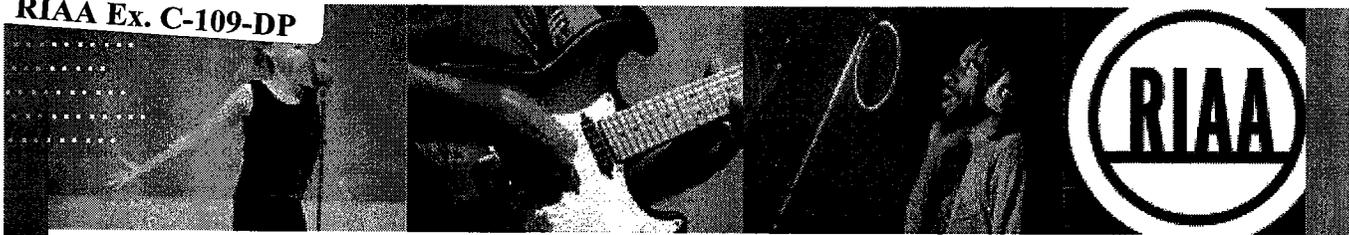


RIAA Ex. C-109-DP



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## RIAA Identifies 12 Piracy "Hot Spot" Cities

*New Report On Commercial Piracy Documents Increasingly Sophisticated Trade*

*Atlanta, Austin, Chicago, Dallas, Houston, Los Angeles, Miami, New York, Philadelphia, Providence, San Diego and San Francisco All Havens For Pirated Music*

WASHINGTON – The copying and trafficking of pirated music is an increasingly sophisticated trade plied by savvy multi-state criminal operations that distribute illegal product designed to resemble authentic CDs and replace legitimate sales, according to new data and analysis released today by the Recording Industry Association of America (RIAA) in a report on commercial piracy.

As part of its report, the RIAA for the first time has identified 12 "priority" cities as part of its nationwide physical goods piracy assessment. These cities – Atlanta, Austin, Chicago, Dallas, Houston, Los Angeles, Miami, New York, Philadelphia, Providence, San Diego, and San Francisco – are all "hot spots" of music theft, with significant piracy problems from the manufacturer level all the way down to the point of retail sale. The RIAA will step up law enforcement training and commit additional investigative resources in all of these cities in the coming year.

In an effort to lure consumers, enterprising pirates are increasingly producing unauthorized compilations of popular hits as well as counterfeits that add bonus tracks – going well beyond merely duplicating an existing album. In addition, some compilations include counterfeit trademarks on the packaging or discs to create the appearance of legitimacy.

"As the pirate music trade continues to evolve, criminals are enhancing their products and attempting to dupe consumers with illegal CDs that look authentic," said Brad Buckles, Executive Vice President, Anti-Piracy for the RIAA. "This is a disturbing trend. The music community loses hundreds of millions of dollars each year to physical piracy. Today's sophisticated pirate trade demands even greater awareness and action from us, our partners in the music community, law enforcement and music fans. When consumers buy the real thing, everyone wins – not only the fan who bought a high-quality CD but music stores, artists, record labels and everyone else involved in making music."

The RIAA offered the following tips to help consumers avoid illegal music:

- **Remember the Adage "You Get What You Pay For":** Even if you are hoping to get your favorite albums at a discount, new or used,

extremely low prices might indicate pirated product.

- **Watch for Compilations that are "Too Good to Be True":** Many pirates make illegal "dream compilation" CDs, comprised of songs by numerous artists on different record labels.
- **Read the Label:** If the true name and address of the manufacturer are not shown, it is most likely not legitimate product. These products often do not contain a bar code. Furthermore, if the record label listed is a company you've never heard of, that should be another warning sign.
- **Look for Suspicious Packaging:** Carefully look over the packaging and beware of products that do not look genuine. Packages with misspelled words, blurry graphics, weak or bad color should all raise red flags. Inferior quality print work on the disc surface or slip sleeve cover, as well as the lack of original artwork and/or missing label, publisher, and distributor logos on discs and packaging, are usually clear indicators that the product is pirated. CDs with loose or no shrink wrap, or cheaply made insert cards, often without liner notes or multiple folds, are probably not legitimate product.
- **Watch for Product Being Sold in Unusual Places:** CDs sold in non-traditional venues, like flea markets or street corners, are probably not legitimate.
- **Trust your ear:** The sound quality of pirate CDs is often poor or inconsistent.

With music thieves marketing their goods to compete with legitimate retail sales, the RIAA has shifted its focus to target piracy cases at the source of the distribution chain – where law enforcement can not only seize illegal goods but also shut down the means of production and thus have a far greater impact on the overall availability of pirate product. Seizures of counterfeit CDs from commercial manufacturing facilities were up more than 424,000 units in 2005 – an increase of 46 percent – and the total number of cases at the manufacturer level was up 7 percent. In addition, seizures of piracy equipment grew by 57 percent in 2005.

"RIAA's tireless efforts to put a stop to illegal music sales are important to the entire industry, especially all of the retailers across the country who operate legitimate businesses and who shouldn't have to deal with unfair competition from organized criminals," said Jim Donio, President of the National Association of Recording Merchandisers.

In 2005, more than 800 law enforcement departments across the country engaged in more than 4,000 anti-piracy actions, making 3,300 arrests and seizing more than five million pieces of pirate music product in the United States – an 11 percent increase over 2004. The RIAA estimates that the music industry loses well over \$300 million a year to domestic physical goods (non-Internet) piracy alone.

"We are grateful for the efforts of the many law enforcement officers who work these cases in cities across the country," added Buckles. "Law enforcement officials have become more involved in these cases because they know that those who play in today's pirate trade are often involved in other unsavory criminal activities. Plus, as a report by the New York City Comptroller documented, counterfeiting and pirating often costs local economies millions of dollars in tax revenue. We look forward to continuing our collaborative work – especially in our hard-hit priority cities – in the year ahead."

Urban and Latin music genres are typically the hardest hit by physical goods piracy and accounted for nearly 95 percent of music seized last year. Urban music – representing 54 percent of all pirate product seized – is almost exclusively found in a lower-quality format burned to blank CD discs with packaging far less likely to be confused with legitimate products. A large portion of the urban piracy market consists of compilations of music from various artists and multiple albums.

While seized in lower numbers than urban music, the impact of piracy on the Latin genre is arguably more severe. Although it accounts for 6 percent of the music market, more than 40 percent of music seized in 2005 was of the Latin genre. The impact of this problem is particularly severe in Texas, California and Florida. In addition, pirated Latin music is most commonly commercially pressed, with a sleek, professional look. This kind of illegal product has the greatest potential for deceiving consumers and replacing legitimate music sales.

"Rampant piracy continues to take a disproportionate toll on the small yet thriving culture of Latin music," said Rafael Fernandez, Jr., Vice President of Latin Music for the RIAA. "Latin artists with high, homegrown popularity often battle tremendous piracy right in their local communities. Our ability to invest in the next generation of Latin artists is directly linked to enforcement and a continued focus on the piracy plaguing this genre."

#### **EXAMPLES OF SIGNIFICANT ANTI-PIRACY OPERATIONS IN 2005:**

**Manufacturers** – In 2005, enforcement actions were brought in 348 manufacturer cases in 30 states. The cases ranged from commercial CD manufacturing plants to small burn-on-demand operations often run by a single individual. For example:

o **Oct. 6:** "Operation Remaster" and "Operation Buccaneer" involved 13 locations where individuals were suspected of being involved in a large-scale network that was illegally replicating and distributing pirated CDs and DVDs. The Rapid Enforcement Allied Computer Team (REACT) and the Sacramento Valley High Tech Task Force, along with more than 100 officers from local, state and federal law enforcement agencies in California and Texas executed search warrants and conducted raids at several large-scale commercial mastering, replicating and packaging facilities in the Bay Area and Central Valley of California and in Austin, Texas. As a result, multiple arrests were made with approximately 500,000 pirate CDs and more than 5,500 stampers seized, making the action the largest CD manufacturing raid in U.S. history. Approximately 85 percent of the pirate discs seized were of the Latin genre. Task Force investigators estimate that the targeted businesses have produced, packaged and shipped more than 12 million discs annually, worth an estimated \$120 million.

o **Nov. 21:** Based on an anonymous tip, RIAA investigators conducted an investigation at a local music store outside Detroit. Investigators were able to purchase pirate CDs for \$5 each and observed thousands of counterfeit CDs in plain view for customers to see. The case was referred to the FBI, which opened a formal criminal investigation of the shop. An FBI search of the store yielded 111 CD/DVD burners and 10,000 blank discs, along with nearly 10,000 pirate CDs and 1,400 pirate movies. The shop owner admitted to manufacturing, selling, and distributing counterfeit music and movies.

o **Nov. 15:** In conjunction with the New York State Police, Special Investigative Unit, the RIAA executed a search warrant at a burner lab located in Rochester, N.Y. With 153 high-speed burners, this was the largest burner lab uncovered in the Northeast in 2005. In addition, more than 7,500 pirate and counterfeit CDs and more than 6,200 pirate movies were seized along with \$16,000 in cash, and 40,000 blank CD and DVD discs.

**Distributors** – In 2005, the RIAA investigated nearly 300 pirate CD distribution operations. These operations are distinct from pirate manufacturers and engage in the wholesale sale of pirate product to retailers. For example:

o **Dec. 8:** Members of the New York City Police Department and the U.S. Secret Service, along with investigators from the Motion Picture Association of America and the RIAA served four search warrants in New York City against suspected distributors. Nine people were arrested and 46,400 counterfeit CDs, 68,740 counterfeit movie DVDs, 1,470 counterfeit handbags, 42 counterfeit

Rolex watches and \$2,125 in cash were seized.

o **Oct. 11:** Based on a referral by the RIAA, the Los Angeles Police Department executed a search warrant at a telemarketing company distributing pirate CDs to numerous Latin retailers. The company's illicit music was supplied by northern California facilities raided in Operations "Remaster" and "Buccaneer." Seized were 20,655 pressed CDs and 1,790 music DVDs. Police also seized invoice books and records on all retail customers. These materials documented sales throughout the U.S. and provided leads for other RIAA offices.

o **May 3:** With assistance from the Atlanta Police Department, the RIAA was able to confirm that a local dollar store was distributing illegal product and seized 62,300 pirate CDs and more than 30,000 pirate movies from a back room. A 48-foot trailer was required to transport and store all the seized evidence.

**Retail/Flea Markets** – In 2005, RIAA investigators and contractors assisted local police departments across the country in 4,000 retail level piracy cases. For example:

o **Dec. 17:** RIAA and MPAA investigators, assisted by the Chicago Police Financial Crimes Unit, Fugitive Unit, the 9th District Task Team, and the U.S. Postal Inspection Service, conducted undercover purchases and arrests at several different booths inside the Swap-O-Rama Flea Market in Chicago. A total of 14,438 counterfeit CDs and 1,754 movie DVDs were seized. Nine vendors were arrested and charged with felonies.

o **July 7:** Together with the RIAA, the Jacksonville Sheriff's Office conducted a legal search of a Jacksonville flea market. As a result, 32,000 pirate CDs, five CD burners, 10,000 counterfeit DVD movies and \$2,000 in cash were seized. Five vendors were arrested and charged with violating Florida state statutes.

o **June 7:** The RIAA assisted the Los Angeles County Sheriff's Department in executing search warrants at a retail store in Compton and the business owner's Long Beach residence. Deputies seized a total of 25,016 pressed CDs. The owner was arrested on felony charges.

2005 Commercial Piracy Report Chart

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*[The Recording Industry Association of America is the trade group that represents the U.S. recording industry. Its mission is to foster a business and legal climate that supports and promotes our members' creative and financial vitality. Its members are the record companies that comprise the most vibrant national music industry in the world. RIAA® members create, manufacture and/or distribute approximately 90% of all legitimate sound recordings produced and sold in the United States. In support of this mission, the RIAA works to protect intellectual property rights worldwide and the First Amendment rights of artists; conducts consumer, industry and technical research; and monitors and reviews state and federal laws, regulations and policies. The RIAA® also certifies Gold®, Platinum®, Multi-Platinum™, and Diamond sales awards, as well as Los Premios De Oro y Platino™, an award celebrating Latin music sales.]*

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