

Silver Screen

Cinemas Prosper During Recession

Bow Tie Cinemas opened a 17-screen movie theater in Richmond, Va., in February. The multiplex, named Movieland at Boulevard Square, is the largest the company has ever opened.

While declining to provide specific ticket sales numbers, Bow Tie Chief Operating Officer Joe Masher said the Richmond multiplex had a “phenomenal” opening weekend. In part, that’s because people seem to like going to the movies during recessions. For many, it’s seen as a relatively cheap form of entertainment.

According to Patrick Corcoran, the director of media and research for the National Association of Theater Owners, from Jan. 1 through March 2, 2009, national box office receipts were 13.1 percent higher than the same period in 2007, when the economy was still growing. And from the third week of September 2008, when the stock market became volatile and the credit crisis a national discussion, through the second week of December 2008, receipts rose 15 percent over the same period in 2007.

Business is up at Regal Cinemas, according to Chad Browning, marketing manager with Regal Entertainment

Group, based in Knoxville, Tenn. The chain owns 30 theaters in Virginia, 24 in North Carolina, 16 in South Carolina, and 15 in Maryland. “I think people just kind of want to escape from the sluggish economy,” he said.

Movies are also making more money this year. Many moviegoers have found respite through stories of a dim-witted mall security guard and of a father trying to rescue his kidnapped daughter. “Paul Blart: Mall Cop” and “Taken,” released in 2009, have each grossed more than \$100 million. “Gran Torino,” a drama starring Clint Eastwood, released in late 2008, has made more than \$100 million in 2009 alone, Corcoran said. From January through May of 2008, only one film grossed more than \$100 million.

In choosing where to open theaters, Bow Tie looks for communities with active arts, medical, and educational communities. “Richmond was a perfect storm for all three,” Masher said. Bow Tie’s Richmond multiplex is the company’s third in the Fifth District, joining two in Annapolis, Md.

Bow Tie isn’t the only company bringing a new theater to Richmond in 2009. Regal opened the Westchester Commons Stadium 16 in suburban Midlothian this spring. That multiplex comes online just before studios start releasing their summer blockbuster films, including “Harry Potter and the Half Blood Prince,” among others. “We’re hoping for big grosses out of those films,” Browning said.

While box office numbers are on the rise in 2009, DVD sales have fallen off, Corcoran said. Those revenues had started to plateau before the economic slump. People have “very full libraries” of DVDs and are no longer looking to add to them.



From blockbusters to classic films to screenings of cult movies ... you'll see them all at Movieland.

PHOTOGRAPHY: COURTESY OF BOW TIE CINEMAS

—DAVID VAN DEN BERG

Smoking Bans

Smoke-Free Mandates Come to Tobacco Country

Starting December 1, Virginia will ban smoking in both bars and restaurants.

The only exceptions to Virginia's ban will be private clubs as well as restaurants and bars that have separately ventilated smoking rooms. Outdoor smoking on patios will be allowed. And employers won't be allowed to require their staff to work in smoking areas.

Lately, smoking bans have tended to come with no exemptions, says Michael Pakko, an economist with the Federal Reserve Bank of St. Louis. The exemptions should help reduce the losses that Virginia businesses will experience from the ban, he says.

At press time, the North Carolina Legislature was also debating a smoking ban. The House has passed a bill that bans smoking in restaurants, but allows it in private clubs and businesses that ban minors. A House committee had passed a more comprehensive smoking ban that prohibited smoking in restaurants, bars, and most public places, according to the *Asheville Citizen-Times*.

Virginia and North Carolina, where tobacco is a major part of the history and economy of each state, would join Maryland and the District of Columbia in banning smoking in bars and restaurants around the Fifth District. West Virginia and South Carolina do not have statewide bans, although certain cities and counties in South Carolina ban smoking. The cities of Charleston, Columbia, and Greenville have bans.

Critics of smoking bans suggest that restaurants and bars already have an incentive to cater to consumer demand — including demand for smoke-free establishments.

Also, smoking bans could have some unintended consequences. Economists Chad Cotti of the University of Wisconsin-Oshkosh and Scott Adams of the University of Wisconsin-Milwaukee found a higher number of fatal traffic accidents involving alcohol in locations where smoking is banned in bars compared to locations where smoking in bars is allowed. That's because the bans provide an incentive for smokers to drive longer distances to — and from — where they can smoke in bars. In a different paper, they also found smoking bans reduce employment by a statistically significant amount at bars, but have a neutral effect on restaurant employment, on average. States with a larger number of smokers see more negative effects, but as the number of smokers continues to drop, these effects will too, Cotti says.

Tax and price increases have played a major role already in reducing the number of smokers. Economists traditionally view tax policy as a way to curb smoking or recover costs from externalities that smoking causes. While there is disagreement about the magnitude of smoking's health care costs, "that there are costs I think is pretty clear," says Frank Chaloupka, a University of Illinois-Chicago economist. While taxation is a "blunt instrument," he says, tax increases can have a significant impact on the smoking habits of young people, who tend to be more responsive to price increases than older smokers.

—DAVID VAN DEN BERG

Lights Out

Incentive and Retention Pay OK'd for Circuit City Employees

These days the subject of bonuses to executives of troubled firms incites strong reactions. But are there circumstances in which they are justified?

Maybe so, according to Circuit City. The 60-year-old electronics retailer based in Richmond, Va., filed for Chapter 11 bankruptcy in November 2008 and announced its liquidation in January 2009. Many were surprised when the company appealed to bankruptcy courts in February 2009 for more than \$4 million to provide additional pay to executives and staff

overseeing the liquidation process.

These funds are not bonuses, however, argues Bill Cimino, Circuit City's head of corporate communications. He says the funds are being provided to incentivize executives and retain critical nonexecutives throughout the liquidation process. "They are primarily being used to maximize the value of the 'estate' for Circuit City's unsecured creditors," Cimino says.

Unsecured creditors of a liquidating company can be the biggest losers from bankruptcy, since they are the last of the



Empty parking lots are a common sight at the 567 Circuit City retail locations that closed in the first quarter of 2009 after the company announced its liquidation in January.

PHOTOGRAPH: DAVID VAN DEN BERG

creditors to get paid from the remaining value of the company. The relationship between the payout to unsecured creditors and the orderliness of the liquidation process is clear: The more efficient the liquidation, the greater the remaining value of the estate. That means the unsecured creditors are able to recoup more of what they are owed by the company.

The Circuit City plan works like this: A group of 14 top executives and officers will receive roughly \$2 million through the plan. The pay will be awarded gradually, as executives meet a set of 20 goals relating to the liquidation. The amount they receive will vary according to how successfully the tasks or goals are completed. As a result, the final amount ultimately paid out may be less than the \$4 million approved for the overall retention and incentive plan.

Circuit City estimated that each of the 20 targets would increase the total value of the estate by \$250 million if completed at the maximum success level, while the corresponding cost in executive pay would be less than 1 percent of that amount. "The amount of revenue they bring in determines how much is paid out to them," Cimino says.

The company knew it would be a "hot button" issue to allocate incentive pay to its top executives when 34,000 other staff would lose their jobs as a result of the liquidation. As a result, it agreed to take chief executive officer James Marcum out of the incentive package.

The company also views stopping the drain of essential nonexecutive employees as critical to maximizing the revenue from liquidation. A group of 137 employees at director-level and below will receive up to \$1.62 million in retention pay if they stay with the firm through specified dates. This is in addition to a "discretionary" pool of up to \$750,000 to be distributed to any of 250 employees (top-level executives excluded) to stem any sudden

turnover or to hire anyone with needed skill sets. It would also finance more mundane tasks that are essential to winding down the company's operations.

"People don't realize what has to happen behind the scenes to make a liquidation happen," says Scott Carpenter of Great American Group, one of four companies collaborating in Circuit City's liquidation. "Despite the liquidation, you have to keep systems going, lights on, and heat and water flowing, in addition to more obvious needs like payroll," he says. "Those people who stay on are a critical function."

After some negotiation, the retention and incentive plan was approved by the company's unsecured creditors. Since they get only what's left of the estate after secured and preferential creditors have exhausted their claims, they have strong incentive to contest any expenses that may not be offset by increasing the value of the estate. "Ultimately," Cimino says, "this money belongs to the creditors. They believe the retention and incentive plan is a good investment to keep people motivated, and to achieve the liquidation goals and thus maximize the value to them when the estate is finally settled."

Critics of the plan have argued that the dour job market is incentive enough for someone to stay with the company, but Carpenter disagrees. "In this economy it may be hard to get a new job, but the most competent people typically won't have any problem," he says. Talented employees who know the business are precisely the ones needed most to stay on to meet the goals of Circuit City's liquidation process, according to Carpenter.

Although Circuit City's nationwide retail locations closed several weeks ahead of schedule in March, it could take the company's corporate operations up to 18 months to completely close its doors. Cimino and Carpenter say the court-approved retention and incentive plans had nothing to do with retail stores closing early; it was purely a result of demand for inventory during the company's close-out sales. The success of the remainder of the wind-down process, however, will depend on remaining staff and executives.

—RENEE COURTOIS

eBang

University Auctions a Demolition Trigger

An implosion took down the 11-story Union Carbide headquarters building near the University of Charleston in South Charleston, W.Va., in March, with alumnus Chris Belcher paying \$5,207 for the privilege of activating the demolition on eBay. But Belcher didn't stop there. He donated the privilege to the university's baseball program where he and his brother played in the 1980s on scholarships. In turn, the team raffled off the right to "push the button" at \$10 per ticket, generating about \$5,000 in sales.

"I've been contacting my clients and vendors — it's been a full-time job on top of my full-time job," Belcher said. He is president and owner of Cincinnati, Ohio-based Pinnacle Environmental.

The general fund will receive the original amount Belcher paid on eBay, but the raffle money will go to the baseball program. "Without those scholarships, neither one of us could have afforded to go there," Belcher said. "When I saw what it [the auction] was going to close for, I said, 'I know we can raise more money than this.'"

Dow Chemical, which bought Union Carbide in 2001, donated the 1948 structure to the university in 2006, but the university would like to sell the 6.5-acre site. The university had planned to house classrooms, faculty offices, and living quarters for pharmacy students in the building, but the cost of compliance with the Americans with Disabilities Act, estimated to be as much as \$10 million, was deemed too high.

The building formerly served as regional headquarters for Union Carbide and was considered a symbol of West Virginia's chemical industry. The land is priced at \$3.5 million. The land is flat and easily accessible to the interstate, an attractive combination in the Mountain State. Two firms handled the \$1.6 million demolition project.

—BETTY JOYCE NASH



The University of Charleston auctioned the privilege of setting off the implosion that demolished a building which Dow Chemical donated to the school in 2006. The \$5,207 will go to the university's annual fund. The lot will be sold.

Smart Grid

Digital Devices Will Save Energy

Duke Energy plans to test an energy efficiency program on 100 of its Charlotte, N.C., customers by early summer. It integrates electronic devices such as digital meters and thermostats that can provide details about electricity consumption. Automatic switching for various appliances, heating, and air systems can save energy and money as well as smooth electricity demand. The goal is to reduce consumption without affecting convenience or productivity.

The final program has yet to be determined, but components are likely to include heating, ventilation, and air-conditioning switches that could be programmed to operate for shorter periods of time. "If you aggregate that across millions of customers, that's a huge amount of energy saved," says spokesman Dave Scanzoni. "Long term, where the industry is headed is time-of-day rates, [where you're] charged less if you use electricity off-peak."

Participants will receive \$100 at the start of the pilot and another \$100 if they finish the program. That's in exchange for allowing the smart technology to be installed, completing surveys, and offering feedback for Duke Energy.

The plan was approved in March by the North Carolina Utilities Commission. If it works, the system may be expanded. Duke Energy already has installed 100,000 digital meters across the five states (including

the Carolinas) where the firm operates, including 12,000 in Charlotte alone.

In the Charlotte pilot program, residents can manage energy use online. Or the utility can manage it for them, according to their "personal energy profile," which tracks the times of day that they run air conditioners, heat pumps, water heaters, dryers, ranges, ovens, pool pumps, lights, outlets — you name it.

"Right now, electricity is one price, 24-7," he says. "There's no incentive to use less or use it at different times." If consumer demand could be shifted, he notes, the need to build more plants that handle electricity at peak hours could be alleviated.

To boost development of smart grid technologies, the American Recovery and Reinvestment Act of 2009, better known as the stimulus bill, contains \$4.5 billion to upgrade the grid. Many times that amount will be necessary to overhaul the nation's transmission system. Duke Energy may apply for those grants once the details are finalized. Any grants would be in addition to its commitment to spend \$1 billion on smart grid efforts over five years.

Reduced energy demand is also a relatively inexpensive way to reduce carbon emissions. Cutting carbon will be essential for electricity producers if the nation prices carbon through a tax or cap-and-trade program.

—BETTY JOYCE NASH

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