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“15-20% of all  
downloads  
results in a  
lost sale.”

## Welcome to *P2P Vision*

by Adam Gervin, Macrovision

**Welcome to the first issue of P2P Vision. Change is constant in this new territory of peer-to-peer (P2P) file sharing. Despite an abundance of anecdotal evidence, it remains difficult to find a single source for both good data and the latest on everything P2P. What are others doing to face the challenges of P2P copyright infringement? Is there a revenue-generating angle to the P2P networks? How are the networks evolving?**

We trust that you will find this monthly publication a useful source of information in your ongoing effort to get ahead and stay ahead in this brave and Byzantine, new networked world.

The P2P space has changed dramatically since the early days of Napster. Today's fourth generation of networks use more complex distribution methods, and early indicators suggest the next wave are designed to better handle large files like videos and games. Consumers are illegally downloading 750 million music tracks each month, subjecting the entertainment software industry to over \$3 billion in non-professional piracy losses in 2004 alone. Protecting content using an integrated strategy of anti-piracy solutions and services, legal intervention, policy and marketing is no longer a novelty, but a pressing necessity.

Many of these anti-piracy efforts have been underway for some time, and we are starting to see success on the legal and technical fronts. The RIAA strategy over the past few years has had a dramatic effect in lowering the total number of P2P users from the record highs of the 2002 timeframe. The MPAA and their international equivalents have begun to directly target the server operators of some of the largest P2P networks. Over the past couple of months, large BitTorrent sites such as SuprNova, Loki Torrent, and BitTornado have been shut down as the result of legal actions, or their suggested threat. The MPAA, working with Macrovision, was successful in closing the doors of 321 Studios, distributors of one of the most popular DeCSS rippers. Unfortunately, DVDXCOPY and tools like it remain freely available on the P2P networks, highlighting the need for coordinated legal and technical approaches.

Over the upcoming months, we will take a deeper look at some of these trends. Your comments, suggestions and inquiries are vital to our success, so please send your comments and suggestions to [p2pvision@macrovision.com](mailto:p2pvision@macrovision.com). Feel free to let others know they may subscribe to P2P Vision at [www.macrovision.com/p2pvision](http://www.macrovision.com/p2pvision).

Welcome to P2P Vision – we look forward to exploring this burgeoning new market with you!



**See what attendees at the 2005 South by Southwest Music Festival have to say about P2P file sharing.**

## Is Overnet the New eDonkey?

Over the past year, the phenomenal rise of the eDonkey network has caused much concern in the entertainment industry. What started as a largely European focused network, quickly spread to the U.S. and beyond, to become one of the most-used peer-to-peer networks. Today, the amount of press that eDonkey receives indicates not only its tremendous popularity, but the amount of concern the industry has for it.

But, is eDonkey really as popular as it once was? Overnet, the next generation of the eDonkey network and developed by the same company responsible for creating eDonkey, appears to be on the rise and to be poised to steal away most of the traditional eDonkey users. Why is this? It's not by accident. The creators of both the Overnet and eDonkey networks, MetaMachine, saw the success that the MPAA and others have had against BitTorrent indexing server operators such as SuprNova, LokiTorrent and BitTornado and decided that they needed to transform the way that they did business.

The original eDonkey network operated in a fairly centralized manner, meaning that each server could handle thousands of clients and then communicate with other servers to find content on the clients to which they were connected. Each server performed indexing and searching functions to find content hosted by all clients globally, across the eDonkey network. eDonkey server operators had to download, install and run specific server software – separate from the client software. MetaMachine, operating many of these servers on their own, appears to have realized the liability issues involved when running servers that are, frankly, primarily used for finding and downloading copyrighted content. In response, they developed Overnet, a self-organizing, decentralized version of eDonkey. In order to leverage the name recognition, and the immense user base of eDonkey, MetaMachine first made all of the eDonkey clients compatible with both networks. Slowly, MetaMachine has shifted their clients over to Overnet and no longer maintains the code for the eDonkey servers. To make matters even more confusing, they have also gradually phased out the use of the name "Overnet" and now call the new network "eDonkey Network." It is no longer obvious to new users, especially unsophisticated P2P users, that they are

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longer connected to new users, especially unsophisticated P2P users, that they are no longer connected to the traditional eDonkey network.

The dual eDonkey network phenomenon can double the eDonkey antipiracy efforts of the entertainment industry. Having a solution for fighting piracy on the traditional eDonkey network does not mean you have a solution for doing the same on the new eDonkey Network, or Overnet. In fact, because they are quite different, it's important to be certain that you are covered on both. Luckily, there are solutions available so check with your antipiracy vendor to verify your coverage.

## Update: Ares Evolves

Changes are underway with the Ares network, and it's not good news for content owners who thought they were covered on it. Almost as soon as some antipiracy vendors began protecting on the Ares network, the developers of the Ares client decided to shake things up and create a newer, bigger and closed network. Content owners need to reassess and make sure that they are covered on this new network – the old one is already largely irrelevant. Considering that the Ares client is the fifth most used client worldwide, and the fourth most used in the critical "newbie" category, it's worth making sure that they are protected by checking with their antipiracy vendor.

Here's a little background on Ares and what has happened over the past month. Originally designed as a Gnutella client, Ares has had several iterations in its evolution. What eventually became the Ares network is very similar in structure to FastTrack - meaning that it utilizes a hierarchical, decentralized structure. There have been three "official" clients for the Ares network: Ares, Warez, and Filecroc. In its earlier version, the Ares client had an open source plug-in, called gift-Ares. The plug-in allowed all third-party software vendors to write their own Ares client that could interoperate with all of "official" clients. This plug-in was also used by antipiracy vendors to create a copyright protection solution for the network. But, herein lies the problem. In its latest incarnation, released in March, 2005, the new Ares client has removed the plug-in, essentially changed the "language" that it speaks (by encrypting it) and made any plug-in or other client incompatible with it.

All of this does not mean that the old Ares client, and thus network, is obsolete. In fact, it still exists alongside the new Ares network. The old network continues to use the three clients that it has always used. The problem is that the new client is what everyone is using. Any upgrades that an existing user makes to their Ares client will automatically be using the new network. Any new user to the Ares network will use the Ares clients. Filecroc and Warez clients are not compatible with the new Ares client. So, even though the old network is still around, the new Ares is already far bigger. Users have already figured out that the good content is on the new Ares network.

So, if you are a content owner who thought you had yourself covered on the Ares network, it's worth checking again. The mass exodus from the old client to the new has made paying for protection on the "old" network unnecessary.

## P2P Users Up Says Pew Report

The Pew Internet and American Life Project released a new report on March 23, 2005 that discussed the trends in music and video downloading. Data collected from surveys conducted earlier this year showed that while legal downloading had the most dramatic change year over year, the number of P2P users continues to rise proportionally with the number of internet users worldwide.

Other interesting data from the report:

- The report mentions that people may be less likely to admit to using P2P services now due to the "stigma" associated with them
- 20% of internet users share music and video files via email after they have digital files of them
- The percentage of P2P users remained stable at 17% - but the total number of internet users continues to rise

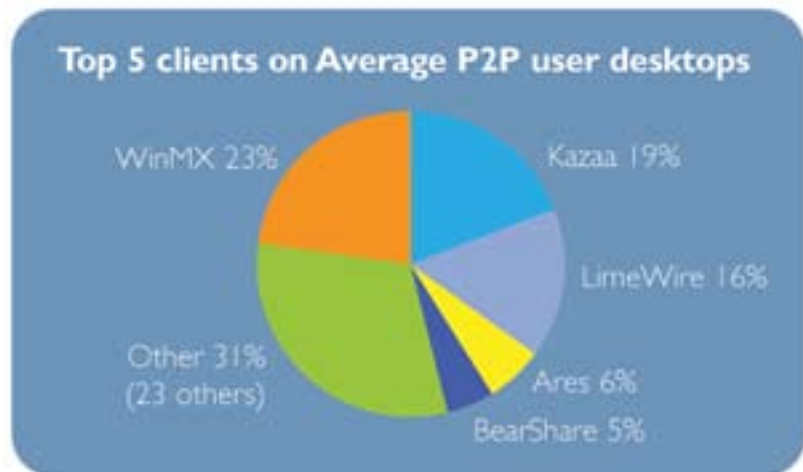


- The survey did not discuss how many downloads are occurring via the various means. So far, iTunes has reported 300 million downloads – the equivalent of a couple of weeks of downloading on P2P networks

## THE P2P BUZZ

### WinMX Sneaks Up On Us

With all of the fuss and focus on everyday clients such as Kazaa, Bearshare, Limewire others, we were shocked when data voluntarily collected in February 2005 from over 200,000 computers worldwide showed that WinMX was the #1 P2P client on the desktops of average, or “newbie” PC users. Average P2P users are at the bottom of the Piracy Pyramid, meaning that they are the “mass market” users representing a large proportion of the P2P world. Also, the “newbie” category is typically the most convertible into paying customers, and thus are where anti-piracy efforts can have the greatest revenue impact.



What we found so interesting about this wasn't necessarily that WinMX is in the #1 spot, or even that it gets relatively little press coverage. But that this news was such a surprise to so many. We hear daily about BitTorrent and eDonkey, when in reality, WinMX has more users than both of these networks combined. It's a telling sign that this business is lacking the constant data and information that so many other industries depend upon for their success.

This is our first edition of P2P Vision and one of our goals is to provide good, reliable, and regularly updated data to copyright owners. Along the way, we hope to share some information about what's happening in the world of P2P, changes that you should be aware of, and maybe even give some insight into where we think this whole thing is going.

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