



*Comments by John Fithian
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Thank you, Dan Glickman, for your partnership and leadership. We appreciate the support of you and your team at our convention and throughout the year. I offer special recognition as well to our friends in the concessions and equipment businesses, represented here today by Maria Angles, the President of the National Association of Concessionaires, and Barry Ferrell, the President of the International Cinema Technology Association. I also pay tribute to two NATO volunteers who lead and inspire our membership with distinction – NATO Chairman Lee Roy Mitchell of Cinemark, who could not be with us today, and NATO Vice Chairman Peter Brown of AMC, who will be here all week.

And finally, a statement of gratitude to our convention organizers—please take it from me, as someone who watches these gentlemen work throughout the year and who knows the enormity of this task—Bob Sunshine and Mitch Neuhauser and their team deserve an energetic round of applause for putting this all together with such professionalism.

Welcome to all of our delegates, and thanks for being here this morning. I am very pleased with the recent performance of our industry and I am excited about our future. The reel of last year’s biggest pictures wonderfully reflects what a good year we had. And Jeffrey and Rob have given us a glimpse of our future strength with that powerful 3D sneak of *Monsters vs. Aliens*.

After a down year in 2005, our industry has now experienced two strong years back to back. 2007 produced a record year at the box office, as receipts climbed 5.4% to \$9.6 billion, accompanied by a slight growth in admissions. Perhaps more important than the record over the past two years is the fact that our return to growth in 2006 and 2007 constitutes part of a much longer-term trend line. Over the course of the past four decades, theater operators in each decade have sold substantially more tickets than in the previous decade.

Our critics consistently predict the demise of the cinema—dead, they insist, at the hands of ever larger, cheaper, better home entertainment systems. And these morbid prophecies, like the doomsday sandwich boards in comic strips forever predicting “The End Is Near,” just keep being wrong.

In 1975, the year the video cassette recorder was introduced in the home, movie theater box office was \$2.1 billion; in 2007: \$9.63 billion — not dead yet. In 1997, the year when the DVD was introduced, movie theater box office was \$6.2 billion — still not dead. The year 2007—a record year at the movie box office—saw DVD sales decline by more than three percent. I’ll not play the game in reverse and use numbers to predict the death of the DVD—but it should be clear to everyone by now that no home technology will ever put a serious dent in the human impulse to get out of the house and view our civilization’s stories on the big screen.

The cinema business has consistently grown throughout the decades, despite the successive surges of video cassettes, DVDs, video on demand, downloading to home computers, and video iPods.

Exhibitors enable continuing growth in part by maintaining affordable ticket prices. Since 1977, movie ticket prices have increased, on average, less than the rate of inflation. The average ticket price in 1977 was \$2.23. That same ticket in 2007 dollars would cost \$7.63. The actual average ticket price for 2007 was \$6.88.

Movie ticket prices during 2007 did increase by 5%. We must keep in mind, however, that the general rate of inflation in 2007 was 4.1%. And, importantly, our members offered a greater number of luxury cinema and 3D options in 2007, and those ticket sales came at a premium price.

Compared to other options for entertainment outside the home, movie tickets continue to be the best bargain in town. For the typical two hours of entertainment, going to the movies costs less than professional sports, live theater, music concerts, bowling, and laser tag.

Looking to the future I am confident that our industry's growth will continue. We are off to a good start so far in 2008, as box office is up over the same period in 2007. Some have worried that an economic downturn might damage cinema-going in the near term. Leading newspapers such as the New York Times and USA Today have specifically highlighted anecdotal stories of consumers who say they are going to the movies less because times are hard.

Once again, these anecdotes are belied by history. In the past four decades there have been seven recession years in this country, and box office climbed strongly in five of those years. Consumers cut back on expensive purchases during recessions, but also typically shift what discretionary spending money they have left to affordable activities, such as going to the movies.

Significant progress on two of NATO's top priorities – digital cinema and the theatrical release window -- also gives me confidence about our future.

We have seen expected growth of digital cinema by the early adopters in our industry. In the U.S. we had 192 d-cinema screens at the end of 2005, and we have over 4,600 today. This revolutionary transition provides our industry with important benefits. Our partners in distribution will reap huge cost savings on prints, and exhibitors will benefit from alternative product offerings during our slow times. Perhaps the greatest surprise benefit of digital cinema has been the enabling of 3D exhibition at quality levels never before experienced. Several 3D titles in 2006 and 2007, and now Hannah Montana in early 2008, prove that 3D has a very real commercial future for exhibitors and distributors.

Looking to future growth of the technology, I believe that the pace of digital cinema installations will increase even more toward the end of this year. At least two significant deals, from Digital Cinema Implementation Partners and the Cinema Buying Group, will likely be achieved this year, and those organizations represent over 22,000 screens between them.

It is a testament to the strength of our industry and the passion of our members that the Cinema Buying Group—the vehicle that will do the most to ensure a thriving community of independent exhibitors in the digital age—is currently headed by a man with enough achievements in this industry for two lifetimes, J. Wayne Anderson, who is volunteering his time to see this historic and critical project through to completion. We honored Wayne and his wife MaryAnn for their stellar achievements at ShoWest last year, and I just want to take this opportunity again to thank Wayne Anderson for his vision and commitment to the Cinema Buying Group and the welfare of many hundreds of independent cinemas in North America.

I am encouraged by the willingness of our studio partners to negotiate virtual print fee deals to support BOTH of these groups, who represent primarily the biggest exhibitors in the case of DCIP, and the regional and independent operators in the case of the CBG. All forward-thinking exhibitors, big and small, must be able to participate in this historic transition. Our patrons and the laws of competition require nothing less.

Just as studios and cinema companies have worked together successfully to ensure a fair and promising transition to a new digital world, we also witnessed significant progress and understanding during 2007 on another of NATO's key priorities – preservation of the theatrical release window. NATO and our members have long maintained that a robust theatrical release window produces optimal results for the entire movie industry and for our patrons. Data for movies released theatrically during 2007 reflect the concurrence of our partners in distribution on this essential theme. The average theatrical window grew from 4 months and 11 days in 2006 to 4 months and 16 days in 2007.

Theatrical release remains the locomotive that drives the movie train. The big screen will always be the best way to experience movies. You can check out Michelangelo's artistry on the internet—but who would prefer a computer screen if you could visit the Sistine Chapel itself for ten bucks? The movie industry can ill-afford to neglect this essential advantage of the cinema experience. All good things follow from it.

At this point you might be saying – “that Fithian is a glass-half-full kinda' guy. There must be something disturbing about this business.” You are right on both points. I am optimistic about the movie business. My enthusiasm comes from the dedication of our members and the passion of our patrons, and their pure love for the magic of movies on the big screen.

However, if our 2007 glass had 9.6 billion record-breaking dollars in it, there was a 670 million dollar empty space at the top of that glass. Somebody else's straw is in our milkshake, and they're drinking it up. That straw is movie theft. According to numbers from a study commissioned by the MPAA, we would have sold an additional 100 million tickets last year but for piracy. Dan has eloquently described the impact of movie theft on his studio members and the Herculean efforts they are undertaking to combat this scourge. Now I want each cinema person sitting in this room to focus clearly. Our industry can make a lot more money if we get that straw out of our milkshake. We must continue waging war against the criminals who profit by stealing from our industry.

NATO's Board has made the fight against theft one of our biggest priorities. What are we doing, and how can we do it better?

More than ninety percent of movies on the black market come from recordings made in cinemas. That black market is not just overseas or on the Internet. It is around the corner from your cinema and down the alley. It's at the local swap meet. NATO has worked with the MPAA to pass laws in Congress and in over 40 states that outlaw the use of recording devices in movie theaters. Our Canadian colleagues were recently successful in a similar effort in Canada. Many other countries have enacted or are considering new laws. These laws can only be effective if theater managers and our patrons know about them.

I ask every theater operator sitting here today to get a copy of the applicable anti-camcording laws in your territory and keep them in your manager's office. If you have any question about the applicable law in your jurisdiction, freely contact the NATO office, and we'll provide it for you. When you intercept a thief, you may need to show that law to the police when they come to your cinema.

Training of our employees is also essential. Most companies have policies and specific training programs on the subject of movie theft. Stay vigilant with training. Use the website developed by the MPAA and NATO at www.fightfilmtheft.org. Consider the best practices guide that we have developed.

Today I am also pleased to announce a new joint award program between the MPAA and NATO for theater managers who develop the best job training on movie theft. The program will be modeled after the Marketing Achievement Awards, given here at ShoWest. More details about the program, the qualifications for entries, and the nature of the awards will be released over the coming weeks. We will give the first set of theater manager movie theft training awards at ShoWest 2009.

We believe the new theater managers training award program will complement the existing MPAA-NATO reward program for theater employees who intercept and report acts of movie theft. The existing anti-camcorder reward program has been very successful. Since the inception of the reward program in 2004, we have given 135 rewards for a total of \$59,000. Of those amounts, 55 rewards for \$23,000 were given during the past year.

The identification and interception of camcorder thieves is made possible by sophisticated tracking and enforcement systems. Film print and digital print “watermarking” and other forensic techniques enable the industry to trace an illegal copy back to the movie print from which the copy was originally derived. The maintenance of movie print records, in turn, permits the identification of the movie theater location where the illegal copying likely took place. NATO and the MPAA use this information to target security operations at high-risk locations, and thereby apprehend thieves. Every week MPAA and NATO professionals coordinate efforts with our respective membership on this targeted security effort. To our exhibitors here today, thank you for responding to these time-sensitive security targeting calls when you receive them.

I know the passion this industry can muster when it matters. My friends, movie theft matters. We can, and we will, undertake all available means to combat this scourge.

Thank you for your attention. I hope you have a wonderful time at the convention.