

# NEWSLETTER

An Entertainment Industry Organization



*50<sup>th</sup> Anniversary*

## The President's Corner

*Michael R. Morris*

It seems like every other day a story appears on some new way that music is being digitally delivered. At the dawn of their invention, cell phones were limited to transmitting and receiving conversations and not much more. Now they let consumers buy and use ringtones, ringbacks as well as play video games and listen to radio stations. These are startling developments when you consider that just a few years ago, terms like ringtones and ringbacks were unknown to most people. Now the selection of ringtones has become a statement on personal taste and fashion (why else would someone pay up to \$2.99 to have a phone play a portion of a master recording?!).

Tonight, the CCC takes a close look at this rapidly changing world of wireless music. CCC VP Dan Butler (and VP of Business & Legal Affairs - Music, Warner Bros. Pictures) will lead Ed Lang (VP Mobile, Sony Connect), Michael Lewis (VP General Counsel, Warner Bros. Online), Dean Newton (VP, Entertainment Media, InfoSpace), Jane Ventom (Director Synchronization Licensing, Chrysalis  
*(continued, page 3)*

## Mobile Music's Upcoming Title Fight: Champion iPod To Duke It Out With Cell Phone Challengers

*Dan Butler*

As of early 2005, there is one champion in the mobile music world: Apple's iPod, which presently accounts for almost 93% of the digital music player market. Amazingly, in just three short years, Apple's Steve Jobs has managed to change the way people listen to, store and purchase music. The white earbuds of the iPod appear in music lovers' heads everywhere, accounting for \$1.2 billion in sales in the last quarter of 2004. The 300 million legal downloads sold on iTunes music store have given new hope to a music industry reeling from the barrage of punches delivered by a succession of peer-to-peer illegal services. 5.3 million iPods were shipped in the last three months (that translates to more than 2400 per hour), and will soon generate more revenue for Apple than its Mac computers.

A heavyweight contender for Apple's crown, the \$100 billion mobile phone industry, has just stepped into the ring. Motorola, the world's second-biggest cell phone manufacturer, last month announced its new music phones that will be able to download music from a computer just like the iPod. Sony Ericsson has announced the Walkman phone, a new generation of the former icon of portable mu-

sic players that will be available this year in Europe and Asia with a later rollout in the U.S. Some past cell phone models have contained MP3 players. What makes these telephones different from previous models is that they feature higher quality sound and increased music storage capacity designed to compete with the iPod. Apple still enjoys a big advantage in storage capacity, however, with the more expensive iPod models holding up to 15,000 songs versus only 500 songs for the new Motorola phones and 150 songs for the new Sony Ericsson phones. The cell phones, however, will have removable memory cards and flexible storage functions, which can facilitate sharing of music between the user's computer and phone. Cell phone manufacturer Samsung has recently built a phone with a hard drive that will greatly increase the number of songs it can hold, making it even more competitive with the iPod.

Apple's iTunes music store also faces a tough new competitor, a joint venture of Microsoft, Loudeye Corp. and the world's number one cell phone maker Nokia, which will offer a music downloading service for cellular networks. The new joint venture's plan is to license their new mobile music service to wireless carriers

to use under their own brand names. Technology researchers predict that consumers who purchase mobile music on cell phones will spend \$350 million by 2008 and Nokia's group hopes to grab a large share for themselves.

The champion, however, isn't standing around idle. In the summer of 2004, Apple and Motorola announced their partnership to build a phone compatible with the iTunes music store. Apple has stated the iTunes phone will become available this year, although some problems have arisen in connection with the rollout of the new phones. The initial release was to go through the leading European cellular providers, but some of these providers are hesitating. One innovative feature of the iTunes phone is that it allows users to purchase songs from the iTunes store and download them directly from their computer to their phones, thus bypassing the cellular network provider. Providers typically subsidize the price of a new phone in return for users signing a one or two year contract. This enables the providers to share in the revenue stream when users download songs or ringtones from the network, and the providers will be unlikely to want to give up on that source of income. Verizon, the number two wireless operator in the U.S., will introduce a music service using its own system rather than iTunes' system, and other operators will likely prefer to sell cell phones specifically designed to funnel users through their own download services.

The stakes are high, as the providers are hoping that the burgeoning ringtone business, accounting for \$3 billion in revenue last year, will be surpassed by full-song cellular downloads. Two factors contributing to the success of the ringtone and ringback business have been: (a) the ease in legally downloading them from the providers; and (b) the relatively closed

provider systems that have blocked or at least hampered illegal downloading. Unfortunately, once cell phones contain MP3 players onto which users can download illegally-obtained music from their computers, then the ringtone/ringback business may take a substantial hit from the same low blow that the music business overall has suffered in the past few years.

The fight over the coming month promises to be a good one. Apple's iPod is a knockout, a cool and legal alternative to illegal downloading, and Steve Jobs continues to be a true innovator. One advantage in favor of the cell phone challengers is that recent polls indicate three-quarters of all Americans now carry cell phones, while only seven percent currently carry mobile music players (although this number is expected to almost double by the end of this year). Some consumers may want to consolidate their electronic devices by carrying a combination cell phone/music player. Others will likely continue to carry a cell phone and rely on their iPod as well.

A marketplace indicator may be found in the example of consumers whose cell phones feature a digital camera. Although they may use their phone for casual photos, many continue to use a high quality digital camera for serious picture-taking. It may be that both devices continue to flourish. One thing is certain, however. The Apple labs are hard at work designing dozens of new gadgets in addition to iPod phones, including an ultimate all-in-one device for the computer, home, car, phone and entertainment/media center. The cell phone and computer industries are going to do their best to compete, and we can expect an amazing assortment of gear and gadgets in the months and years ahead.

## **CALIFORNIA COPYRIGHT CONFERENCE**

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<http://www.theccc.org>

Our website is the place to find information on upcoming meetings and other events. Make reservations, join, or renew your membership online. To view past issues of the CCC newsletter, visit our website and click News.

### **MEMBERSHIP**

The price of an individual membership is still only \$55 annually (renewable in July). Enjoy each dinner seminar at the special member rate of \$28; the non-member rate is \$35. MCLE credit is available.

Corporate Members (\$250, renewable in July) can send up to 10 people to each dinner seminar at the member dinner price, and bring up to 10 guests at the member price. Our growing list of Corporate Members proudly support the CCC's long tradition of service and education.

### **MONTHLY DINNER MEETINGS:**

Held once a month, on  
selected Tuesdays

6:15 p.m. Check-In  
6:30 p.m. Cocktails &  
Networking  
7:00 p.m. Dinner & Meeting

Our Next Meeting:  
May 17, 2005

# Scientists Seek High Tech Solutions to Cell Phone Safety

*Dan Butler*

My daily commute seems to become more dangerous with each passing day. I am constantly forced to take evasive action to avoid being plowed into by someone in a massive SUV wandering into my lane while using a cell phone. Last week, an acquaintance of mine went with his wife and another couple to the U2 concert in the other couple's three-day old Volvo, complete with an in-dash navigation system. When the other couple had a few too many drinks at the concert, they let his wife drive their new car. The wife was so fascinated by the Volvo's ability to integrate information from the owner's PDA to its navigation screen; she failed to notice that traffic had stopped. She smashed into the car in front of her, setting off the airbags and doing significant damage to the Volvo (but luckily not to the occupants). As cell phones and other mobile entertainment systems will soon include MP3 players for music and video capabilities for movies, TV shows and videogames, the proliferation of distracted drivers can only increase.

To reduce the risk of distracted drivers, some scientists are looking beyond traditional interfaces used to control mobile devices. Visually based interfaces are the norm, because they arose out of the desktop computer world. Now researchers are seeking ways to use "audio clouds" that use sound and movement to control mobile devices. Video games are an obvious area for a profitable application of this new technology, but a beneficial side-effect could

be added safety in the wireless phone arena. While hands-free cell phones have become more popular, most people still take their eyes off the road to dial a number or scroll through their contact list or messages. Using a PDA or iPod also requires looking at the screen while you operate its controls. Using 3D sound technology for output and gestures for input, a driver wearing bone conductant headphones placed behind the ears could transmit sounds and use gestures with a nod of the head or wave of the hand to send commands to the mobile device without taking his or her eyes off the road. Accelerometers, devices that sense motion, can be installed in cell phones or music players to provide the user with a way to control the device through a pre-set pattern of arm or hand movements. My Italian wife's gesticulations in ordinary conversations, however, could inadvertently result in significantly higher cell phone bills.

Even more innovative, Sony Corp. has just been granted a patent for a new technique to beam sensory information directly into the brain. This technology could be used to help people who are deaf or blind, although Sony must be thinking that it would make a spectacular videogame for a future Playstation. Imagine being able to smell, taste or feel sensory experiences as if they were real. The technique calls for aiming ultrasonic pulses at specific areas of the brain to alter the neural timing in the cortex. No

## **President's Corner** *(continued)*

Music) and David Weinberg (VP, Business & Legal Affairs, e-Labs, Universal Music Group) in a lively discussion of the exciting developments and opportunities offered by current and future wireless music technology. After this discussion, your cell phone will never look the same.

Nominations for the CCC 2005-06 board of directors and officers will also be announced tonight, and shortly thereafter, ballots with biographical information on the candidates will be mailed out. All CCC members should take a moment to review these ballots and - most importantly - vote. The CCC has flourished for 50 years, in no small part due to the quality and vibrancy of its boards, and the current slate of nominees continues that tradition. If you are not a CCC member and have enjoyed panels offered by the CCC and the opportunity to mingle with other music industry professionals, I urge you to join our non-profit organization and become a part of its future.

invasive surgery would be needed to assist a blind or seeing person to view live and/or recorded images or hear sounds. Amazingly, this could enable a blind person to drive an SUV while talking on his or her cell phone.

Maybe my commute won't be safer after all.