

PRODUCTION LOANS TO
FILMS AND TV SERIES

SIK - Conference

NATIXIS COFICINE

- Natixis is the corporate, investment, insurance and financial services arm of Groupe BPCE, the 2nd-largest banking group in France.
- Natixis Coficin  was created in 1949 to finance cultural projects, such as film and television productions.
- Natixis Coficin  provide a range of loans tailored to the financing requirements of film and Tv series productions.
- Red Herring Film represents Natixis Coficine in the Nordic region.

Financing Sources for "Dancer in the Dark"

France	DKK	EURO	%
Arte	3,300,000	444,216	
Canal+	7,700,000	1,036,505	
Eurimages	600,000	80,767	
France 3	6,600,000	888,433	
Liberator	3,567,965	480,287	
Liberator deferred	1,534,535	206,565	
	23,302,500	2,136,773	24.6%

Germany

Filmstiftung	3,800,000	511,522	
WDR	3,420,000	460,370	
Arte	2,280,000	306,913	
Constantin Film	2,447,200	329,420	
Eurimages	600,000	80,767	
Pain Unlimited	1,112,800	149,795	
	13,660,000	1,838,786	13.83%

Sweden

Film i Väst	5,250,000	706,708	
S-TV	2,250,000	302,875	
Swedish Film Inst.	3,750,000	504,791	
Nordic Film&TV Fund	800,000	107,689	
TV-1000	525,000	70,671	
Eurimages	1,000,000	134,611	
Swedish Distributor	2,000,000	269,222	
Trust Film AB	2,943,750	396,261	
Trust Film deferred	1,100,000	148,072	
	19,318,750	2,640,900	19.7%

Financing Sources for "Dancer in the Dark"

Finland	DKK	Euro	%
Finnish Film Fond	412,500	55,527	
YLE	337,500	45,431	
Distributor	1,000,000	134,611	
	1,750,000	235,569	1.8%

Norway

Norwegian Film Insti.	400,000	53,844	
AV-Fund	1,600,000	215,378	
Nordic Film&TV Fund	800,000	107,689	
Eurimages	600,000	80,767	
Distributor	1,500,000	201,917	
Cinematograph	1,000,000	134,611	
+ deferrals	840,000	113,073	
	4,740,000	907,279	4.8%

Italy

Key Films	1,417,000	190,811	1.4%
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Iceland

Icelandic Film Fund	925,000	124,515	
Nordic Film&TV Fund	800,000	107,689	
Eurimages	1,500,000	201,917	
Trust Film Sales	541,500	72,892	
Icelandic Film Corp.	966,500	130,102	
+ Defferals	200,000	26,922	
	3,933,000	664,037	4.0%

Financing Sources for "Dancer in the Dark"

Denmark	DKK	EURO	%
Danish Film Insti.	10,000,000	1,346,110	
Eurimages	600,000	80,767	
Nordic F&TV Fund	800,000	107,689	
Angel Arena	1,500,000	201,917	
DR	3,000,000	403,833	
Zentropa	408,704	55,016	
Zentropa Deferred	5,253,575	707,189	
	21,663,279	2,902,531	23.9%

Netherlands

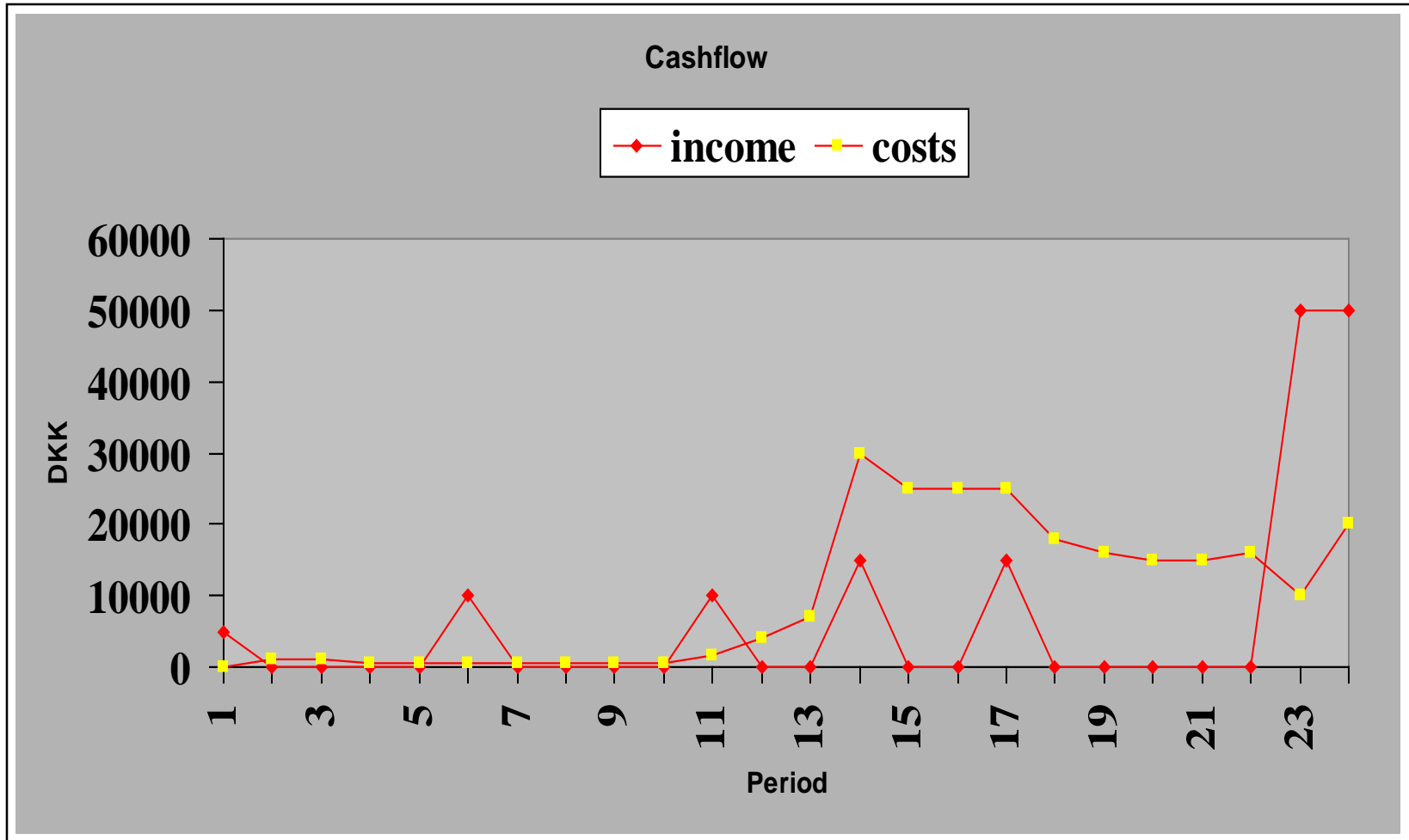
Nederlands Fonds	1,650,000	222,108	
Ned Televisie/COBO	2,805,000	377,584	
Eurimages	600,000	80,767	
What Else	500,000	67,306	
What Else deferred	200,000	26,922	
	5,755,000	774,687	5.9%

Total	98,739,029	13,291,359	
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Why cash flow problems?

- In most contracts/agreements, the completed production will need to be delivered in order to trigger the funds (“Catch 22”).
- The timing of receipts from distributors and subsidies never match the expenditure cash flow.
- Receipts from all parties can be late, compounding the problems.
- If even one small source of finance fails, the producer will have no completion guarantee and a big problem.
- The production may need financing in different currencies, so there is exchange risk.

The Need for Financing During a Production



Why involve a Bank?

- The bank can cash flow your production.
- The bank take the credit risk on the sources of finance.
- If the producer spends his/her time chasing the sources of money, he/she has less time to make the film.
- The assignment of all contracts to the bank increases the prospect of distributors paying, as they never like to mess with banks.

Why involve a Bank?

However;

The Banks do not provide risk capital!

The Banks provide for bridge financing

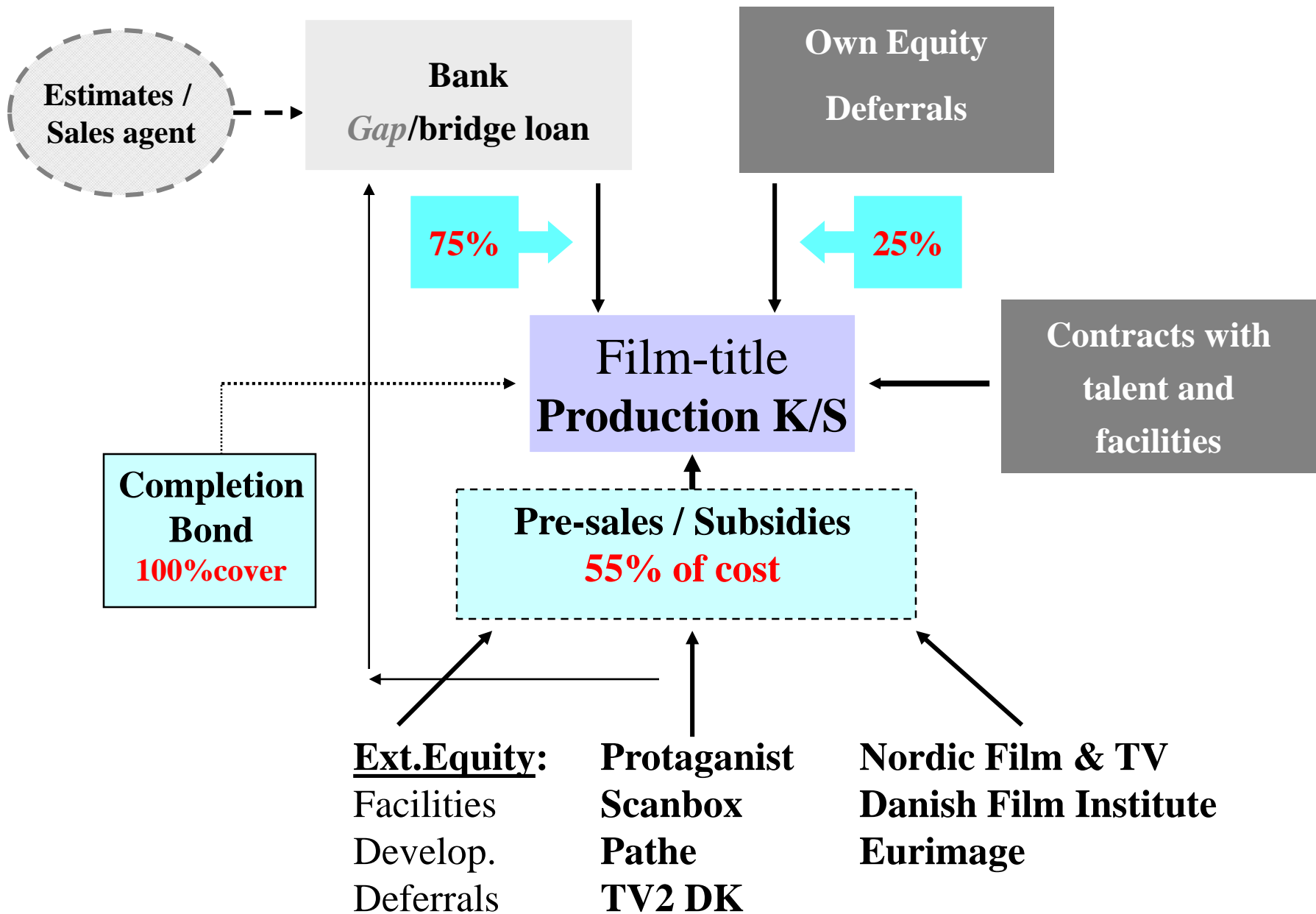
Financing sources for your project

Gap-financing

- In the event that at the time the cash is required there is insufficient collateral to cover the budget, the bank may provide gap financing.
- The gap will be calculated as being the budget amount less the value of security.
- The gap financing will normally not exceed 10% of the total budget.
- The gap finance must normally be 200% covered by the aggregate of estimated net minimum first cycle value of all unsold international territories provided by an sales agent acceptable to the bank.

The following contracts could in principle be discounted

1. Deferrals
2. Own equity
3. **Public Funds – national and international**
4. **Broadcasters**
5. Back-end-profit-participation (talent)
6. Facility deals
7. **Tax-based financing**
8. **Pre-sales**
9. **Private equity**
10. Product placement / sponsoring



The Bank's Security

- Each loan will be secured against:
 - the underlying intellectual property rights
 - distribution contracts in various territories
 - future distribution contracts in various territories
 - other future income (overages, ancillary, re-make, etc.).
- The contracts to be discounted by the bank will have to be assigned to the bank.
 - each distributor / obligor will have to sign an acknowledgement of the assignment prior to the loan becoming available and that payment only can be made to the bank.

The Bank's Security

- The bank's loan will be repaid from the distributors or other obligors payments.
- The net payments under the security in place shall be sufficient to repay the loan including interest, expenses and fees excluding the gap financing.
- Any unsubordinated third party entitlements must be deducted from the calculation of the security.
- The bank must be prepared to take the credit risk on the distributors.

The Bank's Security

- Assignment of the benefit of the completion bond and usual insurance policies.
 - The completion guarantor will be required by the bank to guarantee delivery to each distributor the agreed material required to trigger payments by the agreed delivery date.
 - The bank will not accept a distribution contract as primary collateral if the distributor can avoid or reduce payment of the agreed sums by any reason of non-compliance, which is not covered by the completion guarantee.
 - The **strike price** under the completion guarantee shall be satisfactory covered.

The Bank's Security

Which other insurances should be required?

Several incidents are not covered by the completion bond such as:

- Death or other incapacity of the director and principal cast.
- Loss or destruction of the master negative.
- Liability for death, personal injury or damage to property, equipment etc.
- Liability for errors and omissions in chain of title to the film, copyright or invasion of privacy.

The Bank's Security

- Legal assignment of all future world-wide income of the film until the loan has been repaid.
- Inter-party agreement, incorporating the terms of all financiers in a form acceptable to the bank, shall be entered into by the parties involved.
- A collection agreement with a third party collection agent acceptable to the bank or directly assignment to the bank.

The Bank's Security

Collection Agent

- An independent agent appointed jointly by the producer and the financiers of a film to collect revenues generated from all sources of exploitation of the film.
- What are the advantages of appointing a collection agent ?
 - All financiers are guaranteed that all revenues are collected and distributed correctly and stipulated in pre-agreed recoupment plan,

Examples of documents required by banks

- **Loan agreement**
- **Insurance policies**
- **Completion guarantee**
- **All sales agency and distribution contracts**
- **Inter-party agreement**
- **Notices of assignment to each distributor in favour of the bank.**
- **Letters of credit, bank guarantees etc.**
- **A laboratory pledge holder's agreement.**
- **Full chain of title**
- **Clean legal opinion**

Other insurances

Clearing of rights (E&O)

One of the characteristics of film production is that the film, is the result of interaction between a diversity of artistic and creative works. The film needs to obtain the rights from the following range of right owners:

- The author of a novel
- The scriptwriter
- The director
- The composer
- The actor
- The director of photography
- The film worker, including light, sound, costumes, props and so forth.