



Introduction

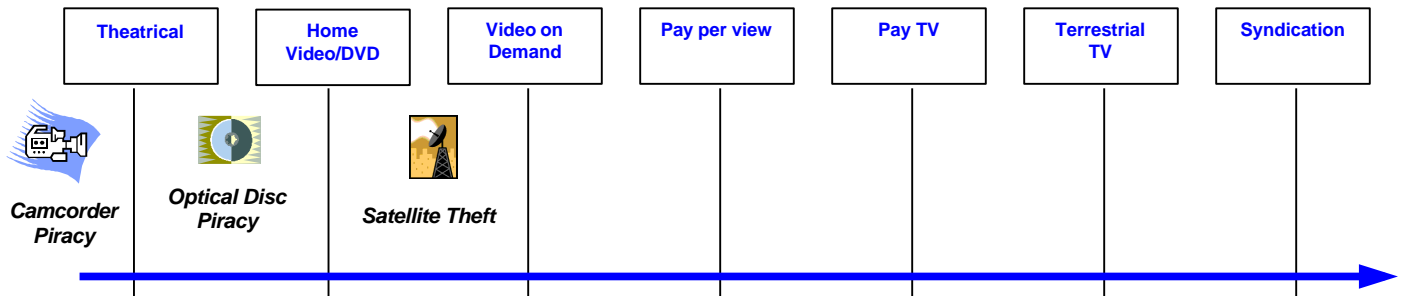
The US entertainment industry loses an estimated \$3.5 billion every year due to film piracy, which does not even include losses due to Internet piracy. This figure continues to rise with more sophisticated technology, easier means of replication and more organized and secretive distribution channels linked to organized crime. This report highlights the impact of piracy on the global market with case studies from key European markets including Germany, Russia and the United Kingdom.

Piracy is a global dilemma that needs to be dealt with through stronger legislation, tougher prosecution and stiffer penalties. Many of the world's leading pirates operate out of the select countries discussed in this report and distribute pirated materials to other parts of the world. Consequently, many other local economies and governments suffer at the hands of these global operatives.

Film Piracy- Overview

Most pirated movies are distributed in the form of hard goods, such as DVDs, CD-Rs, DVD-Rs, VCDs and VHS cassettes. The release pattern for a theatrical film follows a typical release pattern illustrated below:

**Release Schedule for a Typical MPA Member Film
(Piracy Timeline)**



Opening Weekend

Source: Motion Picture Association

Piracy impacts each segment of the release schedule, resulting in millions of dollars of lost revenue over the life of each film. Considerable pirated product is released prior to even the theatrical release of the film. In many instances, pirate copies of blockbuster features are available for sale on street corners months before the final product has even been released.

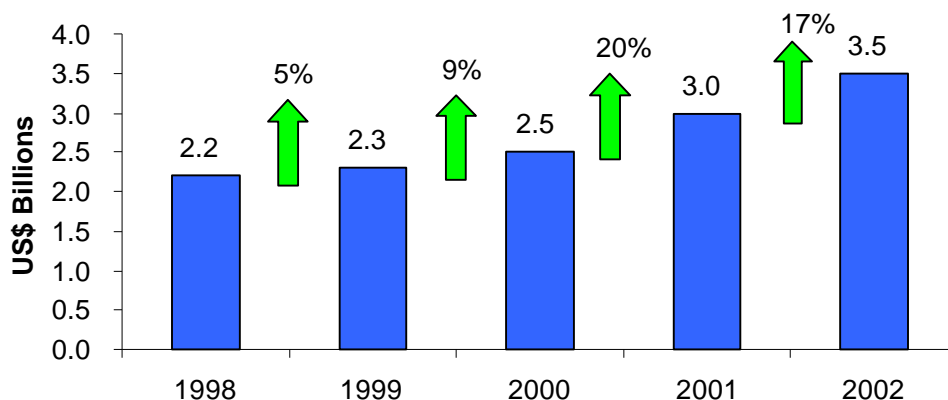


A team of well-trained Motion Picture Association (“MPA”) experts, in partnership with justice officials across the world, lead investigations, raids and seizures with much success. Unfortunately, the statistics paint a grim picture of the steadily growing piracy problem around the world. For instance, between 1997 and 2003, the number of investigations and raids increased 29% and 85%, respectively, while the number of seized items (including Videocassettes, DVDs, VCDs, and replication material) jumped a whopping 663%. In 2003 alone, officials seized 72.8 million items tied to piracy, compared to 9.5 million items in 1997.

Global Trends

Piracy losses are increasing at alarming rates. In 1997, piracy losses were estimated to be \$2.2 billion. These losses were primarily related to pirated material in VHS and VCD format. However, with the advent of the DVD format in North America, Europe and Asia Pacific, as well as the increased penetration of VCD players in many of the Asia Pacific countries in 1998-99, piracy has reached epidemic levels in a number of countries. In 2002, losses were estimated to be \$3.5 billion, a sixty percent jump since 1997.

**Worldwide Film Piracy Losses
1998-2002**

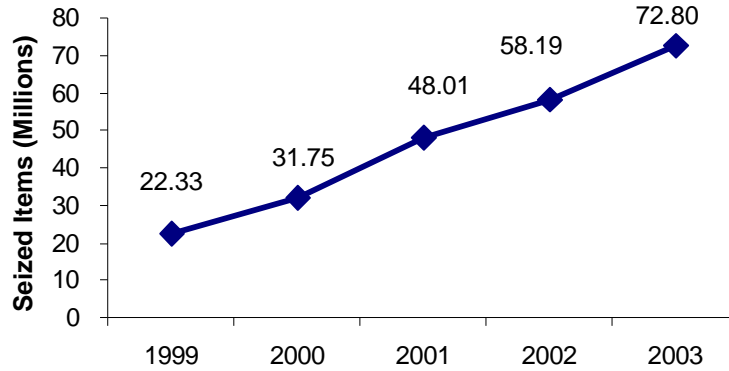


Source: Motion Picture Association

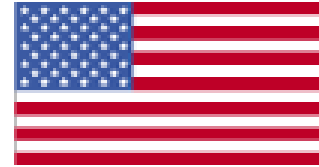


The number of seized goods related to piracy has jumped 226% since 1999, when seized items were 22.3 million. In 2003, seizures topped 72 million. This was up 25% from 2002.

Number of Seized Pirate Items* 1999-2003



*Items include optical discs, videocassettes, replication hardware, packaging, etc.
Source: Motion Picture Association



United States

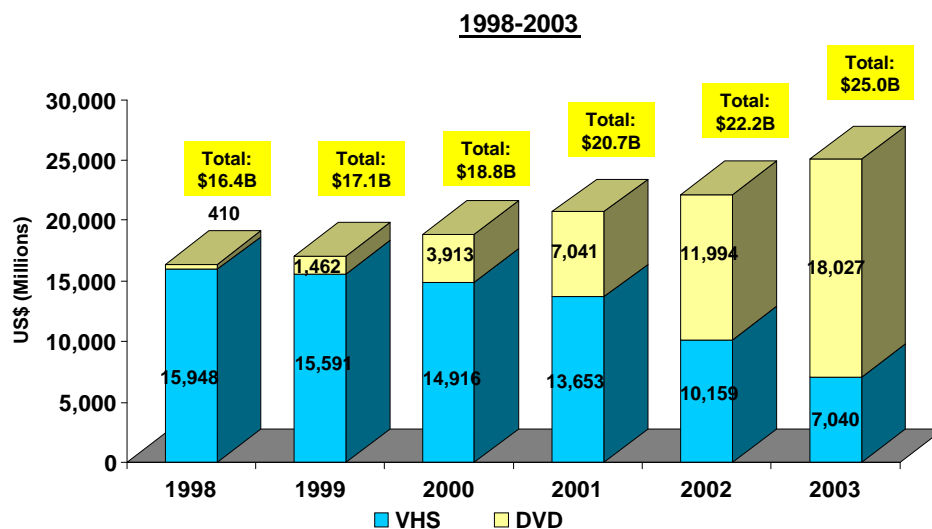
Key Statistics-2003

Piracy losses (VHS and Optical disc)	\$250 million
Seizures (all items)	1,890,129
Piracy level (Video & Optical Disc)	10%

Home Entertainment

The US is the largest consumer of home entertainment products in the world. Consumer spend was \$25 billion in 2003 and is forecasted to increase significantly during 2004.

US Consumer Spend on Home Entertainment



As DVD penetration rates have increased, so has optical disc piracy. Authorities are now seizing greater numbers of illicit film product than in the past.

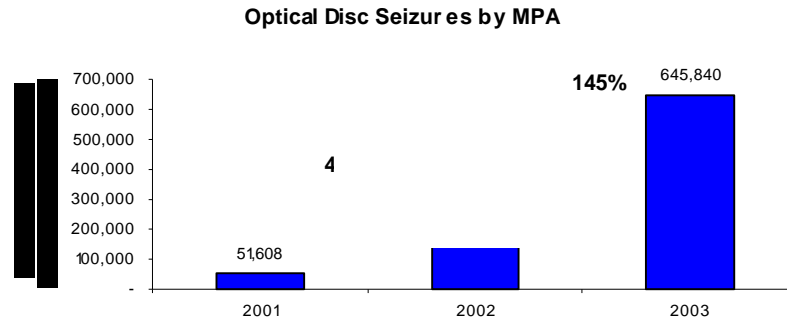
Optical Disc Piracy

Optical disc piracy is the greatest threat to the audiovisual market in the US. The majority of all pirate product found in the US is mastered from films camcorder off of movie screens by pirates at theatrical screenings. These camcordings are then distributed over the Internet and are used as sources for pirate products. Pressed DVDs, which account for the majority of the product seized, are mostly produced out of country and are then surreptitiously shipped back to the US. Most of these appear to have been manufactured in Asia. The DVD-R product is produced domestically in small DVD-R labs located in apartments, garages and warehouses throughout the country. In increasing

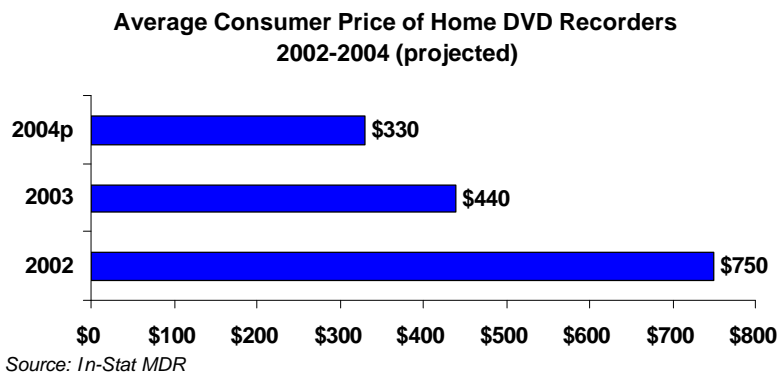


numbers, product in both these formats is being sold to the public at flea markets, on-line auctions, small retail stores (other than retail video stores) and by street peddlers.

2003 optical disc seizures jumped a whopping 145% over 2002. The number of active investigations, seizures and burner labs raided continued to increase as did product availability, while the cost of DVD's, DVD-R's (recordable DVD discs) and DVD burners came down.



DVD recorders are gaining momentum amongst consumers as prices fall. According to *International Data Corporation ("IDC")*, DVD recorders will generate more sales in the second half of 2004 than DVD players.



Internet Piracy

According to an April 2004 report by *Pew Internet and American Life Project*, "The number of Americans with access to high-speed Internet connections either at home or work is growing. As of March 1, the survey found that 68 million adult Americans log on via broadband either at home or work. Overall, 48 million adult Americans have broadband connections at home, compared to 31 million in 2003. 39% of adult Internet users - or 24% of all adult Americans - have high-speed access at home, an increase of 60% since March 2003."



As Internet households grow and broadband gains critical mass, the use of the Internet as both a selling and distribution channel for illegal product has become a major concern.

Independent studies point to continued growth in illegal file sharing. A February-March 2004 survey by *Pew Internet and American Life Project* revealed that 15% of Internet users report they have downloaded a video file onto their computer, up from 13% who admitted this in a November-December 2003 survey. Pirates have begun bypassing popular P2P networks, where their activities can be tracked, for more discrete means of exchange. "Students are sharing among themselves with private networks," And some users disable the "share" function in programs like Kazaa while nabbing a film, thus protecting their identity.¹

Videocassette Piracy

Videocassette piracy has been displaced by optical disc piracy in most parts of the country. The street peddlers arrested are selling pirate product predominately in the DVD-R and DVD format, however, some continue to offer VHS product. The exception to this is in Puerto Rico where the change to DVD product has been slower and the demand for pirate VHS product remains high.

Television

Signal theft across the US remains a serious problem. The industry reportedly loses about \$6.6 billion in annual revenue to cable theft, according to a survey by the National Cable and Telecommunications Association, an industry trade group². According to one journalist, "Stealing cable has become an industry unto itself." Reports suggest an abundance of do-it-yourself sites offering cable hook-up instructions and helpful advice. One site claims "... [cable theft is] not like stealing electricity, you won't get electrocuted". Even more prevalent on the Internet are cable descramblers, so-called "black boxes", which intercept cable signals and cost about \$200, which is billed directly to a credit card³.

Piracy Losses

Between 1998 and 2003, economic losses due to audiovisual piracy in the US were estimated at \$1.5 billion. These losses do not include the impact of Internet piracy or losses stemming from signal theft.

¹ *United Press International*, 6/15/04.

² Based on NCTA's cable piracy survey conducted in 1999. Does not incorporate unauthorized reception of pay-per-view programming.

³ *The Baltimore Sun*, "Cutting the Cord", Dan Thanh Dang, 9/28/03.