

Digital Cinema Financing Cheat Sheet



The Studios will finance my digital cinema conversion?

As the Studios stand to save substantial amounts of money in print and delivery costs once the transition is complete, they have agreed to offset some of the costs of digital cinema equipment over the next 10 years by reimbursing Exhibitors through Virtual Print Fees (VPFs).

What is a VPF?

A VPF is the financing mechanism (i.e. subsidy) through which Exhibitors will recoup the costs of their digital cinema system. VPFs are accrued on a per film (print) basis.

What is the VPF amount?

Generally, it is *roughly* equivalent to what it would have cost the Studio to print and ship a celluloid print to your theater. The exact amount you may receive depends on a couple factors like if your theater is a first-run theater or not. Also, the particular VPF deal you sign will determine the amount.

Will VPFs cover the total cost of my equipment?

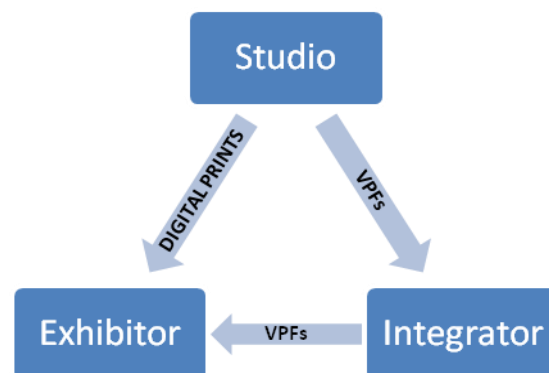
No. The Studios still expect the Exhibitor to have some “skin in the game.” What you end up contributing to your equipment will depend on several things (e.g. date the theater was built, first-run vs. sub-run, number of turns a year). And again, the particular agreement you sign will affect the total amount you can recoup.

What costs will a VPF cover?

VPFs can help you recoup most of the following costs: digital projector, media or playout server, library management server (LMS), theater management system (TMS), standard manufacturer’s warranty, and in most cases, your financing costs.

What do I need to do to start receiving VPFs?

The first and most important thing you need to do—aside from installing digital equipment—is to sign up with a third party integrator. The integrator has agreements with most of the studios to administer the VPF program. In a nutshell, the integrator provides accountability to the Studios by verifying what Exhibitors have played so the appropriate VPF amounts are disbursed. The integrator also collects the VPFs from the Studio and passes them on to the entity that financed the digital equipment. Depending on the VPF program model, this could be the Exhibitor, the Exhibitor’s lender, or the integrator itself. The graphic below illustrates scenarios in which the Exhibitor or their lender has financed the equipment—also known as the Exhibitor-Buyer VPF model.



Do I need to go through an Integrator to receive VPFs?

No, but there are drawbacks. First, not all of the Studios are willing to pay VPFs directly to Exhibitors. With hundreds of Exhibitors in the US alone, they have encouraged the consolidation of VPF programs through integrators. Second, the VPF payments you will get directly from the Studios will be less than if you went with an integrator. Again, this is their way of pushing Exhibitors to use integrators. Third, your VPF payment term—the number of years you can collect VPFs—will be shorter for the same reason mentioned above. Finally, it takes time and money (i.e. lawyer fees) to negotiate VPF deals with the Studios. Integrators have spent years getting these agreements done and it did not come cheap.

Does the integrator take a cut of my VPFs?

Yes and no. Obviously, the integrators aren't doing this job for free, but the costs of administering VPF deals will typically fall on the Studios. However, depending on the integrator you go with the integrator's administrative costs may affect you in other ways. For example, one integrator takes a small percentage of every VPF collected but the Exhibitor recoups this amount back through future VPFs. So while the Exhibitor is not losing out on VPFs in the long run, it does mean it will take longer for them to recoup the total amount allowed by the Studios.

Who are the Integrators I can sign with?

There are four companies offering VPF programs right now: Cinedigm, Christie, GDC and Sony. However, only Cinedigm and Sony have finalized VPF deals with all six major Studios and are actively administering their programs. Christie and GDC have nearly all their Studio VPF deals complete, but their programs have yet to commence operation.

Aren't a few of those companies also digital equipment vendors?

Yes, Christie and Sony are projector manufacturers and GDC is a media server manufacturer. All this really means is the Exhibitor will be required to install the company's digital equipment as part of the terms of the VPF agreement.

Do any of the Integrators provide financing?

Most of the VPF programs offered by integrators require the Exhibitor to obtain digital equipment using their own source of financing. These VPF programs are known as Exhibitor-Financed or Self-Financed.

Cinedigm, in addition to an Exhibitor-Financed option, offers financing directly through their lender. In this program, Cinedigm will purchase the Exhibitor's equipment for them and collect VPFs for themselves. The Exhibitor will still have to contribute to the equipment costs through an upfront payment to Cinedigm per screen.

I need help obtaining financing for my equipment, where should I go?

If an Exhibitor cannot obtain financing from a local bank, there are a few options available from companies that know this industry well. Barco and NEC, the projector manufacturers, have financing programs specifically geared toward the digital cinema transition.

EFA Partners also has a lending program tailored to the digital cinema transition. Their loans are backed by the US government, specifically the Small Business Administration. More information about all these financing options is below.

How long should I wait before converting?

If you would like to take advantage of a VPF program, you need to start immediately. Most, if not all of these VPF programs require 100% of your screens to be equipped with digital equipment within the next 15-20 months. That may seem like plenty of time to some, but keep in mind, hundreds of Exhibitors representing tens of thousands of screens are also trying to meet these conversion deadlines for VPF purposes. Scrambling at the last minute to secure equipment and technicians is risky and can be avoided by acting now.

Digital Cinema Integrators

Cinedigm Digital Cinema

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Financing Options

Barco's "Deliver Digital"

www.barco.com

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EFA Partners

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NEC's "Go Digital" Program

www.necdisplay.com/godigital/

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