

**CONTRACT NUMBER: 2011-000047**

**MEMBERSHIP INTEREST  
SUBSCRIPTION AGREEMENT**

**OF**

**200 CARTAS FILMS, LLC**

**A PUERTO RICO LIMITED LIABILITY COMPANY**

**AND**

**PUERTO RICO FILM COMMISSION**

**800 PREFERRED UNITS**

**JUNE 17, 2011**

**Related to the project provisionally entitled**

**“200 Cartas”**

<b>Contract Number Número de Contrato</b>	<b>2011-000047</b>	
<b>Execution Date Fecha de Otorgamiento</b>	<b>June 17, 2011</b>	
<b>Effectiveness Period Período de Efectividad</b>	<b>June 17, 2011 to June 17, 2026</b>	
<b>Name of Parties and Representatives Nombres de la partes y representantes</b>	<i>NOMBRE</i>	<i>NÚM. ID PATRONAL</i>
	CORPORATION FOR THE DEVELOPMENT OF THE ARTS, SCIENCES AND CINEMATOGRAPHIC INDUSTRY OF PUERTO RICO, represented by Mariella Pérez Serrano	660-71-7431
	200 CARTAS FILMS, LLC. represented by its managing member, Vanguardia Films, LLC., represented by Bruno Irizarry Torres	66-0767489
<b>Account Number Número de Cuenta</b>	<b>248-234-81-2002</b>	
<b>Amount Cantidad</b>	<b>\$800,000.00</b>	

**MEMBERSHIP INTEREST SUBSCRIPTION AGREEMENT** dated as of **June 17, 2011** (this "Agreement") between:

**200 CARTAS FILMS, LLC**, a Puerto Rico limited liability company (the "Company"), and

**THE CORPORATION FOR THE DEVELOPMENT OF THE ARTS, SCIENCES AND CINEMATOGRAPHIC INDUSTRY OF PUERTO RICO** (hereinafter referred to as the "PUERTO RICO FILM CORPORATION" or the "PRFC"), a public corporation of the Commonwealth of Puerto Rico, organized pursuant to the provisions of its enabling act, Law Number 121 of August 17, 2001, as amended.

### BACKGROUND

WHEREAS, PRFC wishes to subscribe for and purchase, and the Company desires to issue and sell, the PRFC Interest (as hereinafter defined) on the terms and subject to the conditions set forth herein; and

WHEREAS, capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Company's Operating Agreement, dated as of June 16, 2011, as amended (the "LLC Agreement").

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained in this Agreement, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

### ARTICLE I THE INTERESTS

Subject to the terms and conditions herein set forth, the Company agrees to issue and sell to PRFC, and PRFC, agrees to purchase from the Company, on the Closing Date the PRFC Interest for the aggregate PRFC Purchase Price. The PRFC Interest shall be issued to PRFC pursuant to Article II hereof and shall be subject to the terms and provisions of the LLC Agreement.

ARTICLE II  
PURCHASE AND SALE

Section 2.1 Purchase and Sale. Upon the terms and subject to the conditions of this Agreement, the Company agrees to issue and sell to PRFC, and PRFC agrees to purchase from the Company, at the Closing: (i) a number of Preferred units equal to 800,000 Preferred membership interests (the "PRFC Interest"). The PRFC Interest shall be purchased by PRFC for a purchase price equal to \$1,000 per Preferred Membership Interest (the "PRFC Purchase Price"), and shall be issued by the Company to PRFC.

Section 2.2 Payment of Purchase Price; Closing. The Company will deliver the PRFC Interest to PRFC, against payment by or on behalf of PRFC, of the aggregate PRFC Purchase Price, as set forth above in Section 2.1, by check. The timetable of such delivery and payment is set forth in Schedule 2.2 hereto (such time being referred to herein as the "Closing Date," and the closing of the transactions contemplated by this Agreement, the "Closing"). The Closing shall take place at such place mutually agreed by the parties, at which time the parties shall make the deliveries described below.

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1. Deliveries by the Company. At the Closing, the Company shall deliver or cause to be delivered to PRFC: (i) a certificate, dated the Closing Date, of an executive officer of the Company, certifying that, as of such date, the representations and warranties of the Company contained herein and in the LLC Agreement are accurate, true and correct with the same force and effect as though made on and as of such date and that the books and records of the Company have been adjusted to reflect the issuance of the PRFC Interest to PRFC; (ii) all pertinent clauses in Exhibit F of the LLC Agreement – referred to in **Section 13.23 (PRFC as Member)** of the LLC Agreement – have been complied with.
  2. Deliveries by PRFC. At the Closing, PRFC shall deliver or cause to be delivered to the Company the PRFC Purchase Price as set forth in Schedule 2.2.

ARTICLE III  
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to PRFC as of the date hereof and as of the Closing that:

Section 3.1 Due Organization. The Company has been duly formed and validly exists as a Puerto Rico limited liability company in good standing under the laws of the Commonwealth of Puerto Rico.

Section 3.2 Authorization. The Company has the requisite power to enter into this Agreement and the transactions and agreements contemplated hereby (the "Transactions") and to carry out its obligations hereunder and thereunder. This Agreement has been duly authorized, and this Agreement has been duly executed and delivered by the Company and constitutes a valid and binding agreement enforceable in accordance with its terms, except, to the extent that enforceability may be limited by applicable bankruptcy, insolvency, reorganization or other laws affecting the enforcement of creditors rights generally or by general equitable principles. Neither the execution and delivery of this Agreement, the consummation of the Transactions, nor compliance with the terms, conditions or provisions of this Agreement will be a violation of any of the terms, conditions or provisions of the Company's Certificate of Formation or the LLC Agreement (as amended through the Closing Date).

Section 3.3 Due Issuance. The Interests have been duly authorized, and when issued and delivered against payment therefor as provided herein, will be duly and validly issued, fully paid and non-assessable.

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ARTICLE IV  
REPRESENTATIONS AND WARRANTIES OF PRFC

PRFC (a "Purchaser") represents and warrants to the Company as of the date hereof and as of the Closing that:

Section 4.1 Due Organization. Purchaser is duly organized and is validly existing and in good standing under the laws of its jurisdiction of formation.

Section 4.2 Authorization. Purchaser has the requisite power to enter into this Agreement and the Transactions and to carry out its

obligations hereunder and thereunder. This Agreement has been duly authorized, executed and delivered by Purchaser and constitutes a valid and binding agreement of Purchaser enforceable in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency, reorganization or other laws affecting the enforcement of creditors rights generally or by general equitable principles. Neither the execution nor delivery of this Agreement, consummation of the Transactions, nor compliance with the terms, conditions or provisions of this Agreement, will be a violation of any of the terms, conditions or provisions of Purchaser's charter and bylaws or comparable organizational documents.

Section 4.3 Access to Information. Purchaser has been supplied with and has had access to such information as it deems relevant to entering into this Agreement and has had the opportunity to inquire of management of the Company as to any such information.

## ARTICLE V CONDITIONS TO CLOSING

Section 5.1 Conditions to the Obligations of the Company. The obligations of the Company hereunder shall be subject to the following conditions:

(a) All representations and warranties and other statements of the Purchaser herein are, at and as of the Closing, true and correct; and

(b) The Purchaser shall have performed all of its obligations hereunder theretofore to be performed, including its compliance and all pertinent parties or persons compliance with the representations, warranties and covenants of **Section 13.23 (PRFC as Member)** of the LLC Agreement, all of which are hereby incorporated by reference as if they were set forth herein in full and also appended hereto, for avoidance of doubt purposes.

Section 5.2 Conditions to the Obligations of the Purchaser. The obligations of the Purchaser hereunder shall be subject to the following conditions:

(a) All representations and warranties and other statements of the Company herein are, at and as of the Closing, true and correct;

(b) The Company shall have performed all of its obligations hereunder theretofore to be performed;

(c) (i) the Company shall not have failed to pay any principal of or interest on indebtedness for borrowed money within any applicable grace period following the due date thereof, (ii) no such indebtedness shall have been accelerated by the holders thereof because of a default under any of the terms of such indebtedness, and (iii) the Company shall not have failed to pay any required distributions within any applicable grace period following the due date thereof pursuant to the terms of any agreement;

(d) since the date of this Agreement, there shall not have been any event, change, effect or development that, individually or in the aggregate, has had or could reasonably be expected to have a material adverse effect on the business, assets, financial condition or results of operations of the Company and its subsidiaries, taken as a whole (an "MAE");

(e) no law, regulation, injunction or other legal restraint or prohibition preventing the consummation of the Transactions shall be in effect;

(f) neither the Company nor any of its material subsidiaries shall have (i) commenced a voluntary proceeding under Title 11 of the United States Code, as amended (the "Bankruptcy Code") or any other state or federal bankruptcy law, (ii) consented to the entry of an order for relief against it in an involuntary case under the Bankruptcy Code or any other state or federal bankruptcy or insolvency law, (iii) consented to the appointment of a custodian of it or for substantially all of its property, or (iv) made a general assignment for the benefit of its creditors, and no court of competent jurisdiction shall have entered an order for relief against the Company or any such subsidiary in an involuntary case under the Bankruptcy Code or any other state or federal bankruptcy law; and

(g) in the case of PRFC, PRFC shall have received from the P.R. Treasury funds in an amount at least equal to the aggregate PRFC Purchase Price, the use of proceeds of which is limited by PRFC's consummation of the purchase of the PRFC Interest. Specifically, the

parties hereto acknowledge that the PRFC shall not be bound to make disbursements under this contract unless and until this contract is filed for recording with the Puerto Rico Comptroller's Office pursuant to Law No. 18, dated October 30, 1975, as amended from time to time.

## ARTICLE VI MISCELLANEOUS

Section 6.1 Further Assurances. Each party hereto shall do and perform or cause to be done and performed all further acts and shall execute and deliver all other agreements, certificates, instruments and documents as any other party hereto reasonably may request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

Section 6.2 Public Announcements. The parties shall consult with each other before issuing any press releases or otherwise making any public statements with respect to this Agreement or the transactions contemplated hereby, and none of the parties shall issue any press release or make any public statement without the prior written consent of the other parties, except as may be required by law and then only with such prior consultation with the other parties to the extent practicable.

### Section 6.3 Amendments and Waivers.

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(a) Any provision of this Agreement may be amended or waived if, but only if, such amendment or waiver is in writing and is duly executed and delivered by the Company and each of the Purchasers; and

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(b) No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 6.4 Survival. The representations and warranties of the parties shall survive the Closing forever.

Section 6.5 Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties and their respective legal successors and permitted assigns. No provision of this Agreement is intended to confer any rights, benefits, remedies, obligations or liabilities hereunder upon any person or entity other than the parties and their respective legal successors and permitted assigns. Neither of the Purchasers may assign, delegate nor otherwise transfer any of its rights or obligations under this Agreement without the consent of the other parties hereto.

Section 6.6 Notices. Any notice or other communication provided for herein or given hereunder to a party shall be in writing and shall be given by delivery, by e-mail, telecopier or by mail (registered or certified mail, postage prepaid, return receipt requested) to the respective parties as follows:

If to PRFC:

Mariella Pérez Serrano, Ph. D.  
Executive Director  
Puerto Rico Film Corporation  
P.O. Box 362350  
San Juan, PR 00936-2350.  
Fax Number: 787-756-5706  
**E-MAIL: MPEREZ@PUERTORICOFILM.COM**

If to 200 Cartas Films, LLC:

Bruno Irizarry Torres  
Vanguardia Films, LLC  
C/ Sgto. Medina #390, #6  
Hato Rey, PR 00918  
**EMAIL: bruno@vanguardiafilms.com**

or to such other address with respect to a party as such party shall notify the other in writing.

Section 6.7 Entire Agreement. This Agreement constitutes the entire agreement, and supersedes all other prior agreements and

understandings, both written and oral, among the parties and their affiliates with respect to the subject matter hereof.

Section 6.8 Expenses. Except as otherwise expressly contemplated herein to the contrary, regardless of whether the Transactions are consummated, each party shall pay its own expenses incident to preparing for, entering into and carrying out this Agreement and the consummation of the Transactions.

Section 6.9 Captions. The Section and Paragraph captions herein are for convenience of reference only, do not constitute part of this Agreement and shall not be deemed to limit or otherwise affect any of the provisions hereof.

Section 6.10 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument. This Agreement shall become effective when each party shall have received counterparts hereof signed by each of the other parties.

Section 6.11 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF PUERTO RICO, WITHOUT REGARD TO THE CONFLICTS OF LAW RULES OF SUCH JURISDICTION.

Section 6.12 Jurisdiction; Venue; Services of Process. Each of the parties hereby irrevocably and unconditionally consents to submit to the exclusive jurisdiction of the Puerto Rico Court of First Instance, or in the event (but only in the event) that such court does not have subject matter jurisdiction over such action or proceeding, the United States District Court for the District of Puerto Rico, for any proceeding arising out of or relating to this Agreement and the Transactions (and agrees not to commence any proceeding relating thereto except in such courts), and further agrees that service of any process, summons, notice or document by U.S. registered mail to its respective address set forth in this Agreement shall be effective service of process for any proceeding brought against it in any such court.

Section 6.13 Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of

the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated so long as the economic or legal substance of the Transactions is not affected in any manner materially adverse to any party.

Section 6.14 No Presumption Against Drafter. Each of the parties has jointly participated in the negotiation and drafting of this Agreement. In the event of an ambiguity or a question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by each of the parties and no presumptions or burdens of proof shall arise favoring any party by virtue of the authorship of any of the provisions of this Agreement.

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IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the day and year first executed.

Puerto Rico Film Commission

By: /s/   
Name: Mariella Pérez Serrano, Ph. D.  
Title: Executive Director

200 CARTAS FILMS, LLC

By: Vanguardia Films, LLC  
its President

By: /s/   
Name: Bruno Irizarry Torres

Title: Authorized Signatory

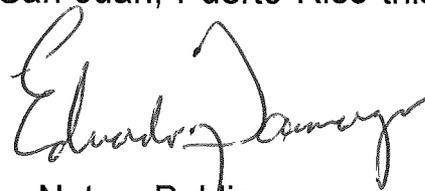
[Membership Interests Subscription Agreement Signature Page]

Affidavit number: 6609

Acknowledged and subscribed to before me by Mariella Pérez Serrano, as Executive Director of Puerto Rico Film Corporation, of legal age, married, executive and resident of San Juan, Puerto Rico and by Bruno Irizarry Torres, as authorized representative of Vanguardia Films, LLC, of legal age, married, producer and resident of New York, New York, both personally known to me, in San Juan, Puerto Rico this 17th day of June 2011.

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Notary Public

## Schedule 2.2

### Advance - \$331,893

- The repayment for the development financing has been retained.
- 5% of the each of the producer's and director's salaries shall be retained and can only be paid from the 4th disbursement monies.
- Once all deliverable items pertaining the actual production phase have been validated by the PRFC. These include a revised budget, latest script revision and shooting schedule.
- Be advised that additional deliverable items can be asked for at any time after the advance has been disbursed. These include a pre-production weekly calendar highlighting casting, rehearsals, tech scout and final pre-production meeting. When principal photography begins you will be required to hand in daily call sheets and location maps the date prior to the shooting date and production reports the date after the shooting date. These can be distributed by email.

### 2nd disbursement - \$284,842

- Once the remaining 75% of expenses for the advance have been accounted for
- All deliverable items pertaining the actual production phase have been validated by the PRFC including a revised budget.

### 3rd disbursement - \$100,615

- Once the remaining 25% of expenses for the advance have been accounted for; and 75% of expenses for the 2nd disbursement have been accounted for
- All deliverable items pertaining the actual production phase have been validated by the PRFC.

### 4th disbursement - \$59,000

- Once the remaining 25% of expenses for the 3rd disbursement have been accounted for
- 5% from producer's and director's salaries can only be paid for from these monies.

All deliverable items pertaining the actual production phase have been validated by the PRFC.

Handwritten signature or initials in black ink, appearing to be 'RP' with a flourish above it.

**EXHIBIT F**  
**200 CARTAS**  
**Additional Warranties, Covenants or Representations**

- a) That no employee or official of PRFC, including the directors of the Board of Directors of PRFC, has any pecuniary interests direct or indirect, by himself or through a member of his family or third person, in the execution and performance of this Agreement pursuant to Law 12 of July 24, 1985, also known as "Government Ethics Law";
- b) That none of the officers or employees of the Company occupy any regular position or is an employee of trust ("empleado de confianza") within any agency, instrumentality or public corporation of the Commonwealth of Puerto Rico, including the University of Puerto Rico or any municipality;
- c) No Member has been convicted of a crime against the public treasury, public trust, or involved in the wrongful use of public funds or property of the Commonwealth of Puerto Rico. The Company expressly recognizes that this is an essential condition of this Agreement and in the event this warranty ceases to be correct, in whole or in part, PRFC can terminate this Agreement and the Company shall reimburse to the PRFC all monies disbursed under this Agreement;
- d) The Company has filed or had no legal obligation to file, for the 5 years immediately preceding the date of this Agreement, Income Tax Returns and it owes no monies in connection therewith to the Commonwealth of Puerto Rico or it is complying with a payment plan for any outstanding income tax owed. The Company expressly recognizes that this is an essential condition of this Agreement and in the event this warranty ceases to be correct, in whole or in part, the PRFC can terminate this Agreement and the Company shall reimburse to the PRFC all monies disbursed under this Agreement;
- e) The Company warrants and shall, as an essential and necessary condition of this Agreement, show and deliver, when requested by the PRFC or any authorized representative thereof, the certifications and documents that evidence the Company's financial and tax situation; that each person contracted or recruited to work within Puerto Rico in any task or job related to the Picture to be produced by the Company shall be eligible to work in Puerto Rico, pursuant to the laws and regulations of the Department of Immigration and Citizenship of the United States of America;

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- f) The Company is not a party to and will not be a party to any contract, agreement, verbal or otherwise, with any agency or public corporation, of the Commonwealth of Puerto Rico, that would constitute a conflict of interest with this Agreement and/or the actions, duties and/or responsibilities to be undertaken by the Company under the Agreement. Moreover, PRFC does not and shall not represent any private interest in any case or matter that would imply: (i) conflict of interest with the governmental agency or (ii) a conflict of interest with the public policy of the agency;
- g) If a natural person, he or she, does not have nor has reason to believe there should be any debt outstanding regarding child support payments under the government program known as Administración para el Sustento de Menores (ASUME) and shall, as an essential and necessary condition of this Agreement, show and deliver, when requested by the governmental agency of the Commonwealth of Puerto Rico or any authorized representative thereof evidence thereof. The Company does not have any action, suit, litigation, arbitration, investigation or other proceeding of or before any court, arbitrator or governmental or regulatory official, body or authority of the Commonwealth of Puerto Rico, and to the best knowledge of the Company, threatened against, nor does the Company know or have reason to know of any basis for any such action, suit, litigation, arbitration, investigation or proceeding; the Company is not aware of any claim, event, occurrence or conflicting contracts with any agency of the Commonwealth of Puerto Rico that would require the Company to give notice to the governmental agency of the Commonwealth of Puerto Rico;
- i) The Managing Member, owned and represented by Bruno Irizarry, will assign or cause to be assigned the rights to the Picture to 200 Cartas Films, LLC in order to produce the Picture. Bruno Irizarry is an Executive Producer of the Picture. The Managing Member reserves the right to credit other Executive Producers as the situation merits. The PRFC may assign an executive producer in charge whose ultimate screen credit shall be agreed upon by and between PRFC and the Managing Member;
- j) The Company shall have entered into agreements (and shall have provided original, fully executed counterparts thereof to the PRFC) for the acquisition of the Picture and to the related exclusive production, distribution and exploitation rights in and to the Picture, and deal memos for the employment of the principal performers in the Picture, and the director and producer of the Picture, all of which agreements shall be valid, binding and continuing in full force and effect;

- k) The Company will cause to be furnished to the PRFC insurance certificates which shall remain at all times in full force and effect showing PRFC and the Government of Puerto Rico as an additional insured (except that the Company need not name PRFC as an additional insured under the errors and omissions policy, if to do so would materially increase the cost for such insurance) and loss payee and showing full and complete coverage including, but not limited to, film producers' indemnity (cast and preproduction cast insurance); all risks negative including faulty camera, stock and processing; use and occupancy (extra expense insurance); props, sets, wardrobe and miscellaneous equipment insurance; third-party property damage (care custody control) liability; Workmen's Compensation and Employer's Liability; comprehensive general auto liability; errors and omissions and all such other normal types of motion picture production insurance as the PRFC may reasonably require. All such policies shall provide that they cannot be terminated or materially altered without giving the PRFC at least thirty (30) days' written notice thereof.
- l) The Company agrees to indemnify and save harmless, PRFC, its licensees, assignees, and affiliated companies or agencies, and the officers, directors, employees and agents of all the foregoing and the government of Puerto Rico, against and from all costs, claims, awards, damages (including the PRFC legal costs) and/or liabilities whatsoever arising directly or indirectly, in the production of the Picture or from any breach or non performance of the company's representations, warranties, undertakings, obligations or other provision hereof contained in this Agreement.
- m) As an essential condition of this Agreement the Company has to show evidence of capital investment of at least 20% of the total approved production budget as required by the PRFC Regulation. The Company represents, warrants and has evidenced to PRFC, a contribution valued at \$200,000.00, to the production costs and expenses of the Picture and such contribution shall flow into the Company in exchange for Common Units;
- n) Proceeds from the sale of Tax Credits will be treated as Distributable Cash and applied first to the repayment of PRFC; provided, however, that subject to the written consent of the PRFC, part of such Tax Credit inflows may be applied to other expenditures related to the Picture.
- o) The Company will have a period of three (3) months, from the signing of this Agreement to start principal photography of the Picture;

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- p) The PRFC or its nominee will have the right to be accorded the last credit in the end credits of the Picture, a company presentation credit in the form of *"This picture was financed in part by the Puerto Rico Film Corporation"* together with its logo. This credit and logo will also appear in all paid advertising (subject to all customary exclusions). The PRFC, or its nominee, will also be accorded an "Executive Producer Services provided by *'Puerto Rico Film Corporation'*" together with its logo credit in the end credits, position to be at the Producer's discretion. The PRFC logo will appear in the opening credits, alone, full size, full color, for a minimum of 5 seconds;
- q) The Company agrees to photograph and otherwise produce the Picture with due diligence and in accordance with the Final Budget, to complete production thereof not later than March, 2012 and to deliver the Picture to buyers and distributors. The Company shall be bound to make available or cause to be made available immediately to PRFC, upon its request, screeners of the Picture, in the shape or form such screener might be available at the time of such request. The Company agrees that the investment proceeds under the Subscription Agreement shall be used by the Company only to finance production of the Picture as permitted by this Agreement or approved in writing by the PRFC. The Picture's production and all its business transactions in furtherance of the production of the Picture may be reviewed and examined by PRFC. The Company consents that all books and all records, whether financial or otherwise, related to this Agreement and the production of the Picture will be readily available for such evaluation, within a reasonable period of time, upon the PRFC's request. In the event the Company fails to comply with this covenant, the Company binds itself to pay to PRFC the amount of \$500.00 per day of each non-compliance. The Company, the Managing Member and all its affiliates, subsidiaries or pertinent related parties, as applicable, hereby agree to preserve, in readily accessible form, all work papers, reports, attendance sheets and all other documents related to the Picture so they can be evaluated by PRFC, its officers, employees, agents and representatives, or the Office of the Comptroller of Puerto Rico. Said documents shall be preserved for a period no less than six (6) years from the date of this Agreement.
- r) The Company is obliged and compels to submit to PRFC the following Statements and Reports: (i) Quarterly statement of income and expenses pertaining to distribution of the Picture; (ii) Bimonthly statements of income and expenses for the first four (4) months of the Picture's theatrical release in any market and for every market; (iii) Annual financial statement of the Picture, audited by a certified public accountant duly authorized to practice such profession in Puerto Rico; (iv) Annual financial statement of the Company, audited by a certified public

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accountant duly authorized to practice such profession in Puerto Rico; (v) Once principal photography commences, daily call sheet, previous day's production report, locations' map and directions before the production office closes for the day's work, provided that these documents may be sent via email and that the production report will be submitted the next shooting day before the crew's break for lunch; (vi) Weekly cost report beginning with the first week of pre-production until the period in which the accounting books close, provided that the cost report shall include payroll, "actuals," and loss and damage information, and that the weekly cost report will be submitted the first shoot day of the week.

- s) The Company must have engaged an accountant, acceptable to and approved by PRFC, to prepare all pertinent accounting documents related to the Picture. Moreover, the Company must have engaged a payroll company, acceptable to and approved by PRFC, to prepare and handle all payroll issues pertaining to the Picture.
- t) The Company shall establish a collection account to collect all the proceeds from the sale and exploitation of the Picture throughout the universe and the entity selected to act as collector must be determined pursuant to a written agreement signed by the Company, the Manager Member and PRFC.
- u) The Company has delivered at the moment of signing this Agreement to the PRFC the following documents on its behalf and on behalf of all owners, members, directors:
1. Certification of filing of Income Tax Return for the past 5 years issued by the Department of Treasury of Puerto Rico.
  2. Certification of Debt issued by the Department of Treasury of Puerto Rico.
  3. Certification of debt for real property issued by the Center of Collections for Municipal Income (*CRIM* by its acronym in Spanish).
  4. Certification of debt for concept of unemployment, temporary incapacity and social security for drivers issued by the Department of Labor and Human Resources of Puerto Rico.

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5. Certificate of Organization and issued by the Department of State of Puerto Rico.
  6. Certification of debt for concept of municipal patents for industry commerce and services.
  7. ASUME certificate evidencing compliance with child support payments, if applicable.
- v) Once principal photography commences, the Company shall submit to the PRFC the daily call sheet and locations' map and directions before the production office closes for the day's work. The Company can submit to the PRFC these documents via email. In the event the Company fails to comply with this covenant, the recoupment of PRFC under Section 5.2(i) hereof shall increase by \$100.00 for each such non-compliance.
- w) Once principal photography commences, the Company shall submit to the PRFC the previous day's production report. The production report will be submitted the next shooting day before the crew's break for lunch. In the event the Company fails to comply with this covenant, the recoupment of PRFC under Section 5.2(i) hereof shall increase by \$100.00 for each such non-compliance.
- x) Quality Control ("QC") provisions:
- a. Once the Picture is edited in post production, a Quality Control session must be done both internally, at the professional post production facility where layback, color correction and/or laydown has taken place, and at a reputable lab that makes deliveries for both the domestic and international markets.
  - b. QC on materials is contingent on deliverables and all masters created for such purpose. It is understood that the process of QC for a film print or negative will be different to that of a digital master.
  - c. QC on digital materials is also contingent on recording equipment used during the production, and on the pre-determined final format of the project, in which post production processing of files must be considered.
  - d. Acceptable formats for finished product:

- i. If the Picture is shot on celluloid and completed in film, the laydown to a digital master shall be no less than 1080p HD/D5 quality, and color corrected for the medium.
  - ii. If the Picture is shot on celluloid but completed in digital format, the digital master shall be no less than 1080p HD/D5 quality.
  - iii. If the Picture is shot in digital format at 4k, a 4k version must be used when outputting to film for theatrical release and kept as a master file in its own hard drive(s); if there is not going to be an output to film, the digital master can be generated from the 2K version of the Picture. Acceptable codecs are upgraded on a regular basis and the guidelines for the latest technology should be employed for the best possible quality.
  - iv. If the Picture is shot at 1080p HD/D5 quality, it may be used to output to film for theatrical screening, and the digital master shall be no less than 1080p HD/D5 quality.
  - v. If a Picture is shot at 720p (1080i) the digital master shall be no less than 720p. This digital format should not be used as 1080i, or up converted as it will nullify its quality for delivery purposes. Unless 720p is used for specific purposes (documentary, deterioration of pixels when enlarged as a "look", etc.), it should not be considered prime candidate for film output. 720p is acceptable for broadcast and DVD.
  - vi. If the Picture is shot at less than 720p it will be limited as to potential distribution avenues.
- e. Distribution guidelines and deliverables:
- i. The deliverables sample guidelines reflect the current standards for both buyers and distributors. The distributor has the last word as to deliverables. The Company agrees to furnish the PRFC with:
    - 1. Access to the print, IP and negative, and subtitling digital files (if the Picture will be exhibited/has been finished in film);

2. NTSC HD masters (D5 or HDCAM), according to the post production final output decision and original materials), texted and textless;
3. PAL HD masters (D5 or HDCAM), according to the post production final output decision and original materials), texted and textless, or access to materials from which PAL masters can be generated.
4. Digital subtitling files.
5. EPK and Behind the Scenes materials.
6. The Company shall submit to the PRFC a weekly cost report beginning with the first week of pre-production until the period in which the accounting books close. The cost report shall include payroll, "actuals", and loss and damage. The weekly cost report will be submitted the first shoot day of the week. In the event the Company fails to comply with this covenant, the recoupment of PRFC under Section 5.2(i) hereof shall increase by \$100.00 for each such non-compliance.

