

Reel Money

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Leave it to a local film producer to find a way for wannabe movie moguls to invest their hard-earned retirement funds into the risky business of motion picture financing.

Keith Kjarval, chief executive of Unified Pictures, may be the only producer in the Los Angeles film business to seek funding for his pictures from individual retirement accounts.

Kjarval won't specify exactly how much money he's raised from investors' IRAs, but he claims that Unified Pictures got retirement money to pay up to 25 percent of the budget for one of the company's films, "Bob Funk," a comedy made for less than \$10 million. Two other low-budget productions, thrillers "Perfect Sleep" and "XII," were partly funded using IRA money, he said.

The idea for using IRAs as investment vehicles for his films dates back to the 1990s, when Kjarval was working as a consumer representative selling financial products for Capital One.

"I became exposed to different investments, like hedge funds, mutual funds and IRAs," he said. "Years later, when I was approached by individual investors who asked me if they could invest some of their IRA funds in my film projects, I looked into it and came up with a plan to make it work."

Kjarval said that he cautions all of his investors, whether they use money from their IRAs or write a check, that an investment in the film business has risks.

"These are people who typically have nest eggs of \$10 million or more," he said. "For them it's more of being a part of the film business than it is anything else."

John Waferling, a social worker from Montrose, invested \$50,000, or about 25 percent of the money in his IRA, in Unified Picture's psychological thriller "J-23," which is currently in development.

"Do I think that I'm going to become the next David Selznick? No. But I am hoping to quadruple my investment," Waferling said.

Waferling, at 61, is only a few years away from retirement. He met Kjarval and his partner in Unified, Ben Ruffman, back in 2001, when the duo were working at Venice-based Exodus Film Group. Waferling invested in an animated family film called "Bunyan and Babe," featuring the voices of John Goodman and Kelsey Grammer. The film is still in production.

"I knew Ben and Keith from Exodus and I have a level of trust with them," Waferling said. "I haven't seen a dime yet, but I have confidence that they know what they're doing and that they are honest, hard-working guys."

Waferling said that he's invested about \$100,000 in three different film projects, two of them being produced by Kjarval and Ruffman.

Investors can get their names in the film's credits and be invited to red-carpet movie premieres. When Unified Pictures acquired the U.S. distribution rights to the Italian drama "Don't Move" in 2004, investors were invited to the Hollywood premiere, which was attended

by the film's co-star, Penelope Cruz.

Terry Mann, an Indiana resident, invested in "Bob Funk," although it was with her cash on hand, not through an IRA.

"I got into investing with Keith and the guys at Unified Pictures because I like their work ethic and I wanted to do something a little more exciting," Mann said. "I came out to L.A. when they were filming and have watched the process progress all the way to the screening at Cannes."

Mann wouldn't say how much she ponied up for the privilege of seeing the stars at work and play, but she believes that her investment was worth the risk.

"Bob Funk" has yet to find domestic or international distribution, but Kjarval said he is currently in negotiations with several distributors and expects the film to get international play in movie theaters.

The Internal Revenue Service allows people to put their IRA money in any number of investment vehicles, whether it's mutual funds, stocks, commodities or foreign real estate. Film investment is not among the rare categories that are off-limits, which include collectibles and life insurance products.

A traditional self-directed IRA must be administered by a third-party custodian, but the individual account owner chooses the investment vehicle.

Carlsbad-based Trust Administration Services is the custodian that makes sure Unified Pictures' funding is legal and meets with IRS guidelines.

"We don't advise our clients one way or the other, we just make sure that everything is done according to the law," said Jim Wagner, chief executive of Trust Administration.

Trust Administration began in 1999 with management of about \$200 million in assets from about 2,000 IRAs. The company now has about \$1.3 billion in assets from 10,000 plans it oversees. Only a small fraction of those are invested in Unified Pictures.

"Our typical investor has an IRA worth between \$150,000 and \$200,000," Wagner said.

Risk factor

Investors can lose all their money if a film performs poorly. Kjarval said his target is to give backers between 150 percent and 300 percent in return on investment. They could make even more with a big hit.

Several financial planners interviewed for this story cautioned against using retirement funds for high-risk investments such as motion pictures, commodities or even real estate.

"Not only do you risk losing what you've built up in your account today, but you're risking the growth that can be built up over the next five, 10, 15 or 20 years" said Richard Winer, chief executive of Winer Wealth Management Inc. in Woodland Hills.

Philip Gainsborough, chief executive of Gainsborough Consultants Inc. in Los Angeles, was a bit more blunt, "I think you'd have better odds at the crap table," he said. "At least there you could get up and walk anyway."

There have been a few breakout hits in the independent film business.

The 1996 film "Swingers," which was made for less than \$200,000, grossed more than \$50 million at the box office, launching the careers of Vince Vaughn and Jon Favreau. And then

there was 1999 “The Blair Witch Project,” made for less than \$10,000 and sold to Artisan Entertainment, which is now Lions Gate, for approximately \$1 million. The studio then heavily marketed the movie and it went on to pull in more than \$248 million at the box office, not including DVD sales and rentals.

Even Kjarval admits that blockbusters like those are few and far between.

“We’re keeping our production costs down and our stories strong so that we can be profitable over the long haul,” Kjarval said. “We’re not looking for the long shot but that would be nice, too.”

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