



Structuring Option Prices for Entertainment Contracts

November 30, 2010 by Bob Tarantino

Matt Galsor at Law Law Land put up a nice post on formulas for determining the purchase price when optioning a book for a film or TV project:

The purchase price for the book should be a percentage of the final, in-going budget — typically 2% to 3%. There should also be a so-called “floor” — a minimum purchase price regardless of what the final budget is. Since your director “works almost no budget on his movies,” the floor will most likely be the purchase price. Most of the time there is also a “ceiling” — a cap on the purchase price (but this only makes a difference if the budget is relatively high). A common mistake in option agreements is expressing the purchase price as a percentage of the final budget without also stating that **before the final budget is determined the option may be exercised by paying the “floor” amount, and once the final budget is determined making the catch-up payment if the percentage of the budget is higher than the “floor.”**

Matt goes on to discuss net profits participation - his post provides a great little formula to remember. His point which I've bolded in the quotation above is a great one and one which I've found actually only rarely gets addressed in option agreements.

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