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THE HOLLYWOOD ECONOMIST: THE NUMBERS BEHIND THE INDUSTRY.

Gross Hysteria

DO THE STUDIOS REALLY OVERPAY TOP TALENT LIKE PETER JACKSON?

By Edward Jay Epstein
Posted Monday, Jan. 23, 2006, at 6:40 AM ET

Jackson: 500-pound gorilla?

Studio executives are hardly clueless when it comes to negotiating contracts with A-list talent, although the popularity of The-Moguls-Must-Be-Crazy stories in the media would have you believe otherwise. Examples abound: The *Wall Street Journal* reported that, "In order to sign actress Cameron Diaz and director Nancy Meyers, the [Sony] studio had planned to offer both women a share of the movie's gross box-office revenue from its first day of release on. It is a practice known as 'first-dollar gross' and it's standard fare for top-tier talent." *Variety* reported that "20 percent of the gross [of *King Kong*] is going to [Peter] Jackson." *Wired* reported that, "A deal worth $20 million against 20 percent of the box office gross [is] the kind of contract Tom Cruise or Tom Hanks generally get."

In fact, the Hollywood studios never give participants—not even gross players as powerful as Arnold Schwarzenegger, Tom Cruise, Tom Hanks, Jerry Bruckheimer, Steven Spielberg, or Pixar Animation Studios—an unadulterated percentage of the box-office gross, or the video store gross, or any other retail gross. As one top Viacom executive explained, "The first truism of Hollywood is 'Nobody gets gross—not even a top first-dollar gross player.' "

What the top gross players do get are two kinds of compensation: fixed and contingent. The fixed part is the upfront money that gross players are paid whatever happens to the movie. The contingent part is the percentage of a pool called the "distributor's adjusted gross" in Hollywood lawyer lingo. The players get their share of this pool after certain conditions are met, such as the movie earning back the amount of fixed compensation or reaching a contractually defined cash break-even point. The pool is "filled" with the money that the studio's distribution arm collects or, in the case of DVDs, gets credited with. With movies, the pool (eventually) gets the remittance from theaters (anachronistically called "rentals" from the days when movies were rented to exhibitors) left over after the theater owners deduct their share of ticket sales and house allowance and after the distributor deducts "off the top" expenses such as check collection, currency transfers, stamp taxes, duties, and trade-association fees.

With DVDs, the pool gets the "royalties" paid by the studio's home-entertainment arm to its distribution arm. It's a remarkable exercise in self dealing and produces an amount that represents only a small fraction of the studio's actual revenue. The standard DVD royalty is 20 percent of the wholesale price, but a few of the very top stars get a royalty as high as 40 percent. (There is also an alternative arrangement called 100 percent accounting, in which the pool is credited with the home-entertainment arm's total proceeds minus its manufacturing and packaging costs, but this is usually reserved for only full-fledged partners such as Pixar.) In the case of TV licensing, the pool gets the license fee minus the "residuals" paid out to actors, directors, writers, and guild pension plans.

To see how these "gross" participations work in practice, look at Arnold Schwarzenegger's 33-page contract for *Terminator 3*, which is still considered the gold standard for the super-gross players. For his fixed compensation, Schwarzenegger received $29.25 million—then a record sum. He got the first $3 million upon signing and the balance during the course of principal photography. His "contingent" compensation was 20 percent of the "adjusted gross receipts" of the distributors (Warner Bros. in the United States; Sony Pictures and Intermedia abroad). The "adjusted" part of the equation allowed the studio to deduct the items specified on Page 3 of the contract: "All industry-standard and customary off-the-top exclusions and deductions—i.e. checking, collection conversion costs, quota costs trade association fees, residuals, and taxes." Schwarzenegger's lawyer, Jacob Bloom, is without peer in the entertainment business, but the best he could do here was to cap some of the collection charges at $250,000; he could not touch the residuals or tax deduction. Bloom did manage to get the all-important DVD royalty contribution to the pool raised to 35 percent (although only for Schwarzenegger). As good as this was, it meant that Schwarzenegger was entitled to only 7 percent of what the studios took in from their DVD sales.

Schwarzenegger's contingent compensation would not kick in until the film met the break-even point defined in the contract (click here to see how his contract defines cash break-even). Although the film achieved a $428 million world box-office gross, it just barely reached its cash break-even point, so alas, Gov. Schwarzenegger has earned only a pittance so far from his gross participation beyond his $29.25 million payday. Tom Cruise got a more immediate slice of the action for *Mission: Impossible II*. In return for his producing, acting, guaranteeing against cost overruns, and paying other gross players their share—including director John Woo's 7.5 percent—Cruise's production company got 30 percent of Paramount's adjusted gross receipts. Since the DVD royalty going into the *M:I-2* pool was calculated at 40 percent royalty, Cruise would end up getting 12 percent of the DVD revenue. As part of his unique deal, Cruise did not take upfront fixed compensation (other than the minimum required by the Screen Actors Guild), and, in return, his 30 percent contingent compensation was not deferred until a cash break-even threshold was met.

In this light, Peter Jackson's compensation for *King Kong* was a relative bargain. Universal paid $20 million in fixed compensation to Jackson's production company not only for his directing services, but also for the scriptwriting and producing services of his collaborators Fran Walsh and Philippa Boyens. (The *Terminator 3* budget for script, producers, and directors exceeded $34.5 million.) And, making a sweet deal even sweeter, the New Zealand citizenship of Jackson and his team qualified Universal for a cash subsidy from the New Zealand government that could be as high as $20 million (and by itself could pay Jackson's entire fixed compensation). In addition, once the fixed compensation is earned back, Jackson's company also gets 20 percent of Universal's adjusted gross receipts, which means it will get at least an additional $20 million from movie rentals (which now have passed $200 million worldwide) as well as a huge payoff from future DVDs and TV rights.

Such deals are costly, but not crazy. The studios' business nowadays is entirely driven by one or two huge franchises that serve as worldwide licensing platforms. And the most predictable producers of these windfalls, such as Steven Spielberg, George Lucas, Tom Cruise, Jerry Bruckheimer, and Peter Jackson, are all gross players represented by savvy lawyers and agents who know all the ropes of the movie business. To be sure, not all their projects turn out to be billion-dollar franchises, but they have little downside. Look at *King Kong*: The upside for Universal was a Midas-touch licensing franchise that would enrich the studio with billions in revenues for years to come. But even if that gamble fails and there are no ape sequels, the studio will lose little if any money on the movie itself—even with Jackson's generous deal. In this big-stakes game, it makes great sense for the studios to recruit the best gross players, as long as the gross they give away is not really the gross.

How Arnold Schwarzenegger Defines Cash Break Even

Cash Breakeven shall be defined as the point at which there shall have been recouped from Adjusted Gross Receipts an amount equaling all actual distribution expenses attributable to the Picture (provided there shall be no double deductions for any item, including without limitation residuals), all costs of production of the Picture (including without limitation any pre-break participations, mutually-approved deferments and completion bond fee), actual interest and actual financing costs related to the Picture, a producer fee in the aggregate amount of $5,000,000 for Andy Vajna and Mario Kassar and an overhead charge to Intermedia Film Equities Limited equal to ten percent (10%) of the bonded budget (with no interest on overhead or overhead on interest). For purposes of calculating Cash Breakeven only, Adjusted Gross Receipts shall include a 100% home video royalty (i.e. home video revenues less costs, provided no such costs shall be deducted if such costs were previously deducted hereunder) to the extent that Producer is accounted by distributors at a 100% home video royalty or if Producer is not accounted for at a 100% home video royalty, with respect to any Adjusted Gross Receipts, such Adjusted Gross Receipts shall include and be calculated with a home video royalty equal to the home video royalty Producer receives with respect to such Adjusted Gross Receipts, but in no event less than a 35% home video royalty. For all other purposes (other than calculating Cash Breakeven), including the calculation of [Schwarzenegger] Participation and the Deferred Participation, Adjusted Gross Receipts shall include a 35% home video royalty, or if the agreement for the services of the director of the Picture so provides, then such greater home video royalty shall be included in the Adjusted Gross Receipts of the Picture for purposes of calculating [Schwarzenegger]Participation and the Deferred Participation.

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THE HOLLYWOOD ECONOMIST: THE NUMBERS BEHIND THE INDUSTRY.

Concessions Are for Girlie Men

ARNOLD SCHWARZENEGGER'S ABSURDLY ADVANTAGEOUS CONTRACT FOR *TERMINATOR 3*.

By Edward Jay Epstein

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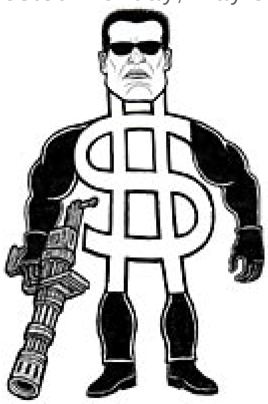

The nonstop anecdotes that stars give in celebrity interviews about the stunts they supposedly performed, their favorite hobbies, and how much they enjoyed working with other stars may serve to hype their latest project—a job they are contractually required to do—but they evade a central issue: The art of the deal has come to replace the art of movies. To understand how the new Hollywood really works, one need only read stars' contracts. Consider, for example, Gov. Arnold Schwarzenegger's agreement for *Terminator 3: The Rise of the Machines*. It's a state-of-the-art exercise in deal-making.

The contract, which was brilliantly put together by the Hollywood superlawyer Jacob Bloom between June 2000 and December 2001—requiring no fewer than 21 drafts—runs 33 pages (including appendices). For starters, Schwarzenegger got a $29.25 million "pay or play" fee, meaning he would be paid whether or not the movie was made. (At the time, that figure was a record for guaranteed compensation.) The first $3 million would be delivered on signing and the balance during the course of principal photography. For every week the shooting ran over its 19-week schedule, Schwarzenegger would receive an additional $1.6 million in "overage." Then there was the "perk package"—a lump sum of $1.5 million for private jets, a fully equipped gym trailer, three-bedroom deluxe suites on locations, round-the-clock limousines, and personal bodyguards.

The producers Mario Kassar and Andrew Vajna did not agree to pay Schwarzenegger this record sum because he possessed unique acting skills—after all, the part he was to play (along with a digital double and stuntmen) was that of a slow-speaking robot. They also did not pay Schwarzenegger on the basis of his box-office track record. Indeed, his previous two films—*End of Days (1999)* and *The Sixth Day (2000)*—had failed both at the world box office and at video rental stores. Nevertheless, in the 10 years that had elapsed since *Terminator 2: Judgment Day*, Schwarzenegger's image had become so inexorably linked in video games and TV reruns to the deadly robot that he had become the crucial element of the deal.

Kassar and Vajna, backed by the German-owned movie financier Intermedia Films, had already bought the sequel rights to the *Terminator* franchise for $14.5 million from the bankrupt Carolco Pictures and the initial producer, Gale Anne Hurd, and had spent another $5.2 million developing a script. Finally, they had lined up more than $160 million in financing: Warner Bros. would pay $51.6 million for North American rights, the Tokyo distributor Toho-Towa would pay $20 million for Japanese rights, Sony Pictures Entertainment would pay $77.4 million for the rest of the world, and Intermedia would earn another $11 million by transferring the copyright to German tax shelters. But Warner Bros., Sony. and Toho-Towa had all made their deals conditional on Schwarzenegger signing on to play the robot. So: No Schwarzenegger, no money.

Kassar and Vajna had no real choice but to accept Schwarzenegger's terms (and they themselves would earn $10 million if the deal went through). Schwarzenegger's demands did not stop with the guarantee of $29.25 million. He also insisted on—and got—20 percent of the gross receipts made by the venture from every market in the world—including movie theaters, videos, DVDs, television licensing, in-flight entertainment, game licensing, and so forth—once the movie had reached its cash break-even point. Such "contingent compensation" is not unusual in movie contracts, but, in most cases, Hollywood accounting famously uses smoke and mirrors to make sure to define "break-even" in such a way that a movie never reaches it.

Take video and DVD sales, for example. Under the standard Hollywood contract, studios credit the film with a video "royalty" equal only to 20 percent of the sales. That means that if sales of a DVD total $20 million, only $4 million of that is counted toward reaching the break-even point. But Schwarzenegger's contract, thanks to the ingenious lawyering of Jake Bloom, allowed for no such evasion. In the case of DVD and video royalties, the contract specifies: "For purposes of calculating Cash Break even only, Adjusted Gross Receipts shall include a 100% home video royalty (i.e. home video revenues less costs)." So unlike weaker players, Schwarzenegger could count all the money taken in from DVDs and video, $20 million, less their actual cost, toward reaching the threshold where he gets his cut. (Click here to see how his contract defines cash break-even.) Since these payments to Schwarzenegger pushed back the cash break-even point of other participants—and added to the costs of the movie—it effectively came at the expense of less powerful talent (like writers) in the contract game.

Schwarzenegger also could decide who worked with him. The contract "pre-approval" clause gave him choice of not only the director (Jonathan Mostow) and the principal cast, but also his hairdresser (Peter Toothbal), his makeup man (Jeff Dawn), his driver (Howard Valesco), his stand-in (Dieter Rauter), his stunt double (Billy Lucas), the unit publicist (Sheryl Merin), his personal physician (Dr. Graham Waring), and his cook (Steve Hunter).

Finally, Schwarzenegger had the contract structured to give him every possible tax advantage. All the money was to be paid not to Schwarzenegger but to Oak Productions Inc., a corporate front he controlled. Oak Productions, in return, "lends" Schwarzenegger's services to the production. Since Schwarzenegger didn't get any money personally from the movie itself, he had more flexibility managing his exposure to taxes. For example, Oak Productions entered into a complex tax-reimbursement scheme with the production to help avoid additional tax liabilities that might occur abroad. (Click here to read the tax rider.) In return, Schwarzenegger agreed to make himself available for 18 weeks of principal photography, one week (on a nonexclusive basis) for rehearsals—if any were required—and five days for reshooting. In addition, he had to make himself available for at least 10 days, seven of them abroad, for promotional activities in connection with the initial theatrical release of the movie. This media work included everything from television and radio appearances to appearances at premieres and Internet chat rooms.

The negotiation of this contract did not come cheaply—the legal and accounting budget for the movie was $2 million—and, by the time all of Schwarzenegger's demands were met, the budget of the film had risen to $187.3 million, making it the most expensive independently produced movie in history. (Click here to see where that money went.)

Even though *Terminator 3* eventually had a world box-office gross of $427 million (at least half of which is kept by movie theaters), it barely broke even, except for Arnold Schwarzenegger, who, of course, had created his own "cash break-even," and, under any scenario, made a small fortune from his image. In the bygone days of the studio system, the studios had exclusive contracts with their stars that allowed them to reap the profits from the images their PR machines had created. In the new Hollywood, the stars themselves reap the profit their brand names bring to a film. So it is not surprising that even after Schwarzenegger became the governor of California in 2004, his holding company protected his image rights by suing a small toy maker selling a Schwarzenegger-like bobblehead doll on the grounds that "Schwarzenegger is an instantly recognizable global celebrity whose name and likeness are worth millions of dollars and are solely his property."

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THE HOLLYWOOD ECONOMIST: THE NUMBERS BEHIND THE INDUSTRY.

Gross Misunderstanding

FORGET ABOUT THE BOX OFFICE.

By Edward Jay Epstein

Posted Monday, May 16, 2005, at 2:55 PM ET

Listen to this story on NPR's *Day to Day*.

The media, by treating the box-office grosses released on Sunday afternoons as if they were the results of a weekly horse race, further a misunderstanding about the New Hollywood. Once upon a time, when the studios owned the theaters and carted away locked boxes of cash from them, these box-office numbers meant something. But nowadays, as dazzling as the "boffo," "socko," and "near-record" figures may seem to the media and other number fetishists, they have little real significance other than to measure the effectiveness of the studios' massive expenditures on ads.

To begin with, the Sunday numbers are not actual ticket sales but "projections" furnished by Nielsen EDI, since the Sunday evening box office cannot be counted in time to meet the deadlines of the morning papers. *Variety*, to its credit, corrects the guess estimates on Monday with the actual weekend take. Yet even these accurate numbers leave in place four other confusions about who earns what.

First, the reported "grosses" are not those of the studios but those of the movie houses. The movie houses take these sums and keep their share (or what they claim is their share)—which can amount to more than 50 percent of the original box-office total. Consider, for example, Touchstone's *Gone in 60 Seconds*, which had a $242 million box-office gross. From this impressive haul, the theaters kept $129.8 million and remitted the balance to Disney's distribution arm, Buena Vista. After paying mandatory trade dues to the MPAA, Buena Vista was left with $101.6 million. From this amount, it repaid the marketing expenses that had been advanced—$13 million for prints so the film could open in thousands of theatres; $10.2 million for the insurance, local taxes, custom clearances, and other logistical expenses; and $67.4 million for advertising. What remained of the nearly quarter-billion-dollar "gross" was a paltry $11 million. (And that figure does not account for the $103.3 million that Disney had paid to make the movie in the first place.)

Second, box-office results reflect neither the appeal of the actual movies—nor their quality—but the number of screens on which they are playing and the efficacy of the marketing that drove an audience into the theaters. If a movie opens on 30 screens, like *Sideways* or *Million Dollar Baby*, there is obviously no way it can achieve the results of a movie opening on 3,000 screens. And how do studios motivate millions of moviegoers—mainly under 25—to go to the 3,000 screens on an opening weekend to see a film no one else has yet seen or recommended? With a successful advertising campaign.

Studios spend $20 million to $40 million on TV ads because their market research shows that those ads are what can draw a movie's crucial opening-weekend teenage audience. To do that, they typically blitz this audience, aiming to hit each viewer with between five to eight ads in the two weeks before a movie's opening. The studios also spend a great deal of money testing the ads on focus groups, some of whom are wired up to measure their nonverbal responses. If the ads fail to trigger the right response, the film usually "bombs" in the media's hyperbolic judgment. If the ads succeed, the film is rewarded with "boffo" box-office numbers.

Third, the "news" of the weekend grosses confuses the feat of buying an audience with that of making a profit. The cost of prints and advertising for the opening of a studio film in America in 2003 totaled, on average, $39 million. That's $18.4 million more per film than studios recovered from box-office receipts. In other words, it cost more in prints and ads—not even counting the actual costs of making the film—to lure an audience into theaters than the studio got back. So while a "boffo" box-office gross might look good in a *Variety* headline, it might also signify a boffo loss.

Finally, and most important, the fixation on box-office grosses obscures the much more lucrative global home-entertainment business, which is the New Hollywood's real profit center. The six major studios spoon-feed their box-office grosses to the media, but they go to great lengths to conceal the other components of their revenue streams from the public, as well as from the agents, stars, and writers who may profit from a movie.

Each of the major studios, however, supplies the real numbers to its trade association, the MPAA, including a detailed breakdown of the money they actually receive, country by country, from movie theaters, home video, network television, local television, pay television, and pay-per-view, which is then privately circulated among the six studios as "All Media Revenue Report." (To see these private data click here.)

These numbers tell the story. Ticket sales from theaters provided 100 percent of the studios' revenues in 1948; in 2003, they accounted for less than 20 percent. Instead, home entertainment provided 82 percent of the 2003 revenues. In terms of profits, the studios can make an even larger proportion from home entertainment since most, if not all, of the theatrical revenues go to pay for the prints and advertising required to get audiences into theaters. (Video, DVDs, and TV have much lower marketing costs.)

This profit reality has transformed the way Hollywood operates. Theatrical releases now essentially serve as launching platforms for videos, DVDs, network TV, pay TV, games, and a host of other products. Even so, the box-office totals are losing their traditional influence. Up until a few years ago, the results from the U.S. box office largely drove secondary markets, especially video. If a film had a huge opening, the video chains would order 200,000 or more copies (at $60 or more apiece wholesale) for rentals. But this buying formula ended when consumers began buying DVDs at mass retailers. By 2004, Wal-Mart was accounting for more than one-third of the studios' revenues in video and DVD.

For merchandisers like Wal-Mart, DVDs are a means to lure consumers, who may buy other products, into the store. The box-office numbers are of little relevance (especially since it's teenagers who create huge opening weekends, and they cannot afford to buy more profitable goods like plasma TVs). Instead of box-office results, merchandisers look for movies with stars such as Tom Hanks, Julia Roberts, or Arnold Schwarzenegger, who have traction with their highly desired older customers. For example, whereas the sophisticated mind-bending love story *Eternal Sunshine of the Spotless Mind* had a dismal seventh-place finish in the box-office gross sweepstakes—earning a mere $8.1 million for the theaters during its opening weekend—thanks to the presence of recognizable names like Jim Carrey and Kate Winslet, it did extremely well on DVD, selling more than 1.5 million copies during its first week in the stores.

Tom Cruise's Contract

Slate
June 27, 2005

by Edward Jay Epstein

The Hollywood Economist
The numbers behind the industry.
Tom Cruise Inc.
The numbers behind his celebrity.
By Edward Jay Epstein

http://www.edwardjayepstein.com/cruise.htm

http://www.slate.com/id/2121617/

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 inventor, 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.