

SCREEN CAPITAL INTERNATIONAL

DAVID MOLNER
MANAGING DIRECTOR

Via Airmail

Mr. Gary Gensler

Chairman

Commodity Futures Trading Commission

Three Lafayette Centre

1155 21st Street, NW

Washington, DC 20581

In advance via email to: secretary@cftc.gov; boxofficereceipts@cftc.gov

May 25, 2010

Dear Chairman Gensler,

I followed with interest the recent hearings on proposals to create closed-end exchanges around the value of domestic box office receipts. I am writing to express a point of view about why such exchanges can (and should) play a vital role in the motion picture business – one of America’s great, enduring industries.

I hope I bring a somewhat more rounded view to this debate than the two emerging “sides” – I have spent my career in both sets of shoes, so to speak. I cut my teeth in the industry as a studio executive at Paramount Pictures (from 1995-2000) and have since run my own independent film finance firm for the last 10 years. During that time, I have financed or otherwise been involved in over 100 films, both inside and outside the “studio system.” Today my company is partnered with two of the major studios in so-called “slate deals” (covering five years’ worth of films), but we have also financed over 30 independent features in the last 3 years, each on a “one off” basis with independent producers. To date, we have executed over \$7 billion worth of media finance transactions across a variety of entertainment assets. Neither I nor my firm has any proprietary interest in either of the proposed trading platforms, but if they’re approved, we’d certainly look to participate in some fashion.

I believe there are two paramount questions before the public in relation to the proposed exchanges:

1. Do they serve a useful economic purpose?
2. Can they be manipulated?

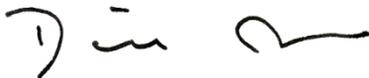
The answer to the first question is “yes” and the reason for this is that studios no longer own the majority of risk in their releasing slates – other parties do. These parties are either a) third party financiers who have put up capital as passive investors in risk-sharing arrangements with the studios, or b) third party producers who are “renting” studio distribution. When I started in the business, the very notion of “renting” distribution out to third parties was a rather new one – today it is an accepted fact of life. Since 2004, approximately \$14 billion worth of third party capital has flowed into the studio side of the movie business. The truth today is that the majors no longer own the “majority” of capital at risk in the industry and those other participants have good cause to wish that reliable hedging instruments are put in place.

The answer to the second question is “no.” Certainly I can’t imagine a plausible device. In the 1983 hit comedy “Trading Places,” corrupt traders try to steal the citrus crop report in an effort to manipulate the frozen orange juice concentrate market by front-running trades before the report is released. There aren’t really any such reliable forecasting tools in the movie business worth stealing; if there were, we wouldn’t be having this debate.

The major studios have raised a number of objections to “betting on box office.” I believe that the real issue holding studios back is that they just don’t know how to explain to key “talent” or indeed to the ticket-buying public how they themselves could have possibly bet against “the feel good movie of the year.” If it were possible today for a studio to anonymously buy a financial instrument which truly hedged its opening weekend risk, I can assure you the only question would be one of pricing. Any suggestions to the contrary are intellectually dishonest. If any studio executive wishes to challenge that, let’s hear it done on an earnings call – not through the MPAA.

If it were as commonplace today to trade box office futures as it is to hedge grain prices, every studio would participate. But no one wants to be first to take the plunge in case it doesn’t work or causes some other collateral damage in a world of cozy relationships. Don’t let movie distribution incumbents stifle innovation in financial services – time will prove you right if you find the resolve to act now.

Respectfully yours,

A handwritten signature in black ink, appearing to read "Tim", with a stylized flourish at the end.

Cc:
Commissioner Bart Chilton
Commissioner Michael Dunn
Commissioner Scott D. O’Malia
Commissioner Jill E. Sommers