

FEDERAL BUREAU OF INVESTIGATION

Precedence: ROUTINE

Date: 06/27/2001

To: Los Angeles

From: Los Angeles

WCC4

Contact: SA [redacted]

b6
b7C

Approved By: [redacted] *EB*

Drafted By: [redacted] *EB*

Case ID #: 196C-LA-227702 (Pending)

[Handwritten signature]

Title: UNSUBS;
WARNER BROS. INC.
WILLIAM PETER BLATTY - VICTIM;
[redacted] - VICTIM;
Securities Fraud; MF; Conspiracy; Antitrust; ML;
OO-LA

Synopsis: Open and assign case to SA [redacted] co-case agent SA [redacted]

b6
b7C

Details: Attached is the civil complaint filed on behalf of Blatty and [redacted] in the Superior Court of Los Angeles on May 22, 2001. The complaint alleges, among other things, that Warner Bros. has attempted in several ways to divert profits for the films "The Exorcist" and "The Exorcist - The Version You've Never Seen" from Blatty and [redacted] and in doing so deprive them of the profit shares they were promised.

◆◆

*O+A 7-6501
6/27/01*

185epb01.01

196C-LA-227702-1

LAW OFFICES OF
GREENBERG GLUSKER FIELDS CLAMAN MACHTINGER & KINSELLA LLP

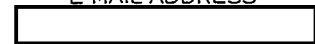


1900 AVENUE OF THE STARS
SUITE 2100
LOS ANGELES, CALIFORNIA 90067-4590
TELEPHONE: (310) 553-3610

b6
b7C

FAX
(310) 553-0687

E-MAIL ADDRESS



OUR FILE NUMBER
29362-00002

June 20, 2001

VIA MESSENGER

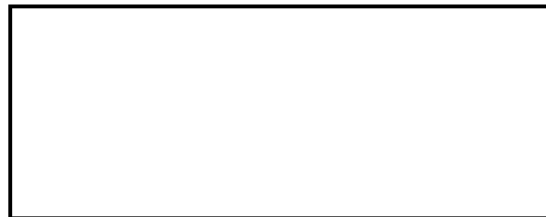


Federal Bureau of Investigation
11000 Wilshire Boulevard, Suite 1700
Los Angeles, California 90024

b6
b7C

Dear

At the request of I am sending you a copy of the Complaint filed
by and Mr. Blatty against Warner Bros.



BF:rjd
Enclosure

cc:

ORIGINAL FILED

MAY 22 2001

LOS ANGELES
SUPERIOR COURT

1 Bertram Fields (SBN 024199)
GREENBERG GLUSKER FIELDS CLAMAN
2 MACHTINGER & KINSELLA LLP
1900 Avenue of the Stars, Suite 2100
3 Los Angeles, California 90067-4590
Telephone: (310) 553-3610
4 Fax: (310) 553-0687

5 Attorneys for Plaintiffs
William Peter Blatty and William Friedkin

8 SUPERIOR COURT OF THE STATE OF CALIFORNIA
9 FOR THE COUNTY OF LOS ANGELES

BC250849

11 WILLIAM PETER BLATTY and
WILLIAM FRIEDKIN,

12 Plaintiffs,

13 vs.

15 WARNER BROS. INC., a Delaware
corporation; TURNER NETWORK
16 TELEVISION LP, a Delaware
Limited Partnership; TURNER
17 BROADCASTING SYSTEM, INC., a
Georgia corporation and DOES 1
18 through 20, Inclusive,

19 Defendants.

Case No. _____

COMPLAINT FOR:

- (1) BREACH OF CONTRACT;
- (2) BREACH OF FIDUCIARY DUTY
AND IMPOSITION OF TRUST; AND
- (3) AN ACCOUNTING

22 Plaintiffs allege as follows:

24 THE NATURE OF THE ACTION

25
26 1. Plaintiffs are William Peter Blatty ("Blatty") and William Friedkin
27 ("Friedkin"). They bring this action to protect their share in the profits of "The Exorcist"
28 (the "Film"), a critically acclaimed and highly successful motion picture they created.

GREENBERG GLUSKER FIELDS CLAMAN
MACHTINGER & KINSELLA LLP
1900 Avenue of the Stars, Suite 2100
Los Angeles, CA 90067-4590

1 2. Since its release in 1973, the Film has become a classic, continuing to draw
2 huge audiences and enjoying a near cult following among audiences of all ages, both
3 domestically and abroad. During 1999, Friedkin devoted his skill and time to creating a
4 new version of "The Exorcist." Warner Bros. Inc. ("Warner") released it in 2000, under
5 the title "The Exorcist-The Version You've Never Seen" (the "New Version"), using the
6 services of both Friedkin and Blatty to promote it. With a completely new audience, the
7 revised picture was, once again, an enormous hit, both critically and financially.

8 3. Defendants are all related entities and part of the giant conglomerate, AOL
9 Time Warner. They have made vast profits from plaintiffs' efforts. Yet, defendants have
10 tried, in every possible way, to divert revenues from plaintiffs, to deprive them of the
11 profit shares they were promised and to keep for themselves the economic benefits that
12 should have accrued to plaintiffs.

13 4. To avoid paying plaintiffs their agreed shares of profits, defendants have
14 allocated revenues away from the Film to other of defendants' pictures and have allowed
15 their sister companies to use the Film without pay or for substantially less than the market
16 price. In this way, revenues and values, which should have benefitted plaintiffs, remain
17 instead within the AOL Time Warner empire, in the form of cost savings and increased
18 profits to AOL Time Warner and its subsidiaries and affiliates, such as Turner Network
19 Television ("TNT"), Turner Broadcasting System ("TBS") and the Arts & Entertainment
20 Channel ("A&E").

21 5. This cynical manipulation by defendants constitutes a material breach of
22 their obligations to plaintiffs, enriching the entire AOL Time Warner conglomerate at
23 plaintiffs' expense and allowing entities that are a part of that conglomerate to receive,
24 retain and use for their own benefit trust funds to which plaintiffs are entitled.

25

26

THE PARTIES

27

28

6. Friedkin is an individual residing in Los Angeles County. Friedkin is a well-known motion picture director. He received an Academy Award nomination as Best

1 Director for the Film, and was also the director of other acclaimed films, such as "The
2 French Connection," for which he won the Academy Award as Best Director.

3 7. Blatty is the author of the best-selling book upon which the Film was based.
4 Blatty also wrote the screenplay for the Film and served as the Film's producer. He won
5 an Academy Award for best screenplay for the Film, and the Film, as he produced it, also
6 received an Academy Award nomination as Best Picture. Pursuant to his written
7 agreement with Warner, Blatty is also the co-owner of the negative and copyright of the
8 Film.

9 8. Each of the named defendants is an entity organized and existing under the
10 laws of a state other than California, but is qualified to do business in and is doing
11 business in Los Angeles County. Each is, directly or indirectly, owned and controlled by
12 AOL Time Warner Inc. and subject to its domination and control.

13 9. The true names, extent of conduct and involvement, and the true capacities,
14 whether individual, corporate or otherwise, of defendants named herein as Does 1 through
15 20 are presently unknown to plaintiffs, who therefore sue said defendants by such
16 fictitious names. Plaintiffs will seek leave to amend this complaint to allege the true
17 names and capacities of said defendants when plaintiffs have ascertained the same. On
18 information and belief, plaintiffs allege that such fictitiously named defendants took some
19 part in the acts and omissions alleged herein and, as a direct and proximate result thereof,
20 incurred legal liability to plaintiffs for the relief prayed for herein.

21 10. On information and belief, plaintiffs allege that in doing the acts and things
22 hereinafter alleged, each defendant acted individually for himself and itself, and as the
23 agent, employee and representative of each of the other defendants and, in doing the
24 things hereinafter alleged, each was at all times acting within the course and scope of said
25 agency and employment with the advance knowledge, acquiescence or subsequent
26 ratification of each and every other defendant.

27
28

1 THE AGREEMENTS

2 11. On or about August 25, 1971, Blatty's predecessor in interest, Hoya
3 Productions, Inc., and Warner entered into a written production-financing-distribution
4 agreement (the "Blatty Agreement") whereby Blatty agreed to write the screenplay for the
5 Film and produce it with Warner. Under the Blatty Agreement, Warner granted to Blatty
6 the right to 39% of the Net Profits of the Film (as defined in the Blatty Agreement). The
7 Blatty Agreement also provided that, in the event Warner granted participations in net
8 profits to any third party, the third party's portion of such profits should be borne
9 proportionately by Warner and Blatty, but that Blatty's share of the net profits would not,
10 in any event, be reduced below 28% of 100% of such net profits. The Blatty Agreement
11 further provided that Blatty and Warner "will own the [Film], including the negative and
12 copyright thereof, as tenants in common, in perpetuity." The Blatty Agreement further
13 provided that Warner will retain the distribution rights to the Film for 25 years after its
14 first general release, which rights could be extended for an additional 25 year period
15 beyond expiration of the initial 25 year period. Warner's distribution rights were
16 extended pursuant to paragraph 9(a)(ii) of the Blatty Agreement for the additional 25 year
17 period.

18 12. On or about August 26, 1999, Blatty and Warner entered into a Settlement
19 Agreement and Release with respect to various audit claims regarding home video
20 distribution of the Film. Although the terms of this settlement are protected by a
21 confidentiality provision, the release contained therein covers claims on accounting
22 statements rendered by Warner through December 31, 1997. Thus, the claims Blatty
23 asserts against Warner in the instant action are those arising after, or reflected on
24 accounting statements rendered by Warner after, December 31, 1997.

25 13. On or about January 28, 1972, Friedkin's predecessor in interest, The
26 William Friedkin Company, and defendant Warner entered into a written agreement (the
27 "Friedkin Agreement") whereby Friedkin agreed to serve as the director of the Film.
28

1 Under the Friedkin Agreement, Warner granted to Friedkin the right to 10% of the Net
2 Profits of the Film (as defined in the Blatty Agreement).

3 14. On or about June 4, 1998, Friedkin and Warner entered into a Settlement
4 Agreement and Release with respect to various claims regarding the distribution of the
5 Film. Although the terms of the settlement are protected by a confidentiality provision,
6 the release therein covers claims relating to the Film reflected on accounting statements
7 rendered by Warner through June 4, 1998. Thus, the claims Friedkin asserts against
8 Warner in the instant action are those arising after, or reflected on accounting statements
9 rendered by Warner after, June 4, 1998.

10 15. Friedkin and Blatty have done all things required of them under each of the
11 foregoing Agreements and are in no manner or respect in breach thereof.

12
13 THE NEW VERSION

14 16. Friedkin and Blatty attempted for years to persuade the management of
15 Warner to re-release the original version of the Film. Finally, Warner management
16 agreed, and subsequent testing for the Film was enormously successful. Friedkin and
17 Blatty worked to revise the Film in order to make the New Version highly successful.
18 Blatty outlined an arrangement of new scenes, and Friedkin spent several months re-
19 editing the original version of the Film to add an additional eleven minutes of footage and
20 to re-do the sound. In addition, Friedkin and Blatty gave hours of media interviews in the
21 United States and abroad over a period of months to promote the New Version and help
22 to insure its success, a contribution invaluable to Warner in its distribution and marketing
23 efforts. Neither Friedkin nor Blatty requested any guaranteed compensation for all of
24 these efforts. Rather, they believed that their labors would be rewarded by the success of
25 the re-release and the increase in their respective shares of the Film's profits.

26 17. The New Version of the Film was released on September 26, 2000 and ran
27 in more than 2000 movie theaters across the United States. Warner distributed the New
28 Version as if it were a new film, not a re-release. By way of example, the New Version

1 of the Film was shown at first run ticket prices and in first-run theaters across the country
2 usually reserved for newly released films.

3 The New Version (like the original Film) has enjoyed remarkable critical
4 acclaim and financial success, earning approximately \$40 million domestically since its
5 release. It has already generated more than \$110 million from worldwide theatrical
6 exploitation. Meanwhile, over 262,000 video units of the original version of the Film
7 have been sold in England over the past six months alone, reflecting the impact of the
8 New Version upon success of the original version, both domestically and abroad.

9
10 WARNER'S WRONGFUL CONDUCT

11 Conduct Relating To The Original Film:

12 18. To avoid paying plaintiffs' their share of profits, Warner has allocated to
13 other pictures revenues that should properly have been allocated to the Film. Acting in
14 utter bad faith, Warner has improperly allocated to the Film unreasonably low shares of
15 the total license fee paid by licensees where the Film is sold as part of a "package" of
16 other Warner product. Warner has failed and refused to use good faith or any reasonable
17 standard in allocating such license fees among the Film and other pictures in such
18 packages. This has been particularly true in licenses to companies that are part of the
19 AOL time Warner conglomerate. Plaintiffs discovered Warner's misconduct in this
20 regard through an audit on or about June 2, 2000, covering the period January 1, 1997
21 through March 31, 1999.

22 For example:

23 a. On or about January 8, 1997, after TNT had become a sister
24 company of Warner and a member of the AOL Time Warner empire, Warner granted
25 TNT a license to exhibit the Film, along with 114 other pictures, for a total license fee of
26 \$18 million, or an average license fee of \$156,522 per title. Warner's allocation to the
27 Film of the total license fee was a mere \$110,000, lower even than the average and the
28 same as such films as "Cleopatra Jones," "The Incredible Mr. Limpet," and "It Lives

1 Again” which were unsuccessful at the box office, had virtually no name recognition and
2 enjoyed far less television value than the Film. In comparison, the allocation for the Film
3 under the 1993 license had been for \$350,000, which would be the equivalent of more
4 than \$500,000 today, and which, at the time, was already disproportionately low when
5 compared to other properties included in the 1993 package, such as “The Sacketts” (a
6 television mini-series) and “Club Paradise” (a box office failure for which Peter O’Toole
7 was nominated for the worst supporting actor award).

8 b. Warner’s license of the Film to its sister company, A&E, for the
9 period May 1, 1998 through October 31, 1999, along with 55 other films yielded Warner
10 a total license fee of \$10 million. Warner only allocated \$295,000 of this to the Film.
11 That allocation was egregiously low in comparison to the other features in the same
12 package, such as “The Dead Pool,” “Greystoke: The Legend of Tarzan,” and “Tom Horn”
13 – films which plainly enjoyed far less commercial and critical success than the Film and
14 did not have similar widespread name recognition.

15 c. Warner has also allocated a disproportionately low license fee for the
16 Film in the foreign television package licenses for France (Metropole), Korea (KBS
17 Media), Sweden (TV4 Nordisk) and Latin America (TNT Latin America).

18 19. In dealings with related and affiliated entities that are a part of the AOL
19 Time Warner empire, Warner has failed to achieve fair and equitable market rates for
20 licenses of the Film, thus enriching such entities at plaintiffs’ expense.

21 20. Warner has failed and refused, and continues to fail and refuse, to supply
22 essential information as to the terms of license agreements and its dealings with related
23 and/or affiliated entities in order that plaintiffs can evaluate the fairness of such licenses.

24 21. Warner has also failed to properly account to plaintiffs in a number of
25 additional respects, including but not limited to the following:

26 a. Warner improperly imposed a distribution fee on copyright royalties
27 for the Film, the collection of which require minimal distribution effort;

28

- 1 b. Warner overstated the distribution fee on receipts reported from
2 A&E and TNT;
3 c. Warner overstated print costs;
4 d. Warner improperly charged plaintiffs for amounts attributable to
5 Australian taxes;
6 e. Warner improperly overstated residual expenses; and
7 f. Warner failed and refused to provide documentation to substantiate
8 expenses relating to the Film.

9 Conduct Relating To The New Version:

10 22. Notwithstanding the virtually unparalleled critical and commercial success
11 of the New Version, Warner rushed to license the valuable domestic free television rights
12 to CBS for only \$1.5 million, approximately one quarter of the market rate for that
13 license. Warner allowed CBS to pay this extremely low rate, because of CBS's
14 arrangement with other AOL Time Warner affiliates, including TNT and TBS, under
15 which these affiliates of AOL Time Warner received direct and indirect benefits that do
16 not flow to them from the other major networks.

17 23. Warner's "excuse" for this self-enriching misconduct was the demonstrably
18 false claim that the New Version was not easily aired by networks due to its adult content
19 and language. But Warner had previously licensed CBS the television rights to the
20 original Film for \$10 million, the equivalent of more than \$30 million today. That earlier
21 license was contingent on Friedkin editing the Film to satisfy CBS's "standards and
22 practices." To accomplish this, Friedkin removed approximately one and one-half
23 minutes of controversial footage from the Film and, using his own voice, dubbed over the
24 profanities that emanated from the Film's "demon." In addition, Friedkin reshot one
25 scene. With these slight changes, Friedkin was easily able to satisfy CBS's "standards
26 and practices," and the Film was broadcast by CBS, in prime time, and achieved huge
27 ratings. There was no such difficulty as now spuriously claimed by defendants. The
28 11 minutes of footage that has been added to the New Version contains no image or

1 language that would be an impediment to a television airing. Warner's excuse that the
2 New Version was not appealing to network television is demonstrably false.

3 24. Warner has gone even beyond that in dealings with its sister entities in
4 order to create value for the AOL Time Warner empire at plaintiffs' expense. Thus,
5 Warner has licensed the New Version of the Film to its AOL Time Warner sister
6 companies, TNT and TBS, for no added license fee at all, and Warner has extended these
7 licenses for no additional consideration. Thus, the AOL Time Warner conglomerate
8 received a valuable right without any payment at all and significantly improved its
9 consolidated financial statements at plaintiffs' expense. Here again, defendants offered a
10 bogus excuse. They claimed that, in the absence of such a give away, creating such a free
11 benefit for the AOL Time Warner empire, an AOL Time Warner subsidiary, TNT, would
12 not allow the New Version to be shown on television and would even show the old
13 version on television, significantly impairing any theatrical release of the New Version,
14 even though exhibition of the New Version would greatly enrich AOL Time Warner. Of
15 course, such conduct on the part of TNT would have seriously harmed its parent, AOL
16 Time Warner and, obviously, AOL Time Warner could easily have remedied that
17 supposed "problem" any time it wanted by a single phone call to its wholly owned
18 subsidiary, TNT. Instead, through its subsidiaries, AOL Time Warner enjoyed the
19 significant economic benefit to its consolidated financial statements of exhibiting the
20 New Version free of charge, by pretending, along with its affiliates, that, without getting
21 that free ride, TNT would have deliberately sabotaged the plans for the New Version.
22 Defendants did not even offer plaintiffs their share of an imputed license fee. They
23 simply elected to further their own economic interests at plaintiffs' sole expense.

24 25. Warner's wrongful conduct with respect to the New Version also extends to
25 the marketing costs it has purported to charge. For example, Warner has charged
26 \$15 million as advertising costs of the New Version, including \$1.9 million paid to
27 Warner itself for the supposed design of an advertising campaign for the New Version.
28 This "new" design simply adopted the logo of the original version of the Film in print ads

1 and added the words, "The Version You've Never Seen." Plaintiffs allege on information
2 and belief, that a substantial part of the balance of Warner's \$15 million charge for
3 marketing costs is unjustified and spurious.

4
5 FIRST CAUSE OF ACTION

6 (Breach of Contract – Against Warner)

7
8 26. Plaintiffs reallege and incorporate herein by reference each and every
9 allegation contained in paragraphs 1 through 25, inclusive, of the complaint as though set
10 forth at length herein.

11 27. The conduct of Warner alleged hereinabove constitutes a material breach of
12 the express and implied covenants of each of the foregoing agreements.

13 28. As a direct and proximate result of Warner's said acts of breach, plaintiffs
14 have been damaged in an amount far in excess of the jurisdictional minimum of this
15 Court. Plaintiffs will seek leave to amend this complaint to reflect said sum when
16 ascertained.

17
18 SECOND CAUSE OF ACTION

19 (Breach of Fiduciary Duty – Against All Defendants)

20
21 29. Plaintiffs reallege and incorporate herein by reference each and every
22 allegation contained in paragraphs 1 through 25, inclusive, of the complaint as though set
23 forth at length herein.

24 30. Defendants are plaintiffs' fiduciaries by virtue of at least the following:

25 a. Warner and its affiliates acted as plaintiffs' agents and sub-agents
26 with respect to collecting, receiving, accounting and paying to plaintiffs their share of
27 revenues derived from the distribution and exploitation of the Film and the New Version.

28

1 They owe to plaintiffs a fiduciary duty at least with respect to all aspects of those
2 functions;

3 b. Plaintiffs have entrusted their valuable rights to Warner to manage
4 and to divide the profits therefrom;

5 c. The information necessary to a full and fair accounting of the Film's
6 and the New Version's profits is exclusively within the control of Warner, plaintiffs are
7 "at the mercy" of Warner and are relegated to a position in which they have no choice but
8 to repose their trust and confidence in Warner in determining the amount of profits
9 received from the Film and the New Version; and

10 d. As to Blatty, Warner and Blatty are co-owners of the Film's negative
11 and copyright.

12 31. The conduct of defendants alleged hereinabove constituted a breach of their
13 fiduciary duties to plaintiffs.

14 32. As a direct and proximate result of said defendants' breaches of fiduciary
15 duty, Friedkin and Blatty have been damaged in an amount far in excess of the
16 jurisdictional minimum of this Court. Friedkin and Blatty will seek leave of Court to
17 amend this complaint to reflect this amount when it has been ascertained.

18 33. The misconduct of defendants alleged hereinabove was willful, malicious,
19 oppressive and fraudulent and was committed with the intent to frustrate plaintiffs' rights
20 under the Friedkin Agreement and the Blatty Agreement. Such misconduct justifies an
21 award of exemplary and punitive damages.

22 34. As a direct and proximate result of the misconduct alleged hereinabove,
23 defendants received and hold, for their own use and benefit, funds that are equitably the
24 property of plaintiffs. Plaintiffs are entitled to the imposition of an actual or constructive
25 trust upon such funds and the results and proceeds thereof.

26
27
28

1 THIRD CAUSE OF ACTION

2 (Accounting – Against Defendants Warner and
3 Does 1 through 20, Inclusive)
4

5 35. Plaintiffs reallege and incorporate herein by reference each and every
6 allegation contained in paragraphs 1 through 25, inclusive, of the complaint as though set
7 forth at length herein.

8 36. Pursuant to the Friedkin Agreement and the Blatty Agreement, and by
9 reason of the facts alleged hereinabove, defendants were obligated to provide to plaintiffs
10 statements accurately reflecting the amount of revenues derived from the distribution and
11 exploitation of the Film and the New Version, and remitting to plaintiffs their share of
12 such revenues.

13 37. Despite demand, defendants have failed and refused. and continue to fail
14 and refuse, to provide plaintiffs with proper and accurate accountings reflecting the
15 amount of revenues derived from the distribution and exploitation of the film.

16 38. An accounting is required to determine the true amount of revenues derived
17 from the distribution and exploitation of the Film and the New Version in order to
18 ascertain plaintiffs' share of such revenues.

19 WHEREFORE, plaintiffs pray judgment as follows:

- 20 1. For actual and compensatory damages in an amount to be determined at
21 trial and for interest thereon at the highest lawful rate;
- 22 2. For the imposition of an actual or constructive trust for the benefit of
23 plaintiffs upon all funds, assets, revenues and profits defendants have improperly received
24 from the distribution and exploitation of the Film and the New Version and upon the
25 results and proceeds thereof;
- 26 3. For punitive damages;
- 27 4. For costs of suit herein incurred;
- 28 5. For reasonable attorneys' fees; and


GREENBERG GLUSKER FIELDS CLAMAN
MACHTINGER & KINSELLA LLP
1900 Avenue of the Stars, Suite 2100
Los Angeles, CA 90067-4590

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

6. For such other and further relief as this Court may deem just and proper.

DATED: May 22 2001

GREENBERG GLUSKER FIELDS CLAMAN
MACHTINGER & KINSELLA LLP

By 
BERTRAM FIELDS
Attorneys for Plaintiffs William Peter Blatty
and William Friedkin

GREENBERG GLUSKER FIELDS CLAMAN
MACHTINGER & KINSELLA LLP
1900 Avenue of the Stars, Suite 2100
Los Angeles, CA 90087-4590

(Title) Warner Bros.

(File No.) 196c-LA-227702

Item	Date Filed	To be returned		Disposition
		Yes	No	
1A1	1/24/02	✓		orig notes: [redacted]
1A2	1/24/02	✓		orig notes: w/ Reto. Blatt ^{AT}
3	4-19-02	✓		Notes re: [redacted] CS
4	10/10/03	X		Notes: re: [redacted]
5	10-8-02	✓		Notes re: [redacted]
6	1/17/09	✓		One PD-192 of [redacted] JT

b6
b7C

-1A1

Universal Case File Number 196C-LA-22 7702

Field Office Acquiring Evidence LA

Serial # of Originating Document 2

Date Received 09/07/01

From
(Name of Contributor)

(Address of Contributor)

By SA
(Name of Special Agent)

To Be Returned Yes No

Receipt Given Yes No

Grand Jury Material - Disseminate Only Pursuant
to Rule 6 (e), Federal Rules of Criminal Procedure

Yes No

Title: WARNER BROTHERS

Reference: _____
(Communication Enclosing Material)

Description: Original notes re interview of

b6
b7C

b6
b7C

ALLOCATION - FEW MILLION DOLLARS OFF

118 MILLION

Cost of \$800,000

VIDEO - [redacted] gross was to go to WF - No costs were to be factored in. BUT Deal fell thru

Now WB IS PAYING ON THE OLD DEAL

[redacted]

FOR BOSTON

[redacted]

WB claiming 80% expenses in JAPAN on promotion which is Bull b/c

[redacted]

Worldwide OUTRIP FOR PAPERWORK

JAP cost \$15-18 mill

VIDEO, NO DEDUCTIONS OF EXPENSES

CAN'T TELL ABOUT APTT

SALES \$7 MILL

PROMOTE IN JAP

[redacted]

chicago original w/ [redacted]

he made deal to make the new deal

100 mill is Theatrical Don't count \$5 mill of TV

Loss is millions, but cannot say

Need Log + TRP sheets

Need on APTT

[redacted] is a lawyer so may be protected

146C-LX 227702-1A1

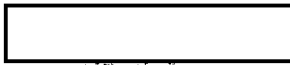
b6 b7C

b6 b7C

#49 Cost Sheet

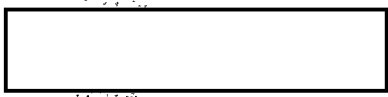
Advised + Possibility
\$41 mill - cumulative to \$72.
TOTAL Building

\$1772



b6
b7C

60 mill total expense
is for ~~the~~
Life of Both monies



b6
b7C

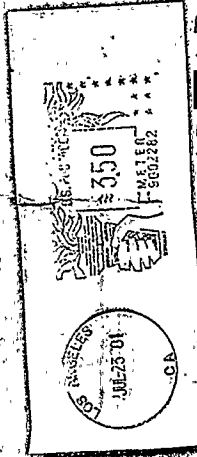
SSN -
DOB -

No K provided by WB
Blw: WB+TNT

SUBPOENA

WB+WF TO
sheets

to
~~WB~~
~~WB~~



NEGOT
SAMA JUST AGREE
TO BE FAIR, BUT
KICKED OUT DEAL
B/C FILING OF LAWS-
SUIT.

Handled
B/C NOW NO RIGHT
TO USE [redacted] work
product

Sent \$10,000 check
But [redacted] sent it back

Had of [redacted]
Said NO should call
sign the clause
[redacted] would have given
17-21 clause but
w/p. wouldn't allow it

So [redacted] sued,
[redacted] is on thin ice

Environment is biggest profit
maker in 10 yrs for
WB. B/C such low costs
Perfect storm made more but
high costs

of rev's EXP b/w WB
[redacted] + TAX RETURN

AFTER, NO MORE CONCERN
+ then reneged the deal

Gross DEAL ON VIDEO
Lower deduction of fees
for CONTRIBUTION

TA got New Home deal

Deal made by [redacted]
[redacted]

But reneged
before put in writing

Domest 40 mill
Foreign 77 mill

TV usually 15% of Domestic
Gross - so should be \$6 mill

[redacted] said they can't give it to
themselves, but they did

Only OPEN AT PLOT TO
manage was agent to
deal family whom
dealing in self deal
B/C display

Wanted
Unique the
Cheap to make
+ no ACQUIS
+ profit guaranteed
FOR ANYONE BUT
WRITER, DIRECTOR,
PRODUCER

END 98/ BY CO
completion of
New
Version

DIFFERENCES
11-12 min new
Footage spaced
throughout
+ brand new

SOUND

DIFFERENT
ENDING

CBS says PAID
\$1.5 mill

[redacted] PAID

CBS HAS
NOT SHOWN
FROM [redacted] refused to
cut the TV
Version

ALL THE
Guys who
DID IT,
But they
take sides
from ABOVE

Concert from
top to bottom

NOT OFFER A
[redacted] B/C

NOT MANY
FILMS MADE
BY CBS THIS
ONE DID

DAMAGES ?

[redacted] Guy who
Said how to
give it to TNT

[redacted]

Retired in NY

ARCHITECT
OF THIS
Self Dealing

[redacted] LAW INTO

hand of CBS who
Said he needed
to show concert

[redacted] requested off
to audit again
+ WB refused.

[redacted] Assume they
called from
TNT, But
they can't
admit it.

TNT CLAIM
was bogus
B/C R had
expired +
LICENSING
AGREEMENT
WAS GONE
So could
have sold
to the
NET
INSTEAD
OF TNT

Forecast
13 2nd
HIGHEST
RE-RELEASE
AFTER
STAR WARS

DID Re-release
of old one in
England +
made good
\$1-
lead to CBS

CONVINCING STUDIO
TO get FOOTAGE
+ MAKE REMASTERED
New
Release

DISTRIBUTION
AGREED TO TAKE
NEW VERSION,
BUT SAID
HE NEEDED
A WINDOW
TO get permission
FROM TNT,
BUT Never said
he was going to
give it to TNT
FOR FREE

[redacted] since where
Said he had to give it
to TNT
CAN SAY WHO GAVE ORDER

GREENBERG GLUSKER FIELDS CLAMAN
MACHINGER & KINSELLA LLP
1900 Avenue of the Stars, Suite 2100
Los Angeles, California 90067-4590

Federal Bureau of Investigation
11000 Wilshire Boulevard
Los Angeles, CA 90024

IN LATE 98

DID
RENEW
FILM work
FOR NOTHING

WB SAYS
PUSHED that
IT cost
\$800,000
New PLANT
editing
Sound tracks
and others in
LA
\$800,000 seems
RIGHT TO

NEW MUSIC
ON TITALLY
NEW SOUNDTRACK

11/10/98
11/11/98
11/12/98
11/13/98
11/14/98
11/15/98
11/16/98
11/17/98
11/18/98
11/19/98
11/20/98
11/21/98
11/22/98
11/23/98
11/24/98
11/25/98
11/26/98
11/27/98
11/28/98
11/29/98
11/30/98

RENEGAD ON NEWS DEAL
OVER AGENT TO DEAL
[redacted] ON SELF-DEALING

- So, NO. 6 to go forward
Leading to Amended Complaint
Charging Lanham Act

Diff. Co
[redacted] it was DONE BY A
[redacted]

WSB NOT A CONGLOMERATE THEN

Complaint is a NEW PICTURE
ble it was taken by them +
given to themselves for TV

WSB owns TNT thru AOL/TW

MADE 1/18, 1/11 on cost of [redacted]

- K w/ TNT had expired + WBS samp. Plan
needed to get window from TNT
(NOT STABLE)

Also, from 15 on DDD + VCR

Then decided to outright give it to
TNT @ no charge

TOP SHEETS - ALL ARE DIFF.
Re: expenses + \$ coming in
+ this may be the fraud

[redacted] has all top sheets

No reason to
Compare [redacted]
Duffy + [redacted]
Sic H WBS suggested
it ble his
sheet started
to show a loss

WSB had BMT
+ [redacted]
W/dns + they
were diff.

Feb. WBS doing
this forever

No reason to get
on that return
+ Top sheet
[redacted] should
have done

Diff. on EVERY
TOP SHEET +
it's [redacted]

CHECKS BASED
ON FIGURES
IN TOP SHEET

[redacted]

error in their
figures in last
sheet + promised
to correct it

Still playing w/
figures ble
correction was
done in foreign
Rev., rather than
domestic which
error was.

with [redacted] are
only present
in [redacted]
+ there will
be diff. \$
on tax return

SAI there con
+ expenses
in top sheets

AMOUNT OF
TOP SHEETS
Shows more
expenses to
WBS THAN [redacted]
ble he had
higher
profit share.

For you been
operating on
FAITH

[redacted]

ON ESTROCIPT
WIDELY PUBLISHED
FIGURES

Self-DEALING

AUDIT REPORT
from [redacted]

Showing
understatement of
Revenue of
Estrocipt
relative to
other firms
in package

Always referring
moving self
to foreign
countries +
allocating
and to export
as to Bombs
or media TV
films

is not
DID SAME OLD
GOODPATTER
+ F&E move
+ led to
Settlement
ON
[redacted]

[redacted]

Allocation is NOT
a criminal case

But self-dealing
[redacted] cooking books
MAY BE CRIMINAL

[redacted] still not after
who can benefit, etc.

Confronted on TOP
sheets + WBS
said let us face
it +

Plan said the
B will minister
in domestic,
cured it in
foreign, but
still doesn't cover
up some old

WSB + [redacted]

Acc. of [redacted]
[redacted] + all divorce
leads to [redacted]
up bottom line or [redacted]
only way to do it
is to fine people
+ limit power. [redacted]

[redacted] only [redacted]
[redacted] paid cash in
table re: self-dealing
+ allocations +
asked for response
before filing lawsuit

[redacted] said "impossible"
that they would give
it to TNT ble
total separate cos.
+ no money on
Bomby, etc.

[redacted] said led get
back in [redacted]
called + asked for
Q more [redacted]

W/ [redacted] later [redacted]
called + said [redacted]
in so we can
explain why it
was done

[redacted] report it to [redacted]
[redacted] high up)

[redacted] said [redacted] + [redacted]
[redacted] in a [redacted]
+ wanted [redacted]
honest explain

1A2

Universal Case File Number 1966-LA-227702

Field Office Acquiring Evidence _____

Serial # of Originating Document _____

Date Received 9-10-01

From Wm Peter Blatty
(Name of Contributor)

(Address of Contributor)

By _____

To Be Returned Yes No

Receipt Given Yes No

Grand Jury Material - Disseminate Only Pursuant
to Rule 6 (e), Federal Rules of Criminal Procedure

Yes No

Title:

Warner Bros

Reference: _____
(Communication Enclosing Material)

Description: Original notes re interview of
William Peter Blatty

b6
b7c

9/10/01

William Peter Blatty - Jan 7, 28
301-469-9506 - 7018 Longwood Dr
Bethesda Md 20817

- approx 7 top sheets
- provided to [redacted]

196C-LA-227702-1A2

b6
b7C

point-diverging statements

- [redacted] side deal w/ WB
- early part of yr
- vastly reduced distrib fee
- WB said side deal accounts for diff. nums.
- WB said 2 versions segregated for [redacted]
- does not explain income + expense #'s
- could only explain distrib differences

prior to Blatty call to [redacted]

- [redacted] only getting 1 statement
- after - [redacted] started getting 2 statements
- no gone back to just 1

b6
b7C

~~March~~
March 31 statement - corrections to prior statement letter

- over \$8 mill subtracted from foreign theatrical
- called [redacted]
- double charged for domestic theatrical
- "why subtracted from foreign"
- [redacted] "mistake"

b6
b7C

Dec 31 statement - received 1st week in March - started dispute

- [redacted] said
- 16 mill for 2500 theatres
- 15 mill for 600 theatres

① In initial conversation:

[redacted] said "OH" - to [redacted] & I have exchanged statements

talk w/ [redacted] 14 million - 2500 theaters
[redacted] mst

[redacted] called back + said ad campaign \$1.9 mil - total expenses 15.3 mil

- early march
- 2nd call
- disturbing because blatty designed ad campaign
- trailer created - blatty [redacted] contributed

[redacted] never offered 2 [redacted] deal explanation

- blatty's inference
[redacted] just said - you'll have to talk to [redacted]

- blatty decent relationship w/ [redacted]
- [redacted] had helped b. in past

June 2, 2000 - [redacted] + blatty had audit run on orig version

- other movies getting same or larger fees than exorcist
- smaller companies getting \$ always belonged to WB

② Article in paper - [redacted] said had only spent 15 mil total for new release.

- 800k was negative cost, to cut film
- prompted 1st call to [redacted]

Oct 13, 1999 [redacted] said [redacted] new version to CBS for 1.5 mil

- had rebuffed offer from NBC for 2.0 mil
- [redacted] new version cable license being given to TBS + TNT for no thing.

July 1999 - TBS & TNT rights to old version

- from Oct 30 → Dec 25 99 license

- [redacted] knew of window need + WB ownership

b6
b7C

- all he needed to do was sit on it

- WB gave license free in exchange for window - did not have to give anything

- cable license should have sold for \$20-30 mill

- verticle integration at its worst.

[redacted]

5 or 6 weeks later -

[redacted]

- it equalled [redacted] side deal

found out later had reneged on side deal w/ [redacted]

b6
b7C

- took it away from [redacted] to give to blatty

[redacted]

we'll wait till discovery to see if we see each other's point of view or meet in the middle.

blatty said he would accept deal if distro fee reduced to 15 mill

- 25% of gross after break even,

- approx \$3 mill

[redacted]

Paramount

blatty deal =

[redacted]

b6
b7C

Universal Case File Number 96C-LA-227702-1A3

Field Office Acquiring Evidence _____

Serial # of Originating Document 5

Date Received 3/20/2002

From
(Name of Contributor)

(Address of Contributor)

Burbank, CA
(City and State)

By SA
(Name of Special Agent)

To Be Returned Yes No

Receipt Given Yes No

Grand Jury Material - Disseminate Only Pursuant to Rule 6 (e)

Federal Rules of Criminal Procedure

Yes No

Title: WARNER BROS. ETAL

Reference: _____
(Communication Enclosing Material)

Description: Original notes re interview of

[Signature]
4/19/02

b6
b7C

b6
b7C

3/20/02

b6
b7C

[Redacted]

[Redacted]

[Redacted]

1980 -

[Redacted]

[Redacted]

[Redacted]

[Redacted]

b6
b7C

~~partic~~

[Redacted]

- participants calculated depending
on their agreements
3 mos / 6 mos / yearly

property generates most income early in life cycle
- more freq reporting in beginning
- less freq as time goes on.

196C-CA-227702-1A3

Editorial

- consistent seller for WB over the years
- re-instituted more press reportings a couple years ago due to movie being shown overseas
- after second release moved to quarterly
- Blatty + [redacted] contracts dictate what items in gross revenue, what included in expenses
 - articulates costs allowed to be deducted
 - provides framework for applying parameters

generally speaking - gross receipts = amount received by WB
 - distribution fees = percentages

- both [redacted] + Blatty had net profit deals

- actual distro fees not relevant because percentages outlined in contract

Expenses

- generally actual costs incurred
 - has been traced by [redacted] + Blatty auditors several times - at least 3 times
 - last audit couple years ago.

most recent audit findings

- 1st 3 findings in audit all based upon licenses. - turner, ant & ent + foreign TV

how is a package sold

- multiple elements valued differently

Generally

Based upon experience over the years - values are assigned to films first, customer buy what they want, prices are added up + the bill is paid.

- license fee agreements makes up most of [redacted] + Blatty complaint. they made that clear in settlement discussions -

b6
b7C

SA

audit - always finds that client was underpaid, never overpaid.

[redacted] turns [redacted]

b6
b7C

[redacted]
- needed to persuade to give 12 mo/ history - for new release to come out
- when window open - given new version.

WB been sued 3 times in 22 yrs over accounting disputes - does not happen often.

after ^{audit} report issued - entered settlement talks

audit firms make same claim in every instance - #4 copyright royalties - did not get mandated till mid 80's

- [redacted] said would take \$1 mm to go away

→ [redacted] business mgr

- [redacted] said thought being extorted, had duty to AOC shareholders

- talked to Blatty personally
- no adjustments made for the other smaller claims - WB did not agree w/ them

b6
b7C

[redacted]

[redacted] negotiated better agreement prior to new version.

b6
b7C

But [redacted] office began demanding things WB would not allow, such as looking at books of all other films included in packages:

- negotiation stalemate
- neither party would sign
- resorted to old agreement
- revised statement issued.

benefit to [redacted] of new agreement was gross deal after break even - fees

[redacted] had not made money yet on new deal when resorted back to old deal.

b6
b7C

- new films had some additional footage - not available on other films - different version of some films,

- [] +v down 152,000 Dec 2000 → Jun 2000^{b6}
^{b7c}
Spain contract went down 200,000,
most likely scenario was Spain contract
was cancelled for some reason.

Blatty did not renegotiate his deal for the
new version. WB did not voluntarily offer it.

2.7 mm France

- each title has numbers
- Transaction related to error -
numbers brought out
 - it was old version - mistake
 - # were put into new version

[]

b6
b7c

↳ person to talk to about license agreements.

HBO offered \$ 1 mm
CBS offered \$ 1.5 mm
all networks offered the film
- internal memos to back it up - has been offered to []

[redacted] no money received from Turner for new version.

b6
b7C

Vertical Integration

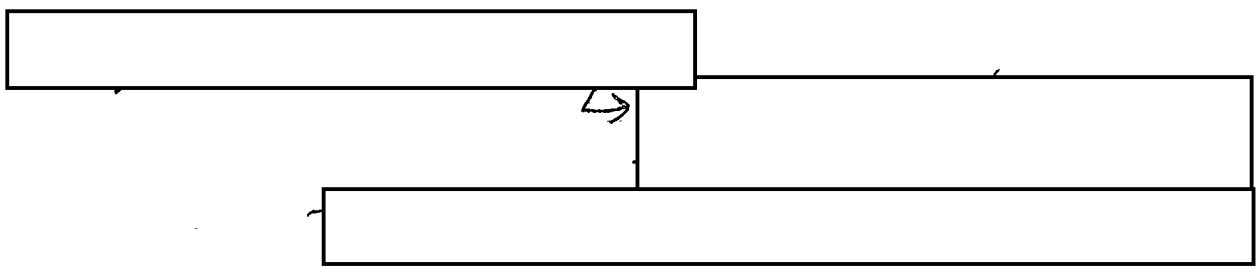
-> agreements not substantially different today than 5 or 10 yrs ago.

new [redacted]
- contract provided that related parties would be dealt with at arms length

WB has
- obligation to deal fairly w/ related parties
- both WB & related parties do business w/ unrelated parties
- lots of examples to compare.

[redacted] - HBO toughest client to deal w.

b6
b7C



[redacted] - ~~we~~ we need to maintain a good relationship with these people because we may want to do another project w/ them a few months from now.

b6
b7C

- at any given time 125 to 150 audits ongoing.
- [redacted] personally negotiates settlements for the company.

costs a lot more today to advertise ~~as~~ films than it did 30 yrs ago.

percentage of cost to revenue ~~was~~ was much better in 1970s, not same today.

[] has never been found to have fabricated any expenses

b6
b7C

- disputes calls usually come into []
- [] researches, accuses people to research
- [] responds
- clear up problem - adjusts if WB made mistake

- no network contact now for new version

[] is dispute w/ Blatty
[] lied to Blatty about negotiatin new deal

b6
b7C

Universal Case File Number 196C-LA-227702JA4

Field Office Acquiring Evidence LA

Serial # of Originating Document 8

Date Received 7/11/02

From _____
(Name of Contributor)

(Address of Contributor)

(City and State)

By

To Be Returned Yes No

Receipt Given Yes No

Grand Jury Material - Disseminate Only Pursuant to Rule 6 (e)
Federal Rules of Criminal Procedure

Yes No

Federal Taxpayer Information (FTI)

Yes No

Title:
Warner Bros

Reference: _____
(Communication Enclosing Material)

Description: Original notes re interview of

Handwritten initials and date:
UB
8/12/02

b6
b7C

[redacted]
[redacted]
WB [redacted]

[redacted]

[redacted]

several deals together
- TV, video, movies - not records

[redacted]

[redacted] fight w/ [redacted]

- if mistakes found, they corrected
- sometimes interpretations differences, but no intentional
- [redacted] most honest, upstanding person
- was will meet.
- [redacted] philosophy - clients allowed to see anything they're charged for.

= everything went well was fine

WB Brown as most upstanding for handling deals.

- clients shown whatever records located in Burbank
- if records elsewhere, they were told.

[redacted]

contract - germany

[redacted]

- mgr in ill TV accounting
- sued for way they did business
- unethical principals
- allegations that WB kept 20% of \$100 mill deal as a signing bonus.
- 5 tier [redacted] discovered this
- WB corrected the one contract
- issue settled w/ per last couple years - did not go to court - contract entered into in 1996, [redacted] was audit

1966-LA-227702 1A4

Universal Case File Number 196C-LA-227702-1A5

Field Office Acquiring Evidence LA

Serial # of Originating Document 9

Date Received 2/26/2002

From
(Name of Contributor)

(Address of Contributor)

(City and State)

By _____
(Name of Special Agent)

To Be Returned Yes No

Receipt Given Yes No

Grand Jury Material - Disseminate Only Pursuant to Rule 6 (e)

Federal Rules of Criminal Procedure
 Yes No

Title:
WARNER BROTHERS

Reference: _____
(Communication Enclosing Material)

Description: Original notes re interview of

10-8-02
CS
CB

b6
b7C

b6
b7C

[Redacted]
[Redacted]

MM&E + DISTRIBUTION 30. million/yr.
MAYN TV

FIXED COMPENSATION PER DURING PERIOD production
20-60-20

CONTINGENT - PRODUCTION } all contracts
royalties

Buchwald led to Δ in NOMENCLATURE ⇒ i.e. TRUCK example
NET PROFIT Δ TO

\$ to Theater - WB DN GET ALL OF IT - % NEGOT w/ Theater

~ 45-47% - 50% ~~OFF~~
ALSO TV, VIDEO REV, etc.

1st POT is "GROSS" - then AMT TO WB3
DEDUCT FOR COST, BUT NOT [Redacted] etc

Then there are some report deductions
GROSS LESS X, Y, Z

BUCHWALD K ≠ [Redacted] K

1974 1st SUIT by [Redacted] B v. WB

WB negot of AGENTS, NOT ARTIST
& AGENTS KNOW FACTS

DIFF ACCTG STARTS IN PAR

[Redacted] NEGOT NEW AGENT

PROFIT GROSS ATTRIB to OLD + SOME NEW

WB DN RENEG. + so, he got a diff
REV. STATE

Told THH to [Redacted] + he couldn't understand
how you could get 2 diff grosses

[Redacted] WB has sued + settled over + over
this is the (last little bit OF THE CN)

STD FORM K that is negot by person

STUDIO HAS all up front + then splits
in the whole

Periodically, Auditors review
stats + lodge complaints

re inside dealings w/ Turner
& in line w/ TERM

ALLOCATIONS -

BUNDLING - TRY TO BE FAIR BUT
HARD TO SAY WHAT
IS RIGHT AMT

[Redacted] Licensed film to CBS
exclusive TV to Turner - only TV
OUTLET

WB → Turner ASKED FOR HOLD when
they would not play film -
DID IT FOR FREE
+ EXTENDED IT FOR FREE

Then asked for add'l window
to air w/ CBS

+ TNT DEMANDED RETURN

FBI negot CBS only offer
all others turned it down
+ HBO offered \$/MM

CBS offered + paid \$1.5 MM
only to play for
Huren.
+ DN play it

1.5 seems small, but it's
business some old movie

DEPOSED said it should
get more b/c said he had to
have the new version - (NO EVIDENCE)

196C-LA
227102
IAS

b6
b7C

DID ONE DEAL + THAT'S THE STORY

- COMMIT TO MEET

IT WILL BE CONFIDENTIAL

WITNESSES

BUT FOR Q'S PRESENTED TO OPAH ~~THAT~~

UNTIL TRIAL

FOIA, ETC.

I'll cop to use of MAIL,
BUT DIFFER ON FRAUD

b6
b7C

• WHO HAS THE POLITICAL CLOUT TO GET FBI
INVOLVED IN THIS LITTLE THING?

FBI, WIVES, AGENTS, LAWYERS,
WHO?

WILL PROVIDE ALL STATS UP TO AND AFTER
THE TIME WHERE SIGNED NEW IC
+ CAB DN
+ then to see how they diverged

Back + go b/c made ~~statements~~
demands over time

o

Universal Case File Number 194A-1A-227702 ^{1A6}

Field Office Acquiring Evidence WA

Serial # of Originating Document 11

Date Received 9/16/09

From SA

(Address of Contributor)

By

To Be Returned Yes No

Receipt Given Yes No

Grand Jury Material - Disseminate Only Pursuant
to Rule 6 (e), Federal Rules of Criminal Procedure

Yes No

Title:

Reference: _____
(Communication Enclosing Material)

Description: Original notes re interview of

One PD-192 of 101 destroyed
Per DC Ser # 11. K
9/16/09

b6
b7C

FEDERAL BUREAU OF INVESTIGATION

Precedence: ROUTINE

Date: 09/01/2009

To: Los Angeles

Attn: ECC

From: Los Angeles

WCC-1

Contact: SSA [REDACTED]

b6
b7c

Approved By: [REDACTED] *WAD*

Drafted By: [REDACTED]

Case ID #: 196C-LA-227702 -11 (Pending)

Title: Evidence Control

Synopsis: evidence destroyed

Details: For case number 196C-LA-227702, evidence item 1C-1 was destroyed. The FD-192 is attached and is being returned to the ECC.

◆◆

196C-LA-227702-1A6

09/01/09
13:29:43

FD-192A

ICMIPR01
Page 1

Title and Character of Case:

WARNER BROS INC
BLATTY, WILLIAM, PETER

Date Property Acquired: Source from which Property Acquired:

01/10/2002

[Redacted]

b3
b6
b7C

Anticipated Disposition: Acquired By:

[Redacted]

Case Agent:

[Redacted]

Description of Property:

Date Entered

1C 1

[Redacted]

Barcode: Location: 03/06/2002
Grand Jury Material (Disseminate only pursuant to Rule 6(e))

*destroyed
Per ECAs # 11
by [Redacted]*

b6
b7C

Case Number: 196C-LA-227702
Owning Office: LOS ANGELES

09/06/09
10:21:01

FD-192A

ICMIPR01
Page 1

Title and Character of Case:

WARNER BROS INC
BLATTY, WILLIAM, PETER

Date Property Acquired: Source from which Property Acquired:

01/10/2002

[Redacted]

b3
b6
b7c

Anticipated Disposition: Acquired By:

[Redacted]

Case Agent:

[Redacted]

Description of Property:

Date Entered

1C 1

[Redacted]

Barcode: Location: ECR2
Grand Jury Material (Disseminate only pursuant to Rule 6(e))

03/06/2002

Case Number: 196C-LA-227702
Owning Office: LOS ANGELES

FILE COPY

[Handwritten mark]

101

FEDERAL BUREAU OF INVESTIGATION

Date of transcription 09/07/2001

[redacted] date of birth [redacted] social security
account number [redacted] Los Angeles,
California 90077, [redacted]
[redacted] Hollywood,
California, telephone number [redacted] was interviewed at his
place of residence. After being advised of the identities of the
interviewing agents and the purpose of the interview, [redacted]
provided the following information:

b6
b7C

[redacted] In
approximately 1972, [redacted] movie titled "The Exorcist"
("Exorcist" or the "Film"). WILLIAM PETER BLATTY wrote both the
novel and the screenplay for The Exorcist. The Film was made by
WARNER BROTHERS ("WB"). The Exorcist was a financial and critical
success. The film's popularity has endured to the present day.

b6
b7C

In late 1998, the original Exorcist film was re-released
to great success in England. WB had been adverse to the idea of
re-releasing the film because re-releases typically do not do well
in the theaters. In fact, the re-release of Exorcist in England
made millions of dollars for WB and turned out to be the second
most successful re-release in history, after the re-release of STAR
WARS.

In light of the successful re-release of the film in
England, BLATTY [redacted] finally managed to convince WB to
commit to a re-mastered new release of an updated version of the
Film (Film2). [redacted]

b6
b7C

[redacted] the new version of the Film, adding a total of eleven to
twelve minutes of film footage, including a different ending, and
creating a completely new soundtrack with new music. [redacted]
neither sought nor received compensation for his efforts in re-
mastering the original version, because he believed that he would
profit handsomely from the revenue generated by the new release.

The new version of the Film was released in the year
2000. WB distributed the Film2 as a completely new film, not a re-
release. WB premiered the Film2 at first run theaters and charged

Investigation on 09/07/2001 at Los Angeles, California

File # 196C-LA-227702 - 2 Date dictated _____
by SA [redacted] SA [redacted]

b6
b7C

196C-LA-227702

Continuation of FD-302 of

[Redacted]

, On 09/07/2001, Page 2

b6
b7C

full-price for admission. Like the original, the new release met with financial and critical success. According to publicly released box office figures, the re-mastered film has earned \$40 million in domestic box office revenue and \$77 million in foreign box office revenue, for a total box office of \$118 million worldwide. This figure does not include revenue from other sources, such as video and DVD sales, and secondary sales to airlines and other outlets. In contrast to the large revenues that have been generated by the new release, the Film2 cost virtually nothing to make. WB has stated publicly in various sources it cost only \$800,000 to make the re-mastered version of the Film. [Redacted] believes that the Exorcist is WB's most profitable film of the last ten (10) years. Despite the appearance of enormous profits, and despite the fact that they are entitled by contract to share in the profits of the Film2, [Redacted] and BLATTY have not shared in any of the Film2's profits.

b6
b7C

Under the terms of BLATTY's and [Redacted] contracts, both individuals [Redacted]

b6
b7C

[Redacted]

revenue generated by the film. Thus, [Redacted] share of the profits should be calculated according to the following formula:

[Redacted]

[Redacted]

b6
b7C

In addition [Redacted]

[Redacted]

[Redacted] BLATTY [Redacted]

[Redacted] BLATTY also [Redacted]

[Redacted]

b6
b7C

Under BLATTY's agreement, BLATTY's [Redacted]

[Redacted]

[Redacted]

[Redacted] In BLATTY's case, [Redacted]

[Redacted] BLATTY's [Redacted]

196C-LA-227702

Continuation of FD-302 of [REDACTED]

, On 09/07/2001 , Page 3

b6
b7C

profits can be calculated as follows:

[REDACTED]

According to the published figures, BLATTY's profit participation should amount to approximately \$21 million.

[REDACTED] first discovered problems with WB's accounting on the Film when he began reviewing the "top sheets" that WB was providing on the Film. Top sheets are periodic statements that break down the revenues and expenses that attach to a film project. In the case of the Exorcist films, the top sheets provide information relating to the most recent three (3) months and to the cumulative total amounts that date back to the original release. When [REDACTED] reviewed the top sheets it became obvious to him that WB had drastically inflated the expenses associated with the movies. For instance, despite the representation contained on Top Sheet No. 49, there is no conceivable way that WB could have spent a cumulative total of \$40 million on advertising and publicity for the two (2) films.

b6
b7C

These problems led [REDACTED] to open a dialogue with BLATTY. Eventually, [REDACTED] and BLATTY compared top sheets and determined that WB was providing them with different revenue and expense figures for the same movie. Moreover, the discrepancies seemed to be random, with some expenses being higher for BLATTY and others being higher for [REDACTED]. On balance, however, the expenses were higher for BLATTY. [REDACTED] suspects that this is a result of the fact that BLATTY's [REDACTED]

b6
b7C

[REDACTED] has a complete set of his own top sheets and as many as seven or eight top sheets for BLATTY. [REDACTED]

b6
b7C

[REDACTED] that it be done via a subpoena in order to protect [REDACTED] from violating the terms of his confidentiality agreement with WB.

After [REDACTED] and BLATTY determined that WB was preparing two (2) different sets of top sheets, BLATTY contacted [REDACTED]

b6
b7C

[REDACTED] contacted BLATTY a short time later to explain that WB had understated its domestic revenue by \$8 million. [REDACTED] promised to rectify the error in the next cost statement.

196C-LA-227702

Continuation of FD-302 of [REDACTED]

, On 09/07/2001 , Page 4

b6
b7C

When [REDACTED] received the next top sheet, however, he discovered that WB had made an \$8 million adjustment, but the adjustment had been made to the foreign revenue figure, rather than to the domestic revenue figure. [REDACTED] concluded that WB must be making the numbers up as they go along. [REDACTED] cannot believe that WB is continuing to manipulate the figures and that it is doing so in such blatant disregard of accepted accounting principles.

b6
b7C

In addition to the manipulation in the accounting reports, [REDACTED] has also discovered that WB is engaging in improper self-dealing in order to further defraud BLATTY and [REDACTED]. Specifically, [REDACTED] is convinced that WB sold television rights for the Film to other AOL TIME WARNER subsidiaries at below market prices. The most blatant example of this self-dealing is the fact that WB gave the cable television rights to the Film2 to TURNER NETWORK TELEVISION (TNT) free of charge. WB claims that it had to give away the rights to the Film2, because TNT already had the rights to the original film and this was the only way to prevent TNT from rendering the cable television premiere of the Film worthless by playing the original Film at the same time. [REDACTED] later determined that this was a false claim because AOL, as TNT's parent company, could have dictated TNT's schedule. More importantly, [REDACTED] also discovered that TNT's rights to the original Film were going to expire well before the Film2 would have been premiered. [REDACTED] also learned that WB sold the network television rights to CBS for \$1.5 million even though NBC was willing to pay a significantly higher amount.

b6
b7C

The television rights were negotiated [REDACTED] (phonetic). [REDACTED] New York City. [REDACTED] at the time that the rights to the re-mastered Exorcist were negotiated, [REDACTED] [REDACTED] AOL subsidiaries. After the subsidiary deals were done, [REDACTED] at a movie premiere in New York [REDACTED]

b6
b7C

[REDACTED] did not have any idea what [REDACTED] was talking about. [REDACTED] PARAMOUNT PICTURES.

[REDACTED] also contacted [REDACTED] and explained all of his complaints to [REDACTED]

b6
b7C

196C-LA-227702

Continuation of FD-302 of [REDACTED]

, On 09/07/2001 , Page 5

b6
b7C

[REDACTED] said that he would look into the complaints and get back to [REDACTED] eventually contacted [REDACTED] and asked [REDACTED] who would explain what had happened. [REDACTED] rejected the offer and told [REDACTED] that he only would only listen to [REDACTED] deposition.

b6
b7C

[REDACTED] eventually hired attorney [REDACTED] BLATTY in an action against WB. [REDACTED] told [REDACTED] that he was aware from another one of his cases that WB's [REDACTED] was under intense pressure from AOL TIME WARNER to improve WB's profitability. [REDACTED]

b6
b7C

[REDACTED] This mandate was delivered to all division heads at the time of the merger between AOL and TIME WARNER. [REDACTED] believes that [REDACTED] attempted to [REDACTED] that rightly should have been paid to [REDACTED] and BLATTY by virtue of their [REDACTED]

At around the time that [REDACTED] and BLATTY filed their civil complaint against WB, WB broke off contract negotiations with [REDACTED] over his compensation for the Film2. [REDACTED] and WB had completed all substantive negotiations for the Film2 at the time that WB broke off the negotiations. The only outstanding issue at the time was whether WB would agree to a clause requiring WB to deal in good faith with respect to possible self-dealings between WB and other AOL subsidiaries. After WB refused to continue negotiations, [REDACTED] amended his civil complaint to add a claim under the Lanham Act.

b6
b7C

After WB broke off negotiations on the contracts for the new Film, WB reverted back to the terms of the contracts that BLATTY and [REDACTED] entered into for the original EXORCIST film in 1972. WB sent [REDACTED] based on the old contract, but [REDACTED] returned the check.

b6
b7C

[REDACTED] is aware that another WB employee, [REDACTED] has been contacting BLATTY in an attempt to convince BLATTY that there is an innocent explanation for BLATTY's and [REDACTED] complaints. Recently, [REDACTED] to drop the case. [REDACTED] has called BLATTY several times.

b6
b7C

[REDACTED] believes that the accounting misstatements and the self-dealing may constitute violations of federal criminal law. [REDACTED] believes that [REDACTED]

b6
b7C

196C-LA-227702

Continuation of FD-302 of

[REDACTED]

, On 09/07/2001, Page

6

b6
b7C

(phonetic), are the WB employees who have the most knowledge about the fraud. [REDACTED] immediate supervisor.

- 1 -

FEDERAL BUREAU OF INVESTIGATION

Date of transcription 9/10/2001

William Peter Blatty, date of birth January 7, 1928, of 7018 Longwood Drive, Bethesda, Maryland, telephone number 301-469-9506, was interviewed. After being advised of the identity of the interviewing agents and the nature of the interview, Blatty provided the following information:

Blatty had provided to [redacted] approximately seven of his quarterly accounting statements for the films "The Exorcist" and "Exorcist, The Version You've Never Seen," which he received from Warner Brothers. Blatty was concerned because he had discovered after speaking to [redacted] that the accounting statements he and [redacted] received for the same films were different. Blatty and [redacted] thought that Warner Brothers may be trying to defraud them of money they were entitled to for their participation in the films.

b6
b7C

Blatty pointed out that [redacted] had arranged a side deal with Warner Brothers for the new version of the film in the early part of 2000 that affected the way distribution fees would be calculated on his statements. Blatty said that this would only account for differences in the distribution section of the statements, and should not effect the income or expense numbers. Warner Brothers told Blatty that the two versions of the movie had been segregated on [redacted] statements, but not on Blatty's. Blatty said that [redacted] did not begin receiving segregated statements from Warner Brothers until after Blatty started asking questions of Warner Brothers. Blatty's point of contact in the accounting department at Warner Brothers was [redacted].

b6
b7C

After receiving his December 31, 2000 statement, Blatty called [redacted] to ask why an expense for \$15 million was listed for the theatrical release of the film. Blatty remembered he had been told by [redacted] that there would be a \$16 million expense if the new version of the film was released to 2500 theaters, but a much smaller expense would be incurred if the film was only released to 600 theaters. What prompted Blatty to call was an article he read where [redacted] of Warner Brothers, said that Warner Brothers had only spent \$15 million total on all expenses for the new version. [redacted] had

b6
b7CInvestigation on 09/10/2001 at Los Angeles, California (telephonically)File # 196C-LA-227702 ⁻³ *SA* Date dictated _____by SA [redacted] *CB*b6
b7C

196C-LA-227702

Continuation of FD-302 of William Peter Blatty , On 09/10/2001 , Page 2

said that the negative cost, or the cost to cut the film, was \$800,000. Then, on the March 31, 2001 statement, \$8 million had been subtracted from the foreign theatrical category. Blatty called [] to ask why and [] told him that he had been double charged for domestic theatrical on the previous statement. Blatty asked why the amount had been subtracted from foreign theatrical and [] said it was a mistake.

b6
b7C

Blatty had a good relationship historically with [] [] had helped Blatty with statement and contract problems in the past. Blatty said [] attitude changed a little bit though when Blatty told him that Blatty and [] had been exchanging statements. [] response was "Oh." Then in early March, 2001, there was a second call between Blatty and [] [] told Blatty that the ad campaign for the movie had cost \$1.9 million. This bothered Blatty because he had helped work on the ad campaign and helped design the trailer for the new version, and Blatty did not think the expenses were nearly that much.

b6
b7C

On June 2, 2000, Blatty and [] had an audit run on the accounting for the original version of the Exorcist. The audit found that Warner Brothers was charging more money to other media outlets for other, less popular movies than they were charging for the Exorcist. The audit also found that money that was coming in to Warner Brothers for the Exorcist was being credited to other films. The smaller companies who were getting the money always belonged to the larger AOL Time Warner.

b6
b7C

[] had told Blatty that on October 13, 1999, [] [] of Warner Brothers sold the new version to CBS for \$1.5 million. This was after Warner Brothers had rebuffed an offer from NBC for \$2 million. [] said that [] had apologized several times to [] at a party for what Warner Brothers had done to [] of Paramount Studios. [] told [] that the new version cable license was given to TBS and TNT for nothing.

b6
b7C

In July 1999, TNT and TBS held the rights to the old version of the movie. [] knew that there needed to be a window before the release of the new version in the fall where the old version was not shown on cable. This way, there would be more interest in going to the theater to see the new version. [] said that Warner Brothers decided to give the license for the new version to TNT and TBS for free in exchange for not showing the old version close to the release date of the new version. Blatty said

b6
b7C

196C-LA-227702

Continuation of FD-302 of William Peter Blatty, On 09/10/2001, Page 3

that in reality, [redacted] did not have to give TNT or TBS anything because their license as it would run out a couple weeks before the release of the new movie. Moreover, since AOL Time Warner was the parent company of all the parties involved, AOL Time Warner could have instructed TNT and TBS not to show the film for a particular time period. All [redacted] needed to do was nothing. Blatty believed that the new version cable rights should have sold for \$20 million to \$30 million and that the reason [redacted] gave it away free was because TNT was a subsidiary of Warner Brothers. Blatty described this as vertical integration at it's worst.

b6
b7C

[redacted] next call to Blatty, in approximately the summer of 2001 consisted of an offer to settle Blatty's claims with Warner Brothers for \$1.7 million, which Blatty later found out was the exact value of [redacted]. Blatty then found out that Warner Brothers had reneged on it's deal with [redacted] and Warner Brothers had tried to take the money away from [redacted] and give it to Blatty. When Blatty refused the deal, [redacted] said that they would just have to wait until the discovery phase of their case to see if either one of them would be persuaded to see the other's point of view. Blatty said that he would accept a deal if the total distribution fee was reduced to \$15 million and he received 25 percent of the gross after break even. Blatty said that would amount to approximately \$3 million.

b6
b7C

Blatty's deal for the new version was the same as for the original version in that he would receive 30.1 percent of the profits plus a straight ten percent of the video sales. Blatty estimated that according to his contract his cut should have been approximately $(\$52 \text{ million} - \text{expenses}) \times .3$. This was based on approximately \$52 million coming to Warner Brothers after release and distribution of the new version. Blatty said that the domestic box office was approximately \$39 million and the foreign box office was approximately \$77.5 million for a total of \$118 million. Blatty said that the worldwide average of rental income spent on advertising was 54 percent, but Warner Brothers had claimed 87 percent in Japan.

Blatty had been receiving regular checks from Warner Brothers for the old version of the film up until the new version was released. Then, instead of the checks getting larger, they went away.

196C-LA-227702

Continuation of FD-302 of William Peter Blatty, On 09/10/2001, Page 4

The new version of the Exorcist was test shown in early March 2000. It was released to theaters in September 2000. It was out of release by Thanksgiving 2000.

Blatty described [redacted] as an evil genius. He was a nice guy, but definitely a company man.

b6
b7c

[redacted]

BB/CC

196 C-LA - 227700 EB

196C-LA - 227702 - 4



ScreenName sign-out

- Main
- My AOL
- Mail
- People
- Search
- Shop
- Channels
- Devices

AUTOWEB
Where to go for all your automotive needs.

RESEARCH BUY SELL



- Close
- Keep As New
- Delete
- Prev 2 of 7 Next

Subj: Fwd: from bill blatty
 Date: Fri, 1 Mar 2002 10:09:38 AM Eastern Standard Time
 From:
 To:

Include original text in Reply.



Reply



Reply All



Forward



Address Book

FYI, THE ATTACHED.

B

Forwarded Message:

Subj: from bill blatty
 Date: Fri, 1 Mar 2002 9:57:46 AM Eastern Standard Time
 From:
 To:

Dear based upon my 09/30/01 Warner statement:

1. On the top sheet, Foreign Television is still shown at approximately \$152,000 less than it was two years ago.
 2. On the backup pages, for Domestic there is an increase in income of \$2,000, but over \$36,000 in expenses, including advertising and "checking and collections," this for a movie out of release since the Fall of 2000, and under an accounting system that records expenses the instant they are incurred.
- Fly specks but they add up.
- All the best,
 Bill

b6
b7C

b6
b7C

- Close
- Keep As New
- Delete
- Prev 2 of 7 Next
- Help

- Download AOL
- AOL Pricing Plans
- AOL Access Numbers
- AOL Affiliate Network
- About AOL
- About AOL Anywhere
- Feedback
- Careers@AOL
- Link to Us
- Advertise with Us
- AOL Anywhere Help
- AOL Anywhere
- Search
- Web Channels
- Site Index

Copyright © 2000 America Online, Inc. All rights reserved. [Legal Notices](#)

FEDERAL BUREAU OF INVESTIGATION

Date of transcription 03/26/2002

[redacted]
 [redacted]
 Warner Brothers (WB), telephone number [redacted] was interviewed at Warner Brothers Studios. Also present at the interview were [redacted] representing Warner Brothers and Warner Brothers [redacted].
 [redacted] After being advised of the identities of the interviewing agents and the nature of the interview, [redacted] provided the following information:

b6
b7C

[redacted]
 [redacted]
 [redacted]
 [redacted] At the time of this interview, [redacted]
 [redacted]

b6
b7C

[redacted] explained that a film usually generates most of it's income early in it's life cycle, so reporting residuals or participations is more frequent early on (i.e. quarterly). As time passes, the reporting becomes less frequent, for example, yearly.

b6
b7C

The motion picture, The Exorcist, was a consistent seller for Warner Brothers over the years. The reports for participants in The Exorcist had become less frequent, but were re-instituted to be more frequent within the last couple years. This was due to the movie being re-edited, re-released theatrically and then re-distributed into supplemental markets. After the second release of the movie in 2000, Warner Brothers began to issue statements to the participants quarterly.

Investigation on 03/20/2002 at Los Angeles, California

File # 196C-LA-227702 -5 Date dictated

by SA [redacted] SA [redacted]

b6
b7C

196C-LA-227702

Continuation of FD-302 of [REDACTED]

, On 03/20/2002 , Page 2

b6
b7C

[REDACTED] In the cases of reporting for William Blatty and [REDACTED] [REDACTED] their contracts dictated which items could be included in gross revenue, and which items could be included in expenses. The contracts articulate which costs were allowed to be deducted and provided a framework for applying various other parameters. Generally speaking, gross revenue equaled the amount of money received by WB for a particular project minus the distribution fees which were agreed upon, scaled percentages. Both [REDACTED] and Blatty [REDACTED] said that the actual distribution fees were not relevant because the calculation of distribution costs were mathematical equations set forth in their contracts.

[REDACTED] Expenses were generally actual costs incurred by WB. [REDACTED] said that the expenses for The Exorcist have been audited at least three times by auditors hired by [REDACTED] and Blatty. The last audit was a couple of years ago. [REDACTED] did not believe that [REDACTED] and Blatty had a dispute with WB concerning expenses, since their auditors had reviewed them three times and had not found significant problems.

b6
b7C

[REDACTED] went over the auditors' findings for the most recent audit of the Exorcist. The first three findings all related to disputes concerning allocations to the film in license fee agreements. They included license agreements with Turner Broadcasting, Arts and Entertainment (A&E) and Foreign free TV.

[REDACTED] explained that based upon his experience over the years, packages of licenses to show films were sold to customers not based upon a price for the package as a whole, but based upon adding up the individual prices of all of the elements that made up the package. In other words, each film had a particular value assigned by WB. A customer would prepare a list of all of the films they were interested in acquiring licenses for, and then the prices of each would be added up to arrive at a total. The price of the package was not agreed upon up front, with a value from the total being applied to each individual film later. [REDACTED] said that license fee agreements for the Exorcist made up the bulk of [REDACTED] and Blatty's complaint against WB, and that [REDACTED] and Blatty had made that clear in settlement discussions. [REDACTED] added that audits on behalf of participants always find that the client was underpaid, never overpaid. The sales department negotiates the license fee agreements with the customers.

b6
b7C

196C-LA-227702

Continuation of FD-302 of [REDACTED]

, On 03/20/2002 , Page 3

b6
b7C

[REDACTED] added that in [REDACTED]

[REDACTED]

[REDACTED] WB needed to persuade Turner to give them a twelve month window, during which Turner would not show the Exorcist so that the new version could be released theatrically without any competition from the original film playing on free TV. Turner agreed to grant WB a series of short windows, which totaled approximately 12 months, during which they did not show the original film. At the end of that period, and because Turner had continued to pay WB for its license, WB agreed that Turner could show the new version of The Exorcist, as well as the old version, for the remainder of the license period at no additional cost. [REDACTED] said that no money had been received by WB from Turner for the new version.

[REDACTED] WB had only been sued three times in the last 22 years over accounting disparities related to films. Law suits did not happen often, because usually both parties were able to reach an agreement and settle the dispute. In the case involving [REDACTED] and Blatty, after their last audit report was issued, WB entered settlement talks with them. At one point during the negotiations, [REDACTED] told [REDACTED]

[REDACTED]

b6
b7C

In response to the fourth claim in the audit report, which involved monies received from copyright tribunal, [REDACTED] said that the audit firm makes that same claim in every instance, and that it is wrong in every instance. The issue involves copyright royalties, an issue that was not mandated until the mid 1980's, far after [REDACTED] and Blatty signed their contracts for the Exorcist. [REDACTED]

b6
b7C

[REDACTED] then all the other findings were really trivial and did not amount to much.

[REDACTED] added that prior to the release of the new version, [REDACTED] WB than he

b6
b7C

196C-LA-227702

Continuation of FD-302 of [REDACTED]

, On 03/20/2002 , Page 4

originally had. Blatty did not negotiate any new deal. During the negotiations with [REDACTED] for the new contract, [REDACTED] office began to demand things on behalf of [REDACTED] that WB could not agree to. These demands included giving [REDACTED] or his representatives the right to look at the accounting records of all other films that were included in packages of films that were sold which included the Exorcist. At that point, the negotiations entered a stalemate and both parties refused to sign.

When it became clear that [REDACTED] would not agree to the new contract without the clause relating to the other films' books and records, and WB would not allow that language into the new contract, WB returned to the terms of the old contract to determine [REDACTED] compensation for the new release. Up to that point, in anticipation of a new contract being signed, WB had broken out the accounting records for the old and new versions on two separate statements for [REDACTED]. One cover sheet represented the old version and old contract, and the other represented the new version and new contract. When negotiations for the new contract ceased, WB issued a revised statement to [REDACTED] which represented combined accounting for both versions. This re-issued statement closely matched those issued to Blatty, which also contained accounting for both versions. The benefit to [REDACTED]

[REDACTED] said that [REDACTED] had not yet made money on the new calculation when it resorted back to the old calculation. During the time when [REDACTED] began negotiating his new deal with WB, [REDACTED] lied to Blatty by denying that he had negotiated a new deal for himself. When Blatty confronted [REDACTED] calculations on the new film, [REDACTED] told him to ask [REDACTED] because it would be improper for him to discuss one participants deal with another participant.

[REDACTED] advised that [REDACTED] new deal was a better calculation on the spectrum than a net-profit deal.

[REDACTED] said that the new version of The Exorcist was not a new film, but a different version of the same film. The two movies were very similar to each other, with the new version having

b6
b7Cb6
b7Cb6
b7Cb6
b7C

196C-LA-227702

Continuation of FD-302 of [REDACTED]

, On 03/20/2002 , Page 5

b6
b7C

a few minutes of additional footage that were not available on the old version and editing to the sound. [REDACTED] advised that there were several versions of the film made over the years for various reasons such as time constraints or edits to certain content.

[REDACTED] said that the reason that foreign TV revenue was approximately \$152,000 lower on the June 2001 statements than on the December 2000 statements was mostly accounted for because the revenue from Spain went down by \$200,000 during that period. This was most likely attributed to the Spain contract being cancelled for some reason, possibly a dispute with the Catholic Church in Spain.

b6
b7C

[REDACTED] said that approximately \$2.7 million in revenue from France was entered into the system as revenue for the old version instead of the new version because of a data entry error. [REDACTED] said that each film has a unique number assigned to it for accounting purposes. When the employee in France entered revenue for the new version, they inadvertently entered it under the old version's unique number. When this mistake was brought to [REDACTED]

b6
b7C

[REDACTED] said that the mistake was understandable, since the employee probably just saw the money as revenue for the Exorcist.

[REDACTED] said that [REDACTED] replacement at WB, [REDACTED] since he would know the details better than [REDACTED] did say that [REDACTED] new version to CBS, he believed CBS was the highest bidder. The film was offered to all of the networks, and only HBO and CBS showed any interest in it. HBO offered \$1 million and CBS offered \$1.5 million for a one time showing. WB believed that CBS wanted to show the film on Halloween night, which they never did, and the contract expired. Internal memos which document this claim have been offered to [REDACTED] There was currently no network contract for the new version. [REDACTED]

b6
b7C

[REDACTED] They don't make the news. This meant that the information [REDACTED]

Referring to the issue of vertical integration in the industry, [REDACTED]

b6
b7C

196C-LA-227702

Continuation of FD-302 of [REDACTED]

, On 03/20/2002 , Page 6

b6
b7C

that WB would deal with related parties at arms length. The new agreement that was never completed with [REDACTED] contained this type of language. [REDACTED] said that WB had an obligation to deal with related parties fairly. He said that both WB and their related parties did business with each other and with unrelated parties on a regular basis. There were lots of examples of license agreements with both related and unrelated parties to compare to show that WB did not give better deals to related parties. [REDACTED] added that HBO, which is a related party, is usually the toughest client for WB to deal with.

b6
b7C

[REDACTED]

b6
b7C

[REDACTED] said that it is in the best interest of WB to maintain a good relationship with it's participants, and to treat them fairly. WB may want to do projects with the same people in the future.

b6
b7C

At any given time, there are approximately 125 to 150 audits of films ongoing by companies representing participants. [REDACTED] personally negotiates settlements for the company when discrepancies are found. [REDACTED] said that for decisions, when it could go either way, he tended to err on the side of the company.

b6
b7C

[REDACTED] said that it costs a lot more money to advertise a film today than it did 30 years ago. The percentage of cost to revenue was much better in the 1970's than it is today. [REDACTED] said that he has never been found to have fabricated any expenses and that to the best of his knowledge, the same is true for WB.

b6
b7C

When disputes arise between WB and participants, the calls usually come into [REDACTED]

b6
b7C

[REDACTED]

FEDERAL BUREAU OF INVESTIGATION

Precedence: PRIORITY

Date: 05/30/2002

To: New York

From: Los Angeles

WCC-4

Contact: A-SSA [redacted]

Approved By: [redacted]

Drafted By: [redacted]

Case ID #: 196C-LA-227702 (Pending)-6

Title: UNSUBS;
dba AOL TIME WARNER;
[redacted] BILL BLATTY-VICTIMS
MF; OO:LA

Synopsis: Lead for NY to conduct interview.

Details: LA is investigating Warner Brothers Studios (WB) to determine whether Bill Blatty and [redacted] respectively, of the movies "The Exorcist" and "The Exorcist: The Version You've Never Seen" (the MOVIES) were defrauded by WB concerning their profit participation in the movies. [redacted] and Blatty have claimed that WB defrauded them in several ways. Those included issuing differing accounting statements (aka Top Sheets) to [redacted] and Blatty, citing different amounts of money received by WB and different expenses paid by WB.

[redacted] and Blatty also claimed that they were defrauded when WB sold the Network television rights to the new version to CBS for \$1.5 million, after NBC had offered \$2 million. [redacted] and Blatty said that WB gave the cable rights to the new version to TNT, a related entity, for free. WB contends that they had to give the film to TNT because they had the rights to the old film at the time when the new film came out in the theaters. In exchange for TNT not airing the old version at the same time they gave them the right to the new film for free.

[redacted] and Blatty said that this was unnecessary due to the fact that TNT's license was due to run out for the old version prior to the release of the new version. [redacted] and Blatty stated that in their view, the new version should have been sold to TNT for between \$20 million and \$30 million, and

b6
b7C

b6
b7C

b6
b7C

b6
b7C

148SA601.02

196C-LA-227702-6

RAM/PC

To: New York From: Los Angeles
Re: 196C-LA-227702, 05/30/2002

that the reason it was given for free was because TNT was a subsidiary of WB.

[redacted] and Blatty also allege that WB did not allocate enough money to the MOVIES when they sold them as part of multiple film packages.

b6
b7C

[redacted] and Blatty also say that there have been several mistakes, which they believe were deliberate, in the accounting for income and expenses of the MOVIES. They contend that this was deliberately done to cause them to lose residual money rightfully owed to them. These include \$2.7 million in revenue from France being added to income for the old version when it belonged to the new version. They also include foreign TV income going down from one statement to the next when it should have gone up.

[redacted] and Blatty have filed a civil lawsuit in federal court against WB alleging many of the complaints noted above. Blatty told interviewing agents that WB had offered to settle with him for \$1.7 million, but that he thought approximately \$3 million would be a more fair number. Blatty's deal as writer of the MOVIES was a net deal for 30%. [redacted]

b6
b7C

[redacted] during the time period in question. LA is requesting that NY interview [redacted] to determine his knowledge of the details regarding the transactions noted above.

b6
b7C

Additionally, [redacted]

b6
b7C
b7D

Specific questions for [redacted] should include the following:

b6
b7C

- 1) Time of employment at either Time Warner or Warner Bros
- 2) Job title, responsibilities, and supervisory chain of command.
- 3) During the relevant time period, the people that were supervised by [redacted] their titles and responsibilities.
- 4) The details regarding the bidding for the network rights to the revised Exorcist film. Who bid for the movie and what amounts of money did they offer? Was CBS the highest at \$1.5 million or was there a bid from NBC for \$2 million?

To: New York From: Los Angeles
Re: 196C-LA-227702, 05/30/2002

5) The details regarding the negotiations with TNT for the cable TV rights to the new Exorcist film. What was [redacted] involvement? What was the value of the new film for a cable TV? Why was the movie given to TNT for no additional license fee? Was it given to TNT without a fee because they are related companies?

b6
b7C

6) Did [redacted] know at the time that such deals would deprive [redacted] and Blatty of their rightful share of the movie's earnings? Did he ever discuss, with anyone, that Warner Bros. was acting in bad faith and being dishonest with [redacted] and Blatty? If so, who did he have the discussions with?

b6
b7C

7) During the relevant time period, were there discussions at Warner Bros. about lowering the amount of monies that were being paid in residuals? If so, what was the nature of those discussions and what actions were being taken to decrease the amounts owed to residual participants in Warner Bros. films?

8) Since TNT did not pay for the new film, was there any quid pro quo to Warner Bros. for giving them the film rights? If so, what did Warner Bros. receive?

9) How were the per-film prices derived for group license fee agreements? Was there a deliberate method to allocate fees to each film so as to limit, or negate the need to pay profit participants in the film?

10) Were there any bonuses paid to executives at Warner Bros. based on improving earnings by decreasing the amounts paid to profit participants?

11) Please obtain general personal information and educational background from [redacted] and ask if he would be willing to testify in a criminal case.

b6
b7C

To: New York From: Los Angeles
Re: 196C-LA-227702, 05/30/2002

LEAD(s):

Set Lead 1:

NEW YORK

AT NEW YORK

Interview [redacted] New York, NY,
telephone number [redacted] Use the background and list of
questions above to facilitate the interview.

b6
b7c

◆◆

FEDERAL BUREAU OF INVESTIGATION

Precedence: ROUTINE

Date: 07/05/2002

To: Los Angeles

Attn: A/SSA [redacted]
Squad WCC-4

b6
b7C

From: New York

Squad C-1

Contact: SA [redacted]

Approved By: [redacted] pjc

Drafted By: [redacted] rtj



Case ID #: 196C-LA-227702 (Pending)

Title: UNSUBS;
dba AOL TIME WARNER;
[redacted] BILL BLATTY-VICTIMS
MF; OO:LA

Synopsis: To report results of lead from LA to NY dated 05/30/2002.

Details: On June 19, 2002, SA [redacted] attempted to interview [redacted] New York, New York. [redacted] was not home and SA [redacted] left a business card with [redacted] doorman.

b6
b7C

On June 20, 2002, SA [redacted] received a telephone call from [redacted] SA [redacted] attempted to schedule an interview with [redacted] and advised [redacted] of the nature and purpose of the interview. [redacted] refused to speak with SA [redacted]

b6
b7C

On June 20, 2002, SA [redacted] received a telephone call from [redacted] who identified himself as [redacted] attorney. [redacted] further advised that he [redacted] was located in [redacted] attempted to schedule time for he and [redacted] to meet with SA [redacted]

b6
b7C

On July 3, 2002, SA [redacted] advised A/SSA [redacted] of his contact with [redacted] A/SSA [redacted] advised SA [redacted] that LA would handle the matter given that [redacted] was now represented by [redacted] A/SSA [redacted] advised that no further action by NY would be necessary at this time.

b6
b7C

UPLOADED

WITH/TEXT
WITH/OUT TEXT
BY [redacted]
DATE 7/11/02

Handwritten initials

196C-LA-227702-7

To: Los Angeles From: New York
Re: 196C-LA-227702, 07/05/2002

LEAD (s):

Set Lead 1: (Adm)

LOS ANGELES

AT LOS ANGELES

Read and clear.

♦♦

FEDERAL BUREAU OF INVESTIGATION

Date of transcription 07/12/2002

[redacted] date of birth [redacted] was interviewed at his place of employment [redacted] Glendale, California, telephone number [redacted] After being advised of the identities of the interviewing agents and the nature of the interview, [redacted] provided the following information:

b6
b7C
b7D

Prior to working for [redacted] worked for Warner Brothers [redacted] Warner Brothers records that were [redacted] s. with the auditors. [redacted] for television, [redacted] supervisor at Warner Brothers. [redacted] said that in most instances, he worked [redacted]

b6
b7C
b7D

[redacted] from Warner Brothers [redacted] Warner Brothers. [redacted] Warner Brothers and still had many friends there. [redacted] said that [redacted] from Warner Brothers because [redacted]

b6
b7C
b7D

Warner Brothers [redacted] did not know where such a story would come from but wanted to make it clear that he [redacted]

[redacted] Warner Brothers was quick to correct them. [redacted] described [redacted] Warner Brothers as the most honest, upstanding person you could meet. [redacted] Warner Brothers [redacted] to let them view any records they had a right to [redacted]

b6
b7C
b7D

Investigation on 07/11/2002 at Glendale, California

File # 196C-LA-227702-8

Date dictated

SA [redacted] SA [redacted]

b6
b7C

196C-LA-227702

Continuation of FD-302 of _____, On 07/11/2002, Page 2

see. Participants in Warner Brothers projects were allowed to see all of the records they wanted relating to anything they were charged for on their accounting statements. _____

_____ how to go about obtaining them. _____

said that as far as he knew, Warner Brothers was known as the most upstanding of all of the studios for honoring it's deals with participants.

_____ said that the only issues he knew of with participations involved occasional interpretation differences in contracts. _____ said that occasionally, the studio's interpretation with regard to certain charges would differ with the interpretation of the participant's auditor. However _____ said, the positions that the studios took as a whole were widely known in the industry, especially by the auditors.

When asked by the interviewing agents if he knew of any fraud or deception going on at Warner Brothers, _____ said not in the _____ said that he knew of an incident in the International Television Accounting Department where Warner Brothers was sued. _____ said that _____ had sued Warner Brothers alleging unethical principals on the part of Warner Brothers. _____

foreign TV sales as a signing bonus. _____ alleged that Warner Brothers was not entitled to the signing bonus. The contract was entered into in approximately 1996. The discrepancy was found and the issue was settled without going to trial in approximately 2000 or 2001. Warner Brothers corrected the contract accounting on all of the films involved in the Taurus contract.

b6
b7C
b7D

b6
b7C
b7D

b6
b7C
b7D

b6
b7C
b7D

FEDERAL BUREAU OF INVESTIGATION

Date of transcription 03/04/2002

[redacted] WARNER BROTHERS, 4000 Warner Boulevard, Burbank, California, telephone number [redacted] [redacted] was interviewed at his place of employment and in the presence of his attorney [redacted]. After being advised of the identities of the interviewing agents and the purpose of the interview, [redacted] provided the following information:

b6
b7C

[redacted]
of WARNER BROTHERS. [redacted]
[redacted]
[redacted] WARNER BROTHERS [redacted] pending between WARNER BROTHERS and [redacted] and WILLIAM PETER BLATTY. The lawsuit concerns a film named THE EXORCIST.

b6
b7C

WARNER BROTHERS makes and distributes approximately thirty (30) films per year. WARNER BROTHERS produces many more television programs. [redacted]

b6
b7C

[redacted]

[redacted]

b4
b6
b7C

Investigation on 02/26/2002 at Los Angeles, California

File # 196C-LA-227702-9 Date dictated

by SA [redacted] SA [redacted] kjh [signature]
SA [redacted]

b6
b7C

196C-LA-227702

Continuation of FD-302 of

[Redacted]

, On 02/26/2002 , Page

2

b4
b6
b7C

[Redacted]

Some years ago, ART BUCHWALD filed a lawsuit relating to the net profit participation agreement that he negotiated over a film that he wrote (COMING TO AMERICA.). BUCHWALD sued because he did not receive any participation revenue despite the fact that the movie was a certified hit that seemed to have made a substantial amount of money at the box office. BUCHWALD sued because he did not understand the full array of costs that the film company was permitted to recover before BUCHWALD was entitled to receive any participation revenue. [Redacted]

b6
b7C

[Redacted]

[Redacted] BUCHWALD'S participation. What BUCHWALD did not understand was [Redacted]

[Redacted] In this

situation, WARNER BROTHERS [Redacted]

[Redacted]

After the BUCHWALD lawsuit, WARNER BROTHERS [Redacted]

b6
b7C

[Redacted]

196C-LA-227702

Continuation of FD-302 of [redacted]

, On 02/26/2002, Page 3

b6
b7C

WARNER BROTHERS has had many similar disputes with [redacted] and BLATTY over the contracts that they entered into relating to a film called "THE EXORCIST." [redacted] and BLATTY filed their first lawsuit against WARNER BROTHERS in 1974. There have been other disputes since that time, and [redacted] and BLATTY are now involved in another lawsuit relating to the same film. In 2000, WARNER BROTHERS released an updated version of the film. Although the updated film was billed as the "version that you've never seen," the original and the remake are substantially the same. The only differences are eleven (11) minutes of new footage and an some difference to the soundtrack.

b6
b7C

The new lawsuit is inconsequential [redacted] expressed surprise that the Federal Bureau of Investigation would take an interest in the issues that are being raised in the suit. All of the major issues relating to this film and the conflict between WARNER BROTHERS and [redacted] BLATTY were resolved in the earlier litigation and WARNER BROTHERS views this lawsuit as a "mop-up" of the remaining details.

b6
b7C

The bulk of the current disagreement relates to different cost statements that were received by [redacted] and BLATTY. [redacted] and BLATTY contend that they should have received identical statements because the statements refer to the same film, THE EXORCIST. [redacted]

b6
b7C

[redacted] BLATTY [redacted]
[redacted] BLATTY [redacted]
this point that WARNER BROTHERS [redacted]
[redacted] and BLATTY. [redacted]

[redacted] was struck between WARNER BROTHERS and [redacted] and the older agreement that remains in place between WARNER BROTHERS and BLATTY. [redacted] explained this to counsel for [redacted] BLATTY, but counsel does not seem to understand this point.

WARNER BROTHERS is willing to provide access to all documents that are necessary to satisfy interviewing agents that there is no wrongdoing on the part of WARNER BROTHERS. [redacted] instructed interviewing agents [redacted]

b6
b7C

[redacted] WARNER BROTHERS [redacted] that form the basis for the complaints lodged by [redacted] and BLATTY. [redacted] WARNER BROTHERS [redacted] and

196C-LA-227702

Continuation of FD-302 of [redacted]

, On 02/26/2002 , Page 4

b6
b7C

BLATTY. [redacted]

b6
b7C

[redacted]
[redacted]
reflect the lengthy negotiations between WARNER BROTHERS and [redacted]
[redacted] the attorney who represented [redacted]
with WARNER BROTHERS.

[redacted] BLATTY also charge that WARNER BROTHERS further

b6
b7C

[redacted]
other, supposedly independent operating divisions of WARNER
BROTHERS's parent company, AOL-TIME WARNER. Specifically,
[redacted] BLATTY claim that WARNER BROTHERS sold at a discount or
just plain gave away the television and cable rights for the film.
[redacted] and BLATTY claim that WARNER BROTHERS could have
negotiated more lucrative contracts had it negotiated with
companies that were not affiliated with AOL-TIME WARNER. [redacted]
[redacted]

The situation surrounding THE EXORCIST is unique because it
concerns an existing film that was re-released in theaters with
only limited differences. [redacted]

b4
b6
b7C

[redacted] TURNER NETWORK TELEVISION
("TNT") possessed exclusive television rights to the older version
of the film. TNT, like WARNER BROTHERS, is an operating division
of AOL-TIME WARNER, [redacted]

[redacted]

WARNER BROTHERS then leased the rights to air the new version
to CBS. [redacted]

b4
b6
b7C

[redacted]

but that was only for \$1 million. During a deposition of [redacted]
in the civil case, [redacted] said that he knows that WARNER BROTHERS

196C-LA-227702

Continuation of FD-302 of [redacted], On 02/26/2002, Page 5

b6
b7C

[redacted] had an encounter with [redacted] in which [redacted]

b6
b7C

[redacted] evidence that [redacted] network really wanted to buy the rights to the film.

[redacted] recognizes that [redacted] and BLATTY may not think that \$1.5 million is a sufficient price for an undeniably high-quality film like THE EXORCIST [redacted]

b6
b7C

[redacted] In this sense, it is reasonable for television and cable outlets to place a higher value on a film that was not as highly-regarded by critics and moviegoers, because these other films can be played at during better time slots.

[redacted] interviewing agents. [redacted] WARNER BROTHERS and [redacted] has no say over whether the FBI [redacted] did

b6
b7C

[redacted] the conflict between WARNER BROTHERS and [redacted] BLATTY [redacted] if that would be of use to interviewing agents. [redacted]

[redacted] expressed concern over the nature of the investigation that was being conducted by the FBI. [redacted] recognizes that there could be differences of opinion over some of the valuations and allocations relating to THE EXORCIST, but

b6
b7C

[redacted] THE EXORCIST that it has used for all of its films over the years. [redacted] indicated that

196C-LA-227702

Continuation of FD-302 of [REDACTED]

, On 02/26/2002 , Page 6

b6
b7C

there was no fraud involved in the way that WARNER BROTHERS treated [REDACTED] BLATTY and their film.

At the conclusion of the interview, [REDACTED] asked a number of questions relating to the investigation. [REDACTED]

b6
b7C

[REDACTED] Interviewing agents explained that information might become available to the public at a later date should a case be brought to trial or a Freedom Of Information Act request be filed. Interviewing agents also instructed that it might become necessary to provide some information to other witnesses in order to frame questions and gather additional information.

[REDACTED] also wanted to know who it was that had the political clout to convince the FBI to investigate a little thing like this. [REDACTED] asked whether it was [REDACTED] BLATTY, their wives, agents, or lawyers. Interviewing agents stated that the FBI receives complaints from many different sources and that it investigates based on the allegations, not on the individuals who make those allegations.

b6
b7C

Finally, [REDACTED] offered to place a gentleman's wager on the outcome of the investigation. Having supplied beverages to the interviewing agents earlier in the interview, [REDACTED] offered to "bet" a Diet Coke that the FBI would conclude that there is no criminal conduct involved in this matter.

b6
b7C

FEDERAL BUREAU OF INVESTIGATION

Precedence: ROUTINE

Date: 11/25/2002

To: Los Angeles

From: Los Angeles

WCC-2

Contact: SA [redacted]

SAG/MJT

Approved By: [redacted]

Drafted By: [redacted] *EB*

Case ID #: 196C-LA-227702 (Pending)-10

Title: WARNER BROTHERS;
WILLIAM BLATTY - VICTIM;
[redacted] VICTIM;
MF, SECURITIES FRAUD

Synopsis: Close case.

Details: This case is being closed at the direction of ADIC
Ronald Iden as relayed by A/ASAC [redacted] Investigation to
date [redacted]

[redacted]

further investigation of this matter is not justified. Los
Angeles recommends this matter be closed.

b6
b7C

(Handwritten mark)

b5
b6
b7C

*Close Case
Admin C-4
11/25/02
CS 12-10-02*