

APPENDIX B

Phase 1 - Portable Devices

- a. Following the publication of the SDMI Portable Device Specification, portable device manufacturers, portable media manufacturers, software companies, and content providers announced plans to create SDMI-compliant products. Among the companies who have made such announcements are Diamond, Creative, Matsushita, Panasonic, Toshiba, Mitsubishi, Lucent, Sanyo, Philips, Sony, Thomson/RCA, Audiovox, Pioneer, Sharp, Hewlett-Packard, Zenith/LG Electronics, Texas Instruments, Iomega, QDesign, SanDisk, Microsoft, Intertrust, Reciprocal, WAVE, MusicMarc, Liquid Audio, Fraunhofer, NatWest, BMG, EMI, Sony, Warner, Universal, and Rock.com. In addition, major recording companies including BMG, EMI, Sony Music, Warner, and Universal have all announced plans to begin providing music downloads using a variety of new technologies.
- b. Technical highlights of the Phase 1 specification:
 - (1) Phase 1 SDMI-compliant devices and audio software will play both protected and unprotected music.
 - (2) Phase 1 devices will be equipped with a screening mechanism (trigger) that will recognize a signal that alerts the user when it is time to upgrade their software/device in order to listen to new SDMI-compliant music.
 - (3) This signal will not appear until SDMI technology is ready (Phase 2), some time in the future. The signal will be designated by an audio watermark that has been tested for both robustness and listening quality.

Phase 2 - some time into the future

- a. Phase 2 begins when the technology to filter out pirated music is available to device manufacturers and their consumers. The release and use of SDMI-compliant music, such as future CDs and downloads that are identified with the SDMI watermark, will signal consumers that it's time to upgrade their SDMI-compliant devices.
- b. Technical highlights of Phase 2 are:
 - (1) Music released with a watermark identifying it as SDMI-compliant will only be playable on SDMI-compliant devices (except CD players, cassettes, and other traditional, non-digital playback devices). The consumer will be able to recognize SDMI-compliant devices, software, and music by the DMAT (Digital Music Access Technology) trademark and D-check logo.
 - (2) Upgraded and new portable devices will also play music that is in unprotected or open formats, including MP3s of all music released before the implementation of Phase 2. So, consumers' digital music libraries created before Phase 2, and subsequent music that is meant to be freely available, will still be playable on SDMI-compliant devices.
 - (3) Consumers will be able to copy SDMI-compliant CDs (or save downloads) to their hard drive and store, transfer, or use the music on and among their local

SDMI-compliant devices. But music files posted to the Internet without authorization will be unplayable on SDMI-compliant devices. SDMI-compliant devices will detect and reject pirated copies of new music.

- (4) SDMI-compliant music will carry with it a set of usage rules programmable by the content owner that will allow for a number of business models. For example, music may be released as try-before-you-buy (x number of free listens before you have to purchase), subscription, rent-to-own, etc.
- (5) For music marked as SDMI-compliant but lacking specific usage rules, SDMI-compliant devices will use a default rule that will allow consumers to make as many copies as they need of a CD, as long as they retain the original disc. Three additional copies can be made from every copy stored on the consumer's PC. If more copies are needed, the original disc can simply be copied again. A "check in/check out" functionality may also be available to allow consumers to transfer the same file between devices freely without it being considered a copy.