

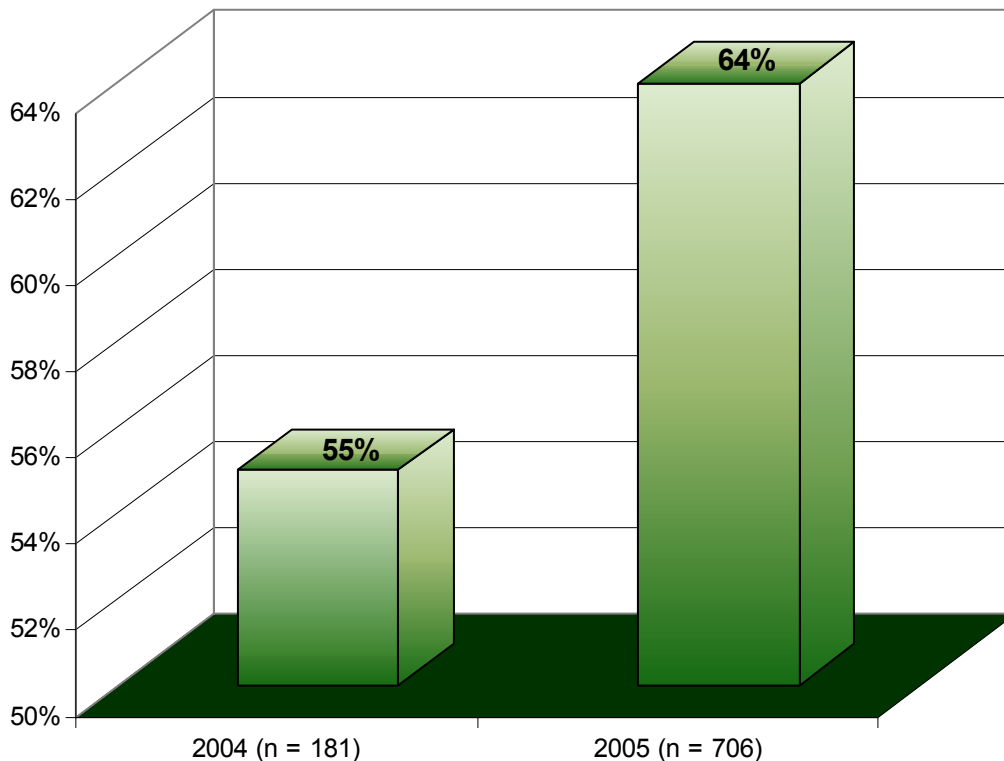
TAP Survey: Online Music Market

Executive Summary

The last two years have been significant for the legitimate online music industry. Consumer awareness of legal music sites has grown, a large number of legitimate online music sites have popped up, and the installed base of portable digital audio players continues to see substantial growth.

Due to the factors listed above, online sales of digital music are growing; and In-Stat's most recent primary research on the topic supports this trend. In-Stat's December 2005 survey of its Technology Adoption Panel (TAP) indicates that 64% of the respondents who have downloaded music from the Internet in the last 12 months have paid for the music. This figure compares with 55% of respondents in 2004.

Figure 1. Respondents Who Have Paid for Music Downloaded in Past 12 Months, 2004 vs. 2005



Source: In-Stat, 12/05

Other factors contributing to the increase in online music sales include Apple's iPod+iTunes success, fear of legal action against piracy, competitive \$.99 pricing, a growing and satisfactory legitimate catalogue of online music, and increased advertising for online music sites. Based on all these factors, we expect online music sales to continue to grow over the next year.

Additional key points of the survey include:

- Fifty-three percent of respondents use iTunes most often to purchase music

- The largest percentage of respondents (21%) spent between \$10 and \$20 for online music in the past year
- Forty-four percent of respondents use a hard-drive based MP3 player
- Almost 50% of respondents own an Apple iPod