

---

# LOS ANGELES BUSINESS JOURNAL

Reprinted from **Los Angeles Business Journal**  
April 14, 2008

## Special Effects Firm Pursues Splashy Debut

Special effects firm Digital Domain Inc. has produced some of the best optical illusions in Hollywood history. That kind of magic may come in handy when the company goes public next week.

Despite two Oscar awards, work on major advertising campaigns, and credits on films from "Titanic" to "Transformers," the company arrives on Wall Street at the worst moment in years. But management hopes it can tell a compelling story to the skeptical audience of investors.

Digital Domain's strategy centers on the convergence of animated movies and video games. Based in part on experience producing TV commercials for Microsoft Corp.'s game Halo 3, the company believes it can create films and games cheaper through technology advances. Instead of following the traditional model – where a film studio makes the movie and then a software publisher follows with a game – Digital Domain plans to combine both processes using its proprietary software.

In addition, the company expects to gain a larger share of returns on these projects by helping to finance them, according to a prospectus filed April 7.

Technically, the strategy is feasible "but you would have to jump over the barriers of how to move the complex file for the film and use that same file for the game," said Helena Packer, president of visual im-

agery firm WhoDoo EFX in Santa Monica. Films require high resolution and lots of secondary motion such as skin wrinkling and clothes flapping, while games need simplified images, she explained.

With an initial float of 6 million shares at a target price of \$13, Digital Domain estimates it will gain \$69 million from the IPO after deducting brokerage fees. About \$25 million will retire existing debt. The balance will go "to implement our growth strategy," according to the prospectus.

**"Digital Domain is going to have an uphill battle about educating the community on why its business model will have legs,"** said Hulus Alpaly, vice president at Makovsky & Co. and president of the National Investor Relations Institute in New York. **"There's no track record of success for this convergence of digital games and movies, so Digital Domain will have to be very innovative and aggressive in bringing their message to the investment community."**

Digital Domain hasn't made a profit since 2004; last year losses totaled \$19.9 million on revenues of \$77.8 million. Moreover, the company doesn't expect to return earnings to investors in the foreseeable future. "Investors seeking cash dividends should not purchase shares of our common stock," the prospectus announces.