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Operating conditions a mixed bag of challenges and opportunities

Despite a number of challenges, movie producers are enjoying a strong 2007, thanks to the spring and summer release of at least seven sequels to previous blockbusters. Meanwhile, the music industry is battling for its health on several fronts. Industry challenges include a sharp drop (nearly 20% through mid-2007) in compact disc (CD) sales, which is indicative of a strong shift to single-song downloads and away from physical sales of entire albums.

The entertainment industry is challenged on several fronts: it is facing growing competition for consumer discretionary spending; it is being hurt by piracy at home and abroad; it must compete for consumers' time in an increasingly crowded arena; some of its product formats are mature (the standard DVD format for example); and many of its business practices are outmoded or unwieldy for these times.

The industry has not been lying down, however. Rather, movie and music companies are trying in numerous ways to appeal to consumers, to take advantage of newer technologies, to compete more effectively with new competitors, and to develop business practices and strategies that will help them keep up with the changing business environment.

Solid summer box office puts industry in line for blockbuster year

This year is stacking up to be a stellar one for the movie industry. From January 1, 2007, through August 6, 2007, movie ticket sales advanced 6.9% to nearly $6.2 billion, up from almost $5.8 billion in the comparable 2005 period. The year-to-date performance at the box office stemmed from a number of high-grossing movies: each of the top 15 movies of 2007 had ticket sales greater than $100 million.

Noticeable among this year's hits were many familiar characters and titles. In fact, the two highest grossing movies of the year were sequels: *Spider Man 3* was at the top, with ticket sales of $336 million, followed by *Shrek the Third* ($321 million). As of August 6, four other sequels were among the top 15 movies of 2007, year to date: *Pirates of the Caribbean: At World's End* ($307 million); *Harry Potter and the Order of the Phoenix* ($262 million); *Live Free or Die Hard* ($130 million), which resurrected the *Die Hard* franchise starring Bruce Willis; and *Ocean's Thirteen* ($116 million).

Box office receipts for 2007 are likely to top the $9.4 billion all-time record achieved in 2004, a year when ticket sales gained 2.5%. (Sales declined 6.1% in 2005, to $8.8 billion, then rose 4.2% in 2006, to $9.2 billion.) The box office gains in 2006 were helped by a 3.3% rise in the number of tickets sold to 1.45 billion, which itself was helped by an 11% rise in the number of pictures exhibited in theaters in 2006. The gain also stemmed from a 2.8% rise in the average ticket price in 2006, to $6.58 from an average admission price of $6.40 in 2005.

There are any number of indications why 2007 should end up being a record year. For one, many of this year's box office hits are still drawing sizable audiences. Only three of the top 15 had finished their theatrical runs as of August 6, 2007, and among those still in theaters, five opened around Independence Day or later. *The Bourne Ultimatum*, another sequel and sure-fire hit, opened on 5,200 screens in 3,660 theaters nationwide on August 3, 2007. The action-thriller starring Matt Damon took in $69.3 million in its first weekend, a record for an August opening as well as for a spy-thriller opening, and the movie is sure to move rapidly up the list of box office rankings for 2007.

In addition, the movie industry was anticipating dozens of potential box office successes scheduled to hit theaters from the second week in August through the end of December 2007. Some of these include: *Rush Hour 3*, a sequel to the hit action-comedy series, starring Jackie Chan and Chris Tucker; *Stardust*, a fantasy with a big-name cast including Robert DeNiro, Claire Danes, Michelle Pfeiffer, and Sienna Miller; *The Invasion*, a sci-fi thriller starring Nicole Kidman; *The Last Legion*, a historical epic starring Anthony Hopkins and Ben Kingsley; *The Nanny Diaries*, a comedy-drama based on the best-selling book by the same name, starring Scarlett Johansson, Laura Linney, and Paul Giamatti; and *WAR*, an action movie starring Jet Li.

September's menu of openings includes several potential crowd pleasers, such as *3:10 to Yuma*, a western starring Russell Crowe; *The Kingdom*, a thriller starring Jamie Foxx and Jennifer Garner; and *Mr. Woodcock*, a comedy starring Billy Bob Thornton and Susan Sarandon.

October has the opening of *Tyler Perry's Why Did I get Married*, a comedy sequel starring Tyler Perry and Janet Jackson. November has *American Gangster*, a crime drama starring Denzel Washington and Russell Crowe; and *Bee Movie*, an animated film with an all-star cast of voice-over personnel including Matthew Broderick, Robert Duvall, William H. Macy, Uma Thurman, and Renee Zellweger.

December is historically a strong month for openings, and this year's lineup looks promising. It includes the sequel *National Treasure: Book of Secrets*, starring Nicolas Cage; *Aliens vs. Predator*, the sci-fi horror sequel to *AVP: Alien vs. Predator*; *The Water Horse: Legend of the Deep*, a fantasy/live action film; *Alvin and the Chipmunks*, a cartoon/live action family movie; and *Sweeney Todd*, a musical starring Johnny Depp, Alan Rickman, Sacha Baron Cohen, and Helena Bonham Carter.

DOMESTIC THEATRICAL MOVIE INDUSTRY PROFILE

	BOX OFFICE		ADMISSIONS		AVERAGE TICKET PRICE		
YEAR	BIL. $	% CHG.	IN BIL.	% CHG.	DOLLARS	% CHG.	NO. OF SCREENS
2006	9,487	(0.5)	1,449	3.3	6.55	2.2	NA
2005	8,991	(5.2)	1,403	(8.7)	6.41	3.2	38,852
2004	9,539	0.2	1,536	(2.4)	6.21	3.0	36,595
2003	9,489	(0.3)	1,574	(4.0)	6.03	3.8	35,786
2002	9,520	13.2	1,639	10.2	5.81	2.7	35,280
2001	8,413	9.8	1,487	4.7	5.66	4.9	36,764
2000	7,661	2.9	1,421	(3.0)	5.39	6.1	37,396
1999	7,448	7.2	1,465	(1.0)	5.08	8.3	37,185
1998	6,949	9.2	1,481	6.7	4.69	2.2	34,186
1997	6,366	7.7	1,388	3.7	4.59	3.8	31,640
1996	5,912	7.6	1,339	6.0	4.42	1.6	29,690

Note: Percentage changes based on unrounded data. NA-Not available.
Source: Motion Picture Association of America.

Movie studios' share in 2006

Among distributors of movies to domestic theaters, Sony Pictures Entertainment Inc. had the leading market share in the period from January 1, 2006, through December 31, 2006, with its films accounting for 18.6% of box office spending, according to boxofficemojo.com, an online movie publication and box office tracker. Sony's biggest movie of the year was *The Da Vinci Code*. The company had five movies top $100 million at the box office.

The Walt Disney Co.'s Buena Vista business ranked second, with a 16.2% share. The company's roster was led by *Pirates of the Caribbean: Dead Man's Chest*, the year's box office leader at $423 million, and the animated film *Cars*, the number two movie of the year, with $244 million in box office receipts.

Twentieth Century Fox Film Corp. was in third place with a 15.2% share. Fox's hits included *X-Men: The Last Stand*; *Night at the Museum*; *Ice Age: The Meltdown*; *Borat: Cultural Learnings of America for Make Benefit Glorious Nation of Kazakhstan*; and *The Devil Wears Prada*. If Fox Searchlight Pictures, the specialty film division of Fox is included, Fox moves up to second place in the rankings (ahead of Buena Vista), with a 17.0% market share. Searchlight alone had a 1.8% share of the domestic box office in 2006. Its successes included *Little Miss Sunshine* ($60 million) and *The Hills Have Eyes* ($42 million).

Warner Bros. Entertainment Inc. ranked fourth, with an 11.6% share. Warner's big movies were *Superman Returns*, *Happy Feet*, and *The Departed*, each with box office totals of more than $100 million.

Paramount Pictures Corp., owned by Viacom Inc., was in fifth place, with a 10.3% market share. Paramount's biggest hits in 2006 included *Over the Hedge*, *Mission: Impossible III*, and *Dreamgirls*.

Home video market matures

There is little doubt now that the home video market has matured. The years of

DOMESTIC THEATRICAL MOVIE HITS: 2006–07

(Ranked by US box office, in millions of dollars)

2006

MOVIE	DISTRIBUTOR	BOX OFFICE (MILS.) US	BOX OFFICE (MILS.) WORLDWIDE
Pirates of the Caribbean: Dead Man's Chest	Buena Vista	423.3	1,065.7
Night at the Museum	Fox	250.9	573.3
Cars	Buena Vista	244.1	462.0
X-Men: The Last Stand	Fox	234.4	459.3
The Da Vinci Code	Sony	217.5	758.2
Superman Returns	Warner Bros.	200.1	391.1
Happy Feet	Warner Bros.	198.0	384.3
Ice Age: The Meltdown	Fox	195.3	651.6
Casino Royale	Sony	167.4	594.2
The Pursuit of Happyness	Sony	163.6	305.1
Over the Hedge	Paramount/ DreamWorks	155.0	335.2
Talladega Nights: The Ballad of Ricky Bobby	Sony	148.2	163.0
Click	Sony	137.4	237.7
Mission: Impossible III	Paramount	134.0	397.9
The Departed	Warner Bros.	132.4	289.8
Borat: Cultural Learnings of America for Make Benefit Glorious Nation of Kazakhstan	Fox	128.5	260.9
The Devil Wears Prada	Fox	124.7	325.5
The Break-Up	Universal	118.7	205.0
Dreamgirls	Paramount/ DreamWorks	103.4	154.6
Scary Movie 4	Weinstein/ Dimension	90.7	178.3
Failure to Launch	Paramount	88.7	128.4
Inside Man	Universal	88.5	184.4
The Santa Clause 3: The Escape Clause	Buena Vista	84.5	110.8
Open Season	Sony	84.3	189.1
Charlotte's Web	Paramount	82.6	144.4
The Pink Panther	Sony	82.2	158.9
Eight Below	Buena Vista	81.6	120.5
Saw III	Lions Gate	80.2	164.9
Nacho Libre	Paramount	80.2	99.3

2007

MOVIE	DISTRIBUTOR	BOX OFFICE (MILS.) US	BOX OFFICE (MILS.) WORLDWIDE
**Spider-Man 3*	Sony	336.4	890.1
Shrek the Third	Paramount/ DreamWorks	321.0	733.1
**Pirates of the Caribbean: At World's End*	Buena Vista	307.6	954.7
**Transformers*	Paramount/ DreamWorks	304.1	633.5
**Harry Potter and the Order of the Phoenix*	Warner Bros.	274.3	824.3
300	Warner Bros.	210.6	456.1
**Ratatouille*	Buena Vista	194.5	313.8
Wild Hogs	Buena Vista	168.3	252.8
**The Simpsons Movie*	Fox	157.0	392.2
**Knocked Up*	Universal	147.0	163.8
**The Bourne Ultimatum*	Universal	141.6	145.9
**Live Free or Die Hard*	Fox	132.2	337.7
**Fantastic Four: Rise of the Silver Surfer*	Fox	130.9	254.9
Blades of Glory	Paramount/ DreamWorks	118.2	144.3
**Ocean's Thirteen*	Warner Bros.	116.4	285.4
Ghost Rider	Sony	115.8	228.7
**I Now Pronounce You Chuck and Larry*	Universal	106.1	108.8
**Evan Almighty*	Universal	98.0	121.1
Meet the Robinsons	Buena Vista	97.7	152.2
Norbit	Paramount/ DreamWorks	95.4	158.7
**Hairspray*	New Line	95.3	115.9
Bridge to Terabithia	Buena Vista	82.3	130.1
Disturbia	Paramount/ DreamWorks	80.1	90.8
**1408*	MGM	71.0	77.6
**Rush Hour 3*	New Line	62.6	72.2
Stomp the Yard	Sony/ Screen Gems	61.4	75.2
Surf's Up	Sony	58.4	71.6

NOTE: Movies are grouped based on the year in which they first appeared in theaters; all receipts were not necessarily collected in the year that a movie was released.
*Still in theaters as of August 2007.
Source: boxofficemojo.com.

strong double-digit growth in DVD sales and rentals have come to an end. By 2005, DVD sales were more than $15.7 billion, up nearly fourfold in only five years, from $4.0 billion in 2000. However, the year-over-year increase for 2005 was only 4.5%. The slowdown continued in 2006, when DVD sales rose less than 2%, to $15.9 billion.

Sales in the six months through June 2007 were 5% lower than during the same period in 2006. That disappointing performance largely reflected difficult comparisons, given that new DVD releases in 2007 could not compare with the 2006 first half, which included several blockbuster releases to the home video market, such as *Wedding Crashers*; *King Kong*; *The Chronicles of Narnia: The Lion, The Witch and the Wardrobe*; and *Harry Potter and the Goblet of Fire*. Second-half 2007 comparisons should be positive, however, largely due to a heavier slate of DVD releases in the second half. But without sure-fire blockbusters, full year sales may be flat at best.

The home video market has some positive forces in its favor, but these are small relative to the DVD business. Such new technologies as Blu-ray Disc and HD (high-definition) DVD sales are advancing, and have already overtaken VHS sales, but the category is small — less than $500 million. (VHS sales are below $300 million.) Digital downloads are also advancing, but this category is still relatively small. Eventually these newer technologies are likely to supplant plastic DVD sales, but Standard & Poor's does not expect giant strides in these sales for several years to come.

Music sales go from bad to worse

Music sales, which have been declining for more than seven years, took an even sharper plunge in the first half of 2007. Music sales peaked at $14.6 billion in 1999, then declined at an average annual rate of about 3% in the seven years through 2006. Sales in 2006 alone dropped 6.5% to $11.5 billion, from $12.3 billion in 2005. CD (compact disc) sales, the largest component of music sales at roughly 80% in 2006, dropped 12.3% in 2006, to $9.2 billion from $10.5 billion. The pace of decline in CD sales averaged nearly 5% per year in the seven years through 2006, but the pace of decline has been accelerating in recent years.

As we already noted, CD sales took an even sharper plunge in the first half of 2007. According to Nielsen SoundScan, which tracks music sales, album (CD) sales dropped 15% in the first half of 2007 to nearly 230 million units, versus the first half of 2006. (Sales in the first quarter of 2007 plunged 20% from the comparable year-earlier quarter.)

Digital sales in total, including mobile, video, and subscription, have not been advancing fast enough to offset the drop in album sales. Electronic downloads of single-songs, which many thought would compensate for the softening demand for plastic CDs, continue to soar, but they have failed to solve the industry's problems. These digital sales involve tunes downloaded through the Internet from businesses such as Apple Inc.'s online iTunes store. The single songs are usually priced at $0.99 per download. Digital sales jumped more than 49% in the first half of 2007, as single track downloads climbed to 417 million units from 281 million units sold in the first half of 2006. If single-song sales are converted in the equivalent of a complete album, then total album sales for the first half would have declined 9% instead of 15%.

Many believe that a shift in listener preferences accounts for the trend away from albums into single songs. Standard & Poor's believes, however, that if the technology had been available earlier, even 20 years ago, the shift into single sales would have gotten its start back then. Record buyers, it seems, have always complained about being forced to buy entire albums in order to get the tracks they really want to listen to. With the proliferation of file sharing in the early 2000s, the introduction of Apple's iPod music player in 2001 and the iTunes Store in 2003, listeners have been free of the constrictions of full album packaging in the form of plastic CDs.

CD sales have also been hurt by online piracy in all its forms, including free file sharing. The demise of brick-and-mortar record stores, such as Tower Records, which closed in the fall of 2006, has also helped to kill physical music sales. The industry has been hurt by the power of big music retailers such as Wal-Mart Stores Inc. to push prices down. These big-box retail chains, including Wal-Mart and Best Buy, are also reducing floor space dedicated to physical music sales.

Internet downloads were 16% of music revenues for 2006, up sharply from a 1% contribution as recently as 2004. In addition to listener preference, digital downloading is growing because electronic catalogs can house many more titles than store shelves can. Thus, the Internet has boosted the number of titles readily available to consumers. Digital downloads provide consumers the convenience of shopping anytime they wish, rather than being restricted by store hours. Internet downloads

RECENT TOP-SELLING ALBUMS

ARTIST	ALBUM	NUMBER SOLD (MIL.)	YEAR OF RELEASE
N'Sync	*No Strings Attached*	12.6	2000
Eminem	*The Marshall Mathers LP*	11.5	2000
Creed	*Human Clay*	11.5	1999
Shania Twain	*Up!*	11.0	2002
OutKast	*Speakerboxxx/The Love Below*	11.0	2003
The Beatles	*1*	10.9	2001
Linkin Park	*Hybrid Theory*	10.0	2000
Britney Spears	*Oops!...I Did It Again*	10.0	2000
Norah Jones	*Come Away with Me*	10.0	2002
Usher	*Confessions*	9.0	2004
Nelly	*Country Grammar*	9.0	2000
Eminem	*The Eminem Show*	9.0	2002
Backstreet Boys	*Black and Blue*	8.0	2000

Source: Wikipedia, based on Nielsen Soundscan and BMG data.

MUSIC BUYING TRENDS
(As percent of total)

DISTRIBUTOR	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
GENRE										
Rock	32.5	25.7	25.2	24.8	24.4	24.7	25.2	23.9	31.5	34.0
Rap/Hip-hop	10.1	9.7	10.8	12.9	11.4	13.8	13.3	12.1	13.3	11.4
R&B/Urban	11.2	12.8	10.5	9.7	10.6	11.2	10.6	11.3	10.2	11.0
Country	14.4	14.1	10.8	10.7	10.5	10.7	10.4	13.0	12.5	13.0
Pop	9.4	10.0	10.3	11.0	12.1	9.0	8.9	10.0	8.1	7.1
Religious	4.5	6.3	5.1	4.8	6.7	6.7	5.8	6.0	5.3	5.5
Classical	2.8	3.3	3.5	2.7	3.2	3.1	3.0	2.0	2.4	1.9
Jazz	2.8	1.9	3.0	2.9	3.4	3.2	2.9	2.7	1.8	2.0
Soundtracks	1.2	1.7	0.8	0.7	1.4	1.1	1.4	1.1	0.9	0.8
Oldies	0.8	0.7	0.7	0.9	0.8	0.9	1.3	1.4	1.1	1.1
New Age	0.8	0.6	0.5	0.5	1.0	0.5	0.5	1.0	0.4	0.3
Children's	0.9	0.4	0.4	0.6	0.5	0.4	0.6	2.8	2.3	2.9
Other	5.7	7.9	9.1	8.3	7.9	8.1	7.6	8.9	8.5	7.3
FORMAT										
Full-length CDs	70.2	74.8	83.2	89.3	89.2	90.5	87.8	90.3	87.0	85.6
Full-length cassettes	18.2	14.8	8.0	4.9	3.4	2.4	2.2	1.7	1.1	0.8
Singles (all types)	9.3	6.8	5.4	2.5	2.4	1.9	2.4	2.4	2.7	3.4
Music videos/video DVDs	0.6	1.0	0.9	0.8	1.1	0.7	0.6	1.0	0.7	1.1
DVD audio	NA	NA	NA	NA	1.1	1.3	2.7	1.7	0.8	1.3
Digital download	NA	NA	NA	NA	0.2	0.5	1.3	0.9	5.7	6.7
SACD*	NA	NA	NA	NA	NA	NA	0.5	0.8	1.2	0.0
Vinyl LPs	0.7	0.7	0.5	0.5	0.6	0.7	0.5	0.9	0.7	0.6
AGE										
10-14 years	8.9	9.1	8.5	8.9	8.5	8.9	8.6	9.4	8.6	7.6
15-19 years	16.8	15.8	12.6	12.9	13.0	13.3	11.4	11.9	11.9	12.8
20-24 years	13.8	12.2	12.6	12.5	12.2	11.5	10.0	9.2	12.7	9.8
25-29 years	11.7	11.4	10.5	10.6	10.9	9.4	10.9	10.0	12.1	12.7
30-34 years	11.0	11.4	10.1	9.8	10.3	10.8	10.1	10.4	11.3	10.2
35-39 years	11.6	12.6	10.4	10.6	10.2	9.8	11.2	10.7	8.8	10.6
40-44 years	8.8	8.3	9.3	9.6	10.3	9.9	10.0	10.9	9.2	9.0
45 and older	16.5	18.1	24.7	23.8	23.7	25.5	26.6	26.4	25.5	26.1
CHANNEL										
Record store	51.8	50.8	44.5	42.4	42.5	36.8	33.2	32.5	39.4	35.4
Other store	31.9	34.4	38.3	40.8	42.4	50.7	52.8	53.8	32.0	32.7
Tape/record club	11.6	9.0	7.9	7.6	6.1	4.0	4.1	4.4	8.5	10.5
TV, newspaper, magazine ad, or 800 number	2.7	2.9	2.5	2.4	3.0	2.0	1.5	1.7	2.4	2.4
Internet	0.3	1.1	2.4	3.2	2.9	3.4	5.0	5.9	8.2	9.1
Digital download	NA	NA	NA	NA	NA	NA	NA	NA	6.0	6.8
Concert	NA	NA	NA	NA	NA	NA	NA	1.6	2.7	2.0
GENDER										
Female	51.4	51.3	49.7	49.4	51.2	50.6	50.9	50.5	48.2	49.6
Male	48.6	48.7	50.3	50.6	48.8	49.4	49.1	49.5	51.8	50.4

Note: Data are as reported. Totals may not add due to non-responses. *Super audio compact disc (Sony audio format). NA-Not available.
Source: Recording Industry Association of America.

also provide instant gratification. Another advantage, one that is favorable to entertainment companies, is that distribution costs are sharply lower for electronic downloads than for physical sales. At the speeds that digital sales are growing and physical sales are slowing, digital sales should take over as the predominant revenue source within the foreseeable future.

Online music retailers try new pricing scheme

Will music listeners pay 30% more for each music download if it comes without copy restrictions and greatly improved fidelity? This is the question that all industry players are waiting to have answered. In April 2007, EMI, the third largest music company, announced that it would offer its music catalog to retailers without digital-rights-management software (DRM) attached, which restricts copying and transferring between devices. The songs have improved sound quality, and sell for $1.29 each, rather than the $0.99 rate for DRM-protected songs. In May 2007, Amazon.com followed suit with an announcement that it too would sell songs for $1.29 that can be freely copied to any cellphone, computer, or music player. In August 2007, Universal Music Group, the industry leader, announced a similar strategy.

Standard & Poor's believes the industry is heading in the right direction with this strategy. According to BigChampagne LLC, an online media measurement company, about one billion songs are traded each month on illegal file-sharing networks. Unprotected files that can be freely copied should appeal to a large proportion of music buyers. Billboard.biz reported in August 2007 that a recent survey conducted by a media research firm in the UK concluded that 39% of the more than 300,000-music fan sample would pay extra for DRM-free music, while 18% opted for the cheaper $0.99, copy-protected files. It is hoped that this strategy will put some of that lost revenue back into the pockets of the artists, producers, and distributors.

Entertainment companies continue to jockey for position in media race

The movie and home entertainment business is experiencing sustained growth thanks to expanding audiences, pipelines, and content. However, the convergence of media platforms, combined with the expansion in media outlets and the seemingly daily creation of new ways to package and format content, are providing both opportunities and challenges to all participants. For example, the expansion in consumer-generated media is not only accelerating content fragmentation, but also moving a large degree of control away from businesses and into the hands of consumers. Furthermore, the growth in digital formats has sharply boosted competitive conditions in media.

As we noted earlier, none of the major entertainment companies are lying down. Each is aggressively seeking ways to compete head on, to circumscribe the competition, or to join with the competition. We note several of the most recent examples following.

NBC Universal meets challenges on several fronts

Rather than fight the inevitability of the peer-to-peer media sharing phenomenon, General Electric's NBC Universal Inc. entered an agreement in August 2007 with Hiro Media Ltd., an Israeli firm, that allows content on NBC's DotComedy.com to be freely downloaded through Hiro's encoding and decoding digital program. The arrangement will give NBC valuable viewing data which it will use to set rates to advertisers.

Separately, NBC Universal's USA Network announced in August 2007 that it will launch a new video-sharing site in early 2008, to be called Didja.com, that will archive new and vintage TV advertising, movie trailers, and other brand-related content. The site will be set up with some of the same features as social networking sites, such as MySpace, in order to encourage interaction.

In March 2007, NBC Universal announced a partnership with News Corp. to create a venture called Hulu (launching in the spring of 2008) that will allow Internet users to download, share, and manipulate premium programming content (full episodes of NBC's *30 Rock* and Fox's *Prison Break*, for example, over a network of sites). Advertising will be attached.

Cable channels convert to Web-only format

In May 2007 the Black Family Channel, owned by Viacom, announced that it was forsaking cable television altogether and becoming an online-only channel. Like several networks before it, Black Family Channel decided that joining the competition would be the best strategy for it. Web-TV not only offers more programming flexibility, but it is also much cheaper to run. A new cable channel can require up to $200 million to launch (requiring cameras and other broadcasting equipment), and must convince cable system operators to carry their signal, then pay for the privilege of being included in cable or satellite's programming lineup. A Web-based operation can get started for less than $10 million. The Web challenge, however, is to find an audience large enough to attract advertisers.

The Black Family Channel has company. Other independent channels that have moved to the Web from cable include the Horror Channel, Horse TV, The Lime Channel (programming dedicated to healthy living), and The Employment and Career Channel.

Consumers and advertisers front the bill

The US movie and home entertainment industries provide products and services for audiences around the world, including new films shown in theaters, video and music titles, and a wide range of TV shows. Through various kinds of distribution arrangements, companies receive most of their revenues from the sale or rental of their products to consumers. In the case of broadcast TV and radio, the sale of airtime to advertisers is the primary source of revenues. Some companies (*e.g.*, retailers of videos and recorded music) buy the entertainment products and resell them to consumers.

The film industry

Movies remain a cornerstone of the US entertainment industry, with consumers paying billions of dollars annually to watch films in various formats. In 2006, consumers in the United States bought about 1.45 billion movie tickets, worth approximately $9.5 billion, at domestic theaters — an average of about 4.0 million tickets per day. However, the domestic box office represents only a small portion of total movie spending, which includes receipts from video and television, as well as spending in international markets. Consumers worldwide spent more than $43 billion in 2006 to view US movies, including $25.8 billion for theater tickets.

DOMESTIC BOX-OFFICE MARKET SHARES
(In percent)

DISTRIBUTOR	2001	2002	2003	2004	2005	2006	2006 BOX OFFICE REVS. (MIL. $)
20th Century Fox[1]	10.6	10.1	8.4	9.9	15.3	15.2	1,398
Buena Vista[2]	10.9	13.0	16.5	12.4	10.4	16.2	1,493
DreamWorks[3]	4.9	5.2	3.0	10.0	5.7	...	...
Lionsgate	...	...	...	3.2	3.2	3.6	331
MGM/UA	5.5	4.0	4.0	2.1	2.1	1.8	167
Miramax[4]	7.5	2.7	4.4	3.9	2.1	...	...
New Line	6.7	9.5	10.1	4.6	4.8	2.7	252
Paramount	11.3	7.4	7.1	6.7	9.4	10.3	947
Sony/Columbia	9.0	17.2	13.0	14.3	10.4	18.6	1,711
Universal[5]	11.7	9.5	11.6	9.5	11.4	8.9	815
Warner Bros.[6]	15.1	11.7	12.8	12.9	15.6	11.6	1,066
Weinstein Company	...	...	...	...	...	2.5	227
Total, major distributors	93.2	90.3	90.9	89.5	90.4	91.4	8,406
Others	1.8	5.7	6.1	8.5	8.6	8.6	804
TOTAL	95.0	96.0	97.0	98.0	99.0	100.0	9,210

[1]Largely owned by News Corp. [2]Owned by Disney. [3]Acquired by Paramount in 2006. [4]Owned by Disney; currently under the control of Buena Vista. [5]Owned by NBC Universal, which is 80%-owned by General Electric Co. [6]Owned by Time Warner Inc.
Source: Box Office Mojo.

The movie releases of six film distribution companies typically account for at least 70% of box office revenues in North America. These companies are Fox Entertainment Group Inc. (majority-owned by News Corp. Ltd.), NBC Universal Inc. (80%-owned by General Electric Co.), Sony Pictures Entertainment, Time Warner Inc. (formerly AOL Time Warner), Viacom Inc., and Walt Disney Co. Another industry leader emerged in the late 1990s — DreamWorks SKG, founded by movie producer Steven Spielberg, former Disney executive Jeffrey Katzenberg, and industry veteran David Geffen. In February 2006, Viacom's Paramount Pictures division acquired DreamWorks.

Movie theaters keep about 50% of the dollars that consumers spend at the domestic box office, with the remainder going to the distributors as film rental fees. The largest North American movie theater company is Regal Entertainment Group, which operated 539 theaters with 6,386 screens as of February 20, 2007. Regal said that its holdings represented about 18% of all US theatrical indoor movie screens.

According to *Video Business*, a weekly magazine that covers the creation and delivery of home video, US consumers spent $15.91 billion in 2006 to purchase DVDs and videotapes, plus another $7.67 billion to rent these items. Consumer spending declined 1.1% from the preceding year. DVD sales grew 4.6% to $15.65 billion, but the growth was not enough to offset declines in VHS tape sales and rentals. VHS tape sales fell 83% to $260 million. Spending on VHS rentals dropped 74%, continuing the trend that has been extant since such spending peaked at $8.4 billion in 2001. Spending on VHS sales and rentals combined in 2006 was only $540 million. The category itself is disappearing.

Television

The nation's four major networks are ABC (owned by the Walt Disney Co.), CBS (CBS Corp.), Fox (largely owned by News Corp.), and NBC (owned by General Electric Co.). Based on ratings data from audience measurement firm Nielsen Media Research Inc., these four networks attracted roughly 40% of US prime-time viewers in the 2006–07 season. The over-the-air broadcast stations not affiliated with any of the four major networks had a combined market share of about 14%. The remainder of the prime-time audience (roughly 45%) was divided among the dozens of cable and satellite channels; none of them averaged more than a 5% market share.

The music business

According to RIAA estimates, US consumers spent about $11.5 billion on recorded music in 2006. With recordings that account for roughly 80% of retail sales, four distributors dominate the US recorded music industry: the EMI Group PLC (based in the United Kingdom); Sony BMG Music Entertainment, which is jointly owned by Sony Corp. (based in Japan) and privately owned Bertelsmann AG (Germany); Universal Studios Group (majority owned by France-based Vivendi Universal); and Warner Music Group (US), which is privately owned.

LARGEST NORTH AMERICAN THEATER CHAINS
(Ranked by number of screens, as of February 2007)

CHAIN	NO. OF LOCATIONS	NO. OF SCREENS	AVERAGE NO. OF SCREENS PER LOCATION
Regal Entertainment Corp.	539	6,386	11.8
AMC Entertainment*	411	5,635	13.7
Cinemark USA**	397	4,505	11.3
Carmike Cinemas	285	2,195	7.7
National Amusements	120	1,426	11.9
Cineplex Entertainment†	128	1,290	10.1
Totals	1,880	21,437	11.4

*Includes Loews Cineplex. **Includes Century Theatres. †Formerly Famous Players.
Sources: *Boxoffice* Online; *Variety*; company reports; Standard & Poor's estimates.

INDUSTRY TRENDS

The economics of the movie and home entertainment industry are undergoing long-term changes as technological developments have altered and expanded distribution channels. Hollywood's movie studios and the television networks are actively seeking to exploit the expanding universe of direct-to-consumer online distribution channels for video.

In the TV business, cable networks have been gaining a greater share of viewers and advertising dollars from the broadcast networks. Their purchases of high-profile programming are increasing, boosting their competitive position even further.

In the video and music industries, Internet downloading and digitally recorded discs have eclipsed older technologies. Discs' image and sound quality, playback features, and durability are superior to those of tape. Increasingly, consumers are making personal recordings at home directly onto their computers or wireless handheld devices.

Old-line media companies reposition

The traditional producers of entertainment fare have not been asleep at the wheel in the race to keep up with the fast-changing media world. For example, the major film studios and TV networks now license content to Internet sites such as Google Video (owned by Google Inc.), MSN video (Microsoft Corp.), Yahoo Video (Yahoo! Inc.), and AOL Video (Time-Warner Inc.). The old-line media companies also provide content on a pay-for-download basis through the iTunes service from Apple Inc., which has been the leader in redirecting music purchases to the Internet.

In addition to new affiliations with Internet companies, the old-line media companies are branching out on their own. Free streaming of select TV show episodes is available (often with ads that cannot be skipped) from ABC.com, NBC.com, CBS Corp.'s Innertube, and Viacom Inc.'s MTV Overdrive.

As companies jockey for position in this evolving landscape, some strategies have resulted in major acquisitions. In an early move, News Corp., which owns Fox Broadcasting Co., acquired MySpace.com for $580 million in July 2005. Google stepped up its invest-

ENTERTAINMENT COMPANIES' INTERNET MEDIA INTERESTS

COMPANY	OWNED PROPERTIES	PARTNERSHIPS
CBS	CBS Innertube	ElectricSheep
	CBS Interactive	Google Video (YouTube)
	CBS.com	
	CBSNews.com	
	CBSSportsline.com	
	Last.fm	
Disney	ABC.com	iTunes
	ABCFamily.com	MSN Video
	BVOnlineEntertainment.com	
	ClubPenguin.com	
	Disney Family (Family.com)	
	Disney.com	
	ESPN.com	
	FamilyFun.com	
	Go.com - formerly GO Network	
	HollywoodRecords.com	
	Jetix.tv	
	LyricStreetRecords.com	
	Miramax.com	
	Movies.com	
	Muppets.com	
	Oscar.com	
	SOAPnet.com	
	TouchstonePictures.com	
	Video.com	
	Wondertime.com	
NBC Universal	BrilliantButCancelled.com	AOL Video
	getTRIO.com	iTunes
	iVillage	MSN Video
	MSNBC.com	
	>nbbc	
	NBC.com	
	NBCOlympics.com	
	OUTzoneTV.com	
	Television Without Pity	
News Corp.	AmericanIdol.com	AOL Video
	Flektor	Google Video
	Fox.com	Movielink (with Fox, Viacom, Sony, MGM & Disney)
	FoxNews.com	
	FoxSports.com	MSN Video
	Grab.com	
	IdolonFox.com	
	IGN.com	
	Indya.com	
	Jumptheshark.com	
	MySpace	
	News.com.au	
	Photobucket	
	Realestate.com.au	
	Scout.com	
	Strategic Data Corp	
	WhatIfSports.com	
Time Warner	Advertising.com	AOL Video
	CNN.com	BitTorrent
	Games.com	Gube
	Gametap.com	In2TV/In2Movies
	NASCAR.com	Yahoo! TV
	PGA.com	YouTube
	SI.com	
	TIME.com	
	Truveo.com	
Viacom	Atom Entertainment	AOL Video
	BET.com	Google Video
	Gametrailers.com	Joost
	iFilm	YouTube
	Motherload.com (Comedy Central)	
	MTV.com	
	Neopets	
	Nickelodeon Online	
	XFire.com	

Sources: Standard & Poor's Equity Research; company reports.

ment in online video distribution with the acquisition in November 2006 of YouTube Inc. for $1.9 billion in Google stock. In December 2006, retail giant Wal-Mart Stores Inc. launched an online video service, with content from all the major studios. In addition to these major players, the space has seen a spate of smaller entrants.

Standard & Poor's expects content providers to become active participants in the evolution of new business models for online video syndication. This could take the form of partnerships with Internet infrastructure providers, such as MTV's advertising deal with Google's AdSense network, which, in August 2006, began airing ads on publishers' Web sites, interspersed with video clips from MTV programming. NBC Universal has launched its own online video syndication hub, whereby network participants can contribute content, distribute it, or both. It is no surprise that some of the major content providers are also entering the fray. (For more information, see the "Current Environment" section of this *Survey*.)

Future growth drivers

Long-term growth in US entertainment spending depends heavily on the develop-

RECORDED MUSIC INDUSTRY SALES PROFILE

	PHYSICAL SHIPMENTS (MILLION UNITS SHIPPED)					DIGITAL DOWNLOADS (MILLION UNITS DOWNLOADED)						
YEAR	CDS	MUSIC VIDEOS	OTHER ALBUMS	OTHER SINGLES	TOTAL PHYSICAL SHIPMENTS	SINGLES	ALBUMS	OTHER*	TOTAL DIGITAL SHIPMENTS	MOBILE DOWNLOADS	SUBSCRIPTION	TOTAL MUSIC SHIPMENTS†
2006	615	23	2	3	643	586	28	11	625	315	2	1,583
2005	705	34	4	5	749	367	14	3	383	170	1	1,302
2004	767	33	8	7	814	139	5	...	144	...	...	958
2003	746	20	21	12	798	...	...	...	...	...	...	798
2002	803	15	33	8	860	...	...	...	...	...	...	860
2001	882	18	48	21	969	...	...	...	...	...	...	969
2000	943	18	78	40	1,079	...	...	...	...	...	...	1,079
1999	939	20	127	75	1,161	...	...	...	...	...	...	1,161
1998	847	27	162	88	1,124	...	...	...	...	...	...	1,124
1997	753	19	175	116	1,063	...	...	...	...	...	...	1,063
1996	779	17	228	113	1,137	...	...	...	...	...	...	1,137

	PHYSICAL SHIPMENTS (MILLION $)					DIGITAL DOWNLOADS (MILLION $)						
YEAR	CDS	MUSIC VIDEOS	OTHER ALBUMS	OTHER SINGLES	TOTAL PHYSICAL SALES	SINGLES	ALBUMS	OTHER*	TOTAL DIGITAL SALES	MOBILE DOWNLOADS	SUBSCRIPTION	TOTAL MUSIC SALES
2006	9,163	451	22	15	9,651	581	276	22	878	775	206	11,510
2005	10,520	602	49	24	11,195	363	136	5	504	422	149	12,270
2004	11,447	607	66	35	12,155	138	46	...	183	...	...	12,338
2003	11,233	400	164	57	11,854	...	...	...	...	...	...	11,854
2002	12,044	288	239	43	12,614	...	...	...	...	...	...	12,614
2001	12,909	329	397	106	13,741	...	...	...	...	...	...	13,741
2000	13,215	282	654	174	14,324	...	...	...	...	...	...	14,324
1999	12,816	377	1,093	298	14,585	...	...	...	...	...	...	14,585
1998	11,416	508	1,454	333	13,711	...	...	...	...	...	...	13,711
1997	9,915	324	1,556	442	12,237	...	...	...	...	...	...	12,237
1996	9,935	236	1,942	421	12,534	...	...	...	...	...	...	12,534

Note: Sales represent manufacturers' shipments, net of returns. Dollar values are based on suggested retail prices, which in many cases exceeded actual prices. *Includes music videos, and kiosk shipments of albums and singles. †Excludes subscriptions.

Source: Recording Industry Association of America.

ment of new ways to deliver films, TV shows, and music to consumers. The widespread acceptance of home video, cable TV, and new music delivery and playback systems proves that consumers will boost their spending to acquire more choices, greater convenience, and higher quality.

Decidedly digital

Standard & Poor's expects that digital applications will remain a major driver of industry growth in the decade ahead. Digital technology, which transmits sound and images as a series of electronic on–off signals, generally provides higher quality audio and video than do older media. As audio and video recordings rely more heavily on digital technology, the computer looms larger in the entertainment picture. In the future, we expect that computers, along with digital video recorders (DVRs), wireless handheld devices, and new appliances that combine computer capabilities with those of TVs will increasingly be used to access, store, time shift, and create entertainment programming.

New TV services have evolved more slowly than anticipated over the past decade, and some new technologies or devices may end up not being economically viable. First, consumers have a finite amount of time and money to spend on new appliances and services. Second, from a business perspective, communications companies must decide whether new delivery systems and services can stimulate enough incremental revenue to justify the required investments.

Digital distribution also increases the threat of unauthorized duplication of copyrighted content. This is especially true with music, as songs can be exchanged easily on the Internet in the form of compressed computer files. Often, recording companies and the artists received no incremental revenue from these exchanges. The amount of music legally downloaded via the Internet has grown considerably, however: Internet downloading accounted for 8.8% of industry retail sales in 2005, up from 2.4% in 2002, according to a study by the Recording Industry Association of America (RIAA), an industry trade group.

Over the long term, Standard & Poor's expects that emerging technologies will increasingly permit viewers to watch what they want, when they want. This flexibility poses a potential threat to programming packagers — particularly the TV networks — because it allows audiences to bypass the networks' scheduling and make their own viewing choices. However, because networks serve as important channels for the financing and marketing of new programming, we expect that some variation of today's networks will continue to exist.

Digital technology revolutionizes music delivery

With rapid growth in broadband access in the United States (now available to more than 42 million households), the digitization of music, and the skyrocketing growth in the number of digital audio players in the hands of consumers (more than 42 million units), on-demand audio is revolutionizing music delivery. Currently, record companies have digitized and licensed nearly two billion songs, and there are more than 230 online music services from which downloads can be purchased.

Evolving demographics

Based on projections from the US Census Bureau, the US population in the 45-to-64 age bracket is expected to increase about 18% by the year 2020, compared with a 13% rise projected for the overall population. Furthermore, we look for the US population that is aged 65 and older to grow about 48% between 2005 and 2020.

Thus, we believe that growth in the entertainment industry will rely increasingly on spending by older Americans, including members of the baby boom generation (the roughly 77 million Americans born between 1946 and 1964). Their nostalgia for the music and movies of the past is likely to remain a business driver for entertainment companies. To tap into this market, companies periodically create new productions based on familiar characters or stories and rerelease old productions, which they hold in their substantial libraries.

Even with the anticipated increase in spending by older consumers, teenagers and young adults should remain a cornerstone of demand. Because younger generations have grown up with computers and video games, they are likely to be especially active in trying out and adopting new entertainment technologies. However, the under-20 age group is projected to grow only about 7% between 2005 and 2020.

Distribution via the Internet should enhance entertainment companies' ability to target specific groups of consumers. For example, consumers who place an online order or who download an album can, at their request, receive e-mail notices regarding similar music that is available. Similarly, subscribers to a youth-oriented magazine can be offered the option of receiving electronic notice of movies aimed at their age group.

Studios seek synergies

The ownership of diverse entertainment businesses creates opportunities for cross-promotion. Companies can gain an economic edge from owning both the product (such as a TV show) and the distribution channel (such as a broadcast network). Additional opportunities to leverage trademarks, copyrights, and "creative assets" (*i.e.*, writers, producers, actors, and the content they produce) are arising in the evolving multimedia sector. For example, a popular movie can spawn a best-selling music album or a video game, a novel can inspire a film, and so on.

A single company's ownership of both content and distribution is no guarantee that its offerings will be well received by audiences. Ultimately, consumers will spend their money on the movies, programs, and music that they like and that are delivered conveniently and economically. Standard & Poor's thinks that the major distribution outlets will need to rely, at least in part, on content from outside sources.

An extensive global empire

The US entertainment industry's international presence is extensive. American movies typically account for the majority of box office receipts in Western Europe and Japan. In various foreign markets, consumer interest and access to US entertainment have been boosted by the construction of multiplex theaters (*e.g.*, in

Europe) and growth in the number of broadcast, cable, and satellite outlets.

Foreign demand is typically strong for the big-budget films that are a staple of the US movie industry. In the United States, films are marketed to a domestic population of more than 300 million — far greater than the populations of many other developed countries. The large US market, plus the acceptance of English as an international language, gives US moviemakers a much bigger prospective revenue base than their foreign counterparts. In addition, movie videos from US companies enjoy a sizable overseas market. US-filmed entertainment has a broad worldwide audience. In 2005, consumers worldwide spent $23.4 billion at the box office, with US moviegoers accounting for nearly 39% ($9.0 billion) of that.

To illustrate further the importance of overseas movie attendance to US filmmakers, *Pirates of the Caribbean: Dead Man's Chest* took in $1,066.2 million worldwide in 2006, of which 39.7% came from US moviegoers; 60.3% came from overseas attendance. In fact, 35 of the top 50 movies in 2006 derived 50% or more of their worldwide grosses from overseas attendance. Four of the top 10 scored less than 50% of worldwide box office revenues from overseas attendance, but even here, the lowest overseas percentage was 47.2%.

US suppliers of TV programs should find new opportunities for global growth, especially as more channels become available throughout Europe and elsewhere. Worldwide demand for programming should benefit from expanded services, including satellite TV. With the US accounting for less than 15% of the more than 800 million TV households in the world, US program suppliers have significant growth opportunities overseas.

TV time

The availability of more channels via cable systems and satellite dishes has led to a dramatic shift in the audience market share of "over-the-air" broadcast stations. According to Nielsen Media Research, more than 87% of US households received television programming via cable or satellite dish in 2006, compared with about 56% in 1990. During that period, the prime-time audience share of all broadcast stations fell from about 80% to approximately 57%.

In spite of the increased segmentation of TV audiences and competition from other media, TV viewing levels continue to rise. Nielsen Media Research reported that the average household viewed television for eight hours and 14 minutes per day in the 2005–06 broadcast year, an all-time high, up from eight hours and 11 minutes in 2004–05 and well ahead of the five hours and 56 minutes viewed in the average home in 1970. The average amount of TV watched by individual viewers was four hours and 35 minutes per day in the 2005–06 TV season, which was also up by three minutes, on average, over the preceding season.

As audiences for cable- or satellite-based channels have grown, advertisers have moved their ad spending in that direction. The share of TV advertising dollars going to channels that depend on cable or satellite dish delivery increased from 9% in 1990 to about 35% in 2006. We expect that cable- or satellite-based TV networks will continue to take audience and advertiser spending market share from broadcast outlets, both from networks (*e.g.*, ABC, CBS, etc.) and from individual TV stations.

Some shifts in TV programming

Despite the growing presence of cable networks and eroding audience share, the major broadcast networks — ABC, CBS, NBC, and Fox — should remain the principal force in small-screen programming for the foreseeable future. They have the broadest audience reach and purchase the most first-run programming.

One-time shows that draw enormous audiences continue to air primarily on the major broadcast networks. Such "event programming" includes extravaganzas like the National Football League's (NFL's) Super Bowl and the movie industry's Academy Awards.

Nevertheless, high-profile shows are increasingly appearing on cable networks (*e.g.*, NFL football on ESPN). Cable's growing audience reach and rising revenue levels have bolstered the ability of cable networks to win the rights to such programming. Moreover, cable networks have made significant inroads in producing highly acclaimed and popular first-run programming, including such successes as *Sex and the City*, *The Sopranos*, *Entourage*, and *Six Feet Under*.

ALL-TIME TOP BOX-OFFICE FILMS

(Ranked by domestic box office revenues, in millions of current dollars)

MOVIE	DISTRIBUTOR	BOX OFFICE (MIL. $) US	WORLDWIDE	YEAR OF RELEASE
Titanic	Paramount	601	1,845	1997
Star Wars	Fox	461	775	1977
Shrek 2	DreamWorks	441	920	2004
E.T.: The Extra-Terrestrial	Universal	435	793	1982
Star Wars: Episode I - The Phantom Menace	Fox	431	924	1999
Pirates of the Caribbean: Dead Man's Chest	Buena Vista	423	1,066	2006
Spider-Man	Sony	404	822	2002
Star Wars: Episode III - Revenge of the Sith	Fox	380	850	2005
The Lord of the Rings: The Return of the King	New Line	377	1,119	2003
Spider-Man 2	Sony	374	784	2004
The Passion of the Christ	NM	371	612	2004
Jurassic Park	Universal	357	915	1993
The Lord of the Rings: The Two Towers	New Line	342	926	2002
Finding Nemo	Buena Vista	340	865	2003
**Spider-Man 3*	Sony	336	890	2007
Forrest Gump	Paramount	330	677	1994
The Lion King	Buena Vista	329	784	1994
Shrek the Third	Paramount/ DreamWorks	321	733	2007
Harry Potter and the Sorcerer's Stone	Warner Bros.	318	977	2001
The Lord of the Rings: The Fellowship of the Ring	New Line	315	871	2001
Star Wars: Episode II - Attack of the Clones	Fox	311	649	2002
Return of the Jedi	Fox	309	475	1983
**Pirates of the Caribbean: At World's End*	Buena Vista	308	955	2007
Independence Day	Fox	306	817	1996
Pirates of the Caribbean: The Curse of the Black Pearl	Buena Vista	305	654	2003
**Transformers*	Paramount/ DreamWorks	304	634	2007
The Sixth Sense	Buena Vista	294	673	1999
The Chronicles of Narnia: The Lion, the Witch and the Wardrobe	Buena Vista	292	745	2005
The Empire Strikes Back	Fox	291	538	1980
Harry Potter and the Goblet of Fire	Warner Bros.	290	892	2005
Home Alone	Fox	286	478	1990
The Matrix Reloaded	Warner Bros.	282	739	2003
Meet the Fockers	Universal	279	517	2004
**Harry Potter and the Order of the Phoenix*	Warner Bros.	274	824	2007
Shrek	DreamWorks	268	484	2001
Harry Potter and the Chamber of Secrets	Warner Bros.	262	877	2002
The Incredibles	Buena Vista	261	631	2004
Jaws	Universal	260	471	2000
How the Grinch Stole Christmas	Universal	260	345	1975
Monsters, Inc.	Buena Vista	256	525	2001
Batman	Warner Bros.	251	411	1989
Night at the Museum	Fox	251	573	2006
Men in Black	Sony	251	589	1997
Harry Potter and the Prisoner of Azkaban	Warner Bros.	250	790	2004
Toy Story 2	Buena Vista	246	485	1999
Cars	Buena Vista	244	462	2006
Bruce Almighty	Universal	243	485	2003
Raiders of the Lost Ark	Paramount	242	384	1981
Twister	Warner Bros.	242	495	1996
My Big Fat Greek Wedding	IFC	241	369	2002
Ghostbusters	Columbia	239	292	1984
Beverly Hills Cop	Paramount	235	316	1984
X-Men: The Last Stand	Fox	234	459	2006
War of the Worlds	Paramount	234	592	2005
Cast Away	Fox	234	430	2000
The Exorcist	Warner Bros.	233	441	1973
The Lost World: Jurassic Park	Universal	229	619	1997
Signs	Buena Vista	228	408	2002
Rush Hour 2	New Line	226	347	2001

*Still in theaters as of August 2007. Current domestic box office totals as of August 2007. Lists all films over $225 million in domestic revenues, when measured in current dollars.
Sources: boxofficemojo.com; the-movie-times.com.

Reality TV makes a splash

Prime-time TV has seen a boom in so-called reality shows. This category comprises programs such as physical competitions, game shows, and talent competitions, which are less scripted — and often less costly to produce — than other forms of TV programming, such as situation comedies and dramas. The reality show is not a recent phenomenon; in fact, the genre was introduced in 1948, when *Candid Camera*, the granddaddy of them all, had its TV debut. Somewhat more recent examples are *Cops*, which debuted in 1989, and *America's Funniest Home Videos* (1990).

The most recent boom started in 2000 with CBS's Survivor series. With that unqualified hit, a new wave of reality programming took hold, and shows such as *American Idol* (Fox), *Dancing With the Stars* (ABC), *America's Next Top Model* (The CW Television Network), *The Apprentice* (NBC), and *The Amazing Race* (CBS) have captured large audiences.

Movies: cashing in on sequels

In the movie industry, producing a sequel — a follow-up to a previous popular film — can lead to box office success. Of the top 50 domestic box office hits released between 2000 and early August 2007, 22 were sequels (or prequels, as in the case of the latest *Star Wars* and *Batman* films). Released in November 2006, *Casino Royale*, the 21st movie in the James Bond series, racked up $165.9 million at the US box office in 2006.

Typically, major movie series seldom go beyond three incarnations. Consumer interest may begin to wane, good scripts for a sequel may be unavailable, or costs may become prohibitive. Reuniting or replacing creative talent also can present a problem: actors sometimes will abandon successful roles so as not to be typecast. Ongoing series, such as the Stars Wars and James Bond films, are special cases, in which concept, characters, and/or special effects have captured the public's imagination.

Movie adaptations of popular TV shows are similar to movie sequels, in that consumers' familiarity with characters and story lines assures some degree of interest. Popular novels also have served as the basis for some big movie hits, including five Harry Potter films, based on books by J.K. Rowling, and three movies based on J.R.R. Tolkien's series, *The Lord of the Rings*.

Movie companies also produce remakes or new variations based on earlier films. Recent remakes include a new version of 1988's *Hairspray* in 2007, and a new version of 1953's *War of the Worlds* in 2006.

Translating a popular book or TV show into film is no guarantee of a major hit. Examples of movies that have been relatively weak or disappointing at the domestic box office in recent years include *I Spy*, a film in 2002 that was partly based on the 1960s TV series, and a film adaptation of L. Ron Hubbard's *Battlefield Earth* in 2000.

Star power buys success — sometimes

An established way of building public interest in a movie is to cast it with big stars. Among the actors who have maintained strong marquee value for more than a decade are Tom Hanks and Tom Cruise; each has starred in more than 10 blockbusters since the mid-1980s. (A blockbuster is a film with domestic ticket sales greater than $100 million.) However, the generation of actors that gained prominence between 1985 and 2000 (*e.g.*, Hanks, Cruise, Bruce Willis, Jim Carrey, Julia Roberts, Arnold Schwarzenegger, and Robin Williams) has started to become less of a factor at the box office. We attribute this to a variety of factors, including changing public tastes and the kinds of roles these actors have chosen or been offered.

Star power is still important, but we see the limelight shifting toward newer headliners, including Orlando Bloom, Matt Damon, Cameron Diaz, Leonardo DiCaprio, Johnny Depp, Tobey Maguire, Ewan McGregor, Brad Pitt, Ben Stiller, and Denzel Washington. Each has been featured in at least five blockbuster films since 1999. Although not necessarily playing the leading role in each film, Mr. Bloom has appeared in seven blockbusters since 1999, including the three *Lord of the Rings* films, *Pirates of the Caribbean: The Curse of the Black Pearl* and its sequel *Pirates of the Caribbean: Dead Man's Chest*, *Troy*, and, most recently, *Pirates of the Caribbean: At World's End*, the third installment of that series. Mr. Depp has starred in seven blockbusters, including top billing in each of the three Pirates of the Caribbean movies. Mr. Damon has starred in ten blockbusters since 1999, including *The Talented Mr. Ripley* in 1999; *The Departed*; *The Brothers Grimm*; each of the Bourne movies; and each film of the Ocean's trilogy.

Plenty of other actors have major audience appeal. Eddie Murphy, who established big-screen star power in the early 1980s (in films such as *48 Hours* and *Trading Places*), has starred in nine blockbusters since 1999 (including his role as the donkey's voice in the three animated *Shrek* films). Mike Myers, who burst onto the scene as a theatrical movie star with *Wayne's World* in 1992 ($122 million), has had featured roles in six blockbusters since 1999, including the voice of the title character in the three *Shrek* films, various roles in the *Austin Powers* movies, and the lead role in *Dr. Seuss' The Cat in the Hat* in 2003. Adam Sandler is another established comedic star, with seven $100 million–plus films since 1998, including *I Now Pronounce You Chuck and Larry* in 2007. Samuel L. Jackson has appeared in six blockbusters since 1999, and Will Smith has starred in nine blockbusters over the same period.

After first achieving blockbuster status with *Lethal Weapon 2* in 1989, Mel Gibson has maintained a strong career. In 1995, he starred in and directed *Braveheart*, for which he won two Academy Awards (for Best Picture and Best Director). In addition to starring in *Signs* in 2002 ($228 million at the domestic box office), Mr. Gibson directed one of the biggest hits of 2004 — *The Passion of the Christ*. He also directed the critically acclaimed *Apocalypto* in 2006.

Meryl Streep has garnered more Academy Award nominations (14) than any actor in Academy Awards history. She gained prominence in the 1970s with such hits as *Julia*, *The Deerhunter*, and *Kramer vs. Kramer*. She is still going strong: her 14th nomination was for her starring role in the 2006 blockbuster *The Devil Wears Prada*.

Studios have found one way to limit the up-front costs of production: link much of the headline actors' pay to the performance of the film. Studios have begun basing compensation on a percentage of box office revenues as a means to reduce risk. However, by entering into revenue-sharing deals with creative talent, a movie distributor also may limit its upside profit potential.

New entertainment options vie for moviegoers' time

US box office revenues appear to be leveling off — holding within a range of roughly $9.0 billion to $9.5 billion since 2001. Although ticket prices have risen every year for decades (including an increase of 2.8% in 2006, to an average of $6.58), the number of ticket sales has generally fallen in recent years. After peaking at 1.58 billion admissions in 2002, admissions fell 3.8% in 2003 (to 1.52 billion), declined 0.4% in 2004 (to less than 1.52 billion), and dropped 9.2% in 2005 (1.38 billion), then gained 1.4% in 2006 (to 1.40 billion). Box office receipts rose 0.2% in 2003 (to $9.19 billion), rose 2.5% in 2004 ($9.42 billion), declined 6.1% in 2005 ($8.84 billion), and increased 4.2% in 2006 ($9.21 billion), according to revised numbers from reporting service Box Office Mojo LLC.

According to MPA Worldwide Market Research, among all age brackets, the young are the most avid moviegoers. In 2005, 12- to 20-year-olds continued to be the most frequent moviegoers. As of early 2005, this group represented 26% of box office admissions but only 15% of the population, followed by the 20-to-29 age group (21% of admissions; 15% of population), 30 to 39 (17%; 17%), 40 to 49 (15%; 19%), 50 to 59 (10%; 15%), and 60 and older (10%; 20%).

New entertainment options are chipping away at movie theatre attendance by the young and other age groups. New technology vying for moviegoers' time and money includes high-quality home video equipment, with such features as flat-panel screens and advanced sound systems, high-definition TV (HDTV) signals, time-shifting (digital video recording), and movies on demand. In addition, theaters are competing against a growing number of new media alternatives for delivery of films, gaming, music, and more.

Gaming proliferates

Digital Gaming in America — a survey by Ziff Davis Media released in August 2005 — illustrates the growing popularity of video and PC gaming. More than 76.2 million people in the United States played video games in 2005, up from 67.5 million in 2004. The growth in gaming is being spurred by the popularity of portable game players, such as Nintendo's Wii, and Sony's XBox, as well as the growing popularity of game-playing on cell phones.

IDC, a provider of information technology data, forecasts that US sales of downloadable Internet games will climb substantially, from $116.5 million in 2004 to $1.0 billion in 2008. US revenues from online games are expected to increase dramatically, from $656.3 million in 2004 to $2.2 billion in 2007, according to IDC.

On average, gamers watched 16 hours per week of TV in 2005, down from 18 hours per week in 2004. While the survey did not address the issue, it would not be a stretch to infer that gaming is hurting theater attendance as well.

DVD sales and rentals divert box office receipts

A study in 2005 by the Motion Picture Association of America (MPAA) revealed that Americans spent 76 hours a year watching videos and DVDs, a 62% increase from 2001. DVD unit sales and rentals climbed 368% over the same period, to nearly 1.3 billion units.

In 2004, movie DVDs were released for retail sale an average of four months after the movie's theatrical release — down from an average of six months, only a few years earlier. The window between the typical movie's theatrical release date and its DVD release date has continued to shorten, as moviemakers seek to take advantage of timing in the hope of recouping costs and making a profit on box office clinkers.

There are a number of forces behind the shrinking movie release window. One of them is the decreasing shelf life for DVDs, whose boom has apparently ended: DVD sales growth decelerated from 269% in 2001, to 57% in 2003, to just 4.5% in 2005. Since 2004, DVD sales have tended to drop off sharply after their initial release, in a pattern similar to the postrelease drop-off in ticket sales at the box office. In addition, moviemakers hope to lessen movie piracy and save on marketing costs by closing the gap between theatrical and DVD release windows. With the growing popularity of digital movie downloads, competitive forces probably will shrink the window further.

With the shortened window, many would-be theatergoers find it easier to justify waiting for the DVD to watch a movie that they

ALL-TIME TOP-SELLING ALBUMS

(Ranked by units shipped, in millions, as of February 2007)

ALBUM	ARTIST	LABEL	YEAR OF RELEASE*	NUMBER SHIPPED (MIL.)
Their Greatest Hits (1971–1975)	Eagles	Elektra	1976	29
Thriller	Michael Jackson	Epic	1982	27
The Wall	Pink Floyd	Columbia	1979	23
Led Zeppelin IV	Led Zeppelin	Swan Song	1971	23
Back in Black	AC/DC	Elektra	1980	21
Greatest Hits — Volume I & Volume II	Billy Joel	Columbia	1985	21
Double Live	Garth Brooks	Capitol Nashville	1998	20
Come on Over	Shania Twain	Mercury Nashville	1997	20
Rumours	Fleetwood Mac	Warner Bros.	1977	19
The Beatles	The Beatles	Capitol	1964	19
Boston	Boston	Epic	1976	17
The Bodyguard	Whitney Houston	Arista	1992	17
Physical Graffiti	Led Zeppelin	Swan Song	1975	16
No Fences	Garth Brooks	Capitol Nashville	1990	16
Hotel California	Eagles	Elektra	1976	16
Greatest Hits	Elton John	Rocket	1974	16
Jagged Little Pill	Alanis Morissette	Maverick	1995	16
The Beatles/1967–1970	The Beatles	Capitol	1973	16
Cracked Rear View	Hootie & the Blowfish	Atlantic	1994	16
Dark Side of the Moon	Pink Floyd	Capitol	1973	15
The Beatles/1962–1966	The Beatles	Capitol	1973	15
Supernatural	Santana	Arista	1999	15
Born in the U.S.A.	Bruce Springsteen	Columbia	1985	15
Appetite for Destruction	Guns 'N Roses	Geffen	1987	15
Saturday Night Fever	Bee Gees	Polydor/Atlas	1977	15

Sources: Recording Industry Association of America; **All Media Guide.*

are interested in seeing, but are not "dying to see" immediately. In addition, someone who might have gone back several times to see a movie in the theater finds it easier to hold off until the DVD release for multiple viewings.

Music: an aging customer base

The music industry continues to get most of its business from younger consumers. However, its audience demographics have changed. A survey conducted for the RIAA indicated that consumers aged 10 to 34 made about 57% of purchases in 2005, down from 70% in 1990.

According to the same survey, consumers aged 40 and older accounted for about 35% of music sales in 2005, up significantly from about 19% in 1990. This likely reflects several factors: the general aging of the population; older consumers' greater ability to afford CDs, the high-priced format that has become prevalent; and the growing popularity of portable music devices, such as the iPod from Apple, among the younger generations. These users tend to download individual songs — which is cheaper than purchasing a CD.

Sales channels shift

During the past decade, discount chains (such as Wal-Mart Stores Inc., Best Buy Co. Inc., and Circuit City Stores Inc.) have accounted for a growing portion of retail outlets' recorded music sales. These retailers have used price reductions on hit albums as a way to attract younger consumers to their stores. Online outlets such as Amazon.com also have accounted for a growing portion of industry sales. These gains came largely at the expense of specialty music stores. In 2005, record stores accounted for 39.4% of industry sales, down from 69.8% in 1990, according to the RIAA survey cited earlier, with all retail outlets under growing pressure from online downloading services. The giant music retailer Tower Records liquidated its inventory and closed the doors on its US retail operations in late December 2006.

There has been a long-term trend toward purchasing music on CDs rather than cassettes. According to the RIAA survey, full-length CDs represented 87.0% of music purchases in 2005, up from 58.4% in 1994. Over this same period, the market share for full-length cassettes fell to 1.1%, from 32.1%.

In more recent years, consumers have increasingly turned to their computers and other digital devices for music purchases. In 2005, music downloaded via the Internet accounted for 8.8% of industry sales, according to the RIAA study, up from 2.4% in 2002 and 0.3% in 1997. Standard & Poor's expects Internet sales avenues to continue to grow rapidly in the years ahead.

Increasingly, music is being sold via the Internet, whereby consumers download songs in the form of digital files for playback on their PCs or on portable music devices. In January 2007, Apple said that more than two billion songs (plus 50 million TV episodes and more than 1.3 million feature-length films) had been purchased and downloaded from its Internet-based iTunes Music Store, which debuted in April 2003 and typically sells individual songs for 99 cents each. We believe that iTunes is the world's leading online music service, and that Apple's iPod accounts for more than 75% of the market for portable music devices.

The amount of music sold through such means is still but a small percentage of overall music purchases. In addition, we see an increasingly competitive environment for sales of music downloads. As of January 2007, iTunes' competitors included RealPlayer Music Store (from RealNetworks Inc.), Sony Connect Inc. (Sony Corp.; however, Sony announced in August 2007 that it would shut down the Connect store sometime after March 2008), Napster (Napster Inc.), Musicmatch (Yahoo! Inc.), MSN Music (Microsoft Corp.), and Wal-Mart's music download service. Going forward, factors influencing competitive success are likely to include the variety of music available, pricing to consumers, and the extent to which downloaded music can be played on different kinds of devices.

HOW THE INDUSTRY OPERATES

Companies in the movie and home entertainment industry are involved in the creation and delivery of various kinds of programming for consumers. This programming is recorded on film, tape, or disc so that it can be seen or heard repeatedly. Increasingly, recorded entertainment is being stored digitally, which can preserve a higher quality of images and sounds, and make them easier to transmit and copy. In addition, many entertainment events that are broadcast live are likely to be recorded, and then rebroadcast at future times and/or made available to consumers on tape or disc.

Large, diversified companies dominate the industry. Among the biggest are CBS Corp., General Electric (through its 80%-owned NBC Universal Inc. business), News Corp. Ltd., Sony Corp., Time Warner Inc., Viacom Inc., and the Walt Disney Co. These companies finance the development of new products, have extensive libraries of products, and often own distribution channels for bringing content to the public.

Movies: in the theater and at home

The movie releases of six film distribution companies — the Walt Disney Co., Viacom Inc., Sony Corp., News Corp.'s Fox Entertainment Group, Time Warner Inc., and NBC Universal — typically account for at least 70% of domestic box office revenues.

Movies today usually are made under a contract signed by a major distributor, a production company, and a collection of freelance talent. With a major theatrical film, a distributor typically funds a movie from start to finish or provides a portion of the financing in return for fees and a share of the proceeds. In some cases, a producer grants theatrical distribution rights to one party and sells home video rights to another. In most cases (and particularly for major films), the company handling the film's theatrical release also owns its distribution rights in the home video market. After arranging to have videos manufactured, the distributor usually sells them to video retailers. It also may distribute them through a revenue-sharing agreement, under which the distributor and retailer share consumers' rental fees for a video title.

For many films, movie theater sales are no longer the principal source of revenues. Today, profitability often depends heavily on contributions from various home video and TV markets. For movie theaters, the wide availability of cable and satellite TV, home video, handheld games, and other new media may limit longer-term attendance. In addition, with the growing use of high-speed Internet access, computers and wireless devices are increasingly being used to view filmed entertainment. Nevertheless, box office performance will likely continue to have a major impact on films' ultimate profitability. In addition to contributing revenues directly from ticket sales, theatrical success often translates into good reception and greater value in ancillary markets, helping to generate revenues for years to come.

Extensive costs, elusive profits

Production costs vary widely. A high-profile special-effects movie, such as a *Pirates of the Caribbean* sequel, can cost far more than $225 million to produce, while some films are made for $15 million or less. For example, the 2006 box office hit *Little Miss Sunshine* cost an estimated $8 million to make, but took in $60 million at the US box office in 2006 alone. Another example of a low-budget movie that made it big was *My Big Fat Greek Wedding* in 2002. Reportedly produced for about $5 million, the film generated domestic box office sales of $241.4 million and international box office sales of $127.3 million. The movie's worldwide box office total of $368.7 million ranks it 106th among all-time movie grosses worldwide, as of August 2007.

Other costs include advertising and duplication (making multiple copies for theaters), dubbing or subtitling the movie for foreign markets, and manufacturing and marketing the film's home video release. In addition, creative talent involved in a movie may be contractually entitled to a portion of the film's revenues or profits.

PROFILE OF US HOME VIDEO MARKET†

YEAR	NUMBER OF HOUSEHOLDS* WITH: DVDS (IN MILLIONS)	VCRS (IN MILLIONS)	% OF TV HOMES WITH: DVDS	VCRS	PRERECORDED VIDEO SALES (IN MILLIONS OF UNITS): CASSETTES	DVDS
2006	95.7	93.1	85.9	83.6	7	1,325
2005	91.3	94.0	82.8	85.3	49	1,293
2004	84.3	93.4	76.9	85.2	126	1,212
2003	69.7	95.5	64.3	88.1	244	879
2002	54.0	96.5	50.6	90.4	391	619

†Sales to US dealers. *At year end.
Source: Motion Picture Association of America.

The average cost to make and market a Motion Picture Association of America (MPAA) movie in 2006 was $100.3 million, which included $34.5 million in marketing costs, and $65.8 million in negative costs (*i.e.*, all other costs associated with actually getting the movie produced and ready for commercial release). Both marketing and negative costs peaked in 2003 at a sum of $102.9 million.

Box office receipts are shared about equally between the company that distributes a film and the operators of the theaters where it is exhibited. The distributor's portion is known as theatrical rentals. In 2006, distributors took in more than $4.7 billion in theatrical rentals from the nearly $9.5 billion in US box office sales that year.

The life span of a film — from initial concept to the exhaustion of its revenue stream — is often many years in length. Although a movie's box office revenues often are tallied publicly, a specific movie's full cost structure is seldom disclosed.

Most movies are not big moneymakers. In this business, as in the music and television sectors, the successes must pay for the failures. According to the MPAA, six of 10 movies lose money on their original investment in their domestic theatrical run. Companies in the industry rely on sequential release to home video and other media to recoup their investment and make a profit.

Size and entry barriers

In the filmed entertainment business, sizable companies have obvious advantages. A large firm can diversify its risk by developing a variety of projects, while the sheer volume of its products gives it more influence with theater owners and TV networks. In addition, factors such as brand-name recognition, management experience, relationships with creative talent, and product distribution capabilities tend to favor the larger, more established companies.

Barriers to entry in the filmmaking and distribution business are not high, and the industry has seen a growth market in recent years for independent films ("indies"). However, long-lived success does not come easily. The ability of smaller companies to join the ranks of the industry leaders varies according to sector. Salient factors include access to capital, regulatory barriers, and management skill.

Theatrical revenue sharing

Many of today's cinemas are multiscreen theater complexes. This format lets theater operators attract more moviegoers by offering a variety of films — and thus maximizes the value of their real estate. Multiscreen theater complexes also permit economies of scale, in that employees and facilities — the concession stands and box office, for instance — can serve patrons of more than one movie. Multiplex (or megaplex) facilities typically have fewer seats per screen than do single-screen theaters, so this format can also boost average capacity utilization.

A theater operator's largest expense is the rental of movies from distributors. Exhibitors license films by either negotiating directly with distributors or submitting bids to them. Rental fees, which average roughly 50% of ticket sales, are based largely on a revenue-sharing formula. Typically, if the fee is determined in advance, a distributor will receive either a percentage of box office receipts (which may decline as a film's theatrical run lengthens) or a percentage of the amount that admission revenues exceeded a negotiated figure.

During a film's theatrical run, if the movie exhibitor's weekly percentage of box office receipts increases over time, it provides an incentive for the exhibitor to keep the film on its screens longer. However, in recent years, with the bulk of ticket sales of major movies increasingly coming from the first couple of weeks in theaters, we expect that distributors' percentage of total box office receipts has edged up. In addition, rental fees may be subject to a settlement process that is negotiated after a film's theatrical run has concluded, based upon how well the movie has performed.

During the 1990s, the US movie theater industry over-expanded, opening more than 15,000 new movie screens while closing an insufficient number of older screens. Because of this and other factors, about half of the 12 largest US film exhibitors entered bankruptcy proceedings between 1999 and 2001. According to the MPAA, the number of US movie screens in 2006 increased 2.1% to 39,668, compared with 38,852 in 2005. Most of the 6,356 US movie theaters in 2006 had more than one screen.

Videos for sale or rent

A variety of material is now available on digital versatile discs (DVDs; often called "digital video discs" when referring to movies), which have largely replaced videocassettes. Movies probably account for more than 70% of video rentals and at least 60% of the dollars spent on video purchases. New theatrical movies typically are released on DVD about three to four months after their theatrical debut. In addition, some movies are not shown in theaters but are released directly to consumers as videos.

Suppliers of home videos seek to maximize revenues and profits by forecasting levels of demand from retailers and consumers at different price points. Videos that have a relatively high retail purchase price (more than $35) are generally targeted for rental activity, while lower-priced DVDs, particularly those available for less than $20, are more likely to be purchased by consumers, though they also generate significant rentals.

In some cases, especially with videos that are aimed at rentals by consumers, a retailer may acquire a video at a relatively low cost, and then have a revenue-sharing arrangement with the distributor, whereby consumer rental spending is split between the two parties. In other cases, a retailer may pay more for a video but is entitled to retain all of the customer's rental fee or purchase price.

Sales and rentals of DVDs grew rapidly through 2004, but growth has slowed substantially since 2005. The number of DVD units sold totaled 1.32 billion in 2006, an increase of only 2.5% from the 1.29 billion in 2005, which was up 6.6% from 1.21 billion in 2004. In 2004, unit sales had climbed 37.9%, after advancing 42.0% in 2003 and 76.4% in 2002.

TV industry: big networks still lead

Although their market share is eroding, the four major broadcast networks (ABC, CBS, NBC, and Fox) remain the largest force in US television programming. For national advertisers, these networks continue to provide household penetration and viewership levels not available elsewhere.

For the 2006–07 season, the Big Four attracted roughly 40% of total prime-time viewers, compared with more than 60% just 10 years earlier. In the long term, we expect that their market shares will decline further as viewers shift to alternative programming that is becoming available through digital programming services.

The broadcast networks remain the largest buyers of high-profile, first-run shows. Although cable company investment in original programming has risen significantly in recent years, shows that originally appeared on one of the Big Four networks are still a large component of the broadcast fare on cable outlets and independent broadcast stations.

Networks provide programming

All of the major broadcast network companies own TV stations; they also have affiliate relationships with TV stations owned by others. The networks typically provide their owned stations and affiliates with more than 20 hours of programming per week. In exchange, networks obtain the right to sell the bulk of the advertising time during the periods when their shows are airing. Many affiliates also receive a fee, called compensation, from their networks.

When affiliates are not airing a network show, they offer programming that they have either purchased independently (such as a syndicated show) or produced in-house (such as local news). Although costs are typically higher for shows that they produce themselves, affiliates get to sell more advertising time during such programs than during network offerings.

At times, an affiliate chooses to fill traditional network time with shows that the station has acquired independently from other program suppliers. (See the "Syndication" heading later in this section.)

Independent stations

Independent stations, which are not affiliated with a broadcast network, bear full responsibility for filling their schedules with programming and for selling advertising time. They incur all of the costs and keep all of the revenues associated with doing so.

Program suppliers

The production of TV shows is similar to the movie business in many ways. Good cash flow from program libraries helps to finance new shows. Larger companies often contract for or jointly produce shows with smaller firms, and often distribute and market programs produced by others. The creation of a successful show by any production business can help generate additional network commitments.

Major program suppliers for the networks include Time Warner Inc.'s the Warner Bros. Television Group, News Corp.'s Twentieth Century Fox Television, CBS Corp.'s CBS Paramount Television, NBC Universal Television Group, Sony Pictures Television, and the Walt Disney Co.'s Touchstone Television Productions LLC. All of these businesses (or their parent companies) also are full or part owners of a broadcast network and/or cable networks.

Network licensing

The broadcast networks often obtain first-run prime-time shows from program suppliers through license agreements, which let them air each episode of a series several times. This arrangement is generally more affordable for the networks than producing programs themselves, the cost of which can exceed the network license fee by more than $200,000 per episode, especially in the early years of production.

When a program supplier licenses a show to a network for less than the cost of production, it may offset some or all of the deficit by selling the program to foreign markets. However, even after foreign sales are included, a supplier may accept a deficit in the hope of ultimately profiting through off-network syndication (selling reruns to individual TV stations or cable channels). The desirability of a program's rerun rights is determined largely by the size of its audience and its longevity on broadcast network TV.

In a licensing arrangement, the program supplier retains ownership of a show. However, broadcast network companies are increasingly producing or acquiring ownership interests in shows that they air. Doing so usually involves a higher initial investment, but it can also generate greater returns if a program becomes a hit.

Syndication

Syndicating a TV program means licensing a program to individual TV stations around the United States on a market-by-market basis. TV programs are also licensed to cable networks. Network affiliates and independent TV stations alike buy syndicated shows, although each has a different amount of time to fill. The syndication market comprises sales to both kinds of stations, as well as to cable networks.

Affiliates buy such programs to fill airtime that is not used for network programming. While the affiliate must pay such programming costs itself, it gets to keep any advertising revenues gained during that time. Independent stations, which must fill their own schedules entirely — because they do not have a network to do so for them — have an even greater need to license syndicated shows.

The peak viewing period for syndicated shows is typically from 7 p.m. to 8 p.m. in the eastern and Pacific time zones, and from 6 p.m. to 7 p.m. in the central and mountain zones — the hour before the broadcast networks start their prime-time schedules. Suppliers of new shows often find it difficult, if not impossible, to displace such proven successes as Wheel of Fortune and Entertainment Tonight in these valuable time slots.

The development of the Fox, UPN, and WB networks convinced many independent stations to become affiliates, reducing the need for syndicated programming. Two kinds of syndication — first-run syndication and off-network syndication — are described later in this section. (In mid-September 2006, the UPN and WB networks merged into a single new network, the CW Network.)

◆ **First-run syndication.** First-run syndication involves new shows created specifically for licensing in the syndication market. A program supplier may decide to distribute a program this way if networks are not interested in airing it for various reasons — because they already have similar shows, do not like the proposed program, or consider its potential audience too narrow for a network time slot. For some program suppliers, having a show debut in first-run syndication may be more lucrative than licensing it first to a network and then as reruns.

Few first-run syndicated shows succeed in attracting audiences comparable to the prime-time network offerings. Many syndicated shows air during the daytime or late evening, when overall viewership is relatively low. None of the first-run syndication shows that have debuted in recent years has become a big hit.

Many first-run syndicated programs, such as talk and game shows, are relatively low-budget productions. For program suppliers, this eases the cost of getting into the business. However, first-run syndicated programs also can create a glut of programming alternatives, making the market highly competitive.

◆ **Off-network syndication.** Off-network syndication involves program episodes that are licensed for airing as reruns after first being shown on network TV. Such shows have strong market appeal, due to viewers' familiarity with and loyalty to them.

Some programs enter rerun syndication while new episodes are still being produced for a network — *CSI: Crime Scene Investigation*, with new episodes airing on CBS, is one example. Other syndicated shows, such as *I Love Lucy*, have long ago left the networks. A new crop of off-network or rerun shows becomes available each fall, at about the same time that the networks present their new first-run programming.

Suppliers base the prices they charge to show reruns on various factors: the show's degree of network success, the financial health and programming needs of prospective buyers, and the supply of similar shows being offered at a given time. Prices may vary widely.

Syndicated reruns can be highly lucrative for a program supplier, helping to offset the losses from failed shows. In addition, reruns of half-hour comedies generally tend to attract larger audiences (and thus to earn more for the station selling the ad time) than those of hour-long dramas. Recently produced hour-long dramas (which cost more to produce than comedies) have aired primarily on cable channels.

With many syndicated programs, suppliers receive at least a portion of their revenue from selling ad time on the stations that air their shows. This process, known as bartering, is similar to the arrangement that broadcast networks have with affiliates. In return for providing a show, the program supplier receives ad time rather than monetary compensation from the TV station. The supplier, in turn, sells the ad time to other parties.

When purchasing time on syndicated shows, national advertisers typically look for shows that can reach at least 70% of the TV households in the United States — a large enough audience to attract the interest of national advertisers. The more a show is expected to be watched, the greater success a syndicator will have in selling it to a group of TV stations.

Cable system operators

The cable system industry provides an economical and convenient delivery medium for entertainment and information, and thus has a significant bearing on the usage and value of content that it delivers to consumers. The industry comprises the pipeline companies that deliver cable signals to consumers' homes. Annual revenues total more than $20 billion, the bulk of which comes from viewer subscriptions.

Individual cable systems use these monthly fees largely to pay cable networks such as ESPN or CNN for their programming, as well as to support the massive investment in equipment necessary to create, maintain, and expand the country's cable delivery system.

A portion of the cable system industry's revenues comes from advertising. Each cable system generally can sell a percentage of local advertising on the cable networks that it broadcasts. (For an in-depth description of the cable TV industry, see the *Broadcasting & Cable* issue of *Industry Surveys*.)

Cable networks

Dozens of cable networks are now available by subscription. Their transmissions are delivered to viewers' homes largely by wired cable systems, as well as by wireless satellite services, which require subscribers to have dish antennas to receive broadcast signals. In recent years, the number of subscribers to satellite services has grown rapidly.

Cable networks fall largely into two categories: advertiser-supported and pay TV. Most networks are advertiser-supported and often are provided by the cable system operator (along with local broadcast stations) as part of a "basic" cable subscription package; ESPN and CNN are two examples. Other networks are pay-TV channels, such as Home Box Office (HBO; largely owned by Time Warner). Subscribers to these channels are charged a fee in addition to their basic rates for cable or satellite service.

Fewer US households subscribe to cable or satellite TV (roughly 84%) than have access to broadcast signals (approximately 98%). In addition, cable system operators do not offer all cable channels. For these reasons, cable channels fall shy of the household reach of the national broadcast networks.

Still, the biggest basic cable networks (as measured by the number of TV households that they reach) are available in more than 60 million US homes. Channels such as CNN and ESPN have carved out profitable niches with their relatively narrow range of programming. Others, such as USA Network and TBS Superstation, feature a broad sampling of broadcast network reruns, movies, and sports.

Why are cable-only outlets called networks? Just as ABC, CBS, NBC, and Fox provide their affiliates (individual TV stations) with programming, the cable networks also deliver shows to affiliated cable system operators. Another similarity is that they often split commercial time with their affiliates.

The larger cable networks receive revenue in two principal ways: by selling advertising time and by charging fees to affiliated cable systems. The fees that they charge cable system operators are typically levied on a monthly per-subscriber basis. However, cable system operators have limited channel space, so new cable networks have to fight increasingly hard to be carried by cable systems. To win the competition for shelf space and to gain audience exposure, new channels sometimes waive their fees for several years or even agree to pay cable system operators to carry their signal. In such cases, ad revenues may become the new channel's sole revenue source — intensifying its need to build an audience and thus advertising demand. However, if a new network or channel becomes popular enough, its owner may be able to charge cable systems to show it in the future.

Cable programming

In recent years, cable networks have increased their investment in original programming, such as major-league sports events and made-for-TV movies. As competition grows, there is a rising need for signature programming — shows that viewers identify with a particular channel, such as *The Sopranos* on HBO, *Larry King Live* on CNN, and *The Daily Show With Jon Stewart* on Comedy Central. However, reruns of shows that originally aired on broadcast networks are still being prominently scheduled on cable channels.

For the pay-TV networks, such as HBO and Showtime, movies remain the principal programming fare. Theatrical films typically become available on one or more of the pay networks about a year after they debut in theaters, after the video rental demand has dwindled.

Music labels

Each of the music industry leaders offers products under a number of different labels. Their relationships with artists are important: contractual obligations mean that musicians tend to record for a single company and label exclusively over a number of years. Radio and television (*e.g.*, MTV) are significant factors in acquainting consumers with new music.

A recording company typically pays an up-front fee to an artist who is to produce a new album, but it looks to recover its costs before the artist receives any additional payments. After such costs (including the advance) are deducted, the artist is then likely to receive sales-based payments that amount to somewhere between 5% and 13% of the record's suggested retail price. The amount of the advance payment and the royalty percentage for the artist usually reflect the past sales success of the artist's music and the expectations for the new recording.

Today, most of the albums shipped to stores and bought by consumers are in the compact disc (CD) format. For a CD with a suggested price to consumers of $18.98, a retailer is likely to pay roughly $12. Consumers are increasingly acquiring recorded music via personal computers (PCs) and other wireless handheld devices, such as iPods from Apple Inc. (formerly Apple Computer), which also may involve subscription services provided by major music companies.

KEY INDUSTRY RATIOS AND STATISTICS

Macroeconomic factors such as employment, consumer confidence, and personal income generally do not have a significant impact on the entertainment business. The reason is that most movie and home entertainment products are relatively modest in price, so consumers can typically afford them even during periods of economic difficulty.

Factors that have more of a bearing on the industry include technological change, which can lead to new products, means of distribution, and competition; the extent to which content creators produce filmed entertainment or music that appeals to consumers; and, especially for TV networks and stations, the amount of support that programming receives from advertising dollars.

▶ **Television ratings.** The size of a show's TV audience is an important determinant of its advertising revenue. The number of rating points for a given show in national distribution typically indicates what percentage of the TV households watches that show. According to Nielsen Media Research Inc., a research firm that measures audience size, there were approximately 111.4 million US television households as of August 2006. (Latest figure available.) One national rating point (1.0) is equal to 1/100 of all the television homes, or about 1.1 million households.

Data also are collected on the percentage of people watching television at a given time who are tuned in to a particular show. This number, which excludes potential viewers who are not watching TV, is known as "share." Advertisers are likely to place a particular emphasis on specific demographic groups, such as 18- to 49-year-olds, who are believed to be big buyers of consumer products. Information published on ratings and share is provided by Nielsen Media Research and can be found in various periodicals and on Internet sites.

▶ **Upfront television advertising sales.** This category comprises advertising sales made by networks to national advertisers during the upfront season — typically May and June, before the beginning of a new TV season. Advertising time unsold during the upfront period is then made available in the "scatter market," from which advertisers purchase time closer to the date of broadcast. The disadvantages of buying from the scatter market are that it offers a narrower choice of slots and prices may be higher than during the upfront season. A potential advantage is that, if advertising demand is weak, prices may fall below those charged during the upfront market.

If a TV show does not deliver its projected audience, which is typically measured by Nielsen Media Research, the network may compensate advertisers with "make-good" time — scatter time provided free or at a discount.

Indications of how well upfront sales are going can be obtained from various publications during the spring or summer, as well as from discussions with industry participants.

▶ **Box office results.** To gauge how much audience interest a theatrical movie is generating, analysts consider overall ticket sales, the average amount of ticket spending per screen, and the number of screens where a film is playing. Some movies are widely released (typically to between 3,000 and 5,000 screens), while others may get a limited release, at least initially.

Opening weekends are particularly important because they are a leading indicator of a film's longer-term audience interest. If a film opens poorly, a distributor may cut back on advertising, and theaters may lose interest in retaining the movie. If early audiences like a film, however, favorable word-of-mouth can help build future business.

The performance of theatrical movies is reported in various media, with particular attention given to the amount of weekend ticket sales that a film generates. Standard & Poor's believes that reported domestic box office totals for individual movies reported in the press typically include both the United States and Canada. However, industry-wide domestic totals may be limited to the United States. Various domestic box office information provided by Nielsen EDI, a box office measurement and research firm for the motion picture industry, can be found at http://www.nielsenedi.com/charts. Another source of box office information is the Web site http://www.boxofficemojo.com.

▶ **Video sales and rentals.** Information or estimates about demand for individual video titles, as well as industrywide figures, can be obtained from trade organizations, research firms, and various publications. For example, *Video Business* magazine's Web site (http://www.videobusiness.com) provides figures on recent video hits and overall consumer spending on videos. This includes material related to the different formats (*e.g.*, DVDs and HD DVDs) on which consumers watch filmed entertainment.

▶ **Music sales.** The Recording Industry Association of America (RIAA) measures domestic industry sales volume based on manufacturers' shipment levels, minus returns. These data are released on a semiannual basis. When consulting these data, keep in mind that the RIAA's cited dollar amounts (value of shipments) are based on suggested retail price, while many albums actually may be sold to consumers at lower prices. At times, unit shipment levels are not a close approximation of the volumes that consumers are really buying. This could occur, for example, if retail space — and related inventory stocking — grows faster than consumer sales. Reports of music industry shipments can be found at the RIAA's Web site (http://www.riaa.com).

Industry volume at the retail level is tabulated by Nielsen SoundScan, which tracks sales of music and music video products in the United States and Canada. Certain SoundScan numbers are reported regularly in the back pages in *Billboard* magazine.

HOW TO ANALYZE AN ENTERTAINMENT COMPANY

The first step in analyzing an entertainment company is to determine its lines of business. What place does it hold in the chain of creating and delivering products to consumers? In addition, what are its competitive advantages or disadvantages? Does it have enough financing to create new products and withstand failures? Finally, a detailed study of the company's financial statements can reveal a lot about its past performance and foundation for future results.

Lines of business

The kind of assets and businesses that an entertainment company emphasizes determines the category to which it belongs. The four basic categories are content creators, distributors, packagers, and pipelines.

The most prominent entertainment firms generally operate multiple businesses and belong to more than one category. Each of their operations may be attractive on a stand-alone basis, but it is important to ask if value is being added by having various assets under the same corporate roof. Does a company have opportunities to build brands and cross-promote its assets?

For example, a company's theme park attractions might use some of its movie characters, while some of its cable TV networks help to promote shows that are debuting on a broadcast TV network owned by the company. Such interrelationships are sometimes said to create synergy — a combined effect that separate businesses would be less capable of achieving alone.

On the other hand, some businesses might do better and be more appreciated by investors if they were separated from a larger parent company through such means as an asset sale or a spin-off. For example, when separated, a smaller business may become quicker or more agile with its decision making, requiring fewer levels of approval than it did when part of a larger corporate parent.

◆ **Content creators.** Some firms are primarily content creators, producing movies, TV shows, music albums, or all three. To succeed, these companies must have both adequate financing and a means of delivering their product to the public. Delivery may involve the support of large distribution companies, which often help with the financing and marketing of a product in exchange for a significant share of the revenue.

◆ **Distributors.** Various forms of entertainment reach consumers through the marketing efforts of distributors, whose function is to arrange for movies, TV shows, videos, and music to become available to consumers through such outlets as theaters, TV stations, and retail stores. A distributor often receives its fee either as a portion of the sales price or a piece of the revenue generated from consumers. In addition, distributors sometimes help to finance a project (*e.g.*, a movie production), which typically boosts the distributor's share of the project's future revenue stream.

◆ **Packagers.** A packager is a company (often, a TV network or station) that organizes or schedules what consumers see or hear. This can include content produced by the packager or by affiliates, plus programming that it licenses or buys from third-party producers/distributors.

There is a growing emphasis on packaging and delivering entertainment content that is tailored to the specific interests of individual consumers, particularly through specialized cable TV networks such as Home & Garden TV and the Golf Channel.

For a TV network, success is largely determined by how many households are capable of viewing its programs and, of course, by how many of those who could watch are tuning in. Advertisers seek viewers whose buying patterns and interests match up with their products, and many especially value viewers in the 18-to-49 age group.

◆ **Pipelines.** Pipeline companies, which physically deliver entertainment to consumers, range from movie theaters and video stores to cable TV systems and Internet service providers. Important factors af-

DIVERSE ENTERTAINMENT OPERATIONS & ASSETS OF MAJOR US MOVIE AND TV COMPANIES

AREA	CBS CORP.	DISNEY	NBC UNIVERSAL	NEWS CORP.	SONY CORP.	TIME WARNER	VIACOM
Film production/library		•	•	•	•	•	•
TV production/library	•	•	•	•	•	•	•
Broadcast TV station(s)	•	•	•	•			
Broadcast TV network(s)	•	•	•	•		•	
Basic cable network(s)	•	•	•	•		•	•
Premium cable network(s)	•					•	
Cable or satellite systems				•		•	
Radio stations/networks	•						
Recorded music					•		
Theme parks		•	•				
Merchandise licensing		•	•	•	•	•	•
Magazines/newspapers		•		•		•	
Book publishing		•	•	•			•
Broadband sites	•	•	•	•	•	•	•

Note: Some relatively minor operations may be excluded. Includes significant equity interests in joint ventures or other companies.
Source: Company reports.

fecting their operations include capital spending plans (such as the cost to upgrade a cable system so new services can be offered) and the extent to which new competition is emerging (*e.g.*, delivery systems available on cell phones and other devices via the Internet).

Success factors

A number of factors influence the fortunes of an entertainment company. These range from company-specific issues to matters affecting the entire industry, as outlined following.

◆ **Copyrights to big-name characters.** In evaluating a provider of filmed entertainment, it is important to consider the company's copyrights to any popular characters or brand names. To what extent have these assets been exploited successfully in different formats? What sort of track record does the business have in creating new consumer franchises?

Given the growing number of entertainment choices being offered to consumers, it is becoming more important for entertainment companies to develop brands (*e.g.*, Viacom Inc.'s MTV) and signature programming (*e.g.*, CNN's *Larry King Live*). Successful brands help a company to stand out.

With the introduction of digital technology, piracy — the illegal reproduction, sale, purchase, acquisition/downloading, or distribution of copyrighted products, such as recorded music and videos — has become a serious threat to copyright owners. The extent to which companies benefit from new digital delivery systems depends, in part, on how successful they are in being paid for the content to which they have ownership rights.

◆ **New technology.** New or improved delivery systems help to increase demand for various kinds of entertainment, while also affecting how consumers spend their time and money. In some cases, new technology — such as music or video downloading on the Internet, or a service that allows TV watchers to bypass advertisements — may threaten the traditional business of an entertainment-related company. For example, during the early years of public Internet use, consumers became accustomed to getting information and entertainment on the Internet free of charge (apart from the cost of an Internet service provider). In particular, music industry sales were hurt by fans' ability to download songs on their computers without paying a fee to the tunes' copyright owners.

Over time, companies may increasingly be able to use a new technology for their benefit, especially if it provides a new revenue source. Nonetheless, we believe that the use of file-sharing client programs over the Internet has created a challenge for entertainment companies to translate their market power into profits. In this case, companies must find a way to ensure that downloaded purchases more than offset the negative impact of unauthorized free downloading.

◆ **Management.** As in any other business, management quality is a key success factor for entertainment companies. Standard & Poor's looks favorably on seasoned management teams that have performed well relative to their peers in both good times and bad. In addition, we generally prefer situations in which top executives own stock in the company, because that should bring managers' interests more in line with those of other shareholders.

We advise investors to keep an eye out for whether top executives are adding to their holdings or are lightening up on what they own. While there can be personal reasons for buying or divesting stock (*e.g.*, estate planning issues), executive purchases and corporate buybacks often can be viewed as an expression of confidence in the underlying business and in the value of the stock.

Some executives excel at cost containment, while others are better at creating new products or managing expansion activity. In evaluating a company, it is a good idea to look at top managers' track records — both with that company and with other firms — in addressing the same kinds of needs and goals that are currently pertinent to the company. Furthermore, it is a good idea to look at the ongoing relationships and contractual commitments a company has with important product suppliers, distributors, packagers of programming, and/or pipeline companies. It is advisable to think about what the consequences might be if a significant contract were not renewed or if a new relationship were formed. Even a new contract between the same parties (*e.g.*, a cable system paying to carry a cable network through its wires) could alter profitability. At various times, the balance of power in negotiations can change depending on such factors as competitive conditions.

At a time when individual industries are increasingly overlapping (*e.g.*, entertainment, telecommunications, and computer services), a company's ability to form complementary and favorable alliances with others is likely to be of growing importance for entertainment-related businesses.

◆ **Access to capital.** When evaluating a company that has sizable capital requirements, it is important to look at its current debt and cash, and its cost of borrowing. How much operating cash flow will likely be available to service the debt? Is the company in a good position to refinance its debt or to borrow more funds in the future?

One way to investigate a company's financial strength is to check ratings of its debt by a major credit rating agency, such as Standard & Poor's. In addition, it is advisable to assess whether a company has made capital or borrowing commitments that may be difficult to meet if the business environment changes.

Selling equity (stock) is another means for a company to raise capital. In general, we look for a well-managed company to sell shares when market conditions for its stock are good and to repurchase shares when the stock appears underpriced.

◆ **Size.** Is bigger better? A large company tends to enjoy economies of scale, with overhead expenses supported by a bigger revenue stream and spread over a larger asset base than those of a smaller firm. A large company is also more likely to have stronger purchasing power and greater influence with customers.

Small companies, however, may be more nimble than big firms in responding to market conditions. To the extent that its management is more entrepreneurial in spirit, a small firm is less likely to become bogged down in the multilevel decision-making process that hampers bigger companies. In general, we would expect smaller companies to be more willing and likely to take risks with newer kinds of entertainment or content.

A principal advantage of big, established entertainment companies is the cash flow from their large libraries of older products. Revenues from licensing or selling such products (*e.g.*, movies produced years ago), for viewing in such formats as television and home video, can help to finance new production.

◆ **Diversification.** For companies that produce movies and TV shows, successful ventures must cover the cost of many failures. Thus, we would be wary of a company that was betting the farm on one or two unproven films, TV shows, or other entertainment products. Consumer response is difficult to predict, so it is preferable to spread risks across a slate of creative efforts. Companies also can try to limit their risk by banking on highly popular movie stars or producing a sequel to an earlier hit film, even if the costs of such productions tend to be relatively high.

A similar argument can be made for diversifying into multiple industries, because improving conditions in one sector may offset a slowdown elsewhere. However, diversification also carries risks: it may dilute the focus of top management or distract the company from its core strengths.

◆ **Regulation.** Regulatory constraints — typically promulgated by Congress or the Federal Communications Commission — should be considered. For example, is a company likely to be affected by restrictions on ownership of certain kinds of businesses? Media ownership may be limited both on a national basis and within local markets. At times, however, the regulatory environment may ease, contributing to such activity as industry consolidation. For geographically diverse companies, regulatory bodies in areas such as Europe may affect plans such as merger activity.

◆ **New products.** Successful new products are the lifeblood of most movie, TV, and music companies. Do a firm's new products have pizzazz? Has the inclusion of popular actors or compelling story lines boosted the success of its movies? One way to gauge a company's efforts is to read trade magazines such as *Billboard* and *Variety*, which cover current popular movies and music albums.

◆ **Supply and demand.** The success of entertainment products such as movies and TV shows is likely to be affected by the balance between the amount of programming being produced and the level of interest or demand from both consumers and pipeline companies. For example, if movie production is growing, particularly among the major companies, costs for creative talent may rise and theater screen space may become hard to obtain. Marketing expenditures may also increase along with efforts to differentiate movies from their competitors.

◆ **Labor contracts.** Since many entertainment industry employees are represented by unions or labor organizations, it is advisable to know when major contracts are scheduled to expire. What are the prospects for a new contract being signed without labor unrest or a strike, or a significant change in the company's labor costs? For example, if the Screen Actors Guild goes on strike, what impact could this have on a company's ability to create and release new product? However, if a strike shuts down production at one major production company, it is likely to do the same to competitors.

Analyzing financial statements

An analysis of an entertainment company involves scrutinizing the firm's financial statements. Some important factors to consider are listed following.

◆ **Revenues and customer base.** What are the revenue sources, and how diverse is the customer base? Some companies, such as broadcasters, rely principally on advertisers, while others, such as video retailers, sell directly to the public. For content owners, distribution and marketing are relevant considerations.

To reach the audience, it is important to have favorable distribution outlets (*e.g.*, a time slot on a popular TV network) and the ability to favorably differentiate a firm's content from that of other providers.

◆ **Growth prospects.** Are industry revenues expanding, or will a company have to take market share from competitors in order to grow? Are there opportunities to expand through sales to international markets? Often, US movies and recorded music are hot items with foreign consumers.

◆ **Quality of earnings and one-time factors.** Are there any one-time factors to consider? When looking at either revenues or profits, try to assess any one-time factors that may have inflated or depressed results. For example, earnings may be unsustainably high due to a gain from an asset sale, or they may be unusually low because of a restructuring charge or a one-time writedown of an asset's value.

Other items that can cause peculiarities in reported profits or in year-to-year earnings comparisons are unusual tax rates and accounting rule changes. If there are significant one-time or nonrecurring items in an earnings report, it is advisable to adjust the numbers to what would be considered normalized levels, which should help to reveal the underlying growth and quality of the company's profits.

A change in accounting standards can affect year-to-year comparisons when calculating growth rates. For example, an accounting change in 2002 caused many companies to cease amortizing goodwill as an ongoing expense on their income statements. As a result, reported net income and earnings per share improved, but this should have had little or no impact on actual cash flow. (Goodwill is essentially the extent to which the purchase price for an acquisition exceeds the book value of the asset acquired; its amortization was previously considered a noncash expense.) Nor did the improved results related to the absence of goodwill expense reflect underlying growth or business health.

Going forward, we expect companies will periodically review the value of goodwill on their balance sheet. If the value appears inflated, we would expect companies to take a one-time charge for goodwill impairment.

◆ **Employee stock options.** Standard & Poor's also advises examining the extent to which a company issues options to employees and the impact that they have on a company's earnings. Furthermore, if the company has significant pension or employee benefit plans, is the company accounting for them in a realistic and conservative manner?

◆ **Cash flow.** How healthy is cash flow? Reported earnings may not be an accurate reflection of a company's cash flow generation or financial strength. Keep in mind that some expenses on a company's income statement — such as depreciation, amortization, and writedowns — are noncash items (*i.e.*, they do not represent an actual cash outlay).

Companies also generally have cash expenditures — such as production costs for movies that have yet to be released, debt repayment, and dividends to shareholders — that are not included on the income statement. With movies and TV shows, there may be a period of several years between the start of production and the time, if ever, that the project generates a positive cash flow.

To get at least a partial picture of these costs, look for the entertainment company's balance sheet and cash flow statement. The balance sheet, for example, may indicate what level of investment in movies or TV shows has yet to be recognized as costs on the company's income statement, while the cash flow statement should give an indication of both sources and uses of cash.

We recommend considering whether the company has potential liabilities or obligations that are not clearly reflected on the balance sheet. These could include, for example, guaranteed payment of a loan that was made to another party.

◆ **Asset valuations.** When looking at a balance sheet, it is also important to judge whether the values reported are accurate measures of the assets' total worth. For example, intangible assets, such as brand names or management ability, may not be reflected. At the same time, the value of some assets may need to be revised — such as those obtained through an acquisition, or an investment in a costly film that will actually turn out to be a failure. Such assets will likely be reappraised downward in the future. Also, look for noncore assets that could possibly be divested, generating proceeds that could be used to reduce debt, repurchase stock, or invest in other businesses. ■

Glossary

Analog — The conventional system of storing and transmitting sound, pictures, or other material as an electrical wave (or wave form) that is a facsimile, or analog, of the original signal. This analog signal, or waveform, may be amplified, attenuated, or otherwise altered but retains the characteristics of its original signal. Of varying frequency and amplitude, these signals can be susceptible to noise interference.

Average revenue per unit/user (ARPU) — Term used by telephone carriers and cable system operators for measure of average monthly revenue generated by each customer unit. Also referred to as revenue generating units (RGUs).

Bandwidth — The overall capacity of a transmission system to carry information, measured in bits per second (bps) for digital lines and hertz (Hz) for analog lines. In electronic communication, bandwidth is the width of the range (or band) of frequencies that an electronic signal uses on a given transmission medium. Since the frequency of a signal is measured in hertz (the number of cycles of change per second), a given bandwidth is the difference in hertz between the highest and lowest frequencies the signal uses. An analog TV broadcast video signal has a bandwidth of six megahertz (MHz), which is about 2,000 times as wide as the typical voice signal's bandwidth of four kilohertz (kHz). In computer networks, bandwidth is often used as a synonym for data transfer rate (the amount of data that can be carried from one point to another in a given time period). This kind of bandwidth is usually expressed in bits (of data) per second, or Bps.

Bits per second (Bps) — A measure of the speed by which information is transmitted over certain electronic media. A "bit" (also known as a "byte") is a single binary pulse of information; megabits per second (Mbps) is million bps; kilobits per second (Kbps) is 1,000 bps.

Broadband — High-speed Internet access, whether wired or wireless, with data transmission systems carrying multiple signals simultaneously. The term describes any transmission medium that supports a wide frequency range, including audio and video frequencies. It can be multiplexed to carry several independent channels, each in its own bandwidth. Broadband transmission is often in the range of one MHz or more.

Broadband satellite service (BSS) — A radio communications service that transmits or retransmits broadcast signals via space stations.

Broadcast — A signal transmitted to all user terminals in a service area.

Cable modem — A broadband access device which enables a computer to transmit data over a cable line, with speeds ranging from 512 Kbps to more than 10 Mbps.

Cable television (CATV) — A delivery system over a network of coaxial or fiber-optic cable that gives subscribers hundreds of video channels. A cable system includes the headend, trunk lines, feeder lines, and drop lines.

Catalog — Older releases of recorded product that are not readily available in current retail display or rotation unless otherwise noted or advertised.

Compilation — A collection of previously-released songs sold as a one album unit, or a collection of new material, either by single or multiple performers, sold as a collaborative effort on one musical recording.

Digital — A method of recording, transmitting, or reproducing sound, video, or other material by sampling an analog signal and translating those samples into digital information, or data.

Digital subscriber line (DSL) — A technology for bringing high-bandwidth information to homes and small businesses over ordinary copper telephone lines. It consists of a twisted-pair copper wire connection with a special modem at either end that filters out background noise and interference and allows high-speed data transfer.

Digital television (DTV) — The new system that will eventually replace the current analog system. Digital TV refers to televisions that can receive and display the digital TV signals that are broadcast over the air or transmitted by cable or satellite systems. The federal government has required adoption of this new digital format by all broadcast television stations. Changing to the digital format enables the broadcast industry to deliver programs comparable in quality to other digitally delivered services, such as direct broadcast satellite and cable.

DVD — An optical disc storage medium, formerly called digital video disc and, later, digital versatile disc. The technology permits high-density data storage, including movies with high video and sound quality. DVDs come in several formats. DVD-Video is the format designed for full-length movies compatible with television sets. DVD-ROM is the type of drive and disc for use on computers (all read-only DVD discs, regardless of type, are DVD-ROM discs, though many people use the term "DVD-ROM" to refer to pressed data discs only). The DVD drive on computers usually plays regular CD-ROM discs and DVD-Video discs. DVD-RAM is the writeable version. DVD-Audio is a CD-replacement format. It is a high-density disc with about seven times the capacity of a CD. The extra capacity in the disc is used to achieve a high-quality, multichannel surround sound that is significantly better than current CDs, and may also be used to include features such as text, graphics, video and interactivity. DVD audio discs are only playable on the newest players, but most, if not all, new DVD players also play consumers' existing CD collections.

High definition TV (HDTV) — The highest quality digital TV available, offering more than five times the sharpness of today's analog television, plus digital surround-sound capability. The shape of the picture with HDTV is more rectangular (widescreen) because the aspect ratio (the relationship of the width to the height of the picture) is different from analog TV, which currently is the most common TV system. HDTV is one of the two formats available with digital television (standard definition TV is the other). HDTV has 1125 lines of resolution, versus 525 lines for analog.

Interactive TV — A TV broadcast that allows a viewer to do something other than watch the program, from getting more information, submitting an email, or making a purchase.

International Standard Recording Code (ISRC) — The international identification system for audio and video recordings on compact discs. Each ISRC is a unique and permanent identifier for a specific recording and can be permanently encoded into a product. The encoded ISRC can also be used in automated data processing systems to identify the owners and other participants in sound and music video recordings. This associated metadata is essential for distribution of royalty payments. The ISRC code is contained in the subcode of each track or recording. The ISRC code is made up of letters and numbers and is 12 characters in length. The code consists of characters for the country, registrant, year of reference, and designation code separated by dashes. An ISRC code may not be reused. For example, if a recording is remixed or the playing time changes, a new ISRC code must be assigned. The same ISRC code may be used if a recording is sold or recompiled without any editing. The owner of the recording, copyright organizations, broadcasting organizations, and libraries use ISRC codes.

IPTV — Television and/or video signals are distributed to subscribers or viewers using a broadband connection over Internet Protocol. (Internet protocol is the method by which data is sent from one computer to another over the Internet.)

Modem — A device that enables a computer to transmit data over telephone or cable lines.

MP3 (MPEG audio layer-3) — The compression technology commonly used to make digital audio computer files relatively small while maintaining high audio quality. It is one of many formats used for uploading and downloading on the Internet. MPEG is the designation for a group of audio and video coding standards agreed upon by the Moving Picture Experts Group.

Network — A broadcast entity that airs programming and sells commercial time nationally via affiliated and/or licensed local stations. Examples are the NBC television network, the ESPN cable network, and the ABC radio network.

Podcasting — A method of distributing multimedia files, such as audio programs or music videos, over the Internet for playback on mobile devices and personal computers.

Standard definition TV (SDTV) — One of the two formats available with digital television (high definition TV is the other). Compared with analog TV, SDTV delivers clearer pictures, but the industry is moving toward even higher resolution with HDTV. SDTV offers 704 lines of resolution, versus 525 lines for analog. (See *High definition TV*.)

Triple play — A consumer package that includes Internet, telephony, and television services. Offering triple play on a broadband connection requires the use of IPTV and IP telephony (VoIP).

Video on demand — A system by which viewers can watch video programs transmitted from a central server to their own TV sets at the time that they choose. Most major cable operators offer VOD to their digital subscribers — some at no extra charge, others for an extra monthly nominal fee. A variant of this service is subscription video-on-demand (SVOD).

VoIP (Voice over Internet Protocol) — A new technology for routing voice conversations over the Internet or any other IP-based network. VoIP involves sending voice information in digital form in discrete packets rather than by using the traditional circuit-committed protocols of the public switched telephone network. A major advantage of VoIP is that it avoids the tolls charged by ordinary telephone service. Cable operators have been launching VoIP telephony service across their footprints since 2004.

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PERIODICALS

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(646) 654-8360
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Weekly; covers the recorded music industry.

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Boxoffice Media LP
230 Park Ave., Ste. 864, New York, NY 10169
(800) 877-5207
Web site: http://www.boxoffice.com
Monthly; covers the movie industry.

Broadcasting & Cable
Multichannel News
Reed Business Information
360 Park Ave. South, New York, NY 10010
(646) 746-7764
Web site: http://www.reedtelevision.com
Weekly publications; cover the television industry, and cable TV and telecommunications, respectively.

The Hollywood Reporter
VNU Business Media
5055 Wilshire Blvd., Los Angeles, CA 90036
(323) 525-2000
Web site: http://www.hollywoodreporter.com
Daily and weekly; covers filmed entertainment.

TelevisionWeek
Crain Communications
6500 Wilshire Blvd., Ste. 2300, Los Angeles, CA 90048
(323) 370-2400
Web site: http://www.tvweek.com
Weekly; covers the broadcast, cable, and interactive media industries.

Variety
Reed Business Information
5700 Wilshire Blvd., Ste. 120, Los Angeles, CA 90036
(323) 857-6600
Web site: http://www.variety.com
Daily and weekly; emphasis on filmed entertainment.

Video Business
Reed Business Information
5700 Wilshire Blvd., Ste. 120, Los Angeles, CA 90036
(323) 965-2402
Web site: http://www.videobusiness.com
Weekly; covers the creation and delivery of home video.

BOOKS

Entertainment Industry Economics: A Guide for Financial Analysis
By Harold L. Vogel
Cambridge University Press, 2001
Fact-filled discussions of leisure-time industries, including movies, TV, and music.

TRADE ASSOCIATIONS

Consumer Electronics Association (CEA)
1919 S. Eads St., Arlington, VA 22202
(703) 907-7600
Web site: http://www.ce.org
Produces numerous publications; monitors shipments of consumer electronics products.

DEG: the Digital Entertainment Group
9229 Sunset Boulevard, Ste. 425, Los Angeles, CA 90069
(310) 888-2201
Web site: http://www.dvdinformation.com
An industry-funded corporation that advocates and promotes benefits associated with digital versatile discs (DVDs; often called “digital video discs” when referring to movies) and provides information related to the DVD format.

Entertainment Merchants Association (EMA)
16530 Ventura Blvd., Ste. 400, Encino, CA 91436
(818) 385-1500
Web site: http://www.vsda.org
Group representing those engaged in the sale and/or rental of entertainment software.

Independent Film & Television Alliance
10850 Wilshire Blvd., 9th Fl., Los Angeles, CA 90024
(310) 446-1000
Web site: http://www.ifta-online.org
Comprises small companies that develop, finance, produce, and/or distribute English-language movies and TV programs worldwide. Formerly the American Film Marketing Association (AFMA).

The International Federation of the Phonographic Industry (IFPI)
10 Piccadilly, London W1J 0DD, UK
44 20 7878 7900
Web site: http://www.ifpi.org
Seeks to represent the music industry, and has more than 1,450 members in 75 countries. IFPI opposes music piracy, and seeks to help develop legal conditions and technologies for the recording industry in the digital era.

Motion Picture Association of America (MPAA)
15503 Ventura Blvd., Encino, CA 91436
(818) 995-6600
Web site: http://www.mpaa.org
Represents mostly larger movie companies. Publishes annual statistical overview of the movie industry.

National Association of Theater Owners
750 First St. NE, Ste. 1130, Washington, DC 20002
(202) 962-0054
Web site: http://www.natoonline.org
Represents owners and operators of US and overseas movie screens.

National Cable & Telecommunications Association
25 Massachusetts Ave. NW, Ste. 100
Washington, DC 20001
(202) 222-2300
Web site: http://www.ncta.com
Represents cable systems, networks, hardware suppliers, and cable TV service firms; provides information on the US cable TV industry, including subscriber counts.

Recording Industry Association of America (RIAA)
1330 Connecticut Ave. NW, Ste. 300, Washington, DC 20036
(202) 775-0101
Web site: http://www.riaa.com
Produces semiannual data on industry shipments; also certifies best-selling recordings.

RESEARCH FIRMS

Adams Media Research
27865 Berwick Dr., Carmel, CA 93923
(831) 624-0303
Web site: http://www.adamsmediaresearch.com
Provides market data and financial analysis of the filmed entertainment and interactive media markets.

Alexander & Associates
31 E. 32nd St., 12th Fl., New York, NY 10016
(212) 684-2333
Web site: http://www.alexassoc.com
Reports on home video, home computer use, and interactive entertainment.

Forrester Research Inc.
400 Technology Sq., Cambridge, MA 02139
(617) 613-6000
Web site: http://www.forrester.com
Reports on and analyzes technological change, including that related to the entertainment industry.

Kagan World Media
Primedia Inc.
1 Lower Ragsdale Dr., Bldg. 1, Ste. 130
Monterey, CA 93940
(831) 624-1536
Web site: http://www.kagan.com
Produces newsletters and reports on media and entertainment.

Nielsen EDI
6255 Sunset Blvd., 19th Fl., Hollywood, CA 90028
(323) 860-4600
Web site: http://www.entdata.com
Provides information on the movie industry, including box office results.

Nielsen Media Research
770 Broadway, New York, NY 10003
(646) 654-8300
Web site: http://www.nielsenmedia.com
Measures television audience sizes.

Nielsen SoundScan
1 N. Lexington Ave., 14th Fl., White Plains, NY 10601
(914) 684-5525
Web site: http://home.soundscan.com/about.html
An information system that tracks weekly US and Canadian sales of music and music video products through data from point-of-sale cash registers; the sales source for the Billboard music charts.

ShowBiz Data Inc.
752 N. Orange Dr., Los Angeles, CA 90038
(323) 933-1344
Web site: http://www.showbizdata.com
Provides news and data related to the movie industry.

Veronis Suhler Stevenson
350 Park Ave., New York, NY 10022
(212) 935-4990
Web site: http://www.veronissuhler.com
Publications include the annual Communications Industry Report and Communications Industry Forecast, which contain data related to television, movie, recorded music, and other industries.

GOVERNMENT AGENCIES

Federal Communications Commission (FCC)
445 12th St. SW, Washington, DC 20554
(888) 225-5322
Web site: http://www.fcc.gov
Independent US government agency, responsible directly to Congress. Regulates interstate and international communications by radio, television, wire, satellite, and cable.

CORPORATE INFORMATION

EDGAR Database
http://www.sec.gov/edgar/searchedgar/webusers.htm
A Web site maintained by the US Securities and Exchange Commission that provides access to corporate documents, such as 10Ks and 10Qs.

Quarterly and annual reports can be obtained directly from various companies. For product and other information, see company Web sites, such as:
The Walt Disney Co.: http://disney.go.com
Viacom Inc.: http://www.viacom.com

WEB SITES

CNET Networks
http://www.cnet.com
http://www.zdnet.com/zdnn
Sources of technology industry information, including news provided through ZDNet News and CNET News.com.

The following sites provide news or data on the entertainment industry and/or industry-related links:
http://news.yahoo.com/fc/Tech/ Digital_Media_and_File_Sharing
http://www.boxofficemojo.com
http://www.medialifemagazine.com
http://www.nielsenedi.com
http://www.showbizdata.com
http://www.the-movie-times.com
http://www.zap2it.com

Definitions for Comparative Company Analysis Tables

Operating revenues

Net sales and other operating revenues. Excludes interest income if such income is "nonoperating." Includes franchised/leased department income for retailers and royalties for publishers and oil and mining companies. Excludes excise taxes for tobacco, liquor, and oil companies.

Net income

Profits derived from all sources, after deductions of expenses, taxes, and fixed charges, but before any discontinued operations, extraordinary items, and dividend payments (preferred and common).

Return on revenues

Net income divided by operating revenues.

Return on assets

Net income divided by average total assets. Used in industry analysis and as a measure of asset-use efficiency.

Return on equity

Net income, less preferred dividend requirements, divided by average common shareholder's equity. Generally used to measure performance and to make industry comparisons.

Current ratio

Current assets divided by current liabilities. It is a measure of liquidity. Current assets are those assets expected to be realized in cash or used up in the production of revenue within one year. Current liabilities generally include all debts/obligations falling due within one year.

Debt/capital ratio

Long-term debt (excluding current portion) divided by total invested capital. It indicates how highly "leveraged" a company might be. Long-term debt includes those debts/obligations due after one year, including bonds, notes payable, mortgages, lease obligations, and industrial revenue bonds. Other long-term debt, when reported as a separate account, is excluded; this account generally includes pension and retirement benefits. Total invested capital is the sum of stockholders' equity, long-term debt, capital lease obligations, deferred income taxes, investment credits, and minority interest.

Debt as a percent of net working capital

Long-term debt (excluding current portion) divided by the difference between current assets and current liabilities. It is an indicator of a company's liquidity.

Price/earnings ratio

The ratio of market price to earnings, obtained by dividing the stock's high and low market price for the year by earnings per share (before extraordinary items). It essentially indicates the value investors place on a company's earnings.

Dividend payout ratio

This is the percentage of earnings paid out in dividends. It is calculated by dividing the annual dividend by the earnings. Dividends are generally total cash payments per share over a 12-month period. Although payments are usually calculated from the ex-dividend dates, they may also be reported on a declared basis where this has been established to be a company's payout policy.

Dividend yield

The total cash dividend payments divided by the year's high and low market prices for the stock.

Earnings per share

The amount a company reports as having been earned for the year (based on generally accepted accounting standards), divided by the number of shares outstanding. Amounts reported in *Industry Surveys* exclude extraordinary items.

Tangible book value per share

This measure indicates the theoretical dollar amount per common share one might expect to receive should liquidation take place. Generally, book value is determined by adding the stated (or par) value of the common stock, paid-in capital, and retained earnings, then subtracting intangible assets, preferred stock at liquidating value, and unamortized debt discount. This amount is divided by the number of outstanding shares to get book value per common share.

Share price

This shows the calendar-year high and low of a stock's market price.

In addition to the footnotes that appear at the bottom of each page, you will notice some or all of the following:

NA—Not available.

NM—Not meaningful.

NR—Not reported.

AF—Annual figure. Data are presented on an annual basis.

CF—Combined figure. In this case, data are not available because one or more components are combined with other items.

Comparative Company Analysis — Movies & Home Entertainment

Operating Revenues

			Million $							Compound Growth Rate (%)			Index Basis (1996 = 100)				
Ticker	**Company**	**Yr. End**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**1996**	**10-Yr.**	**5-Yr.**	**1-Yr.**	**2006**	**2005**	**2004**	**2003**	**2002**
MOVIES & ENTERTAINMENT‡																	
KDE	§ 4KIDS ENTERTAINMENT INC	DEC	71.8 D	86.7	103.3	102.1	53.1	41.5	7.0	26.3	11.6	(17.2)	1,029	1,242	1,481	1,463	762
DIS	* DISNEY (WALT) CO	SEP	34,285.0 A	31,944.0 C	30,752.0	27,061.0	25,329.0 A	25,269.0 C	18,739.0 A,C	6.2	6.3	7.3	183	170	164	144	135
LYV	§ LIVE NATION INC	DEC	3,691.6 A	2,936.8 A	2,806.1 A	2,707.9 A	NA	NA	NA	NA	NA	25.7	**	**	**	**	NA
NWS.A	* NEWS CORP	JUN	25,327.0 A,C	23,859.0 A	20,458.3	20,080.6	16,329.1	13,044.8 C	9,882.0	9.9	14.2	6.2	256	241	207	203	165
TWX	* TIME WARNER INC	DEC	44,224.0 A,C	43,652.0	42,089.0	39,565.0 D	40,961.0 D	37,224.0 A,C	1,093.9 A	44.8	3.5	1.3	4,043	3,991	3,848	3,617	3,745
VIA.B	* VIACOM INC	DEC	11,466.5 A,C	9,609.6	8,132.2 A,C	NA	NA	NA	NA	NA	NA	19.3	**	**	**	**	NA
OTHER COS WITH SIGNIFICANT ENTERTAINMENT OPERATIONS																	
BBI	BLOCKBUSTER INC	DEC	5,523.5 D	5,864.4	6,053.2	5,911.7	5,565.9 C	5,156.7	NA	NA	1.4	(5.8)	**	**	**	**	NA
CVC	CABLEVISION SYS CORP -CL A	DEC	5,927.5 C,D	5,175.9 D	4,932.9	4,177.1 D	4,003.4 D	4,404.5	1,315.1 A	16.2	6.1	14.5	451	394	375	318	304
CKEC	CARMIKE CINEMAS INC	DEC	495.5	468.9 A,C	494.5	493.1	507.2 F	457.0 F	426.7 F	1.5	1.6	5.7	116	110	116	116	119
CBS	* CBS CORP	DEC	14,320.2 D	14,536.4 A,C	22,525.9 A,C	26,585.3 A,C	24,605.7 C	23,222.8 A	12,084.2 D	1.7	(9.2)	(1.5)	119	120	186	220	204
CNK	CINEMARK HOLDINGS INC	DEC	1,220.6 A	1,020.6	NA	NA	NA	NA	NA	NA	NA	19.6	**	**	**	**	NA
DWA	DREAMWORKS ANIMATION INC	DEC	394.8	462.3	1,078.2	301.0	434.3	NA	NA	NA	NA	(14.6)	**	**	**	**	NA
GE	* GENERAL ELECTRIC CO	DEC	160,854.0 D,F	148,559.0 D,F	151,802.0 A,F	133,585.0 F	130,685.0 F	125,679.0 F	78,541.0 A,F	7.4	5.1	8.3	205	189	193	170	166
HDL	HANDLEMAN CO	# APR	1,324.5	1,312.4	1,260.6	1,216.3 D	1,357.9	1,337.5	1,181.0	1.2	(0.2)	0.9	112	111	107	103	115
LGF	LIONS GATE ENTERTAINMENT CP	# MAR	976.7 A	951.2 A	842.6	384.9 A	301.8 D	267.3	NA	NA	29.6	2.7	**	**	**	**	NA
MGM	MGM MIRAGE	DEC	7,176.0 D	6,482.0 A	4,238.1 D	3,908.8 D	4,019.9	3,972.8	804.8	24.5	12.6	10.7	892	805	527	486	499
RGC	REGAL ENTERTAINMENT GROUP	DEC	2,598.1 A	2,516.7 A	2,468.0 A	2,489.9 A	2,140.2	556.9	NA	NA	36.1	3.2	**	**	**	**	NA
TRB	* TRIBUNE CO	DEC	5,517.7 D	5,595.6	5,726.2	5,594.8	5,384.4	5,253.4	2,405.7 A,C	8.7	1.0	(1.4)	229	233	238	233	224
V	VIVENDI -ADR	DEC	NA	23,073.0 D	29,009.2	32,099.7	60,970.3 A	51,056.1 A	NA	NA	NA	NA	**	**	**	**	NA

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year. ** Not calculated; data for base year or end year not available. A - This year's data reflect an acquisition or merger. B - This year's data reflect a major merger resulting in the formation of a new company. C - This year's data reflect an accounting change. D - Data exclude discontinued operations. E - Includes excise taxes. F - Includes other (nonoperating) income. G - Includes sale of leased depts. H - Some or all data are not available, due to a fiscal year change.

Net Income

			Million $							Compound Growth Rate (%)			Index Basis (1996 = 100)				
Ticker	**Company**	**Yr. End**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**1996**	**10-Yr.**	**5-Yr.**	**1-Yr.**	**2006**	**2005**	**2004**	**2003**	**2002**
MOVIES & ENTERTAINMENT‡																	
KDE	§ 4KIDS ENTERTAINMENT INC	DEC	(1.7)	5.1	12.7	14.8	7.0	12.2	(0.2)	NM	NM	NM	NM	NM	NM	NM	NM
DIS	* DISNEY (WALT) CO	SEP	3,374.0	2,569.0	2,345.0	1,338.0	1,236.0	120.0	1,214.0	10.8	94.9	31.3	278	212	193	110	102
LYV	§ LIVE NATION INC	DEC	(31.4)	(130.6)	16.3	57.0	NA	NA	NA	NA	NA	NM	**	**	**	**	NA
NWS.A	* NEWS CORP	JUN	2,812.0	2,128.0	1,607.3	1,213.7	(6,732.2)	184.1	953.0	11.4	72.5	32.1	295	223	169	127	(706)
TWX	* TIME WARNER INC	DEC	5,114.0	2,921.0	3,209.0	3,146.0	(44,574.0)	(4,895.0)	29.8	NM	NM	75.1	NM	NM	NM	NM	NM
VIA.B	* VIACOM INC	DEC	1,570.3	1,303.9	1,392.9	NA	NA	NA	NA	NA	NA	20.4	**	**	**	**	NA

Net Income (continued)

Ticker	Company	Yr. End	Million $ 2006	2005	2004	2003	2002	2001	1996	Compound Growth Rate (%) 10-Yr.	5-Yr.	1-Yr.	Index Basis (1996 = 100) 2006	2005	2004	2003	2002
OTHER COS WITH SIGNIFICANT ENTERTAINMENT OPERATIONS																	
BBI	BLOCKBUSTER INC	DEC	67.9	(588.1)	(1,248.8)	(979.5)	189.4	(240.3)	NA	NA	NM	NM	**	**	**	**	NA
CVC	CABLEVISION SYS CORP -CL A	DEC	(133.0)	(125.9)	(667.0)	(283.1)	(560.8)	1,007.7	(332.1)	NM	NM	NM	NM	NM	NM	NM	NM
CKEC	CARMIKE CINEMAS INC	DEC	(19.4)	0.3	28.4	106.4	(39.8)	(125.4)	(7.3)	NM	NM	NM	NM	NM	NM	NM	NM
CBS	* CBS CORP	DEC	1,382.9	(8,321.8)	(15,059.5)	1,435.4	2,206.6	(219.6)	170.7	23.3	NM	NM	810	(4,875)	NM	841	1,293
CNK	CINEMARK HOLDINGS INC	DEC	0.8	(25.4)	NA	NA	NA	NA	NA	NA	NA	NM	**	**	**	**	NA
DWA	DREAMWORKS ANIMATION INC	DEC	15.1	104.6	333.0	(184.6)	(25.1)	NA	NA	NA	NA	(85.5)	**	**	**	**	NA
GE	* GENERAL ELECTRIC CO	DEC	20,666.0	18,633.0	16,819.0	15,589.0	15,133.0	14,128.0	7,280.0	11.0	7.9	10.9	284	256	231	214	208
HDL	HANDLEMAN CO	# APR	(53.4)	14.8	34.9	34.0	27.7	37.1	5.4	NM	NM	NM	(998)	277	652	635	517
LGF	LIONS GATE ENTERTAINMENT CP	# MAR	27.5	6.1	20.3	(94.2)	1.1	(15.4)	NA	NA	NM	350.8	**	**	**	**	NA
MGM	MGM MIRAGE	DEC	636.0	443.3	349.9	237.1	292.8	170.6	74.5	23.9	30.1	43.5	853	595	469	318	393
RGC	REGAL ENTERTAINMENT GROUP	DEC	86.3	91.8	82.5	185.4	118.7	4.9	NA	NA	77.5	(6.0)	**	**	**	**	NA
TRB	* TRIBUNE CO	DEC	660.9	534.7	573.3	891.4	608.6	111.1	282.8	8.9	42.8	23.6	234	189	203	315	215
V	VIVENDI -ADR	DEC	NA	3,626.0	1,020.8	(1,439.8)	(24,431.1)	(12,102.7)	NA	NA	NA	NA	**	**	**	**	NA

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year. ** Not calculated; data for base year or end year not available.

Ticker	Company	Yr. End	Return on Revenues (%) 2006	2005	2004	2003	2002	Return on Assets (%) 2006	2005	2004	2003	2002	Return on Equity (%) 2006	2005	2004	2003	2002
MOVIES & ENTERTAINMENT‡																	
KDE	§ 4KIDS ENTERTAINMENT INC	DEC	NM	5.8	12.3	14.5	13.2	NM	2.6	6.4	8.3	4.6	NM	3.2	7.8	10.1	5.6
DIS	* DISNEY (WALT) CO	SEP	9.8	8.0	7.6	4.9	4.9	6.0	4.8	4.5	2.7	2.6	11.6	9.8	9.4	5.7	5.4
LYV	§ LIVE NATION INC	DEC	NM	NM	0.6	2.1	NA	NM	NM	1.1	NA	NA	NM	NM	9.4	NA	NA
NWS.A	* NEWS CORP	JUN	11.1	8.9	7.9	6.0	NM	5.1	4.0	3.3	2.8	NM	9.5	7.5	6.6	6.0	NM
TWX	* TIME WARNER INC	DEC	11.6	6.7	7.6	8.0	NM	4.0	2.4	2.6	2.7	NM	8.3	4.7	5.5	5.8	NM
VIA.B	* VIACOM INC	DEC	13.7	13.6	17.1	NA	NA	7.7	6.9	NA	NA	NA	21.0	12.3	NA	NA	NA
OTHER COS WITH SIGNIFICANT ENTERTAINMENT OPERATIONS																	
BBI	BLOCKBUSTER INC	DEC	1.2	NM	NM	NM	3.4	1.8	NM	NM	NM	2.7	10.5	NM	NM	NM	3.8
CVC	CABLEVISION SYS CORP -CL A	DEC	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NA	NA	NA	NA	NA
CKEC	CARMIKE CINEMAS INC	DEC	NM	0.1	5.7	21.6	NM	NM	0.0	4.5	17.9	NM	NM	0.1	14.4	142.0	NM
CBS	* CBS CORP	DEC	9.7	NM	NM	5.4	9.0	3.2	NM	NM	1.6	2.4	6.1	NM	NM	2.3	3.5
CNK	CINEMARK HOLDINGS INC	DEC	0.1	NM	NA	NA	NA	0.0	NA	NA	NA	NA	0.1	NA	NA	NA	NA
DWA	DREAMWORKS ANIMATION INC	DEC	3.8	22.6	30.9	NM	NM	1.2	8.3	35.5	NM	NA	1.5	11.8	81.8	NM	NA
GE	* GENERAL ELECTRIC CO	DEC	12.8	12.5	11.1	11.7	11.6	3.0	2.6	2.4	2.5	2.8	18.6	16.9	17.7	21.8	25.5
HDL	HANDLEMAN CO	# APR	NM	1.1	2.8	2.8	2.0	NM	2.8	7.2	6.7	4.9	NM	5.0	11.5	11.0	9.2
LGF	LIONS GATE ENTERTAINMENT CP	# MAR	2.8	0.6	2.4	NM	0.4	2.5	0.6	2.5	NM	NM	13.8	4.6	19.9	NM	NM
MGM	MGM MIRAGE	DEC	8.9	6.8	8.3	6.1	7.3	3.0	2.8	3.2	2.2	2.8	18.0	14.8	13.2	9.1	11.3
RGC	REGAL ENTERTAINMENT GROUP	DEC	3.3	3.6	3.3	7.4	5.5	3.5	3.6	3.3	7.8	5.3	2,241.6	185.6	19.1	18.0	10.9
TRB	* TRIBUNE CO	DEC	12.0	9.6	10.0	15.9	11.3	4.7	3.7	4.0	6.1	4.1	12.0	7.9	8.3	13.6	10.4
V	VIVENDI -ADR	DEC	NA	15.7	3.5	NM	NM	NA	6.5	1.6	NM	NM	NA	17.8	6.1	NM	NM

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year.

Ticker	Company	Yr. End	Current Ratio 2006	2005	2004	2003	2002	Debt / Capital Ratio (%) 2006	2005	2004	2003	2002	Debt as a % of Net Working Capital 2006	2005	2004	2003	2002
MOVIES & ENTERTAINMENT‡																	
KDE	§ 4KIDS ENTERTAINMENT INC	DEC	5.9	5.4	4.5	5.3	4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DIS	* DISNEY (WALT) CO	SEP	0.9	1.0	0.8	1.0	1.0	23.7	26.1	24.6	29.0	32.6	NM	NM	NM	NM	NM
LYV	§ LIVE NATION INC	DEC	1.0	1.1	0.8	0.8	NA	44.6	32.7	80.1	76.3	NA	NM	630.9	NM	NM	NA
NWS.A	* NEWS CORP	JUN	2.1	1.9	1.4	1.6	1.3	24.4	22.7	21.8	26.9	27.7	168.7	164.6	283.5	260.5	419.4
TWX	* TIME WARNER INC	DEC	0.8	1.1	1.0	0.8	0.8	31.2	19.5	21.5	25.0	28.5	NM	NM	NM	NM	NM
VIA.B	* VIACOM INC	DEC	0.9	1.1	0.9	NA	NA	50.8	42.1	2.1	NA	NA	NM	NM	NM	NA	NA
OTHER COS WITH SIGNIFICANT ENTERTAINMENT OPERATIONS																	
BBI	BLOCKBUSTER INC	DEC	1.1	1.1	0.8	0.7	0.6	54.8	64.0	51.3	2.2	8.7	528.2	NM	NM	NM	NM
CVC	CABLEVISION SYS CORP -CL A	DEC	0.7	0.8	1.1	0.7	0.6	179.6	137.4	122.2	111.2	92.5	NM	NM	NM	NM	NM
CKEC	CARMIKE CINEMAS INC	DEC	0.7	0.6	1.0	0.7	0.7	67.4	64.9	55.7	73.6	97.1	NM	NM	NM	NM	NM
CBS	* CBS CORP	DEC	1.9	1.3	1.1	1.0	1.0	21.4	23.1	18.2	13.1	13.7	187.7	504.8	NM	NM	NM
CNK	CINEMARK HOLDINGS INC	DEC	0.9	1.3	NA	NA	NA	69.0	62.2	NA	NA	NA	NM	NM	NA	NA	NA
DWA	DREAMWORKS ANIMATION INC	DEC	NA	NA	NA	NA	NA	6.3	17.0	20.7	101.9	64.3	NA	NA	NA	NA	NA
GE	* GENERAL ELECTRIC CO	DEC	NA	NA	NA	NA	NA	66.0	61.4	60.0	63.5	63.3	NA	NA	NA	NA	NA
HDL	HANDLEMAN CO	# APR	1.3	2.3	2.4	2.3	2.0	0.0	21.5	0.0	0.0	1.1	0.0	36.6	0.0	0.0	1.8
LGF	LIONS GATE ENTERTAINMENT CP	# MAR	NA	NA	NA	NA	NA	72.8	81.8	81.8	81.5	68.6	NA	NA	NA	NA	NA
MGM	MGM MIRAGE	DEC	0.9	0.7	0.9	1.0	0.8	64.1	65.1	54.4	56.2	54.0	NM	NM	NM	NM	NM
RGC	REGAL ENTERTAINMENT GROUP	DEC	0.4	0.4	0.5	0.9	1.3	101.1	98.1	96.1	60.0	33.8	NM	NM	NM	NM	770.9
TRB	* TRIBUNE CO	DEC	0.5	1.0	1.1	1.3	1.3	36.2	24.6	20.3	20.2	28.2	NM	NM	NM	688.6	870.5
V	VIVENDI -ADR	DEC	NA	0.8	0.8	0.6	0.7	NA	15.3	25.1	35.0	33.8	NA	NM	NM	NM	NM

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year.

Ticker	Company	Yr. End	Price / Earnings Ratio (High-Low) 2006	2005	2004	2003	2002	Dividend Payout Ratio (%) 2006	2005	2004	2003	2002	Dividend Yield (High-Low, %) 2006	2005	2004	2003	2002
MOVIES & ENTERTAINMENT‡																	
KDE	§ 4KIDS ENTERTAINMENT INC	DEC	NM-NM	59-40	32-17	27-10	54-27	NM	0	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
DIS	* DISNEY (WALT) CO	SEP	21-14	24-18	25-18	37-23	41-22	16	19	18	32	34	1.1-0.8	1.0-0.8	1.0-0.7	1.4-0.9	1.6-0.8
LYV	§ LIVE NATION INC	DEC	NM-NM	NM-NM	NA-NA	NA-NA	NA-NA	NM	NM	NA	NA	NA	0.0-0.0	0.0-0.0	NA-NA	NA-NA	NA-NA
NWS.A	* NEWS CORP	JUN	25-17	27-20	35-27	40-24	NM-NM	15	9	5	7	NM	0.9-0.6	0.4-0.3	0.2-0.1	0.3-0.2	0.4-0.2
TWX	* TIME WARNER INC	DEC	18-13	31-26	28-22	26-14	NM-NM	17	16	0	0	NM	1.3-0.9	0.6-0.5	0.0-0.0	0.0-0.0	0.0-0.0
VIA.B	* VIACOM INC	DEC	20-15	NA-NA	NA-NA	NA-NA	NA-NA	0	NA	NA	NA	NA	0.0-0.0	NA-NA	NA-NA	NA-NA	NA-NA
OTHER COS WITH SIGNIFICANT ENTERTAINMENT OPERATIONS																	
BBI	BLOCKBUSTER INC	DEC	19-11	NM-NM	NM-NM	NM-NM	29-11	0	NM	NM	NM	8	0.0-0.0	1.3-0.4	78.2-26.2	0.7-0.3	0.7-0.3
CVC	CABLEVISION SYS CORP -CL A	DEC	NM-NM	NM-NM	NM-NM	NM-NM	NM-NM	NM	NM	NM	NM	NM	55.6-34.7	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
CKEC	CARMIKE CINEMAS INC	DEC	NM-NM	NM-NM	17-13	3-2	NM-NM	NM	NM	22	0	NM	5.2-3.4	2.5-1.4	1.7-1.2	0.0-0.0	0.0-0.0
CBS	* CBS CORP	DEC	18-13	NM-NM	NM-NM	61-40	41-24	41	NM	NM	15	0	3.1-2.3	0.9-0.7	0.8-0.6	0.4-0.2	0.0-0.0
CNK	CINEMARK HOLDINGS INC	DEC	NA-NA	NA-NA	NA-NA	NA-NA	NA-NA	NA	NA	NA	NA	NA	NA-NA	NA-NA	NA-NA	NA-NA	NA-NA

Ticker	Company	Yr. End	P/E 2006	P/E 2005	P/E 2004	P/E 2003	P/E 2002	Payout 2006	Payout 2005	Payout 2004	Payout 2003	Payout 2002	Yield 2006	Yield 2005	Yield 2004	Yield 2003	Yield 2002
			Price / Earnings Ratio (High-Low) (cont'd)					**Dividend Payout Ratio (%) (cont'd)**					**Dividend Yield (High-Low, %) (cont'd)**				
DWA	DREAMWORKS ANIMATION INC	DEC	NM-NM	41-22	10-9	NA-NA	NA-NA	0	0	0	NA	NA	0.0-0.0	0.0-0.0	0.0-0.0	NA-NA	NA-NA
GE	* GENERAL ELECTRIC CO	DEC	19-16	21-19	23-18	21-14	28-14	52	52	51	49	48	3.2-2.7	2.8-2.4	2.8-2.2	3.6-2.4	3.4-1.7
HDL	HANDLEMAN CO	# APR	NM-NM	31-15	17-13	15-8	14-7	NM	45	19	15	0	3.7-1.8	3.0-1.5	1.5-1.1	1.9-1.0	0.0-0.0
LGF	LIONS GATE ENTERTAINMENT CP	# MAR	47-31	NM-NM	56-21	NM-NM	NM-NM	0	0	0	NM	NM	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
MGM	MGM MIRAGE	DEC	26-15	30-21	29-15	24-15	23-15	0	0	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
RGC	REGAL ENTERTAINMENT GROUP	DEC	38-31	34-28	41-30	18-13	30-19	207	190	NM	422	18	6.7-5.5	6.7-5.6	33.8-25.1	33.5-23.4	0.9-0.6
TRB	* TRIBUNE CO	DEC	14-11	25-18	30-22	19-15	26-18	30	43	27	16	23	2.7-2.1	2.4-1.7	1.2-0.9	1.1-0.8	1.2-0.9
V	VIVENDI -ADR	DEC	NA-NA	10-9	34-24	NM-NM	NM-NM	NA	26	0	NM	NM	NA-NA	2.8-2.4	0.0-0.0	0.0-0.0	10.2-1.6

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year.

Ticker	Company	Yr. End	EPS 2006	EPS 2005	EPS 2004	EPS 2003	EPS 2002	TBV 2006	TBV 2005	TBV 2004	TBV 2003	TBV 2002	Price 2006	Price 2005	Price 2004	Price 2003	Price 2002
			Earnings per Share ($)					**Tangible Book Value per Share ($)**					**Share Price (High-Low, $)**				
MOVIES & ENTERTAINMENT‡																	
KDE	§ 4KIDS ENTERTAINMENT INC	DEC	(0.13)	0.39	0.93	1.11	0.55	11.74	11.73	12.00	11.49	10.10	19.65-14.09	23.00-15.46	30.20-15.47	29.55-10.92	29.86-15.06
DIS	* DISNEY (WALT) CO	SEP	1.68	1.27	1.14	0.65	0.61	3.10	3.24	3.15	2.01	1.78	34.89-23.77	29.99-22.89	28.41-20.88	23.80-14.84	25.17-13.48
LYV	§ LIVE NATION INC	DEC	(0.48)	(1.96)	0.24	0.84	NA	2.17	7.42	NA	NA	NA	24.90-12.77	14.00-10.55	NA-NA	NA-NA	NA-NA
NWS.A	* NEWS CORP	JUN	0.88	0.70	0.57	0.47	(2.72)	1.86	1.81	1.84	(0.32)	7.14	21.94-15.17	18.88-13.94	19.87-15.31	18.90-11.20	16.25-8.80
TWX	* TIME WARNER INC	DEC	1.22	0.63	0.70	0.70	(10.01)	(8.35)	(4.60)	(4.89)	(6.02)	(6.34)	22.25-15.70	19.64-16.10	19.90-15.41	18.32-9.90	32.92-8.70
VIA.B	* VIACOM INC	DEC	2.20	1.65	1.62	NA	NA	(7.02)	(3.92)	NA	NA	NA	43.90-32.42	NA-NA	NA-NA	NA-NA	NA-NA
OTHER COS WITH SIGNIFICANT ENTERTAINMENT OPERATIONS																	
BBI	BLOCKBUSTER INC	DEC	0.30	(3.20)	(6.89)	(5.44)	1.06	(1.28)	(1.90)	(0.60)	3.25	1.43	5.59-3.20	10.65-3.19	19.37-6.50	23.07-12.21	30.25-11.80
CVC	CABLEVISION SYS CORP -CL A	DEC	(0.47)	(0.45)	(2.32)	(0.99)	(1.91)	(26.96)	(17.71)	(19.28)	(17.39)	(15.34)	28.80-18.00	33.90-22.50	27.70-16.13	24.01-15.42	48.25-4.67
CKEC	CARMIKE CINEMAS INC	DEC	(1.57)	0.02	2.43	11.83	(4.33)	13.14	15.61	19.02	12.78	(1.53)	25.75-16.74	37.75-21.11	42.37-31.06	37.12-18.58	30.19-14.25
CBS	* CBS CORP	DEC	1.81	(10.54)	(17.56)	1.64	2.52	(7.45)	(10.22)	(8.65)	(7.22)	(8.14)	32.04-23.85	77.98-59.86	90.10-60.18	99.50-66.22	103.78-59.50
CNK	CINEMARK HOLDINGS INC	DEC	0.01	(0.24)	NA	NA	NA	(9.08)	(2.87)	NA	NA	NA	NA-NA	NA-NA	NA-NA	NA-NA	NA-NA
DWA	DREAMWORKS ANIMATION INC	DEC	0.15	1.01	4.09	(2.41)	(0.33)	9.65	8.84	7.70	NA	NA	29.92-20.05	41.32-22.45	42.60-34.77	NA-NA	NA-NA
GE	* GENERAL ELECTRIC CO	DEC	1.99	1.76	1.62	1.56	1.52	2.76	2.81	2.86	2.65	2.00	38.49-32.06	37.34-32.67	37.75-28.88	32.42-21.30	41.84-21.40
HDL	HANDLEMAN CO	# APR	(2.65)	0.71	1.55	1.39	1.06	8.59	11.14	13.78	13.02	10.16	13.48-6.50	21.90-10.76	26.47-19.60	20.99-11.14	15.00-7.50
LGF	LIONS GATE ENTERTAINMENT CP	# MAR	0.25	0.06	0.21	(1.35)	(0.06)	0.52	(0.36)	(0.45)	(0.85)	0.40	11.65-7.66	11.63-7.47	11.82-4.36	4.71-1.70	2.65-1.61
MGM	MGM MIRAGE	DEC	2.25	1.56	1.25	0.80	0.93	7.68	5.41	9.04	7.92	7.79	59.52-34.20	46.77-32.57	36.75-18.35	19.30-12.05	21.01-13.90
RGC	REGAL ENTERTAINMENT GROUP	DEC	0.58	0.63	0.57	1.34	0.84	(1.58)	(1.32)	(1.00)	4.21	7.92	21.85-17.90	21.50-17.95	23.31-17.35	24.15-16.85	25.10-16.00
TRB	* TRIBUNE CO	DEC	2.40	1.68	1.75	2.78	1.93	(18.24)	(7.88)	(5.88)	(5.15)	(8.43)	34.28-27.09	42.17-30.05	53.00-39.20	51.77-41.60	49.49-35.66
V	VIVENDI -ADR	DEC	NA	3.15	0.95	(1.35)	(22.47)	NA	5.12	(3.88)	(19.35)	(19.21)	NA-NA	33.06-28.76	32.39-23.04	24.50-12.15	57.90-8.90

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year. J-This amount includes intangibles that cannot be identified.

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