Reflections on the Kind of Exhibition Industry that Best Serves Movie Patrons, Makers, and Exhibitors in the Digital Era

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The Mission of
The Cinema Buying Group-NATO:

Ensure that the Vital and Competitively Essential Independent Theatre Operators Survive and Thrive in the Digital Era

NATO
THE NATIONAL ASSOCIATION OF THEATRE OWNERS

CINEMA BUYING GROUP
CBG

Look at the two logos above—of the National Association of Theatre Owners and its semi-autonomous buying program for independent theatres, the Cinema Buying Group. Both feature the telltale film perforations, and both, in a matter of years, will conjure nostalgia. As the industry undergoes the most transformative revolution since the talkies, film perforations give way to binary digits. A relatively simple and competent 100-year-old technology surrenders to expensive computerized projection.

There are clear benefits, to be sure, but exhibitors have been conflicted.

Nowhere is the conflict more pronounced than among the small-town, few-screen operators who have anchored the movie industry in countless communities across North America. Independent theatre operators have been performing an essential and valuable service for the movie industry for generations, and they've been doing fine. The margins may not have been great, but these are people with a passion for showing movies, creating a culture of movie consumption, and becoming cultural bastions in their communities. That has been reward enough.

The digital transition is a strange expectation. Even the best-case scenarios currently proffered for independents—for full-time first-run theatres—compel many thousands of dollars in site modifications, a $10,000 and upwards exhibitor contribution per screen before *anything* happens, up to $6,500 per screen installation costs, thousands of dollars more than existing film systems in annual maintenance costs, steep fees and costs for alternative content and 3D capability (the "promise of digital"), and myriad additional fees and costs not yet realized.

For the many hundreds of theatres who are not full-time first-run, the current numbers are ghastly and guaranteed to eliminate any of these independent operators who do not have access to loads of cash. The current paradigms—among integrators, studios, and exhibitors—simply do not account for what kind of industry we want to look like on the other side of the digital transition.

Box office gross and the arguably more arbitrary "VPF-earning potential"—how fast exhibitors can churn studio titles—may not reflect the value to the industry of independents.

VPF-earning potential, in particular, has become an albatross that threatens to unravel the exhibition industry and do permanent damage to the consumption of movies in North America. That is because studios desired a middleman—an integrator—for reasons that seemed salutary, but beget an entity that focuses solely on revenue from the most number of movies turned. Such an integrator, in the case of exhibitor-owned DCIP, can look to the interests of its owners as well as, or more than, itself. Such an integrator, in the case of any integrator available to independents across North America, will naturally look first to its own interests.

That is not to say there has not been some creative thinking by studios. Indeed, great credit, for example, to Julian Levin at Fox, Jason Brenek at Disney, and Mark Christiansen at Paramount for coming up with some of the best ideas for working toward a fair digital transition for independents.

But independent exhibitors across North America are in a pinch. The casualties are mounting. Hundreds of independent exhibitors have already elected not to try to convert to digital. Many of our CBG members who thought they could make a go of it have since dropped out. What remains is a core of passionate and committed independent exhibitors, the best and the brightest, who contribute so significantly to our continental culture of movies in ways that *cannot* be captured simply by box office gross and VPF-earning potential.

Never in the history of this industry has one group of exhibitors represented such a critical mission for the heart and soul of exhibition—and ultimately the movie industry. At stake is, yes the heart and soul of the industry, but in many communities, likewise the only likeable face of popular entertainment, the single place where the magic of movies is local and personal and creative. The big circuits brilliantly deliver the movies the mass of people want to see so that North Americans truly have a national culture and conversation. But it is the independents who bring texture and depth and local color to the business of showing movies. And they bring movies to so many people would not know or care about movies on the big screen, or elsewhere, otherwise.

- It is the independents, struggling to get product, who feature idiosyncratic slates of movies that unite on the big screen moviemakers and patrons who would never otherwise meet in a world driven entirely by commercial viability.

- It is the independents, with their keen attention to the community and its homecomings, local histories, proms and parades, who make the movie theater a place of local pride.

- It is the independents, driven by economic necessity and unable to take any patron for granted, who develop creative promotions and local tie-ins for the movies they manage to get.

- It is the independents who solve a disruptive patron problem by calling the parents, whom the owner knows personally.

- It is the independents who enforce the rating system with remarkable vigilance and honor—because it is the right thing to do—in conspicuous contrast to the abysmal ratings enforcement of small DVD outlets and grocery stores.

What has been said of Ginger Rogers vis-à-vis Fred Astaire—she did it all dancing backwards and in high heels—might be said of independents vis-à-vis the circuits.

The industry needs both—independents and circuits. It is a synergy that serves the larger movie industry so well. Every CEO of America's largest circuits is honorably on record emphasizing the importance of independent exhibitors to the strength and diversity of American movie-going culture. NATO's chairman, Lee Roy Mitchell, himself an independent in his early days, puts it well: "Small-town America goes to movies because of independents. Many of these people move to big towns and they continue to be avid movie-goers in our theatres because of independents." It's a cross-dependence of encouraging movie consumption. And it is a perilous path to let these independents die on the digital vine.

This paper urges solicitude for these independents.

I. Who Are the CBG Exhibitors?

By far the majority of CBG members are full-time first-run exhibitors. They fit into current models for financing digital cinema. We define full-time first-run as exhibitors who generally play a movie within one or two weeks of the national break. We cannot be absolutely certain about these numbers. We provided the definitions, set forth on the next page, but we believe some of our members responded to our survey thinking they were first-run because they were the first in their communities to exhibit the movie or because no one else was showing the movie. So the numbers could shift—but we do not believe the shift would be significant, and we're especially comfortable with the proposition that digital cinema could easily convert many of these thought-we-were-first-run cinemas to genuine first-run cinemas, because digital cinema facilitates precisely that kind of distribution flexibility for studios.

	US Screens	Canadian Screens	Total
Full Time Class A	5569	403	5972
Drive In Class A	94	3	97
Full Time Class A/B	29	10	39
Full Time Class B	72	44	116
Drive in Class B	2	0	2
Full Time Class B/A	13	11	24
Full Time Class C	37	8	45
Full Time Class D	122	23	145
Art House Class	35	6	41
Seasonal Class A	15	2	17
Seasonal Class B	4	5	9
Drive In Seasonal	61	3	64
Drive In Seasonal Class A	42	2	44
Other	56	9	65
Total	**6151**	**529**	**6680**
	US members	**Canadian Members**	**Total**
Full Time Class A	261	33	294
Drive In Class A	9	1	10
Full Time Class A/B	14	3	17
Full Time Class B	34	23	57
Full Time Class B/A	3	4	7
Full Time Class C	7	3	10
Full Time Class D	2	3	5
Art House Class	5	1	6
Seasonal Class A	4	0	4
Seasonal Class B	4	5	9
Drive In Seasonal	22	3	25
Drive In Seasonal Class A	20	2	22
Mixed (mostly Class A)	51	4	55
Mixed (mostly non-Class A)	28	5	33
Total[1]	**464**	**90**	**554**

[1] In addition, there are 32 CBG members with 826 screens who have either opted out of participating in the CBG digital arrangement, or who have not provided sufficient information to be eligible for participation.

Category	Definition
Full Time Class A	Opens a movie the 1st or 2nd week after national release date
Full Time Class B	Opens a movie the 3rd, 4th, 5th, or 6th week after national release date
Full Time Class A/B	Typically opens a movie the 1st and 2nd week after national release date, but occasionally opens the 3rd, 4th, 5th, or 6th week after the national release date
Full Time Class B/A	Typically opens a movie the 3rd, 4th, 5th, or 6th week after the national release date, but occasionally opens the 1st or 2nd week after the national release date
Full Time Class C	Opens a movie the 7th week after the national release date or any week thereafter
Full Time Class D	Discount/Dollar Theatres
Art House Class	Opens a majority of art house/non-major studio movies
Seasonal Class A	Seasonal theatres that open a movie the 1st or 2nd week after national release
Seasonal Class B	Seasonal theatres that open a movie the 3rd, 4th, 5th, or 6th week after the national release date
Drive In Class A	Drive Ins that opens a movie in the 1st or 2nd week after national release date
Drive In Class B	Drive Ins that opens a movie in the 2nd, 3rd, 4th, 5th, or 6th week after national release date
Drive In Class C	Drive Ins that opens a movie the 7th week after the national release date or any week thereafter
Drive In Seasonal	Seasonal Drive In Theatres
Drive In Seasonal Class A	Seasonal Drive In that opens a movie the 1st or 2nd week after the national release date
Mixed (mostly Class A)	Members who have a majority of Full Time Class A screens
Mixed (mostly non-Class A)	Members who have a majority of non-Full Time Class A screens

While most CBG members fit comfortably into current paradigms for digital financing, some critical members do not. These are segments of the industry that the industry can ill-afford to lose—exhibitors playing 3 or 4 or 5 weeks off the break in communities that do not have any other theatre within 50 miles, art house or special venue theatres that bring adults who had stopped going to the movies back to the movies, drive-in theatres that serve a unique niche in American culture, discount and dollar houses that make big-screen movies accessible to so many Americans who could not afford movies at all but for these venues. These are niches—not so many in the scheme of things, but vital to the North American culture of movie consumption.

II. Why Do CBG Exhibitors Matter?

First, as Lee Roy Mitchell recognized above, independents create a culture of movie-consumption that would not otherwise exist. Says the owner of Visulite Cinemas in Staunton, Virginia: "Our special events draw big crowds that might not ever go to movies, and lend excitement and 'event' status to films that appeal to grown-ups, many of whom had stopped going to the movies." Arlington Cinema & Drafthouse, with its restaurant and cinema model, says, "simply put, we bring people back to the movies that stopped going or stopped going frequently."

By making going to the movies something a little different, independents across North America maintain, and often reignite, a culture of movie-going. A few examples of CBG members creating a culture of movie-consumption that would not otherwise exist:

- Cascade Village Theatre, Inc (Steve Linstrom, Vail/Eagle County, CO) is a venue for the Vail Film Festival.
- Cherry Bowl Drive In (Harry & Laura Clark, Honor, MI) is a venue for the Traverse City Film Festival.
- Hardacre Theatre (Stuart Clark, Tipton, IA) is the home of the Hardacre Film Festival—the oldest film festival in the state.
- Lido Theatre (Paul Rivalin, The Pas, MB) holds two film festivals annually.
- Triplex Cinema (Richard Stanley, Great Barrington, MA) hosts the Berkshire International Film Festival each May.
- Staunton Visualite Cinemas (Adam Greenbaum, Staunton, VA) has had panels, dinners, and guest speakers accompany new releases.
- Arena Grand Movie Theatre (John P. Mueller, Columbus, OH) is one of the hosts for the Columbus Jewish Film Festival.
- Cinema 6 (Jared Fleischer, Honesdale, PA) plays specialty films every week in partnership with Wayne County Art Alliance.
- Roxy Theatre (Mike Blakesley, Forsyth, MT) holds "Anniversary Classics" in which they "bring back a hit movie from each decade" of their operation.
- The Moviehouse (Robert Sadlon, Lakeville, CT) has a FilmWork Forum Series that has monthly Sunday morning screenings of work by local filmmakers, directors, and actors.
- Oliver Theatre (Rick Lesmeister, Oliver, BC) plays 13-14 art house films in conjunction with a well-attended film club.
- Arlington Cinema & Drafthouse (Greg Godbout, Arlington, VA) holds events like "Wine Night at the Movies," which earned it raves from the *Washington Post* and *Washington Magazine*.
- New Strand Theatre (Todd Leach, West Liberty, IA) captures those patrons who are priced out of expensive megaplexes with lower ticket prices.
- Arena Grand Movie Theatre (John P. Mueller, Columbus, OH) holds a "Mom's Day Out" screening for mothers with babies.
- Kaysville Theater (Bill Call, Kaysville, UT) provides affordable ticket pricing for families unable to pay regular large circuit prices.
- Art houses (44 screens, 17 sites) cater to a more sophisticated cinephile that doesn't always opt for the mainstream film showing at large circuits.

This culture of movie consumption plays out in ancillary markets in a big way. As Visulite Cinemas in Staunton, Virginia describes, "one of the most popular local video stores now stocks all of the films we show (foreign, domestic, major, minor) adding another profit stream that did not exist before our opening." Many other members describe a similar synergy.

Second, creating a culture of movie-going is one thing, but even more fundamental is the role of independents in bringing movies to patrons who would not *be* consumers otherwise. The great majority of CBG members operate in regions without another competitive theatre anywhere near.

In short, CBG members constitute the only avenue to movies on the big screen—and thus appreciation of movies generally—for many thousands of North Americans.

Within the CBG membership, 1008 theatre locations with 5,638 screens, are in free booking zones. Of these, 211 locations with 477 screens, are not full-time first-run theatres.

If a critical mass of these theatres shut down (and some have already reconciled to doing so because of the exorbitant cost of digital conversion), many communities will no longer have a movie theatre.

Having a DVD outlet is not a wash. Movie theatres create interest in and demand for movies. Consuming movies is an acquired habit, most palpably formed at a movie theatre. A community without a movie theatre is a community that consigns movies to the status of video games, YouTube videos, and TV mini-series—just another small-screen entertainment option among many.

Of course, as many of our members in competitive zones rightly insist, they serve the salutary purpose of maintaining a price and quality check on their larger competitors. So whether independents are in free-booking or competitive zones, the industry is well-served.

Third, CBG members create incalculable good will in their communities. Hollywood, as a cultural phenomenon, engenders fascination and revulsion. And as a political base, its geographical reach is tiny. But the many hundreds of exhibitors who make the products of Hollywood available to millions of North Americans conspicuously soften the edges of Hollywood in their own communities. CBG members are small businesses, typically with a high profile and big hearts, who make Hollywood look better than it would without them.

- Andover and North Branch Cinemas (Clayton Kearns, Andover and North Branch, MN) annually hold food drives before Thanksgiving and Christmas.
- Arena Grand Movie Theatre (John P. Mueller, Columbus, OH) partners in fundraisers for Cystic Fibrosis, Big Brothers & Big Sisters, Nationwide Children's Hospital, Juvenile Diabetes.
- Aut-O-Rama Theater Enterprises, Inc (Tim Sherman, North Ridgeville, OH) raises money for the Will Rogers Foundation and Muscular Dystrophy Association.
- Cherry Bowl Drive In (Harry & Laura Clark, Honor, MI) holds blood drives and church fundraisers on its property.
- MNM Theatres (Norm Shindler, Duluth, GA) has canned food drives for local food banks.
- New Richmond 8 Theatre (Kent Rebeck, New Richmond, WI) awards three high school seniors with $500 scholarships every year, as well as participates in regional food drives.
- Northgate Cinema, Inc (Allen Strahl, Greenfield, IN) donates money to the county schools and various community projects.
- Trinity Theatre, LLC (Ken Hill, Weaverville, CA) gives back 15% of concessions sales on most Monday nights throughout the year to local non-profits.

- Habersham Hills Cinemas, Inc (Allan Fuhrman, Mt. Airy, GA) does an annual fundraiser for the American Cancer Society's "Relay for Life."

This community profile cannot be captured in box office gross or VPF earning potential—but it is a value that Hollywood dismisses at its peril.

In the aftermath of Columbine, when the industry was compelled to spend hundreds of thousands of dollars fighting off heavy-handed government regulation of movies, access to members of Congress was at a premium. One very significant Senator in the mix, Trent Lott of Mississippi, listened to the industry because a small-town theatre owner who knew everybody's name—where Senator Lott had attended movies as a boy—had his ear. Bean counters can't count this.

Fourth, CBG members, as small businesses, are driven to attract and keep patrons. Most exhibitors, large circuits and independents alike, engage in creative marketing. But for independents, creative marketing and carefully cultivated community relations can often dictate survival in a market. Most especially for independents playing off the break, after studio ad campaigns have faded, creative marketing is essential.

The studios' top-down marketing generates great buzz for imminent box office hits with star power. For other movies, or movies played off the break, CBG members employ a range of inventive marketing tools to mobilize moviegoers, at little to no expense to studios. Independent exhibitors leverage their intimate knowledge of their market demographic, local partnerships that facilitate cross-advertising, and their administrative flexibility to be as imaginative as possible.

- Andover Cinema (Clayton Kearns, Andover, MN) teams up with schools to promote movies that are also children's books (and incidentally, they attempted to break the world record for World's Largest Box of Popcorn).
- Arena Grand Movie Theatre (John P. Mueller, Columbus, OH) brought in comic book artists in tandem with screenings of popular comic book adaptations, such as *Incredible Hulk*.
- Clarksville Cinema (Sue Harmon, Clarksville, AR) has its employees dress up as characters of new releases to entertain young patrons.
- Staunton Visualite Cinemas (Adam Greenbaum, Staunton, VA) promote movies with a heavy radio presence, weekly email newsletter, and Facebook group.
- Sherman Theatre (David Branda, Goodland, KS) promotes movies through daily trivia contests on a local radio station.
- Eagle Theater Corporation (Eric Gubelman, Robinson, IL) markets movies with a weekly email distribution (2,000 patrons) that details the week's new releases.
- Polson Theatres, Inc (Aryon Pickerill and Becky Dupuis, Polson, MT) promotes movies through email lists.
- Roxy Theatre (Mike Blakesley, Forsyth, MT) teams up with local schools to reward children with movie tickets for good attendance.
- Sierra Cinemas (Mike Getz, Nevada City, CA) works closely with local radio stations to promote showings.
- Lorain Theatre (Susan Hoffman, Armour, SD) has a blog that keeps the movie-going community informed about theatre events.

- Zurich Cinemas (Conrad Zurich, Fayetteville, NY) runs frequent radio promotions in its markets.
- Habersham Hills Cinemas, Inc (Allan Fuhrman, Mt. Airy, GA) promotes an annual event called “The Red Carpet Affair,” in which they show a “classic” film and sell food.

In sum, nobody in this industry with any history in it would view the decline of independents with other than alarm. Independents constitute a special case—a reason for studios and integrators to think long-term about the character of the industry, and to show special solicitude for CBG-specific digital financing arrangements. Our subset of independents—dues-paying CBG members in good standing—have especially demonstrated the fortitude and passion for this industry to warrant the kind of creative thinking urged herein.

III. Some Ideas (Not an Exhaustive List) To Make Digital Cinema Work for Independents and the Industry.

The bulk of the thinking about financing the digital cinema transition has occurred with reference to a single dynamic of the movie industry: film print volume. Perhaps because the model got fixed with the label “virtual print fee” early on, and then entailed a middle for-profit entity to administer the financing and implementation, “prints” and “print costs” became fixtures in the digital cost accounting—notwithstanding studio savings into the indefinite future. The “print cost” fixation is understandable. While agreeing to contribute to the financing of digital cinema for obvious reasons, studios equally obviously wish to avoid short-term cost spikes that look troubling on the books, and thus aim to calibrate, as possible, financing contributions to what would have been costs anyway.

By fixing the digital financing model to print costs, however, the industry imperils a substantial swath of exhibition that has not historically “cost” distributors in print costs. For the reasons set forth above, it is short-sighted to penalize exhibitors who have not historically cost distributors—but *have* generated box office revenues or otherwise contributed to the strength of the movie industry in North America.

It is not our aim to seek a naked subsidy for cinemas simply because they are small—but to urge a second look at the unfairness of a model that would arbitrarily consign many small cinemas, however robust and vital in their communities, to oblivion simply because studios had not historically spent much in print costs.

Moreover, it is not our aim to produce commitments applicable to the industry at large. CBG members constitute a special and vital subset of the exhibition community, and CBG-specific accommodations make perfect sense. We undertook a wide-ranging and high-profile membership recruitment effort lasting nearly two years. In many forums we warned exhibitors—to the point of becoming vexatious—that they declined to join CBG or otherwise make provision for the digital transition at their peril. Many independent exhibitors elected not to join or have since dropped out. The CBG members who remain have paid annual dues and remain passionately committed to the future and to showing digital movies in their communities. It is therefore entirely appropriate to execute a CBG-specific addendum to any more general agreement with an integrator. We believe the stakes for the industry fully justify a special solicitude for independents who have demonstrated their commitment by sticking with the CBG through anxious times.

The following list of ideas aims to adjust the prevailing paradigm, though few ideas depart significantly from current models. We are indebted to creative thinkers in studios for many of these ideas, and we gratefully acknowledge the good will of our distributor partners in seeking ways to make this revolution happen without convulsing and diminishing the independent exhibition industry.

A. Exhibitor-Financed Systems

It's an idea born in the rubble of the credit markets. The substantial sums needed by any integrator or DCIP for a full roll-out of thousands of screens are simply unavailable at this time. But what if individual exhibitors had banking relationships and could obtain financing just for themselves? Might that expedite the roll-out for these exhibitors (and perhaps helpfully reduce the total credit sought by an integrator)?

If the studios agree to allow exhibitors to purchase their own digital systems, *and* pay VPFs to reimburse these exhibitors for the system cost, then...

- Exhibitors could purchase systems at negotiated volume pricing for CBG members;
- An integrator would collect agreed-upon VPFs from the studios and pass them through to participating exhibitors in all categories;
- The integrator would manage and administer studio requirements including, for example, DCI compliance, log data, missed shows and other reporting; and
- The integrator would collect a management/administrative fee, to be determined.

With the big roll-out stalled along with the economy, some small roll-outs could move along the digital transition for some (and thus the availability, for example, of sufficient 3D screens), and ease the credit burden for the balance of the industry.

Similarly, some equipment manufacturers have indicated a willingness to extend financing terms to exhibitors—which would make exhibitor-financed equipment an option for more CBG members. While we do not anticipate a large number of CBG members able to self-finance, we have heard urgent support for the concept among a few.

B. Post-Recoupment VPF Payments

Critical to the funding of digital cinema for CBG members—especially those exhibitors who would not qualify for full VPF payments under current models—is the creation of some pool of money beyond recoupment of the integrator's cost of the equipment. A recoupment-only model does not work for CBG members. Assume the financing term is ten years. If studios refuse to pay VPFs beyond the point where the cost of equipment at a location is recouped, then for many locations, VPF payments cease after six, seven, eight, or nine years. If, on the other hand, studios agree to pay VPFs for the duration of the financing term—mindful that some locations will recoup before the ten-year period and some locations will never recoup—then at least some pool of funds becomes available to assist locations without robust VPF-earning potential.

For studios, post-recoupment VPF payments pose no short-term cost-spike because the same payments simply continue longer than they would have as to some locations. For exhibitors, post-recoupment payments do not ask any exhibitor to subsidize another exhibitor merely because that exhibitor has a higher VPF-earning capacity.

Such post-recoupment payments would create a fund of additional money that could be used to lower the cost of equipment for CBG members that are more difficult to finance (*i.e.*, other than full-time first-run theatres).

We invite further thinking on how this fund of post-recoupment payments could best be employed to make equipment accessible to small exhibitors. The only model proffered to date would entail a "rebate"—at the end of the financing term—to exhibitors who were obliged to contribute crippling sums up front. While the ten-years-away rebate could be substantial, depending on the aggregate timing of recoupment, an enormous up-front cost is simply beyond the means of many small exhibitors.

C. VPFs for 7+ Weeks Off the Break

Consistent with the philosophy outlined above—calibrating VPF payments to present print costs—studios have resisted VPF payments to exhibitors playing movies seven or more weeks off the break. Agreeing to contribute some VPF payment in such circumstances—mindful that sub-runs occupy an important niche in movie-going and contribute perhaps more directly to consumption in ancillary markets—would help to offset the otherwise crippling up-front exhibitor contribution for these locations.

D. Weekly VPF Payments for Subruns

Perhaps the most problematic aspect of the print-cost calibration model is its devastating effect on our members who do not play most of their movies on the break. The discounted VPF payment after the second week is so deep that such exhibitors are obliged, under current proposals, to pay up-front costs that are simply beyond any conceivable means of many if not most such exhibitors. CBG proposes that for non-Class-A theatres only, studios would pay one-third of a full VPF for each, up to three, that the exhibitor shows the movie. Thus, for example, a three-week engagement would generate a full VPF payment. The exhibitor would thus be incentivized to carry the movie for a longer engagement, and the distributor would be incentivized to move such an exhibitor closer to the break to maximize box office gross without incurring any additional VPF payment based upon the two-week demarcation in VPF payment size. Win-win.

E. Moving Onto or Closer to the Break

Digital holds out the promise of easing studio constraints on the timing of distribution. It is significantly more costly to make prints available to small-town theatres, for example, than to distribute a digital version. Not surprisingly, our members report their certainty that they could increase their gross by 50 to 100% by playing the same movie on the break that they currently play a few weeks out. Whether the current model adequately facilitates such an acceleration is unclear. CBG requests a good-faith review of all non-Class-A theatres with a view toward providing more bookings on or closer to the break. We invite further thinking on how an accelerated distribution for CBG members might work and/or be relevant to the financing.

F. Grandfathering Previously Deployed Systems

What once appeared relatively incidental in the scheme of things now looms larger, as the credit markets further delay large-scale deployment—and indeed even foreclose reliable prediction as to when deployment might be viable. (Indeed, even optimistic predictions of credit availability foresee it coming in tranches rather than all at once. Thus, any individual exhibitor, even if capable of predicting when some credit might be available, would not be capable of predicting its availability to him.) Responding to studio urgency to acquire 3D capability on the one hand, and to competition with already-deployed digital screens on the other hand, some exhibitors are compelled to convert some portion of their screens to digital on their own. We believe the allowance for grandfathering in such circumstances should be generous.

Moreover, we see no justification for reimbursing exhibitors only at depreciated rather than full value (subject, of course, to a total system cost cap and the exhibitor contribution level). Exhibitors who are obliged to acquire some digital capability now obviously can neither control the timing of the credit markets nor base their business decisions on any reliable prediction of when full-scale deployment would be possible. Moreover, given the general obligation to convert an entire location with a single integrator's equipment, an exhibitor with some previously-deployed equipment, who wishes to convert the balance of the location, has no choice but to be grandfathered. They should not be penalized by depreciated reimbursement. CBG proposes that CBG members be reimbursed at 100% of their cost (up to the maximum system cost).

G. Reducing Costs and Fees

We are exploring ways to bring down equipment costs where locations warrant. While there is not yet much latitude here, some ideas, such as eliminating the theatre-management system for fewer than five screens, or using lower-cost projectors on smaller screens, are worth exploring further. While studios may have little to contribute here (apart from resisting the temptation to add further complexity, and thus cost, to equipment, or perhaps relaxing DCI rigors in some markets to allow for significantly lower-cost equipment, such as reducing the 5.1 audio requirement for smaller theatres), we invite thinking on ways to reduce costs for theatres confronting above-average up-front costs—for example, forgoing screen advertising usage fees for locations that are not full-time first-run.

H. New Build Allowance

In such an anxious and forbidding economic environment, trying to game the system and build multiple new theatres in anticipation of cashing in on digital financing seems a stretch. We have seen no evidence that any CBG member's anticipated new builds are other than fully-considered and fair business decisions. We believe the allowance for new builds should be generous—perhaps with a graduated exhibitor contribution as the new build moves further from the large-scale roll-out. We believe it imprudent to discourage reasonable development of new markets or reasonable enhancements of existing markets, and we certainly do not want independents competitively disadvantaged vis-à-vis any other exhibitors. CBG proposes a 15% allowance for new builds for the CBG membership.

I. Extended Print Availability

Our members have already voiced concern about the shrinkage of print availability. The concern is most pronounced, not surprisingly, for members operating in or near markets of exhibitors who have converted to digital. We understand the impulse to seize whatever savings on print costs become reasonably available, but we ask the studios to consider ensuring some minimal supply of prints for CBG members (without of course suggesting any interference in studios' discretion to choose their licensees). Put simply, some of our members will not be able to afford digital equipment under any current or conceivable scenario unless equipment costs come down or used equipment becomes available. Yet some of these members are brilliant exhibitors and their loss in their communities would be profoundly felt. We anticipate a relatively robust market in used equipment in due course—but that will take time. Meanwhile, the only way for our valuable but undercapitalized exhibitors to weather the transition is to have some assurance of print availability. CBG proposes, as an example of stabilizing the print market for independents, that studios make available 500 film prints per title for seven years. We invite further thinking on how such an idea might play out, but we hope studios see the wisdom of extending print availability as a transitional measure.

The foregoing is intended to stimulate further creative thinking, as there are certainly additional ideas worth considering. We hope, at a minimum, that every stakeholder embraces the premise that CBG members, as the most dedicated exemplars of the vital community of independent exhibitors, warrant some creative solicitude outside the conventional models.

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