

## NATO RESPONSE TO EARLY PREMIUM VOD ANNOUNCEMENT

On March 30, it was reported that Warner Bros., Fox, Sony and Universal planned to release certain of their films to the home 60 days after their theatrical release in “premium” Video on Demand at a price point of \$30. On behalf of its members, the National Association of Theater Owners (NATO) expresses our surprise and strong disappointment.

Theater operators were not consulted or informed of the substance, details or timing of this announcement. It’s particularly disappointing to confront this issue today, while we are celebrating our industry partnerships at our annual convention – CinemaCon – in Las Vegas.

NATO has repeatedly, publicly and privately, raised concerns and questions about the wisdom of shortening the theatrical release window to address the studios’ difficulties in the home market. We have pointed out the strength of theatrical exhibition—revenues have grown in four of the last five years—and that early-to-the-home VoD will import the problems of the home entertainment market into the theatrical market without fixing those problems.

The studios have not managed to maintain a price point in the home market and we expect that they will be unable to do so with early VoD. They risk accelerating the already intense need to maximize revenues on every screen opening weekend and driving out films that need time to develop—like many of the recent Academy Award-nominated pictures. They risk exacerbating the scourge of movie theft by delivering a pristine, high definition, digital copy to pirates months earlier than they had previously been available. Paramount has explicitly cited piracy as a reason they will not pursue early VoD. Further, they risk damaging theatrical revenues without actually delivering what the home consumer seems to want, which is flexibility, portability and a low price.

These plans fundamentally alter the economic relationship between exhibitors, filmmakers and producers, and the studios taking part in this misguided venture. We would expect cinema owners to respond to such a fundamental change and to reevaluate all aspects of their relationships with these four studios.

As NATO’s Executive Board noted in their open letter of June 16, 2010, the length of a movie’s release window is an important economic consideration for theater owners in whether, how widely and under what terms they book a film.

Additionally, cinema owners devote millions of hours of screen time each year to trailers promoting the movies that will play on their screens. With those trailers now arguably promoting movies that will appear shortly in the home market to the detriment of theater admissions, we can expect theater owners to calculate just how much that valuable screen time is worth to their bottom lines and to the studios that have collapsed the release window. The same consideration will no doubt be given to the acres of wall and floor space devoted to posters and standees.

In the end, the entire motion picture community will have a say in how the industry moves forward. These studios have made their decision in what they no doubt perceive to be their best interests. Theater owners will do the same.

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