

“THE BIRTH OF THE HOME VIDEO INDUSTRY AND THE FUTURE OF VISUAL ENTERTAINMENT”

**HELLO TO THE STUDENTS AND FACULTY OF MICHIGAN
STATE UNIVERSITY.**

**I AM GOING TO TALK ABOUT THE FUTURE OF VISUAL
ENTERTAINMENT, MY ROLE IN FOUNDING THE HOME
VIDEO INDUSTRY AND ABOUT MY HISTORY AS AN
ENTREPRENEUR.**

**YOU ARE LIVING IN AN AGE OF WONDERMENT
REGARDING CHOICES OF VISUAL ENTERTAINMENT.**

**UNTIL 1950 WE ONLY HAD MOVIES AND RADIO. UNTIL
THE 1970’S WE ONLY ADDED 3 OR 4 TV CHANNELS.**

**THINGS BEGAN TO POP WITH HOME VIDEO BRINGING
MULTIPLE CHOICES IN MOVIES AND THE EXPANSION OF
CABLE BROUGHT 40 OR 50 CHANNELS DEDICATED TO
RE-RUNS AND SPECIAL INTERESTS. TODAY YOU HAVE 300**

CABLE CHANNELS, THOUSANDS OF VOD PROGRAMS AND TENS OF THOUSANDS OF INTERNET DELIVERED PROGRAMS RUNNING THE GAMUT OF OLD AND NEW TV SHOWS TO ORIGINAL PROGRAMMING SPECIALLY CREATED FOR MOBILE SCREENING.

THE ADVENT OF ORIGINAL PROGRAMS FOR DEVICES OTHER THAN TV'S IS CREATING A MOUNTAIN OF OPPORTUNITIES FROM SHORTS TO NEW DRAMATIC AND COMEDY SERIES. LETS LOOK AT SOME OF THE MANY NEW IDEAS ABOUT VISUAL ENTERTAINMENT.

SHOW HEADLINES

"BETTING ON PREMIUM VIDEO"

"YOU TUBE IS SAID TO PLAN A SUBSCRIPTION OPTION"

"DREAMWORKS TO BUY AWESOME TV"

"TWO CLASSICS OF THE SOAPS ARE HEADING TO THE WEB"

"THE AGE OF BITE SIZE ENTERTAINMENT"

“REALITY TV SHOW-WITHOUT TV”

WHERE WILL IT END OR DO WE WANT IT TO?

WITH MOBILE DEVICES AND TABLETS BECOMING SO POPULAR, TELEVISION VIEWING AND TO A LESSER DEGREE MOVIE WATCHING ARE GOING THROUGH WHAT I CALL A TECHNOLOGICAL SHIFT. THE MOVIE COMPANIES, TELEVISION AND CABLE COMPANIES BY THEIR NATURE DO NOT LIKE DISRUPTION. WE ARE GOING TO DISCUSS THEIR LIKELY MOVES AND DEFENSES.

TWICE BEFORE THE MOVIE STUDIOS HAD TO ADJUST TO DISRUPTIVE TECHNOLOGY. FIRST IT WAS THE BIRTH OF BROADCAST TELEVISION IN THE 1950'S. TELEVISION CUT MOVIES AUDIENCES BY A WHOPPING 75%. BELIEVE IT OR NOT BUT THE AVERAGE PERSON SAW UPWARDS TO 30 MOVIES A YEAR IN 1946. BY 1971 THE AVERAGE WAS 3.9 TODAY IT IS STILL ONLY 4. OF COURSE THAT IS THE

THEATER GOING AUDIENCE. IF YOU ADD TV , CABLE, VOD AND THE INTERNET IT IS SIGNIFICANTLY HIGHER. THE ADVENT OF TV SENT ALL THE STUDIOS EXCEPT DISNEY TO THE TRASH BIN. BY THAT I MEAN THEY EITHER WENT BANKRUPT OR WERE ACQUIRED BY OUTSIDE FIRMS. MORE ON THIS LATER.

THE SECOND DISRUPTIVE TECHNOLOGY WAS THE ADVENT OF THE VCR AND THE LAUNCH OF THE HOME VIDEO INDUSTRY. THIS IS THE STORY I AM GOING TO DELIVER IN THE NEXT 40 OR 50 MINUTES. AS OPPOSED TO TELEVISION HOME VIDEO TURNED INTO A NEW SOURCE OF REVENUE THAT FAR OUTPACED BOX OFFICE REVENUE FOR 25 YEARS.

NOW THAT MARKET IS WEAKENING WITH THE BIRTH OF VIDEO ON DEMAND AND STREAMING TAKING A GROWING SHARE OF CONSUMERS ENTERTAINMENT DOLLARS.

I WANT TO SET UP THE LIKELY OUTCOME OF THIS SHIFT ON THE MOVIE STUDIOS, NETWORKS, AND CABLE BY ASKING SOME MULTIPLE CHOICE QUESTIONS.

1. HOW MANY OF YOU WATCH MORE TELEVISION ON DEVICES OTHER THAN A TV SET.
2. HOW MANY WATCH MORE MOVIES ON THESE DEVICES RATHER THAN GO TO A MOVIE THEATER.

OK NOW WE KNOW YOU ARE PART OF THE SHIFT

3. I WANT TO EXPLORE YOUR DESIRE FOR MOVIES. WOULD YOU PAY MORE TO SEE A FIRST RUN MOVIE ON A LARGE HIGH DEFINITION TV IN THE PRIVACY OF YOUR HOME WITH AS MANY FRIENDS AS YOU WANT? { the studios have been trying to figure this out for quite a few years}

THERE ARE ABOUT 20,000 MOVIE SCREENS ACROSS AMERICA WITH ABOUT 200 SEATS EACH. A TYPICAL BLOCKBUSTER MOVIES USUALLY OPENS IN ABOUT 5000 OF THESE SCREENS. THAT GIVES THE MOVIE COMPANIES ABOUT 1,000,000 POTENTIAL VIEWERS PER SCREENING. MULIPLY THAT BY A \$7 DOLLAR

TICKET AND YOU GET TO \$7 MILLION PER SCREENING. THAT'S WHY A BLOCKBUSTER TYPICALLY WILL DO \$75 MILLION ON THE OPENING WEEKEND. WHAT IS THE POTENTIAL TO THE STUDIO IF IT FIRST RELEASES THE MOVIE ON THE INTERNET ON ALL DEVICES. THERE ARE 100 MILLION TV HOUSEHOLDS, THERE ARE PROBABLY NEARLY AS MANY PC'S AND TABLETS. THE AVERAGE HOUSEHOLD HAS 3 POTENTIAL TV VIEWERS. IF EVERY HOUSEHOLD PAID \$10 TO VIEW THE NEWEST BLOCKBUSTER OVER A 3 DAY WEEKEND THE REVENUE WOULD BE \$1 BILLION. NO WONDER THE STUDIOS ARE THINKING ABOUT THIS.

Show two news articles

EXPLAIN THE WINDOW SYSTEM

HBO WAS THE FIRST SERVICE TO BENEFIT FROM THE DESIRE TO SEE MOVIES THAT HAVE SEEN THEIR THEATRICAL WINDOW CLOSED EITHER BECAUSE TICKET SALES HAD SLOWED OR A NEW RELEASE

WAS WAITING IN THE WINGS.

HBO STARTED OUT IN 1976 AS AN ALL MOVIE CHANNEL. IT BENEFITED FROM 2 GLARING NEEDS.

FIRST THE CABLE INDUSTRY WAS ONLY RE-TRANSMITTING THE NETWORK SHOWS PLUS A FEW SPECIAL INTEREST NETWORKS. THE SECOND NEED WAS THE DESIRE OF THE PUBLIC TO WANT TO SEE MOVIES THEY MISSED. HBO CONVINCED THE MOVIE STUDIOS TO GIVE THEM THE SECOND WINDOW BY AGREEING TO GIVE THEM A PERCENTAGE OF THE MONTHLY PREMIUM THEY GOT FROM CABLE OPERATORS. THUS STARTED THE FIRST SUBSCRIPTION TV PROGRAMMING IN HISTORY. THIS HAS MUSHROOMED TO 27 MILLION SUBSCRIBERS. THE STUDIOS CAME TO LOATH HBO BECAUSE THEY STOPPED OFFERING A PERCENTAGE OF THE VIEWING REVENUE AND ONLY OFFERED A FIXED ONE TIME FEE.

THUS STARTED A 20 YEAR SHIFT IN STRATEGY FOR HBO
TO A BECOME A CREATOR OF ORIGINAL PROGRAMMING.
I STATE IN MY BOOK THAT EVEN A HIGH SCHOOL
DRAMA CLASS COULD LEARN TO CREATE CONTENT WITH
A GUARANTEED \$1 BILLION IN MONTHLY REVENUE.
SUBSCRIPTION REVENUE IS A GOOD THING AND IS BEING
COPIED TODAY BY NETFLIX.

WHEN HOME VIDEO ARRIVED IN LATE 1970 IT HAD
TO CREATE A WHOLE NEW INDUSTRY WITH THE 4TH
WINDOW.

THAT WAS WHEN MY COMPANY MAGNETIC VIDEO
CORPORATION ENTERED THE PICTURE.

WHEN THE VCR WAS INTRODUCED TO THE PUBLIC
IN EARLY 1977 AS A TIME SHIFT DEVICE NO ONE
THOUGHT THE PUBLIC WOULD BE INTERESTED IN

OLD MOVIES THAT WERE PRE-RECORDED. I HAD A
DIFFERENT OPINION.

OUR COMPANY HAD MADE A LIVING BY SELLING
PRE-RECORDED MUSIC THAT THE RECORD
COMPANIES HAD DISCONTINUED AND ALSO BY
PROVIDING VIDEO SERVICES TO LIKES OF GENERAL
MOTORS AND JOHN DEERE.

I DECIDED TO CONTACT THE MOVIE STUDIOS AND
ASK THEM IF THEY WOULD LICENSE MY COMPANY THE
RIGHT TO MAKE VIDEOCASSETTE COPIES AND SELL THEM
TO THE PUBLIC. THE ODDS WERE IMMENSE. THERE WAS
NO SEARCH ENGINE TO FIND THE RIGHT ADDRESSES OR
CONTACT INFORMATION SO I WENT TO THE

FARMINGTON HILLS, MI LIBRARY WHERE I WAS ABLE TO
FIND ADDRESSES AND THE NAME OF THE CEO. I

DRAFTED A REQUEST IN THE FORM OF A COLD CALL
LETTER.

THE LETTER SAID THAT THE VIDEO REVOLUTION WAS
ABOUT

TO BEGIN AND MAGNETIC VIDEO WOULD HELP MAKE IT
HAPPEN. THE ONLY STUDIO THAT REPLIED WAS 20TH
CENTURY FOX. AFTER ONE VISIT TO THE STUDIO TO LAY
OUT MY PLANS THEY PRESENTED ME WITH A LIST OF
100 OLD MOVIES THAT WERE AVAILABLE AND INVITED
ME BACK TO HOLLYWOOD TO NEGOTIATE A CONTRACT
AND SUGGESTED I BRING MY ATTORNEY.

THE ONLY ATTORNEY I KNEW WAS A FRIEND WHO
SPECIALIZED IN DIVORCES. SO OUT WE GO ME AND
MY DIVORCE ATTORNEY. WE ARRIVED IN A

CONFERENCE ROOM WITH FIVE PEOPLE FROM FOX. THEY SAID THEY WOULD BE WILLING TO LICENSE ME THE RIGHTS TO MAKE COPIES BY PAYING A \$500,000 FEE UP FRONT AND MAKE PAYMENTS OF 20% OF MY SALES AFTER THE ADVANCE WAS RECOUPED. I SAID THAT I COULD ONLY AFFORD TO TAKE HALF OF THE TITLES. THEY SAID THAT IN THAT CASE I WOULD HAVE TO PAY \$300,000. I SAID OK. THEY THEN INFORMED ME THAT THE DEAL WAS NON EXCLUSIVE. THIS WAS A WORRY BECAUSE I MIGHT HAVE IMMEDIATE COMPETITION. I SAID WE WOULD THINK ABOUT IT. I ASKED THEM WHAT ELSE DID THEY HAVE IN MIND. THEY SAID THE DEAL WAS ONLY GOOD FOR 3 YEARS AND TITLES COULD NOT BE CROSS COLLATERIZE. I SAID WHAT IS CROSS COLLATERIZATION? WELL I FOUND OUT THAT THE \$300,000 WAS DIVIDED BY THE 50 TITLES AND THAT WOULD BE \$6000 EACH. IF I MADE MORE THAN \$6000

ON A TITLE I COULD NOT OFFSET ANY LOSSES I MIGHT HAVE ON THE OTHER 49 TITLES. IT REALLY MEANT THAT I HAD 50 ONE TITLE CONTRACTS. MY MIGHTY DIVORCE ATTORNEY, CHUCK TATHUM, JUMPED IN AND SAID THAT WAS NOT ACCEPTABLE. WE DECIDED TO TABLE THAT SUBJECT AS WELL. AFTER ANOTHER HOUR OF GOING OVER FINER POINTS SUCH AS ARTWORK APPROVAL, PRESS RELEASE APPROVAL AND ETC. I ASKED IF MY ATTORNEY AND I COULD CAUCUS PRIVATELY FOR A FEW MINUTES. I TOLD CHUCK THAT I WANTED HIM TO GO BACK GRUMBLE A LITTLE MORE BUT IN THE END SAY WE AGREE. I TOLD HIM THEY HAVE NO IDEA WHAT THEY ARE GETTING INTO-THEY ARE GIVING ME THE LEGAL RIGHT TO SELL THESE MEGA MOVIES TO THE PUBLIC. WE WENT BACK TO THE CONFERENCE ROOM AND CHUCK TOLD THE FOX PEOPLE THEY WERE TOUGH NEGOTIATORS AND AFTER MUCH

CONCERN WE WERE RELUCTANTLY AGREEING TO THEIR CONDITIONS. AFTER CONGRATULATING ONE ANOTHER WE LEFT FOR HOME. WE WROTE THE CONTRACT ON MY BIRTHDAY JULY,27,1977.

-show a list of the 50 titles-----

NOW I HAD TO FIGURE OUT HOW TO MAKE THEM AND HOW TO SELL THEM. WE WERE ONLY ONE OF A FEW FIRMS NATIONALLY THAT HAVE VIDEOCASSETTE DUPLICATING ABILITY BUT OUR CAPACITY WAS LIMITED TO MAYBE A 1000 COPIES A WEEK. I FELT WE NEEDED TO BE ABLE TO SUPPLY

20,000 COPIES PER MONTH. TO BUILD THAT CAPACITY WOULD REQUIRE ADDITIONAL CAPITAL THAT WOULD STRAIN OUR COMPANIES RESOURCES.

I CONTACTED MY FRIENDS IN NYC AND CHICAGO WHO WERE IN THE SAME BUSINESS AND THEY SAID

THEY WOULD ALSO HAVE TO ADD CAPACITY AND SINCE THIS WAS A NEW BUSINESS WE WOULD HAVE TO GUARANTEE A RETURN. I WENT TO MY BANK AND SAID I NEED TO UP MY LOANS FROM \$300,000 TO \$500,000.

THEY SAID I WAS NUTS BUT OUR CREDIT RATING WAS STRONG ENOUGH TO WEATHER ANY LOSSES. WE STARTED ADDING CAPACITY.

BY THE TIME THE FILM MASTERS AND ARTWORK STARTED ARRIVING IN FARMINTON HILLS IN LATE AUGUST I WAS BUSY TRYING TO FIGURE OUT HOW TO SELL THE MOVIES.

I HAD DECIDED THAT THERE WAS 3 POTENTIAL WAYS TO MARKET TO THE NEW HOME VIDEO INDUSTRY.

FIRST THERE WAS TO BE A RETAIL MARKET.

I WENT TO OUR CUSTOMERS WHO WERE BUYING OUR MUSIC CASSETTES. THEY SAID WHAT IS THE PRICE POINT

I REPLIED \$50. THEY SAID THEIR CUSTOMERS WOULD NEVER PAY THAT. THEY SAID WHAT IS OUR DISCOUNT AND I SAID 33%. THEY SAID THAT THEY NEEDED 55%. THEN THEY SAID WHAT IS THE RETURN POLICY ON UNSOLD MERCHANDISE AND I SAID SINCE THIS WAS A NEW BUSINESS THERE WOULD BE NO RETURN PRIVILEGES. WE PARTED COMPANY.

THE VCR'S WERE BEING SOLD THROUGH STORES THAT SOLD RCA, ZENITH, MAGNAVOX, PANASONIC, AND JVC ELECTONICS. WE HIRED THE SALES REPS OF THESE FIRMS TO SOLICIT ORDERS FROM THESE STORES BY EXPLAINING IT WOULD BOOST THEIR SALES OF THE VCR.

THE SECOND WAY TO MARKET WAS TO OFFER TO SELL THE VCR COMPANIES THE MOVIES AT A DISCOUNT SO THEY COULD OFFER THEM TO THE BUYERS OF THEIR MACHINES AS A FREE PREMIUM.

THIS TURNED OUT TO MAKE SENSE TO THEM AND THEY ALL ACCEPTED OUR OFFER. THIS TYPE OF MARKETING IS CALLED ORIGINAL EQUIPMENT MARKETING OR OEM.

THE THIRD WAY TO MARKET WAS TO GO DIRECT TO THE CONSUMER. I LEARNED IN GRADUATE SCHOOL THAT EARLY IN A NEWPRODUCTS LIFE CYCLE RETAILERS ARE RELUCTANT TO RISK INVENTORY DOLLARS UNTIL DEMAND WAS MORE WIDE SPREAD. SO WE CREATED THE VIDEO CLUB OF AMERICA. OUR AD AGENCY DESIGNED AN AD THAT RAN IN TV GUIDE WHICH HAD A CIRCULATION OF 18 MILLION AND A PASS ALONG CIRCULATION OF 24 MILLION. THERE WERE ONLY 200,000 VCR'S IN ALL OF THE US. WE TOOK OUT A 2 PAGE CENTER FOLD AD AT A COST OF \$65,000.

---show a copy of the ad-----

BY THE END OF THE FIRST WEEK WE HAD 9000 PEOPLE SEND US \$10 EACH. BY THE TIME THE AD RAN ITS COURSE THAT NUMBER HAD GROWN TO 13,000. AS A RESULT THE \$65,000 INVESTMENT DOUBLED AND WE HAD YET TO SELL A MOVIE. BY THE END OF OCTOBER, 1977 THE FACTORY WAS HUMMING AND WE HAD LINED UP APPROXIMATELY 450 VCR RETAILERS TO SELL THE MOVIES. I MADE EACH OF THEM SIGN A RETAIL AGREEMENT THAT SAID THEY WOULD NOT RENT THE MOVIES. THEY ALSO MUST AGREE TO BUY 2 COPIES OF EACH OF THE 50 MOVIES. I WANTED THE CONSUMER TO SEE ALL TITLES ON DISPLAY AND I DID NOT WANT THE RETAILER TO CHERRY PICK. [THE CROSS-COLLATERIALIZATION WAS ALSO A FACTOR] THEY PAID \$37.50 EACH FOR A TOTAL COST OF \$3750.00. NOT BAD CONSIDERING THE VCR WAS SELLING FOR 1400.00 AT THE TIME.

WE STARTED TO SHIP IN EARLY NOV, 1977 AND HELD OUR BREATH. A WEEK LATER THE TELEPHONE, FAX , AND MAIL WERE CHURNING WITH RE-ORDERS. HOORAY!!!. THE PROBLEM THOUGH WAS THE RETAILERS WERE ONLY ORDERING IN ONES AND TWOS MEANING THEY DID NOT HAVE CONFIDENCE THAT WHAT THEY WERE SELLING WAS SUSTAINABLE.

OFF WE WENT TO THE CONSUMER ELECTRONIC SHOW IN LAS VEGAS THE FIRST WEEK OF JAN, 1978. THE VCR WAS THE BIG ITEM AT THE SHOW BUT OUR LITTLE BOOTH HAD A LINE TO GET IN ALL 3 DAYS. WE SIGNED UP ANOTHER 300 RETAILERS. ALSO AT THIS SHOW OUR EXISTING CUSTOMERS WERE ASKING IF WE WOULD LET THEM RENT THE MOVIES BECAUSE THE CUSTOMER WAS DEMANDING IT. A COUPLE MONTHS LATER WE HAD NO CHOICE BUT TO AGREE BECAUSE OF A LEGAL PRECEDENT CALLED THE FIRST

SALE DOCTRINE THAT SAYS ONCE SOMEONE BUYS SOMETHING AND PAYS FOR IT THE SELLER HAS NO MORE CONTROL. THUS SET UP THE RENTAL MARKET WHICH TURNED OUT TO BE A BONAZA BECAUSE IT ALLOWED FAMILYS TO RENT TO THEIR HEARTS CONTENT. WHEN THE SHOW ENDED THE PUBLIC WERE INVITED IN FOR A FEW HOURS TO SEE ALL THE NEW GADGETS. THE DEALERS FROM THE CASINOS SWARMED OUR BOOTH AND BOUGHT ALL 300 COPIES WE HAD TAKEN TO THE SHOW. IT TURNS OUT THAT WHEN THEY GOT OFF SHIFT IN THE MIDDLE OF THE NIGHT THEY HAD NOTHING TO WATCH. WHEN WE GOT BACK HOME WE NOTICED A NEW PHONOMEN THE NEW DEALERS HAD REALLY FUNNY SOUNDING NAMES. WE GOT AN ORDER FROM BETTYS CLIP AND CURL. IT SEEMS THE RENTAL CRAZE HAD BROUGHT ALL SORTS OF ENTREPRENUERS TO THE TABLE. EVERYONE WAS

SETTING UP A RENTAL DISPLAY IN THEIR PLACES OF BUSINESS. WE CALLED THIS THE MA AND PA STORES. THE AD I SHOWED YOU EARLIER FOR THE VIDEO CLUB RAN ON JAN 26,1978. AT THAT TIME THEY WERE ONLY 200,000 VCRS IN AMERICA. OF THE 13,000 WHO JOINED LESS THEN 20% HAD A MACHINE. ONE DAY I ANSWERED THE PHONE MYSELF AS EVERYONE ELSE WAS BUSY. ON THE OTHER END WAS A MAN WHO SAID HE WAS A VETINARIAN CALLING FROM HIS CAR ON THE WAY TO A FARM. HE SAID ARE YOU THE GUYS SELLING THE MOVIES AND I SAID YES. HE SAID HE HAD BEEN WAITING ALL HIS LIFE FOR THIS. HE GAVE ME HIS VISA NUMBER AND SAID SEND 1 COPY OF ALL 50 TITLES-\$2500.00.

WITH OVER 750 DEALERS AND THE OEM DEALS AND THE VIDEO CLUB IN PLACE AND HUMMING WE WERE OFF TO THE RACES.

-SHOW EARLY PRESS CLIPINGS AND JANE PAULEY-
-ALSO SHOW THE TV CLIP OF MICHIGAN IT STARTED
HERE-

NOW I TURNED MY ATTENTION TO EXPANDING OUR
LIBRARY OF LICENSED FILM PRODUCT. THE OTHER
MAJOR STUDIOS WERE STILL RELUCTANT TO ENTER
INTO LICENSING DEALS BUT THERE WERE SEVERAL
OTHER SOURCES. AT THIS TIME IN EARLY 1978 THE
LARGEST INDEPENDENT STUDIO WAS A FIRM
NAMED AVCO EMBASSY. IT WAS HEADED BY BOB
REHME WHO WENT ON TO HEAD UNIVERSAL
STUDIOS AND THE MOTION PICTURE ACADEMY.
THEY HAD TAKEN OVER A STUDIO FORMALLY RUN
BY JOESEPH LEVINE. THEY HAD SEVERAL CLASSICES
SUCH AS A "BRIDGE TO FAR", "CARNAL
KNOWLEDGE" WITH JACK NICHOLSON," THE
GRADUATE" WITH DUSTIN HOFFMAN, AND MANY

OTHERS. THEY WERE NOW SPECIALIZING IN LOW BUDGET EXPLOITATION MOVIES SUCH AS JOHN CARPENTERS "THE FOG", "PHANTASM", "THE ONION FIELD", "THE CHILDREN OF THE CORN" AND OTHERS. MY STRATEGY WAS NOT ONLY TO NEGOTIATE A LONGER AGREEMENT BUT ONE THAT DID NOT REQUIRE CROSS COLLATERALIZATION, AND INCLUDED ALL THEIR NEW UNRELEASED PRODUCT. IT REQUIRED A LOT MORE MONEY. WE SETTLED ON A GUARANTEE OF \$1 MILLION DOLLARS. BUT IT BOUGHT ME SECURITY FROM THE ONEROUS TERMS OF THE FOX DEAL. PEOPLE ATE UP THESE LOW BUDGET FILMS.

I ALSO FELT THAT THE PUBLIC WANTED SUBJECT MATERIAL OTHER THAN FILMS SO WE BOUGHT CARTOONS, SPORTS, NEWS REELS, AND ALL THE CHARLIE CHAPLIN SILENT FILMS AMONG DOZENS OF

OTHERS. BY THE END OF 1978 WE HAD EXPANDED OUR LIST OF LICENSED TITLES TO OVER 700 TITLES FROM THE 50 WE STARTED WITH.

BY THE END OF 1979 THE MARKET FOR VCR'S HAD GROWN FROM 200,000 TO MAYBE 2,000,000. 20TH CENTURY FOX MADE ME A GODFATHER OFFER. THEY OFFERED TO BUY OUR COMPANY AT A PRICE I NEVER THOUGHT I WOULD SEE. I TOOK THE BAIT AND BECAME A DIVISION OF FOX. ONE OF THE FIRST BENEFITS HAPPENED WHEN I VISITED THE LOT. THE BOARD OF DIRECTORS ASKED ME TO ATTEND THEIR LUNCHEON. ONE OF THE BOARD MEMBERS WAS THE FORMER GRACE KELLY. I GOT TO HAVE LUNCH WITH PRINCES GRACE OF MONACO. WHAT A TREAT. FOX BASICALLY TOLD ME THEY WANTED TO TRY TO HOLD ON TO 50% OF THE MARKET. THEY SAW THE BENEFIT THAT HBO HAD BY BEING AN EARLY ENTRANT. DURING THE NEXT 4 YEARS WE SECURED

THE RIGHTS TO THOUSANDS OF TITLES CAPPED BY THE ACQUISITION OF THE UNITED ARTIST LIBRARY WHICH ENCLUDED ALL THE JAMES BOND MOVIES, PINK PANTHER MOVIES, ROCKY MOVIES, AND ALL WARNER BROTHERS MOVIES BEFORE 1970. THE PRICE WAS 45 MILLION.

FOX WAS OBSESSED WITH PACE OF THE SALE OF THE VCR'S SO ONE OF THE FIRST THINGS WE DID IS SET OFF TO JAPAN TO MEET WITH SONY, PANASONIC, JVC, PIONEER AND OTHER MANUFACTURES. WE HAD MEETINGS WITH AKIO MORITA FOUNDER OF SONY. PANASONIC WAS OWNED BY THE MATSUSHITA COMPANY. WE MET WITH MR MATSUSHITA WHO WAS QUITE ELDERLY. WE WERE USHERED INTO A RECEPTION HALL WHERE HE WAS SEATED. WE WERE TOLD WHAT TO EXPECT. SINCE HE WAS REVERED THEY RECORDED HIS EVERY WORD AND HAD A STENOGRAPHER MAKE A WRITTEN

HISTORY. WE WERE INVITED TO SEE A FACTORY OWNED BY JVC. AFTER A HOUR RIDE ON THE TRAIN WE ARRIVED IN THE MOUNTAINS ABOVE KYOTO IN A LIGHT SNOW FALL THE CAR TOOK US TO THE FACTORY WHERE THE DRIVEWAY WAS LINED WITH 50 OR SO CLERICAL WORKERS WAVING AMERICAN FLAGS. THE FACTORY ITSELF WAS THE HIGHLIGHT. IT WAS 2 FOOTBALL FIELDS LONG AND ALMOST COMPLETELY RUN BY ROBOTS. IT WAS AMAZING TO LOOK DOWN THE LONG LINE OF MACHINERY AND ONLY SEE A FEW TECHICIANS. ANYWAY WE LEFT JAPAN WITH CONFIDENCE THAT THE MACHINES WERE ROLLING OUT AT 2 MILLION A MONTH. HALF DESTINED FOR AMERICA AND THE REST FOR FOREIGN MARKETS.

WITH THIS CONFIDENCE WE EMBARKED ON A TORRID EXPANSION OVERSEAS. WITHIN A YEAR WE HAD SUBSIDRARIES IN ENGLAND, GERMANY,JAPAN,

AND AUSTRALIA. IN ITALY,FRANCE,HONG KONG AND SINGAPORE WE HAD SALES OFFICES. THE REST OF THE WORLD WAS CONTROLLED BY BOOTLEGGERS OR WERE NOT YET READY FOR EXPANSION.

MY STAFF CALLED THIS PERIOD OUR CAMELOT YEARS.

BACK HOME IN THE US FOX DECIDED TO GIVE US THE SECOND WINDOW. WHICH MEANT BEFORE HBO. THEY HAD BEEN WAITING FOR THIS DAY FOR 5 YEARS. AS YOU CAN IMAGINE THE BUSINESS TOOK ANOTHER LEAP FORWARD. WE HAD TO INCREASE OUR CAPACITY FROM THE ORIGINAL 20M PER MONTH TO SEVERAL HUNDRED THOUSAND. THE RENTAL STORES WHO STARTED OUT AT ABOUT 800 IN EARLY 1978 WAS ON THE WAY TO 24,000 BY 1983. ONE OF THE FIRST MOVIES TO BE RELEASED WITH THE NEW WINDOW WAS A TITLE CALLED "ALL THAT JAZZ". IT PROMPTLY SET A RECORD IN SALES

AND WE PUT OUT A PRESS RELEASE. THE NEXT DAY I GOT A CALL FROM THE PRODUCER A MAN NAMED DAN MELNICK WHO ALSO PRODUCED "FOOTLOOSE". HE WAS SOMEWHAT FEARED IN HOLLYWOOD BECAUSE OF HIS DESIRE FOR CONTROL. HE PROCEEDED TO BAWL ME OUT FOR 3 MINUTES FOR BYPASSING HIM ON MAKING PRESS RELEASES. WHEN I TOLD MY BOSSES AT FOX ALL THEY SAID WAS WELCOME TO HOLLYWOOD. IN LATE 1982 I WAS TIRED OF THE FOX MANAGEMENT. WHAT HAD STARTED OUT AS A SHARED VISION WAS MORPHING INTO DIFFERENT VISIONS. I LEFT IN OCT 1982 AND STARTED THE ANDRE BLAY CORPORATION. I ASKED MY SON ROBERT AND MY DAUGHTER CINDY TO QUIT THEIR JOBS IN TEXAS AND JOIN ME. I FELT KNOWLEDGE GAINED FROM A START UP OPERATION WOULD BE VALUABLE.

IN RETROSPECT I SHOULD HAVE WAITED A YEAR TO SORT OUT MY AMBITIONS. BUT I PLOWED AHEAD AND BEGAN LOOKING FOR MOVIES TO LICENSE. THE PICKINGS WERE MEAGER AS ALL THE STUDIOS HAD BY NOW STARTED THERE OWN SALES OPERATIONS. I HAD MET JOE LEVINE THE FAMED PRODUCER AND FOUNDER OF AVCO-EMBASSY. HE PRODUCED A FEW FILMS SINCE HE SOLD HIS COMPANY. ONE OF THE TITLES WAS A FILM CALLED "MAGIC". THE FILM STARRED ANTHONY HOPKINS AND ANN MARGRET-DIRECTED BY SIR RICHARD ATTENBOROUGH. THE SCRIPT WAS BY WILLIAM GOLDMAN THE WINNER OF SEVERAL OSCARS. THE REAL STAR OF THE FILM WAS A VICIOUS DUMMY WHO TERRORIZES HIS VENTRILOQUIST. WE MADE A DEAL. I ASKED JOE IF WE COULD TAKE THE DUMMY TO THE CONSUMER ELECTRONICS SHOW IN CHICAGO. HE SAID YES BUT WE WOULD HAVE TO BUY THE DUMMY A FIRST

CLASS TICKET. MY SON ROBERT FLEW THE DUMMY WHOSE NAME WAS "FATS" FROM NYC TO DETROIT AND ON TO CHICAGO. IF YOU LIKE SCARY BUT NOT GORY MOVIES I RECOMMEND THIS MOVIE

WE ALSO ACQUIRED THE RIGHTS TO THE LARGEST STUDIO IN ENGLAND CALLED RANK FILMS. WE TRIED TO ACQUIRE THE RIGHTS TO THE SAMUEL GOLDWYN LIBRARY WHICH WAS FULL OF ACADEMY AWARD WINNERS. SAMUEL GOLDWYN DIED IN 1974. THIS IS THE SAME GOLDWYN WHOSE NAME IS ONE THIRD OF MGM OR METRO-GOLDWYN-MAYER. THE FIRM WAS NOW RUN BY HIS SON SAM GOLDWYN jr. WHO WENT ON TO PRODUCE DOZENS OF HIS OWN FILMS. SAM SAID HE DID NOT WANT TO LOOSE CONTROL OF HIS FILMS BUT PROPOSED WE START A NEW COMPANY 50/50. IT FELL APART BECAUSE EVEN THOUGH HE WANTED ME TO PUT UP 50% OF

THE MONEY HE ONLY WANTED THE GOLDWYN
NAME ON THE MARQUEE.

WHILE LOOKING FOR OTHER PRODUCT I TURNED TO
MY FRIEND LORD LEW GRADE THE FINANCIER FOR
JIM HENSONS MUPPET SHOWS. HE HAD GONE ON
TO WORK FOR EMBASSY COMMUNICATIONS IN
HOLLYWOOD. THIS WAS DÉJÀ VU. NORMAN LEAR
THE TELEVISION PRODUCER AND HIS PARTNER JERRY
PERENCHIO HAD BOUGHT THE STUDIO FROM AVCO
AND REAQUIRED THE HOME VIDEO RIGHTS FROM
FOX. TO MAKE A LONG STORY SHORT I ONCE AGAIN
SOLD MY COMPANY. THE ANDRE BLAY
CORPORATION MAY HAVE BEEN THE SHORTEST
INCORPORATION IN HISTORY. THIS TURNED OUT TO
BE A VERY HAPPY MARRIAGE. THESE GUYS WERE
ENTREPRENURES. BECAUSE THE BUSINESS MODEL
OF HOME VIDEO WAS CHANGING FROM
ACQUISITION OF RIGHTS TO THE PRODUCTION OF

MOVIES I MOVED TO LOS ANGELES. I ASKED ROBERT AND CINDY TO JOIN ME. ROBERT SAID YES AND WE POSTED HIM IN LONDON TO HELP START A NEW OFFICE. I OFFERED CINDY THE JOB OF VP OF MARKETING BUT SHE HAD FALLEN FOR A HANDSOME GUY NAMED DAVID. SHE MADE A TERRIFIC DECISION.

HAVING BEEN IN THE INDUSTRY FROM THE BEGINNING I HAD A GOOD IDEA WHO THE BEST TALENT WAS. WE HIRED REG CHILDS THE HEAD OF PARAMOUNT HOME VIDEO TO BE PRESIDENT OF ACQUISITIONS, NEXT UP WE HIRED ROBIN MONTGOMERY FROM COLUMBIA PICTURES HOME VIDEO TO HEAD UP MARKETING, THEN WE HIRED RAND BLYMIESTER THE HEAD OF WARNER HOME VIDEO SALES TO TAKE THE JOB AT EMBASSY HOME ENTERTAINMENT.

IN ORDER TO SECURE A STEADY FLOW OF PRODUCT WE WERE REQUIRED TO INVEST IN MOVIES FROM THE SCRIPT STAGE. THIS REQUIRED A WHOLE NEW SET OF SKILLS AND A LOT MORE RISK TAKING. THE PRICE TO BE IN THE GAME HAD GONE FROM \$6000 A MOVIE IN 1977 TO WELL OVER \$1,000,000 IN 1983. ON THE OTHER HAND THE BUSINESS HAD GROWN TO SEVERAL BILLION DOLLARS AND WAS TO PEAK AT 24 BILLION.

HERE ARE SOME OF THE WINNERS DURING THE LIFE OF EMBASSY HOME ENTERTAINMENT.

“CHORUS LINE” WITH MICHAEL DOUGLAS

“SILKWOOD” WITH MERYL STREEP

“WELCOME TO THE FIVE AND DIME JIMMY DEAN”

WITH CHER

“BLADERUNNER” WITH HARRISON FORD

‘HAVE MOON STREET” WITH SIGORNEY WEAVER

“COTTON CLUB” WITH RICHARD GERE

"HEAT WITH" BURT REYNOLDS

"KISS OF THE SPIDER WOMAN" WITH BILL HURT
WHO WENT ON TO WIN AN OSCAR.

ONE OF THE MOST INTERESTING FILMS WAS A
MOVIE CALLED "SID AND NANCY" STARRING GARY
OLDMAN AS SID VICIOUS AND CHLOE WEBB AS HIS
DRUG ADDICTED GIRLFRIEND NANCY SPUNGREN. THE
MOVIE IS A GRITTY LOOK AT THE DRUG CULTURE OF
THE 1970'S. IT ENDS WHEN SID'S CAREER IS ON THE
ROCKS AND THEY ARE HOLED UP IN A NYC HOTEL
ROOM. IN A DRUG INDUCED STUPOR SID KILLS
NANCE WITH A KNIFE. YOU WILL NEVER WANT TO
DO DRUGS AFTER SEEING THIS MOVIE. THE MOVIE
WAS SELECTED BY THE CANNES FILM FESTIVAL IN
1987 TO OPEN THE CEREMONIES ON WHAT THEY
CALL FORTNIGHT. IT'S SCREENING WAS SET FOR
MIDNIGHT ON THE FIRST DAY OF THE FESTIVAL. WE
WENT OUT FOR A LATE DINNER AND ARRIVED AT

THE PALAIS TO A MOB SCENE. 3000 PEOPLE WERE TRYING TO GET INTO A 1000 SEAT THEATER. THE POLICE HAD SHUT THE DOORS AND WOULD NOT LET ANYONE ELSE IN. I PLEADED THAT I WAS THE PRODUCER. THEY HAD TO FIND THE DIRECTOR WHO VOUCHERED FOR ME AND MY WIFE NANCY. SHE WALKED OUT OF THE MOVIE HALF WAY THROUGH. YOU CAN SEE IT ON HULU AMONG OTHER SITES. WE INVESTED 9 MILLION IN A CO-PRODUCTION OF JIM HENSON AND GEORGE LUCAS ON A FILM CALLED "LABYRINTH" STARRING DAVID BOWIE. WE LOST 3 MILLION ON THE FILM WE LOST OUT ON "PLATOON" DIRECTED BY OLIVER STONE BECAUSE WE HATED THE SCRIPT. IT WENT ON TO BE BEST PICTURE IN 1986. WE WERE INVITED TO A PRIVATE SCREENING IN SYDNEY AUSTRALIA TO SEE A NEW MOVIE JUST FINISHED. NANCY AND I FLEW DOWN AND WERE

THE FIRST PEOPLE TO SEE "CROCODILE DUNDEE".
NANCY LAUGHED ALL THROUGH THE MOVIE. WE
LOST IT BECAUSE THE OWNERS OF EMBASSY DID
NOT LIKE IT.

WE LOST OUT ON ALL THE SYLVESTER STALLONE
"FIRST BLOOD" MOVIES BECAUSE THE OWNERS
HATED IT.

IN 1988 THE OWNERS SOLD THE WHOLE COMPANY
TO COCA COLA WHO OWNER COLUMBIA PICTURES. I
HUNG AROUND FOR A YEAR BUT THE THRILL WAS
GONE.

I LEFT TO BECOME A FILM PRODUCER AND MADE A
HALF A DOZEN MOVIES. ONE OF THEM WAS "PRINCE
OF DARKNESS" WRITTEN AND DIRECTED BY JOHN
CARPENTER THE CREATOR OF THE HOLLOWEN
MOVIES. IT WAS THE SECOND MOVIE MY WIFE
WALKED OUT ON. IT SEEMS SHE DID NOT LIKE TO
SEE 10,000 BUGS COMING OUT OF A SEWER.

IN THE MIDDLE OF THE 1990'S THE DVD WAS INTRODUCED AND RADICALLY CHANGE THE BUSINESS. CONSUMERS STARTED BUYING AND COLLECTING MOVIES BECAUSE THE PRICE HAD DROPPED TO \$15. THE LARGE BOX STORES LIKE BEST BUY AND WALMART BECAME THE DOMINANT RETAILS. THEY DISCOUNTED TO A LEVEL THAT THE RENTAL STORES COULD NOT COMETE WITH. BY EARLY 2000 THEY ALL BUT DISAPPEARED. NETFLIX ENTERED THE RENTAL BUSINESS BY CONCENTRATING ON DIRECT MAIL. THEY ACCOMPLISHED TWO GREAT THINGS TO CONSIDER IN BUSINESS PLANNING. FIRST THEY ELIMINATED THE MIDDLE MAN KEEPING ALL THE REVENUE TO THEMSELVES. SECONDLY THEY CREATED A SUBSCRIPITON MODEL INSTEAD OF A RENTAL FEE

ELIMINATING THE NEED TO COLLECT ON EACH RENTAL.

ALSO BY 2005 THE INTERNET WAS BECOMING PERVASIVE IN DELIVERING CONTENT. THEY FORESAW AN OPPORTUNITY FEW OTHERS SAW.NETFLIX HAS SPAWNED MANY COPYCATS SUCH AS AMAZON, HULU, AND OTHERS AND IN RESPONSE THE CABLE COMPANIES HAVE RAMPED UP THEIR OFFERINGS OF VIDEO ON DEMAND.THE THIRD THING THAT NETFLIX IS WORKING ON IS THAT OTHER ELUSIVE ADVANTAGE “ BARRIERS TO ENTRY”. THE STUDIOS THEMSELVES HAVE BARRIERS BECAUSE THEY CONSTANLY RECYCLE THEIR OLD MOVIES IN NEW MARKETS. HBO HAS CREATED HUGE BARRIERS BECAUSE THEY HAVE 27 MILLION SUBSCRIBERS, NETFLIX IS ON THE WAY.

BEFORE WE CONCLUDE WITH A LOOK AT TODAYS MARKET FOR VISUAL ENTERTAINMENT AND

POSSIBLE OUTCOMES I WANT TO SHARE MY
PRINCIPLES OF ENTREPRENEURSHIP WITH YOU.

1. SOLID KNOWLEDGE OF YOUR PRODUCT OR
SERVICE.
2. LOOK FOR A DIFFERENCE OR UNIQUES OF YOUR
PRODUCT/SERVICE FROM COMPETITORS
3. HAVE A CLEAR VISION OF THE MARKET
POTENTIAL. IS IT LOCAL, NATIONAL, OR
WORLDWIDE
4. NEVER GO IT ALONE. ALWAYS START WITH
SOMEONE TO SHARE IDEAS. IT DOES NOT HAVE
TO BE A PARTNER
5. DURING GROWTH HIRE THE BEST TALENT.
6. BUDGET,BUDGET, BUDGET.
REVIEW,REVIEW,REVIEW. WORRY MORE ABOUT
MISSED COST THAN REVENUE.
7. EVEN IF YOU START WITH A SERVICE PRODUCT
TRY TO EXPLAND INTO A PROPREITARY

SUPPLEMENT. THIS WILL HELP YOU BUILD
BARRIERS.

8. YOU HEARD ME TALK ABOUT SUBSCRIPTION
REVENUE LIKE HBO AND NETFLIX. TRY TO USE IT

9. A COUSIN OF SUBSCRIPTION REVENUE IS
CATALOG REVENUE. THAT IS RECYCLING OLD
PRODUCT IN NEW MARKETS. THE MOVIE STUDIOS
ARE MASTERS AT THAT. TODAY 40% OF THEIR
HOME VIDEO REVENUE COMES FROM RECYCLING
THEIR CATALOG.

THAT SETS US UP FOR A LOOK AT TODAY'S MARKET.

WHEREAS TODAY'S MARKET OFFERS AN ENDLESS
ARRAY OF VISUAL ENTERTAINMENT AND NEW IDEAS
ARE EMERGING DAILY THE REAL EPIC BATTLE IS

OVER THE DISTRIBUTION METHODS AND THE PROTECTION OF REVENUE STREAMS.

HERE ARE THE KEY QUESTIONS:

1. WILL WE BYPASS CABLE?

HERE ARE A FEW HEADLINES.

“READY TO CUT THE CORD”

“GATEKEEPERS OF CABLE TV TRY TO CHECK WEB RIVALS”

“MEDIA COMPANIES WARY OF INTEL DEALS”

“NETFLIX AND DREAMWORKS”

“FUTURE OF CABLE MAY NOT INCLUDE TV”

“PAY TV IS IN A PERILOUS BUBBLE”

2. DEFENSIVE MOVES

CABLE COMPANIES AND BROADCASTERS ARE INVESTING IN SMALL COMPANIES WHOSE TECHNOLOGY MAY DISRUPT THEIR REVENUE FLOWS.

3. WHAT IS THE HOLY GRAIL?

DO PROGRAMMERS NEED NETFLIX, AMAZON, OR
THE CABLE COMPANIES?

IT SEEMS TO ME TO BE A QUESTION OF
NAVIGATION AND HOW SEAMLESS THE WEB IS TO
THE HIGH DEFINITION TV IN THE FAMILY ROOM.
WOULDN'T IT BE FUN TO BE ABLE TO SAY TO
YOUR TV OR ANYOTHER DEVICE THAT YOU WANT
TO WATCH WHATEVER YOU WANT AND UP IT
POPS.

MY PREDICTION IS THAT EVERYTHING THAT WAS
EVER RECORDED OR IS CURRENTLY BEING
PRODUCED WILL BE FLOATING UP IN THE
INTERNET CLOUD AND WILL BE RETRIVED ON OUR
VOICE COMMAND. YOU WILL ALL BE REWARDED.
THANKS FOR SHARING YOUR TIME WITH ME.