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## Old Moguls Never Die; They Just Get Private Equity

By [SHARON WAXMAN](#)

LOS ANGELES — The faces are familiar, and the names are too: Chris McGurk, former vice chairman of MGM; Tom Pollock, former honcho of Universal; and Rob Friedman, a marketing guru late of the [Sherry Lansing](#) regime at Paramount.

All these executives, once top members of Hollywood's power elite, are being given a new lease on life as they raise money for various filmmaking ventures, backed by the latest wave of money to come sweeping through Hollywood: private capital from hedge funds and individuals flush with cash.

Last week, Mr. McGurk announced that he would head up a new studio, Overture Films, to make and distribute 10 feature films a year, each with a budget of about \$25 million. In August, Mr. Pollock and his partner, the director [Ivan Reitman](#), signed up with [Merrill Lynch](#) and two other investors to produce 10 movies over the next five years, in the same budget level. And Mr. Friedman is negotiating with Michael Blum, a managing director at Merrill Lynch, to raise up to \$1 billion for a studio that would both make and distribute movies, according to three people close to the negotiations (both Mr. Friedman and Mr. Blum declined to comment).

If Hollywood has a seemingly endless supply of former studio executives, the new money offers these veterans an alternative to afternoons on the golf course or leisurely lunches at industry watering holes. Their resurgence (along with that of longtime heavyweights like [Tom Cruise](#) and [Joel Silver](#), who have both raised outside funds recently) is also the immediate outgrowth of the major studios' plans to cut back on releases. Private investors, who were previously making deals with the studios, are now turning to old industry hands to fill the void.

"There is an awful lot of money out there right now, private equity money, hedge fund money flowing toward the business," Mr. McGurk said in an interview. His company is being financed by Starz, an entertainment concern with many cable channels, and which is a subsidiary of [John C. Malone's Liberty Media](#). "With that amount of money out there, it's very tempting for those in this business to create something with it."

But there's another major reason for the shift in Wall Street's interest from the studios to these at-large executives: lackluster results from investments in big studio releases.

Virtual Studios, a hedge fund allied with Warner Brothers, found itself saddled with the bomb "Poseidon," and Legendary Pictures, which has a five-year, \$600 million deal with Warner, was invested in the duds "Lady in the Water" and the animated "Ant Bully."

At the same time, studios have shut out outside financiers from a few of their most prominent films, like "The Da Vinci Code" or the coming "Spiderman 3" from [Sony](#) Pictures.

Stephen Prough, an investment banker who also raises private capital in Hollywood, said there had been a

backlash by hedge funds that were concerned about studios keeping the most promising projects for themselves.

“It does represent a shift of thinking by the hedge funds, from a mentality where they don’t want a middleman involved, to a mentality where they want qualitative selection as part of the investment process,” he said. “All of the producers and executives getting backing now have track records.”

Ryan Kavanaugh, who organized investors for a fund called Gun Hill Road to invest with Universal and Sony, said any future deals with the studios would involve their entire slate. The films in Gun Hill’s first fund included moneymakers like “Inside Man” and “Talladega Nights,” but also “All the King’s Men,” which faltered.

As for hits like “Da Vinci Code,” “we were aware upfront that we would not participate” in those movies, he said. “We’re happy with the deal, it’s making money. We’d do it again. There’s always adjustments in these deals to make them more profitable.”

As Hollywood seeks to evolve from the blockbuster era of megastar movies controlled by a handful of corporate-owned studios into a more fragmented and complex landscape, it may not be surprising that outside financiers are turning to executives with decades of experience.

Mr. McGurk, for example, was the vice chairman of MGM for six years before the studio was dismantled and sold to a consortium of investors in 2005.

Mr. Pollock was chairman of MCA/Universal’s motion picture group for 10 years, and since his departure has produced movies including “EuroTrip” and “Old School.” Mr. Pollock’s first film under his new deal is called “Disturbia,” a thriller starring Shia LeBoeuf, to be distributed by Paramount next year.

Mr. Friedman was vice chairman of Paramount’s motion picture group for more than eight years before he was swept from power last year in a studio shake-up.

Investors are looking to these executives to fill a void left by the entertainment industry’s diminished field, as major studios make fewer movies and onetime prime movers like [DreamWorks](#) SKG and Miramax have become a shadow of their former selves.

“Anyone doing this is doing it to be more a master of their own fate, and second, to make more money,” said Bill Mechanic, former chief of 20th Century Fox who has explored Wall Street financing for a series of movies that he would partly own. “In the studios, people are cutting back, and are rigid creatively. It makes sense for people to free themselves up from the confines of the business. Eventually, we’ll do it, too.”

Some industry insiders were surprised that financiers were willing to finance ambitious projects like the studio to be backed by Starz or Mr. Friedman’s proposed company. The examples of DreamWorks, begun in 1995 as a full-service studio, or Revolution, an ambitious filmmaking venture started by the industry veteran [Joe Roth](#), have yielded only intermittent success.

But Mr. McGurk, for one, said Overture would avoid the pitfalls that had plagued others because, in addition to seeking theatrical distribution, he had built-in sources of revenue from Starz, the cable network, and Anchor Bay, a video distribution company owned by Starz Media.

For the most part, these deals are not expected to produce blockbusters that compete with the studio offerings, but modest films with budgets under \$25 million. [Ted Field](#), who runs Radar Pictures and built Interscope Records, announced last week that he had secured financing for 25 movies with budgets of around \$20 million, mainly from wealthy individuals and equity financiers.

Like Mr. Pollock and Mr. McGurk, who are fishing in the same waters, Mr. Field's movies will be for defined audiences, meaning comedies, horror films, urban pictures to appeal to Latino or African-American audiences, and occasional prestige films meant for the broad market. Mr. Field has already announced that his company would help finance "Multiple Mary," a comedy about a woman who has multiple personalities, to be distributed by New Line.

"Twenty-five million is the target number," Mr. Pollock said. "That's a good number for a certain kind of movie, a genre movie. You can make funny comedies at that price, but they won't necessarily star [Jim Carrey](#) or [Vince Vaughn](#)."

Asked if he worried there might be a sudden glut of such films, Mr. Pollock said, "There may be some bad ones, but I hope they won't be ours."

But the prospect of a flood of mediocre films is something that Mr. Prough, the investment banker, thinks about a lot. He warns that Wall Street will soon learn the perils of backing a single executive, who may or may not be more successful than a studio in choosing profitable films. The executives will find themselves under pressure to put the money to use quickly, and may end up with poorly chosen projects.

"They may have a movie they were trying to develop, and couldn't sell for 10 years," Mr. Prough said. "Now they almost have the power to greenlight that movie. Without this outside capital, you have to question whether some of these movies would be made at all."

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