

Welcome to *Inside EMA*...

Released quarterly, *Inside EMA* highlights the current activities and core responsibilities of your Association.

Inside this issue:

A Message from EMA's President Bo Andersen	2
EMA Helps Members Promote the Oscars®	2
Studios and Retailers Address the Issues at EMA's Retail Council Meeting	2
EMA's Digital Council Moves Ahead—Metadata Standards a Priority	3
Home Media Expo 2008 To Be Held June 24-28 at The Palms	3
Apply Now for EMA's 2008 Scholarship	3
EMA Board Meets, Welcomes New Directors	4

The Entertainment Merchants Association (EMA)

EMA Video Game Retailing Council Formed

EMA's Game Retailing Council was formed in late 2007 to facilitate the discussion of industry issues between leading retailers/distributors and video game publishers. This group met in early October, in early December and again in January, 2008. Participating publishers included Microsoft, Nintendo, Capcom, Eidos, Take2, EA, Bandai Namco, Warner Interactive, and THQ.

Council members participating included Council Chair Troy Peterson (Target), Mike Davis (Ingram), Mike Gimlett (Gamefly), Victor Fuentes (Hastings), Asra Rasheed and John Gorst (Gotta Play), Rod Murray (Blockbuster), Bill Lee (Toys R Us), Mike Donohue (Alliance Entertainment), and Wes Sand (Movie Gallery).

In astounding good news for game retailing, publishers unanimously acknowledged robust, even record-breaking industry growth in 2007 and most agreed that growth will continue for at

least the next five years, primarily anticipating that Wii and PS3 sales will stimulate consumer spending until the next-gen formats are launched. Additional growth is expected as more casual gamers enter the market.

Currently, the impact of online digital gaming in the U.S. is small, as both infrastructure and bandwidth limit effective downloading of complete console games, especially in high definition. In contrast, sales and rentals of packaged games depend heavily on retailers' marketing and merchandising. The Council discussed a variety of strategies to ensure that retailers are included in the sale of digital content, including enhancing retailers' roles in selling subscription and points cards, expanding in-store sales of micro-transactions such as selling avatars, "cyber"-tools or additional game levels via points cards or packaged certificates, the possibility of retailers establishing online "stores" to aggregate and sell digital downloads of games or

micro-transactions, and providing retailers with a revenue stream from sales that result from packages sold in-store that lead consumers to subsequent direct transactions.

Street dates continue to generate mixed opinions from retailers and publishers, even taking into account recent growth in use of street dates for event titles. There is also no consensus on which day of the week is best with Tuesday or Sunday favored by most.

Retailers on the Council encouraged publishers to evaluate and test loss prevention methods that would permit more open merchandising of video games in retail stores, including RFA-based benefit denial technology and packaging that would allow product to be merchandised on locking peg-hooks.

The Council will meet by conference call in February to determine its next steps.

Annual Video Game Report Card Released—EMA's Response

On December 4, 2007, the National Institute on Media and the Family (NIMF) issued its annual report card on video game retailing. The report took retailers to task, claiming that "complacency, especially on the part of retailers and parents, appears to have caused a backslide in ratings awareness and enforcement."

Retailers were given a "C-" rating on their policies, based on the allegation that one out of three retailers fail to educate customers about ESRB ratings (a number that increases to seven out of ten when describing non-chain retailers). National retailers received a grade of "D" for ratings enforcement (a slip from the prior year), game specialists received a "B" and game rental shops were given an "F".

On the positive side, three retail chains (K-Mart, EB Games and Hollywood Video) were described as "100% compliant" in ratings enforcement. GameStop was also praised for its policy of terminating employees who sell M-rated games to persons under 17, as was Target for pulling *Manhunt 2* from their shelves.

At a press conference issuing NIMF's report card, U.S. Senator Joseph Lieberman suggested that he may revive federal legislation to require retailers to enforce ESRB ratings.

EMA agrees with NIMF's call for further broad-based efforts to educate parents about the ESRB ratings system, as parental involvement in the selection of

games for their children and teens is the single most important element in the successful working of



this system. EMA encourages parents to LOOK at the ratings, PLAY video games with their children (or, at least observe their

game play), LIMIT their children's video game play, and CONTROL game play using the technology available on the current generation consoles.

However, EMA does not believe that NIMF's overall findings on retailer enforcement reflect the true state of ratings enforcement in the industry as a whole. We await the results of the Federal Trade Commission's mystery shops, which utilize an objective and transparent technology, a broad and statistically significant sample size, and professional mystery shoppers. We expect the FTC report to be issued early this year.

A Message from EMA's President, Bo Andersen



EMA President, Bo Andersen

The most common opening question I get from entertainment-loving friends who have no connection to our industry is, "What's hot?" In my wonkish way I usually launch into an elevator speech on the burning developments in theft of our industry's creative works (I don't call it "Piracy", in next generation disc formats, in digital delivery and in staving off unreasonable government intervention (read, "Let's regulate violence in video games and DVDs."). I usually get halfway through the rant before it becomes apparent that "What's hot?" meant "What new movie or video game caught your attention?" Every time this happens I am delighted because it reminds me that content is everything. I am also reminded that we enjoy the rare dual pleasures of delivering the world's finest entertainment to consumers and making money doing so.

The highest calling for a trade association is to promote industry growth. Today, that means assisting members in training sales

associates to sell the new formats and generate excitement for them. You will see EMA ramp up and reinvigorate its training curriculum. It is certainly timely for our members' sales associates to receive refresher training on the offerings and capacities of the high definition formats and to translate that knowledge into selling the high-def experience to customers. That is only one of the training modules EMA will be offering.

I owe you a progress report on our defense against government regulation of depictions of violence in video games and, by implication, movies. The case of *VSDA v. Schwarzenegger* has been fully briefed in the U.S. Court of Appeals in California. This is the last of the lawsuits we have brought in federal court together with ESA to respond to unconstitutional regulation of game content, and we have won them all. Even with that record in the courts, EMA had to respond to 32 bills in state legislatures and in

Congress in 2007. But this was less than half the number of "violent video game" bills we addressed in 2006. This has been a "bulwark defense" of retailers' rights', inasmuch as all of these bills have been directed at retailers. We will continue the fight.

You will read in this issue of *Inside EMA* of our leadership in developing effective building blocks for retailer-based participation in digital delivery. This is a new initiative for this new market. Predicting the rate of growth of a new consumer market makes for uncertain investment calculations for suppliers and retailers alike – and it bears recognition that sales of high definition discs in 2007 more than doubled the consumer dollars spent on streamed and downloaded movies and TV series. One thing is clear - EMA has made a commitment to support retailers' participation in this market.

To all of our members, a prosperous 2008.

Studios and Retailers Address the Issues at EMA's Retail Council

EMA's Retail Council offers the opportunity for key and representative retailers and distributors to meet regularly to discuss industry issues with the DVD industry's senior home video executives. This Council met on December 5, 2007 and February 8, 2008 in Los Angeles with representatives from 20th Century Fox, Disney, Lionsgate, Sony Pictures, New Line, Paramount, Universal, and Warner Home Video. And, for the first time, meetings were held with First Look and Vivendi Visual.

Council members participating included co-chairs Cindy Holland (Netflix) and Victor Fuentes (Hastings), as well as Jill Hamburger (Best Buy), Jim Loperfido (Emerald City), Joyce Woodward (Blockbuster), Leigh Ann Moore (Circuit City), Dennis Miyata (Tsutaya/Japan), Mitch Lowe (Redbox), Marty Graham (Rentrak), Mike Donohue (Alliance Entertainment) Shae McCowen (Target), and Tom Paine (DVD Now).

A flat or slight decline in the

DVD market in 2007 was widely recognized, but projections going forward were mixed, with some predictions calling for 1-2% annual growth for several years, driven by next-gen disc performance. In addition, no impact is expected on movies due to the writers' strike unless the strike fails to settle by June, 2008; however, TV product could be compromised, forcing "truncated" sets of short seasons at probably reduced SRPs.

Physical goods in standard and high definition are in good shape going forward, as the "pipes" to the home aren't "fat" enough for widespread distribution, especially of high definition content. Growth of high def discs will continue, reflecting the projection that 15 million households will have high definition televisions by the end of 2007.

UMD has received renewed interest and, if PSPs keep selling, more movies may be released on this format. While little growth has been achieved to date in digital delivery or elec-

tronic sell-thru, some studios have begun to include digital versions of movies on DVDs – allowing consumers to copy them onto their computers or portable devices. The "enterprise" model of Manufacturing-On-Demand was generally favored as the best way for retailers to get involved in digital distribution.

Retailers asked studios to rethink their release schedules, to some degree, and to consider moving more titles into "open" periods outside of Q4. Independent studios, and independent films released by the majors, were seen to have the most to gain from this strategy.

Retailers expressed concern that short solicitation windows hampered marketing plans but acknowledged that they appear to be stabilizing. Retailers also asked studios to adopt "clear and consistent" placement of movie ratings in the bottom left corner of the reverse side of all DVDs, to enhance consumer recognition and use.



EMA's Digital Council Moves Ahead—Metadata Standards A Priority

EMA's Digital Council was formed in 2007 to bring together leading digital media retailers, suppliers, and technology providers to work together toward common objectives such as supply chain efficiency and promoting consumer acceptance. Twenty six interested parties participated in an introductory conference call on September 26, hosted by co-chairs Mitch Mallon (Egami/Image) and Mark Vrieling (Screenplay) and EMA Board Liaison to the Council, Curt Marvis (Cinema Now).

During the September conference call, the priority objectives of the Council were defined as (a) ensuring a common set of item identification codes and metadata, and a common data exchange mechanism, (b) developing consensus agreement on common terminol-

ogy and definitions, and (c) planning events for this community to learn from itself and outsiders.

On January 8, the Council held a formative first meeting at the Sands Convention Center in Las Vegas, attended by nearly 30 participants from Best Buy, Trans World, Netflix, Cinema Now, Sony, Universal, Warner, Paramount, Fox, Intel, Image, Screenplay, Titlematch, Rentrak and others. To launch a critical metadata project and to develop a joint understanding of available resources, presentations were made by EPCglobal, ISAN, and DDEX (companies currently involved in item identification and/or metadata standards).

In addition, the first draft of a Wiki glossary was presented, and a process was offered for partici-

pants to discuss, negotiate and finalize "recommended best practice standard" definitions. Council participants brainstormed possible topics for presentation at EMA's Home Entertainment Event in late June and urged that one day be dedicated to digital content/delivery.

The Council has formed Work Groups, which will meet by conference call to move each project forward. Companies interested in participating in these Work Groups, or joining the Council in general, should contact Mark Fisher at mfisher@entmerch.org or at 818.728.8670. The Council will hold a half-day working/update session in March in Los Angeles.



Patrick Atallah Presents ISAN to EMA's Digital Council in Las Vegas.

Home Media Expo 2008 to Be Held June 24-26 at The Palms

EMA's Home Media Expo, the annual convention of the Entertainment Merchants Association, has selected the Palms Hotel and Casino for 2008. And, to better meet the needs of exhibitors and attendees, we're moving the show to earlier dates in June.

Recently the location for the MTV Music Awards and the CineVegas Film Festival, The Palms is the perfect glitzy setting for our show. In addition to The Palms, the all-suites Rio Hotel will be our host hotel for lodging. Both offer a wide array of restaurants, sleeping accommodations, and other amenities.

EMA's Home Media Expo 2008 will be held Tuesday, June 24 through Thursday June 26, with a pre-show conference day on Monday June 23. Moving the date from the traditional July timeslot into the late second quarter allows content providers to better showcase product coming out in the important fourth quarter.

"An industry as exciting and leading edge as the home entertainment industry should hold its annual confab at an equally exiting and leading edge location, and the Palms fits that bill perfectly," declared EMA President Bo Andersen. "We are excited about

expanding the show to include digital delivery as well as the latest new technologies and business models for home entertainment, while celebrating the phenomenal success of the DVD and the industry that brings home entertainment to the consumer."

EMA's Home Media Expo 2008 is open to entertainment retailers, distributors, suppliers, and others with a professional interest in the home entertainment industry. It's the 27th in a series that began as the annual convention of the Video Software Dealers Association (VSDA).



Apply Now for EMA's 2008 Scholarships

Applications are now available for scholarships to be granted by the EMA Scholarship Foundation in 2008. These scholarships are to be awarded to deserving incoming and current college students within the EMA-member family.

"The EMA Scholarship Foundation is maintained through the generosity and support of our members. We want to express our sincerest gratitude to all contributing companies, without whom this program would not be possible,"

said EMA President Bo Andersen. Since its establishment in 1987, the EMA Scholarship Foundation has provided financial assistance totaling more than \$1,000,000 to over 210 students.

EMA's scholarship program is open each year to high-school seniors who will be entering college as freshmen in the following year, as well as to undergraduates currently attending a four-year college institution. Employees of all EMA member compa-

nies worldwide, and their spouses and children, are eligible.

Employee applicants must have completed at least six months of full or part-time employment by March 3, 2008. A child or spouse of an employee is also eligible if the employee meets that same standard. Scholarships are limited to colleges and universities in the United States and Canada.

Scholarship applications are available online at www.entmerch.org/scholarship_foundation.html.





The Entertainment Merchants
Association (EMA)

16530 Ventura Boulevard
Suite 400
Encino, CA 91436
Phone: 818.385.1500
Fax: 818.385.0567

VISIT US ON THE WEB!
WWW.ENTMERCH.ORG

Inside EMA

Volume 6 Issue 1
February 2008

Inside EMA is a quarterly publication of the Entertainment Merchants Association (EMA).

EMA's Board Meets, Welcomes New Directors

EMA's Board of Directors met in Los Angeles on October 25, 2007 and discussed the following agenda items:

Board Membership – Best Buy and GameStop have joined the Association and accepted seats on its Board of Directors, represented by Jill Hamburger and Dan Kaufman, respectively. In addition, due to organizational changes within each company, Board seats will now be occupied by Troy Peterson, Senior Buyer/Video Games at Target; Laura Orvidas, Director/Movies at Amazon; and Eric Peterson, General Counsel at Blockbuster. In addition, Chuck Porter of Giant Eagle was elected the Board's Vice-Chairman, replacing Target's Tracey Koller, who resigned due to a change of positions within Target. Chairman Bob Geistman named John Maraduke of Hastings to an at-large seat on the Executive Committee.

2008 Budget – The Board gave its unanimous approval to the 2008 budget for the Association. This budget projects revenues of \$1.8 million and invested expenses of \$2.1 million. Revenues will be derived primarily from dues, trade shows, and interest from investments while major program expense categories are government affairs, trade events, meetings/committees, and

the Independent Dealers of Entertainment Association (iDEA) division. The major infrastructure expense categories are payroll and lease and office expenses.

Audited Financials – The Board accepted the certified audit report of the EMA 2006 financial statements, which include the Scholarship Foundation. The audit opinion was unqualified and found no management deficiencies.

Association Membership – The Board voted unanimously to accept the seventeen membership applications received between July 3 and October 8, 2007. The Association currently has 540 members.

Committees and Councils – The Board reviewed the activities of the EMA Operations Committee, the Video Game Retailing Council and the newly formed EMA Digital Council.

Other Issues – The Board discussed several issues concerning ratings and devoted significant time to discussions of strategic challenges facing the home entertainment industry in 2008 and 2009, including traditional entertainment retailing as well as electronic and digital retailing.

EMA Welcomes New Members

Retail Members

Totus Tuus LLC, Jacksonville, FL
Bittorrent, Inc, San Francisco, CA
Cusumano & Company, Westbury, NY
Lagniappe Video, Raceland, LA
NYVE, New Paltz, NY
Don's Video, San Diego, CA
Sleepy Hollow Ent, Brandon, Manitoba

Associate Members

Magic Play Ent, Santa Clarita, CA
Premise Media Distrib, Santa Fe, NM
Microsoft Corporation, Redmond, WA
Vivendi Visual, Universal City, CA
All Media Guide, Ann Arbor, MI
Titelmatch, Commack, NY
MeadWestVaco, New York, NY

Distributor Members

Studio City Ent, Fitchburg, MA