COVINGTON & BURLING

1201 PENNSYLVANIA AVENUE NW
WASHINGTON, DC 20004-2401
TEL 202.662.6000
FAX 202.662.6291
WWW.COV.COM

WASHINGTON
NEW YORK
SAN FRANCISCO
LONDON
BRUSSELS

August 1, 2003

VIA ELECTRONIC FILING

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: CS Docket No. 97-80; PP Docket No. 00-67; MB Docket No. 02-230
Notice of *Ex Parte* Presentation

Dear Ms. Dortch:

Submitted herewith pursuant to Section 1.1206(b)(2) of the Commission's rules is a notice regarding a permitted oral *ex parte* presentation in the above-captioned proceedings. On July 31, 2003, the undersigned, on behalf of Microsoft Corporation, met with Jordan Goldstein, Legal Advisor to Commissioner Copps, to discuss the attached presentation.

Kindly address any questions to the undersigned.

Sincerely,

Gerard J. Waldron
Counsel to Microsoft

cc: Mr. Jordan Goldstein

The Role of PCs in Entertainment

Microsoft Corporation

PCs Critical to Entertainment

PCs Not Just for Work

- PC moving from home office into living room, den, kitchen (63% of respondents use PC in group living area)
- 43% of respondents say PC more important than TV
- U.S. residents 13 and above consider computers more important for home entertainment than CD player, stereo, and DVD player

Source: Harris Interactive Survey

Teenagers Embrace Content On PCs

- Teens 13-17 more apt to use PC for entertainment
- 65% of teens said PC is more important than VCR
- 57% of teens said editing digital photos is important
- 41% of teens listened to music exclusively on computers

Source: Harris Interactive Survey

- Teens 13-17 years use digital media more than they watch television

Source: Corporation for Public Broadcasting

Windows Media Center Edition PC Buyers

- 81% use remote control to view photos
- 73% navigate digital music libraries
- 74% have watched home movies or digital videos saved on their computer

Source: MS Internal Research 2002

FCC Rules Should Promote, not Foreclose, PC Role in Entertainment

- FCC should ensure a uniform consumer experience with respect to content distribution, regardless of device or transport (broadcast, cable, other) mechanism
- FCC should promote growth and innovation in technology and enable new uses and greater commercial distribution of content by embracing Digital Rights Management (DRM) as content protection solution
- PCs have different architectural considerations than consumer electronic devices because they are multi-functional devices delivering video, audio, photos, movies, and data

"Plug & Play" MOU

PCs must be eligible to be "digital cable ready" devices and included under FCC rules if FCC wants to promote consumer choice and innovation

Digital Rights Management (DRM) solutions must be included as a means for protecting content

- Secures content effectively
- Can be applied to all transport (broadcast, cable, other) mechanisms
- Enables content to be monetized if copied

Functional Requirements must be clear and objective

- Inform innovators what capabilities devices need
- Enable certifiers to determine that device is built properly

Certification processes must be fair and neutral

- Processes must be open and transparent
- Vested parties must not hold veto rights

Broadcast Flag

Broadcasters have potential problem because signal is “in the clear”

- Intellectual Property should be protected and Microsoft is committed to developing workable solutions
- Current proposal fails to protect content effectively
- Content encrypted at the source is more secure

Digital Rights Management (DRM) solutions must be included as means for protecting content

- Secures content effectively
- Can be applied to all transport (broadcast, cable, other) mechanisms
- Enables content to be monetized if copied

Functional Requirements must be clear and objective

- Inform innovators what capabilities devices need
- Enable certifiers to determine that device is built properly

Certification process must be fair and neutral

- Process must be open and transparent
- Vested parties must not hold veto rights

DRM Builds for the Future

Using industry standard XRML to define rights

- MPEG 21 industry standard rights expression language
- Secures content effectively
- Any tech provider (CE, IT, other) can implement
- Applicable to all transport (broadcast, cable, other) mechanisms

Monetizing/authorizing copies should be the focus

- Solutions use authentication techniques to allow viewing
- Solutions treat content appropriately based on expressed rights in XRML included with content
  - *E.g.,* in DTV broadcast XRML can carry link to local affiliate or content owner for authorization, creating new customer contact where otherwise none existed
- DRM enables content to be monetized if copied allowing new business models for content providers & broadcasters independent of transport mechanism

Fair and Neutral Certification
Clear and Objective Functional Requirements

FCC should allow self-certification or independent third party testing of compliance based on functional requirements for products implementing Plug & Play and/or Broadcast Flag

- FCC must fill gaps left by BPDG defining objective requirements for limiting content distribution as authorized
- New technologies should be considered for certification upon notice to FCC, with opportunity for third party objection and arbitration
- Innovators should demonstrate compliance with functional requirements
- Technologies should be assessed on their own merits and in accordance with the functional requirements
- FCC already relies on self-certification and/or independent third-party testing to authorize telephone terminal equipment and unlicensed RF devices

Functional Requirements must be clear and objective

- Inform innovators what capabilities devices need
- Enable certifiers to determine that device is built properly

Achieving a Vibrant Digital Video Marketplace

- FCC should promote innovation and diverse content delivery
- FCC rules must allow consumers to exercise choice to use PCs for entertainment
  - Rules must include PCs
  - PCs should be eligible to be "digital cable ready" and deliver video to consumers via cable connection
- Encryption at the source offers real protection, avoiding cumbersome solutions by hardware and software makers
- DRM solutions secure content effectively, can be applied to all transport mechanisms, enable content to be monetized if copied and must be included as means for protecting content
- Functional Requirements must be clear and objective, inform innovators how devices are to be built, and enable certifiers to determine that device is built properly
- Rules governing certification should be fair and should be determined and implemented by neutral parties
- Certainty in rules and standards allows innovators to assess risks and make informed business decisions regarding investments to provide consumers with innovative products and services

Appendix

Windows Media Center Edition PC Buyers

- 77% have enjoyed full-screen DVD viewing (vs. 13% on ordinary PCs);
- 65% have used the Electronic Program Guide;
- 60% controlled live TV (pause, rewind, etc.) and
- 66% have used PVR functionality (35% say a major improvement over VCR)
- 71% would connect TV in same room
- 61% would put Media Center PC in living room or family room

Interest in new features

- 87% interested in photo printing via remote control
- 78% interested in Information portals
- 74% interested in multi-tuner support
- 74% interested in Music on Demand services

Source: MS Internal Research, 2002

Appendix (cont'd)

More On PC Usage

- 63% of survey respondents say PC is more important than CD player
- 35% of teens use PC as often as stereo or portable player
- About 75% of teens said they listened to music while using their computer

Source: Harris Interactive Survey

- 65% of American children 2–17 use the Internet
  - 59% growth rate since 2000
- Children 6–17 used the Internet an average of 5.9 hours per week in 2002
  - up from 3.1 hours per week in 2000

Source: Corporation for Public Broadcasting