

Investors sue Paramount seeking \$40M+

By PETER LAURIA

Paramount Pictures, the movie studio owned by Sumner Redstone's Viacom Inc., is being sued by a consortium of investors who claim they poured \$40 million into a film financing slate for the company based on false and misleading information.

The lawsuit, filed by Pryor Cashman LLP in Manhattan federal court late yesterday afternoon, claims that the consortia invested in Paramount's Melrose Investors fund based on "specific risk mitigation techniques" that the studio said it used when producing and distributing films but subsequently abandoned.

The four investors — Allianz Risk Transfer, Marathon Structured Finance Fund LP, NewStar Financial, and Munich RE Capital Markets New York — claim that they were kept in the dark about changes regarding such things as the studio's pre-sale of international rights and equity co-investments.

Had Paramount, which is headed by Brad Grey, employed the risk mitigation techniques spelled out in the Melrose offering, the investor group said it would have made money on its investment.

Now, however, they expect to lose their entire \$40.1 million investment and are asking the court to hold Paramount liable.

For example, the lawsuit states that when looking at the production costs of films comparable to those in the Melrose slate and released by Paramount between 1998 and 2003, more than 25 percent of the gross production costs were financed by pre-selling international distribution rights.

But, by the time the group invested in the Melrose slate, "Paramount had decided to significantly curtail the use of international pre-sales in a manner that was completely inconsistent with

the historical practices described in the [offering] memorandum," according to the lawsuit.

The lawsuit said that international pre-sales for "Mean Girls" and "The Stepford Wives," two of the films included in the Melrose slate, were the equivalent of less than 6 percent of their gross production budgets.

The lawsuit claims that part of the reason for the strategy shift was Paramount's decision to distribute films internationally through its own United International Pictures, which collects a distribution fee for the studio that isn't shared with the Melrose investors.

A Paramount spokesman said, "We are disappointed that these sophisticated investors, who agreed to accept the widely known risks of investing in a slate of motion pictures, are attempting through litigation to undo the bargain they struck in 2004. We intend to establish in court that these allegations are entirely without merit."



BRAD GREY
Paramount boss.