From Mini to Major: A History of Alliance Atlantis

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ABSTRACT

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This thesis is a corporate case study of major Canadian broadcaster and distributor Alliance Atlantis, an examination of the company in the context of the Canadian film and television industry at the end of the twentieth century in order to shed light on what it is to be a mini-major studio and how a company such as Alliance Atlantis responds to changes in the industry in which it operates. In chapter one, I begin with a broad overview of the origins of the film and television production industry in Canada in order to provide context around the founding of Alliance and Atlantis. From there, I trace the growth of the two companies through several key events, up to just before they merged. Chapter two begins with a discussion of various media mergers that had taken place in North America in the 1990s and 2000s. The merger of Alliance and Atlantis and the response that that event garnered from the industry is then explored, as is the company's subsequent growth, particularly in the area of broadcasting. I begin chapter three with a discussion of the state of Canada's production industry in the early 2000s, and then move into Alliance Atlantis' announcement that it was exiting the business of production. The chapter ends with an assessment of how the decision to shut down the production side of its business has paid off for Alliance Atlantis. By the end of this thesis, it is clear that Alliance Atlantis has diverged dramatically from its production origins, and instead identifies itself first and foremost as a broadcaster.

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Introduction

Any idiot can make a program. Real men make channels.

Moses Znaimer in a television ad for CityTV (Ostroff)

In 2005, Alliance Atlantis Communications celebrated 10 years as a leading Canadian broadcaster of specialty channels. The company's earnings for 2005 had increased 21 per cent over 2004, to $192.9 million.[1] This was due in large part to excellent returns from the company's broadcast business, which houses 13 networks, including the popular channels HGTV, Showcase, and Food Network Canada. Alliance Atlantis had come a long way since the inception of two small Canadian companies founded by creative producers in the late 1970s. Atlantis, started by a group of university friends that included current Alliance Atlantis Executive Chairman Michael MacMillan, established with $300 in capital and paid themselves $100 dollars a week while making short films based on Canadian stories. Alliance was Robert Lantos' brainchild – he founded the company with a fledgling distribution business, and then quickly moved into the production of feature length films. The two companies grew alongside each other, launching their first channels concurrently and going public on the Toronto Stock Exchange in the same year – 1993 – until eventually, in the merger mania of the late twentieth century, the two companies converged to form Alliance Atlantis. This thesis is an examination of the tensions surrounding a company

[1] Consolidated EBITA (Alliance Atlantis-a).
All figures in Canadian dollars, unless otherwise noted.

trying to be a mini-major studio in Canada[2]. Through this investigation, I will analyze what it means for a large media company in a first world, second-tier country to go through a massive media merger of the type that was being experienced elsewhere, particularly the United States and Europe, at the end of the twentieth and beginning of the twenty-first centuries.

In the late 1990s and early 2000s, the concept of "bigger is better" took hold globally in the form of convergence among media companies. Convergence was not new; as Gordon Pitts points out, it was actually an old way of doing business called vertical integration, but in the 1990s, "it was dressed up in new media attire and called convergence, the ability to move proprietary content – such as news, sports and movies – down the pipes of cable television, satellite and Internet broadband connections" (Pitts, "Convergence" B9). The idea behind the media convergence of the 1990s was equally simple. As Steve Maich explains:

> Companies that controlled distribution networks to the public (Internet, telephone and cable companies) would join with so-called content providers (publishers, broadcasters and producers), and somehow, by having everything under one roof, the result would equal more than the sum of its parts. (RB7)

The logic at the end of the 1990s was that bigger media companies were needed – companies that would centralize multiple parts of the business cycle under one

[2] Variety defines a "mini-major" as a "big film production companies that are ... smaller than the majors although such companies ... compete directly with the big studios" (Slanguage).

corporation.[3] MacMillan and Lantos were thinking along these lines when they merged their companies in 1998. In order to be successful, according to the above rationale, a media company needed to compete on an international level. In order to compete on that scale, a company needed deep pockets, and neither Alliance nor Atlantis had deep enough pockets on its own. Realizing that joining together would make them more money than continuing to compete with one another, the two companies merged. Even before the merger, each of the two companies was the largest of its kind in Canada – Atlantis with its initial focus on production, and Alliance as a major film distributor, before they both shifted their focus to broadcasting. Granted, Alliance and Atlantis were not the only players in Canadian film and television production. Companies such as Paragon Films, Cinar Films, and Astral Communications had also played an important role in shaping Canada's media landscape. Yet most large media companies in Canada concentrated on one or two aspects of the business – producing, distributing, broadcasting – and before the creation of Alliance Atlantis, Canada did not have a major studio of its own, a company that housed all of these aspects of the business under one corporate banner.

While the merger of Alliance with Atlantis raised concerns about the concentration of power in one large corporation, it was also recognized that it would be beneficial to the industry to have a Canadian company of the size of Alliance Atlantis acting as an international player. As Harvey Enchin states, key players in the production business agreed that the merger was a "mark of

[3] I will return to how this actually played out later in this thesis. As we have seen since then, many of these merged companies did not perform as expected, and many have since been dissolved or restructured in other ways.

maturity" for the Canadian industry ("Canuck" 42). As he points out, a little more than a decade before the merger, Canadian production did not exist as an industry – "it was a co-op of creative talent, liberally funded by the government, involved in the production of earnest Canadian films, educational programming and shows that private broadcasters were forced to run to meet Canadian-content quotas" ("Canuck" 42). However, as the Canadian film and television production industry grew and became established, government funding subsided and regulatory measures requiring Canadian broadcasters to air indigenous programming were relaxed. Meanwhile, the growth of television and the expansion of the market in the form of more channels and an increase in programming choice meant that fewer people were watching each show. This amounted to slimmer margins for producers and the sense in the Canadian industry – and elsewhere – that the only way to compete was to increase the size and strength of media companies.

It is particularly indicative of the time that, in the Canadian Radio-television and Telecommunications Commission's (CRTC) approval of the application to merge Alliance with Atlantis, the regulator did not impose any conditions on the company beyond the norm for that type of transaction. The CRTC treated the merger of Alliance and Atlantis in a way that suggested business as usual, when, given the size and scope of the merger, that was clearly not the case. One can imagine that perhaps the CRTC was swept up in the merger mania of the time, and embraced the consensus that bigger is better. There is no question that the CRTC played a role in Alliance Atlantis' growth, first with its relaxed dealings surrounding the merger of the two already large companies, and then with its compliance with Alliance Atlantis' buyout of Salter Street Films, which included the subsequent takeover of the licence for the coveted Independent Film Channel Canada. That same year, the CRTC approved the licence for eight additional specialty channels to be launched by Alliance Atlantis, thus solidifying the company's role as a major Canadian broadcaster.

The CRTC also played a role in Alliance Atlantis' eventual exit from the production business. Through the revision of its broadcast policy in the early 1990s, the CRTC had created a context in which Canada's major private broadcasters (CTV and Global) were not required to air as much indigenous dramatic programming as they had been obliged to in the past. This policy led to a reduction in the demand for Canadian dramatic television programming which ultimately led Alliance Atlantis, as a publicly traded company accountable to shareholders, to exit the production business. In 2003, Alliance Atlantis announced that it was, for most intents and purposes, getting out of TV and movie production. Canada's largest producer of prime time drama, documentaries, mini-series and feature films was ceasing production on all but its most profitable projects (such as the *CSI* franchise), and closing offices in Halifax, Edmonton, and Vancouver. The reason for this shift, as explained in Alliance Atlantis' 2003 annual report, was that markets for film and TV productions were shrinking, and that producing high-quality films and television programming is typically a high-cost, low margin business. Thus, it could be said that the argument that the Canadian film and television production industry needed a mini-major studio the size of Alliance Atlantis proved not to be true, as the company ultimately stopped producing in favour of broadcasting and distributing.

Implications of this research

There is no doubt that the history of Alliance Atlantis makes for a compelling corporate case study, but beyond that, why write this kind of history? To attempt to answer this, I turn to the apt article written by Frederick Wasser for the online journal of television and media studies *Flow*, published out of the University of Texas. In "Why Media Scholars Should Write Corporate Histories," Wasser reflects on the tenth anniversary of the launch of American networks WB and UPN, then the fifth and sixth largest US broadcast TV networks. Wasser finds that there is no mention of the anniversary in the popular media, and then asks rhetorically why there should be, as it is merely the anniversary of two inconsequential networks – "weblets" – that "have not amounted to much … [and] were not conceived to do much either" (Wasser). However, Wasser makes the point that it is this lack of consequence that should draw the attention of media historians "if only because no one else will write their histories" (Wasser).

Certainly the case of Alliance Atlantis is different, from the Canadian perspective. When it first merged, the company became the twelfth largest broadcasting and production company in North America. In Canada, however, Alliance Atlantis is the biggest company of its kind, and anything but inconsequential. Yet, unlike the American studios to which it has been compared, no corporate history has been written of Alliance Atlantis. The story of the roots of the company is well known – a tale of two groups of bright-eyed, passionate young filmmakers with the drive to create Canadian film and television at a time when not many were venturing to do so. But in terms of tracing the history of the company through its decisions, achievements, and setbacks, no case study has been undertaken. Alliance Atlantis was founded by entrepreneurs who were also creators, much in the same way the major Hollywood studios were started in the 1920s. The 1998 merger that created a key industry player in Alliance Atlantis made the company the closest thing Canada has had to a Hollywood-style major production studio. Before the merger of Alliance with Atlantis, there was nothing in Canada that could compare to the studios in Hollywood, no northern answer to Paramount or Universal. As Alliance Atlantis is the closest Canada has come to the equivalent of one of the major US studios, an examination of key moments in the history of our own mini-major can shed light on what it is to be a producer of film and television in Canada.

This thesis sets out to chronicle – and in some cases celebrate – Alliance Atlantis' achievements in the industry. It is an investigation of the company's history and an examination of its industrial strategies – particularly its decision to operate as a mini-major studio at a time when many media companies were merging with Internet and other telecommunications corporations. My reason for choosing Alliance Atlantis as the focus of this thesis is its singularity as a media company of its kind in Canada. By placing the company in its historical and institutional context, I strive to illuminate the conditions of its emergence, as well as what the history of this company tells us about the last two decades of convergence.

This thesis is organized around three key moments in the history of Alliance Atlantis: The founding of Atlantis Films and Alliance Communications, the merger of Alliance and Atlantis in 1998, and Alliance Atlantis' decision to close its production arm in 2003. In chapter one, I begin with a broad overview of the origins of the film and television production industry in Canada in order to provide context around the founding of Alliance and Atlantis. From there, I trace the growth of the two companies through several key events, up until the moment just before they merged. Chapter two begins with a discussion of various media mergers that had taken place in North America in the 1990s and 2000s. The merger of Alliance and Atlantis and the response that the event drew from the industry is then explored, as is the company's subsequent growth, particularly in the area of broadcasting. I begin chapter three with a discussion of the state of Canada's production industry in the early 2000s, and then move into Alliance Atlantis' announcement that it was shutting down production. An examination of some of the concerns expressed by key industry players follows. The chapter ends with an assessment of how the decision to exit production has paid off for the company. By the end of this thesis, it is clear that Alliance Atlantis has diverged dramatically from its production origins, and instead identifies itself first and foremost as a broadcaster.

Methodology

It is my hope that this thesis will encourage other media scholars to write corporate histories of the companies that built the Canadian film and television production industry, just as Wasser's article inspired me in my research. I have relied primarily on trade publications in writing this thesis, as I wanted to trace the history of Alliance Atlantis through the popular press, analyzing what industry insiders were saying about the deals and developments that were taking place as they were taking place. Wasser makes the case that corporate historians and trade journalists write for an audience who are constantly worried only about the "next new thing." He writes: "They neither ask the right questions nor can afford the perspective of a historian." Despite this, he praises trade journals such as *Variety* "for often having a critical analytical eye," but makes the point that while trade journals can provide the data upon which we base our questions, they cannot do the work for us.

I echo Wasser's praise of the trade journals. The bulk of my research was compiled from North America's two main film and television industry trade publications: *Playback*, Canada's production and broadcasting industry magazine, and *Variety*, the equivalent trade publication in the US. These two publications were key in assisting me with the construction of a timeline of major events in the history of Alliance Atlantis, and from there, as a basis for my exploration of the company's history. In addition, internal corporate communication documents, such as news releases published by Alliance Atlantis, provided me with the information and positioning Alliance Atlantis wished to present at various points in its history. Industry analysts quoted in articles in major Canadian newspapers, were useful in establishing the industry climate during key events. CRTC decisions addressing deals involving Alliance Atlantis were invaluable in providing the licensing position of the federal regulator. With the help of these sources, my aim is to take a unique look at the history of Alliance Atlantis in the context of the Canadian film and television industry at the end of the twentieth century, during the rash of media mergers, in order to shed light on what it is to be a mini-major studio and how a company such as Alliance Atlantis responds to changes in the industry in which it operates.

Chapter One

The Beginning: Alliance and Atlantis

Introduction

During the 1970s, two small independent production companies were formed in Canada that, the better part of three decades later, would shape Canada's media landscape as the largest film and television production studio north of the forty-ninth parallel. The unassuming origins of Alliance and Atlantis were contraindicative of the sway that the two companies would hold over the industry after they merged in the late 1990s to become the closest equivalent to a Hollywood-style major studio Canada has ever had. However, the humble beginnings of these two companies were completely in keeping with the burgeoning industry from which they emerged. Prior to the 1970s, the film and television production industry in Canada was almost nonexistent. It was following the creation of key federal funding initiatives in the late 1960s and early 1980s that the Canadian production industry began to take shape, allowing for the establishment of companies such as Alliance and Atlantis that would generate their profits from the production, distribution, and, later, the broadcasting of films and television programs.

Setting the stage

Whereas all seven of the original major movie studios[4] in the United States were up and running by the mid-1920s – giving rise to what is commonly

[4] Paramount, Universal, Fox, Columbia, Warners, Disney, and MGM – the "seven sisters" (Dirks).

referred to as the "golden age of Hollywood"[5] – film production in Canada was primarily driven by government agencies until the late 1960s, and an independent production industry did not begin to emerge in Canada until the 1970s. When the industry did begin to take shape beyond the scope of government productions, it was still largely funded by public money. The National Film Board (NFB) had been formed in 1939, but, as Ted Magder points out in *The Cultural Industries in Canada*, the approach that Film Board Commissioner John Grierson – and others who made up Canada's "cultural elite" at the time – took to film making was as follows:

> NFB films were good because they were educational, while popular Hollywood films threatened to undermine the very existence of a Canadian identity; the federal government should support only those cultural activities that are educational and thus make a meaningful contribution to Canadian identity; state support for popular fictional films was untenable because popular culture did not serve an educational purpose. (164 – 5)

In light of this, it is not surprising that a Canadian feature film industry did not emerge under the NFB. It was the creation of the Canadian Film Development Corporation (CFDC)[6] in 1967 which marked the first tangible efforts by the federal government to promote a Canadian film industry. The CFDC had an annual budget of $10 million and, unlike the NFB, was expected to become self-financing. Magder points out that, from its inception, the CFDC was "conceived

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[5] From around 1930 – 1948 (Dirks).
[6] The CFDC was renamed Telefilm Canada in 1984 (Magder, 167).

as a commercial agency, interested as much (if not more) in the profitability of the films it supported as in their contribution to Canada's cultural life" (165). As a result of the CFDC, production increased from four or five films a year in the early 1960s to an average of more than 20 films a year five years after the CFDC was introduced (Canada-i).

The next significant step towards establishing a Canadian production industry was the creation of the Canadian Broadcast Program Development Fund in 1983 (Magder, 167), which had an initial budget of $254 million spread over five years and was meant, as Magder points out, to stimulate production of high-quality, culturally relevant Canadian television programs, reach the broadest possible audience with those programs through scheduling during prime time viewing hours, stimulate the development of the independent production industry, and maintain an appropriate regional, linguistic and private-public broadcaster balance in the distribution of public funds (167). In 1988, the fund was made permanent, with a budget of $60 million per year. In 1989, that budget was supplemented by an auxiliary fund of $16.5 million per year (167).

In 1986, the federal government introduced the Feature Film Fund to "promote the production and theatrical distribution of high-quality dramatic films with a high level of Canadian content" (Magder, 168). As Magder points out, this coincided with the emergence of funding agencies in a number of English-Canadian provinces, such as the Ontario Film Development Corporation, established in 1986 – 1987 to provide equity investment in feature film and television productions based in Ontario (170). The federal government adopted its Film Distribution Policy in 1988 to encourage better market access for Canadian productions (Canada-i).

The 1990s saw the creation of more policy initiatives geared towards the production industry in Canada. The Canadian Film or Video Production Tax Credit, introduced in 1995 to replace a less effective 1974 fiscal incentive, reimbursed producers for a portion of their expenses. In 1996, the Canada Television and Cable Production Fund was created in order to fund Canadian television programs. In 1997, the Film or Video Production Services Tax Credit was introduced to encourage Canadian and foreign film producers to hire Canadian crew for production services done in Canada (Canada-i).

The existence of this kind of federally-sanctioned support signaled an important shift in the Canadian film industry. Support from Canadian taxpayers, in the form of government funding, allowed for the emergence of a small group of well-financed and diversified production companies in the late 1970s and early 1980s. These companies benefited from policy measures introduced by the government to nourish independent production in Canada. It was out of this environment that Atlantis Films and Alliance Communications emerged.

Atlantis is founded

In 1978, five friends who had met while pursuing film studies degrees at Queen's University in Kingston, Ontario formed a small production house with $300 in startup capital (Murray, "Looking" 157). After starting out as Birchbark Films, they made the switch to the more impressive-sounding Atlantis Films

(Littleton, 78). Michael MacMillan, Seaton McLean, Janice Platt, Andy Rednick and Nick Kendall set up shop in a Victorian house on Church Street in downtown Toronto (Wise, "Atlantis").[7] The office took up three rooms on the first floor of the house, and the partners lived on the upper two floors. Their first project was a documentary on the Royal Winter Fair for Canada Packers, a meat packing company, done on a budget of $25,000. MacMillan did the cinematography, McLean did the lighting, and Platt did the sound recording (Murray, "Looking" 157). The partners made seven sponsored films in one year.

They saw the recession coming in 1980 and decided to enter drama production (Murray, "Looking" 157). Atlantis' first dramatic film was a half-hour adaptation of a Margaret Laurence story, "The Olden Days Coat." They learned as they went; McLean recalls that concepts like call sheets and craft service were totally foreign to them. He remembers rushing out to the doughnut shop on the first day of production so they could feed the crew (Murray, "Looking" 157). The budget on *The Olden Days Coat* was $130,000, raised from relatives and private investors. McLean later remarked that "they all got their money back and they actually made money on it ... It only took them 10 years to do it" (Murray, "Looking" 157).

Platt had left the entertainment business in the late '80s (Murray, "Looking" 157). Of Atlantis' original partners, two remained – MacMillan was president and McLean vice president. They were joined by two more friends, Ted Riley in 1984 and Peter Sussman in 1986 (Murray, "It's" 157). With the new

[7] Kendall left Atlantis after the first few months, and Rednick after a year-and-a-half (Wise, "Atlantis")

configuration, Atlantis was still very much a team effort. MacMillan handled the deal making, McLean oversaw production, Sussman looked after the creative and business end of projects in LA and abroad, and Riley served as an emissary for presales, coproductions and after-the-fact sales (Murray, "It's" 157).

Atlantis emerges as a major industry player

In 1984, Atlantis Films won an Academy Award in the short film category for *Boys and Girls*, based on the story by Alice Munro. The film was the last in a series of six half-hour dramas based on short stories from Canadian literature broadcast on the CBC, and though it only cost $156,000 to make in 1982, the amount of debt the three producers assumed in order to make the film kept them up at night. At the time, they were paying themselves about $100 per week each (Pitts, *Kings* 221). "We were going to run out of money," said MacMillan in a 2000 interview with the *Globe and Mail*, "and the Royal Bank was going to call our loan. I was dejected; we were all dejected." MacMillan's wife, Cathy, came home late one night to find him reading the want ads in bed (Scott). Fast forward to MacMillan, McLean, and Platt sitting in Los Angeles' Dorothy Chandler Pavilion in 1984, waiting for actor Michael Caine to reveal the winner of the Oscar for best short drama. When Caine announced that *Boys and Girls* was the winner, MacMillan recalls: "We all jumped out of our seats for about half a second. But the time I was up in the air seemed like an eternity. And while I was up there, I can remember thinking, this will keep the Royal Bank quiet for at least a few months" (Scott). After the Oscar win, the Atlantis team received various offers to move to Hollywood and work on script development, but they opted to stay home (Pitts, *Kings* 221). As Gordon Pitts reports, the way they saw it was: "Why be a little fish in a huge pond? Why not a semi-sized fish in a small pond?" (*Kings* 221). According to *Take One* magazine's Geoff Pevere, the film marked a turning point in Canadian television and "raise[d] the bar considerably for quality in Canadian drama." The Oscar win announced the arrival of Atlantis as a major independent producer and increased the company's fortunes.

"We were hands-on filmmakers living like church mice," MacMillan recalls. "Yet back when people asked us what do you want to be when you grow up, we'd say, 'Have you ever heard of company [*sic*] called Paramount?' That was our line" (Pitts, *Kings* 220 – 221). The production that really put the company on the map in Hollywood in 1985 was *The Ray Bradbury Theater*, a half-hour series produced for HBO and later USA Network (Littleton, 78). As Atlantis' level of production increased, the company eventually took over three floors of the original Victorian house in which it made its office and, by 1985, had outgrown that space. Atlantis joined forces with PS Production Services – a film equipment rental firm – and created the 100,000 square foot Cinevillage production lot in Toronto ("Atlantis used" 162). In 1988, Atlantis Films marked its tenth anniversary with the expansion of its television division, now called Atlantis Releasing, to include a theatrical sales agency to complement the existing television distribution operation, and a film acquisition fund set up for use by both the theatrical and television arms of the company ("Atlantis TV" 246). According to Riley, the higher profile for Atlantis' television arm was a natural extension of the company's goals. "It's imperative to be involved on the international level," he was quoted as saying in an article for trade journal *Variety* in 1988. "For Canadian companies to survive, we need an international profile. Production costs are rising, but license fees are remaining more or less the same. And coproduction and coventure are the buzzwords" ("Atlantis TV" 246). Riley launched two new offices in London and the Netherlands that year, making Atlantis the first Canadian independent distributor to set up an office offshore ("Alliance TV" 246). In the new offices, Riley would sell for distribution and acquire not only Canadian programs, but international productions as well.

That same year, MacMillan told *Variety* of Atlantis' plan to maintain its level of television production, complete two to three feature films a year, and continue to expand Atlantis Releasing by acquiring rights for the properties outside of Atlantis-produced material. As MacMillan explained:

> Our master plan is often made in retrospect, but we're strongly beefing up our Canadian activities as well as acquiring more programming and the mechanics of selling them ... The percentage of Atlantis-produced product will decline as we continue to acquire more programming for distribution. We alone can't produce the volume of programming needed to be a really good distribution company." ("Entering" 64)

According to MacMillan, the Atlantis partners recognized at the outset that they had to sell and coproduce outside Canada since the domestic market alone was not enough to sustain production (Murray, "It's" 157).

Atlantis spent the late 1980s and early 1990s forging partnerships with international and Canadian production companies, among them Vancouver-based Sojourn Pictures, Great North Productions in Edmonton, and Winnipeg's Credo Group, associations which resulted in several coproductions (Murray, "It's" 157). The business strategy behind this centered around creating a studio-like arrangement of production partners from coast to coast: "You get to a certain size where it makes sense to decentralize management on projects. We don't want to be a monolith. We don't think it's the most effective way of doing business," MacMillan said in a 1993 interview with *Variety* (Murray, "It's" 157).

Atlantis goes public

By the early 1990s, the entertainment industry had become truly global, with tremendous growth potential. Cutbacks in Canadian government funding projects made joint productions between foreign entertainment companies an increasingly popular way to make film and television. This growth was responsible for Atlantis' expansion and subsequent public offer on the Toronto Stock Exchange (TSE) ("Alliance Atlantis Communications"). According to MacMillan, the company needed to expand because it was planning to significantly increase its production slate, as well as its acquisition of third-party programming (Mazurkewich, "Atlantis" 2). MacMillan said that Atlantis was "looking for investment opportunities in other companies" (Mazurkewich, "Atlantis" 2). In May 1993, Atlantis sold a minority interest of its shares to US company EC Television, a division of advertising agency conglomerate

Interpublic. MacMillan stated: "In order to have an impact and fuel the next round of growth we're anticipating, [financial investment] obviously is a significant factor" (Murray, "Investors" 42). Accordingly, Atlantis went public on the TSE in December of 1993, successfully raising $34 million (Craig, 33). In 1994, Atlantis bought a 5 per cent share in Halifax-based Salter Street Films and a 20 per cent share in Great North Communications. Other deals made that year included the 100 per cent acquisition of Toronto-based post-production house Soundmix and a 14 per cent investment in the Credo Group (Cuthbert, "Atlantis" 1). According to Kevin Shea, then-chief operating officer of Atlantis, the minority investments were aimed at broadening Atlantis' access to material for domestic and international distribution while giving smaller companies access to private capital (Cuthbert, "Atlantis" 1). "We wanted to be in each region and these are the top production companies in their regions," said Shea. "We wanted to get to them before someone else did. This is a chapter out of broadcasting and out of cable that complements our ability to do business" (Cuthbert, "Atlantis" 1). While Atlantis would not be in a position to directly tap regional funds through the investment deals, both Salter Street and Great North continued to have access to the same regional funds as before the deal.

According to Salter Street's Paul Donovan, who co-founded the company with his brother, Michael, Salter Street was not looking for investors when Atlantis approached them, but the idea sounded good: "Atlantis has strong relationships with the US and they have a lot of deals cooking. Maybe they can lay some of that off on us," he said in an interview after the deal was struck. The plan was for Salter Street to remain completely independent in creative decisions, said Donovan, with the new money going towards bolstering TV production and expanding Salter Street's ongoing search for new people in development and production in Canada. Donovan described the relationship with Atlantis as "a goodwill kind of thing" (Cuthbert, "Atlantis" 1). Since its inception in 1981, Salter Street had produced many quintessential Canadian series, including the popular television shows *Codco* and *This Hour Has 22 Minutes.*

Atlantis enters broadcasting

In the summer of 1994, a second issue of Atlantis stock on the TSE generated another $16 million, which was earmarked to finance the acquisition of a 28 per cent interest in YTV, the Canadian specialty channel for young people (Craig, 33).[8] This move into cable signaled a shift away from the company's filmmaking roots and towards its future as a broadcaster. It was just the beginning, as approval came from the CRTC that same year for Atlantis to debut a national specialty channel, Life Network, in January of 1995 ("History" 83).[9] Life was one of 10 new special channels approved by the CRTC that year, to be carried by various broadcasters with the aim of giving "Canadian programs a leg up before US satellite services begin beaming hundreds of channels into Canada," according to CRTC chair Keith Spicer. "With respect to the so-called Death Star, which we feel may be more of a shooting star, by establishing solid Canadian services now, it will make competition much more difficult," he said

[8] Atlantis sold its interest in YTV to Shaw Communications in 1996 (Craig, 33).
[9] Life Network was originally called You: Your Channel (Craig, 33).

(Flavelle, D2). According to MacMillan, the move into broadcasting was just an extension of a specific strategy the company had followed. "It has always been important to broaden our activity," said MacMillan in a 1998 interview with *Variety*. "We began as a production company, but in the '80s we decided to venture into distribution. In the '90s we thought the time was right to become a specialized broadcaster" (Spencer, 79). The launch of Life symbolized the first step toward realizing Atlantis' goal of creating five networks oriented around food, health, habitat, people and travel/nature. The Life Network commissioned over 80 original series in its first three years on the air (Spencer, 79).

Atlantis reached the next stage in this five-network goal with the October 1997 launch of HGTV Canada, a Canadian version of the Scripps-owned American channel, targeted to home and garden aficionados. Atlantis spent $3 million on original Canadian programming and acquired $600,000 worth of additional Canadian fare for the channel in its first year, as well as many titles from HGTV US (Spencer, 79). The focus was on building the company's catalogue. "We make sure that as we grow, we maintain our creative focus – our links to all aspects of the creative community. I'd like to make programs that are popular today and still watchable tomorrow," said MacMillan at the time (Argy, 80). Atlantis had also begun representing other producers' programming, both in Canada and internationally. "We're trying to have ongoing assets at all turns," said MacMillan (Argy, 80). Atlantis began airing the US version of the Food Network channel at the same time, with 100 per cent American programming. Atlantis had applied for a licence to air its own version, Food Network Canada, with 50 per cent Canadian programming, the year previous, but that application would not be approved until 2000.

Alliance begins

Around the time MacMillan and the rest of the Atlantis gang were starting their studies in Kingston, Robert Lantos travelled from Montréal, where he had attended McGill University, to Toronto. At McGill, Lantos had started a small film distribution film company, Derma Communications, with Steve Roth (Znaimer, 5). Moses Znaimer, an old McGill chum of Roth's, had just launched CityTV in Toronto and was just barely staying on air by running late-night erotica flicks to attract viewers and advertisers. It was 1972, and Lantos had just been to The New York Erotic Film Festival and brought back a demo reel – *The Best of the New York Erotic Film Festival* – which he sold to Znaimer for $600, and then promptly returned to New York to use that money to put a lock on the rights to the film he had just sold (Znaimer, 5).

1972 also saw Lantos partner with Victor Loewy to form a fledgling distribution company, Vivafilm, which was based in Montréal. In 1975, Lantos, Loewy, and Roth joined forces to form RSL Entertainment (Adilman, 25). They moved into production with Gilles Carle's *L'ange et la femme* in 1977 and George Kaczender's *In Praise of Older Women* the following year. The Ontario Board of Censors initially refused to allow *In Praise of Older Women* to be screened at the Toronto Festival of Festivals, [10] which gave the film an edge, due to the controversy that surrounded it and the resulting publicity. The result was a near

[10] Now called the Toronto International Film Festival.

riot at the festival after tickets were oversold. The film's notoriety made a name for Lantos as a Canadian producer (Wise "Robert").

RSL merged with the International Cinema Corporation (ICC), RSL's main competition as Canada's most active independent film producer, in 1985. The decision to merge was initially made because of competing interests in the same project, *The Sword of Gideon*, which became an $8 million, four hour miniseries coproduced by Canada and France for HBO and CTV (Adilman, 25). Peter Pearson, Telefilm's executive director at the time, suggested the two companies join forces against foreign producers to keep the project in Canadian hands. Roth and ICC founders Denis Heroux and John Kennedy later left the company, which was renamed Alliance Entertainment. "What began as a federation evolved into a corporation," recalled Lantos in 1990. "It was a lot simpler to run a company with a single vision than with four visions. Things ... unfolded according to the original plan, which was to build a large, internationally based Canadian company diversified in all aspects of film and television-program business" (Adilman, 25).

Alliance expands

Corporate expansion after Alliance Entertainment was formed in 1985 included the 1987 purchase of Vivafilm, which was then renamed Alliance Releasing (Adilman, 25). Loewy became president of the new company, home video and television sales were introduced, and Vivafilm's Québec-based distribution activities were spread nationwide.[11] In a 1998 interview with *The*

[11] Vivafilm remained Alliance's, and then Alliance Atlantis', Québec distribution arm.

Ottawa Citizen following Alliance's merger with Atlantis, Lantos recalls the impetus behind the move towards distribution and away from production:

> I wanted to have some real infrastructure, I wanted to have a business. I wanted to hold my head up high when I walked around the Cannes Film Festival or dealt with the Hollywood companies ... Something in my nature rebels at being a supplicant. And back when I started, if you were a Canadian in this business, you were a supplicant by definition. The plan was that ... there would be a point in time that I would pass it on to others and I would go back to telling stories. (Atherton, B6)

Lantos became sole chair of Alliance in 1987. In 1989, Alliance Equicap was created as an in-house subsidiary to raise private financing and to augment investments from government agencies for film and television production. Executive vice president and chief executive officer of Alliance, Jay Firestone, was named Equicap president ("Equicap" 40). Alliance offices in LA, London, and Paris were opened between 1987 and 1990 (Adilman, 25). The idea behind Equicap, according to Lantos, was for Alliance to depend less on government agencies such as Telefilm for financial help. "We only go to Telefilm on projects which we believe cannot be made without it. Those tend to be projects with exceptionally high indigenous Canadian value," Lantos said at the time. Combined investments from Telefilm and all provincial agencies in Alliance's 1990 production budget was 12 – 15 per cent, he said in a 1990 interview with *Variety*. "We don't go to Telefilm on projects that can be financed out of the marketplace; for example, *Delta of Venus*, and *Black Stallion*" (Adilman, 25). In 1990, 12 – 15 per cent from Telefilm amounted to $1.5 million annually for Alliance for distribution of homegrown and foreign films in Canada. At the time, almost all Canadian films handled by Alliance Releasing had been made by the parent company, and to keep the influx of funding from Telefilm going, Alliance's plan in 1990 was to increase its proportion of Canadian releases (Ayscough, 28). Four years later, in another interview with *Variety*, Lantos reflected on the importance of government support through Telefilm: "Telefilm is a crucial institution for anyone who cares about *bona fide*, specific, distinct Canadian programming, regardless of what its value is in the rest of the world. If you care about Canadian programming with a lot of integrity, then Telefilm is an essential component to making it happen," he said. "As a company, we have other ways to invest our money where the risk is much lower and the returns are higher. So we turn to Telefilm on projects such as these, and there the Telefilm investment is very substantive" (Kelly, "Alliance's").

Alliance goes public

In August 1993, Alliance Communications, then Canada's largest independent film and television producer, became the second production company in Canada to go public, following Toronto-based producer Paragon Entertainment.[12] Alliance was influenced by the same financial trends in the

[12] In 1990, Alliance Entertainment was renamed Alliance Communications to reflect the company's bilingual connections, as the new name is identical in English and French ("Renaming" 25).

industry that led Atlantis to go public just months later. Alliance raised $34 million in its initial offer, and a second offering in May 1994 grossed a further $25 million (Craig, 33). When asked about the impetus behind going public, Lantos said: "We have the opportunity to supply on a far larger scale ... on a global basis, and that's one of the reasons why we increased the capital of the company. To take full advantage of the opportunities that are staring at us to supply significantly more programming than we have in the past" (Kelly, "Filmers" 40). The money raised by the public offering was to go towards expanding Alliance's distribution libraries, both domestic and international, and increasing production. "Expansion will be into whatever makes sense," Chief Operating Officer Gord Haines said at the time (Craig, 33). In an interview with *Variety*, Haines credited Alliance's success to operating as a fully integrated entertainment company, developing its expertise as the marketplace changed (Craig, 33). "Because we started off as a Canadian company and couldn't depend solely on the domestic market to finance our programs and films, we had to create a model very different from what Hollywood uses. We had to create a skill set that allows us to put together financing from different sources," he said. According to Haines, Alliance developed a reputation for being good at what it does, as a reliable and preferred supplier: "In essence what we became is more like a studio than Canada had had before" (Craig, 33).

Lantos echoed Haines' views on the challenges Alliance faced as a diversified Canadian entertainment company: "The single biggest difficulty about being based in Canada is that everywhere else in the world where there is a film and television industry, it is fundamentally financed by the domestic market," said Lantos in an interview with *Variety*'s Brendan Kelly: "In Canada, it's not. This is the world's most fragmented market, 26 million people spread out over a country twice the size of the United States and split into two languages. And it's a market which, by virtue of being on the US border, is so fundamentally dominated by American programming" ("A seat" AL1). However, according to Lantos, this weakness, "eventually turned out to be [Alliance's] strength." Lantos said that "it forced [Alliance] to use our common mass culture with the United States as a way to access the US market and it forced us to use guerrilla warfare tactics in every major market in the world, so that we could function in those markets as if they were our own" (Kelly, "A seat" AL1). Alliance therefore made development its priority, Lantos said. "The key thrust from the first day the company formed was to invest as heavily as we could possibly afford in writers and in development so that we could control Canadian-originated programming that would have an international value and a US market" (Kelly, "A seat" AL1). Kelly points out that Alliance's knack for making coproduction deals, its access to public financing, its international sales capabilities, and the lower production costs of shooting in Canada were all key factors in making Alliance an attractive partner for the major Hollywood players ("A seat" AL1).

Accordingly, 1994 was a year of rapid expansion for Alliance. In March 1994, Alliance Releasing signed a two-way, five-year distribution agreement for theatrical, video and television releases with Miramax Films in the US. Alliance signed a similar deal with Universal pictures later that year and so, with its existing distribution deals with New Line Cinema/Fine Line Features and Goldwyn Pictures, Alliance established itself as the leading distributor of American independent films in Canada (Cuthbert, "Two-way" 1). Loewy commented: "We wanted to secure an outlet in the States for Canadian product. As part of our strategy, it was part of the overall negotiations." (Cuthbert, "Two-way" 1). A month later, Alliance signed a deal with Universal Pictures to coproduce three $10 million to $15 million feature films. Universal would cofinance and handle all US distribution rights, with all other worldwide rights going to Alliance. The deal marked the first time an American studio and a Canadian company sealed a multi-picture agreement (Cutherbert, "Alliance and Universal" 1).

In 1994, Alliance's production slate was more than three times the volume of 1989. The newly restructured production division – now a stand-alone business unit – had topped $96 million that year, and Alliance's production staff had grown to include about 50 people in Toronto, Montréal, Paris and Los Angeles from barely a quarter of that size six years prior (Enchin, "Strong" AL4).

In the fall of 1994, *Due South*, a new series about the culture clash between the US and Canada, premiered on CBS and was the first Canadian series to run in prime time on a major US network. Alliance's position as the country's leading producer and distributor of television product was reinforced with the success of *Due South* on both sides of the border. CBS ordered a full, 22-episode season of the show (Kelly, "Alliance's"). Lantos called the sale of *Due South* "one more important step toward breaking down the barriers to the world's most important television market, which is the US, and this was the final barrier that no Canadian company – or for that matter no foreign company – had ever broken" (Kelly, "Alliance's"). However, CBS cancelled *Due South* at the end of its first season, but because of the show's popularity in Canada, CTV commissioned a second season. CBS brought the show back as a mid-season replacement, only to cancel it a second time. A record level of investment from CTV and a major BBC presale allowed Alliance to keep the show in production until 1998 (Shipton, 21; Erikson). In a 1994 article for *Variety*, Alliance's Senior Vice President of Series and New Media Development Steven Mendelson cautioned Hollywood skeptics in particular against dismissing the company as a Canadian supplier:

> I would hope any prejudice would be gone by now ... We're not a work service business, like many Canadian companies. We're a supplier now that happens to be based in Canada. *Due South* on a quality level is as successful as anything else that's out there … Production values we put on screen are on par with the best work coming out of the top studios. That alone says it doesn't make any difference if you are north or south of the border. It's all about the material. (Goldman, AL11)

That same year, Alliance had completed the $32 million film shoot for *Johnny Mnemonic*, making the feature the highest-budgeted Canadian film to be made to date (Craig, 33). Alliance partnered with TriStar Pictures and Twentieth

Century Fox to make the film, with Alliance Releasing distributing to Canada and some foreign markets, TriStar distributing to the US market and sharing the remaining foreign markets with Twentieth Century Fox (Mazurkewich, “Keanu” 12). Box office returns for the first five days after the film’s release were over $1 million in Canada and $7 million in the US, which was in line with Alliance’s targets. As a big-budget feature, the film was not eligible for investment from Telefilm, other than in marketing the film. Approximately $700,000 was spent on the media campaign for *Johnny Mnemonic* (Cuthbert, “Mnemonic” 1).

Alliance becomes a broadcaster

At the same time Atlantis was announcing the launch of the Life Network in 1995, Alliance was also planning its debut on the small screen with specialty channel Showcase. Alliance viewed broadcasting as a natural extension of its business at the time, and when the CRTC invited applications for new specialty channels in 1993, the company moved to assemble a group of investors to share the $8 million startup and development costs (Enchin, “Rough” AL20). Showcase was a “dark horse” among the 49 applicants for specialty channel licenses. Its concept was an all-fiction drama channel that would provide a venue for Canadian programming that was not widely distributed, partly as a result of Canada’s lack of a well-developed syndication market (Enchin, “Rough” AL20). Phyllis Yaffe, president of the channel, promised a grid that would air 60 per cent Canadian content, with 100 per cent during prime time. The remaining 40 per cent of the schedule was targeted for international fare, with a declaration that no more than 5 per cent would be American material (Cuthbert, "Showcase" 10). Yaffe announced plans that the channel would licence 15 original half-hour dramas over its six-year licence period, with a licence fee of $250,000 attached to each project. There would be a competition for the original segments, accessible to producers across the country and to which none of the shareholders (which included Alliance, Productions La Fete, and various independent producers) would be eligible to apply, according to Yaffe. Alliance had projected that the "return to Canadian fiction investors" through the commissioning of original programming would be approximately $85 million (Cuthbert, "Showcase" 10).

Shortly after the launch of Showcase on January 1, 1995, a consumer backlash against primary cable provider Rogers Cablesystems' "negative option" billing practice, by which the cable subscriber had to cancel new channels or be automatically charged, created a consumer backlash and shook the industry. Rogers reacted quickly and gave subscribers the option, which had not been offered at the outset, to reject all of the new channels. Showcase, along with the other channels newly licensed by the CRTC, were suddenly no longer guaranteed carriage on the cable systems, and thus their fees, based on household penetration, were no longer assured (Enchin, "Rough" AL20). Despite this, Showcase not only managed to meet its original business plan projections, but achieved a Nielsen rating among the new services of second only to the Canadian version of the Discovery Channel.[13] Before the launch, Alliance had estimated that Showcase would be offered to almost 4 million cable subscribers.

[13] The Discovery Channel Canada was then owned by Labatt Communications.

Following the free preview period that accompanied the introduction of the new channels, the number of subscribers who had access to Showcase totaled 4.6 million. “We were ahead of projections when we started,” said President Phyllis Yaffe (Enchin, “Rough” AL20).

Alliance and the production industry in the late 1990s

The Canadian film and television industry faced a daunting future in 1995, according to Telefilm Director of Operations Bill House, following significant cuts made to Telefilm’s funding by the federal government. Lantos, who by then had been in the business for over 20 years, was quoted as claiming to be “neither surprised nor frightened” by the cuts (Cuthbert, “Increasing” 1). While aware that Alliance had been the recipient of substantial support from government agencies since its inception, he told *Playback*’s Pamela Cuthbert that he saw government subsidies as an edge, not a business strategy, for Canadian broadcasters and production companies (“Increasing” 1). “Even in their decline, they represent a considerable pool of funds, and we have to count our blessings for that because they do give us an edge over companies in the United States,” said Lantos of Telefilm funds (Cuthbert, “Increasing” 1).

Lantos said that he had anticipated most of Alliance’s growth in production and distribution (but not necessarily broadcasting, as Cuthbert points out) to be outside of Canada, and primarily in the US. The bottom line, he told Cuthbert, was for Alliance to become as self-supporting as possible. “The purpose of forming Alliance … was to build a company with bulk and financial muscle, which is what it has become: a content provider in all media of fiction production," Lantos said ("Increasing" 1). As Cuthbert reports, the end result was a company that in 1995 had grown from a small independent film producer and distributor to a company that counted distribution, production, merchandising, music publishing and new media as part of its business ("Increasing" 1). "The difference," said Lantos, "between the past and the future is, in the past, there was an artificial need for Canadian programming in the generic sense, and it mattered less whether the programming itself appealed to large audiences or not ... It's going to matter a great deal in the future, as it does everywhere else in the world" (Cuthbert, "Increasing" 1).

In a speech in Toronto a few years later, Lantos cited the Alliance-backed Atom Egoyan film *The Sweet Hereafter* as an example of just how profitable Canadian-produced films can be. The drama, which cost $4 million to make, won accolades at Cannes and was nominated for two Academy Awards and went on to generate impressive returns at the box office and to get picked up for distribution in the US by Miramax. "Like most films in this country, it was financed through a unique Canadian model of partnership between the public and private sectors," said Lantos. "All the investors, including Alliance and Telefilm Canada, have earned their money back and more" (Kelly, "Canadian" 15). According to Lantos, the return on investment for *The Sweet Hereafter* amounted to somewhere between seven and 10 times its cost. "Now compare that with the typical Hollywood studio picture," he said. "These days, they cost an average of around $42 million. To earn the equivalent of *The Sweet Hereafter*'s return on investment, these films have to gross between $400 million and $600 million" (Kelly, "Canadian" 15).

Alliance branches out

In May 1998, Alliance bought a 75 per cent stake in the distribution operation of Cineplex Odeon Films for approximately $5 million, which would operate as a separate entity to Alliance. The remaining 25 per cent of Cineplex Odeon Films, worth over $1 million, was donated in trust to a foundation of three Canadian film institutions: the Canadian Film Centre in Toronto, the National Screen Institute in Edmonton and Montréal's Institut national de l'image et du son. A $3.75 million Cineplex Odeon Feature Film Marketing Fund was also created to help Canadian distributors market Canadian feature films. As part of the deal, Alliance obtained all Canadian rights to roughly 275 films (Hoffman, "Feature" 7).

A month later, Alliance and Viacom-owned Famous Players announced that they had reached an agreement to create a national chain of upscale art house theatres, to be called Alliance Cinemas. It would be the first-ever national art house chain to set up shop in Canada, and would mark the first time Famous Players had partnered with a Canadian company to create a new chain (Kelly, "A famous" 20). It was not, however, Lantos' first foray into film exhibition. In the early 1970s, he and Loewy had gone out on a limb to open an art house cinema in Vancouver. The Rembrandt Theatre on Davie Street was the first of its kind and played John Waters' *Pink Flamingos* in Canada's "hippie capital" for months on end until the venture eventually stopped making money and Lantos and Loewy went back to "'what [they] understood: the production and distribution of movies in Canada,'" Loewy told Katherine Monk for a 1999 *Vancouver Sun* article (D16). The deal with Famous Players brought Alliance full circle to its roots in theatre ownership, as it involved the 49/51 (Famous Players/Alliance, respectively) split of Leonard Schein's Vancouver-based art house chain, Festival Cinemas (Monk, D16). Schein would remain president of the cinema chain, and would benefit from a constant supply of movies from Festival's biggest supplier. The plan was to expand the chain east across Canada.[14] For Alliance, the benefits of the deal were the potential for increased revenue for their own movies, as well as guaranteed screen time for those movies in the major Canadian markets. As Monk states in her article about the deal, it would allow Alliance to "create, control, distribute and exhibit the same motion picture, ensuring that all profits go back to the creator." This type of vertical integration had been illegal in Canada, as Monk points out, prior to changes to the federal *Competition Act* under the Mulroney government, which allowed for greater concentration of ownership. "The biggest problem in Canadian film is realizing a profit for all your time and effort," said Loewy. "But if this concept works as well as we believe it will, we will be that much closer to the goal of a self-sustaining industry" (Monk, D16).

[14]Alliance Atlantis would sell the chain of five theatres in September 2005 (Davidson, "Alliance selling" 2).

Conclusion

The two companies had come a long way since they had each been founded two decades earlier. Both Atlantis and Alliance had branched out from production and distribution to broadcasting. Going public allowed each company to raise the funds it needed in order to expand and fuel its next round of growth. The launch of specialty channels by Atlantis and Alliance in 1995 was part of their respective corporate strategies, a way to broaden each company's activities. For Atlantis, it was part of the evolution from producer to distributor to broadcaster. Alliance viewed its foray into broadcasting as a natural extension of its business – a showcase for Canadian programming commissioned and produced by the company. By 1998, both Atlantis and Alliance had become multifaceted entertainment companies. As Harvey Enchin points out in a 1995 article for *Variety*, at Alliance, production was still the heart and soul of the company: "Making movies and television shows has been the *raison d'etre* of Alliance since its founding in 1985 – and probably always will be – no matter what happens in the 500 channel universe and on the information highway" ("Strong" AL4). However, a massive change, which was happening to the media landscape worldwide, was about to take place in Canada, and would ultimately alter Alliance's *raison d'etre*, as the company merged with Atlantis to form the largest film and television production, broadcasting, and distribution studio in Canada.

Chapter Two

Creating a Mini-major: The Merger of Alliance and Atlantis

Introduction

In the media realm the 1990s will be remembered as a time when "bigger is better" was the order of business. Companies within the industry were merging and consolidating globally. In Canada, two of the country's largest entertainment studios, Alliance and Atlantis, decided that, in order to compete at an international level, it would be best if they became one. They merged, with no interference from the CRTC. Understandably, the response to this from those in the film and television industry – independent producers in particular – was concern about the size of this newly created company, which was a behemoth by Canadian standards. These concerns were exacerbated when Alliance Atlantis began its new corporate life with a round of post-consolidation layoffs. When the company, after losing its bid for coveted digital specialty channel Independent Film Channel Canada (IFCC) to Salter Street Films, bought the smaller company and took possession of the IFCC licence anyway, the industry cried foul. Alliance Atlantis emerged as a major Canadian broadcast company with the launch of eight more digital specialty channels that same year. The company made another round of staff cuts following this definitive move towards the broadcasting side of its business and away from production. Both Alliance and Atlantis had originally been founded by young filmmakers eager to make their mark in the industry through production, but as it became apparent that most of its production activities were not paying off financially, Alliance Atlantis steadily reduced that aspect of its business.

Bigger is better

In the heady first days of the new millennium, merger fever was sweeping through the world's largest media companies. It had gained momentum with a flurry of transactions in the mid-1990s. In 1995, Disney bought ABC for an impressive US $25.8 billion (McMurdy). Two of America's most recognizable companies, Viacom and CBS, merged in a September 1999 deal worth US $35.6 (M. Corey Goldman and Johnson, "Viacom"). It was the largest media merger in US history – until a few months later, when America Online (AOL) and Time-Warner merged in January 2000 to form AOL Time Warner in a US $165 billion deal (Pitts, *Kings* 5).

The effect of the AOL-Time Warner merger in the media realm was evident from what followed. Vivendi Universal was created in December 2000 with the merger of France's Vivendi and Canada's Seagram.[15] Vivendi Universal's entertainment branch merged with NBC in 2004 to form NBC Universal. In Canada, BCE completed a $2.3 billion takeover of the CTV television network in February 2000 (Pitts, *Kings* 7). CanWest bought the Southam newspaper chain for $3.2 billion later that year, as well as a 50 per cent stake in Western International Communications (WIC) (Pitts, *Kings* 7).[16] "The impact of AOL Time Warner was to up the ante in the media world," said Terry

[15] As Gordon Pitts points out in *Kings of Convergence*, Vivendi was mainly interested in Seagram for the Universal movie and music archives, which Seagram owned (*Kings* 5).
[16] Fellow WIC shareholder Shaw Cable got the remaining 50 per cent (Pitts, *Kings* 7).

Kawaja, an investment banker who advised on the deal (Pitts, *Kings* 6). As Gordon Pitts points out, “Suddenly, being big was what it was all about” (*Kings* 5).

Alliance and Atlantis merge

In July 1998, Alliance and Atlantis, number one and number two in the Canadian production industry, struck a deal to merge. Canada’s two largest independent production companies would become a Canadian “mini-major,” the sixth-largest film production company in the world, and the twelfth-largest production and broadcasting company in North America, with gross revenues just below that of Aaron Spelling’s Spelling Entertainment (Atherton, B6; Vale and Hoffman, 1). In a 2000 interview with the *Globe and Mail*, Lantos recalled that, in 1997, “I called Mike, and I proposed that we buy him. I said, I feel small, so you must feel smaller … He said he agreed with me, but he was not selling. I said, well, I don't see how you can buy us. He said, would you consider selling? I said, I'm not married to my job” (Scott). The outcome was a stock swap where Alliance acquired Atlantis but left Atlantis as the surviving company (Enchin, “Canuck” 42). Lantos returned to his movie-producing roots and went on to form his own production company, Serendipity Point.

With the formation of this Canadian mini-major came concern around issues of convergence. While it was generally recognized that having an international player within Canada would benefit the industry, there was concern over having so much of the industry’s power and money concentrated in one large corporation. And, as always, there was the issue of government funding. As independent companies, Alliance and Atlantis had received production investments from Telefilm and, on occasion, from provincial government investment agencies (Adilman, 25). In 1990, *Variety* reported that Alliance Releasing was receiving $1.5 million annually from Telefilm for distribution of Canadian and foreign films in Canada (Ayscough, 28). Around the same time, MacMillan was quoted in a *Variety* article about benefiting from "strong federal/provincial government support" (Craig, 33).

When Alliance and Atlantis merged, David McFadgen, an entertainment analyst with Griffiths McBurney Partners, asked the question that was on many minds in the industry: "Will they continue to source the level of Canada Television and Cable Production Fund (CTCPF) and Telefilm money that they have been?" (Rice-Barker, "Merger" 1). The merged company represented nearly 30 per cent of the economic activity of the entire industry in Canada, and its market capitalization of approximately $390 million was bigger than all the other Canadian production companies combined (Enchin, "Canuck" 42). "Not one of the Hollywood houses is that big on a market share basis," noted Ian Morrison, spokesman for Friends of Canadian Broadcasting. "How can the Canadian government withstand putting loads of money into the Canada Television and Cable Production Fund and have this one company gobble it all up?" (Enchin, "Canuck" 42). CTV programmer Bill Mustos summed up the complicated nature of the Canadian industry: "There's a side that says these companies are just too big and that they should give the smaller companies room for the [CTCPF] dollars ... At the same time, it's still incredibly difficult to finance these indigenous Canadian shows made primarily for this market" (Vale and Hoffman, 1). Indeed, the issue of big versus small companies and their use of government funds had long been a cause for debate around the CTCPF boardroom table. As Canadian Film and Television Production Association (CFTPA) Chair and *Degrassi* producer Linda Schyler pointed out:

> My personal feeling is that the public monies should be governed by content. ... We need to tighten up that money for identifiable Canadian shows. If that's the case, frankly I don't care whether it's a small or large company producing it. It's good for the Canadian public and it achieves the objectives of the fund. (Vale and Hoffman, 1)

Many independent producers expressed concern about the clout the new production and broadcasting company held in the Canadian industry. Schuyler speculated about the domination of broadcast windows and funding dollars by the new Canadian mini-major, and said that the limited shelf space on Canadian broadcasting entities created a "scary" situation for smaller producers. "I hope from the broadcaster's point of view, that you won't have to be an Alliance Atlantis to go on air," she said at the time:

> There are many of us who have made a reputation of supplying broadcasters without a big company behind us. I certainly hope that broadcasters will continue to look upon smaller producers with track

> records as very viable ways of producing material. ... If what this company is doing is becoming a studio, then there should be some opportunity for some small and middle-size companies. (Vale and Hoffman, 1)

When an audience member at the Rogers Industry Forum at Toronto International Film Festival in 1998 expressed concern about the newly formed Alliance Atlantis, and questioned panelist Lantos about the company's mandate for encouraging diversity and "real creativity," Lantos did not seem to share the questioner's concern: "The great thing about real creativity is that you can't keep it down," he replied. "The fact that there's a bigger company in this country than there was before is not a burden. The creativity doesn't have to come from the individual management of a company. It comes from the grassroots, the people who are creating. So Alliance Atlantis is a well-financed home for creativity" (Mathur, 2).

As part of a speech for a 1995 gala dinner, Lantos had said: "Creating original Canadian programming is an essential life-affirming act for us as Canadian citizens, artists and business people. It is the way we talk to each other and how we make our presence felt in the world" (de Wilde). A few years later, the year of the merger, he was quoted in *Playback* as saying "the Canadian content industry is disproportionately important to Canada. It is also a disproportionately exciting business opportunity. In the 20-odd years since I began, we have come from humble origins to a multibillion dollar industry. We can go much further and carve out a growing domestic and international market share" ("Quotes"). Lantos' desire to return to his movie producing roots played a significant role in bringing about the Alliance Atlantis merger, and it was obvious that by letting himself be bought out of the business of running a corporation, Lantos had returned to his first love, making Canadian productions.

Alliance Atlantis' executives also insisted that having a major player in Canada would be good for the domestic industry. Senior programming consultant for Alliance Atlantis Broadcasting Arthur Weinthal (formerly head of programming at CTV) pointed out that there was no pressure on the new company to produce, something which would only benefit smaller independents:

> As a studio, they're going to need to double or triple their output to keep that size of operation going. But if you look at some of the smaller producers in the US that come in and make movies for Universal or Columbia Tristar, you have to get a toe-hold, and the only way to get a toe-hold is to tuck yourself under a tent. We have a tent now, and we've never had one in this country. (Vale and Hoffman, 1)

Seaton McLean, the head of production for Alliance Atlantis, claimed that Atlantis' method of working with independent producers would carry through to the new company: "I don't have to be hands-on producing shows, so I look forward to working with more and more independent producers," he said. "Whether it's the Credos or the Great Norths or the Salter Streets, I think there will just be more of that" (Vale and Hoffman, 1).

In September 1998, shareholders "overwhelmingly" approved the merger of Alliance Communications Corporation and Atlantis Communications Inc. ("At" 4). In early November of that same year, Alliance Atlantis cut 78 full-time and 44 contract or part-time jobs, and it was reported in *Playback* at the time that over 30 additional job cuts were expected in the broadcasting division following the anticipated approval by the CRTC of the merger of Alliance's and Atlantis' specialty channels, which was expected for spring of 1999 (Hoffman, "AAC" 1). "We are going to rationalize the two companies' development programs and become much more focused," said Alliance Atlantis president Lewis Rose following the November 1998 round of cuts (Hoffman, "AAC" 1). According to Rose, this rationalization was expected to result in a drop in production. "Our focus is not on growing the size of the slate, our focus is on improving the quality of the projects and enhancing the margin of those projects so ultimately the focus is on improving profitability, not chasing volume," said Rose. "That may result in a [production] reduction over time as opposed to a growth, but an improvement in the quality, because our focus is on ensuring we have control over distribution rights" (Hoffman, "AAC" 1). At the time, Alliance Atlantis had no plans to cancel series under production, but would not be replacing any series that had run its course "unless the replacement ha[d] substantial profitability" (Hoffman, "AAC" 1). By the end of the year, a total of 164 full and part-time positions were cut from the company (Tolusso, "AAC AGM" 3). "Welcome to the new reality," read an editorial in *Playback* soon after the announcement of the Alliance Atlantis cuts, "[c]onsolidation is a relatively simple equation: larger equals smaller" (Editorial-a, 4).

In March of 1999, the CRTC held hearings surrounding applications by Alliance and Atlantis in which they requested a change in ownership and control of their companies, specifically that Alliance-owned History Television and Showcase, and Atlantis-owned Life Network and HGTV, as well as the Alliance Communications and Shaw Communications partnership Alliance/Shaw video-on-demand service, be owned and controlled by the newly-formed Alliance Atlantis Communications. History, Showcase, Life, and HGTV would be merged under Alliance Atlantis Broadcasting. As part of the merger, Alliance Atlantis committed to investing $12.2 million into Canadian broadcasting over seven years, an amount deemed "commensurate with the size and nature of the proposed transaction" by the CRTC (Canada-b). Of the $12.2 million pledge $8 million would be divided between Showcase and History, to be spent on new Canadian programming from independent producers in the "under-represented categories" (Canada-b). At least $2.4 million would be contributed to key film and television production industry organizations – including the Academy of Canadian Cinema and Television, and Canadian Women in Communication – and the remaining $1.8 million would be used to establish a Canadian Broadcast and Production Executive Training Program (Edelson "AAC"; Canada-b).

In its decision, the CRTC acknowledged interventions submitted by the Canadian Film and Television Production Association, the Canadian Association of Broadcasters, and the Saskatchewan Motion Picture Association in support of

Alliance Atlantis' applications to merge the specialty channels. No interventions in opposition to the merger were recorded. The CRTC noted that Alliance and Atlantis were subject to "conditions of the licence that are intended to prevent the possibility of vertical integration that could be harmful to the independent production sector" and that both companies, in their application to merge, "made commitments ... to protect the position of independent producers" (Canada-b). Thus, the CRTC decided that "the proposed reorganization [would] enhance the production of high quality Canadian programming," that the approval of the applications by Alliance and Atlantis would "benefit the Canadian broadcasting system" and that the conditions of the licence, as well as Alliance Atlantis' financial contributions, would be "sufficient to ensure that Canadian producers are treated fairly and equitably" as a result of the deal (Canada-b). So, on May 20, 1999, the CRTC approved the creation of Alliance Atlantis Broadcasting without hesitation.

Shortly after Lantos left the newly formed company, he negotiated a production deal with Alliance Atlantis that was impressive by Canadian – and even American – standards. The deal promised Lantos a $25,000 per episode producer fee from two TV shows and a $40-million Canadian feature film. Lantos would also be entitled to a producer fee of 5 per cent of the budget or $400,000, whichever is higher, for each film he produced from the $100-million production fund provided by Alliance Atlantis (Hoffman, "Lantos' 1). An editorial in *Playback* noted that the deal put Lantos "in a position unique to virtually all other Canadian producers in that he has a funding pool equal to more than five times what

Telefilm spent via its Feature Film Fund last year with which to finance his projects" (Editorial-b). According to new Alliance Atlantis Chief Executive Officer MacMillan, feature films were a priority for the merged company. "[Atlantis] never jumped into the feature-film business because we knew you needed to do it with scale," he said (Kelly, "TV's" 113). "You have to have a large enough volume to counteract the risk of the film business. We want to grow the international sales and look to expand our production output. But we intend to keep the focus on independent, director-driven films. We don't intend to compete with the studios head-on" (Kelly, "TV's" 113).

Alliance Atlantis sets up shop

1999 saw Alliance Atlantis renew the 1994 deal Alliance had struck with New Line Cinema and Fine Line Features through to 2002. One of the dozens of films that Alliance Atlantis would distribute annually as part of the deal was New Line's *Austin Powers: The Spy Who Shagged Me*, which Alliance Atlantis opened on 500 screens that summer – the widest release in the company's history thus far (Rice-Barker, "AAC, New Line" 11). *Austin Powers* took in over $14 million at the box office its opening weekend, and was largely responsible for the 62 per cent increase in film revenues that Alliance Atlantis experienced during the first fiscal quarter of 1999 ("In" 13). Later that year, Alliance Atlantis finalized a three-year output deal – which would be renewed for another three-year period in 2001, and again in 2004 – for distribution in the UK with Artisan Entertainment, making Alliance Atlantis the exclusive distributor of Artisan properties throughout the territory (Yaffe, “AAC, Artisan” 1). Also that year, Alliance Atlantis Releasing signed extensions to long-term motion picture output agreements for Canada that had been formed before the merger with Miramax Films.

Alliance Atlantis struck other significant partnerships in 1999, notably a $400-million deal with Germany’s Kinowelt Medien AG (Swedko, 1). Under the partnership, Kinowelt acquired 50 per cent of Alliance Atlantis’ UK film distribution business, and the two companies agreed to establish a $223.4 million fund to develop, produce, and acquire films for international distribution. The partnership also committed $37.2 million per year to the “development, production and/or acquisition of motion pictures for exhibition in the UK” (Swedko, 1). According to MacMillan, the deal with Kinowelt signalled Alliance Atlantis’ commitment to feature films: “A year almost to the date of the merger,” he noted, “it’s telling that one of the significant things we’ve done is the Kinowelt deal. That speaks to our commitment to motion pictures, of our knowledge of it as an international business, and our ability to step up to the plate internationally” (Tillson, “Alliance survives” 27).

At Alliance Atlantis’ fall 1999 annual general meeting – its first as a merged company – MacMillan presented a rosy financial forecast, committing the company to deliver an annual growth of 15 – 20 per cent. He expressed high hopes for a strong performance from Alliance Atlantis’ Motion Picture Group, as well as its Broadcasting Group, saying that that arm of the company was “poised to acquire” any broadcast assets which were to become available (Tolusso, “AAC AGM” 3).

In an interview during 1999's MIPCOM – the Marche International des Films et des Programmes pour la TV, la Video, le Cable et les Satellites that is held annually in Cannes in the fall – McLean (then president of Alliance Atlantis Television Production) underscored the importance of unique Canadian programs in the role in the future branding success of the Canadian film and television industry. He argued that in order to survive, Canadian broadcasters would have to incorporate more quality Canadian dramatic productions into their programming schedules. According to McLean:

> [W]e have a situation where maybe there are three one-hour prime time slots available for next year ... And you've got countless producers, hoping – wanting – for their shows to be one of those three. And you've got the Canadian Television Fund, Telefilm Canada and the tax incentives – provincially and federally – all fueling this industry that we have very successfully created, and it's all going into what is essentially a little funnel." (Rice-Barker, "McLean" 1)

He called for more flexibility across Canadian broadcasting in order to allow the production of Canadian drama to thrive. McLean singled Global out as a "retransmitter" for its tendency to broadcast American programming at the expense of its identity as a Canadian broadcaster. "[I]deally," said McLean, "we Canadian producers] would be grateful like crazy if we – broadcasters, producers, the CRTC, CAVCO, everybody – would race to make as much good quality Canadian drama as we can – right now – because in 10 years from now if we haven't done that, there won't be an industry" (Rice-Barker, "McLean" 1).

McLean kept with this theme in a May 2000 interview with *Playback*, in which he talked about the importance of putting money into Canadian film production. Alliance Atlantis no longer received support from Telefilm, which, according to McLean, tended to fund auteur-driven scripts – a Canadian calling card, but counter to the Hollywood approach of producing "genre" films (Rice-Barker, "Development" 1). McLean talked about "spending a bunch of money as quickly as I can to try to commission some original scripts from writers, half a million to $700,000. And that's for optioning books and hiring writers to write drafts." He continued: "We've got to move the stakes up a bit and put more money into production, not only to get [films] made, [but] to better compete with everything else that's out there" (Rice-Barker, "Development" 1).

Partnerships and buyouts

In July 2000, Alliance Atlantis announced its takeover of Edmonton's Great North Communications as part of Alliance Atlantis' strategy to develop a fact-based documentary division. As part of the agreement, Great North President Andy Thomson was made executive vice president of Alliance Atlantis Television Production. In his new role, Thomson was responsible for all of Alliance Atlantis' documentary and non-fiction production (Yaffe, "AAC buys" 5). Great North Productions would remain in Edmonton and continue to focus on factual programming. Great North International, the company's full-service marketing and distribution arm, was to be folded into Alliance Atlantis' television distribution unit, headquartered in Toronto. Thomson said in an interview with *Playback* that the deal would not affect Great North's presence in the prairies, or its production slate. Furthermore, he hoped that Great North would "maintain, and hopefully expand, its current slate of about 100 hours per year" (MacDonald 32). "Great North is the only documentary production company wholly owned by Alliance Atlantis and they will obviously be motivated to ensure that Great North continues to be busy," said Thomson. "I think that Great North will continue to be the jewel in the crown of the new factual division at Alliance Atlantis, and it will be one of the major focuses if not the major focus of my new job" (MacDonald, 32).

That fall, at MIPCOM, Alliance Atlantis announced its new factual programming division, AAC Fact. In addition to a strategic partnership with Barna-Alper Productions, for whom AAC Fact would act as a distributor, the new division came equipped with a catalogue of over 700 non-fiction programs, largely due to Alliance Atlantis' takeover of Great North (Yaffe, "AAC launches" 6). Shortly after that announcement, AAC Fact added a European partner with its financial support and subsequent takeover of London, England-based, internationally renowned documentary producer Café Productions (Yaffe, "AAC Fact" 6). Alliance Atlantis had stepped in to save the company from folding. Ted Riley, then president of Alliance Atlantis' television distribution, said the move would bring Alliance Atlantis' new label a presence and credibility in the UK: The fact that both AAC Fact and Café had strong working relationships with Discovery US was another reason Alliance Atlantis was so willing to offer Café financial support, according to Riley. "We wanted to be good citizens to Discovery," he said at the time (Yaffe, "AAC Fact" 6). Alliance Atlantis would assume ownership of Café in February 2001 in a deal that saw Café operate as a wholly owned subsidiary of Alliance Atlantis, providing Alliance Atlantis with a significant presence in the European television market (Yaffe, "AAC bolsters" 7).

Alliance Atlantis buys Salter Street Films

On February 12, 2001, after weeks of takeover speculation that sent stock in Salter Street Films soaring, Alliance Atlantis announced that it was buying the Halifax-based production company for $84 million. In addition to producing an attractive roster of hits such as *This Hour Has 22 Minutes*, Salter Street had recently won the licence for digital channel Independent Film Channel Canada, set to launch that September. The digital channel IFCC was coveted among Canada's largest media companies, including Alliance Atlantis, and when a list of companies short listed to win the bid was leaked in November, Alliance Atlantis began talks the following month with Salter Street Films about a possible takeover (Tolusso, "AAC buys" 1). "It's a great deal," said Salter Chairman and Chief Executive Officer Michael Donovan of the Alliance Atlantis takeover. "We're looking forward to it – it provides us with tremendous leverage in focusing on the core business of production" (Tolusso, "AAC buys" 1). The acquisition of IFCC gave Alliance Atlantis an outlet for its extensive catalogue of films, which would have been expensive for Salter Street to access in order to program the channel (Tolusso, "AAC buys" 1).

Salter Street had gone public in 1998 and, according to Donovan, the company needed a licence for a specialty channel in order to grow (Tolusso, "AAC buys" 1). But, as Susan Tolusso pointed out in an article for *Playback* after Alliance Atlantis' bid to takeover Salter Street was announced, Salter was a small player in the Canadian broadcasting scene, and, as such, had to convince the CRTC of, among other things, the need for diversity of ownership of digital channels (Tolusso, "AAC buys" 1). Indeed, in its decision to grant the IFCC licence to Salter, the CRTC stated that "[t]he addition to the Canadian broadcasting landscape of a specialty service operating out of Atlantic Canada will … result in … diversity" (Canada-c). It went on to conclude: "The approval of this application brings a strong and experienced voice from Atlantic Canada to further enhance the ownership diversity in the Canadian specialty service landscape" (Canada-c). And so, Salter Street Films won the licence for the IFCC in December 2000, with the CRTC's caveat that the decision would mean good things for the production industry in Atlantic Canada. Alliance Atlantis approached Salter with its takeover deal that same month.

IFCC is a Category 1 specialty service which, as defined by the CRTC, is a channel that all digital cable providers are required to distribute. Category 2 specialty channels are those that, according to the CRTC, aim to "encourage choice and diversity of programming services in the digital system." These channels are pay-per-view and video-on-demand licences optional for distribution by digital service providers (Canada-h). Canadian ownership is stipulated in both cases. At the same time it applied for and won the Category 1 channel IFCC, Salter had also applied for and was granted licences to 20 Category 2 specialty service licences (it had applied for 24 licences in this category), ranging from Aviation TV to ZTV, a channel devoted to programming for "Generation Y" (Canada-d). Salter had applied for five other Category 1 licences in addition to the IFCC, but was only granted the one licence in that category. In a February 2001 interview with *Playback*, Donovan said that the economics of holding only one Category 1 licence proved difficult:

> Our argument to the regulator was that effective diversity, in the current competitive environment, given expected technological changes, could be best accomplished with multiple channels in Category 1, which is why we applied for so many. On a standalone basis, the IFCC would likely have become an orphan. We are confident, however, that despite this reality, we could have made a success of it and were planning to do just that … This would require IFCC, however, to be effective as leverage with respect to launching two or more Category 2 channels. Unfortunately this rather optimistic scenario ran against the hard reality of recent discussions with (satellite and cable carriers). Ultimately, therefore, the economies generated by combining with [Alliance Atlantis}, while preserving our autonomy and identity for the channel, seemed to make the most sense. (Tolusso, "AAC buys" 1)

When Alliance Atlantis approached Salter Street in December 2000, Salter Street was open to the idea of a takeover by the larger company. When the CRTC finally approved the transfer of control of the IFCC from Salter Street to Alliance Atlantis a year later, in December 2001, it acknowledged its emphasis in the original decision to grant the IFCC licence to Salter on the fact that "this was to be the first specialty service based in Atlantic Canada," and reiterated some of what the Commission stated in that decision's conclusion about diversity of ownership (Canada-e). The CRTC stated that 38 interventions were filed with respect to the applications for Alliance Atlantis to gain control of the IFCC following the CRTC's issue of a public notice calling for intervention in early August 2001, prior to the decision being made. However, no intervener opposed the transaction, although support was sometimes qualified and certain concerns were raised (Canada-e). "Most interveners," which included the premiers of Nova Scotia and Prince Edward Island, expressed "unqualified support of approval" of the licence transfer, according to the CRTC (Canada-e). The importance of Salter Street to Atlantic Canada's production industry was noted by the CRTC, as was "expressed concern that its sale to Alliance Atlantis could mean that no regionally-based specialty service would be established" (Canada-e). In response to this concern surrounding loss of the diversity that was committed to when the CRTC granted the IFCC licence to Salter Street, the CRTC attached to its approval of the licence transfer the stipulation that Alliance Atlantis maintain the offices of IFCC in Halifax and that the production activities of Salter Street continue under the direction of Salter's existing team of executives (Canada-e). Following the deal, Salter's chair and vice chair, brothers Michael and Paul Donovan, signed three-year contracts to stay with the company that they had started. MacMillan said at the time: “[T]he channel will make its own decisions about what it wants to license. It will make its own programming decisions. The programming people will report in to Phyllis Yaffe,” Alliance Atlantis’ president of broadcasting (Tolusso, “AAC buys” 1).

In interviews following the announcement of the takeover bid, MacMillan acknowledged the loss of diversity that would result in Alliance Atlantis’ acquisition of Salter Street, calling it “both inevitable and necessary” (Tolusso, “Salter” 6). He explained this with the following scenario: “[I]f you’re in drama programming, for instance, although there are more channels to sell to, you need to exploit more windows because licence fees are falling. That means the payback to the producer takes longer and small and medium-sized enterprises can’t always finance the wait” (Tolusso, “Salter” 6). Thus, “one needs scale, not for creativity, but for financeability” (Tolusso, “Salter” 6). While the transfer of the IFCC to Alliance Atlantis diluted diversity, *Playback’s* Susan Tolusso points out, quoting MacMillan, that Alliance Atlantis’ “financial muscle and specialty expertise … provides not only diversity of voices in broadcasting but also ‘clarity and efficiency of voices’” (“Salter” 6).

In the issue of *Variety* for the week of February 13, 2001, reporter Brendan Kelly crowed: “Canuck specialty TV player Alliance Atlantis Communications hasn’t let a little thing like losing a coveted film channel license stand in its way – it bought the winner instead” (“Indie” 31). Kelly's article focused on what had generally been acknowledged in media trade publications, but downplayed in the CRTC’s decision – that gaining control of the IFCC was the driving force behind Alliance Atlantis' bid for Salter Street. Kelly pointed out that "[t]he launch of specialty channels is rigorously regulated and the relatively small number means that most are big moneymakers for their owners" (Kelly, "Indie" 31). At the time, Michael Donovan "laugh[ed] off" the suggestion that the deal was driven by the licence, saying: "There is a tremendous respect at Alliance Atlantis for our ability to provide content. To say a license is worth $82 million is ridiculous" (Kelly, "Indie" 31).[17] The value of the IFCC licence had been valued at $6.4 million by Alliance Atlantis in its application to the CRTC. In its decision, the CRTC adjusted this figure to anywhere between $9.6 and $11.6 million (Canada-e). Whatever the specific monetary value assigned to the IFCC licence, Alliance Atlantis seemed to feel it was worth whatever it had to pay. As Kelly points out, the IFCC would be an outlet for Alliance Atlantis' library of over 6,000 feature films. He quotes MacMillan as calling the deal "a hat trick." The plan, according to MacMillan, was for Alliance "to grow our broadcast business, diversify our TV program output and leverage the films from our library" (Kelly, "Indie" 31). As part of its application to take over the channel, Alliance Atlantis pledged a benefits package that amounted to 10 per cent more than what was required by the CRTC (Yaffe, "AAC's" 5). Alliance Atlantis committed to contribute $700,000 over seven years to establish a program in partnership with Halifax's post secondary schools to provide training for future film makers, as well as $500,000 over three years to a newly established IFCC Canadian Programming Fund "to support the development and production of new Canadian films or documentaries by independent filmmakers from or in Atlantic Canada" (Canada-e). Alliance Atlantis

[17] As previously mentioned, the deal subsequently went through for $84 million.

also committed $50,000 over five years to the Atlantic Film Festival. In its decision, the CRTC stated that it "**requires** [bold theirs] Alliance Atlantis to adhere to each of these commitments, in particular its promise to locate and maintain the office of IFCC in Halifax (Canada-e).

In response to concerns expressed by interveners about the "issue of trafficking" and "whether it was appropriate that ownership of broadcast holdings should change hands within a year of their first being licensed, before the undertakings have commenced operation," the CRTC stated that it considered it "unreasonable to infer that the primary motivation of Salter Street owners in selling the company's shares was to divest themselves of the regulated assets of IFFC and other specialty services," particularly since "none of these services ha[d] commenced operation, and the consequent difficulty in arriving at any clear, confident assessment of how they will perform financially" (Canada-e). Publicly, in an article in *Playback*, CRTC spokesman Denis Camel said "You're not supposed to get a licence and sell it right away. It doesn't work like that" (Yaffe, "AAC's" 5). However, as *Playback's* Samantha Yaffe points out in that article, there is little in the way of policy to stop broadcasters from buying or selling licences, as opposed to operating channels (Yaffe, "AAC's" 5). And so, the CRTC concluded its decision to allow Alliance Atlantis to take over 95 per cent ownership of the IFCC with this statement:

> Although the Commission is thus unable to conclude that this particular transaction constitutes an inappropriate sale of broadcasting assets, it remains very much concerned by what it

> sees as an increasing incidence of business dealings involving the sale of new or recently licensed broadcasting properties such as these. The Commission will therefore continue to review and rule on all such transactions on a case-by-case basis, with a view to making certain that the integrity of the process is maintained. (Canada-e)

The application for Alliance Atlantis to acquire effective control of 95 per cent of the IFCC, as well 100 per cent control of Salter's 20 Category 2 specialty channels, was approved on December 13, 2001, one day shy of the one year anniversary of Salter Street having been granted the licences.[18] According to MacMillan: "It was a very friendly deal" (Tolusso, "AAC buys" 1).

That June, Salter Street laid off 22 people, nearly a quarter of its staff of 90. Thirteen of those laid off formed the company's distribution department, located in Salter's Toronto office, and included the vice president of international sale and the vice president of acquisitions and coproductions The other nine layoffs were made at the head office in Halifax (Jump-a). Michael Donovan stated: "We are truly saddened by the loss of very, very capable people, but we also understand the realities of this part of the business" (Jump-a). An article in *Playback* noted that Macmillan had indicated when Alliance Atlantis bought Salter Street that Salter's distribution department would likely be cut. No further layoffs were expected at the time. It was, however, a foreshadowing of events to come.

[18] The remaining 5 per cent of IFCC had been granted to Toronto-based feature producer Triptych Media in the CRTC's original assignment of the licence (Kelly, "Indie" 31).

Alliance Atlantis had won the licences to eight specialty channels in 2000, and fall 2001 was filled with the launch of networks that solidified the company's role as a broadcaster. Category 1 channel Health Network Canada and Category 2 channels National Geographic Channel, BBC Canada, BBC Kids, DIY, and movie channels Showcase Action, Showcase Romance and Showcase Classics all debuted in fall 2001, along with the newly acquired IFC (Alliance Atlantis-f). The CRTC approved the new Alliance Atlantis channels without any caveats. The company's journey to becoming a major Canadian broadcaster was proving to be an easy one.

Alliance Atlantis strikes gold with *CSI*

As Sarah Scott recounts in a November 2000 article for the *Globe and Mail*, the merged company was making too much television drama for Bay Street's tastes. Margins in the television division had sunk to 8 per cent, and non-voting shares in the company were slipping. Television drama had always been Atlantis' core business, the engine of its growth, but the company had yet to produce a truly successful show. "The great weakness of this company is that we've never had a hit show ... I mean like *ER*, shows that made hundreds of millions." Sussman told Scott. However, "[t]he great strength of this company is that we've never had a hit show. We've had to learn how to make it work, brick by brick." Alliance Atlantis' luck was about to change.

In the spring of 2000, American network CBS was rushing to pull together a promising-sounding one-hour crime drama series, set in Las Vegas, about a police division called a Crime Scene Investigation unit in time to include the show on the network's fall schedule. Along with CBS, *CSI: Crime Scene Investigation* was being co-produced by Jerry Bruckheimer, famous for big-budget action movies like *Top Gun*, who had branched out into television production. Funding for the series was to be split 50/50 between Disney's Touchstone studio, which had a deal with Bruckheimer, and CBS, the network to air the show (Carter 124). When Disney finally figured out – shortly after production started on *CSI* – that not only was the show going to be expensive, but it was also going to run on CBS and not Disney-owned ABC (which had passed on the series), the executives at Touchstone were ordered by their Disney bosses to pull the studio's investment out of the show. After offering partnership in the show to various production companies, all of whom declined the offer, it looked like CBS would be left shouldering the cost of the entire show, which would likely result in pulling the plug on something that had a good chance of turning out to be a hit series. Realizing this, CBS President and Chief Executive Officer Leslie Moonves got creative and looked outside Hollywood for a partner to share in the production of *CSI* (Carter, 131). He called Peter Sussman at Alliance Atlantis.

CBS and Alliance Atlantis had a pre-existing relationship – Alliance Atlantis was the distributor of the CBS catalogue in Canada, and CBS had been the first US network to run a Canadian series in prime time, *Due South*. The two companies had also coproduced the successful miniseries *Joan of Arc* in 1999. Sussman watched the *CSI* pilot and was impressed, and Alliance Atlantis agreed to fund half of the cost of producing *CSI*; the call from Moonves to Sussman would be, as Bill Carter points out in *Desperate Networks*, "the most financially significant conversation Peter Sussman would have in his life" (132). The deal was announced in Canada in August of 2000 with a jubilant press release issued by Alliance Atlantis, in which the company's executive vice president of television production, John Morayniss, stated: "We're thrilled to be in business with Jerry Bruckheimer … one of the great feature film producers ... it's exciting to be partnering with him on such a high caliber project" (Alliance Atlantis-e). When *CSI* premiered in fall of 2000, Alliance Atlantis' new drama series emerged as the top-rated show in US prime time on Fridays, as well as the highest-rated new drama series on all US television. An initial 13-episode order from CBS was increased to a full season order of 22 episodes (Rice-Barker, "AAC, Sci" 10).

Contrast this to a homegrown dramatic series that Alliance Atlantis produced around the same time. As Brendan Kelly reported in *Variety*, in January of 2001 Alliance Atlantis was confident it had the next long-running Canadian series with *The Associates*, an hour-long drama about five junior associates at a Toronto law firm ("Law" 54). The show debuted on CTV in the new year as a mid-season replacement (Yaffe, "CTV"). Filmed on a state-of-the-art set in Toronto, it was CTV's highest-profile Canadian series of 2001. Alliance Atlantis had high hopes for the show, particularly in terms of international sales (Kelly, "Law" 54). However, as a result of poor ratings and, more significantly, poor international sales, *The Associates* was cancelled after only two seasons and replaced by *The Eleventh Hour*, another Alliance Atlantis-produced and CTV-run hour-long drama (which will be revisited in chapter three).

Less production and more layoffs

With the first days of the new year 2002 came an announcement from Alliance Atlantis that it was reducing its production activities in favour of focusing on the broadcasting side of its business. On January 9, 2002, a news release from the company stating that it would be consolidating its existing television production and distribution activities with its in-house motion picture production and related distribution activities into a new group, to be called the Entertainment Group. With the consolidation would come a reorganization of senior management in the Entertainment Group and a "significant work force reduction" amounting to the loss of 80 jobs – a 9 per cent reduction in the company's overall workforce (Alliance Atlantis-d). "Strategically, this consolidation of our production businesses into a single entity allows us to reap the operating benefits and financial synergies, arising from combining the talents of people skilled in both television and motion picture development, production, financing and distribution," said MacMillan in the company's news release. Judson Martin, the company's executive vice president and chief financial officer, called the loss of 80 full-time positions "an unfortunate but necessary result of our production consolidation" (Alliance Atlantis-d). Martin noted that, as a result of the cuts, the company expected to save approximately $7 million to be applied to reducing the company's debt of roughly $700 million (Yaffe, "AAC consolidates" 2).

As pointed out in its news release, Alliance Atlantis planned to continue to conduct its operations through three operating groups: the Broadcast Group, comprised of the company's interests in 18 specialty channels; the Motion Picture Distribution Group, which would focus on releasing acquired motion pictures, including theatrical, video/DVD distribution and library sales to broadcast customers in Canada and under Alliance Atlantis' Momentum Pictures brand in the UK; and the newly formed Entertainment Group, which would be comprised of television and in-house motion picture production and worldwide activities related to these production activities The Entertainment Group would be led by Los Angeles-based Sussman was now chief executive officer of the new group. Reporting to Sussman was McLean as president of production for the Entertainment Group, responsible for all television and in-house motion picture production activities; Riley as president of distribution for the Entertainment Group, with worldwide responsibility for distribution of Alliance Atlantis' television and in-house motion picture content; and Steve Ord as executive vice president of the Entertainment Group, responsible for the financial, legal and business affairs. The Motion Picture Group would continue to be run by Loewy, and the Broadcast Group would remain under the leadership of Phyllis Yaffe. Sussman, Loewy, and Yaffe would report to MacMillan (Alliance Atlantis Consolidates-d).

MacMillan insisted that the cutbacks were "a stand-alone action," part of a plan to reduce the company's production of high-cost prime time drama, particularly what MacMillan referred to as "in-between programs" produced mainly for syndication (Yaffe, "AAC consolidates" 2). "This move follows our previously announced commitment to substantially reduce the output of high cost prime time television hours, limit the number and size of in-house motion picture productions and reduce the amount of capital invested in both these production activities," MacMillan stated in a company news release. "This is the next logical step in our strategy – creating an infrastructure that more accurately reflects the anticipated size of our production business going forward" (Alliance Atlantis-d). Three months later, another 35 full-time positions were eliminated from Alliance Atlantis' Broadcast Group. Alliance Atlantis Vice President of Corporate and Public Affairs Kym Robertson said that while the January layoffs were part of a restructuring of the company's production arm, the April 2002 cuts were "very different" (Jump cuts-b). "Two years ago we were operating a fewer number of channels," she said, "Now we have the experience of running a 12-channel business." As a result, according to Robertson, Alliance Atlantis needed to be "very focused and disciplined about managing ... costs" (Jump cuts-b). At the time, Alliance Atlantis employed 850 people, over 300 of whom worked in the Broadcast Group (Jump cuts-b).

In a subsequent editorial for *Playback* titled "Reality sets in," Samantha Yaffe suggested that 2002 was the year of integration for Canadian media giants: "After a tempest of media acquisitions that marked the last two years, the newly formed conglomerates ... are shifting their focus from buying to operating," she wrote (4). In the case of Alliance Atlantis, that core business is broadcasting. MacMillan told Yaffe: "We're not getting out of any of our other businesses, but we're relatively underweight in broadcasting" ("Reality" 4). Prime time television drama production by the company was slated to drop from 176 hours in 2002 to around 100 hours in 2003, and reduce its production of movies of the week and miniseries were reduced from 24 hours to 10 hours a year (Yaffe, "AAC consolidates 2). The company would reduce its feature film production as well, producing fewer and less expensive films (Kelly, "Alliance Atlantis" 46). In an article for *Variety*, Brendan Kelly pointed out that the move was part of a trend that started when Alliance and Atlantis merged in 1998. At that time, the two companies were producing 22 prime time series between them, compared with eight in 2002 (Kelly, "Alliance Atlantis" 46). As Sussman told Kelly at the time, "[r]ight now, the economics of broadcasting are much better than content" ("Alliance Atlantis" 46). Kelly reported that Sussman stressed that Alliance Atlantis was not leaving production altogether – that the company was "still open for business in Hollywood" (Kelly, "Alliance Atlantis" 46). "The company is in the business of making filmed entertainment around the world," Sussman said. "What we've changed is that we're reducing our overheads [*sic*] to focus on the best filmed entertainment" (Kelly, "Alliance Atlantis" 46). According to Yaffe:

> [T]he company's restructuring put into motion a move away from middle-of-the-line TV series produced mainly for a syndication market that seems to be fast diminishing alongside the growth of media consolidation. Massive media mergers and acquisitions over the past year or two, particularly in the US, seem to provide just cause for content creators worldwide to shy away from dramatic series that could once find multiple returns through syndication. ("Reality" 4)

MacMillan supported this: "There's a decrease in demand for imported drama in Europe, and with the rise of UPN and the WB, broadcasters are trying out alternative genres like reality and doc, reducing the demand for drama worldwide," which, as he pointed out, led Alliance Atlantis to aggressively build up its factual division, AAC Fact (Yaffe, "Alliance Atlantis consolidates" 2). MacMillan outlined Alliance Atlantis' strategic priorities as reducing production volume, paying down debt, and increasing broadcast activities, and said that Alliance Atlantis was not yet out of the "aggressive acquisition business" (Yaffe, "Alliance Atlantis consolidates" 2).

As Kelly points out, the irony was that the company was experiencing considerable success with its biggest TV hit ever in *CSI* – it was one of the highest-rated shows on US network TV ("Alliance Atlantis" 46). MacMillan told *Playback*'s Yaffe that Alliance Atlantis' plan was to focus on two categories of drama production: "clearly Canadian programming" aimed at the Canadian market, such as *This Hour Has 22 Minutes* and *The Associates*, and "overtly international, high-ticket shows," such as *CSI* ("AAC consolidates" 2). Later that spring, Alliance Atlantis confirmed the addition of *CSI: Miami* to CBS' fall schedule – the US network ordered an initial 13 episodes of the spin-off, with an option to order an additional nine episodes during the season (Alliance Atlantis-c). At the time, audience levels for the original *CSI* series had topped 25 million. "The *CSI* franchise has been an exceptionally strong one for its producers, and is an important one for Alliance Atlantis. We're looking forward to continued success with this spin-off series," said Macmillan in a company news release.

"Alliance Atlantis also holds the rights to distribute *CSI* internationally, and we've had excellent results from sales in many markets outside the US, something that we expect to continue with *CSI: Miami*." Sussman chimed in: "Alliance Atlantis is proud to have both of these *CSI* programs among our productions" (Alliance Atlantis-c).

Alliance Atlantis had another drama to be proud of in the fall of 2002, one that had roots in Canada. In September of 2002, shooting started in Toronto on 13 one-hour episodes of the new prime time drama *The Eleventh Hour*, scheduled to premiere on CTV during the 2002 – 2003 season. "We're extremely proud and excited to launch *The Eleventh Hour*, an intelligent, tightly-written series created and developed by some of Canada's brightest talent," said Anne Marie La Traverse, senior vice president of television series and movies for Alliance Atlantis' Entertainment Group, and executive producer for the series (Alliance Atlantis-g). The series followed a group of reporters working for a fictional television news-magazine television show, *The Eleventh Hour*. The series ran for three seasons and was nominated for 13 Gemini Awards in 2003. It won the Gemini for Best Dramatic Series in 2003, and again in 2005, the last year it ran (Dillion, "The Hours" 12;" Dillon, "Eleventh" 2).

Earlier that year, *The Lord of the Rings: The Fellowship of the Ring*, distributed in Canada by Alliance Atlantis, had grossed $40.1 million in theatres across Canada in a little over a month, breaking Alliance Atlantis' previous box office record of $23.5 million set by *Austin Powers 2: The Spy Who Shagged Me* in 1999 (Alliance Atlantis-i). A few months later, *Men with Brooms*, a Canadian romantic comedy produced by Lantos' Serendipity Point and distributed by Alliance Atlantis, opened to a weekend theatrical box office gross of $1.04 million, the highest opening weekend of all time for an English language homegrown feature in national release (Alliance Atlantis-j).

A little over a year after the first round of cuts under Alliance Atlantis' production reduction strategy, a second round of restructuring was announced. In March of 2003, Alliance Atlantis announced it was cutting 33 of 183 full-time positions from its Entertainment Group offices in Los Angeles and Toronto, and from the Salter Street office in Halifax, representing 4 per cent of the company's overall workforce. "While making a decision to reduce staff is a very difficult one, it is imperative that we align our human resources to our production levels," said Sussman, who was recalled from Los Angeles as part of the restructuring. He would continue to run the LA office from Alliance Atlantis' head office in Toronto ("Alliance Atlantis Communications"). According to Alliance Atlantis Chief Financial Officer Judson Martin, the cuts "reflect exactly our reduced production level" (Davidson, 1). In an article for *Playback* about the March 2003 staff cuts, Sean Davison noted that, at the time, Alliance Atlantis was "partway through its plan to cut production levels and raise profits" by shifting from mass production of for-syndication shows to smaller numbers of prestige series and movies (1).

A considerable amount of those profits would spring from Alliance Atlantis' involvement with the *CSI* series. In the spring of 2003, in an effort to get, as MacMillan said, "every dollar of value out of the *CSI* franchise," past episodes of *CSI* began rerunning on Alliance Atlantis' Showcase and Showcase Action channels (Alliance Atlantis-h). CTV continued to run all new episodes of the series (Alliance Atlantis-h). That same year, following the record-breaking sale of second-window US broadcast rights of the original *CSI: Crime Scene Investigation* series to TNN in April 2001 for US $1.6 million per episode, Alliance Atlantis and CBS sold second-window US broadcast rights for *CSI: Miami* to A&E for US $1.2 million per episode (Dinoff, "AAC" 2). A financial analyst commented about the deal: "I think it is fair to say that lightning has struck twice at [Alliance Atlantis] with this franchise" (Dinoff, "AAC" 2). Alliance Atlantis Chief Financial Officer Martin noted: "The licensing of the US second-window rights for *CSI: Miami* clearly demonstrates that our ownership position in the *CSI* franchise will be an important contributor to Alliance Atlantis' earnings" (Dinoff, "AAC" 2).

In May of 2003, Alliance Atlantis issued a news release announcing that Showcase would commission a slate of over 48 hours of original Canadian drama for 2003 – 2004 (Alliance Atlantis-k). "With eight series and one mini-series greenlit for 2003/04, we are thrilled to not only maintain, but increase, Showcase Television's commitment to original Canadian drama," said Phyllis Yaffe. Among the original programming were popular shows *Trailer Park Boys* and *Bliss*. However, whatever its commitment to programming, Alliance Atlantis would not maintain its own production studio any longer: Earlier that month, Toronto Film Studios had bought Cinevillage from Alliance Atlantis. The facility was used primarily to produce Alliance Atlantis programs, and while Alliance Atlantis would remain the anchor tenant, the Toronto Film Studios became the new owner and operator (Dinoff, "Toronto" 12).

That same month, Alliance Atlantis announced its newest feature film project, *Foolproof*, would receive a record $2 million budget for publicity and advertising – a sum that would seem small to many Hollywood publicity departments, but was unprecedented in Canada (Dinoff, "Foolproof" 1). That amount was later increased to $3 million, thanks to some innovative product placing of brands such as Pizza Hut (Vamos, "Product" 19). The film was made for $7.8 million, $3.4 million of which came from Telefilm. Despite having been released in over 200 theatres, more than any Canadian film that preceded it, *Foolproof* generated disappointing returns of just over $200,000 its October 2003 opening weekend at the box office (Dinoff, "Not" 1). By comparison, Québec-produced *Sur le seuil*, which opened the same weekend and was distributed by Alliance Atlantis' Vivafilm, made $486,000 on 70 screens and ranked number one at the Québec box office its opening weekend (Dinoff, "Not" 1).

Conclusion

Alliance and Atlantis merged during a time when the mentality "bigger is better" was driving the global media industry. That this sentiment had pervaded all aspects of the film and television business was evident in the CRTC's treatment of the merger, in that the deal was allowed to proceed without interference from the federal regulator. Financially, the move towards consolidation made sense for both companies – as a large studio, Alliance Atlantis would have the clout it needed to do business effectively on an international scale. However, the size of the newly formed company also raised concerns about concentration of ownership in the industry, concerns that were exacerbated when Alliance Atlantis proceeded to reduce staff soon after the merger. Nevertheless, it was largely agreed that, as a studio, Alliance Atlantis could create opportunities for small and mid-sized companies by fostering creativity. As a major industry player, Alliance Atlantis might focus less on production, which could, in turn, benefit smaller producers, particularly since Alliance Atlantis had the channels on which to air the programs. Indeed, this is the direction in which the company had been heading – it had been steadily reducing its volume of production in order to improve profit margins. The discrepancy between the loss of investment on a feature film produced in-house with poor box office returns – *Foolproof*, for example – versus the gain from distributing an independently produced film that did well at the box office, was not lost on Alliance Atlantis executives. They had been talking publicly for quite some time about making the shift away from production, and accordingly, a significant shift was about to take place at Canada's mini-major.

Chapter Three

Mini-major No More: From Studio to Broadcaster

Introduction

In the early 2000s, film and television production suffered, in Canada and globally. This was due, in part, to reduced demand for dramatic programming as a result of the popularity of reality television, and to smaller audiences buying tickets at movie theatres. In Canada, these global problems were made worse by cuts to government agencies established to nurture Canadian production, and by changes in the CRTC's regulations that loosened the obligation of Canadian broadcasters to show indigenous programming. Alliance Atlantis had long been Canada's largest producer, but had been steadily moving away from the production aspect of its business in favour of broadcasting. In 2003, Alliance Atlantis announced it was shutting down its production arm and exiting production almost completely. By 2004, it was clear that, financially, this decision had paid off, and by 2005 Canada's mini-major studio had morphed into the country's largest broadcaster.

Shutting down production

"For most of the past 20 years, I have been fearing and predicting the demise of Canadian television drama. Its end has come. The loss is immeasurable. Merry Christmas, Canada" (Zerbisias, "Too"). So wrote Antonia Zerbisias in an article for the *Toronto Star* on December 21, 2003 in response to an announcement made by Alliance Atlantis. On Wednesday, December 10, the company had publicized a decision that shocked the Canadian film and television production industry: It was laying off 70 – almost half – of its 150 person entertainment group and shrinking its film and television production division in response to a "permanent downturn" in global demand for prime time television series and independent films (Tillson, "Alliance Atlantis will"). The company said it would undertake a "wide-ranging review" of its interests with an eye to reducing its production business to almost nothing. The restructuring would leave just two of the four of the major shareholders that had emerged after the merger of Alliance and Atlantis, MacMillan and Riley (Tillson, "Alliance Atlantis will") – Sussman, chief executive officer of the Entertainment Group, and McLean, president of production, would leave the company, remaining long enough to ensure "an effective transition" (Tillson, "Alliance Atlantis will"). [19] Alliance Atlantis would close Salter Street Films in Halifax, the Vancouver and Edmonton offices of Great North Productions, and Café Productions in the UK. Its offices in Toronto, Los Angeles, and Ireland would also see staff cuts (Tillson, "Alliance Atlantis closes"). The review would not include the *CSI* franchise, nor would Alliance Atlantis' broadcast or movie distribution groups, or the Movie Distribution Income Fund, be affected. According to Chief Financial Officer Judson Martin:

> We began this review in response to what we believe is a permanent downturn in domestic and international demand for prime time television series, movies of the week and miniseries as well as arthouse theatrical motion picture productions, all of which

[19] Sussman and McLean would continue to be major shareholders and consultants to the company (Tillson, "Alliance Atlantis will").

> have represented a sizeable portion of our production activities in the past. (Tillson, "Alliance Atlantis will")

"This is the next logical step in our strategy of reducing our financial and operational exposure to the production business and focusing on the abundant growth opportunities in the broadcast and motion picture distribution sectors," said MacMillan. "International television distribution remains an important part of our business and operations" (Tillson, "Alliance Atlantis will"). Cuts had been happening within the company for quite some time. In the five years leading up to the layoffs, Alliance Atlantis' television drama production had been cut from 326 hours a year in 1999 to 78 in 2003, 43 of which were episodes of *CSI* (Zerbisias, "Too"). "We are no longer going to be producing miniseries, movies of the week or feature films," Kym Robertson, Alliance Atlantis' vice president of corporate and public affairs, told *Variety*. "We're going to continue to operate in kids and fact (documentary) sectors, but we've reduced our staffing to an appropriate model for production and distribution" (Tillson, "Alliance Atlantis closes") Robertson said Alliance Atlantis planned to produce drama series already under contract, and that the Salter Street-produced political satire *This Hour Has 22 Minutes* would continue (Tillson, "Alliance Atlantis closes"). The Halifax studios of Alliance Atlantis' Independent Film Channel Canada would also be unaffected. The company would remain a coproducer of *CSI: Crime Scene Investigation*, and *CSI: Miami*, with another spin-off of the popular series, *CSI: New York*, planned for the following year. As one observer had said in 2000, "[o]ne-third of the company [the specialty channels] is a good asset, and the rest is crap ... What is it? Film and TV. Do you know anyone who plans their day around watching an Alliance Atlantis show?" (Scott).

Nevertheless, the further reduction in production represented a huge blow for Canada's struggling production community. As Elizabeth Guider pointed out in *Variety*, the downsizing would leave independent producers with one fewer company to pitch to. The Canadian Coalition of Audio-Visual Unions – a coalition of arts unions including the Alliance of Canadian Cinema, Television and Radio Artists (ACTRA), the Directors Guild of Canada (DGC) and the Writers Guild of Canada (WGC) – called Alliance Atlantis' decision a "death-blow" ("Arts union"). "These are dark days," said Maureen Parker, executive director of the WGC. "Foreign content dominates our screens, and the big, independent producers who are supposed to be making Canadian content have now decided to get out of the game" (Kelly, "Alliance cuts" 32). ACTRA National Executive Director Stephen Waddell noted that "[t]here doesn't seem to be an heir apparent to Alliance Atlantis" (Kelly "Alliance cuts" 32). Paul Gross, an advocate for public funding of Canadian drama and an actor-producer best known for his roles in *Due South* and *Men with Brooms*, in a suitably Canadian comparison, likened Alliance Atlantis' decision to abandon most film and television production to "in the nickel business, losing Falconbridge and Inco in one day" (Zerbisias, "Too"). "Alliance Atlantis was a big player," Gross pointed out, "and not having a big player leaves a huge hole ... Nothing will be safe from gradual erosion" ("Alliance Atlantis ending"). "The whole broadcast landscape has completely changed, and it changed within a week," said Gross. "There are now very few production companies left. They are all very small, and they are undercapitalized" (Dixon).

"The crisis has reached a fever pitch," added Waddell. "We're seeing less and less Canadian content on our airwaves. It's time for action from the new government and the CRTC" ("Arts union").[20] According to the CRTC's fourth annual Broadcasting Policy Monitoring Report, released just before the Alliance Atlantis announcement, spending on Canadian news and information programming was up 36 per cent between 1998 and 2002, while spending on drama and comedy programming among the English and French language private and public broadcasters had increased by only 11 per cent (Edwards, 2). The report, designed to measure the effectiveness of CRTC broadcast policy, showed that drama and comedy spending by private English-language television networks dropped 20 per cent between 1998 and 2002 to $58.6 million. As Guy Dixon points out, many in the Canadian film and television industry ultimately blamed the industry downturn that precipitated Alliance Atlantis' decision on the 1999 change in regulation, which redefined drama and *Variety* shows as "priority programming," and put them in the same category as long-form documentaries, regionally produced shows and entertainment magazines. These types of shows are less expensive to produce and are popular with viewers, and thus the change in regulation reduced the networks' obligation to produce Canadian drama. "Conventional TV broadcasters were clearly not supporting Canadian drama programming in 2002," said Waddell. "We expect things to get even worse if

[20] Paul Martin had become leader of the Liberal Party and prime minister of Canada in November of 2003, following Jean Chretien's resignation.

broadcasters can continue to spend less on Canadian drama and fail to schedule it in prime time. Canadians can't watch what isn't there" (Edwards, 2).

"I don't exactly blame Alliance Atlantis for where they're at, because there are a lot of things that have contributed to it. One of the biggest reasons is the CRTC," Gross said (Dixon). Dixon reports that the production unions who spoke out after Alliance Atlantis' announcement said that the regulatory change "effectively killed the market for Canadian TV drama" and led companies such as Alliance Atlantis to leave the business of producing Canadian dramas, after having received help from government funding for productions in the past (Dixon). "If you don't regulate a climate for demand for Canadian programming, you won't have it," said Gross ("Alliance Atlantis ending"). Gross argued that the industry was being regulated for the benefit of a "few employees at a station that is indistinguishable from NBC," and not for the benefit of Canadians. "If you're not going to regulate it for the benefit of the Canadian people who are paying for it, then just deregulate the whole thing," Gross said ("Alliance Atlantis ending").

Gross stressed that the CRTC seemed "to have achieved the exact opposite of what the initial public policy was all about." In an article for *Variety*, Brendan Kelly reported that Canadian film and television producers wanted the CRTC to force broadcasters to spend more on local programming ("Alliance cuts" 32). In the winter of 2003, with a new prime minister in Ottawa and the announcement that Canada's biggest film and television company was cutting production, the one thing Gross – perhaps reflecting the feeling of actors and producers across Canada – wanted for Christmas was to "[f]ix the CRTC" ("Alliance Atlantis ending").

Also blamed for the sharp downturn in the Canadian production industry was the funding crisis, exacerbated the previous spring when the federal government cut its contribution to the Canadian Television Fund, the source most Canadian producers turned to in order to finance their projects, by 25 per cent (Kelly, "Alliance cuts" 32). However, as Laszlo Barna, president and chief executive officer of Toronto's Barna-Alper Productions and chair of the CTFPA, explained: "[T]ax credit money was originally intended to build companies, not finance productions" (Bracken, "More" 1). He rightly pointed out that producers are "over-administered, need less regulation and should be cut some slack in terms of fees, overhead and recouping investment" (Bracken, "More" 1). Kevin DeWalt, chief executive officer of Regina-based Minds Eye Entertainment agreed: "The amount of overhead you need to do the paperwork alone in our system doesn't justify the spend" (Bracken, "More" 1). As Laura Bracken writes, with the onus for indigenous production falling increasingly to the independent production community, funding organizations and government must "shift the focus towards encouraging the growth of successful, financially stable production companies, rather than financing individual productions" ("More" 1).

There was also the matter of Alliance Atlantis having received government funding for production. As Tamsen Tillson reported in *Playback* after the announcement, over the years, Alliance Atlantis had received millions of taxpayers' dollars to sustain the indigenous production industry ("Alliance Atlantis will"). Maureen Parker, executive director of the Writers Guild of Canada, said that "Alliance Atlantis got start-up money from Canadian taxpayers, and today it only wants to finance American production. Clearly, the government has to step in and direct the [CRTC] to protect taxpayers' interests by ensuring that some Canadian production survives" (Dixon). Gross argued that Alliance Atlantis was "[b]uilt on the backs of the Canadian taxpayer and Canadian talent ... The company benefited from public policy and public money, lots of it" (Alliance Atlantis ending"). Critics estimated that 20 per cent – 30 per cent of all productions from Alliance Atlantis had been financed with public money (Kelly, "Alliance cuts" 32). "They built their company on TV drama, and they built it based on public subsidies. Now they're leaving that," says Waddell (Kelly, "Alliance cuts" 32). In her article for the Toronto Star, Antonia Zerbisias wondered:

> [H]ow many Canadians knew their cash was being used to fund cheap and interchangeable cooking and decorating shows to fill the schedules of privately owned cable channels — instead of funding riskier and more culturally significant domestic dramas. Dramas that tell our stories, that employ and develop Canadian talent and keep it here while achieving critical success abroad ... It's pretty much moot now. ("Too")

However, in a sober editorial in the new year in *Playback*'s first issue published after the initial furor of the December 2003 announcement had died down, Publisher Peter Vamos had a different take on Alliance Atlantis' decision:

> For the record, we don't accept the argument put forth by some that if [Alliance Atlantis] was allowed to blossom for years thanks to generous federal funding, it should now not be allowed to simply fold its tent. The company has long been scaling back domestic production, and has taken to shooting miniseries and its successful *CSI* elsewhere. But for years [Alliance Atlantis] employed and trained thousands, many of whom went on to start their own successful ventures and are positioned to step into the void left by [Alliance Atlantis]'s departure … At least some of the executives who left the company following the cuts, including Peter Sussman, Seaton McLean and Paul and Michael Donovan, will likely reemerge free of the constraints put on them by working for a publicly traded company. It is hoped they will experiment and innovate and take the kinds of risks impossible when forced to answer to shareholders. ("New" 16)

Vamos joined with Paul Gross and others who placed a considerable amount of responsibility for the production downturn in Canada with the government and the CRTC, but with a hopeful slant: "[P]roviding the federal government and CRTC act in the new year to solve some of the chronic domestic problems dragging on dramatic production, we could find a reinvigorated production reality in the wake of [Alliance Atlantis'] cuts" ("New" 16). MacMillan had an answer for critics who were unhappy that Alliance Atlantis was leaving production after years of support from government subsidies: "Ottawa gives money to make shows ... and those shows got made. They got watched, they won awards, they got ratings and they provided employment. They did all those things they were supposed to" (Davidson, "AAC" 1). Now more of those same incentives would be available to the companies who remained in the business of production, MacMillan added – "smaller, more nimble outfits are better suited for the choppy waters of Canadian production" (Davidson, "AAC" 1). Phyllis Yaffe emphasized that Alliance Atlantis Broadcasting planned to spend $80 million on Canadian programming in 2004, an increase of $10 million from 2003. "The more we grow the more we put back," she says. "Our growth is the growth of the production industry" (Davidson, "AAC" 1). Sue Murdoch, vice president of development at Pebblehut Productions, conceded that Alliance Atlantis' absence in the production realm would likely make room for small and mid-sized companies. "We've had a hard time living in the shadow of the 800-pound gorilla," said Murdoch. "It's been hard for a lot of other companies to break through, and that's when the best creative work happens" (Davidson, "AAC" 1).

The fact that Alliance Atlantis had snapped up Salter Street Films, one of Canada's most beloved[21] independent production companies just two short years before, and was now shutting it down, was perhaps the element of Alliance Atlantis' decision that caused the most consternation, particularly since Alliance Atlantis executives admitted they knew as far back as 1998 that they would eventually phase out the company's production arm in favour of broadcasting. Brendan Kelly pointed out in an article for *Variety* after the cuts: "It is now clear

[21] And Academy Award-winning, thanks to Salter Street's role as coproducer of Michael Moore's *Bowling for Columbine*, which won the Oscar for Best Feature Documentary in 2003.

Alliance Atlantis only bought Salter Street to take control of specialty web the Independent Film Channel Canada and had little interest in its TV fare" ("Alliance cuts" 32). The DGC's Brand stated: "A Canadian company like Alliance Atlantis shouldn't be able to buy up independent production houses, the engines of our production industry, then pack up and abandon their commitment to the Canadian industry after being nurtured for years by government support" ("Alliance Atlantis ending"). MacMillan defended Alliance Atlantis' purchase of Salter Street Films, arguing that, at the time, "[t]he downturn we were seeing was in drama. Knowing that, we diversified away from drama and increased our documentary business ... Hence Great North ... Hence Salter, for comedy and TV movies" (Davidson, "AAC" 1). That Salter also owned the IFC was only part of the impetus behind Alliance Atlantis' takeover of the Halifax-based company, according to Phyllis Yaffe. "Because we were also in the broadcasting business, integrating our own productions was part of the strategy," she said (Davidson, "AAC" 1).

It was the scope of the cuts that caught the industry off guard, even though Alliance Atlantis executives had been talking about scaling back the production side of their business for quite some time, and had been taking steps towards doing so. As Elizabeth Guider points out, the drastic cuts that came at the end of 2003 made it "crystal clear just how difficult the global market has become." She makes the point that, to succeed in the film and television production business, one can be either large, like the major Hollywood studios, with their substantial control over three quarters of the global production business, or one can be a small company "with little overhead and a hot property," but being middle-sized in relation to the industry at large, like Alliance Atlantis, is "increasingly untenable." MacMillan had told investors shortly before the cuts were announced: "Just because we are the co-producers and distributors of the most successful show on television, it has not made us imagine that we've unlocked the secret key" (Guider). The problem, according to Guider, is that the production business had become a "high-cost, very low-margin proposition," and shareholders were increasingly impatient with the performance of media companies. After the news of Alliance Atlantis' cuts, an analyst commented: "Unless you have the very top-tier movie or series of the year – and sometimes, like [Alliance Atlantis] with "*CSI*," even if you do – you're simply going to be driven to the wall" (Guider). As Peter Vamos points out in a January 2004 editorial for *Playback*, *The Eleventh Hour* had yet to find a solid viewer base at the time of the cuts, Alliance Atlantis' previous one-hour drama, *The Associates*, was canceled after only two seasons, and the feature *Foolproof* "tanked at the box office" (Vamos, "New" 16). Ultimately, he says, "such failures led directly to more than 200 layoffs in two years" (Vamos, "New" 16). "Nobody is more disappointed than us that this is the only sensible thing to do," said MacMillan. "We've been making TV shows for 25 years, and it was how we started the business. I was a cinematographer for our first couple dozen films. We are a company that began as hands-on filmmakers and producers really. This is our heritage business" (Dixon). However, according to MacMillan the downturn in the market for Canadian shows had caused the company to become more of a “financier or commissioner of original drama that others in Canada are producing, instead of us producing it” (Dixon).

Alliance Atlantis may have been the biggest company to abandon production in Canada, but it was not the only one to do so. With production costs rising and available funds already stretched beyond their limit, many smaller producers were taking their cue from Alliance Atlantis and getting out of the business of producing Canadian content (Bracken, “More” 1). "Big companies are getting out of production because they can't afford it, you can only produce for so long losing money," said DeWalt (Bracken, “More” 1). Wendy Hill-Tout, executive producer and founder of Calgary-based Voice Pictures, agreed. "We're not doing any more Canadian production until the system is fixed,” she said. “The costs of producing have gone up over the last six years, but the amount of money coming into production has gone down” (Bracken, “More” 1). Barna empathized with Alliance Atlantis’ decision: "People who actually answer to shareholders like those at Alliance Atlantis framed what we have been saying for a while, which is that production is not a business that can thrive and grow unless some changes are made” (Bracken, “More” 1). Bay Street generally had good things to say about the cuts. CIBC analyst Bob Bek said: “We’ve always been anti-production and Alliance Atlantis has always been weighed down by that, so we’re happy to see the cuts” (Davidson, “AAC” 1) Bek predicted that the downturn in production would be permanent, and that publicly traded companies should avoid that aspect of the industry. "It is very difficult for public companies to be in this business, and the market just does not want to deal with it anymore," said Bek (Davidson, "AAC" 1).

Vamos agrees: "What [Alliance Atlantis] is really suffering from is pressure to step out of the expensive and unpredictable production sector and focus on building its more lucrative ventures. It's good business, but not the end of the world" ("New" 16). Guy Mayson, president and chief executive officer of the CFTPA, echoed Vamos' assertion: "This could be considered the worst of times for the Canadian production industry, but it isn't," he wrote in a piece for *Playback*. "The decline in the number of English TV dramas can be directly linked to funding cuts and poor scheduling and promotion," Mayson continued. "U.S. programming will always win at this game – it has the money and the marketplace" (22). He points out that this was not only a government problem, and that those in the film and television industry need to build audiences, but that producers cannot do it alone. "Broadcasters and distributors need to place more emphasis on promotion and scheduling," Mayson wrote, "And producers need to make shows people will want to watch. We need to work with broadcasters, not against them. After all, our ultimate goal is the same – to get Canadians watching" (22).

Alliance Atlantis' decision pays off

By March of 2004, it was clear that Alliance Atlantis' decision to cut production in favour of broadcasting and distribution had paid off financially. With respect to broadcasting, the CRTC reported that annual revenues in specialty, pay and pay-per-view TV had climbed to nearly $1.9 billion in 2003, up 81 per cent from 1999 (Tillson, "Niche").[22] The annual revenue increase for specialty broadcasting, where Alliance Atlantis had concentrated its energy following the decision to drop costly movie and television production and focus more heavily on distribution and broadcasting, averaged 16 per cent (Tillson, "Niche"). "Since viewers like choice, they're going to continue to exercise that, and specialty is going to become the dominant form of television," said MacMillan. "So it makes more sense for us to be in this business than any other." This is especially true when seen in the context of a downturn in the demand for drama worldwide, *Variety*'s Tamsen Tillson pointed out ("Niche"). The increase in revenue from specialty channels translated into a direct increase in profitability for Alliance Atlantis.

Bay Street agreed that the decision to concentrate on distribution rather than production helped bolster Alliance Atlantis' bottom line. "Over the past few years, we have transformed Alliance Atlantis into a broadcast-driven company by investing in and expanding our broadcast business while reducing the amount of capital and other resources devoted to production activities," said MacMillan (Carr, D3). Analyst Carl Bayard of Desjardins Securities noted that the financial community supported the company's withdrawal from production, calling it "the right decision to make" (Carr, D3). "Broadcasting is a lot more stable," he said, "with better cash flows, so generally the financial people like us tend to appreciate that business better" (Carr, D3). Bayard said that Alliance Atlantis was

[22] In the report *Pay and Specialty Statistical and Financial Summaries 1999-2003.*

smart to "let other people lose the money" by being in the production business (Carr, D3).

In May of 2004, a report sponsored by a group of public agencies and lobbyists, including the NFB and the CFTPA, was released. The report offered further support for Alliance Atlantis' decision, but also painted a bleak picture of the film and television industry in Canada. The report, *Through the Looking Glass*, compared the 2001 television and feature film industry in Canada with that of the United States, the United Kingdom, and Australia (Tillson, "Yank"). The report stated that Canadian broadcasters were the world's largest foreign buyers of US programming. Canada's broadcasters spent 32 per cent of their programming budgets abroad in 2001, and most of that was in the US. This is compared to 4 per cent spent by US broadcasters on foreign programming, 5 per cent spent by the British, and 9 per cent spent by Australian broadcasters (Tillson, "Yank"). In Tamsen Tillson's article for *Variety* about the report, Laszlo Barna, then CFTPA chair, stated: "Financially, it's better to be a broadcaster" (Tillson, "Yank"). He went on to note that "underneath this all there is a cultural issue, because if there's no producing community and nobody fighting for or protecting the number of Canadian hours of programming on TV, or the quality of the hours that are presented, we're just going to have a big hollow resonance of what culture used to be like on the airwaves. It will be gone" (Tillson, "Yank"). According to Kirwan Cox, the policy analyst who wrote the study, "English Canadians don't know they're a country, unlike the Australians and Brits, who at least have a funny accent and an ocean between them and the U.S." (Tillson, "Yank"). Tillson notes that the production industry in French Canada is much stronger, as it has its own language and stars ("Yank").

The merger mania that never materialized

In early 2004, it looked like Canada's media companies were gearing up for another round of merger mania. As Alliance Atlantis' stock continued to rise, another Toronto-based media company found itself in financial trouble. Just months after the much-talked about launch of its television station Toronto One in fall of 2003, family-run Calgary-based Craig Media announced in January of 2004 that it was looking for a buyer.[23] Bayard had pointed out that Alliance Atlantis' improved financial picture put the company in the position "to buy up other media in any industry consolidation," and when news of the Craig sale was announced, Alliance Atlantis was one of the companies that industry analysts speculated might be interested in buying the privately held broadcaster (Carr). However, many of those same analysts doubted Alliance Atlantis' ability to finance the deal (Edwards, "Craig" 2). Craig's asking price was $400 million, which according to Ian Edwards, was dismissed by industry analysts as twice that of the broadcaster's market value. Based on earnings, Craig's worth was estimated at between $130 – $150 million (Edwards, "Craig" 2). The impetus for the sale was said to be the revenue drop seen by Craig's A-Channel properties in Western Canada, as well as larger than expected losses at Toronto One

[23] Craig Media had beat out Alliance Atlantis, among others, in the bid to launch a new Toronto-area television station (Brent, FP1).

(Canada-g). CHUM ultimately ended up purchasing Craig that April for $265 million ("CHUM").

The deal was reminiscent of Alliance Atlantis' Salter Street purchase. In February 2004 the CRTC had denied CHUM's application to launch local television stations in Calgary and Edmonton. Craig Media was one of the companies that opposed the application, arguing that new stations in those cities would compete for Craig's advertising revenue ("CHUM"). Now CHUM was buying Craig, including the television stations owned by Craig in Western Canada. CHUM planned to sell Toronto One because it already owned CityTV in Toronto and the New VR in Barrie, which broadcasts in the Toronto market ("CHUM").

Just before the deal went before the CRTC in the fall of 2004, Antonia Zerbisias wrote in the *Toronto Star* that there was a chance, "perhaps the last significant chance, for some real public good to come out of the deal ... But that will only happen if the Canadian Radio-television and Telecommunications Commission (CRTC) ... sticks by its guns and sticks it to what will likely be the last of Canada's great media mergers" ("Fruits"). Her reasoning was that in 1999, the CRTC had established rules to ensure that there were "clear and unequivocal tangible benefits" to the public whenever a broadcaster changed hands. According to the regulations, those "social benefits" must be worth at least 10 per cent of the deal (Zerbisias, "Fruits"). Zerbisias made the point that many of these social benefits, such as producing local and cross-cultural programming "should be seen as part of the normal cost of doing business" ("Fruits").

The CRTC approved the deal that November. In compliance with its ownership policy, the CRTC stated in its decision approving the sale of Craig to CHUM that control of Toronto One must be transferred to TVA Group and Sun Media (Canada-g). The CRTC also required CHUM to fulfill various commitments with regards to local production and programming (Canada (f)). Among them was the condition that CHUM invest $21.9 million in funding for independent production, $900,000 of which was to be spent in the Prairies (Davidson, "CRTC" 2). CHUM had originally offered a package of $21 million, in keeping with federal regulations. The CRTC disagreed and CHUM increased the offer (Davidson, "CRTC" 2).

When the Craig sale was first announced early in 2004, industry analysts predicted a flurry of media consolidation. "The media sector is hot. It's going to be a fun year," said one media analyst (Brent, FP1). At the time, it was expected that Bell Canada Enterprises (BCE) would sell Bell GlobeMedia, which included CTV and the *Globe and Mail.* "We note that the purchase of Craig could very well reinitiate or hasten the next round of consolidation," said Merrill Lynch's Ihor Danyliuk (Brent, FP1). However, as Dwane Winseck, an associate professor at Carleton's school of journalism in Ottawa, pointed out after the CHUM-Craig deal was announced, "[w]hat one saw with the previous round of consolidation is, by and large, a lot of it has faltered ... The biggest example is if you look south of the border with AOL and Time Warner. The people that were behind that are now in doghouses" (Carr, "CHUM's" D4). Indeed, by late 2002, Wall Street analysts calculated the combined AOL Time Warner was actually valued at less than Time

Warner's assets prior to the merger (Maich, RB7). In the fall of 2003, AOL Time Warner removed "AOL" from its name, citing an "effort to end confusion between the parent company, whose media properties include Time Magazine and HBO, and the America Online unit, known simply as AOL ("AOL" B7). The unofficial reason for the change was disappointment with the merger and the plunge in the value of Time Warner shares ("AOL" B7). In a December 2005 essay in *The Washington Post*, AOL co-founder Steve Case, who had left the company in 2003, argued that the merger had not succeeded, and that the company would be better off as four separate units: AOL, an entertainment company, the magazine publisher Time Inc., and Time Warner Cable (Sutel, C4). In July of 2006, Case apologized for the merger in an interview with American journalist Charlie Rose. "I'm sorry I did it," Case said ("Sorry" FP20). This was just one case in which the merger of two major media companies did not turn out as hoped – many of the mergers that had taken place in the late 1990s and early 2000s were yielding poor returns and, in some cases, were dissolved. In the spring of 2006, Vivendi Universal announced that it was dropping "Universal" from its name. A couple of months later, Viacom and CBS announced that they would split into two entities along roughly the same lines as had existed before their 1999 merger. Viacom chairman and chief executive officer Sumner Redstone said: "The age of the conglomerate is over" (Szalai).

CanWest Global was another company cutting its losses in 2004. Following in the footsteps of Alliance Atlantis, CanWest put its production arm, Fireworks Entertainment, up for sale in April 2004. CanWest had bought Jay

Firestone's production company for $40 million in 1998.[24] At the time, Firestone said: "It's the natural evolution of the industry ... The industry is merging, but I'm still a little guy. In the end, this works because having a company like CanWest back you makes the next few years a lot of fun" (Hoffman, "Caster" 1). As it turned out, the deal did not result in much fun for CanWest: the production arm's library turned out to be a financial drain on CanWest, and so after an internal review and in light of "continued and persistent weakness in demand for North American content in international markets," CanWest decided to get out of the production business (Edwards, "CanWest" 2). The parallel between CanWest's decision and the decision Alliance Atlantis had made just a half a year earlier were not lost on those in the industry. However, in response to such comparisons, CanWest Chief Financial Officer John Maguire said: "We didn't take our lead from them ... We're all in the same boat, facing the same issues" (Edwards, "CanWest" 2). Ironically, Alliance Atlantis' distribution arm bought the Canadian rights to the Fireworks' television library that fall (McLaughlin, 2).

May 2004 saw a new production company rise from the ashes of Alliance Atlantis' dismantled production arm. Michael Donovan and former Salter Street Films partner Charles Bishop formed The Halifax Film Company in order to produce a feature film based on *Shake Hands with the Devil: The Failure of Humanity in Rwanda*, the book by retired Lieutenant General Romeo Dallaire (Bracken, "Salter" 2). The Halifax Film Company also took over production on a

[24] Jay Firestone was vice chairman of Alliance Communications for 10 years. He left in 1995 to form Fireworks Entertainment (Cuthbert, "Firestone" 3).

handful of former Salter productions, including *This Hour Has 22 Minutes*, then in its twelfth season (Bracken, "Salter" 2).

Alliance Atlantis as broadcaster

In the spring of 2004 Alliance Atlantis restructured again, this time integrating its broadcast, entertainment, and corporate groups into one entity, and appointed Phyllis Yaffe as chief operating officer overseeing the newly formed structure of Alliance Atlantis Communications (Kelly, "One"). The change was in accordance with the company's 2003 decision to discontinue production. A year later, Yaffe moved to the top post at the company and became Alliance Atlantis' chief executive officer when MacMillan moved aside to focus on "long-term planning" for the company (Davidson, "Yaffe" 2). MacMillan became Alliance Atlantis' executive chairman. As Sean Davidson points out, this reflected Alliance Atlantis' concentration on broadcasting, as Yaffe had previously been president of the company's broadcast group and, before that, president of its Showcase and History channels ("Yaffe" 2). The change also caused rumours to circulate that MacMillan, as owner of 67 per cent of the company's shares, was contemplating selling (Davidson, "Yaffe" 2). Yaffe would only say that Alliance Atlantis was in the "next phase of its growth" and that "[w]e'd be foolish to say we'd rule anything out" (Davidson, "Yaffe" 2). Alliance Atlantis also announced that it intended to sell half of its Motion Picture Distribution group, despite the fact that it was performing well financially. As Davidson reports, the film distribution arm of the company was not considered "core business to broadcast-heavy

[Alliance Atlantis]" ("Yaffe" 2). According to Yaffe, "[Motion Picture Distribution] is very successful and has great opportunities over the short term ... But at the end of the day you have to ask yourself, where can that money be spent more usefully? And in our view, growing our broadcast business and continuing to maximize CSI are the two things we have to focus on" (Davidson, "Yaffe" 2). In July of 2006, Patrice Théroux, chief executive officer of Motion Picture Distribution, was reportedly fired, and Chairman Victor Loewy subsequently resigned (Dinoff, "Loewy" 1). "We are currently reviewing the strategic importance of the Motion Picture Distribution business and as promised, we will report back when this review has been concluded," said Yaffe in a statement (Dinoff, "Loewy" 1).

Focussing on *CSI* had paid off for Alliance Atlantis. In the fiscal quarter ending September 2004, the *CSI* series accounted for 96 per cent of Alliance Atlantis' entertainment division's revenue, and 91 per cent of the division's gross profit (Kelly, "CSI"). The following year, the *CSI* franchise was estimated by BMO Nesbitt Burns analyst Tim Casey to be worth $700 million to Alliance Atlantis, following a deal with SPIKE TV for the syndication rights for *CSI: New York* (Brent, "CSI" FP2). "A rule of thumb often used for sequels in Hollywood is that the sequel should generate at least two-thirds of the revenue of the original," wrote Casey. "*CSI:NY* is setting a new high watermark in terms of cable syndication sales for all three versions of *CSI*" (Brent, "CSI" FP2). *CSI: Crime Scene Investigation* finished third overall in the Nielsen Media Research ratings for the 2005 – 2006 television season, *CSI: Miami* finished ninth, and *CSI: New York* and came in twenty second ("Nielsen").

Canada's film and television industry was looking up, according to Playback's Peter Vamos. He wrote in an editorial early in 2005 that "[a]fter years of hard times, there is an easing of the pressures that have been stifling production, not just in Canada, but also around the world" ("Have" 14). He based his optimism on an increase in demand in the international market for youth programming and documentaries – both of which, he points out, were staples for Canadian producers. Furthermore, reality television appeared to be losing its lustre among viewers, according to Vamos, which could have a positive impact on drama production. "So have we seen the bottom?" he writes. "Maybe" ("Have" 14).

Others in the industry seemed not to think so. Live action, children's, and documentary programming were showing signs of growth, but spending on feature film and drama production in Canada was down 18 per cent in 2004, from $1.51 billion in 2003 to $1.24 billion in 2004, the lowest since 1996 (Dillon, "Drama" 19). As Mark Dillon reports, Canadian production and development spending had increased throughout the mid-1990s, peaked in 2000 at $1.83 billion, and then started to decline. Alliance Atlantis' held its habitual place as the top producer in the country in 2004, despite its exit from direct production of Canadian film and television. Most of Alliance Atlantis production dollars in 2004 went towards its stake in the *CSI* franchise (Dillon, "Drama" 19).

The first issue of *Marketing* magazine in 2005 proclaimed Alliance Atlantis its choice for 2004 media player of the year.[25] A feature story on the company noted that 2005 marked the tenth anniversary of Alliance Atlantis' entry into broadcasting, with the debuts of the Life Network and Showcase in 1995. In the fall of 2004, Alliance Atlantis launched a new digital channel, Fine Living Canada, in partnership with Scripps Networks in the US. [26] The channel would focus on luxury lifestyle programming and, as a Category 2 specialty channel would be subject to the terms and conditions for channels of its type, as outlined by the CRTC – among them the condition that a Category 2 channel devote a minimum of "15 per cent of the first broadcast year of the licence term, and of the evening broadcast period during that year, to the broadcast of Canadian programs" (Canada-a). Alliance Atlantis now ran 13 specialty networks and, understandably, identified itself first and foremost as a broadcaster.

Conclusion

When Alliance Atlantis announced it was exiting the production business, it explained its decision as being in response to a permanent downturn in demand for dramatic programming. This was due, in part, to changes in regulations that obliged Canadian broadcasters to air indigenous programming. These changes had taken place in conjunction with an evolution in the marketplace which saw more channels and more television programs add up to fewer viewers for each. An increase in the production and popularity of reality

[25] Powell, Chris. "The Atlantis Project." *Marketing* 10 Jan. 2005: 11
[26] Originally called The Luxe Network (Canada-f).

and entertainment magazine shows, which were less expensive to produce and therefore more attractive to producers with an eye on the bottom line, also contributed to this decrease in demand for drama production. As a publicly traded company, Alliance Atlantis had to answer to shareholders who had grown increasingly impatient with the performance of the company's production arm. Understandably, Alliance Atlantis' decision to cease production on all but its most profitable shows generated a great deal of concern in the industry. However, along with cries that Alliance Atlantis had changed the landscape and left a huge hole in the industry, a few voices emerged that speculated that perhaps this move by Canada's major studio did not signal the end of the Canadian film and television industry. Alliance Atlantis was not the only large company of its kind exiting production, and it was suggested that, financially, if a company was the size of Alliance Atlantis, it was better to be a broadcaster. To survive as a production company, it seemed that it made more sense for a company to be small, with less overhead, or else larger than anything that existed in Canada – a Hollywood-sized company. By exiting production, Alliance Atlantis may have created room for small and medium-sized production companies in Canada to break through.

By effectively ceasing to produce, Alliance Atlantis demonstrated that the idea of a Canadian mini-major studio, which had seemed so essential during the mergers of the late twentieth century, was destined to fail. The sale of Craig Media to CHUM in 2004 had drummed up some discussion surrounding the possibility of another bout of merger mania, but it never materialized. Indeed, in its decision to approve the CHUM-Craig deal, the CRTC made the deal significantly more difficult to go through than it had the Alliance-Atlantis merger six years earlier. Mergers would still happen, of course, as they had always happened, but in light of the many mergers from the late 1990s and early 2000s that had not turned out as expected, it seemed that the heady days of convergence fever were over for good. Canada had had its mini-major studio, briefly, but that idea had ceased to exist along with Alliance Atlantis' production business.

Conclusion

The evolution of Alliance and Atlantis from two small production companies into a unified market leader in distribution and specialized broadcasting has been a success for the company, financially and in terms of international profile. The passion that drove the original two companies, founded as they were by creative producers, kept the two small companies going in an industry that was just starting to emerge in Canada. As early as 1988, however, Michael MacMillan began talking about reducing the company's production output in favour of distribution. Distribution was a natural progression from production as the companies' expertise evolved and management realized that, like other Canadian companies, they could not depend solely on the domestic market to finance their productions. They believed that, in order for a company to survive in the Canadian film and television industry, it needed an international profile, and Atlantis in particular planned to obtain that profile through a strong distribution business. MacMillan acknowledged that his company could not, on its own, produce the volume needed for it to become a successful distribution company. Atlantis and Alliance both forged partnerships with other production companies in Canada and internationally in order to strengthen their distribution arms. By 1993, Atlantis and Alliance were both rapidly expanding, multifaceted companies, and they both went public that year in order to raise the funds each company needed to further expand. The decision to merge was an extension of this drive to become a major industry player, and it came at a time when many other companies around the world were making similar deals. The extent to which the drive to merge had permeated the business world was evident in the decision put forth by the CRTC to allow Alliance and Atlantis to become one company. Considering that the deal would significantly alter the landscape of the Canadian film and television industry, it was surprising that the CRTC allowed the merger to proceed with minimal interference. However, the CRTC was likely responding to the logic of merger mania which assumed that bigger is better, and that by allowing the creation of a Canadian mini-major studio, it would be strengthening the Canadian industry and helping to fend off competition from American studios.

The establishment of Canada's Hollywood-style studio did not work out as planned. When the first two specialty channels, Life and Showcase, were launched by Atlantis and Alliance, this move into the cable business signalled a shift away from the company's filmmaking roots towards its future as a broadcaster. One of the biggest challenges facing the Canadian film and television industry has always been its proximity to the US market, and the resulting influx of American programming, which makes it difficult to sustain the production of indigenous programming in Canada. Strengthening its distribution arm was one way Alliance Atlantis attempted to circumvent this reality so as to make the disadvantage of sharing a border with the largest, most influential producer of mass media in the world work for them as a Canadian mini-major studio. Alliance Atlantis was able to use the culture that English Canada shares with the US in order to create Canadian-produced programming that would have international value. The company's coproduction deals, as well as its access to public financing and international sales capabilities, and the lower production costs of shooting in Canada, were all key factors in making Alliance Atlantis an attractive partner for the major Hollywood players. Its goal was to create as self-sustaining a company as possible, and in many respects, it has achieved that goal.

The difference, however, between Alliance Atlantis' past and its present is that, when the Canadian film and production industry was being established, an artificial demand for Canadian programming had been created by government policies in order to encourage the industry's growth. It mattered less whether the programming appealed to a large audience, as the paramount focus was on ensuring that Canadian films and television programs were being produced, not on whether anyone was actually watching the product. In the past decade, however, government policy has shifted away from insisting on Canadian content for content's sake towards a system that places emphasis on return on investment. Whether this development represents a positive shift for the Canadian production industry is the subject of another paper, dealing as it does with complex questions about the creation and support of the nebulous concept of a "Canadian culture." This shift has had an impact on how Alliance Atlantis conducts its business, as we saw with its 2003 decision to shut down its production arm in order to concentrate on broadcasting. As Elizabeth Guider points out, to succeed in the film and television production business, one can be either large, like the major Hollywood studios, or one can be a small company, but being mid-sized, like Alliance Atlantis, is increasingly untenable. When Alliance and Atlantis became public companies they became accountable to their shareholders, and by the early 2000s, shareholders in Alliance Atlantis had become increasingly impatient with the poor financial performance of the company's production business. Alliance Atlantis therefore had little choice but to become a commissioner, broadcaster, and distributor of original drama produced by other companies, rather than a producer in their own right. As CIBC analyst Bob Bek pointed out at the time, production is a difficult business for a publicly traded company to compete in, and Alliance Atlantis' decision to minimize its exposure to that aspect of the industry was a sound business decision – and, as *Playback* publisher Peter Vamos points out, not the end of the world.

If Alliance Atlantis' exit from production meant it would be a stronger company overall, and one that would be able to focus on broadcasting, then the decision to shut down its production arm might be interpreted as a new opportunity for Canadian producers. When Alliance launched its first specialty channel, it was with the intention that broadcasting be a natural extension of its business. Showcase, and later the full roster of 13 specialty channels that would be operated by Alliance Atlantis, would be a medium for sharing Canadian productions, whether those programs were produced by Alliance Atlantis or another Canadian company. Alliance Atlantis has taken many popular networks from abroad, such as the Food Network and Fine Living, and customized them for the Canadian audience, programming them with a mix of shows from here and abroad. At a time when it would be nearly as easy for Canadian viewers to tune in to the American versions of these networks, the existence of the Canadian offshoots of these channels is a boon to producers in this country who create programming for Alliance Atlantis' channels.

Granted, the amount of Canadian programming that Alliance Atlantis is required to air on their networks is determined by the CRTC, and if there were no regulations in place to compel Alliance Atlantis to broadcast indigenous programs, the company might opt not to broadcast any. Some would argue, as Paul Gross has, that the regulations are not stringent enough – that, too, is the subject of another paper. Whether or not they are enough, there are regulations in place, and so Alliance Atlantis' success in the broadcasting business means more business for Canadian producers, as it owns 13 channels that are required to air some Canadian programming. The decline in Canadian production is not a result of Alliance Atlantis shutting down that aspect of its business. Canadian production is in decline because of funding cuts, poor scheduling, and poor promotion. Although federal regulations do boost Canadian production by assuring there are places on broadcasters' schedules that can only be filled by indigenous programming, and that without government funding most Canadian producers would be unable to create the films and television shows to fill those slots, in order to compete in the global market, producers also need to make shows that people want to watch, and Canadian content requirements and bureaucratic funding requirements could be seen as an impediment. The industry would do well to look to the example of Alliance and Atlantis' decision to merge: In order to become stronger and better able to compete in the marketplace, producers, broadcasters, funding bodies, and regulators need to work together in order to make films and television programs that will get Canadians watching.

There is, of course, the matter of Alliance Atlantis' takeover of Salter Street Films soon after the smaller company won the licence for the IFCC, and Alliance Atlantis subsequently shutting down Salter Street along with the rest of its production arm. It has always been widely speculated that Alliance Atlantis' interest in Salter Street stemmed solely from the latter's IFCC licence. Whether or not this was the impetus behind the move is immaterial – the deal was approved with very little interference by the CRTC. What the deal does demonstrate is the idea that, to succeed in the Canadian film and television production industry, one can either be small to mid-sized, like Salter Street, or large, like Alliance, but it seldom works to be somewhere in the middle. Salter Street was a small company that had won an important licence, and when it had initially applied for the Category 1 licence for the IFCC, it had applied for a variety of other Category 1 licences as well. However, the licence to broadcast the IFCC was the only Category 1 channel that the CTRC approved for Salter Street at that time. As Salter Street cofounder Michael Donovan pointed out at the time, in its application for the IFCC licence, the smaller company had banked on winning licences for other Category 1 channels at the same time, in order to better compete in the market. The takeover by Alliance Atlantis gave Salter Street access to a library with which to program its new channel – programs which would have been costly for Salter Street to buy on its own. Alliance Atlantis gained another channel to add to its broadcasting roster – one that would thrive thanks to the scale of the company which had bought it out. That Salter Street was subsequently shut down was not optimal, but it was not the end of the world, particularly since Salter Street's cofounders Paul and Michael Donovan have started a new company that is producing internationally renowned films and television programs out of Atlantic Canada.

That Alliance Atlantis received government funding throughout its history is a matter of fact, but so too is the point that MacMillan made following the 2003 announcement that his company was shutting down production: Those shows got made. They employed the people who produced them, and they were watched by the audiences for whom they were intended. Funding bodies in Canada take chances every day, on television shows that fail, on films that no one goes to see – they took the same chance on Alliance Atlantis as a company, and it paid off. Vamos made a valid point when he expressed his hope that the producers – such as the Salter Street founders – released from the constraints of Alliance Atlantis, no longer accountable to shareholders, would reemerge to do some of their best work, and so Donovan has with *Shake Hands with the Devil*, produced by his new venture, The Halifax Film Company. This is another example of big making way for small – with Alliance Atlantis operating as a broadcaster, opportunities arise for other Canadian producers. As Phyllis Yaffe said: "The more we grow the more we put back ... Our growth is the growth of the production industry" (Davidson, "AAC" 1).

This thesis is a history of a company whose growth has reflected the changes taking place in the industry that grew along with it. Alliance Atlantis was formed out of two companies that were, on their own, large by Canadian industry standards, which merged to make the closest equivalent to a Hollywood-style studio that has ever existed in this country. The companies merged at a time when it was believed that vertical integration was a surefire way for media companies to become monoliths, unstoppable in the global industry. However, for many of the companies that merged in the late twentieth and early twenty-first century, that turned out not to be the case. Many companies that merged did just as well, and many performed more poorly than they had individually. Alliance Atlantis, a multifaceted company that housed most aspects of film and television production, did not escape this aspect of the reality of merger mania, and the company that had it all was forced to shut down its financially draining production arm. In this regard, the merger that resulted in establishing Alliance Atlantis as a mini-major studio can be interpreted as a failure. However, the end of one aspect of the company's business was not the end of the production industry as we know it in Canada; the restructuring that followed Alliance Atlantis' exit from production allowed the company to emerge as a leading Canadian broadcaster of specialty channels, and the company has continued to commission original indigenous programming to air on its networks. Furthermore, the existence of a strong player such as Alliance Atlantis is a positive force in the Canadian film and television industry. It allows Canadian producers to make a mark on the international stage, something that would be next to impossible without the clout of a major company like Alliance Atlantis behind them.

I intend this thesis to be used by other media scholars as a starting point from which to write additional histories of the companies that have driven and will continue to shape Canada's film and television industry. Tracing the corporate history of a company such as Alliance Atlantis helps to illuminate the industry as a whole. It is a way to examine the manner in which the industry operates, particularly in terms of responding to trends in business strategy, changes in regulation, and the mechanics of receiving government funding. The film and television industry in Canada consists of people who are obviously passionate about finding ways to make our industry work, just as Lantos and MacMillan were when they started Alliance and Atlantis; there is little fuel, other than passion, for working in an industry that is often unstable, unpredictable, and unprofitable. In examining the sentiments expressed by industry insiders in response to key moments in the history of one of the largest companies operating as part of that industry, a fascinating and, I hope, illuminating picture of the Canadian film and television history at a particular point in history emerges. This thesis presents just one of the multitudes of histories that make up the Canadian production industry – it is up to other media scholars to determine what additional stories need to be told.

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