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DDMG - Investor Call to Discuss Virtual Performer Business

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Investor Call to Discuss Virtual Performer Business. My name is Eufenia, and I'll be your conference operator today. At this time, all participants are in listen-only mode. Later, we will conduct the question-and-answer session.

(Operator Instructions) And now, I have the pleasure to turning the conference over to John Textor. Please proceed.

John Textor - *Digital Domain Media Group - Chairman, CEO*

Hi, thank you very much and thank you, everyone, for being on the call. This is the kind of call that we're going to do from time to time potentially between earnings calls, really referring to it as a shareholder information call. Before I really get into the meat of the call, I'm going to turn it over to Shannon Burns, our head of Investor Relations for a quick read of the safe harbor statements.

Shannon Burns - *Digital Domain Media Group - VP - IR*

Thank you. Certain statements made during this call will constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include comments about the Company's plans, prospects, strategies, and future performance. They are made on the basis of our management's current expectations and the belief as well as a number of assumptions regarding the future events and business performance as of the time the statements are made. Such forward-looking statements are subject to known and unknown risks, uncertainties, assumptions, and other important factors including those identified in the safe harbor statement on our press releases, many of which are outside the Company's control. These could cause actual results to differ materially from the results expressed or implied in the forward-looking statements. Such differences may result from actions taken by the Company as well as some developments beyond the Company's control. Further information on factors and risks that could affect our business is included in the filings we make with the Securities and Exchange Commission from time to time, including under the heading Risk Factors in our form 10-K filed on March 30th, 2012. This document is available on our website at www.ddmg.co. All information provided in this conference call is as of May 1, 2012, and the Company undertakes no obligation to update publicly the information contained in this call or any forward-looking statements to reflect new information, events, or circumstances or to reflect the occurrence of unanticipated events. John?

John Textor - *Digital Domain Media Group - Chairman, CEO*

Thank you, Shannon, for that thrilling read of the safe harbor statement. It seems to get longer every time I hear it. I do want to say as a quick introduction that this shareholder information call might seem a little unusual. We hope to do this really from time to time on a regular basis just as a policy. We think more disclosure is a good thing, and we don't believe that we should overload quarterly earnings calls with a lot of general business discussion, and we think a focus in an earnings call should be on earnings. When things happen in our business - material events, things



that maybe potentially transformative - or when we see situations develop where what our shareholders believe about our business or think about events or announcements may be materially different from how we think about those same events or announcements, that's a good time and a good opportunity to have a shareholder information call to make sure that our view of things and shareholder and potential shareholder perceptions are aligned. In this particular situation, we got involved in the project that Ed Ulbrich, who's on the call with us, is going to talk to us about. Ed is the chief marketing -- chief creative officer of Digital Domain. He's probably the number 2 employee at our company back to the days of James Cameron. And we've been involved in human innovation for a long time. We were involved in a project recently that you all know is the re-emergence of Tupac Shakur. And what we read about it and what we know shareholders have surmised about it is generally accurate, but there's a lot of misinformation about the technology, about our role, about what we're going to do with it going forward. It is, in fact, an opportunity as large as most have imagined, but we think it's very important that we tell you exactly what it means to us because this is not something that we just did as a one-off. We've been doing this for a long time, and if we felt it's very important and a good opportunity to talk to you about what this means for our business and how it may impact the view of the future models and your expectations. With that, I would like to introduce you to Ed Ulbrich. Some of you may have read about him in the press or seen him in things like the past conferences. He's been with us for a long time, as I've told you. Ed, please, if you can walk our shareholders through our recent experience and what we plan to do with it.

Ed Ulbrich - *Digital Domain Media Group - Chief Creative Officer, President - Commercials*

Okay, thank you, John. Well, as you heard, over about 2 weeks ago, the rap legend Dr. Dre and Snoop Dogg put on an unforgettable show at the Coachella Valley Music Festival for about 90,000 fans. Near the end of the show, and that show featured, you know, rap superstars from the last 20 years, Dre and Snoop are joined on stage by the late rapper Tupac Shakur. He appeared in virtual form for a live original performance. I was there; I got to witness this, and it was very satisfying when I saw literally the crowd go insane when he appeared on stage. It's pretty remarkable thing to see about 90,000 people get their minds blown all at once.

Digital Domain created basically a computer-generated likeness of Tupac Shakur. We did it in about 2 months and we were working under the close direction of Dr. Dre. When we did this project, we knew this was going to make a big splash. We were pretty sure this is going to be, you know, significant but I think we were all blown away by the scope and scale of response. I don't think we really anticipated how big this was going to be. I think even Dr. Dre was unprepared for what followed. In the first couple of days after the show, YouTube videos of the live performance got over 15 million views; that's extraordinary. The media had a field day with the story; there's been thousands and thousands of print and online and broadcast and radio stories hitting, you know, really worldwide. We've seen everything from the Wall Street Journal, the New York Times billboard, DailyMail, BusinessWeek, CNN, ABC, Forbes and so on and so forth. It's really been remarkable. Google search results for Tupac Hologram shut up over 59 million results in just 2 weeks. On April 22nd, a week later, Tupac appeared again at Dr. Dre and Snoop's second show, and we really started to see at that point a different type of response and result. Shortly thereafter Tupac album sales increased more than 500% in 1 week. We saw his greatest hits album made the Billboard 200 for the first time in 12 years. A download of his song Hail Mary, which he performed, at Coachella saw a 1,500% gain since his performances, and business in Tupac's website have risen by over 500%. So we start to see headlines about what this meant for the future really, you know, in a world as diverse as music and performance and ethics, technology and intellectual property. So we really think that at this point, this project really opened the door. It's kind of clear to see and clear to us that it's really time for virtual performers to take the stage in a new form of entertainment, and we've gotten really inundated with request and queries from a wide range of potential partners. I think what's important is probably to give you a little bit of history on what we've been doing with digital human animation over the last several years. Now, to create a completely digitally synthetic human is really considered the Holy Grail of our industry. It really is the most complex thing that can be created in the visual computing as a completely totally believable digital human being. And we pioneered a kind of a breakthrough in this technology for the big screen on a film called *The Curious Case of Benjamin Button*, and that came out at the end of 2008. And we won an Academy Award for our work on that. In that case, in that film, we see Brad Pitt's character, Benjamin, on the screen for about the first hour of the movie. And what most people don't know when they watched the film is that he's a completely computer-generated character from the neck up. So this was a really a seminal moment, a tipping point in our industry for creating digital human beings. From there, we perfected the technology and the techniques on the film *Tron*, so in that case, instead of making an actor appear much older, we are able to have Jeff Bridges play opposite himself. So Jeff Bridges at the age of 60 playing opposite himself at age 30 -- again, a completely digital likeness of a young Jeff Bridges. We did it again in the *X-Men - First Class* film, and for Mara Rooney in *Girl with the Dragon Tattoo* and so on and so forth.

So what's really interesting about this is we've been able to do the R&D for this kind of technology and have it really funded by our customers and our services model. So we really improved these processes and these techniques with each successive film and so in a way it's funded R&D. We've



advanced our process and technology now so we can create this more quickly. We can now bring these characters into live venues and other contexts and now in a multiple media platform and much more affordably as a result of doing this repeatedly on major motion pictures. We now have the team in place that can do these projects and we can do these projects profitably. They are now realistic to achieve. And Dr. Dre's vision with the Tupac performance kind of triggered a tipping point, we think, and that's evidenced by the really the staggering number of calls we've been receiving about opportunities to take this further, and it really has created a surge of excitement in the media world around this. So where does this work and where does this kind of take us? Well, we've been looking at this for quite some time and as we see it, really large special venues or venue locations that need a constant flow of entertainment product as really ideal for this. And we can create both virtual renderings of actual performers like Tupac or Benjamin Button as well as completely unique characters that are totally fictional but look exactly alike, a completely believable real human beings. We've looked at Las Vegas. We really can vision enormous opportunities there as kind of entertainment epicenter and as a draw to bring people into the various hotels and casinos. We think we have a unique and efficient model. We don't have to build, as in many cases, lavish sets for some of these shows. You know, in many cases with both Broadway and with Las Vegas, you have fixed content venues, which were difficult to have anything other than the intended act appear on a certain stage. It's fixed grade expense and costly to change out these shows. And so we start to see using virtual performers and projections. We can create immersive world. In some cases, even with stereo 3D so that fans can be swept into other world and see performances of really all-stars and some of the great performers of all time. We also think that we can bring, and it's evidenced by Coachella, live performers with virtual performers so you can see a headline act and guest appearances can appear with them, which we think will drive great awareness and excitement around those appearances. We see concerts and Broadway theatres as really great opportunities, and virtual actors are really just one application of the technology. We see All-Stars Hall of Fame types of scenarios. You know, really, it seems limitless. We've gotten several questions about the projection side of the show. In this instance, the projection techniques and technologies that we've used are not unique. There are many vendors that can provide the required equipment, whether it's rented or licensed. So it's really not a limiting factor as we expand on this concept, and certainly other technologies and techniques for projection will appear over time, so we look at that as really good thing. John, I'll hand it back to you if we want to talk kind of about how this fits into our over-all business.

John Textor - *Digital Domain Media Group - Chairman, CEO*

Yes, thank you, Ed. You know, we have said in many of our investor presentations and meetings that we have a business model that is now the driver, and the businesses and the segments themselves that we choose are those that are inspired by our visual effects work, inspired by our 20-year history, our leadership and technology and creativity. It's the work that we do that makes many of these situations possible, you know, and everything leads to something else. It's the work that Ed did in sort of a commercial application for James Brown, then for Orville Redenbacher. You know, these were things that led to Benjamin Button. It was Benjamin Button that probably led to Dr. Dre becoming so imaginative about what he saw in human animation. And so our business model, while where the core of Digital Domain for the last 20 years has been work-for-hire visual effects, the shameful part of that is that 80 films and, you know, eight Academy Awards has led us to only \$100 million a year in revenues. The world has seen our work, but the business model is constrained by the work-for-hire businesses that we were in, that we decided to be in. And when you see colleges, and there are more than a few that are just training people to dream about working for us, when they make anywhere from \$100 million in revenues to \$350 million a year in revenues. Well, not even the number-one player in our space, Industrial Light and Magic, is making what, you know, one of the schools might be making at revenue. So we think we made a very good decision a few years back to move into content ownership and content creation and and to try to take sort of the beauty and the creativity in the technology of what we do and find different customers for it that would pay off more, or different models that would allow us more scalability in revenues. It's much better to be a part of every ticket sold than be the job shop that prepares the film to be distributed. So, just as we've gone from visual effects to co-production work, content ownership, we, of course, are well known now for being one of the co-production companies, along with OddLot Entertainment, for the movie *Ender's Game*. Of course, we've launched our own family animation sort of Pixar-style studio down in Florida. We've also chosen to take our visual effects technology into the world of military simulation and surgical simulation. We found new ways to take advantage of what we've been doing for a long, long time. I'll admit that the Tupac thing, really we knew it was special, and we knew was really neat, and Ed was calling me, months back telling me how incredible it's going to be. I'll admit to being pretty surprised by the reaction to it and, you know, I -- but the good news is we're not so surprised that we didn't have a business model ready to take advantage of it, because our entire business model is taking what's special about the world of visual effects and looking for new customers and new venues, and taking what we do off of the big screen and taking it into other mediums. And whether it's concert venues with Tupac Shakur or sport venues, for example, the less than half of you in New York that are Mets fans that have been out to the ball park and seen dynamic new visuals, in game visuals of a catcher throwing at a runner and some futuristic version of baseball -- that's also our work.



So we think taking the best of visual effects and putting it in other places and entertaining the audiences, the world over and finding a way to sort of grab a piece of the ticket -- that's a good thing to do with our company. And so really that's where it fits into the model. The surprise is for me, the reaction to it. I don't think Ed was as surprised as I was. We're not surprised that something we do in visual effects is incredibly attractive to the world over. In fact, that's the point. We're more appreciated when we get outside of Hollywood than we probably are within the Hollywood because within Hollywood, where the magic happens, we're part of the filmmaking team. We found a way to take our creativity and our technology and take it into new places, and if I can have a little piece of every ticket sold at some Branson, Missouri or Las Vegas location where a show of incredible value and interest to large audiences, a little piece in front of millions, that's a much better business model than what we've had over the last 20 years, when all Academy Awards just selling to a finite world. So that's really where it fits into our business model. I'd say the surprise that I had, it got even more intense when I traveled just last to the Middle East where content is sort of a curious thing. You know, it's balance between interest in Western content and loyalty to their culture and their religion and their sensibilities. And when I asked in a recent presentation for a show of hand of how many people in the Middle East had seen Tupac, it was 86% of the room and it was 100% of the people less than the age of 50. I then traveled from Abu Dhabi and Dubai to Beijing for the Beijing film festival, which was, of course, the announcement of our new joint venture there. And I asked the same question in a world where censorship prevails, and an enormous number of people in China had seen Tupac. So I think that it's impressive and it tells us what kind of an opportunity we have, and it tells us what kind of momentum we have. And this is not a surprise for a business model, this is exactly the business model we've been describing to you. I think the surprise is, from my perspective, what the near-term revenues might be, not just the work-for-hire component of it, but the participation and partnership. And I want to turn it back over to Ed to talk about the kinds of partnerships that we might be looking at where the virtual performance sort of gets us into the box office.

Ed Ulbrich - *Digital Domain Media Group - Chief Creative Officer, President - Commercials*

Yes, thank you, John. So, as John mentioned, we've been inundated since the last Coachella show really from the momentum of what Tupac has generated. But we've been looking at the space for quite awhile. And obviously the partners for us, that we are talking with and seeking out, are owners of intellectual property rights. These are people with -- have the control or own the rights -- to the image and the music of particular performers and also owners of the venues, whether it be real estate developers or otherwise, where these virtual performances can actually be staged. And the model is as John described -- it's a participatory relationship whereby we are providers of content and putting on meaningful live shows in the specific venues.

And so, it's really about partnering and participating really across the whole value chain that goes beyond even the box office. We see enormous opportunity in the download space, we see opportunities on all connected platforms of iPads and iPods and tablets and so on and so forth, where these characters, either original characters or Hall of Fame All-Star characters or classic artists, can be experienced. And with that, we see transactions really all around a whole suite of opportunities both physical end use and downloads.

John Textor - *Digital Domain Media Group - Chairman, CEO*

Great. A couple of things just to complete some topics on questions that we've been getting -- in terms of competition, we do want to talk that a bit because we read a whole lot of articles about Pepper's ghost and projection methodologies from the 1800s, and where is the technology really in the solution. Ed talked about this a little bit when mentioning the projection side of it. There are -- of course, there's a terrific company called Musion that built this projection system, and they've got a few licensees and, Ed, you might speak to whether or not you've come across other sort of projection format, and that's terrific stuff. Well, what have you patented? Who else can do this? And by and large, our industry moves so quickly while we do have a significant patent portfolio and some of you have heard us say this. Basically, all modern processes by which you convert a 2D film to a 3D film, yes, we've patented that and we're monetizing that in our numbers going forward. But in other areas of visual effects, by the time you get a patent, not only has the world caught up with you but even internally, you might have changed the way you approach a solution. And in human animation we have a remarkable head start and that's kind of what we're relying on. The way you get good at this is by being paid to work on this. And from James Brown, to Orville Redenbacher, to Benjamin Button, to the character in Tron for Jeff Bridges, we've been paid millions of dollars, \$30 million to \$40 million of money that's been paid by studios that has funded our research and development, funded by our customers as we've developed and improved the process. Our process is in continual development, changes constantly, and we get better and better and more efficient in creating human animated characters and virtual performers, so we have the largest virtual performer studio in the world outside of James Cameron studio for Avatar. That's where Tupac was created. As Ed says, you know, we have the manpower trained to do this work, and



now that we've proven it again in a very visible way and are much more likely to get the near-term customer assignments or partnership opportunities, if I were -- I mean frankly, the competition has a really hard time keeping because nobody that I'm aware of in the visual effects business has what we call an R&D budget anymore. I mean, George Lucas when he wants to spend money on something can do whatever he wants and that's the right you have if you build Star Wars. But by and large, even Lucas doesn't fund massive amounts in R&D for this type of thing. So the way people catch up to us, which we think we've got about a two year head start on any major studio that might want to compete with us, the way you catch up to us is funding \$40 million to \$50 million in R&D or getting \$40 million to \$50 million of direct human animation or virtual performance work. Well, I don't know who makes that R&D investment and I don't know who hires a visual effects company to do this work when Digital Domain is right there, happy to do it, having done it dozens of time. So I think we have one heck of a head start. I think it's very important that people understand when you talk about this technology of Tupac, there is the projection side but the magic is really crossing the uncanny valley and grasping the Holy Grail of animation, which is what it's been called for years, and we're the first company to have been credited with achieving that goal. And, Ed, as we know it, I think we're the only company in the world that's really doing this stuff. There will be competitors to come in; that's fine, it's a very big market. We've got a huge head start, and it looks like we're in position to get a lot of this work as imaginations turned into opportunities and therefore revenues as we go forward. And Ed, I'll just allow you to comment on that a bit.

Ed Ulbrich - *Digital Domain Media Group - Chief Creative Officer, President - Commercials*

Well, yes, it's all true. I think by the response that we're getting, it's clear there's appetite. And, yes, it's -- practice makes perfect. Well, we had the ability to make a Tupac Shakur in little over two months. Really, a couple of years ago, it was impossible. But through repetition and through perfecting the tools on our R&D, which is our film work, it allowed it to be and we are now ready, willing and able.

John Textor - *Digital Domain Media Group - Chairman, CEO*

To give some perspective on that two months, I remember seeing a first Benjamin Button cut come out of something like the year 2004, 2005 from a movie that didn't get into the theaters until 2008. And so we've gone from a three-year cycle of R&D on human animation to two months for the delivery of Tupac, and so that's a meaningful acceleration and automation. A couple of things on benchmark what can you expect from us going forward, I think we can concede that even we're surprised by the magnitude of this reaction. We are, as Ed has said, being flooded with requests. We're being very selective about the first deal. That does not mean we're taking our time. That just means we're very selective because you'll be offered a project which is so interesting and so dynamic that it may be the most interesting thing you can work on, it doesn't necessarily have the best scalability and the best participation in, say, ticket prices, getting a small piece of millions of dollars of interest. So we're being selective about how to apply this technology into the right kind of business model and we'll scale from there. Expect us to be announcing one of our first significant partnerships in that direction within the next couple of months, so we're not going to take too much time but we do have a lot to sift through. In terms of what we need to add in resources, as Ed said, we have large capacity right now. We have people that we can drag from 32% margin business over into virtual performance work at much higher margin and scalability. So that's the decision we can make at any time. We do need to add some extra business development resources. Ed is an amazing individual and one of the strongest performers in leadership and business development of our company, but we do need to add some business development resources and salespeople to handle the flow of proposals. But we do have the capacity to do the work. I would say where we're strained in capacity is in evaluating which work to do and what relationships to pursue. When will we see the impact on our financial results? I would say the scale of this business and opportunity in revenues is at least the scale of our existing business. So we spent 20 years building up huge track records to do \$100 million in revenues. And obviously, if you look at our backlog and you look at some of the models, the analysts that we support on revenues like the Janney model or the ROTH model, obviously, we've got growth there. But the question is do we think the virtual performance business is as big as our existing business? The answer is yes, whether that's true in revenues or profitability. Obviously, profitability is more important than revenues, and we think the profitability of the virtual performance business is considerably greater than the profitability of our 20-year work for higher visual effects business. And I think that probably is most sort of forward-looking kind of guidance that we can talk about. In terms of just wrapping up, this is an entirely new form of entertainment. It has huge upside potential. We do think that this is one of the clearest examples of what we've been talking about, which is an opportunity to leverage what's special about our existing visual effects business into new opportunities. A point there, this really is the highest quality work we can do. This is work we have to do in the United States. We have been doing work up in Vancouver where we're getting incredibly high quality, of course, that we could extend this kind of work up into that studio. As we move into India, China, other places where you heard us participating, don't expect to see us do scalable human animation several years in offshore markets. So we do think that this is something that leverages our



existing visual effects business. It strengthens our US business and gives our high-end artists the opportunity to work on the most challenging projects which we think is great not only for our business but for employees. It is consistent with our plan to move from a work for higher model into business arrangements where we have a participation like our 37% ownership Ender's Game or our animation studio in Florida, in this case, a piece of every ticket and a virtual performance where we can finally share and participate fully in the success of our work. And we can launch this business with minimal incremental investment. As we've talked about, it's adding a few bodies to sort of support Ed's incredibly fine work on business development. So with that, you know, I do appreciate everybody for being on the call. We do plan to have a lot of these calls in the future, I don't mean a lot, but again, I don't think it's appropriate to ambush an earnings call with a full business discussion. I think if anything that would have people believing that we don't want to talk about our numbers, which we're very open and transparent and looking forward to every quarter of earnings releases. We did have a couple of major announcements on this last earnings call which actually happened because those joint venture agreements and some of those grants came into play in the very last days of the first quarter. But generally, we want to keep earnings calls for earnings and we want to have major announcements and transformative events in separate discussions. Our next significant event related to some of that, we did announce on a prior call that our very large economic development, a grant package from Abu Dhabi is going to be more of fully explained in public press conference on May 21st at the Con Film Festival and so we'll be adding more detail there. But for now, we'll leave this call as is and maybe open it up for a few questions. Ed, do you have anything to add before we go to Q&A?

Ed Ulbrich - *Digital Domain Media Group - Chief Creative Officer, President - Commercials*

No, let's take some questions.

John Textor - *Digital Domain Media Group - Chairman, CEO*

Great. Okay, well, thank you, and operator, if you wouldn't mind polling for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

John Textor - *Digital Domain Media Group - Chairman, CEO*

Operator, I see the questions in the queue. I think the first question might be from Tony Wible from Janney. Are you prepared to take his question?

Operator

And Tony, please proceed.

Tony Wible - *Janney Montgomery Scott - Analyst*

Whether or not the Tupac work that you, guys, have done can play a role in either the military or medical simulation, and, you know, you, guys, have also -- you talked a little bit about the Middle East. You just mentioned you were in the Middle East so I was hoping you can give us an update given that we're on a public call.



John Textor - *Digital Domain Media Group - Chairman, CEO*

Yes, so I'll answer that and allow Ed to comment. You know, I think that human animation is extremely interesting in the military simulation space. It's obviously all that counts in the surgical simulation space because we're really not interested in that scenario in work. In military simulation, there had been some really interesting contracts that we've seen that we have not been involved in but where facial animation, lie detection, interrogation -- where it's been very important that digital humans drive kind of that training. And the contracts in that space have been very, very large and we're aware of one initiative in the military space that was dozens of millions of dollars and it was awarded to a typical large defense contractor. And at the time that award was made by the Pentagon, what they had promised to Pentagon in terms of facial animation quality, it could be delivered four years later. That was already obsolete by the time Benjamin Button came out. So these large programs of record which fund millions of dollars in the programs that spanned many years can become obsolete so quickly that by the time the contractor finishes, the work is either worthless or way behind standard. So Benjamin Button, you know, is a big project and for years proved that some of the works that they were doing in the military environment on facial animation was already obsolete. You know, why would you spend \$100 million to build a digital human and an infrastructure of interrogation training. Based on a digital human, it doesn't look half as good as this character that showed up in Benjamin Button. So I think that what our -- what we're doing in the military simulation group thus far has not focused on human animation. Our first contract that we hope to get in that space is more kind of the training space and helps our soldiers prepare for a sort of certain dangerous situation -- as much as I can say there. But clearly in military simulation is a huge opportunity. In surgical simulation, I have the unfortunate experience of having to stand in for Ed who's a much better public speaker at the American College of Surgeons conference right after the Benjamin Button, you know, film came out. And the flesh and the eyes and the nose and the hair and everything we do in the digital human in Digital Domain is vastly superior to what we give our doctors, and human characters to train on in virtual surgery.

Both of those categories, military and surgical simulations, are very complex. Military is actually more simple because we made a recent hire of a former senior consultant which is Ray DuBois who is commonly known as the mayor of the Pentagon. And he has been brought in as a part of the senior management team and he's helping us get the educational institutional launch and we think because of the R&D capabilities you have within an educational environment, the federal grants that you have the ability to apply for through that institution because that's a great way to do some R&D work to get us into the military and surgical space. Because frankly, some of these opportunities are so big, they can be distracting to management and test the bandwidth of management, so we like that Ray is heading up the effort to launch school. We like the fact that the school has access to research grants through large foundations, and we like that that money can go into projects that help build surgical simulation and military simulation and military simulation capability. Now, how it relates to Tupac, all we need Ed and his team to do is keep doing more human beings and sooner or later, based on what we're doing in the military and surgical space, we'll start to see those contracts really align with what we're doing on the visual effects space. And so that's how it relates. Tony, the second part of your question, actually I'll bring Ed if he's like -- Ed and I are in different locations so I apologize for the inconvenience of this. But Ed, your sort of comments on the military and surgical.

Ed Ulbrich - *Digital Domain Media Group - Chief Creative Officer, President - Commercials*

Well, I think you covered it thoroughly. Look, I'm a believer and for a while, he's probably one of the only believers that we could make completely believable digital humans. But we've seen that now happened. We've seen them mature. We see now practical applications in entertainment. And, of course, the logical extension for that are military medical for as we see it. Potentially others but those are some of the things that we've identified early on.

John Textor - *Digital Domain Media Group - Chairman, CEO*

Right.

Ed Ulbrich - *Digital Domain Media Group - Chief Creative Officer, President - Commercials*

So again, as we do this more, it becomes more affordable and more practical and I think it's a logical extension.



John Textor - *Digital Domain Media Group - Chairman, CEO*

Now, in terms of market size, I understand that the feature film business in visual effects is by a survey -- a study that we recently did and disclosed - maybe it's a \$2.3 billion to \$2.5 billion industry to visual effects of feature film. That is quite small compared to what we estimated as the \$26 billion industry in military simulation in the US alone or what might be a \$10 billion to \$15 billion industry in surgical simulation. So just the mere fact that you're instead of being one of dozens in the feature film space, you're the only high-quality entertainment-based therefore high visual fidelity visual effects company in a \$26 billion industry. It's nice to be the first to go there, it's nice to be the only one that seems to care to be there, and it's nice to have all that open runway for revenue growth going forward. The Middle East, quick update there, Tony, just -- again, I appreciate the question. We have previously disclosed that our grants from government both domestic and foreign are big part of how we fund our growth. We have a business in visual effects which supports itself through operating cash flow, growing revenues, cash flows that you'll start to see in more pronounced form from our backlog of awarded projects in the second half of 2012. As we grow into the animation business, State of Florida helped us pay for that. As we grow into the education business, the City of West Palm Beach helped us pay for that. As we expand into other markets, it's a little different and therefore likely to be much more profitable at startup because the reason you would go to Abu Dhabi is twofold. Number one, to build the college where there's a great need where you've got a pretty good sense of what your demand is for students showing up to understand what careers might be like in digital media and film and digital content creation. But going to Abu Dhabi, it's almost like -- it's like going to India where you get to pull up into Abu Dhabi-India labor, which is a fraction of the cost of labor in the United States. And it's even a fraction of the cost of labor that you get in other countries where they offer significant rebate. So going to Abu Dhabi and accessing India labor is an opportunity to reduce cost on existing work and existing backlog in our core business. So Florida, we use grants to open up new businesses and one can argue, okay, that's great that you got the money but you're taking new risk and it's going to be new model. What we're talking about doing in the Middle East is extending our existing business into a lower-cost work environment, and the reason we say Abu Dhabi instead of India is that the top trainers in the world, the top visual effects artists in Europe and the North America are not really interested moving to Mumbai to train the locals which is important to get the kind of quality that we're known for Digital Domain but they are interested moving to meet new exciting places like Dubai and Abu Dhabi so we can mix India labor with top training and do high-end visual effects and animation for our business in that region. So if you're already planning on going there because you can build the college where you know there's going to be great demand or if you're already getting a significant savings and moving there to access lower cost labor then in this case, if you got an economic development for the package of grants and other incentives that's material, well, that flows through right to profitability. So there's no new business launch there. It's the extension of your existing business. So we're going to talk about that in greater detail on the 21st of May. Abu Dhabi has a couple of announcements on their leadership and the entertainment industry and I think they think they have a remarkable opportunity. And I think you'll find that we're centerpiece for their strategy. And so we'll have a press conference at the Con Film Festival at 11 A.M. on May 21st and we'll have an event later that evening where there frankly will be more hors d'oeuvres and cocktails and there will be press announcements but it's expected to be a pretty significant announcement of what we're doing in partnership with Abu Dhabi. And sorry to go long in the question but I -- in terms of disclosure, that's kind of as much as we can talk about right now and so thanks, Tony.

Tony Wible - *Janney Montgomery Scott - Analyst*

Great. Yes, and that's a good update. Thank you.

Operator

And your next question comes from the line of [Steven Frankel]. Please proceed.

Steven Frankel - *Dougherty & Co. - Analyst*

Good afternoon. I'd like to dig into the virtual performer business a little bit. So if I'm a venue and I want to produce let's call it a 40-minute virtual performance. What's that going to cost me in terms of the effects works and kind of how much are you willing to will and deal around trading for ticket participation versus charging for the V effects work?



John Textor - *Digital Domain Media Group - Chairman, CEO*

Ed, if you wouldn't mind taking that one in terms of the --

Ed Ulbrich - *Digital Domain Media Group - Chief Creative Officer, President - Commercials*

Yes, yes. Well, I wish I could give you a very direct answer how much 40 minutes cost. There's a range of factors that affect pricing and they all really evolve around two things -- complexity and schedule. What's the time period with which we have to produce the content? Another one is the number of characters, all right? So an individual obviously is less expensive and less timely than a group of performers.

There are things that add complexity like hair and hair styles. In the case of Tupac, he's bald. So that's an issue we don't have to address, but hair is complex to render and create in a computer animation and graphics. And what is the nature of the performance? You know, it's much more complex and much more difficult to have an extreme close-up of a performer, you know, on the screen where you can see them emote and carry a performance and as a major motion picture. You know, depending on -- So anyway, there's a range of complexities that factor in how much actual on-screen, lip-synch animation is required versus just non-speaking or non-singing parts. So I don't have a straight answer for the cost. Again, it ranges based on complexity number of characters and the time that we would have.

Steven Frankel - *Dougherty & Co. - Analyst*

But I should think of it like the Ender's Game model where you might trade gross margins for upside.

Ed Ulbrich - *Digital Domain Media Group - Chief Creative Officer, President - Commercials*

Yes, I mean there's going to be an amount where there's going to be costs to produce. We can defer that, we can, you know, apply that elsewhere in the -- in the waterfall in the participation on the backend. So, you know, there's a number of ways to skin that, but I would say, you know, look, the Ender's game model is the model that we were -- we like, we're really proud of and we expect it to be lucrative for us. And along similar kinds of lines, we don't anticipate not being compensated for that for work. And we also believe that work is just a value and so to the extent that we can defer cost for a better position in the participation and, of course, that's something that we can bargain with and look at on deal by deal basis.

Steven Frankel - *Dougherty & Co. - Analyst*

And then, you know, in terms of, if we take about music performance -- performers, who has the expertise to create in a virtual singing or we're really talking about in the singing case taking existing recording and mapping it to a virtual character?

Ed Ulbrich - *Digital Domain Media Group - Chief Creative Officer, President - Commercials*

Well, I think it's certainly too soon to call that. It's going to depend on the library, the catalogs, the states, you know, so on and so forth. I think we -- what we're looking at initially that I want so exclusively really is the ability to leverage existing I.P. which is, you know, songs performances. We're not really looking initially really that this is an opportunity to have celebrities say things they didn't say or do things they didn't do which is really a way of bringing back, performance that otherwise is impossible to see. So an example -- maybe I should throw this up, an example -- to be able to see Jimi Hendrix play. Well, that I think is very special, something I could see in my lifetime and if I could, I'd be there. So that's the kind of thing that we're looking at, not necessarily having people do things they didn't do in real life.

John Textor - *Digital Domain Media Group - Chairman, CEO*

Yes, I'm voting for the Grateful Dead and Frank Sinatra but if Ed wants to see Jimi Hendrix, I'd probably go with them.



Steven Frankel - *Dougherty & Co. - Analyst*

I'm right there with you -- follow that Gerry. All right, thank you.

Operator

And your next question comes from the line of [Joseph Rivera]. Please proceed.

John Textor - *Digital Domain Media Group - Chairman, CEO*

Hi, Joseph. How are you? Okay. It looks like we dropped him. Operator, given that we've gone nearly an hour at this point, I think we'll close it off to Q&A. And, you know, just in summary, I do appreciate the people being on this call. We will do these calls from time to time. If they're non-earnings, you know, non sort of statutory calls, you know, feel free to enjoy them, ignore them. We'll put them up on the website. We think that more disclosure is better than less and again, we do think when significant things happen with this company that this kind of format is a better way to communicate than ambushing an earnings call because we certainly would like to keep the focus on performance. And so thank you again. We will put this up on the website and some kind of transcript form and, of course, any of our shareholders and analysts, feel free to contact the companies directly -- Shannon Burns at Investor Relations or myself as appropriate and thank you again for being on the call.

Operator

Ladies and gentlemen, that concludes the conference. You may now disconnect. Have a wonderful day.

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