October 31, 2011

Attached is the DEG's Third Quarter 2011 Home Entertainment Report compiled by DEG members, tracking sources and retail input.

Third quarter home entertainment spending rises 5%
Increase is first since 2008's first quarter when recession was taking hold;
Number of Blu-ray homes jumps 52% from year-earlier to 33.5 million

The third quarter 2011 results mark the continued stabilization of the industry, underscored by significant gains in Blu-ray Disc and solid increases in electronic sell-through (EST) spending. This growth reflects an encouraging shift in the marketplace as we head into the all-important fourth quarter.

Overall consumer spending jumped nearly five percent compared to the third quarter a year earlier, marking a major milestone, as this is the first time spending has increased since the first quarter of 2008 when the economic downturn began.

There were a number of promising trends in the third quarter, signifying an ongoing, healthy consumer appetite for home entertainment products. Among the bright spots:

- Blu-ray Disc and EST continued their steady gains with consumer spending on Blu-ray sell-through up an impressive 58 percent and EST up nearly 13 percent compared to the same period last year.

- For major box-office hits, sales of packaged goods often surpass 50 percent on Blu-ray in their first week of release.

- Catalog Blu-ray sales are also on the rise, with year-to-date increases of more than 60 percent, led by the stellar sales of popular classics such as *Star Wars*, *Citizen Kane, Scarface* and *The Big Lebowski,* among others.

- Among the various services and platforms for delivering filmed entertainment to consumers, Blu-ray, EST, and streaming all saw growth in third quarter 2011. These also represent some of the industry's highest growth margin areas.

- The number of Blu-ray homes continues to climb, soaring 52 percent in the third quarter from a year earlier (including BD set-tops, PS3s and HTiBs.) Total household penetration of all Blu-ray compatible devices now stands at more than 33.5 million U.S. homes.

- Further, 5.5 million HDTVs were sold to U.S. consumers in the third quarter 2011. HDTV penetration to date is now at more than 69.5 million U.S. households.

- The industry is confident the holiday season will be strong. Theatrical blockbusters coming to home entertainment in the fourth quarter include *Captain America: The First Avenger*, *Cars 2, Cowboys & Aliens, Hangover 2, Harry Potter and the Deathly Hallows: Part 2, The Help, Kung Fu Panda 2, Rise of the Planet of the Apes*, *The Smurfs,* and *Water for Elephants.*

If you would like to discuss the DEG's Third Quarter 2011 Home Entertainment Report, please contact the DEG.

Regards,
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DEG REPORT: U.S. CONSUMER SPENDING Q3 2011

U.S. Consumer Spending	Q3 - 2011			2010	2011	YOY
($ in millions)	**2010**	**2011**	**YOY**	**YTD**	**YTD**	**YTD**
	Q3	Q3	Q3	Thru Q3	Thru Q3	Thru Q3
Sell-Thru Packaged Goods -All	$ 1,816.01	$ 1,742.79	-4.03%	$ 6,553.77	$ 5,612.86	-14.36%
Sell-Thru (including EST)	$ 1,936.52	$ 1,878.69	-2.99%	$ 6,934.20	$ 6,019.07	-13.20%
Rental:*						
Brick and Mortar Rental	$ 494.65	$ 353.00	-28.64%	$ 1,736.99	$ 1,249.50	-28.07%
Subscription (physical only)	$ 578.79	$ 607.31	4.93%	$ 1,652.46	$ 1,963.11	18.80%
Kiosk	$ 335.76	$ 414.00	23.30%	$ 912.11	$ 1,219.55	33.71%
Total Rental (excluding VOD)	$ 1,409.19	$ 1,374.31	-2.48%	$ 4,301.55	$ 4,432.16	3.04%
Total Rental (including VOD)	$ 1,809.38	$ 1,794.18	-0.84%	$ 5,591.67	$ 5,781.17	3.39%
Digital:						
Electronic Sell-Thru	$ 120.51	$ 135.89	12.76%	$ 380.43	$ 406.22	6.78%
VOD	$ 400.18	$ 419.87	4.92%	$ 1,290.12	$ 1,349.01	4.56%
Subscription Streaming**	$ -	$ 255.41		$ -	$ 463.56	
Total Digital	$ 520.69	$ 811.17	55.79%	$ 1,670.55	$ 2,218.79	32.82%
Total U.S. Home Entertainment Spending	$ 3,745.89	$ 3,928.28	4.87%	$ 12,525.88	$ 12,263.81	-2.09%

*Preliminary estimates

**The DEG began breaking out streaming revenue in the first quarter of 2011. In the first half of 2011, streaming revenue was shown as part of the rental category. In Q3, to more accurately reflect the overall trends in digital performance, streaming has been shifted from the rental category to the digital category. The first-half of the year has been reformatted to reflect the change which allows for comparisons to previous quarters. Comparable data for streaming is not available for 2010. The Q 3- 2011 release also contains a modest downward revision to both EST and VOD for Q3, 2010 to reflect the most current data set available to the DEG.