minds somewhat on this point. Still, the turnaround would have been a good deal less likely if it were not for the intrinsic good sense of the v-chip idea.

President Clinton's signal contribution to this long-simmering concern was to recognize and embrace this idea (originally pushed by congressional Democrats, chiefly Rep. Edward Markey and Sen. Kent Conrad), and thus to move the discussion away from the deadlocked realm of content regulation vs. free speech (on which all the concerned parties have had staked-out positions for centuries) and onto the new and far more potentially accommodating subject of helping parents act like parents. The networks, in arguing against it, found themselves pointing out that they were *already* rating television programs; the successful experience of movie ratings made it hard to insist that no general system could be devised. All that remained was the worry about how to keep up with the waterfall of material that is produced for TV on a daily, even hourly, basis—a concern that, though real, is a reminder of the sheer impossibility of parents' accomplishing the same task.

The degree to which the chip-and-ratings system actually helps parents will depend in large measure on the type of rating system the industry now designs. It will be in viewers' interest as well as the industry's own if the system's designers avoid a simplistic scene-counting approach and if it is drawn in such a way that programs can attain the equivalent of a "G" rating while remaining intelligent, thoughtful and engaged to some extent with real issues. Those in the creative side of the industry who think this cannot be accomplished without the help of decapitations, gratuitous eye-slicings and cartoonish shoot-em-ups without any apparent emotional consequence (all examples pointed to in a recent report) could even find their market value diminishing.

The v-chip scheme, however clever, will not magically elevate the quality of TV programming. It doesn't have to, though. It merely gives writers, advertisers and programmers a more precise way than they now have of figuring out what viewers are looking for—"a sort of voting, like the Nielsens, but not a sample," the president suggested at a Friday round table with parents and teenagers. That's a useful vehicle, in turn, for conversations inside and outside the industry about how to make programming better.

Tuesday's Ballots in Maryland

ON TUESDAY the voters of Maryland take their turn in the national political spotlight fo... 1996—and to the puzzlement of many wi... asked also to make other important ballot dec... contests that shouldn't have to happen... not referring here to the list... Congress or of nonpa... boards, but to a ba... against all mann...

...ly and well so far, and deserve to be retained ... who were passed ov...