

ECONOMIC ANALYSIS



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LGE

SHOWSCAN

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Showskan, an exciting new entertainment system, is a unique way to photograph and project giant screen motion pictures and is far superior to all currently known film processes. By producing and exhibiting short length, high impact films in the Showskan process, significant revenues can be generated.

Showskan theaters may be located anywhere that provides a large number of entertainment-seeking people, such as urban entertainment/food/retail sales complexes, amusement parks, national parks, tourist attractions, and special events such as World's Fairs or expositions.

An average Showskan theater installation occupying 7,500 square feet with seating for 500 people, charging a ticket price of \$2.50 for a twenty minute film, and operating at 35% capacity will gross \$3,780,000 per year. Showskan film productions cost approximately \$400,000 for a twenty minute film, and theater operating costs, including mortgage, could average \$500,000 per year.

Distribution of Showskan productions to a number of theaters and the establishment of an expanding library of films offers an excitingly profitable venture. A phased five year plan, including production of 10 Showskan films and equipping of 30 Showskan theaters could generate a total gross of \$39 million with capitalization of \$1.5 million, and total costs of \$8.7 million.

The following material presents a detailed look at some of the more important factors of the Showskan Plan.

The Showscan process provides a new, high impact motion picture theatrical experience with promising commercial potential.

The corporate goal is to produce and market the Showscan process as a special event high quality attraction at a variety of venues. The process consists of two basic components: one, the production and distribution of special event films, which is the primary activity of the company; and two, the hardware package of projection and sound equipment.

The business plan is not directed to competition with the standard feature film industry, but rather to the vigorous development and exploitation of a new and growing market. Research and general indicators suggest a market potential in excess of thirty million dollars.

Showscan does not intend to build or operate theaters.

The penetration of the existing market, largely dominated by Imax, and the development of new areas of application can be accomplished for two reasons; one, the intrinsically superior characteristics of the process; and two, the low cost of the hardware and ease of film production.

The five year plan outlined covers production of an intensive distribution, marketing and sales campaign, and the completion of a substantial number of theater projects.

The Showscan process was invented and developed by Douglas Trumbull. As Vice President of Future General Corporation, a subsidiary of Paramount Pictures Corporation (Gulf + Western), he was responsible for the creative investigation and subsequent synthesis and realization of this motion picture process.

The rights to the entire technology, trade names, patent applications and equipment have been transferred to the control of Douglas Trumbull.

The Showscan Five-Year Plan proposes the production of 10 films to be distributed among 30 Showscan theater installations over a five year period. A ten-year plan would aim at 25 films in 100 theaters, but the present business plan is concerned with the more immediate five-year horizon.

Six potential venues for Showscan are presented here in order of marketing priorities.

- 1) Destination attractions
- 2) Existing theaters, converted to Showscan
- 3) Corporate-sponsored showcases and visitor centers
- 4) Overseas sites
- 5) Tourist bottlenecks
- 6) New urban entertainment complexes

Six additional venues present other possibilities that are not part of the marketing plan, but would be considered under favorable circumstances that might present themselves.

- 7) World's Fairs
- 8) Museums
- 9) Zoos
- 10) Shopping Centers
- 11) Amusement Arcades

A profile of typical characteristics of Showscan projects, especially for initial installations, would include a long operating season (200-300 days), high annual visitor volume, high spatial density of visitors, high visitor turnover (new faces rather than repeat visits), consistent hourly traffic, broad geographic sweep including foreign visitors, a high quality ambience attractive to a large population segment, and a program "personality" conducive to high per capita spending.

The following is a simplified overview of anticipated costs relative to the Showscan Marketing Plan. It does not take into account the costs of financing nor the details of cost disbursements. It is an indicator of probable magnitudes based on generalized estimates.

Costs are classified under four major categories:

1. Start-Up (One Time)
2. Overhead
3. Theater Equipment Units
4. Film Production

1) Start-Up. Includes all costs for finding and leasing offices and studio space, personnel search, miscellaneous consultants, furniture and furnishings, business equipment, shop/studio tools and equipment and initial one-time financial and legal expense.

2) Overhead. Includes all staff and personnel costs, payroll burdens and fringes, rent, utilities, insurance, advertising, sales, marketing, research and development, customer service, planning and design, financial and legal, consultant services, and other administrative, management and "household" costs. Does not include film production or film crew costs.

3) Theater Equipment Units. Includes costs of screens, projectors, lenses, lamphouses, power supplies, lamps, shipping, installation and miscellaneous projection booth equipment and tools. Does not include sound systems.

4) Film Production. Includes all above and below-the-line film pre- and post-production costs including scripting, production planning, equipment, crew, raw stock, location expense, cinematography, editing, scoring, dubbing, titles, opticals and all other negative costs. Includes initial release print, but not distribution prints. Distribution prints are charged as a cost against rental agreements.

FIVE YEAR PLAN w/EXTENSION

A) COSTS

1)	Start-Up (One Time)	\$500,000
2)	Overhead 5 years @ \$500,000	2,500,000
3)	Theater Equipment 30 units @ \$40,000	1,200,000
4)	Film Production 10 @ \$400,000	4,000,000
	Sub-Total	<u>\$8,200,000</u>
5)	Print Cost 150 @ \$10,000	1,500,000
	TOTAL COSTS	<u>\$9,700,000</u>

B) REVENUES

1)	Theater Equipment 30 @ \$130,000	\$3,900,000
2)	Film Rentals 1st Five Years 35 print rev/yrs @ \$250,000	8,750,000
3)	2nd Five Years 115 print rev/yrs @ \$250,000	28,750,000
	TOTAL REVENUES	<u>\$41,400,000</u>

C) SUMMARY

Total Revenues	\$41,400,000
Less Costs	<u>9,700,000</u>
NET EARNINGS	\$31,700,000

The following is based on producing 10 films and equipping 30 theaters over 5 years. Films cost \$400,000 each. Theater equipment, excluding overhead, \$40,000 each. Each film will show in 3 theaters at a rental of \$250,000 per year per theater. Initial investment of \$1.75 million is needed to cover the cumulative deficit in year 1 and 2, repaid by net earnings of \$2.1 million years 3 and 4. Net earnings for subsequent year 5-10 amount to \$31 million in present dollars. All dollars \$,000.

<u>Year</u>	<u>Total Cost</u>	<u>Total Revenue</u>	<u>Net Revenue</u>	
			<u>Annual</u>	<u>Cumulative</u>
1	1,480	260	(1,220)	(1,220)
2	1,440	890	(550)	(1,770)
3	1,550	1,900	350	(1,420)
4	1,720	3,540	1,820	400
5	2,360	6,060	3,700	4,100
6	300	7,500	7,200	11,300
7	280	7,000	6,720	11,020
8	250	6,250	6,000	24,020
9	200	5,000	4,800	28,820
10	120	3,000	2,880	31,700
<u>Total</u>	<u>9,700</u>	<u>41,400</u>	<u>-</u>	<u>31,700</u>

Strong evidence for Showscan market potential comes from the success of Imax, which also offers non-feature films, (average length; 22 minutes), in a big screen format.

Imax now operates with twenty four films in fifteen theaters, including four Omnimax theaters, whose films are projected in planetarium domes. In business since the late 'sixties', Imax has shown an accelerating growth curve. Its principal venues are theme and amusement parks, expositions and museums. Its audience has totalled more than twenty-five million.

Showscan and Imax presentation formats have a number of features in common; twenty minute film length, large screens, powerful projection lamps, unusually large size of film negative to enhance picture quality, and surround speakers. Similar policy elements include selective theater location, development of substantial film library, and reliable projectors designed for low operating cost.

Imax claims advantage in terms of screen size (greater vertical height), and large film frame, (horizontal - travel 70mm as opposed to standard vertical travel 70mm).

Showscan advantages relate to commercial appeal of the film content, low equipment cost, relative compatibility with standard theater design, and the greatly enhanced realism provided by projection at 60 frames per second, (Imax, like other standard systems, projects at 24 frames per second, which severely limits image motion on large screens). There are several reasons why Showscan can enter this market quickly and gain a decisive competitive advantage.

1) Market acceptance of the 20 minute film. Imax struggled ten years to demonstrate the audience appeal and commercial potential of the 20 minute film format. Imax has opened that door for Showscan to enter.

2) Film Content. Imax's slow growth reflects its highly limited film content. Many films are custom made for a single theater or theme park, limiting potential sales of duplicate prints to other markets. More important, Imax is not a film production company so much as an equipment manufacturer.

opening, and increases the shutter rate even beyond that to produce 60 frames per second. The decision to standardize at 60fps was based on experiments with controlled, scientific testing of audiences, whose physiological and psychological response rates to the same film material showed dramatic increases when the 60 fps format was presented. The 60 fps format is not always noticeable under standard theater conditions, but it becomes crucial when images are projected on a big screen, using high lamp power, advanced lenses, brighter screen surfaces, and optimal seating configurations, which Imax and Showscan both employ. The 60fps format is especially important for action sequences, which is Showscan's forte.

8) Market Development. Imax is a low overhead operation, with limited staff and facilities, and limited budget for promotion, advertising or overseas sales efforts. Showscan, on the other hand, will provide significant budget to undertake all aspects of market development.