

REPORT: INTERNET PROTOCOL TELEVISION (IPTV) SEEN AS POISED TO TAKE OFF “IN THE VERY NEAR TERM”

“Killer Application” May be Associations, Other Groups, Professionals Creating Own Programming; Cutting-Edge Firms – Including D.C. Area’s COMTek -- Show IPTV Potential.

WASHINGTON, D.C.///June 7, 2006//To date, mainstream media attention on Internet Protocol Television (IPTV) has focused for the most part on such entertainment programming as the amateur videos of YouTube.com and popular television shows such as “Lost” that now are made available for download to iPods. But IPTV is “a potentially multi-billion dollar industry in the very near term” due, in part, to expected strong demand for more customized programming that will focus on meeting the needs of professional groups and organizations of allied individuals (such as senior citizens, hobbyists and trade association members), according to a major new report from the New Millennium Research Council (NMRC).

Internet Protocol Television is an all-encompassing term that covers many different forms of video programming and services. Because the underlying technologies are Internet-based, IPTV can be transmitted over broadband networks and accessed by consumers through a number of different devices. In general, IPTV allows consumers not only to customize their video programming experience, IPTV also empowers organizations of all types to directly and more inexpensively access new and/or targeted global audiences often otherwise unavailable to them via traditional television. In order to provide a more well-rounded perspective on the emerging industry, the NMRC report focuses on two companies -- Interactive Television Networks Inc., (ITVN) of Irvine, CA and Communication Technologies, Inc. (COMTek) of Chantilly, VA. – that are in the vanguard of IPTV.

Entitled “The State of IPTV 2006: The Advent of Personalized Programming,” the new NMRC report finds: “With the expansion of broadband access and the growth of computing and video production equipment, industry analysts believe IPTV is realizing its potential as a viable programming platform that can compete with cable, satellite and other traditional video mediums ... IPTV is also seen by providers and industry watchers as a gateway for new content providers. IPTV is not simply offering traditional television programming through another device or connection. The low costs of creating content allows just about anyone to produce a ‘television show.’ IPTV providers are already offering content from sports leagues to home cooking shows and more. The video content is making the web experience more robust for consumers, presenting information in compelling formats that greatly interests existing and new audiences. This new programming vehicle, allowing organizations and individuals to transmit their messages to an audience of their choice, could be the ‘killer application’ that experts agree is needed to catapult IPTV to equal footing with traditional television ...”

Commenting on the report, Milton Ellis, vice president and senior consultant for the Technology Research Practice at Harris Interactive, said: “When you consider that IPTV is a new technology offering, the future for IPTV does look promising ... in our recent study of 1,093 U.S. adults, conducted from December 2 to 8, 2005, 18 percent said they would sign up and try it immediately if it was available for their PC and TV set-top box. That would seem to suggest that many

adults are poised to get on board if service providers drove up awareness and familiarity and offered the right value proposition.”

Michael Zink, research scientist, Computer Science Department, University of Massachusetts, Amherst, said: “IPTV is an interesting, emerging video platform that will offer a variety of services beyond traditional TV broadcasts. The NMRC presents an up-to-date technology and service analysis of the state of IPTV in 2006.”

As is noted in the discussion of the two case studies in the NMRC report, ITVN and COMTek offer somewhat different versions of IPTV. COMTek has developed a new managed IPTV service called “PowerTV,” which is comprised of two distinct offerings: PowerTV Multicast and PowerTV On Demand. Each service provides COMTek customers with the ability to create their own Internet television “channels” that distribute video content and integrated interactive features such as email, e-commerce, VoIP and information retrieval via the Web. COMTek recently utilized its PowerTV service in conjunction with Earth Day Network to connect 16,000 classrooms nationwide in a discussion about global warming. Using different technologies and platforms, ITVN offers IPTV through a set top box that translates video services sent via the Internet into digital images for viewing on a regular television. ITVN currently provides programming networks such as Silver Screen Network, the National Lacrosse League, and ITVN Live. Content is available to ITVN subscribers in both 24/7 linear and on-demand formats.

As a participant in the phone-based news event launching the NMRC report, COMTek CEO and Founder Joseph E. Fergus said: “COMTek sees IPTV maturing into an industry over the next several years that will serve two distinct groups in cost-effective ways that old-fashioned television just can’t do. The soon-to-benefit groups include consumers that are highly mobile and whose television viewing habits are not restricted to living rooms or sports bars. This group includes business professionals, lobbyists, Generation X and ‘Generation Next.’ The second group that will benefit from IPTV consists of entities such as federal, state and local governments, non-profits and other organizations that historically could not afford to create their own television channels.”

KEY NMRC REPORT FINDINGS

- ***Market forecasts for IPTV are enthusiastic.*** According to a study by Insight Research Corporation the Internet video market “is expected to grow at a compound annual rate of nearly 32 percent over the next five years.” Deloitte TMT reported that digital convergence of services and products could generate revenue of approximately \$55 billion for IPTV through 2010. The Multimedia Research Group predicted the number of IPTV subscribers to reach 36.8 million in 2009. Research and Markets identified a potential eightfold increase of new IPTV subscriptions to 36.9 million. In its most recent report, Infonetics predicts that the IPTV subscriptions will increase more than 40 times in North America. It is clear that market experts see tremendous potential for IPTV growth in the near term.
- ***The iPod-ization of video is creating on-demand culture that is ripe for IPTV.*** Online video interest in general is also growing. A February 2006 survey by the Online Publishers Association found that 24 percent of American Internet users watch online video at least once per week. The projected rate of IPTV growth is partially driven by technological innovations

like the iPod that are creating an on-demand culture coupled with and lower costs for the production of high quality video.

- ***The strongest market potential for IPTV is among younger consumers.*** Awareness of IPTV is directly related to age, with younger respondents indicating a higher level of knowledge about online video services. An Accenture survey examining IPTV attitudes in the United States, the United Kingdom, France, Germany, Italy, and Spain found approximately 70 percent of respondents of the ages 25-34 were aware of IPTV, whereas less than 50 percent of respondents ages 55-64 were aware of the technology. Age was also a factor when considering the willingness to pay extra for IPTV services. Although 73 percent of respondents were not very willing or not at all willing to pay extra, younger respondents had a higher acceptance of IPTV costs.
- ***Obstacles to success for IPTV remain to be addressed.*** Challenges do exist for the IPTV field. Regulatory hurdles, including local franchise rules for some IPTV providers and content/digital rights management issues still must be addressed. There are also concerns that online content will not compare favorably with traditional television in the near term and consumers will not be interested. However, many of the technical hurdles that prevented IPTV from emerging earlier have been addressed. Networks now have sufficient capacity to deliver video and in-home devices (set top boxes and computers) can present the programming in easy-to-use formats. By leaping over traditional video transport systems, IPTV avoids many of the regulatory and technical pitfalls that exist in traditional television. Experts identify this attribute as a key reason for IPTV's growth and its ability to create major change in the video marketplace.
- ***IPTV industry standards may be needed.*** Industry experts believe many of the technical hurdles to IPTV deployment have been overcome. "Transport is frictionless" according to one IPTV provider and the technology for consumers receiving and viewing video over IP is readily available. Even though the technology has arrived for IPTV to flourish, some industry analysts believe standards will be required for the many different types of equipment and services. Without standards, experts believe, it will be difficult for IPTV systems and their many component parts to interact seamlessly.
- ***Potential regulatory/legal challenges for IPTV still loom.*** IPTV providers who offer video content directly online face fewer regulatory barriers. One issue that will be important to these types of IPTV providers is piracy and digital rights management. Copyrighted content will be available over IPTV networks, and analysts believe providers will have to be vigilant to protect both their content producers and customers. While media reports indicate Hollywood movie and television studios are interested in online distribution, there are still fears that content will be viewed illegally and the producers will lose money.

The report is available at <http://www.thenmrc.org>.

ABOUT NMRC

Created in 1999, the New Millennium Research Council is a Washington, D.C. think tank. Contributors develop workable, real-world solutions to the issues and challenges confronting policymakers. Its work has focused primarily in the fields of telecommunications and technology. For more information, please visit <http://www.thenmrc.org> on the Web.

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EDITOR'S NOTE: A streaming audio replay of the phone-based news conference and related documents will be available on the Web as of 6 p.m. ET on June 7, 2006 at <http://www.thenmrc.org>.