

# The Dynamics of the Home Video Industry

## *Video's Explosive Growth Expected to Continue*

- **Industry Growth** – Home Video is a \$26 billion industry, and is expected to grow 7% in 2004. It generates over 50% of Hollywood's revenue, far surpassing the \$9.2 billion generated at the box office.
- **DVD Growth Driving Industry** – DVD is rapidly altering the Home Video landscape, displacing the ubiquitous VHS. DVD revenue rapidly surpassed VHS in 2002.
- **Sell-through Transforming the Industry** – Home Video market has rapidly evolved from rental to sell-through, with DVD sell-through leading the change.
- **New Technologies** – The Internet and video streaming threaten Home Video's dynamic growth. Increased consumer bandwidth, greater storage capacity, and improved processing power are fueling the change.
- **Rights management** – Sophisticated information management systems are required to handle the complexity of rights issues. Expanding windows and the escalating velocity of transactions are overwhelming unprepared companies.

## Table of Contents

---

<b>1. Overview .....</b>	<b>3</b>
<b>2. Home Video Industry .....</b>	<b>4</b>
2.1 Explosion of DVD Equipment.....	4
2.1 DVD Overtakes VHS .....	5
2.2 Sell-through Slowing Rental .....	5
<b>3. Content .....</b>	<b>7</b>
3.1 Primary Type .....	7
3.2 Theatrical Release .....	7
3.3 TV Show Content.....	7
<b>4. Windows .....</b>	<b>8</b>
4.1 Content Lifecycle .....	8
<b>5. Home Video Distribution.....</b>	<b>10</b>
5.1 Distribution Overview.....	10
5.2 Rental Distribution.....	10
5.3 Sell-through Distribution .....	10
5.4 Mail Order Distribution .....	11
5.5 Economic Fundamentals .....	11
5.6 Piracy .....	12
5.6.1 Shorter Windows .....	12
5.6.2 Geographic Compression .....	12
<b>6. New and Competing Technologies.....</b>	<b>13</b>
6.1 Home Video New Technology .....	13
6.1.1 Disposable DVD .....	13
6.1.2 HDTV DVD .....	13
6.2 Alternative Forms of Home Video .....	14
6.2.1 Video on Demand.....	14
6.2.2 Video Streaming .....	14
6.2.3 Home Video Competitors .....	15
<b>7. Issues.....</b>	<b>17</b>
<b>8. Appendix .....</b>	<b>19</b>
8.1 Studios and Content Producers .....	20
8.2 Video Store Software Suppliers .....	21
8.3 Video Store Retailers and Distributors .....	22

## 1. Overview

---

The state of the Home Video industry can be summed up in one word: tremendous. In the US alone, it is a \$26 billion industry. It now generates over half of the revenue for Hollywood studios.

In 2003, the rentals business alone hit nearly \$9 billion, topping the amount spent on movie theater tickets. DVD sales continue to explode as stores shift from high wholesale cost VHS tapes to low-cost DVDs, increasing studio margins. The sell-through market should achieve \$17.5 billion in 2004, up 11% from \$15.8 billion in 2003.

The technological driver of the Home Video has shifted. Its dynamic growth is driven by DVD. The average retail price of a DVD player continued its decline to \$136, about 20% its cost at launch in 1997.

DVDs were in 60 million households at the start of 2004, up 20 million from a year earlier. Its penetration is expected to reach 80% in 2004, up from 70% in 2003. VCRs, once ubiquitous in 90% of US TV homes, declined last year for the first time in its history.

Home Video's rapid growth has also been spurred by a quick decline in price points of DVD disks, spurring a shift to purchase from rental. America's appetite for new content appears insatiable.

Consumers are broadening rental and purchase behavior to include not just theatricals, but television shows like *The Sopranos*, self-help and how-to videos, movies that bypass the theaters going direct to video stores, and porn.

The result is compressed windows, providing less time and more pressure for content to find its audience. New markets are growing so rapidly that they are no longer just ancillary markets, but have become basic markets.

New technologies, such as the Internet and video streaming, combined with increased consumer bandwidth, greater storage capacity, and improved processing power, threaten this dynamic growth.

As complexity increases, rights holders will be forced to better manage their inventory in order to take advantage of the opportunities that lie ahead. They will bear the brunt of increased windows, shorter time frames and ancillary markets. Greater emphasis on asset management and digital rights will be required by the acceleration of the industry.

## 2. Home Video Industry

Home Video is a \$26 billion industry that barely existed 20 years ago. It generates over 50% of Hollywood's revenue, far in excess of the \$9.2 billion studios generated at the box office during 2003.

Several key trends are causing upheaval and change within the industry. DVD equipment is rapidly altering the landscape of the business, displacing the nearly ubiquitous VHS. The industry is being transformed from rental to sell-through, with DVD sell-through leading the change. New technologies are positioned to both enhance and threaten the business. The Internet and High Definition TV are positioned for the next wave of growth for Home Video.

The business is becoming more aggressive and complex. Leading companies are realizing that the need and importance of asset management and rights control has never been greater as the complexity of the industry increases.

### 2.1 Explosion of DVD Equipment Causing Migration from VHS

The growth of DVD has been explosive. Nearly 60 million US households had a DVD player at the beginning of 2004, an increase of 50% from a year earlier. MORGAN STANLEY projects an additional 21 million units sold during 2004, an increase of 20% - on track to outpace the historical leading sales of color TVs.

The rapid DVD growth is due to the sharp decline in home electronics price points. In 2003, the average DVD player retailed for only \$136. This is a decline of about 80% from its cost at launch in 1997.

**Chart 1: Penetration of DVD and VHS Units (in millions)**

	2000	2001	2002	2003	2004E	2005E	2006E	2007E
USTVHH	102.2	105.5	106.7	107.9	109.1	110.4	111.7	113.2
VCR HH	88.1	96.2	97.6	92.6	87.6	82.6	77.6	72.6
DVD HH	13.1	25.1	40.0	59.3	70.9	81.7	90.5	98.5

DVD installed base in the US achieved 55% of all video households at the start of 2004, with penetration expected to reach 81% by 2006. An estimated 15% of homes had more than one DVD player.

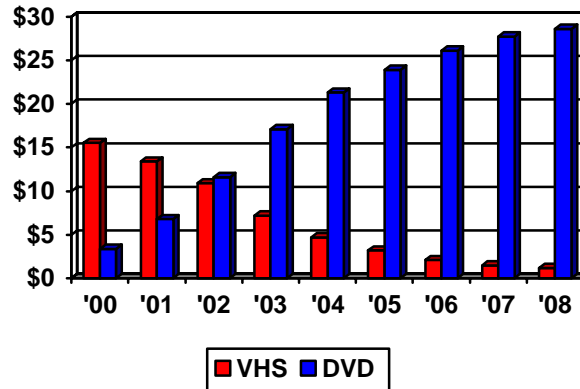
The VCR story is quite different. Long-term, the VCR is going the way of 8-track players and dinosaurs.

VCR penetration declined last year for the first time since its introduction as homes opted to replace broken/aging VCRs with DVD players. By year-end 2005, VCRs are expected to decline by 10 million households, a decrease of 11%, as consumers shift to higher quality DVD and digital technology.

Outside of the US, DVD penetration is only 20%, creating opportunity for sustained growth in DVD sales and Home Video products globally for the next 2-3 years.

**2.2 DVD Revenue Overtakes VHS.** DVD revenue rapidly surpassed VHS in 2002. DVD generated \$17.1 billion total Home Video revenue in 2003, a 48% increase over the previous year (Chart 2). DVD revenue is on track to increase to \$21.3 billion in 2004, an increase of 24%.

**Chart 2: Market Size, DVD and VHS Revenue (in billions)**



In 2003, sell-through represented 74% of DVD revenue due to the continuing sales boom and margin growth as retail activity shifted from high wholesale cost VHS tapes to low-cost DVDs.

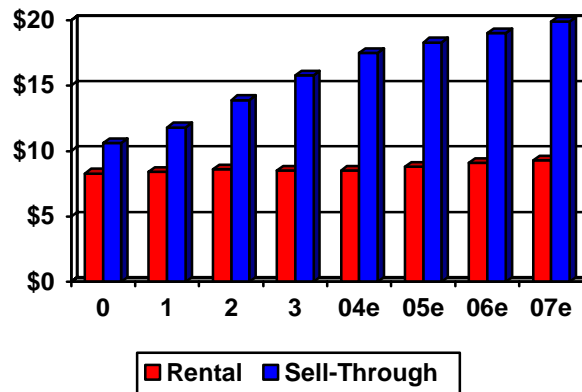
By contrast, VHS sell-through was 43% of total VHS revenue, declining 34% to \$7.1 billion. It is projected to decline steadily as older tape players are replaced by new DVDs. The rental market commands 57% of VHS.

**2.3 Sell-through Slowing Rental.** The disruptive trend in the Home Video industry from rental to purchase has flattened rental market revenue at \$8.5 billion annually, with little to no growth projected. With the advent of the DVD player, consumers have readily shifted their purchase and viewership patterns in favor of buying.

New enhancements of digital technology now deliver high quality, near theater-like experience in the home. Digital technology provides consumers far more enhancements, such as widescreen and standard screen formats, multi-language audio tracks, multiple camera angle options, 6 channel home theater Dolby Digital 5.1 audio, and interactive television (ITV).

DVD was able to first take advantage of digital enhancements. Its higher quality picture, superior audio, and added features gave it many advantages over the older dominant VHS format, and helped to rapidly make it the dominant video device.

**Chart 3: Total Revenue, Rental vs. Sell-through (in billions)**

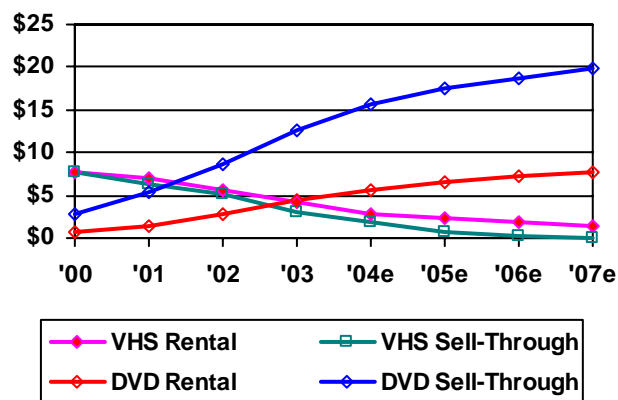


Sell-through nearly doubled rental revenue in 2003 (Chart 3). Its growth is expected to continue as the cost of DVD declines and more retailers, such as WALMART, TARGET and BEST BUY increase their sell-through activity.

This trend is highlighted with *Harry Potter* which generated \$329.8 million sell-through and \$30.7 million rental revenue in the first half of 2003 and *My Big Fat Greek Wedding* generated \$237.3 sell-through and \$69.3 million rental revenue during the same period.

DVD rental surpassed VHS rental for the first time in 2003, achieving 52% share, up from 34% just a year earlier (Chart 4). DVD is expected to further its share of the rental market, growing to 89% of the rental business by 2006.

**Chart 4: Home Video Revenue by Segment (in billions)**



DVD sales, at \$12.7 billion, exceed the total revenue of VHS sales combined with DVD and VHS rentals.

### 3. Content

---

- 3.1 Primary Type.** The dominant Home Video content is feature length movies, followed by television shows. The Home Video window is typically the largest source of profit for a feature film. Self-help, how-to videos, movies that bypass the theaters going direct to video stores, and porn are growing share in the market.
- 3.2 Theatrical Release.** About 500 commercial films are released each year in the US, 200 of them as major studio releases. The growth of Home Video, and not box office, has driven the 60% increase in theatrical releases from about 290 features in 1997 by major and independent studios.

Films rarely return their investment at the box office since, on average, only one new film can be a hit each week. New movies entail high production, distribution, and marketing costs. The cost of a theatrical movie continued to climb in 2003 to an average \$93.1 million according to the MPAA, its highest ever, compared with \$89.4 million in 2002 and \$54.8 million in 2000.

That means that these hundreds of titles have a new opportunity to find an audience in the Home Video aftermarket, making them all critical to a studio's fortunes. Despite many changes, Home Video is still a "hits"-driven business.

Content creators for Home Video are primarily major studios, such as UNIVERSAL, WARNER BROS. and PARAMOUNT, and smaller studios, such as DREAMWORKS and ARTISAN. Increasingly, content is available from television show producers, such as CARSEY-WERNER and BRAD GREY TELEVISION, or a subsidiary of one of the entertainment and/or cable conglomerates.

- 3.3 TV Show Content.** Increasingly, consumers are renting and purchasing not just theatricals, but television shows like *The Sopranos*. The trend is continuing towards increasing personalization and customization, meaning more titles, inventory and asset management issues.

Recently, the trend has been for TV programs to distribute full-season DVD compilations into the Home Video market. For example, HBO released a full-season DVD for both *The Sopranos* and *Sex in the City*. Fox has performed well with *24* and *The Simpsons*, while DISCOVERY has released several of its ANIMAL PLANET series.

New technology is stretching out Home Video revenue streams. Producers are able to make profits on small unit sales. With the dramatic declines in the cost of video and editing equipment, which can now be produced on a laptop, high quality video is increasingly coming from independent sources.

## 4. Windows

The task of managing windows, with the requirement of maximizing revenue and profit from each window, is increasingly difficult. Enterprise-wide management systems are needed by all content and rights holders. Without proper systems, opportunities can be squandered, losing revenue and costing companies millions of dollars.

Pressure to generate revenue is causing the creation of new windows. Enhanced digital technology is creating shorter exhibition windows, global release dates, and far greater importance for efficient execution of rights, sales and window management.

**4.1 Content Lifecycle.** In 2003, total industry box office receipts were \$9.2 billion, representing 1.52 billion admissions, at an average ticket price of \$6.03. 2003 had to settle for second place all-time as revenues dropped 1.2% and admissions declined 5% against 2002 results.

The Home Video window begins approximately 4-6 months after theatrical release (Chart 5). The average number of days it takes for a movie to reach Home Video has steadily shortened since 1996, declining from 180 days in 1996 to 155 days in 2003<sup>1</sup>.

**Chart 5: Content Lifecycle**

Window	Premiere date	Duration
Theatrical Release	Day 1	3 months
Hotel/Airline	Month 3	1 month
Home Video	Month 4-6	6 months
VOD/PPV	Month 9	1-3 months
Pay TV	Month 12	18 months
Cable and Network	Month 30	2-3 years
Various	Year 4½++	Ongoing

During the Home Video window, a title is available to consumers for direct purchase at about \$20 - \$30, and as a rental for approximately \$3.95 at retail outlets such as BLOCKBUSTER.

Average number of days it takes a movie to migrate from Home Video to Pay-per-View (PPV) and Video-on-Demand (VOD) has maintained steady at 40 to 50 days since 1996, indicating that studios and video retailers want to protect their windows and maintain title profitability in every window.

Video-on-Demand continues to be a potential threat to the video rental market. Although VOD has benefits, it will not be a real threat until the window between video rental release date and the VOD release date closes substantially. Tests suggest that even 30-day windows are enough to preserve video revenue. However, shorter windows have not

<sup>1</sup> Kagan, Media Trends, 2004

demonstrated any upside for PPV/VOD; windows are expected to remain where they are.

Windows change and evolve slowly over time. They change to meet the content needs of a larger volume of cable and satellite needs, and more importantly, an increased variety of methods of delivery of Home Video. New windows have grown where previously none existed. DVD fit in nicely with the VHS sell-through and rental window, but PPV and VOD have not yet hit a growth trajectory that might allow it to surpass Home Video.

While theatrical windows have shrunk and Home Video windows are earlier, Pay TV windows have not crept earlier (still 12 months after release date) and studios have cut back on providing Pay TV a third exhibition window, since syndication of movies to broadcast and cable nets has grown.

Programmers and distributors alike are now recognizing the value of sophisticated applications to improve their ability to manage windows and content. Large and small companies alike are responding to this daunting challenge. They are finding new applications deliver an improved ability to grow revenue as well as providing tools to better manage expenses.

## 5. Distribution

---

Prior to 1985, the movie industry had only one real source of revenue in the United States and abroad: the movie theater. Today, with the mass communications revolution, new markets are growing so rapidly that they are no longer just ancillary to the basic theatrical market, but have become fundamental markets in themselves.

**5.1 Distribution Overview.** Historically, the largest part of video rental companies' costs was purchase of video cassettes at \$65 to \$70 per cassette. Large chains typically spent heavily on advertising their brand name, while content suppliers incurred the cost of advertising the home video release movie.

Studios pay cost of manufacturing and marketing their home video releases. One study estimated the marginal cost of producing, packaging and shipping a prerecorded videocassette at \$3.00

In the late 1990s, BLOCKBUSTER VIDEO signed several revenue sharing deals with major studios. These deals allowed BLOCKBUSTER to purchase tapes at a much lower fee in exchange for sharing rental revenue with suppliers. These contracts resulted in sharing the risk of over-stocking, and provided consumers more hit movies on the shelves. Under threat of class action lawsuits by independent store owners, special price packages pushed the average price per unit to \$40 in the mid to late 1990s, near its current wholesale price.

The challenge for video stores, particularly independents or small chains, has been to obtain sufficient stock to meet consumer demand for a new blockbuster title during the first weeks after release. Even at \$40 per unit, over-purchase could mean a costly mistake.

**5.2 Rental Distribution.** Home Video rental distributors have historically been small retailers. Of the approximately 20,000 retail home video outlets, BLOCKBUSTER VIDEO is by far the largest. The rental market has stagnated at \$8.5 billion with no signs of growth.

These are difficult economic times for rental retailers as the fundamentals have shifted from them to studios with the consumer acceptance of DVD and sell-through. Besides, BLOCKBUSTER VIDEO (symbol: BBI), HOME VIDEO retailers include HASTINGS XXX (HAST), HOLLYWOOD ENTERTAINMENT (HLYW), and MOVIE GALLERY (MOVI).

**5.3 Sell-through Distribution.** The sell-through market is growing rapidly, expected to hit \$17.5 billion in 2004, up 11%. By offering DVD at a lower sell-through price upon release into the Home Video window, studios are actively trying to undercut BLOCKBUSTER'S hold on rental revenues.

The advent of low DVD pricing has brought mass retailers, such as WAL-MART, TARGET, and BEST BUY into the business. This has furthered the downward pricing of DVD at retail and become a loss-leader for some titles as a way to drive traffic into video superstores. The positive consequence for studios is the higher unit volume. The trend is expected to continue as DVD players increase penetration.

- 5.4 Mail Order Distribution.** Pioneered by NETFLIX (NFLX), this is a subscription video rental model via mail order provides up to 3 DVDs at one time for a monthly fee of \$19.95, and no late fees. NETFLIX is approaching 2 million subscribers, 3% share of the \$8.5 billion rental market, and is growing by 125,000 subscribers monthly. Its 18,000 title library is far deeper than any local retailer.

WAL-MART entered the mail order subscription business in 2003, undercutting NETFLIX by \$1. BLOCKBUSTER VIDEO runs competitor Filmcaddy.com and has announced a launch in 2004 for its BLOCKBUSTER branded service.

NETFLIX has long claimed that it will be happy to achieve 5% market penetration. The company recently announced that it has increased its penetration in the San Francisco Bay Area to 5.9% at the start of 2004, up from 5.4% a quarter earlier, with no sign of slowing.

- 5.5 Economic Fundamentals.** Even as DVD surges, it is on a different economic path than VHS. Under the previous VHS sales program, studios netted nearly \$40 for each rental they sold. Sell-through DVDs, on the other hand, bring in less than half that, typically between \$15 and \$20, but on higher volume.

The shift from VHS rental to DVD sell-through provides studios a higher share of consumer expenditures on home video, shifting revenue from home video retailers. Under the sell-through model, a studio typically captures 65% of the retail price as revenue, almost double their 35% share under its revenue sharing agreements with the major rental chains.

DVD share is expected to reach 80% in 2004, up from an estimated 70% in 2003, further increasing the studio's take of consumer expenditure on home video. The sell-through market is anticipated to grow at 11% to \$17.5 billion, exceeding the overall home video growth rate of 7%. By comparison, the rental market is expected to remain flat at \$8.5 billion.

For retailers, low DVD prices create more purchases rentals, but lower prices for inventory mean higher margins per rental. Buying a DVD for \$15 without having to share revenue is an attractive option for the rental business. BLOCKBUSTER pays studios \$15 per DVD while renting them for \$3.65 each.

By comparison, when a studio is released theatrically, the theater typically splits the proceeds from box office receipts, keeping roughly half, with the rest paid to the distribution company as a rental fee.

**5.6 Piracy.** Since the introduction of home recording devices, piracy has been an issue. Though this report does not address the issue of piracy, it is forcing changes upon studios and the distribution chain that are critical to the business of operating in the Home Video market.

**5.6.1 Shorter windows** – To reduce the impact of piracy, windows are compressed. Studios need to generate revenue more quickly to beat piracy before it has a chance to severely impact the bottom line. This increases pressure on management and inventory.

**5.6.2 Geographic compression** – Studios are shifting movie release dates into simultaneous global events, no longer differing by country. Previously, DVD released in one country had the opportunity to be pirated into another, often prior to theatrical release.

The impact is shorter response times, and the need for better management tools and applications.

## 6. New and Competing Technologies

---

New distributors, windows and technologies are compounding the management issues faced by rights holders and sellers. The desire to sell content to new and competing technologies, even creating new windows for new distributors, requires increasingly sophisticated rights management and asset tracking systems, or risk losing revenue, profit and share in an increasingly competitive market.

Several alternative home video distribution channels have emerged. These are going far beyond the concept of a video store to include online subscription models, and new technologies. The new forms attack the rental model by offering fewer trips to the video store and no late fees, and improving on the cost structure of sell-through.

**6.1 Home Video New Technologies.** There are several new technologies that are increasing the options Home Video consumers will be able to choose from. These developments are designed to enhance the home viewing experience.

**6.1.1 Disposable DVDs** - Disposable DVDs have a pre-set viewing window that begins when the disc is removed from its sealed packaging. After this viewing window, the disc will no longer be readable by the DVD player.

FLEXPLAY TECHNOLOGIES has created a process which makes a DVD unreadable by the DVD player's laser beam after a pre-determined time period lapses. Once removed from its packaging, it can be viewed as many times as desired within a 48-hour viewing period. The disk turns from red to black at the end of the window, becoming unreadable by the DVD player.

This new technology offers consumers a convenient alternative to the current movie rental process at \$4.99 to \$6.99 per disk, with no return trips or late fees. FLEXPLAY'S patented technology also allows content providers to seize new business opportunities

**6.1.2 HDTV DVDs** – As HDTV consumer electronics equipment gains acceptance, consumers will increasingly seek out content since it is largely unavailable or highly repetitive on cable and satellite. The Home Video industry is actively pursuing this technology in hopes of gaining a competitive advantage as the equipment reaches a broader audience.

Home Video retailers have already tapped into this market by offering widescreen versions of titles for sell-through and rental.

## 6.2 Alternative forms of Home Video.

The two biggest threats that exist today to the Home Video industry are Video on Demand via cable and Internet video streaming via broadband. They have the potential to disrupt the industry in many unforeseen and unimagined ways.

**6.2.1 Video-on-demand.** VOD generated \$293 million in sales during 2003. It is having a hard time gaining consumer usage as consumers either 1) don't know they have it; 2) know its there, but have a difficult time navigating the system; and/or 3) associate VOD with pay content and are afraid they will have to pay for all on demand usage.

As shown in Chart 6, by 2006 nearly half the multichannel video households in the US will have access to VOD.

**Chart 6: VOD Multichannel Households, 2002 - 2006**

<i>in millions</i>	2002	2003	2004	2006	2006
Analog Cable	49.8	40.3	34.5	28.2	23.0
Digital Cable	20.2	30.5	36.0	42.0	47.0
<b>Total Cable</b>	<b>70.0</b>	<b>70.8</b>	<b>70.5</b>	<b>70.2</b>	<b>70.0</b>
DBS	19.0	21.5	23.5	25.0	26.0
Other	3.9	3.8	4.1	4.3	4.5
<b>Total Multichannel</b>	<b>92.9</b>	<b>96.1</b>	<b>98.1</b>	<b>99.5</b>	<b>100.5</b>
% VOD Access	16%	29%	36%	42%	47%

Source: Credit Suisse First Boston

**6.2.2 Video Streaming** - Broadband has gone mainstream. Nearly 50 million people are connected via broadband today<sup>2</sup>. Many are also buying new, inexpensive and easy-to-install home networks. With the industry rapidly standardizing on digital rights management systems, content providers are increasingly enthusiastic about Internet distribution, despite the operational, security, and rights issues.

Three dramatic changes are driving the increase in distribution of video over the internet.

**Greater home storage capacity** - The costs of local storage are plummeting. Disk drive capacity is growing at an astonishing 54% annually, meaning consumers are able to purchase greater and greater storage at home. The declining cost of physical storage, combined with the decrease in the number of bits necessary to make the same quality pictures, means that virtual storage costs are improving at an annual rate of about 85%.

<sup>2</sup> Nielsen//NetRatings

For the same price, hard disk capacity is growing dramatically.

**Chart 7: Hard Disk Capacity Growth**

	<b>GBs / \$100</b>
2003	75
2004	130
2005	175
2006	280
2007	420

**Increased bandwidth into the home** – Cable modem and DSL connections are delivering up to 3 MBPS to consumer homes, more than enough for near real time viewing of video. The cost of transporting video over the Internet has decreased to under \$1 per gigabyte, down from \$20 per gigabyte just a few years ago. In addition, the recent availability of high-quality codecs (new ways to compress video for transfer on the Internet) allows providers to deliver DVD-quality video at 1.5 MBPS, easily able to be sent over a broadband cable or DSL connection.

**Increased PC computing power** – The speed of processors for home PCs continues to double every 18 to 24 months. Increased processing power is required for media rich applications as well as streaming video.

Consumers are learning this new technology very rapidly. 7.8 billion video streams were accessed during 2003, an increase of 104% over 2002. Of these, 78% were viewed at broadband rates. One third of the streams were music video, indicating the high youth rate of adoption, followed by 28% news, and 17% sports.

Length of view and total views of streaming video were also up significantly in 2003, with video clips now running back to back, the internet's version of television.

**6.2.3 Home Video Competitors.** Several companies are entering the market as home video competitors.

- **Movielink** - MOVIELINK is a partnership with INTEL, MGM, ARTISAN, WALT DISNEY, MIRAMAX, PARAMOUNT, SONY UNIVERSAL and WARNER BROS. It allows consumers to rent high quality, encrypted movies by downloading directly to a PC or laptop. It has a library of about 300 movies, 45% new, which consumers can begin viewing within 2 to 10 minutes of beginning to download. Movies can be stored for up to 30 days on a PC with unlimited viewing within a 24 hour period. Cost is \$2.99 to \$4.99 per rental with no membership or late fees.

- **Soapcity.com** - Soap operas are becoming a successful streaming business due to the loyal fan base. As \$9.99 per month or \$1.99 per episode, selected soaps are available without commercials and in near-DVD quality.
- **Akimbo** - Privately held Akimbo recently announced a new set-top box and service for internet distribution of video. The box would download movies and play them on a TV. Service set to launch late in 2004.
- **ESPN Motion.** Disney's ESPN Motion is a software architecture which allows the content provider to control video. Using Window Media Player 9, ESPN Motion (at ESPN.com) trickles up to 10 minutes of video into always-on broadband connections, which consumers can play back as video. Interestingly, it is impossible to skip commercials.

## 7. Issues

---

There are a great many issues confronting the Home Video industry. Several of the key areas of interest for the future are summarized here.

- **Rights management** – The complexity of rights management issues has the potential to overwhelm unprepared companies. Sophisticated information and management systems are desperately needed to handle the escalating velocity of transactions, as well as expanding windows and markets.
- **Competition** – As the Home Video market matures and DVD growth slows, companies will be pressed to reduce the costs from operations. Inferior IT systems will hamper sales and leave companies at a competitive disadvantage against companies that are better able to manage inventory.
- **Falling DVD prices** – As DVD sell-through increases, will DVD prices fall too fast? The question is how low can the cost of a title fall at retail and how large a threat this will pose to the Home Video rental industry.
- **Alternative forms of distribution** – What will be the impact of alternative forms of distribution? How will complementary businesses, such as mail order subscription services like Netflix and disposable DVD technology impact the Home Video market?
- **Piracy** – How will studios and retailers respond to the growing global problem of piracy? Will shorter windows and lower costs be enough?

## **RSG Systems**

---

RSG Systems has developed a tradition of excellence. It is moving forward in developing integrated e-business solutions, content management and executive and professional services for a wide range of industries.

With top quality professionals and strategic industry partnerships, RSG transforms client vision into business reality.

For more information, contact RSG Systems at:

Mukesh Sehgal  
President  
1.212.448.9191

## **APPENDIX**

- Appendix 1      Studios and Content Producers
  
- Appendix 2      Video Store Software Suppliers
  
- Appendix 3      Video Store Retailers and Distributors

## APPENDIX 1 STUDIOS AND CONTENT PRODUCERS

AnimEigo
Artisan Entertainment
BFS Entertainment
Buena Vista Home Entertainment
Columbia TriStar Home Video
Dimension Films
EI Independent Films
Fine Line Features
First Look Features
Gaumont
HBO Home Video
MGM/UA
Miramax
MPI
MTI Video
Mystic Fire
New Line Home Video
Palm Pictures
Paramount Pictures
Playboy Home Video
Slingshot Entertainment
Sony Pictures Entertainment
Trimark / Lion's Gate /Studio Home Ent.
Troma
Twentieth Century Fox Home Entertainment
United International Pictures
Universal Pictures Home Video
USA Films
Vanguard International Cinema
Viz Communications
Walt Disney Company
Warner Home Video retailer site
Wellspring Media

## APPENDIX 2

### VIDEO STORE SOFTWARE SUPPLIERS

Acme Business Forms	Scanners, Cash Drawers, Printers, etc...
Barcode Discount Warehouse	
Bonafide Management Systems	Software solutions
Complete Software Solutions	History of Home Video Games
Microsoft X-Box	
Newtown Video Distributors	
Nintendo	
OCI Retail Computer Sciences	
Par Code	Scanners / barcodes
Rapid Rental Software - TVL, Inc.	
Sega	
SelbySoft	
Sony PlayStation	
Star Tracer POS Software	
Tempus Technologies, Inc.	
TVL Inc.	Rapid Rental Software
Unique Business Systems	
"The Video Store"	Video Rental Software
VMT Software	

### APPENDIX 3

#### VIDEO STORE RETAILERS AND DISTRIBUTORS

A J M Shrink Wrap/Laminating Co., Inc.	
Backstage Pass, Stuart, VA	
Baker & Taylor	Primary New Release Distributor
Bargain Flix.com	
Bonafide Management Systems	
Bowermaster & Associates	Insurance Agency
Breeta Sales	Supplies and Accessories
Broadway Video	Distributor, Producer, Supplier
CCC of America	Supplier of Family Product
CD Now	Distributor of Digital Entertainment
Clear-Vu Products	Manufacturers of VHS, DVD and Video Game
Complete Software Solutions	Point of Sale Systems
Cranbrook Video	Laser, DVD and Movie Sales
Discount Video	Montana
Education 2000 Inc.	Special Interest Videos
Frontier Video Distributors	Secondary Distributor
Front Row Entertainment	
Hot Body	Erotic Home Video Distributor
Ingram Entertainment	Primary New Release Distributor
Le Video	San Francisco, CA
MetaExchange	
Movie Gallery	National Chain
Movie Show Video	
Multimedia Case Manufacturers, Inc.	
Netflix	Online DVD Rental Store
Newtown Video Distributors	
The Picture Palace	
RSE Video, Inc.	Milwaukee, WI
Rain City Video	
Rentrak Corporation	
Scarecrow Video	Seattle, WA
Science Fiction Continuum	Seller of tapes, collectibles, etc.
SelectVideo	Atkins, AR
Showtyme Video	Special Interest Video Sales Williston Park, NY
Super Star Video	San Mateo, CA

Tempus Technologies, Inc.	POS Software Systems
TLA Entertainment Group	Stores in PA, and NY
Tomato Land	Display Systems
Video Connection	
Video Depot	Whitney, TX
Video Design Locacoes Ltd.	Sao Paulo, Brazil
Video Gallery	Vinita, OK
Video Pipeline	
VPD	Primary New Release Distributor
WaxWorks	Primary New Release Distributor
World Video	Online Home Entertainment