Disney Deal Backs Digital Distribution

The studio agrees to help pay for gear to deliver movies to theaters electronically, in a shift away from reels of film.

By Alex Pham, Claudia Eller and Julie Tamaki, Times Staff Writers

Walt Disney Co. on Thursday agreed to be the first movie studio to help finance the digital distribution of its movies, jump-starting a decade-long effort to usher the nation's theaters into the electronic age and phase out the treasured — but expensive — tradition of film.

The agreement between Disney's Buena Vista Pictures Distribution, projector maker Christie Digital Systems Inc. and software company Access Integrated Technologies Inc., or AccessIT, calls for 150 new digital movie screens to be up by year's end and as many as 4,000 by the end of 2007.

Although that's just a fraction of the 36,000 screens in the United States, proponents call it a significant step toward a day when most, if not all, movies will be viewed digitally in theaters. Fewer than 110 screens use digital equipment today.

"We're talking about 10% of the screens in the United States becoming digital," said Chuck Viane, president of Buena Vista Pictures Distribution. "This makes it a very sizable toe in the water."

For viewers, digital projection offers crisp pictures that don't fade or scratch, no matter how many times they are shown. Some studio executives and theater owners hope that digital movies will draw moviegoers back after a yearlong slump in box-office receipts.

"Film is wonderful, but it degrades with each showing," said Bill Mead, publisher of DCinemaToday.com, a website that tracks digital exhibition. "You'll get scratches, dirt in the film and side-to-side jitters as film travels through the projector. With digital, you not only get a much cleaner and stable picture, but you also get truer color accuracy that will retain its quality, show after show after show."

For movie studios, digital distribution promises savings of as much as $1 billion a year in the cost of making and distributing bulky and delicate film prints.

Digital cinema has been talked about for years as a less costly and more efficient way of getting movies to theaters. But initial skepticism from movie studios, the absence of a single standard for distributing and projecting digital movies and the lack of a clear business model to finance the rollout of expensive equipment stalled the initiative.

That's starting to change, entertainment executives said.

"What's significant is that a major studio is finally getting on board," said Ken Suddleson, entertainment attorney with Morrison & Foerster in Century City. "We've watched this process for eight, nine years. We've seen the studios first doubting the technology, to setting technical standards this year, to finally someone saying, yes, it's worth pursuing. I think that's exciting."

Disney is the first Hollywood studio to officially support one specific system. Virtually all of its rivals, including Sony Corp.'s Sony Pictures, General Electric Co.'s Universal Pictures, Time Warner Inc.'s Warner Bros. and News Corp.'s 20th Century Fox, are also engaged in talks with digital manufacturers such as Technicolor and Christie.

For instance, Bruce Snyder, Fox's president of domestic distribution, said the studio was "knee-deep in negotiations with Christie."

"We have been negotiating for several months," he said. "They're ongoing. I expect them to come to fruition shortly."
Entertainment executives say nearly all major movie studios will soon make the gradual conversion to digital. The only question, many say, is how they go about paying for the rollout of digital projection systems, which at around $85,000 per screen is about twice the cost of film projectors.

All of the various financing plans being considered by Hollywood ask the studios to invest much of the money they save by distributing digitally into a fund that finances new projectors. As more screens convert, studios will increase the number of movies they release digitally.

"The rollout is slowly starting to happen, but we have a long way to go," said Dan Fellman, president of domestic distribution for Warner Bros. "As the number of conventional theaters with digital projectors increase, so will the number of theaters we serve."

In addition to the cost savings, digital distribution allows studios to release movies simultaneously worldwide via satellite transmission, a method they hope will reduce piracy by feeding international demand for newly released movies. The current method of distributing physical film prints limits how widely studios can get their movies out at the same time.

"As a practical matter, this is a technology that studios cannot resist at the end of the day," Suddleson said. "It's just a matter of time before they're all on board with digital cinema."

Disney's deal calls for AccessIT to provide Christie projection systems to theater owners. In turn, Disney promised to pay AccessIT a fee for each digital copy of its movies. The fee is based on the difference between Disney's cost of distributing a film print and the cost of digital distribution. On average, film distribution costs $1,300 to $1,500 per print, whereas digital distribution via satellite broadcast or DVD costs about $200, AccessIT Chief Executive Bud Mayo said.

Disney also committed to distributing most, if not all, of its 16 to 18 new releases next year in both digital and film format, Viane said, helping boost the number of movies available to keep digital screens occupied and theater owners happy.

A spokesman for the National Assn. of Theater Owners declined to comment.

A top exhibition source said all studios would need to support digital cinema, not just one, for the conversion to work for the theaters. He said, however, that at least five major studios were actively considering the various plans for digitally distributing their movies.

One senior studio distribution chief said he believed that unless all of the major studios supported one central vendor, the business model for digital cinema wouldn't work, adding that the use of multiple vendors would make the business model too complex.

"Film will continue to be around for a long time," said Jack Kline, president of Christie. "How long will it take to get half of our theaters converted to digital? I think that is certainly a five-year plan, and it could be longer. This is the first major change in film projection technology in 100 years. It will take some time to change."