

International Journal of Innovative Research in Science, Engineering and Technology

(A High Impact Factor, Monthly, Peer Reviewed Journal)

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Vol. 8, Issue 3, March 2019

FINANCE AND CINEMA

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ABSTRACT: Film finance is an aspect of film production that occurs during the development stage prior to pre-production, and is concerned with determining the potential value of a proposed film.

In the United States, the value is typically based on a forecast of revenues (generally 10 years for films and 20 years for television shows), beginning with theatrical release, and including DVD sales, and release to cable broadcast television networks both domestic and international and inflight airline licensing.^[1]

Film finance is a subset of project finance, meaning the film project's generated cash flows rather than external sources are used to repay investors. The main factors determining the commercial success of a film include public taste, artistic merit, competition from other films released at the same time, the quality of the script, the quality of the cast, the quality of the director and other parties, etc. Even if a film looks like it will be a commercial success "on paper", there is still no accurate method of determining the levels of revenue the film will generate. In the past, risk mitigation was based on pre-sales, box office projections and ownership of negative rights. Along with strong ancillary markets in DVD, cable television, and other electronic media such as SVOD, or streaming video on demand), investors were shown that picture subsidies (tax incentives and credits), and pre-sales (discountable-contract finance) from foreign distributors, could help to mitigate potential losses. As production costs have risen, however, potential financiers have become increasingly insistent upon higher degrees of certainty as to whether they will actually have their investment repaid, and assurances regarding what return they will earn.

Past film slate's poor performance records are showing up in public court documents. Property and casualty companies (P&C) like AIG had offered insurance against film slates and the bonds issued to fund them, but now fully refuse to cover film slates. This ended in many lawsuits, starting in early 1999 (with Steve Stabler's Destination Films \$100 million bond fund failure and subsequent lawsuit), and continue to this day with Aramid's lawsuit on Relativity's Beverly-1-Sony film slate and the Melrose-2-Paramount slate. Citigroup attempted to wrap the Beverly-1-Sony slate with a property and casualty insurance wrapper (from the formerly bankrupt Ambac Assurance, Corp.). After these "uninsured" slate financing arrangements (SFA) failed to return even the original principal to investors, the market has sought solutions. Traditionally, banks like JP Morgan have an entertainment division that uses proprietary risk mitigation regression analysis to see if future film revenues can meet an exceedance probability (where in the ultimate revenues allow the loan to break even), but this is calculated guesswork, and has caused all of the major national banks to lose millions in bad loans. An alternative to such loss protection was developed by Geneva Media Holdings, LLC (originally as risk mitigation for affluent individuals and "direct investors" under U.S. tax incentive IRC 181). Fully insured media funds are now being carefully reviewed by risk analysts at major hedge funds, banks and institutional pension plans specializing in investor risk mitigation.

KEYWORDS: film,finance,budget,mitigation,banks,investor

I. INTRODUCTION

Many outside of Hollywood fail to realize the longevity of film and television after-market income streams. Many commercial films and network television shows will make money for decades. For the investor who pays for part of the negative costs, the time value of money is important. For many movie investors the required rate of return for this "risky" investment may be 25% or more. This means that while there may be TV revenues for an additional ten years after the movie is released, the PV (present value) of those revenues is diminished by the required rate of return and the time it takes for these revenues to accrue. Ancillary revenues (VOD, DVD, Blu-ray, PPV, CATV, etc.), tend to accrue

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to the studio that purchased these residuals as part of their overall distribution deal. For many movie investors in the past, the theatrical box office was the primary place to gain a PV return on their investment.

VaultML has developed technologies usually seen in high-frequency trading to predict box office success and investor risk using artificial intelligence. They claim to analyze over 300,000 elements from screenplay to form a basis for prediction.^[2] Based on their published future predictions for 2015 they out yielded the market on a return on investment basis.

Ryan Kavanaugh of Relativity Media offered participation in profits to actors, rather than up-front fees, to lower production costs and keep profits protected. Kavanaugh has attempted to use data from major studios like Sony and NBC/Universal to build a complex Monte Carlo system to determine movie failure rates prior to production. His projects and business models have failed miserably, resulting in \$500 million in losses. The box office results of his movies have been mixed, as there is no set ratios, blends, mixtures, method or secret crystal ball that can project movie revenues, investor risk, or rejection parameters.

Slated^{[3][4][5]} is the first dedicated online film finance marketplace for professional equity investing. Combined with Slated's team, script and financial analysis, investors can have ownership in films.

Epagogix has developed a system using neural networks to assess factors that contribute to box office success. They assess a wide variety of movies of different box office returns. Another film finance analyst, Steve Jasmine, claims to have developed a system for predicting a film's box office success. This system claims to quantify 800 creative elements of billion dollar grossing movies to determine what audiences are most interested in.^[6] Worldwide Motion Picture Group offers a service termed "script evaluation" where a team of analysts compare draft scripts to those of previously released movies in an effort to estimate the box office potential of the proposed script. They also conduct surveys and use results of previous focus groups to assist this analysis.^[7]

Since the collateral for film financing can be based on intellectual property rights, film finance transactions generally commence with a title analysis.^[8]

Public sources

Government grants

A number of governments run programs to subsidise the cost of producing films. For instance, until it was abolished in March 2011, in the United Kingdom the UK Film Council provided National Lottery funding to producers, as long as certain conditions were met.^[9] Many of the Council's functions have now been taken over by the British Film Institute. States such as Georgia, Ohio, Louisiana, New York, Connecticut, Oklahoma, Pennsylvania, Utah, and New Mexico, will provide a subsidy or tax credit provided all or part of a film is filmed in that state.^[10]

Governments are willing to provide these subsidies as they hope it will attract creative individuals to their territory and stimulate employment. Also, a film shot in a particular location can have the benefit of advertising that location to an international audience.

Government subsidies are often pure grants, where the government expects no financial return, although one notable exception is Canadian federal government film agency Telefilm Canada which provides financing in the form of recoupable equity.^[11]

Tax incentives

Some U.S. states and Canadian provinces have between 15% and 70% tax or cash incentives for labor, production costs or services on bona fide film/television/PC game expenditures. Each state and province differs. These so-called "soft-money" incentives are generally not realized until a theatrical or interactive production is completed, all payments are made to workers, financial institutions, and rental or prop companies within the state or province offering the incentives. Many other limitations may apply (i.e., actors, cast and crew may have to take up residence in the state or

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province). Often, a certain amount of physical shooting (principal photography) must be completed within the state borders, and/or the use of the state's institutions. This would include rental facilities, banks, insurance companies, sound stages or studios, agents, agencies, brokers, catering companies, hotel/motels, etc. Each may also have to be physically domiciled within the state or province's borders. Finally, additional incentives (another 5% to 25% on top of the already generous soft money), may be offered for off-season, low-income area, or family entertainment projects shot in places of economic impoverishment or during poor weather condition months in a hurricane-prone state or Arctic province.

A number of countries have introduced legislation that has the effect of generating enhanced tax deductions for producers or owners of films. Incentives are created which effectively sell the enhanced tax deductions to wealthy individuals with large tax liabilities (e.g., IRS code sections 181 and 199). The individual will often become the legal owner of the film or certain rights relating to the film. In 2007 the United Kingdom government introduced the Producer's Tax Credit which results in a direct cash subsidy from the treasury to the film producer.

German tax shelters

A relatively new tactic for raising finance is through German tax shelters. The tax law of Germany allows investors to take an instant tax deduction even on non-German productions and even if the film has not yet gone into production. The film producers can sell the copyright to one of these tax shelters for the cost of the film's budget, then have them lease it back for a price around 90% of the original cost.^[12] On a \$100 million film, a producer could make \$10 million, minus fees to lawyers and middlemen.

This tactic favors big-budget films as the profit on more modestly budgeted films would be consumed by the legal and administrative costs.

Despite its frequent use in the past, the above schemes are all but gone and are being replaced by more traditional production incentives.^[13]

The main production incentive is the German Federal Film Fund [de] (DFFF). The DFFF is a grant given by the German Federal Commissioner for Culture and the Media. To receive the grant a producer has to fulfill different requirements including a cultural eligibility test. The film finance calculator^[14] on germanfilmfinance.com^[15] checks online if the project passes the test as well as it shows the individually calculated estimated grant.

British tax shelters

In British tax shelters, the same copyright can be sold again to a British company and a further \$10 million could be raised, but UK law insists that part of the film is shot in Britain and that the production employs a fair proportion of British actors and crew. By using British tax shelter methods, many American films like to shoot at Britain's major film studios like Pinewood and Shepperton and why a film such as *Basic Instinct 2* relocated its action from New York to London. These are commonly referred to Sale & Leaseback deals; they were discontinued in March 2007, though those initiated prior to Dec. 31, 2006 were grandfathered in.

Private sources

Debt financing

Pre-sales

Pre-sales is, based on the script and cast, selling the right to distribute a film in different territories before the film is completed.^[16] When the deal is made, the distributor will insist the producers deliver on certain elements of content and cast; if a material alteration is made, financing may collapse.^[17] In order to gain the "marquee names" essential for drawing in an international audience, distributors and sale agents will often make casting suggestions.^[18] Pre-sales contracts with big-name actors or directors will often (at the insistence of the buyer) have an "essential element" clause

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that (as per the example above) allows the buyer to get out of the contract if the star or director falls out of the picture and a marquee equivalent cannot be procured.

The reliance on pre-sales explains the film industry's dependence on movie stars, directors and/or certain film genres (such as Horror).^{[18][19]}

Typically, upon signing a pre-sale contract, the buyer will pay a 20% deposit to the film's collection account (or bank), with the balance (80%) due upon the film's delivery to the foreign sales agent (along with all the necessary deliverable requirements.)

Usually a producer pre-sells foreign territories (in whole or part) and/or North American windows/rights (i.e. theatrical, home video/DVD, pay TV, free TV, etc.) so that the producer can use the value of those contracts as collateral for the production loan that a bank (senior lender) is providing to finance the production.

II. DISCUSSION

Television pre-sales

Although it is more usual for a producer to sell the TV rights of this film after it has been made, it is sometimes possible to sell the rights in advance and use the money to pay for the production.^[citation needed] In some cases the television station will be a subsidiary of the movie studio's parent company.

Negative pickup deal

A negative pickup deal is a contract entered into by an independent producer and a movie studio wherein the studio agrees to purchase the movie from the producer at a given date and for a fixed sum. Until then, the financing is up to the producer, who must pay any additional costs if the film goes over-budget.

Generally, a producer will have a bank/lender lend against the value of the negative pickup contract as a way to shore up their financing package of the film. This is commonly referred to as "factoring paper". Most major North American studio and network contracts (incl. basic cable) are collateralized/factored by the bank at 100% of the contract value, and the lender just takes a basic origination/setup fee.^[citation needed]

Splitting the roles of studios and networks necessitated a means for financing television series appropriate to the varied risks and rewards inherent in the separation. A practice known as "deficit financing" consequently developed – an arrangement in which the network pays the studio that make a show a license fee in exchange for the right to air the show, but the studio retains ownership. The license fee does not fully cover the costs of production – hence the "deficit" of deficit financing.^[20]

Deficit financing developed after the varied risks and rewards were determined and carried out through film financing. Deficit financing occurs when the license fee for a show doesn't fully cover production fees. A studio has ownership of the production, but as license fees are handed out in exchange to air a show, the phrase deficit financing comes into play as costs were not being met and paid.^[20]

From the late 1960s through the mid-1990s special regulations from financial regulation's and syndication's rules created relations between television networks and independent production companies. These rules stated that ownership of the rights to the programs reverted to the producer/production company after a specified number of network runs (syndication). Profits from any other sales, including syndication, generally benefited the production community. Because of this, production companies produced original shows at a loss, hoping that they would eventually be run by syndication and make their money back.^[21]

Gap/supergap financing

In motion pictures, gap/supergap financing is a form of mezzanine debt financing where the producer wishes to complete their film finance package by procuring a loan that is secured against the film's unsold territories and rights. Most gap financiers will only lend against the value of unsold foreign (non-North American) rights, as domestic (North

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Vol. 8, Issue 3, March 2019

American: USA & Canadian) rights are seen as a "performance" risk, as opposed to more quantifiable risk that is the foreign market.¹ In short, this means that the foreign value of a film can be ascertained by a foreign sales company/agent by evaluating the blended value of the quality of the script, its genre, cast, director, producer, as well as whether it has theatrical distribution in the US from a major film studio;¹ all of this is taken into consideration and applied against the historical and current market tastes, trends, and needs of each foreign territory of country. This is still an unpredictable practice. Domestic distribution is also unpredictable and far from ever a sure thing (e.g. just because a film has a big budget and a commercial genre and cast, it could still be unwatchable and thus never receive a theatrical or television release in the US, thus being relegated to being a big budget, direct-to-video film.) Any certainty in the entertainment business, lending against foreign value estimates is preferable to betting on strictly a domestic success (comedies and urban films being two notable exceptions: they are referred to as "domestic pieces" or "domestic plays".)

True to its mezzanine nature, in the pecking order of recoupment of investment, generally, gap (or supergap) loans are subordinate to (recoup after) the senior/bank production loan, but in turn, the gap/supergap loan will be senior to (recoup before) equity financiers.

A gap loan becomes a supergap loan when it extends beyond 10-15% of the production loan required to shoot the film (or in other words, when the percentage of the gap required to complete the film's financing package becomes greater than a bank is willing to bear, which is traditionally 10-15%, but can sometime be a flat dollar threshold like US\$1,000,000.)¹

Gap/supergap lending is a very risky form of capital investment and accordingly the fees and interest charged reflect that level of risk. But at the same time it is not unlike buying a house: nobody pays 100% of the purchase price with cash; they pay about 20% in cash and borrow the rest. Supergap financing works by the same principle: put down 20-30% cash/equity and borrow the rest.

Bridge financing

Bridge finance has increased in prevalence in filmmaking in recent years. Bridge financing is an answer to the common "catch-22" problem of needing funding to get the actors, but not being able to get the funding without actors. Bridge financing, for example, can be used in scenarios where a filmmaker has a promissory note from an investor to finance a film provided the filmmaker can attach an approved actor, however without money to escrow for the actor's payment, the filmmaker is unable to meet the investor's criteria. In this instance, a short-term lender can provide a bridge loan to secure the actor with the promissory note as collateral; once the actor's payment is escrowed, the equity investment would be triggered, and the bridge loan would be paid back with a small interest.^[22] In Canada, this form of financing is more commonly known as "greenlight financing".

Slate financing

A relatively new method of financing, slate financing "involves an investment in a specified number of studio films ranging from a mere handful to dozens of pictures", typically by private equity firms and hedge funds. Slate financing's proliferation typifies the "complex relationship that has developed between the studios and Wall Street". Between 2005 and 2008, hedge funds invested an estimated \$4 billion in studio film slates and private equity firms invested \$8 billion.^[23]

The idea for slate financing came from "multifilm credit lines" that banks and investment firms created for studios in the late 1990s. There were three main advantages to this strategy: risk mitigation (since funds covered a pool of movies rather than one film), less interference from investors, and freeing up studio equity towards "big-budget franchises" for which they do not have trouble fundraising. In 2005, Relativity Media CEO Ryan Kavanaugh built upon these points to structure the first slate financing deal, a 17-picture joint deal with Sony Pictures and Universal Studios called Gun Hill Road that was backed by \$600 million from hedge funds. Slate financing preserved the benefits of the earlier credit lines, as it allows them to risk less of their own capital when financing high-budget films. After deducting production

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Vol. 8, Issue 3, March 2019

costs, including prints and advertising (P&A) and residuals, studios split remaining box office revenue with investing partners; oftentimes they also split revenue from DVD and merchandise sales.^[23]

Generally tax-advantaged theatrical film and television investment for affluent individuals comes with little risk. In general, production costs can be recouped through federal and state tax incentives, thereby eliminating most of the risk. Capital is still required as a direct investment (partnerships can be used), but must also be "at risk", which allows § 181 IRC write-offs. For example, if a private equity source is found (individuals with capital or a private wealth management firm representing personal funds), the investor pays for the film or TV production, and in return receives an equal amount of capital in tax-incentives, pre-sales, and state tax credits, thereby making the investment and recoup a wash. This is a highly specialized tax play, and is often looked upon as risky by those who do not understand the risk mitigation offered through state tax and federal tax incentives like § 181 IRC.^[1]

Individual investors

One of the hardest types of film financing pieces to obtain is private investor funds. These are funds invested by an individual who is looking to possibly add more risk to their investment portfolio, or a high-net-worth individual with a keen interest in films. While there are a few steps to cover between development funding and capital funding, with regard to the latter, any capital funding that is approached, whether that source is private equity (private individuals and /or funding groups), or debt financing (finance institutions and /or banks), is going to require that you have certain necessary elements in place before they consider financing your project. These elements include marketplace analytics, audience analytics, a bondable schedule and budget, and a distribution plan.^[24]

Crowdfunding

A video pitch on website Indiegogo for the film Being Impossible, which was successfully crowdfunded after the Crisis in Venezuela devalued previous funding awarded to the film

With a rising popularity of online crowdfunding more and more films are getting financed directly by their consumers this way.^[25] The crowdfunding platforms Kickstarter^[26] and IndieGoGo^[27] have their own categories dedicated to films.

Crowdfunding films gives the consumer a voice in what films are being produced, allow for riskier, more socially relevant, more innovative, less profit-oriented independent films with smaller and marginal target audiences that can't be found in mainstream cinema and lower the entry-barrier to new filmmakers.^{[28][29][30]} Crowdfunded films include Iron Sky, Kung Fury, Veronica Mars, Code 8, Star Trek: Renegades, Manthan and Anomalisa.

III. RESULTS

Film budgeting refers to the process by which a line producer, unit production manager, or production accountant prepares a budget for a film production. This document, which could be over 130 pages long, is used to secure financing for and lead to pre-production and production of the film. Multiple drafts of the budget may be required to whittle down costs. A budget is typically divided into four sections: above the line (creative talent), below the line (direct production costs), post-production (editing, visual effects, etc.), and other (insurance, completion bond, etc.). The budget excludes film promotion and marketing, which is the responsibility of the film distributor. Film financing can be acquired from a private investor, sponsor, product placement, film studio, entertainment company, and/or out-of-pocket funds.

When it comes to reporting the budget of a film, the amount of the budget represents the gross budget, which is the grand total of actual spending to produce the project and not to be confused with net budget, which represents the final out of pocket for the producer after government incentives or rebates ("If you pay \$50 for something but have a mail-in coupon for a \$10 rebate, your gross spending still amounts to \$50.").^[1] One of the consequences of the Sony hack was the release of budget information of many films or TV shows, including the 2015 Adam Sandler film Pixels. The actual cost to produce Pixels, or the "grand total", was \$129.6 million and the net budget for Sony came to \$111 million after they received a government rebate in Canada that covered a portion of their gross spend (cost) in the amount of just

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Vol. 8, Issue 3, March 2019

over \$18 million.¹ Even though Sony's out of pocket for the film was reduced because of the incentive, it does not negate the fact that the actual cost (amount spent during production to make the film) was still \$129.6 million.

Elements

- Story rights: The right to produce a film based on a play, novel, musical or video game, or as a remake or sequel can cost anything from a couple of thousand (e.g., Leaving Las Vegas) to over \$10 million (e.g., the video game Halo).
- Screenplay: An A-list screenwriter may be paid between \$100,000 to \$2 million to write a script, including \$400,000 a week for each rewrite of a film in trouble;^[2] script doctors may be called upon to revise the final draft at \$100,000 to \$200,000 a week. Recently, Columbia Pictures has been offering the best screenwriters 2 percent of the gross profits (after the production and marketing budget has been deducted). An original screenplay by a Writers Guild of America member can cost from its minimum, \$69,499^[3] and upwards of \$5 million (e.g., M. Night Shyamalan's Unbreakable).
- Producers: Film producers and executive producers are often well-paid, with a top producer earning a seven-figure salary upfront as well as bonuses and a share of the profits. For Spider-Man (2002), producer Laura Ziskin is estimated to have been paid over \$30 million.¹
- Director: The DGA minimum is about \$19,143 per week, for a minimum of ten weeks' work.^[4] An A-list film director can command \$5 to \$10 million per film.
- Cast: While the bulk of the cast usually gets paid by the Actors Guild standard rate of about \$2,300 per week,^[5] famous and bankable film stars can demand fees up to \$30 million per film, plus perks (trailer, entourage, etc.) and possible gross participation.^[6] Sometimes an actor will accept a minimal fee in exchange for a more lucrative share of the profits. Union extras are paid around \$130 per day (plus extra for overtime or if they provide their own wardrobe), but on a low-budget film non-union extras are paid less, sometimes nothing at all.
- Production costs: The cost of producing the film includes crew wages, production design, live set and studio costs, costumes, catering (food and drinks etc.), accommodation, transportation, travel, hotel stay, etc. The director of photography is usually the highest paid member of the crew.
- Visual effects: The cost of computer-generated imagery effects and other visual effect work in post-production depends largely on the amount of work, the desired quality, and the effects company involved (Industrial Light and Magic is the most prestigious and expensive); extensive effect work, as in Avatar or The Lord of the Rings, can easily cost up to \$100,000,000.¹
- Music: Typically, the music budget of a major motion picture is about 2 percent of the final total. Some, such as Spider-Man's music budget, have been as high as \$4.5 million.¹ The top film composers can ask for a seven-figure salary to compose about an hour of original film score. For well-known artists, like Christina Aguilera (Shark Tale) or Kanye West (Mission: Impossible III), the cost may be around \$1 million for an original song;¹ for existing works it may be around \$300,000.¹ Sometimes a less-known artist will license the rights to their song for a small fee in exchange for the publicity.

Tactics for cutting costs

- Eliminate night scenes. Shooting at night requires powerful/expensive lighting and the payment of nighttime rates to the crew. Broken Arrow (1996) cut costs by millions of dollars by eliminating the night scenes from the script. Many directors choose to use the "day for night" technique.¹
- Avoid location filming in famous or commercial areas. Shooting a scene on, say, the Golden Gate Bridge requires stopping traffic with a resultant drop in revenue to the city of San Francisco. Filming such a scene for Interview with the Vampire cost Warner Bros. \$500,000. Shifting the location to the San Francisco-Oakland Bay Bridge for close-ups could potentially save hundreds of thousands of dollars in location fees. Moreover, some

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Vol. 8, Issue 3, March 2019

locations (such as commercial enterprises like hotels and nightclubs) are more willing to allow filming than others. Some producers of low-budget features avoid paying location fees and seek to capture shots by subterfuge.¹

- Film action scenes early on Sunday morning. Stopping traffic for a car chase scene is easier in the early hours of Sunday morning, when traffic is at its lightest.¹
- Use unknown, non-famous actors instead of well-established movie stars.
- Ask above-the-line talent to defer their salaries. In exchange for dropping their large upfront salaries, actors, directors, and producers can receive a large share of the film's gross profits. This has the disadvantage of cutting the financier's eventual takings. It has the further disadvantage of ambiguity. In the case of net profit participation instead of gross profit participation, disagreements due to Hollywood accounting methods can lead to audits and litigation, as happened between Peter Jackson and New Line Cinema, after New Line claimed The Lord of the Rings film trilogy, which grossed over 2 billion USD, failed to make any profit and thus denied payments to actors, the Tolkien Estate, and Jackson.¹
- Use a non-union crew. This is not an option for studios that have signed contracts with the unions—the Directors Guild of America (DGA), Writers Guild of America (WGA), and Screen Actors Guild (SAG). Director Robert Rodriguez has been known to use the skills of experienced non-union crews for his films.¹
- Film in another region. For example, many Hollywood movies set in U.S. cities are shot in Canada to take advantage of lower labour costs, subject to fluctuating exchange rates. As well, they take advantage of federal and provincial subsidies designed to grow and sustain the film and television production industries in the area. Many U.S. states have responded with tax incentives of their own (see Movie production incentives in the United States). Australia, Hungary, the Czech Republic, Germany, Malta, and New Zealand are other countries in which Hollywood movies are often filmed.¹

Going over budget

In the US film production system, producers are typically not allowed to exceed the initial budget. Exceptions have of course been made, one of the most notable examples being Titanic (1997). Director James Cameron ran over budget and offered his fee back to the studio. In other countries, producers who exceed their budget tend to eat the cost by receiving less of their producer's fees. While the US system is profitable and can afford to go over budget, some other countries' film industries tend to be financed through government subsidies.¹

IV. CONCLUSIONS

In finance, box office futures is a type of futures contract in which investors speculate on upcoming movies based on their predicted performance.^[1]

United States

In the United States the idea of a futures trading in relation to the success of Hollywood films dates back at least to 1996, when Max Keiser and Michael R. Burns launched Hollywood Stock Exchange (HSX) as a web-based, multiplayer game in which players use simulated money to buy and sell "shares" of actors, directors, upcoming films, and film-related options.^[2] After some attention during the dot-com bubble, HSX was bought in 2001 by the financial company Cantor Fitzgerald who planned to turn it into a real-money trading exchange, but the devastation of Cantor Fitzgerald during the 9/11 attacks put the project on hold.^{[2][3][4]}

In 2007, Arizona-based entrepreneur Robert Swaggar formed Media Derivatives Inc. (MDEX) with the goal of creating an electronic futures exchange for contracts based on box office results. The idea behind MDEX was that it could be used by large film studios to recoup some of the money invested in failing movies by shorting its film on the exchange. Around the same time, Cantor Fitzgerald revived its plans for a real-life HSX and tried to get regulatory approval for it.^[2]

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Before any actual listings or exchanges could be made, a group of film studios, which was led by Motion Picture Association of America, asked the regulatory authorities to ban the practice, stating "that box office futures would be easily manipulated and of no use to the big film companies."^{[1][5]} The main concern was that decisions that could dramatically change the performance of any given movie at the box office — such as the weekend in which it premieres or the number of theaters in which it runs — could easily be changed on the fly by studios in order to manipulate the outcome.^[6]

Despite initially obtaining approval from the U.S. Commodity Futures Trading Commission (CFTC),^{[7][8]} in July 2010, the U.S. Senate passed financial-regulatory legislation which included a provision banning the proposed practice. Lobbying by the film industry and anxiety caused by the global financial crisis are seen as the main factors behind the decision to ban box office futures.^{[2][3]}

Iowa Electronic Markets, a group of real-money prediction markets/futures markets operated by the University of Iowa sometimes trade in future stock dependent on the box office performance of Hollywood films. It can do so because it is granted a no-action letter by the CFTC due to its academic focus and the small sums that are involved, with the markets being run for educational and research purposes.^[9]

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International Journal of Innovative Research in Science, Engineering and Technology

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Vol. 8, Issue 3, March 2019

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