April 2010

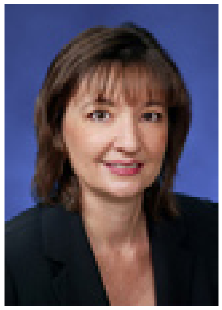
NATO of California/Nevada

PREVIEWS

Information for the California and Nevada Motion Picture Theatre Industry

Inside Previews

NATO of CA/NV Sexual Harassment Prevention Training Seminar Scheduled for June



We are pleased to announce that once again, John LeCrone and Janet Grumer of the law firm Davis Wright Tremaine LLP will be presenting a two-hour Sexual Harassment Prevention Training interactive workshop, to all interested NATO of California/Nevada member companies. The Northern California seminar will be held on June 2nd at 1:00PM at the Rialto Cinemas' Cerrito Theater in El Cerrito. The Southern California workshop will begin at 10:30AM on Tuesday, June 8th at Pacific's Culver Stadium 12 Theatre in Culver City.

The workshops will provide management employees with practical advice on recognizing sexual harassment and other forms of workplace harassment, including what to do immediately and how to work through ongoing issues. Additionally, the workshops will focus on avoiding claims of retaliation once harassment has been reported. With unemployment skyrocketing, litigation over employment issues is on the rise, making this is a good time for a refresher course on the danger signs and what to do about them.

John and Janet will spotlight examples of common problems and practical solutions for management employees working directly with theatre and office staff, and will help managers navigate the many issues faced by theatre management, given the number of employees in their first jobs, policies of promoting from within, and the geographic dispersion of locations. Aimed directly at exhibitor issues, the workshops are ideal for line supervisors and managers, district managers, human resources professionals, and corporate management alike.

The workshops will focus on education and prevention and will meet the requirements of California Government Code § 12950.1, which requires that all California employers having 50 or more employees provide at least two hours of interactive training and education regarding sexual harassment to **all supervisors** within six months of their assumption of a supervisory position and again every two years. Be sure to check your records to see if you or any of your employees need to be re-certified. But regardless of employer size, timing, or other compliance methods, the workshops are a great place for management employees to brush-up on their employee relations skills and learn about personal and company liability for harassment claims.

Our presenters come to us with a vast store of knowledge on the subject. In addition to presenting sexual harassment prevention training seminars Mr. LeCrone and Ms. Grumer represent employers and managers in wrongful discharge, harassment and discrimination litigation, wage and hour class actions, and trade secrets/unfair competition litigation. Ms. Grumer is a former movie theatre executive with 20 years of experience in the business.

The training classes will be offered free of charge to NATO members and their management employees but is by online reservation only. Please go to the Seminars and Meetings section of our web site at www.NATOCalNev.org beginning April 26th and follow the links to the registration form. The registration deadline is Friday, May 21st.

Previews
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Registration Closed for NATO of CA/NV Summer/Fall Film Product Seminar

Registration for the April NATO of CA/NV Film Product Seminars has closed with a record number of RSVPs. Confirmations will be sent to all registered guests by April 6th, if you think you are registered and have not received a confirmation, contact the office at Office@NATOCalNev.org, since only registered guests will be admitted. Walk-ins will be turned away.

The seminars will begin at 8:30AM with a continental breakfast sponsored by ACS Enterprises, Inc., the program will begin promptly at 9:30AM and end by 3:00PM. Lunch will be sponsored by Platinum Services, Inc. in Long Beach and MOC Insurance Services in San Francisco.

Scholarship Applications Reach All-Time Record

The deadline has passed and a record number of scholarship applications were sent in this year by students hoping to win one of 20 $7,500.00 awards in the 2010 NATO of California/Nevada Scholarship Program.

The applications are reviewed and evaluated in a three step process; first by a small committee of educators, then 14 judges from various member circuits read and rate them on their own. The committee meets as a whole to select the winners based upon the total scores and, new this year, by a short oral interview with the semi-finalists before the winners are selected. The winners will be announced at the membership meeting on June 23rd.

The NATO of CA/NV scholarship program began in 1996 with the presentation of $1,000.00 scholarships to twenty deserving field-level employees of the Association's member theatres for their post-secondary or vocational education. The scholarship awards have increased over the years to $7,500 each and the program has expanded to include dependents of California and Nevada based corporate employees. In 2004 the Board of Directors voted to expand the program further to award Fellowship funds to the UCLA and USC film schools for distribution to their six most promising film students. With the selection of this years' winners the program will have distributed $1.7 million to 319 young men and women.

Congratulations to Academy Award ® Contest winner Frank Soto of Krikorian Premiere Cinemas' Vista Village 18 Theatre. Mr. Soto won a selection of CDs of many of the nominated musical scores and best songs from the 82nd annual Academy Awards®.

HIRE Act Will Provide Employers With Incentives To Hire And Retain Employees

On March 18, 2010, the President signed the HIRE Act into law. The IRS is now outlining how to handle the Act's provisions.

Latest Legislation

The cornerstone of the HIRE Act is a federal program that will provide employers with incentives to hire and retain employees. HIRE will exempt an employer from paying the employer portion of Social Security taxes for the remainder of the year on new hires who are currently unemployed. If those workers stay on the payroll for at least a year, the employer would also get up to a $1,000 business tax credit per employee.

Social Security Tax Forgiveness

The 6.2% employer portion of the Social Security tax would be exempt for any qualified individual hired after February 3, 2010 and before January 1, 2011, for wages paid between March 19, 2010 and December 31, 2010 up to the $106,800 Social Security wage base.

A qualified individual meets the following requirements:

Begins employment with a qualified employer after February 3, 2010, but before January 1, 2011.

Has not been employed for more than 40 hours during the previous 60 days. The individual must sign an affidavit attesting to the employer that he was not employed in the previous 60 days, or was employed for no more than 40 hours total.

Is not hired to replace another employee unless the previous employee was separated from employment voluntarily or for cause.

Is not a family member of the business owner.

An employer can save up to $6,622 in employer Social Security tax for each qualified hire. There is no limit to the total amount of tax benefits or hires during this period, so employers will receive greater tax benefits by hiring individuals earlier in the year.

Note: The Social Security tax exemption can not be taken in conjunction with the **Work Opportunity Tax Credit** (WOTC). In other words, if the employer chooses to take the WOTC on a qualified worker, they cannot also take the Social Security tax exemption.

Business Credit for Retention

A business tax credit can also be claimed by the employer for each qualified individual hired after February 3, 2010 who stays with the employer for 52 consecutive weeks. This business credit will be the lesser of $1,000 or 6.2 percent of the wages paid by the employer to the retained worker during the 52 consecutive week retention period.

For the employer to claim this additional credit, wages paid during the previous 26 weeks must equal at least 80% of wages during the first 26 weeks of employment.

IRS Guidance

The IRS is issuing guidance as quickly possible on the many tax deposit and reporting issues created by the Act. Here is what is known so far:

The credit is for eligible employees hired after February 3, 2010, but only wages paid between March 19, 2010 and December 31, 2010 are eligible.

A new Form 941will be updated to account for the tax credits beginning with the second quarter form. First quarter wages and credits will also be reported on the second quarter form.

Employers can reduce their federal deposit amounts throughout the quarter by the eligible employer Social Security tax amount, or they can wait to claim the credit on their 941 return.

There will be a standard affidavit for employers to use for eligible employees. Employers may create their own version as long as it has identical wording as the IRS version. The attestation should be retained by the employer for possible future audit, and not filed with the IRS.

The credit cannot be claimed by household or government employers.

Information courtesy of Paychex.com

Movie Theatres and Moviegoing Have Changed, But the Transaction Remains the Same!

(A recap of the six-part NATO of California/Nevada lecture series "History of Exhibition" by Dr. Ross Melnick)

Between October 2009 and March 2010, I had the great privilege of speaking to NATO of California / Nevada members about the history of motion picture exhibition. Using a wide range of still and moving images, we discussed the cultural, industrial, and technological changes that have influenced movie theatres since the 19th century.

In 1903, Adolph Zukor and Morris Kohn joined forces with penny arcade operator Mitchell Mark to open Automatic Vaudeville, a penny arcade on 14th Street in New York City. The arcade venture was an immediate success and when Automatic Vaudeville decided to expand to other cities Marcus Loew and actor David Warfield purchased a single $20,000 share in the company. Loew and Warfield later sold their stake in Automatic Vaudeville and founded the People's Vaudeville Company, later known as Loew's, Inc., on November 14, 1904.

With $100,000 invested in the business, Loew opened his first arcade full of Kinetoscope and other single-viewer machines in New York City in January 1905. During a visit to his Cincinnati location, the Penny Hippodrome, Loew ventured to nearby Covington, Kentucky where an exhibitor was projecting motion pictures onto a screen, with chairs set up for patrons to sit and enjoy the entertainment. Spellbound, Loew immediately decided to open up a similar venue on the second floor of the Hippodrome and the new 110-seat nickelodeon attracted nearly 5,000 patrons on its first day. Loew quickly established a chain of forty nickelodeons around New York City.

Loew was certainly not the first exhibitor to create a "movie theatre," but his efforts were illustrative of a nationwide boom. During the next five years, nickelodeons dotted the country from small towns to big cities, with entrepreneurs cashing in on the movie craze and men, women and children finding attractions and distractions inside these small, but often crowded theatres. In 1907, *Harper's Weekly* noted the venue's growth amid the "nickel madness"—a period of trial and error that found a permanent fixture for a movies-only exhibition space.

Other exhibitors blossomed during this period as well, from Loew's' and William Fox's array of combination movie and vaudeville theatres in (primarily) New York to ever more elaborate theatres from Samuel 'Roxy' Rothafel, Balaban & Katz in Chicago, and Sid Grauman on the west coast. Deluxe theatres were constructed in big cities and small towns nationwide that promised more elegant surroundings, musical and other live performances, a higher class of films, and higher ticket prices—boosting the industry's profit and ability to expand. The new deluxe movie house boom led to the rapid decline of older nickelodeons, aging vaudeville houses, and airdomes (outdoor theatres for movies). The 1920s also saw the rapid expansion of the large movie theatre chains and the vertical integration of the film industry in which companies like Paramount, Fox, RKO, Warner Bros., and Loew's/MGM began producing, distributing, *and* exhibiting motion pictures.

It is important to reiterate that going to the movies in the 1920s and into the 1930s was not just a moviegoing experience. Instead, a panoply of live and filmed entertainment was offered for one low price. Typical shows at deluxe theatres included a mélange of music, stage shows or vaudeville, cartoons, newsreels, travelogues, short films and a feature. In addition, the theatre itself, as the saying goes, was part of the mantra, "The Show Starts on the Sidewalk," in which the "architecture of fantasy" held audiences in rapture from the moment the marquee first came into view.

During the Great Depression, Paramount, RKO, and Fox all filed for bankruptcy reorganization, while Warner Bros. posted losses and even the venerable Loew's/MGM showed a decline in profits. To reduce some of its costly overhead from theatre maintenance and large payrolls, theatres across the country began to slash personnel, from the mass firings of orchestras and vaudeville performers to a reduction in pay or in the number of ushers, bellmen, etc. A large number of theatres, unable to make the costly switch to synchronous sound or undone by economic conditions, closed.

In place of live entertainment, many theatres instituted, with much reluctance, the double bill format, often with an A and a B picture. Audiences, who were saving their pennies and nickels to feed their families, still trekked out to the movies, though, but often in smaller numbers than they had during the 1920s. Giveaways, bank nights, and other promotions brought patrons back, though, with promises of dishware and other goods along with the show. New theatres were smaller in scale, often in outlying neighborhoods, smaller cities, or other underscreened locations.

Between 1941 and 1945, movie theatres were packed by factory workers seeking a respite between shifts while building ships, tanks, and airplanes, and by average Americans who sought

***History of Exhibition**, continued on page 5*

***History of Exhibition**, continued from page 4*

alternate doses of reality and entertainment through fiction films, cartoons, and newsreels. After the war, movies continued their draw. 1946 to 1948 would prove to be the highest attended years in motion picture exhibition history, the likes of which we will probably never see again.

During the late 1940s and early 1950s, a wide range of concerns would challenge and transform the film industry. In 1948, the government's long fought anti-trust battle against the film industry forced the Big Five (RKO, 20th Century-Fox, Warner Bros., Paramount, and Loew's, Inc.) to acquiesce to a Consent Decree which forced the major film companies to divest their theatre holdings.

In 1948, television also began penetrating the consumer market after more than twenty years of development, encouraging Americans to stay home and watch this "free" entertainment instead of going out to the movies. Returning veterans and others also began moving to the suburbs, forcing sizable numbers far away from downtown theatres, disrupting the habit audience. Spending habits changed as well, with disposable income going to televisions, dishwashers, cars, and other items. Young adults began having children, keeping them further away from theatres while children were being raised at home. Drive-ins soon became a popular option with kids piled in cars with parents—with one admission price for all. Families, couples, and many others flocked to the drive-in in suburban and rural areas. Suburban shopping center theatres soon became a growing area of theatre construction as well as urban venues began to struggle in the 1950s.

Faced with myriad challenges, Hollywood turned to 3-D, Cinerama, and other widescreen cinema processes such as Cinemascope and VistaVision to lure audiences back.

In the 1960s and early 1970s, many downtowns across the country began a precipitous economic decline. Some urban theatres switched from a reliance on commercial Hollywood films to low-budget, martial arts, Blaxploitation, and/or X-rated films to attract audiences. In addition, a lack of parking led many suburban patrons to visit drive-ins and shopping center theatres instead where parking was plentiful. Urban crime, imagined or real, also deterred some. Energy costs in the 1970s drove overhead ever higher with such large spaces to light, cool and heat. Many older venues like the Loew's Kings in Brooklyn began playing to half (or mostly) empty theatres by the mid-1970s.

Films like *Black Caesar* and *Deep Throat* competed for theatrical box office alongside *The Godfather* and *The Towering Inferno* before the blockbuster phenomenon of day-and-date releases began in earnest in 1975 with *Jaws*. The new high concept films of the mid to late 1970s demanded saturation marketing and distribution plans that fit perfectly with the exhibition industry's migration away from downtown single screen theatres and towards an emphasis on suburban multiplexes where new releases could be shown in multiple auditoria at varying showtimes, assuring audiences of access to widely advertised films wherever and whenever they wanted to see them.

In the 1980s, home video and cable television fundamentally changed the global film industry. Entertainment conglomerates no longer counted profits and losses merely on their domestic and international theatrical run; movies could now live on forever on video and basic and premium cable television. Adult filmmakers eager to cut costs also began shooting on video and shipped their product directly to video stores rather than movie theatres. In a few short years many of the country's adult theatres, including those in the Pussycat Theatres chain, closed. The proliferation of film on video hurt repertory theatres as well as audiences rented newer and classic films instead of visiting the hundreds of revival houses that once dotted the nation.

In 1995, the megaplex boom was inaugurated with the opening of the AMC Grand 24 in Dallas. The theatre's plush, stadium-seating auditoria and its availability of so many films on so many screens inspired exhibition circuits to begin a massive wave of new theatre construction that re-screened America. The new ethos was set: a return to luxurious spaces and an emphasis on wide screens, stadium seating, concessions, and the latest in sound and image technology.

Today, motion pictures are pervasive, even "ambient" entertainment: played silently in the background of trendy bars, exhibited on airplanes and family cars, or watched on laptops and iPods. Why, then, more than a century later, are motion picture theatres scoring box office records year after year? In short, as Marcus Loew once noted, "We sell tickets to theatres, not movies." In a frenzied, atomized world of cubicles and private transportation, the motion picture theatre remains one of the last great community centers where the phenomenological experience of laughing, crying, or clapping with an auditorium of strangers is still an inextricable cultural activity. In addition, with digital projection, 3-D technologies, IMAX and other immersive screens, plush stadium-seating, ample parking, and comparatively low ticket prices, motion picture theatres have maintained their brand identity: a family-friendly venue that is both affordable and dependable.

Much has changed since 1910, but the process is largely the same: a ticket buys a seat in a movie theatre where a patron can join others in the consumption of projected entertainment. Despite all the bells and whistles and changes in the film industry, it is that simple exchange that is sacred to the relationship between

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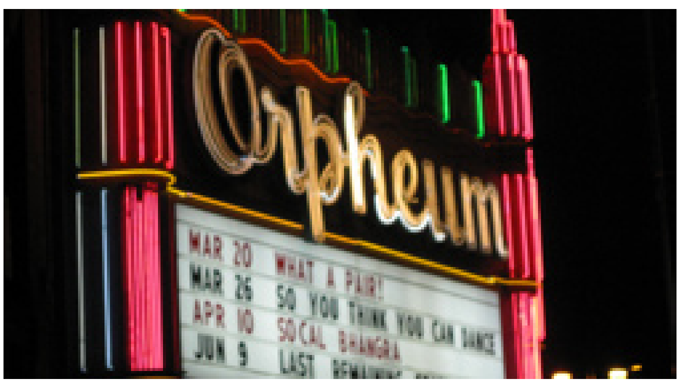
***History of Exhibition**, continued from page 5*

exhibitors and their patrons. Movie theatres have screened our greatest desires and greatest fears, housed our first dates and first memories, and have been part of the cityscape of American downtowns and suburbs for more than a century. They are an American institution.

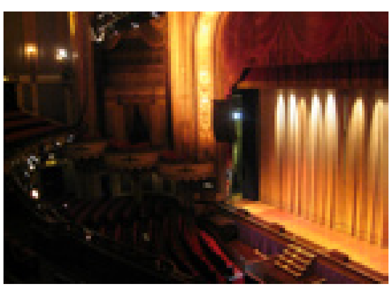
It has been a tremendous pleasure to have had the opportunity to speak to the members of NATO of California / Nevada over the past six months. I hope during the six lectures I presented between October 2009 and March 2010 that you learned as much from me as I did from speaking with all of you. Thank you again and I wish you all a profitable and productive 2010.

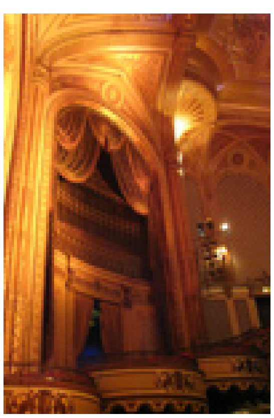
See you at the movies,
Dr. Ross Melnick
Los Angeles, CA

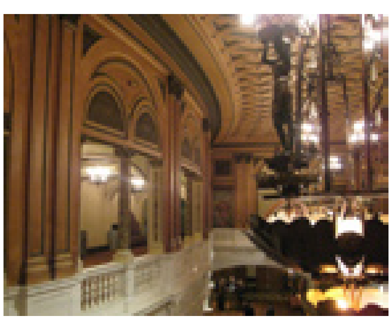
Editors Note: The complete lecture series was filmed and recorded and will be available on DVD in late Spring.



Photos of the historic Orpheum Theatre in downtown Los Angeles, which was the site of our concluding lecture .







States Seeking Cash Hope to Expand Taxes to Services

In the scramble to find something, anything, to generate more revenue, states are considering new taxes on virtually everything: garbage pickup, dating services, bowling night, haircuts, even clowns.

"It's hard enough doing what we do," grumbled John Luke, a plumber in the Philadelphia suburbs. His services would, for the first time, come with an added tax if the governor has his way.

Opponents of imposing taxes on services like funerals, legal advice, helicopter rides and dry cleaning argue that this push comes as businesses are barely clinging to life and can ill afford to see customers further put off by new taxes. This is especially true, they say, in states like Michigan and Pennsylvania, where some of the most sweeping proposals are being considered this spring.

But this is also a period of economic gloom for states. Pension funds are in the red, federal stimulus help will soon vanish, and revenues from traditional sources like income and property taxes are slumping ever lower, with few elected officials willing to risk voter wrath by raising them.

"This is born out of necessity," said Gov. Edward G. Rendell of Pennsylvania, a Democrat. His proposed budget, being debated in Harrisburg, would tax services including accounting, advertising and data processing.

Mr. Rendell argues that the state's current sales tax system makes no sense. (Why, he asks, is the popcorn in his state's movie theaters taxed, but the candy is not?)

"Look, I'm not a crazy tax guy," Mr. Rendell said, reflecting on recent trims to the budget. "I know what we've cut the last two years, and I know how deep and painful the cuts have been. So I know that in the future there's going to have to be a revenue increase, and this is the best of the alternatives, obviously none of which we're happy about."

Michigan's revenues, adjusted for inflation, have sunk to a level last seen in the 1960s. And that may be exactly what at long last pushes through wide acceptance for taxes on more services, according to supporters of the idea, who say it makes sense in an economy that has long been service-based. In the past, such taxes have never quite been able to survive the political tussle.

A handful of states, including Delaware, Hawaii, New Mexico, South Dakota and Washington, already tax all sorts of services. Most states tax at least some services, particularly items like utilities.

Nevertheless, few states have gone where political leaders in Michigan and Pennsylvania are now suggesting: adding scores of services to their states' sales tax requirement and lowering the tax rate under

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***Tax**, continued from page 6*

a widened tax base.

But from coast to coast, desperate governments are looking to tap into new revenue streams.

In Nebraska, a lawmaker has introduced a bill to tax armored car services, farm equipment repairs, shoe shines, taxidermy, reflexology and scooter repairs. In Kentucky, Jim Wayne, a state representative, and some fellow Democrats are proposing taxing high-end services: golf greens fees, limousine and hot-air-balloon rides, and private landscaping.

In June, voters in Maine will decide whether to accept a state overhaul of its tax system that would newly tax services like tailor alterations, blimp rides, and entertainment provided by clowns, comedians and jugglers.

Though some say the proposed service taxes face opposition too fierce to succeed in many places, particularly in an election year, even some of the most ardent opponents predict that some of the taxes will scrape through. The current budget misery will probably "push the idea over the edge" in at least some states, said Robert D. Fowler, president and chief executive of the Small Business Association of Michigan.

"And they won't be any better off for it, either," said Mr. Fowler, who added that his members detested the notion. "It's the wrong time, in the heat of just trying anything to find money, to have this discussion.

"Yes, we need more money, but is this a step toward turning the economy around?" Mr. Fowler asked. "Taking more money out of peoples' pockets? Putting more burdens on small business? It doesn't seem like a recipe for a state turnaround."

In the 1930s, with property tax revenues shrinking because of the Great Depression, states began taxing the sales of items. It was simple, and at the time, the tax matched an economy largely based on goods.

But as the nation's economy shifted to one focused more on services, the tax system mostly did not budge. And so, in 2009, states raised $230 billion in sales taxes; had they taxed all services, too, according to Joseph Henchman of the Tax Foundation, a nonpartisan research group, they might have raised twice that.

Advocates say taxing services is simply a matter of fairness and good sense, and of spreading out the tax burden as widely as imaginable. If you pay tax for a ring, why should you be exempt from paying it for a manicure? But even those who agree in principle wrestle with the details. Should a bakery be taxed for the accounting work or lawn care it gets, only to pass along that cost to its customers in the price of cookies? Some in the world of taxes would describe that as pyramiding. And what to do about all the industries that would, naturally, line up for exemptions?

"In truth, a lot of people like this concept of being taxed on what they use," said Bill Farmer, a Republican state representative in Kentucky, who has suggested a tax on services if it was wed to the demise of the state's income tax. "Then they say, 'But please don't tax me because I'm a lawyer.' Or 'But please don't tax me because I'm a grass cutter, an accountant, anything.' " (Mr. Farmer, for the record, is a tax accountant.)

In years past, large plans to tax services have become law, only to face sudden, sometimes embarrassing repeals in places like Florida and Maryland. In Michigan, lawmakers agreed in 2007 to a tax on services (in an episode Mr. Fowler recalls as "a last minute, midnight deal"), only to repeal it amid widespread public opposition the very day it went into effect.

Supporters say the new plan in Michigan, put forth by Gov. Jennifer M. Granholm, a Democrat, would solve some of the earlier complaints. In addition to adding more than 100 types of services to the 26 the state already taxes, she says she wants to lower the sales tax rate to 5.5 percent from the current 6 percent, phase out a surcharge on a business tax and direct savings to education.

Ultimately, says Robert J. Kleine, the Michigan treasurer, the tax on services would mean $1.8 billion a year in new revenue.

"The basic thing is that we need to update our tax structure," Mr. Kleine said. "We've got a 20th-century tax structure based on a different sort of economy. The tax base doesn't grow as the economy grows."

Ms. Granholm, like Mr. Rendell, cannot seek re-election this year because of term limits (something opponents of taxing services say provides a hint at how unpopular the whole idea must be with the voting public).

Michael D. Bishop, the Republican majority leader in the State Senate, said this was one more case of Michigan's problems being dumped onto consumers who "cannot afford anything else" and businesses who "are being run out on a rail."

People like Pete Tomassoni, whose third-generation bowling alley in Iron Mountain, Mich., has 20 percent less business so far this year than early last year, deemed taxation of his $3 games "a terrible idea."

Still, some believe the notion is certain to grow more palatable as states grasp the depths of their woes. State Senator Cap Dierks of Nebraska, who has pushed for a services tax in part because of his worries about the mounting burdens of property taxes on farmers and ranchers, said he thought such taxes were inevitable.

"I got a lot of negative vibes when I introduced it, but eventually, we'll have to look at it," he said. "What else are you going to do?"

Reprinted from The New York Times*, by Monica Davey*

CALENDAR of EVENTS & HOLIDAYS

Southern California Film Product Seminar
April 13

Northern California Film Product Seminar
April 15

Mother's Day
May 9

Memorial Day Observed
May 31

Northern California Sexual Harassment Prevention Training
June 2

Southern California Sexual Harassment Prevention Training
June 8

Flag Day
June 14

Father's Day
June 20

Summer Begins
June 21

Board of Directors Meeting
June 22

Membership Meeting
June 23