**FILM FINANCE 101: Raising Money for your Independent Film**
**Glossary**

1. **Accredited Investor** – A person with either (i) a minimum net worth of $1 million or (ii) an annual income of over $200,000, as defined by the Securities Exchange Act of 1933.
2. **Back End** – net receipts or profits generated by the film that is payable to **Equity** participants.
3. **Chain of Title** – the series of legal documentation that establishes proprietary rights to a film. Includes but not limited to original copyright filing, option agreements, acquisition agreements for spec screenplays, work-for-hire agreement from screenwriters and releases from location owners, on-screen performers and other key creative contributors to the project
4. **Completion Guaranty** – insurance taken out by the production company guaranteeing that the film will be completed without running over budget or over schedule. If a film does go over budget or over schedule, the insurance company will be required to either (i) repay the banks and any other financiers listed as beneficiaries the entire amount of their investment or (ii) pay for the cost of completing production of the film. Such insurance policies are generally required for films with budgets of over $1 million that use **Debt** financing.
5. **Corridor** – a small percentage of the first dollar gross received by the production company that is earmarked to a specific recipient.
6. **Debt** – funding provided to the production of the film that must be paid back with interest at a stipulated maturity date before any other **Financiers** are paid back.
7. **Deferments** – amounts payable to talent, the director, the producers and other production personnel in exchange for their services that such individuals contractually agree to postpone receiving until the film begins generating gross receipts. The amount of the deferral may be the full fee for their services or, more usually, a portion of such fees. These individuals assume the risk that the film does not generate any gross receipts or generates insufficient gross receipts to recoup their deferments.
8. **Discounting** – the process by which a Producer monetizes a commitment from a creditworthy distributor to pay a **Minimum Guarantee** (or MG) upon the delivery of the completed film. The Producer usually goes to a bank who then lends the money today at a discount in exchange for the entire amount of the minimum guarantee when the film is delivered, with the difference between the discounted amount received by the Producer today and the entire amount of the MG that is repaid to the bank considered interest and fees for the bank.
9. **Distribution Fee** – fee contractually charged by a distributor to the gross receipts it collects from the commercial exploitation of a film. The fee is applied in determining the participation payable to the film's Producer. The Distribution Fee ostensibly reimburses the distributor for the use of its distribution infrastructure (i.e., its national or worldwide network of sales offices; its established relationships with exhibitors, sub-distributors and other members of the value chain; and the organizational expertise in marketing and releasing films it has accumulated over a long period of time)
10. **Equity** – funding provided to the production of the film that is only paid back if there is sufficient Back End after all other financiers have been repaid their contributions, interest and fees. Equity financiers provide the risk capital.

11. **Financier** – any party that provides funding to the production of the film.
12. **Gap Financing** – loans provided to finance the production of a film that is secured by estimated **Minimum Guarantees** expected from the sale of the completed film to **Sales Territories** that are currently unsold.
13. **Minimum Guarantee** – a cash advance payable to the Producer by the Distributor in exchange for the exclusive rights to distribute a film in contractually stipulated media in a stipulated Sales Territory. It is paid upon the delivery of the completed film to the distributor and is recouped by the distributor, sometimes with interest, from the gross receipts it collects from the commercial exploitation of a film after first deducting its Distribution Fee, P&A costs it incurs to release the film and any other direct costs it incurs to release a film it is contractually allowed to charge the Producer for.
14. **Monetize** – to convert a contract to pay funds at a future date into cash right now.
15. **Pass-through Entity** – a tax term for an entity (either corporation, limited liability company or partnership) whose taxable income or net operating loss is allocated to its owners according to the terms of that entity's organizational documents and reported on such owners' individual tax returns.
16. **P&A** – prints and advertising, which are the largest component of direct costs that a distributor incurs to release a film in all markets. It is recouped by the distributor from the gross receipts it collects from the commercial exploitation of a film, after the **Distribution Fee** is charged.
17. **PPM** – is a Private Placement Memorandum; this is the document used to communicate the terms of the equity offer to **Accredited Investors** and must, by rule of law, contain all material disclosures about the risks of investing so that the potential investors have all of the information needed to make an informed decision. This document is required to meet the anti-fraud provisions of the Securities Act of 1933, even if the offering is exempt from registration. It must also meet similar requirements from the states in which the offering takes place.
18. **Pre-Sale** – the licensing of the distribution rights to a film in a specific **Sales Territory** to a distributor before the film is completed. Under a Pre-Sale, the distributor commits to pay the production company a **Minimum Guarantee** upon the delivery of the completed film by the production company. The Pre-Sale contract may be used to help finance the film by **Discounting** it with a bank that specializes in making loans to production companies that are secured by such contracts.
19. **Premium** – a fixed charge that equity investors generally require the production company to pay on their investment before the production company shares in the **Back End**. It is generally expressed as a percentage of the amount of the equity investment. However, it does <u>**not**</u> accrue over time the way interest expense does on an outstanding loan.
20. **Profit Participation** – an **Equity** participant's share of the **Back End**.
21. **Profit Participation Statements** – Monthly, quarterly or annual accounting statements provided by distributors or sales agents summarizing the gross receipts, fees, direct expenses, unrecouped minimum guarantees and net receipts, to the extent there are any, generated by the film over the period covered by the statement as well as cumulatively since the film's release date.
22. **Projected Return on Investment** – measures the percentage of (i)the expected aggregate return to the **Equity** financiers as of the date the last of the projected gross receipts to be generated by the film are received by the production company and distributed to all **Financiers** ("liquidation date") to (ii) the original amount invested by the **Equity** financiers (iii) compounded annually over the period

from the date of the production company breaks escrow (capitalization date) to the liquidation date; Return on Investment ("R.O.I.") is used by investors to compare the merits of investing in your film with the merits of investing in other asset classes.

23. **Recoupment** – repayment of amounts contributed to the financing of a film.
24. **Sales Territory** – A predefined geographical area covered by a specific distributor. Rights to distribute a film may be licensed by its Producer in a territory or territories to a certain distributor. Domestic refers to the United States (sometimes combined with Canada to form North America); Foreign refers to specific countries outside of North America or to specific regions that are made up of several or more countries such as Latin America, Benelux, Africa; International refers to a combination of Domestic and Foreign.
25. **Service Deal** – production financing provided to a film by production and post-production vendors in the form of deferred payment for production/post-production goods and services used in a film's production until the film begins generating gross receipts. The amount of the deferral may be the full cost of such services or, more usually, a portion of such costs.
26. **Soft Money** – Financing provided to the production of a film in the form of tax incentives (i.e., tax credits (or rebates) and tax deductions (or allowances))
27. **Waterfall** – the contractual repayment of and profit distributions to all the financial contributors to the production of a film, by order of priority.