

# MANAGEMENT AND FINANCIALS

## CHARIS PRODUCTIONS - BOARD OF DIRECTORS

**T**HE CHARIS PRODUCTIONS BOARD OF DIRECTORS consists of dedicated entertainment industry professionals and business executives. The collective knowledge, experience and talent of the board members provides invaluable guidance and support as the company strives to fulfill its goals and mission. The board strongly believes that The Lamb is a project of utmost importance, one that will have a profound and inspirational effect on the lives of people all over the world. The board of directors is committed to making the motion picture production of The Lamb a reality so that the story can fulfill its mission.



**RUDOLF  
MARKGRAAFF**

Rudolf Markgraaff is the president of Charis Productions and producer of The Lamb. He has been a driving force behind the development, organization, and management of the project from its inception. Rudolf founded Charis Productions with a sole purpose: to advance the gospel of Jesus Christ through the production of spiritually-themed, quality movies.

Rudolf has built a solid foundation of professional experience with an extensive history involving the conception, development, funding, marketing, and management of specialized business projects.



**REGARDT  
VAN DEN BERGH**

Regardt, the director of The Lamb, is a native South African, who has been involved in the production of more than forty films and several hundred hours of television programme material. Regardt has exclusive and complete control over all creative aspects of the project. The Lamb will be the seventh motion picture that Regardt has directed. His work has been recognized and acclaimed throughout his career. He has received several of the highest awards that the South African film industry bestows on its directors and actors.



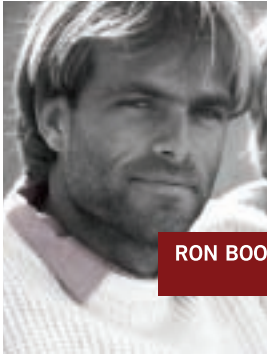
**FRANK YABLANS**

Frank, executive producer of The Lamb, has been a mainstay in the motion picture arena since 1956. His resumé includes virtually every aspect of filmmaking. During his tenure as president of Paramount Pictures, Yablans oversaw the production of numerous films that are today considered timeless epics, including Paper Moon; The Godfather; The Godfather, Part II; Love Story; Chinatown; and The Great Gatsby. After leaving Paramount, he moved on to head MGM/UA, before embarking on a career as an independent producer.

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“The collective knowledge, experience and talent of Charis Productions’ board members provides invaluable guidance and support as the company strives to fulfill its goals and mission.”

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**RON BOOTH**

As executive producer on films like the highly successful *Left Behind* and his most recent production, *Hometown Legend*, Booth has a reputation for a thorough knowledge of and contacts within the US film production and distribution industry.



**WERNER COETZEE**

A seasoned financial expert with a proven track record, Werner Coetzee brings a wealth of experience in accounting and fiscal management to The Lamb. As Chief Financial Officer for the project, Werner will act as liaison between Charis Productions and Deloitte & Touche, as well as offer his expertise on all financial dealings.



**DAVID WICHT**

David Wicht, co-producer of *The Lamb*, is founder of Film Afrika, the production company facilitating the production of *The Lamb*. Wicht has a strong background of writing, directing and producing films. After completing an MBA in London, he embarked on a filmmaking career in South Africa. David has considerable experience in feature film development, producing and financing.



**FRANK DUMAR**

Frank DuMar, Executive Business Consultant of *The Lamb*, has, over the last 17 years, accumulated valuable expertise in what it takes to make businesses successful, helping a vast number of firms in the areas of business strategy, financial analysis and human resources for the past 7 years he has been CEO and President of Cleaver International, a personnel consulting firm. Frank has professionally consulted over 350 businesses, governments and non-profit organizations, and with his continual striving to help businesses and people help themselves, he is an invaluable asset and person to have on our Board of Directors.

## PROJECT STRUCTURE

**M**OVIE NO. 7, LLC OWNS ALL RIGHTS, INCLUDING copyright and intellectual property rights, to The Lamb. The development, production, distribution and management of The Lamb, and everything that it encompasses, is the sole business of Movie No. 7, LLC.

There are 50,000,000 units of membership investment ("shares") in Movie No.7, LLC. These shares can not be increased, so the investors equity position can not be diluted.

Charis Productions has offices in Santa Monica, California, and in Somerset West, South Africa.

Refer to the Offering Documents that accompany this business plan for more information on the relationship between the parties and entities involved.

## PROJECT CONTROL

**C**HARIS PRODUCTIONS IS COMMITTED TO MAINTAINING strict control over each and every aspect of the production, distribution and management of the project. We have included a substantial budget for a project management and a support team to ensure that our commitment is fulfilled.

### CONTROL BUDGET

Certified Public Accountant	\$96,000
Internet Controller	\$72,000
Secretary	\$48,000
Assistant	\$72,000
Control Head Office - Operations	\$200,000
Temp Personnel	\$50,000
Consultants	\$50,000
Travel & Accommodation	\$50,000
<b>SUB-TOTAL</b>	<b>\$638,000</b>

### Our control team includes:

1. A full-time CPA, who will compile daily financial reports for review with project management, and monthly reports for review with our auditors, Deloitte.
2. A full-time Internet technician, who will be responsible for daily updates to the project website and effective information sharing between key management team members.
3. A control support staff, which will coordinate the collection of information through independent consultants and the processing of such information through temporary personnel for presentation to management and investors.

## INVESTORS' ACCESS TO INFORMATION

**O**NE OF THE MAIN REASONS FOR INCLUDING A FULL-time Internet technician on our support staff is to provide investors with daily access to detailed project information during every stage of the production and marketing of The Lamb.

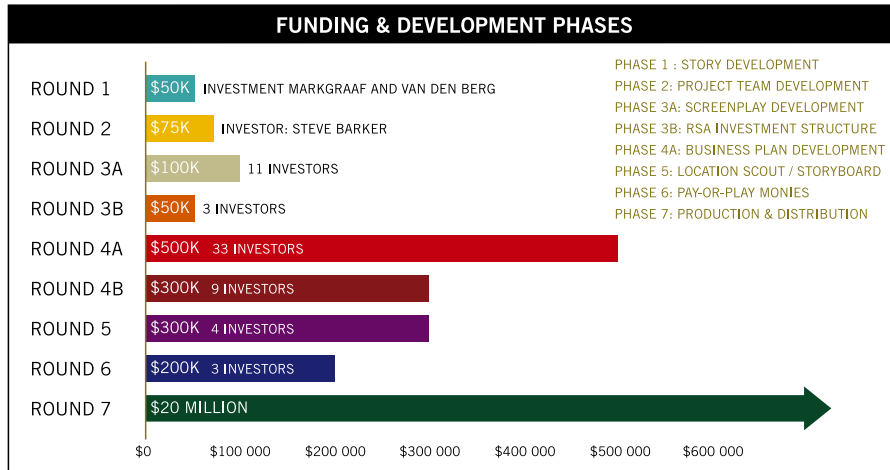
Each investor will have a unique username and password, through which they will be able to access the investors' section on our website. This section will be updated weekly with detailed progress reports, pictures and video clips of the production progress.

For example: When the movie is released domestically, investors will be able to log on to the Internet and view the actual box office numbers as we receive the information from the distributors. These numbers will not be just general figures, they will represent an actual breakdown of the theaters in which the film is playing, with the associated income per screen.



## FUNDING HISTORY

THE LAMB'S DEVELOPMENT WAS STRATEGICALLY SET UP IN STAGES, WITH the success of each preceding stage building toward the next round of funding and development. To date, we have raised over US \$1,500,000 in development funding, which has been applied to bring the project to where it is today.

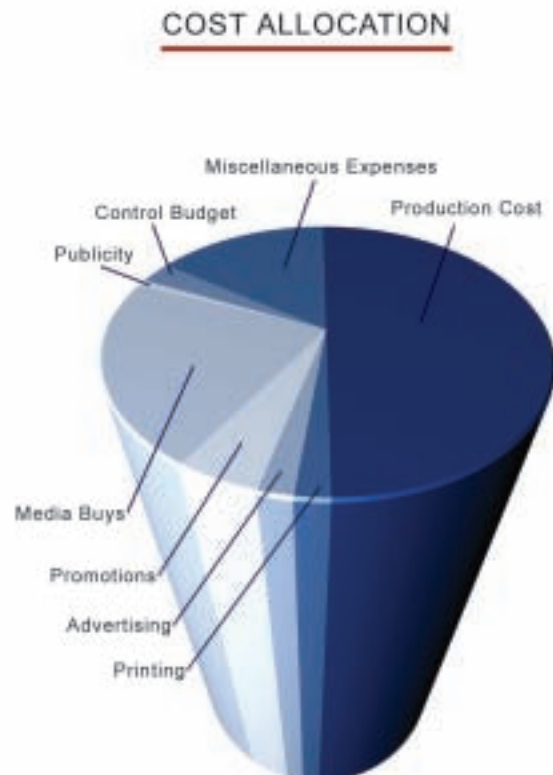


“To date, we have raised over US \$1,500,000 in development funding that has been applied to bring the project to where it is today.”

## USE OF ROUND #7 FUNDS

PROJECT BUDGET	
PRODUCTION BUDGET	\$ 10 000 000
PRINTS & ADVERTISING	
Release Prints	\$ 262 500
Release Print Shipping	\$ 20 000
KEY ART	
Teaser Poster	\$ 15 000
One Sheet	\$ 25 000
Trailer Production	\$ 50 000
Trailer Prints	\$ 90 000
TV Spots	\$ 30 000
Radio Spots	\$ 20 000
Other Key Art / Print Ads	\$ 20 000
Key Art Shipping	\$ 50 000
PROMOTIONS	
Screenings	\$ 130 000
Misc.	\$ 100 000
Religious Promotions	\$ 500 000
MEDIA	
Newspaper	\$ 2 487 200
Television / Radio / Other	\$ 2 860 000
PUBLICITY	
Feild	\$ 40 000
National	\$ 70 000
PRINTS & ADVERTISING BUDGET	\$ 6 750 000
CONTROL BUDGET	
Certified Public Accountant	\$ 96 000
Internet Controller	\$ 72 000
Secretary	\$ 48 000
Assistant	\$ 72 000
Control Head Office - Operations	\$ 200 000
Temp Personnel	\$ 50 000
Consultants	\$ 50 000
Travel & Accomodation	\$ 50 000
CONTROL BUDGET	\$ 638 000
MISC. EXPENSES	
Accounting Fees	\$ 50 000
Legal Fees	\$ 500 000
Broker Desier Commision (10%)	\$ 2 000 000
Contingency	\$ 62 000
OTHER FEES	\$ 2 612 000
<b>TOTAL PROJECT BUDGET</b>	<b>\$ 20 000 000</b>

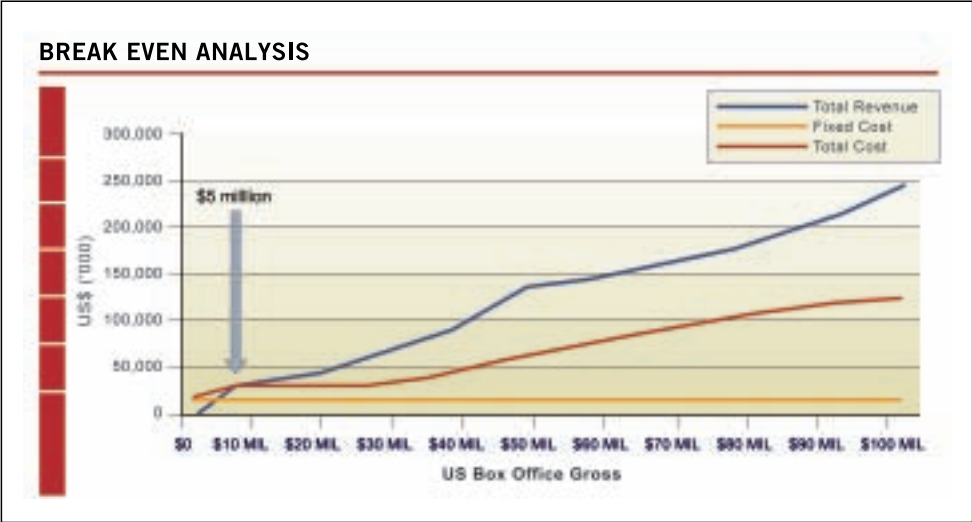
THE FOLLOWING BREAKDOWN PROVIDES AN OVERVIEW of how the \$20 million that is being raised through the project's Round #7 funding will be applied.





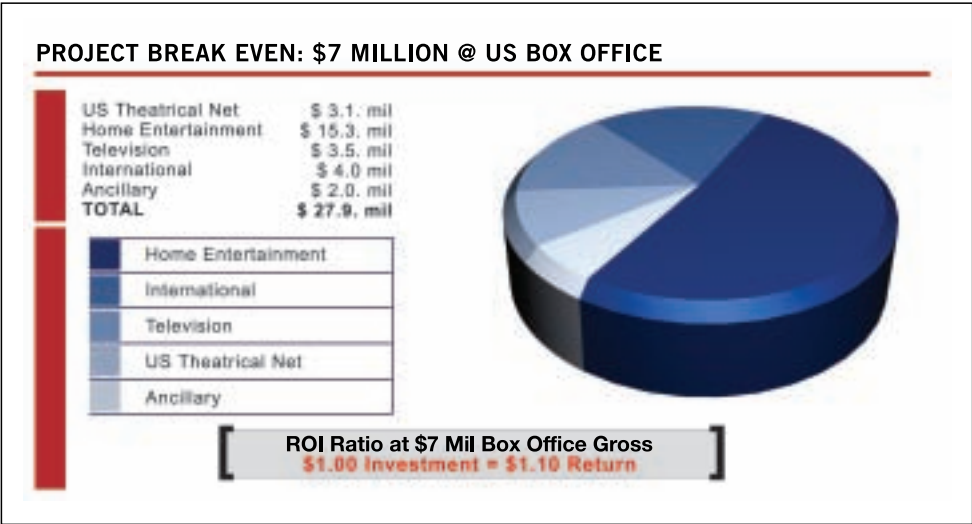
PROJECT BREAK EVEN ANALYSIS

OUR UNIQUE APPROACH TO THE LAMB PROJECT IS GEARED TOWARD MITIGATING the risk involved with film investment. This project has a comparatively low budget, with a planned gradual platform release which results in a substantial reduction in a majority of the costs and obvious cash-flow improvement.



According to the break-even projections, the Round #7 investors will recover their total investment from first-cycle income when the US domestic box-office receipt equals US\$ 55 mil.<sup>6</sup>

Note: This excludes the effect of tax incentives specific to the taxpayer’s country of origin. With the tax shield effect of such incentives, even break-even could result in net gains.



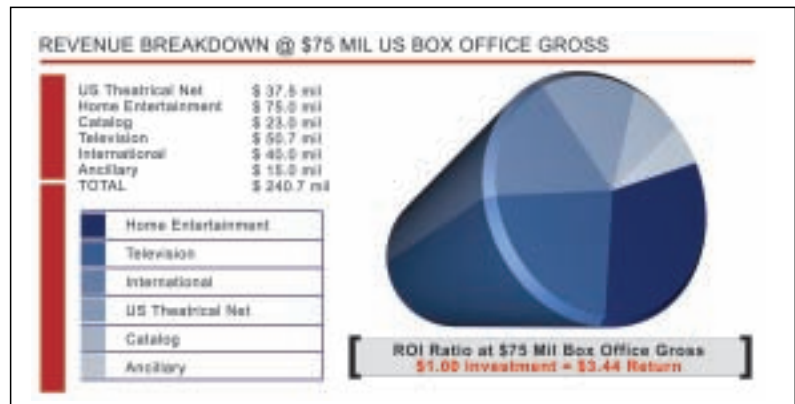
A US box-office turnover of US \$7 mil is projected to generate first cycle revenue of US \$27.3 mil (terminal value excluded), yielding a return of US \$1.10 for every US \$1.00 invested, excluding tax shield value.

<sup>6</sup> The net effect of the US box office income is 45% of this amount, and the total revenues from television, home entertainment and international distribution contributes the rest of the revenues to achieve break-even.

## RETURN ON INVESTMENT<sup>7</sup>

### SUMMARY OF RETURNS

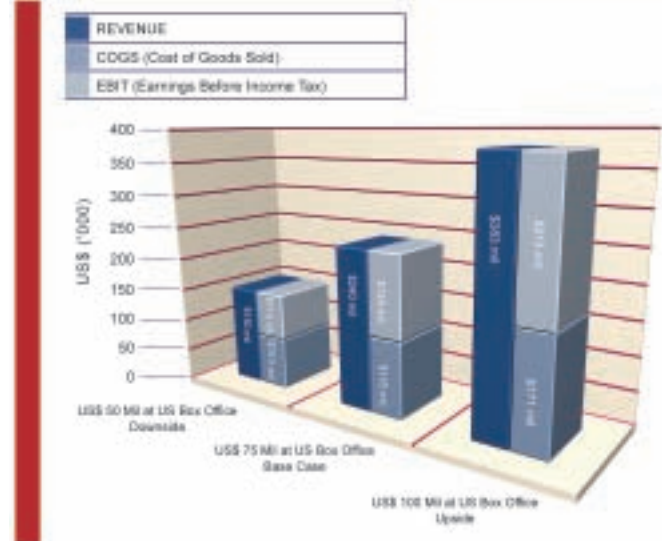
IF THE LAMB EARNS A PROJECTED \$75,000,000 in US Domestic box-office receipts, as detailed in the financial projections, and the financial assumptions for this scenario carry through, our financial projections reflect a pre-tax return of \$3.44 for every US\$1.00 invested in The Lamb, offering an attractive initial return on investment.



### RETURN ON INVESTMENT (ROI) RATIO FOR 3 RETURN SCENARIOS

	US Box Office Gross	EBIT (Earnings before Taxes)	Investment	ROI Ratio
Downside	US \$ 50 mil	US \$ 71.5 mil	US \$ 1.00	US \$ 1.93
Base Case	US \$ 75 mil	US \$ 124.8 mil	US \$ 1.00	US \$ 3.44
Upside	US \$ 100 mil	US \$ 212 mil	US \$ 1.00	US \$ 6.56

### THREE SCENARIOS FOR MOTION PICTURE RETURNS



<sup>7</sup> Tax on Returns: The project returns have been calculated on pre-tax basis. Investors are advised to seek professional tax guidance before investing as tax consequences may vary from country to country.

<sup>8</sup> Time value of money at discount rate of 12%.

## PROJECT POTENTIAL



It should be noted that our \$75 mil US box-office gross on which the above-mentioned assumptions are based is that of a very successful motion picture.

We believe The Lamb has the potential to be a successful project, based mainly on the powerful story on which the film is based.

The following graph shows a few motion pictures that did not feature major movie stars but did exceptionally well at the box-office, due in great part to the unique and powerful stories on which the films were based.

This graph represents US box-office figures only. As a general rule of thumb, a motion picture's world-wide income, through all channels of distribution, would be approximately four times the US box-office.

## FINANCIAL PROJECTIONS

OUR FINANCIAL MODEL WAS PREPARED BY NICOLAS van Dyk<sup>5</sup>, formerly the Executive Vice President and Chief Strategic Officer of Artisan Entertainment, Inc., one of the leading independent producers/distributors of filmed entertainment. Mr. van Dyk is a financial expert in the media field, and prior to

his position at Artisan was a member of the Walt Disney Company's corporate strategic planning group. He was previously a management consultant with The LEK Partnership, a global-strategy consulting firm. He holds an MBA from the Harvard Business School and a BA from UCLA.

### BASE CASE SCENARIO: \$75 MILLION US BOX OFFICE

#### ASSUMPTIONS

(\$'000)

Box office	\$ 75,000
Theatrical rental rate	50.0%
Theatrical rentals	\$ 37,500
Home entertainment units	
– DVD sell-through	\$ 3,250
– VHS sell-through	\$ 1,200
Home entertainment pricing	
– DVD sell-through	\$ 24.95
– VHS sell-through	\$ 19.95
Retail markup	40%
Implied wholesale price	
– DVD sell-through	\$ 17.82
– VHS sell-through	\$ 14.25
Home entertainment COGS (Cost of goods sold)	\$ 1.50
Marketing as a % of net home entertainment revenue	20.0%
Return rate	20.0%
Home entertainment pick, pack, ship as % of gross revenue	5.0%
Int'l revenue as a % of negative cost	400%
Int'l sales fee (%)	8.0%
Ancillary revenue	\$ 15,000
Television	
– PPV	\$ 500
– Pay TV	\$ 15,000
– Free TV	\$ 7,500
TV sales cost	\$ 250
P&A	\$ 20,000
Negative cost	\$ 10,000
Development and pre-production	\$ 3,250
Distribution fee	15.0%
First-cycle revenue (Cost of goods sold)	
– Theatrical	\$ 37,500
– Home ent	\$ 75,020
– TV	\$ 23,000
– Int'l	\$ 40,000
– Ancillary	\$ 15,000
– Total	\$ 190,520
First-cycle COGS	
– Distribution fee	\$ 28,578
– Negative cost	\$ 10,000
– P&A	\$ 20,000
– Home entertainment costs	\$ 28,036
– TV costs	\$ 250
– Int'l costs	\$ 3,200
– Total	\$ 90,064
First-cycle EBIT (Earnings before Income Tax)	\$ 100,455
First-cycle cash-on-cash return	\$ 2.12
Catalog	
– Home entertainment decay, year 1-year 2	65%
– Home entertainment decay, annually, thereafter	15%
– Catalog marketing as a % of revenue	10%
– Catalog MSRP, DVD	\$ 14.95
– Catalog MSRP, VHS	\$ 9.95

<sup>5</sup> Mr van Dyk prepared the model using assumptions provided by The Lamb's Executive Producer, Frank Yablans and Mr van Dyk shall not in any respect be responsible for the accuracy or completeness of these assumptions.

BASE CASE SCENARIO: \$75 MILLION US BOX OFFICE

[illegible]

<sup>1</sup> \$139,862.9 mil includes \$20 mil initial investment raised through Round #7 offering.

2 ROI Calculation: Total Cash Flow to Round #7 Investors + Capital Payback/Amount of Units.

<sup>3</sup> Basic ROI of 3.44 includes capital payback.

\* See Addendum F for financial assumptions.



## FINANCIAL CONTROL & ACCOUNTABILITY

### AUDITORS – Deloitte

**D**ELOITTE WILL PERFORM A MONTHLY REVIEW audit of The Lamb's management accounts for the duration of the production. An annual audit will be conducted at the end of each financial year.

Deloitte will provide the following custodian services for the benefits of The Lamb investors:

- Administer the international lock box account containing proceeds from the project as discussed below.
- Manage distribution of all shareholder dividends.

### PROFIT "LOCK BOX" AND DISTRIBUTIONS

All of the income generated by The Lamb will be collected by an independent revenue collection agency that specializes in worldwide income collection for motion pictures, for both box-office and ancillary market revenue. All funds collected by the collection agency will be deposited directly into a lock box bank account monitored by our auditors, Deloitte.

### Disbursement of Distributable Cash

1. Deloitte will pay out 100% of the distributable cash to the Round #7 investors until they have recouped 110% of their initial investment. In other words, provided that the Round #7 has been funded in full, the first \$22,000,000 in distributable cash will be paid out to investors.
2. Thereafter Deloitte will allocate all distributable cash as follows:
  - 10% to the Missions Trust, a non-related non-profit organization or any other evangelical non-profit organisation designated by Movie No.7, LLC.
  - 90% to the unit holders in Movie No.7, LLC, on a pro-rata basis in accordance with the share allocation stipulated in the investment offering documents.

Distribution of funds will be made on a quarterly basis for the first three years following the release of the motion picture and thereafter, annually in perpetuity.

Distributable Cash Definition: Total proceeds received from The Lamb project into the lock box account less disbursement expenditure to lock box administration less amount allocated to prints and advertising as per budget.

### PROJECT TITHE

After Deloitte has repaid the Round #7 investors 110% on their investment, they will pay out 10% of all distributable cash from Movie No.7, LLC to the Missions Trust before that balance is distributed amongst the unit holders in Movie No.7, LLC.

The Missions Trust will not be not related to any of the principals or entities associated with The Lamb. The trust's express purpose is to distribute the tithe (10%) of The Lamb project in the following manner:

- a) One-third to fund worldwide evangelism initiatives.
- b) One-third to fund evangelism initiatives within the African continent.
- c) One-third to fund an initiative that will provide a free copy of The Lamb on video or DVD, royalty free, to churches worldwide for private community screenings. In addition, these funds will be used to produce a shortened version of The Lamb to be used as an evangelism resource for churches and mission organizations. This shortened video will be translated and made available royalty free on video and DVD to Christian organizations and ministries worldwide, to be distributed at their discretion.

### THIS PROJECT MUST NOT BE BRANDED A "CHRISTIAN" FILM IN THE EYES OF THE WORLD AND CRITICS.

The purpose of the film is to attract the world; therefore, this "evangelism" video initiative will commence after the film has run its course, reaching the broadest possible non-Christian market through commercial outlets.

All donations that the trust receives as a result of its activities will be used to expand the purpose of the trust as presented above. The Missions Trust is required to provide Movie No.7, LLC with quarterly reports that will be made available to all investors in The Lamb through the online investors' section.



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## LEGAL REPRESENTATION

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### Lee Sacks - Entertainment Law USA

**L**EE SACKS GRADUATED FROM THE UNIVERSITY OF Buffalo with a B.A. in Political Science in 1966 and from Union University, Albany Law School in 1969. He practiced in New York as an associate with the prestigious law firms, Paskus, Gordon & Hyman and Bluestone, Kliegman & Israel before moving to Los Angeles where he joined the Beverly Hills law firm of Mazirow, Schneider, Forer & Lawrence. Mr. Sacks opened his own firm in 1976 and, since then, has been engaged in the practice of entertainment law. Mr. Sacks has represented producers, distributors, financing entities, performers, studio and television executives and is fully familiar with all aspects of the entertainment business.

estate arena, he has handled development, sale, leasing and construction disputes involving all types of commercial, industrial and residential properties.

Steve works for public and private owners as well as lenders, developers, contractors and design professionals. Steve has been a partner of Rutan & Tucker since 1994. He serves as an arbitrator for both the Mandatory Fee Arbitration Committee of the Orange County Bar Association and the Mandatory Arbitration Program of the Orange County Superior Court, and is an attorney advisor for the Peer Court program of the Constitutional Rights Foundation. In 1997 and 1999, Mr. Ellis served as a panelist for the Continuing Education of the Bar's (CEB) program on Civil Procedure During Trial.

### Gal Batsri - Entertainment Law RSA

Gal Batsri graduated from Tel-Aviv University film school with a BA (Hons) degree in Film & Television and Literature in 1991. He returned to South Africa in 1992 to read for his law degree at the University of the Witwatersrand and graduated with an LLB in 1994. He served his articles with the Johannesburg firm of attorneys Deney's Reitz and, upon admission as an attorney in 1997, he joined the specialized media, communications and entertainment law practice at Webber Wentzel Bowens. He was appointed a partner at WWB in 2001.

His areas of specialization include all aspects of film and television production, including script development and production, finance and exploitation, South African tax and general commercial law in respect of film investment, telecommunications and broadcasting regulatory law, new media technology and related convergence law, as well as traditional media law areas such as general copyright, defamation and constitutional law, insofar as it relates to freedom of speech in the media.

In 1999, he was appointed by the Minister of Arts, Culture, Science and Technology as a counsellor on the first Council of the National Film and Video Foundation, a statutory body entrusted with the development of the South African film and television industry. He continues to act as external legal counsel to the National Film and Video Foundation as well as to the Botswana Telecommunications Authority and the Namibian Film Commission in the SADEC region.

### Steve Ellis – Litigation Law USA

Steve Ellis has been handling complex business and real estate litigation matters since graduating from the UCLA School of Law in 1985. His practice experience includes a broad range of trial and appellate matters in both the state and federal court systems, and extensive experience in alternative dispute resolution venues, including arbitration and mediation. Steve has had primary responsibility for the prosecution and defense of myriad contract, warranty, unfair competition, trade secret, fraud and business tort claims on behalf of public and private companies. In the real

# MARKET RESEARCH

## UNITED STATES (DOMESTIC) MARKETS

### US (DOMESTIC) BOX-OFFICE

**T**HE WORLDWIDE DEMAND for filmed entertainment is soaring. The global audience grows significantly each year, generating an insatiable desire for movies. The motion picture market is growing at a phenomenal rate. The US domestic box-office alone in 2005 reached \$9 billion, and 2006 is setting records for revenues and tickets sold. This bodes well for the entertainment industry. The box-office success of a film in the US (domestic) market is a powerful platform for worldwide success.

The Motion Picture Association of America also reports that families are seeing movies more frequently. In 2002, 29% of movie-going families considered themselves frequent moviegoers. Additionally, MPAA noted that the last two years has seen a marked rise in the number of family-oriented films.

“The worldwide demand for filmed entertainment is soaring. The global audience grows significantly each year, generating an insatiable desire for movies.”

BOX-OFFICE GROWTH		Year	Box-Office Gross (USD in Billions)	% Change Previous Period
In 2002 Box-Office was up 13.2% from 2001, the highest year-to-year increase in 20 years		2005	\$ 8.99	-5.9%
		2004	\$ 9.54	0.5
		2003	\$ 9.49	-0.3
		2002	\$ 9.52	13.2
		2001	\$ 8.41	9.8
In a 15 year period, box-office continued to grow-more than doubling grosses from 1987		2000	\$ 7.66	2.9
		1999	\$ 7.45	7.2
		1998	\$ 6.95	9.2
		1997	\$ 6.37	7.7
		1996	\$ 5.91	7.6
Box-Office has increased over \$6 billion since 1982		1995	\$ 5.49	1.8
		1994	\$ 5.40	4.7
		1993	\$ 5.15	5.8
		1992	\$ 4.87	1.4
		1991	\$ 4.80	(4.4)
		1990	\$ 5.02	(0.2)
		1989	\$ 5.03	12.9
		1988	\$ 4.46	4.8
		1987	\$ 4.25	12.6
		1986	\$ 3.78	0.8
		1985	\$ 3.75	(7.0)
		1984	\$ 4.03	7.0
		1983	\$ 3.77	9.1
		1982	\$ 3.45	-

Source MPAA

## US ANCILLARY MARKETS

**T**HE HOME ENTERTAINMENT MARKET IS SKY-rocketing. The industry is reporting record-setting revenues every quarter, driven primarily by an ever-increasing consumer appetite for DVD movies. The VCR penetration rate in US households is currently over 92%. The DVD player continues its unparalleled ascent in the marketplace with a presence to date in 34% of US households.

The US home entertainment industry (which includes all VHS, DVD, and VOD rentals; and all VHS & DVD sales) has grown consistently from 1991 to 2002, at an average rate of 7.6% per year. The increase in VCR households during that period (from 68 million in 1991 to 94 million in 2002), coupled with the incredibly rapid growth in DVD households (from none in 1996 to 35 million in 2002) has driven a substantial surge in consumer demand for movies in the home entertainment market.

Families are helping fuel the rising demand for home entertainment products as they seek out inexpensive, wholesome entertainment that the family can enjoy together. [Source: PricewaterhouseCoopers 2003]

The US movie (video) rental market, which includes VHS rentals, DVD rentals, DVD subscription services, and VOD (video on demand) rentals, entered an accelerating growth phase a few years ago (tied largely to the DVD), which should peak in 2008. The expected growth of DVD and VOD households will drive an ever-present appetite for product. The two new mediums, DVD and

VOD, are not mutually exclusive; in all probability, a VOD household will also be a DVD household. In the future, people will likely consume more audiovisual entertainment, not less, due in no small part to the higher-quality viewing/listening experience afforded them by superior technology. [Source: Lehman Brothers, 2003]

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“The home entertainment market is sky-rocketing. The industry is reporting record-setting revenues every quarter, driven primarily by an ever-increasing consumer appetite for DVD movies.”

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United States	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Box Office	6,949	7,448	7,661	8,412	9,520	10,140	10,726	11,417	12,127	12,858
Home Video	16,358	17,053	18,613	20,549	22,181	23,854	25,805	27,850	29,436	31,000
Sell-Through	6,704	6,953	8,393	10,290	12,260	14,414	16,580	18,480	19,768	20,850
Rental	9,654	10,300	10,220	10,259	9,923	9,440	9,225	9,370	9,668	10,150
<b>Total</b>	<b>23,307</b>	<b>24,301</b>	<b>26,274</b>	<b>28,961</b>	<b>31,703</b>	<b>33,994</b>	<b>36,331</b>	<b>39,267</b>	<b>41,563</b>	<b>43,858</b>

SOURCE: Motion Picture Association of America, Adams Media Research, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

## Digital Video Disk (DVD) Rentals

**T**HE SIGNIFICANT GROWTH OF DVD RENTALS IS powered to some extent by the meteoric rise in DVD sales. The DVD is relatively low in cost, lasts longer, and has more features than the VHS videotape. Analysts project that DVD rental revenue will continue to rise since DVD player penetration of US households is currently only 34%, and accelerating rapidly. However, reasonable DVD pricing has induced a small, but growing, segment of consumers to buy instead of rent, compelling traditional rental-only companies to enter the sales market in self-defense. This has been a difficult challenge for the rental industry, since the retail business is dominated by national discount stores such as

Wal-Mart and Best Buy. Nevertheless, analysts estimate that DVD rental income will climb above \$10 billion by the year 2007. [Source: Lehman Brothers, 2003]

## Video Home System (VHS) Rentals

The VHS (videotape) rental market peaked in 1998 with \$8.1 billion in revenue. Since then, rentals have declined steadily as the DVD began to erode the VHS market base. However, with a 92% presence in US households, the VHS rental industry is still a very viable and lucrative source of motion picture income.

“Theatrical films with strong moral, spiritual and/or Christian themes have outperformed most other motion picture genres in recent years.”

Video On Demand (VOD)

THE CABLE INDUSTRY SPENT \$65 BILLION TO UPGRADE its system from analog to digital so that they could offer Video on Demand, broadband, HDTV, and interactive media to their customers. The conversion from analog to digital is escalating quickly with 30% of the 68 million cable subscribers now receiving digital service. The rapid expansion of digital cable into US households is expected to boost Pay-per-View movie income considerably. The increased capacity for digital and broadband services will stimulate a sharp rise in Video on Demand rentals. Industry experts anticipate VOD revenue to exceed \$3 billion in the year 2005. [Source: Lehman Brothers, 2003]

MOTION PICTURE SOUNDTRACK

Motion picture soundtracks (CD albums) are another ancillary market that has generated significant revenue consistently. Movie soundtrack recordings have become very popular with consumers, and have frequently registered sales that sent the CD albums to the top of music industry charts (Billboard, Variety, etc.). The potential income is enormous with total sales for all recorded music exceeding \$12 billion in 2002. [Source: PricewaterhouseCoopers 2003]

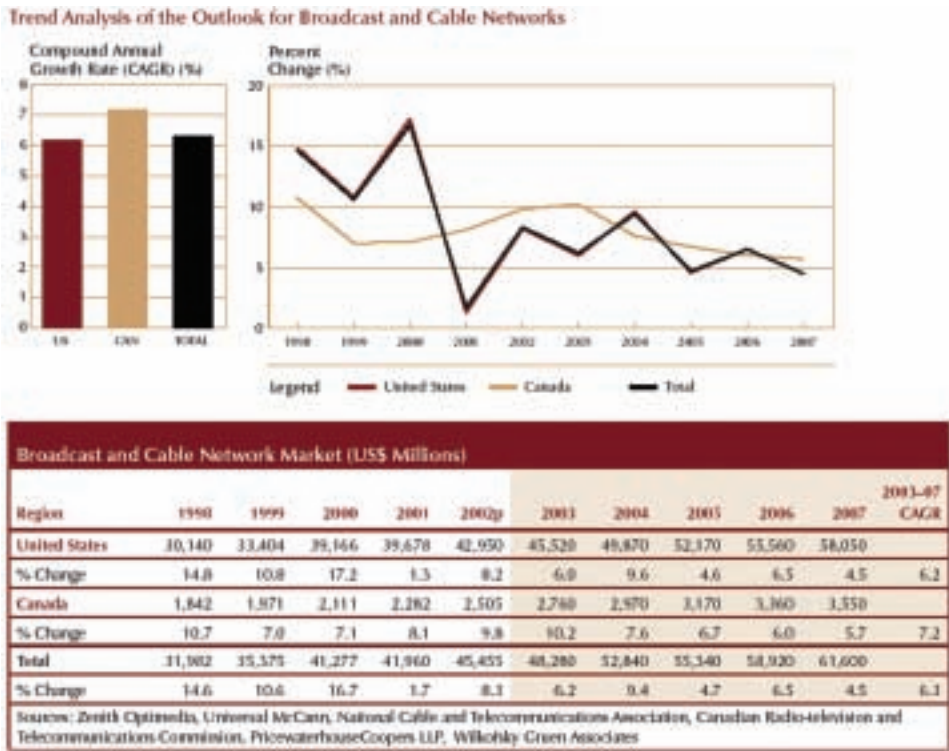
Cable Television

In addition to the proceeds received from VOD licensing, the direct presentation of a film on cable television (HBO, Showtime, Cinemax, Starz, etc.) represents a significant source of income during the market lifecycle of a motion picture. As a point of reference, the movie licensing fees derived from Pay-per-View, premium cable channels, and broadcast TV represents roughly 30% of the total domestic revenue a film earns. Industry reports that cite an expanding subscriber base with an insatiable demand for filmed entertainment suggest that cable television will continue to be a reliable source of revenue for many years to come. [Source: Lehman Brothers, 2003]



Broadcast Television

Broadcast Television, which includes the major networks (ABC, CBS, FOX and NBC) and local non-affiliated channels, provides income from licensing fees that are paid for the right to air a particular film on a given network or channel for the entertainment of their respective viewing audience.





## DVD/VHS VIDEO SALES

**I**T IS A COMMON MISCONCEPTION THAT BOX-OFFICE receipts represent the largest percentage of income generated by a movie. In fact, box-office receipts average only about 25% of total domestic revenue. As noted in the section on cable television, Pay-per-View, premium cable, and broadcast TV provide approximately 30% of the domestic gross. The remaining 45% of motion picture domestic revenue comes from DVD/VHS rentals and sales. While box-office performance can certainly influence the ultimate success of a movie, that phase in the lifecycle of a film is by no means the most financially lucrative.

The DVD is a sales phenomenon of unparalleled proportions. In five years, the digital video disk has achieved a greater household penetration than the VHS (video home system) accomplished in 14 years. DVD sales are increasing dramatically, at a rate far greater than the VHS (videotape) ever experienced. Sales of DVD machines

are growing at a "dizzying rate" with a presence in 13 million new homes in 2002, and a household penetration of 34%. Market studies project that the percentage will climb to 78.1% by the year 2007. Home video sales revenues, which amounted to \$8.4 billion in 2002, are expected to reach \$20.3 billion in 2007.

VHS sales, while still brisk, are declining steadily as consumers become more enamored with the feature laden DVD. VHS sales have declined from a peak of \$8.5 billion in 1998 to \$5.6 billion in 2002. While future projections for VHS (videotape) sales and rentals may not be encouraging, VHS is certainly not going to disappear any time soon. Despite its current negative growth pattern, the VHS market will remain a viable and important source of motion picture revenue for at least the next several years.

[Source: Lehman Brothers & PricewaterhouseCoopers 2003]

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## INTERNATIONAL MARKETS

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(Addendum A provides an in-depth commentary on the global entertainment market.)

### FOREIGN SALES PROPELLED BY STRONG US BOX-OFFICE

**H**ISTORICALLY, A SUCCESSFUL US (DOMESTIC) BOX-office has been the catalyst to ignite other revenue markets. This is still true to some extent; however, other factors play an equally important role. The nature (genre) of the movie, the cast of actors (stars) in the film, and the subject matter of the story all have a direct bearing on the various markets. As noted in the section on DVD/VHS sales, domestic box-office performance certainly influences the overall success of a motion picture; however, it is not responsible for the bulk of its total income. International distribution receipts currently provide, on average, 55% of the box office revenue a film earns. [Source: Hollywood Reporter]

### FOREIGN BOX-OFFICE PERFORMANCE

A successful theatrical release in the US market is where nearly every top grossing film begins its financial lifecycle. However, the international market is essential to the overall success of a motion picture. A survey of the top 20 grossing films of all time shows that 40 to 70 percent of box office revenues were generated in countries outside of the US.

### FOREIGN ANCILLARY MARKETS

While each country has developed its own economic infrastructure, for the most part, the foreign ancillary markets function in a manner similar to those in the US with regard to motion picture revenue. Foreign filmed entertainment as a whole generated \$32.8 billion in 2002. [Source: PricewaterhouseCoopers 2003]

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## RELIGIOUS MARKETS

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### THE BUILT-IN MARKET

**A**S INDICATED PREVIOUSLY, THEATRICAL FILMS WITH strong moral, spiritual and/or Christian themes have outperformed most other motion picture genres in recent years. The aversion to religious content that the entertainment industry has manifested in the past has eased considerably. The enormous worldwide audience demand for quality, Christian-themed productions has not gone unnoticed in Hollywood. Wall Street, Madison Avenue and Hollywood have never really considered the Christian market to be a relevant consumer group. However,

recent studies suggest strongly that this burgeoning and neglected consumer demographic is a potential source of enormous revenue for the entertainment industry. The ever-expanding religious market is driven by powerful Christian organizations, church leaders, youth groups, and families who want quality entertainment that reflects their values. These consumers are not searching for strictly religious content, but merely films and programs that reflect the core moral values shared by most families.



# FINANCIAL ASSUMPTIONS

Our distribution assumption presumes that US and international distributors will distribute our film in all markets for a 15% fee. The majority of costs associated with distribution (for example, duplication of DVDs) are advanced by our distributor and then recouped as they collect money from exploitation of our film.

Given this structure, our financial projections are driven by the following assumptions:

## 1. THEATRICAL

We assume gross box office from US theatrical distribution of \$75 mil. This amount is divided between theatrical exhibitors (theaters and theater chains such as AMC, Loews, Carmike, etc.) and the distributor of our film, who ultimately pays us. The net figure that the distributor collects from theaters that sell tickets is called theatrical rental revenue. We assume a rental rate of 50%, and therefore \$37.5 mil of theatrical rental revenue from the \$75 mil gross box-office figure. The theatrical release of the film will be supported with an initial P&A raise of \$6.5 mil and further supported by a bank facility that will lend against theatrical receivables based on theatrical performance. Thus, our limited P&A raise will facilitate a larger release over time, which is consistent with our platform release strategy. It may also be possible for our distributor to advance P&A and recoup this advance from theatrical receipts as it collects them.

## 2. FIRST-CYCLE HOME ENTERTAINMENT

Home entertainment revenues consist of the initial sale of the title on home entertainment platforms (DVD and VHS cassette) as well as longer-term “catalog” sales. The “first-cycle” sale refers to units sold within one year of initial home entertainment release. Units are manufactured and shipped (these are gross units) and a majority are “sold through” to consumers, while the rest are returned.

We assume 3.25 mil net DVD units sold and 1.2 mil net VHS units sold, at retail prices of \$24.95 and \$19.95, respectively. These numbers are net of 20% returns. We assume a 40% retail markup at the store level, which translates to wholesale pricing of \$17.82 and \$14.25 for DVD and VHS, respectively. The units are manufactured at a cost of \$1.50 per unit. First-cycle marketing costs are 20% of home entertainment revenue, and our distributor will assess a physical distribution charge of 5% to cover shipping and handling of our product.

## 3. INTERNATIONAL REVENUE

We assume \$50 mil in international receipts before our international distributor(s) assess distribution fees or sales agency fees. In addition to the distribution fee of 15%, it may be necessary for international sales agents to represent the property in ancillary markets. While we feel we may be “double-counting” these fees by including them, in the interests of being conservative we have assessed an 8% sales fee to international revenue in addition to the distribution fee.

## 4. TELEVISION

Television revenue comes from three forms: Pay-Per-View (which we have assumed at \$500K), Pay TV (e.g. HBO, which we have assumed at 40% of theatrical rental revenue, reflecting a typical distributor output deal with a channel such as HBO), and Free TV (e.g. network or basic cable distribution, which we have assumed at 50% of our pay figure, or \$7.5 mil). Total television revenue is therefore \$23 mil.

## 5. ANCILLARY REVENUE

We believe this film will have a variety of ancillary revenue opportunities, including sales to other exhibition windows (e.g. airline, hotel, video-on-demand, etc.), consumer products, licensing, soundtrack, etc., and we have projected these ancillary revenues at \$15 mil.

These projections collectively generate \$190.5 million in first-cycle revenue, costs (including distribution fees) of \$90.1 million, and \$100.5 million in first-cycle pre-tax profit. This equates to a cash-on-cash return (essentially return on sales, excluding any time value of money) of 2.12, before catalog/library value.

## 6. CATALOG

After the initial sale of home entertainment products, there will be a long catalog life for this film (i.e. people will be able to enter a major retailer and purchase this title in five years’ time).

We assume a 65% reduction in the number of units sold from year one to year two, and a 15% reduction annually each year thereafter. We also reduce retail prices from their initial numbers to \$14.95 for DVD and \$9.95 for VHS, with wholesale prices adjusted accordingly. Home entertainment marketing for catalog product is 10% of revenue, rather than the 20% used on new releases. Other costs remain the same.

## 7. TIMING

Film accounting can result in a discrepancy between the income statement of a film (which is based on when revenue is “recorded” for accounting purposes, and on how costs are associated with this revenue for accounting purposes), and the cash flow of a film (which is driven purely by when cash enters and exits our accounts). Investors should be singularly focused on cash flow; however, we have created both schedules.

The movie is assumed to be released theatrically twelve months following commencement of production, with theatrical revenue posted in the quarter of release and cash from theatrical distribution collected six months thereafter. We are providing for a six month period to raise the \$20,000,000 Round #7 budget.

P&A is incurred 100% upon theatrical release and cash is spent 33% in the quarter prior to release and 67% in the quarter of release. As noted, incremental P&A is assumed to be bank-funded.

The initial release of home entertainment product occurs six months after theatrical release. We assume that 80% of first-year home entertainment sales occur upon initial release, with the remaining 20% six months later in a “re-order.” Cash is collected six months after revenue is posted.

After the initial release, home entertainment catalog revenue is spread evenly throughout the year beginning in year two, and is collected six months after revenue is recorded.

Pay-per-view revenue is posted when the window for PPV exploitation opens (six months following theatrical release), and cash is assumed to be 75% collected in three months after this revenue is posted, and 25% collected six months after revenue is posted.

The Pay TV exhibition window lasts 18 months and begins one year after theatrical release. Revenue is posted at the beginning of the window; cash is collected in two payments: 2/3 of the cash is collected two months after the window starts, and the remaining 1/3 is collected two months after the window ends.

Free TV is sold immediately at the close of the Pay TV window, and cash is collected in eight equal payments over two years.

We have assumed that international revenue is allocated on a pro-rata basis per theatrical, Pay TV and Free TV and revenue posts three months after domestic release; cash is collected six months after revenue is posted. We do not include recognition of domestic home entertainment revenue as a means of allocation since international windows and the relationship between television and home entertainment in international markets differs from that of the US (there is a higher degree of overlap).

The negative cost is amortized on a pro rata basis over five years of revenue based on our anticipated profit. On a cash basis, it is funded evenly over the first three quarters.

Home entertainment marketing, duplication and pick/pack/ship charges are posted to the P&L as units are sold. On a cash basis, they are deducted from receipts by the Tax on Returns: The project returns have been calculated on a pre-tax basis. Investors are advised to seek professional tax guidance before investing, as tax consequences may vary from country to country.

Home entertainment marketing, duplication and pick/pack/ship charges are posted to the P&L as units are sold. On a cash basis, they are deducted from receipts by the distributor, the company does not go cash out-of-pocket for these expenses.

TV costs are incurred as revenue posts and are deducted from collections. International sales agent costs are handled in the same fashion.

[illegible]

# THE SEQUEL

## DEO VOLENTE

**U**PON COMPLETION OF THE LAMB project, Charis Productions will turn its attention to the second picture in The Lamb trilogy, “Deo Volente”, the story of Saul of Tarsus. Carrying over certain key ethics from The Lamb, Deo Volente promises to be focused and driven in its delivery of core values to a large audience.

### TITLE SEQUENCE & SYNOPSIS

Our story begins on the outskirts of Jerusalem, 31 A.D. A subtle breeze tiptoes sthrough wildflowers carpeting the gently rolling hills overlooking the ancient city. A songbird chirps a merry tune, while a confident squirrel nibbles on an afternoon snack. Suddenly he freezes in alarm. The songbird silences motionless on edge...Stillness...

Bursting over the hill, we see a young man, Stephen, with crimson pouring from his head wound as he runs for his life. He falls to reveal a throng of stone-wielding pursuers. He scrambles to his feet and flees.

Seemingly out of nowhere, a galloping fiery-eyed stallion and rider pull up head on, cutting off Stephen’s escape route. He falls again as the hostile steed rears, hooves spraying mud into his eyes. The mob closes in a shrill of bloodthirsty screams.

Another escape route opens up momentarily, but instead of fleeing, the attractive, athletic young man turns around fearlessly to face the charging mob head-on. His pupils explode, registering death as the first rock smashes his jaw. He collapses as a second shatters his shoulder, then another, and another, and another...

A man yanks off Stephen’s garment and flings it into the air. It glides through the air in slow motion and lands at the feet of the unidentified horseman as he dismounts, revealing his dynamic, focused face, eyes radiating with power and authority.

It is Saul of Tarsus, his eyes riveted in unemotional focus, to be satisfied only when the heathen has breathed his last. The mob tears at each other to deliver a blow: His face a broken mess, Stephen rises in a burst of shocking triumph and belts from the pit of his soul: “Lord Yeshua, receive my spirit!”

The killers react ferociously, pressing in, foaming in mania. Down again, as his eyes begin to fade, Stephen whispers: “Lord, don’t count this sin against them.”

Finally silence blankets the hillside as a few token stones drop on the lifeless body. Saul’s eyes dart toward a huge Cyrenian black man, Jureal, standing in the back of the crowd. Jureal nods in response to Saul’s silent command and wields a massive granite slab. He moves towards Stephen.

Suddenly, a young peasant girl is seen racing toward the scene screaming: “Stephen!” Again Saul nods to his companion. Jureal moves with the presence of Goliath.

“Stephen! No!” cries the peasant girl as she bursts through the crowd. A brawny arm stretches out, snagging her, cutting her off. She writhes to get free but is held fast by an older man dressed identically to Saul. It is Saul’s mentor and soul-mate, Eliezer. Eliezer grips her mercilessly. “Stephen! Lord, no!” she screams. Jureal raises the boulder overhead and smashes it down with finality. Eliezer releases the girl and she flings herself over the body, much too late. She heaves

with uncontrollable sobbing, as tears mingle with the blood of her betrothed. The crowd begins to slink away one by one, some slapped in the face with the horror of what they’ve just done. One whispers: “Did you hear what he said before he died, h...” His friend interrupts: “Shut up!”

All have gone now but the girl, Eliezer, Jureal and Saul, who is transfixed on the girl. Assuring that all are out of sight, the stone-faced Eliezer whispers something to Jureal. He responds by yanking the girl to her feet by a fistful of silken hair. Eliezer advances on her, pulling back a sash to reveal a jewel-handled dagger.

Saul interrupts, “I’d like to interrogate this one.” Eliezer lifts her chin to reveal the full extent of her beauty. He smiles at Saul in silent understanding, “See you in the morning.” The girl collapses as Jureal releases her. Eliezer and Jureal mount horses and turn toward the ancient city. “We must speak about Damascus first thing tomorrow,” Eliezer says as they saunter off, disappearing over the hill.

Silence is broken by the weak moans of a shattered girl. Saul stares at her. He has never seen anything as lovely as this simple beauty. Awkwardly he speaks, “Your name...?” She turns on him, unleashing a futile flurry of fists and slaps. Saul stands unmoved until she exhausts herself and drops to his feet.

Again she crawls to the body of her beloved Stephen. Saul speaks tenderly, consoling: “He spoke blasphemy..., lies..., against Yahweh. It is the Law...” He stands around uncomfortably for a few moments and turns around, mounting his stallion and quietly clip-clops towards Jerusalem, leaving shattered lives behind.



**T**HUS BEGINS OUR BIG SCREEN JOURNEY THROUGH the life of Paul the Apostle. The next one 100 minutes will take our audience through a “Raiders of the Lost Ark” - type adventure, complete with divine earthquakes, miraculous healings, Mediterranean shipwrecks, and, most importantly, the Gospel of Jesus Christ as expounded through the events of Saul/Paul’s radical conversion on the road to Damascus and his subsequent ministry to the nations of the ancient world.

As we explore this lonely zealot, his passion for salvation unequal to this day, we roller-coaster through his triumphs and persecutions, laughing and cheering when prison doors burst open under the touch of the Almighty God, weeping as Paul’s back is mercilessly laid open with a cat of nine tails.

At the center of the action are the Pharisee Eliezer and his silent henchman Jureal, both of whom share a common goal: the annihilation of every man, woman and child who calls upon the name Jesus. In league with them prior to his Damascus revelation of the living Christ, Saul was fiercely dedicated to Eliezer, his mentor and closest friend. The two had gloried together in their cause with each stoning and imprisonment. When news of Saul’s conversion reaches Eliezer, he turns all of his rage toward his once dear friend, pursuing him with predator-like intensity across the Mediterranean nations, climaxing in a face-to-face Jerusalem encounter as the city explodes into flames of judgment at the hands of Roman marauders.

Action, adventure, state of the art special effects and the salvation message of Jesus Christ as one of God’s heroes, are brought to the big screen, as seen through the eyes of a man among men who battles against a tidal wave of opposition, crushed between national identity and a revelation of colossal impact, yet rising up and standing tall against incredible odds for what he knows is the Truth.



“ Action, adventure, state of the art special effects and the salvation message of Jesus Christ are brought to the big screen.”



PROPOSED SCENES FROM  
DEO VOLENTE

# FRANK YABLANS

HIS FIVE YEARS AS HEAD OF PARAMOUNT ARE OFTEN REFERRED TO AS “PARAMOUNT’S GOLDEN YEARS”

## EXECUTIVE PRODUCER

**F**RANK YABLANS JOINED Paramount Pictures in 1969 as Assistant General Sales Manager after a career in distribution that included six years with Walt Disney/Buena Vista and four years as an independent importer and distributor of Foreign Films.

His appointment as Assistant General Sales Manager of Paramount Pictures began a meteoric rise that quickly saw him promoted to General Sales Manager, Senior Vice President of Distribution and Marketing, Executive Vice President and finally President of Paramount Pictures Corporation in 1971. During his tenure at Paramount, Yablans was instrumental in forming the partnership with Universal CIC, now known as “UPI,” creating the most successful distributor of films in international distribution.

His five years as head of Paramount are often referred to as “Paramount’s Golden Years,” during which Yablans was responsible for the development, production and marketing of films acclaimed by audiences and critics alike, including *The Godfather*, *Chinatown*, *Paper Moon*, *Serpico*, *Death Wish*, *Lady Sings the Blues*, *Murder on the Orient Express*, and *The Longest Yard*. In addition, Paramount television, which reported to him, had successes such as *Star Trek*, *The Odd Couple*, *Mission Impossible*, *Love American Style*, and the pilot *Happy Days*.

After leaving Paramount, Yablans began a career as an independent producer at both

Twentieth Century Fox and Paramount Pictures simultaneously, producing such hits as *Silver Streak*, *North Dallas Forty*, *Mommy Dearest*, *The Other Side of Midnight*, *The Fury*, and *Monsignor*. He also co-authored the screenplays for both *North Dallas Forty* and *Mommy Dearest*.

During that time, Yablans was asked to assume the task of rebuilding MGM/UA Studios. As Co-Chairman and CEO, he reduced overhead costs and rearranged MGM and United Artists into one entity: MGM/UA. Immediately after assuming his responsibilities at MGM/UA, Yablans embarked upon an enthusiastic, yet cautious program designed to attract creative talent to the Company while controlling the risks inherent in motion picture production, distribution, and marketing. Under Yablans guidance, the Company produced and distributed a variety of high, medium and modestly budgeted films, including such hits as *War Games*, *Octopussy*, *A Christmas Story*, *Yentl*, *Hot Dog: The Movie*, *Breakin’*, *Red Dawn*, *Teachers* and *10101*.

His last independent film, *Congo*, which was produced for Paramount Pictures, has grossed in excess of \$400 million worldwide. In addition, Yablans has spent the last few years focusing on the Family entertainment market, producing the highly regarded *A Dog Named Flanders* and *Baby Geniuses*. He brings over 45 years of experience and expertise to *The Lamb* project.

“In his last year at Paramount, the studio was nominated for 39 Academy Awards, including three for best picture.”







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