

July 26, 1988

Memorandum

To: Jim Carufel
From: Jim Russell
Subj: Production Contingencies
cc: Gerry Richman, Suzanne Garfield

Richman and I have reviewed our differences and I believe we've come up with a solution which satisfies both of us.

While I believe that our management of projects and contingencies has been quite good, I think clarification of our contingencies policy is needed.

Needed?

The overall question is whether KTCA needs to have production contingencies on all shows it produces. Gerry and I agree, the answer is "yes."

Definition:

The contingency needs to be defined. Gerry puts it well: *"Contingencies are funds set aside to cover unexpected eventualities which occur after production has commenced. In no event should contingency money be allocated prior to a production. If a new cost is discovered prior to production, the budget should be changed."*

What is the purpose of a contingency? There are two:

1. To protect the company from financial loss.
2. To protect the show from being compromised by the unexpected.

Neither of these should be considered discretionary quality enhancements.

How should the contingency be accessed?

The contingency should be accessed by the person charged with making all decisions about the production -- namely, the producer. The producer reports to his/her EP and to the Director of Production. The unit manager reports directly to the Senior V.P., and this serves as a "check and balance." In other words, the normal chain-of-command.

How do we (a) protect the company, (b) protect the production, and (c) accurately project G&A?

1. The contingency must be of sufficient size to protect both the company and the production. I think we can make some changes in our present standards:

Type of Project	Current Practice	Proposed New
A. New, difficult/complex projects	15%	12%
B. New, moderately complex project or renewal of very complex	10%	8%
C. Easy project	5%	5%

Note: these percentages represent standard approaches. The facts of individual productions may require a custom approach, which is higher or lower. Unit Managers and EP's should analyze projects to determine if the standard is appropriate. It is assumed by management that the standard approach will be utilized unless a special case is made.

2. On local shows, any unspent contingency is returned to the unallocated production expenses line. For national shows, the allocation of contingency between *producer contingency* and *company contingency* must be stated. If not, it shall be assumed to be 50-50. That means that a percentage of the contingency is reserved for the use of the company. See Number 3 below, for the vehicle to reserve this.

3. This deals with two issues:

- a) How to protect the company's part of the contingency;
- b) How to accurately project G&A.

Each production budget includes a revenue projection, which includes G&A, GPC and Equipment. In the future, a fourth item - "Contingency" - should be added to this revenue projection. The amount should be 50% of the total contingency (assuming a standard 50-50 split). This will *encumber* 50% of the contingency for delivery by the production, to the company.

It is recognized that a full 50% of the contingency may not be delivered to the company, if a given show needs to spend more than the 50% intended for production. However, overall -- in the total Annual G&A Projection -- Gerry feels confident that 50% of all contingencies will be unspent and delivered to the company.

SUMMARY:

1. There should be contingencies on all shows: a standard percent depending upon complexity, or a customized percent depending upon the particular show.
2. Contingencies are for unexpected eventualities after production commences. Contingencies are managed by producers, reporting to EP's and the Director of Production.
3. Local (CORE) shows return their unspent contingencies to the Production Departments unallocated production expenses line.
4. National show budgets will allocate part of the contingency for show protection, part for company protection. The standard is 50-50. "Show protection" is not the same as quality enhancement.
4. National shows will include the company's share of the contingency in their revenue projections. Producers are responsible for delivering this revenue projection.
5. The Annual G&A Projection will include these projected contingencies (all or a percent, to be determined) as an additional source of G&A. The Director of Production is responsible for delivering this revenue to the company.