

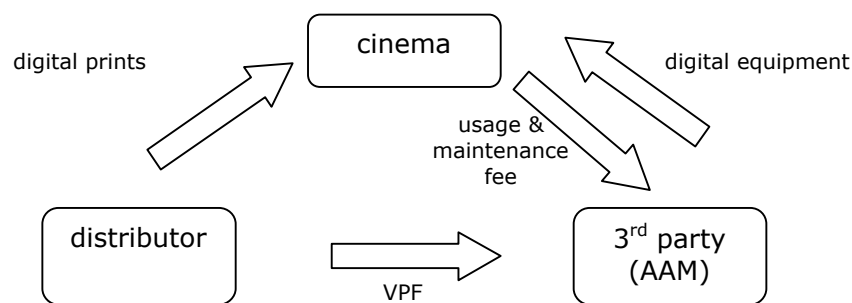
Virtual Print Fee: Questions and Answers from Arts Alliance Media

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Overview

What is the Virtual Print Fee model?

The Virtual Print Fee (VPF) model is a means of financing the conversion of the industry to digital cinema. The basic premise is that a third party (i.e. AAM) pays up front for the equipment, and then recoups the cost of the equipment over time, through payments from distributors (who pay the majority of the cost) and exhibitors.



What is a 'Virtual Print Fee'?

A Virtual Print Fee is a fee paid by a distributor to the third party – the idea behind it is that the distributors save money by shipping digital, rather than 35mm, prints, and so these savings are used to contribute towards the cost of the equipment.

VPF Payments

How much is the VPF? Does the amount change over time?

The amount distributors pay as a VPF is set out in their contracts with us, and is a fixed amount for the duration of the contract.

How long does the VPF last?

AAMs VPF deal lasts for 10 years, from the date of installation.

The VPF will continue to be paid by distributors until the equipment is paid off or until the end of the 10 year contract.

What happens at the end?

Transfer of title of the equipment to the exhibitor.

How is the VPF paid, and to whom?

The VPF is paid to AAM – each time a digital version of a print is booked and released at a cinema location.

Exhibitor Contribution**How much do I (as an exhibitor) have to pay?**

We are interested in talking to all exhibitors to try and work out a viable pricing model. However, there is no one-size-fits-all pricing, and we will look at each exhibitor individually.

What proportion of the cost does an exhibitor have to pay?

As there is no set fee for every exhibitor, it is impossible to give a generic answer to this question. However, in all cases the majority of the cost will be paid by distributors (via the VPF).

Will exhibitor contributions go down if equipment costs get cheaper?

The VPF deal is a long term deal, and the amounts involved are calculated to last throughout the term of the deal, so will not change. The deal is based on a 5 year rollout, and the reduction in equipment costs is already built into the exhibitor offer.

Booking and Content**How does the exhibitor know they're going to get content?**

As part of the VPF deal the distributors have with AAM, they guarantee to make the vast majority of their films available in a digital format.

How does this affect what films I show in my cinema?

It doesn't. AAM doesn't interfere in any way in distributor/exhibitor negotiations – Exhibitors are free to deal with any distributor and book any film they want. For distributors who are not participating in the VPF deal, AAM charges them a fee for using the equipment. However, participation in the VPF deal is open to all distributors of content to your cinema.

What if I want to move a film from Screen 1 to Screen 2? Do I have to pay anything?

No. The VPF that the distributor pays directly to the third party is paid once per digital print of the film – it costs nothing more to move to another screen. The idea is that once the film has been released digitally in a complex, it will be exhibited solely in digital form in this complex for the whole run. It is therefore necessary to convert several screens in a multiplex so that films can be moved over very easily, which is one of the benefits of digital – it is much easier to switch prints from screen to screen.

Do I have to work with a certain advertising company?

No, you are free to work with whoever you like.

Maintenance

Why do I have to pay a monthly fee for maintenance?

We guarantee maintenance of your equipment for 10 years, and include regular monitoring and maintenance (both remote monitoring and scheduled visits) in the agreement. We also guarantee the majority of spare parts. This method gives you clear visibility over your costs – an important consideration when dealing with a relatively new technology.

Why do I have to sign a 10 year maintenance contract?

The distributors who are contributing the majority of the cost of converting to digital are committing to 10 years. This is the time it will take to recoup the cost of the equipment. AAM has agreements with these distributors to ensure a certain level of performance – we can only do this by managing maintenance.

Why Participate?

Why should I use a third party integrator to convert to digital?

There are many benefits to using a third party (i.e. AAM):

- We negotiate long term agreements with distributors, saving you valuable time and effort.
- We negotiate the best prices and warranties with manufacturers, due to volume purchasing (7000 screens) of equipment.
- We finance the equipment - you don't have to convince your bank
- We manage the digital transition, ensuring that it will be an efficient and short industrial process rather than a long and complex development.
- We take the financial risk – if insufficient VPF payments are received, you as an exhibitor aren't affected.
- We take the technology risk – we guarantee your equipment will remain compatible with the DCI specs.
- We take care of the admin – AAM deals with all the flow of money from studios and exhibitors.

Why should I sign up now rather than waiting?

AAM's VPF deal has a limit to the number of screens per territory that the distributors are willing to finance. We are encouraging cinema owners to sign up early in order to benefit from the reduced costs that come from the VPF deal.

Is this deal the same as the deal behind the US digital rollout?

In principle, yes – the deals in the US are also based on the VPF model. AAM aren't privy to specifics of the US deals. As of October 15th, 2007, 3,750 screens have been converted to digital, as a result of the US VPF-based rollout.