

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

FIRST LOOK MEDIA INC
Form 10-K
April 15, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(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, 2002

/ 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
(State or other jurisdiction of
incorporation or organization)

13-3751702
(I.R.S. Employer Identification No.)

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

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.

Indicate by check mark whether the registrant is an accelerated filer (as
defined in Exchange Act Rule 12b-2). Yes No

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

As of June 28, 2002 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant (based on the closing sale price on such date as reported on the OTC Bulletin Board) was \$4,118,372.

The number of shares of common stock outstanding as of April 11, 2003 was 14,539,573.

2

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 330 feature films.

We operate in numerous capacities, including as:

- o a distributor or a sales agent. We are appointed as a distributor or sales agent with respect to distribution rights to films for specified terms, territories and media from independent producers. In this capacity, we receive distribution or sales agency fees. In exchange for being appointed as distributor or sales agent, we may assist in securing production financing for a film (including arranging or assisting others in arranging pre-sales, co-productions, "soft" money sources such as governmental subsidies or tax motivated investments, bank loans including "gap" financing or third party equity). In addition, we occasionally 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 or completion of the film. By providing these financing services or minimum guaranteed payments, we are often able to secure more extensive distribution rights on more favorable terms. We also 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,

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

generally acquiring fully developed projects ready for pre-production and contracting out pre-production and production activities.

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 46.2%, 53.4% and 66.3% of our total revenues in 2002, 2001 and 2000, respectively.

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 and DVD distribution through our First Look Home Entertainment division. Our theatrical distribution activities include booking motion pictures for exhibition at movie theaters and promoting motion pictures with advertising and publicity campaigns. Our home entertainment distribution activities include the promotion and sale of videocassettes and DVD units to local, regional and national video/DVD retailers.

3

In 2001, we launched a television commercial production division which generated \$1,158,000 of gross revenue in 2002 and \$263,000 in 2001. Although we produced four commercials during 2002 and 2001, we ultimately determined that the general economic environment was too difficult to sustain this division. Accordingly, in the third quarter of 2002, we eliminated substantially all overhead related to this division. In the future, if we produce any television commercials, we will likely use a company partially owned by Christopher J. Cooney, our co-chairman and chief executive officer, and Jeffrey Cooney, our executive vice president and a director, to provide all support services needed in exchange for a fee.

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

Current Business Environment, Film Performance, Overhead Levels

Over the past year, we have felt the significant impact of the worldwide economic downturn. Specifically, reduced advertising spending has impacted broadcasters and has resulted in various bankruptcies (especially in Germany), reduced program spending, consolidation and uncertainty. Additionally, the tragedy of September 11th, along with the war with Iraq, has created an atmosphere of reduced activity. Until recently, much of our product, consisting

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

of lower budget feature films which typically do not have significant theatrical distribution, has been supported by the worldwide expansion of television broadcasters and their programming needs. Current market conditions have softened demand for our product. The "reality" programming trend further has impacted the market for lower budget feature films as broadcasters have gravitated to this lower cost form of programming. Additionally, certain films we have chosen to produce, invest in or acquire have not performed well. As a result, these films have generated little margin or have incurred losses, some of which have been significant. We also have continued to maintain a level of overhead that anticipated better performance in our sales, licensing and distribution activities. Consequently, this performance level has not generated sufficient margin to cover overhead costs. Offsetting these trends to some extent has been the growth of the DVD market; however, this growth has not been sufficient to offset lost revenue. As a result, we have reported significantly less revenue compared to last year, have incurred losses and have experienced increased bad debts. In light of our situation, we have been analyzing our current business plan, our alternatives and the need for further capital to implement an updated business plan.

Credit Agreement

The recent operating losses and negative cash flow we have experienced, along with the general market conditions for our business, have resulted in ongoing review and discussions with our primary lender, JPMorgan Securities, Inc. ("JPMorgan") and participating banks in our credit facility. In February 2003, JPMorgan requested that we voluntarily reduce the amount that we are permitted to borrow under our credit facility in relation to our library value. The credit agreement initially provided that we could borrow up to 50% (the "advance rate") of the valuation of our library, conducted by an independent third party approved by JPMorgan. JPMorgan requested that this advance rate be reduced by 5% (to 45%) as of April 1, 2003, an additional 5% (to 40%) as of July 1, 2003, and a final 5% (to 35%) as of October 1, 2003. In February 2003, we agreed to these reductions, which are reflected in our amended credit agreement included as an exhibit to this report.

4

As of December 31, 2002, our cumulative losses resulted in a breach of the covenant contained in the credit agreement with JPMorgan that sets forth a minimum level of net worth that we are required to maintain. We have requested a waiver of this breach. JPMorgan currently is considering our request and we are in negotiation with respect to further modifications JPMorgan will require to the credit agreement in exchange for such waiver. At this point, JPMorgan has indicated that these modifications will likely include an immediate reduction of the commitment level under the credit agreement from \$40 million to approximately \$20 million, with further reductions so that by January 1, 2004 the commitment level will be \$15 million. The minimum net worth requirement would be waived until December 31, 2003, subject to our maintaining a positive net worth as calculated pursuant to Generally Accepted Accounting Principles ("GAAP"). These modifications require the agreement of 51% of the voting right of the participating banks (the percentage based upon the proportionate commitment of each bank to the total commitment of \$40 million). Final resolution of this matter is expected by April 30, 2003. Until then, we are precluded from drawing further funds under the credit facility.

Strategic Objectives

We have sought to become a leading independent worldwide film distribution company. We have aggregated a library of over 330 motion pictures and have developed the capacity to:

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

- o license motion picture rights worldwide;
- o arrange production financing through a wide variety of sources, including international "soft" money sources such as German tax funds, UK tax funds and similar funding sources, "gap" financing (bank financing where the bank providing financing lends against estimated value of unsold distribution rights), pre-sales (sales of territorial distribution rights in advance of a film being produced), third party equity, and other sources;
- o distribute films theatrically in the U.S.; and
- o distribute films on video and DVD in the U.S.

Historically, most of the films we have acquired have had lower budgets (between \$1,000,000 and \$8,000,000) and have had limited, if any, theatrical distribution. During the 1980s, much of the demand for lower budget films was fueled by the creation and growth of a home video marketplace. During the 1990s, the video marketplace matured and the value of video rights declined. At the same time, there was an expansion of television broadcast channels (including premium and basic cable service channels) worldwide. Internationally, this expansion was the result of "privatization" of broadcasters, whereby government owned and controlled broadcasting was diminished and free enterprise resulted in an expanding market. This expansion supported lower budget films which had little, if any, theatrical distribution. Most recently, television values have softened and, although the DVD market has created some revenue growth, reduced revenues from television broadcasters throughout the world have impacted our performance significantly. These shifts in the marketplace have forced us to review our past operating strategy and develop an updated strategy, which includes:

Drawing upon our reputation, experience and relationships with foreign sources to provide sales services and financing for an altered profile of product. We believe that we enjoy a prominent position in the international independent film marketplace. In the past, we have utilized our expertise and relationships to access various forms of financing for the creation of relatively low budget feature films. We believe we need to capitalize on our reputation, expertise and relationships for films that have significant theatrical distribution, generally through third party distributors rather than through our own distribution division, First Look Pictures. Our preferred situation will be where a major U.S. studio is handling the U.S. distribution of the film. This will require us to refocus our sourcing of product and develop new relationships.

Reducing our risk by limiting our direct investment in acquisition costs and film production. In light of our difficulties, we recently reduced our direct investment in films. We generally believe that an investment between

\$50,000 and \$200,000 per film will be necessary to continue a pipeline of product for our home entertainment division. Additionally, we believe there may be situations that will require limited investment of up to \$250,000 to secure rights to a particular film for our core operation, international sales. Overall, we expect to reduce our level of investment dramatically and to rely instead on providing sales agency services for films produced with third party sources of production funding. Additionally, we plan to assist third parties with securing financing through third party sources for films having domestic theatrical distribution through a U.S. distribution company other than our own and preferably a U.S. major studio.

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

Expanding our home entertainment division. In 2001, we created a home entertainment division called "First Look Home Entertainment." This division directly distributes films on videocassette and DVD. We released 17 films in the U.S. video/DVD market during 2001 and 28 films in 2002. We plan to release at least 30 films in the U.S. video/DVD market in 2003. This operating division is generating positive gross margin with low risk acquisition and marketing costs. In the past year, this division generated approximately \$7.6 million in gross revenues. We believe there is opportunity to further expand this division. Currently, many of the films we release through First Look Home Entertainment have had no theatrical exposure. Additionally, most of our releases are feature films. We believe that we can expand our revenues if we are able to distribute more films that have had some level of theatrical distribution in the U.S. and also distribute other specialized product more suitable for purchase rather than rental, such as children's programming and other niche programming.

Expanding our domestic theatrical distribution activities. During 2002, we released three films, with minimal success. However, we continue to believe that there is significant opportunity in the U.S. theatrical distribution market. Our strategy has been to create a separate funding source (a "P & A Fund") for the marketing and distribution costs associated with the U.S. theatrical release of films. In connection with the June 2002 private placement with Seven Hills Pictures, LLC ("Seven Hills"), we established a joint venture company, with an initial \$4 million of equity capital, for purposes of funding marketing and distribution costs of certain pictures to be released theatrically either by us or Seven Hills. We have had discussions with Seven Hills regarding our interest in seeking additional equity and debt capital from other sources to enhance the capacity and ability of this joint venture. Once we expand the P&A Fund, our strategy for theatrically releasing films will be to: (i) acquire films with little or no upfront payment for the U.S. distribution rights and instead offer meaningful (up to \$1,000,000) commitments to spend marketing and distribution funds related to the release of the given film and (ii) release eight to ten films per year. Until we conclude additional equity and/or debt arrangements with respect to the P & A Fund, we will continue to release films with resources that we provide.

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.

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

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

6

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 Chicago, The Hours, Gangs of New York, 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 the Lord of the Rings series, 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;
- o Artisan Entertainment Inc., which distributed Boat Trip, National Lampoon's Van Wilder and The Blair Witch Project; and
- o Lion's Gate Films, which produced and distributed Narc, Frailty, Monster's Ball and American Psycho.

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

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

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.

7

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 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:

- 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;

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

- 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.

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.

8

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

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

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 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.

Acquisition of distribution rights

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

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 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 unrecouped 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

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

distribution of the motion picture.

10

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 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.

A substantial portion of a film's ultimate revenues are generated in its

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

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:

11

- 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, 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, 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

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

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.

Home video and 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 \$16 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 \$5.00 to \$7.50 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 home video distribution contracts in international territories are arranged similarly to those in domestic territories, although the wholesale prices may differ.

12

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.

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

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.

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, and his international distribution team have substantial experience in licensing motion pictures for distribution outside the United States and have been active in international motion picture sales for many years. They have developed relationships with distributors in most territories through foreign sales activities and have established extensive relationships with various international financing sources. 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.

13

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

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

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.

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

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 28 films on video in 2002, and we expect to release at least 30 films during 2003.

We license distribution rights directly to pay television services

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

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.

14

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.

First Look Pictures

First Look Pictures directly distributes some of the motion pictures for which we control domestic rights to theaters throughout the United States. During 2002, First Look Pictures released three films (A Song for Martin, Elling and Skins). Although some of First Look Pictures' future releases may appeal to a wide audience, many of our releases to date have been foreign language or 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

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

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.

15

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.

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;
- 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.

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

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 2002, First Look Pictures released the following three motion pictures:

Title	Major Creative Elements	Storyline
Elling	Producer: Dag Alveberg Director: Petter Naess Cast: Per Christian Ellefsen, Sven Nordin and Marit Pia Jacobsen	Based on the best selling Norwegian novel by Ulla Isaksson, 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.
Song for Martin	Producer: Bille August, Lars Kolvig, Michael Lundberg and Michael Obel Director: Bille August Cast: Sven Wollter, Viveka Seldahl and Reine Brynolfsson	A beautiful and heart wrenching portrait of a woman's love for her husband in the face of a terrible and incurable disease.
Skins	Producer: Jon Kilik Director: Chris Erye Cast: Eric Schweig, Graham Greene	An inspirational tale about the relationship between two Sioux Indian brothers living on the Pine Ridge Indian reservation.

16

We expect to release the following titles during 2003:

Lawless Heart	Producer: Martin Pope Director: Tom Hunsinger and Neil Hunter Cast: Douglas Henshall, Tom Hollander and Bill Nighy	Lust, deception, adultery, jealousy, sex and desire all play feature roles as they infiltrate the protagonists' lives in unexpected ways.
Don't Tempt Me	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.
Dr. Sleep aka Hypnotic	Producer: Director: Nick Willing	A twisted psychological thriller about a hypnotherapist who

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

	Cast: Goran Visnjic, Miranda Otto and Shirley Henderson	has the gift of reading people's minds.
Fellini: I'm a Born Liar	Producer: Damian Pettigrew Director: Damian Pettigrew Cast: Roberto Benigni, Federico Fellini, Terrence Stamp and Donald Sutherland	An outstanding portrait of Federico Fellini, a member of the pantheon of the cinema's greatest directors. Interviews with the maestro and those who worked with him. Provides illuminating insight into the world of Fellini.
The Navigators	Producer: Rebecca O'Brien Director: Ken Loach Cast: Joe Duttine, Stee Huison, Tom Craig, Dean Andrews	The story chronicles the issues confronting railway workers following the privatization of the British Railroad
Angela	Producer: Lierka & Rita Rusic Director: Roberta Torre Cast: Donatella Finocchiaro, Andrea Di Stefano, Mario Puplrella	The true story of an attractive Sicilian who participates in her drug dealing husband's mafia linked business.
Autumn Spring	Producer: Jaroslav Kucera, Jiri Bartoska and Jaroslav Boucek Director: Vladimir Michalek Cast: Vlastimil Brodsky, Stella Zazvorkova, Stanislav Zindulka	Winner of four Czech Lion Awards, this charming motion picture is a spirited ode to people of all ages. A film of universal appeal it is a celebration of living life to the fullest.

17

We cannot assure that the motion pictures scheduled for release by First Look Pictures in 2003 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;

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

- 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. 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.

18

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.

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 2002, we provided minimum guarantees for 25 films ranging from \$10,000 to \$1,865,000, including three which represented a significant portion of the final production costs of the

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

respective 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 or other financing party 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
- 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 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 compensate The Little Film Company on a project-by-project basis.

19

In connection with the purchase of certain of our securities by Rosemary Street Productions, LLC ("Rosemary Street") in June 2000, Rosemary Street assigned to us a first look agreement with Grandview Pictures LLC and Jon Kilik. The agreement provided for a three-year term which ended in May 2002. Under the agreement, we had an exclusive "first look" on any project that Grandview Pictures wanted to produce and which it owned or controlled or which it had the right to submit to us under the agreement or which it had the right to acquire or wished to acquire for development and/or production, or had 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 provided for us to pay to Grandview Pictures annual overhead for its New York

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

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 compensated Grandview Pictures for each theatrical or television motion picture produced by Kilik. *Skins* was the only film to be produced under our "first look" agreement with Grandview Pictures.

During 2002, we were involved in arranging and/or providing a significant portion of the production financing for three motion pictures (*The Boys From County Clare*, *Bone Snatcher*, and *American Rap Stars*), one of which was completed by the end of 2002 and the other two will be completed in the first half of 2003. 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 2002, other than those films described under "Our Motion Picture Distribution -First Look Pictures."

Motion Picture Title -----	Genre -----	Territories Acquired -----	Selected Cast -----
24 Hours in London	Thriller	The U.S. (Video and DVD rights only)	Gary Olsen, John
American Rap Stars	Documentary	The universe	Snoop Dogg, Jay Z
Attic Expeditions	Thriller	The U.S. (Video and DVD rights only)	Seth Green, Jeffr
Avalanche	Disaster	The U.S. (Video and DVD rights only)	Thomas Ian Griffi
Ball in the House	Dark Comedy	Universe excluding the U.S. and Canada	Johathan Tucker,
Between Strangers	Drama	Universe excluding the Baltic states, Bulgaria, Canada, Czech, CIS, Italy, Hungary and Poland	Sophia Loren, Mal
Castle Rock	Adventure	Universe excluding the U.S. and Canada	Ernest Borgnine,

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

Motion Picture Title -----	Genre -----	Territories Acquired -----	Selected -----
Dahmer	Horror	The U.S. (Video and DVD rights only)	Jeremy Re
Dark Summer	Thriller	The universe	Robert Cu
Dead Awake	Horror	The U.S. (Video and DVD rights only)	Stephen B
Dumb Luck	Romantic Comedy	The universe excluding the U.S. and Canada	Scott Bai
Elling	Comedy	The U.S. and Canada	Per Chris
Epicenter	Disaster	The U.S. (Video and DVD rights only)	Traci Eli
Evelyn	Drama	The universe excluding the U.S. and Canada	Pierce Br
Faithless	Drama	The U.S. (Video and DVD rights only)	Lena Endr
Gabriela	Romance	The U.S. (Video and DVD rights only)	Jaime Pl
Gaudi Afternoon	Comedy	The U.S. (Video and DVD rights only)	Judy Davi
Gentlemen's Game	Drama	The universe	Gary Sini
Hired Hand	Drama	The universe excluding U.K.	Peter Fon
I'll Take You There	Romantic Comedy	The U.S. (Video and DVD rights only)	Ally Shee
Jimmy show	Drama	Universe excluding the U.S. and Canada	Frank Wha
Julie Walking Home	Drama	The universe excluding Germany, Poland, Hungary, Czech, Slovenia, Romania, India and Canada	Miranda O
Last Run	Thriller	The U.S. (Video and DVD rights only)	Armande A
Lawless Heart	Romance	The universe (excluding pay TV in U.K.)	Douglas H
Little Red	Urban Drama	The U.S. (Video and DVD rights only)	Brandon P
Local Boys	Drama	The universe	Mark Harm
Lone Hero	Action	The U.S. (Video and DVD rights only) Flanery	Lou Diamo
Lost Voyage	Sci-Fi Thriller	The U.S. (Video and DVD rights only)	Judd Nels

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

Motion Picture Title -----	Genre -----	Territories Acquired -----	Selected -----
Lovers Lane	Horror	The U.S. (Video and DVD rights only)	Anna Fari
Malicious Intent	Thriller	The U.S. (Video and DVD rights only)	Tom Arnol
No Place Like Home	Family	Universe excluding the U.S. and Canada	Judge Rei
Nora	Drama	The U.S. (Video and DVD rights only)	Ewan McGr
The Operator	Thriller	The U.S. (Video and DVD rights only)	Michael L
Pinata	Horror	The universe	Jaime Pre
Pressure	Thriller	The U.S. (Video and DVD rights only)	Kerr Smit
Retrievers	Family	Universe excluding the U.S. and Canada	Robert Ha
The Scoundrel's Wife	Drama	Universe excluding the U.S. and Canada	Tatum O'N
Skins	Drama	The universe	Graham Gr
Snapshots	Romance	The universe excluding Belgium, Netherlands and Luxemburg	Burt Reyn
Song for Martin	Drama	The U.S. and Canada	Sven Woll
The Surge	Sci-fi Horror	The U.S. (Video and DVD rights only)	Mat Scoll
Triggerman	Comedy	The universe	Neil Morr

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, 2002, we had various distribution rights to more than 330 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 in our library in the major media, we are able to exploit various ancillary rights

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

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.

22

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. As of December 31, 2002, we have received no revenues from this arrangement.

Major Customers

In 2000, USA Network accounted for \$3,014,000 or 13.3% of our total revenues. During the years ended December 31, 2001 and 2002, no single customer accounted for 10% or more of our revenues.

Employees

As of April 11, 2003, we employed 46 full-time employees and 1 part-time employee. 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.

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

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

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 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.

23

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

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

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 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.

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.

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

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 of office space. Our payments under the lease are approximately \$41,000 per month. The lease expires on May 31, 2007.

From February 2001 to January 2002, we occupied approximately 1,500 square feet of office space located at 222 East 44th Street, New York, New York 10017, a building owned by EUE/Screen Gems (a company owned in part by Christopher Cooney, our co-chairman and chief executive officer, and Jeffrey Cooney, our executive vice president and a director). EUE/Screen Gems permitted us to use the space without paying any rent. In February 2002, we relocated our New York operations 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. We have not paid any rent since occupying the space in February 2002 and no formal arrangements have been made regarding any future rent to be paid with respect to these premises.

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 through the end of the lease term, which expired on March 31, 2003.

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.

25

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, 2002, and our warrants were quoted on the OTC Bulletin Board under the symbol "FRSTW" from January 11, 2002 until February 16, 2002, the date the warrants expired. Prior to January 11, 2002, 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 (\$)
	----	---	----
2001			
First quarter.....	1-3/16	3/4	4/64

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

Second quarter.....	26/32	1/2	3/64
Third quarter.....	23/32	17/32	3/32
Fourth quarter.....	1.01	13/32	3/32
2002			
First quarter.....	5/8	3/8	N/A
Second quarter	15/16	1/8	N/A
Third quarter	9/16	7/16	N/A
Fourth quarter	1/2	5/16	N/A

As of April 11, 2003, there were approximately 34 holders of record of our common stock and there were 14,539,573 shares of common stock issued and outstanding. We believe that there are more than 250 beneficial owners of our common stock.

On April 11, 2003, the last reported sale price of our common stock as reported on the OTC Bulletin Board was \$0.26.

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 JPMorgan facility with JPMorgan substantially restrict payment of cash dividends.

Recent Sales of Unregistered Securities

None.

26

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, 2002 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 s		
	2002	2001	2000
Statement of Operations Data:			
Revenues.....	\$26,299	\$35,144	\$22,625
Film cost amortization.....	19,779	24,258	16,850
Distribution and marketing costs.....	7,541	7,101	4,774
Selling, general and administrative.....	7,928	6,947	6,473

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

Income (loss) from operations.....	(8,549)	(3,162)	(5,472)
Income (loss) before tax and cumulative effect of accounting change.....	(9,287)	(3,792)	(6,230)
Income tax provision (benefit).....	91	62	137
Income (loss) before cumulative effect of accounting change.....	(9,378)	(3,854)	(6,367)
Cumulative effect of accounting change(1).....	-	-	(14,123)
Net income (loss)	(9,378)	(3,854)	(20,490)
Basic and diluted net income (loss) per share before cumulative effect.....	(.71)	(0.38)	(0.78)
Cumulative effect.....	-	-	(1.74)
Net income (loss) per share after cumulative effect.....	(.71)	(0.38)	(2.52)
Basic and diluted weighted average number of shares outstanding.....	13,270	10,191	8,131

(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."

	Year Ended December		
	----- (in thousands, except per -----)		
	2002	2001	2000

Balance Sheet Data:			
Film costs, net of accumulated amortization.....	\$23,198	\$18,304	\$13,393
Total assets.....	41,922	45,471	42,280
Total long-term liabilities.....	20,254	14,500	6,500
Total liabilities.....	39,263	39,420	32,375
Total shareholders' equity.....	2,659	6,051	9,905

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

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

"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 U.S. theatrical and video/DVD distribution, Internet content development and television commercial production. Although we initially intended to expand into Internet content development, we no longer have immediate plans to do so. Additionally, although we expanded into television commercial production, during 2002 we substantially withdrew from these activities due to market conditions.

Today, we are principally involved in the acquisition and worldwide license or sale of distribution rights to independently produced motion pictures. We directly distribute 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." Recently, the market for lower budget independent motion pictures which have not had a significant theatrical release in the U.S. has experienced significant difficulty, mainly as a result of the general economic downturn, the tragedy of September 11th, the war with Iraq and more specifically, the financial difficulties of television broadcasters worldwide. These difficulties, together with low margins and losses related to the poor performance of films that we chose to produce, invest in or acquire and a level of overhead disproportionate to margins generated, impacted our performance during 2002, resulting in decreased revenues, increased write-offs of film costs and increased bad debt expenses. In light of our performance and market conditions, we have been reviewing our current business plan and considering our alternatives.

Additionally, in February 2003, at the request of our primary lender, JPMorgan, we agreed to modify our credit agreement to reduce the amount we can borrow under the agreement as described below. Further, as of December 31, 2002, the losses we have incurred have resulted in our breach of the net worth covenant under our credit agreement. We currently are engaged in discussions with JPMorgan and other participating banks with respect to further modifications to the credit agreement, which likely will result in further reductions in our ability to borrow funds under our credit facility.

Relevant Accounting Provisions

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, a cumulative charge for the change in accounting

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

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.

28

Critical accounting policies and estimates

The SEC recently issued Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" ("FRR 60"), 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.

Additionally, in 2002, the SEC issued Financial Reporting Release No. 61, "Commission Statement About Management's Discussion and Analysis of Financial Condition and Results of Operations: ("FRR 61"). FRR 61 suggests that companies provide additional information concerning liquidity and capital resources including; off-balance sheet arrangements; certain trading activities that include non-exchange traded contracts accounted for at fair value; and effects of transactions with related and certain other parties. Accordingly, we have described in detail the off-balance sheet arrangements as they relate to us, both below under Liquidity and Capital Resources, and in the accompanying footnotes 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.

Certain balance sheet liabilities require significant judgments and estimates by management. We continually evaluate these estimates based on

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

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.

29

Results of operations

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Revenues decreased by \$8,445,000 (24.0%) to \$26,699,000 for the year ended December 31, 2002, compared to \$35,144,000 for the year ended December 31, 2001. The decrease in revenues was primarily due to decreases in revenues related to the licensing of distribution rights to third party distributors, primarily in the international markets (\$16,597,000 for the year ended December 31, 2002 compared to \$27,366,000 for the year ended December 31, 2001). Additionally, revenues related to the theatrical release of films decreased by approximately \$1,633,000 (\$356,000 for the year ended December 31, 2002 compared to \$1,989,000 for the year ended December 31, 2001). Partially offsetting these decreases, revenues from the direct distribution of video and DVD in the U.S. increased by \$3,580,000 (\$7,598,000 for the year ended December 31, 2002 compared to \$4,018,000 for the year ended December 31, 2001).

Film costs as a percentage of revenues increased to 74.1% for the year ended December 31, 2002, compared to 69.0% for the year ended December 31, 2001. Film costs as a percentage of revenues fluctuate from year to year based upon the specific components of revenue and their related costs in the specific year. 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, 2002 and 2001. Distribution and marketing costs increased to \$7,541,000 for the year ended December 31, 2002 compared to \$7,101,000 for the year ended December 31, 2001. The increase reflects increased video/DVD marketing and distribution expenses (\$2,392,000 for the year ended December 31, 2002 compared to \$2,313,000 for the year ended December 31, 2001) related to the increased number of video/DVD releases during the year ended December 31, 2002 compared to the year ended December 31, 2001 as well as increased distribution and marketing costs associated with the licensing of film rights internationally (\$3,718,000 for the year ended December 31, 2002 compared to \$2,944,000 for the year ended December 31, 2001). These increases were partially offset by a decrease in print and advertising expenses for theatrical releases (\$1,431,000 for the year ended December 31, 2002 compared to \$1,844,000 for the year ended December 31, 2001). As a percentage of revenues distribution and marketing costs increased to 28.2% for the year ended December 31, 2002, compared to 20.2% for the year ended December 31, 2001.

Selling, general and administrative expenses, net of amounts capitalized to film costs, increased by \$981,000 (14.1%) to \$7,928,000 for the year ended December 31, 2002, compared to \$6,947,000 for the year ended December 31, 2001. The largest increase was in the area of bad debt expense (\$2,176,000 for the year ended December 31, 2002 compared to \$1,268,000 for the year ended December 31, 2001). Other increases included:

- o Accounting fees of \$90,000;

Edgar Filing: FIRST LOOK MEDIA INC - Form 10-K

- o Insurance of \$43,000;
- o Rent of \$143,000;
- o Repairs and maintenance of \$10,000;
- o Storage of \$18,000;
- o Franchise taxes of \$26,000;
- o Travel of \$14,000; and
- o Decreased capitalized overhead of \$23,000.

These increases were partially offset by decreases as follows:

- o Advertising expenses of \$10,000;
- o Depreciation expense of \$30,000;
- o Legal fees of \$33,000;
- o Publicity of \$35,000;
- o Compensation expense of \$162,000;
- o Shipping and messenger costs of \$14,000; and
- o Telephone expenses of \$15,000.

30

Net other expense increased by \$108,000 to \$738,000 for the year ended December 31, 2002, compared to \$630,000 for the year ended December 31, 2001. The increase in net other expense was primarily due to a decrease in miscellaneous income of \$195,000, partially offset by a decrease in interest expense of \$19,000 and an increase in interest income of \$68,000.

As a result of the above, we had a net loss of \$9,378,000 (after income tax and foreign withholding tax expense of \$91,000) for the year ended December 31, 2002 compared to a net loss of \$3,854,000 (after income tax and foreign withholding tax expense of \$62,000).