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EXHIBITION TAKES A STAND ON VOD WINDOWS

Even though current data and discussions suggest a relatively stable theatrical-to-DVD window, we remain concerned about a longer-term possibility on a different release platform. As described previously [May issue] a few cable company and studio executives have indicated their desire to experiment with high-priced home video on demand, or movie-streaming or download, in a much shorter window. We have discussed this issue over the past few months with many, many domestic and international exhibitors and have been pleased to learn each company has a strong individual resolve to protect the theatrical window. At the same time, the statements from some cable and studio leaders have recently become more alarming.

As reported in the Wall Street Journal in May, Time Warner cable company executives proposed to studio leaders the creation of a 30-day premium VOD window. Warner Bros. CEO Barry Meyer subsequently indicated that he would be "open to such an offering, but added that 30 days is likely too short of a time lag." Lionsgate CEO Jon Feltheimer stated in early June that, "We think windows right now are really about to explode, and, for content owners and distributors, have really significant improving margin possibilities." Jeffrey Katzenberg added that "theater owners have to get comfortable with the fact that they are not serving

their business well with their approach to windowing."

Given the intensity and growing number of these dangerous statements, NATO's leadership decided that a public statement was necessary. Joined by a supportive statement from our European colleagues at the International Union of Cinemas (UNIC), NATO issued a public statement on June 16. NATO's and UNIC's statements follow.

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NATO'S POSITION ON THE PREMIUM VIDEO ON DEMAND WINDOW

With the FCC's approval of the use of Selectable Output Control (SOC) technology, there has been a lot of discussion and speculation in the media regarding the overall issue of release windows and, in particular, the prospect of the introduction of a premium Video on Demand (VOD) window into the marketplace. From the first introduction of ancillary revenue streams, release windows have played a vital role in the studios' development of economic models related to the production, marketing, distribution and exhibition of movies. Although film making is at its core a creative process, it is also a business model that requires financial risk-taking and discipline to support and reward the creative talent upon which business success depends.

While we understand the decision of the FCC to allow content protection of valuable movies in a marketplace rife with piracy, NATO and its members have long maintained that a robust theatrical release window is vital for the health of theatrical exhibition and the movie industry as a whole. The FCC decision changes neither that view nor exhibitors' resolve to protect the window. The "traditional release window" of 120 days to the home the MPAA acknowledged in its FCC petition continues to serve the industry well. The distribution side of the industry recognizes its value as well. Indeed, in the last six years, the average theatrical release window has not varied more than nine days (between 131 days and 140 days).

While exhibitors understand the new pressures that a weakened DVD market creates for their studio partners, four decades of box office growth and three straight years of record-breaking theatrical box office argue for caution in tampering with a business model that clearly works.

Sequential release (higher value release formats come earlier in the sequence and command a premium) is well understood by the consumer and works for the industry. Collapsing windows muddies the value proposition for the consumer, blurs distinctions between theatrical and "straight-to-video" and undercuts one of the important selling points for theatrical exhibition—the timeliness of the exclusive event.

Every ticket sold in the theatrical window can be effectively priced, something that cannot be said for the ancillary windows—even a "premium" early VOD window.

How many viewers per household will watch each premium-priced offering? Three? Five? More? At what price point? The studios have been unable to resist the