SAG President Melissa Gilbert speaks out on the impact of runaway productions on the film industry

Runaway Home

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Under the leadership of Melissa Gilbert, the Screen Actors Guild has fought to keep film production in Los Angeles. In “Runaway Home,” Los Angeles lawyer Mark Litwak, a Beverly Hills entertainment attorney and producer representative, offers an overview of the most popular production incentives enticing film production abroad, and California’s response. His article begins on page 24.

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This is Los Angeles Lawyer's 20th annual Entertainment Law issue. Much has changed since January 1985, when the first Entertainment Law issue was published on parchment paper with goat blood.

Art Buchwald had yet to see Eddie Murphy in Coming to America. Luther Campbell and 2 Live Crew had yet to record “Pretty Woman.” Samsung had yet to cast Vanna White as a robot. Kim Basinger had yet to turn down Boxing Helena. Ted Turner had yet to colorize Casablanca. Larry Flynt had yet to joke about Jerry Falwell’s “first time.” The underlying rights to Rear Window had yet to fall into the public domain, and It’s a Wonderful Life had yet to fall out of the public domain. The Winnie the Pooh heirs hadn’t even fired their first lawyer yet.

Back then there was no National Film Registry. The United States hadn’t signed the Berne Treaty. Copyright lasted 20 years less than it does now. There was an actor in the White House, not the governor’s mansion. The Internet was a twinkle in Al Gore’s eye, and “Purple Rain” was a sliver in Tipper Gore’s.

When the first annual issue debuted, Keira Knightly, Frankie Muniz, and Hilary Duff weren’t born yet. Rock Hudson, Orson Welles, and John Huston weren’t dead yet. Paris Hilton was a place to stay in France. Homer Simpson was a character in The Day of the Locust. The Rock was a prison in San Francisco Bay.

Twenty years ago, “Titanic” was synonymous with disaster. “Google” was a term known only to math nerds. “Survivor” was the band that sang “Eye of the Tiger.” A wireless telephone was unfashionable. A computer terminal was unportable. The Lord of the Rings was unfilmable.

These were the days before David Bowie was a bond issue. Before Martha Stewart was a lifestyle (or a felon). Before Harry Potter was an empire. Before Hollywood was a planet. Before a period was a dot.

Michael Jackson was at the top of the record charts, not the most wanted list. Michael Jordan had accomplished none of his multiple championships or retirements. Mikhail Gorbachev was an obscure member of the Politburo who had not yet trademarked his forehead birthmark. Michael Eisner had just been asked to save Disney by joining the company by the same people who are now asking him to do the same thing by leaving the company.

In those days, we listened to LPs, recorded on VCRs, and watched either VHF or UHF. Today we listen to MP3s, record on TiVos, and download to either PCs or Macs. Back then, CDs were something that paid 9 percent interest. Today, they’re something we burn (interest rates are that low). Back then, HDTV was a technology only a few years away. Today, HDTV is a technology only a few years away.

In 1985, MTV aired music videos 24 hours a day. In 2004 it has aired 24 music videos. In 1985, Clear Channel owned less than 10 radio stations. In 2004, it owns more than 10 percent of all radio stations. In 1985, Fox was not a broadcast network. In 2004, based on its current lineup, it’s now only arguably one. In 1985, there were three networks and 30 entertainment firms making almost $100 billion in revenues. In 2004, there are six networks and six entertainment firms totaling $300 billion in revenues.

The Hot Topics of 1985 that found their way into the first Entertainment Law issue included celebrity rights of publicity, the regulation of personal managers, ever-changing TV development and production agreements, and conflicts of interest in representing entertainment clients. Okay, so maybe some things never change.
Letters

Regarding the Closing Argument column titled “The Case for Switching Teams” (October 2003): Whatever the merits may be for prosecutors and public defenders to switch sides, there is a practical aspect that must be taken into account and undoubtedly was one of the bases upon which district attorneys rejected such a proposal during the time that I was a prosecutor.

If a prosecutor wanted to change sides, he or she could only do so by resigning from his or her position as prosecutor. Any effort to make such a switch by taking a leave of absence would be unlawful (Government Code Section 25640; 66 Opinions of the Attorney General 31). Thus if a prosecutor made such a switch and then decided to return in two or three years to the prosecutor’s office (as suggested in the column), he or she would lose seniority and, depending upon the applicable hiring policies of the particular district attorney’s office, probably any promotions previously achieved in the prosecutor’s office.

Harry B. Sondheim

Regarding the October 2003 issue of Los Angeles Lawyer: I just want to say that I thought this issue was power-packed with interesting and useful information by practicing lawyers who really know their stuff. I am so impressed.

Maria Stratton

Re: “In a Class of Their Own” (January 2004), I felt the authors downplayed the significance and impact of the Ninth Circuit Court of Appeals decision in Carpinteria Valley Farms, Ltd. v. County of Santa Barbara (in which I represented the plaintiff). It’s a precedent-setting decision. The court strengthened the civil rights of individuals who come before local government. Its ruling sends a clear message that local governments cannot use their considerable power to harass and abuse the civil rights of their citizens. In Carpinteria, property owner Patrick Nesbitt wanted to build on his 20-acre parcel in Santa Barbara County. Through the process he became an outspoken critic of Santa Barbara County government. As a result, he submitted 11 applications to the county to develop the property but was denied every time, while neighboring property owners were allowed to build under less stringent conditions. Nesbitt was not silent about the way he was being treated, and that didn’t sit well with the county. We don’t live in a police state where we are harassed if we speak out against the government. Carpinteria makes it clear that improper government behavior against its citizens will no longer be tolerated. The authors, one of whom represented Santa Barbara County in Carpinteria, minimized the impact of Carpinteria and wrote as if they were hoping the decision would somehow go away. That’s not going to happen. City and county government employees should be on notice that they must now treat their constituency fairly and with respect, or otherwise face the consequences.

A. Barry Cappello

The article titled “Marital Duty” (February 2004) was timely and well done; however, it uses the term “Hobson’s choice” as a euphemism for “two equally bad choices.” In fact, the term “Hobson’s choice” means “no choice available.” It derives from Hobson’s New York City-based livery stable that lined up morning rentals in a narrow alley for the customers. Each customer had to take the next horse in line or none at all. See http://phrases.shu.ac.uk/meanings/183300.html.

Scott Clarkson

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The Extraordinary Nature of Writ Relief

Writ petitions are very rarely granted, so litigators should consider not filing them

For better or worse, litigators are increasingly resorting to petitions for writ mandate or prohibition to challenge any error that does not result in an appealable order or judgment. Ninety percent of writ petitions are summarily denied without explanation, usually by postcard or terse order, however, and those pursuing this remedy without success are sometimes left confused and disheartened as to why the asserted error was not addressed on the merits. At the heart of this confusion lies a misunderstanding that writs are quick appeals designed to provide expeditious relief for trial court error. In fact, writs and appeals are fundamentally different, serving distinct purposes and providing vastly different challenges for the parties who pursue them.

A writ petition is, in effect, a plea to the court of appeal to exercise its equitable power to rectify an injustice. Unlike an appeal, which must be heard as a matter of right if timely filed after final order or judgment, writ review is thus extraordinary, equitable, and discretionary. While an appellant’s challenge in an appeal is to persuade the appellate court of error requiring reversal of the final order or judgment, the challenge in a writ petition is to persuade the court to hear the matter in the first place.

The reason for the different treatment is plain. In effect, a petition for writ review is an attempt to cut into line ahead of those litigants awaiting determination of a postjudgment appeal. To justify such extraordinary treatment, the party seeking review by writ must demonstrate the court’s order subjects the party to harm that is manifestly irreparable and cannot later be cured by appeal.

The consequences if the rule were otherwise are easily imagined. Both the trial and appellate courts would become mired in gridlock if every trial court ruling were subject to immediate interlocutory review. Intervention before a final judgment or order also disregards the potential for the case to settle, issues to diminish in importance, and the error to be corrected by the trial court as the case proceeds to judgment, making review unnecessary. Further, appellate courts are simply better positioned to address trial court error in connection with an appeal than with a writ petition. Appeals provide a more complete record, more time to deliberate, and greater insight into the issues than a writ petition filed in the middle of a case with a record of the petitioner’s choosing.

Grounds for Writ Review

The question thus arises: Under what circumstances will a court of appeal consider a writ petition on the merits? Because writ relief is equitable, there is no set rule identifying every issue that lends itself to writ relief. The California Supreme Court and courts of appeal, however, have identified general criteria for determining the propriety of extraordinary relief. Writ review is more likely to be granted when the petition presents a significant or novel constitutional issue; an issue of widespread public importance, particularly one for which resolution does not require a full and complete factual record; an issue that has been recurring in the trial courts with conflicting results; a clearly erroneous order that substantially prejudices the petitioner’s case; or a ruling that causes irreparable harm for which there is no adequate legal remedy.

A trial court ruling ordering the production of documents in violation of the attorney-client privilege, for example, lends itself to review by writ because production of the documents would destroy the privilege, leaving the injured party irreparably harmed by the disclosure with no practical ability to unring the bell with an appeal. On the other hand, the expense and delay in having to litigate the case and then pursue an appeal, while perhaps an “irreparable inconvenience,” are usually not, by themselves, the type of harm that justifies equitable relief.

Conservation of Judicial Resources

A petitioner may also request the trial court to certify an issue for writ review, lending to the petition the trial court’s expressed belief that the controlling legal issue is one about which “there are substantial grounds for difference of opinion,” the prompt resolution of which would “materially advance the conclusion of the litigation” and thereby preserve judicial resources. The comments of the trial court concerning certification may assist a party, particularly one with limited resources, in deciding whether to pursue writ relief. A trial court’s certification may also prove helpful to the appellate court’s determination regarding whether to exercise its discretion to hear the petition. Neither the granting nor the denial of certification itself, however, is controlling on the determination of the court of appeal.

Should a practitioner decide the issue for which the writ may be filed truly is one that demands extraordinary relief, careful attention should be paid to ascertaining filing deadlines, providing as full a record as is necessary to the resolution of the issue, and requesting a stay of the order or proceedings if necessary. The practitioner should also be aware that in certain limited circumstances, writs are quickly granted as an alternative to an appeal.

Randee Barak is a senior appellate court attorney with the California Court of Appeal, Second District.
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stances identified by the California Legislature—these include motions to disqualify a trial judge, change of venue, motions to expunge a lis pendens, and motions to dismiss or set aside a criminal information—review may only be had by writ and in accordance with the filing deadlines that are set forth in the applicable statutes. Failure to challenge these rulings by statutory writ procedures will foreclose review.

The maxim that there is no such thing as a perfect trial broadly applies to litigation in general. Errors will and do occur. However, before incurring costs associated with a petition for writ review with little likelihood of success, a practitioner would do well to recognize the extraordinary nature of writ relief, consider carefully the availability of an adequate legal remedy and whether irreparable harm will result if the court does not entertain interlocutory review, and then, if the issue warrants it, file the petition for writ review with an eye not only to asserting error but also to persuading the court that the extraordinary circumstances of the case require intervention by writ.

2 Omaha Indem., 209 Cal. App. 3d at 1273.
5 Omaha Indem., 209 Cal. App. 3d at 1273.
6 See Omaha Indem., 209 Cal. App. 3d at 1273 (summarizing proper issues for writ review).
7 Pacific Tel. & Tel. Co. v. Superior Court, 2 Cal. 3d 161, 169 (1970).
8 Ordway v. Superior Court, 198 Cal. App. 3d 98, 101 (1988), disapproved on another ground in Knight v. Jewett, 3 Cal. 4th 296, 310 (1992). However, if the order is plainly erroneous and would result in certain reversal requiring the petitioner to undergo two trials, writ relief is more likely. Marron v. Superior Court, 108 Cal. App. 4th 1049, 1056 (2003).
10 Volkswagen of Am., Inc. v. Superior Court, 94 Cal. App. 4th 695, 701-02 (2001) (“An appellate court may consider a petition for an extraordinary [nonstatutory] writ at any time...but has discretion to deny a petition filed after the 60-day period applicable to appeals, and should do so absent extraordinary circumstances justifying the delay.”).
11 Cal. R. of Ct. 56(c); Seman v. Superior Court, 40 Cal. 3d 240, 246 (1985).
15 Penal Code §9095, 999a.
16 A judgment of contempt that is made final and conclusive by Code of Civil Procedure §1222 is not appealable as well. See Code Civ. Proc. §904.1, subd. (a) (1). Review under this condition may only be had by writ of certiorari (in the case of a fine) or by habeas corpus (if jail time is imposed). In re Buckley, 10 Cal. 3d 257, 259 (1973).
Fan Web Sites and Copyright Enforcement

Fan sentiment must be considered in planning for enforcement

A fan of Britney Spears establishes a Web site in her honor, never imagining that the star, herself, would ever object. That assumption may be unwarranted, however, unless the fan takes care about what appears on the Web site. What can the fan post on the site without having to worry? Is even one picture of Spears too many? What about 10, or 1,000? Will it be acceptable to post the lyrics of one song or an entire CD? Similarly, what about audio and video clips? If the fan’s site does not contain these items, can it have links to unofficial sites that do? Can a site have a chat room for other fans to talk about Spears—and perhaps post files and links? Can the fan add some humor to the site by posting pictures of Spear’s face on the bodies of other pop stars or pasting her image into comical scenes?

The answer is that the adage that “all publicity is good publicity” is no longer true. The technological advances in the distribution of image, audio, and video files have changed the way that a fan can express devotion. A fan’s ability to distribute images, songs, and video of a quality that rivals the originals can align that fan, however well-intentioned, with the digital pirates and street corner salesmen who undermine the creative arts. Fans may be minors and may not intend to cause damage, however, so should celebrities and movie studios enforce their rights against infringers who are otherwise an active part of their fan base? The best option for rights holders may be to strike a balance with fan sites, perhaps by establishing a Fan Authorized Network (FAN), which would provide authorized images for free to fan sites under terms that are clear to everyone involved.

The issue of whether to enforce intellectual property rights against fans is a result of the Internet. A broad spectrum of content is available on fan sites. Some sites use only a few images of a motion picture or celebrity in order to provide a forum for discussion and noncommercial appreciation of films and stars. The images on these sites are used without permission, but the use is focused on providing a forum for comment. The use is often non-commercial, which shields against right of publicity statutes1 and possibly gains protection under the fair use doctrine.2

At the other end of the spectrum are sites that engage in commercial copying of a film studio’s product or a celebrity’s likeness. Whatever the intentions of their operators may be, these fan sites directly target and trade upon protected intellectual property rights. The unauthorized material used by these sites can include quotes, lyrics, text, graphics, video, and audio. They may also include unauthorized image libraries, episode guides, slide shows, complete television episodes or motion pictures, commercial exploitation of television trivia, and video libraries that include nearly every scene of an actor’s filmography. In addition, these fan sites often include unauthorized derivative works such as video games or short films.

While individuals, and not corporations, may operate these exploitative fan Web sites, direct pecuniary compensation is involved in the form of paid memberships or unpaid memberships in which users are required to submit personal contact information (which can later be sold). Some so-called fan sites charge for downloads of music or video clips, using online payment methods. Many fan sites frequently contain banner advertising, which benefits either an individual fan site operator, the site’s Internet service provider, or both. In order to protect their financial interests, the identity of the operators and ISPs for these fan sites are often concealed by false or
incomplete information on Web page owner and operator lists. Clearly, the term “fan” is misapplied to these commercially exploita- tive sites.

Ultimately, fan sites diminish the value of copyrighted or protected work, whether they are nonprofit or commercial. First, fan sites saturate the market and devalue the worth of protected work. If a celebrity image in a calendar is posted on a Web site accessible at no cost to the consumer, sales of the calendar will decrease. If clips or entire episodes of a pop- ular television program are available online, it will diminish the syndication or DVD sales value of that program. Fan sites also diminish the value of official Web sites, directly compet- ing in search engine results and distact- ing or even blocking consumers from finding licensed and authorized content.

Fan sites also often use celebrity images in a manner unintended by the celebrity. The most egregious form of misappropriation of a celebrity’s likeness is the unauthorized copying and distribution of an image out of context. For example, Halle Berry received an Academy Award for her performance in the film *Monster’s Ball*. Her performance was recognized for the way Berry portrayed her character’s loss of husband and son and the character’s subsequent relationship with a man whose background was steeped in racism. Within days of the film’s release on DVD, nude images and video clips of Berry taken from the film appeared on Internet fan sites without the requisite context of the film.

Obviously, actors do not consent, merely by their agreement to participate in a motion picture with sexual content, to have fan sites distribute nude photos and video clips of themselves to the world. The actions of fan sites in such cases, however, has the effect equivalent to an actor’s posing for sexually explicit photos without pay and agreeing to unlimited distribution. This example is indicative of the price that all copyright holders and owners of individual rights of publicity pay when their property is used with impunity.

**Copyright Violations**

Legal enforcement of intellectual prop- erty rights is, therefore, a fact of life. The primary legal basis for suing fan sites is copy- right infringement. Since the first Copyright Act was enacted, Congress has attempted to strike a balance between rights holders, for whom ownership of intellectual property is necessary for continued productivity, and the public, which is entitled to benefit from the free exchange of information and ideas. On the one hand, continued productivity is ensured through copyright protection for 70 years beyond the lifetime of the individual creator or 95 years from the publication of a work for hire. On the other hand, First Amendment protection and the free exchange of information and ideas are ensured by the fair use doctrine, which provides for unau- thorized use of copyrighted material under certain circumstances.

Too often, the content of fan sites goes beyond fair use and infringes on one or more of the six exclusive rights that the Copyright Act grants to copyright holders: reprodu- ction, adaptation, distribution, public perfor- mance, public display, and public performance by digital audio transmission of sound record- ings. For example, in order to place an image on a fan site, its operator must upload that image to the Internet or take an image from another source and place it on the fan site. In either case, the site operator is making a copy of the work and is therefore subject to liability under 17 USC Section 106(1). To establish unlawful reproduction, a plaintiff must prove that a defendant had access to the original work and that there is substantial similarity between the original work and the defen- dant’s work. This burden is easily met in the case of nearly all fan sites.

Courts have found unlawful copying of entertainment and celebrity products in a wide variety of contexts, all of which have relevance to fan site reuse. Repeatedly, for example, courts have held that reworked plot summaries are copyright violations. In *Twin Peaks Products, Inc. v. Publications International, Ltd.*, the Second Circuit found copy- right infringement in the unauthorized publica- tion of detailed plot summaries of the popular television show *Twin Peaks*. And in *Castle Rock Entertainment v. Carol Publishing Group, Inc.*, the same court found liability for the unauthorized publication of *Seinfeld* trivia in the book the *Seinfeld Aptitude Test*, a com- mercial attempt to trade upon both the pop- ularity of the television program and the fami- larity of the SAT. Additionally, in *Paramount Pictures Corporation v. Carol Publishing Group, Inc.*, liability was found for the unauthorized use of images and plot details of *Star Trek* in an unauthorized book purporting to explain the popularity of the show.

Similarly, the unauthorized use of video clips is held to be infringing even when defen- dants claim to be using the clips in a docu- mentary or newscast. In *Elvis Presley Enter- prises v. Passport Video*, the Ninth Circuit found infringement for the unauthorized publi- cation of a video purporting to explain the popularity of Elvis Presley, and in *Los Angeles News Service v. CBS Broadcasting, Inc.*, the court found infringement in the unauthorized copying of the videotape of the beating of Reginald Denny during the 1992 riots.

Perhaps it should go without saying that the unauthorized copying of entire television programs is actionable infringement, but to leave no doubt, in *Columbia Pictures Television v. Krypton Broadcasting*, a court upheld a record-setting jury award of $32 million for the defendant’s willful reproduction of 440 television shows. Courts have also found liability for unauthorized copying from books, calendars, or Web sites of images protected by copyright. In *Playboy Enterprises, Inc. v. Frena*, a court found vicarious liability for a Bulletin Board Service operator who per- mitted the unauthorized uploading of images from *Playboy* magazine to the Internet for commercial gain. Another case, *Religious Technology Centrerv. F.A.C.T. Net*, holds that scanning copyrighted works and uploading the scans onto a server for subsequent down- loading by consumers is infringement. In another case involving Playboy Enterprises, *Playboy Enterprises, Inc. v. Webworld, Inc.*, a federal court in Texas similarly held a defen- dant liable for creating downloadable copies of protected works.

The second claim copyright holders can level against fan sites is for unlawful adapta- tion. To do so, a plaintiff must prove that a defendant has made a derivative work. According to the Copyright Act, a derivative work is “a work based upon one or more pre- existing works, such as a translation, musical arrangement, dramatization, fictionaliza- tion, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted.” Because fan sites collect, modify, compile, and often vary or create new works based on the original copyright- righted materials, the images on fan sites, and even the fan sites themselves, may be considered adaptations or derivative works of the underlying copyrighted subject matter. This finding subjects a fan site to liability under 17 USC Section 106(2).

Two noteworthy cases that may be applicable to Internet fan sites have found liability for the making of unauthorized derivative works. In *Mirage Editions, Inc. v. Albuquerque A.R.T. Co.*, the Ninth Circuit found liability for removing prints from a book, pasting them on tile, and framing them. In *Greenwich Workshop, Inc. v. Timber Creations, Inc.*, a federal district court in California found liability for framing bookplates cut out of copy- righted books containing reproductions of original works of art, transposing them onto canvas, and matting and framing them. Although at least one other circuit court has come to a different result on similar facts, these cases should be applicable to fan sites, because fan sites often copy and paste protected images into new digital settings.

Perhaps the most novel issue regarding the unauthorized creation of derivative works
is digital manipulation. The first case dealing with this increasingly popular activity has yet to be litigated. However, it is likely that a defendant in such a case will claim that the new work is a parody and therefore protected by the fair use doctrine. An analogous case along these lines was Leibovitz v. Paramount Pictures Corporation,23 which concerned defendant Paramount Pictures’ use of a pregnant model photographed against a backdrop similar to that used by Annie Leibovitz when she photographed an eight-months-pregnant Demi Moore for the cover of Vanity Fair. Paramount, however, replaced the model’s face with that of male actor Leslie Nielson in order to promote the release of its film Naked Gun 33⅓: The Final Insult. The Leibovitz court held the use to be parody, protected by the First Amendment, even though the use was commercial.

To prove the third claim, unlawful distribution, a plaintiff must show that a defendant has disseminated a copyrighted work without consent of the copyright owner. Although the Copyright Act provides no definition of “distribution,” the term is synonymous with “publication” and requires the dissemination of a material object.24 Because the Internet reaches millions of consumers who can create a material object from downloaded data, a protected work is distributed to consumers when a fan site places the copyrighted work on the Internet. Accordingly, a fan site may be subject to liability under 17 USC Section 106(3) for unauthorized distribution of a copyrighted work without the owner’s permission.

To establish the fourth claim, that a copyrighted work has been unlawfully publicly performed, a plaintiff must prove that a defendant has performed a copyrighted work without consent of the copyright owner. To perform a work to the public means to recite, render, play, dance, or act it either directly or by means of a film, slide, television image, or any other device or process at a location that is open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered or where such work is transmitted or otherwise communicated to the public.

This may be accomplished by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.25 For motion pictures or other audiovisual works, this means to “show images in any sequence or to make the sounds accompanying it audible.”26 A protected work is performed on a fan site when it places a copyrighted work to which this definition is applicable on the Internet. Accordingly, a fan site displaying such works may be subject to liability under 17 USC Section 106(4). This is in line with the cases that include Columbia Pictures Industries, Inc. v. Aveco, Inc., 27 in which the Third Circuit found liability when a defendant allowed patrons to rent videos and watch them in private rooms on the defendant’s premises without paying the copyright holders for the performances.

To establish that a copyrighted work has been unlawfully displayed to the public—the fifth possible claim—a plaintiff must prove that a defendant has shown a copyrighted work to the public without consent of the copyright owner. To display a work to the public means to show “a copy of it, either directly or by means of a film, slide, television image, or any other device or process”28 at a public location. The right to display a work extends to literary, musical, dramatic, choreographic, pictorial, graphic, and sculptural works.29 Because fan sites provide viewable images and sounds to millions of consumers, a protected work is displayed when a fan site places this form of copyrighted work on the Internet. Accordingly, a fan site displaying such works may be subject to liability under 17 USC Section 106(5).30

The final copyright claim deals with public performance by digital audio transmission of sound recordings. In this regard, the Digital Performance Right in Sound Recordings Act of 1995 provides protected sound recordings with a limited public performance right by means of digital audio transmission. Accordingly, fan sites that provide unauthorized downloading of copyrighted sound clips and music may violate the public performance right under 17 USC Section 106(6) when they do not first obtain a license from the copyright owner for interactive services in which consumers select and receive transmissions upon request.31

A fan site operator’s best defense against copyright infringement claims is fair use. Operators can claim that they are entitled to use photographs, reviews, image libraries, audio files, video clips, derivative works, or other proprietary material in order to provide a complete and interesting fan site or to provide commentary. The Copyright Act’s fair use exception creates a safe harbor from liability for unauthorized use of a copyrighted work for a limited set of purposes.32

However, the fair use exceptions are unlikely to shelter fan sites, which generally are not really engaged in one of the enumerated exceptions (“criticism, comment, news reporting, teaching…scholarship, or research”) provided in Section 107 of the Copyright Act. The sites are not designed to report news or critique their subjects and do not use the least material necessary to discuss a film or celebrity but rather engage in general copying of catalogs and libraries of protected materials. Without an applicable fair use defense, liability is easily established.

Other Causes of Action

In addition to copyright infringement, a plaintiff may bring an action for federal trademark infringement under 15 USC Section 1114. This requires that the plaintiff show ownership of a trademark that is valid and legally protectable, and that the defendant’s use of the mark to identify goods or services is likely to create confusion as to the source of origin of the goods or services related to the trademark.33 However, such an action may not be brought after the copyright for the underlying work has passed into the public domain. In Dastar Corporation v. Twentieth Century Fox Film Corporation, 34 the U.S. Supreme Court recently held unanimously that defendant Dastar was not liable under a theory of trademark infringement. In this case, Dastar had repackaged and sold a 1949 Twentieth Century Fox television series based on General Dwight D. Eisenhower’s best-selling book Crusade in Europe. Because Fox had neglected to renew its copyright registration on the series, it had fallen into the public domain. The Court determined that, once a copyrighted work enters the public domain, trademark law could not be used as an end run around copyright law to continue to protect the work, because the public owns the public domain and may therefore be properly attributed as the source of the work at that time.

Another possible cause of action is found under federal unfair competition. In Video Pipeline, Inc. v. Buena Vista Home Entertainment, Inc., 35 a New Jersey federal court found that the unauthorized use of movie trailers online violated federal unfair competition law. Similar causes of action also exist under state unfair competition laws,36 as was the case in MGM Studios, Inc. v. Grokster, Ltd., 37 in which the unauthorized copying of music files online was held to violate California’s unfair competition law. It should be noted that, if a plaintiff simultaneously brings a cause of action for copyright infringement, it is likely that this cause of action will be preempted.38

Individual celebrities may also allege violation of rights of publicity under common law and various state laws.39 The definitions of celebrity and fame have been broadened by cases such as Downing v. Abercornbie & Fitch, 40 which found that the unauthorized use of the names and likenesses of popular surfers in a clothing catalog violated common law and state law rights of publicity.

Ultimately, the dilemma for rights owners...
is not whether they have a legal basis to stop fan sites but whether they should expend their resources doing so and face a potential public relations backlash. The potential for damage caused by fan sites with comprehensive catalogs of unauthorized materials requires action by rights holders. However, universal enforcement through cease-and-desist letters and civil actions requesting injunctive relief and damages can result in fan backlash and potentially unflattering media coverage.

Many rights owners have addressed fan infringement with a two-pronged approach—first, acting to restrain the breadth of infringing materials available on sites, while second, providing fans with authorized images and short video clips under a free licensing program. This approach allows film studios and celebrities to avoid controversy by freely licensing authorized images under terms that are clear to everyone involved. While limiting distribution of the most damaging files, rights owners are able to partner with fans by providing a limited library of materials from which to choose. These files can easily be downloaded in a matter of seconds. When approached in this manner, fans are often more agreeable about removing objectionable materials, and studios and celebrities benefit from concurrent promotion.

If studios follow this methodology and supply willing fans with officially licensed images through a Fan Authorized Network, and a fan site uses unauthorized images, the fan site will likely be seen as a renegade that is causing harm to the studio or celebrity. If that fan site is then served with a cease-and-desist letter or perhaps sued by a film studio or celebrity, then there will be no outcry because the core fan base will be undisturbed and will see such legal action as justifiable. This is especially true if the artist at issue promotes and endorses the FAN program.

The Internet poses a dilemma in which
intellectual property rights holders must choose between enforcement against or promotion of fan sites that, collectively, can destroy the market for a product overnight. Given the potential backlash resulting from an enforcement campaign, establishing a FAN program may be one way of finding a middle ground between rights holders and fans.  

3 Recently, the constitutionality of the Sonny Bono Copyright Term Extension Act of 1998, granting copyright protection to individuals for the life of the author plus 70 years, retroactively, was upheld by the U.S. Supreme Court. See Eldred v. Ashcroft, 1212-13 (9th Cir. 1998).
4 Copyright Term Extension Act of 1998, granting copyright protection to individuals for the life of the author plus 70 years, retroactively, was upheld by the U.S. Supreme Court. See Eldred v. Ashcroft, 1212-13 (9th Cir. 1998).

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A Tax Anomaly That Penalizes Actors Working Abroad

By Barbara Rosenfeld

Article 17 of the Model Tax Convention may result in double taxation

Income from services is generally taxable where they are rendered, including foreign countries. The rationale is that the compensation is drawn from the wealth of the host country, and, consequently, it is the appropriate tax locus. There are, however, a number of exceptions that are intended to encourage international commerce by focusing taxation on residence.

Article 15 of the Model Tax Convention of the Organization for Economic Co-Operation and Development (OECD), which is found in many treaties, is one particular exception to the general rule of host country taxation. Transferring tax liability to the service provider’s country of residence, Article 15 protects the service provider’s income from tax. This exception is intended to encourage international commerce by focusing taxation on residence.

Article 15, however, does not protect actors. They are subject to a provision common to most tax treaties, Article 17, which governs the tax treatment of “artistes and athletes.” Article 17 shifts an actor’s income tax liability from the United States to the host (or source) country, creating potentially significant tax and reporting obligations. This anomaly may create tax liabilities that tax attorneys can help their client address.

The United States taxes the worldwide income of its citizens and residents specifically requires that they report all income, wherever earned, on the U.S. income tax return. If income has already been taxed where it was earned, a credit can be claimed for the foreign taxes paid. While this foreign tax credit eliminates double taxation in theory, it does not necessarily eliminate double taxation in practice. The U.S. foreign tax credit may not fully offset the foreign taxes paid, and whether or not the credit eliminates double taxation, potentially complex reporting obligations remain for U.S. actors working outside the United States.

An examination of this state of affairs begins, however, with the treaties that make such a notable exception for actors and other performers.

Income tax treaties are bilateral agreements that create a set of adjustments and concessions between the tax laws of two countries. Each treaty is negotiated to avoid double taxation, which is generally accomplished by relieving taxpayers of liabilities they would otherwise have in the source country and enforcing them in the residence country. Model treaties serve as a starting point for each bilateral treaty negotiation, and the most commonly used of these is the Model Tax Convention of the OECD. As noted by the Committee on Fiscal Affairs, the model was drafted to clarify, standardize, and confirm the fiscal situation of taxpayers engaged in cross-border transactions. It is intended to provide a uniform basis for addressing, for the benefit of taxpayers and taxing authorities, common problems of international taxation.

Model tax treaties traditionally address prevention of international double taxation, tax avoidance, and tax evasion. Additional objectives include 1) removal of the barriers to trade, capital flow, and commercial travel that result from the overlap of two countries’ tax jurisdictions, and 2) reduction of the burdens of compliance upon taxpayers who have minimal contacts and earnings in a host country.

Model treaties are ambulatory documents. The drafters update and revise them periodically to address experience; changes in economic, judicial, legislative, and regulatory developments; new issues; and changes in the nature or significance of transactions between the host country and foreign persons. Thus, it is possible that Article 17 of the OECD Model Convention could be narrowed or eliminated.

Arbitrary Distinctions

Commentary to Article 17 attempts, with limited success, to define who is subject to its exception. It includes a list of “artistes” but concedes that the term is not capable of a precise definition. While film actors are artistes, the commentary says that producers, directors, and camera operators, among others who are employed in the same production as film actors, are not. In 1987, the OECD Committee on Fiscal Affairs published a lengthy report analyzing the taxation of entertainers, artistes, and sportsmen. The report examines the definition of “artistes and athletes” and concludes that the words refer to any person engaged in “public entertainment.”

It appears, however, that the definition of “public entertainment” includes a film actor but not a model, painter, or writer. While a fashion model is definitely performing in public, Article 17 has been found not to apply when the “primary purpose” of the activity was the promotion, sale, and marketing of products. On the other hand, while the film actor is merely providing services that will ultimately result in a product to be made available to the public for entertainment (in a theater or at
As a result of the vagaries in the definition of “artistes” and “public entertainment,” the OECD’s main principles, “that the income from entertainment and sporting activities should be taxed in the same way as income from any other activities,” and that “artistes and athletes” are “fully liable to tax…in their country of residence and, ideally, should be taxed accordingly,” are defeated. Article 17 creates uncertainty, confusion, and inconsistent results rather than promoting the objective of having a uniform means for addressing common problems in international taxation. Understandably, U.S. actors may wonder how they came to be singled out by this article.

Ostensibly, the rationale for Article 17 is the ephemeral nature of public performance and the profit made from it. An excerpt from the OECD Fiscal Affairs Committee demonstrates inherent inconsistencies in the justification for the adverse treaty treatment given “artistes,” especially filmed entertainers. The committee observes, “[T]he problems of effectively taxing artistes and athletes are rooted in the diverse forms their activities take. Success can be sudden but ephemeral. Relatively unsophisticated people—in the business sense—can be precipitated into great riches.…Travel, entertainment and various forms of ostentation are inherent in the business and there is a tendency to be represented by adventurous but not very good accountants.”

Today, however, it is difficult to claim that these criticisms apply more to movie stars than they do to corporate executives. Moreover, the basis for the observations in the report was pop music concert tours, not filmed entertainment.

Excerpts from 1946 hearings before the Senate Foreign Relations Subcommittee on the 1945 treaty between the United States and the United Kingdom further reflect the absence of a factual basis to support the exclusion of film actors from the treaty protection afforded other professionals. Although the exclusion was justified in view of the supposed high income of film actors, statistics of the time indicated that only 5 percent of the members of the Screen Actors Guild (SAG) earned more than $15,000 annually, with less than 2 percent making $50,000 a year or more. In 2002, SAG membership stood at 196,000, with less than 2 percent of its members earning $100,000 or more per year. There are professionals in other industries whose work takes them outside the United States who are at least as highly paid.

What emerges from review of the hearings is the level of advocacy that was required to overcome antipathy toward film actors. John Dales Jr., executive secretary of SAG, asked, “[W]hat is there different about our profession that we alone should continue to carry the burden that our Government proposed to lift from the backs of everyone else—doctors, lawyers, salesmen, businessmen, government representatives, and all other professions, businesses, and activities?” Dales also argued: “[A]ctors as a class have proved their desire, worthiness, and ability to take their place in civic, community, and national affairs, and in fact in times of emergency or need are particularly called upon by their National Government…to give freely of their time and talents.”

In 1946, industry groups ultimately persuaded the Senate and the Treasury Department that it was wrong to discriminate against actors, but the United States began doing just that in the 1970s by including the “artistes and athletes” provision in its tax treaties. This new U.S. treaty policy may have been the result of Ingemar Johansson’s efforts to bypass the effect of the “artistes and athletes” provision in the treaty between the United States and Sweden on his earnings from three heavyweight world championship boxing matches with Floyd Patterson in the early 1960s.

Johansson unsuccessfully attempted to utilize a Swiss loan-out corporation to invoke the treaty between the United States and Switzerland, which provided for taxation of an employee’s income in the country where a corporation’s “business seat” was located rather than where the services were rendered. The Fifth Circuit ruled in 1964 that the Swiss treaty protection was inapplicable and did not exempt Johansson from a U.S. tax liability of close to $1 million.

Article 17 Continues

As recently as 1987, an OECD report justified the continuing existence of Article 17 by explaining that public performers are difficult to track, often visit on a short-term basis (e.g., for a single concert or performance), and reap large revenues from ticket sales at the gate. While these reasons may justify applying Article 17 to public performers such as boxing champions, they clearly do not apply to film actors. Film actors are not difficult to track, and they are likely to shoot for many days or weeks in a given country, rather than appearing for a single event.

In addition, payroll records track the duration and location of their services. Film actors do not reap large revenues from ticket sales at the gate but rather are paid salaries in the same way as all the others who are involved in a production. These fundamental distinctions between film actors and public performers should justify narrowing the scope of the “artistes and athletes” provision. Until this occurs, however, tax attorneys with clients who are affected by Article 17 will need to plan the steps that are necessary to minimize the article’s effects.

Dealing with Article 17

The anomaly of Article 17 creates complexity and potential additional tax costs for actors. Apart from the inconvenience of compliance with a foreign country’s tax and reporting obligations lies a more significant issue—whether the foreign tax credit eliminates double taxation. The answer, in many cases, is no.

While the foreign tax credit is designed to prevent the double taxation that would occur if the actor were to pay tax on income earned outside the United States, in the other country and in the United States, the credit is limited. The foreign tax credit is limited to the amount of federal taxes that would have been paid on the same income. Consequently, in some situations only part of the foreign taxes paid for the year can be taken as a credit on the taxpayer’s U.S. income tax return. The portion of the foreign tax that is paid and “creditable” that exceeds the amount of foreign tax credit that is “allowable” for the year effectively increases the actor’s tax cost.

The actor pays tax at a rate higher than the U.S. rate and must use the excess credit in another year.

An excess credit situation could arise by either of the following: 1) the allowance of a greater number of deductions in the United States than in the foreign jurisdiction, effectively reducing the amount of foreign source taxable income usable in the foreign tax credit limitation calculation, or 2) higher personal income tax rates in the foreign jurisdiction.

The most costly situation, however, is one in which an actor’s personal service (or loan-out) corporation contracts for the actor’s services outside the United States, and the foreign tax credit gets trapped in the corporation. Since the loan-out corporation paid the foreign tax, only the loan-out corporation can claim the credit. The actor, who may be the sole shareholder, will be taxable on his or her income but will not be able to claim the credit unless it flows through. Only use of a corporate structure that permits the foreign taxes paid to flow through to the U.S. actor will eliminate or minimize the potential for double taxation.

To further complicate matters, Article 17 may not apply to all income that is payable to a film actor. Royalties and sponsorship or advertising fees, for example, may be governed by other articles of the treaty.
or Article 15, employment income). Treaties contain different rules for different types of income. The OECD model treaty eliminates source country taxation on business profits, royalties, and employment income, unless there is a sufficient physical connection to justify deviation from the residence rule. Issues such as these can complicate tax matters significantly.

Moreover, since personal service income is generally not subject to source country taxation under Articles 7 and 15, but is under Article 17, a clear apportionment is necessary when an actor performs in a dual capacity, such as acting and directing. The directing services are protected, while the acting services are not. If the services to be provided do not fall clearly within one article or another, the “predominant purpose” and “proximate relationship” tests will likely be used.

Therefore, a clear allocation is important when an actor’s activities generate multiple types of income. For instance, when contracting for use of “name and likeness” and acting services, the nature of each payment should be clarified in the contract. The former type of payment generates royalty income, which is generally protected from source country taxation—unlike the acting services, which are subject to source country taxation and (as a result) potentially to double taxation. In addition, many countries have special rules for the taxation of “artistes and athletes,” including special withholding mechanisms.

While model treaty review is an ongoing process, and existing treaties are renegotiated periodically, it is unlikely that Article 17 of the OECD model will soon be changed or eliminated. In the absence of change to the OECD model, there is little likelihood that a treaty partner will give up a current benefit without asking for something in return. Consequently, it is important for tax advisers to recognize the anomalous status of actors under tax treaties and to minimize the complexity and costs of compliance.

1. See Johansson v. United States, 336 F. 2d 809, 814 (5th Cir. 1964).
2. 1 OECD COMM. ON FISCAL AFFAIRS, MODEL TAX CONVENTION ON INCOME AND ON CAPITAL M-1-60, summary of the convention (OECD, 2000) [hereinafter MODEL TAX CONVENTION].
3. Id. at M-34. Paragraph 2 creates an exception to the general rule if 1) the recipient is present in the other country for a period not exceeding 183 days in the aggregate in the relevant 12-month period, 2) the payments are made by or on behalf of an employer who is not resident in the other country, and 3) the payments are not borne by a permanent establishment that the employer has in the other country.
4. Article 7 protects the “business profits” of a company, and Article 15 protects an individual’s “income from employment.” MODEL TAX CONVENTION, supra.
the relationship between internal tax law and the treaty). Artistic and Sporting Activities, in MODEL TAX CONVENTION, Double Taxation Convention on Income Capital. Reports were prepared between 1958 and 1961 before the Convention for the Avoidance of Double Taxation. Four countries. The Organization for European Economic Cooperation (OECD), the OECD’s predecessor, established a Fiscal Committee in 1956 to submit a draft convention for the avoidance of double taxation. Four reports were prepared between 1958 and 1961 before the final report was submitted in 1963, titled “Draft Double Taxation Convention on Income Capital.” MODEL TAX CONVENTION, supra note 2, at 12. The OECD currently has 30 member countries.

MODEL TAX CONVENTION, supra note 2, at 11.


2 Id. 445-446.

MODEL TAX CONVENTION, supra note 2, at C(17)-1.

See id. See also Priv. Ltr. Rul. 8339012 (June 23, 1983) (holding that a U.K. director’s U.S. income was protected under the U.S.-U.K Treaty, Article 14, independent personal services), and Priv. Ltr. Rul. 8614021 (July 29, 2003) (holding that Articles 7 (business profits), and 14 (independent personal services), exempted payments to a U.K. resident for development and directorial services rendered in the United States).


Field Service Advice 199947027 (Sept. 30, 1999) (describing a test to determine whether an actor/model’s services fell within Article 17 and concluding that they did not, since the primary purpose was promotion, marketing, and sale, not entertainment). See also Tech. Adv. Mem. 199836031 (Sept. 24, 1999) (establishing the “proximate relationship” test for determining whether endorsement income will fall within Article 17).

Taxation of Entertainment, supra note 18, at R(7)-5.

Id. at R(7)-6.7.

MODEL TAX CONVENTION, supra note 2, at I-1.

Taxation of Entertainment, supra note 18, at R(7)-4.

Id. at R(7)-5.


Figures based on reports contributed by signatory production companies to the Screen Actors Guild—Producers Pension and Health Plan, Feb. 22, 2003.

Conventions with Great Britain and Northern Ireland, supra note 25, at 84-85.


Johansson v. United States, 336 F. 2d 809 (5th Cir. 1964).

Taxation of Entertainment, supra note 18, at R(7)-4.

I.R.C. §801.

I.R.C. §804(a).

I.R.C. §804(c).

I.R.C. §1366 provides a pass-through of tax credits for shareholders of S corporations.

I.R.C. §904(c) provides a three-year carryback and five-year carryover for excess taxes paid, so the increased cost is the lost time-value of money until the credit can be used.

MODEL TAX CONVENTION, supra note 2, at M-28.


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Runaway Home

Production incentives from foreign jurisdictions are playing an increasing role in determining where films are made

Even before globalization became a hot topic, California-based movie industry workers complained that their jobs were being exported. Producers seeking to reduce their expenses were moving their productions to distant locations and leaving many potential cast and crew members behind. What really irked the pool of highly skilled and trained industry workers in California were the generous production incentives—some enshrined in programs and others a by-product of a different economic climate—offered by other nations and even other U.S. states to lure producers away. This trend was confirmed by several studies. One study concluded that Canadian subsidies alone cost the U.S. economy 25,000 entertainment industry jobs per year.\(^1\) The U.S. Department of Commerce estimated in 2001 that foreign entertainment industry tax incentives cost the U.S. economy more than $10 billion per year.

Despite this unfortunate impact on the U.S., California, and Los Angeles economies, production incentives for “runaway productions” are a reality. Entertainment lawyers and producer representatives need to be aware of their existence, as well as the pros and cons of taking advantage of them. A look at the more popular locations to which producers are shifting their work will illuminate the motivation behind runaway productions. These locales are attracting productions with the promise of reduced costs because of economic conditions as well as specially tailored incentive schemes, to which the California and U.S. governments are now attempting to respond.

Many countries consider their production incentives to be a reasonable and equitable device to level the playing field and enable their producers to compete against Hollywood. While some incentives are designed to attract production dollars from abroad into the local economy, other programs exist solely to protect local filmmakers and their native industry. Many countries believe that U.S. movies unfairly dominate their domestic box office, thus making it difficult for indigenous movies to attract even local audiences.\(^2\) Indeed, the United States has some distinct advantages in regard to the production and distribution of motion pictures. With a home market of 250 million people, most of whom speak the same language, American producers have a substantial outlet for their movies even if they fail to attract foreign audiences. But beyond their own domestic advantages, many American movies are very popular worldwide.

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it has a balance-of-trade surplus with every single country in the world.\(^1\)

Recently the French film industry proudly announced that French films had briefly captured more than 50 percent of the French domestic box office. This was considered a significant feat as the French box office, like those of many other countries, is dominated by English-language (mostly U.S.) films.\(^1\) If France, with a rich culture and language that it shares with many former colonies, cannot withstand the onslaught of U.S. films, one can understand how many smaller countries find it difficult to challenge U.S. films in their own markets as well as in the international arena.\(^2\)

In 2002, U.S. films attracted 70 percent of all moviegoers in the European Union.\(^3\) There were 655 million European admissions to U.S. films in 2002, compared to 182.3 million admissions to European films in their own market. Ticket sales for European films outside their domestic market amounted to only 73.8 million.\(^2\) At the same time, foreign language cinema captures a mere one-half of 1 percent of the U.S. box office.\(^4\)

The domination of American films is not purely an economic and trade issue. Foreign governments consider movies part of their culture, not just another export product. Motion pictures promote a country’s language, customs, and attractions to audiences worldwide. Consequently, many governments encourage their citizens to create films, especially those with local content.

As a result of this competitive disadvantage and desire to promote their culture, many countries directly subsidize local film producers. Some have negotiated coproduction treaties to encourage their producers to collaborate with producers of other nations and pool their resources. (Not surprisingly, none of these treaties is with the United States.) While these coproduction agreements have undoubtedly helped some national cinemas survive, they have had unintended consequences as well. Because treaties require that technical and artistic participation be allocated among nationals from different countries, this can distort the creative process. An Italian actor, for instance, might be cast because of his nationality rather than because he is the best person for a part. European movies that become a mishmash of incongruous elements are sometimes referred to as Euro-pudding. Many of these films have been criticized for their lack of artistic merit as well as their dismal box office performance.

Subsidy incentives come in a variety of forms. Location-based rebates are given to producers based on the amount they spend in a community. Canada, Luxembourg, Iceland, and Australia, among others, offer such subsidies. While the rebate may not be disbursed until after production has been completed, sometimes funds will be advanced to the producer with the anticipated benefit as collateral. Similar incentives consist of free or reduced prices for locations, facilities, police, or permits.

Some incentive programs seek to support filmmaking by encouraging investors. The German film funds, the Netherlands’ CV system of limited liability partnerships, French SOFICAs, and U.K. sales leasebacks are examples of this kind of incentive.

Some countries, U.S. states other than California, and foreign entities under the auspices of regional governments are offering loans on attractive terms as a means to encourage filmmakers. The United Kingdom and Italy have such programs, as does the state of New Mexico. Germany also offers this type of support on a regional basis. The European Investment Bank, an institution backed by the European Union, offers loan guarantees.

France, Spain, and the Nordic countries have schemes in which a small slice of box office revenue is siphoned off to be used to encourage future production. The EU’s MEDIA Plus program uses box office revenue to assist distributors and exhibitors. Many European countries also provide subsidies and grants to films on cultural grounds. The Nordic countries provide significant support to encourage native filmmakers. The MEDIA Plus program provides script development and training funds.

### Evaluating Benefits and Drawbacks

While many of these initiatives are for local filmmakers, some can be utilized for foreign productions. Moreover, producers usually consider other benefits that can arise from moving a production outside of the United States. In Eastern Europe, South Africa, and China, the wage scale is so low that crews, extras, and actors can be hired for a fraction of their rate in the United States. Likewise, food, lodging, and construction can be a bargain. If a producer can purchase services for 20 percent of their customary price, then the producer receives the equivalent of an 80 percent subsidy without the burden of completing complicated paperwork and incurring legal and accounting fees.

Another factor to consider is the currency exchange rate. Canada and South Africa are attractive locations in part because the U.S. dollar is strong compared to the local currency.

By international treaty, some countries encourage their nationals to collaborate with others by allowing them to aggregate incentives. Canada has treaties with 60 countries. These agreements allow its producers to pool financial, creative and technical resources with producers from other nations. The treaties lower the requirements that normally must be met in order for the producers to access incentives in their native lands and may reduce administrative burdens.

While the United States is not a party to any international coproduction treaties, U.S. filmmakers can contract on their own with foreign nations. Even if no incentives are available, a local coproduction partner may have the savvy and relationships needed to secure the best deals and ensure compliance with local regulations. Moreover, a U.S. movie filming in another country that includes a local director or star may enhance the commercial appeal of the film in that country and thus increase the film’s license fee.

Despite these financial attractions, distant locations may also present drawbacks and complications. Savings may be offset by increased travel and lodging expenses. Moreover, if a camera or critical piece of equipment fails in a remote location, it can take days to fly in a replacement. If a crew member becomes disabled, there may be a limited pool of skilled workers to draw upon for a substitute.

To be eligible for an incentive, a film may need to employ cast members from certain countries. It is not unusual for a U.S. producer to film abroad and bring one or two U.S. actors to star in the movie. These actors frequently are members of the Screen Actors Guild (SAG), while resident actors may be members of their local union. SAG’s Rule One does not allow SAG members to work for producers that are not SAG signatories. In the past, SAG didn’t enforce this rule when a SAG actor worked abroad, but on May 1, 2002, SAG announced that it intends to strictly enforce Rule One, and threatened disciplinary action against any SAG actors who work for nonsignatory companies. This policy is designed to force producers who are shooting abroad to become SAG signatories—with the accompanying obligations, including rules on working conditions and contributions to pension and health insurance plans—or to employ exclusively local, non-SAG actors.

When parties from different nations collaborate, they need to carefully consider the tax consequences. Careful structuring can minimize taxes. For example, a coproduction may be considered a partnership for tax purposes. As a partner engaged in a trade or business in the United States, a foreign national may be subject to U.S. income tax, and the partnership may be required to pay withholding tax on the foreign national’s share of income. Since the U.S. tax rate may exceed what the foreign national is taxed in his or her country, this may be an undesirable consequence. On the other hand, if the deal

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\(^1\) The French film industry’s success is partly due to its rich cultural heritage and the large audience in France itself.

\(^2\) The European box office is a significant market for U.S. films, but the domestic market is more difficult to penetrate.

\(^3\) The European Union is composed of 25 member states, with populations ranging from small countries like Malta and Luxembourg to larger ones like the United Kingdom and France.

\(^4\) Box office revenue is a critical source of funding for many European films, with lucrative deals that can make the difference between success and failure.

\(^5\) This program is designed to encourage filmmakers to produce films that are culturally significant and reflect national identity.

\(^6\) The MEDIA Plus program is funded by the European Union and provides financial support to film producers across Europe.

\(^7\) This is a common strategy for countries looking to boost their local film industry, particularly in regions with strong cultural identities.

\(^8\) The box office revenue for European films is relatively small, highlighting the challenges these countries face in the global marketplace.

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is fashioned so that the foreign investor is not a partner but instead licenses distribution rights for territories outside the United States, and if the foreign investor has no U.S. trade or business, it might avoid paying U.S. tax on income derived from the film outside the United States.

Conversely, an American individual or company may be subject to foreign taxes. Many countries withhold tax on income paid from sources in those countries to residents of other countries. The United States, however, has tax treaties with many countries that may reduce or eliminate such taxes. U.S. entities generally need to prove that they are U.S. residents to receive the treaty-reduced tax rate.9

Popular Incentive Programs

With these general considerations in mind, it is clear that certain incentive programs have been more successful than others in enticing U.S. producers to move the production of their films and television shows abroad. Canada, the United Kingdom, Australia, Germany, Ireland, and New Zealand have particularly popular production incentive programs. While foreign productions have been lured to these countries, some of the incentive programs offered by these locales are designed more with the aim of fostering and bolstering home-grown film industries.

Canada has been particularly successful in attracting U.S. producers. Toronto and Vancouver have deep reservoirs of skilled and experienced crew members, enabling numerous U.S. productions to choose these locations for their productions. A favorable exchange rate with the U.S. dollar provides another inducement.

Canada offers a variety of programs designed to support both Canadian and foreign producers. A distinction is made between Canadian content films, which receive a generous tax credit, and those films that do not possess Canadian content, which are eligible for a substantial but lesser credit. Both programs are jointly administered by the Canadian Audio-Visual Certification Office (CAVCO) and the Canadian Customs and Revenue Agency (CCRA). Producers

Melissa Gilbert: Bringing It All Back Home

T he business reasons behind the decisions of foreign governments to lure Hollywood’s motion picture and television production industry to their countries with tax and other financial incentives are obvious. But for Melissa Gilbert, the current president of the Screen Actors Guild, runaway production has become personal. “During the nine years I was on Little House on the Prairie, we were home. We filmed in Los Angeles and slept in our own beds,” she recalls. “The Little House remake is slated for Canada. It’s a sad commentary when even American stories are made outside the United States.”

SAG has been an industry leader in keeping production in Los Angeles. Much of its efforts have focused on educating federal, state, and local legislators on the palpable impact that the entertainment industry has on the local and national economies. These initiatives undoubtedly have had resonance, as indicated by a recent letter, signed by more than two dozen members of Congress, requesting that the upcoming Universal Pictures feature Cinderella Man not be filmed in Canada.

SAG’s educational campaign goes beyond lawmakers. “One of our problems is our image,” says Gilbert. “When people outside the industry think of entertainment, they think of stars who make $20 million per picture riding in a limo. One thing we need to do is to remind people that the majority of our members struggle daily just to keep food on the table.” With this in mind, SAG has begun a campaign to put a “worker’s face” on local filmmaking. Using public service announcements and billboards, SAG hopes to make residents of Los Angeles more receptive to having movies and TV shows shot on their streets and in their communities by emphasizing the jobs and economic opportunities that filming provides.

Another essential effort to counter runaway productions has been directed at SAG’s own members. By making a public campaign out of enforcement of a union rule called Global Rule One, SAG has ensured that its members still get SAG contract protection wherever they work in the world. In the two years since its implementation on May 1, 2002, there have been some 200 foreign theatrical productions shot under SAG terms and conditions that traditionally might not have fallen under signatory agreements. These productions represent member earnings in excess of $100 million, plus vital pension and health contributions. Even more importantly, this initiative has worked to stem the tide of productions moving overseas just to save money on nonunion acting talent.

But SAG is not blind to the benefits of sharing production with other states. Working closely with SAG (and its sister union AFTRA), the Illinois legislature recently passed legislation designed to encourage more film and television production in its state. The Film Production Services Tax Credit Act allows for a credit of labor expenditures made by an entity for film or television production, including commercials, in Illinois. Similar SAG/AFTRA efforts have met with success in the development of favorable legislation in several other states, including New Mexico and Hawaii.

SAG also is a vocal member of the California Coalition for Entertainment Jobs, a group of labor unions working to combat runaway production. SAG and other coalition members—including the American Federation of Musicians, AFTRA, the Directors Guild of America, IATSE, the Teamsters, and the Writers Guild of America, west—have all made efforts and sacrifices to keep production at home. The coalition has been working diligently for the passage of wage-based tax incentives that will allow California to remain competitive when vying with other states and countries for motion picture and television productions.

Martha Coolidge, former president of the Directors Guild, assesses the impact of runaway production on her fellow unions by noting, “The issue of runaway production is of primary importance to all of us. We know the economic problems that our state and our country face, and entertainment brings in tremendous income.” AFTRA President John Connolly goes further: “We are interpreted as whining babies who are overpaid and spoiled. The fact is that the vast majority of people working in this industry are hard-working people with skills and crafts who receive middle-class wages.”

In summing up the advantages of keeping production at home, Melissa Gilbert says, “There is an emotional attachment to entertainment that you don’t get with any other product or industry. We provide escape, education, information—the emotionality attached to what we do that is almost unquantifiable.” What is quantifiable, in her view and the view of other entertainment union leaders, is the cost of runaway production in lost jobs and economic activity. It is a cost that they are not willing to pay.—Editors
cannot receive benefits under both programs simultaneously, but they may combine these incentives with those offered by Canada’s provincial governments.

To be eligible for Canadian content incentives the company must be owned or controlled by Canadian citizens or permanent residents. Also, either the director or screenwriter, and one of the two highest-paid actors, must be Canadian. Moreover, the production must employ a certain amount of Canadian personnel, and 75 percent of production costs must be paid to Canadians. A qualified applicant can receive a tax credit of 25 percent of labor expenditures (which usually amounts to 12 percent of total production costs.) Labor expenditures exclude payments to non-Canadians.

For productions that do not meet the criteria for Canadian content, the Production Services Tax Credit is available. This is a federal refundable tax credit to promote production in Canada. The applying corporation can be a production services company that has contracted with the copyright owner. The credit was recently raised from 11 percent to 16 percent of the amounts paid to Canadian residents for services that are rendered in Canada. U.S. film companies can benefit from this credit, but it only applies to movies with budgets of at least CANS$1 million (approximately US$678,000.) Some financiers will advance monies to a producer on the basis of this tax credit.

Although U.S. producers do not benefit from any coproduction treaties with Canada, their productions may be certified as a “Co-Venture,” which is eligible for the enhanced broadcast license fees that are paid for Canadian programs. To be certified, the Co-Venture must meet the employment and production spending requirements for Canadian content films.

Canadian provinces provide their own incentives. For example, British Columbia offers a variety of benefits, including a production services tax credit of 11 percent of qualifying wages paid to residents of British Columbia. There is also a regional incentive of 6 percent to encourage production outside of the Vancouver area. These incentives, combined with physical proximity, have made Canada an immensely popular place for U.S. producers to take their projects.

Further away geographically, but offering a familiar language and a sympathetic culture, is the United Kingdom. The United Kingdom provides an array of production incentive programs, including funds for education and training, lottery monies for production, and tax credits. The United Kingdom also participates in the European MEDIA Programme.

The United Kingdom provides incentives in the form of sale-leaseback transactions. A U.K. taxpayer can qualify for a 100 percent capital allowance in the year in which production expenditures are incurred for British films. To qualify, the film must be made by a company that is registered and managed in the United Kingdom, the European Union, or certain countries that have signed an association agreement, and 70 percent of production costs must be spent in the United Kingdom. These deals are structured so that the U.K. taxpayer purchases a qualified British film from the seller (i.e., the production company), and then the U.K. taxpayer leases it back to the seller, who then arranges for its distribution. The seller is required to deposit with a bank most of the purchase price as security for the rental payments due under the lease, which may extend for up to 15 years. A qualifying film can earn a benefit of approximately 10 percent of its budget through a sale and leaseback transaction.

The British government created the Film Council in April 2000 to provide public funding to assist British film production. The Film Council has supported such recent films as Gosford Park, Bloody Sunday, and The Magdalene Sisters. The Film Council has established three lottery-based funds for production and development: the Premiere Fund, the New Cinema Fund, and the Development Fund. The film Bend It Like Beckham received £1 million from the lottery. There is also a Training Fund for scriptwriters and producer/filmmakers and a United Kingdom-wide First Light film production initiative for young people.

Another lottery fund distributor is Scottish Screen, which is responsible for developing the film industry in Scotland. It provides about £3 million per year for film production. Feature funding is available for up to £500,000 per project. Funds are also available for the production of shorts, script development, and other activities such as a script polish, preparation of a film schedule, budget and casting, and print and advertising costs. Funds of up to £75,000 are available as working capital for companies to support a slate of projects.

In Ireland, filmmaking has been on the rise thanks to a good currency exchange rate and what is known as the Section 481 initiative. Under Section 481 of the Revenue Code, producers can reduce their budgets by about 12 percent by selecting Ireland for location work. In 2005, Section 481’s cap on investment will be increased to 15 million euros from the previous limit of 10.48 million euros. Section 481 applies only to qualifying films, which are those deemed by the government to develop the Irish film industry and promote Irish culture.

Ireland also offers an artists exemption to people relocating to Ireland. Under this program, individuals who become residents are entitled, upon request, to tax-free income if the income is derived from the publication, production, or sale of books, screenplays, plays, and musical compositions deemed original and creative and possessing cultural or artistic merit.

Ireland’s relatively low 10 percent income tax rate provides a stimulus for foreign investment in Ireland. It can apply to film production companies, and film finance, distribution, and licensing companies located in designated areas. Certain double taxation agreements permit foreign owners to receive after-tax profits without incurring tax liabilities in their home country or allow them to defer further taxation. When a double taxation agreement applies, dividends, interest, or royalties paid to an Irish company will incur minimal, if any, withholding tax. The tax rate payable by companies on Irish profits is 12.5 percent for 2003 and beyond.

Ireland has entered into coproduction treaties with Canada and Australia. In addition, the country has ratified the European Convention on Cinematic Co-Productions. The aims of this convention are to promote the development of European multilateral cinematographic coproduction, to safeguard the creation of works and freedom of expression, and to defend the cultural diversity of the various European countries.

Elsewhere in Europe, Germany has promulgated incentives, though they are not designed specifically for the motion picture industry but are part of Germany’s general tax law. An amendment to the German tax law in 1999 was responsible for the tax-sheltered film fund explosion that attracted scores of investors in the last several years. These funds offered investors in a film an immediate deduction of the entire invested sum for the film from their annual German income. By classifying the investors as “producers,” the law allowed the investors a 100 percent deduction as a “business expense.” This created an attractive climate for film financing, in which investors were less concerned with the economic performance of their films, and there were no legal or administrative restrictions on where or how the raised money needed to be spent.

Concerned with the increasing amount of local tax money directed toward foreign projects, the German government initiated a review of their media funds system and relieved an anxious film industry by putting to rest any concerns that the future of the funds might be in jeopardy. In a statement dated August 5, 2003, the German government validated the continued existence of the funds but detailed a reform of the relevant rules, including a stricter interpretation of the
circumstances under which an investor will be classified as a producer. Under the amended rules, an investor claiming to be a producer must be “in a position, both legally and factually, to determine essential aspects of production,” particularly “plot, screenplay, cast, budget, film plan and financing.”21

These amendments mean that decisions by investors must now proceed through an investor committee, which must be established after 50 percent of the fund’s capital has been raised. Since many investors are inclined to invest during the last two months of each fiscal year, there will not be much time available before the end of the year for the investors to make project decisions. Of potentially greater concern is the possibility that increased investor participation could expose investors to liability. Since the fund’s initiator traditionally assumed the risk of liability, private investors may find the new process to be unacceptable. Finally, by placing investors in the process of determining elements of a production, film producers will be forced to compromise their level of autonomy, a circumstance that is fraught with the potential for battles and other difficulties.

Favorable tax treatment is not the only lure that Germany provides for film producers. Germany also offers a national film fund as well as a large network of regional film funds for each state, with money accessible to producers on the condition that they reinvest the money in the region extending the funds.

Beyond Europe is Australia, whose federal government has offered a variety of incentives to encourage production in that country. Australia offers a tax offset for big-budget films (above AUS$15 million) shot in Australia. This benefit (known as 10B under the tax code) is equivalent to 12.5 percent of a film’s qualifying Australian production expenditure. The offset amount is applied against Australian federal tax liabilities accrued in the production of the film, with any excess refunded. This program is not for low-budget independent films, and since the benefit is in the form of a tax credit, it does not provide actual cash to make the movie. Unless a bank or other lender is willing to lend against this tax offset, the producer has to find another way to finance production.

Several U.S. studios have taken advantage of the 10B tax offset for their movies, including The Matrix. However, the Australian government has been concerned that producers may no longer be eager to film in Australia after investors were denied deductions on two recent movies, Moulin Rouge and Red Planet, because of allegations of tax evasion.

The 10BA program aims to encourage private investment in culturally relevant, high-quality Australian film and television productions by providing an accelerated tax deduction of 100 percent in the year the investment is made. To be eligible, the film needs to be certified as a “qualifying Australian film.” This means that the film is substantially made in Australia, or is an official coproduction, or has significant Australian content. Projects certified under this program can also apply for investment by the Film Finance Corporation Australia (FFC).22

The FFC received AUS$50 million from the Australian government for financial year 2002-03 to support a variety of Australian films, TV movies, miniseries, and documentaries. The FFC invests in projects that are cofinanced by private investors and/or other partners, such as a distributor. For feature films, the FFC will generally invest no more than 50 percent to 60 percent of the budget. The FFC requires producers to demonstrate that there will be a market for a project when it is completed. Consequently, as a prerequisite to providing financing, the FFC expects a producer to enter into one or more arm’s-length transactions with third parties, such as a television license, or guarantees, advances, or pre-sales from distributors.

Most government incentives available to non-Australian films are made pursuant to an official coproduction treaty. Australia has entered into such treaties with the United Kingdom, Canada, Ireland, Italy, Israel, France, and New Zealand.23

Producers may be eligible for various incentives offered by Australian state governments as well. For example, Queensland offers a payroll tax rebate, a cast and crew salary rebate (6 percent to 10 percent of weekly wages), an internship scheme (that pays for 80 percent of wages), and a traffic and fire services rebate.24 Immigration laws in Australia are exacting, however, so a producer may experience difficulty in obtaining permission to bring in an actor from abroad.

Well before the massive success of The Lord of the Rings trilogy, New Zealand was interested in assisting films with local content as well as foreign productions that would spend large sums in the country. Private investors in New Zealand films can take advantage of special tax incentives available as a result of the Income Tax Act 1994. To qualify for these tax incentives, a film must first be certified as a New Zealand film. The New Zealand Film Commission is authorized to certify a film or television program as a New Zealand film if the film contains significant New Zealand content, as described in Section 18 of the New Zealand Film Commission Act 1978.

New Zealand also has adopted a Large Budget Screen Production Grant scheme.25 The program provides a rebate for major film and television productions of 12.5 percent of their New Zealand-based expenditure. Major productions are defined as those spending at least NZS15 million (US$10 million) in New Zealand. For productions spending between NZS15 million and NZS50 million, the New Zealand portion of the spending must also be at least 70 percent of total spending. Productions spending more than NZS50 million are subject to such a requirement. For television series, the average production spending in New Zealand must be at least NZS500,000 per episode, with a minimum NZS15 million required within one year of the commencement of the series. The program is administered by the New Zealand Film Commission. The scheme does not apply to documentaries, and it will be reviewed in 2006.

Production incentives in the United States

With all of the efforts being made by foreign governments to enhance their own film industries and entice foreign productions, and the obvious impact these initiatives have had on U.S. domestic employment and spending in the entertainment industry, the U.S. government has been slow to respond. Unlike nations with significant programs for filmmakers, the United States does not provide specific tax benefits or incentives to encourage motion picture production. The United States also is not a party to any international coproduction treaties. Perhaps because U.S. films are such a successful export, generating more revenue than films exported from any other country, the federal government has not felt much need to assist or protect its producers. However, as the global marketplace for production has become increasingly competitive, there are indications that this hands-off policy may change.

Lawmakers have introduced legislation to create U.S. production incentives. One bill, the “U.S. Independent Film and Television Production Incentive Act of 2001,” was designed to attack the problem of “runaway film and television production.” The legislation aims to keep more production in the United States by creating a targeted tax credit for low-budget, independent film and television projects filmed in the United States. The bill proposes a wage tax credit for any public entertainment or educational motion picture film, television, or cable program—including miniseries, episodic television, movies of the week, or pilots—produced in the United States with total wage costs between $200,000 and $10 million. The credit would be a “general business credit” in the tax code, a dollar-for-dollar offset against federal tax liability in the amount of 25 percent of the production com-
pany’s total wages and salaries. This credit would only be available on the first $25,000 in wages per employee. When the bill was originally proposed, it did not move forward because there was no relevant tax legislation to which it could be attached. The bill was re-introduced in 2003, and in September 2003 it was referred to the Senate Committee on Finance.

Despite the absence of federal incentives, numerous states have instituted programs to attract productions away from Southern California. New Mexico and Hawaii have been innovative leaders in this effort.

New Mexico offers producers a choice of two incentives. The first is a gross receipts tax deduction allowing filmmakers to avoid sales tax (of 5 percent to 7 percent, depending on the locality) for certain production costs, including those incurred for the script, talent, construction, wardrobe, sound and lighting, and editing, as well as location fees. Sales tax can be avoided for renting facilities and equipment but not for lodging costs, the rental of vehicles, or catering. Alternatively, a filmmaker can elect to receive a 15 percent film production tax credit. This credit applies against the filmmaker’s New Mexico income taxes and to New Mexico-based production expenditures that are taxable in New Mexico. In order to qualify, production companies need to register with the New Mexico Film Office, and they may only take advantage of one type of incentive for each purchase. New Mexico also waives location fees for the use of its 800 state-owned buildings (including a now-shuttered 1940s era maximum-security prison facility). The state also is willing to invest in productions or loan funds to producers meeting certain criteria. Under the New Mexico Film Investment Program, up to $7.5 million can be invested in a New Mexico film private equity fund or New Mexico film project.

Hawaii recently enacted some very impressive and generous tax incentives. Hawaii’s high tech investment tax credit provides a 100 percent return on cash investments in a qualified high tech business (QHTB) over 5 years (05 percent credit in the year of investment, 25 percent in the following year, 20 percent in the third year, then 10 percent each in the fourth and fifth years). Qualified research activities include performing arts products, such as motion pictures. The credit is designed to give a 100 percent return for investments up to $2 million per year per taxpayer. The credit applies only against Hawaii income tax liability. The credit can be taken by individuals or corporations paying Hawaii income tax, and by banks and insurance companies against their franchise and insurance premium taxes. Studio movies made under the QHTB program include Blue Crush and The Big Bounce.

California has attempted to address the issue of runaway productions with its own incentives. The problem with devising a program to encourage production in California is determining how to tailor it so that it attracts producers who are inclined to shoot elsewhere rather than subsidizing producers who intend to shoot in California notwithstanding any incentives.
Under the Film California First program, which is not currently available, filmmakers could have received reimbursement of up to $300,000 for qualified productions that film on public property in California. Rebates were given for public labor costs and location fees for the use of public properties. The program reimbursed the cost of local law enforcement at a rate of up to $750 per day, with a maximum cap of $3,000 per production. The reimbursements from the fund were on a first-come, first-served basis. The funds available fluctuated depending on annual allocations in the state budget. A production company was required to complete production before applying for benefits under the program.13

The State Theatrical Arts Resources (STAR) program provides filmmakers with the use of state-owned surplus, such as vacant buildings, at little or no charge. The properties that are available can be viewed online by the use of the CinemaScout locations database.14 California also offers some other incentives. There is no state hotel occupancy tax. There are no sales or use taxes on production or postproduction services on motion pictures or TV programs. There is a 5 percent sales tax exemption on the purchase or lease of postproduction equipment for qualified persons. Recent Assembly Bill 2747 would create a 15 percent wage-based tax credit for the first $25,000 paid to each employee involved in California films with budgets between $200,000 and $10 million beginning in 2004, but its passage is far from assured.

It is still unclear what effect the election of Arnold Schwarzenegger as governor may have on runway production. As the star of Terminator 3: Rise of the Machines, Schwarzenegger played an influential role in encouraging the producers of the film to shoot it in California. However, the state’s fiscal crisis has made it difficult for the state to offer incentives in an environment in which massive cuts to existing programs are needed to balance the budget. As a result, the California Film Commission has been nearly gutted, and the existing Film California First incentive program has been discontinued. The program’s fate, along with the Independent Film and Television Production Incentive Act, remains as unpredictable as next week’s box office returns.

Production incentives in California and throughout the world frequently change, so it is important to gather the most up-to-date information regularly through direct contact with appropriate agencies regarding eligibility and rules and regulations and also through Web sites containing the latest details. See “Resource Guide for International Production Incentives,” page 30. One fact will remain unchanged: In the competitive and high-risk business of motion picture production, investors, producers, and government agencies worldwide will continue to rely on incentives to help themselves garner a share of the lucrative global film market.
13 More information about the Film Council and the funds it administers can be found at http://www.filmcouncil.org.uk.

14 For more information, see http://www.lotterygoodcauses.org.uk/scottishscreen.htm.


16 See http://www.revenue.ie/publications/leaflets/it_57.htm. Section 481 was formerly Section 35.


18 The scheme guidelines are available from Michael Howard, Ext: 24106, Revenue Commissioners, Dublin Castle, Dublin 2, telephone +353 1 679 2777, fax +353 1 679 9287. See also http://www.revenue.ie.

19 Ireland has entered into comprehensive double taxation agreements with Australia, Austria, Belgium, Bulgaria, Canada, China, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, India, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Malaysia, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Russia, South Africa, South Korea, Spain, Sweden, Switzerland, the United Kingdom, United States, and Zambia.


22 The 10B program is more liberal than 10BA in that it accepts more formats, including series, multimedia, and educational programs. It requires first ownership of the copyright to the production and offers a tax deduction over two financial years. 10B films are not eligible for FFC financing.


25 For additional information about Hawaii’s tax incentives, see http://www.state.hi.us/tax/hi_tech.html.

26 In qualifying low-income areas, the credit would be 35 percent.


28 Senate Bill S1613, House Bill HR715.

29 The text of Senate Bill S1613 is available at http://thomas.loc.gov.

30 For additional information about Hawaii’s tax incentives, see http://www.film.ca.gov.

31 The grant of tax credits for Blue Crush was controversial because this Imagine/Universal production was already planning to shoot in Hawaii. The producers received an estimated benefit of $15 million to $18 million. Moreover, while the intent of this law was to build a movie industry infrastructure in Hawaii, Imagine and Universal shot the picture and left without putting down any roots. As a result, the tax department will no longer provide QHTB status for one-picture deals.


33 For additional information about California incentives, see http://www.film.ca.gov.

The advent of the Internet and other digital distribution technology dramatically changed the realm of entertainment. Consumers can now receive, share, copy, and distribute digital files of motion pictures, music, and other entertainment content, and they can do so instantaneously, across the world, and with near-perfect duplication. While consumers may feel empowered, those within the entertainment industry fear losing control over their intellectual property rights. Some in the industry hope that the Digital Millennium Copyright Act (DMCA) will be the magic weapon to protect their treasures.

In 1998, the U.S. Congress enacted the DMCA to address and strengthen copyright protection in the digital age. At first, much attention was focused on the DMCA’s defensive shield. This portion of the law includes safe harbor provisions that immunize online service providers from copyright infringement for certain passive acts (such as an Internet service provider’s hosting a Web site that displays an infringing photograph).1

More recently, the DMCA’s offensive sword—its anticircumvention provisions—has seized the spotlight. These provisions make it unlawful to bypass or disable technological measures designed to impede unauthorized access to, or the copying of, a copyrighted work. The provisions also prohibit trafficking in devices or technology designed to circumvent protections against access and copying. By making these activities illegal, the DMCA empowers copyright owners to protect content with encryption codes, passwords, or other digital walls. The prohibitions against circumvention conduct and trafficking are often referred to as the anticircumvention provisions of the DMCA.

The anticircumvention provisions are far-reaching. They affect any product that can be distributed digitally, such as films, music CDs, e-books, and video games. Indeed, even intellectual property owners outside the entertainment realm are wielding the DMCA sword. In the past year, manufacturers have used the anticircumvention law to protect encryption systems for products ranging from printer toner cartridges to garage door openers.

Some have lauded the anticircumvention provisions as a key weapon in the war on digital piracy. Others have reviled them for stifling free speech, obstructing innovation, and thwarting competition. As the debate continues, the DMCA will profoundly affect the

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entertainment and intellectual property landscape, especially in California, where many legal battles in the digital wars are fought.

The anticircumvention provisions are contained in 17 USC Section 1201, subsections (a) and (b). Section 1201(a) focuses on the circumvention of technologies designed to prevent unauthorized access to a copyrighted work. It has two components. First, Section 1201(a)(1) prohibits the conduct of circumventing "a technological measure that effectively controls access" to a work. Specifically, it is unlawful to descramble a scrambled work, decrypt an encrypted

work, or otherwise avoid, bypass, remove, deactivate, or impair a technological protection. Congress analogized these acts as the electronic equivalent of "breaking into a locked room in order to obtain a copy of a book."

However, Section 1201(a)(1) does not apply to the subsequent actions of a person who has already obtained lawful access to a copyrighted work. In its report discussing these provisions, Congress explained its intention that a person who has authorized access would be permitted to circumvent other technological measures designed to protect the work (such as those designed to prohibit copying or distribution of the work). Nevertheless, the traditional defenses to copyright infringement, including fair use, remain fully applicable. Thus a person cannot circumvent a protection to gain unauthorized access to a work but can circumvent other protections to make fair use of a work that he or she has lawfully acquired.

Second, Section 1201(a)(2) prohibits trafficking in devices with the capability to circumvent access controls. "Trafficking" is defined to include manufacturing, importing, offering to the public, or providing a circumvention device. A device can violate the antitrafficking provisions if it: 1) is primarily designed to circumvent protective measures, 2) has only limited commercially significant purposes other than circumvention, or 3) is marketed for use in circumvention.

Section 1201(b) applies when a consumer already has obtained authorized access to a work but the copyright owner has put in place technological measures to prevent copying or other acts that infringe a copyright. In contrast, Section 1201(a) applies to unauthorized access to a work. This provision prohibits trafficking in devices to circumvent controls against copying or other violations of a copyright, notwithstanding whether consumers of the copyrighted work have authorized access to it.

For example, in applying Section 1201 to circumstances involving a circumvention device that breaks DVD encryption codes and permits copying of DVDs, a company that manufactures and sells the device would violate the trafficking provisions of Section 1201(b) and possibly also Section 1201(a)(2), depending on what the device "for the sole purpose" of trying to achieve "interoperability" between computer programs through reverse engineering involving, for example, the creation of computer programs that are compatible with a dominant software program. Congress also exempted encryption research aimed at identifying flaws in encryption technology if the research is conducted to advance the state of knowledge in the field.

In providing civil remedies for an anticircumvention violation, the DMCA authorizes a copyright owner to receive either actual or statutory damages—but not both. Statutory damages are $200 to $20,000 for each violation (and possibly also Section 1201(a)(2), depending on what the device does). However, if a consumer uses that device to copy a DVD, that conduct is lawful if: 1) the consumer lawfully gained access to the DVD (such as by purchasing it at a retail store), and 2) the consumer pleads and proves a traditional infringement defense (such as a defense of fair use based on making one copy for personal use).

To address fears that the DMCA would stifle innovation and competition, Congress included several exceptions to the anticircumvention provisions. The most notable exception is for certain types of reverse engineering. Individuals may use circumvention technology...
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to a potential $1 million fine and up to 10 years’ imprisonment.20

Critics have mounted three main constitutional challenges to the anticircumvention provisions. First, opponents charge the DMCA violates the U.S. Constitution’s copyright clause, which gives Congress the authority to grant copyrights for a “limited time.” They contend the DMCA allows copyright holders to forever lock up works (even those in the public domain) with technological protection measures. Second, computer programmers and hackers who crack encryption codes claim their code-cracking software is protected speech under the First Amendment. Third, critics argue that the DMCA eliminates the fair use of copyrighted materials. For example, some have charged that copy-protected music CDs will curtail the ability of consumers to make personal copies of the CDs they have purchased. To date, the courts have rejected all of these constitutional challenges.21

**Civil and Criminal Actions under the DMCA**

Just a year after the DMCA was enacted, RealNetworks, Inc. became the first entertainment company to file an anticircumvention action when it sued Streambox, Inc. over streaming technology.22 RealNetworks offers technology for streaming audio and video content over the Internet. Streaming content cannot be downloaded to the end user’s computer, which gives the publisher of the content control over the distribution of the content. For example, after listening to a song via a streaming digital file, a user cannot save a copy for later listening or sharing.

Copyright owners can encode their content into RealNetworks’ RealMedia format. If the copyright owner distributes files using RealNetworks’ RealServer software, as opposed to simply posting the content on the owner’s Web site, the end user can play the audio or video only with RealPlayer, a software program that resides on the end user’s computer. However, with a feature called Copy Switch, copyright owners can allow consumers to download content files for future use. These mechanisms allow entertainment companies to control how consumers use and pay for RealMedia files.

Streambox provided two software programs that disabled the streaming protections of RealNetworks. First, Streambox VCR disabled Copy Switch and allowed users to download RealMedia files. The second, Streambox Ripper, allowed users to convert already downloaded RealMedia files to other formats such as WAV and MP3. The program also could convert a file in one of these formats to the other.

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### Questions

1. Which provision of the Digital Millennium Copyright Act (DMCA) prohibits trafficking in devices used to circumvent technological measures that protect access to a copyrighted work?
   - A. Section 1201(a)(1).
   - B. Section 1201(a)(2).
   - C. Section 1201(b).
   - D. Section 501.

2. Even if a person has lawfully obtained access to a copyrighted work, Section 1201(a)(1) of the DMCA prohibits that person from circumventing technological protections in order to copy and distribute the work.
   - True.
   - False.

3. Section 1201(b) of the DMCA prohibits trafficking in devices that circumvent controls against copying or other violations of a copyright.
   - True.
   - False.

4. If a company sells a device that breaks DVD encryption codes in order to permit the copying of DVDs, that company violates Section 1201(b) of the DMCA.
   - True.
   - False.

5. Which of the following is a statutory exception to the anticircumvention provisions of the DMCA?
   - A. Technology that is covered by First Amendment free speech rights.
   - B. Reverse engineering to achieve interoperability between computer programs.
   - C. Devices that are not marketed for use as a circumvention tool.
   - D. Technology that does not involve digital entertainment content.

6. Which of the following is not a remedy available under the DMCA for a civil anticircumvention claim?
   - A. Statutory damages.
   - B. Actual damages.
   - C. Treble damages.
   - D. Constructive trust.

7. What is the range of statutory damages available for a civil anticircumvention claim?
   - A. $0 to $5,000.
   - B. $200 to $2,500.
   - C. $1,000 to $10,000.
   - D. $30,000 to $150,000.

8. In a civil action for anticircumvention violations, damages can be reduced if the defendant proves innocent intent.
   - True.
   - False.

9. In a criminal prosecution for anticircumvention violations, the prosecution must prove the violation is both willful and which of the following?
   - A. With intent to interfere with the copyright owner’s rights.
   - B. For purposes of harming the financial interest in the copyrighted work.
   - C. For purposes of commercial advantage or private financial gain.
   - D. With intent to displace the market for the copyrighted work.
10. For a first-time violation of the anticircumvention provisions, what is the range of criminal penalties that may be imposed?
A. A fine up to $50,000 and imprisonment for up to 2 years.
B. A fine up to $100,000 and imprisonment for up to 3 years.
C. A fine up to $250,000 and imprisonment for up to 4 years.
D. A fine up to $500,000 and imprisonment for up to 5 years.

11. To date, which of the following has been recognized by a court as a valid constitutional challenge to the anticircumvention provisions of the DMCA?
A. The DMCA violates the copyright clause of the U.S. Constitution.
B. The DMCA violates First Amendment free speech rights.
C. The DMCA eliminates fair use of copyrighted materials.
D. None of the above.

12. A device violates the antitrafficking provisions of the DMCA if it:
A. Is primarily designed to circumvent technological protection measures.
B. Has only limited commercially significant purposes other than circumvention.
C. Is marketed for use in circumvention.
D. Any one of the above.

13. In Real Networks, Inc. v. Streambox, Inc., the court found that Streambox VCR violated how many of the DMCA’s antitrafficking prongs?
A. None.
B. 1.
C. 2.
D. 3.

14. In Universal City Studios, Inc. v. Corley, how did the Second Circuit rule on Corley’s defense that he could distribute the DeCSS code based on his First Amendment rights?
A. The DeCSS code was not protected speech and entitled to no First Amendment protection.
B. The DeCSS code was protected speech, but the injunction issued by the district court properly targeted only the nonspeech component of the code.
C. The DeCSS code was protected speech, and the injunction issued by the district court violated Corley’s free speech rights.
D. The First Amendment has no applicability to the DMCA.

15. The United States v. Elecom Ltd. case involved what type of copyright protection system?
A. The DeCSS code to encrypt DVDs.
B. An encryption code for CDs.
C. Access controls for JPEG files.
D. Adobe’s eBook format.

16. In Lexmark International, Inc. v. Static Control Components, Inc., the district court found that SCC’s SMARTek microchips violated which DMCA antitrafficking prongs?
A. The microchips were primarily designed to circumvent technological protections.
B. The microchips had no commercial purpose other than circumvention.
C. The microchips were marketed for use in circumvention.
D. All of the above.

17. In the Chamberlain Group, Inc. v. Skylink Technologies, Inc. garage door opener case, the district court rejected the plaintiff’s anticircumvention claim under the DMCA.
A. True.
B. False.

18. The Lexmark court found that the DMCA’s anticircumvention provisions apply only to digital entertainment content and not to other kinds of copyrighted works.
A. True.
B. False.

19. How often is the Office of the Librarian of Congress instructed to review whether certain classes of works should be exempted from the anticircumvention provisions?
A. Annually.
B. Every 2 years.
C. Every 3 years.
D. Every 4 years.

20. In October 2003, the Office of the Librarian of Congress approved anticircumvention exemptions for which of the following classes of works?
A. Software or video games distributed in obsolete formats.
B. Technology to allow users to skip commercials on DVDs.
C. Software to allow users to play CDs on personal computers.
D. Devices that allow e-books to be read on a personal digital assistant (PDA).
In 1999, RealNetworks sued Streambox under the DMCA for circumventing its content protections. Streambox countered that both copyright owners and end users can use Streambox to convert their content from RealMedia to other formats, so Streambox’s software provides a legitimate function.

In January 2000, the Western District of Washington issued a preliminary injunction to stop the distribution of Streambox VCR. The court found that Streambox VCR violated two of the three prongs of Section 1201(a)(2)’s antitrafficking provisions: 1) The program “is primarily, if not exclusively” designed to circumvent the copy protections of Copy Switch, and 2) it’s only commercial purpose was to allow users to access and download protected content.

Notably, the court did not enjoin distribution of the Streambox Ripper (which converts digital formats). It found that Streambox Ripper had legitimate purposes and commercially significant uses, such as allowing copyright owners to convert RealMedia files to other formats.

RealNetwork’s experience provides two lessons. First, it is important to evaluate whether a product that disables copy protections has a legitimate purpose. If so, it is more likely to survive an antircumvention attack. Second, it reinforces the pivotal roles that streaming and downloading will play in the future delivery of digital content. For an entertainment company, streaming may be the more attractive choice, because the company can better control whether digital files are copied and distributed. However, consumers may want the option of downloading and keeping files and seek out products like Streambox VCR.

The next major antircumvention case, *Universal City Studios, Inc. v. Corley,* was a battle over DVD encryption. When DVDs came to prominence, the motion picture, computer, and consumer electronics industries banded together and agreed to the Content Scrambling System (CSS) as a standard to encrypt DVD content. This encryption system allows consumers to play a DVD but prohibits copying or manipulating the DVD’s digital content.

On his Web site for computer hackers, Eric Corley posted a copy of DeCSS, a program written by a Norwegian resident to circumvent the CSS encryption system. A group of movie studios sued Corley in New York for violating the DMCA’s antitrafficking provisions. The studios obtained an injunction prohibiting Corley from making DeCSS available on his Web site or providing links to other Web sites containing the software. The case made its way to the Second Circuit, which affirmed the injunction in 2001.

The Second Circuit’s decision focused on Corley’s constitutional challenges to the DMCA, which were rejected. Corley claimed the DeCSS program protected speech and the injunction violated his First Amendment rights. The Second Circuit agreed that the program was speech but held the program was entitled to limited protection because it also encompassed nonspeech components and could unlawfully access copyrighted works. The court found that the DMCA, as applied to this case, targeted only the nonspeech component of DeCSS. It determined the injunction was content neutral and served a substantial government interest without unnecessarily suppressing speech. The *Corley* decision is significant because, to date, it is the only published antircumvention case from a federal court of appeals.

Notably, the Norwegian who helped write the DeCSS code, Jon Johansen, fared better in Norwegian courts. At the request of the Motion Picture Association of America, Norway’s Economic Crime Unit criminally prosecuted Johansen in Norway for distributing the DeCSS code on the Internet and enabling the unauthorized copying of movie DVDs. Because Norway has no specific laws (such as the DMCA) to protect digital content, the prosecutors relied on Norwegian criminal theft laws. Johansen was acquitted, and in December 2003 a Norwegian court of appeal upheld his acquittal. The trial court ruled that it was lawful for Johansen to use DeCSS to copy DVDs that he bought legally and saw no proof that Johansen used DeCSS for illegally acquired movies. In affirming this decision, the appellate court found it was more reasonable to make a personal copy of a DVD than a book under copyright laws because, for one thing, DVDs were more fragile and could become unusable if scratched. The court also observed that prosecutors failed to prove that other people had used DeCSS to illegally copy DVDs.

The different results in the *Corley* and *Johansen* cases underscore the power of the DMCA sword. If Norway had a law equivalent to the DMCA, Johansen may have been convicted.

Even without actually filing a lawsuit, the entertainment industry has been able to use the DMCA to halt activity that it believes impinges on its rights. One notorious incident involves the Secure Digital Music Initiative. In 2000 the SDMI, backed by the Recording Industry Association of America, challenged computer programmers to hack digitally watermarked audio content. A public relations nightmare ensued when Princeton Professor Edward Felten and a team of researchers removed the watermarks in a matter of weeks. Felten and his team tried to present their results at an academic conference, but the SDMI sent a cease-and-desist letter asserting antircumvention violations. The researchers withdrew their paper from that conference. (Later, after filling their own lawsuit, Felten and his colleagues published a portion of the research at another conference.)

In Spring 2002, a similar result came in the world of online games. Blizzard Entertainment, the online gaming arm of Vivendi Universal, runs a service called Battle.net, which hosts multiplayer games that can include thousands of players simultaneously. A group of open-source software developers created the Bnetd project, an alternative service for hosting the Blizzard online games. Its creators claimed they created Bnetd because Blizzard’s system was not dependable. Unlike Blizzard’s system, the alternate service does not use CD keys to confirm that players are using copies of games from authorized CDs.

In February 2002, Blizzard sent a cease-and-desist letter claiming that the Bnetd project unlawfully bypassed Battle.net’s antircumvention technology. The Bnetd team responded that it lawfully reverse engineered the Battle.net program and was not required to include every feature of the program, such as the CD keys. Nevertheless, the Bnetd team took its server and source code offline temporarily but put the project back online in March 2002. Vivendi and Blizzard ultimately filed suit, although without a DMCA cause of action. Instead, they relied on a traditional copyright infringement claim, alleging that their Battle.net code was copied byte-for-byte. Still, at least in the short term, the DMCA threat was enough to take the competing system offline.

The sharpest edge of the DMCA sword is its criminal sanctions. The first published criminal indictment under the DMCA occurred in 2002, *United States v. Elcom Ltd.*, a case involving Adobe Systems’ ebook format. Elcom, a Russian company, developed and sold software that allowed a user to convert Adobe’s eBook format into Adobe Portable Document Format (PDF) files. This removed use restrictions embedded by eBook publishers to limit the manner in which consumers can use an eBook. Those restrictions typically prevent consumers from viewing the eBook on multiple computers—which the court found to be a fair use of an eBook—as well as copying, printing, or electronically distributing the eBook—which the court considered to be copyright infringement.

The U.S. government indicted Elcom under the DMCA for trafficking in the software. Elcom raised constitutional challenges against the DMCA that were rejected by the court. Just as in *Corley*, Elcom argued that the DMCA violates the copyright clause by giving copyright owners the ability to extend their copyrights indefinitely, regardless of whether the works contain public domain, noncopyrightable,
or fair use material. The court was not convinced, finding that the copyright clause did not bar Congress from “extending copyright-like protection” under other clauses, such as the commerce clause.\(^3\)

After a two-week trial, the jury found that Elcom’s product was illegal. But it acquitted the company because it believed Elcom did not intend to violate the law. Intent is a necessary element for a criminal DMCA conviction. In an interview after the verdict, the jury foreman commented that the jurors found the DMCA confusing, which made it easy for them to believe that Elcom’s executives (who were from Russia) might not fully understand it.\(^2\)

Although Elcom was not convicted under the DMCA, a Florida man named Thomas Michael Whitehead, also known as Jungle Mike, was. In a case brought in Los Angeles,\(^3\) he suffered the first criminal conviction under the DMCA. Whitehead created and sold access cards designed to unlawfully decrypt and receive DirecTV and DISH Network satellite programming. Jungle Mike was one of 17 people charged by the U.S. attorney’s office in February 2003 as part of Operation Decrypt, an undercover FBI operation that targeted computer programmers and hardware manufacturers who distributed software and devices used to steal satellite service. In addition to three DMCA counts, Whitehead was convicted on three non-DMCA charges. With his conviction, Whitehead faces a maximum prison sentence of 30 years and fines up to $2.75 million. At press time, he had not yet been sentenced.

Not surprisingly, both the Elcom and Whitehead criminal cases were brought in California, where the entertainment industry is most powerful and most likely to garner support from federal authorities and prosecutors. Entertainment companies will undoubtedly continue to push for such prosecutions to deter other violators.

Beyond Entertainment
Other intellectual property owners outside the entertainment industry have realized the power of the DMCA as a legal and competitive tool to protect their creations. It is possible that any technology with electronic and software components may be able to invoke the anticircumvention provisions.

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**Tips for Counsel in DMCA Cases**

When enforcing intellectual property rights, attorneys should consider whether their clients have a viable cause of action under the Digital Millennium Copyright Act. As anticircumvention law develops, courts will become more familiar with, and receptive to, this cause of action.

One court has even raised the issue itself, without any prompting by the parties. In August 2003, Justice Moreno raised the potential for a DMCA anticircumvention claim in his concurrence to the California Supreme Court’s decision in *DVD Copy Control Association, Inc. v. Bunner*.\(^1\) In that case, the court was reviewing an injunction obtained by the DVD Copy Control Association, the trade association that controls DVD encryption. The association had requested the injunction to stop Web site operators from posting online the DeCSS code, which cracks DVD encryption. The complaint alleged violations of California’s trade secret laws but raised no DMCA claim. Justice Moreno observed that, unlike trade secret law, the DMCA does not require proof that the circumventing devices were acquired by improper means or based on secret information.

Before adding a DMCA claim, litigants should consider:

- Whether they have a legitimate technological measure for protecting copyrighted material or whether such protection is de minimis.
- Whether they will be subject to antitrust challenges for attempting to restrict competition in their marketplace.

When prosecuting or defending a DMCA claim, litigants should focus on:

**The burden of proof.** Although it may appear that the defendant must prove it had authority to circumvent a technological protection, the burden is actually on the plaintiff to show that the alleged circumvention occurred without the plaintiff’s authority.\(^2\) While this procedural aspect of DMCA litigation may seem like a technicality, it may be significant at the summary judgment stage, in which burdens of proof are critical.

**Whether the accused circumvention device has a legitimate purpose.** In most of the DMCA cases involving the entertainment industry, the legitimate purpose factor strongly favored plaintiffs because the accused devices were designed to copy entertainment content without permission. But in *Chamberlain Group, Inc. v. Skylink Technologies, Inc.*,\(^3\) a case that focused on garage door openers, this factor was fatal to the DMCA claim because the court believed that consumers have the right to buy a universal garage door remote.

**Evidence about how the accused circumvention device is marketed to consumers.** In *Lexmark International, Inc. v. Static Control Components, Inc.*,\(^4\) a case in which technology for printer cartridges was at issue, the defendant’s case suffered a severe blow when the defendant admitted that it marketed its replacement cartridges as being able to bypass Lexmark’s safeguards. Counsel representing a DMCA plaintiff should seek such evidence in discovery. Counsel representing a DMCA defendant should minimize the impact of this type of evidence by finding alternate explanations for potentially damaging marketing messages.

**Common sense.** This lesson is clear from the *Chamberlain* case. The garage door opener at issue in that case did bypass Chamberlain’s rolling code, but the court was persuaded by common sense: Consumers should be able to buy a replacement universal garage door remote if needed. Even if there is a technical violation of the DMCA, persuasive arguments can be made based on the real-world impact of enforcing the DMCA in a particular situation. —J.D.N.

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\(^1\) DVD Copy Control Ass’n, Inc. v. Bunner, 31 Cal. 4th 864 (2003), 116 Cal. App. 4th 241 (Feb. 27, 2004) (court of appeal dissolving the injunction on the ground that the DVD association could not establish its trade secret).


\(^3\) Chamberlain, 2003 WL 22697217.

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The first notable nonentertainment case, Lexmark International, Inc. v. Static Control Components, Inc., involved printer cartridges. Lexmark manufactures and sells laser printers and toner cartridges. Its printers include copyrighted computer software designed so that the printers work only with Lexmark toner cartridges. Each toner cartridge contains a microchip with software that sends an authentication sequence to the printer to let it know that a Lexmark cartridge is installed. If an unauthorized cartridge (i.e., one from another manufacturer) is installed, the printer will not operate because the cartridge cannot access the software needed to control the printer’s functions.

Static Control Components (SCC) sells SMARTEK microchips, which the company specifically designed to circumvent Lexmark’s authentication sequence. The SMARTEK microchips make Lexmark printers think a toner cartridge is one of Lexmark’s, enabling the cartridge to work with Lexmark printers. SCC sells its SMARTEK microchips to companies that refill toner cartridges and sell remanufactured toner cartridges to the public at prices that generally undercut Lexmark’s. SCC acknowledged that its SMARTEK microchips copied Lexmark’s computer program “in the exact format and order.”

In 2002, Lexmark sued SCC for antitrafﬁcking violations. At the time, Lexmark’s suit was novel because the DMCA was commonly associated with prohibiting digital piracy of entertainment products. SCC countersued, arguing that Lexmark was improperly using the DMCA for anticompetitive purposes. Speciﬁcally, SCC claimed that Lexmark was trying to shield itself from competition by other manufacturers of toner cartridges and to force consumers to buy Lexmark’s higher-priced cartridges. It also argued the DMCA was not intended for the kind of technological measures used by Lexmark and was instead meant to protect separately marketed copyrighted works rather than software programs embedded in an electronic product.

The federal court in Kentucky, unconvincing by SCC’s arguments, granted a preliminary injunction to stop SCC from making and selling SMARTEK microchips. The court found that SCC’s SMARTEK microchips satisfy all three tests under Section 1201(a)(2) for trafﬁcking in devices that circumvent access controls. Indeed, SCC admitted that 1) its microchips are designed to avoid or bypass Lexmark’s authentication sequence, 2) the microchips have no commercial purpose other than to circumvent that sequence, and 3) it markets the chips as capable of circumventing Lexmark’s access control.

From toner cartridges, the battle turned to garage door openers in Chamberlain Group, Inc. v. Skylink Technologies, Inc., the first major defeat for anticircumvention claims. Chamberlain is a company that manufactures garage door opener systems. Its systems use a rolling code, which varies the signal used to trigger the opener device each time a garage door is opened or closed. The rolling code is intended to thwart burglars from gaining access to the garage. Other garage door openers use a ﬁxed code, which a burglar can record by using a code grabber when the garage door is opened or closed. Chamberlain’s rolling code technology prevents the use of code grabbers because a previously recorded code will not activate Chamberlain’s system.

Skylink is a direct competitor of Chamberlain. It markets a universal remote that consumers can use to operate their garage door openers, regardless of the openers’ original manufacturer. The universal remote was capable of cracking Chamberlain’s rolling code. In January 2003, Chamberlain sued Skylink for violating the DMCA’s antitrafﬁcking provisions. Chamberlain claimed Skylink’s opener violated all three access circumvention provisions of Section 1201(a)(2) because 1) the opener was primarily designed to circumvent Chamberlain’s system, 2) it has a limited commercial purpose other than to circumvent the system, and 3) it is marketed to circumvent the system.

The court disagreed. It denied a motion by Chamberlain for summary judgment and invited Skylink to bring its own defense motion for summary judgment. Skylink did so, and in November 2003, the court dismissed the anticircumvention claim. It found that Skylink had implied authority to make its universal remote control. Consumers set up the Skylink remote to be tuned into their speciﬁc opener’s signal, thus giving their authorization for Skylink to bypass Chamberlain’s rolling code. The court also expressed its view that homeowners have a legitimate expectation to be able to access their garage even if the original transmitter is misplaced or malfunctions. It compared garage door openers to television remote controls, which consumers should be able to replace “with a competing, universal product without violating federal law.”

Certainly, the Lexmark decision will encourage manufacturers to embed technological protections in their products to obstruct competition for replacement parts. However, the Chamberlain ruling puts limits on the power of the anticircumvention provisions. Just because a device circumvents technological measures will not render it automati-
cally illegal. Instead, courts will likely evaluate the common sense implications of the effect of the device on consumers and the marketplace.

**Antitrust Concerns**

The tales of the printer cartridges and garage door openers foreshadow a major fight for the future: whether the DMCA can be abused for anticompetitive ends. In the *Lexmark* printer cartridge case, the defendant warned that manufacturers in other industries may use the DMCA as a means to thwart competition. For example, cell phone manufacturers could embed microchips with copyrighted software in their batteries, headsets, or car adapters to force consumers to use only that manufacturer’s replacement parts.

In the realm of entertainment, this strategy could be employed for a wide spectrum of products: television remote controls, controllers for video game systems, parts for digital music players, television sets, radios, portable digital music players, wireless devices, and others. In fact, any media hardware that contains electronic parts or even a small amount of software can be embedded with technological protections to trigger the anticircumvention provisions. If they have not already done so, manufacturers of entertainment and media hardware will inevitably consider how to use the DMCA to advance their competitive goals.

But the DMCA has implications for all intellectual property owners, not just those in entertainment. The *Lexmark* court confirmed that the DMCA’s antitrafficking provisions are not restricted to digital content piracy. It stated, “Quite simply, if a work is entitled to protection under the Copyright Act, trafficking in a device that circumvents a technological measure that controls access to such work constitutes a violation” under the DMCA.41 This opens the door for any copyright owner to invoke the DMCA’s anticircumvention provisions, although potential abuse may occur as well.

Concerned about antitrust implications, SCC, the defendant in the *Lexmark* case, petitioned the U.S. Copyright Office to exempt toner cartridges, including its SMARTek microchip and related devices, from the DMCA’s anticircumvention provisions. The DMCA instructs the Office of the Librarian of Congress to determine whether certain classes of copyrighted works should be exempted from the anticircumvention provisions—and to do this every three years.42 An exemption is warranted if the DMCA prohibitions are likely to adversely affect users “in their ability to make noninfringing uses…of a particular class of copyrighted works.”43 In October 2003, the Office of the Librarian of

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Congress completed its triennial review of the exempted classes, and rejected SCC’s petition. For now, Lexmark and other manufacturers of toner cartridges can still invoke the DMCA to protect their markets.

The Office of the Librarian of Congress also rejected proposed exemptions that would have allowed users to skip commercials on DVDs, play CDs in their personal computers, and read e-books on a PDA without fear of violating the DMCA. In fact, only four classes of works were recently approved for exemption, including software or video games distributed in formats that have become obsolete and literary works distributed in an e-book format when all existing e-book editions have certain access controls. Because it is difficult to get product classes exempted from the anti-circumvention provisions, most copyrighted material will remain subject to the DMCA.

As digital technology continues to evolve, the DMCA’s anticircumvention provisions will profoundly impact how, when and in what form digital entertainment is enjoyed. One area of intense debate is what right consumers have to shape their own entertainment experience. The key anticircumvention cases deal with technology that either transforms content from one format to another (such as RealAudio to MP3) or that allows content to be saved for later and frequent use (such as downloading audio files to a consumer’s PC). Consumers like this kind of technology because it allows them to customize their entertainment experience. Content owners fear the technology because their business strategies depend on controlling their content. The steady pace of technological innovation shows no sign of abating, so entertainment companies, courts, and legislators will continue their efforts to find an appropriate balance between the protection of intellectual property rights and the rights of consumers.


No person shall manufacture, import, offer to the public, provide, or otherwise traffic in any technology, product, service, device, component, or part thereof, that—

(A) is primarily designed or produced for the purpose of circumventing a technological measure that effectively controls access to a work protected under this title;
(B) has only limited commercially significant purpose or use other than to circumvent a technological measure that effectively controls access to a work protected under this title; or
(C) is marketed by that person or another acting in concert with that person with that person's knowledge for use in circumventing a technological measure that effectively controls access to a work protected under this title.

The antitrafficking provisions in §1201(b)(1) are almost identical.

14 17 U.S.C. §1201(g).
15 17 U.S.C. §504(c).
20 17 U.S.C. §1204(a)(1) and (2).
23 Id. at *8.
24 Id. at *10.
25 Corley, 273 F. 3d 429.
26 Id. at 149-50, 453.
27 Id. at 454.
30 Id. at 1118-19.
31 Id. at 1138-39.
35 Lexmark also asserted that SCC infringed Lexmark's copyrighted computer programs.
36 Lexmark, 253 F. Supp. 2d at 969.
38 Chamberlain, 2003 WL 2287917, at *4-5.
39 Id. at 955.
40 Lexmark also asserted that SCC infringed Lexmark's copyrighted computer programs.
41 Lexmark, 253 F. Supp. 2d at 969.
43 Chamberlain, 2003 WL 2287917, at *4-5.
44 Lexmark, 253 F. Supp. 2d at 969-70.
46 Id.
Independent film financing is a hydra-headed mechanism so inordinately complex that it can send grown men—including pugnacious producers, bankers, sales agents, distributors, completion guarantors, bridge financiers, escrow agents, and structured-finance gurus—screaming into the night. The film financing playing field encompasses the entire world, though the game looks very different depending on the identity and country of origin of the players. For some producers, the prime goal is just money, and they want to earn it in any way possible. Others actually want to make a movie, and then there are those few who want to make a good movie as well.

Film financing attorneys in California (often referred to as financing counsel) must thoroughly understand contract law, secured transactions (UCC Article 9 and its foreign counterparts) surety law, bankruptcy, general banking law, federal and state litigation, and special arbitration mechanisms (such as those offered by the American Film Marketing Association). In addition, they must have an appreciation of the currency markets, hedging mechanisms, and finance. They also must know relevant international treaties (coproduction and tax) and must understand in detail the purpose of each film and sound element.

The independent film business is an important source of product to major distributors/studios, exhibitors, and the public. Oscar-winning films have sprung out of the mix, and many independently financed films have been commercial successes. Major stars and directors have gained entry into the mainstream from small, independently financed pictures cobbled together with mirrors—or so it seems. The indie business has also been the victim of the most public of mistakes, the most wrong of turns, the most difficult of adolescences, and the worst of frauds.

Contemporary independent film financing is a legacy of the late 1970s. To the extent that there was any independent financing before then, it was usually provided by rich patrons or limited partnerships in which a producer would sell units to dentists, doctors, and other “civilians.” There was no institutional capital marketplace. The financing market changed in the early 1970s with the “negative pick-up,” whereby a studio, whether to avoid onerous union commitments or to move bank debt off its balance sheets, would commit to acquire a picture from an “independent” producer for the full amount of a negotiated budget. This model required a bank to finance the commitment and a completion guarantor to “guarantee the completion and delivery of the film.”

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ery” of the picture. The model, however, was really studio financing in indie clothing.

When Netherlandes Bank Slavenberg (later acquired by Crédit Lyonnais) institutionalized the practice of financing pictures with loans secured by individual, territorial distribution agreements in the late 1970s, everything changed. As true then as now, the first bankers (even though they later violated their own operating rules) understood that the real collateral asset was the distribution income stream, not the copyright. Foreclosing against the copyright, or any distribution rights thereunder, would create damaged goods and mutilate the potential income stream. Therefore, it was essential that distributor-licensees were financially sound and reliable.

At the same time, new media, particularly video and cable, created new worldwide markets. The appetite for product was initially so huge that one could not only license a territory to a distributor but also license individual media directly, creating the ability to design pictures to match the various media. This led to viable A-, B-, and C-level picture markets.1

During the 1980s, the financing banks were almost wholly located in Europe, and their financing criteria were generally similar. All loans had to be fully collateralized by distribution contracts plus executed assignments of distributor/licensee gross receipts. The distribution contracts would then be given graded values based on distributor/licensee bona fides, financial integrity, and reputation. The aggregate of the license values had to equal at least the budgets of the pictures, as defined (less any equity), plus all financing costs and sales costs, if permitted.

In principle, the finance model worked, provided each of the banks exercised self-discipline. The film business, however, has long devoured its own. Independent producers, ill-advisedly determined to compete with the majors, cranked out budgets designed for the A-level market that outstripped the availability of first-class collateral. Without equity infusions to close deals, banks artificially increased the collateral values from marginal distributors or otherwise fudged the numbers. Discipline, in fact, became delusion. Add a couple of out-and-out frauds (such as the Perretti gang fraud at Crédit Lyonnais), and the seeds for an ongoing crisis were planted—and soon bore fruit.

By the mid-1990s, the business that had looked so promising was on life support. European banks had fled. New financing mechanisms and media outlets were desperately needed. But nature abhors a vacuum, and banks again came to the rescue—this time principally from the United States.

The financing tool that the banks created to jump-start the business was the gap loan, which worked as follows: A bank would lend a portion of its production loan against sales estimates prepared by what were euphemistically referred to as “acceptable sales agents”—alleged experts in foreign sales, whose knowledge of the market was supposedly so astute that the banks could rely on the estimates as if they were hard contracts. The concept of gap lending was reasonably solid; however, its implementation was abused. The banks began to make gap loans equal to 60 percent to 70 percent of budget, instead of loans at lower and more justifiable levels.2 In reality, bank loans were little more secure than equity. High gap loans, however, were effective in jump-starting the industry; they got pictures produced. But if a picture turned out badly, the territorial distribution rights could not be sold, penalties amassed, more often than not the sales agent would be replaced and lose its fees, and the loan balances would eventually have to be written off.

Stung by losses, the banks severely narrowed the gaps and financing became increasingly more difficult. Into this new vacuum jumped insurance companies with a credit enhancement tool known as the insurance guarantee, through which an insurance company issued an insurance policy to a financing bank, guaranteeing recoupment of the bank’s loan. Like the gap loan, if properly utilized, insurance guarantees could have worked. Unfortunately, pictures were financed by banks in reliance on insurance guarantees that should never have seen the light of day. Gaps were not covered. Loans defaulted. Insurance calls were tendered. Insurers refused to pay. Litigation ensued—and continues.3

Then came the Germans. The first development was the creation of the Neuer Markt, the German equivalent of NASDAQ, which led to an investment frenzy in which German communications stocks mirrored the rise of dot-coms. Companies with marginal profitability and suspect business plans raised fortunes from an unsophisticated marketplace. To keep stock prices up, these companies entered into expensive deals with U.S. film producers and then overbid the prices for German rights to third-party pictures, assuming that the sale of German television rights would bail them out. When that assumption proved wrong, stock prices crashed, destroying any prospect of secondary stock offerings. The Neuer Markt film companies collapsed.

A second development was the creation of German film tax shelter funds. As the funds were originally organized, investors would contribute a sum that consisted of equity and borrowed funds (for example, 20 percent equity and 80 percent debt). The producer, usually a U.S. major studio, would take about 10 percent, the fund promoters would take their costs and fees (generally, another 10 percent), and the remaining 80 percent of the fund would be invested in a locked, interest-bearing bank account. The investors were then able to take an immediate, first-year tax deduction on the full 100 percent contribution (both equity and borrowed monies). At the end of the multi-year lockup, the investors would receive back their original equity investment, cash to repay their debt plus interest, and cash to pay deferred taxes.

German legislative authorities soon prohibited this form of shelter because it required no German production involvement and entailed virtually no risk. New shelters that entailed some level of risk and production rights and obligations replaced them. These new shelters consist of independent risk-equity and quasi-risk-equity funds, which, in fact, are a better match for independent picture financing structures.4 These funds, which require German producers, German de jure control, and German copyright ownership, have provided equity that functions much as a gap loan. However, recent media decrees have tightened the qualification rules regarding tax writeoffs, and more tightening can be expected in the future.

Recent Independent Financing

The demise of institutional investment and insurance guarantees, the reduction in available bank gap financing, the restrictions placed on tax-based incentives, and the narrowing of available markets have made the financing of independent pictures once again more difficult. A producer still must arrange sufficient financing to cover the costs of production, the delivery of the picture to licensees, and the payment of financing costs and bridge costs. This requires the producer/financier, who invariably cannot finance a picture out of foreign sales alone, to arrange for budget coverage from a U.S. domestic distribution financing arrangement in the amount of approximately 30 to 40 percent of the budget or for the producer to arrange for the investment of private equity or quasi-equity public subsidies. Many current public subsidies are tied to treaty coproductions, whose rules mandate the expenditure of qualifying sums in the subsidizing territory. (Most of these subsidy systems require postproduction audits to sustain the grants.) Some of these subsidies are tax-based, others are based on labor costs, while others (such as the leaseback in the United Kingdom and the media funds in Germany, to some extent) are structured on business leasing models.5

There are dozens of territories that provide for subsidies, the
foremost being the United Kingdom and Canada. (See “Runaway Home,” page 24.) Creating a U.K.-Canada coproduction has recently become a favored means of accessing up to 45 percent of a picture’s budget in subsidies and has permitted the coverage of capital shortfalls. The rules governing coproduction qualification are complex, but they can be navigated by financing counsel, usually with the participation of local foreign counsel. Invariably, a production financing bank will be involved, and the financial and legal concerns of the bank and the guarantors must be factored into the mix.

Currently, three independent financing models predominate in the market:
1) The major studio negative pickup.
2) The split rights arrangement under which U.S. and Canadian distribution rights are licensed to one U.S. major or mini-major distributor, foreign rights are sold on a territory-by-territory basis, all contracts are financed by one or more banks, and completion and delivery is guaranteed by a completion guarantor to all licensees.
3) The treaty coproduction model, under which two or more coproducers agree to finance a motion picture within treaty parameters, a portion of the cost of financing is provided by each coproducer in cash or services, each coproducer contributes territorial subsidies, and the remainder is secured and split between or among them by means of the license of territorial rights plus the liquefaction of the security by a bank. The treaty coproduction model includes virtually all the elements of the negative pickup model and the splits rights model and currently provides the most viable mechanism to bridge the financing gap in the absence of a U.S. studio partner or major equity donor.

The two classic treaty coproduction variants are the Canadian-European Union coproduction and the straight EU coproduction between or among EU member nationals—with the United Kingdom somewhere in the mix. A Canadian-EU coproduction arises under a series of separate treaties between Canada and individual EU countries, each treaty containing different rules. In any case, there must be careful structuring to satisfy spending splits and other crew and cast requirements. Also, the coproduction and the coproduction agreements must be submitted to and approved by the appropriate government organizations in each partner territory. The straight EU coproduction may be formed under separate treaties per se, or may arise under the European Convention on Cinematic Co-Productions and will also require government certification.

**U.S. Involvement**

The major studios are in Los Angeles. A majority of the sales agents and financiers are in Los Angeles. Most of the stars, directors, and film financing banks are in Los Angeles as well. The American Film Market, one of the three major theatrical financing markets, is held in Los Angeles. Invariably, A-level independent motion pictures have their genesis in Los Angeles.

U.S. financing counsel, who generally represents a U.S. sales agent/financier or a major producer or a core financier, is, therefore, often the point person in a pyramid of multinational lawyers. Among those stacked in the pyramid are the bank lawyers, who are charged with documenting the bank loans and securing first position for the bank’s production financing loan against all coproducers and sales agents while effecting the assignment of all worldwide revenue to the bank directly; counsel to the completion guarantor; and foreign counsel to each coproducer, who must effect the conclusion of formal coproduction agreements. However, it is financing counsel—often representing all nonbank and nonguarantor U.S. financing and production interests (plus the coproducers in the negotiations with banks, the guarantor, and any third-party financier with respect to the production bank loan)—who must take the global lead in perfecting the financing plan.

Financing counsel usually will begin to construct a treaty coproduction plan with three instruments. The first is the formal financing plan, a document that matches production financing to projected budget and includes all forms of production revenue, including all available subsidies, bank gap financing, currency contingencies, and equity. The second is the structural plan, a series of charts that map out the corporate structure of the financing, the flow of funds, the spending splits, the amount of budgeted capital that each coproducer can export to the other, and the cast and crew qualifications that govern each coproducer. The third is a detailed master financing agreement among all the parties from which the less-detailed formal coproduction agreement is derived. All these documents are interrelated and must evolve continuously as production parameters change. Invariably, the language of all three, plus others, will be finalized at the closing of the bank production loan but might have to be reworked later to accommodate the unexpected.

**Current Problems in Coproduction Financing**

There are five major problem areas that have assumed particular importance in independent film financing. All are particularly trou-
blesome in coproductions.

**Bridge financing.** Every financing plan must anticipate the expenditure of preproduction funds prior to the close of a master production financing facility. In coproductions, the coproducing partners often advance all these funds. On other occasions, these funds are invested by bridge lenders and are recoupable from the production financing bank closing. When financing counsel also represents the bridge lender, due diligence responsibilities expand dramatically, because financing counsel not only must be assured there is sufficient capital to cover all pre-closing costs but also must be confident that the production bank loan will close. If it does not, the bridge lender must be prepared to fully fund the picture, collateralize the bank loan itself, or foreclose, which results in the ownership of a near-worthless screenplay. In addition, when there are local coproduction counsels, financing counsel also must understand every element of the coproduction agreements and the qualifying budget allocations, because if any of the coproducers fails to secure its government’s preliminary approval, the coproduction will fail, there will be no bank closing, and the bridge will collapse.

**Escrow and securitization.** A production financing bank will require that every licensee sign notices of assignment in favor of the bank that direct all payments under license agreements to the bank. The completion guarantor, if it has advanced completion funds, will often piggy-back on these agreements until it is repaid. It is at this point that gross receipts can be imperiled.

Historically, gross receipts were paid over to sales agents or to the borrower and they were responsible for paying third parties. This exposed the gross receipt income stream to several risks: 1) the honesty of the recipient/payor, 2) untenable accounting delays, 3) gross accounting irregularities, 4) simple theft, 5) bankruptcy, and 6) attacks by lien creditors of the borrower or sales agent or their affiliates (judgment and statutory).

Though abuse by the primary recipient of the gross receipts has been the most manifested risk, all risks have materialized.

To avoid these nearly inevitable risks, it is imperative that financing counsel establish appropriate arrangements through neutral escrow agents under detailed escrow instructions. It is also important that the participants in the escrow understand that the funds flowing to the escrow account are part of the estate of the borrower or sales agent, as the case may be, and are unsecured sums. A properly structured financing should direct the gross receipts to the escrow, where they will be pooled. While such a plan is rarely implemented, it is likely that each escrow participant would then have a properly perfected security interest in the funds at that point. Finally, the escrow should immediately separate the funds into separate accounts in the name of each participant, thereby removing the funds, as much as legally possible, from the estate of the borrower or other recipients. Thus, for example, if a borrower, who is the majority coproducer, borrows funds from a bank and licenses the financed picture to a distributor, a properly structured escrow account in a U.S. bank would not protect against accounting irregularities and/or outright dishonest conversion by the distributor but would more effectively protect against the coproducer’s bankruptcy or an attack by a third-party lien creditor with respect to gross receipts previously remitted into an escrow account.

**Delivery of the picture.** This part of film production, the process by which a picture’s film elements, sound elements, video elements, and documentary elements are forwarded to a distributor in exchange for most of its minimum guaranty, is the one least understood by lawyers and bankers. Delivery used to be simple: Deliver the materials; get paid. When defective materials were delivered, both sides would work to fix them; then delivery would occur, and everyone would be happy.

Today, however, things are not so simple. The delivery/credit problem has become extremely acute due to the nature of international film banking. Prior to the mid-1990s, most of the world’s film financing was provided by European banks, which financed the U.S. sales agents and producers. If there was a problem obtaining payment from a territorial distributor, the U.S. sales agent or producer often called its European financing bank and the bank could usually force compliance, because the financing bank (or one of its syndicate partners) usually was the resisting foreign licensee/distributor’s bank. These banks held tremendous leverage. However, once bank production financing shifted to the United States, the financing banks were no longer banking the licensees as well, and therefore became vulnerable to nonpayment.

The delivery game has also changed. Film delivery specifications precisely limit objections to “technical quality” and objective criteria such as running time. However, in practice, licensees use delivery procedures to shield themselves against the creative failure of a picture. Produce a terrific picture or one that gets a successful major release in the United States, and there is no delivery problem too big to fix. Produce a gobbler or a picture that does not get a U.S. theatrical release, and the delivery war could go on for months, ultimately ending in a price reduction. Even if the dispute goes to arbitration and is won, it is a brutal struggle to collect from a foreign distributor without assets in California.

Further, with gap financing, it is virtually impossible to complete a film without defaulting under one or more loan provisions. With default, the financing bank has the right to settle minimum guarantees to ensure the bank recoups its loan and with each delivery rejected and reduction sought and achieved, the income stream available to the subordinate lenders, equity partners, and participants becomes more and more attenuated.

Because of the potential problems, financing counsel should employ several strategies. Avoid licensing to those foreign distributors who constantly reject delivery and resort to AFMA arbitration in an effort to achieve minimum guarantee reductions. Remove any language from license agreements that requires a picture to be substantially similar to the final approved screenplay or limit the reach of this language (as this is one of the main points of attack by licensees). Require large minimum guarantee advances, so if a licensee defaults, a termination will be painful to it. Limit the type of film materials that must be delivered to trigger payment. Scrutinize the delivery provisions of the agreements as closely as the payment provisions. Build a relationship with the licensees’ bankers as soon as possible.

Though one might assume that bank counsel is sufficiently sophisticated to deal with these issues, this assumption is incorrect. Though one might assume that the completion guarantor will be on top of these issues, it is uniformly untrue until too late.

**Litigation.** The film financing environment has become increasingly litigious. In the coproduction model there are more moving parts, more international jurisdictions, and more things that can go wrong. A litigation fight may include all parties and all agreements. Without careful attention, the following scenarios can occur:

1) The coproduction agreement can apply the law of the majority coproducer or minority coproducer’s territory and situs the litigation in either territory.

2) The master financing agreement may apply a totally different law and different situs.

3) The loan agreements, assuming a California bank, will apply California law and may apply reference procedures.

4) In the aggregate, one dispute with multiple heads may result in a clash of multiple litigations and conflicts of law.

When the production financing bank is located in California, financing counsel must attempt to apply California law throughout,
provided it is not inconsistent with the coproduction treaties and, where able, provide for an arbitration mechanism in lieu of the courts. Further, when financing counsel is dealing with multiple foreign parties with no assets in California, confirmation of arbitration decisions by the California Superior Court is basically worthless, as foreign enforcement and collection will fall under the auspices of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Financing counsel must therefore provide in advance that each party waive any challenges under the convention. Otherwise, collection actions in the applicable foreign jurisdiction could be foreclosed for long periods of time.

**Shifting sands and shifting legislation.** National legislative bodies are constantly revising their nations’ subsidy systems. The reasons are well known: Sometimes the systems are simply ill-conceived, but more often than not they are abused. Most subsidies, no matter the form and whether or not they are tax based, are adopted to spur indigenous film production, assist local labor, and spur the local economy, in addition to aiding indigenous producers.

The principal beneficiaries of this subsidies, however, are often the major Hollywood studios (who have the manpower and knowledge to exploit access to these new sources of capital) and a tried-and-true group of independent producers who are well-versed in feeding at the subsidy trough. The result is often the export of capital to more favorable production-cost locales or twisted financing mechanisms that trigger never-intended excess and self-serving yields that quickly run afoul of the authorities.

The current state of affairs in the United Kingdom is illustrative. Due to abuses, the U.K. Department for Culture, Media and Sport recently ruled that the United Kingdom must be represented in at least 40 percent of a Canadian/U.K. coproduction (rather than the previous 20 percent, which led to the export of capital to cheaper Canada). Moreover, Section 48 of the 1997 Revenue Act, which has supported the most valuable production fund mechanisms, is scheduled to expire in mid-2005, and Inland Revenue, the U.K. equivalent of the IRS, has already advised that Section 48 will not be extended, though one or more subsidy formats will be put in its place.13 In addition, right in the middle of this year’s major film financing cycle, Inland Revenue ruled that certain forms of film financing production shelters, which include shelters based on GAAP accounting write-off models, rather than Section 48 write-off models, are improper.14 This has thrown the market into disarray, stopping pictures in their tracks (even though an effort is currently under-
way to exempt from the new ruling some pictures that are simply too far along). For producers who must be plan far in advance and for financing counsel who have been attempting to marry U.K. production shelters with extraterritorial shelters under coproduction agreements, this is unnerving and has stalled entire segments of the indie financing industry.

The recent U.K. actions are not unusual. Similar reorganizations have taken place elsewhere. However, the messes that generally cause them are unnecessary, as the underlying rationales behind tax and government-based subsidies can be respected and can work for caring producers who actually want to make a good film and keep greed in check.

Let greed loose, accompanied by manipulations and misrepresentations at all levels, and these systems benefit the few. Invariably, the golden goose is killed and everyone suffers. Dedicated financing counsel can make a difference. Independent film financing is constantly evolving. The California attorneys serving as financing counsel, particularly in coproduction scenarios, will find themselves confronting diverse problems and issues across a broad section of legal disciplines and jurisdictions. Careful attention to complicated rules is a must, but financing counsel must be more than a scrivener or interpreter of rules. Financing counsel must be the proactive, creative leader, the wrangler. It is a daunting task.

1 The A-level market includes higher budget pictures intended principally and initially for theatrical release with video and television rights providing security for acquisition costs and print and advertising cost shortfalls, plus profits. The B-level market principally includes lower budgeted genre pictures directed toward initial video and television distribution in most markets, but with the possibility of selected theatrical release. The C-level market consists of even lower budgeted fare, directed solely to the video and non-primetime television markets.

2 In addition, the budgets shown to the banks and guaranteed by the completion guarantors were often much higher than the true budgets required to finance the picture. The completion guarantors were, however, concerned only about budgets that were understated, and the banks did not have the expertise to know the difference.


4 Some are pure equity risk funds; some have quasi-leasing mechanisms by which part of the invested funds are pooled for a period of years, earning interest under forward contracts sufficient to pay off a predicted portion of the bank loans; and others are even more hybrid.

5 The U.K. leaseback model involves the sale of the master negative by the producer/owner to a funding party. The producer then keeps a portion of the purchase price paid to him for the picture and uses the remainder to lease back the master negative. Qualifying the film as a British film under The 1985 Film Act, or as a treaty coproduction under bilateral treaties or under the master European Convention on Cinematic Coproductions, is necessary to be entitled to these subsidies.

6 Revenue Act, 1992, §42 (U.K.) and Revenue Act, 1997, §48 (U.K.) accord various accelerated write-off privileges to investors in qualifying British films. One way to take advantage of §42 is the standard leaseback structure, which provides for a partial first-year tax deduction with the remainder deductible over the next two years. This structure provides the producer with a soft money infusion equal to approximately 10% of budget. Bigger budget films can use an even more favorable structure under §48, which allows investors a first-year tax deduction of 100% of their investment. This provides almost 16% of budget to the producer without recoupment rights or points. Sections 42 and 48 have also underpinned production tax/equity deals that have provided another 15% to 25% of budget. Some of these U.K. subsidies—depending on their structure and size—can be combined with federal and provincial subsidies in Canada to provide another 20% of budget to the producer.

7 The United States has no coproduction film treaties with Canada, the European Union, or any individual EU country.

8 E.g., Telefilm Canada, the Centre National du Cinéma in France, and the Department of Culture, Media and Sport in the United Kingdom.


10 For example, under an 80/20 Canadian/German coproduction, if the Canadian producer is committed to contribute and spend 80% of the budget, the producer can export to the German coproducer up to 25% of his 80% for expenditure by the coproducer on non-Canadian costs. Further, each side can obtain one or more exclusions for the use of American stars, who generally are necessary to support the sales values in the non-coproduction territories, including the United States.

11 In the United States, the perfection instrument would be a mortgage of copyright (with a backup UCC filed in the state of the secured parties’ incorporation).

12 The Convention on the Recognition and Enforcement of Foreign Arbitral Awards was prepared and opened for signature on June 10, 1958, by the United Nations conference on International Commercial Arbitration, convened in accordance with Resolution 604(XXI)1 of the Economic and Social Council of the United Nations adopted May 3, 1956. The United States and all EU coproduction countries are signatories to the convention.

13 Revenue Act, 1997, §48 (U.K.). In its March 17, 2004, budget, the Chancellor of the Exchequer announced that Section 48 accelerated writeoff entitlements for film investments will not be renewed, ending various leaseback and production tax shelters. In addition, the qualification for British film status will be tightened. New rules to spur U.K. distribution of subsidized films will be promulgated by this summer. See http://www.inlandrevenue.gov.uk/budget2004/ent04.htm.


15 In principle these national shelters cannot be married in one deal as both require 100% of the cash flow through their mechanisms, which is impossible, and one or both require that the fund entity be the controlling producer, which makes them incompatible with the Canadian rules.
Sharing in Fees as Partner or Employee of Two Law Firms

SUMMARY: An attorney may not concurrently serve as a partner or associate in two law firms and share in the fees generated by each firm unless the attorney complies with California Rules of Professional Conduct, Rules 1-400 and 2-200. The attorney must also address such matters as conflicts of interest and client confidences as a participant in each law firm.


FACTS AND ISSUES PRESENTED: Attorney is a partner in ABC law firm. Attorney has a longstanding professional relationship with Client. Client is about to embark on a project that requires certain expertise not possessed by the lawyers in ABC. Client wants the benefit of Attorney's counsel in connection with the project and to have Attorney work with lawyers with the expertise necessary for the project. Law firm DEF has such expertise.

Attorney proposes to form a joint venture with DEF for such work and proposes to share in the fees generated at DEF from Client's work, including matters at DEF in which Attorney does not provide services. Attorney proposes to continue to serve as a partner at ABC and participate in its profits.

Alternatively, Attorney proposes to become an employee of DEF while at the same time continuing to serve as a partner of ABC.

Attorney does not intend to provide Client with the disclosure concerning the division of fees or obtain the written consent required by Rule 2-200(A).

DISCUSSION

The inquiry does not provide great detail concerning the proposed relationships, but the committee is of the opinion that in most situations contemplated by the inquiry, Rule 2-200(A) requires disclosure of such an arrangement to the client and the client’s written consent. The proposed arrangements also raise a host of potential issues, including potential conflict of interest considerations and lawyer advertising issues. These are discussed below.

California Rules of Professional Conduct, Rule 2-200(A) provides:

A member shall not divide a fee for legal services with a lawyer.
who is not a partner of, associate of or shareholder with the member unless:
(1) the client has consented in writing thereto after a full disclosure has been made in writing that a division of fees will be made....
Rule 1-100(B) provides in part:
(1) “Law firm” means (a) two or more lawyers whose activities constitute the practice of law, and who share in its profits, expenses, and liabilities; or (b) A law corporation which employs more than one lawyer....
(4) “Associate” means an employee or fellow employee who is employed as a lawyer.

In Chambers v. Kay, 29 Cal. 4th 142 (2002), Chambers attempted to enforce an agreement with Kay for the division of fees received by Kay from the successful prosecution of a sexual harassment action on behalf of Kay’s client. During the course of the litigation Kay requested Chambers to act as cocounsel with him. Chambers performed substantial services in connection with that action and advanced several thousand dollars in costs. Kay listed Chambers as an attorney of record for the client on pleadings and disclosed to the client the proposed division of fees between them, but neither Chambers nor Kay obtained the client’s written approval of the arrangement.

Kay and Chambers had separate offices at different locations and used different letterheads. Kay paid Chambers a monthly fee to use Chambers’s conference room and other facilities and was listed as a cotenant in the directory of the building in which Chambers maintained his office. Chambers assisted Kay with his work on several other cases as well. During the course of the sexual harassment litigation, Kay and Chambers disagreed on certain matters, and Kay terminated their relationship. After judgment in favor of Kay’s client, Chambers attempted to enforce the fee sharing agreement.

The supreme court held that their agreement violated Rule 2-200 and strictly enforced the requirement of a partnership or employment relationship as a prerequisite to a permissible division of fees, unless both the disclosure and the written consent requirements of Rule 2-200 were met.

The court held that a true partnership or employment relationship was required to allow fee sharing without meeting the disclosure and written consent requirements of Rule 2-200. Chambers argued that work on the case involved a joint venture in which Chambers paid some of the expenses. As to the claim that Chambers and Kay were joint venturers in prosecution of the action, and that a joint venture was a form of partnership, the court noted that although a partnership and a joint venture share many characteristics, Rule 2-200 spoke of a partnership and not of a joint venture. The court noted that the arrangement between the lawyers was neither formal nor permanent but that they merely worked together on a few cases. There was no co-ownership of partnership properties or sharing of profits and losses on a continuous basis that the court found to be necessary for a partnership, as distinct from a joint venture.

The Chambers court specifically overruled a court of appeal decision that allowed fee sharing without complying with the disclosure and the consent requirements of Rule 2-200, where both attorneys contributed substantial effort to the prosecution of the case that generated the fees that were to be shared.

As to the claim that Chambers was an “associate” as defined in Rule 2-200, the court observed that Rule 1-100(D)(4) defines an associate as an employee or fellow employee and determined, in substance, that a common law employer-employee relationship was required under Rule 1-100(D)(4).

The inquiry posits a fact situation that differs from the facts before the court in Chambers. The extent to which a court determines such differences in facts to be controlling may determine the propriety of the proposed arrangements.

In its Formal Opinion 1994-38, the Committee on Professional Responsibility and Conduct of the State Bar (COPRAC) considered the propriety of certain fee arrangements under Rule 2-200. COPRAC opined that an arrangement by which a lawyer billed a firm in which he was not a partner or employee for his regular hourly rate, which the firm then re-billed to the client and paid over to the lawyer when paid by the client, did not amount to a division of fees regulated by Rule 2-200. In that opinion COPRAC was of a view that, as the law firm was not retaining any portion of the fee, there was no division of fees, and the law firm acted merely as a collection agent. If the arrangement proposed in the inquiry contemplates that there will be no retention by Attorney or the ABC law firm of a portion of the fees charged, then the facts of COPRAC opinion 1994-138 would be present and there would be no improper division of fees.

The inquiry, however, appears to contemplate that Client will contract with ABC to perform the requested services and Attorney or ABC will then arrange with DEF for DEF (or ABC and DEF acting together) to provide the representation of Client and that there will be a retention of fees by Attorney or ABC in excess of the fees charged Client for Attorney’s services when only ABC performs services.

The fact that both law firms will provide a substantial contribution of services in the representation, and that this contribution is known to Client, is not sufficient to avoid complying with the disclosure and consent requirements of Rule 2-200. In overruling prior case authority that allowed such fee sharing without complying with the requirements of Rule 2-200, the Chambers court made it clear that the prohibition of Rule 2-200 is not directed only at referral fees and does not depend on the quantum of work performed by each of the lawyers.

Under Chambers, a joint venture between lawyers will not satisfy the requirements of Rule 2-200. According to case law, the principal difference between a joint venture and a partnership is that a partnership ordinarily involves a continuing business relationship, whereas a joint venture is usually formed for a specific transaction or a single series of transactions. Weiner v. Fleischman, 54 Cal. 3d 476, 482 (1991) (noting that the distinction between partnerships and joint ventures is not sharply drawn); Bank of California v. Connolly, 36 Cal. App. 3d 350, 364 (1973). Here, although the inquiry used the term “joint venture,” the nomenclature may not be determinative. The first arrangement posited by the inquiry looks to a continuing business arrangement, not a specific transaction. On the other hand, a string of proceedings for the same client involving the same area of law may be of the nature of a series of transactions. The inquiry does not fully reveal whether there would be joint ownership of assets, a right of joint control, and the sharing of profits and losses that are required for both a partnership and a joint venture.

Similarly, while the posited “employment” relationship may satisfy the language of Rule 2-200 and Chambers v. Kay, a common law employee-employer relationship in which the employee earns minimal wages but receives substantial compensation by way of fee sharing may not be viewed as conforming with Rule 2-200. Similarly, an arrangement in which the “employee” controls the employer may not be viewed as conforming with Rule 2-200.

The proposed arrangement also must take into account matters of disclosure to the client, client confidentiality, and conflicts. Under the assumed facts that Attorney is serving as a member or associate of two law firms, Attorney must consider clients of both ABC and DEF as Attorney’s clients for the purposes of avoiding the representation of adverse interests (Rule 3-310) and related conflict issues. State Bar Formal Opinion 1994-138; People v. Speedee Oil Systems, Inc., 20 Cal. 4th 1135 (1999).

The proposed arrangement must also con-
sider the effect of Rule 1-400(D), which prohibits untrue or false statements, including
statements that omit any fact needed to make
the statement not misleading. Under the
authority of Rule 1-400(E) the Board of
Governors formulated standards of commu-
nications that are a presumption affecting
the burden of proof. Standard (9) presumes
as violative of Rule 1-400:
A communication in the form of a firm
name...or other professional designa-
tion used by a member of law firm...
which differs materially from any other
such designation used by such mem-
ber or law firm at the same time in the
same community.
While under the posited facts the member
will be practicing under two different firm
names, the arrangement may involve two
different law firms as defined in Rule 1-
100(B)(1), and the extent to which the
arrangement conforms to Rule 2-200 may
determine whether or not it is false or mis-
leading. Thus, while concurrent use of
Attorney's name in two different law firms
may be factually correct, if a disciplinary pro-
ceeding is commenced on this ground, it is
Attorney that will bear the burden of showing
that practicing under two firm names is not
misleading.
Attorney also must consider whether the
purpose or the effect of the arrangement is to
avoid or evade the disclosure obligations of
Rule 2-200(A). As a fiduciary, Attorney has
the obligation to render a full and fair disclo-
sure to Client. Neel v. Magana, Olney, Levy,
Cathcart & Gelfand, 6 Cal. 3d 176, 188-189
(1971). Rule 3-500 provides: “A member shall
keep a client reasonably informed about sig-
nificant developments relating to the employ-
ment or representation and promptly comply
with reasonable requests for information.”
Business and professions Code Section
6068(m) similarly provides that an attorney
has the duty to “keep clients reasonably
informed of significant developments in mat-
ters with regard to which the attorney has
agreed to provide legal services.”
Attorney should consider whether the
structure of the law firm, the fee and fee shar-
ring arrangements, and the identity of the
attorneys performing and supervising the
performance of services are of such impor-
tance that Attorney is obligated to disclose
that information to Client, and whether the
statements made (and not made) to Client
amount to deceit. Attorney may need to make
that determination on a case-by-case basis.
This opinion is advisory only. The com-
mittee acts only on specific questions sub-
mitted ex parte and the opinions are based
only on the facts set forth in the questions pre-

Remote Computing Rules for Attorneys

A few rules of thumb can increase the benefits of technology for mobile attorneys

Attorneys and law firms need not only technical support but mobility. Word processing, document depositories, automation, and legal research all become more difficult in courtrooms, hotels, and client sites. The result is akin to an arms race, in which winning a case can become a matter of technical superiority. Add the need for portability, including multimedia presentations in court and remote receipt of critical e-mail, and the technical challenge increases. Computer technicians can help lawyers concentrate on practicing law, but having some knowledge about the general principles of hardware and software can help attorneys avoid defeat on the remote computing battlefield.

First, regarding hardware, attorneys should recognize that notebook computers generally cannot be upgraded, so it makes sense to buy one that already has all the features that will be needed. For example, if a notebook will be used for multimedia presentations, it will need a removable hard drive bay and extra hard drives, because multimedia graphics require large amounts of hard drive space. It does not make economic sense to buy a laptop that lacks needed hard drive features if the buyer’s expectation is to upgrade the machine later. Instead, if laptop portability and multimedia are required, the attorney or firm should allocate the largest hardware budget possible toward the direct purchase of a top-of-the-line laptop.

A second rule of the road is to back up critical data. Too many legal professionals do not even have an established backup method for the office, let alone for the road. For most users, burning disks with the computer’s DVD-CD burner drive is a workable data backup method. (Users with computers lacking this drive should review the first rule above.) When there is more data to back up than what a DVD or CD burner can save, attorneys may also consider a USB or Firewire external hard drive for high-volume data backup.

Rule number three: Communication is critical, and with it comes the need for security. The mobile computer’s modem, NIC port, and wireless port are its connections to the outside world. Because dial-up speed is unacceptably slow, when renting a hotel room request broadband access at 10/100 speed and use your computer’s NIC or wireless connection. If these two connections are not available, the dial-up modem should be. Make sure that whatever your destination, you will have a toll-free dial-up number to connect to your Internet service provider and that your user name and password are already programmed into your browser. Your hard drive should be configured so that it is not shared. When using a wireless connection, encrypt your signal. Remember to use the password protection that your screen saver or hard drive has; otherwise, your work product could be available to anyone wandering eyes while you are away from the computer.

Fourth, choose an appropriate personal digital assistant (PDA). For traveling attorneys, this means a Pocket PC is likely to be preferable to a Palm Pilot. Most law office software is written with Microsoft in mind, and a properly configured PDA can synchronize all your case management information, including contacts, calendaring, and document data. With anything but Microsoft software, however, you increase the probability of having software conflicts arise in the field, where you are poorly equipped to solve them. As with the computer, remember to set a password on your PDA so that its data will not be available to the casual spy.

Rule five: When buying a portable scanner, find one that has a document feeder and comes with Adobe Acrobat Distiller. Copying documents during depositions or at client sites is common practice. After one experience of having to feed documents onto a surface scanner one by one, an attorney is not likely to forget this rule. Pay extra for the feeder.

The sixth rule concerns another budgetary challenge: a projector of sufficient power. Projectors are very expensive, so look for one that has enough brightness (which is often expressed in lumens) for the largest room in which you expect to be making presentations but that does not do (and cost) any more than necessary. Additionally, make sure the projector will plug into your notebook computer ports.

Software

A portable computing system includes software as well as hardware. A PDA can handle many case management functions, for example, but as these functions increase, so does the user’s dependence on its software and its interaction with other applications. Common problems with legal software include overlapping features, incompatibility between programs, and programs that do not deliver what is promised.

Overlap and incompatibility waste the technology budget. For example, lawyers in the office and on the road may have to purchase Word and WordPerfect rather than be left without either. Difficult choices also arise with other software, and most computer users can recount at least one experience with software that, after purchase, proved useless. For these reasons, traveling attorneys should use software that has already proven itself in the office and that can work with the cornerstone of a mobile computing system for attorneys: the database.

Accordingly, the seventh rule
of the road is: Avoid all applications that do not synchronize with Microsoft Outlook. Away from the office, access to data is paramount, and that data may be updated by individuals in different departments and may arrive via e-mail and from there spread to updated calendar and contact information. If this rule is overlooked, a mobile user who enters the critical new cell phone number of a client on a PDA while away from the office will not update other databases in the firm or in the PDA of outside cocounsel.

On the other hand, if you consider that every aspect of your legal practice can be automated, including document production, accounting, and more, the value of a central database with real-time remote access becomes apparent. At least some of this automation is possible with legal programs that synchronize with Outlook as the controller of the central database.

In fact, in the near future, the general principle of shared, remotely accessible data will lead to Outlook’s retirement as gatekeeper. For word processing, time and billing, and other legal data management needs, the key application is soon likely to be a browser—and in particular, Internet Explorer. You may have already seen Internet sites that manipulate and present data in what are called dynamic Web pages. The great advantage of these dynamic pages is that they can be accessed via the Internet, and thus are available to an attorney in another country as they are to one in the home office. With this technology, mobile users will log onto the firm’s Web site in order to open and store documents, perform legal research, and check calendaring and billing information, all through Internet Explorer. As long as a user has access to a Web browser, every software technology can become homogeneous. Further, as wireless access points to the Internet continue to be installed in coffee shops, gas stations, hotels, and airports, the usefulness of browser-accessible data increases.

Practicing law today is dangerous. As reliance on computers increases, viruses, system failures, data loss, and unwieldy legal software can cripple an entire firm. For attorneys who are traveling, this reliance on technology entails commitment to costly hardware and worries regarding data management and security. The tantalizing simplification—in the form of reliable database management via PDAs and the Internet—of the present state of affairs has yet to be realized. In the meantime, lawyers can still attempt to do what they do best—practice law—and keep in mind only those rules of the road that are of greatest importance, while leaving as many technical details as possible to the technicians.
Clearance and Copyright

Reviewed by Keith E. Cooper

This guide should be used with caution by filmmakers and attorneys alike


Toward the end of Clearance and Copyright: Everything the Independent Filmmaker Needs to Know, author Michael Donaldson, an entertainment attorney, expresses his view that current copyright law “is convoluted and often counter-intuitive.” Most copyright lawyers would agree that copyright law is complex and cannot easily be distilled into a relatively thin volume geared to a lay readership. Nevertheless, Donaldson attempts this task.

The chapters are arranged in the chronological order of the filmmaking process. Their structure could be improved. Donaldson buries essential information in discussions that oversimplify complex issues and may give lay readers a false sense of security. For example, at the end of a lengthy discussion of public domain and copyright periods, he finally advises filmmakers that “the question of whether a given work is in the public domain...is more often than not a...question for which you should receive the best possible legal advice.” This is arguably the most important sentence in that discussion, but it is one lay readers may skip.

To his credit, Donaldson repeatedly admonishes his readers to consult an attorney for help navigating the maze of legal rights associated with filmmaking. However, the reality is that most independent filmmakers who read this book will use it as a substitute for legal counsel. Those who do consult an attorney will likely do so only after they run into problems.

In some places in the book, Donaldson seems to forget who his intended readers are. Some of his suggestions are beyond the reach of independent filmmakers without lawyers—the presumed target audience. To a degree, Donaldson acknowledges this. After an explanation of music agreements, for example, he admits that it is not likely to apply to the deals most independent filmmakers will be doing.

Attorneys may sometimes use this type of book as a quick reference and substitute for expensive practice guides. This book’s usefulness for such a purpose is limited. The book contains factual errors, perhaps as the result of careless editing. For example, while listing copyrightable works, Donaldson notes “[a]rchitectural drawings, but not the buildings created from them.” In fact, buildings are protected under 17 USC Sections 102(a)(8) and 101, a change effected in 1990 to bring the United States into compliance with the Berne Convention. Donaldson also states that a copyright on a work for hire is “75 years from first publication.” Actually, it is now 95 years.

In discussing reasons to register a work with the copyright office, Donaldson says that registration before infringement provides statutory damages against an infringer (otherwise, only actual damages are available). This is true. However, he describes statutory damages as: “awards granted by a court when a copyright owner’s work has been infringed, but the owner cannot prove the actual losses....” This is somewhat misleading because, in an infringement action, a plaintiff with a registered copyright can choose between statutory or actual damages, even if actual damages can be proven. These and other mis-statements throughout the book are relatively minor, but cumulatively they reduce its usefulness as a legal research tool.

Also hampering its value as a quick reference for lawyers is the failure to provide citations for all cases. Donaldson provides a table of cases in an appendix, but it is incomplete. In one chapter, he discusses fact patterns for more than 15 published cases, but for that particular chapter the table provides only two citations.

Like other legal self-help books, Clearance and Copyright contains samples of various agreements that filmmakers may use to secure rights. Donaldson’s philosophy of drafting is admirable: “No matter what the subject of a contract is or how much money is involved, a contract ought to be well organized and easy to read.” However, he does not seem to take his own advice.

The sample agreements provide adequate legal protection, but Donaldson misses an opportunity to foster plain English in agreements among filmmakers who use standard forms. The sample agreements are full of legalese and convoluted writing that includes many “shall,” “therefore,” and phrases such as “perpetuating agreement” and “can be shown by you.” And in some cases, the introductory discussion is not consistent with the sample form. For example, in the discussion of option/purchase agreements, Donaldson advises that the first option payment on a script should be applicable to the purchase price (an industry standard), but the form he includes contains no such language.

What is worse, Donaldson invites the lay user to “just make any changes to the contract form [samples] that suit your needs.” This is a dangerous suggestion. Even without such encouragement, too many filmmakers inexpertly edit legal forms—with results that horrify the attorneys who are subsequently hired to repair the damage.

Keith E. Cooper is a sole practitioner specializing in entertainment law. He is a member of the Los Angeles Lawyer Editorial Board.
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CLE Preview

2004 Court of Appeal Walk-Through

ON MONDAY, MAY 10, the Association and the Barristers Section will present a court of appeal walk-through for attorneys who are either general practitioners or new attorneys who have not yet appeared before the California Court of Appeal. It will also be of value to attorneys who are experienced in the practice of appellate law. The first session will focus on the unique nature of appellate practice and will feature speakers Justice Michael G. Nott, attorney Robin Meadow, and clerk of the court Joseph Lane. Practical tips from an appellate judicial attorney will be provided by Marilyn Alper. The second session will cover writs. A mock conference will be presented by Pablo Drobny, Randee J. Barak, Gina M. Calvelli, Rita Gunasekaran, and Christine Hoeffner. In the third session, covering oral argument, two appellate practitioners will argue a case before a panel of four justices, followed by a panel discussion. Panel members are appellate court justices Paul Turner, Patti S. Kitching, Margaret M. Grignon, and Paul Boland, as well as attorneys Pamela Dunn and Richard H. Nakamura Jr. This program offers 3.25 hours of legal specialization credit in appellate law. The session will take place at the California Court of Appeal, 300 South Spring Street, third floor courtroom, Downtown. On-site registration will begin at 4 P.M., with the program continuing from 4:30 to 8 P.M. The registration code number is 008574.

$30—CLE+PLUS members
$45—LACBA members
$55—all at-the-door registrants
3.25 CLE hours

2004 Bernard Witkin Lecture

ON MONDAY, MAY 24, the Litigation Section will host the 2004 Bernard Witkin lecture. Witkin is a name known to every California lawyer. For almost 70 years he contributed to the educational needs of the bench, bar, and legal organizations. The Witkin Legal Institute is devoted to continuing his legacy of public service. With the institute’s support, the Litigation Section is proud to participate in that effort through the establishment of the annual Witkin lecture. The lecturer will be Erwin Chemerinsky, who will speak at the Dorothy Chandler Pavilion’s Salvatori Room, on the fifth floor, 135 North Grand Avenue, Downtown. On-site registration, along with the meal and reception, will begin at 11:30 A.M., with the lecture continuing from 12:30 to 1:30 P.M. The registration code number is 008562. CLE+PLUS members may attend for free ($40 meal not included). The prices below include the meal.

$70—Litigation Section members
$700—law firm tables (groups of 10)
$90—LACBA members
$100—all others
1 CLE hour

2004 Family Law Walk-Through

ON TUESDAY, MAY 11, the Family Law Section will present its annual walk-through program at the Los Angeles Superior Court. Judicial officers, experienced family law attorneys, and court staff will describe the basics of court procedures and processes.

This program will take place at the Los Angeles Superior Court, 111 North Hill Street, Downtown. On-site registration will begin at 4 P.M., with the program continuing from 4:30 to 7:45 P.M. The registration code number is 008572.

$15—CLE+PLUS members
$25—Family Law Section members and Barristers
$35—all at-the-door registrants
3.25 CLE hours

The Los Angeles County Bar Association is a State Bar of California MCLE approved provider. To register for the programs listed on this page, please call the Member Service Department at (213) 896-6560 or visit the Association Web site at http://forums.lacba.org/calendar.cfm. For a full listing of this month’s Association programs, please consult the May County Bar Update.
Civility? Yes, Civility

The entertainment industry has an urgent need to help restore civility to the national dialogue

We live in perilous times, unequaled in decades. Never has the republic had greater need for civil discourse, for ordered debate, for wise counsel, and the deliberate exchange of ideas. And perhaps in no arena is the need more crucial than in our popular culture, for this is precisely where we Americans tell one another so much about ourselves, where we feed back images of ourselves not only to each other but, equally important, to the broader world that watches our every move.

Yet wherever one looks—from home to school to workplace to quite clearly, the popular culture and, most glaring of all, the politics of our time—civility dialogue has largely disappeared.

In its place we have slipped into a comfortable contempt for those who hold contrary views; unease with people of other races, religions, colors, and creeds; disdain for lifestyles that are not exactly like our own; and a crippling cynicism that isolates, embitters, and threatens to destroy old notions of neighborhood and nationhood. And in this age of instant worldwide communications, this lapse has not gone unexploited by those who long to see us reduced to a relic of history. It is therefore not merely a domestic social crisis but a matter of national embarrassment.

We do not have to agree with one another. It is not the American way to march in lock step. But we do have to learn to disagree with civility. All of us.

And we in the entertainment industry, whether creative talent, executive, or lawyer, have an obligation to argue civilly and to foster civil conduct among others. The first step is to recover the simple notion of respect for our fellow citizens, of honoring the differences that make this a strong nation and beacon to the world—diversity of ideas as well as race, religion, and ethnicity. Perhaps we can begin to consider whether the content of our product—music, film, and television—contributes in a serious way to the prevailing uncivil atmosphere.

My concern is not to avoid the tough questions or difficult issues or even unpleasant subjects. Nor is it a call for mere politeness—civility requires more than just good manners. Nor is it a call to roll over and play dead. It is a call to avoid name calling and smears and code words. It is a call to avoid antigay, anti-Semitic, anti-Catholic, and anti-Black attacks. It is a call to avoid racial slurs and disparaging personal remarks or acrimony. It is an insistence that those with differing views be viewed not as fools or immoral or subversive or crypto-fascists/neocommunists (take your pick), but to value honest debate.

Looking at Washington, D.C. One can attack the president’s policies without attacking his integrity, his motives, or his intelligence or likening him to Adolf Hitler. Look at the campaign trail. One can challenge a candidate’s positions without attacking his or her integrity, motives, or intelligence. Surely we can attack a position or challenge one without disparaging another or telling knowing lies about elected officials or candidates or being disrespectful. To do otherwise is a bipartisan, indeed national, tragedy.

Look at rap lyrics. Is it not possible to write lyrics without denigrating women or employing hate-filled and racist phrases? At the 1992 Democratic Convention, the late Barbara Jordan proclaimed: We are one, we Americans. We are one, and we reject any intruder who seeks to divide us on the basis of race and color. We honor cultural identity. We always have; we always will, but separatism is not allowed. …Separatism is not the American way.

We must not allow ideas like political correctness to divide us and cause us to reverse hard won achievements in human rights and civil rights….

Look at those films and television shows that feature gratuitous and detailed violence—often in slow motion. Look at road rage, often resulting in the death of innocent men, women, and children—even helpless animals. Look at the habit of some to attribute false statements to others and then attack them for what they did not say.

In a healthy community, we encourage vigorous debate. We welcome the opportunity to air competing interests, values, and taste in the bright sunshine of the public square, the private square, the theater, and the air waves. We relish the opportunity to face our opponents, our adversaries, our competitors to look them squarely in the eye and utter the two most magical words in a free society: “I disagree.”

But not with words of disrespect, ridicule, or contempt.

Perhaps when the esteemed Judge Learned Hand spoke of the spirit of liberty in his 1944 Central Park speech, he came the closest to lighting the way. He said, “The spirit of liberty is the spirit which is not too sure it is right; the spirit of liberty is the spirit which seeks to understand the minds of other men and women; the spirit of liberty is the spirit which weighs their interests alongside its own without bias…..”

Or, to paraphrase W. H. Auden’s great poem, “September 1, 1939”: As I peer through the dark dishonesty of a low decade, I still see points of light flash out wherever the just exchange their messages. May I, like them, cast yet an affirming flame.

Let us all cast yet an affirming flame.
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For more information, call 1-800-762-5272.