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Up Front

You don't want to drink this can of water – but you might want to buy it. **PAGE 4**

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Don Armstrong is juggling a lot of plates these days. **PAGE 5**

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BORDER SPAT

PHOTO BY DAVID SPRAGUE

Swords Drawn: Agoura Road office building that is the focus of dispute between the cities.

Calabasas, Agoura Hills skirmish over ... office property?

By ELLIOT GOLAN *Staff Reporter*

Along a quiet stretch of Agoura Road, a battle is brewing between neighbors.

Calabasas is in the process of annexing about 43 acres of unincorporated Los Angeles near the Liberty Canyon Road exit of the Ventura (101) Freeway.

And Agoura Hills isn't too pleased.

The land, mostly open space set up against a hillside, has two tax-producing office buildings, and one is the future location for an office of **Spirent Communications Plc**, a publicly traded telecommunications firm based in West Sussex, England.

Spirent brings in about $500,000 in annual tax revenue to Calabasas from its current 107,000-square-foot offices at 26750 Agoura Road, but it wants to move less than a half mile to a smaller, 83,000-square-foot building in the Liberty Canyon Technology Center. Annexing the area would keep the tax revenue in Calabasas.

"That's a lot of money we would lose," said Calabasas Mayor **David Shapiro**. "It is very obvious and clear that this should move forward."

But Agoura Hills isn't so sure. The quiet Conejo Valley bedroom community doesn't necessarily want the tax revenue for itself, but about 300 of its nearby homeowners are concerned about future development Calabasas might approve.

"Any future development there would affect

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Billboard Tiff Turning Ugly

ADVERTISING: Petition drive to retain signs roils Santa Clarita.

By JOEL RUSSELL *Staff Writer*

After the Santa Clarita City Council approved a deal to take down 118 billboards along railroad tracks and replace them with just three digital billboards by the freeway, it appeared that city beautification had won the day.

Not so fast.

A petition driven by local residents who dislike digital billboards and financed by the California Outdoor Advertising Association could force the city to rescind the agreement or put the issue to a vote by residents.

A furious campaign has assembled about

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Firm Snares Rival Broker

REAL ESTATE: Veteran jumping from NAI Capital to illi.

By ELLIOT GOLAN *Staff Reporter*

Illi Commercial Real Estate has made a major hire that will likely shift the balance of power among retail brokerages in the San Fernando Valley real estate market.

The Encino firm lured longtime Valley broker **J. Richard Leyner** and his team from rival Encino firm **NAI Capital Inc.** Leyner spent the last 23 years there and has a large number of clients.

The move not only pumps up the broker count for illi, which is gaining about a half-dozen experienced brokers, but it also brings cache to a boutique firm that had limited reach.

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SPECIAL REPORT ACCOUNTING

Hollywood Specialists Say the Math Is Trickier Than Ever

ENTERTAINMENT: Doing the books not what it was in new digital era.

By MARK R. MADLER *Staff Reporter*

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As a young accountant starting out more than 40 years ago, **Tony Rose** found the entertainment industry was simple to understand – movies, television and radio.

Today, the senior partner at Encino accounting firm **Rose Snyder & Jacobs** faces a changed industry in a complicated world of online video-on-demand, YouTube and smart phone platforms. And that's not to mention the increasing number of productions being shot in other states and countries.

"Now those three elements are important but they are just not it," said Rose. "It is what my kids are doing on their computers and mobile units and how they are communicating with each other."

Like many accountants in Los Angeles serving entertainment industry clients – whether they are onscreen stars, behind-the-camera directing talent, camera suppliers or special-effects houses – Rose has had to adapt as Hollywood shifts how it does business.

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PHOTO BY DAVID SPRAGUE

Industry Man: Drew Grey at Encino's SRG.

SPECIAL REPORT ACCOUNTING

Entertainment: Valley Firms Adapt to Survive

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'Many clients are looking at new business models to grow revenue and how do they make the transition without diminishing existing revenue streams.'

BETH BEMIS, Ernst & Young

'You can't predict advance revenues with people being paid by the click or impression. This is brand new stuff and there is no formula.'

TONY ROSE, Rose Snyder & Jacobs

Digital content creators bring in new business for accounting firms but require a keen understanding of how they operate. The big studios and production companies, meanwhile, go across the country or even the world chasing after tax-incentive programs that accountants need to educate themselves about. Accounting firms also must decide if they will add services such as management of talent and financial planning alongside the traditional tax services.

And looming in the backdrop is the perennial notion that something shady often occurs when it comes to "Hollywood accounting" – the idea that studios will fudge figures to claim blockbusters lose money so they don't have to share the profits.

San Fernando Valley region accounting firms play at a different level. They are not handling the books of the Valley's biggest studios – **Walt Disney Co.** or **Warner Bros. Entertainment** – but instead second-tier entertainment businesses, as well as individual talent.

They range from the tax and financial-planning practice of **Robert Oberstein** (see p. 14), which has about 50 percent entertainment industry clients, to **R.C. Baral & Co. Inc.** a firm operated by four brothers in Encino (see p. 16) that specializes exclusively in entertainment accounting.

The Big Four accounting and audit firms – **Ernst & Young**, **Deloitte Touche Tohmatsu Ltd.**, **KPMG** and **PricewaterhouseCoopers** – don't have a presence in the San Fernando Valley but serve clients here from offices elsewhere in Los Angeles. Because of their size and global reach, these firms offer consulting and long-range planning services.

"E&Y is growing in that business and trying to understand and predict where things are going," said **Beth Bemis**, director of the media and entertainment practice at the downtown Los Angeles office of Ernst & Young.

Consumer-driven era

The digital revolution has upended the entertainment industry like no technical innovation since the introduction of sound in films in the late 1920s and the broad acceptance of television in the 1950s. It's a consumer-driven era in which viewers have turned their back on appointment viewing and now want to watch anywhere and anytime and not always on a television set or in a movie theater.

Rose, Snyder & Jacobs has picked up new clients engaging in digital media – both as creators and distributors. Rose, a senior partner, has found the challenge of working with these companies is the unpredictability of revenue.

With film there are methods used to determine what future income will be, but it doesn't work that way with streamed Internet content. "You can't predict advance revenues with people being paid by the click or impression," Rose said.

Handling digital clients has been a learning process for the firm, especially with all the technical information and jargon to understand. One way it has learned about the digital industry has been to host roundtables of industry professionals and hear what they share with each other.

"This is brand new stuff and there is no formula. You have to understand the business so there is better context to give advice," Rose said.

Meanwhile, Ernst & Young studies industry data to provide insight to entertainment industry clients on how to identify and target customers and choose the right price points for their content, Bemis said.

"Many clients are looking at new business models to grow revenue and how do they make the transition without diminishing existing revenue streams," she said.

All this has been complicated by film and television production leaving California for other states. While it's not new, the past decade has brought an acceleration of "runaway production" as other states, notably New York, Louisiana and Georgia, offer enticing tax credit packages that cut down on the expense of filming.

To get an idea of the complexity, consider **Calvin Hedman**, president of **Hedman Partners**, a Valencia accounting firm with clients that rent film equipment.

With productions going out of California, client businesses have to take into consideration opening up in other states, which has tax implications. One client even moved his residence from the San Fernando Valley to Texas and now handles rentals in that state and Louisiana. "He has a small crew here but he is not here very often at all," Hedman said.

That means the firm, which only has 16 accounting professionals, must learn tax laws for multiple states outside of California.

Indeed, 37 states offer tax-credit programs, with California starting its program in 2009 as a response to television and feature films leaving for other states and taking associated production jobs. The program is administered by the California Film Commission and funded for $100 million a year through the 2016-2017 fiscal year. A pending bill would extend the credits an additional five years.

But that has created complications for firms and productions that qualify and make use of California credits. The state requires a certified public accountant to audit expenses to determine qualification for the state's tax credit program, said **Marco Cordova**, a vice president with the Financial Solutions group at **Entertainment Partners**, a Burbank company that specializes in payroll, tax incentive and finance management.

"The CPAs involved in audits have a strong knowledge of states' programs they are working on," said Cordova, who is himself a CPA.

To keep accountants up to speed on incentive programs, Entertainment Partners provides seminars, a monthly newsletter and other resources for the industry.

Additionally, the company has developed a software product called Movie Magic that assists in budgeting and production accounting. It provides training online and in both its Burbank and New York offices, Cordova said.

Strategic planning

Sometimes, though, local firms find they must partner with firms elsewhere to serve a client who may operate or work in multiple jurisdictions.

Drew Grey is a partner at Encino firm **SRG LLP,** which was formerly known as Solomon, Ross Grey & Co. and was founded more than 50 years ago. It has 37 CPAs on staff and represents clients in various industries, not just entertainment.

SRG has clients who work not only in other states but other countries. In those instances, the Valley firm will find a local accounting practice to handle matters specifically for that country, Grey said.

But SRG has sometimes run into problems when it partners with other firms, including offices run by some of the biggest firms where he believes the quality of service did not match SRG's. "There are certain offices that I would not use again as it's not a consistent product offering," Grey said.

Still, large accounting firms offer stiff competition for Hollywood talent. With thousands of employees they can offer broad services. Ernst & Young, for example, offers a consulting practice with expertise in technology, social media and economics. "It is our job to be ahead on where things are going," Bemis said.

PHOTO BY DAVID SPRAGUE

Cracking Books: Grey with partner Tina Lazaroff at SRG's offices in Encino.

Rick Norris is an accountant with his own firm in Century City who has many Valley clients, from performers to studios to industry vendors.

Despite his firm having just one other certified public accountant, he said he began offering strategic planning a few years ago because he believed such services were not being offered to small and medium-size business, much less performers.

"What we are doing is setting out the vision of what a business is going to do 10 years, 20 years in the future," said Norris, who recently provided consulting services to an out-of-state movie studio that needed a business plan.

For individual performers, his firm often plots out a career road map and then establishes specific financial benchmarks for them to reach. "We do this with young artists, young singers. There are 5,000 young singers in L.A. so we ask where they are going to go and how will they set themselves apart," he said.

Still, adding such services is not for every accounting firm.

SRG finds it's better to not get into personal management services and instead partners with an outside firm that specializes in it. "It really is a niche that you need to know well," Grey said.

'Hollywood accounting'

While contending with these new developments, hanging over the industry is the concept of "Hollywood accounting," which first became widely known because of a 1990 lawsuit brought the late columnist Art Buchwald against **Paramount Pictures**.

Buchwald didn't receive a penny from his share of the net profits in the **Eddie Murphy** film "Coming to America" when Paramount claimed the picture did not make any money despite it grossing more than $200 million.

A Los Angeles Superior Court rejected Paramount's claim there were no net profits from the film due to its high expenses. And rather than the studio appealing the decision, Buchwald and Paramount reached an undisclosed settlement.

Murphy famously called back-end points of net profits "monkey points," which is why the biggest stars seek a share of the front-end box office gross. Indeed, even since the Buchwald lawsuit, more recent films such as "Forrest Gump," "Spider-Man" and the "Lord of the Rings" trilogy have all been subject to lawsuits over participants not getting their share of the millions those films brought in.

Marty Shindler, an entertainment technology consultant in Encino, believes that with the high costs of producing and marketing often there really is not much left in net profit.

"I do not believe there is a concerted effort to screw the talent because talent is important. It takes a lot of ticket sales for that to turn a profit for a participant," said Shindler, who nevertheless acknowledges mistakes get made.

He noted that even if talent hires an auditor at a cost of $10,000 or $20,000 to look into the numbers, that effort usually won't produce a different result. "Chances are they will come back without finding any additional revenue out of it for the talent," he said.

But that's an opinion that not everyone shares, including, of course, entertainment accounting firms who represent creative clients in their dealing with large studios.

"Anytime they have to pay out on the backend there is typically some adjustment," Grey said. "Are those intentional? I cannot comment. Do you regularly find errors? Yes."