

**Remarks of Dan Glickman
MPAA Chairman and CEO
To ShoWest 2007
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State of the Industry

Thank you all for the invitation to be here. MPAA has a long tradition of joining with the theater owners each year to talk about the future of the movies. But when I come here, it's hard not to think of the past. John Fithian and I go about as far back as two people can. I served with his father in the House of Representatives. I remember him running all around Capitol Hill...turns out it was great training for him. He's a wonderful advocate for the movies and the movie-going experience...a great ally to MPAA. I'm so pleased to carry on this annual tradition with him of bringing this industry together at ShoWest.

Of course, in business as in politics, it's always a little more fun to show up for events like these when you have good news to share. We certainly have that in spades right now.

In 2006, people around the world reminded us how much they love going to the movies...heading to movie theaters nearly 1.5 billion times in the U.S. alone. As a result, the U.S. box office was up 5.5% last year, reversing a 3-year decline. Worldwide the international box office increased at double that rate, rising 11% to an all-time high of \$25.8 billion...with growth coming both from American films and local movies.

In the U.S., 63 films in 2006 grossed more than \$50 million at the box office, a 12.5% leap. Leading the pack, of course, was Johnny Depp and his *Pirates*, who sailed past the \$400 million mark domestically. Internationally, they found booty far more valuable than any dead man's chest—passing the elusive billion-dollar mark.

Also positive, more and more creative visions are making their way onto the screen. The number of new releases has steadily grown over the past several years...climbing to more than 600 films in 2006...up 11% from 2005.

No one is thinking more than the theater owners about the implications of home video technology and digital distribution to the future of their businesses. Even when it comes to competing with our own ever more sophisticated living rooms, we have encouraging news. A recent study by Nielsen Entertainment indicates that the more home technologies a person owns—DVR, big screen, DVD—the more they like to go to the movies.

In fact, frequent moviegoers—the movie lovers—went to more movies in '06 than '05. And, according to Nielsen, the vast majority believe the experience was time and money well spent.

And, what a line-up we have on tap. 2007 is shaping up to be the year of the sequel: *Pirates of the Caribbean*...*Shrek*...*Spiderman*...*Harry Potter*...*Ocean's 13*...*The Fantastic Four*...*Rush Hour*...*Evan Almighty*...*The Bourne Ultimatum*...*Live Free or Die Hard*. Add to the mix a strong slate of mid-size and independent films...*Atonement*...*The Kite Runner*...*Underdog*...and

animation projects like *Ratatouille* and you have the makings of an extraordinary sequel of our own in terms of this industry's growth. My prediction is that 2007 will be much bigger than 2006 for all of us.

We've all heard the naysayers. But at the end of the day, going to the movies remains the overwhelming choice for entertainment in this country, drawing more people than theme parks and major professional sports leagues combined.

Just look at this past record-setting weekend—\$70 million for the top film alone. I want to congratulate Warner Brothers...turns out *300* isn't just a perfect score in bowling anymore.

To paraphrase Mark Twain, "reports of our death have been greatly exaggerated." Some of our elite friends in the media may pontificate about the demise of the film business. But I suspect their careers will be a lot shorter than the business of movie-making.

Piracy

Of course, all of this good news does not mean that we can afford to be complacent. Intellectual property theft continues to cost our industry \$18 billion a year. I want to thank our NATO partners for working so closely with us on a variety of piracy issues, especially with regard to camcording in theaters. We have a lot of work still to do in places like Canada, but we are making progress. And, I'm pleased to note that even in some of the countries where we face some of our biggest challenges in controlling piracy, places like China and Russia are among the territories where we realized some of the most impressive percentage gains in legitimate box office earnings in 2006.

Notwithstanding the war in Iraq and our nation's other international troubles, people around the world still love our entertainment product. This is good news for America and for our industry. We are a successful industry, with a positive balance of trade around the world that is unrivalled by any other U.S. industry. MPAA recently held a symposium in Washington to raise awareness of "the business of show business." We have an extraordinary story to tell...an industry that creates 1.3 U.S. million jobs and makes a \$60 billion annual contribution to the nation's economy.

MPAA and NATO will continue to work together with our friends in Congress, in state legislatures, in the Administration and around the world to protect the rights of this critically important American industry.

The Movie-Going Experience

Of course, the companies I represent are helped not only through strong theatrical sales, but also strong home video, DVD and Internet sales. With new data that demonstrates folks who take advantage of other distribution platforms are more likely to see movies in the theaters, I hope we can recognize that this evolution can be good for everyone in the movie business. We should not be afraid to embrace the future, to experiment and to speak honestly and openly with one another about all of the possibilities to expand our audiences.

Now, I don't know what lies ahead. But I do know this: I just want folks to see more movies in a variety of venues...in the theater...on DVDs... on the Internet, legally of course...and in other ways I can't yet dream of. I'm not here to tell you what form it will take or how many days there will be between the various windows. That's not up to me to decide. It's up to the marketplace. But I am telling you that the future will offer great opportunities, and we need to work together to figure it out. I will also share with you my firm belief that the theatrical experience is the core of this business—period.

One of my goals since coming to the MPAA is to promote the movies theatrically and in all venues. But I recognize, as you do, the singular power of the theatrical experience. Since I was a little boy in Wichita going to the Tower and Crest theaters as a kid to see dozens of cartoons on Saturday mornings....boy I am old.....I have been in love with the movie house and its communal spirit.

Our job is to continue supplying movies of all shapes and sizes, big and small, major studio and independent, geared not only to the young, but also to my age group—the more mature audiences. I was especially glad, for example, to see 61-year-old Sylvester Stallone stalk back into the ring as *Rocky Balboa*. It got me back into the gym a few extra times. I had this overwhelming desire to pump some iron. Now we see *Wild Hogs*...another huge hit. Like so many, I also greatly enjoyed watching smaller, independent films break through...*Little Miss Sunshine*...*The Queen*—documentaries like *An Inconvenient Truth*.

Different strokes for different folks. There is so much room for success today. The diversity of product is enormous today and that will help bring more people into the theaters.

Just last Sunday I went to a theater in DC to see “the Last King of Scotland”....SOLD OUT. Then I tried “Amazing Grace”....SOLD OUT. Now, don't get me wrong: I was grateful not to have a *Washington Post* reporter on-hand to chronicle my inability to get into the movies. But unlike most in that situation, I actually left the theater happy.

Looking forward, of course, the trick is for us to continue to present compelling stories...and, on your part, to provide movie-goers with a comfortable, safe and modern experience at the theaters. With the roll out of digital cinema—we are now to almost 3,000 screens—the timing seems perfect for experimentation aimed at meeting consumer demand within the theatrical environment. We need to continue to seek out opportunities, through technology and beyond, to renew and invigorate the movie-going experience.

The Power of Stories

Of course, while economics are central to the business of movie-making, we all know that they are largely a byproduct of good stories well told. As Shakespeare first noted, “the play is the thing.” Even back at the Globe Theater in the early 1600s, from star-crossed lovers to scandal-prone royals, it was stories that put the proverbial “butts in the seats.”

It was a good year for the movies because, by and large, they did their job. They made us laugh. They made us cry. They made us think.

MPAA recently went around Washington and asked Members of Congress about their favorite movies. It was a fascinating project. Dozens of members wanted to participate from both political parties. I can't tell you how many of our national leaders today grew up wanting to be Gregory Peck's Atticus Finch. I won't over-analyze my own youthful admiration for Chevy Chase's Ty Webb in *Caddyshack*. But either way, film has long had an extraordinary, personal influence on our lives, which is really the secret to our medium's profound cultural impact on the world.

This industry has an extraordinary legacy of moving the country and the world to action... *To Kill a Mockingbird*... *Guess Who's Coming to Dinner?*... *Norma Rae*. This tradition remains alive today from *The Insider* and *Brokeback Mountain* to *Blood Diamond* and *Letters from Iwo Jima* to *The Lives of Others*... this last an extraordinary foreign film on the East German Stasi, hugely relevant in light of recent disclosures of FBI violations of the Patriot Act.

Many of these stories were controversial and provocative in their time. In this way, they reflect and carry on a uniquely American artform. They demonstrate a passionate commitment, among many filmmakers, to social responsibility. They owe significant credit to the first amendment protections of our Constitution. And, for more than 40 years, this freedom of artistic expression has been safeguarded by the voluntary film ratings system that is jointly managed by MPAA and NATO.

A Brief History of the Ratings system

This ratings system, of course, is the brainchild of a visionary leader of our industry, my predecessor Jack Valenti. I'll never forget his story of the events that led to its creation. It was the summer of 1966... a time of incredible social upheaval... insurrection on college campuses... riots in the streets... women's liberation... the crumbling of social traditions.

New to the job, Jack found himself almost immediately embroiled in controversy over the film "Who's Afraid of Virginia Woolf?" Ultimately, it led to a three-hour sit-down with studio execs to discuss the first ever on-screen use of the word "screw" outside the traditional home improvement context... and one even more colorful line. I believe in the end "screw" was relegated back to the toolbox and "hump the hostess" went on to make cinematic history.

But the whole experience left Jack—understandably—very uneasy. After all, he didn't want to spend all of his time in what was either a very awkward or extremely funny meeting—having similar discussions on film after film. He knew the solution wasn't ceding the first amendment rights of filmmakers with a long list of "thou shalt nots" that would make even the most veteran sailor blush.

So instead, he and others came up with the ratings system. Now we all know that the system gets its share of flack. To a certain extent that's healthy and to be expected in a democratic society, where we have different points of view. But the truth is, the ratings system is a great American success story. It is emulated and copied around the world. It gives consumers, particularly parents, a simple, easily understandable way to determine whether content is

suitable for them and their children. And, while ratings were created for parents, I personally know dozens of people past the age of 21 who find this system useful.

That said, ratings exist not to tell you what to see...not to dictate the viewing habits of adults...not to cast judgment on a film...grown-ups have no use for that in a free society.

Take myself as an example. I saw *Borat* three times precisely because it was riddled with adult language and situations, including arguably the most disturbing nude scene ever to hit the silver screen. The movie would be about 30 seconds long and no fun at all if it weren't for these elements. But that's beside the point of the ratings system.

The genius of the system, of course, is its simplicity. The raters themselves are parents of school-age children. And, their job is fairly straightforward. It is to ask the questions they would ask themselves—questions you would ask yourselves: Would I let my kids watch this? At what age? With or without an adult? What would I want to know in advance about this film in order to make my decision?

In this way, the ratings system doesn't set social policy—which would be inappropriate in a free and open society. But it does adapt with the times. It is not set in stone on Mount Sinai.

Drug use is a classic example. It wasn't as much of a concern in the '60s and '70s in film. Many thought it was sort of funny or at least somewhat socially acceptable. But that has clearly changed over time...and the ratings reflect that change.

We also added PG-13 in 1984 to denote films with a higher level of intensity than PG. In 1990, we began adding descriptors—brief explanations of why a particular film achieved its rating. Last year, we launched Red Carpet Ratings, offering parents e-mail updates with ratings information on recently released films. At each step, parents have been enormously supportive of receiving the additional information. In the 1970s, about half of parents with children under the age of 13 thought of the ratings system as useful. Today, the system enjoys an 80% approval rating among these parents.

Of course in working so hard to keep the ratings system responsive to parents, we also are doing something essential both to the business and the art of movie-making. We are working to keep the government censors at bay. Whether the threat comes from Congress, the states, religious or other organizations, the specter of censorship always lurks at the fringes of the movie drapes. This is not a partisan issue either. Both parties are prone to saber-rattling, particularly in a "hot" political season, such as the one we are about to enter.

So continued, principled work building confidence in the ratings system and keeping it current with modern parental concerns is critically important. As you know, we announced some changes in January aimed at bringing additional sunshine to the process and greater latitude for filmmakers, particularly independent filmmakers, in the appeals process. Joan Graves, who does a great job as chair of the ratings board, will be reviewing these changes tomorrow here at ShoWest with NATO folks on John's team. We are working hard to

make the system more transparent for parents, filmmakers, exhibitors and distributors—all stakeholders to the process.

We are always looking for ways to modernize and improve the system. It's an art, not a science—and one that demands constant vigilance. For example, for some time we have recognized that teen smoking is a major concern for parents, alongside drug abuse, violence and sexual situations. We want to ensure that our ratings keep these concerns appropriately in mind and are updated as necessary, working with all of our stakeholders, including NATO, so that parents are properly informed.

The issue of smoking in films is one that many in our industry have been focused on for some time. Groups such as the Directors Guild of America and the Entertainment Industry Foundation are aggressively involved in campaigns to reduce the amount of gratuitous smoking in movies, and we are going to be working with both groups to accomplish these objectives. None of our member companies accept money for the promotion of tobacco products in film. This is a continuing process. And, we are actively considering ways we can make an even greater and appropriate contribution that reflects the concerns of parents and others, while preserving the creative freedoms that are the heart and soul of American cinema.

Conclusion

In conclusion, I'm reminded of a song by James Brown—"I feel good." I'm not pollyannish. We do live in interesting times. But I do feel good about this business. Movie-lovers are as enthusiastic as ever. Technology has given us both significant challenges and opportunities. We're going to make the most of them together. On behalf of MPAA and its member companies, I want to congratulate you all on another successful year at the box office. Thank you again for the invitation to join you today. And, I look forward to a great sequel of our own next year—with a strong 2007.

