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Star Is Collateral Damage of Studios' Profit Push

After cutting ties with Tom Cruise, Viacom's chairman says Hollywood is overpaying for talent. His answer: 'Just say no' to pricey deals.

By Meg James and Sallie Hofmeister, Times Staff Writers August 24, 2006

Viacom Inc. Chairman Sumner Redstone was strutting Wednesday, the day after his harsh public dismissal of superstar Tom Cruise sent shivers through Hollywood and destroyed the feel-good spirit that had imbued his company's Paramount Pictures studio this summer.

For Redstone, a slight bump in Viacom's stock price Wednesday outweighed any hangover that his blunt remarks may have caused. Redstone said he was justly reassuring Wall Street that Paramount would not squander profits by overpaying stars at a time when investors worry about Hollywood largesse. "It's the first time in a long time that Viacom was up more than CBS, which means that Wall Street liked the message," said Redstone, referring to the media companies he controls — CBS Corp. and Viacom. "I don't see that any damage was done by what I said."

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Viacom shares rose 19 cents Wednesday, closing at \$36.63, in an otherwise down day for the market.

But Redstone's priorities hurt morale at Paramount Pictures, which was beginning to enjoy some success after a year marked by management turmoil, cost cutting and box-office disappointments. The studio will make money on the wacky comedy "Nacho Libre," starring Jack Black, and Oliver Stone's "World Trade Center," which opened this month to critical acclaim.

"We were starting to hit our stride, everyone was feeling great, and then this Tom Cruise fiasco hits," said a top executive who works for Redstone and was annoyed by Cruise's dismissal. "The Cruise story is front-page news in papers all over the world, yet Redstone is crowing about his stock price being up 15 cents. That's not what people in this town want to hear."

Indeed, Redstone's rebuke was seen in Hollywood as undercutting the authority of Paramount Chairman Brad Grey and Viacom Chief Executive Tom Freston, who were caught off guard by the remarks. Redstone, grabbed the headlines by announcing that Cruise, 44, would be let go because of his erratic behavior. Leading up to Paramount's release of "Mission: Impossible III," Cruise professed his love for his fiancée by jumping on a couch on "The Oprah Winfrey Show," and attacked the use of antidepressants and other drugs.

Redstone, 84, acknowledged he upstaged his managers.

"Tom Freston should have made the announcement, but it was apparent to me he didn't want to, and I understand why: Because he's in the talent business," said Redstone, who went out of his way Wednesday to praise both Freston and Grey for re-energizing Paramount after a fallow period.

Yet Redstone has long made a habit of stealing the limelight away from his top lieutenants. When Viacom chief Frank Biondi failed to move as aggressively as Redstone wanted into new European markets in the mid-1990s, Redstone abruptly fired him and took the title for himself. Redstone elbowed aside Viacom president Mel Karmazin in a power struggle in 2004.



GRAPHIC Mixed reviews August 24, 2006 click to enlarge



Sumner and Tom (Lester Cohen / WireImage) click to enlarge



PHOTO GALLERY Tom Cruise: The Paramount Years

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Fueling Redstone's frustration of late has been the sagging stock price of Viacom since January, when he divided his empire into two separate publicly traded companies, Viacom and CBS Corp. The breakup had been billed as a way to "unlock" value hidden within the conglomerate. Instead, Viacom shares have slipped 12% this year. CBS shares are up 8%.

Wall Street has largely been sour on media stocks this year, and Viacom's cable properties such as MTV, Nickelodeon and Comedy Central, have experienced an unexpected slowdown in ad sales.

More companies are steering a bigger percentage of their ad dollars to the Internet and other digital platforms.

"Things have been out of balance from an economic and financial point of view for some time," said media analyst Hal Vogel. "The movie business isn't what it used to be, these studios are no longer the engines of growth."

The company's lackluster performance has prompted some analysts to call for Redstone to shake things up, by perhaps buying out shareholders to turn Viacom into a private company. Viacom has said it plans to remain a public company.

The mogul holds more than 70% of Viacom voting shares and has long been obsessive about the stock price of his companies.

He has even been known to call up trading desks at brokerages to demand an explanation if a firm sold a large block of Viacom shares.

Cruise and his production partner, Paula Wagner, have enjoyed a lucrative deal at Paramount that, in recent years, has provided as much as \$10 million a year to cover overhead, project development and other costs related to running their film production label. The deal is far richer than what many other big stars receive.

The two sides had been trying to negotiate a new arrangement, but both sides had reached the conclusion that Cruise and Wagner would not accept Paramount's scaled-back offer of \$2.5 million a year. Viacom executives had planned to stage what one insider called "a dignified departure" for Cruise at the end of the month, when his production deal officially expired, said two company executives.

Redstone's comments Tuesday sent a clear signal to both Wall Street and Hollywood: The high-priced talent deals that have been a weight on his company's Paramount Pictures movie studio aren't going to fly any more.

"I sent a message to Hollywood to 'just say no,' " said Redstone in an interview Wednesday. "We are overpaying for stars. 'The system' means the stars get it all, and the studios are lucky to stay alive. That system will not exist at Paramount."

Redstone's spokesman was swamped Tuesday with more than 70 calls from reporters around the globe. Several Viacom investors and a handful of high-powered entertainment figures, including David Geffen, Brian Grazer, Leonard Goldberg and Dominick Dunne called to congratulate him, Redstone said. He said they told him: "Sumner, you did what no one else would dare to do."

Others, however, were looking for hidden meanings in Redstone's comments. Anthony Valencia, entertainment analyst with money manager TCW in Los Angeles, called the situation "very curious."

He wondered whether there were other factors, instead of Cruise's behavior, that led Paramount to cut the cord. He pointed out that Paramount executives had tried to negotiate a new deal with Cruise long after he hopped around on Oprah Winfrey's couch.

"If you can't reach a deal, that's one thing," he said. "But would his behavior have been as problematic as long as the deal terms would have been more favorable?"

Cruise's attorney, Bert Fields, returned fire on Wednesday, from his vacation home in France, calling Redstone's comments, "as priggish and pompous and inane a statement as anyone has ever made in the history of the entertainment business."

Fields accused Redstone of losing it. "It will, I believe, be emblematic of a self-destruction of a mighty mogul," Fields said. "I always thought he was a very smart guy. Apparently he's either lost it completely or he's getting horrendous advice from someone."

Not at all, said Redstone.

"I knew what I was doing," Redstone said. "And I did the right thing."

Staff writers Lorenza Munoz and Claire Hoffman contributed to this report.

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(INFOBOX BELOW)

Tom Cruise's stock

Cruise is still a box-office draw, but the last "Mission" sequel had the lowest results of the series. Here are his U.S. box-office grosses, with most recent first:

(In millions, unadjusted for inflation)

Mission: Imposs. III: \$133

War of the Worlds: \$234

Collateral: \$100

The Last Samurai: \$111

Minority Report: \$132

Vanilla Sky: \$100

Mission: Imposs. 2: \$215

Magnolia: \$23

Eyes Wide Shut: \$56

Jerry Maguire: \$154

Mission: Impossible: \$181

Interview With . . . : \$105

The Firm: \$158

A Few Good Men: \$141

Far and Away: \$59

Days of Thunder: \$83

Born on the . . . : \$70

Rain Man: \$173

Cocktail: \$78

The Color of Money: \$52

Top Gun: \$117

Legend: \$16

All the Right Moves: \$17

Risky Business: \$63

Losin' It: \$1

The Outsiders: \$26

Taps: \$36

Endless: \$31

Sources: Bloomberg News, Exhibitor Relations

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