



2005 U.S. PIRACY FACT SHEET



INTRODUCTION

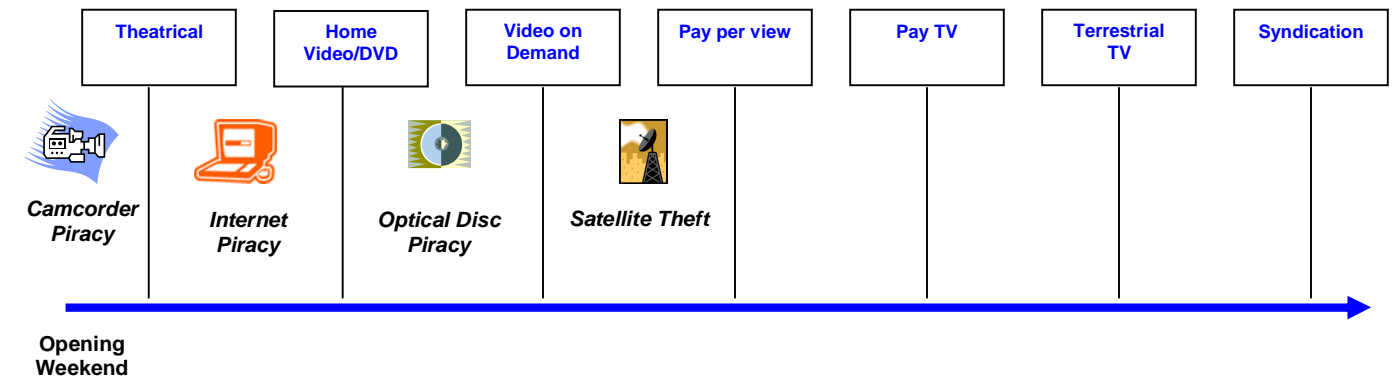
The worldwide motion picture industry, including foreign and domestic producers, distributors, theaters, video stores and pay-per-view operators lost \$18.2 billion in 2005 as a result of piracy.

The MPAA and its member companies have a multi-pronged approach to fighting piracy, which includes educating people about the consequences of piracy, taking action against Internet thieves, working with law enforcement authorities around the world to root out pirate operations and ensuring that consumers have legitimate ways to get movies online and through various sources. The MPAA and its international counterpart, the MPA, also work to strengthen copyright laws at home and abroad to protect intellectual property around the world.

FILM PIRACY- OVERVIEW

The release pattern for a theatrical film typically follows the pattern illustrated below:

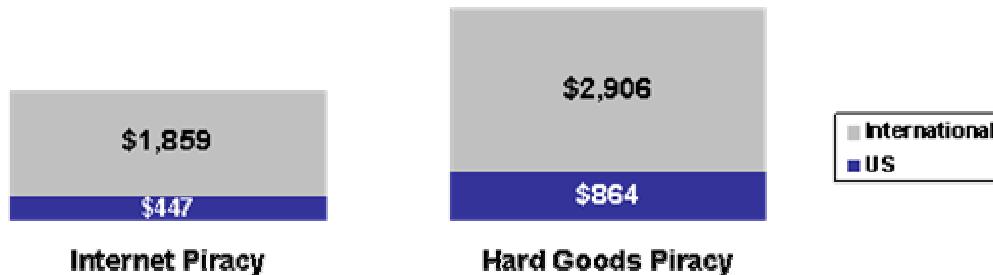
Release Schedule for a Typical MPA Member Film (Piracy Timeline)



Source: Motion Picture Association

Over ninety percent of initially released pirated films are a result of individuals' camcording in movie theaters. Those camcorders then sell films to individuals for reproduction or post them on the Internet. In many cases, illegal copies of blockbuster features are available for sale on street corners and on the Internet within hours of a movie's premiere. Considerable pirated product is often available prior to the DVD release of a film.

MPA Member Company Revenue Loss by Source of Piracy*



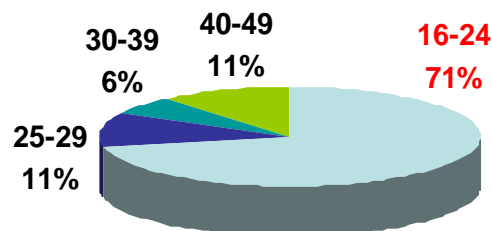
*All figures throughout shown in \$U.S. Millions

The major motion picture studios represented by the MPAA lost \$6.1 billion* to piracy in 2005. Of the \$6.1 billion in lost revenue to the studios, \$4.8 billion (80%) resulted from piracy in other countries, and \$1.3 billion (20%) resulted from losses in the United States. About \$3.8 billion was lost to hard-goods piracy including bootlegging and illegal copying and \$2.3 billion to Internet piracy.

*Piracy loss calculations are based on the number of legitimate movies – movie tickets and legitimate DVDs – consumers would have purchased if pirated versions were not available.

In 2005 over 81 million optical discs were seized by MPA investigators acting with law enforcement officials around the world, signifying an 8% increase from 2004. The total number of replication discs seized also jumped 5% at more than 61 million, and the number of seized burned discs topped twenty million, representing an 18% increase from 2004. Meanwhile, the number of total burners seized in 2005 amounted to over 30 thousand, a 113% increase from the year before.

Age Groups of Active Downloaders - U.S.



The typical pirate is male, between the ages of 16-24 and lives in an urban area. In the US, that same age range represents 71% of downloaders. In fact, 44% of MPAA studio losses to piracy in the U.S. are attributable to college students.

FORMS OF PIRACY

Theatrical Camcording

Over ninety percent of newly released pirated movies come from thieves who camcord films in movie theaters. Pirates sell these "master recordings" to illicit "source labs" where they are illegally duplicated, packaged and prepared for sale on the black market, then distributed to bootleg "dealers" across the country and overseas. Consequently, illegal movies often appear on the Internet or in street markets around the world within hours of a movie's premiere and well before its international debut.

Internet Piracy

Internet piracy is the downloading or distribution of unauthorized copies of intellectual property such as movies, television, music, games and software programs via the Internet. Illegal downloads occur in many forms including file sharing networks, pirate servers, websites and hacked computers. Each file posted on the Internet can result in millions of downloads. Please see below chart outlining the "Pyramid of Internet Piracy":

THE PYRAMID OF INTERNET PIRACY

SUPPLIERS

The primary source of newly released pirated movies come from thieves who camcord films in theaters. Illegally recorded movies are then sold to "Replicators" who rapidly produce millions of pirated DVDs and to "Release Groups" who distribute them around the world through computer servers known as "Topsites".

RELEASE GROUPS / TOP SITES

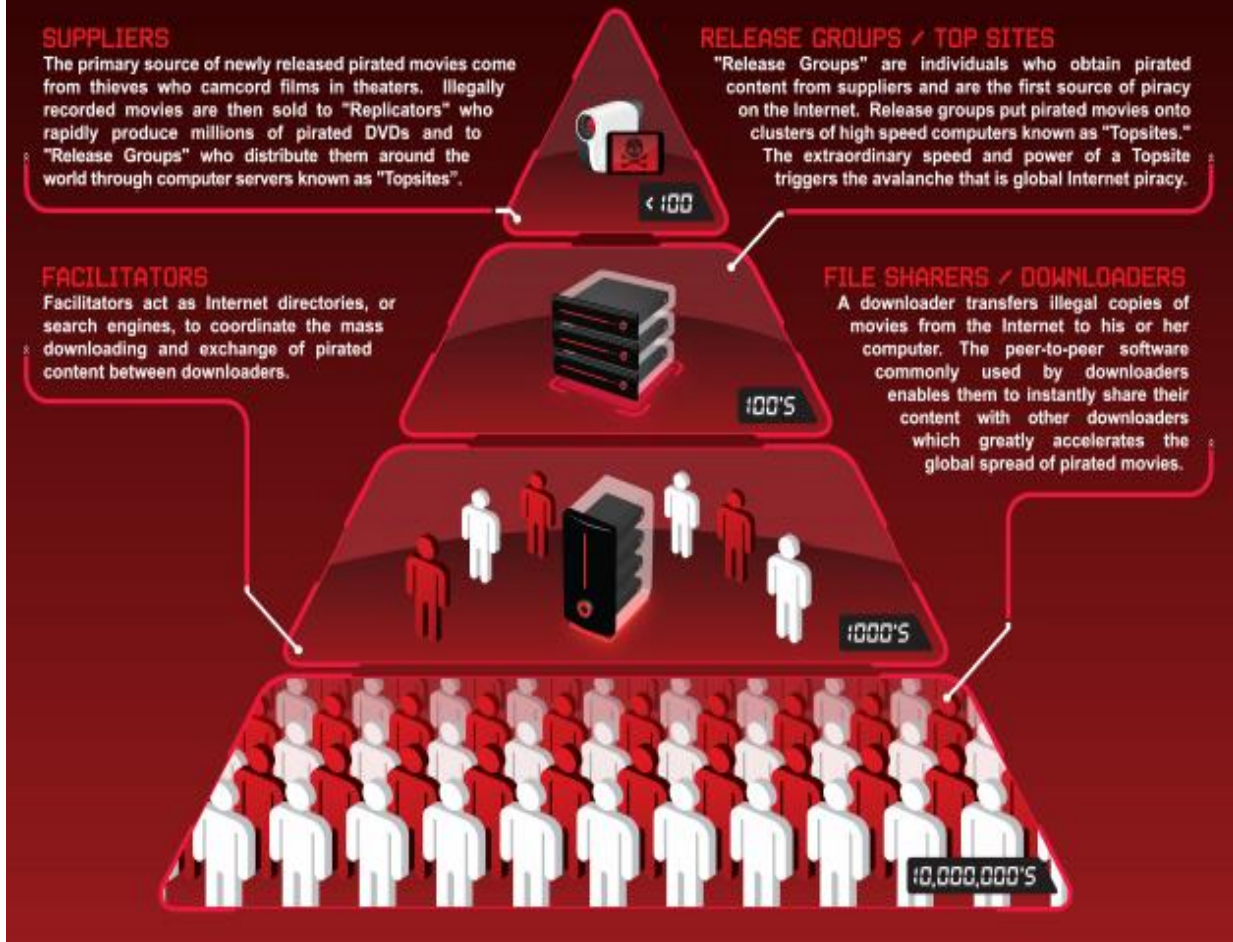
"Release Groups" are individuals who obtain pirated content from suppliers and are the first source of piracy on the Internet. Release groups put pirated movies onto clusters of high speed computers known as "Topsites." The extraordinary speed and power of a Topsite triggers the avalanche that is global Internet piracy.

FACILITATORS

Facilitators act as Internet directories, or search engines, to coordinate the mass downloading and exchange of pirated content between downloaders.

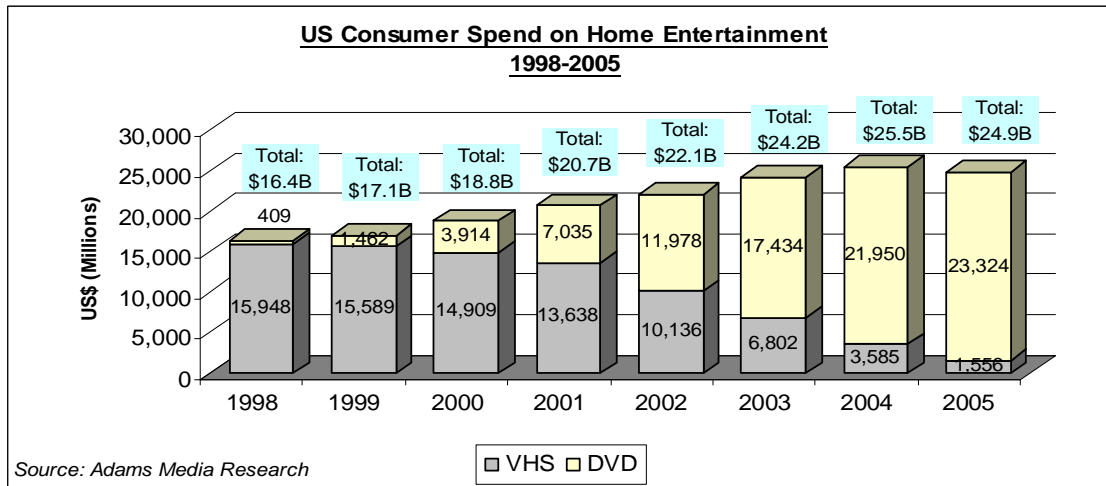
FILE SHARERS / DOWNLOADERS

A downloader transfers illegal copies of movies from the Internet to his or her computer. The peer-to-peer software commonly used by downloaders enables them to instantly share their content with other downloaders which greatly accelerates the global spread of pirated movies.



Home Entertainment

The U.S. is the largest consumer of home entertainment products in the world. Consumer spending reached almost \$25 billion in 2005.



As the number of DVD players in households increase, so has optical disc piracy.

Optical Disc Piracy

Optical disc piracy is the illegal manufacturing, sale, distribution, or trading of copies of motion pictures in digital disc formats including DVD, DVD-R, CD, CD-R and VCD. These illegal hard goods are sold on websites, online auction sites, via e-mail solicitation and by street vendors and flea markets around the world.

**Bootlegging: Obtaining movies by either purchasing an illegally copied HS/DVD/VCD or acquiring hard copies of bootleg movies.*

**Illegal copying: Making illegal copies for self or receiving illegal copies from friends of a legitimate VHS/DVD/VCD*

CONSEQUENCES OF PIRACY

In 2005, President Bush signed the Family Entertainment and Copyright Act, which makes camcording in a theater a federal **felony** (camcording in theaters is also prohibited by many state statutes) and establishes new penalties for pirating works that have not yet been released commercially. First-time violators can be sentenced to **three and five years in prison**, respectively, for these crimes and fined up to \$250,000.

In June 2005, the United States Supreme Court in the case of *MGM vs. Grokster* ruled unanimously that peer-to-peer **software companies which encourage users to illegally swap copyrighted material online can be held liable for violating federal copyright laws**. Individuals illegally downloading copyrighted material from the Internet can face **fines that range from \$30,000 to \$150,000**.

EDUCATION/TRAINING EFFORTS

Fightfilmtheft.org was created in 2005 as a training program for movie theater employees to identify camcorders and establishes protocols for reporting the crime to local authorities. The MPAA has also established a "Take Action" Reward scheme with

the National Association of Theatre Owners (NATO) to reward theater employees who stop an illegal camcording.

The MPAA and the Recording Industry Association of America (RIAA) developed a systematic program to identify and curtail campus Local Area Network ("LAN") piracy at universities across the country.

The MPAA collaborated with Weekly Reader to provide 10,000 schools with educational materials about the dangers of the online environment.

The MPAA also partnered with Wired Kids, the largest online safety and help group in the world, to help in their effort to educate kids and parents about the 4Ps of Internet awareness: privacy, predators, pornography and piracy.

LAW ENFORCEMENT EFFORTS

In 2005, working with law enforcement authorities around the world, MPA anti-piracy investigators conducted nearly 43,000 raids and seized over 81 million illegally-manufactured discs.

MPA has provided specialized training to law enforcement authorities around the world to recognize pirate operations such as duplications labs, warehouses, and counterfeit merchandise. As a result of this training, law enforcement agencies around the world have initiated over 31,000 cases and seized millions of discs.

Working with law enforcement around the world the MPA has shutdown more than 100 high profile Internet piracy facilitators and eliminated seven of the world's largest Internet release groups.

LEGAL ALTERNATIVES

The MPAA is providing a bridge in the digital transition for movie and technology companies. In partnerships with BitTorrent and GUBA, the major motion picture studios have made efforts to decrease online movie theft on these popular sites. The studios have also been experimenting with new delivery methods for films including peer to peer and BitTorrent to handheld devices, allowing for managed copying, community video sharing sites and others. Consumers are provided now with an array of options including:

- **Disney, Sony, MGM, and NBC Universal** offer movies and TV shows that they can burn and use on other devices through **CinemaNow**.
- **Movielink** offers movies to download from **Fox, Warner Bros., Sony, MGM, Paramount** and **NBC Universal**.
- **Warner Bros.** distributes movies and TV through **BitTorrent.com**.
- **Sony and Warner Bros.** are distributing movies through GUBA, an online video sharing service.
- **Disney's MyABC** offers free downloads of its shows on the ABC website. And **MovieBeam** allows customers to rent movies (including high definition) from a library of 100 titles stored in a set-top box.

- **Universal** has made films available through **Lovefilm** to download the same day the DVD is released, and is also distributing movies to watch on **Peer Impact**, a P2P file-sharing service.
- **Disney** has released the first full-length movie on **iTunes**, in addition to TV shows it is already selling on iTunes with **Fox**.
- There are also plenty of other sites that offer legal movie downloads such as **AtomFilms, CinemaNow, Ifilm, Movielink, Movieflix, Vongo, In2TV, Ruckus, iTunes Videos, Cflix, Starz Ticket on Real Movies, ABC.com, and CBS.com.**