The plot was often fuzzy, but never dull

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Oh, how we will miss Michael MacMillan and the merry band at **Alliance Atlantis Communications.** In 8½ years as a public company, they provided us with thrills, drama, comedy and good entertainment. And that was just from reading the financial statements.

It's hard to know who will feel the loss the most, now that Mr. MacMillan has made his deal with **CanWest Global** and **Goldman Sachs** to sell the company for $2.3-billion. Will it be media analysts and journalists, shorn of another Canadian company to write about? Or accounting professors, who have just lost a rich source of new material about the games companies play?

In the bad old days, Alliance was one of those companies that always seemed to have a new bookkeeping technique to make earnings appear. Then, like so many companies in the post-Enron days, it became less aggressive in its accounting. The change in attitude coincided with a decision to stop producing dud shows that drained it of cash, and simply let the Crime Scene Investigation franchise grow to the point where a *CSI: Flin Flon* spinoff was a serious possibility.

Alliance has had the occasional stumble since, most notably in late 2004, when it goofed on its accounting for some CSI costs and had to restate its financials (again). No matter. In the end, nothing could stop the relentless climb from $20 to $35 to yesterday's sale price of $53 a share. Good on Mr. MacMillan for that. It's hard to break old habits, though, and it appears the company couldn't resist one final bit of window dressing to help whip up some excitement before an auction.

Call it a parting gift to the accounting profs. Judging by the rich purchase price, it worked.

This one involves CSI, the television milch cow Alliance co-owns with CBS. Ownership comes with privileges, one of which is that Alliance has the right to distribute the popular series outside the United States. In July, Alliance announced a big deal to sell second-window rights in a number of markets -- Germany, France, the United Kingdom, Spain, Australia and Canada (where CTV was the buyer). Total value: about $250-million (U.S.).

Media companies are always selling products they haven't produced yet, and while the accounting rules are complex, the basic principles are fairly simple. If The Globe and Mail sells you a newspaper subscription, we can't count it as revenue until we start delivering. If Alliance Atlantis sells a future CSI episode, it can't recognize the revenue until the licensing period begins -- that is, until the network that bought it is allowed to run it.

Then Alliance put out its third-quarter results in November, and on balance, they looked just fine. The broadcasting group, that collection of specialty cable channels like Showcase and HGTV Canada, showed a modest 4-per-cent gain in revenue and flat EBITDA (earnings before interest, taxes, depreciation and amortization). The film distribution business, spun off into an income trust in 2003, struggled and EBITDA fell by half. But the entertainment group, of which CSI is the biggest part, made up for all that with boffo numbers.

When the dust settled, Alliance showed healthy increases in both sales and profit. Through the third quarter, revenue was up by 13 per cent, EBITDA by 42 per cent. Most, if not all, of the credit belonged to CSI. With those numbers in hand, Alliance appeared to have great momentum going into the auction (which was announced in December).

Or did it? Analysts at Veritas Investment Research went a bit deeper and found it all a little strange. Using the company's threadbare disclosure, the research firm questioned whether Alliance had booked $93-million (Canadian) in CSI revenue prematurely, before the licensing window had begun. Veritas said that appeared to be in conflict with U.S. accounting rules. The move would have boosted the growth rate and may have goosed EBITDA by $40-million, according to the calculations of Veritas analyst Dimitry Khmelnitsky, no small amount for a company that was expected to produce about $240-million in EBITDA this year.

Perhaps none of that really mattered. You have to presume that Goldman Sachs and CanWest were smart enough to grasp the accounting nuances and the future cash flow; unlike Veritas, they were able to conduct due diligence from the inside.

Still, it's hard not to be impressed by the cleverness of Mr. MacMillan and the Alliance crew. They applied spit and polish and elbow grease to the very end, kept the stock price rolling and gave their properties a value they probably do not deserve. And it's equally hard not to suspect that the biggest winners of this deal won't be CanWest or Goldman Sachs but Alliance shareholders, cashing out at just the right time.