

## Why Invest in a Movie?

by James Jaeger

### *A Radical, Up-side View*

A movie is the best investment one can make for the up-side potential vs. the risk. They're better than real estate, blue chip stocks, gold, silver, precious stones, income-producing rental properties, futures, treasuries, international currencies . . . better than anything, with the possible exception of investing in your own education and spiritual enlightenment.

There simply is no business with manufacturing capital entry requirements as low as motion pictures where the potential return can be as unlimited over the short, medium and long terms. For instance, a movie such as HALLOWEEN, costing as little as \$320,000 to produce, earned \$75,000,000 and it does not stop earning money - for a lifetime. RETURN OF THE SECACUS 7 cost only \$60,000 and grossed \$2,500,000. BENJI cost \$550,000 and grossed \$45,000,000; NIGHT OF THE LIVING DEAD cost \$114,000 and grossed \$40,000,000, GRIZZLY cost \$700,000 and grossed \$31,000,000, DAWN OF THE DEAD cost \$700,000 and grossed \$55,000,000 and BLAIR WITCH PROJECT costs \$5,000 and grossed over \$150,000,000. And just when we thought nothing could top BLAIR WITCH, along comes MY BIG FAT GREEK WEDDING which was produced for about \$1.5 million as an independent film (turned down by all the studios for financing I might add) and it has so far generated over \$200,000,000 and it hasn't even hit home video or foreign yet. There are thousands of other examples where the return was at least three times anything done by securities listed on the New York Stock Exchange, the S&P 500 or the NASDAQ.

### Hide the Gold

If you were hiking alone in the middle of nowhere and you found nuggets of gold in a river - too many to carry home in one trip - what would you do? Would you go into town telling everyone that you found gold and you need help carrying it. No, you would probably be a little reserved, perhaps even nepotistic and tell only your family and closest friends.

This, in part, is not unlike the movie industry for how many products do you know that can be built from scratch for \$700,000 and earn \$31,000,000?

For those in the know-how and those in the loop (spelled "Hollywood Insiders" or "The Club" or the "Control Group"), movies are excellent investments - and the same would just as rather have that fact obscured (as fully explicated in a book called FATAL SUBTRACTION by attorney Pierce O'Donnell and Dennis McDougal). Ironically, that little phrase: "THESE SECURITIES INVOLVE A HIGH DEGREE OF RISK" is very convenient to The Club, even if it IS required under security laws. Human Beings have been known to hide the gold, or make it unsafe to enter the "forbidden" zone. More often than not, people who are very wealthy dress modestly or like slobs.

### Movies Are Good For Commerce

Although it is recognized that the *Writer's Guild of America* defines low budget features as less than \$2.5 million, for the examples here, low budget feature will be defined as less than \$1.5 million, medium budget up to \$4.5 million and high budget anything over that.

The average high and medium budget feature is in release for about 9.1 weeks. The average 3-Day weekend gross of the top 50 medium and high budget features (per *The Hollywood Reporter* between 5 March 1991 and 9 April 1991) was a total of \$59,527,179 - giving an average for each film of \$1,190,544 per each 3-Day Weekend - or a total theatrical revenue of \$10,833,950 per film over a 9.1 week run. These figures are conservative compared to 1996 figures.

### Low Budget Feature Track Record

Using data on 253 low budget features and extrapolating this data for 1996 dollars, the average gross of each picture was well over \$9,002,030 - theatrical income only. The top 8 pictures made more than \$30,000,000 each and the top picture made \$70.4 million. Averaging these 8 pictures gives an UPSIDE AVERAGE of \$48,175,478. The bottom 8 pictures made less than \$2 million each and the lowest picture earned only \$1,593,848 for a DOWNSIDE AVERAGE of the 8 lowest pictures of \$1,872,552 each. If these 16 UPSIDE AND DOWNSIDE pictures are completely deleted from the sample of 253 pictures, we get an average gross of the remaining 237 pictures of well over \$7,920,377 each. Call this the NORMAL GROSS.

For our computations in computing projections, we modified the UPSIDE AVERAGE and the DOWNSIDE AVERAGE figures with the NORMAL GROSS and got a conservative \$28,047,927 for the AVERAGE UPSIDE and \$4,896,464 for the AVERAGE DOWNSIDE on the theatrical market alone. A feature is released on video cassette after the initial theatrical run. Even if revenues generated in this medium are only 5% greater (and they are now even more) than the theatrical market, this gives an upside of \$29,450,323 and a down side of \$5,141,287. At this time homevideo revenues are generating more than twice theatrical so you can really double the \$28,047,927 for the AVERAGE UPSIDE and \$4,896,464 for the AVERAGE DOWNSIDE figures.

Next release is cable (such as HBO or CINEMAX) and this market earns over 15% of the theatrical market. This generates \$4,207,189 on the upside and \$734,470 on the downside. Pay-per-view (such as found in motels, hotels and resorts) is the next market. We used a figure of 5% of theatrical revenues giving an upside computation of \$1,402,396 and a downside of \$244,823 for this market. When these four markets are added up and the upsides and downsides are averaged, we get a bottom line figure of \$37,062,440 over a 3-year period for each low budget feature. This is the Short Term gross return at the Exhibitor level. Syndication, the selling of a movie to each of the thousands of individual television stations across domestic U.S., Canada and abroad, is a form of exhibition that may proceed for 15 years or longer. This can, and usually does, generate about 200% of what theatrical revenues were and ordinarily commences about 3 years after release in the cable markets. Any film, no matter how bad or good, can be syndicated - as you can readily illustrate to yourself by taking a look at some of the films on local late-night TV. Gross income from syndication, based on the average of the upside and downside theatrical revenues, may be as high as \$32,944,391 for each low budget feature over the course of 15 Years.

At this time foreign revenues have been generating even more than domestic U.S. revenues, but we won't even consider this in this discussion.

Additionally, none of the above revenues include network or ancillary sales which can be immense for medium and high budget films. Take a look at the toys generated from BAT MAN and TEENAGE MUTANT NINJA TURTLES. Now, even low-budget feature producers are getting involved with local merchants for ancillary sales.

Thus the above data indicates that the total long and short term gross for one feature motion picture is estimated to be \$70,006,831 over an 18 year period.

#### Past Decade Returns

*The Hollywood Reporter* and Entertainment Data Inc. present the following data:

The top grossing independent feature, TEENAGE MUTANT NINJA TURTLES, released by New Line Cinema, earned \$135.3 million in domestic U.S. The Top 40 pictures averaged \$28.87 million. Foreign rentals are about equal to domestic gross bringing the top grossing picture to \$270.6 Million and the average to \$57.74 million.

SHE'S GOTTA HAVE IT was reportedly made for \$175,000 in black and white and grossed \$6.5 million. Roger Corman has made approximately 250 low budget "B" features and has only lost money on a handful of them. See his book, *How I Made a Hundred Movies in Hollywood & Never Lost a Dime*.

Can you do this in real estate? Yes, in 200 years and with lots of luck.

You may think these are just the "exceptions to the rule," that "we never hear of the ones that don't make it," "that these numbers may have been true once upon a time - but not any longer," here are a few reasons why these statistics WILL continue to rise:

#### Planetary Birth Rate

Every DAY, on this planet, there are about 200,000 new movie-goers born who have not seen ANY movie you have invested in or produced. They have not seen it in the theaters, on cassette in their home or on cable or free television; they have not read any books based on the script or listened to any music from the movie sound track. All these people will be available at some time or other to rent or buy the movie you invested in - as well as rent and buy the products that spin off from the movie itself.

Even if 200,001 people die every day as well, that still gives your movie a whole lifetime, for any particular individual who was born, to see it and pay you for such rental until there are no human beings left on the planet Earth.

This translates into the fact that there are 73 million people born each year (200,000 x 365) who have not yet seen the movie you invested in - but will probably see it before they pass on.

### Building a Rental Property

In terms of quantifiable potential if all went right that possibly could, what is the maximum amount of money a movie can gross and what is this compared to a real estate investment?

You can build a 60-unit apartment complex for \$3 million. You can rent each apartment to one or two people for \$500 to \$700 or more per month (average \$600) per unit for a total gross income of \$432,000 per year. To make more rental money, just add more rental units at a cost of \$50,000 each and figure out how to get rid of the expenses and debt service you most likely have wrapped around your neck. And if you have ever dealt with zoning authorities and mortgage lenders, you know what you can be put through. You can build a movie for \$1,000,000. This is 3 times less capital than the apartment. You can rent that movie to a potential 73 million people for, using a round number, \$5.00 per ticket for a total gross income of \$365 million dollars per year. To make more rental money, just sit and wait for another year and there will be another 73 million people born sooner or later who have not seen it, but can afford it far before they can afford \$600 rent on an apartment. Of course it is ridiculous to say one will rent to 73 million people - the point I am trying to make is - one has a fighting chance to access such a potential market - whereas with a 40,000 ton apartment building which is subject to termites and recapture - you don't and *never* will. For your \$1,000,000 movie investment, you have 844.9 times the income POTENTIAL over a twenty-year period (\$365 million divided by \$432,000).

Therefore, if we consider it is as easy to build and market a movie as it is to build and market a building - just two different types of know-how - it makes a lot more sense to invest in movies than in real estate for the same effort (and you can travel all over the planet and shoot on exotic locations while you're doing it). Since I am involved in the ownership and management of commercial estate, I *know for a fact* that it is just as complicated to deal with real estate as it is to deal with movies on an effort per dollar basis. Again, ask anyone who has had to go before a planning commission, get a variance, deal with a builder and/or construction workers or who has partners. Believe me, making a movie is a lot more fun and the up side is *much* higher.

### Leisure-Based Society

The planet as a whole and in general (look at it since 1950) is moving into a leisure-based society because all or most of the mechanical functions of business and design are being done with computer assistance (word processing, spreadsheets, CAD-CAM, mailing lists) and artificial intelligence (AI) will probably replace vast amounts of the entire human work force by the year 2050.

After people are oriented to computers and these servo-mechanisms make it possible to double production (and it is not unusual for them to increase productivity by factors of 3, 6 and 10), the 73 million people born each year will have at least twice as much time every day to watch movies - including the ones you have invested in - given the same basic quality and quantity of products being produced.

And remember, third world countries, when they have finished with THEIR revolutionary wars, civil wars, and Great Depressions, will want nothing more than to kick back with a cold beer and watch movies - sort of window shopping for their future civilization. Proof of this is the mere fact that shooting a movie in the United States is considered "production value" ipso facto, because of the life-style there as perceived abroad.

Baby Boomers who have finished playing around in the stock markets of the 80's and 90's (and playing around in general), are a major market -- kicked back with their increasingly wider (and more digital) screens in home recreational centers sucking movies from DVD, cable, satellite and Internet feeds . . . a massively-programmable remote control in their hand.

Echo Boomers, who are still playing around, number 33,000,000 in the U.S. alone as of 2002 and most all of them are of movie going age as the majority of them are not yet (legally) in the bars. This is a major new market for films, especially mindless low budget coming-of-age and rites-of-passage films that are so fun for investors to make (because they get to visit the set and demand their girl friends or wife be in the cast).

### Movies Are Like Fine Wines

Movies are like wines, they improve with age. A movie that is a total flop in 1987 will be not only a collector's item in 2027 but it will be looked on as quaint and reminiscent of the "good old days" of yesteryear.

As time goes on, actors and actresses in the cast (which can be composed of hundreds) may be involved in other films - any one of which can be a mini success or a smash-hit. Suddenly the main character in your film (who worked and deferred his/her pay and was completely unknown) is earning lots of dollars on each

picture and has a recognizable name that draws hundreds of thousands or millions of people to the box office or video stores. This is one way your feature appreciates in value. My teacher, Shorty Yeaworth, made a film called THE BLOB with a virtual unknown, Steve McQueen, and now, I bet you have heard of Steve McQueen.

Do you know any wines that can appreciate in taste or value this much? Even gems do not as they are almost completely controlled by *DeBeers* who can saturate the market at any time thus driving appraisals down.

A movie goes up in value if for no other reason than the fact that people die. The movie you invested in is then the last vestige of their beloved motion and life. This is especially true of documentary films.

#### DVD and Cassette Craze!

You can spend 5 to 9 dollars to see one movie in a movie theater or you can spend \$2 - 4 to see each of five movies in your home.

If you are like many people, you like doing both. Big special effects pictures should be seen in a theater. Then, later they will be rented so one can savor the special effects on DVD. Many people will see a thriller such as NO WAY OUT or THE USUAL SUSPECTS and then rent it over and over so every nuance of the plot twists can be appreciated. If you have kids, you know that they will often want to rent the same (damn) movies over and over until you realize that you were an idiot for not buying the cassette in the first place. But then you DO buy the cassette inevitably and hate yourself for being such a procrastinator. You as a movie investor should love this, because it's all the more revenue.

If you are like many people who are thirtysomething you may prefer seeing movies at home just because it's comfortable and closer to the refrigerator. So, since the advent of the cassette, there are twice as many people watching the movies you invested in - and wait until you see what happens when then they can simply instruct their computer to download a movie from us at [Matrixx Internet Distribution](#) - while they are in transit from their job headed home or watch it over their lap-top by means of broadband wireless in the train. It's the home video revolution all over.

Even if your movie turns out to be a lousy piece of garbage, it will still rent in some percentage of the over 125,000 video outlets across America for a lousy dollar sometime within the copyright duration (60 years). With a good video jacket, some button-top or a name star, perhaps 25% of the video market will purchase at least two copies of the cassette at \$80 each from your distributor. That works out to a gross in only one of several markets of \$5,000,000 on a product that can be made for well under a million dollars. This is just in the U.S. too. It can do the same in the rest of the world, so that's \$10 million. That should pay back your investment many times over within a fraction of the time you amortize the mortgage on any piece of real estate.

Over the course of twenty years, can you tell me you can make more on real estate when your movie investment can make you over \$224 million -  $(5.6 + 5.6) \times 20$ ?

It sounds too incredible to believe, so no one does - except the 25,000 multi-millionaires who invest in movies and drive around Beverly Hills in their Rolls trying to decide what color marble the front steps should be at the new house.

#### DVD & Video Tape Players

As time goes on, more and more video DVD and tape players (VCRs) are manufactured and they get cheaper and cheaper to buy. You can get a video tape player for as low as \$50 now which once cost \$5,000 to \$250,000. And DVD players are now down to \$150. More access to players means the viewing audience will continue to grow. You can be sure, someday, players will approach at least half the birth rate of the planet because mothers and dads love shooting color sound video tapes of their babies growing up. Already there are over 10,000,000 home video cameras in the USA and each of these can also playback store-rented video tapes.

Of course when parents are not shooting video home movies, they are renting, purchasing and watching movies during their growing leisure time and three-day weekends. They reason, "I paid \$250 for the new DVD, I might as well rent a whole lot of movies to make the investment pay off." This reasoning also makes your investments in movies pay off too.

#### Video Space - The New Dimension

As the smaller compact discs (CDs) and Digital Versatile Discs (DVDs) become more and more popular (because of the fact that digital sound is virtually perfect reproduction of sound and picture is high

resolution), they will replace the older LP records on the shelves and virtually have done so at this time and the VHS tapes found once everywhere. Since CDs and DVDs are compact, they take up less shelf space in audio/video shops across the world. This extra shelf space makes it possible for more product to be stocked in the stores for sale and rental to the 73 million people born each year. Since tapes hardly wear out at all, each cassette only costs 29 cents per view to the owners of them. But what the future really holds is this: the rental markets will become increasingly purchase markets.

#### More Money Per Hour, Per Foot<sup>2</sup>

An apartment renting for \$600 per month earns a gross of 83 cents per hour (720 hours per month) for the apartment owner and uses over 400 square feet of planetary space.

A movie in a theater earns \$3.33 per hour (\$5.00 divided by 1.5 hours) and uses only 9 square feet of space (the viewer's seat plus his or her share of the space allocated to bathrooms and common areas).

A movie earns four times as fast as real estate (\$3.33 divided by 83 cents) and uses 44.4 times less space.

#### Risk is Relative

SINCE THE MOVIE INDUSTRY IS A STAR-STUDDED, HIGH PROFILE INDUSTRY, ALL FAILURES ARE PROMOTED MORE BLATANTLY THAN IN OTHER INDUSTRIES. PEOPLE IN GENERAL, AND INVESTORS ESPECIALLY, ARE THEREFORE MORE EASILY ABLE TO CITE THE FAILURES AND USE SUCH AS A NEGOTIATING POSTURE AGAINST THE PRODUCER OR AS A "REASON" WHY THEY SHOULD NOT INVEST. IF YOU LOOK CAREFULLY, YOU WILL FIND THAT THERE WERE MANY, MANY FAILURES, OF EQUAL OR WORSE MAGNITUDE, IN OTHER INDUSTRIES THAT WERE SLIPPED QUIETLY UNDER THE RUG BECAUSE SUCH INDUSTRIES ARE NOT HIGH-PROFILE LIKE THE MOVIE BIZ.

Certainly, compared to space exploration, or real estate development of the Moon, movies are rather SAFE investments. Ha ha. Hiring someone to build a building, if they have never built one before, is also risky. Therefore, the term "risk," at the very best, has relative meaning. This "meaning" is usually bantered around as a negotiating tool. Portray some investment as being more of a "risk," and one increases his share of "justifiable" compensation for taking that "risk." It's one of the oldest games in business.

Banks do this all the time with credit files. They use the negative information in credit reports to extort higher points or rates out of borrowers and it always seems to take forever to get these reports corrected. Banks use these short term credit reports to justify their perception of the "risk" they are taking for long or short term borrowers. A person could have been out of work once in their life, missed a bunch of credit card payments, and this is what will stick in their TRW or TRANS UNION credit report. These reports say nothing about the fact that the delinquency represents a period of time of perhaps 1/30 of their life. The reports say nothing about the fact that the person made, phone, electricity, gas and department store payments on time for 29 years. The credit report says nothing about the fact that the person was a good credit "risk" for 29/30ths of their life on five other accounts or with ten of their friends. Yet when a mortgage application is being reviewed by the bank, the person is RISKY and so extra points must be charged (or extorted by the lender) to make it "SAFE" for them to make the long term financing. And the higher the Fed rate, the more the banks play this game.

Don't think that this same RISK MENTALITY doesn't apply to some equity lenders as well -- although the "extortion" manifests itself in an additional way. These lenders want to CONTROL the investment by either owning most of the stock or equity, by sitting on the board, by being an officer, by having some right to rescind a vital element OR . . . all of the above. Many times their obsession with RISK and CONTROL ends up sinking the project. They would have been better off picking a good horse and letting it run.

If you have ever read a prospectus or investment memorandum you will see a disclaimer which says "THESE SECURITIES INVOLVE A HIGH DEGREE OF RISK." Granted, making movies has risk connected with it, but so what, every activity is risky, including investing in T-Bills, especially now when we have a government that is over \$6 trillion in debt and a balance of trade deficit that ready to explode. If you know your history, you know that an unbelievable number of civilizations and governments have come and gone in just the past 2,000 years. Some songs have lasted longer than civilizations that once covered a fifth of the planet's surface.

The fact that a movie investment has an immediate potential of returning ten times what a 20 percent return on equity investment would, means the investor can afford to lose three out of four such investments and still be even. Thus, risk is (not only relative to other investments), it's relative to potential gain.

Lastly, looking at the stock market between late 1999 and 2003, can you honestly say that there's NO RISK, or ever LOW RISK, in investing in big mutual funds or big anything? Many stocks in the Dow lost over 60% of their value. Investors in these stocks are now sitting back watching movies in total apathy . . . and of course, this benefits you as a movie investor as well. No?

#### Dishonesty

The only thing that could be considered "risky" is shrinkage in distribution due to dishonest distribution and exhibition.

This risk is on the way out because producers once could not track all the thousands of ticket sales all over the world and over syndicated television. Now personal computers make it simple to track thousands of transactions in a nanosecond. Besides, it is NOW possible to electronically transfer money to everyone involved on the production and distribution of the picture right from the ticket booth. Thus everyone is a Gross Participant and no one can steal from anyone up the payback chain to the Producer's investors. Further, many distributors are also producers and many producers have become distributors. Both communities are working more together and have a better respect for each other as they become aware of each others' symbiotic needs. Cheating will be reduced towards zero.

Considering the amount of money and the amount of employment in the movie industry, there is less dishonesty in the movie business than any other business of comparable size. The reason is simple: The "Players" (the ones who are hiding the gold), know each other so it is very difficult for anyone to get away with fraud or dishonesty for very long.

#### Quick Recoupment

You can invest in the DEVELOPMENT of movie projects and recoup your investment the minute the movie goes into production and still retain ownership in the profits generated from distribution.

An investment in the development of movie projects means you are investing in the story, the talent package and the producer's ability to get it financed.

An investment in the production of a movie means you are investing in the producer's ability to see the project through development, successful completion and marketing.

Development investment usually gets you the most "Points" (units of ownership) per dollar. No securities rise in value as fast as development Points in a movie that will go into production. Points continue to rise in value forever because the movie can be rented forever as long as new people are born on the planet Earth. (As an off-planet note: think of how interested Beings from other planets would be in seeing movies made on our planet - if such a trade ever comes about - and it will.)

#### Odds are Even

Man is a visual being, he likes to LOOK AT things, no matter what he is looking at. Hence even odd movies make money. Movies are things that he will look at while it is raining outside or sun shining outside. People love to look at bad movies as long as they are really bad or classically bad. Possibly the "oddest" movie ever produced - PINK FLAMINGOS - made for some \$12,000, grossed 900,000 people out of \$5.00 each thus earning \$4,450,000. This movie would keep grossing for you too - if you had invested in it.

#### Distribution Breakthroughs

It is becoming technologically easier and easier to distribute motion pictures. In the old days, a feature length movie had to be carted around in huge cans weighing hundreds of pounds. These had to be trucked all over the country at great expense and hassle. Each print costs about \$2,000 as well. If your film was not a box office success, it was just not worth the headache of distributing it - so it would be pulled the minute another film came along that might be "worth the distribution hassle." Needless to say, many films sat on shelves because of this "system" of distribution.

Unfortunately investors then temporarily lost their money. But even these films are now being snatched for distribution. After the 73 million insatiable cassette renting/buying people are finished looking at all the "big pictures", they will rent the "little" pictures just for something to do. And whether yours is big, medium or little, it will rent.

Today, more money is spent renting 11 ounce video cassettes than going to theaters watching three hundred pound rolls of celluloid acetate. A ticket costs \$5 to \$9 and a cassette costs \$1 to \$4.85. Since movie goers are getting more movies for their bucks, they are spending more bucks on their movies.

Even though, at the moment, the quality of home video movies is not as good as theatrical presentations, it will be when High Definition TV (HDTV) is in every house and people generally view movies on laser discs. HDTV will cause even more people to rent the movies because they will not only be as clear as theatrical presentations, but the aspect ratio is closer to wide screen and the screens will eventually be huge and flat. This coupled with digital sound, wired through home stereos, and the theaters will have to go to SHOWSCAN to compete.

What is SHOWSCAN? SHOWSCAN, invented by Douglas Trumbull, projects 70mm prints at 60 frames per second as opposed to conventional systems that project 35mm prints at 24 frames per second. No scratches or illusion that you are looking at a screen is apparent in the SHOWSCAN system and the image looks perfect and truly three dimensional. The image and show quality are so perfect that ticket prices are justified in being higher than normal ticket prices. Going to an opera, live play or concert is nowhere near the thrill or value of any well made SHOWSCAN motion picture because, in effect, there is no discernable difference between the "live" show and the SHOWSCAN performance.

Thus inventions, like High Definition TV, SHOWSCAN and large flat home screens, will revolutionize the entertainment industry and will bring people out in droves who want, and will increasingly get, higher quality presentations, as opposed to today's scratchy 35mm prints in sticky, bowling-alley-theaters or oven sized TV screens with scan-line pictures of low resolution blasting unsafe doses of EMF to the viewer. I repeat, there will be another boom like you will not believe in home entertainment as well as theaters and hopefully investors will be savvy enough to have hedged their bets in the proper direction - movie investments.

#### Pay-per-view & Cable

Pay-per-view may be the next big golden goose. The only reason Pay-per-view slacked off is because it is still waiting for fiber optic lines to go in place, satellite systems to become more effective or duplexing digital cable. The bandwidth of fiber optic systems is easily wide enough to send many on-demand video feeds even over phone lines. When this is widely in place (and already there are transcontinental lines, such as SPRINT, and GLOBAL CROSSING, operating) and the courts have given the okays, you will be able to download or stream movies and play them directly on your PC or dump them onto your VCR or a hard drive. In about two years, large amounts of video will be storable in random access computer memory or on read/write DVD's, just as audio can be stored right now on CDs. To get a movie, you will just call up over your phone (or cable) and be billed - like dialing a 976 number or download it off the Internet from a site like this. This technology is underway right now in many areas. The 73 million people will then be able to "just charge it" to their phone bill or to their debit or credit card. The technology will really start moving when alternate delivery systems are in place because this will foster free completion. Right now some cable systems that have a monopoly over their areas are arrogant, over priced and non-service oriented. Fortunately, you as an investor in movies, and/or a producer, will easily be able to pay all YOUR phone bills and credit card debts because of the royalties you will receive from the 73 million paying THEIR movie-rental bills -- that is, if you have invested in enough movies by then.

Put simply, as time goes on there will be easier distribution conditions on all fronts. Every movie that is made will be distributed and all will generate rentals. No one complains when they have dropped a dollar for a lousy movie. If they have dropped \$5 (or \$10 on a date) plus a drive over to the theater for a lousy movie, that's something different - they complain. They also spread bad word-of-mouth so their friends will not suffer the same plight. But no longer will they go out of their way to complain if the lousy movie was just one of five they rented for a buck or two in the comfort of their own home. Thus negative word-of-mouth will mitigate and positive word of mouth will stay the same or increase.

The net result is that the movies you invested in, all of them, will rent more and you will make more money.

#### Internet-based Video-on-demand

The best news of all is the potential of the Internet as a universal distribution medium. Already there are between 300,000,000 and 500,000,000 people connected to the Internet, depending on whose data you want to believe. As of 13 March 2002, here are some facts-in-brief about the state of the Internet-based Video-on-demand potentials:

##### Bill Gate Quotes:

In 1998 Bill gates said: "One billion computers will be in existence by the year 2003 and over 100 million of them will be connected to the Internet with multi-media capabilities."

"Once the costs to build a broadband network are low enough, video-on-demand has the potential to be a "killer application" -- a use of technology so attractive to consumers that it fuels market forces and makes the underlying invention, on which it depends, indispensable."

"In the long run, the broadband Internet is a mass phenomenon or it is nothing."

Internet Today:

The Internet was created by the Dept of Defense many years ago. Tim Berners-Lee invented the World Wide Web in 1989 thus making the Internet more user-friendly with what he called "hyperlinks." Netscape further enhanced the experience with a Graphical User Interface (GUI) called a "browser."

Today Total Internet Access is 300 - 500 million (Global Reach)

United States access is 180 million (Nielsen)

European access is 150 million (Global Reach)

Current Broadband users are 22 million (Nielsen)

Internet Growth rate is 11% per year (Nielsen)

Broadband Growth Rate is 90% per year (Nielsen)

Possible Video-on-Demand Revenues:

Over 30 million EchoBoomers in the U.S. alone between the ages of about 16 and 21 that are potential movie goers (not to mention the over 40 crowd, that's almost as big).

Sell a video-on-demand to just 10% of this market in a given month and that's 3 million sales.

Price each video-on-demand at \$1 and that's \$3,000,000 million gross revenue.

If an Independently-produced feature only costs \$500,000, that's a net profit of \$2,500,000. If the Investor gets 25% of this from the gross as an **<>Automatically Parsed Royalty** (without any "creative accounting"), that's \$625,000 in post-recoupment income. Right there, that's return on investment of over 100%.

If you do these sales each month, an Investor is looking at before-tax profits of \$7,500,000 a year.

Then double this for the 30 million EchoBoomers in the rest of the world and you have \$15 million right there.

What about all other rights such as HOME VIDEO, CABLE, PAY-PER-VIEW, SECOND-RUN CABLE, NETWORK, SYNDICATION and even THEATRICAL, if the picture is good enough?

What if you charge \$2.00 per download? You're looking at about \$30,000,000 million per year and so on . . . a la the supply and demand curve.

Again, it's no wonder Bill Gates said:

"Once the costs to build a broadband network are low enough, video-on-demand has the potential to be a "killer application" -- a use of technology so attractive to consumers that it fuels market forces and makes the underlying invention on which it depends indispensable."

Invest in Movies?

It is safe to say that at least 730 million new moviegoers each decade (73 million x 10 years) will come on line to watch movies. Even the poor in many countries buy color televisions and make monthly payments as avidly as they spend money on food and rent.

So is an investor crazy to NOT invest in the movies? YES, HE OR SHE IS CRAZY TO NOT INVEST IN MOVIES ON A REGULAR COST AVERAGE BASIS. With all of the above reasons -- not to even mention new markets, such as China (with 1.2 billion new potential moviegoers) and India (with 900 million new potential English-speaking movie goers) coming on line -- an investor would be imprudent to not take a serious look at the potential risk to reward ratios of movie investments at this time.

Also see **Where to Avoid Investing** at <http://www.mecfilms.com/moviepubs/memos/whyinve2.htm>