



*Comments by John Fithian  
President & CEO  
National Association of Theatre Owners*

**ShoWest Opening Ceremonies  
Las Vegas, Nevada  
March 14, 2006**

Thank you, Dan Glickman, for being with us today. In words and deeds you continue to demonstrate your commitment to the cinema industry, and your respect for the partnership our two associations share. I am also grateful for so many other partners with us here today, particularly the leaders of two important sister organizations: Larry Etter of the National Association of Concessionaires; and Dwight Lindsey of the International Theatre Equipment Association. I also want to thank the sponsors of last night's Independent Showcase by acknowledging Robert Mayson of Kodak Digital Cinema and Jack Brady of the Newspaper Association of America.

I also need to express my deep appreciation for the NATO members and our two top volunteer leaders—Chairman Phil Harris of Signature Theatres and Vice Chairman Lee Roy Mitchell of Cinemark.

ShoWest 2006 comes at an important juncture in our industry's history. Over the past year since we last gathered here in Las Vegas, significant and energetic discussions have taken place across a spectrum of fundamental issues. I view the debates as healthy and necessary, and I emerge from the year excited about our business and confident in our future.

After a final year of hard work on specifications, equipment development, and business modeling, we stand now at the dawn of the biggest technological revolution since the advent of sound. Digital cinema starts right now, in the year 2006, and it couldn't come at a more important time.

Digital cinema will enhance the movie-going experience by providing our patrons with consistent, high-quality images that won't degrade over time. Digital cinema will also give exhibitors greater programming flexibility to meet diverse consumer demand. Equally important, digital cinema will ensure that the theatrical experience cannot be replicated in the home.

In November 2004, NATO's board of directors adopted a unanimous resolution describing our fundamental objectives. Now that nearly all of those objectives have been achieved, or are on the road to fruition, the revolution is beginning.

In the resolution, NATO members called for uniform technical standards to promote interoperability and compatibility, and to foster competition. NATO worked with our partners at the studios to support the efforts of their Digital Cinema Initiatives, and we are pleased with the final specifications that DCI released in 2005. Two weeks ago, NATO's Technology Committee released some supplementary requirements that complement DCI's work. Those requirements are available on our web site. NATO will also continue to participate in the essential work of the Society of Motion Picture and Television Engineers as that body adopts formal standards.

The resolution also declared exhibitors' interest in high-quality equipment to enhance the theatrical experience. With the projector and server technology currently on the market, we believe that digital cinema quality exceeds that of film and anything

available in home entertainment systems. I encourage all our members to spend some time this week on the trade floor, in the demonstration suites, and at the screenings examining the latest technologies.

Regarding the business models, the NATO resolution called for a financing plan where the studios pay for the costs of the transition. Today, various third party integrators have proposed financing and installation plans to North American exhibitors that are backed by agreements with the studios. Under these plans, the third parties raise the capital to buy and install equipment in cinemas. Over time, the studios will then pay “virtual print fees” to the third parties for the use of the equipment. Several exhibitors have already announced that they have reached agreements with the various third parties under these models.

The resolution also urged that financing plans be open to participation by all exhibitors regardless of size or geographic location. All of the third parties currently offering plans have stated their commitment to this principle. I am concerned, nonetheless, that smaller exhibition companies should seek mechanisms to aggregate their power to obtain economies of scale for use in negotiating digital cinema equipment and service deals. One such mechanism is the Cinema Buying Group LLC , currently operating under the leadership of managing director J. Wayne Anderson.

Regarding a roll-out sequence, the NATO resolution embraced the need for testing of complete digital cinema systems, based on specifications and standards, in a beta market for a reasonable time. Today, at least two of the third-party financing and installation organizations have announced plans for beta markets with exhibitor partners. We strongly support this essential beta testing to ensure that equipment systems do not fail and that the specifications and standards can be met.

NATO will continue to advocate the goals of the resolution as the transition goes forward. To a significant degree, though, the work of the U.S. exhibition industry through its association is coming to a successful end. It is now incumbent on our individual members to negotiate their particular plans for digital cinema, as they deem appropriate.

The past year has also produced a spirited debate on the issue of release windows. Aware of the potential irony of this statement, I am grateful for Mark Cuban, Steven Soderbergh, and the few other individuals who promoted simultaneous release of movies in cinemas, on DVDs, and directly to the home all at the same time. These radical, though misguided, experiments have served a very salutary purpose.

By teeing up the debate, and generating tremendous media attention to the issue, proponents of simultaneous release have encouraged important discussions between exhibitors and studios. Though the dialogue continues, I am very pleased to report that the overwhelming majority of studio and cinema leaders agree that the tiered release of movies, first to cinemas and later to ancillary markets, maximizes returns for everyone. Thoughtful industry leaders like Howard Stringer of Sony, Sumner Redstone of Viacom,

Ron Meyer of Universal, and Jim Gianopulos of Fox have all articulated publicly their support for the theatrical release window because they know the tiered release model best serves their companies and their consumers.

The creative community has also begun to voice their understanding of the role the cinema release window plays in the experience of their art form. Leading talent like M. Night Shyamalan, Jonathan Demme and Tim Burton have described why theatrical release windows are important to them and their work.

The NATO staff has collected the many comments supporting the theatrical window, and those statements will be available in the press room throughout the week. The comments suggest four reasons why the theatrical window is here to stay.

First, the window enables the viability of the cinema industry. As Sumner Redstone emphatically stated, “any exhibitor playing pictures under [simultaneous release] circumstances would be committing suicide.”

Second, the theatrical window drives the economics of the movie industry as a whole. As Ron Meyer explains, “The window of time between theatrical-release dates and DVD-release dates has a purpose in delivering financial results to us and different experiences to the audience. There’s a place for each of those windows.”

Third, the theatrical window preserves the artistic medium. That’s why Tim Burton calls the idea of simultaneous release “absurd.” Burton believes that “everything should be done to treat the [cinema business] as an art form—it’s a visceral medium.”

Finally, and perhaps most importantly, the theatrical window gives consumers choices. Our patrons know that some movies are made for the cinema first, while other pictures are made for television or the straight-to-DVD market. Consumers have different expectations for each category. In a world of simultaneous release, entertainment product would be homogenized and consumer choice reduced. Howard Stringer put it best when he stated that “if you collapse a window or go day and date . . . you’re doing movie of the week. And the sizzle . . . of the movie industry will be gone. You have to guard the value of the content.”

We are pleased with the response, and confident that the theatrical release window is here to stay. Thankfully, our studio partners appear similarly confident. In fact, the average video release window dropped by only four days from 2004 to 2005—from four months and 20 days to four months and 16 days. We’d naturally prefer to see it go the other direction—but in a year with often raucous debate about simultaneous release, it’s comforting to see the window remain relatively stable.

The past year has also produced inordinate media attention and industry consternation on the issue of box office results and the decline of 2005. Box office receipts did decline by 5.8% in 2005 over 2004. But in what other industry would a decline of that size garner so much attention and doomsday predictions? In the short

term, our business is cyclical. In the long term, however, we are growing. Movie theatres have sold more tickets on an average annual basis this decade than they did in the 1970s, 80s or 90s. Indeed, every decade has seen growth. In the 1970's we sold 985 million tickets a year. In the 1980's, that number grew to 1.1 billion. In the 1990's, we averaged 1.3 billion. And in the first six years of this decade, we have sold an average of 1.5 billion tickets. Steady growth over the years, despite the short term cycles.

Exhibitors know that good movies drive good box office receipts. No other factor looms as large. Variations in movie supply drive short term cycles. But our members also know that we must strive to improve the movie-going experience on a continual basis. That's what digital cinema is all about. That's why we are attacking rude patron behavior with public service messages and increased patron monitoring by theatre ushers. That's why we're working with screen advertising companies to make the pre-show as entertaining as possible. These and many other innovations in the movie-going experience will be discussed further in panel discussion on Wednesday morning, when four top cinema company CEOs will join a renowned cinema studies professor in an important dialogue about enhancing the magic of the movie-going experience.

As a final comment, I want to salute the Academy of Motion Pictures Arts and Sciences. The 78<sup>th</sup> Annual Academy Awards last week proved to be, again, an entertaining and inspiring portrayal of the magic of movies. In fact, I can claim some special solidarity with the Academy this year—as I have watched some in the pundit class declare the imminent death of the Oscars, the obsolescence of this great institution, and the surrender of its grandeur to largely unspecified, but nevertheless somehow “inevitable,” revolutions in public consumption habits. Yes, sounds familiar, doesn't it? We in the movie theatre business read our obituaries in 2005 with equal amusement. As with Mark Twain's famous cable from London, as with movie theatres, and so with the Academy, the reports of our death have been greatly exaggerated.

I want to issue a special thanks to Academy president, Sid Ganis, for devoting a few moments of his very scarce and precious time at the Oscars podium to a celebration of movie theatres, and the vital—and unique—role that movie theatres play in enhancing and perpetuating the value of movies. He could have spent that time delivering any number of messages. His decision to tell an international audience that movie theatres are indispensable to our collective industry certainly earns President Ganis our deep gratitude.

My father, who was a history professor and a politician, once told me this. When someone else makes your point for you, and states it better than you ever could, quote them, sit down, and shut up. I conclude my remarks today with those words from Academy President Sid Ganis, who said, “I bet you that none of the artists nominated tonight have ever finished a shot in a movie, stood back and said ‘that's going to look great on DVD.’ Because there is nothing like the experience of watching a movie in a darkened theatre, looking at images on an eye enveloping screen, sound coming at you from all directions, and sharing the experience with total strangers who have been brought together by the story they are seeing.” Thank you.