

Money isn't enough to keep those film-biz dreams off cutting-room floor

DURING MY CAREER, I have witnessed more people losing more money on more films than I ever thought possible — “Billions and billions,” as Carl Sagan would say. And it is all the fault of sex.

If you were trying to impress someone at a cocktail party, would you rather say, “I make movies” or “I make widgets”? Face it, the film industry is sexy, and people like sex. Even if not of the direct ilk (a not-infrequent motivation), most people who produce films are driven by the conscious or subconscious sexiness of the industry, and the law of supply and demand takes it from there. There are a whole lot of people who made billions elsewhere and came to Hollywood to blow it and precious few who made billions in Hollywood and blew it elsewhere.

Let's take a trip down memory lane and look at the dead bodies:

► During the 1980s, there were the high-flying, publicly traded independents including Carolco, Cannon and De Laurentiis Entertainment Group, and they all went bankrupt or insolvent. And Carolco was the owner of the “Rambo” and “Terminator” franchises. Think about it.

► Then came the foreign banks, particularly Credit Lyonnais, which financed the purchase of MGM in 1990 by GianCarlo Parretti for \$1.25 billion and promptly watched it get wiped out.

► Then came the Japanese, and at the high-water mark, Matsushita bought Universal and Sony bought Columbia — and I learned basic Japanese: “Hajimemashita? Ohayou Gozaimasu?” Billions in losses later, Matsushita gave up, though Sony hung in there and eventually turned things around.

► Then came the blessing of insurance-backed financing. The insurance companies thought they had entered hog heaven, getting premiums of as much as 10% of the gap. Several billion dollars in losses later,

they changed their minds.

► Then, just when we thought all hope was lost, in came the publicly traded German companies (think Helkon, Senator and Inter-media) to pour billions into Hollywood. Fortunately, they all spoke English; unfortunately, most went belly-up.

► Just as that party crashed, up from the ashes rose Teutonic tax-shelter financings (they obviously have way too much money in Germany). They emptied so much of the German tax coffers into Hollywood that tax authorities in that country had to end the fun by putting Andreas Schmid, head of the leading tax-shelter fund, in jail.

► Most recently, New York private-equity funds jumped in and poured billions into studio-slate financing deals. Hey, would you rather go to Philadelphia and look at low-income housing or to Hollywood parties and walk the red carpet? Although a couple of these funds had the luck of the draw, most did not, which is why that wave of financing has receded from the Pacific shore.

Big studios have two significant advantages over independents that improve the odds in their favor. First, they control distribution, so they don't have to pay anyone a distribution fee, and they can control their destiny and ensure the best chance for success of their films. Second, they have strong-enough balance sheets to stay at the roulette table long enough for a blockbuster to make up for a

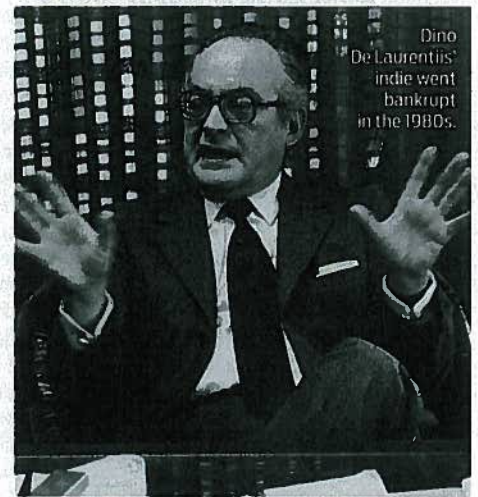
Highflying Carolco owned the “Rambo” and “Terminator” franchises.

Think about it.

whole lot of losses.

All of this has profound implications for the film industry, including the following:

► One develops a jaded eye when reviewing projections of income. Every new indie production company runs around with projections showing a rosy picture of ever-increasing profits, offering such “comparables” as “Paranormal Activity” and “The Blair Witch Project.” If projections were honest and based on his-



torical averages, they would show a downward spiral into bankruptcy.

► One must be a wild gambler to invest equity in a single film or even a small slate of films, particularly when the film company does not control distribution.

► One should be wary of spending time and money setting up a complex international tax plan to shelter all of those profits. It would be wiser to spend time and money setting up a structure that will permit the owners to deduct tax losses that inevitably will occur.

► Never, ever, ever start production on a film without distribution locked up in advance. Because of the vast oversupply of film productions, many movies — even large-budget films — can't obtain distribution or only on pathetic terms.

► The film industry has a voracious appetite for money. Overall, it could be viewed as a roving predator ever searching for the next victim to suck dry of cash.

So, caveat emptor: Film financing isn't a business — it's a bacchanalia.



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