

Inside VSDA



Video Software Dealers Association (VSDA)

Welcome to *Inside VSDA*...

Released quarterly, *Inside VSDA* highlights the main activities and core responsibilities of our Association.

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VSDA's Strategic Plan Revised

In 2003, VSDA's Board of Directors concluded a two year effort with the adoption of a new Strategic Plan, including a Mission Statement, Vision, and Statement of Organizational Goals and Objectives.

Recognizing the rapid consolidation and convergence in our industry and related industries, VSDA Chairman Bob Geistman appointed a committee of Vice-Chair Tom Warren, Terri Schumacher (later replaced by iDEA Chair Jim Loperfido), John Marmaduke of Hastings Entertainment, Leigh Ann Moore of Circuit City, and Chuck Porter of Giant Eagle to undertake consideration of an update to this plan. Marty Graham, Rentrak PPT President, serves as Committee Chair.

After a few months of intensive work, the Committee unanimously proposed an inclusive revision to VSDA's Strategic Plan, which was

adopted by the Board at its October 2006 meeting. The revised Strategic Plan can be found in its entirety on VSDA's website.

This revised plan positions VSDA to support its members as they evolve in future business environ-

ments. The plan will guide VSDA's allocation of its funds and its dedication of human resources. The Association's Mission and Vision statements serve as a preamble to the Strategic Plan.

Mission:

To Protect the right to sell and rent entertainment software; promote the sale and rental of entertainment software; and provide a forum for all those engaged in the sale and/or rental of entertainment software.

Vision:

1. VSDA is committed to being the preeminent source of entertainment software industry advocacy, policy setting, and information & knowledge.
2. VSDA will maintain its leadership and expertise in packaged entertainment, while exploring with its members other opportunities to deliver quality entertainment to consumers.
3. VSDA will provide knowledge and support for the successful evolution of members' businesses.
4. VSDA will remain the definitive and proactive champion of the home entertainment software industry.

Legislative Activity

Video Game Retailing Restrictions

Troublesome laws restricting the retailing of video games were enacted in three states in 2005. VSDA, along with the Entertainment Software Association, filed lawsuits challenging the constitutionality of each of these laws.

In Illinois, the federal court agreed with our arguments that the state's Violent Video Game Law was unconstitutional and blocked its enforcement in December. The ruling was not appealed by the State and, as a result, the December decision became the final ruling and the law is dead.

Also in December, a preliminary injunction was granted in California barring enforcement of its video game law. The State did not appeal, and the matter remains pending in federal district court in San Jose. This law restricts the sale or rental to anyone under the

age of 18 of computer and video games that contain certain depictions of violence if the depictions are offensive to the community or if the violence depicted is committed in an "especially heinous, cruel, or depraved manner".

Michigan's violent video game law, which also has been enjoined by the federal court, would impose civil penalties on retailers of video games for selling or renting to persons under age 17 an "ultra-violent explicit video game" and would prohibit the display of physical product on retail shelves accessible to persons under age 17. The State responded to our summary judgment motion in this case with its own motion for summary judgment. The court will hear arguments on the competing motions on March 22.

Video game bills attempting to regulate violent content have also been introduced in Delaware,

Hawaii, Florida, and Maryland. And, NY Senator Hillary Clinton has introduced a federal bill in Congress. VSDA will continue to actively oppose the enactment of "violent video game" regulations because they are both unconstitutional and unnecessary.

VSDA has long suggested that, rather than utilizing limited government resources to pursue anti-video game legislation that is bound to be found unconstitutional, states could provide real assistance to parents by working with retailers and the industry to help educate parents about the existing video game rating system and to encourage parents to use those ratings to make informed decisions about which video games to allow in their homes.

Regulation of Packaging and Advertising

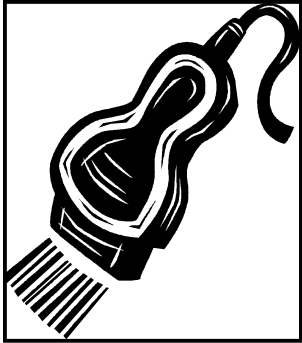
VSDA has joined a coalition of

media-related trade associations and companies to oppose proposed revisions to the Section 2257 record-keeping requirements of U.S. law. The proposed revisions would extend these requirements to mainstream movies such as "Traffic", "American Pie", and others that contain stimulations of sexual conduct or "lascivious exhibition of genitals" (including, according to some court cases, when clothed).

Although these requirements are placed on producers, the law broadly defines "producer" to include any retailer or distributor who digitizes box-art for printing on in-store POP or in a mailer, or for posting on a website. VSDA is requesting changes be made to eliminate this burden on retailers and producers of mainstream movies, and to ensure that any amendments to the statute are narrow and focused on individuals who seek to harm children.

Supply Chain Support

Although its not the “sexy” part of our industry—the efficient flow of product from manufacturing to retail shelves is critical.



Behind the scenes, our Operations Committee meets quarterly to discuss bar coding, packaging, shipping/receiving, EDI, data-synchronization, source tagging, RFID and other related issues. Committee members include IT, Operations, and Logistics exec’s at member companies including Hastings, Ingram, Baker & Taylor, Movie Gallery, Anderson Merchandisers, Navarre, Alliance, and Amazon.

Twice yearly, senior Operations executives from the major studios and replication companies join this Committee for a half-day meeting. The goal is simply to cut overall costs attributed to the flow of product.

Bar Codes

Since the introduction of the 12 digit UPC more than 30 years ago, its use has expanded to facilitate nearly all global commerce. To meet future needs and efficiency, the Uniform Code Council now requires that all companies must be capable of scanning and processing EAN-8 and EAN-13 symbols in addition to the 12 digit UPC.

Retailers or distributors not in compliance may find themselves at competitive disadvantages with customer service delays at point-of-sale, the inability to order and process products from off-shore suppliers, and the risk of sharing inaccurate data with trading partners.

Resources are available at www.uc-council.org to help with your system changes.

Packaging

Studios have found that DVDs packaged in cardboard slip-sleeves merchandise more effectively to consumers. But, this packaging has posed operational problems for both distributors and retailers.

This Committee has worked with manufacturers to tighten the tolerance between the slip-sleeve and the DVD case, as loosely packaged produce wreaked havoc with distribution’s sorting equipment.

And, retail shrink had initially suffered as unscrupulous customers found that substituting a slip sleeve from a low priced DVD for a higher priced DVD saved them money (and cost the retailer). Manufacturers now cut the UPC out of slip-sleeve packaging, creating a window to scan the UPC on the actual DVD case itself.

VSDA Adds Year-Round DC Presence To Its Lobbying Efforts



VSDA has maintained a significant ongoing presence in Washington, DC, for many years with regular visits by staff and outside counsel, and through organized grassroots efforts.

Our Strategic Plan calls for us to increase our presence by maintaining a full-time DC lobbyist.

So, VSDA, jointly with the Interactive Entertainment Merchants

Association, has engaged Stuart Spencer to be the federal affairs representative in DC for our two associations. He started working on behalf of retailers in late February.

Immediately prior, Stuart was with the Stanton Park Group, a bipartisan lobbying group of which he was a principal and general counsel. There he represented several key technology and health care clients. Earlier in his career, Stuart worked

for U.S. Representative Louise Slaughter (NY), rising to the level of chief of staff and minority staff director for the Subcommittee on Legislative and Budget Process of the Rules Committee. He is a graduate of Princeton University and Tulane Law School.

Stuart will be responsible for managing our interactions with Congress and federal agencies on issues such as piracy and content restrictions.

Indie Retailer Support Through iDEA



In July 2004, iDEA (Independent Dealers of Entertainment Association) was formed as a division within VSDA, dedicated to the independent video retailer. Its mission is to empower independent video retailers within VSDA to grow their businesses through business tools, communication, education, and networking.

A major focus for iDEA has been adding value to membership. All

existing programs and benefits were evaluated and reworked, and new ones have been developed. Just a few of the new programs that have been launched are:

- iPromos—seasonal marketing material created specifically for video retailers
- iDeals Coupon Packs—sent periodically to indie retailers, worth hundreds of dollars of savings

- iBuys—exclusive monthly deals made with various manufacturers and distributors
- My iPoints—a reward based program allowing members to earn cash to be used toward iDEA programs or dues

Since its inception, and with the help of VSDA distributor members VPD and Ingram, iDEA has nearly doubled its membership!

Project FAIR Promotes Anti-Piracy to Consumers

VSDA takes theft of our industry's treasures very seriously. Piracy is the greatest long term threat facing the home video industry. Packaged goods and online piracy currently cost U.S. video retailers at least \$1 billion annually in lost sales and rentals.

Your Board of Directors made a commitment in 2004 to take a proactive leadership role in fighting piracy, on its own and in conjunction with others.

VSDA supports the public education campaign of the Motion Picture Association of America explaining why movie piracy is illegal, how it impacts jobs and the economy, and the consequences of engaging in piracy. VSDA has called on all stu-

dios to enhance anti-piracy education by placing anti-piracy messages on all DVDs.

VSDA also encourages retailers to support these efforts by placing anti-piracy education signage in their stores, and by including anti-piracy messages in their consumer hand-outs. Signage is available for downloading at www.vsd.org. Collateral for print hand-outs is also available on the VSDA website.

Last year, VSDA launched Project FAIR (Filmmakers Against Illegal Replication), a contest soliciting filmmakers to produce short films with an anti-piracy message. This year the contest is hosted on the web by StudentFilmmakers.com, a community for aspiring filmmakers.

Filmmakers are invited to create short films that speak out against illegal copying or file sharing of movies, music, and video games in ways that will resonate with people of all ages, and with teenagers and young adults in particular.

Of the many creative and meaningful entries, *Taken Away*, produced by Joshua Smith, was awarded first prize at VSDA's Home Entertainment 2005 Convention. Since then, it has aired on in-store promotional reels in thousands of video stores around the country.

VSDA members are encouraged to promote this year's contest internally, as many aspiring filmmakers work in our biz. Remember Quentin Tarentino's first gig?

**HELP STOP
MOVIE THEFT!**

**ENTER PROJECT:
FAIR'S CONTEST
BY CREATING A
30 SECOND ANTI-
PIRACY SHORT
FILM.**

**WIN \$1,000
SCHOLARSHIP
AND A TRIP TO
VSDA'S ANNUAL
CONVENTION.**

For information, call (818)
385-1500, ext. 227 or go to
www.vsd.org.

Hi-Def DVD—It's Almost Launch Time

High definition DVDs will launch in 2006. This is critically important for many reasons. We need a format that is impermeable to pirates. We need a packaged product to compete with cable and internet delivery of high definition movies. And, we need a new generation to stimulate industry growth.

With two formats launching, there is a lot to understand. Retailers need to make inventory and merchandising decisions, and must educate their front-line staff who will be faced with consumer questions. Distributors need to figure

out how packaging impacts their handling equipment and how many SKUs will be needed for each title.

In late 2004, VSDA established its High Definition DVD Resource Center on www.vsd.org. This Resource Center includes:

- Internet news stores *updated daily* regarding hi-def DVD,
- VSDA's *High Definition DVD 101—A Non-technical Primer* along with a format comparison of HD DVD and Blu-ray,
- VSDA's *Baseline Criteria for*

High Definition DVD From a Retailer's Standpoint,

- Xiao Fang's comprehensive *High Definition DVD FAQ*, and
- A comprehensive list of links to additional Internet resources.

VSDA's January publication, *A High Definition DVD Update*, has been added to this Resource Center.

VSDA's Retail Advisory Council continues to meet with each studio's home video division to discuss opportunities to maximize the launch of this exciting new DVD generation.



Back to the Venetian—Save the Date for July's Convention

VSDA's Home Entertainment 2006 Convention is coming soon!

This year's convention dates are July 11-13, and we're back at the Venetian Hotel and Casino in Las Vegas. Hotel rates are only \$109 for this world-class resort, and rooms are going quickly.

iDEA will present iNDIE Fest '06, a half-day conference program, on

July 10. There's no separate charge to attend iNDIE Fest—it's included in Convention registration.

This year's show will celebrate the twenty five year history (can you believe it?) of our annual Convention.

Convention registration will open in early March. VSDA members will save \$30 on each exhibits/

conference registration, and \$80 on each all-access registration to the show. There's an additional \$50 discount for all registrants who confirm by June 23.

More information on this year's Convention is on the web at www.vsdahomeentertainment.com, where you can sign up to be placed on a mailing list for new information as it's available.





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(VSDA)

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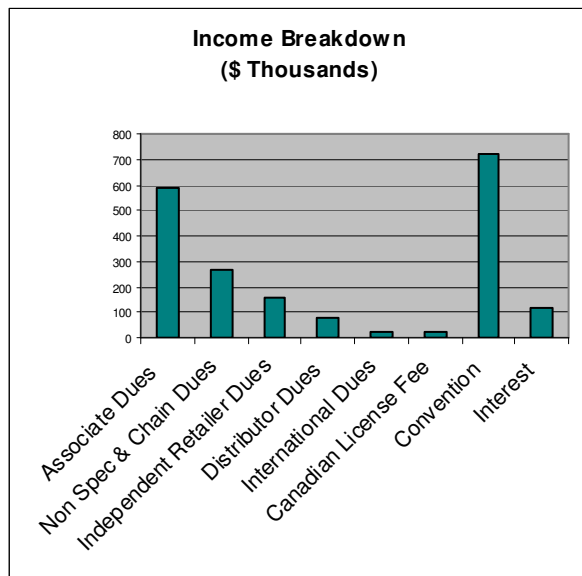
Inside VSDA is quarterly publication of the Video Software Dealers Association (VSDA).

Where Do Your Dues Dollars Go?

The VSDA Budget for 2006 has been developed and approved by your Board of Directors.

Income

Dues represent the largest share of cash income. Convention income includes \$720,000 projected as income



from this year's conventions and \$700,000 that we recognize each year earned from our partial sale of the Convention.

Expenses

Nearly 30% of all of our expenditures, including payroll, are related to our Government Affairs and anti-piracy efforts. Over thirty percent are devoted to iDEA and its programs and initiatives. The remaining funds are utilized toward our public relations, marketing, convention, and supply-chain programs.

Overhead expenses, including member sales and retention, rent, accounting, administrative payroll, governance, and member communications, represent 25% of all expenses including payroll.

Our objective is, as it should be, to minimize "background" costs, and allocate spending consistent with the needs of our current strategic plan and allocate spending consistent with the needs of our members and the Association's current Strategic Plan.

