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FIRST LOOK MEDIA INC
Form 10-K
May 07, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For The Fiscal Year Ended December 31, 2001

/ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

Commission File Number 0-25308

FIRST LOOK MEDIA, INC.
(Exact name of Registrant as specified in its charter)

Delaware 13-3751702
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

8000 Sunset Blvd., Penthouse East, 90046
Los Angeles, CA (zip code)
(Address of principal executive offices)

Registrant's telephone number, including area code: (323) 337-1000

Securities Registered Pursuant to Section 12(b) of the Act:
None

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, par value \$.001 per share
(title of class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No /

Indicate by check mark if disclosures of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of April 12, 2002, (based on the closing sale price on such date as reported on the OTC Bulletin Board) was \$1,193,265.

The number of shares of common stock outstanding as of April 12, 2002 was 11,909,139.

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PART I

ITEM 1. BUSINESS

General

First Look Media, Inc. specializes in the acquisition and direct distribution of, and worldwide license and sale of distribution rights to, independently produced feature films in a wide variety of genres. These genres include:

- o action;
- o art-house;
- o comedy;
- o drama;
- o foreign language;
- o science fiction; and
- o thrillers.

We have accumulated a library of distribution rights, including sales agency rights, in various media and markets to more than 310 feature films.

We operate in numerous capacities, including as:

- o a distributor. We acquire the distribution rights to films for specified terms, territories and media from independent producers. In this capacity, we receive distribution fees. In exchange for these distribution rights, we may commit to pay the independent producer a minimum guaranteed payment ranging from approximately \$100,000 to \$5,000,000 at or after delivery of the completed film. These minimum guaranteed payments represent varying portions of the films' production costs, including, on occasion, substantially all of such costs. These minimum guaranteed payments may enable the independent producer to obtain financing for the production and/or completion of the film. By providing these minimum guaranteed payments, we are often able to secure more extensive distribution rights on more favorable terms. Additionally, we are able to distribute pictures directly in the United States both theatrically through our First Look Pictures division and on video and DVD through our First Look Home Entertainment division.
- o a producer. We selectively produce motion pictures that we distribute, generally acquiring fully developed projects ready for pre-production and contracting out pre-production and production activities. Additionally, we have established a television commercial production division.

Historically, we have focused on licensing theatrical, video, pay television, free television, satellite and other distribution rights to foreign sub-distributors in major international territories and regions. These activities accounted for approximately 66.3% of our total revenues in 2000 and approximately 53.4% of our total revenues in 2001.

Recently, we have become more active with distribution activities in the U.S. where we engage directly in domestic theatrical distribution through our First Look Pictures division and domestic video distribution through our First Look Home Entertainment division. Our theatrical distribution activities include booking motion pictures for exhibition at movie theaters, arranging for the manufacture of release prints from film negatives, and promoting motion

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pictures with advertising and publicity campaigns. Our video distribution activities include the promotion and sale of videocassettes to local, regional and national video retailers.

In 2001, we launched a television commercial production division which generated \$263,000 of gross revenue. In connection with this division, we have hired experienced management and engaged two experienced directors of television commercial productions. We have begun producing commercials that are broadcast on domestic television.

Corporate Information

Our company was incorporated in Delaware in December 1993 under the name "Entertainment/Media Acquisition Corporation" in order to acquire an operating business in the entertainment and media industry. We consummated our initial public offering in February 1995, and in October 1996, we merged with Overseas Filmgroup, Inc., a privately-held Delaware corporation ("Overseas Private") that had been operating since February 1980. Our company was the surviving corporation in the merger. Upon consummation of the merger, we changed our name to "Overseas Filmgroup, Inc." We operated under the name "Overseas Filmgroup, Inc." until January 2001. In January 2001, we changed our name to "First Look Media, Inc." in order to reflect the broadening of our operations beyond foreign distribution of independently produced feature films to additional areas such as theatrical and video distribution in the United States and television commercial production.

Our principal executive offices are located at 8000 Sunset Boulevard, Penthouse East, Los Angeles, California 90046, and our telephone number is (323) 337-1000.

Recent Developments

Warrant Exchange

On November 8, 2001, we commenced a tender offer in which we offered to exchange .0714 of a share of our common stock for every one of our outstanding warrants that we issued in our initial public offering in February 1995. The exchange offer was completed on January 11, 2002. 4,135,579 of our 4,500,000 outstanding warrants were tendered and accepted by us in exchange for 295,291 shares of our common stock. The warrant holders who elected not to participate in the exchange retained their right to purchase one share of our common stock for \$5.00, for each warrant held. These warrants expired on February 16, 2002.

Strategic Objectives

We seek to become a more significant player in the entertainment industry, while at the same time managing our risk and cash flow so as to be able to effectively respond to continuing changes in the entertainment industry. Our strategy to achieve our objectives includes:

Expanding our domestic theatrical distribution activities. We believe there is great opportunity in the U.S. theatrical distribution market. In the past year, we released Bread and Tulips, an Italian language film which won seven "Donatello" awards (the Italian equivalent of an Oscar). The film generated approximately \$4,500,000 in U.S. box office gross receipts. Previously, we have had domestic success with films such as John Sayles's The Secret of Roan Inish and the Academy Award-winning Antonia's Line. Limited financial resources has kept us from becoming a more active company in this area, however, we intend to utilize our expanded financial resources, including our Chase facility, to become increasingly more active in this market.

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Expanding our home entertainment division. In 2000, we created a home entertainment division called "First Look Home Entertainment." This division directly distributes films on videocassette and DVD. In 2001, we released seventeen films in the U.S. video/DVD market. We plan to release approximately twenty-seven films in the U.S. video/DVD market in 2002.

Expanding our television commercial production division. We have established a television commercial production division called "First Look Artists." This division seeks to exploit the current trend in the industry of utilizing talent not typically associated with advertising, such as high-profile feature film directors. In this regard, we are assembling a roster of accomplished feature filmmakers who we believe can successfully cross over to the medium of television commercials. We also believe that we can attract proven television commercial directors to our division's projects by offering them access to potential film projects.

Building upon our reputation and relationships with foreign sources. We believe that we enjoy a prominent position in the international independent film marketplace. We intend to capitalize on our reputation and relationships to exploit opportunities in the areas of production and acquisition financing, especially through private equity and international sources. These efforts will enable us to access films at lower cost and risk to us and to access increasingly higher profile (which generally means higher budget) films with commercial potential at reduced cost and risk to us.

Reducing our risk by limiting our direct investment in acquisition costs and film production. As part of this strategy, we:

- o act as distributor or license distribution rights for films that are produced with funds provided by other parties and not by us; and
- o act on behalf of producers to locate and arrange equity sources, co-production and co-financing sources, pre-sales, gap financing and other resources for the production of motion pictures in exchange for sales and distribution rights to the films and negotiated fees.

Acquiring films that we believe are likely to merit theatrical release, are suitable for initial release on pay and basic television or are suitable for initial release on videocassette or DVD. As part of this strategy, we:

- o acquire films that have recognizable cast and experienced directors and producers and which embody greater production values, which we believe enhances their audience appeal in the competitive theatrical market. We attempt to accomplish this by offering more incentives to talent than is offered by major studios, such as greater creative and financial opportunity tied to film performance;
- o acquire films that are oriented to basic and pay television programming needs as well as video and DVD markets, such as films with lower budgets and which target specific genres, such as horror and "monster" films; and
- o develop relationships with major studios and seek to expand our executive producing role in connection with motion pictures that other companies produce and/or distribute.

The Motion Picture Industry

Generally

The motion picture industry consists of two principal activities:

- o production, which encompasses the creation, development and financing of motion pictures; and
- o distribution, which involves the promotion and exploitation of feature-length motion pictures in a variety of media, including theatrical exhibition, home video, television and other ancillary markets, both domestically and internationally.

The United States motion picture industry is dominated by the major studios, including The Walt Disney Company, Paramount Pictures Corporation, Warner Brothers Inc., Universal Pictures, Twentieth Century Fox, Sony Pictures Entertainment, and MGM/UA. The major studios, which historically have produced and distributed the vast majority of high-grossing theatrical motion pictures released annually in the United States, are typically large, diversified corporations that have strong relationships with creative talent, television broadcasters and channels, Internet service providers, movie theater owners and others involved in the entertainment industry. The major studios also typically have extensive national or worldwide distribution organizations and own extensive motion picture libraries.

Motion picture libraries, consisting of motion picture copyrights and distribution rights owned or controlled by a film company, can be valuable assets capable of generating revenues from worldwide commercial exploitation in existing media and markets, and potentially in future media and markets resulting from new technologies and applications. The major studios also may own or be affiliated with companies that own other entertainment related assets such as music and merchandising operations and theme parks. The major studios' motion picture libraries and other entertainment assets may provide a stable source of earnings which can offset the variations in the financial performance of their new motion picture releases and other aspects of their motion picture operations.

During the past 15 years, independent production and distribution companies, many with financial and other ties to the major studios, have played an important role in the production and distribution of motion pictures for the worldwide feature film market. These companies include:

- o Miramax Films Corporation, now owned by The Walt Disney Company, which produced Scary Movie, the Scream film series, Shakespeare in Love and Chocolat;
- o New Line Cinema Corporation/Fine Line Features, now owned by AOL/Time Warner, which produced Lord of the Rings: The Fellowship of the Ring, the Austin Powers films, The Mask, Teenage Mutant Ninja Turtles and the Nightmare on Elm Street series;
- o USA Films (formerly October Films and now owned by Vivendi/Universal), which produced Traffic, Secrets & Lies and Breaking the Waves together with Gramercy Pictures, which produced Dead Man Walking and Fargo, is part of USA Films and USA Network;

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- o Orion Pictures, now affiliated with MGM/UA, which produced The Silence of the Lambs;
- o Artisan Entertainment Inc., which distributed The Blair Witch Project; and
- o Lion's Gate Films, which produced and distributed Frailty, Monster's Ball and American Psycho and which distributed Dogma, Gods and Monsters and Affliction.

As a result of consolidation in the domestic motion picture industry, a number of previously independent producers and distributors have been acquired or are otherwise affiliated with major studios. However, there are also a large number of other production and distribution companies that produce and distribute motion pictures that have not been acquired or become affiliated with the major studios. In contrast to the major studios, independent production and distribution companies generally produce and distribute fewer motion pictures and do not own production studios, national or worldwide distribution organizations, associated businesses or extensive film libraries which can generate gross revenues sufficient to offset overhead, service debt or generate significant cash flow.

The motion picture industry is a world-wide industry. In addition to the production and distribution of motion pictures in the United States, motion picture distributors generate substantial revenues from the exploitation of motion pictures internationally. In recent years, there has been a substantial increase in the amount of filmed entertainment revenue generated by U.S. motion picture distributors from foreign sources. International revenues of motion picture distributors from filmed entertainment grew from approximately \$1.1 billion in 1990 to approximately \$2.6 billion in 2000. This growth has been due to a number of factors, including the general worldwide acceptance of and demand for motion pictures produced in the United States, the privatization of many foreign television industries, growth in the number of foreign households with videocassette players and growth in the number of foreign theater screens.

Many countries and territories, such as Australia, Canada, China, France, Germany, Hong Kong, India, Italy, Japan, Russia, Spain and the United Kingdom have substantial indigenous film industries. As in the United States, in a number of these countries the film industry, and in some cases, the entertainment industry, in general, is dominated by a small number of companies that maintain large and diversified production and distribution operations. However, like in the United States, in most of these countries, there are also smaller, independent, motion picture production and distribution companies. Foreign distribution companies not only distribute motion pictures produced in their countries or regions but also films licensed or sub-licensed from United States production companies and distributors. In addition, film companies in many foreign countries produce films not only for local distribution, but also for export to other countries, including the United States. While some foreign language films and foreign English-language films appeal to a wide U.S. audience, most foreign language films distributed in the United States are released on a limited basis because they draw a specialized audience.

Motion Picture Production

Motion picture production begins with the screenplay adaptation of a popular novel or other literary work acquired by the producer or the development of an original screenplay having its genesis in a story line or scenario conceived by a writer and acquired by the producer. In the development phase, the producer typically seeks production financing and tentative commitments from

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a director, the principal cast members and other creative personnel. A proposed production schedule and budget also are prepared during this phase. Pre-production begins upon completing the screenplay and arranging financing commitments. In this phase, the producer:

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- o engages creative personnel to the extent not previously committed;
- o finalizes the filming schedule and production budget; obtains insurance and secures completion guaranties, if necessary; establishes filming locations and secures any necessary studio facilities and stages; and
- o prepares for the start of actual filming.

Principal photography, which is the actual filming of the screenplay, generally extends from eight to sixteen weeks for a film produced by a major studio and for as little as four to eight weeks for low budget films and films produced by independent production companies. The length of filming depends in each case upon factors such as budget, location, weather and complications inherent in the screenplay. Following completion of principal photography, the film enters the post-production phase. During this phase, the motion picture is edited, opticals, dialogue, music and any special effects are added, and voice, effects and music sound tracks and pictures are synchronized. This results in the production of a negative from which release prints of the motion picture are made.

Production costs consist primarily of:

- o acquiring or developing the screenplay;
- o compensating creative and other production personnel;
- o film studio and location rentals;
- o equipment rentals;
- o film stock and other costs incurred in principal photography; and
- o post-production costs, including the creation of special effects and music.

Distribution expenses, which consist primarily of the costs of advertising and preparing release prints, are not included in direct production costs. The major studios generally fund production costs from cash flow generated by motion pictures and related activities or, in some cases, from unrelated businesses or through off-balance sheet methods. Substantial overhead costs, consisting largely of salaries and related costs of the production staff and physical facilities maintained by the major studios, also must be funded. Independent production companies generally avoid incurring overhead costs as substantial as those incurred by the major studios by hiring creative and other production personnel and retaining the other elements required for pre-production, principal photography and post-production activities on a picture-by-picture basis. As a result, these companies do not own sound stages and related production facilities, and, accordingly, do not have the fixed payroll, general administrative and other expenses resulting from ownership and operation of a studio. Independent production companies also may finance their production activities on a picture-by-picture basis. Sources of funds for independent production companies include bank loans, pre-licensing of distribution rights, foreign government subsidies, equity offerings and joint ventures. Independent production companies generally attempt to obtain all or a substantial portion of their financing of a motion picture prior to commencement of principal photography, at which point substantial production costs begin to be incurred and require payment.

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As part of obtaining financing for its films, an independent production company often is required by its lenders and distributors who advance production funds to obtain a completion bond or production completion insurance from an acceptable completion guarantor which names the lenders and applicable distributors as beneficiaries. The guarantor assures the completion of the particular motion picture on a certain date. If the motion picture cannot be completed for the agreed upon budgeted cost, the completion guarantor is obligated to pay the additional costs necessary to complete the picture by the agreed upon delivery date. If the completion guarantor fails to timely complete and deliver the motion picture on or before the agreed upon delivery date, the completion guarantor is required to pay the lenders and distributor, if applicable, an amount equal to the aggregate amount the lenders and distributor have loaned or advanced to the independent producer.

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In connection with the production and distribution of a motion picture, major studios and independent production companies generally grant contractual rights to actors, directors, screenwriters, owners of rights and other creative and financial contributors to share in net revenues from a particular motion picture. Except for the most sought-after talent, these third-party participations are generally payable after all distribution fees, marketing expenses, direct production costs and financing costs are recovered in full.

Major studios and independent film companies in the United States typically incur obligations to pay residuals to various guilds and unions including the Screen Actors Guild, the Directors Guild of America and the Writers Guild of America. Residuals are payments required to be made on a picture-by-picture basis by the motion picture producer to the various guilds and unions arising from the exploitation of a motion picture in markets other than the primary intended market. Residuals are calculated as a percentage of the gross revenues derived from the exploitation of the picture in these ancillary markets. The guilds and unions typically obtain a security interest in all of the producer's rights in the motion picture being exploited to ensure satisfaction of the residuals obligation. This security interest usually is subordinate to the security interest of the lenders financing the production cost of the motion picture and the completion bond company guaranteeing completion of the motion picture. Under a producer's agreement with the guilds and unions, the producer may transfer the obligation to pay the residuals to a distributor if the distributor assumes the obligation to make the residual payment. If the distributor does not assume those obligations, the producer is obligated to pay those residuals.

Motion Picture Distribution

General

Motion picture distribution involves domestic and international licensing of the picture for:

- o theatrical exhibition;
- o videocassettes and digital video discs (DVD);
- o presentation on television, including pay-per-view, basic and premium cable, network, syndication or satellite; o marketing of the other rights in the picture and underlying literary property, which may include books, merchandising and soundtracks;
- o non-theatrical exhibition, which includes airlines, hotels and

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armed forces facilities; and

- o exploitation via the Internet, which is still evolving.

Although releases by the major studios typically are licensed and fully exploited in all of the foregoing media, films produced or distributed by independent film companies are often not exploited in all of the media. For example, some films may not receive theatrical exhibition in the United States or various other territories and instead may be released directly on home video or as a pay television premiere or otherwise exploited on a pay television service. In limited circumstances, these films may then be released in theaters.

Production companies with distribution divisions typically distribute their motion pictures themselves. Production companies without distribution divisions may retain the services of sales agents or distributors to exploit the motion pictures produced by them in selected or all media and territories. Distribution companies may directly exploit distribution rights licensed to, or otherwise acquired, by them by booking motion pictures with movie theaters or selling videocassettes to video retailers. Alternatively, they may grant sub-licenses to domestic or foreign sub-distributors to exploit completed motion pictures in particular territories or media.

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Acquisition of distribution rights

A sales agent does not generally acquire distribution rights from the producer or other owner of rights in the motion picture. Instead, he acts as an agent for the producer or rights owner, licensing the distribution rights to distributors on behalf of the producer or rights owner in exchange for a sales agency fee. This fee typically is computed as a percentage of gross revenues from licenses obtained by the sales agent. A distributor generally licenses and takes a grant of distribution rights from the producer or other rights owner of the motion picture for a specified term in a particular territory or territories and media, generally in exchange for a distribution fee calculated as a percentage of gross revenues generated by the distribution of exploitation of the motion picture. The distributor may agree to pay the producer of the motion picture an advance or a minimum guarantee upon the delivery of the completed motion picture. This amount is to be recouped by the distributor out of revenues generated from the exploitation of the motion picture in particular media or territories. After receiving its ongoing distribution fee and recouping the advance or minimum guarantee plus its distribution costs, the distributor generally pays the remainder of revenues in excess of an ongoing distribution fee to the producer of the motion picture.

Obtaining license agreements with a distributor or distributors prior to completion of a motion picture which provide for payment of a minimum guarantee is often referred to as the pre-licensing or pre-selling of film rights. This pre-selling may enable the producer to obtain financing for its project by using the contractual commitment of the distributor to pay the advance or minimum guarantee as collateral to borrow production funding. In the past, pre-selling of film rights provided a means for financing film production. However, the ability to pre-sell film rights in various territories and media, the amount of pre-sales that can be obtained in certain territories and media and thus, the percentage of a film's budget that can be covered with pre-sales, fluctuates. In recent years, independent film companies generally have not been able to pre-sell as great a percentage of a film's budget as they have in past years.

The producer also may be able to acquire additional production funds through gap financing. Although gap financing currently is being made available

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by multiple lenders, certain banks have ceased providing this type of financing, and many banks that provide gap financing are becoming more conservative in their approach to these lending practices. As a result, there can be no assurance that lenders will continue to make funds available on this basis. In some circumstances, the distributor is entitled to recover any unrecovered costs and advances from a film licensed to the distributor from the revenues from another film or films also licensed to the distributor. This is commonly known as cross collateralizing.

In addition to obtaining distribution rights in a motion picture for a limited duration, a distributor also may acquire all or a portion of the copyright in the motion picture or license certain distribution rights in perpetuity. Both major studios and independent film companies often acquire motion pictures for distribution through a customary industry arrangement known as a negative pickup, under which the studio or independent film company agrees to pay a specified minimum guaranteed amount to a production company in exchange for all rights to the film upon completion of production and delivery of the film. The production company normally finances production of the motion picture pursuant to financing arrangements with banks and other lenders in which the lender receives an assignment of the production company's right to payment of the minimum guarantee and is granted a security interest in the film and in the production company's rights under its arrangement with the studio or independent film company. When the major studio or independent film company picks up the completed motion picture, it pays the minimum guarantee or assumes the production financing indebtedness incurred by the production company in connection with the film. In addition, the production company is paid a production fee and generally is granted a participation in net revenues from distribution of the motion picture.

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The distribution cycle

Concurrently with their release in the United States, motion pictures typically are released in Canada and also may be released in one or more other international markets. Generally, a motion picture that is released theatrically is available for distribution in other media during its initial distribution cycle as follows:

| Marketplace (Media) | Number of months following initial Domestic theatrical release |
|---|--|
| International theatrical | Concurrent |
| Domestic home video and DVD (initial release) | 4-6 months |
| Domestic pay-per-view | 6-9 months |
| International home video and DVD (initial release) | 6-12 months |
| Domestic pay television | 12-15 months |
| International television (pay or free) | 18-24 months |
| Domestic free television (network, barter syndication, syndication and basic cable) | 30-33 months |

Films often remain in distribution for varying periods of time. For example, major studio motion pictures that are released theatrically can play in theaters for several weeks following their initial release or, at times, including in the case of successful art-house films that are released on a limited basis, for several months. On the other hand, unsuccessful films may play in theaters for only a short period of time. Once released on videocassette, a motion picture may remain available on videocassette for many years. Similarly a motion picture can be licensed to various forms of television for many years after its first release. The release periods set forth above represent standard holdback periods. A holdback period represents a stipulated

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period of time during which release of the motion picture in other media is prevented to allow the motion picture to maximize its value in the media in which it is currently being released. Holdback periods are often specifically negotiated with various distributors on a media-by-media basis. However, the periods set forth above represent our estimate of typical current holdback periods in the motion picture industry.

In general, if a film is not released theatrically in the United States and is instead first released on domestic home video, television exploitation does not commence until four to eight months after the video release. Thereafter, the same general release patterns indicated in the table above typically apply. If a film premieres on United States pay television, the pay television service is typically licensed for a four to six week exclusive airing period. The license generally will provide for limited airings made up of five to eight exhibition days with multiple airings permitted on each exhibition day. The provisions of the license also usually provide for the pay television service to receive subsequent airing periods following a period in which the film can be released on video or sometimes even theatrically and a period during which the film may be broadcast on free television.

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A substantial portion of a film's ultimate revenues are generated in its initial distribution cycle. The initial distribution cycle usually consists of the first five years after the film's initial domestic release and includes theatrical, video, and pay and free television. Commercially successful motion pictures, however, may continue to generate revenues after the film's initial distribution cycle from the re-licensing of distribution rights in certain media and from the licensing of distribution rights with respect to new media and technologies and in emerging markets. Although there has been a substantial increase over the past fifteen years in the revenues generated from the licensing of rights in ancillary media such as home video, DVD, cable and pay-per-view, the theatrical success of a motion picture remains a significant factor in generating revenues in foreign markets and in other media such as video and television. For example, retail video stores currently purchase fewer copies of videocassettes of motion pictures that have not been theatrically released, and purchase more copies of major studio theatrical hits.

Theatrical

The theatrical distribution of a motion picture, whether in the United States or internationally, involves the licensing and booking of the motion picture to movie theaters, the promotion of the picture through advertising and publicity campaigns and the manufacture of release prints from the film negative. Expenditures on these activities, particularly on promotion and advertising, are often substantial and may have a significant impact on the ultimate success of the film's theatrical release. In addition, expenditures can vary significantly depending upon a number of factors including:

- o the markets and regions in which the film is distributed;
- o the media used to promote the film such as newspaper, television and radio;
- o the number of screens on which the motion picture is to be exhibited; and
- o the ability to exhibit motion pictures during peak exhibition seasons.

With a release by a major studio, the vast majority of these costs,

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which primarily consist of advertising costs, are incurred prior to the first weekend of the film's domestic theatrical release. Accordingly, there is not necessarily a correlation between these costs and the film's ultimate box office performance. In addition, the ability to distribute a picture during peak exhibition seasons, including the summer months and the Christmas holidays, and in the most popular theaters, may affect the theatrical success of a picture. Films distributed theatrically by an independent film company are sometimes released on a more limited basis which allows the distributor to defer marketing costs until it is able to assess the initial public acceptance of the film.

While arrangements for the exhibition of a film vary greatly, there are certain economic relationships generally applicable to theatrical distribution. Theater owners retain a portion of the admissions paid at the box office, typically referred to as gross box office receipts. The share of the gross box office receipts retained by a theater owner generally includes a fixed amount per week, in part to cover overhead, plus a percentage of receipts that usually increases over time. Although these percentages vary widely, a theater owner's share of a particular film's revenues will normally be approximately 50% to 65% of gross box office receipts. The balance of the gross box office receipts (50% to 35%), referred to as gross film rentals, is paid to the distributor. The distributor then retains a distribution fee, which is typically 25% to 35%, from the gross film rentals. This percentage is used to recover the costs incurred in distributing the film, which consist primarily of marketing and advertising costs and the cost of release prints for exhibition. The balance of gross film rentals, after deducting distribution fees and distribution costs recouped by the distributors, is then applied against the recoupment of any advance paid for the distribution rights plus interest and the balance is paid to the producer or other rights owner of the film.

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Home video, DVD

A motion picture released theatrically typically will become available for videocassette and digital video disc ("DVD") distribution within four to six months after its initial domestic theatrical release. Certain films are not initially released theatrically but may instead be released directly to home video and DVD. Given the increasing preference of retail video stores for films which have achieved successful theatrical releases, it has become increasingly difficult to generate significant revenues from films first released directly on video/DVD.

Home video distribution consists of the promotion and sale of videocassettes to local, regional and national video retailers that rent or sell videocassettes to consumers primarily for home viewing. Recently, the market for videocassettes has been supplemented by, and in some ways replaced by, the market for DVD's. DVD units are typically available both to rental markets and sell-through markets at the same time and today are priced between \$14 to \$20 per unit. Impacted by this, per unit pricing on videocassettes has dropped over the past years quite dramatically as consumers convert from videocassette players to DVD players. Additionally, revenue sharing arrangements (arrangements whereby retail stores and chains pay little or nothing for each cassette, but rather shares the revenue generated from renting such cassette, with the licensor), have significantly impacted the business. In such arrangements, revenue related to a particular video release is earned over a period of time (generally up to one year), rather than on the first day of video release. Following the initial marketing period, selected films may be remarketed at a wholesale price of \$10 to \$15 or less for sale to consumers. A few major releases with broad appeal may be initially offered by a film distribution company at a price designed for sell-through rather than rental when it is believed that the ownership demand by consumers will result in a sufficient level of sales to justify the reduced margin on each cassette sold. Today, most

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home video distribution contracts in international territories are arranged similarly to those in domestic territories, although the wholesale prices may differ.

Television

Television rights for films initially released theatrically that have broad appeal generally are licensed:

- o first to pay-per-view for an exhibition period within six to nine months following initial domestic theatrical release;
- o then to pay television approximately 12 to 15 months after initial domestic theatrical release;
- o thereafter to basic cable broadcasters or in certain cases to network television for an exhibition period; and
- o then to syndication or "free" television.

Pay-per-view allows subscribers to pay for individual programs. Pay television allows cable television subscribers to view such services as HBO/Cinemax, Showtime/The Movie Channel, Encore Media Services or others offered by their cable system operators for a monthly subscription fee. Pay-per-view and pay television are now delivered not only by cable, but also by satellite transmission, and films are usually licensed in both of these media. Films that are not initially released in the domestic theatrical market may premiere instead on pay television followed in some limited circumstances by theatrical release. Groups of motion pictures often are packaged and licensed as a group for exhibition on television over a period of time and, therefore, revenues from these television licensing packages may be received over a period that extends beyond the initial distribution cycle of a particular film. Motion pictures also are licensed and packaged by producers and distributors for television broadcast in international markets by government or privately owned television studios and networks. Pay television is less developed outside the United States, but is experiencing significant international growth. The prominent foreign pay television services include Canal+, Premiere, STAR TV, British Sky Broadcasting and the international operations of several U.S. cable services, including HBO, the Disney Channel, Turner Broadcasting and DirecTV.

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Non-theatrical and other rights

Films may be licensed for use by airlines, schools, public libraries, community groups, the military, correctional facilities, ships at sea and others. Music contained in a film may be licensed for sound recording, public performance and sheet music publication. Rights in motion pictures may be licensed to merchandisers for the manufacture of products such as toys, T-shirts, posters and other merchandise. Rights also may be licensed to create novels from a screenplay and to generate other related book publications, as well as interactive games on platforms such as CD-ROM and CD-I.

Our Motion Picture Distribution

International distribution

Our management has considerable expertise in international distribution. Robert B. Little, our co-chairman of the board and president, has substantial experience in licensing motion pictures for distribution outside the United States and has been active in international motion picture sales since 1975. Over the past 25 years, he has developed relationships with distributors

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in most territories through his foreign sales activities. In addition, we are a founding member of the American Film Marketing Association, which sponsors the American Film Market. The American Film Market, along with the Cannes Film Festival and MIFED, are the major annual international film markets that are attended by distributors worldwide. We participate annually with a sales office at all three major film markets, as well as three major television and two major video markets. We also attend many film festivals throughout the world including Sundance, the Toronto Film Festival and others. From time to time, we also may engage independent representatives to assist us in acquiring and licensing motion picture rights.

We license distribution rights internationally in various media such as theatrical, video/DVD, pay television, free television, satellite and other rights to foreign sub-distributors on either an individual rights basis or grouped in combinations of rights. We license these rights to sub-distributors in international territories either on a picture-by-picture basis or occasionally pursuant to output arrangements. Currently, our most important international territories are Australia, the Benelux countries, Canada, France, Germany, Italy, Japan, Scandinavia, Spain and the United Kingdom.

The terms of our license agreements with foreign sub-distributors vary depending upon the territory and media involved and whether the agreement relates to a single or multiple motion pictures. Most of our license agreements provide that we will receive a minimum guarantee from the foreign sub-distributor with all or a majority of the minimum guarantee paid prior to, or upon delivery of, the film to the sub-distributor for release in the particular territory. The remainder of any unpaid minimum guarantee generally is payable at specified intervals after delivery of the film to the sub-distributor. The minimum guarantee is recovered by the sub-distributor out of the revenues generated from exploitation of the picture in the territory. The foreign sub-distributor retains a negotiated distribution fee, generally measured as a percentage of the gross revenues generated from its distribution of the motion picture, recovers its distribution expenses and the minimum guarantee and ultimately pays us the remainder of any receipts in excess of the distributor's ongoing distribution fee. We must rely on the foreign sub-distributor's ability to successfully exploit the film in order to receive any proceeds in excess of the minimum guarantee.

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We occasionally do not receive a minimum guarantee from the foreign sub-distributor and instead negotiate terms that usually result in an allocation of gross revenues between the sub-distributor and us. Typically, the terms of these types of arrangements provide for the sub-distributor to retain an ongoing distribution fee, calculated as a percentage of the sub-distributor's gross receipts in the territory, recover its expenses and pay remaining receipts in excess of the ongoing distribution fee to us. Alternatively, often with respect to video rights, the terms may provide for a royalty to be paid to us calculated as a percentage of the sub-distributor's gross receipts from exploitation of the video rights without deduction for the sub-distributor's distribution expenses.

At times, we enter into output arrangements with local foreign distributors whereby the foreign sub-distributor receives the right, typically for a specified period and number of motion pictures, to distribute motion pictures that we have released in a particular territory and designated media. In some circumstances, the foreign sub-distributor pays us a minimum guarantee on a picture-by-picture basis with each minimum guarantee having been either pre-negotiated or computed as a stipulated percentage of the production or acquisition cost of each picture.

Domestic distribution

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In addition to obtaining foreign distribution rights, we have been active in acquiring domestic distribution rights. We exploit our domestic distribution rights in a variety of ways. In 1993, we established First Look Pictures, our domestic theatrical releasing operation, and in 1999 we began releasing films directly on video under First Look Home Entertainment. Some of the films we license or distribute receive domestic theatrical release by First Look Pictures or video release by First Look Home Entertainment. We may license films initially to television broadcasters for release initially on television. We also license to third party distributors, such as Fox Searchlight, who may release a picture theatrically and distribute the film in other media as well.

We occasionally license domestic video rights of a film to sub-distributors, including Blockbuster, Inc., USA Films and Columbia TriStar Home Video. In addition, we have created First Look Home Entertainment, which released seventeen films on video in 2001, and we expect to release approximately twenty-seven films during 2002.

We license distribution rights directly to pay television services including HBO, Showtime and Encore, as well as smaller services, pay-per-view services and basic cable services, including USA, Lifetime, Bravo and the Independent Film Channel. Although we have not engaged in significant licensing or syndication of domestic free television rights except as part of a license of rights in multiple media, we control these rights to a significant portion of the films in our library and have licensed these rights in certain films to third parties.

In some cases, we will license the right to distribute a film domestically in multiple media to a major studio, a division of a major studio or an independent distributor. Although the terms of these licenses vary, we typically will be paid a minimum guarantee. The sub-distributor then retains a distribution fee, measured as a percentage of the gross receipts received by the sub-distributor from exploitation of the film, recovers its distribution costs and the advance paid to us, and ultimately pays us the remainder of any receipts in excess of an ongoing distribution fee.

We do not always receive a minimum guarantee from the licensing of distribution rights to foreign and domestic sub-distributors. This has caused us to rely more heavily on the actual financial performance of the film being distributed. In some circumstances, whether we receive a minimum guarantee depends upon the media. For example, in the case of motion pictures that have not been theatrically released, we may enter into video/DVD distribution arrangements with sub-distributors where no minimum guarantee is paid to us or where the minimum guarantee paid to us is significantly less than those paid to us for similar films in the past. In addition, even if we do obtain minimum guarantees from our sub-distributors, the minimum guarantees do not assure the profitability of our motion pictures or our operations. Additional revenues may be necessary from distribution of a motion picture to enable us to recover any investment in the motion picture in excess of the aggregate minimum guarantees obtained from sub-distributors, pay for distribution costs, pay for ongoing acquisition and development of other motion pictures by us and cover general overhead. While the pre-licensing of distribution rights to sub-distributors in exchange for minimum guarantees may reduce some of our risk from unsuccessful films, it also may result in us receiving lower revenues with respect to highly successful films.

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First Look Pictures

Some of the motion pictures for which we control domestic rights are directly distributed to theaters throughout the United States through First Look Pictures. During 2001, First Look Pictures released seven films (Chopper, Ed

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Gein, Question of Faith, Bread and Tulips, Lisa Picard is Famous, Bangkok Dangerous and Asoka). Although some of First Look Pictures' future releases may appeal to a wide audience, many of our releases to date have been foreign language and art-house films intended to appeal primarily to sophisticated audiences.

We believe that we can benefit in several ways by theatrically distributing films in the United States directly through First Look Pictures. The domestic theatrical success of a motion picture can be a significant factor in generating revenues from its distribution in ancillary media and foreign markets. For example, retail video stores purchase few copies of videocassettes of motion pictures that have not been theatrically released. In addition, we believe we are generally able to obtain more favorable distribution terms in our agreements with foreign and domestic sub-distributors in other media with respect to motion pictures that have been theatrically released in the United States. We also believe that, in some cases, First Look Pictures' operations enable us to achieve domestic theatrical release for films that might not otherwise be released in U.S. theaters. In addition, we believe that our ability to release a film theatrically in the U.S. enables us to attract more recognizable talent, higher profile producers and more promising motion picture projects for both domestic and foreign distribution and that by theatrically releasing films ourselves in the United States, we can retain a significantly greater share of the revenue from domestic media in the event of a highly successful theatrical release.

Films distributed theatrically in the United States by First Look Pictures typically have been released on a limited basis to initially less than 100 screens and in selected cities, expanding to new cities or regions based upon the performance of the film. Some films that are released in new cities as prints become available from cities where the engagement has closed, reducing the number of prints needed and the aggregate cost of the prints. We may release appropriate films with more mass market appeal on a wide release basis either through First Look Pictures or, more likely, by licensing the film to a domestic distributor with more significant financial and distribution resources.

The cost to First Look Pictures to distribute a specialized motion picture or art-house film on a limited-release basis has typically ranged from approximately \$100,000 to \$2,000,000. Expenditures for prints, marketing and advertising represent a substantial portion of the costs of releasing a film. In connection with the acquisition of domestic theatrical rights to a film, we occasionally commit to spend no less than a specified minimum amount for prints and advertising costs. These costs are in addition to the direct production or acquisition costs and other distribution expenses of the films.

Generally, in addition to receiving a distribution fee, we are entitled to recover our print and advertising expenditures. Although First Look Pictures may at times utilize standard broadcast television advertising, First Look Pictures typically supports its limited releases with local newspaper and, in certain instances, some cable television advertising. First Look Pictures also relies on local and national publicity, such as reviews or articles in local and national publications and appearances of a film's principal artists on radio and television talk shows. In contrast, distributors of national, wide release films rely primarily on national advertising campaigns, including substantial television advertising, to attract theatergoers.

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The success of a domestic theatrical release by First Look Pictures can be affected by a number of factors outside our control. These factors include:

- o audience and critical acceptance;

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- o the availability of motion picture screens;
- o the success of competing films in release;
- o awards won by First Look Pictures' releases or that of its competition;
- o inclement weather; and
- o competing televised events such as sporting and news events.

As a result of the foregoing, and depending upon audience acceptance of the films distributed through First Look Pictures, we expect that in some cases we may not recover all of our distribution expenses or derive any profit solely from domestic theatrical distribution revenue of First Look Pictures' releases. In addition, we cannot assure you that total revenues from any First Look Pictures' release, including revenues derived from the film in ancillary media and international markets, will be sufficient to allow us to recover all of our costs or to realize a profit.

During 2001, First Look Pictures released the following seven motion pictures:

| Title | Major Creative Elements | Storyline |
|---------|---|--|
| Chopper | Executive Producer: Al Clark Director: Andrew Dominik Cast: Eric Bana | Standover man, underworld executioner and inventive raconteur, Mark `Chopper' Read is Australia's most infamous criminal and best-selling author. This is the story. |
| Ed Gein | Producer: Hamish McApline, Mark Boot and Mike Muscal Director: Chuck Parello Cast: Steve Railsback and Carrie Snodgrass | The true and bizarre exploits of the 1950's Wisconsin serial killer. |

| Title | Major Creative Elements | Storyline |
|---------------------|--|---|
| A Question of Faith | Executive Producer: Edward R. Pressman Director: Tim Disney Cast: Martha Hackett, Bernard Hill | In the heart of California wine country lies a monastery where centuries-old traditions of ritual, discipline and solitude create a timeless serenity-until one dazzling moment changes everything. |

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| | | |
|-----------------------|--|---|
| Bread and Tulips | <p>Producer: Daniele Maggioni Director: Silvio Soldini Cast: Licia Maglietta, Bruno Ganz, Giuseppe Battiston</p> | <p>Rosalba, a bored housewife, is left behind at a rest stop during annual holiday. She tries to hitchhike home but finds love in Venice and stays with it.</p> |
| Lisa Picard is Famous | <p>Producer: Mira Sorvino, Dolly Hall Director: Griffin Dunne Cast: Griffen Dunne, Laura Kirk, Nat De Wolf, Daniel London ambition.</p> | <p>A filmmaker searching for a subject and an actor seeking fame cross paths in a whimsical look at the consequences of blind.</p> |
| Bangkok Dangerous | <p>Producer: Nonzee Nimibutr Director: Oxide Pang and Danny Pang Cast: Pawalit Mon</p> | <p>The story of a deaf-mute hitman and his partner who are based in Bangkok.</p> |
| Asoka | <p>Executive Producer: Mark Burton, Sanjiv Chawlaw and Francis Thomas Director: Santosh Sivan Cast: Shah Rukh Khan and Zkareena Kapoor</p> | <p>The epic tale of King Asoka's life.</p> |

We anticipate the release of the following films by First Look Pictures in 2002:

| Title | Major Creative Elements | Storyline |
|-----------------|---|---|
| Elling | <p>Producer: Dag Alveberg Director: Peter Naees Cast: Per Christian Ellefsen, Sven Nordin and Marit Pia Jacobsen</p> | <p>Based on the best selling Norwegian novel by Ingvar Ambjornsen, Elling, directed by Petter Naess, is a slyly funny and emotionally affecting odd couple comedy about two misfits trying to find their places in society.</p> |
| Song for Martin | <p>Producer: Billie August, Lars Kolvig, Michael Lundberg and Michael Obel Director: Billie August Cast: Sven Wollter, Viveka Seldahl and Reine Brynolfsson</p> | <p>A beautiful and heart wrenching portrait of a woman's love for her husband in the face of a terrible and incurable disease.</p> |
| Skins | <p>Producer: Jon Kilik Director: Chris Erye Cast: Eric Schweig, Graham Greene</p> | <p>An inspirational tale about the relationship between two Sioux Indian brothers living on the Pine Ridge Indian reservation.</p> |
| Lawless Heart | <p>Producer: Martin Pope Director: Tom Hunsinger and Neil</p> | <p>Upon returning from his eight year journey, a young charismatic</p> |

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| | | |
|------------------|---|---|
| | Hunter Cast: Douglas Henshall, Tom Hollander and Bill Nighy | man finds himself in the midst of his cousin's funeral that serves as a springboard for three entangling love stories. |
| No News from God | Producer: Edmundo Gil Director: Agustin Diaz Yanes Cast: Penelope Cruz, Victoria Abril | Two angels, one from heaven and one from hell, come to earth to save the soul of a boxer. |

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We cannot assure that the motion pictures scheduled for release by First Look Pictures in 2002 or any motion pictures thereafter will actually be released or released in accordance with its anticipated schedule. The motion picture business is subject to numerous uncertainties, including financing requirements, personnel availability and the release schedule of competing films.

Our Acquisition of Rights, Production and Financing

We acquire sales and distribution rights from a wide variety of independent production companies and producers. We generally acquire rights to single films, as compared to acquiring films pursuant to multi-picture acquisition agreements with independent film companies or producers. We commit to acquire rights to motion pictures at various stages in the completion of a film, from films completed and ready for release to developed or undeveloped film projects for which we may arrange financing or production services to complete. In acquiring rights, we generally seek to obtain rights to commercially appealing motion pictures with substantially lower direct negative costs than motion pictures released by the major studios.

In order to fund the acquisition costs of the films for which we acquire rights, we have primarily relied on:

- o our credit facility;
- o other lenders willing to finance our contractual minimum guarantee obligations to the films' producers or rights owners;
- o working capital;
- o pre-sales;
- o gap financing;
- o insurance backed financing structures; and
- o other third party equity sources such as private investors and international partnerships receiving tax incentives through film investment activities.

The films that we sell, license and distribute generally have direct negative costs ranging from \$1,000,000 to \$7,000,000. We may acquire rights to finance or produce motion pictures with direct negative costs and marketing costs below or substantially in excess of the average direct negative costs and marketing costs of the films that we have distributed. As part of our overall business strategy, we intend to emphasize films with more recognizable cast, directors and producers and greater production values and which may accordingly have broader appeal in the competitive theatrical market. We also will attempt to limit our exposure with respect to production and acquisition costs through accessing third party equity sources such as private investors.

We sometimes acquire limited distribution or sales rights and at other times acquire worldwide rights, occasionally including the copyright, to films.

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The rights we acquire may depend upon whether we agree to pay the producer or other rights owner a minimum guarantee. Additionally, as part of our acquisition of theatrical, video and television distribution rights, we may obtain the right to exploit ancillary rights, such as music or sound track rights, merchandising rights, or rights to produce CD-ROMs or other interactive media products. Although we may license these rights to sub-distributors, we historically have not derived any significant revenues from these ancillary rights.

In distribution arrangements where we do not pay a minimum guarantee, the amounts payable by us to the rights owner will depend upon our success in licensing the film and the financial performance of the film itself. In acquiring distribution rights to a completed or incomplete film, however, we may agree to pay the rights owner a minimum guarantee that is independent of the financial performance of the film. Historically, the minimum guarantees paid by us have ranged from approximately \$25,000 to \$5,000,000, although in some circumstances they may exceed these amounts. Depending upon the particular arrangement, a minimum guarantee may be payable in full at the time of delivery of the completed film or in installments following complete delivery of the film. The rights owner also may receive additional payments as a result of our exploitation of the distribution rights to the film. After receiving a distribution fee and recovering our distribution expenses and minimum guarantee, we pay the remainder of revenues in excess of an ongoing distribution fee to the rights owner.

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We typically receive a larger share of gross receipts from the license and distribution of motion pictures for which we have provided a minimum guarantee. At times, the minimum guarantee paid by us may represent all or a substantial portion of the film's production costs. In those circumstances, we may receive worldwide distribution rights in all media and may also obtain ownership of the copyright to the film with the producer. In 2001, we provided minimum guarantees for twelve films ranging from \$25,000 to \$1,000,000, including one which represented a majority of the final production costs of the film. Additionally, with respect to three films, we provided guarantees that sales, net of our fees and expenses, would achieve specified levels within a period of three years following commencement of principal photography of the related film.

Our commitment to pay a minimum guarantee with respect to films that have not begun production often enables the production company or producer to obtain financing for its project, if needed. In some cases, our contractual commitment to pay a minimum guarantee upon delivery of a film serves as sufficient collateral for a bank to lend production funds. The bank typically will insure delivery of the film to us by requiring the producer to purchase a completion guaranty. To enable the production company or producer to borrow production funding, or to borrow at preferential bank fees and interest rates, we also may have to secure our purchase or acquisition commitment, which we generally have done by obtaining a letter of credit from our lenders. In some situations, the production company or producer of a film initially may obtain funds:

- o from other distribution companies that obtain distribution rights in specified media or territories, for example, the domestic distribution rights or distribution rights in Germany or the United Kingdom;
- o by accessing foreign governmental film industry incentive programs such as programs offered in the past by the Isle of Man, the United Kingdom, Canada, Germany, Australia and New Zealand; or

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- o by using its own resources or other resources available to it, and subsequently approaching us to supply the remaining funds necessary to complete or co-finance the film in exchange for our obtaining the remaining distribution rights to the motion picture.

We also have been actively involved in co-financing arrangements. When we participate in co-financing arrangements, we will commit to fund a portion of a particular film's production costs in combination with others.

In June 2000, we entered into a "first look" agreement with The Little Film Company, Inc. and Ellen Dinerman Little, our former co-chairman, co-chief executive officer and president. The agreement provides for a three-year term ending in June 2003. Under this agreement, we will have an exclusive "first look" on any project that The Little Film Company owns or controls or which it has the right to submit to us or any project that it has the right to acquire or may wish to acquire for development or production. The agreement also provides for us to pay The Little Film Company annual overhead for office space and related expenses, an annual fee and a discretionary revolving development fund. We also will compensate The Little Film Company on a project-by-project basis.

In connection with the purchase of certain of our securities by Rosemary Street in June 2000, Rosemary Street assigned to us a first look agreement with Grandview Pictures LLC and Jon Kilik. The agreement provides for a three-year term ending in May 2002, which we may renew for an additional two-year term. Under the agreement, we will have an exclusive "first look" on any project that Grandview Pictures wants to produce and which it owns or controls or which it has the right to submit to us under the agreement or which it has the right to acquire or may wish to acquire for development and/or production, or has been authorized by third parties to submit to us for development and/or production, as a feature length theatrical motion picture or television production. The agreement also provides for us to pay to Grandview Pictures annual overhead for its New York office, including an annual salary for Jon Kilik and fees for Kilik's production services based on the cash budget of the applicable pictures. We also will compensate Grandview Pictures for each theatrical or television motion picture produced by Kilik. *Skins* is the first film to be produced under our "first look" agreement with Grandview Pictures.

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During 2001, we were involved in arranging and/or providing a significant portion of the production financing for ten motion pictures (*Bark*, *Quicksand*, *My Kingdom*, *Bundy*, *Between Strangers*, *Evelyn*, *Julie Walking Home*, *Skins*, *Snapshots* and *Triggermen*) four of which were completed by the end of 2001 and six of which were in post-production. We attempt to minimize the risks associated with any development and production activities that we conduct in a variety of ways. We do not maintain a substantial staff of creative or technical personnel. We also do not own or operate sound stage and related production facilities and, accordingly, do not have the fixed payroll, general and administrative and other expenses resulting from such ownership. In addition, in those circumstances where we produce a film, we generally attempt to acquire fully developed projects ready for pre-production with, when feasible, completed scripts, directors and cast members who are committed to or are interested in the project. Many projects also have a producer involved or committed. However, if at the time of our acquisition of rights in a project, a producer is not formally or informally committed to a project, we may also engage a production services company or a producer to supervise and arrange all pre-production, production and post-production activities in exchange for a production fee and a participation in net revenues from the film.

The following chart provides information regarding completed motion pictures first made available to us for distribution during 2001, other than

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those films described under "Our Motion Picture Distribution -First Look Pictures."

| Motion Picture Title ----- | Genre ----- | Territories Acquired ----- | Selected Cast ----- |
|-------------------------------|-----------------|--|--|
| Anthrax | Thriller | Universe excluding Canada, Italy and the United States | David Keith |
| Asoka | Adventure | Universe excluding Canada, India, Japan and the United Kingdom | Shah Rukh Khan, Danny Denzongpa |
| Bark | Romantic Comedy | Universe | Lisa Kudrow, Ha D'Onofrio, Lee Heather Morgan |
| Black Heart | Thriller | United States (video and DVD rights only) | Richard Grieco, Plummer and Mar |
| Bongwater | Comedy | United States | Luke Wilson, Al Locane, Brittan Black and Andy |
| Bundy | Thriller | Universe | Michael Reilly Bliss, Steffani Black and Wayne |

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| Motion Picture Title ----- | Genre ----- | Territories Acquired ----- | Selected Cast ----- |
|-------------------------------|-----------------|---|--|
| Catfish in Black Bean Sauce | Comedy | United States (video and DVD rights only) | Chi Moui Lo, Sa Winfield |
| Cover Story | Thriller | Universe excluding Canada | Jason Priestly, and Costas Mand |
| Deadly Compromise | Thriller | Universe excluding Canada, Italy, Spain and the United States | Nicola Farron a |
| Devilstone (Wishmaster 3) | Horror | Universe excluding Canada and the United States | Jason Connery, Louisette Geiss Jennifer Pudavi Evangelista |
| Diggity's Treasure | Family | Universe | Andrew McCarthy, Bill Treacher, Fiona Fullerton |
| Gypsy Woman | Romantic Comedy | Universe excluding the United Kingdom | Jack Davenport |
| Just One Time | Comedy | United States (video and DVD rights only) | Lane Langer, Jo Guillermo Diaz Esposito |

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| | | | |
|------------------|--------------------|---|--|
| My Kingdom | Drama | Universe excluding the United Kingdom | Richard Harris, Aiden Gillen, Lorraine Pilkington Mistry |
| Out of Line | Drama | United States (video and DVD rights only) | Jennifer Beals, Michael Moriarty |
| Out of the Cold | Drama | Universe excluding Turkey, Poland, Philippines, Israel, Latvia, Lithuania, Estonia and Russia | Keith Carradine, Mia Kirshner, Bronson Pinchot, Judd Hirsh |
| Primetime Murder | Thriller | Europe | Sasha Zacharias |
| Quicksand | Thriller | Universe | Michael Keaton, Judith Godrèche |
| Revelation | Adventure Thriller | Universe excluding the United Kingdom | James D'Arcy, Terence Stamp, Jacobi |

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| Motion Picture Title ----- | Genre ----- | Territories Acquired ----- | Selected Cast ----- |
|--|-----------------|---|--|
| Soulkeeper | Horror | Universe | Rodney Rowland, Walls, Robert D. Karen Black and |
| Terminal Countdown | Action | United States (video and DVD rights only) | Louis Gossett J |
| Thirteen Conversations About One Thing | Drama | Universe | Matthew McConaughey, Turturro, Clea and Alan Arkin |
| Wedding Party | Romantic Comedy | United States (video and DVD rights only) | Richard Roxburgh and Frances O'Connor |
| Wishmaster 4 | Horror | Universe excluding Canada and the United States | Tara Spencer-Najon, Jason Thompson |
| Young Blades | Action | Universe | Hugh Dancy, Sam Claflin, Ben Cross |

Our Film Library of Distribution Rights

Our film library consists of rights to a broad range of films, most of which were produced since 1980. At December 31, 2001, we had various distribution rights to more than 310 motion pictures, including more than 73 motion pictures in which we own an interest in the copyright. With respect to these films where we do not own the copyright, the term of our distribution rights generally range from 12 to 25 years or more from the date of acquisition, and typically extend to many, if not all, media for exhibition worldwide or in specified territories.

In addition to exploitation of distribution rights to motion pictures

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in our library in the major media, we are able to exploit various ancillary rights in the films under certain situations. We have arranged for the music in several motion pictures that we have distributed to be released as soundtrack recordings, including *Waking Ned Devine*, *A Merry War*, *Mrs. Dalloway*, *The Secret of Roan Inish*, *Party Girl*, *The Big Squeeze* and *Infinity*. Although exploitation of these soundtracks and other ancillary rights have not generated significant revenues for us to date, our ownership or control of ancillary rights to motion pictures in our library, including interactive rights, remake rights and merchandising rights, may provide future sources of additional revenues.

Additionally, we have granted to Yahoo! Inc. the right to exploit on the Internet approximately fifty titles from our film library on a revenue sharing basis.

Major Customers

In 1999, Buena Vista accounted for \$3,500,000 or 10.4% of our revenues. In 2000, USA Network accounted for \$3,014,000 or 13.3% of our total revenues. During the year ended December 31, 2001, no single customer accounted for more than 10% of our revenues.

Employees

As of April 12, 2002, we employed 51 full-time employees and 3 part-time employees. Some of our subsidiaries are or may become subject to the terms in effect from time to time of various industry-wide collective bargaining agreements, including the Writers Guild of America, the Directors Guild of America, the Screen Actors Guild and the International Alliance of Theatrical Stage Employees. We may assume a production company's obligation to pay residuals to these various entertainment guilds and unions. A strike, job action or labor disturbance by the members of any of these entertainment guilds and unions could have a material adverse effect on the production of a motion picture within the United States, and, consequently, on our business, operations and results of operations. These organizations all have engaged in strikes and similar activities. We believe that our current relationship with our employees is satisfactory.

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Competition

Motion picture distribution, finance and production are highly competitive businesses. The competition comes both from companies within the same business and from companies in other entertainment media that create alternative forms of leisure entertainment. We compete with major film studios including:

- o The Walt Disney Company including Miramax;
- o Paramount Pictures Corporation;
- o Universal Pictures;
- o Sony Pictures Entertainment;
- o Twentieth Century Fox; and
- o Warner Brothers Inc. including New Line Cinema.

We also compete with numerous independent and foreign motion picture production and distribution companies. Many of the organizations with which we compete have significantly greater financial and other resources than us. Our ability to compete successfully depends upon the continued availability of independently produced, domestic and foreign motion pictures and our ability to identify and acquire distribution rights to, and successfully license and distribute, motion pictures with commercial potential. A number of formerly independent motion picture companies have been acquired in recent years by major

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entertainment companies. These transactions have significantly increased competition for the acquisition of distribution rights to independently produced motion pictures.

Films that we distribute or finance also compete for audience acceptance and exhibition outlets with motion pictures that other companies distribute and produce. As a result, the success of any of the films that we distribute or finance is dependent not only on the quality and acceptance of that particular film, but also on the quality and acceptance of other competing films released into the marketplace at or near the same time. With respect to our domestic theatrical releasing operations, a substantial majority of the motion picture screens in the United States typically are committed at any one time to films distributed nationally by the major film studios, which generally buy large amounts of advertising on television and radio and in newspapers and can command greater access to available screens. Although some movie theaters specialize in the exhibition of independent, specialized motion pictures and art-house films, there is intense competition for screen availability for these films as well. Given the substantial number of motion pictures released theatrically in the United States each year, competition for exhibition outlets and audiences is intense. In addition, there also have been rapid technological changes over the past fifteen years. Although technological developments have resulted in the creation of additional revenue sources from the licensing of rights with respect to new media, these developments also have resulted in increased popularity and availability of alternative and competing forms of leisure time entertainment including pay/cable television programming and home entertainment equipment such as videocassettes, interactive games and computer/Internet use.

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Regulation

In 1994, the United States was unable to reach an agreement with its major international trading partners to include audio-visual works, such as television programs and motion pictures, under the terms of the General Agreement on Trade and Tariffs Treaty. The failure to include audio-visual works under the treaty allows many countries to continue enforcing quotas that restrict the amount of United States-produced television programming which may be aired on television in those countries. The Council of Europe has adopted a directive requiring all member states of the European Union to enact laws specifying that broadcasters must reserve a majority of their transmission time, exclusive of news, sports, game shows and advertising, for European works. The directive does not itself constitute law, but must be implemented by appropriate legislation in each member country. In addition, France requires that original French programming constitute a required portion of all programming aired on French television. These quotas generally apply only to television programming and not to theatrical exhibition of motion pictures, but quotas on the theatrical exhibition of motion pictures could also be enacted in the future. We cannot assure you that additional or more restrictive theatrical or television quotas will not be enacted or that countries with existing quotas will not more strictly enforce such quotas. Additional or more restrictive quotas or more stringent enforcement of existing quotas could materially and adversely affect our business by limiting our ability to fully exploit our rights in motion pictures internationally and, consequently, to assist or participate in the financing of these motion pictures.

Distribution rights to motion pictures are granted legal protection under the copyright laws of the United States and most foreign countries. These laws provide substantial civil and criminal sanctions for unauthorized duplication and exhibition of motion pictures. Motion pictures, musical works, sound recordings, art work, still photography and motion picture properties are

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separate works subject to copyright under most copyright laws, including the United States Copyright Act of 1976, as amended. We are aware of reports of extensive unauthorized misappropriation of videocassette rights to motion pictures which may include motion pictures distributed by us. Motion picture piracy is an industry-wide problem. The Motion Picture Association of America, an industry trade association, operates a piracy hotline and investigates all reports of such piracy. Depending upon the results of investigations, appropriate legal action may be brought by the owner of the rights. Depending upon the extent of the piracy, the Federal Bureau of Investigation may assist in these investigations and related criminal prosecutions.

Motion picture piracy is also an international problem. Motion picture piracy is extensive in many parts of the world, including South America, Asia including Korea, China and Taiwan, the countries of the former Soviet Union and other former Eastern bloc countries. In addition to the Motion Picture Association, the Motion Picture Export Association, the American Film Marketing Association and the American Film Export Association monitor the progress and efforts made by various countries to limit or prevent piracy. In the past, these various trade associations have enacted voluntary embargoes of motion picture exports to certain countries in order to pressure the governments of those countries to become more aggressive in preventing motion picture piracy. In addition, the United States government has publicly considered trade sanctions against specific countries that do not prevent copyright infringement of United States produced motion pictures. We cannot assure you that voluntary industry embargoes or United States government trade sanctions will be enacted. If enacted, these actions could impact the amount of revenue that we realize from the international exploitation of motion pictures depending upon the countries subject to and the duration of such action. If not enacted or if other measures are not taken, the motion picture industry as a whole, and our business in particular, may continue to lose an indeterminate amount of revenues as a result of motion picture piracy.

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The Code and Ratings Administration of the Motion Picture Association assigns ratings indicating age-group suitability for theatrical distribution of motion pictures. We sometimes, although not always, submit our motion pictures for these ratings. In certain circumstances, motion pictures that we did not submit for rating might have received restrictive ratings, including, in some circumstances, the most restrictive rating which prohibits theatrical attendance by persons below the age of seventeen. Unrated motion pictures, or motion pictures receiving the most restrictive rating, may not be exhibited in certain movie theaters or in certain locales, thereby potentially reducing the total revenues generated by these films. United States television stations and networks, as well as foreign governments, impose additional restrictions on the content of motion pictures which may restrict in whole or in part theatrical or television exhibition in particular territories. In 1997, the major broadcast networks and the major television production companies implemented a system to rate television programs. This television rating system has not had a material adverse effect on the motion pictures distributed by us. However, the possibility exists that the sale of theatrical motion pictures for broadcast on domestic free television may become more difficult because of potential advertiser unwillingness to purchase advertising time on television programs that are rated for limited audiences. We cannot assure you that current and future restrictions on the content of motion pictures may not limit or adversely affect our ability to exploit certain motion pictures in particular territories and media.

ITEM 2. PROPERTIES

Our principal executive offices are located at 8000 Sunset Boulevard, Penthouse East, Los Angeles, California 90046 and consist of 15,491 square feet

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of office space. Our payments under the lease are approximately \$34,000 per month. The lease expires on May 31, 2007.

During 2001, we also occupied approximately 1,500 square feet of office space in New York City, which space was located at 222 East 44th Street, New York, New York 10017. This space was in a building owned by EUE/Screen Gems (a company owned in part by Christopher Cooney, our CEO). We have agreed with EUE/Screen Gems that no rent will be paid for the use of this space. In February 2002, our New York operations were relocated to 603 Greenwich Street, New York, New York 10014. This space is approximately 4,000 square feet and is in a building owned, in part, by Christopher Cooney. As of April 12, 2002, no formal arrangements have been made regarding any rent to be paid with respect to these premises, however, we anticipate entering into a formal arrangement whereby approximately \$15,000 per month would be payable as rent. As a part of such arrangement it is anticipated that we would share the space with people and companies that are synergistic with our own operations and which would bear some or all of the rental costs.

In May 2001, we entered into a sublease for 4,000 square feet of office space located at 2932 Nebraska Avenue, Santa Monica, California for our television commercial production operations. We have since relocated the operations to our offices in New York and have further sublet the premises. The lease expires on March 31, 2003 and we have subleased the location through the end of the lease.

ITEM 3. LEGAL PROCEEDINGS

We are engaged in legal proceedings incidental to our normal business activities. In the opinion of management, none of these proceedings are material in relation to our financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock has been quoted on the OTC Bulletin Board under the symbol "FRST" since January 11, 2001, and our warrants were quoted on the OTC Bulletin Board under the symbol "FRSTW" from January 11, 2001 until February 16, 2002, the date the warrants expired. Prior to January 11, 2001, our common stock and warrants were quoted on the OTC Bulletin Board under the symbols "OSFG" and "OSFGW," respectively. The following table sets forth the high and low closing bid quotations for the periods indicated. The quotations represent prices between dealers and do not include retail markups or markdowns or commissions. They may not necessarily represent actual transactions.

| | Common Stock | | |
|--------------------|--------------|----------|-----------|
| | High (\$) | Low (\$) | High (\$) |
| | ---- | --- | ---- |
| 2000 | | | |
| First quarter..... | 2.875 | 2.250 | 0.250 |

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| | | | |
|----------------------|-------|-------|-------|
| Second quarter..... | 2.500 | 2.000 | 0.125 |
| Third quarter..... | 2.125 | 1.750 | 0.125 |
| Fourth quarter..... | 1.875 | 1.500 | 0.125 |
| 2001 | | | |
| First quarter..... | 1.188 | 0.750 | 0.063 |
| Second quarter | 0.813 | 0.500 | 0.047 |
| Third quarter | 0.719 | 0.531 | 0.094 |
| Fourth quarter | 1.010 | 0.406 | 0.094 |

As of April 12, 2002, there were approximately 26 holders of record of the Company's common stock and there were 11,909,139 shares of common stock issued and outstanding. We believe that there are more than 250 beneficial owners of our common stock. Our warrant exchange offer, which was completed on January 11, 2002, is described in this report under the caption "Business - Recent Developments."

On April 12, 2002, the last reported sale price of our common stock as reported on the OTC Bulletin Board was \$0.38.

Dividends

We have not paid cash dividends on our common stock and we presently intend to retain future earnings to finance the expansion and development of our business and not pay dividends on our common stock. Any determination to pay cash dividends in the future would be at the discretion of the board of directors and would be dependent upon our results of operations, financial condition, contractual restrictions and other factors deemed relevant at that time by the board of directors. In addition, certain covenants in our credit facility with The Chase Manhattan Bank substantially restrict payment of cash dividends.

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Recent Sales of Unregistered Securities

Preferred Stock Conversion

Pursuant to the terms of the securities purchase agreement related to the Rosemary Street transaction dated May 3, 2000, Rosemary Street Productions, LLC, Rosemary Street purchased from the Company 904,971 shares of Series A Preferred Stock, each share of which automatically converted into two shares of our common stock on October 15, 2001. The shares of common stock were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933.

Warrant Exchange

On November 8, 2001, we commenced a tender offer in which we offered to exchange .0714 of a share of our common stock for every one of our outstanding warrants that we issued in our initial public offering in February 1995. The exchange offer was completed on January 11, 2002. 4,135,579 of our 4,500,000 outstanding warrants were tendered and accepted by us in exchange for 295,291 shares of our common stock. The warrant holders who elected not to participate in the exchange retained their right to purchase one share of our common stock for \$5.00, for each warrant held. These warrants expired on February 16, 2002. The shares of our common stock issued upon exchange of the warrants were issued pursuant to an exemption from registration under Section 3(a)(9) of the Securities Act of 1933.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data as of and for each of the years in the five-year period ended December 31, 2001 are derived from our consolidated financial statements. The selected consolidated financial data set forth below should be read in conjunction with our consolidated financial statements and the notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations," each included elsewhere in this report.

| | Year Ended December | | |
|--|---------------------------|----------|----------|
| | (in thousands, except per | | |
| | 2001 | 2000 | 1999 |
| Statement of Operations Data: | | | |
| Revenues..... | \$35,144 | \$22,625 | \$33,784 |
| Film cost amortization..... | 24,258 | 16,850 | 30,888 |
| Distribution and marketing costs..... | 7,101 | 4,774 | - |
| Selling, general and administrative..... | 6,947 | 6,473 | 2,983 |
| Income (loss) from operations..... | (3,162) | (5,472) | (87) |
| Income (loss) before tax and cumulative effect of accounting change..... | (3,792) | (6,230) | (1,989) |
| Income tax provision (benefit)..... | 62 | 137 | (736) |
| Income (loss) before cumulative effect of accounting change..... | (3,854) | (6,367) | (1,253) |
| Cumulative effect of accounting change(1)..... | - | (14,123) | - |
| Net income (loss) | (3,854) | (20,490) | (1,253) |
| Basic and diluted net income (loss) per share before cumulative effect..... | (0.38) | (0.78) | (0.21) |
| Cumulative effect..... | - | (1.74) | - |
| Net income (loss) per share after cumulative effect..... | (0.38) | (2.52) | (0.21) |
| Basic and diluted weighted average number of shares outstanding..... | 10,191 | 8,131 | 5,990 |

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| | Year Ended December | | |
|--|---------------------------|----------|--------|
| | (in thousands, except per | | |
| | 2001 | 2000 | 1999 |
| Balance Sheet Data: | | | |
| Film costs, net of accumulated amortization..... | \$18,304 | \$13,393 | \$28,3 |
| Total assets..... | 45,471 | 42,280 | 62,6 |
| Total long-term liabilities..... | 14,500 | 6,500 | 19,7 |
| Total liabilities..... | 39,420 | 32,375 | 49,3 |

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Total shareholders' equity.....6,051 9,905 13,2

- (1) During the year ended December 31, 2000, we recorded a one-time, pre-tax non-cash charge of \$15,582,000 (\$14,123,000 after taxes) relating to our adoption of new film accounting standards in June 2000 pursuant to SOP 00-2, which is discussed in detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Relevant Accounting Provisions."

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

When used in this Form 10-K and in future filings by our company with the Securities and Exchange Commission, the words or phrases "will likely result," "management expects" or "we expect," "will continue," "is anticipated," "estimated" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on any such forward-looking statements, each of which speak only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. These risks are included in "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in "Exhibit 99: Risk Factors" included in this Form 10-K. We have no obligation to publicly release the result of any revisions which may be made to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

General

The operations of the company were established as a private company in February 1980 under the name Overseas Filmgroup, Inc. We were formed in December 1993 under the name "Entertainment/Media Acquisition Corporation" for the purpose of acquiring an operating business in the entertainment and media industry. We acquired the operations of Overseas Filmgroup, Inc. through a merger in October 1996 and we were the surviving corporation in the merger. Immediately following the merger, we changed our name to "Overseas Filmgroup, Inc." and succeeded to the operations of the private company. In January 2001, we changed our name to "First Look Media, Inc." in order to reflect the broadening of our operations beyond foreign distribution of independently produced feature films to additional areas such as theatrical and video distribution in the United States, as well as television commercial production. Although we initially intended to also expand into Internet content development, we no longer have immediate plans to expand operations into this area.

Today, we are principally involved in the acquisition and worldwide license or sale of distribution rights to independently produced motion pictures. We directly distribute certain motion pictures in the domestic theatrical market under the name "First Look Pictures" and in the domestic video market under the name "First Look Home Entertainment." Additionally, we have established a television commercial production operation which operates under the name "First Look Artists."

Relevant Accounting Provisions

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In June 2000, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 00-2, "Accounting by Producers or Distributors of Films" ("SOP 00-2"). SOP 00-2 establishes new film accounting standards, including changes in revenue recognition and accounting for advertising, development and overhead costs. Additionally, in June 2000, the Financial Accounting Standards Board ("FASB") issued Statement 139 ("SFAS 139") which rescinds FASB 53 on financial reporting by motion picture film producers or distributors. SFAS 139 requires public companies to follow the guidance provided by SOP 00-2. We elected early adoption of SOP 00-2 and, as a result, in 2000, a cumulative charge for the change in accounting principle of \$15,582,000 (\$14,123,000 net of income taxes) has been reflected in our Consolidated Statement of Operations for the year ended December 31, 2000.

Critical accounting policies and estimates

The SEC recently issued Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" ("FRR60"), suggesting companies provide additional disclosure and commentary on those accounting policies considered most critical. FRR 60 considers an accounting policy to be critical if it is important to our financial condition and results of operations, and requires significant judgment and estimates on the part of management in its application. For a summary of our significant accounting policies, including the critical accounting policies discussed below, see the accompanying notes to the consolidated financial statements.

The preparation of our financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses during the reporting period. On an ongoing basis, we evaluate these estimates, which are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The result of these evaluations forms the basis for making judgments about the carrying values of assets and liabilities and the reported amount of expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions. The following accounting policies require significant management judgments and estimates:

Accounting for the production and distribution of motion pictures is in accordance with SOP 00-2, which requires management's judgment as it relates to total revenues to be received and costs to be incurred throughout the life of each film. These judgments are used to determine the amortization of capitalized film costs associated with revenues earned and any net realizable value adjustments.

Management is required to make judgments, based on historical experience and future expectations, as to the collectibility of accounts receivable. The allowances for doubtful accounts and sales returns represent allowances for customer trade accounts receivable that are estimated to be partially or entirely uncollectible. These allowances are used to reduce gross trade receivables to their net realizable value. We record these allowances based on estimates related to the following factors: (i) customer specific allowances; and (ii) an estimated amount, based on our historical experience, for issues not yet identified.

We assess potential impairment of long-lived assets under the guidance of SFAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The Company will adopt SFAS 142 in the first quarter of 2002.

Certain balance sheet liabilities require significant judgments and

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estimates by management. We continually evaluate these estimates based on changes in the relevant facts and circumstances and events that may impact estimates. While management believes that the current reserves are adequate, there can be no assurance that these factors will not change in future periods.

We base these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. There can be no assurance that actual results will not differ from these estimates.

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Results of operations

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Revenues increased by \$12,519,000 (55.3%) to \$35,144,000 for the year ended December 31, 2001, compared to \$22,625,000 for the year ended December 31, 2000. The increase in revenues was primarily due to the growth of revenue from our motion pictures segment with respect to direct distribution in the U.S. (\$6,007,000 for the year ended December 31, 2001 compared to \$1,736,000 for the year ended December 31, 2000) and increases in ancillary revenue, including airline revenue and executive producing and other fees (\$3,150,000 for the year ended December 31, 2001 compared to \$196,000 for the year ended December 31, 2000). Additionally, the licensing of film rights generated \$25,366,000 for the year ended December 31, 2001 compared to \$20,306,000 for the year ended December 31, 2000.

The commercial production segment generated \$263,000 for the year ended December 31, 2001 compared to no income for the year ended December 31, 2000.

In accordance with new accounting standards established pursuant to SOP 00-2, distribution and marketing costs were expensed as incurred during the years ended December 31, 2001 and 2000. Film costs as a percentage of revenues decreased to 69.0% for the year ended December 31, 2001, compared to 74.5% for the year ended December 31, 2000. The decrease was due to generally higher distribution fee rates (our gross margin) on films generating the greatest amount of revenue during the year ended December 31, 2001, compared to the year ended December 31, 2000. Distribution and marketing costs increased to \$7,101,000 for the year ended December 31, 2001 compared to \$4,774,000 for the year ended December 31, 2000. The increase is reflective of increased U.S. theatrical and video/DVD distribution activities in the year ended December 31, 2001 compared to the year ended December 31, 2000. As a percentage of revenues distribution and marketing costs decreased to 20.2% for the year ended December 31, 2001, compared to 21.1% for the year ended December 31, 2000.

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Selling, general and administrative expenses, net of amounts capitalized to film costs, increased by \$474,000 (7.3%) to \$6,947,000 for the year ended December 31, 2001, compared to \$6,473,000 for the year ended December 31, 2000. The largest increase was in the area of compensation expense (\$1,361,000) related to our expansion of existing and new operational areas, including U.S. theatrical releasing (First Look Pictures), U.S. video and DVD operations (First Look Home Entertainment) and the television commercial production operation (First Look Artists). Other increases included:

- o Bank charges of \$10,000;
- o Dues and subscriptions of \$15,000;

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- o Equipment lease payments of \$13,000;
- o Insurance of \$15,000;
- o Employee benefits of \$35,000;
- o Office overhead relating to commercial directors of \$52,000;
- o Office and computer supplies of \$79,000;
- o Parking expenses of \$13,000;
- o Rent of \$33,000;
- o Repairs and maintenance of \$15,000;
- o Screenings and research of \$18,000; and
- o Shipping and messenger costs of \$28,000.

These increases were partially offset by decreases as follows:

- o Bad debt expense of \$608,000;
- o Increased capitalized expenses of \$310,000;
- o Consulting fees of \$18,000;
- o Legal fees of \$195,000;
- o Officer's fringe benefits of \$25,000;
- o Publicity of \$12,000; and
- o Franchise taxes of \$41,000.

Net other expense decreased by \$128,000 (16.9%) to \$630,000 for the year ended December 31, 2001, compared to \$758,000 for the year ended December 31, 2000. The decrease in net other expense was primarily due to an increase in interest income of \$49,000, a decrease in interest and financing expenses of \$434,000, increased revenue from the sale of software of \$242,000 and increase miscellaneous income of \$22,000 partially offset by the decreased revenue from the sale of securities of \$625,000.

As a result of the above, we had a loss before income taxes and cumulative effect of accounting change of \$3,792,000 for the year ended December 31, 2001, compared to a loss before income tax benefit and cumulative effect of accounting change of \$6,230,000 for the year ended December 31, 2000.

We recorded a one-time charge for the cumulative effect of accounting change of \$14,123,000, net of income tax benefit of \$1,459,000 for the year ended December 31, 2000.

As a result of the above, we had a net loss of \$3,854,000 for the year ended December 31, 2001 (reflecting foreign withholding taxes of \$53,000, and state taxes of \$9,000), compared to net loss of \$20,490,000 for the year ended December 31, 2000 (reflecting foreign withholding taxes of \$131,000 and states taxes of \$6,000).

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Year ended December 31, 2000 compared to year ended December 31, 1999

Revenues decreased by \$11,159,000 (33.0%) to \$22,625,000 for the year ended December 31, 2000, compared to \$33,784,000 for the year ended December 31, 1999. The decrease in revenues was primarily due to lower revenues from the highest grossing films released in 2000 compared to 1999. For example, the six highest income-producing films released during the year ended December 31, 2000, generated approximately \$9,410,000 in revenue compared to approximately \$21,180,000 in revenue generated by the six highest income-producing films released during the year ended December 31, 1999.

In accordance with new accounting standards established pursuant to SOP 00-2, distribution and marketing costs were expensed as incurred during the year ended December 31, 2000. For the year ended December 31, 1999, distribution and marketing costs were capitalized and amortized as film costs. Film costs,

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distribution and marketing costs as a percentage of revenues increased to 95.6% for the year ended December 31, 2000, compared to 91.4% for the year ended December 31, 1999. The increase was in part due to application of the new accounting standards, and to generally lower distribution fee rates (our gross margin) on films generating the greatest amount of revenue during the year ended December 31, 2000, compared to the year ended December 31, 1999.

Selling, general and administrative expenses, net of amounts capitalized to film costs, increased by \$3,490,000 (117.0%) to \$6,473,000 for the year ended December 31, 2000, compared to \$2,983,000 for the year ended December 31, 1999. The largest increases were in the areas of bad debt expense (\$1,617,000) and salary and payroll tax expense (\$789,000). Bad debt expense increased as a function of management's decision to write off certain accounts deemed uncollectible. Salary expense increased due to our expansion of existing and new operational areas, including expansion related to the equity investment by Rosemary Street, expansion of our video and DVD operations, creation of a television commercial production operation and increased staffing of the First Look Pictures theatrical releasing operation. Additionally, we capitalize some of our overhead costs incurred in connection with our production activities related to a motion picture by adding the costs to the capitalized film costs of the motion picture. The increase in selling, general and administrative expenses was partially the result of fewer expenses being capitalized (\$673,000 in 2000 compared to \$1,100,000 in 1999), due to our reduced involvement in production related activities. Other increases included:

- o accounting expenses of \$21,000;
- o charitable contributions of \$10,000;
- o consulting fees of \$97,000;
- o insurance premiums of \$132,000;
- o legal fees of \$222,000;
- o office and computer supplies of \$21,000;
- o officers' fringe and employee benefits of \$76,000;
- o publicity expenses of \$23,000;
- o repairs expenses of \$19,000;
- o business and franchise taxes of \$17,000;
- o telephone expenses of \$33,000; and
- o travel and entertainment expenses of \$61,000.

These increases were partially offset by decreases in contract labor of \$44,000 and miscellaneous expenses related to being a public company of \$23,000.

Net other expense decreased by \$1,144,000 (60.1%) to \$758,000 for the year ended December 31, 2000, compared to \$1,902,000 for the year ended December 31, 1999. The decrease in net other expense was primarily due to the gain reported on our sale of shares of common stock of Yahoo! Inc. of \$625,000, decreased interest expense of \$448,000, an increase in interest income of \$20,000, and an increase in other miscellaneous revenues of \$51,000.

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As a result of the above, we had a loss before income taxes and cumulative effect of accounting change of \$6,230,000 for the year ended December 31, 2000, compared to a loss before income tax benefit and cumulative effect of accounting change of \$1,989,000 for the year ended December 31, 1999.

We recorded a one-time charge for the cumulative effect of accounting change of \$14,123,000, net of income tax benefit of \$1,459,000 for the year ended December 31, 2000.

As a result of the above, we had a net loss of \$20,490,000 for the year ended December 31, 2000 (reflecting foreign withholding taxes of \$131,000, and state taxes of \$6,000), compared to net loss of \$1,253,000 for the year ended

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December 31, 1999 (reflecting an effective income tax benefit of \$736,000).

Liquidity and Capital Resources

We require substantial capital for the acquisition of film rights, the funding of distribution costs and expenses, the payment of ongoing overhead costs and the repayment of debt. The principal sources of funds for our operations has been cash flow from operations, bank borrowings and equity financings.

June 2000 Private Placement

In June 2000, we consummated a private placement with Rosemary Street, in which we sold to Rosemary Street for an aggregate cash purchase price of \$17,000,000:

- o 5,097,413 shares of our common stock;
- o 904,971 shares of our Series A preferred stock, each share of which automatically converted into two shares of common stock on October 15, 2001; and
- o five-year warrants to purchase up to 2,313,810 shares of our common stock at an exercise price of \$3.40 per share.

As of December 31, 2001, Rosemary Street owned approximately 53.5% of our voting securities.

JP Morgan (or "Chase") Facility

Concurrently with the consummation of the June 2000 private placement with Rosemary Street, we entered into a \$40 million credit facility (of which \$40 million has been committed) with JP Morgan Securities, Inc. (formerly known Chase Securities, Inc. and The Chase Manhattan Bank) and other commercial banks and financial institutions. A portion of the proceeds from this credit facility was used to refinance outstanding loans and accrued interest under our previous credit facility with Coutts & Co. and Bankgesellschaft Berlin A.G. The remaining proceeds are available to finance our production, acquisition, distribution and exploitation of feature length motion pictures, television programming, video product and rights and for working capital and general corporate purposes including our expansion into television commercial production.

Under the Chase facility, we borrow funds through loans evidenced by promissory notes. The loans are made available through a revolving line of credit which may be reduced, partially or in whole, at any time and is to be fully paid on June 20, 2005. The Chase facility also provides for letters of credit to be issued from time to time upon our request. Amounts available for drawing (referred to as the "borrowing base") under the Chase facility are calculated each month, however, cannot exceed the \$40 million commitment. The main components of the borrowing base include a library credit (50% of the value of our film library, based upon a third party valuation of future cash flows, which, under the terms of the credit agreement, is required to be updated every twelve months) and an accounts receivable credit (85% of net accounts receivable which are acceptable to Chase). At December 31, 2001, we had borrowed an aggregate of \$14,500,000 under the Chase facility and an additional \$5,795,000 was available to borrow based upon borrowing base calculations provided to Chase as of December 31, 2001.

The amounts drawn down under the Chase facility bear interest, as we

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may select, at rates based on either LIBOR plus 2% or a rate per annum equal to the greater of (a) the Prime Rate plus 1%, (b) the Base CD Rate plus 2% and (c) the Federal Funds Effective Rate plus 1.5% (as these terms are defined in the credit agreement). In addition to an annual management fee of \$125,000, we pay a commitment fee on the daily average unused portion of the Chase facility at an annual rate of 0.5%. Upon entering the Chase facility, we paid a one-time fee of approximately \$848,000 as a cost of acquiring the Chase facility. Additionally, in 2001 we added one lender (increasing total commitments to \$40,000,000 from \$33,000,000) and paid an additional fee of \$42,000. The Chase facility restricts the creation or incurrence of indebtedness or the issuance of additional securities. The Chase facility is collateralized by all our tangible and intangible assets and future revenues.

In May 2001, we entered into an amendment to the Chase facility, pursuant to which the requisite lenders agreed, effective as of the date of the amendment, to:

- o permit us to obtain financing for one film from another lender;
- o increase our overhead allowance from \$5 million to \$7.25 million; and
- o reduce the minimum level of Consolidated Net Worth (as defined in the credit agreement) that we are required to maintain from \$28 million to \$22 million.

In September 2001, we entered into a second amendment to the Chase facility, pursuant to which the requisite lenders agreed, effective as of the date of the amendment, to permit us to obtain financing for one film from another lender.

Other Loans

In addition to the amounts outstanding under the Chase facility, during 1998 we borrowed \$2,000,000 from another lender, the proceeds of such loan were used to acquire rights to a particular film. This subordinated note bears interest at the Prime Rate plus 1.5% and is collateralized by amounts due under distribution agreements from the specific film. The subordinated note matures on May 29, 2002. As of December 31, 2001, \$180,000 was outstanding under the subordinated note, which amount was fully repaid in March 2002.

Off Balance Sheet Commitments

In addition to direct bank borrowings, we sometimes enter into contractual arrangements whereby we commit to pay certain amounts for the acquisition of distribution rights of a film at a date in the future. These contractual commitments are sometimes used by producers or other rights owners to access production financing with respect to the given film. These commitments are generally subject to certain conditions being met by the rights owner including delivery by the rights owner to us of certain physical materials as well as legal documents relating to the film which will enable us to properly exploit the rights we are acquiring. Once these conditions are met, we become obligated under our contract to pay the amounts called for in the given contract. We treat these types of commitments as liabilities, includable in our balance sheet only upon satisfaction of the conditions to our obligation and disclose these obligations as commitments. As of December 31, 2001, the total of such outstanding commitments was \$4,424,440.

Additionally, we have entered into certain arrangements with German film financing partnerships whereby we have guaranteed that within three years from the commencement of principal photography of the related film, the licensing and distribution proceeds, net of our fees and expenses, will be no less than sixty to eighty percent (depending upon the specific arrangement) of

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the amount funded toward the production cost of the related film. These commitments are not recorded as liabilities unless and until management expects that proceeds from the licensing and distribution of the related film, net of our fees and expenses, will be insufficient to cover the guarantee within the agreed upon period for the particular film. As of December 31, 2001, we had three such commitments outstanding, whereby the total amount committed was \$10,238,000 and the expected uncovered portion of these commitments (amounts not covered by licensing agreements or pending licensing agreements with minimum guaranteed payments due to us), was approximately \$3,270,000. The commitments become due, if at all, between September 2003 and September 2004. We currently believe that none of our guarantees will be called upon because the existing and projected licensing and distribution proceeds of each film are expected to be sufficient to fully cover each commitment.

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Note and Debt Contributions

Concurrently with the June 2000 private placement, we entered into a note and debt contribution agreement with the Littles. Pursuant to the agreement, the Littles forgave:

- o \$1,339,037 principal amount and \$480,709 of accrued but unpaid interest on a note issued by us to the Littles as part of the consideration for our merger with Overseas Private;
- o \$78,101 of accrued and unpaid interest on loans in the aggregate principal amount of \$400,000 ("P&A Loans") made by the Littles to us in December 1997 and February 1998, which were used to provide a portion of the funds required by us for the print and advertising costs associated with the domestic theatrical release of Mrs. Dalloway; and
- o \$125,131 of accrued salaries that we owed to them.

The Littles also contributed \$130,000 in cash and 1,588,812 of their shares of our common stock to our capital and we paid the Littles \$1,430,000.

Yahoo! Inc. Stock Sale

In July and September 2000, we sold for approximately \$2,056,000 all 17,454 shares of common stock of Yahoo! Inc. that we received in July 1999 as part of a share-for-share exchange with broadcast.com, which was subsequently acquired by Yahoo! Inc.

Resources

At December 31, 2001, we had cash and cash equivalents of \$1,673,000, compared to cash and cash equivalents of \$832,000 as of December 31, 2000. At December 31, 2001, \$5,795,000 was available for us to draw down under the Chase facility.

For the years ended December 31, 2001 and December 31, 2000, we had operating losses of \$3,162,000 and \$5,472,000, respectively. These losses included certain non-cash items, including bad debt expense and film cost write-downs. Bad debt expense was \$1,268,000 for the year ended December 31, 2001 and \$1,876,000 for the year ended December 31, 2000. Film cost write-downs were \$1,815,000 for the year ended December 31, 2001 and \$493,000 for the year ended December 31, 2000. Additionally, for our fiscal year beginning January 1, 2000, we adopted SOP 00-2, which established new accounting standards for producers or distributors of films. Under SOP 00-2, marketing and

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advertising costs are expensed as incurred, film costs generally are amortized over ten years and development costs relating to films which have not begun active production within three years are written off rather than capitalized to other films in development. As a result of our adoption of SOP 00-2, based upon our calculations, our reported operating losses increased by approximately \$2,136,000 and \$2,188,000, respectively, for the years ended December 31, 2001 and December 31, 2000, compared to operating losses that we would have reported had we not adopted SOP 00-2.

Operating activities used cash of \$6,723,000 and \$4,833,000, respectively, for the years ended December 31, 2001 and December 31, 2000. The increased use of cash reflects our increased investment in film costs of \$9,922,000 for the year ended December 31, 2001 compared to \$2,865,000 for the year ended December 31, 2000. As a result of the \$17 million equity investment by Rosemary Street in June 2000, we have increased our investment in film costs to secure more attractive film projects, to increase our volume of activity (including the direct distribution of motion pictures on video and DVD in the U.S. market) and to increase our margins through increased distribution fees that are negotiated as a function of providing investments in film projects. We believe this investment activity will increase operational cash flows in the future, will increase our library value, and will increase our borrowing capacity under our Chase facility.

In our opinion, existing cash and available borrowings, totaling approximately \$7,468,000, along with future cash that we anticipate to generate from operations, will provide us with sufficient resources to fund operations and execute our current business plan through fiscal 2002. If we are not successful in generating sufficient future cash flow from operations in accordance with our current business plan, we will need to raise additional capital through public or private financings, strategic relationships or other arrangements. This additional funding, if needed, might not be available on acceptable terms, or at all. Our failure to raise sufficient capital, if and when needed, could have a material adverse effect on our business, results of operations and financial condition.

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ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk related to changes in interest rates. We do not use derivative financial instruments. Because only a small portion of our revenues are denominated in foreign currency, we do not believe there is a significant risk imposed on us due to the fluctuations in foreign currency exchange rates. The table below provides information about our debt obligations as of December 31, 2001, including principal cash flows and related weighted average interest rates by expected maturity dates:

| | Expected Maturity Date | | | | Ther |
|----------------------------------|------------------------|------|------|----------|------|
| | 2002 | 2003 | 2004 | 2005 | |
| | ---- | ---- | ---- | ---- | ---- |
| | (in thousands) | | | | |
| Borrowings under credit facility | - | - | - | \$14,500 | |
| Average interest rate | 5.6% | 5.6% | 5.6% | 5.6% | |
| Subordinated note payable | \$180 | - | - | - | |

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Average interest rate 6.25% - - -

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The report of independent accountants, consolidated financial statements and notes to our consolidated financial statements appear in a separate section of this report (beginning on page F-1) following Part IV.

The following table sets forth selected unaudited quarterly financial data for each of the quarters in the two years ended December 31, 2001 (amounts in thousands except for per share data):

| | 2001 | | |
|---|---------------|----------|--------------|
| | Quarter Ended | | |
| | March 31 | June 30 | September 30 |
| Revenues | \$ 10,243 | \$ 9,759 | \$ 8,000 |
| Income (loss) from operations | 333 | (458) | (1,000) |
| Net income (loss) | 129 | (673) | (1,000) |
| Basic and diluted income (loss) per share | 0.01 | (0.07) | (0.01) |

The increase in loss from operations during the fourth quarter of 2001 compared to the previous three quarters was due to increases in:

- o write-offs of film costs for certain projects under development;
- o write-offs of other film costs;
- o bad debt write-offs; and
- o lower revenues from the licensing of film rights.

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| | 2000 | | |
|--|---------------|----------|--------------|
| | Quarter Ended | | |
| | March 31 | June 30 | September 30 |
| Revenues | \$ 6,049 | \$ 4,411 | \$ 4,411 |
| Loss from operations | (20) | (831) | (1,000) |
| Loss before cumulative effect of accounting change | (558) | (1,351) | (1,000) |
| Cumulative effect of accounting change | (14,123) | - | - |
| Net loss | (14,681) | (1,350) | (1,000) |
| Basic and diluted loss per share: | | | |
| Loss before cumulative effect of accounting change | (0.09) | (0.21) | (0.01) |
| Cumulative effect of accounting change | (2.24) | - | - |
| Net loss | (2.33) | (0.21) | (0.01) |

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The increase in loss from operations during the fourth quarter of 2000 compared to the previous three quarters was due to the expansion of our operations and increases in:

- o write-offs of film costs relating to certain projects under development;
- o marketing and distribution expenses in connection with preparation for the upcoming film festivals;
- o bad debt write-offs; and
- o legal and consulting fees relating to valuation of our film library and capital investment opportunities other than Rosemary Street.

The lower net loss for the quarter ended September 30, 2000 reflected the capital gain that we recognized on our sale of 17,454 shares of common stock of Yahoo!, Inc. during the quarter.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Our current directors and executive officers are set forth below. Biographical information concerning each of the directors and executive officers is presented on the following pages. Information is presented as of the date of this report.

| Name | Age | Position |
|-----------------------|-----|--|
| ---- | --- | ----- |
| Christopher J. Cooney | 41 | Co-Chairman of the Board and Chief Executive Officer |
| Robert B. Little | 57 | Co-Chairman of the Board and President |
| William F. Lischak | 44 | Chief Operating Officer, Chief Financial Officer, Secretary and Director |
| Jeffrey Cooney | 44 | Executive Vice President - Creative and Director |
| Stephen K. Bannon | 48 | Director |
| Scot K. Vorse | 41 | Director |
| Barry R. Minsky | 59 | Director |

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| | | |
|-----------------|----|----------|
| Joseph Linehan | 40 | Director |
| Nicholas Bavaro | 61 | Director |

Current Officers and Directors

Christopher J. Cooney has served as co-chairman of our board and our chief executive officer since June 2000. Since August 1999, Mr. Cooney has served as president of Rosemary Street Productions LLC, a New York-based entertainment holding company. Since 1986, Mr. Cooney has served in various positions at EUE/Screen Gems, Ltd. ("EUE/Screen Gems"), a New York-based television commercial facility and production house, including as head of production from 1986 to 1988, as vice president in charge of all facilities from 1988 to 1992, and as vice president of physical production from 1992 to 1996. In 1996, Mr. Cooney led EUE/Screen Gems in the acquisition of DeLaurentis Studios. Since 1996, Mr. Cooney has been responsible for overseeing all commercial and daytime television production for the North Carolina operations of EUE/Screen Gems. Mr. Cooney also holds an ownership interest in EUE/Screen Gems. In 1984, Mr. Cooney formed Total Picture Company to produce concert films, commercials and videos for record labels and musical instrument manufacturers. Prior to that, Mr. Cooney was employed by Independent Artists as an assistant producer of international television commercials. Mr. Cooney received his B.A. from Boston University. Christopher J. Cooney is the brother of Jeffrey Cooney, our Executive Vice President Creative Affairs, and a director of our company.

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Robert B. Little has been president of our company since June 2000 and co-chairman of our board of directors since our merger with Overseas Private in October 1996. Mr. Little also served as our co-chief executive officer from October 1996 to June 2000. Mr. Little co-founded Overseas Private in February 1980 and served as chairman of the board of Overseas Private from February 1987 until October 1996 and its chief executive officer from February 1990 until October 1996. Mr. Little was a founding member of the American Film Marketing Association, the organization which established the American Film Market, and served multiple terms on its board of directors. In 1993, Mr. Little served on the City of Los Angeles Entertainment Industry Task Force, a task force composed of industry leaders focused on maintaining and enhancing Los Angeles' reputation as the entertainment capital of the world. Mr. Little is also a founding member of The Archive Council, an industry support group for the University of California at Los Angeles Archive Film Preservation Program, and a member of the board of directors of the Antonio David Blanco Scholarship Fund, an endowment fund that annually benefits deserving students in the UCLA Department of Film and Television. Mr. Little was an executive producer of Titus, which was nominated for an Academy Award(R) in 1999.

William F. Lischak has served as our chief operating officer, chief financial officer, secretary and a director of our company since October 1996. Mr. Lischak served as chief operating officer of Overseas Private from September 1990 until October 1996 and its chief financial officer from September 1988 until October 1996. Mr. Lischak, a certified public accountant, previously had worked in public accounting, including from 1982 to 1988 with the accounting firm of Laventhol & Horwath. Mr. Lischak has a masters degree in taxation and has taught courses in the extension program at UCLA in accounting, finance and taxation for motion pictures and television. Mr. Lischak attended New York University's Tisch School of Arts and received a bachelor's degree in business administration from New York University's Leonard N. Stern School of Business.

Jeffrey Cooney has served as our executive vice president-creative

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affairs and a director of our company since June 2000. Since August 1999, Mr. Cooney has served as creative director of Rosemary Street. Mr. Cooney also holds an ownership interest in EUE/Screen Gems. In 1990, Mr. Cooney formed Jeffrey Cooney Films and until August 1999 directed commercials for clients such as Kodak, Mitsubishi, Procter & Gamble and General Mills. Mr. Cooney received a B.A. in English from Holy Cross College. Jeffrey Cooney is the brother of Christopher J. Cooney, the co-chairman of our board and our chief executive officer.

Stephen K. Bannon has been a director of our company and member of our executive committee since its inception in December 1993. From October 1996 to June 2000, he served as vice chairman of our board of directors and chairman of its executive committee. From December 1993 until October 1996, he served as our chairman of the board. From June 1991 through July 1998, Mr. Bannon served as the chief executive officer of Bannon & Co., Inc., an investment banking firm specializing in the entertainment, media and communications industries. Bannon & Co. formed a joint venture with Societe Generale in 1996 creating Societe Generale Bannon to undertake media and entertainment investment banking. In July 1998, Societe Generale purchased the joint venture. Mr. Bannon is currently a partner of The Firm, one of the largest talent management companies in the entertainment business. Mr. Bannon is in charge of the Firm's Strategic Advisory Services division.

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Scot K. Vorse became a director of our company in January 1995. From January 1995 until October 1996, he served as our treasurer and secretary, and from January 1995 until November 1996, he served as our vice president. From June 1991 through July 1998, Mr. Vorse served as an executive vice president and the chief financial officer of Bannon & Co., Inc. After the acquisition of Bannon & Co., Inc. by SG Cowen Securities Corporation in July 1998, Mr. Vorse served as managing director and co-head of SG Cowen Securities Corporation's media and entertainment group until March 2000. Since March 2000, Mr. Vorse has been managing his personal investments.

Barry R. Minsky has served as a director of our company since June 2000. Since 1977, Mr. Minsky has served as president of Wharton Capital Corporation and since 1996 as chief executive officer of Wharton Capital Partners, Ltd., a New York-based investment banking firm which, along with its partners, facilitates financing for public companies and institutional clients. Mr. Minsky has assisted public and private corporations in merger and acquisition activities, sourcing financing and developing financial strategies. Mr. Minsky also has experience in music publishing, film libraries, motion picture production and distribution. Mr. Minsky received a B.S. in economics and graduated on the dean's list from the Wharton School, University of Pennsylvania.

Joseph Linehan has served as a director of our company since June 2000. Mr. Linehan has been employed in various capacities with The Union Labor Life Insurance Co. since 1984. Since April 2000, Mr. Linehan has served as vice president-private capital. Mr. Linehan received a B.A. and M.B.A. from the University of Maryland.

Nicholas Bavaro has served as a director of our company since June 2000. Mr. Bavaro has served as vice president and chief financial officer of EUE/Screen Gems since 1983, when Columbia Pictures International ("Columbia") sold its Screen Gems division. From 1961 to 1983, Mr. Bavaro served in various positions at Columbia, including as an employee in the financial department from 1961 to 1967, as comptroller of the Screen Gems division from 1967 to 1973 and as vice president and chief financial officer of that division from 1974 to 1983.

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Board of Directors

Our board of directors is divided into three classes, each of which serves for a term of three years, with only one class of directors being elected in each year. The term of the first class of directors, consisting of William F. Lischak, Joseph Linehan and Barry R. Minsky, will expire at the annual meeting of our stockholders in 2003. The term of the second class of directors, consisting of Robert B. Little, Stephen K. Bannon and Christopher J. Cooney, will expire at the annual meeting of our stockholders in 2004. The term of the third class of directors, consisting of Scot K. Vorse, Nicholas Bavaro and Jeffrey Cooney, will expire at the annual meeting of our stockholders in 2002. In each case, each director serves from the date of his election until the end of his term and until his successor is elected and qualifies.

Committees

Executive Committee. Christopher J. Cooney, Robert B. Little, William F. Lischak and Stephen K. Bannon currently serve on the executive committee, with Mr. Cooney serving as chairman of such committee. During intervals between the meetings of the board of directors, the executive committee exercises all powers of the board of directors (except those powers specifically reserved by Delaware law or our Bylaws to the full board of directors) in the management and direction of the business and conduct of our affairs in all cases in which specific directions have not been given by the board.

Compensation Committee. William F. Lischak, Joseph Linehan and Stephen K. Bannon currently serve on the compensation committee, with Mr. Lischak serving as chairman of such committee. The compensation committee administers our stock option plans to the extent contemplated thereby and reviews, approves, and makes recommendations with respect to compensation of officers, consultants and key employees.

Audit Committee. The audit committee currently consists of Stephen K. Bannon, Scot K. Vorse and Nicholas Bavaro, with Mr. Bavaro serving as chairman of such committee. The functions of the Audit Committee are: to review and approve the selection of, and all services performed by, our independent auditors; to meet and consult with and to receive reports from, our independent auditors and our financial and accounting staff; and to review and act with respect to the scope of audit procedures, accounting practices and internal accounting and financial controls.

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Voting Agreement

In June 2000, our company, Rosemary Street, the Littles, MRCo., Inc. (a member of Rosemary Street), Christopher J. Cooney and Jeffrey Cooney entered into a voting agreement, which provides that:

- o so long as Robert B. Little is employed as our president, or the Littles own no less than 5% of our issued and outstanding voting securities, we will nominate and Rosemary Street will vote for Robert B. Little to serve as a member of our board;
- o so long as Christopher J. Cooney and Jeffrey Cooney own, in the aggregate, directly or indirectly, no less than 5% of our issued and outstanding voting securities, we will nominate and the Littles and other members of Rosemary Street will vote for Christopher J. Cooney and Jeffrey Cooney to serve as members of our board; and

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- o so long as MRCo. owns no less than 5% of our issued and outstanding voting securities, we will nominate and the Littles and other members of Rosemary Street will vote for Joseph Linehan to serve as a member of our board.

The voting agreement further provides that if the size of the board is increased from nine members to eleven members prior to June 20, 2002, Rosemary Street has the right to designate for election or appoint as directors the two persons to fill the vacancies created by the increase. The Littles have agreed to vote all of their shares of our voting securities for the election of Rosemary Street's two nominees in this situation.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers and persons who own more than 10% of our common stock to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of our common stock and other equity securities. Our executive officers, directors and 10% stockholders are required by SEC regulations to furnish us with copies of Section 16(a) forms they file. To our knowledge, based solely upon a review of the Forms 3 and 4 and amendments thereto furnished to us during our most recent fiscal year, the Forms 5 furnished to us with respect to our most recent fiscal year, and written representations of our directors, executive officers and 10% stockholders, during the year ended December 31, 2001, all Section 16(a) filing requirements applicable to our executive officers, directors and 10% stockholders were complied with.

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ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth the total compensation paid or accrued during 2001, 2000 and 1999 to our chief executive officer and our two other executive officers who earned more than \$100,000 during those periods :

| Name and Principal Position | Year | Annual Compensation | | | Long Term Compensation Awards |
|---|------|---------------------|---------------|---|--|
| | | Salary (\$) | Bonus (\$) | Other Annual Compen- sation (\$) | Securities Underlying Options/SAR (#) |
| Christopher J. Cooney Co-chairman of the board and chief executive officer | 2001 | 200,000 | 0 | 0 | 0 |
| | 2000 | 100,000 (2) | 0 | 0 | 0 |
| | 1999 | 0 | 0 | 0 | 0 |
| Robert B. Little Co-chairman of the board and president | 2001 | 300,000 | 50,000 (3) | 40,000 (4) | 0 |
| | 2000 | 215,865 (6) | 37,500 (7) | 36,371 (8) | 250,000 |
| | 1999 | 125,000 (10) | 25,000 (11) | 11,852 (12) | 0 |
| William F. Lischak | 2001 | 225,000 | 50,000 | 0 (14) | 0 |

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| | | | | |
|---|---------|---------|--------|--------|
| Chief operating officer, 2000 | 212,980 | 150,000 | 0 (14) | 75,000 |
| chief financial officer 1999 and secretary | 200,000 | 50,000 | 0 (14) | 10,000 |

- (1) Represents disability insurance premiums paid by us for the benefit of Mr. Cooney.
- (2) Represents salary earned by Mr. Cooney commencing in June 2000 when he became co-chairman of the board and chief executive officer in connection with the closing of the private placement with Rosemary Street.
- (3) Represents bonus earned by Mr. Little pursuant to his employment agreement, all of which has been deferred.
- (4) Represents general expenses allowance payable pursuant to Mr. Little's employment agreement.
- (5) Represents \$3,400 in contributions we made on behalf of Mr. Little pursuant to our 401(k) plan and \$2,531 in disability insurance premiums paid by us for the benefit of Mr. Little.
- (6) Represents salary earned by Mr. Little as our co-chairman of the board and co-chief executive officer through June 2000. In connection with the closing of the private placement with Rosemary Street in June 2000, we amended Mr. Little's existing employment agreement to provide for him to serve as co-chairman of the board and president.

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- (7) Represents bonus earned by Mr. Little pursuant to his employment agreement, \$25,000 of which has been deferred.
- (8) Represents \$11,852 of auto expense allowance, \$3,750 in business management fees and \$20,769 of general expense allowance paid pursuant to Mr. Little's employment agreement.
- (9) Represents \$3,115 in contributions we made on behalf of Mr. Little pursuant to our 401(k) plan, \$32,966 in life insurance premiums and \$2,634 in disability insurance premiums paid by us for the benefit of Mr. Little.
- (10) Represents salary earned by Mr. Little pursuant to his employment agreement, the payment of which was made or forgiven in June 2000.
- (11) Represents bonus of \$25,000, payment of which was made or forgiven in June 2000.
- (12) Represents \$10,987 for automobile lease payments and \$865 in automobile expenses.

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- (13) Represents \$32,480 in life insurance premiums we paid or accrued for the benefit of Mr. Little and \$2,311 in disability insurance premiums we paid for the benefit of Mr. Little.
- (14) Prerequisites with respect to the executive officer did not exceed the lesser of \$50,000 or 10% of the executive officer's salary and bonus.
- (15) Represents \$4,500 in contributions we made on behalf of Mr. Lischak pursuant to our 401(k) plan, \$5,135 in life insurance premiums and \$2,935 in disability insurance premiums we paid for the benefit of Mr. Lischak.
- (16) Represents \$4,260 in contributions we made on behalf of Mr. Lischak pursuant to our 401(k) plan, \$6,139 in life insurance premiums and \$1,887 in disability insurance premiums we paid for the benefit of Mr. Lischak.
- (17) Represents \$3,569 in contributions made on behalf of Mr. Lischak pursuant to our 401(k) Plan, \$7,295 in life insurance premiums for which Mr. Lischak is entitled to reimbursement and \$1,664 in disability insurance premiums we paid for the benefit of Mr. Lischak.

There were no options granted to the executive officers named above during the year ended December 31, 2001.

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The following table summarizes the number of exercisable and unexercisable options held by the executive officers named above at December 31, 2001, and their value at that date if such options were in-the-money:

AGGREGATED OPTION EXERCISES IN 2001 AND
FISCAL YEAR-END OPTION VALUES

| Name | Shares Acquired on Exercise (#) | Value Realized (\$) | Number of Securities Underlying Unexercised Options at December 31, 2001 Exercisable/ Unexercisable (#) |
|--|---------------------------------------|------------------------|---|
| Christopher J. Cooney Co-chairman of the board and chief executive officer | 0 | 0 | 0/0 |
| Robert B. Little Co-chairman of the board and president | 0 | 0 | 250,000/0 |

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William F. Lischak
Chief operating officer,
chief financial officer and
secretary

0

0

51,672/33,328

Director Compensation

Pursuant to the automatic option grant program under our 1996 Basic Stock Option and Stock Appreciation Rights Plan, each individual serving as a non-employee board member on October 31, 1996 was granted a non-qualified option to purchase 5,000 shares of common stock. In addition, each member of the board who is not employed by us receives an automatic grant of a non-qualified option to purchase 5,000 shares of the common stock (i) upon becoming a board member, whether through election at a meeting of our stockholders or through appointment by the board of directors and (ii) on the date of each annual meeting of stockholders, if such individual is to continue to serve as a board member after such meeting; provided such individual has served as a non-employee member of the board of directors for at least six months. Each such automatic option grant is, among other things, exercisable at the fair market value of the common stock on the date of the automatic grant and is generally exercisable after completion of one year of service to the board of directors measured from the automatic grant date. In addition, we reimburse all directors for travel and related expenses incurred in connection with their activities on our behalf. Our directors are not otherwise compensated for serving on the board.

Compensation Committee Interlocks And Insider Participation

Our compensation committee was established in October 1996 and currently consists of William Lischak, Joseph Linehan and Stephen K. Bannon, with William F. Lischak serving as chairman of such committee. Mr. Lischak has served as chief operating officer, chief financial officer, secretary and one of our directors since October 1996. Mr. Linehan has served as one of our directors since June 2000. Mr. Bannon was our chairman of the board of directors during 1996 until consummation of the merger with Overseas Private and served as vice chairman of the board of directors and chairman of the executive committee from October 1996 to June 2000. The compensation committee currently administers both of our stock option plans to the extent contemplated thereby.

Indemnification

We have entered into indemnification agreements with our directors (including those who are also executive officers) providing for indemnification by us, including in circumstances in which indemnification is otherwise discretionary under Delaware law. These agreements constitute binding agreements between us and each of the parties thereto, thus preventing us from modifying its indemnification policy in a way that is adverse to any person who is a party to such an agreement.

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Compensation Arrangements For Current Executive Officers

Christopher J. Cooney

In June 2000, we entered into an employment agreement with Christopher J. Cooney, which provided for Mr. Cooney to serve as our co-chairman of the board and the chief executive officer for a one-year term ending in June 2001. Under the terms of the agreement, Mr. Cooney received a base salary of \$200,000 and was entitled to receive an annual \$25,000 bonus if our pre-tax profits

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exceeded \$500,000 in any year during the term. Mr. Cooney also was entitled to an additional bonus, if any, as established by the board at the beginning of the employment term based on our achieving certain profit targets. The agreement contained a non-compete clause whereby Mr. Cooney agreed not to compete with us for the duration of the agreement. We are currently in the process of amending and extending this agreement.

Robert B. Little

In June 2000, we entered into an amended and restated employment agreement with Robert B. Little, which provides for Mr. Little to serve as our co-chairman of the board and the president for a three-year term ending in June 2003. Mr. Little receives a base salary of \$300,000 and a guaranteed bonus of \$50,000, which will be increased by \$25,000 on a cumulative basis for each year of the employment term in which our pre-tax profits exceed \$500,000. Mr. Little also will be entitled to an additional bonus, if any, as may be established by the board at the beginning of each year of the employment term based on our achieving certain profit targets. If we achieve these targets, Mr. Little's employment agreement will be automatically renewed on the same terms for an additional two-year term. Regardless of whether we achieve the targets, we may give Mr. Little written notice at least six months prior to the expiration of the initial employment term that we elect to extend the initial term for an additional two years. If the initial term is not renewed, Mr. Little will be entitled to receive \$400,000 in cash, payable in six equal monthly installments of \$66,666, with the first payment to be made within 30 days after termination of the initial term. The agreement contains a non-compete clause whereby Mr. Little agreed not to compete with us for the duration of the agreement and for one year after its termination.

William F. Lischak

In June 2000, we entered into an amended and restated employment agreement with William F. Lischak, which provides for Mr. Lischak to serve as our chief operating officer and chief financial officer for a three-year term ending in June 2003. Mr. Lischak receives a base salary of \$225,000 and a guaranteed bonus of \$50,000, which will be increased by \$15,000 on a cumulative basis for each year of the employment term in which our pre-tax profits exceed \$500,000. Mr. Lischak also will be entitled to an additional bonus, if any, as may be established by the board at the beginning of each year of the employment term based on our achieving certain profit targets. If we achieve these targets, Mr. Lischak's employment agreement will be automatically renewed on the same terms for an additional two-year term. Regardless of whether we achieve the targets, we may give Mr. Lischak written notice at least six months prior to the expiration of the initial employment term that we elect to extend the initial term for an additional two years. If the initial term is not renewed, Mr. Lischak will be entitled to receive \$300,000 in cash, payable in six equal monthly installments of \$50,000, with the first payment to be made within 30 days after termination of the initial term. The agreement contains a non-compete clause whereby Mr. Lischak agreed not to compete with us for the duration of the agreement and for one year after its termination.

In connection with the June 2000 private placement, we granted Mr. Lischak an option under our 1996 Basic Stock Option Plan to purchase 75,000 shares of common stock at an exercise price of \$3.40 per share. As of December 31, 2001, 41,672 options were exercisable. 2,083 options will become exercisable on the last day of each of the next 16 consecutive months thereafter. Once exercisable, the options will remain exercisable until April 2005.

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Jeffrey Cooney

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In June 2000, we entered into an employment agreement with Jeffrey Cooney, which provides for Mr. Cooney to serve as our executive vice president-creative affairs for a three-year term ending in June 2003. Mr. Cooney receives a base salary of \$60,000 and will receive a \$25,000 bonus for each year of the employment term in which our pre-tax profits exceed \$500,000. Mr. Cooney also will be entitled to an additional bonus, if any, as may be established by the board at the beginning of each year of the employment term based on our achieving certain profit targets. If we achieve these targets, Mr. Cooney's employment agreement will be automatically renewed on the same terms for an additional two-year term. Regardless of whether we achieve the targets, we may give Mr. Cooney written notice at least six months prior to the expiration of the initial employment term that we elect to extend the initial term for an additional two years. If the initial term is not renewed, Mr. Cooney will be entitled to receive \$100,000 in cash, payable in six equal monthly installments of \$16,666.67, with the first payment to be made within 30 days after termination of the initial term. The agreement contains a non-compete clause whereby Mr. Cooney agreed not to compete with us for the duration of the agreement and for one year after its termination.

Stock Option Plans

Amended and Restated 1996 Special Stock Option Plan and Agreement

The Amended and Restated 1996 Special Stock Option Plan and Agreement primarily provides equity incentives to each of Robert B. Little and Ellen Dinerman Little. Under the Special Option Plan, on October 31, 1996, each of Ms. Little and Mr. Little was granted two non-qualified options to purchase a total of 1,100,000 shares of common stock:

- o one option to purchase 537,500 shares of common stock at an exercise price of \$5.00 per share, exercisable on October 31, 1996 for 100,000 shares with the balance vesting in five equal annual installments beginning on October 30, 1997; and
- o one option to purchase 562,500 shares of common stock at an exercise price of \$8.50 per share, vesting in five equal annual installments beginning on October 30, 1997.

All 2,200,000 shares of common stock initially reserved for issuance under the Special Option Plan were subject to the options granted to the Littles.

In June 2000, we amended the Special Option Plan. Pursuant to this amendment, we cancelled all of the options outstanding under the Special Option Plan and granted each of Ms. Little and Mr. Little an option to purchase 250,000 shares of common stock at an exercise price of \$3.40 per share. The options are immediately exercisable and expire in June 2005.

1996 Basic Stock Option Plan

In October 1996, our stockholders approved the 1996 Basic Stock Option and Stock Appreciation Rights Plan under which a total of 550,000 shares of common stock are available for grant to our regular full-time employees, non-employee members of the board of directors, independent consultants and other persons who provide services to us on a regular or substantial basis. Awards consist of stock options (both non-qualified options and options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code) and stock appreciation rights. As of December 31, 2001, options to purchase an aggregate of 33,328 shares of common stock were outstanding under the basic option plan, with exercise prices ranging from \$1.75 to \$5.25 per share.

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2000 Performance Equity Plan

In November 2000, our stockholders approved the 2000 Performance Equity Plan, under which a total of 1,000,000 shares of common stock are available for grant to our key employees, officers, directors and consultants. Awards consist of stock options (both non-qualified options and options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code), restricted stock awards, deferred stock awards, stock appreciation rights and other stock-based awards, as described in the 2000 plan. As of December 31, 2001, options to purchase an aggregate of 10,000 shares of common stock were outstanding under the 2000 plan at an exercise price of \$1.75 per share.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of April 12, 2002 with respect to the common stock ownership of:

- o those persons or groups known to beneficially own more than 5% of our voting securities;
- o each director;
- o each executive officer whose compensation exceeded \$100,000 in 2001; and
- o all current directors and executive officers as a group.

Beneficial ownership is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934. The information concerning the stockholders is based upon information furnished to us by these stockholders. Except as otherwise indicated, all of the shares of common stock are owned of record and beneficially and the persons identified have sole voting and investment power with respect to the shares. Except as otherwise indicated in the table below, the business address of each of the persons listed is care of First Look Media, Inc., 8000 Sunset Boulevard, Penthouse East, Los Angeles, California 90046.

| Name of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent of Voting |
|---|---|-------------------|
| Christopher J. Cooney c/o Rosemary Street Productions, LLC 222 East 44th Street New York, New York 10017 | 7,830,430 (1) | |
| Robert B. Little | 1,864,406 (2) | |
| William F. Lischak | 313,730 (3) | |

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Jeffrey Cooney
c/o Rosemary Street Productions, LLC
222 East 44th Street
New York, New York 10017 7,830,430 (1)

Stephen K. Bannon
c/o Jeffries Bannon
Media Fund LLC
11100 Santa Monica Blvd.
Los Angeles, California 90025 146,324 (4)

Scot K. Vorse
c/o 1863 Mango Way
Los Angeles, California 90049 151,323 (5)

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| Name of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent of Voting |
|--------------------------|---|-------------------|
|--------------------------|---|-------------------|

| | | |
|---|-------------|--|
| Barry R. Minsky c/o Wharton Capital Partners, Ltd. 545 Madison Avenue New York, New York 10022 | 990,735 (6) | |
|---|-------------|--|

| | | |
|--|-----------|--|
| Joseph Linehan c/o The Union Labor Life Insurance Co. 111 Massachusetts Avenue, N.W. Washington, DC 20001 | 5,000 (7) | |
|--|-----------|--|

| | | |
|--|------------|--|
| Nicholas Bavaro c/o EUE/Screen Gems, Ltd. 222 East 44th Street New York, New York 10017 | 25,000 (8) | |
|--|------------|--|

| | | |
|--|---------------|--|
| Rosemary Street Productions, LLC 222 East 44th Street New York, New York 10017 | 7,830,430 (9) | |
|--|---------------|--|

| | | |
|---|---------|--|
| Dolphin Offshore Partners, L.P. c/o Dolphin Management 129 East 17th Street New York, New York 10003 | 957,929 | |
|---|---------|--|

| | | |
|--|---------|--|
| Wharton Capital Partners, Ltd. 545 Madison Avenue New York, New York 10022 | 690,735 | |
|--|---------|--|

| | | |
|-----------------------|---------------|--|
| Ellen Dinerman Little | 1,864,406 (2) | |
|-----------------------|---------------|--|

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c/o Savitsky & Co.
1901 Avenue of the Stars
Suite 1450
Los Angeles, California 90067

All current executive officers and directors as a group (9 persons) 11,326,948(10)

* Less than 1%

- (1) Represents shares of common stock beneficially owned by Rosemary Street, of which Christopher J. Cooney is one of the two designated managers and president and of which Jeffrey Cooney is one of the two designated managers and creative director.
 - (2) Represents (i) 1,364,406 shares of common stock held by the Littles as community property in a revocable living trust, (ii) 250,000 shares of common stock issuable upon exercise of immediately exercisable options and (iii) 250,000 shares of common stock issuable upon exercise of immediately exercisable options granted to such person's spouse which generally only may be exercised by such person's spouse. Such person disclaims beneficial ownership of the shares subject to his or her spouse's options.
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- (3) Includes (i) 60,004 shares of common stock issuable upon exercise of immediately exercisable options and (ii) 4,166 shares of common stock issuable upon exercise of options exercisable on or before June 30, 2002. Excludes 20,830 shares of common stock issuable upon exercise of options, 2,083 of which become exercisable during each of the 10 months beginning July 2002.
 - (4) Includes 25,000 shares of common stock issuable upon exercise of immediately exercisable options.
 - (5) Represents (i) 25,000 shares of common stock issuable upon exercise of immediately exercisable options and (ii) 126,323 shares of common stock contributed by Mr. Vorse to a revocable living trust for the benefit of Mr. Vorse's spouse.
 - (6) Represents (i) 690,735 shares of common stock owned by Wharton Capital Partners Ltd., a New York corporation of which Mr. Minsky holds a 50% interest, (ii) 295,000 shares of common stock issuable upon exercise of immediately exercisable warrants, 95,000 of which are held by Mr. Minsky's spouse and (iii) 5,000 shares of common stock issuable upon exercise of immediately exercisable options.
 - (7) Represents 5,000 shares of common stock issuable upon exercise of immediately exercisable options.
 - (8) Represents (i) 20,000 shares of common stock issuable upon exercise of immediately exercisable warrants and (ii) 5,000 shares of common stock issuable upon exercise of immediately exercisable options.
 - (9) Includes 1,613,810 shares of common stock issuable upon exercise of immediately exercisable warrants.

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- (10) Includes shares referred to as being included in notes 1 through 8.
Excludes shares referred to in such notes as being excluded.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Until June 2000, Ellen Dinerman Little was employed as our co-chairman of the board, co-chief executive officer and president. In June 2000, our existing employment agreement with Ms. Little was terminated and we entered into a "first look" agreement with The Little Film Company and Ms. Little. The agreement provides for a three-year term ending in June 2003. Pursuant to the "first look" agreement, the Little Film Company receives:

- o an annual fee of \$100,000;
- o a discretionary revolving development fund of \$100,000 for The Little Film Company's use in the option/acquisition of literary properties, engagement of writers and other customary development costs; and
- o customary overhead, including office space, staff, telephone and reasonable travel costs, limited to \$150,000 per year.

The Little Film Company also will be compensated on a project-by-project basis, through fixed producer fees equal to 3.5% of the all inclusive budget of each picture produced with a minimum of \$150,000 and maximum of \$500,000 per picture. Additionally, The Little Film Company may earn certain contingent compensation based upon the performance of the given picture. We will have an exclusive "first look" on any project that The Little Film Company owns or controls or any project that it has the right to acquire or may wish to acquire for development or production. The Little Film Company will furnish us with the services of Ms. Little in connection with the development and possible production of theatrical motion pictures based upon accepted artist submissions meeting certain criteria. We did not compensate The Little Film Company relative to the production of any films during 2001 and 2000.

In October 2000, we entered into a consulting agreement with Wharton Capital Partners Ltd. Barry R. Minsky, one of our directors, is the chief executive officer and a 50% stockholder of Wharton. Under the agreement, Wharton received a one-time fee of \$100,000 and is entitled to receive a monthly fee of \$4,166 for 24 months. If Wharton introduces us to a financing source and we consummate any public or private equity and/or debt financing with the source during the term of the consulting agreement or during the two-year period following the expiration of the agreement, then we also will pay Wharton an amount equal to (i) 5% of all funds received by us from such public or private equity financing and (ii) 3% of all funds received by us from such public or private debt financing. Additionally, upon completion of an equity-based financing, we will issue to Wharton warrants to purchase shares of common stock equal to 5% of the common stock or common stock equivalents issued in the financing at an exercise price equal to 120% of the five-day average closing bid price prior to the closing of such financing. The warrants will be exercisable on a cashless basis and will have registration rights.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) (1) INDEX TO FINANCIAL STATEMENTS

Page(s) in
Form 10-K

| | |
|---|-----|
| Report of Independent Accountants | F-1 |
| Consolidated Financial Statements: | |
| Consolidated Balance Sheets - December 31, 2001 and 2000 | F-2 |
| Consolidated Statements of Operations - Years Ended December 31, 2001, 2000 and 1999 | F-3 |
| Consolidated Statements of Cash Flows - Years Ended December 31, 2001, 2000 and 1999 | F-4 |
| Consolidated Statements of Shareholders' Equity - Years Ended December 31, 2001, 2000 and 1999 | F-5 |
| Notes to Consolidated Financial Statements | F-6 |

(a) (2) INDEX TO FINANCIAL STATEMENTS SCHEDULES

| | |
|--|-----|
| Schedule II -- Valuation and Qualifying Accounts | S-1 |
|--|-----|

(a) (3) EXHIBITS

| EXHIBIT NUMBER | DESCRIPTION |
|-------------------|--|
| 3.1 | Restated Certificate of Incorporation. Incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K, dated October 25, 1996, filed with the SEC on November 12, 1996. |
| 3.2 | Bylaws, as amended on June 20, 2000. Incorporated by reference to Exhibit 3.2 to our Amended Current Report on Form 8-K/A filed with the SEC on June 29, 2000. |
| 3.3 | Certificate of Designations for Series A Preferred Stock. Incorporated by reference to Exhibit 3.3 to our Amended Current Report on Form 8-K/A, filed with the SEC on June 29, 2000. |

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- 3.4 Amendment to our Restated Certificate of Incorporation. Incorporated by reference to Exhibit 3.4 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2000.
- 4.1 Form of Common Stock Certificate. Incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K, dated October 25, 1996, filed with the SEC on November 12, 1996.
- 4.2 Form of Warrant Certificate. Incorporated by reference to Exhibit 4.2 to our Registration Statement on Form S-1, Registration No. 33-83624.
- 4.3 Warrant Agreement between Continental Stock Transfer & Trust Company and our company. Incorporated by reference to Exhibit 4.4 to our Registration Statement on Form S-1, Registration No. 33-83624.
- 4.4 Form of Warrant issued in our bridge financing. Incorporated by reference to Exhibit 10.4 to our Registration Statement on Form S-1, Registration No. 33-83624.
- 4.5 Warrant, dated October 31, 1996, for Jefferson Capital Group, Ltd. to purchase shares of our common stock. Incorporated by reference to Exhibit 4.6 to our Current Report on Form 8-K, dated October 25, 1996, filed with the SEC on November 12, 1996.
- 4.6 Form of Warrant dated June 20, 2000. Incorporated by reference to Exhibit 4.8 to our Amended Current Report on Form 8-K/A, filed with the SEC on June 29, 2000.
- 10.1 Indemnity Agreement, dated October 31, 1996, between us and Robert B. Little. Incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K, dated October 25, 1996, filed with the SEC on November 12, 1996.
- 10.2 Indemnity Agreement, dated October 31, 1996, between us and William F. Lischak. Incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K, dated October 25, 1996, filed with the SEC on November 12, 1996.
- 10.3 Indemnity Agreement, dated October 31, 1996, between us and Stephen K. Bannon. Incorporated by reference to Exhibit 10.5 to our Current Report on Form 8-K, dated October 25, 1996, filed with the SEC on November 12, 1996.
- 10.4 Indemnity Agreement, dated October 31, 1996, between us and Scot K. Vorse. Incorporated by reference to Exhibit 10.6 to our Current Report on Form 8-K, dated October 25, 1996, filed with the SEC on November 12, 1996.
- 10.5 1996 Basic Stock Option and Stock Appreciation Rights Plan. Incorporated by reference to Exhibit 10.20 to our Annual Report on Form 10-K for the year ended December 31, 1996.
- 10.6 Lease Agreement dated April 21, 1987, as amended. Incorporated by reference to Exhibit 10.30 to our Annual Report on Form

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10-K for the year ended December 31, 1996.

- 10.7 Amendment, dated April 1, 1997 to Lease Agreement, dated April 21, 1987. Incorporated by reference to Exhibit 10.31 to our Annual Report on Form 10-K for the year ended December 31, 1997.
- 10.8 Movie and Motion Picture Programming Agreement, dated July 19, 1999, between broadcast.com inc. and us. Incorporated by reference to Exhibit 10.34 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 1999.*
- 10.9 Securities Purchase Agreement, dated May 3, 2000, between our company and Rosemary Street Productions, LLC ("Rosemary Street"). Incorporated by reference to Exhibit 10.35 to our Amended Current Report on Form 8-K/A, filed with the SEC on June 29, 2000.
- 10.10 Assignment and Assumption Agreement between our company and Rosemary Street. Incorporated by reference to Exhibit 10.36 to our Amended Current Report on Form 8-K/A, filed with the SEC on June 29, 2000.
- 10.11 Amended and Restated 1996 Special Stock Option Plan and Agreement among Robert Little, Ellen Little and our company. Incorporated by reference to Exhibit 10.37 to our Amended Current Report on Form 8-K/A, filed with the SEC on June 29, 2000.
- 10.12 Stock Option Agreement between us and William Lischak. Incorporated by reference to Exhibit 10.38 to our Amended Current Report on Form 8-K/A, filed with the SEC on June 29, 2000.
- 10.13 Amended and Restated Employment Agreement between Robert Little and us. Incorporated by reference to Exhibit 10.39 to our Amended Current Report on Form 8-K/A, filed with the SEC on June 29, 2000.
- 10.14 Amended and Restated Employment Agreement between William Lischak and us. Incorporated by reference to Exhibit 10.40 to our Amended Current Report on Form 8-K/A, filed with the SEC on June 29, 2000.
- 10.15 Employment Agreement between Christopher Cooney and us. Incorporated by reference to Exhibit 10.41 to our Amended Current Report on Form 8-K/A, filed with the SEC on June 29, 2000.
- 10.16 Employment Agreement between Jeffrey Cooney and us. Incorporated by reference to Exhibit 10.42 to our Amended Current Report on Form 8-K/A, filed with the SEC on June 29, 2000.
- 10.17 First Look Agreement between The Little Film Company, Inc. and us. Incorporated by reference to Exhibit 10.43 to our Amended Current Report on Form 8-K/A, filed with the SEC on June 29, 2000.

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- 10.18 Note and Debt Contribution Agreement among Robert Little and Ellen Little and us. Incorporated by reference to Exhibit 10.44 to our Amended Current Report on Form 8-K/A, filed with the SEC on June 29, 2000.
- 10.19 Form of Management Letter between each of Robert Little and Ellen Little and us. Incorporated by reference to Exhibit 10.45 to our Amended Current Report on Form 8-K/A, filed with the SEC on June 29, 2000.
- 10.20 Voting Agreement among our company, Rosemary Street, Robert Little, Ellen Little, MRCo., Inc., Christopher Cooney and Jeffrey Cooney. Incorporated by reference to Exhibit 10.46 to our Amended Current Report on Form 8-K/A, filed with the SEC on June 29, 2000.
- 10.21 Form of Credit, Security, Guaranty and Pledge Agreement, dated as of June 20, 2000, among our company, as Borrower, the Guarantors named therein and the Lenders named therein, with The Chase Manhattan Bank, as Administrative Agent, and The Chase Manhattan Bank, as Issuing Bank (without schedules and exhibits). Incorporated by reference to Exhibit 10.47 to our Amended Current Report on Form 8-K/A, filed with the SEC on June 29, 2000.
- 10.22 Copyright Security Agreement, dated as of June 20, 2000 (without schedules and exhibits). Incorporated by reference to Exhibit 10.48 to our Amended Current Report on Form 8-K/A, filed with the SEC on June 29, 2000.
- 10.23 Consulting Agreement, dated October 1, 2000, between us and Wharton Capital Partners, Ltd. Incorporated by reference to Exhibit 5 to the Schedule 13D filed by Wharton with the SEC on November 28, 2000.
- 10.24 2000 Performance Equity Plan. Incorporated by reference to Exhibit 10.27 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2000.
- 10.25 Amendment No. 1, dated May 16, 2001 to the Credit, Security, Guaranty and Pledge Agreement, dated as of June 20, 2000, among our company, as Borrower, the Guarantors named therein and the Lenders named therein, with The Chase Manhattan Bank, as Administrative Agent, and The Chase Manhattan Bank, as Issuing Bank. Incorporated by reference to Exhibit 10.28 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.
- 10.26 Amendment No. 2, dated as of September 17, 2001 to the Credit, Security, Guaranty and Pledge Agreement, dated as of June 20, 2000, as amended, among our company, as Borrower, the Guarantors named therein and the Lenders named therein, with The Chase Manhattan Bank, as Administrative Agent, and The Chase Manhattan Bank, as Issuing Bank. Filed Herewith
- 10.27 Agreement of Sublease dated November 15, 2001 between Scott Mednick & Associates, Inc. and First Look Media, Inc. Filed herewith.
- 21 Subsidiaries of the Registrant. Filed herewith.
- 23 Consent of PricewaterhouseCoopers LLP. Filed herewith.

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99 Risk Factors. Filed Herewith.

* Confidential treatment has been granted for portions of such exhibit.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 6, 2002

FIRST LOOK MEDIA, INC.

By: /s/ Christopher J. Cooney

Christopher J. Cooney
Chairman of the Board of Directors
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| SIGNATURE ----- | TITLE ----- | DATE ---- |
|---|---|--------------|
| /s/ Christopher J. Cooney ----- Christopher J. Cooney | Co-Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer) | May 6, 2002 |
| /s/ Robert B. Little ----- Robert B. Little | Co-Chairman of the Board of Directors and President | May 6, 2002 |
| /s/ William F. Lischak ----- William F. Lischak | Chief Operating Officer, Chief Financial Officer, Secretary and Director (Principal Financial and Accounting Officer) | May 6, 2002 |
| /s/ Jeffrey Cooney ----- Jeffrey Cooney | Executive Vice President - Creative Affairs and Director | May 6, 2002 |
| /s/ Stephen K. Bannon ----- Stephen K. Bannon | Director | May 6, 2002 |

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| | | |
|---|----------|-------------|
| /s/ Scot K. Vorse ----- Scot K. Vorse | Director | May 6, 2002 |
| /s/ Barry R. Minsky ----- Barry R. Minsky | Director | May 6, 2002 |
| ----- Joseph Linehan | Director | _____, 2002 |
| /s/ Nicholas Bavaro ----- Nicholas Bavaro | Director | May 6, 2002 |

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Schedule II - Valuation and Qualifying Accounts

| Allowance for Doubtful Accounts ----- | Balance at Beginning of Year ----- | Charged to Costs and Expenses ----- | Deductions ----- | Balance at of Year ----- |
|--|---|---|---------------------|--------------------------------|
| | | (in thousands) | | |
| Year Ended December 31, 2001 | \$ 1,100 | \$ 1,268 | \$ (1,218) | \$ 1,150 |
| Year Ended December 31, 2000 | 1,100 | 1,876 | (1,876) | 1,100 |
| Year Ended December 31, 1999 | 1,100 | 259 | (259) | 1,100 |

All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Shareholders of First Look Media, Inc.
(formerly known as Overseas Filmgroup, Inc.):

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity and cash flows present fairly, in all material respects, the financial position of First Look Media, Inc. and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We

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conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Company has had losses and negative cash flows from operations for each of the last two years and will need to generate sufficient cash flow from operations or raise additional capital to achieve its intended business objectives.

/s/ PricewaterhouseCoopers LLP
Century City, California
April 25, 2002

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FIRST LOOK MEDIA, INC.
(formerly known as Overseas Filmgroup, Inc.)
CONSOLIDATED BALANCE SHEETS

ASSETS:

Cash and cash equivalents
Accounts receivable, net of allowance for doubtful
accounts of \$1,150,000 and \$1,100,000, respectively
Film costs, net of accumulated amortization
Other assets

Total assets

LIABILITIES AND SHAREHOLDERS' EQUITY:

Accounts payable and accrued expenses
Accrued interest payable
Deferred revenue
Payable to producers
Notes payable

Total liabilities

Commitments and contingencies (Note 10)

Shareholders' equity:

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Preferred stock, \$.001 par value, 10,000,000 shares authorized;
 0 and 904,971 shares issued and outstanding at December
 31, 2001 and 2000, respectively

Common stock, \$.001 par value, 50,000,000 shares authorized; 11,658,848
 and 9,848,906 shares issued at December 31, 2001 and 2000,
 respectively; 11,613,848 and 9,803,906 shares outstanding at December
 31, 2001 and 2000, respectively

Additional paid-in capital
 Accumulated deficit
 Treasury stock at cost, 45,000 shares

Total shareholders' equity

Total liabilities and shareholders' equity

The accompanying notes are an integral part of these consolidated financial
 statements.

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FIRST LOOK MEDIA, INC.
 (formerly known as Overseas Filmgroup, Inc.)
 CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year Ended 2001 ----- (in thousands except) |
|--|--|
| Revenues | \$ 35,144 |
| Expenses: | |
| Film cost amortization | 24,258 |
| Distribution and marketing | 7,101 |
| Selling, general and administrative | 6,947 |
| | ----- |
| Total expenses | 38,306 |
| | ----- |
| Loss from operations | (3,162) |
| | ----- |
| Other income (expense): | |
| Interest income | 76 |
| Interest expense | (1,137) |
| Other income | 431 |
| | ----- |
| Total other expense | (630) |
| | ----- |
| Loss before income taxes and cumulative effect of accounting change | (3,792) |

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| | |
|--|------------|
| Income tax provision (benefit) | 62 |
| | ----- |
| Loss before cumulative effect of accounting change | (3,854) |
| Cumulative effect of accounting change (net of income taxes) | - |
| | ----- |
| Net loss | \$ (3,854) |
| | ===== |
| Basic and diluted loss per share: | |
| Loss before cumulative effect of accounting change | \$ (0.38) |
| Cumulative effect | - |
| | ----- |
| Net income | \$ (0.38) |
| | ===== |
| Weighted average number of common shares outstanding | 10,191 |
| | ===== |

The accompanying notes are an integral part of these consolidated financial statements.

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FIRST LOOK MEDIA, INC.
(formerly known as Overseas Filmgroup, Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended 2001 |
|--|--------------------|
| | ----- |
| Cash flows from operating activities: | |
| Net loss | \$ (3,854) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities | |
| Cumulative effect of accounting change | - |
| Film cost amortization | 24,258 |
| Additions to film costs | (9,922) |
| Payments to producers | (20,847) |
| Equity based charge | - |
| Capital gains and other non-cash income | - |
| Changes in operating assets and liabilities: | |
| Accounts receivable | 2,915 |
| Related party receivables | - |
| Other assets | (354) |
| Accounts payable and accrued expenses | 358 |
| Deferred income taxes | - |
| Deferred revenue | 723 |
| | ----- |
| Net cash (used in) provided by operating activities | (6,723) |
| | ----- |

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Cash flows from investing activities:

| | |
|---|-------|
| Sale of marketable securities | - |
| | ----- |
| Net cash provided by investing activities | - |
| | ----- |

Cash flows from financing activities:

| | |
|---|-------|
| Issuance of equity instruments, net of expenses | - |
| Investment by significant shareholder | - |
| Net borrowings (pay down) under credit facility | 8,000 |
| Net pay down of subordinated note payable | (436) |
| Net pay down of note payable to shareholders | - |
| Decrease in restricted cash position | - |
| | ----- |

Net cash provided by (used in) by financing activities 7,564

Net increase (decrease) in cash and cash equivalents 841

Cash and cash equivalents at beginning of year 832

Cash and cash equivalents at end of year \$ 1,673

Supplemental disclosure of cash flow information:

Cash paid during the year for:

| | |
|---------------------------|--------|
| Interest | \$ 893 |
| | ===== |
| Income taxes | \$ 9 |
| | ===== |
| Foreign withholding taxes | \$ 53 |
| | ===== |

Non-cash financing activities:

| | |
|--|-------|
| Contribution of capital by significant shareholder | \$ - |
| | ===== |

The accompanying notes are an integral part of these consolidated financial statements.

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FIRST LOOK MEDIA, INC.

(formerly known as Overseas Filmgroup, Inc.)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands)

| | Preferred Stock | | Common Stock | | Additional | Accumulated | Ac |
|------------------------------|-----------------|--------|--------------|--------|------------|-------------|----|
| | Number | Amount | Number | Amount | Paid-in | (Deficit) | Co |
| | ----- | ----- | ----- | ----- | ----- | ----- | |
| Balance at December 31, 1998 | - | \$ - | 5,778 | 6 | \$ 10,652 | \$ 1,049 | |

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| | | | | | | |
|--|-------|------|---------|-------|-----------|-------------|
| Issuance of common stock | - | - | 563 | - | 1,431 | - |
| Equity based charge | - | - | - | - | 24 | - |
| Comprehensive income: | | | | | | |
| Unrealized holding gain in investments available for sale | - | - | - | - | - | - |
| Net loss | - | - | - | - | - | (1,253) |
| Total comprehensive income | | | | | | |
| Balance at December 31, 1999 | - | - | 6,341 | 6 | 12,107 | (204) |
| Issuance of common stock, preferred stock and warrants | 905 | 1 | 5,097 | 5 | 16,414 | - |
| Retirement of common stock | - | - | (1,589) | (1) | 1 | - |
| Forgiveness of notes payable, accrued expenses and contribution of capital | - | - | - | - | 2,153 | - |
| Comprehensive income: | | | | | | |
| Reversal of unrealized holding gain upon sale of investment available for sale | - | - | - | - | - | - |
| Net loss | - | - | - | - | - | (20,490) |
| Total comprehensive income | | | | | | |
| Balance at December 31, 2000 | 905 | 1 | 9,849 | 10 | 30,675 | (20,694) |
| Conversion of preferred stock to common | (905) | (1) | 1,810 | 2 | (1) | - |
| Net loss | - | - | - | - | - | (3,854) |
| Balance at December 31, 2001 | - | \$ - | 11,659 | \$ 12 | \$ 30,674 | \$ (24,548) |

The accompanying notes are an integral part of these consolidated financial statements.

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FIRST LOOK MEDIA, INC.
(formerly known as Overseas Filmgroup, Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF BUSINESS:

General

First Look Media, Inc. (formerly known as Overseas Filmgroup, Inc.) ("Company") is principally involved in the acquisition and worldwide license or sale of

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distribution rights to independently produced motion pictures. Certain motion pictures are directly distributed by the Company in the domestic theatrical market under the name "First Look Pictures", and in the domestic video market under the name "First Look Home Entertainment. The Company also produces television commercials under the name "First Look Artists".

Liquidity and Capital Resources

For the two years ended December 31, 2001, the Company had operating losses of \$8,634,000 and its operating activities used \$11,556,000 of cash. As of December 31, 2001, the Company had cash and cash equivalents of \$1,673,000 and, based on its calculations, approximately \$5,795,000 available for borrowing under its Chase Credit Facility (see Note 6). In management's opinion, existing cash and available borrowings, totaling approximately \$7,468,000, along with future cash anticipated to be generated from operations, will provide the Company with sufficient resources to fund operations and execute its current business plan through at least January 1, 2003. If the Company is not successful in generating sufficient future cash flow from operations in accordance with its current business plan, raising additional capital through public or private financings, strategic relationships or other arrangements will be necessary. This additional funding, if needed, might not be available on acceptable terms, or at all. Failure to raise sufficient capital, if and when needed, could have a material adverse effect on the business, results of operations and financial condition of the Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

The consolidated financial statements of the Company include the financial position, results of operations and cash flows of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Revenues

Revenues from nonrefundable guarantees payable by sub-distributors are recognized when the film becomes available for release and certain other conditions are met in accordance with Statement of Position 00-2, "Accounting by Producers or Distributors of Films" ("SOP 00-2"). Amounts received in advance of the film being available are recorded as deferred revenue. Revenues from direct theatrical distribution of films are recognized on the dates of exhibition. Revenues from home video market are recognized, net of a reserve for returns, upon availability of product to retailers.

Film Costs and Amortization

The Company accounts for film costs in accordance with SOP 00-2. Film costs include the direct costs of acquiring and producing motion picture product. Capitalized costs are amortized using the individual film forecast method whereby expense is recognized in the proportion that current year revenues for each film bear to management's estimate of ultimate revenues. Film costs are stated at the lower of net unamortized cost or net realizable value.

In June 2000, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued SOP 00-2, which replaces SFAS No. 53. SOP 00-2 was adopted for the Company's fiscal year beginning January 1, 2000. SOP 00-2 establishes new accounting standards for producers or distributors of films, including changes in revenue recognition and accounting for advertising, development and overhead costs. Under the new standard, all exploitation costs such as advertising and marketing costs for theatrical and television products will be expensed as incurred, whereas under the previous

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standards, these costs were capitalized and amortized over the products' lifetime revenues. In addition, the new standard requires that development costs for abandoned projects be charged directly to expense rather than being included in production overhead and reestablished as film costs. The Company elected early adoption of SOP 00-2 and, as a result, in 2000, a cumulative charge for the change in accounting principle of \$15,582,000 (\$14,123,000 net of income taxes) has been reflected in the Company's Consolidated Statement of Operations for the year ended December 31, 2000.

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Payables to Producers

The Company accounts for participations due to producers in accordance with SOP 00-2. Management's estimate of ultimate participations is accrued as an expense using the individual film forecast method whereby expense is recognized in the proportion that current year revenues for each film bear to management's estimate of ultimate revenues. In the year ending December 31, 2002, management expects to make payments of approximately \$15,600,000 to settle producer liabilities outstanding at December 31, 2001.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with a maturity of less than three months to be cash equivalents. The carrying value of the Company's cash and cash equivalents approximate fair value due to their short-term nature.

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of assets, which range from 5 to 7 years using the straight line method. Leasehold improvements are amortized over the shorter of the useful lives of assets or the term of the lease.

Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. If such assets are considered impaired, the amount of the impairment loss recognized is measured as the amount by which the carrying value of the asset exceeds the fair value of the asset, fair value being determined based upon discounted cash flows. The Company has recorded write-downs of film costs amounting to \$1,815,000, \$494,000 and \$1,271,000 for the years ended December 31, 2001, 2000 and 1999 respectively, as a result of downward adjustments of projected ultimate revenues. These write-downs are included in film cost amortization in the Consolidated Statements of Operations.

Fair Value of Financial Instruments

The recorded value of the Company's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and payable to producers approximate their fair value due to the relative short maturities of these instruments. The fair value of notes payable approximates the recorded value due to the stated interest rate on such instruments.

Segment Reporting

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The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information" effective January 1, 2000. SFAS No. 131 establishes standards for the way companies report information about operating segments in interim and annual financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company's management has determined that the Company operated within two discrete reportable business segments for the year ended December 31, 2001 and one discrete reportable business segment for the year ended December 31, 2000.

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Income Taxes

The Company records income taxes in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes". The standard requires, among other provisions, an asset and liability approach to recognize deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the financial statement carrying amounts and tax basis of assets and liabilities. Valuation allowances are provided if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Basic and Diluted Loss per Share

Basic and diluted net loss per share is computed by dividing the net loss applicable to common stockholders by the weighted average number of shares of common stock and common equivalent shares outstanding. Common equivalent shares related to all stock options, warrants and convertible preferred stock during the three years ended December 31, 2001 have been excluded from the computation below because their effect is anti-dilutive.

The following table sets forth common stock equivalents (potential common stock) that are not included in the diluted net loss per share calculations above because their effect would be anti-dilutive for the years indicated:

| | Year Ended December 31 | |
|--|------------------------|-----------|
| | 2001 | 2000 |
| | ---- | ---- |
| Weighted average common stock equivalents: | | |
| Convertible preferred stock | - | 904,971 |
| Stock options | 375,076 | 1,546,377 |
| Warrants | 7,551,310 | 6,118,319 |

Accounting for Stock-Based Compensation

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board ("APB") No. 25, "Accounting for Stock Issued to Employees," and FASB Interpretation ("FIN") No. 28 "Accounting for Stock Appreciation Rights and Other Variable Stock Option Award Plans an Interpretation of APB Opinions No. 15 and 25" and complies with the disclosure requirements of Statement of Financial Accounting Standards

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("SFAS") No. 123, "Accounting for Stock-Based Compensation." Under APB No. 25, compensation cost, if any, is recognized over the respective vesting period based on the difference, if any, on the date of grant, between the fair value of the Company's common stock and the grant price. The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123 and EITF 96-18, "Accounting for Equity Instruments that are issued to other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services."

In March 2000, the Financial Accounting Standards Board issued FIN No. 44, "Accounting for Certain Transactions Involving Stock Compensation." FIN No. 44 provides guidance for issues arising in applying APB No. 25. FIN No. 44 applies specifically to new awards, exchanges of awards in a business combination, modification to outstanding awards, and changes in grantee status that occur on or after July 1, 2000, except for the provisions related to repricing and the definition of an employee which apply to awards issued after December 15, 1998. The Company's financial statements have been prepared under the guidance provided by FIN No. 44.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist primarily of cash and accounts receivable. The Company places its cash with a financial institution and, at times, such amounts may be in excess of the FDIC insurance limits. Concentration of credit risk associated with accounts receivable is limited due to the large number of customers, as well as their dispersion across geographic areas. The Company performs credit evaluations of its customers and generally does not require collateral. As of December 31, 2001, only one customer had an outstanding balance that exceeded 10% or more (\$3.6 million) of the Company's total accounts receivable.

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Comprehensive Income

The Company has adopted the provisions of SFAS No. 130, "Reporting Comprehensive Income". SFAS No. 130 establishes standards for reporting comprehensive income and its components in financial statements. Comprehensive income, as defined, includes all changes in equity during a period from non-owner sources.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to amounts reported in prior periods to conform with the current year presentation.

Recent Accounting Pronouncements

In October 2001, the FASB issued FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which is applicable to financial statements issued for fiscal years beginning after December 15, 2001. The FASB's new rules on asset impairment supersede FAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", and portions of APB Opinion No. 30, "Reporting the Results of Operations". FAS 144 provides a

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single accounting model for long-lived assets to be disposed of and significantly changes the criteria that would have to be met to classify an asset as held-for-sale. Classification as held-for-sale is an important distinction since such assets are not depreciated and are stated at the lower of fair value and carrying amount. FAS No. 144 also requires expected future operating losses from discontinued operations to be displayed in the period(s) in which the losses are incurred, rather than as of the measurement date as presently required. The Company is in the process of determining the impact of adopting SFAS No. 144.

NOTE 3 - AGREEMENT WITH ROSEMARY STREET PRODUCTIONS, LLC:

In June 2000, the Company consummated a Securities Purchase Agreement with Rosemary Street in which the Company sold to Rosemary Street for an aggregate cash price of \$17,000,000 (i) 5,097,413 shares of common stock, (ii) 904,971 shares of Series A convertible preferred stock and (iii) five-year warrants to purchase up to 2,313,810 shares of common stock for an exercise price of \$3.40 per share. Direct expenses associated with the issuance of stock and warrants amounted to \$580,000 through December 31, 2000, which were charged to equity. As of December 31, 2001, Rosemary Street owned approximately 53.5% of the Company's voting securities.

In accordance with the terms of the Securities Purchase Agreement with Rosemary Street, in June 2000, Robert B. Little and Ellen Dinerman Little (collectively, "the Littles"), former co-chairs of the Board of Directors, co-chief executive officers and significant stockholders of the Company, forgave \$2,023,000 in notes and other payables owed to them by the Company. In addition, the Littles contributed to the Company \$130,000 in cash and 1,588,812 shares of the Company's common stock they owned. In return, in accordance with the terms of the Securities Purchase Agreement, the Company paid \$1,430,000 to the Littles.

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NOTE 4 - MARKETABLE SECURITIES:

In July 1999, the Company and broadcast.com entered into an agreement whereby broadcast.com was granted the right to exhibit, via the Internet, certain films owned by the Company. Additionally, broadcast.com received 562,527 shares of the Company's common stock in consideration for 11,302 shares in broadcast.com.

In July 1999, the Company received 17,454 shares of common stock of Yahoo!, Inc. ("Yahoo!"), reflecting a 2 for 1 stock split, in exchange for its shares of broadcast.com, following Yahoo!'s acquisition of broadcast.com

The Company accounted for its investment in Yahoo! under the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The investment in Yahoo! was classified as an available-for-sale security and was carried on the balance sheet at fair value.

During 2000, the Company sold all its shares of Yahoo! common stock for approximately \$2,056,000.

NOTE 5 - FILM COSTS:

Film costs consist of the following:

| | December 31, | |
|--|--------------|------|
| | 2001 | 2000 |
| | ---- | ---- |

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| | (in thousands) | |
|--|----------------|-----------|
| Films in release net of accumulated amortization | \$ 13,167 | \$ 11,702 |
| Films not yet available for release | 5,137 | 1,691 |
| | ----- | ----- |
| | \$ 18,304 | \$ 13,393 |
| | ===== | ===== |

Interest costs capitalized to films were \$191,000, \$186,000 and \$303,000 during the years ended December 31, 2001, 2000 and 1999, respectively. Based on the Company's estimates of projected gross revenues as of December 31, 2001, approximately 35% and 81% of unamortized film costs applicable to films in release, are expected to be amortized during the next year and next three years, respectively.

NOTE 6 - NOTES PAYABLE:

Notes payable consist of the following:

| | 2001 | 2000 |
|---------------------------------|----------------|----------|
| | ---- | ---- |
| | (in thousands) | |
| Borrowing under credit facility | \$ 14,500 | \$ 6,500 |
| Subordinated note payable | 180 | 616 |
| | ----- | ----- |
| | \$ 14,680 | \$ 7,116 |
| | ===== | ===== |

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Concurrently with the consummation of the Securities Purchase Agreement with Rosemary Street (Note 3), in June 2000 the Company entered into a five-year \$40 million revolving credit facility (the "Chase Credit Facility") with The Chase Manhattan Bank (now JP Morgan Securities, Inc.) and other commercial banks and financial institutions. A portion of the proceeds from this credit facility was used to repay outstanding loans and accrued interest under the Company's previous credit facility with Coutts & Co. and Bankgesellschaft Berlin A.G. (the "Coutts/Bankgesellschaft Credit Facility"). The remaining proceeds have been used to finance the Company's production, acquisition, distribution and exploitation of motion pictures, and for working capital and general corporate purposes, including the Company's expansion into television commercial production (Note 14). During the years ended December 31, 2001 and 2000, the Company borrowed \$8,000,000 and \$6,500,000, respectively, under the Chase Credit Facility.

The amounts borrowed under the Chase Credit Facility bear interest, as the Company may select, at rates based on either LIBOR plus 2% or a rate per annum equal to the greater of (a) the Prime Rate plus 1%, (b) the Base CD Rate plus 2% and (c) the Federal Funds Effective Rate plus 1.5% (as these terms are defined in the Chase Credit Facility Agreement). In addition to an annual management fee of \$125,000, the Company pays a commitment fee on the daily average unused portion of the Chase Credit Facility at an annual rate of 0.5%. Upon entering the Chase Credit Facility, the Company was required to pay a one-time fee of approximately \$890,000. The Chase Credit Facility Agreement also restricts the creation or incurrence of indebtedness and the issuance of additional securities. The Chase Credit Facility is collateralized by all tangible and intangible assets, and future revenues of the Company.

In May 2001, the Company entered into an amendment to the Chase Credit Facility, pursuant to which the requisite lenders agreed, effective as of the date of the

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amendment, to:

- o permit the Company to obtain financing for one film from another lender;
- o increase the Company's overhead allowance from \$5 million to \$7.25 million excluding bad debt; and
- o reduce the minimum level of Consolidated Net Worth (as defined in the credit agreement) that the Company is required to maintain from \$28 million to \$22 million.

As of December 31, 2001, the Company was in compliance with all covenants of the credit agreement.

In addition to the amounts outstanding under the Chase Credit Facility Agreement, during 1998 the Company borrowed \$2,000,000 from another lender, the proceeds of such loan were used to acquire rights to a particular film. This subordinated note bears interest at the Prime Rate plus 1.5% and is collateralized by amounts due under distribution agreements from the specific film. The outstanding remaining obligation of \$180,000 was fully repaid in March 2002.

Expected maturity dates and effective interest rates of the notes payables are as follow:

| | Expected Maturity Date | | | | |
|----------------------------------|------------------------|------|------|----------|------|
| | (in thousands) | | | | |
| | 2002 | 2003 | 2004 | 2005 | Ther |
| Borrowings under credit facility | - | - | - | \$14,500 | |
| Average interest rate | 5.6% | 5.6% | 5.6% | 5.6% | |
| Subordinated note payable | \$180 | - | - | - | |
| Average interest rate | 6.25% | - | - | - | |

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NOTE 7 - INCOME TAXES:

The components of the provision for income taxes on earnings before income taxes are as follows:

| | Years ended December 31, | | | |
|---------------------|--------------------------|------|------|-----|
| | 2001 | 2000 | 1999 | |
| | (in thousands) | | | |
| Current | | | | |
| State | \$ 9 | \$ 6 | | \$ |
| Foreign withholding | 53 | 131 | | |
| | 62 | 137 | | --- |
| Deferred | | | | |

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| | | | |
|---------|-------|--------|-------|
| State | - | - | (|
| Federal | - | - | (6 |
| | ---- | ---- | -- |
| | - | - | (7 |
| | ---- | ---- | -- |
| | \$ 62 | \$ 137 | \$ (7 |
| | ===== | ===== | ===== |

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory income tax rates to loss before taxes and cumulative effect of accounting change, as a result of the following differences:

| | 2001 | 2000 |
|---|---------|---------|
| | ---- | ---- |
| Federal statutory rate | (34.0)% | (34.0)% |
| State taxes, net of federal benefit and income not subject to tax | (3.0)% | (3.0)% |
| Deferred tax asset valuation allowance | 36.5% | 37.0% |
| Non-deductible portion of officers' life insurance | - | - |
| Other | 2.1% | 2.2% |
| | ---- | ---- |
| | 1.6% | 2.2% |
| | ===== | ===== |

The deferred taxes relate primarily to differences arising from the amortization of film costs for book and tax purposes and the benefits associated with tax loss and foreign withholding tax credit carryforwards. The foreign withholding taxes are substantially recouped from the producers' share of revenue.

The Company has provided a valuation allowance for the full amount of its net deferred tax assets since realization of any future benefit from deductible temporary differences and net operating loss and tax credit carryforwards cannot be sufficiently assured at December 31, 2001.

At December 31, 2001, the Company had net operating loss carryforwards for both federal and state income tax purposes of approximately \$24,000,000 and \$4,400,000, respectively, which expire at various dates between 2004 and 2021, respectively. The net operating losses can be carried forward to offset future taxable income, if any. Utilization of the carryforwards may be subject to utilization limitations which may inhibit the Company's ability to use carryforwards in the future.

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NOTE 8 - SHAREHOLDERS' EQUITY:

Common Stock

During 2000, the Company increased the number of authorized shares of common stock, \$.001 par value, from 25,000,000 to 50,000,000 shares.

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Preferred Stock

During 2000, the Company increased the number of authorized shares of preferred stock, \$.001 par value, from 2,000,000 to 10,000,000 shares.

Series A Preferred Stock

In accordance with the terms of the Securities Purchase Agreement with Rosemary Street (Note 3), in June 2000, the Company issued 904,971 shares of Series A Preferred Stock. Pursuant to the agreement, all shares of Series A Preferred Stock were automatically converted into common stock on a 2:1 basis in October 2001.

Stock Option Plans

In October 1996, the Company's stockholders approved the 1996 Basic Stock Option and Stock Appreciation Rights Plan ("1996 Plan"), under which incentive and non-qualified stock options and stock appreciation rights may be granted to certain employees, directors, independent consultants and certain other persons who provide services to the Company to purchase up to a maximum of 550,000 shares of common stock. The 1996 Plan calls for annual grants to non-employee directors of 5,000 shares at an exercise price equal to the fair market value of the common stock on the date of grant, which is the date of the Annual Stockholders meeting. These options are exercisable one year after the date of grant and expire on the earlier of ten years from the date of grant or three years from the date on which the director ceases to be a director of the Company.

As part of the Securities Purchase Agreement with Rosemary Street (Note 3), the Company cancelled all outstanding stock options granted to the Littles. Under the terms of the Company's 1996 Special Stock Option Plan, the Littles held options to purchase up to 2.2 million shares of common stock at exercise prices ranging from \$5.00 to \$8.50 per share. These stock options were issued in 1996 and vested over a five-year period. The Company subsequently granted the Littles fully vested stock options to purchase 500,000 shares of common stock at an exercise price of \$3.40 per share.

In November 2000, the Company's stockholders approved the 2000 Performance Equity Plan ("2000 Plan"), under which a total of 1,000,000 shares of common stock are available for grant to the Company's key employees, directors and independent consultants. Awards consist of stock options, restricted stock awards, deferred stock awards, stock appreciation rights and other stock-based awards, as described in the 2000 plan.

The Board of Directors is responsible for administration of the 2000 Plan. The Board determines the term of each award, including the option exercise price, the number of shares for which each option is granted and the rate at which each option is exercisable. Incentive stock options granted pursuant to the Plan cannot be granted with an exercise price of less than 100% of the fair market value on the date of grant (110% if the award is issued to a 10% or more shareholder). The term of the options granted under the Plan cannot be greater than 10 years; 5 years for certain optionees who have an ownership interest in the Company or one of its subsidiaries. Options granted under the Plan are exercisable at times and increments as specified by the Board of Directors.

An aggregate of 1,550,000 shares of common stock were reserved for grant under the 1996 Plan and the 2000 Plan of which 1,280,000 shares were available for future grant at December 31, 2001.

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The following table summarizes stock option transactions during the years ended

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December 31, 2001, 2000 and 1999:

| | Number of Shares | Weighted Average Price Per Share |
|----------------------------------|------------------|-------------------------------------|
| Balance at December 31, 1998 | 2,260,000 | \$ 6.69 |
| Granted during 1999 | 120,000 | 2.40 |
| | | |
| Balance at December 31, 1999 | 2,380,000 | \$ 6.48 |
| Granted during 2000 | 650,000 | 3.20 |
| Cancelled during 2000 | 2,200,000 | 6.78 |
| | | |
| Balance at December 31, 2000 | 830,000 | \$ 3.22 |
| Cancelled during 2001 | 60,000 | 1.88 |
| | | |
| Balance at December 31, 2001 | 770,000 | \$ 3.18 |
| | | |
| Exercisable at December 31, 2001 | 736,000 | \$ 3.17 |
| | | |

The following summarizes prices and terms of options outstanding at December 31, 2001:

| Stock Options Outstanding | | | |
|---------------------------|--|---|---|
| Exercise Price | Number Outstanding at December 31, 2001 | Weighted Average Remaining Contractual Life in Years | Number Exercisable at December 31, 2001 |
| \$ 1.75 | 10,000 | 9.08 | 10,000 |
| \$ 1.88 | 20,000 | 3.84 | 20,000 |
| \$ 2.25 | 20,000 | 4.34 | 20,000 |
| \$ 2.38 | 30,000 | 6.42 | 30,000 |
| \$ 2.44 | 100,000 | 6.9 | 100,000 |
| \$ 3.40 | 575,000 | 3.5 | 542,000 |
| \$ 5.25 | 15,000 | 4.4 | 15,000 |
| | | | |
| 770,000 | | 4.17 | 736,000 |
| | | | |

The Company applies APB No. 25 and related interpretations to account for stock options granted to employees and directors. Had compensation cost been recognized pursuant to the fair value approach of SFAS No. 123, the Company's pro forma net loss and net loss per share applicable to common stockholders would have been as follows:

| | 2001 |
|---|------------|
| Net loss before cumulative effect of accounting change: | |
| As reported | \$ (3,854) |
| SFAS 123 pro forma | (3,924) |
| Net loss: | |
| As reported | (3,854) |

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| | |
|--|---------|
| SFAS 123 pro forma | (3,924) |
| Basic and diluted net loss per share: | |
| As reported | |
| Net loss before cumulative effect of accounting change | (0.38) |
| Net loss | (0.38) |
| SFAS 123 pro forma | |
| Net loss before cumulative effect of accounting change | (0.39) |
| Net loss | (0.39) |

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The fair value of each stock option granted has been estimated on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions:

| | |
|--------------------------|---------|
| Risk-free interest rate | 3.5% |
| Expected life (in years) | 4 years |
| Dividend yield | 0% |
| Expected volatility | 50% |

Warrants

In accordance with the terms of the Securities Purchase Agreement with Rosemary Street (Note 3), the Company granted Rosemary Street warrants to purchase 2,313,810 shares of common stock. The Company also granted warrants to purchase 600,000 shares of common stock to individuals as compensation for services rendered in connection with closing of the Securities Purchase Agreement. The Company also granted warrants to purchase 75,000 shares of common stock to an individual in consideration of his consent to the assignment by Rosemary Street to the Company of his first look agreement. These warrants have an exercise price of \$3.40 per share, are fully vested, expire in June 2005 and remain unexercised at December 31, 2001.

Additionally, warrants to purchase 4,500,000 and 62,500 shares of common stock, issued in 1995 and 1996, at an exercise price of \$5.00 per share remained unexercised at December 31, 2001. These warrants are fully vested and expire in February 2002 and October 2003, respectively.

As discussed in Note 14, the Company issued 295,291 shares of its common stock in exchange for 4,135,579 of 4,500,000 of outstanding warrants subsequent to December 31, 2001.

NOTE 9 - RELATED PARTY TRANSACTIONS:

Through June 2000, Ellen Dinerman Little was employed by the Company as its co-chairman of the board, co-chief executive officer and president. In June 2000, the Company and Ms. Little terminated Ms. Little's existing employment agreement and the Company entered into a first look agreement with The Little Film Company, Inc. and Ms. Little. The agreement provides for a three-year term ending in June 2003. Pursuant to the first look agreement, The Little Film Company receives (i) an annual fee of \$100,000; (ii) a discretionary revolving development fund of \$100,000 for The Little Film Company's use in the option/acquisition of literary properties, engagement of writers and other

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customary development costs; and (iii) customary overhead, including office space, staff, telephone and reasonable travel costs of up to \$150,000. The Company capitalized capitalized film costs of \$250,000 and \$125,000 during the years ended December 31, 2001 and 2000, respectively.

The Little Film Company also will be compensated on a project-by-project basis. The Company will have an exclusive "first look" on any project that The Little Film Company owns or controls or any project that it has the right to acquire or may wish to acquire for development or production. The Little Film Company will furnish the Company with the services of Ms. Little in connection with the development and possible production of theatrical motion pictures based upon accepted artist submissions meeting certain criteria. The Company recorded no compensation expenses relative to development of any films during the years ended December 31, 2001 and 2000.

In October 2000, the Company entered into a consulting agreement with Wharton Capital Partners Ltd. ("Wharton"). Barry Minsky, a director of the Company, is the chief executive officer and a 50% shareholder of Wharton. Under the agreement, Wharton received a one-time fee of \$100,000, and is entitled to receive a monthly fee of \$4,166 for 24 months starting in November 2000. According to the agreement, if Wharton introduces the Company to a financing source and the Company consummates any public or private equity and/or debt financing with the source during the term of the consulting agreement or during the two-year period following the expiration of the agreement, then the Company also will pay Wharton an amount equal to (i) 5% of all funds received by the Company from such public or private equity financing and (ii) 3% of all funds received by the Company from such public or private debt financing. Additionally, upon completion of an equity-based financing, the Company will issue to Wharton warrants to purchase shares of the Company's common stock equal to 5% of the common stock or common stock equivalents issued in the financing at an exercise price equal to 120% of the five-day average closing bid price prior to the closing of such financing. The warrants will be exercisable on a cashless basis and will have registration rights. During the years ended December 31, 2001 and 2000, the Company recorded expenses of \$50,000 and \$112,500, respectively related to services rendered by Wharton.

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NOTE 10 - COMMITMENTS AND CONTINGENCIES:

The Company leases office space and office equipment under various operating leases, which expire between 2002 and 2007. Total rental expense under these leases for the years ended December 31, 2001, 2000 and 1999 amounted to \$278,000, \$255,000 and \$257,000, respectively. Minimum annual rental payments under non-cancelable leases are as follows:

| | | |
|------------|----|-----------|
| 2002 | \$ | 408,000 |
| 2003 | | 507,000 |
| 2004 | | 505,000 |
| 2005 | | 503,000 |
| 2006 | | 503,000 |
| Thereafter | | 205,000 |
| | | ----- |
| | \$ | 2,631,000 |
| | | ===== |

As of December 31, 2001, the Company was committed to pay minimum guarantees of approximately \$4,424,000 contingent upon delivery of certain films to the Company.

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Additionally, the Company has entered into certain arrangements with German film financing partnerships whereby the Company has guaranteed that within three years from the commencement of principal photography of the related film, the licensing and distribution proceeds, net of the Company's fees and expenses, will be no less than sixty to eighty percent (depending upon the specific arrangement) of the amount funded toward the production cost of the related film. These commitments are not recorded as liabilities unless and until management expects that proceeds from the licensing and distribution of the related film, net of the Company's fees and expenses, will be insufficient to cover the guarantee within the agreed upon period for the particular film. As of December 31, 2001, the Company had three such commitments outstanding, whereby the total amount committed was \$10,238,000 and the expected uncovered portion of these commitments (amounts not covered by licensing agreements or pending licensing agreements with minimum guaranteed payments due to the Company), was approximately \$3,270,000. The commitments become due, if at all, between September 2003 and September 2004. Management currently believes that none of these guarantees will be called upon because the existing and projected licensing and distribution proceeds of each film are expected to be sufficient to fully cover each commitment.

Management expects that the possibility of having to honor its contingent obligations under these agreements is remote. The Company's contingent obligations are largely dependent upon future sales performance and on the collection of the related accounts receivable. Should a reserve be required, it would be recorded at the time the obligation was determined to be probable. As of December 31, 2001, the Company's maximum exposure under these agreements was approximately \$10 million. Included in the December 31, 2001 balance sheet item, "Payable to Producers", is approximately \$2,000,000 of accrued participation costs with respect to these films, reflecting amounts due toward these contingencies based on recognized revenues relating to such films through December 31, 2001.

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NOTE 11 - FOREIGN SALES AND SIGNIFICANT CUSTOMERS:

The Company's foreign revenues are summarized as follows:

| | Years Ended December 31, | | |
|----------------|--------------------------|-----------|-----------|
| | 2001 | 2000 | 1999 |
| | ---- | ---- | ---- |
| | (in thousands) | | |
| Western Europe | \$ 11,782 | \$ 9,289 | \$ 14,282 |
| Asia | 2,420 | 1,999 | 1,701 |
| Latin America | 1,684 | 1,139 | 1,610 |
| Eastern Europe | 641 | 806 | 469 |
| Other | 2,238 | 1,775 | 4,775 |
| | ----- | ----- | ----- |
| | \$ 18,765 | \$ 15,008 | \$ 22,837 |
| | ===== | ===== | ===== |

Customers representing 10% or more of the Company's revenues accounted for none for the year ended December 31, 2001, \$3,014,000 (one customer) for the year ended December 31, 2000 and \$3,500,000 (one customer) for the year ended December 31, 1999.

NOTE 12 - 401(K) PLAN

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The Company has a 401(K) plan, which covers substantially all employees. Each participant is permitted to make voluntary contributions not to exceed the lesser of 20% of his or her respective compensation or the applicable statutory limitation. The Company matches one-half of the first 4% contributed by the employee. Amounts contributed by each employee are immediately vested and amounts contributed by the Company vest over a five-year period at the rate of 20% per year. The Company's contributions to the plan were \$35,000, \$24,000 and \$21,000 in 2001, 2000 and 1999, respectively.

NOTE 13 - SEGMENT INFORMATION

The Company manages its business in two operating segments: Motion Picture Distribution and Television Commercial Production. The segments were determined based upon the types of products and services provided and sold by each segment.

The Motion Picture Distribution segment acquires licenses, distributes, sells and otherwise exploits distribution rights to motion pictures. Activities include direct theatrical, video and DVD distribution in the U.S. as well as licensing of rights to other theatrical, video and DVD distributors and to pay, basic and free television broadcasters throughout the world. The Television Commercial Production segment produces commercials for manufacturers and service providers who use the commercial to promote their products and services. There were no inter-segment transactions during the years reported. The Company evaluates performance based on income or loss from operations before interest expense and taxes.

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Financial information by operating segment is set forth below:

| | Year Ended and as of December 31, 2001 | | | Year Ended an |
|--|--|--|-----------|--------------------|
| | Motion Pictures | Television Commercial Production | Total | Motion Pictures |
| | (in thousands) | | | (|
| Revenues from external Customers | \$ 34,881 | \$ 263 | \$ 35,144 | \$ 22,625 |
| Loss from operations before interest and taxes | (2,387) | (775) | (3,162) | (5,472) |
| Total assets | 45,264 | 207 | 45,471 | 42,280 |

NOTE 14 - SUBSEQUENT EVENTS:

In January 2002, pursuant to a Form S-4 shelf registration filed on November 5, 2001 with the Securities and Exchange Commission, the Company exchanged 4,135,579 of 4,500,000 outstanding warrants that had been issued in the Company's initial public offering in February 1995, for 295,291 shares of the

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Company's common stock. The remaining 364,421 warrants expired in February 2002.

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