

Doron F. Eghbali Entertainment Law

Investing in Movies with Caution and Prudence

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Investment in movies could be rewarding and even lucrative. You could receive checks for years to come from your investment. You could hang around with celebrities. You could boast about being a movie investor. You could think you intellectually contributed to the betterment of the society while financially profiting from such investment. In fact, there are myriad positive aspects to such investment. Nonetheless, it behooves investors to exercise caution and prudence.

CAUTION AND PRUDENCE

1. Know Your Investment Might Be Lost: Not every movie is a blockbuster hit. Even an acclaimed movie may not be profitable. Or even, despite a movie's success at the box office, only a relatively small number of people or entities end up in the black due to opaque and convoluted accounting standards by studios. In other words, such investment could be tantamount to gambling.

2. Know Your Investment Should Be Well Diversified: Movie investment should be part of your diversified portfolio. You should treat such investment as your real estate or commodities investment.

3. Know Your Investment Is Riskier The Bigger The Movie Is: With an independent short film, you might get to know the cast and other important decision makers. However, a big film with multimillion-dollar budget is another story. There are relatively more uncertainties. The actors and director could quit. The movie could go over the budget and require even more money from investors. The producer might not find a distributor. The movie might do poorly at the box office and investors might not see any return on their investment or any return of their investment.

4. Know Your Investment Probably Is the Last To Be Paid: This is very important to understand that movie investors - as with any other forms of equity ownership - are the last ones to get paid after lenders, distributors and the crew.

SOME BASIC GUIDELINES

Despite the cautionary tale recited thus far, movie investment is lucrative, if investors understand the risks involved and ask of movie creators and themselves some basic questions.

1. Always Ask "How Will I Get Repaid?": You should know and receive assurances the movie's producer has domestic and even foreign distributors. If you see signed contracts that would be the optimal assurance.

2. Always Ask "How Does the Producer Take Advantage of Tax Credits?": Many states or even foreign countries offer lucrative tax credits. Such tax credits could represent as much as 30% of the production costs and can help the producer start returning your investment.

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