



*Comments by John Fithian
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One year ago many in the press had all but written the cinema industry's epitaph. After a year of declining box office and admissions numbers in 2005, Patrick Goldstein of the Los Angeles Times wrote that "the era of movie going as a mass audience ritual is slowly but inexorably drawing to a close." Some studio executives criticized uninviting cinema operations. Some theatre operators blamed bad movies.

Now, one year later, we are all back on the same page. The industry is growing again. And the pundits have a different script. Last week the headline in the LA Times declared that "theaters still top the list for film viewers. Attendance rises in 2006."

We are indeed pleased with the 2006 numbers. U.S. box office rose 5.5%, while global box office reached an all-time high. U.S. theatre admissions grew 3.3%, and per capita movie-going increased. Ticket prices remained affordable with a 2.2% increase. Indeed, for the third year in a row, movie ticket prices rose at a slower rate than inflation.

As we look at 2007, and the wonderful slate of movies coming to our theatres, we are optimistic that recent growth will continue. I have consistently maintained that short-term cycles in the movie business go up and down—but the long term pattern is growth. And in 2006, we grew.

It became fashionable during the downturn of 2005 to pit emerging technologies against the great American tradition of going to the movies, to see new technologies as some seismic shift in consumer preferences—and therefore to depict movie theatre operators as frightened by and hostile to new technologies. Nothing could be further from the truth. In fact, in so many ways, the exhibition industry is exciting and dynamic today precisely because of new technologies—and not only because we're now embarking on the most technologically significant and sophisticated revolution in exhibition history with the advent of digital cinema. Our appreciation extends even to home technologies. A recent survey by Nielsen Entertainment confirms that consumers with many home technologies are actually *more avid moviegoers* than those with fewer home technologies.

We're not surprised. The reason people go to movies is because they love movies. The many people who *really* love movies naturally want to see them in different ways. And fortunately for those of us in the cinema industry, nearly two-thirds of consumers believe that the movie theatre—not the home—provides the ultimate movie-watching experience. And 80% of moviegoers believe that their overall theatre experience is time and money well spent.

As long as we stay focused together on making good movies and providing a good venue for watching those movies on the big screen, we'll continue to prosper.

This dynamic partnership between moviemakers and exhibitors is a textured and fascinating story. Today I want to emphasize the theme of continued growth through partnership, and I hope to describe how we can expand growth by tackling our two biggest challenges together. I believe that the two biggest threats to the movie business are shrinking theatrical release windows and movie theft (or "piracy"). For NATO and our members, preservation of the theatrical release window is our most passionate goal. The MPAA and its members care most

about the war on movie theft. Working together constructively, as partners, we can, and we are, addressing both concerns.

During the difficult months of 2005, a few industry executives flirted with the concept of releasing movies to cinemas and the home at the same time, or substantially collapsing the theatrical release window. Since that time, no major studio has even experimented with simultaneous release, and the theatrical release window has generally remained above four months.

Specifically, last year the average window for the biggest titles, that grossed more than \$100 million, grew from 4 months and 12 days in 2005 to 4 months and 23 days in 2006. The average window for all movies grossing more than \$50 million stayed relatively stable, going from 4 months and 12 days in 2005 to 4 months and 9 days in 2006. The window for the smallest titles shrank, however, so that the overall average for all movies went from 4 months and 18 days in 2005 to 4 months and 8 days in 2006. Window averages for major companies like Sony and Universal grew a bit, reversing the trend of the previous year for those companies, while some smaller studios had shrinking averages, often associated with smaller grossing titles. Industry average windows, however, remain over 4 months.

Interestingly, short windows are increasingly associated with movies that do not perform well. For titles that perform well, it's obviously a win-win to maintain a robust theatrical window. But even for titles that are not performing as well, I ask that our studio partners resist the impulse to reinforce that potentially embarrassing association between short windows and bad movies.

Despite some limited initial rhetoric to the contrary, the public statements and business decisions of our studio partners over the past two years confirm their belief in the importance of the theatrical release window for the economic growth of the entire business. Indeed, an international consensus is emerging among studios and theatre companies regarding the optimal length of the window.

Just as our studio partners understand and support exhibitors on our most significant issue, we support the studios on their primary concern. Working directly with the MPAA, NATO and our members have undertaken a variety of initiatives to combat movie theft. We have worked to support federal and state legislative initiatives to strengthen criminal apprehension and prosecution of camcorder thieves. NATO administers a camcorder reward program, funded by the studios, that offers financial incentives to theatre employees to detect, intercept and apprehend camcorder thieves. We strive to educate our employees with training pamphlets, web sites and tutorials. With the assistance of the MPAA, we provide company-specific information to our members about instances of camcorder theft in their theatres, based upon sophisticated watermarking tracking technologies. And later this week studio and theatre company representatives will convene the first meeting of our new joint task force to improve coordination and tactics.

Simply put, we ask our studio partners to continue their support of the theatrical release window as we continue our efforts in the fight against movie theft. Coupling these two vital alliances

ensures a robustly healthy and growing movie industry and a steady stream of America's favorite entertainment product—for enjoyment sequentially and legally.

Our vitality as an industry also depends upon our sustained commitment to the integrity and enforcement of the movie rating system. Created by the leadership of Jack Valenti in partnership with top exhibition executives at that time, the movie rating system was born in 1968. For nearly forty years, the rating system has enabled parents to make appropriate decisions regarding the entertainment choices of their children. This successful voluntary system has also served as our shield against heavy-handed government intrusion and censorship.

Our exhibitor members are committed to ratings education and enforcement at the 6,000 theatre complexes across these United States. For our enforcement to work even better, however, we ask that all movies be rated. The members of the MPAA have long committed to release only rated movies to our theatres, and they deserve our gratitude for that commitment. But some non-MPAA-members continue to ignore the rating system. No real benefit can be gained by releasing unrated pictures, however, as theatre operators generally treat unrated pictures as they would movies rated NC-17, by not allowing anyone under 18 to view those pictures.

Speaking of the NC-17 rating, we call again for efforts to revitalize that important category through the release of significant movies under the NC-17 rating. Contrary to often-repeated myths, most theatre companies will play NC-17 movies that are appropriate for their markets, and most newspapers will run advertisements for the pictures. NC-17 movies on average make \$3.9 million, while unrated films on average make \$1.8 million. Serious filmmakers need to take NC-17 seriously. Everyone in the industry should resist any temptation to treat NC-17 as a negative judgment, rather than an integral part of the rating system that contemplates entertainment for both children and adults.

In addition, we call for our studio partners to abandon the practice of releasing unrated DVDs of the same movies that played in our theatres with a rating. We know that unrated DVDs—unlike unrated movies in our theatres—can do brisk sales. But it is frankly galling to see marketing campaigns designed around the very fact that a movie is “unrated and uncensored.” That cheap shot at the rating system undermines everything we strive to accomplish in partnership with America's parents. The integrity of the system, and the respect it thereby earns from parents and government officials alike, depends on demonstrating, first and foremost, our own respect for the system. Ideally, all movies in every venue would be rated. At an absolute minimum, no movie should ever be marketed on the basis that it flouts the rating system.

As good as the rating system is, it can always be improved. NATO and the MPAA have been working for nearly two years to improve the rating process by making it more transparent, understandable and useful. Dan Glickman and I approved the final changes just a few days ago, and the details will be announced tomorrow morning in an important panel discussion.

As I noted earlier, our love affair with technology is perhaps most dramatically manifest in the remarkable transition to digital cinema—yet another instance of highly constructive partnership between moviemakers and exhibitors. I have spoken often before about the significance of the digital cinema transition, and need not dwell too long on that topic today, other than to provide a

few highlights of the transition. We have had significant early adopter growth with more than 2,300 digital cinema auditoriums installed in the U.S. today. Beta markets are underway, and the roll-out will accelerate considerably in 2008.

Digital cinema provides important benefits to our industry and our patrons, through higher and more consistent image quality, flexibility in programming, and reduced distribution costs for our studio partners. Digital cinema also enables 3D projection at quality levels never before experienced. We have nearly 700 3D-equipped auditoriums today. And 2009 looms as a bellwether year for the transition and for 3D, as several major filmmakers are developing 3D movies for release that year.

We can use other technologies to grow the business. Tomorrow Regal Cinemas and NATO will host an important educational seminar to describe some new technologies to provide captioning for our deaf and hard of hearing patrons. I encourage you all to attend both the ratings presentation and the captioning seminar.

Our theme of growth through partnership depends on many partners. I have discussed the strong partnership with the MPAA and the studios already. NATO and ShoWest are also strengthened through our partnerships with two other sister organizations – the National Association of Concessionaires and the International Cinema Technology Association.

NAC offers educational programming and will again present forums at this year's convention, including an important program during ShoWest University on the issue of trans-fat. NAC maintains an online training center. The association also conducts food safety certification programs across North America, and offers NATO members a discounted rate. More information can be found at the NAC booth on the trade floor. On behalf of ShoWest and NATO, I extend our gratitude to NAC President Larry Etter, who is with us here today. And I am proud that Larry, in his capacity with Malco Theatres, is also a NATO member.

As of this past August, the ICTA has a new President in Barry Ferrell, who I also want to recognize today. Like Larry, Barry has exhibition in his blood. For his very first job he served as a theatre usher, and now works with QSC Audio Products. ICTA is the new name of the former International Theatre Equipment Association, or ITEA. The new name better represents the focus of the organization as a leading provider of technical training for the cinema industry. Each year the ICTA holds three technical seminars in Los Angeles, Amsterdam and Asia. Digital cinema is always a significant focus of these events. ICTA and NAC serve as co-sponsors of the ShoWest trade show.

Thanks to both Larry and Barry, and their organizations, for the partnership you provide to NATO and our members.

Our business has returned to growth. Our partnerships remain strong. Together we look forward to a great year in 2007. Thank you.