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Digital Cinema/Giant Screen Theatres

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Kevin Costner
in Universal Pictures'
For Love of the Game

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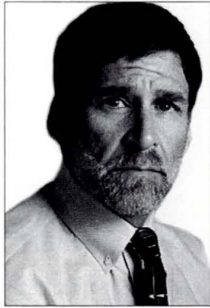
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WAYNE SCHOENFELD

35mm film. Without that, we don't have a business, because we must offer the creative community a service that does full justice to their artistry, and we must offer the audience an experience that is better than what they currently enjoy.

But we now have digital projection systems that render an image comparable to film, as demonstrated this past summer by the commercial screenings of George Lucas' *Star Wars: Episode I*, Miramax's *An Ideal Husband* and Disney's *Tarzan*. The way is now open for electronic cinema to become a real business. To that end, Real Image Digital has received significant financial backing from Technicolor to begin the evolution into the digital era.

Real Image Digital is all about the packaging of all of the creativity and technologies that exist in the film world today into an end-to-end integrated delivery system for an audience-responsive electronic cinema. This will involve tackling several issues.

The first issue that one gets to—and the only real meaningful technological issue other than projection quality—is compression. The amount of data that's involved when a film is reduced to a sum of ones and zeros is phenomenal. And there are two things going on. Number one, and importantly, the cost of digital storage is dropping like a stone. There are storage capacities available today that weren't dreamt of two years ago. And just as with the microprocessor and with semiconductor chips, the price and availability are dropping as capacity is rising.

The other really important issue relates to the shipment of motion pictures. We can debate what that form of shipment is going to take for digital cinema. But whatever forms it takes, it's a lot of data to be moved from point A, the distributor, to point B at the theatre. Whoever implements electronic cinema is going to have to wrestle with this issue of data movement.

Compression software is the ultimate solution.

Our company is fortunate to have as its technology partner the Sarnoff Corporation, a world leader of compression technology as it relates to digital-imaging applications. Because of that partnership, we're very confident that we're going to have a compression technology capable of delivering an image comparable to film. With this final piece in place, we're very close to having an operative end-to-end system for the industry.

This is a rare opportunity for the industry to create a win-win economic model that's going to benefit everybody. It's going to benefit the creative community because the flexibility that an open-architecture distribution system is going to offer them will present the opportunity for more films to get through to the marketplace and to the audience. It's going to benefit distributors: The fixed cost of film prints today is an enormous burden in distribution, and electronic cinema has the capacity to substantially, and exponentially, reduce that cost. And electronic cinema will increase the worth of film libraries by providing a more cost-effective means of re-releasing classic films.

The exhibitor will have a three-fold opportunity with the advent of electronic distribution, beginning with more flexibility in multiplex and megaplex environments to optimize revenue by matching screen and theatre size with audience. Second is the economics of cinema construction, which offer substantial savings over traditional cinema construction because you don't have to have protected environments for projection and you don't have to have a mezzanine layer in the theatre. We estimate that somewhere between 15 and 25 percent of your construction cost is going to go away. Internationally, the opportunity for further growth is obvious when you think about such a great reduction in construction costs. Marginal markets everywhere that have not

supported the traditional cinema will now be able to do it. And a third new opportunity exhibitors will have with digital cinema is a new marketing tool. Let's face it, we're going to need a new marketing tool because of HDTV, DVD and other enhanced home-entertainment experiences. The theatrical business has to be competitive. Digital cinema offers a substantive marketing hook to exhibitors who want to reach out to both existing and new audiences.

And finally, the audience will benefit. George Lucas' pioneering digital projections of *Star Wars* created great excitement. Others in the creative community—young filmmakers shooting low-cost pictures such as *The Blair Witch Project* totally or partially on digital video, as well as mainstream directors seeking a new creative tool—are going to come on-board, stimulating audience interest and forcing all of us who are deliverers of the product to present a better cinema experience.

This unique opportunity to seize both an economic advantage and a creative opportunity may build a pool of capital that can be reinvested in new film, in new filmmakers, and in new theatres to enhance the audience's moviegoing experience. At Real Image Digital, we have prepared for this moment for five years, spurred by the enthusiasm of our founder, the late Linwood G. Dunn, for motion pictures. A recipient of the Gordon E. Sawyer Academy Award for lifetime achievement in technology, Dunn loved movies and the people who make them.

Now, after 75 years of an essentially unchanged distribution mechanism, we're facing inevitable change. What Real Image Digital is all about is trying to package this new technology to all of the communities of interest that are represented in the industry, in order to make sure we create something that's a win for everybody.

Digital Distribution: A Coming Attraction

By Michael Kosten
General Manager, CyberStar

Ahe success of the current *The Blair Witch Project* caught many in the film industry off-guard, including studios, theatre owners and numerous frustrated filmgoers who were turned away by "sold-out" signs at ticket booths throughout the country. Most cities debuted the film at one or two small theatres, which seemed sufficient for the demand everyone had anticipated. Not long after critics began lauding the film and word of mouth created a must-see buzz that studio heads dream about, the crowds started showing up—and getting turned away.

It's not an uncommon story, especially for smaller films. The scenario often works in reverse for larger films. The studios and distributors for Stanley Kubrick's *Eyes Wide Shut* expected a huge audience turnout in return for the millions of dollars spent duplicating prints of film and then rush-shipping canisters of prints from London to Los Angeles and, subsequently, to theatres around the world. Disappointing returns left them scrounging for ways to rearrange distribution.

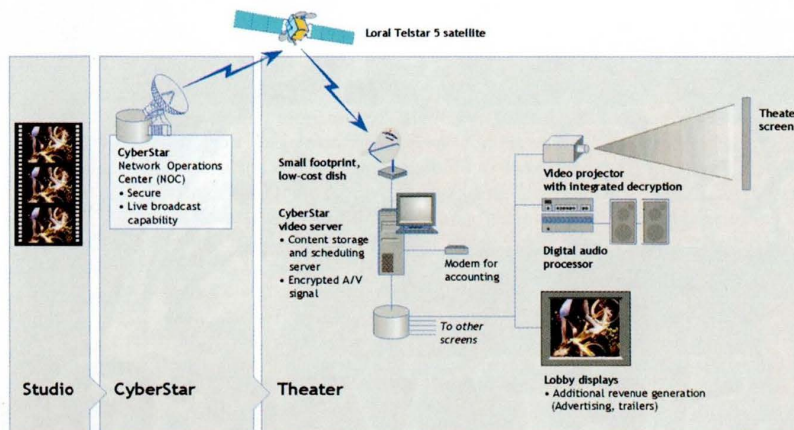
Distribution—it's not only the vital link between the studios and the exhibitors and, by extension, the audience, but also a key component of the revenue stream and the business model of these industries. It is one of the key determinants of whether or not a movie will, in fact, be coming soon to a theatre near you.

Major studios currently pay somewhere in the neighborhood of \$2,000 to \$3,000 for each 35mm print of celluloid. A major film can require as many as 5,000 prints. Add to this the shipping and handling costs, which are split between the studios and the theatres, and total distribution costs can run up to the millions of dollars for every film—blockbusters as well as bombs. Aside from the cost, the sheer labor intensity of printing and shipping millions of cans of celluloid around the world can be mind-boggling. Studios can spend up to \$30 million a year just moving prints from film labs to the theatres.

The Digital Way

In the digital world, films can be shot and edited entirely in digital or in traditional celluloid, which is then transferred to digital using a machine known as a telecine. With a digital film "file" in hand, studios will almost instantly begin to realize the distribution cost savings of not having to reprint millions of feet of celluloid, while the technology will make the old method seem positively horse-and-buggy.

A digital film file is simply transferred to and stored in the secure server system of a satellite distribution company, which then "beams" the film to theatres across the U.S. or around the world, who then store it on their servers for later digital projection. By some estimates, this system can reduce film distribution costs by as much as 75 percent. The distribution process itself becomes flexible in ways never imagined. A film that takes off like *The Blair Witch Project* could be placed on thousands more screens around the world with a few simple mouse clicks.



FROM STUDIO TO SATELLITE TO A THEATRE NEAR YOU.

An unsuccessful film could be pulled from screens in the same manner. With lower distribution costs, and the immediacy of digital release, studios can easily open many more films in simultaneous distribution around the world to capitalize on "buzz" items—so filmgoers in small towns no longer have to wait a month for the film to debut at their theatre.

Improved feature film distribution is only one of the many benefits ushered in by this distribution process. Exhibitors could turn theatre lobbies into smart advertising networks, targeting digital trailers and ad spots based on the demographic of their community and the film itself—no longer will they be stuck with standard trailers attached to each celluloid print. The film experience itself could evolve into interactive channels, where theatres could host "virtual chat sessions" between a film's audience and its stars. Theatres could also fill their seats during off-peak movie hours by hosting events like corporate videoconferencing sessions or training seminars. Live concert events or sports matches could be beamed onto the screens of their choice.

Digital film distribution promises to usher in a new era for Hollywood. George Lucas has already begun to embrace it for his *Star Wars* series. Greater management and simplification of the entire distribution process for both the studios and the exhibitors promise a richer experience for the consumer. None of this will happen, however, unless the satellite distribution company positions its service to meet the needs of everyone in the process.

Satellite Film Distribution—A Closer Look

Studios and theatre owners alike have raised serious concerns about digital distribution. One of the main fears is piracy—illegal interception and copying of the satellite signal carrying the film. Another key

issue is the so-called "gatekeeper" fear: Who will control the transmission of film to theatres?

Much of studios' and exhibitors' concern over distribution can be easily addressed by the way in which the satellite distribution company positions its service. Some companies have chosen to insert themselves between the studios and the theatre owners, which has raised a control issue with respect to both privacy and gatekeeping. Others have adopted a more open system, and based their relationship with the studios and theatre owners on service-level agreements.

In an open system, digital film files are stored in a broadcast queue at the satellite company's operations center. The studio, or a distributor-partner of the studio, then controls an online "film management system," selecting the time and locations to which each movie should be sent over the encrypted satellite system. The technology for encryption—the process of scrambling the film's data to make it unrecognizable to unauthorized parties—is also managed by the studio, giving them unique security options at all points of distribution. Exhibitors then simply project the file, which is received on their network server, stored, and routed to individual screens of their choice (within the boundaries of distribution agreements already set up between the studios and theatre owners).

With service-level agreements, the studios direct all the details of distribution, including where and when a film will open, how long it will run, and other details that have always been under their control, while the satellite distribution company takes care of content transport and management.

Under this model, a "gateway," or electronic link, is also established among the studios, the satellite distribution company and the theatre owners through which changes in the level of service—increasing or decreasing the number of screens showing the film, increasing or decreasing the run time, etc.—can be accommodated almost instantly. This gateway can also automate the heretofore-cumbersome accounting process among the studios, theatre owners and distribution agents.

time, etc.—can be accommodated almost instantly. This gateway can also automate the heretofore-cumbersome accounting process among the studios, theatre owners and distribution agents.

Beaming Soon, Into a Theatre Near You?

From the minute moving pictures burst on the scene, to the advent of "talkies," to today's multi-screen cineplexes, advances in film—from production to distribution to projection—have always been met with a certain degree of skepticism. Theatre owners and studio heads, quite justifiably, eye with caution anything that radically upsets a medium in which they have invested millions of dollars and man-hours. Re-tooling, shifting resources, uprooting proven business models—these are but a few of the not-so-minor concerns the film industry must contend with before jumping in and embracing any such change.

For the digital revolution to be successful in Hollywood, then, it must not only answer the many concerns it has raised among studios and theatre owners, it must present them with a blockbuster case for changing their industry.

The ability to scale up distribution for films that take off unexpectedly, almost instantly realizing incremental revenue, or scale down distribution for films that don't play well, realizing almost instant cost savings, presents such a case.

Based in Mountain View, CA, CyberStar is a leading provider of global broadband IP-multicast solutions for business environments. In 1998, CyberStar provided the satellite distribution technology for the first-ever end-to-end digital production of the independent film The Last Broadcast. Information about CyberStar can be found on the World Wide Web at <http://www.cyberstar.com>.

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