

Tom Cruise's Contract

Slate

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by Edward Jay Epstein

The Hollywood Economist

The numbers behind the industry.

Tom Cruise Inc.

The numbers behind his celebrity.

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The total "gawkerization" of Hollywood, entertaining as it may be to the public (and journalists), blots out much of the reality underlying the movie business. Witness, for example, the treatment of Tom Cruise after People asked on its Web site, on May 12, if his relationship with the actress Katie Holmes represented "1. TRUE ROMANCE" or "2. PUBLICITY STUNT." In this weekly pseudo-poll, which makes no pretense of finding a random sample, and in which subscribers with AOL's instant messaging can "vote" as many times as they like (paying a charge each vote), 62 percent of an unknown number of respondents chose "publicity stunt."

Once this statistically meaningless result was sent out on the PR wire, it spawned a frenzy of stories dangling the bizarre idea that the romance had been faked to publicize, in Cruise's case, Paramount's *War of the Worlds* and, in Holmes' case, Warner Bros.' *Batman Begins*. Even after Cruise appeared on Oprah professing his love for Holmes and later announced that he and the actress were engaged, Frank Rich proclaimed in the New York Times on June 19 that the affair was nothing more than "a lavishly produced freak show, designed to play out in real time," and that "the Cruise-Holmes romance is proving less credible to Americans in 2005 than a Martian invasion did to those of 1938."

The only evidence he cited was the People "poll" taken more than a month before the engagement announcement. What is entirely lost in the fog of media gossip, however, is the entrepreneurial role that Tom Cruise has carved out for himself in the New Hollywood with the Mission: Impossible franchise. When Paramount decided to reinvent its TV series *Mission: Impossible* as a movie, Cruise not only starred in it, but he (along with partner Paula Wagner) produced it. In return for deferring his salary, he negotiated a deal for himself almost without parallel in Hollywood.

To begin with, he got 22 percent of the gross revenues received by the studio on the theatrical release and the television licensing. The more radical part of the deal involved the video earnings (the deal was negotiated before DVDs became omnipresent). As videos became a cash cow for Hollywood in the 1970s, each studio employed a royalty system in which one of its divisions, the home-entertainment arm, would collect the total receipts from videos and pay another one of its divisions, the movie studio, a 20 percent royalty. This royalty became the "gross" number that the studios reported to their partners and participants. The justification for this system was that, unlike other rights, such as television licenses, which require virtually no sales expenses, videos have to be manufactured, packaged, warehoused, distributed, and marketed. So, the home-entertainment arm keeps 80 percent of the proceeds to pay these costs. The stars, directors, writers, investors, actors, guilds, pension funds, and other gross participants get their share of just the 20 percent royalty. If a star were entitled to 10 percent of the video gross, he would get 10 percent of the royalty, which is only one-fifth of the real gross.

But not Cruise. He insisted on—and received—"100 percent accounting," which means that the studio, after deducting the out-of-pocket manufacturing and distribution expenses, paid Cruise his 22 percent share of the total receipts. As a result, Cruise earned more than \$70 million on *Mission:*

Impossible, and he opened the door for stars to become full partners with the studio in the so-called back-end.

By 2000, the profits from DVDs had begun to alter Hollywood's profit landscape, and since it was now too complicated to track all the expenses, Cruise revised the deal with Paramount. His cut of the gross was increased to 30 percent, and, for purposes of calculating his share of the DVDs, the royalty was doubled to 40 percent. So, he would get 12 percent of the total video/DVD receipts with no expenses deducted by Paramount (technically). If *Mission: Impossible* sold \$320 million worth of DVDs and videos (which it did), Cruise's cut would be \$38.4 million. In return for this amazing deal, Cruise agreed to pay the only other gross participant, the director John Woo, out of his share. As with *Mission: Impossible*, Cruise's company produced the film, and Cruise, who proved to be a relentlessly focused producer, brought *Mission: Impossible II* in on budget. The movie went on to be an even bigger success than the original, earning more than a half-billion dollars at the box office and selling over 20 million DVDs. Cruise's share amounted to \$92 million—and he was now the key element in Paramount's most profitable franchise.

In light of such a success, *Mission: Impossible III* was a foregone conclusion, and Paramount agreed on the same deal with Cruise. For Paramount, the economics were irresistible. According to an internal analysis by Paramount, each DVD, which retails for about \$15 wholesale, costs the company only \$4.10 to manufacture, distribute, and market. Another 45 cents goes for residuals payments to the guilds, unions, and pension plans, leaving the studio with slightly over \$10. So, even after giving Cruise his cut of \$1.80 per DVD, Paramount stood to make more than \$8 per unit. By 2004, DVDs were bringing into the studios' coffers more than twice as much money as movies (click here for the actual numbers), and there was every reason to assume that *Mission: Impossible III* would sell more DVDs than its predecessor. By June of 2004, Paramount had arranged a German tax shelter that would supply \$12 million and an equity investor, Melrose Partners, that would put up to 20 percent of the budget. They had also leased space at Babelsberg Film Studios in Berlin. At this point, however, director Joe Carnahan withdrew for "creative reasons," and the movie had to be put on hold while an acceptable replacement was found, script changes were made, and a new budget was developed. In the interim, at Paramount's urging, Cruise signed on for another Paramount movie, *The War of the Worlds*. Meanwhile, the budget of *Mission: Impossible III* had increased to \$180 million, and, in what is almost a ritual in Hollywood these days, the new Paramount studio chief, Brad Grey, asked for a renegotiation. He decided he could safely confront and play "hardball" with Tom Cruise, as the game was described by another Viacom executive, because Cruise and Paula Wagner had already signaled that they were willing to shave costs to get the project in production.

After the dust had cleared, Cruise still had his huge percentage of the gross—it actually had improved since there were now no other gross participants—and *MI3* will begin shooting next month on a budget that everyone believes is manageable. Paramount, despite its bluster, needs Tom Cruise, who stands—along with George Lucas, Steven Spielberg, and Jerry Bruckheimer—as one of the handful of producers who can reliably deliver a billion-dollar franchise—and, without one, Paramount's fortunes are dismal. So, while Cruise, for better or worse, emerges as one of the most powerful—and richest—forces in Hollywood, the media remain totally fixated on the fact that he's a Scientologist and the anachronistic notion that he is fabricating his love life, like Gene Kelly in *Singin' in the Rain*, just to get publicity for himself and to fool the press.