



THE 2012 XBIZ RESEARCH REPORT

**Attitudes, Views and Trends Impacting
the Adult Entertainment Industry**

XBIZ RESEARCH

Spring 2012

Attitudes, Views and Trends Impacting the Adult Entertainment Industry

Over the course of the past year, XBIZ polled adult entertainment industry executives and stakeholders to gauge their positions on hot-button issues impacting their businesses.

The poll participants were members of XBIZ.net, an online social network for qualified members of the industry. Topics included the viability of 3D porn, the new .XXX top-level domain, mandatory condom use and combating piracy.

As the leading authority in adult entertainment industry news and market research information, XBIZ is pleased to offer this report on the attitudes and opinions of adult entertainment industry decision-makers.

We hope and expect this report will provide insight into what issues the adult industry entertainment industry perceives as important and pressing, what its views are on those issues, and how its future is being shaped by them.

— XBIZ Research

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EXECUTIVE SUMMARY

The XBIZ Research polls were conducted online among members of XBIZ.net, an online social network for adult entertainment industry executives and qualified stakeholders with more than 6,000 active members. Polls covered a variety of hot-button topics impacting the industry.

The adult entertainment industry's history as an early adopter of new technologies has not extended to the recent resurgence of 3D. Industry members were asked, *How will 3D impact the world of adult entertainment?* Most expected limited consumer demand, with only select producers standing to profit. Still, a handful of top adult film studios are exploring 3D's revenue potential.

The state of California has increased enforcement of regulations it interprets as requiring adult entertainment performers to use condoms. When asked *What do you think of the "mandatory condoms in porn" proposition in California?* industry members largely viewed enforcement of such a rule as unrealistic and ineffective, saying that adult entertainment productions would simply move elsewhere.

With the advent of the new .XXX TLD, XBIZ asked industry members: *Now that .XXX has been approved, do you plan on purchasing .XXX domains?* About a third responded affirmatively, but many of them said they would do so as a defensive measure, to protect existing brands and trademarks — and a larger percentage planned not to purchase .XXX domains, mostly out of opposition to .XXX.

Since adult entertainment industry bottom lines have eroded due to rampant piracy, industry members were asked, *Should legal action be taken against end-users involved in content piracy?* A third of respondents said yes, but more favored legal action only against those who share and distribute pirated content. A little less than a third considered action against end-users to be ineffective.

With mobile devices becoming increasingly popular, XBIZ asked industry members: *Do you think smartphones/tablets will overtake tradi-*

tional desktops/laptops as consumers' primary porn viewing devices? Many said yes, but opinion was closely divided. However, once internet-enabled TVs were factored into the equation, relatively few industry professionals felt that desktops and laptops would remain the primary platform for viewing adult entertainment.

When asked *Which (of a list of current trends and issues) is most influencing online adult entertainment today?* industry members' most popular response by far was that the proliferation of free porn and other forms of online entertainment is having the biggest impact. Others cited economic instability and online content piracy as most influential, as well as market saturation.

METHODOLOGY

Each XBIZ Research poll was conducted online over a two-month period. All voters were members of XBIZ.net, an online social network for adult entertainment industry professionals.

XBIZ.net membership includes more than 6,000 active and qualified industry members. Qualification for membership includes disclosure of company/organization affiliation and type of business or service provided.

Members include: operators of leading adult websites, content producers and licensors, distributors and wholesalers, models and performers, retailers, payment processors, software and IT providers, mobile-solution providers, industry media and associations, providers of legal, marketing and consulting services, traffic vendors and ad networks, and providers of other industry-related products and services.

Members casted their votes through XBIZ.net, and no member could vote more than once in any poll. Votes were tallied anonymously; no member could determine how another voted. Real-time poll results were made available on XBIZ.com and XBIZ.net.

3D

Historically, the adult entertainment industry has been an early adopter, driver and trend-setting popularizer of new and hot technologies. Significant examples include VHS tapes, CD-ROMs, digital cameras, DVDs, online payment processing, streaming video, and digital rights management. With mainstream 3D movies (first popularized in the 1950s) now experiencing a major resurgence, XBIZ asked industry members: *How will 3D impact the world of adult entertainment?*

Poll results indicated a more conservative attitude towards 3D than was evident with some of the technologies mentioned above. 52 percent of respondents agreed with the statement "There will be limited consumer demand; select producers will profit." Another 29 percent believed that "There will be little to no demand," while only 19 percent said "It will usher in a new era of great profits for the industry."

These numbers suggest that the adult entertainment industry is still far from sold on 3D technology. Such lukewarm sentiment seems to reflect the situation in mainstream Hollywood, where — despite the success of a few blockbusters such as "Avatar" and "Toy Story 3" — 3D movies have experienced only mixed success. But while most adult film producers, already challenged by the proliferation of free online content, won't be rushing to adopt 3D technology, a handful of top adult film studios are exploring its potential.

Hustler Video, which received national media coverage in 2010 for "This Ain't Avatar XXX 3D," now has the ability to shoot exclusively in 3D and has launched a new slate of porn parodies using the technology. Among the 3D titles Hustler distributed in 2011 were "This Ain't Ghostbusters XXX 3D," "This Ain't Harry Potter XXX 3D," "This Ain't X-Men XXX 3D" and "This Ain't Terminator XXX 3D." Another leading studio that has invested in the format is New Sensations. The parody specialist has already teamed with Funky Monkey Media, which produces only 3D movies, releasing a parody of the James Bond classic "Octopussy" and a number of follow-ups.

Meanwhile, Penthouse Video has not only aggressively ramped up 3D production (the company now reportedly shoots all of its films in 3D) but in early 2011 launched what it billed as the first 3D adult channel—Penthouse 3D on Europe's Astra Network.

In both Hollywood and adult entertainment, whether 3D turns out to be a passing craze or becomes entrenched as the new standard will depend upon the usual factors: demand and profit. However, both the XBIZ Research Poll results and the current level of adult 3D production suggest that most adult entertainment will remain "flat" for the time being. If it lasts, modern 3D may go down in history as the first burgeoning technology that took off without a major boost from the adult entertainment industry.

INDUSTRY PERSPECTIVES

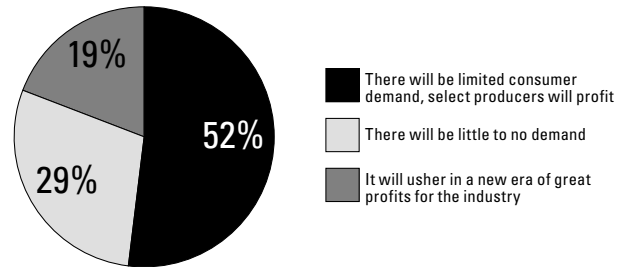
Larry Flynt, president of Larry Flynt Publications:

No more than the 1960s when it became the phenomenon of cinema. I don't think there'll be a great future for it.

Steven Hirsch, founder/co-chairman of Vivid Entertainment:

It seems that 3D is certainly not there yet. This could change quickly when glasses-free 3D televisions finally make their way into the marketplace. Unfortunately, this won't happen overnight and until then it's really a non-starter.

How will 3D impact the world of adult entertainment?



LARRY FLYNT,
PRESIDENT OF LFP



STEVEN HIRSCH,
CO-CHAIRMAN
OF VIVID



SCOTT TAYLOR,
PRESIDENT OF
NEW SENSATIONS



DAN MILLER,
MANAGING EDITOR
OF XBIZ

Scott Taylor, president of New Sensations:

In terms of salability on DVD, I have not seen a sufficient demand to warrant a substantial budget. Generally people simply don't look that good naked — well, close up at least.

The content of the material will be the driving factor over the gimmicks. Make a better movie and the world will beat a path to your door. The novelty hasn't worn off on broadcast. I think that drives some studios to make 3D products. But in hard goods, I am not excited by its current potential. That said, I would, love to make a 3D fully interactive product.

Dan Miller, managing editor of XBIZ:

While a handful of major studios have made moves within the industry with their forays into 3D productions, I believe the cost and the logistics of shooting this type of movie have prohibited the vast majority of producers from adopting the technology.

Without question, a company with 3D offerings in its portfolio can engage the most technically savvy of adult video consumers and at best tap into a part of the viewing public that others cannot reach. And 3D technology can also be the centerpiece of a focused marketing campaign. However, in this tough economy with the amount of free porn available online, most consumers are not basing their buying decisions solely on whether a movie has been shot in 3D.

.XXX

After years of sometimes contentious debate, the Internet Corporation for Assigned Names and Numbers (ICANN) finally approved .XXX as a new top-level domain (TLD) for adult websites. Use of the .XXX extension is not mandatory for adult websites — past attempts by federal legislators to institute such a requirement all failed — but its existence does require operators of adult websites to make a choice. Thus, XBIZ asked industry members: *Now that .XXX has been approved, do you plan on purchasing .XXX domains?*

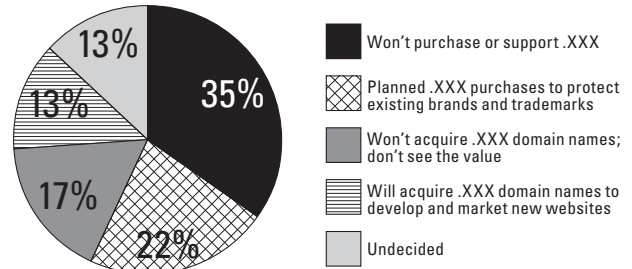
Poll results reflected many of the same contrasting views expressed by members of the adult entertainment industry prior to the approval and launch of .XXX. The most enthusiastic segment of those polled said they planned to acquire .XXX domain names in order to develop and market new websites — but this group represented only 13 percent of respondents. 22 percent said they planned .XXX purchases specifically as a defensive measure, to protect existing brands and trademarks. For instance: if the owner of “AdultSite.com” fails to register the domain “AdultSite.xxx” (and a “sunrise” registration period in late 2011 afforded existing adult domain owners the opportunity to preemptively reserve their current domain names under the new TLD as well) then that .XXX domain becomes available to anyone willing to pay for it.

Some considered .XXX to be an opportunity and others viewed it as a threat, but combined, more than a third of adult entertainment industry professionals polled planned to buy .XXX domain names. The fact that more planned to do so as a defensive measure suggests that concern over brand dissolution and potential lost revenue trumps other motivating factors. Such defensive registrations may ensure the new TLD’s revenue stream; at the end of the sunrise period, ICM Registry, the operator of .XXX, announced that approximately 80,000 trademarked/pre-owned names had been submitted.

However, 35 percent of respondents said that they would not purchase .XXX domains because they do not wish to support .XXX. Some opponents consider .XXX and ICM to be extortionate, and leading adult site operator Manwin Licensing International has even filed a lawsuit against both ICANN and ICM, alleging antitrust violations. That suit is still pending as of this printing.

Another 17 percent could be classified as neutral, stating that they would not acquire .XXX domain names simply because they did not see the value in doing so. The remaining 13 percent of respondents were undecided.

Now that .XXX has been approved, do you plan on purchasing .XXX domains?



MICHAEL KLEIN,
PRESIDENT OF
HUSTLER



QUENTIN BOYER,
PINK VISUAL'S
DIRECTOR OF
PUBLIC
RELATIONS



STEVEN GALLON,
CEO OF GROOBY
PRODUCTIONS



JEFF DILLON,
GAMELINK'S
DIRECTOR OF
ONLINE SALES

IFFOR [the group tasked with setting the policies for .XXX domains] that could negatively impact the ongoing operation of .XXX sites. We have yet to see any advantage that the .XXX TLD presents that would serve to offset either the substantially higher price tag, or the uncertain policy climate surrounding the TLD by way of IFFOR's oversight of it.

The domain name itself is only a small part of a site's success, and we believe the more important components are traffic development, providing an intuitive and flexible interface, and effective branding of your sites and company in the consumer space, none of which rely on, or are inherently aided by, operating your sites on the .XXX TLD.

Steven Gallon, CEO of Grooby Productions:

Having the opportunity of owning a number of domains that are so pertinent to our niche and on a TLD specified for adult content was very attractive for us. We've had an idea for a higher-end TS site for sometime and Shemale.xxx was the perfect domain to present it. Taking Ladyboy.xxx also means we can develop a new Asian transsexual site which should be the most prominent of the .XXX domains for this content.

I feel that there are far more important issues that need dealing with in our industry, which the industry seems to be ignoring or is complacent about. Choosing to purchase and work with .XXX domains has given our company and our partners another avenue to promote on.

Jeff Dillon, GameLink's director of online sales:

We don't plan on purchasing any .XXX domains as we don't see the value in developing out a property that can easily be blocked by any ISP or country. Also, we are not going to waste that insanely high registration fee just to protect our brand and do nothing with it.

INDUSTRY PERSPECTIVES

Michael Klein, president of Hustler:

My answer is no, I do not see the value and I do not support .XXX. We have been very vocal in our feelings about .XXX, which we feel all it does is cause an unnecessary financial burden to adult companies having to register all their domains under .XXX at ridiculously high prices whereas there is no value as consumers can easily find what they want at any .com site. This also leads to the risk of politicians forcing adult websites into this .XXX ghetto and then setting up structures to block all such sites from cities, states or even countries. The only one who benefits from .XXX is ICM.

Quentin Boyer, Pink Visual's director of public relations:

For new projects, we already have many very good, unused .com names in our portfolio, which cost us a fraction of the price being charged for .XXX domain names to renew annually.

Beyond the price, another major difference between .XXX and .com is that at any point in time, a change in policy could be handed down by

MANDATORY CONDOMS

Since much of adult entertainment is produced in California — and particularly in the San Fernando Valley north of the Los Angeles Basin — groups like the AIDS Healthcare Foundation (AHF) have focused on that region in a campaign to improve what they see as inadequate HIV prevention measures in the adult industry. AHF has petitioned the California Division of Occupational Safety and Health (Cal/OSHA) to amend existing regulations to specifically require that industry performers use condoms. After a particularly confrontational public meeting at which a Cal/OSHA advisory panel faced off with industry performers and producers, XBIZ asked community members: *What do you think of the “mandatory condoms in porn” proposition in California?*

64.7 percent of respondents felt that enforcement of such a rule would be unrealistic as a means of preventing the spread of sexually transmitted infections (STIs), since adult movie productions would simply move outside of California. 21.7 percent thought the proposed condom regulation was a good idea, and that it would significantly improve performer health and safety. 13.6 percent called it a bad idea that would not improve performer health or safety significantly.

While state regulations have yet to be amended, Cal/OSHA has periodically issued citations to adult entertainment companies for failing to require that performers use condoms. A \$14,000 fine levied against Larry Flynt’s Hustler Video received publicity in the midst of (and perhaps because of) AHF’s campaign. AHF has also cited the 2011 closing of the Adult Industry Medical Health Care Foundation (AIM) as indicative of a need for mandatory condom use. AIM had tested adult industry performers for STIs since 1998, and was credited by proponents with helping to keep the HIV infection rate among those performers significantly lower than the rate among the general population.

More recently, the Los Angeles City Council voted in January of 2012 to make condoms mandatory for adult entertainment productions filming within city limits. Officials from the Los Angeles Police Department, Cal/OSHA and the Los Angeles City Attorney’s office are expected to make recommendations as to how to implement the ordinance. Theoretically, LAPD officers could perform spot checks on any adult movie set once a film permit is issued. However, both the practicality and the likelihood of this mode of enforcement remain unclear.

INDUSTRY PERSPECTIVES

Steven Hirsch, co-chairman of Vivid Entertainment:

Our position remains the same. We are a condom-optional company and we believe the current testing procedure works or we would absolutely mandate condoms.

John Stagliano, director and founder of Evil Angel:

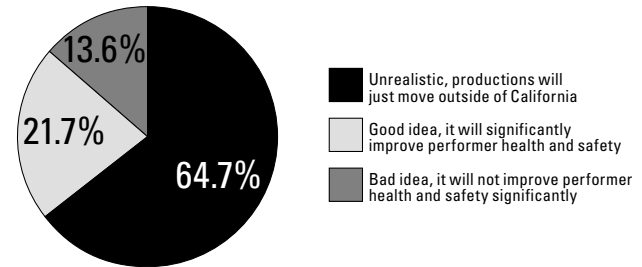
Yes some porn will move. Human beings cannot change what turns them on just because the government enacts a regulation. People will still seek out porn made with no condoms and other people will figure out a way to deliver that to them.

Performers will be in a worse position with mandatory condoms because L.A. developed a good infrastructure to test for diseases. That may not happen as well in other places.

Diane Duke, executive director of the Free Speech Coalition:

Enforcing condom mandates will only hurt performer health and safety.

What do you think of the “mandatory condoms in porn” proposition in California?



STEVEN HIRSCH,
CO-CHAIRMAN
OF VIVID



JOHN STAGLIANO,
DIRECTOR AND
FOUNDER OF EVIL
ANGEL



DIANE DUKE,
EXECUTIVE
DIRECTOR OF FSC



KAYDEN KROSS,
ADULT FILM
PERFORMER

Existing industry standards have proven successful. History shows us that regulating sexual behavior between consenting adults does nothing to reduce sexually transmitted infections (STIs). Rather, education and services — like those in place through adult industry self regulation — has proven most effective in reducing the rates of STIs.

Kayden Kross, adult film performer:

It's still my vagina and I'm still the one who decides what goes in it. So if you're gonna hold a gun to my vagina then it will go elsewhere.

MOBILE VIEWING PLATFORMS

As mobile devices have become increasingly popular platforms for television and movie viewing, manufacturers have competed to produce smartphones and tablets capable of delivering high quality streaming video, while content providers have worked to optimize their product for such devices. Meanwhile, Internet-enabled TVs allow users to stream online content to their big screens. When it comes to adult entertainment, however, consumers' viewing habits are likely to be subject to a variety of factors aside from the obvious "mainstream" concerns about price, convenience, picture quality and so forth. XBIZ asked community members: *Do you think smartphones/tablets will overtake traditional desktops/laptops as consumers' primary porn viewing devices?*

43.8 percent of those polled answered "Yes, mobile devices will become primary." 38.5 percent disagreed, saying that desktops and laptops would remain primary. Another 17.7 percent felt that internet-enabled TVs would supplant other devices as the viewing platform of choice for adult entertainment.

A Nielsen study released in late 2011 revealed that while Americans still watch much more television on their TV sets at home than via the Internet, viewing over the internet and on mobile devices has been increasing significantly. Cable companies like Time Warner and Comcast have launched services and apps to accommodate this trend, enabling live TV viewing on mobile devices. Since most consumers of adult entertainment presumably still prefer to do their viewing in private, chances are most people won't be watching porn on airplanes and in coffee shops. However, mobile devices do have selling points beyond just portability. For instance, buyers whose other online activities dovetail best with a particular device may simply stick with that device for all their online needs rather than investing in multiple devices.

Some consumers are motivated by the latest trends. Others are more creatures of habit — and habit is sometimes a function of age. Younger viewers are more likely to view all kinds of material on mobile devices than older viewers. As these consumers become a bigger share of the general market, that habit may carry over into their adult entertainment viewing as well.

This is still a new and shifting dynamic, as users follow trends, explore new options, and develop personal preferences. With so many options available to consumers, however, relatively few adult industry professionals polled felt that desktops and laptops would remain the primary viewing platform for adult entertainment.

INDUSTRY PERSPECTIVES

Michael Klein, president of Hustler:

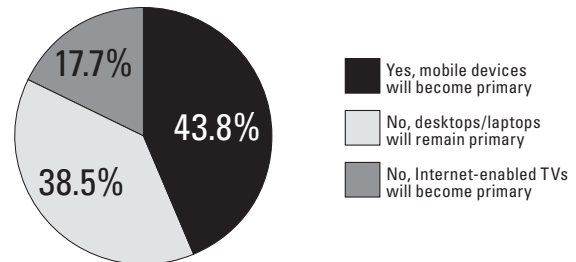
While I think there will always be a strong group on mobile/tablet devices, Internet-enabled TVs will be the major force for all Internet content delivery, including adult.

Allison Vivas, president of Pink Visual:

We base this response on what we have observed in the data collected from our own network of sites, as well as third-party data on consumer usage trends.

The data shows that mobile web browsing has increased rapidly, with no signs of slowing down any time soon.

Do you think smartphones/tablets will overtake traditional desktops/laptops as consumers' primary porn viewing device?



MICHAEL KLEIN,
PRESIDENT OF
HUSTLER



ALLISON VIVAS,
PRESIDENT OF
PINK VISUAL



PETER ACWORTH,
OWNER OF
KINK.COM



COLIN ROWNTREE,
OWNER OF
WASTELAND

It's also true that mobile usage is sector and task-specific; in other words, the growth in areas like search, email and online shopping has been faster than the growth in using mobile devices to view video content thus far, mostly due to the latency issues often encountered when streaming large video files.

We anticipate that ongoing improvements to mobile connectivity and data throughput speed, combined with the privacy benefits that mobile devices offer, will result in a major uptick in mobile video consumption in the years ahead.

Peter Acworth, owner of Kink.com:

I would say that mobile devices are a very important delivery method for adult content, which is why we chose to make all of Kink's websites not only viewable but optimized for mobile users. While these devices probably won't become the primary viewing method in the short-term, they are certainly growing at a fast rate.

Colin Rowntree, owner of Wasteland:

Over the next two years, I'd say that desktops/laptops will remain the primary porn viewing platform. Out more than five years, however, I predict that tablets and mobile devices will become the dominant platform.

I do think that Internet TV will be a factor but not the dominant one. Porn viewing is sort of a solitary activity and most people have wives, girlfriends, children and other people in the house to contend with.

What is really going to take off when there is sufficient market saturation are tablets, because they are cheaper than laptops and you can take them to bed with you.

PIRACY

The recent, highly publicized debate over the Stop Online Piracy Act (SOPA) and the Protect IP Act (PIPA) has drawn much mainstream attention to the issue of copyright infringement by websites that make movies, TV programs and music available to users without permission from, or compensation of, the owners of the intellectual property (IP) involved. Since the adult entertainment industry has seen bottom lines sharply eroded due to illegal streamed content, XBIZ asked community members: *Should legal action be taken against end users involved in content piracy?*

33 percent of respondents favored legal action against any and all end users accessing pirated content. Another 38 percent said, "Yes, but only those who share and distribute pirated content." 29 percent of those polled considered legal action against end-users to be ineffective.

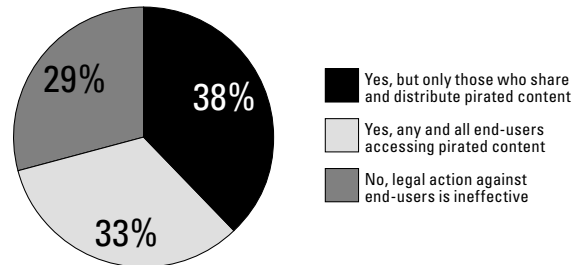
Pirated adult content is prevalent on the Internet. In fact, some adult entertainment studios' entire catalogs are available online illegally. Peer-to-peer (P2P) networks and file hosting/sharing sites often utilize BitTorrent — a popular file sharing protocol for transmitting large media files — to enable users to download unlicensed copyrighted material. File-sharing "lockers" host user-uploaded content and are even harder to monitor than BitTorrent sites.

Other sites feature illegally streamed content, effectively acting as bootleg versions of legal streaming sites like Netflix and Hulu. Some tube sites are legitimate, but others poach and post unauthorized content. The Capitol Hill newspaper Roll Call quotes adult entertainment industry sources as attributing most illegal streaming to sites based in Hong Kong, the Netherlands and Germany.

Some adult entertainment studios are fighting back against online piracy with litigation, bundling defendants in large numbers and going directly after tube site owners and file-sharing locker operators with multimillion dollar suits. Leading producers Corbin Fisher, VCX Inc., Grooby Productions, Titan Media, Lightspeed Media, BlazingBucks, Elegant Angel, West Coast Productions and Axel Braun Productions have been the most prolific in filing porn BitTorrent claims. Private Media Group and Pink Visual have taken the strongest legal approaches against tube sites posting content online illegally.

While these strategies target mass purveyors of pirated IP, it is a measure of the adult entertainment industry's intense discontent over online thievery that a third of those polled also supported legal action against end users, even if they themselves did not share or further distribute the copyrighted content.

Should legal action be taken against end-users involved in content piracy?



ALLISON VIVAS,
PRESIDENT OF
PINK VISUAL



GREG PICCIONELLI,
ADULT INDUSTRY
ATTORNEY



MARC RANDAZZA,
ADULT INDUSTRY
ATTORNEY



D. GILL SPERLEIN,
ADULT INDUSTRY
ATTORNEY

adult content theft. In fact, one might even say the industry has actually incentivized and perhaps even institutionalized the piracy of adult materials. Now, not surprisingly, after literally decades of adult content producers' failure to effectively police their rights, content thieves have reasonably come to expect that they will never be held accountable for their actions.

I continue to advocate a strong intellectual property rights enforcement policy for adult content producers. A policy that must include, in my opinion, at least some grass roots enforcement action directed at end-users.

But while I have always been a strong advocate of infringement enforcement against consumers, this does not mean that adult entertainment companies should engage in illegal or unethical use of the judicial system to address end-user infringement. Two wrongs never make a right. Therefore, if an adult content producer rightly elects to enforce its rights against individual end-user infringers, I do not believe that suing a small city of them all at once in a single complaint without knowledge of, or reasonable belief about, where they each resides is the proper way to do it.

Marc Randazza, adult industry attorney:

If someone steals from you, you should do something about it.

D. Gill Sperlein, adult industry attorney:

Content producers must do something about piracy. I believe the best approach is to combine litigation with creating new business models. While either approach alone may be effective, engaging in the two together increases the effectiveness exponentially. And, yes, litigation against P2P infringers should be part of the strategy; it deters infringement and recovers some of the significant losses for which this type of piracy is responsible for.

INDUSTRY PERSPECTIVES

Allison Vivas, president of Pink Visual:

We heavily support all copyright holders' rights to sue anyone, including individuals, for copyright infringement. Ultimately, it comes down to a business decision and evaluation of the risks versus benefits. I think overall as an industry we benefit from consumers' awareness and respect of copyright law.

Greg Piccionelli, adult industry attorney:

Despite the fact that adult entertainment companies are in the business of creating and distributing copyrightable works, with a few exceptions, owners of adult content have a long history of generally failing to prosecute parties that steal their content and infringe their trademarks.

Inevitably, the industry's historic passivity has nurtured a culture of

CURRENT TRENDS

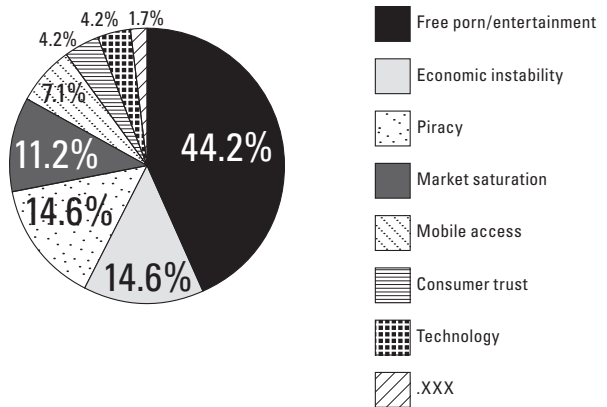
As with any industry, the fortunes of the adult entertainment business as a whole are subject to numerous external forces. Listing a number of current trends and issues affecting the industry, XBIZ asked community members: *Which is most influencing online adult entertainment today?*

42.2 percent felt that the availability of free online porn and other entertainment was having the biggest impact on the adult industry. This was by far the most popular answer; only about a third as many respondents (14.6 percent) cited economic instability as the most influential factor, while another 14.6 percent called online piracy most influential. (See Page 8: Should legal action be taken against end-users involved in content piracy?)

11.2 percent of those polled called market saturation the biggest influence. 7.1 percent thought mobile access deserved that spot. (See Page 7: *Do you think smartphones/tablets will overtake traditional desktops/laptops as consumers' primary porn viewing devices?*) 4.2 percent viewed consumer trust as more significant than the other factors listed, 4.2 percent said the same about technology, and 1.7 percent felt that the new .XXX TLD was having the biggest impact. (See Page 5: *Now that .XXX has been approved, do you plan on purchasing .XXX domains?*)

Some of the categories could arguably overlap. For instance, much of the free content online is also the result of piracy — while the mechanisms of that piracy are themselves products of developments in web technology. The revolution in mobile access could also fall under technology in general. Meanwhile, the collision of commercial and free adult entertainment, legal and pirated, could certainly contribute to market saturation. However, the poll makes it clear that for an industry that sells a product, having that same product offered for free makes it very hard to compete.

Which is most influencing online adult entertainment today?



INDUSTRY PERSPECTIVES

Michael Klein, president of Hustler

Clearly the abundance of free content on the web due to all tube sites has the biggest effect on the current online adult entertainment. It has made the larger companies change the way they structure their business and had a lot of smaller companies going out of business or selling their business. Unfortunately, tube sites are not going away but if you are smart with the way you work around it and with it, you can still maintain and grow your online business back. And with all the law suits filed against a lot of the illegal sites along with the DMCA notices and other methods of combating piracy, the effect is being diminished from what was a huge hammer against the industry a couple of years ago when these tube sites first started to flourish.

Steven Scarborough, president of HotHouse:

I agree with the results of your survey: free porn seems to be the greatest challenge our industry faces. Although I strongly believe that piracy is also a subcategory of free porn. Some folks can't make the distinction that a lot of what people think is free porn is actually stolen content. I don't feel that quality content producers are threatened by most amateur-produced free stuff.

Brad Mitchell, president of MojoHost:

I believe three of the results are actually one in the same problem: availability of free porn, market saturation and piracy. A preponderance of



MICHAEL KLEIN,
PRESIDENT OF
HUSTLER



STEVEN
SCARBOROUGH,
PRESIDENT OF
HOTHOUSE



BRAD MITCHELL,
PRESIDENT OF
MOJOHOST



BJORN SKARLEN,
CEO OF
COMMERCEGATE



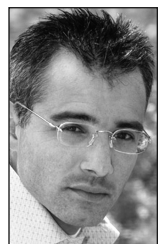
DAVID SUTTON,
PRESIDENT OF
VCX



DIANE DUKE,
EXECUTIVE
DIRECTOR OF
FREE SPEECH
COALITION



TIM HENNING,
EXECUTIVE
DIRECTOR OF
ASACP



JASON TUCKER,
BATTLESHIP
STANCE.COM,
PRIVATE MEDIA
GROUP

great original content (market saturation) is not a problem, rather the largest part of our opportunity. I believe that original works pirated excessively across free porn sites without revenue participation from copyright holders is the underlying, foremost concern. Legitimate tube sites are yesterday's TGP and MGP sites. While they present advanced conversion challenges due to their generous nature, I believe this is the natural progression of online promotion. Imagine this: if all works published without permission disappeared tomorrow, hundreds of thousands of sites would be empty or no longer have "enough" interesting content to keep bookmark traffic returning, the market would be self-correcting. While a solution eludes us all, the truth is simple: "free" sites require diverse, original and new content to survive.

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Bjorn Skarlen, CEO of Commercegate:

Free porn — This is definitely influencing the industry, but I don't think it's all bad. The border between socially accepted behavior and adult entertainment is blurring and more people consume porn today because it's free and easier to access. The industry has to adapt to the fact that the Internet has been "free" since its inception, except for porn. I think it's important to develop products that are truly worth paying for. Quality and exclusivity will always sell. It would be interesting to see the answer of the respondents that agree it is an influence, whether they think it is negative or positive.

Privacy and trust — I think the quality of online adult entertainment websites is improving. Sites look more professional, payments are more secure and service is better. Some reluctance to pay for services over the internet is lessening because of this. I think privacy, trust and fraud issues still have an impact and it is essential that webmasters do everything they can to inspire trust in the first place.

I also see audience expansion as a major influence, for two reasons:

Firstly — mobile access. I think this is huge and will continue to grow at a blistering pace. Tablets are outselling PCs in the U.S. already and Smartphones are replacing regular mobile phones. These are reasons that adult entertainment consumed in this channel will grow, and grow fast.

Secondly — the proliferation of computers and internet access in the developing world. More and more people are getting access to the Internet. Because of this it is important to open up and adapt to new countries in order to monetize this traffic. Accepting multiple and regional payment methods will be factors for success for the online adult industry for years to come.

The online porn industry is in constant change, it always has been. While there will always be challenges, the opportunities have never been greater.

David Sutton, president of VCX:

Seven years ago there was a meeting of several industry executives at the VSDA show at the Bellagio. I guess you could call it the first "Industry Summit." There were no online companies represented because they were insignificant at the time, hawking a [mostly] legal brand of DRM'd streaming content and just another revenue stream to add to VHS, DVD and broadcast for legitimate IPR holders. Our emphasis at that meeting was to combat physical pirating of DVDs by companies that replicated DVDs by the millions in Montreal, Toronto and right in our own Southern California backyard. The evidence which was presented was pretty mind-blowing and there was an agreement to share information in the future regarding known "dupers."

Unfortunately, just three years later, DVD sales were dropping precipitously and had almost nothing to do with the illegal duplication of discs. The novel Internet streaming technology had advanced by leaps and bounds and most consumers were already used to paying nothing for movies, both adult and mainstream.

Fast forward now to 2011-2012, when finally, and just a few years too

late, the online pirates who made hundreds of millions, perhaps billions in revenue from illegally provided content are finally beginning to be brought to justice, shut down and prosecuted.

The consumer, spoiled by the still readily available free though illegal content, continues to search for the slightly more difficult to find free content and is upset with those remaining in this industry who have the audacity to charge for their product, provided either electronically or on physical media. I have even seen quotes regarding how a DVD which cost less than 40 cents to manufacture and package can be sold for \$16.95, which five years ago was easily sold for \$30 and upwards! Yeah, the entire cost of manufacturing a DVD is less than 40 cents! Unless you add to that the production and post-production costs which a few short years ago averaged \$30,000 per title. In today's market, 1,000 pieces is a home run! At 500 pieces sold, you're still over \$15,000 in the hole and broadcasters are paying next to nothing because there are companies going out of business left and right and selling their entire libraries for a song.

So now, with the exception of a few notorious-cum-legit internet companies who no longer stream our products for free and are suddenly the voices of a new adult industry, we are among the few that are left to see how this whole new wave of prosecutions pans out. The \$30,000 budgets are mostly gone, replaced by director-producers who make a five-scene crappy single camera POV title for under \$5,000.

You reap what you sow.

Diane Duke, executive director of Free Speech Coalition

Free porn, including pirated content, has clearly influenced online adult entertainment. Finding a way to make the consumer experience "the product" is the overall challenge for adult businesses.

Tim Henning, executive director of ASACP (Association of Sites Advocating Child Protection):

One of the current trends within the adult entertainment industry that we see from our vantage point at ASACP is the growing level of corporate responsibility — which may be a side-effect of the consolidation process, where smaller companies are being acquired by much larger entities. These new players have a "Fortune 500" mindset and work in compliance with their legal and social responsibilities, exhibiting a focus on self-regulation and doing the right thing.

Jason Tucker, co-owner of Falcon Foto; director of Battleship Stance; and consultant at Private Media Group:

I think that the proliferation of free content has resulted in cash programs and their affiliates having to make change to the way they market to end users. This is probably one of the largest shifts since adult content was first sold on the Internet. Some will be able to make the transition, others will not make the cut.

**ABOUT XBIZ**

XBIZ™ is the adult entertainment industry's leading source for business news and information, providing late-breaking coverage of the industry at XBIZ.com and in three trade publications — XBIZ World for the digital media market, XBIZ Premiere for the retail market and XBIZ Sensuals for the pleasure products market. In addition, XBIZ hosts four annual trade events, XBIZ Summit, XBIZ EU, XBIZ Retail Expo and XBIZ L.A., which culminate with the annual XBIZ Awards, the industry's biggest awards event of the year. XBIZ is frequently cited in the media for coverage of the rapidly evolving adult entertainment industry and has been published in CNN, Fox News, Newsweek, MSNBC, Forbes, The Wall Street Journal, Wired, ABC, USA Today and Los Angeles Times among others.

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