

Entertainment Merchants Association (EMA)

Welcome to *Inside EMA*...

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

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Merger Accomplished—Integration Progressing

The merger of VSDA and IEMA is complete. All current members of VSDA and IEMA are now members of the new EMA—the Entertainment Merchants Association.

EMA unites all merchants of entertainment media—retailers, distributors, and suppliers—representing more than 1,000 companies throughout the world and more than 20,000 retail stores that sell and/or rent DVDs and computer and console games.

EMA's Articles of Incorporation declare our mission to be promoting, protecting, and providing a forum for the common business interests of those engaged in the sale, rental and licensed reproduction of entertainment software such as motion pictures, video games and other existing and future entertainment products. All support and services that had been provided by VSDA and

IEMA will continue as we grow.

EMA is governed by a Board of Directors with two Boards of "Industry Directors" - Video Industry Directors (the former VSDA Board, chaired by Ingram Entertainment's Bob Geistman) and Game Industry Directors (the former IEMA Board, chaired by Rick Vergara of Circuit City (see p4). Over the next few months, Association committees will be integrated and re-formulated emphasizing efficiency and reflecting convergence in entertainment retailing.

Bo Andersen will serve as President of EMA. Hal Halpin, founder and President of IEMA and Crest Group LLC which managed IEMA, will advise and assist EMA during its launch. The VSDA staff has expanded its responsibilities to manage issues related to now include the video game industry and EMA's broader membership.

Full integration into one Association is well underway, and should be completed shortly. In the meantime, VSDA and IEMA will often operate as two divisions of EMA.

You can reach the EMA staff office at 1-818-385-1500, and our fax number is 1-818-385-0567. All EMA staff members have new email addresses, found on page 3 of this newsletter. (Existing iDEA email addresses will remain active.)

We are developing a new logo as well as a new, integrated web resource center which will be found at www.entmerch.org. (A temporary site is housed there until the new site launches this summer—and both www.vsd.org and www.iema.org are still operational in the meantime)

We'll keep you posted as our integration progresses.

Government Affairs Activity

I. Video Game Retailing Restrictions

Late spring is normally a quiet time for legislative activity, with few bills being introduced into state legislatures so close to their annual recess.

Not this year!

On June 6, the Louisiana legislature gave final approval to a video game restriction bill that would ban the sale or rental to minors of any video game that contains depictions of violence that meet a 3-part test for "offensiveness". Louisiana Governor Kathleen Blanco signed the bill on June 16, and EMA and the Entertainment Software Association immediately filed suit against enforcement of the law. The same day, the federal judge barred enforcement of the law pending further proceedings.

In Oklahoma, the legislature gave final approval to a bill which would ban the dissemination to minors of any computer or video game that contains any depiction of "inappropriate violence". Despite communication from EMA encouraging him to veto the bill, Governor Brad Henry is expected to sign it. If he does, the law will be effective on November 1.

A video game restriction bill has been introduced in Utah which would make it an unfair or deceptive trade practice to sell or rent a M rated game to anyone under 17 or an AO game to anyone under 18, or to distribute an unrated game across state lines.

Bills have also been introduced in the New York State Senate to ban the sale or rental of games with "a mature or violent rating" to minors and requiring the segregation of such games in "adult-only"

sections. However, we believe enactment of this bill is unlikely.

A unique bill which has been passed in Minnesota is the first to impose a civil penalty (\$25) on minors under the age of 17 who rent or purchase video games rated "M" or "AO" by the Entertainment Software Ratings Board. This law also would require retailers to post a sign in a clearly visible location in each store advising the public of this regulation. On June 6, EMA and the Entertainment Software Association filed a lawsuit in the federal district court in Minneapolis to have the law declared unconstitutional.

Additional bills had been introduced in Florida, Missouri and Wisconsin, but all officially died when these legislatures adjourned.

II. Entertainment Ratings and

Labeling Awareness Month

The Coalition of Entertainment Retail Trade Associations (CERTA), of which EMA is a member, declared June to be *Entertainment Ratings & Labeling Awareness Month* in order to increase awareness and utilization of the media labeling and rating systems by consumers. It also serves to remind retailers to reinforce education and enforcement in their stores.

As part of *Entertainment Ratings & Labeling Awareness Month*, EMA developed and distributed a ratings education public service announcement that will appear on in-store monitors in more than 10,000 retail stores. We also arranged for guidance for parents on how to control their children's media consumption which will appear in thousands of newspapers around the nation.



Rick Vergara, EMA Game Chairman and Circuit City Video Game Merchandise Manager

Message From Rick Vergara, Game Chairman

IEMA has been supporting retailers selling and renting video games since 1997.

We've accomplished a lot over these years, including reducing and standardizing PC game box packaging, educating our members to support and promote ESRB's rating system, and advocating on behalf of our members within the industry, in government, and in the consumer community.

Hal Halpin and the Crest Group have managed our Association well over these years, and we thank them for all that they've done.

Our merger with VSDA was a natural next step. The entertainment software industry continues to converge. Nearly all members of each Association were engaged in both DVD and video game commerce. And many challenges that face both industries are similar.

EMA is now supported by a larger staff, that, combined, represents over 40 years in legislative advocacy and over 60 years of retailing experience. With the increased legislative activity regarding game sales, and with the upcoming introduction of new formats, and with the ongoing challenge to grow sales while minimizing inventory shrink—I'm glad that we have this level of support behind us.

Video game violence bills, the most current of which are described on page one of this newsletter, are being introduced in statehouses around the country at an accelerated pace. Last year 82 bills were introduced in __ states, and also in NYC, Chicago, and D.C, as well as at the federal level.

VSDA has worked closely with the Entertainment Software Association to ensure that these bills are practical, reasonable to execute, and are

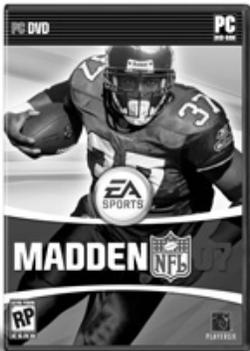
vetted against 1st Amendment rights. Those that were, in fact, signed into law were quickly opposed, and lawsuits have resulted in the final overturning of all but the California bill, which is awaiting a final ruling.

While EMA will continue to protect our customers' rights, we also have opportunities for growth. We all know that the launch of new formats spurs the marketplace on. And, the new Sony, Microsoft and Nintendo platforms will represent huge sales potential this holiday season. Despite higher hardware prices, gamers will become voracious buyers.

And, now combined with VSDA, our Operations Committee can explore new methods to allow us to sell product more openly, while protecting it from shoplifters.

We have a lot to do—and I'm glad that today we're strong enough to make it happen!

Computer Game ID Mark and Standard Template Updated



In its last significant action before merging with VSDA, IEMA unveiled the first major redesign of the game industry's now-standard PC icon.

This new version incorporates the logo into a broader template design which should standardize the appearance of computer games packaging and make it more consistent with similar console game titles.

The IEMA introduced the "mini box" in 1999 after acting as the galvanizing force between publishers

and retailers, and effectively created a 33% increase in the computer game category's productivity per square foot, allowing a wider and deeper assortment of games to be merchandised in the same shelving space. Two years later, the Association introduced the original version of the platform identification mark (the "PC Icon"), which was created to eliminate consumer confusion about what type of system a game was created for.

This new, updated version should help to create a uniform look for

computer games and help standardize video game packaging further by making the appearance similar to console titles.

These templates and marks are given to publishers to use on a royalty-free basis.

Electronic Arts deserves credit for lending talent to help refine the final design. In August, EA's Madden '07 will be the first title released using this new template and icon.



2006 Annual Industry Report Released

All EMA members will be receiving our *2006 Annual Report of the Home Entertainment Industry* later this month by mail.

This report, which focuses primarily on home video/DVD commerce provides an overview of 2005. In a year when box office and CD sales were down, home video was nearly

flat with the prior year, generating an impressive \$24 billion in consumer spending.

The report explores hardware penetration, home video and video game product trends, sales and rentals, consumer habits, retailing trends, piracy, legislative challenges and new technologies both within our

industry and from the larger digital world.

Additional copies of this report (and archived copies of past year reports) are available to members at a minimal cost. They can be ordered on our website: www.entmerch.org.

Message from Video Chairman, Bob Geistman

What great timing for a merger!

With the challenges and opportunities we face together as an industry, our combined strength gives us the power to forge ahead.

How else can we successfully fend off the legislative challenges that the video game industry faces (and which could eventually challenge all media formats), while we struggle to build revenues and profits in a mature DVD market?

Retailers, distributors and suppliers are all trying to navigate the economics of a very healthy \$24 billion dollar industry that is changing fast.

The balance between rental and sell-thru is changing, and more and more retailers (indies and chains, specialists and non-specialists) are devoting more space and investment to sell-thru. And, they're trying to figure out how to maximize their profits under this new mix.

With hi def DVD pricing slightly higher than standard DVD, will the rental market increase again? How do we all support the launch of both HD DVD and Blu-ray formats and promote sales growth? More challenges and opportunities.

Along with much stronger anti-piracy protection, high definition

DVDs also will allow for variable digital rights management (DRM) schema. Understanding how DRM impacts retailers and consumers, and figuring out how all parties maximize their revenue potential complicates our challenges and opportunities (in a good way!)

And how we all profitably fit into EST (electronic sell-thru) models, whether through in-store burn-on-demand, central burn-on-demand, or digital internet delivery will portend our long-term future.

Yes, I'm sure glad that we're now in a "bigger boat" to navigate these waters together.



Bob Geistman, EMA Video Chairman and Ingram Entertainment SVP, Sales and Marketing

High Definition DVD—It's Here

High Definition DVD has launched!

HD DVD players and software were introduced into the marketplace in April, and by the time this newsletter is published, Blu-ray players and software will be available at retail.

There is no doubt that there is an appetite for high definition DVDs. During the HD DVD launch, retail stores and Internet retailers had a difficult time meeting demand for hardware. Similar excitement is projected for the Blu-ray launch.

DVDs released this year will most likely not utilize "managed copy", which will eventually allow a con-

sumer to copy a DVD onto their computer's hard drive, and then perhaps (probably for an additional cost) make a backup copy of the DVD or download it to one or more portable video player.

"Managed copy", whose standards haven't yet been finalized, uses Digital Rights Management (DRM) to create rules that may be specific to each studio or to each title.

Most studios have listened to the concerns of retailers and others in the industry and have decided to not include the "Image Constraint Token" on hi def DVDs, at least for now, as part of their DRM. (The

"Image Constraint Token" would downgrade the picture quality if a certain type of cable connection isn't used between the DVD player and the TV—a connection that more than half of current HD TVs in homes doesn't accept.)

While all industry participants need to support the successful launch of hi def DVD, retailers are finding that it's tough to keep up with current developments. EMA's Hi Def DVD Resource center, available on www.entmerch.com, is updated daily with current news and reports as well as material to keep retailers and store staff members informed.



Saving Our Stock—Loss Prevention Progress

According to a recent National Retail Security survey issued by the University of Florida, the average retail store has a shrink rate of 1.54% across categories.

The rate is projected to be somewhat higher for entertainment specialist stores—1.76%. Applying this estimate to our \$24 billion video industry, retailers lost over \$422 million to shrink last year alone!

EMA, along with NARM (the National Association of Recording

Merchants), hosts quarterly meetings of Operations and Loss Prevention executives to consider such topics as EAS (electronic article surveillance) tagging and packaging requirements.

All DVD suppliers have committed to source-tagging every item. EMA has conducted a number of compliance tests at retail, and is confident that this commitment is being upheld.

However, findings suggest that, to take advantage of tagging, retailers with EAS detection hardware need to (a) check their EAS panels to ensure they are properly calibrated, and (b) ensure that they are ordering product with the appropriate tag-type for their company's system.

EMA continues to work within the video and video game industries to help our members define methods to reduce shrink and grow revenue.

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Inside EMA

Volume 4 Issue 2
July 2006

Inside VSDA is quarterly publication of the

Your Board of Directors

Your Association is led and governed by a single Board of Directors representing both the video game industry and the video industry. All members of the IEMA Board and the VSDA Board maintain their seats.

While one single Board has been formed, each set of Industry Directors will meet individually to discuss industry-specific issues. And, in order to ensure continuity, these two sets of Directors are interlocked by three Directors who sit on both Boards.

Some Board seats will be expiring in July and new Board members will be appointed to these seats. However, as of this writing, here's a list of your Board:

Game Industry Directors

- Rick Vergara (Chairman), Circuit City
- Richard Barry, Toys R Us
- Bryan Bevin, Blockbuster Entertainment
- Mike Gimlett, GameFly
- Marty Graham, Rentrak
- Mark Higgins, Transworld
- John Marmaduke, Hastings
- Laura Phillips, Wal-Mart

Video Industry Directors

- Bob Geistman (Chair), Ingram Entertainment
- Tom Warren (Vice Chair), Warren Ventures
- Chuck Porter (Secretary), Giant Eagle
- Leigh Ann Moore (Treasurer), Circuit City
- Marty Graham (Ex-Officio), Rentrak
- Richard Barry, Toys R Us
- Kevin Cassidy, Tower
- Cindy Holland, Netflix
- Keith Hoogland, Family Video
- Jim Loperfido, Emerald City Video
- Bo Loyd, Movie Gallery
- John Marmaduke, Hastings
- Kathy Slocum, Video Place
- Chuck Van Der Lee, Rogers Video
- Mark Vrieling, Rain City Video
- Matt Yeatts, Amazon.com
- Todd Zaganiacz, Video Zone

Contact information for each Board member is available on www.entmerch.org. There you'll also find our Bylaws and meeting summaries.

Welcome, New Members!

Retail Members

- Hometown Video, Parks, AZ
- Moviegoods, Las Vegas, NV
- Movies on Central, Phoenix, AZ
- Popcorn Video, Greeneville, TN
- Showbiz Video, Oilton, OK

Distributor Members

- FML Distribution, Wauwatosa, WI
- Music Sales Group, New York, NY

Associate Members

- Collegiate Images, Ft Lauderdale, FL
- Genius Products, Santa Monica, CA
- Imagination Entertainment, Los Angeles, CA
- Kestral Wireless, Emeryville, CA
- Liberation Entertainment, Los Angeles, CA
- Polar Frog Digital, Scottsdale, AZ

International Members

- Video Systems PR, San Juan, PR

Individual Members

- Ned McLeod, TOC Productions