

**State of the Industry Address  
Gary Shapiro, President and CEO, CEA  
8:30 AM, Thursday, January 6, 2005,  
Las Vegas Hilton Theater**

Let's get started! But what have we started?

What we've started and what we always will be about is... change.

This show, our economy, indeed our world, mirror the phenomenal changes our industry is creating. Our technologies and our products are changing the world.

A century ago, the telephone let people communicate in entirely new ways. The phonograph and the radio followed exposing millions to music and ideas outside their own communities. Television came along and allowed people to learn, escape and enjoy.

In 1974, the Watergate tapes created by a simple audio recorder forced President Nixon to resign. In the 1980s the VCR and fax machine pierced the Iron Curtain and exposed people to the reality that democracy offers a better way. The VCR also allowed people to choose what they wanted to watch and when they wanted to watch it. Cell phone technology created mobility and convenience and connected even those in remote areas with no landline infrastructure. And during the last ten years, the Internet has fundamentally changed how we receive information and how we communicate.

The inevitable march of change continues. To bigger, better, smaller, quicker — all with new services, features, products and benefits.

At this International CES, you will see the pace of dizzying change accelerate. The 2005 International CES is our largest ever with more than 100k net sq feet over last year. You will find so much new and improved technology that one sentence cannot summarize the leaps consumer technology is taking. The products you will see are portable, wireless, networked and content aware. They use bigger, better displays of every type. They learn. They sense. They respond. They connect.

The show reflects a shift to the promise of the digital dream – where content, devices and people are freed of the analog barriers that kept them apart. Convergence of features, simplification of form and time and place shifting of content are real.

These products are changing how we work and how we play. They save fuel, promote health, allow teleworking, create new businesses and are catalysts for new business models.

Consumers love our products. Consumer electronics was the hot industry of 2004 with U.S. sales growing more than 11 percent, almost triple the rate in our forecast one year ago. And for 2005, we think our sales will climb 11 percent - pushing our industry to \$127 billion.

Our industry thrives on the new, the better, the creative, and the different. The 2,500 companies exhibiting here reflect not only the world's technology future, they epitomize an industry which reinvents itself every year and is never happy with the status quo.

But while we thrive on change, the change we create threatens the status quo of other less agile industries.

Think about how the content community has relentlessly fought to delay or handcuff every new digital technology including

television, the Internet and digital radio. Thankfully, more than 20 years ago the U.S. Supreme Court in the Sony Betamax case laid down the principle that our products are legal if they have legal uses. We hope this year the Supreme Court protects this vital principle when it reviews a case involving peer-to-peer file sharing. If not, we must ask Congress to safeguard technology creators and their customers, by enacting legislation codifying this principle. At the same time we must be relentless in fighting bad proposals which create new forms of liability and restrict information like the Induce Act which almost passed the Senate. You can help by visiting the Home Recording Rights Coalition booth in the Grand Lobby.

Another example of how we changed the status quo, think of the shift to digital television and the numerous battles and naysayers we fought to make HDTV a reality. During the past dozen years I stood here and repeatedly described how HDTV is our inevitable destiny. We fought and won many battles. Yet, we have one final battle: broadcasters must shift away from analog by a fixed date. We need that analog spectrum for the technologies and products of tomorrow. We also need to continue on the path of HDTV to the Holy Grail of 1080 progressive.

Consider how the cable industry also resisted HDTV and suddenly were interested after their top executives came to CES and saw all the HDTV programming in satellite. Today, the cable industry is again seeking a delay in advancing the digital transition by thwarting implementation of FCC rules designed to promote competition. We only need three bold visionaries at the FCC to stand up and allow consumers to have a real choice in cable service and technology.

Think of the changes electronics are making in the car. Electronics now are 30 percent of the value of each car sold. We must make sure the automobile industry allows the car to be hospitable to

aftermarket products. Car makers will never be able to move as quickly as aftermarket inventors and marketers. Think of the CD player, car navigation, car video, car security and digital radio and remember how the aftermarket sellers introduced these phenomenal products to consumers.

Our industry not only thrives on change it relies on change. And as fearful as change is to other industries, it is absolutely necessary to ours. We must insure other industries in their desire to protect the status quo do not use sheer political strength to distort the natural marketplace evolution and demand for our products.

CEA is absolutely committed to growing the industry and ensuring change can occur. It is a fact our industry introduces new technologies which disrupt business models of established industries. Yet, the same new technologies, whether it be the VCR, the DVD, HDTV, the Internet, wireless telephony, digital radio, or digital cameras, create brand new businesses and totally new opportunities.

A whole range of newer products from DVD recorders to digital cameras to desktop video editing and production tools, have shifted control of content to consumers. Consumers have become the new creative community. Consumers now create, manipulate and distribute content. If you doubt how quickly this phenomenon is occurring I encourage you to visit the Studio at Home techzone of the CES in the South Plaza.

The rapid growth of our industry is not only reflected by the size and breadth of the show, it also is mirrored in the growth of CEA. In four years, we have tripled our membership to 1,850 companies. We recently merged with PARA and now have retailers and integrators on our Board of Industry Leaders.

By almost every measure we are among the top 50 trade associations in the U.S. and just two weeks ago announced that we have become fully independent and ended our relationship with EIA. This enables us to become more effective on the lobbying front and also with tax, trade and environmental issues.

More, like the industry, we will continue to reinvent ourselves. I am happy to announce today our formal joining with China's largest consumer electronics trade association and tradeshow to produce SINOCES next July in Qingdao.

I am also pleased to share with you that this CES is not only the largest in our history, and the largest indoor show in our nation's history, but it also has the largest delegation of senior government leaders ever congregated outside a political convention or capitol. We have with us 140 Senators, Congressmen, Administration officials, FCC leaders and top policy staff who want to see first hand the innovation, energy and change represented by this industry. They are Republicans, Democrats and top-level policy experts, but they are all emblematic of a government which recognizes that change fuels our economy and simply preserving the status quo will make us fall far behind. Please join me in thanking them for the time and focus they are giving our industry. [pause]

We will grow and we will adapt. But we also will do so with a sense of history. We will continue to honor our visionaries and to that end I am happy to present to you the new inductees into the CEA Hall of Fame. They will be formally honored at our Industry Forum in Las Vegas next October. (applause)

Further we will celebrate our 80-year history beginning as the Radio Manufacturers Association, with a special government recognition dinner March 15 in Washington, DC. The dinner will be held on the evening between our HDTV Summit and academy

awards and a new conference on March 16 focusing on how our technologies fuel rather than hurt creativity.

We are moving forward quickly as the trade association for the dynamic industry. We do with a dedicated staff of 135 professionals and thousands of industry volunteers. Our mission is simple: to grow the industry.

President John Kennedy said, “Change is the law of life. And those who look only to the past or present are certain to miss the future.”

I am proud to represent an industry that not only understands this law, but embraces it. As you walk the show floor, see the exciting new products and technologies, and hear from our industry’s top visionaries, recognize that you are seeing, touching and hearing the future. Change is coming. And it begins right here, right now.

Having said that I am pleased to introduce you to our new Chairman Loyd Ivey. Loyd created a great American manufacturing company Mitek. With more than 550 U.S. employees it makes and markets a diverse portfolio of home, automobile and professional audio products. Loyd chaired our Mobile Division and served as Vice Chairman of our board for four years. Please join me in welcoming the Chairman of CEA’s Executive Board and Board of Industry Leaders Loyd Ivey.