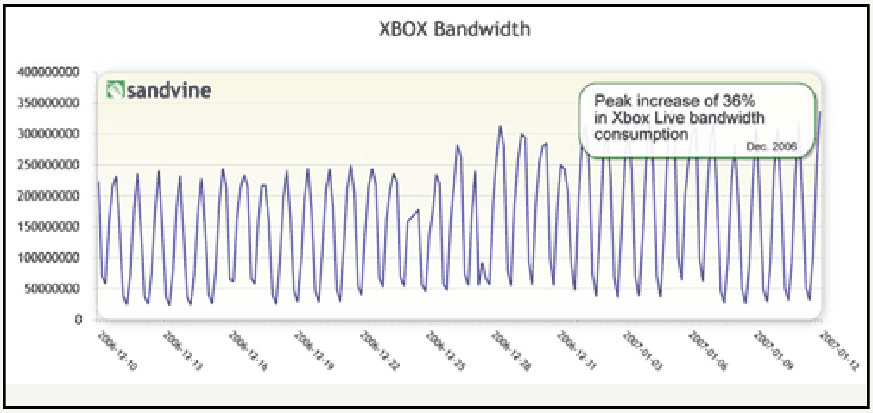
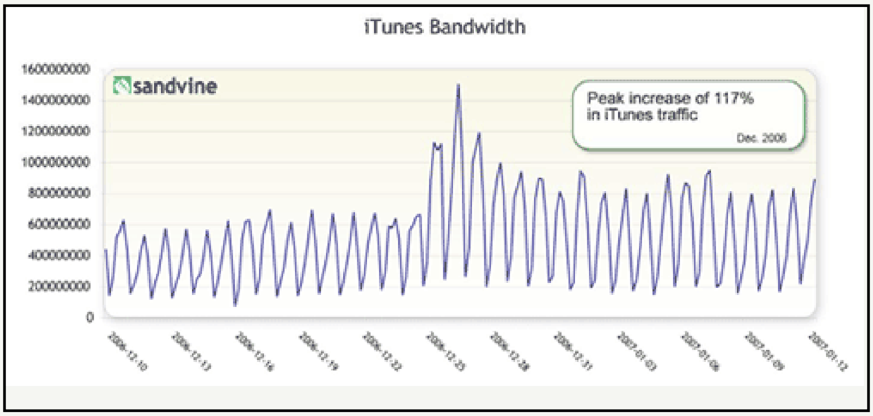
Traffic from Xbox Live, iTunes Squeezes Broadband Capacity

Entertainment applications continue to drive Internet traffic to ever higher levels, as the Xbox and iTunes surges identified last fall by network equipment provider Sandvine (www.sandvine.com) spiked again over the holidays and continued to maintain high levels of traffic volumes and hosts. Microsoft's Xbox Live is a platform supporting online gaming, game downloads, gamer chat and movie downloads. Apple's iTunes, an online store, sells downloads of music, games, movies, television shows, audiobooks and podcasts.

Sandvine identified a surge in traffic and hosts for Xbox Live and iTunes across North American broadband networks in the fall of 2006, after the release of new Xbox games and iTunes v7. Over the holiday season, Sandvine continued to monitor Xbox Live and iTunes traffic and hosts, and found another spike on December 25th, 2006, followed by sustained high-level traffic.





Applications Demand Makes the Case for Fiber

Future demand for bandwidth-hungry services like high-definition television is building a case for very high-speed Internet access, says a new report from Understanding & Solutions (www.uan-ds.com). Understanding & Solutions anticipates that, by 2010, household penetration of very high-speed access (download speeds in excess of 25 Mbps) in developed economies will range from 10 percent in Western Europe to 50 percent in Japan.

Current fiber-to-the-home deployments, which can handle download speeds of 100 Mbps, offer bandwidth ample to meet anticipated user needs, such as simultaneous multiple HDTV (high-definition TV) streams and VoIP, as well as high-speed Internet access at speeds of 10 – 15 Mbps.

Broadband service providers are themselves helping to generate this bandwidth demand by offering value-added services including security software, home networking, VoIP, online gaming, and music and video content provision, the report says. They are turning to value-added services because bandwidth itself has become a commodity item: "We're seeing a freeze on monthly subscription costs, and BSPs are commonly upgrading access speeds without increasing monthly charges," says analyst Cesar Bachelet. "In some markets, notably the UK, access is even being offered free as part of a bundled offering."

Nevertheless, BSPs managed to increase their average revenue per user by 25 percent between 2004 and 2005, primarily through growth in VoIP and online content services. But while this bundling drives revenue growth in the short term, the fact that the services are supplied by third parties will drive up costs, impacting mid-term profitability.

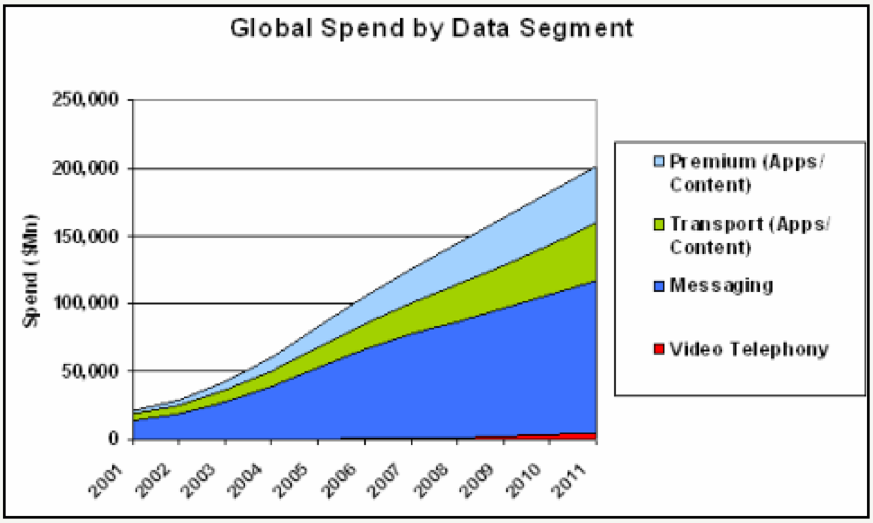
In addition to differentiating products, value-added services go a long way towards reducing customer churn. Once customers start to use the range of available services, the effort required to unstitch and move to another supplier can be greater than the perceived benefits of switching.

Over the coming years, significantly higher growth rates in the uptake of broadband lines will be seen in emerging markets such as Latin America, Asia-Pacific and Eastern Europe. Understanding & Solutions predicts that by 2010, China will emerge as the world's largest broadband nation, with a total of 120 million lines, more than all of Western Europe combined. The report predicts that broadband access revenues in the top five Western European countries, the U.S. and Japan will increase from $39 billion in 2006 to $66 billion in 2010.

Strategy Analytics: Mobile Data Services Set for Growth

The population of cellular data users will grow from 1.8 billion in 2007 to close to 2.5 billion in 2011 – more than 80 percent of all cellular users, according to a new report from Strategy Analytics (www.strategyanalytics.net). Consumer spending on mobile data services, including cellular data transport, messaging and content, will ramp from $125 billion in 2007 to just over $200 billion by 2011.

Although person-to-person text messaging is growing slowly in mature cellular markets, new messaging tools, particularly e-mail and instant messaging, are poised for takeoff as larger-screen devices operating on faster networks at lower data price points open up services beyond the early-adopter market. Consumers are also expected to spend more on mobile media services like music downloading and streaming, mobile video on demand and mobile TV. The growing functionality and usability of handsets and networks is also encouraging the use of Web browsing from mobile phones.



80 Million IPTV Subscribers by 2011 – But Who's a Subscriber?

The total number of IPTV households will grow dramatically over the next five years, rising from just under 6 million homes worldwide in 2006 to more than 80 million in 2011, predicts technology research firm Strategy Analytics (www.strategyanalytics.net). Many IPTV "subscribers" will receive IPTV as part of a package of bundled broadband services; the number of households paying directly for IPTV services will rise from 3.3 million in 2006 to 40.9 million in 2011.

Strategy Analytics' Martin Olausson comments, "The traditional pay-TV definition breaks down in an environment in which multiple IP services (broadband, VoIP and IPTV) are paid for by a single fee, and in which a growing share of TV programming will not be paid for via subscriptions."

"The jury is still out on how much consumers are willing to pay telcos for IPTV," notes David Mercer, VP at Strategy Analytics. "Most telcos will likely offer customers a mix of free, subscription and pay-as-you-go programming models."

British research firm Canalys (www.canalys.com) estimates IPTV subscribers about 10 percent higher than Strategy Analytics, at 3.6 million, and says two thirds of the subscribers are in Western Europe.

Canalys agrees that IPTV is moving into the mainstream and is poised for fast takeoff, with most major incumbent telcos launching commercial services and alternative operators such as ISPs and energy companies also entering the market. While the top five providers (PCCW, France Telecom, Free Telecom, Telefonica and Fastweb) account for more than 60 percent of subscribers, the rush of service launches by new entrants means that there are many companies with only a few thousand subscribers each.

One of the major threats is the quality of networking once IPTV services become fully fledged. "IPTV networks will quickly become the most complex and bandwidth-intensive that have ever existed," said Canalys VP Alessandra Fitzpatrick. "It remains unproven whether IPTV networks can scale into the millions without performance degrading and response times slowing, or even collapsing altogether."