

Statement of Mike Negra  
President, Mike's Video, Inc. (Mike's Movies and Music)  
State College, Pennsylvania  
Before the Permanent Subcommittee on Investigations  
Committee on Governmental Affairs  
United States Senate  
on  
"Privacy & Piracy: The Paradox of Illegal File Sharing on Peer-to-Peer Networks and the Impact of Technology on the Entertainment Industry"

September 30, 2003

Chairman Coleman and Senator Levin, distinguished Senators, my name is Mike Negra, and I am the President of Mike's Video, Inc., a small business of movie rental and music stores in State College, Pennsylvania. I would like to thank you for allowing me the opportunity to tell my story which has been mirrored all over the country these past 3 years.

First, I will offer you a little background on my business and me. I entered the entertainment business in 1973 when I was an undergraduate at the University of Maryland. While a student I joined the stage crew for major concert productions. In 1974 I became the stage manager and in 1975 was elevated to concert manager, producing acts such as Elvis Presley, Frank Zappa and Linda Ronstadt. It was my responsibility to review contracts, handle all staffing, ticketing, production, security, artist relations, and more. After graduation, I continued in this aspect of the business by touring as a production or road manager with artists such as Geoff Muldaur, Scarlet Rivera, Tim Curry, the Yellow Magic Orchestra and Rupert Holmes. I left the road in 1980 to pursue other interests in the entertainment industry, booking local bands in the DC area and freelancing concert production and promotions.

In 1984 my family and I moved to State College, PA, home of Penn State University, to open Mike's Video, a movie rental retail store that also sold VCRs and TVs. We expanded to include major appliances in 1989 and in 1993 added music and software to our merchandising mix. In 1995 we expanded our music inventory to three of our four stores, completing the rollout in 1999. Also in 1999 we expanded to Blacksburg, VA, home of Virginia Tech University.

Business was fantastic! In 1999 we eclipsed \$3 million dollars in music sales, ranking us in the top 50 accounts with some major suppliers. We were experiencing rapid growth, due in large part to the market we were serving: college students. Their appetite for entertainment, both movies and music was healthy and recession proof.

That all changed abruptly in August of 2000 when Penn State and Virginia Tech students returned for their fall semester. At both locations, sales fell dramatically. In State College, our downtown student-oriented store saw sales drop \$28,000 in the month of August, a 29% decrease. In Blacksburg, sales decreased by \$11,000, a 25% drop. This slide continued for the rest of 2000. From August to December 2000 music sales decreased by 23% company wide.

It was the year of Napster, and college students, with access to broadband Internet connections provided by the university, a lack of discretionary dollars and plenty of time, were among the first heavy users of Peer-to-Peer (P2P) software. College town record stores like mine were the first to feel the brunt of lost sales. Underground retail stores sprung up in dorms and apartment buildings. Students downloaded new music before it was available in stores and sold illegal copies to friends, laughing all the way to the bank. And why not? Their inventory did not cost them a dime, and there was no risk of getting caught.

The downslide has continued ever since. In 2001 sales fell 24 % in State College. We were forced to sell the store in Blacksburg, VA due to disappointing sales but even the buyer, another record store, didn't want the music -- only the movies.

In 2002, as KaZaA and other P2P services expanded our sales continued to decline, falling another 22%. Finally, in 2003, we closed our downtown music store, and pulled music from two other stores, leaving only one music store left in our chain. The student market has dwindled to a trickle. We don't merchandise to them, we don't advertise to them. What was once the cornerstone of the music buying public has now almost completely disappeared. They aren't buying music physically or online from Amazon, or Best Buy, or iTunes, or Rhapsody, or anywhere else – relative to what they are stealing online. Nobody can really compete with free. I don't care how big you are.

The following is a chart of our music sales from 1999-2003.

## Mike's Video, Inc. Music Sales 1999 through 2003

Year	State College Stores Combined	Downtown State College Store	Blacksburg VA Store	All Stores Combined
<b>1999</b>	\$2,573,109	\$1,263,362	\$541,639	\$3,114,748
<b>2000</b>	\$2,403,891	\$977,993	\$423,329	\$2,827,220
Difference	(\$169,218)	(\$285,369)	(\$118,310)	(\$287,528)
% Decrease	-6.58%	-22.59%	-21.84%	-9.23%
<b>2001</b>	\$1,821,586	\$717,652	Sold store 2/1/2001	\$1,821,586
vs 2000	(\$582,305)	(\$260,341)		(\$1,005,634)
% Decrease	-24.22%	-26.62%		-35.57%
vs 1999	(\$751,523)	(\$545,710)		(\$1,293,162)
% Decrease	-29.21%	-43.20%		-41.52%
<b>2002</b>	\$1,415,246	\$632,837		\$1,415,246
vs 2001	(\$406,340)	(\$84,815)		(\$406,340)
% Decrease	-22.31%	-11.82%		-22.31%
vs 1999	(\$1,157,863)	(\$630,525)		(\$1,699,502)
% Decrease	-45.00%	-49.91%		-54.56%
<b>2003 (forecast)</b>	\$750,000	\$135,000 (closed in May 03)		\$750,000
vs 2002	(\$665,246)			(\$665,246)
% Decrease	-47.01%			-47.01%
vs 1999	(\$1,823,109)			(\$2,364,748)
% Decrease	-70.85%			-75.92%

As you can see, Mike's Movies and Music will sell \$1.8 million dollars less music in 2003 versus 1999, a 70% reduction in sales. Because of that, the State of Pennsylvania will lose \$108,000 in sales tax revenue. Twelve music related jobs; from buyers to store managers and clerks have been eliminated at Mike's. Wages were frozen throughout the company as we struggled to overcome the revenue loss. We were forced to sell our corporate offices and relocate to makeshift offices in various stores. Major capital expenditures have been delayed. Advertising has been cut back. Travel and organizational dues eliminated. P2P services that exist for the purpose of stealing music and movies have decimated small businesses around the country. Small businesses that make America work.

Three years after the first sign of the effects of online thievery appeared, hundreds of stores just like mine are gone or still struggling to stay alive, while at the same time struggling with the public suggestion that file stealing is ok, and no victims lie in it's wake. In fact, the future looks even bleaker as another mainstay of my business, movie rentals and sales, become the next battleground. We have conversations with customers who comment about their "ownership" of downloaded movies. Our student-oriented store in downtown State College has seen revenue decrease by double digits, while stores outside the student influence increase.

In 2003, because of enforcement and deterrence efforts, I can finally say people are starting to get it. Penn State for example, has begun a process to monitor and punish excessive file stealing. The "category 5" level of destruction left upon the landscape of the music industry and approaching the movie industry has people like yourselves and organizations like the RIAA and Penn State searching for answers. It has been allowed to continue without fear of repercussion for too long. The lawsuits recently filed by the RIAA are timely and, unfortunately, a required addition to the educational approach used for the past couple of years. Without that deterrent, as has been proven in my little corner of the world, things will only get worse. I am living proof.

People have no more right, no more entitlement to steal music or movies or any other copyrighted product in a digital form then they do in a physical world. The same rules apply. The RIAA is just enforcing them. I prosecute shoplifters in my stores. If I didn't, and word got out, I would have no inventory. Online shoplifting will only be stopped by aggressive enforcement that creates a deterrent effect. Please help the copyright owners protect their property. Our industries depend on it. My employees and their families depend on it as well.

Thank you.

Mike Negra  
President  
Mike's Video, Inc.

