

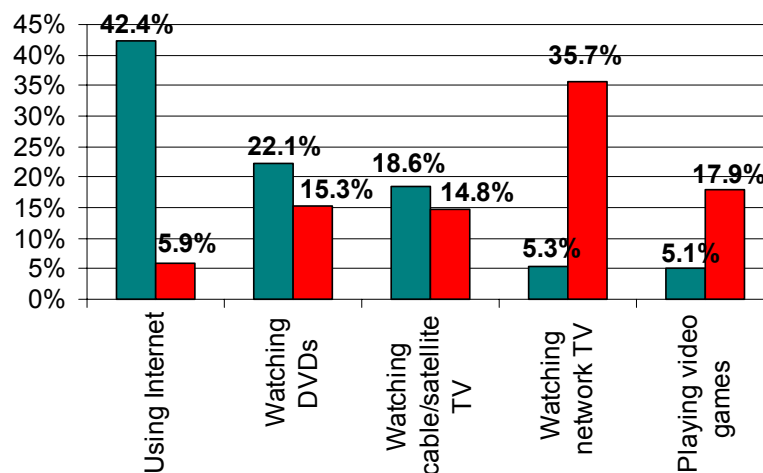
EXECUTIVE SUMMARY – CONSUMER SURVEY ABOUT TECHNOLOGY AND ADVERTISING

The survey you took examined how consumers are spending their time allocated to using electronic entertainment and the effectiveness of TV advertising. The following summarizes the lessons underscored from our survey.

The continued erosion of the broadcast TV audience to other forms of electronic entertainment. Since the Internet has become a popular way for young and old to spend their free time, the TV industry has seen its share of “eyeballs” shrink, albeit at a slow pace. In addition to Internet usage, electronic gaming is having and will continue to draw a widening segment of the population away from TV. Broadcast TV is also losing the market share battle to cable (broadcast TV is defined as the “Big Four” networks of CBS, NBC, ABC and Fox, as well as WB and UPN). We expect those who do watch broadcast TV to spend an increasing percentage of their viewing time watching cable channels. In addition to the Internet, gaming and the growing market share of cable TV, prepackaged goods such as DVDs are consuming a larger percentage of the overall consumer time and entertainment budget.

An increasingly empowered consumer through new technologies. The Personal Video Recorder, or PVR, is turning the ad business on its head. In-Stat/MDR research shows that 68% of PVR users use the device to skip ads, and over 75% of them indicate that they skip over 50% of ads. Other ways in which the consumer will continue to be empowered is through new distribution channels for content, such as DVD by mail and downloadable premium content through services such as CinemaNow and MovieLink.

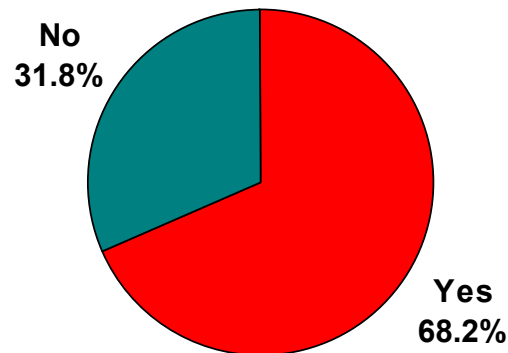
Figure 1. Spending More Vs. Less Time Now Compared to 12 Months Ago (n = 1673)



Green Bars – % Spending More Time on Given Activity
Red Bars - % Spending Less Time on Given Activity

The chart above shows how consumers are using different technologies today vs. a year ago. The results show a stark contrast between those activities receiving more time compared to less time. By an almost seven to one margin, our respondents indicated that they are spending more time using the Internet this year than last, which is almost the exact opposite of how they responded about the time spent watching network TV. According to our survey of media-savvy consumers, 35.7% said they are spending less time watching network TV this year compared to 5.3% who indicated that they are watching more.

Figure 1. PVR Owners: Do You Use Your PVR to Skip TV Ads? (n=321)



The ownership of technology is impacting consumer behavior in a profound way. Our research shows that the use of PVR and other technologies is a strong indication of how much advertising a consumer is exposed to, as well as their media preferences. PVR ownership, in particular, has really started to disrupt the traditional broadcast advertising model, as seen in the chart above.

When asked if they skip commercials, 68.2% of respondents indicated that they do. This is a strong indication that the skip feature on PVRs is being used by most of those who own a PVR, by a margin that exceeds to 2 to 1. This is a worrisome trend for broadcasters, but by itself is no reason to proclaim that the “sky is falling” with regards to TV advertising. Perhaps a more worrisome indicator is how much advertising is skipped, and how widely ad skipping is likely to be adopted among media-savvy consumers in the future.

When those who skipped ads were asked what frequency they did so, the largest percentage skipped between 75% to less than 100% of ads. This translates to, at the very least, three out of every four ads being skipped when using a PVR. While we believe that some respondents do not record every show and, as a consequence, are likely not missing a full three quarters of all ads that they have the opportunity to view, this is still a significant percentage and more worrisome than the fact that over two thirds of PVR owners use ad-skipping technology.