

**An Investment Primer For Asset Managers, Family Offices, High Net Worth
Accredite Investors, Hedge Funds, Private Equity Groups, And Tax Professionals
Considering Film Finance With Tax Incentives.**

By Yuri Rutman

Alright, so you woke up one day, checked your Swiss Bank Account, called your family office planner, had breakfast with your private client service wealth manager, got your tax accountant on the phone, and between three of you, you decided to invest your proceeds from your latest company's Merger or Acquisition not into some dubious hedge fund or start-up biotech venture, but into financing Hollywood films because you figure you need the State tax Credits, the Federal tax write-offs, as well as a nice hedge of revenues from a few movies.

Now, this may not ring too well initially with your hedge fund manager neighbors in Connecticut or your oil and gas investor friends in Bahrain or Dubai, but aren't these the same guys who are financing Hollywood blockbusters? And the only question for you, how do you get in the game without feeling like the Uncle of the film school student who wrote his nephew a \$1,000,000 check for a film that starred his theater department classmates and ended up as a free download on youtube.com?

So after doing your share of homework, here's what you discover may be the opportunity to spice up your wealthy but boring life:

*Sergey Brin And Larry Page Of Google, Fred Smith, the CEO of Federal Express, Norman Waitt, the Co-Founder of Gateway Computers, Jeff Skoll Of Ebay, Todd Wagner and Marc Cuban (formerly of broadcast.com), Max Levchin and David Grodnick Of PAYPAL, Marc Turtletaub of The Money Store, Roger Marino Of EMC Corp, former Chicago bulls co-owner Jim Stern, Sidney Kimmel Of Jones Apparel Group, Minnesota Twins owner Bill Pohlada; Real Estate Developers Tom Rosenberg, Bob Yari; and, financiers Robert Sturm, Sheikh Waleed Al Ibrahim, Zeid Masri of SilverHaze Partners, Michael Singer, Mark Esses, David Larcher, Michael Goguen, Richard Landry, Michael Reilly, Rafael Fogel, and Philip Anschutz are just a handful of high net worth entrepreneurs who entered the motion picture finance and production business with successful results.

*There are various tradable state, federal, and international tax credit incentives that would offer a premium based on an equity position. Assuming there is a 10 million dollar budget film, where 50% of it is in equity, and 50% is through international distribution guarantees prior to release. Now assume there is a 20-25% tax credit on the entire amount of \$10 million dollars, which will immediately translate into \$2-2.5 million tax credit to an investor.

*Numerous hedge funds such as Reed, Conner & Birdwell (DISNEY), Legendary Fund (Warner Brothers), Melrose Fund (Paramount Pictures), Ingenious Media's 700 Million

dollar Float on London's AIM, Benjamin Waisbren Investments, and a host of other funds and fund managers are entering the film finance arena.

*The explosion of international DVD, pay-per-view, home video, cable, megaplex theaters, the future of multi-lingual Internet video on demand downloads, and cross-market digital distribution including low-cost theatrical digital projection, the movie industry is accelerating at an unprecedented growth rate.

*The American Jobs Creation Act of 2004, which amends the Internal Revenue Code of 1986, was signed into law . The Act creates three tax incentives expressly applicable to motion pictures, one of which – § 181 of the Internal Revenue Code – is especially significant to independent film producers and their passive investors on qualifying films with budgets under \$20 million dollars.

*The filmed and other entertainment sectors are constantly outperforming and beating analyst expectations with regards to growth, and are the only industries resistant to untimely global events and adverse economic conditions.

*Movie Investor returns may be more favorable and more liquid than holding direct equity positions in most public entertainment and other public companies, real estate investments, and other alternative investments.

*There is a huge demand, audience, and growing distribution structure for specialty independent, ,crime, horror, and other low budget films as exemplified by the success of such films as “Brokeback Mountain”, “Sideways”, “Capote”, “Garden State”, “Napolean Dynamite”, “Y Tu Mama Tambien”, “My Big Fat Greek Wedding”, “Memento”, “Crash” , “Saw 1 &2”, Friday The 13th”, “Halloween”, “Texas Chain Saw Massacre”, “Hostel” and “WOLF CREEK”, which was made for \$800,000, bought for nearly 4 million dollars prior to its release by Dimension, as well as “Hustle and Flow” which was made for \$2 million dollars and bought for \$16 million by Paramount Pictures.

*Apart from large blockbusters such as “King Kong”, “Harry Potter”, and other large scale studio films, the majority of studio-produced films have been under performing at the box office. The films that have been successful for studios were all externally financed and or co-financed with studios, sold for 2-3 x their costs, and a majority of them retained foreign sales rights to maximize revenues.

So after looking at all the great benefits, how do you actually go about finding a deal or movie project where you are certain that half your money isn't going to be used by a Hollywood producer as a down payment on a new mansion in Pacific Palisades?

The key that separates the successful film financiers vs. the newbie Oil magnates who come to Los Angeles with a pocketful of money and end up leaving with half a pocketful of money is called several things: structured finance, leverage, risk minimization, multiple exit strategies, tax credits, and the ethical consciousness of the filmmaker/producer.

What does that translate to you in a real world scenario. Lets say you want to finance 100% of a \$1.5 million dollar low budget genre film whose worst case scenario is a DVD release and profits from international sales and perhaps some other equity sweeteners in the conversion of the securities that you subscribe for as part of the deal. Well, if you write a check for \$1.5 million, and the film is shot in a state that has 30% in tax credits, you get back \$450,000 in tax credits + under Section 181, you are able to write off that amount under Federal. So you are already making a nice return before the profits kick in. Then you figure you sell the film to 50 countries, and if you are really lucky, you sell the film for 3-4 times it cost to a studio at a swanky festival like Sundance, Toronto, Cannes, etc. Do this over 5-10 films and you can make a very profitable name for yourself among the Hollywood elite.

But lets really take this a step further and see how the bigger boys leverage film investing because they can get a bigger star which can translate in larger overseas sales. Lets say a filmmaker/producer has a \$10 million film and you want in on the action. You would park \$5 million in equity, receive an 20-30% tax credit on \$10 million which will be \$2-\$3 million, the producer will get the biggest star he can, get a studio to kick in the other \$5 million dollars, you wont worry about ever seeing a penny from the theatrical release because you know your DVD profits and international sales will cover your equity position. Make sense?

Now leverage this with different budgets, genres, stars, distribution, places where you can get high tax credits (Ie Puerto Rico is 40%), other exit strategies where you can find your shares on the London AIM, and you are on your new career path as a sophisticated and educated film financier. Off course, if you want to go even further and guarantee 100% of your capital, there are tricks to that as well.

If you have any further questions on your quest to a movie premiere on the French Riviera at the Cannes Film Festival, and its a burning a hole inside your heart and soul, contact yours truly at filmhedge@aol.com or yuri@noci.com

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