



Cinema Buying Group-NATO

Request for Proposals (RFP)

to Provide Digital Cinema Equipment and Service to the Members of the Cinema Buying Group

INTRODUCTION

- 1 The Cinema Buying Group-NATO (CBG or CBG-NATO) is a semi-autonomous buying program of the National Association of Theatre Owners (NATO) comprised of small to medium-sized independent theaters in the United States and Canada. CBG-NATO negotiates with vendors to provide cinema equipment, supplies and services to CBG-NATO members. The program was revised last year to include special arrangements and rules for the acquisition of digital cinema equipment and service.
- 2 CBG-NATO members desire to acquire digital cinema equipment and service on favorable terms, funded in whole or part through “virtual print fee” (VPF) arrangements, that ensure their ability to provide high quality and reliable digital exhibition service to patrons in their markets.
- 3 The purpose of this RFP is to solicit proposals from qualified vendors to provide digital cinema equipment and service to the members of the CBG, and to determine as promptly as possible thereafter which vendor’s proposal best suits the needs and interests of the members of the CBG.
- 4 At some point after issuance, this RFP will be posted on the CBG website at <http://www.cbgpurchasing.com>. Any participating vendor may send an inquiry about this RFP for purposes of clarification or further guidance. If the CBG determines that the inquiry warrants an answer, then both the inquiry and the answer will be posted on the CBG website. The vendor(s) making the inquiry will not be identified.
- 5 Answers to the inquiries in this RFP should be complete and detailed. If an answer depends on unknown factors, the answer should describe the contingencies or operating assumptions as fully as possible and account for as many realistic scenarios as possible. A submission may include alternate solutions, as long as relevant details of each alternate solution are described.
- 6 On November 18, 2004, the NATO Board of Directors unanimously adopted a resolution detailing the digital cinema preferences of the exhibition community. CBG-NATO herein adopts and incorporates that resolution. While this RFP does not mandate conformity to the

NATO Board Resolution, vendors are encouraged to reference its terms—in noting adherence to and explaining departures from its recommendations. The text of the resolution is located at <http://www.natoonline.org/DigitalResolution%2011-18-04.pdf>.

- 7 Please key your answers to the paragraph numbers in this RFP. Freely cross-reference if an earlier or later answer is relevant to a current answer.
 - 8 After the response period of this RFP closes, CBG-NATO management will review the responses, determine which responses are complete and qualified, and prepare a summary comparison of such complete and qualified responses for review by CBG members. A response is qualified if, in the opinion of CBG-NATO management, it credibly sets forth a comprehensive digital cinema equipment and service solution for CBG members.
 - 9 CBG-NATO management reserves the right to share responses to this RFP with CBG members (who are subject to written confidentiality agreements) in summary form, *unless* the vendor in good faith marks a particular part of its response as “confidential” or “proprietary.” Confidential or proprietary portions of the response should be submitted on separate pages and clearly marked. Vendors should provide a general summary of any confidential or proprietary answer that can be disclosed to CBG members without disclosing the specific confidential or proprietary information.
 - 10 To be considered, all proposals must be received by the CBG not later than **12 noon (EDT), Friday, September 28, 2007.** Proposals may be sent via mail or electronic mail. A proposal may be delivered by facsimile, provided that a clean identical copy is mailed to the CBG. It is the responsibility of the vendor to ensure that the proposal arrives timely and to confirm that CBG has received it.
 - 11 Interim inquiries and final proposals should be sent to:

Cinema Buying Group-NATO
Att’n: J. Wayne Anderson or David Phillips
c/o R/C Theatres Management Corp.
P.O. Box 1056
Reisterstown, MD 21136-7056
Phone: 1-800-416-0077
Fax: 410-526-6871
wayne@rctheatres.com
davidp@rctheatres.com
 - 12 CBG may request additional information or clarification as to the content of any proposal.
 - 13 The contents of this RFP and of a successful proposal are deemed available for inclusion in the final contract.
 - 14 CBG-NATO will negotiate final contract terms upon selection of a successful submitter. The project will be deemed awarded upon signing a final contract. CBG-NATO reserves the right to re-open the RFP process at any time before execution of a final contract.
 - 15 At the time of the issuance of this RFP, CBG management intends to select a digital cinema equipment and service vendor for its members before the end of the calendar year 2007.
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Information About CBG-NATO

- 16 For a basic Q&A about CBG-NATO, see <http://www.cbgpurchasing.com/QandAMacdowell.htm>.
 - 17 To see the CBG-NATO Participant Agreement signed by program participants, see <http://www.cbgpurchasing.com/PDF/CBG-NATO%20Participant%20Agreement.pdf>.
 - 18 While the CBG is a NATO program, theater owners are not required to join NATO to participate in the CBG-NATO program.
 - 19 As of the issuance of this RFP, CBG-NATO represents over 4,000 screens in the United States and Canada. The types of theater businesses participating in CBG-NATO include the following:
 - Full-time first run
 - Seasonal first run
 - Full-time sub run
 - Seasonal sub run
 - Full-time drive-in first run
 - Seasonal drive-in first run
 - Full-time drive in sub run
 - Seasonal drive-in sub run
 - 20 The overwhelming majority of theater businesses in CBG-NATO are full-time first run.
 - 21 An updated CBG-NATO screen list, which identifies the business type of each member, will be made available upon request. The CBG-NATO screen list is confidential and proprietary and may only be shared with principals inside your company who need to know the information and are aware of its confidentiality and agree to maintain that confidentiality.
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Information About the Submitter

- 22 Please provide the name and address of your company.
- 23 Please provide a succinct description of your company's history and background. Please include specific information about your company's qualifications to perform the work contemplated in this RFP, including a description of digital cinema installation or service work you may have already undertaken.
- 24 Please provide the names, titles and contact information of the principals of your company. Please provide the names, titles and contact information of the primary persons who will be assigned to work with CBG-NATO on the execution of this project. Please provide the name, title and contact information of the person(s) whom you will designate as the primary contact for this RFP process.
- 25 Please provide the names and addresses of partners and subcontractors with whom you anticipate working in the execution of the work contemplated in this RFP. Include specific information about the partners' and subcontractors' qualifications to perform their anticipated work.

Nature of Roll-Out

- 26 As noted in the NATO November 2004 Board Resolution on Digital Cinema (see ¶ 6 above), CBG-NATO prefers a market-by-market roll-out. Will your digital cinema solution roll out market-by-market? If so, describe any noteworthy features of your market-by-market roll-out plan (*e.g.*, factors in selecting the sequence of markets, etc.). If not, or not in all cases, please describe the nature of your roll-out and why you believe your roll-out solution is appropriate and/or preferable to market-by-market.
- 27 Please describe the extent to which, if at all, your roll-out plan would distinguish between small exhibitors facing immediate competition in their market and small exhibitors not facing immediate competition in their market.

Duration of Roll-Out

- 28 When are you prepared to begin installation of digital cinema equipment at CBG member locations?
- 29 When do you anticipate being able to complete installation of digital cinema equipment for CBG members? Describe all factors—such as available financing, VPF arrangements, manufacturing limitations, etc.—that may affect your ability to complete installation.
- 30 When—or after what period of time—do you anticipate being able to complete financing on digital installations?
- 31 CBG expects that members will initially convert at least 50% of the screens in each complex to digital, and CBG believes that studios similarly expect at least a 50% conversion. That is not to rule out immediate 100% conversion in a complex, only to describe a minimum expectation. Describe the extent to which, if at all, your roll-out plan would deviate from that minimum-50% expectation, and whether and how you would anticipate handling an initial conversion, to be followed at some later period by a conversion of the balance of screens.
- 32 To the extent not covered in your answer above, identify (a) the time period within which you expect to complete 100% conversion in each complex; and (b) the time period within which you expect to complete 100% conversion of complexes in an entire circuit.

Contractual Relations

- 33 List basic terms you expect to cover in a global or master agreement.
- 34 Does your plan contemplate contractual agreements with individual exhibitors? If so, summarize the basic terms you expect to cover in such individual contractual agreements.

- 35 Does your plan contemplate contractual obligations for CBG-NATO (*e.g.*, execution of master contract; fielding certain categories of inquiries for all members; providing certain categories of notifications; providing certain kinds of information initially or on a recurring basis; etc.)? If so, describe the nature of such obligations.
 - 36 If you were selected as the vendor, how would you handle independent theater owners who wish to join CBG and participate in the CBG digital deal after your formal selection as vendor? (Insofar as your answer involves any cost contingency in such accommodation of latecomers, CBG-NATO does not have an expectation that such latecomers could automatically participate in your digital cinema solution on the same terms.)
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Technical Specifications and Standards

- 37 Please certify that you intend to comply in good faith with the Digital Cinema Initiative (DCI) Specifications.
- 38 Please describe how you would accommodate DCI's requirement for FIPS 140-2 Level 3 compliance in your system.
- 39 Please describe how you intend to address changes to the DCI Specifications that are not known or anticipated today.
- 40 CBG-NATO prefers that the vendor pay for system upgrades required to maintain the commercially acceptable status of the systems through the contract period. Describe whether your solution contemplates your responsibility for system upgrades, and please describe how you will maintain the commercially acceptable status of equipment with regard to the evolving expectations of major studios throughout the term of the contract.
- 41 To the extent not covered in your previous answer, please certify that all upgrades—whether hardware, software, or firmware—are guaranteed to be compatible with the exhibitor's existing installation, and backwards-compatible with content delivered during the prior year. Either here, or in your answer describing the Service Level Agreement in Question #60, please describe the extent to which your certification concerning upgrades will be incorporated into the Service Level Agreement.
- 42 Please certify that you intend to comply in good faith with the latest version of NATO Digital Cinema System Requirements, together with applicable Errata.

For version 1.0 of the NATO Digital Cinema System Requirements, current as of the issuance of this RFP, see
<http://www.natoonline.org/NATO%20Digital%20Cinema%20System%20Requirements%20-%20release%201-02.pdf>.
- 43 If you contemplate any short-term deviations from the NATO Digital Cinema System Requirements, please describe the nature and justification for such deviation.
- 44 Please describe the extent of your intention to comply with (a) applicable recommended practices and standards approved and adopted by SMPTE DC28; (b) recommendations from ISDCF; (c) any other industry requirements, specifications, standards, or recommended practices, whether finalized or currently in draft form.

Financing and Virtual Print Fee Arrangements

- 45 Describe the extent to which your business model contemplates revenue streams other than virtual print fees (VPFs) paid by studios. Please include descriptions of any revenue streams involving recurring payments by CBG members (*e.g.*, maintenance fees, exhibitor contribution fees, etc.).
- 46 Describe the specific nature of your VPF arrangements, if any, with each of the six major studios. Details to describe include:
- The amount or range of amounts for a typical VPF payment under each VPF arrangement, and factors dictating the differences, if any, in VPF payments;
 - The maximum number, if any, of screens covered by each VPF arrangement; and
 - The termination date, if any, of each VPF arrangement.
- 47 Describe the nature of any commitments from studios to supply digital content for wide releases and otherwise.
- 48 Describe the nature of any restrictions suggested or imposed by studios regarding digital release to non-first-run cinemas.
- 49 Describe how your business model handles and accounts for distributors (including distributors other than the major studios) with whom you do not have VPF arrangements.
- 50 Describe any other factors relevant to your long-term solvency and financial ability to complete this digital conversion through the financing and contract period. Include in your answer a description of any succession plan in the event that you and/or your partners are unable to complete the digital conversion (*i.e.*, any arrangement for an alternative collector of VPFs and performer of basic contractual obligations).

Equipment

- 51 CBG-NATO prefers that members be permitted to choose equipment from a menu, subject to a budget, and if the equipment choice exceeds the budget, then the member pays the difference. Describe the extent, if any, to which your model permits equipment choice.
- 52 Provide the menu of key components to be offered per screen and per complex, including manufacturer and model numbers where known.
- 53 For each component listed, describe the extent to which the manufacturing sources are reliable, subject to competition, and capable of fulfilling the requirements of your solution for CBG members through the contract period.
- 54 Please describe how you would accommodate a studio request for optical resizing of the projected image.
- 55 To the extent not already covered in your answers to Questions 40-41, please describe how your plan provides for hardware and equipment upgrades, and the allocation of cost, whether

or not such upgrades are precipitated by changes in standards, specifications, requirements or recommended practices.

Equipment Ownership

- 56 In principle, CBG-NATO prefers an arrangement whereby digital cinema equipment is leased during the financing period, with an option to purchase the equipment at minimal cost after the financing period. Describe the ownership structure for digital cinema equipment under your plan, the point at which ownership will or may transfer to the exhibitor, and any relevant consequences to such transfer of ownership.
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Installation

- 57 Describe the installation-related preparations and services that you will provide for exhibitors that are included in your bid.
- 58 Describe the installation-related preparations and services that exhibitors must cover at their own expense.
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Training

- 59 CBG-NATO expects that your solution will include on-site training (at the time of installation) and off-site training (for new key personnel, refresher courses, and new or upgraded equipment). Please describe the type, manner and location of training included in your solution.
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Service Level Agreement—Maintenance/Service/Warranties

- 60 Please describe in detail the content of the Service Level Agreement (SLA) contemplated in your solution, including but not limited to, as appropriate, a definition of services (including hours of operation), performance measurement (including minimum guaranteed system availability), problem management (including the escalation process for trouble tickets, average speed to answer, time service factor, guaranteed response time), customer duties, warranties, disaster recovery, provisions for treatment of confidential or proprietary information, termination of agreement, and penalties for violation of the SLA.
- 61 To the extent not covered above, please describe SLA options that will be available to CBG members, the cost of the SLA, and whether CBG members may contract with an outside maintenance provider.

- 62 To the extent not covered in your answer to Question #60, please describe applicable equipment and software warranties, including specific coverage and exclusions. Include a description of how such warranties are handled within the context of the SLA.
 - 63 To the extent not covered in your answer to Question #60, and if the vendor supplies the maintenance service, please describe the degree of remote monitoring to be provided, including the level of access available to projectors, servers, theater management systems, etc.
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Exhibitor Expense

- 64 To the extent not covered in your answer to Question #58, or otherwise, please describe your expectation of a participating exhibitor's threshold responsibility for certain infrastructure and systems (for example, booth preparation, special electrical, audio and lighting facilities, roof space and defrosting capability, space for temporary housing of equipment, pre-installation training, exhaust system, etc.).
 - 65 To the extent not covered in your answer to Question #45, Question #58, or otherwise, please describe generally the categories of expenses you expect exhibitors to incur. As appropriate, describe expected expenses per screen or per complex.
 - 66 Describe how your plan distinguishes between existing complexes and new build complexes.
 - 67 Describe any potential different treatment of, or accommodations for, small exhibitors with limited capital.
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Special Capabilities: 3D and Captioning

- 68 Describe how your digital system will accommodate the exhibition of movies in 3D.
 - 69 Describe how your digital system will accommodate captioning for deaf and hard of hearing patrons. Include applicable description of interface with existing hearing-impaired systems that may already be owned by an exhibitor.
 - 70 Describe how your digital system will accommodate descriptive audio for visually impaired patrons. Include applicable description of interface with existing audio description systems that may already be owned by an exhibitor.
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System Architecture and Theater Management Systems

- 71 Please provide system architecture diagrams, accompanied as appropriate with narrative descriptions, depicting where content ingest occurs, and how content is moved from the central library server (if present) to the auditorium servers, and/or from auditorium to auditorium. Please provide separate system architecture diagrams for (a) large multiplex

installations; and (b) small installations (where a theater management system [TMS] may not be needed). For both kinds of installations, please provide screen shots that illustrate what will be seen when conducting booth operations.

- 72 To the extent not covered in your answer above, please describe, and provide screen shots depicting, how the proposed TMS will manage booth operations, including receipt of content and keys, identification of keys that are about to expire, and the construction of shows and schedules. Your answer should describe how the TMS receives schedule information, including schedule updates, from the POS, and who programs this capability into the system.
- 73 Describe how your digital system will manage individual user privileges. Include provisions for updating, deleting, creating, assigning, resetting, disabling and enabling users.

Key Management

- 74 Please describe how key distribution messages (**KDM**) will be automated.
- 75 Please describe how the automation process, and network delivery of KDMs, will be open to all KDM distributors.
- 76 Please describe the extent to which your plan contemplates delivering, or the option to deliver, KDMs to central exhibitor-owned facilities.
- 77 Please describe your policy, if any, on screen numbering.

Log Data Collection and Management

- 78 CBG-NATO notes that the content of security and operations logs is or will be covered by DCI and SMPTE standards, as well as NATO System Requirements (and therefore presumably covered by your answers to Questions 37-44). Assuming specific log content issues are adequately covered in your answers to Questions 37-44, please describe the extent to which the exhibitor has management over security and operations logs.
- 79 To the extent not covered in your previous answer, or your description of the SLA in Question #60, please describe the applicable guarantee of confidentiality in sharing security and operations logs with the maintenance vendor.

Content Delivery

- 80 What content delivery methods will your digital system support (*e.g.*, satellite, hard drive, live broadcast, fiber, other)?
- 81 If a satellite system is installed, please address the issues of access to and pre-acceptance of your satellite solution, including acceptance of negotiated rates. Include any applicable

description of acceptance of your satellite solution by the major studios for delivery of their content.

- 82 To the extent not covered in your description of the SLA in Question #60, please describe terms and conditions of satellite delivery maintenance.

Pre Show / Alternative Content

- 83 CBG-NATO notes that some exhibitors currently have lower-grade digital projection equipment for pre-show, on-screen advertising and alternative content, and some do not. Some may wish to continue using existing equipment, and some may not. How will your digital cinema system interface with existing pre-show, on-screen advertising and alternative product programming?
- 84 Describe how and upon what terms exhibitors may use your digital cinema system for pre-show, on-screen advertising and alternative product programming.

Insurance

- 85 What type of equipment insurance will you require and upon what terms?

Pre-Testing / Beta Market

- 86 Describe your experience, if any, with equipment or systems pre-testing or beta market experiments—or your intention or further intention to undertake same and how your roll-out timeline may be affected. Include descriptions of indicia of reliability and relevant lessons learned in the course of such equipment or systems pre-testing or beta market experiments.

Omnibus Inquiry

- 87 CBG-NATO intends and hopes that material inquiries about your competitive capacities to provide digital cinema equipment and service to CBG members are adequately covered by the foregoing inquiries. However, use this final inquiry to describe any other factors—technological, finance, experience, human resources, etc.—which you believe enhance your competitive capacity to provide digital cinema equipment and service to CBG members.
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