

DIGITAL DIGEST

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Digital Tech Consulting

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NEW RESEARCH

This market research digest is designed to give you a glimpse of some of the research that Digital Tech Consulting is preparing for publication. Here is some of the research currently available from DTC:

NEW REPORT!
The Second Edition of The Business of Digital Copyright: Content Protection and Management in the Consumer Digital Era

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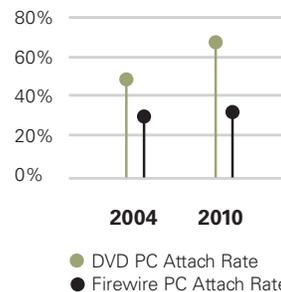
Firewire Hot with the High-End Consumers

Many have expressed doubt about the long-term viability of 1394 (Firewire) as a digital broadband interface, but DTC's recent research suggests a steady, niche market of high-end consumers and "prosumers" large enough to keep the interface alive and kicking.

The challenges to Firewire are two-fold and not insignificant. On the one hand Firewire faces competition in the PC arena from USB 2.0. While USB 2.0's feature set is less comprehensive and robust than Firewire, USB is cheaper to implement. Similarly, Firewire faces competition in the consumer-electronics space from HDMI. Firewire is far more functional in a networked environment than HDMI, but HDMI is more appealing to content providers who are less than enthusiastic about the ability of their content to be easily distributed over a home network.

Consequently, global PC Firewire attach rates are not as strong as other high-end multimedia attach rates such as DVDs (see chart), as USB remains the port of choice for most PC vendors. Aside from Apple and Sony, which add Firewire ports to all desktops and notebooks, most vendors reserve Firewire ports for high-end PCs geared for gaming or video editing.

Estimated Attach Rates



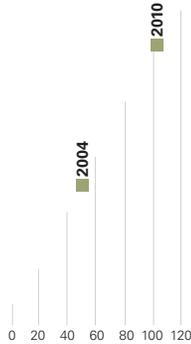
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This high-end group accounts for nearly a third of all PCs, however, and close to 100 million annual shipments by 2010, clearly a sizable base. This is important in that it offers a hefty installed base of users, with desirable consumer demographics, for high-end consumer electronics (such as HDTV's and HD set-top boxes) targeting the same type of consumers.

Continued on next page

It seems increasingly clear that while USB may account for the majority of the PC installed base, 1394 is the preferred interface for the smaller, but more profitable, high-end consumer market.

Estimated Firewire PC Shipments



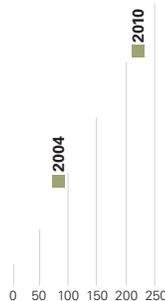
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DVD Platform Grows, Retains PC Roots

As we approach the decade anniversary of DVD availability, the digital video platform has succeeded in overtaking its analog video predecessor, and simultaneously has grown the market for prerecorded video. This future was far from certain early on, however, as a lack of movie content and a high price tag for hardware gave DVD a slow start in the consumer electronics market, its natural target.

In those early years, it was the PC that provided DVD's first successes in the market. Even a low attach rate in the vast PC market, made up predominately of those PCs that could delivered the ability to play back and edit large multimedia files, represented millions of units which helped drive down prices and keep the format alive while the consumer electronics market worked out its kinks. DVD remains widely popular in the consumer PC segment today, and is still a significant part of the DVD installed base.

Estimated DVD PC Shipments



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This year we estimate 50 percent of PCs shipped worldwide include DVD drives out of the box, including desktops, notebooks and tower-based servers for both consumer and business markets. So far DVD drive attach rates have been higher for consumer PCs than for server PCs. But as the DVD drive gradually replaces the CD drive as standard equipment, we estimate that annual shipments of PC DVD units will rise dramatically by 2010 (see chart below).

Telco Video Subscribers Surge Worldwide

While the much-hyped North American SBC and Verizon digital video services, originally planned for commercial deployment in 2005 (Verizon has commercially deployed in one Texas community), have proceeded more slowly than expected, international commercial deployments are multiplying unabated in both number and size.

DTC estimates a subscriber base of more than 2 million at year-end 2004 to telco-delivered TV services, with the top five services making up well over half the total. The largest of these services is Fast Web, whose triple play voice/data/video package in Italy has proven the potential of these services, gaining more than 300,000 subscribers during 2004. The table below offers a snapshot of some of these deployments.

Service	Region	2004 Subs.(est.) (000)
<i>FastWeb</i>	Italy	496
<i>PCCW</i>	Hong Kong	361
<i>Free</i>	France	175
<i>Neuf</i>	France	175
<i>Softbank</i>	Japan	160
<i>Chunghwa Telecom</i>	Taiwan	66
<i>France Telecom</i>	France	60

The remainder of the subscribers are small telco systems, many of those in North America, as well as a number of newly launched services in Europe and Asia that offer far more growth potential. These new launches, and more planned for 2006, promise exponential growth for telco-delivered video. Indeed, DTC expects overall telco-delivered video subscribers to jump from 2 million last year, to more than 23 million in 2010.

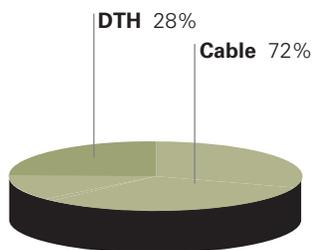
Digital Cable Targets HD Consumers, Driving Unit Shipments

The spread of high-definition (HD) consumer electronics and programming is increasing in momentum, particularly in the United States. DTC's most recent analysis suggests a noticeable jump in estimated HD set-top boxes (STBs) to ship in 2005, driven primarily by U.S. cable operators.

As cable operators in the U.S. (the largest digital cable market) seek to remain competitive, especially with high-end consumers, against rival DTH satellite operators, they have significantly accelerated their HD efforts. Indeed, HD STBs accounted for almost half of all digital cable STBs estimated to ship in 2005. This translates into 72 percent of all HD STBs shipped in the period, compared to DTH satellite's 28 percent.

Although cable operators appear to be more aggressive than DTH satellite operators by this measure, it is a misleading advantage. DTH satellite operators in the U.S. have already accumulated many HD customers, and plan to increase HD efforts markedly in 2006. Key to this will be the push of U.S. DTH operators to begin transitioning subscribers to MPEG-4 AVC, which will soon make up their expanded HD program offerings. This transition is essential to DTH satellite operators, as they seek to squeeze every last bit of their bandwidth to meet the needs of increased HD program offerings. This activity is not exclusive to the United States, however, as the U.K.'s BSkyB service has announced it will soon begin transmitting HD programming to its subscribers.

Estimated 2005 HD STB Shipments by Platform

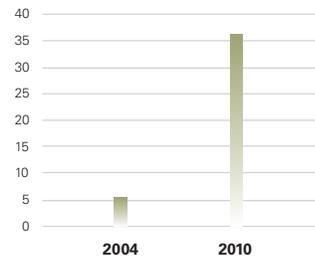


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European Growth Propels Digital Terrestrial Shipments to 2010

As various deadlines approach worldwide for ceasing analog broadcasts, digital terrestrial receiver shipments are set for exponential growth. DTC's recent research forecasts shipments will rise from just over five million in 2004 to more than 37 million in 2010.

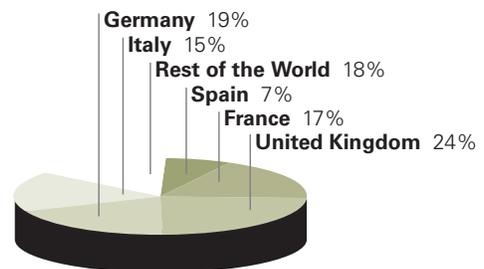
DVB-T Receiver Shipments



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European shipments will make up the vast majority of these units, as free-to-air services, such as the successful Freeview in the UK, have proven to be highly popular throughout the region. The U.K. will remain the largest single digital terrestrial market, making up nearly a quarter of total unit shipments in 2010, with Germany, Italy, France and Spain also making up significant portions of the whole.

DVB-T by Country: 2010



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ABOUT DTC

Digital Tech Consulting is a market research firm providing strategic information and analysis to help companies succeed in the consumer digital marketplace. To learn more about DTC and how our analysts might help your company, please visit us online at www.dtreports.com or call 214.915.0930.

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