



July 2007

FTA Piracy in North America

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In the more than three years since April 2004, when Rupert Murdoch shut down the more than two mil. pirates attacking his newly-acquired DirecTV, the DirecTV system has remained "hack free" (which is another way of saying no one has yet found a way to break into the system that secures the DirecTV boxes and signals). Yet, like water that flows into and eventually around a dam, that most-effective 2Q 2004 DirecTV shut down was the bane of rival EchoStar, because it meant pirate resources were consequently shifted from DirecTV to the now more vulnerable *DISH Network*.

Since 2004, there has been a large expansion in the number of pirates that target the Digital Broadcast Video (DVB) set-top box standard that supports EchoStar's *DISH Network* programming. These pirates use the so-called Free-To-Air (FTA) set-top boxes to view, for free, subscription TV services for which the overwhelming majority of normal, legal *DISH Network* subscribers pay monthly.

FTA pirates tapping into the 13 mil. legal subscriber *DISH Network*, as well as into EchoStar's progeny, the 2.3 mil. legal subs Canadian Bell ExpressVU (BEV) system, have now distributed their illegal services and products to an estimated two mil. illegal TV households in the U.S. and Canada. This is at an average hardware unit price of around \$200, accounting for almost \$350 mil. in total cumulative revenues.

The top three distributors of FTA devices for the EchoStar and BEV systems are, in order, Sun Valley, CA-based PanSat; South San Francisco, CA-based CoolSat; and Mississauga, ON, Canada-based Fortec. Among just these top three FTA providers, they have already distributed an estimated 1.385 million units, representing sales of well over \$200 million in estimated cumulative revenues since 2004. The Carmel Group believes that eight FTA manufacturer/distributors – PanSat, CoolSat, Fortec, ViewSat, DreamBox, Ariza, DigiWave, Metabox -- account for three-quarters of the FTA business in North America (See, chart, below). In short, FTA today in North America is big business. Take the *NFL Sunday Ticket* that is carried on BEV in Canada, and the level of hacking is even more disturbing.

NA TOP FTA COMPANY PROJECTIONS			
Company	Installed Shipments	Avg. Retail Price	Unit Sales
1 PanSat	650,000	\$180	\$117,000,000
2 CoolSat	460,000	\$145	\$66,700,000
3 Fortec	325,000	\$155	\$50,375,000
4 ViewSat	205,000	\$175	\$35,875,000
5 DreamBox	100,000	\$300	\$30,000,000
6 Ariza	225,000	\$125	\$28,125,000
7 DigiWave	85,000	\$190	\$16,150,000
8 Metabox	20,000	\$200	\$4,000,000
TOTAL	2,070,000	\$184	\$348,225,000

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So, Just What is FTA?

Sometimes it's quite helpful to compare domestic U.S. practices and infrastructures to those in other parts of the world. Perspective, understanding and point of view are just a few of the resulting benefits. Free-To-Air in Europe today is a thoroughly legitimate infrastructure, supporting an estimated 30 mil. to 40 mil. unscrambled subscribers, who buy their systems for several hundred Euros each, then watch advertising-supported free TV from their homes in Europe. This way, they get scores of channels -- albeit almost all ad-supported -- without having to pay a monthly subscription fee. Indeed, when one travels through continental Europe, the strong majority of the dishes mounted on houses in continental Europe are from the FTA ad-based business model.

In North America, there are a fair number of FTA programming channels, but unlike the general fare in Europe, the North American versions offer mostly free ethnic and religious programs, which are of interest to only very limited audiences. Such limited programming sources are hard to see as justifying the more than two million FTA boxes sold in North America to date.

The way piracy works in North America, consumers turn their FTA receivers into FTA units that steal *DISH Network* content. Also, because *DISH Network* utilizes the universal DVB standard, and DirecTV does not, *DISH* is more vulnerable. Conversely, pirates can't steal high definition signals from *DISH*, yet. Once the FTA manufacturers get their hardware into North America and into the hands of North American consumers, their success depends substantially on the support they provide customers.

"FTA support," in this case, means providing the best scripts (or codes to open the boxes to "free" programming), the best picture quality, the

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fastest response after an operator's Electronic Counter Measure (ECM) has disabled all FTA units, and the best features and functions, including program guides, and doing so at the best price. That is the battle ground among the different FTA competitors.

As it relates to providing the needed code to consumers, a one-time script writer, nicknamed Blacklist, is a good example of its importance to the manufacturers. Blacklist worked for a time with the then-leading FTA manufacturer, Blackbird. As a result, Blackbird retained the Number One spot for FTA sales for the time it was associated with the effective script writer, Blacklist. Blacklist was known to have done a most effective job of releasing pirate scripts for Blackbird's FTA units. Indeed, later, when Blacklist switched to a Blackbird rival, PanSat, the latter's sales shot up and PanSat then became the Number One North American FTA seller. The Carmel Group believes today that the FTA manufacturer, Oceanside, CA-based ViewSat, is one of the top four FTA sellers, in large measure because of its superior customer service and support.

China Connection

As mentioned above and as is true of most of today's FTA set-top boxes, they are made in and shipped to the U.S. from locales in mainland China. South Korea is the other center for FTA set-top box manufacturing. Indeed, there is substantial irony in this situation involving the Chinese. The Chinese government seeks to control content delivered to its citizens and to those abroad, yet, at the same time, the government seems unable to control the set-top boxes produced in their own country, which, in turn, are then used to steal content.

Where is this All Going?

Whichever manufacturer provides the best piracy support, best features and functions at a price below \$200.00 a unit, is going to sell a lot of receivers.

This means companies like *DISH Network* in the U.S. and Bell Express Vu in Canada are losing a lot of subscriber revenues. Moreover, as noted above, the FTA manufacturers and others associated with the multichannel TV piracy business, are delivering a lot of ill-gotten gains.

Note too, that, as indicated Monday, July 23, 2007, in a page B-3 article in *The Wall Street Journal*, author Andy Pasztor indicated EchoStar has filed suit against one of the distributors in the federal court located in the southern district of CA.

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Source of Our Data

The Carmel Group's FTA report and analysis was based on conducting primary and secondary research on the North American market, as well as using our own industry research, projections and market intelligence. The process for the primary research involved surveying executives of leading FTA manufacturers, as well as respected industry experts. Each executive was asked nearly a dozen questions that included how many FTA receivers have been shipped, price points and thoughts about FTA's future growth. Our secondary research process included gathering in-house data and utilizing our in-depth database for industry projections. Between our primary and secondary research, we believe the data gathered on the FTA market is among the most thorough and complete in the industry.

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