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The job of the entertainment deal lawyer is different from that of many other types of transactional lawyers. Entertainment projects are often complete businesses in and of themselves, requiring lawyers to negotiate numerous intricate deals that are all separate from but dependent on one another and that balance the interests of all the different stakeholders. Financiers, distributors, talent, advertisers, and exhibitors all have different needs and different financial models that need to be addressed and accounted for in order to produce the project and monetize it successfully. This year’s special entertainment law issue offers a nearly complete course on the study of film and television production.

In this special issue, we focus on the nonglamorous issues that entertainment lawyers face every day. For example, we cover film finance, actor deals, and clearing rights. How does the production lawyer structure the financial deals that will provide adequate financing to produce the project, minimize the client’s risk, and provide a way for the investors to earn a return on their investment? While the garden of visual content is planted with the seeds of creative spark, those seeds will not germinate without sufficient financial backing. John Cones explains the nuts and bolts of financing films through equity investing through traditional means and crowdfunding. He outlines the legal landscape and instructs readers on what points must be negotiated.

Besides requiring money, producing visual content requires actors—whether in live action or giving voice to animated characters. The actor’s agent may have negotiated compensation, but the talent lawyer has numerous problems to solve that are not always exciting (approvals and indemnity and publicity, oh my!) but can make or break a deal. Jill L. Smith covers the contours of negotiating the nonfinancial terms of an actor employment agreement.

Even if a project is well financed and has stellar talent committed, content still reigns. Does the client have a great idea to turn a famous brand into a movie franchise? Does he have an even better idea on how to market the franchise using celebrity endorsements? No entertainment property can be made (or marketed) without carefully navigating the troubled waters of rights clearance. We have articles that address this important topic. Matthew Savare and John Wintermute, for example, discuss the complexities of the ever-evolving right to publicity doctrine and provide advice and insights for videogame developers, advertisers, recording artists, and the companies who distribute their works. Our Closing Argument focuses on counseling tech companies—although producers and their lawyers would also be wise to heed Owen J. Sloan’s advice—on the importance of properly licensing content. Finally, we review a book—perhaps “the” book—that addresses the manifold rights issues that filmmakers, videographers, television producers, YouTubers, and anyone else who makes visual content needs to know about rights clearance from initial acquisition to distribution.

We are proud to bring readers this special issue and hope it helps improve the quality of their legal analysis, advice to clients, and work product. Entertainment deal makers may not be the focus of the attention on the red carpet, but they certainly are a critical component in ensuring that their clients arrive there.
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What is the perfect day? When I come into the office and I have a lot of exciting new cases.

What is overrated about being an entertainment attorney? I don’t think anything is overrated about it. It’s great fun.

What is underrated? Lots of people feel that the clients are difficult, that they are more trying. I don’t find them so. My clients, over the years, have been very nice people. Actors. I’ve been lucky. Warren Beatty, Dustin Hoffman, Tom Cruise—each of those three is just a delightful human being.

Do you have a favorite famous client? No. If I did, I wouldn’t tell you.

What is your wildest court story from the good old days? My first jury trial was a case in which I represented a man who had been accused of groping an undercover vice squad officer standing at the urinal of a skid row movie house. In the course of the trial, I suggested to the cop that maybe my client had just brushed him. He said, “No, sir, he went at this for at least 45 seconds.” I got up in front of the jury, and I said, “Now, take out your watches.” I started to stroke the jury rail, and I stroked, and I stroked. I said, “That’s four seconds.” I kept on stroking and said, “What are they talking about? This guy’s an officer of the law? One stroke made the offense.” I said, “That’s seven seconds.” I stroked, and I stroked. By the time we got to 20 seconds, the jury was just rolling in laughter. They acquitted the guy.

You’ve represented top performers and huge entertainment companies. Do you have a preference? No. It’s the issues that make the case fun or not fun.

Under a pseudonym, you’ve written novels and a biography. How is it different than practicing law? You are given a lot more rein for the imagination in novel writing. In nonfiction writing, it’s similar to the law. You do a lot of research.

What was your best job? Working in a stable when I was a teenager.

What was your worst job? Setting pins in the bowling alley. In the old days, it wasn’t automatic.

What characteristic did you most admire in your mother? She was smart.

If you were handed $1 million tomorrow, what would you do with it? I would probably give it to Harvard Law School. Over the centuries, it really has helped mold American law.

What scared you the most the first time you stood in front of a jury? Losing.

Do you believe jurors obey the judicial officer’s instruction to ignore the news and social media during a trial? No.

You graduated from Harvard Law School in 1952 and have been practicing for decades. Have juries changed much? Society has changed much in that people are much better educated than they were, and juries are a part of that.

In 2009, you were accused of hiring Anthony Pellicano to wiretap Michael Davis Sapir of Bold magazine. How did it feel? It was very unpleasant. Mr. Pellicano was the best detective that I have ever hired. He did a superb job. As far as I know, he didn’t wiretap for me. I was never charged, but the media was all over me.

What book is on your nightstand? West of Sunset. It’s about F. Scott Fitzgerald’s last years in Hollywood.

Which magazine do you pick up at the doctor’s office? I do not touch magazines at the doctor’s office because I’m a hopeless neurotic about picking up diseases at the doctor’s office.

What is your favorite vacation spot? I have an old mill in the French countryside that I love, and I also have a house in Zihuatanejo overlooking the bay. I can’t weigh one against the other.

What is your favorite hobby? Writing.

You are 80-plus years old. Any retirement plans? Not as of today.

What is your favorite sport as a participant? Tennis. When I was younger, I played football. I loved it because that’s how you get girls. I was small and slow.

How do you get your news? Television. I’m a news junkie. I cook every night, and while I cook, I listen to the news.

Which person in history would you like to take out for a beer? Abraham Lincoln, because he had a great sense of humor and a wonderful political sense during a challenging time.

What are the three most deplorable conditions in the world? Terrorist aspects of extreme Islam and ISIS, hunger, and limited healthcare in great parts of the world.

Who are your two favorite U.S. presidents? Lincoln and Franklin Delano Roosevelt.

What is the one adjective you would like on your tombstone? “He loved his life.”
Guidelines in Bankruptcy Procedure for Nonbankruptcy Litigators

**BANKRUPTCY LAW IS A HIGHLY SPECIALIZED FIELD,** and although it is possible to successfully dabble in bankruptcy law in the context of broader nonbankruptcy litigation, bankruptcy practice is riddled with traps for the unwary. However, there are a few common areas that nonbankruptcy litigators will regularly experience.

The Bankruptcy Code is set forth in Title 11 of the U.S. Code and is accompanied by the Federal Rules of Bankruptcy Procedure, which incorporate many of the Federal Rules of Civil Procedure but which also deviate from them in numerous material ways. The bankruptcy court is a federal court that has been granted authority by Congress to adjudicate disputes arising under, arising in, or related to the Bankruptcy Code. As in the U.S. district court, filings in the bankruptcy court can be retrieved in PACER, and papers may be filed in the bankruptcy court via the case management/electronic case files (CM/ECF) system. Nonbankruptcy litigators with CM/ECF privileges in the district court must obtain a new CM/ECF login from the bankruptcy court, which can sometimes be a time-consuming process.

The three chapters of the Bankruptcy Code that a litigator is most likely to encounter are chapters 7, 11, and 13. Chapter 7 cases are typically filed by individuals seeking to discharge all of their prebankruptcy debts. Chapter 11 cases are typically filed by entities and wealthy individuals seeking to reorganize their debts. Chapter 13 cases are typically filed by individuals seeking to retain or modify mortgaged property and to pay a portion of the debtor’s debts over a five-year period.

No other aspect of the Bankruptcy Code affects nonbankruptcy litigators more than the automatic stay set forth in Section 362 of the Bankruptcy Code. The automatic stay is triggered the moment a bankruptcy debtor files a petition for bankruptcy protection and it operates as an automatic injunction prohibiting any party with notice of the bankruptcy from taking any actions against the debtor or property of the bankruptcy estate. As set forth in Section 541 of the Bankruptcy Code, generally all of a debtor’s prebankruptcy property is part of the bankruptcy estate, including any claims or causes of action that accrued prior to the bankruptcy. In chapter 7, a debtor’s postpetition income is not part of the estate, but in chapters 11 and 13, a debtor’s postpetition income is part of the estate.

In practice, this means any court actions pending against the debtor, as well as collection and foreclosure actions against the debtor, must cease. Litigation in which a debtor is a defendant or cross-defendant should be stayed immediately. However, litigation in which a debtor is a plaintiff is not ordinarily stayed—although state courts often mistakenly stay the litigation anyway. A defendant may continue to defend in the action by pursuing demurrers, motions for summary judgment, and other similar filings without being impeded by the automatic stay.

Lawyers should not take the automatic stay lightly. Even informal notice of the bankruptcy is enough to put a party on inquiry notice of a bankruptcy, and the party should immediately stop any actions pending against a bankruptcy debtor or the debtor’s assets. Parties who violate the automatic stay may be found liable for actual damages, punitive damages, and a debtor’s attorneys’ fees. If a party wishes to continue pursuing actions against a debtor, the party must first seek relief from the automatic stay in the bankruptcy court. This is a relatively easy process for a secured creditor seeking to foreclose its collateral, but a plaintiff seeking to assert claims against a debtor may have greater difficulty getting relief from the stay.

Ultimately, a debtor in chapter 7 or chapter 13 is seeking to discharge debts, including causes of action pending against the debtor.

A plaintiff asserting fraud-type claims against a debtor should immediately investigate whether to pursue a nondischargeability action against the debtor in bankruptcy court pursuant to Section 523 of the Bankruptcy Code. Such actions are not barred by the automatic stay, but a claim holder only has approximately two months to file this action or will likely lose the cause of action as part of the debtor’s discharge.

On the other hand, when a debtor is a plaintiff or potential plaintiff, the debtor must disclose all of the debtor’s assets, including any potential claims or causes of action owned by the debtor at the time of the bankruptcy since such claims may be of value to the debtor’s creditors. In chapter 7 cases, the bankruptcy trustee takes possession of the lawsuit and is solely responsible for pursuing the claims or settling them. A litigator defending such claims should seek out the bankruptcy trustee to determine whether the trustee is willing to settle the debtor’s claims out from underneath the debtor.

Less scrupulous debtors may seek to hide a cause of action from the bankruptcy court so that the debtor may pursue the claim for his or her own benefit. In doing so, the debtor has effectively tricked the bankruptcy court into granting the debtor a discharge by hiding valuable assets. If a defendant is defending claims brought by a bankruptcy debtor that were not properly disclosed to the bankruptcy court, the defendant has two tactical options: 1) a defendant may reach out to a chapter 7 bankruptcy trustee to settle the debtor’s claims out from underneath the debtor, or 2) if the debtor has already obtained a discharge, a defendant may seek to dismiss the debtor’s claims on judicial estoppel grounds. The equitable doctrine of judicial estoppel serves to prohibit the debtor from pursuing the cause of action in these circumstances.

Christopher O. Rivas is a senior associate with the commercial restructuring and bankruptcy group at Reed Smith LLP in Los Angeles.
Right of Publicity Issues in Emerging Media

**IN 1956, A COURT LIKENED** the state of publicity law—the right to control the commercial use of one’s identity—in the United States to a “haystack in a hurricane.” Since then, courts have brought little clarity to the doctrine. Indeed, recent case law in the videogame space has not resolved the seemingly incongruous opinions amongst various courts and has highlighted the inherent conflict between the doctrine and the First Amendment.

In January, the U.S. Court of Appeals for the Ninth Circuit addressed this issue in *Davis v. Electronic Arts Inc.* The videogame company had already lost dual landmark cases in 2013, with the Third and Ninth Circuits’ deciding, in *Hart v. Electronic Arts Inc.* and *Keller v. Electronic Arts Inc.*, respectively, that Electronic Arts was not entitled to First Amendment protection for its use of the virtual likenesses of college football players in its popular NCAA Football line of games. *Davis* extended the ruling in those previous cases to the professional football context and held that the “historic teams” feature in Electronic Arts’s Madden NFL games, which allows gamers to control avatars resembling retired players, violates those players’ right of publicity because those likenesses are “central to the creation of an accurate virtual simulation of an NFL game.”

The implications of *Davis, Hart, and Keller* for videogame manufacturers are materially adverse. Yet the broader takeaway is the difficulty in reconciling an ever-evolving right of publicity doctrine with emerging technologies and new media. Judicial adaptation to new technology is never painless, but innovative businesses and marketers face unique uncertainty and risk in navigating these unpredictable waters. As content providers, brands, advertisers, news organizations, and the public continue to blur the lines of art, commerce, entertainment, and information—particularly with respect to new technologies and methods of distribution—an unclear and ever-expanding right of publicity doctrine has the capacity to chill innovation.

The present flood of right of publicity litigation, especially concerning entertainment properties, tracks the doctrine’s swift growth since its inception in 1953. In that year, the Second Circuit coined the term “right of publicity” to support the idea that a “prominent person” possessed “the right to grant exclusive privilege in publishing his picture” in advertisements. Since that holding, this limited formulation of the right has been expanded to include protection for non-celebrities, postmortem rights, and broad categories of identification.

Today, 31 states recognize a right of publicity (19 by statute, 21 by common law, and 9 by a combination of the two). Among the states that recognize the right, it is generally comprised of three components: 1) use of the plaintiff’s identity, 2) without the plaintiff’s consent, and 3) for commercial purposes. “Commercial purposes” in California, as in many other states, includes both uses “in products, merchandise, or goods” and “for purposes of advertising or selling.”

However, there are wide variations in the right across the different states. For example, some states have extended publicity rights past the subject’s death, while others have not, the duration of this postmortem protection varies widely among the different jurisdictions, and some, though not all, states accord the right to celebrities and non-celebrities alike. Moreover, as the doctrine has evolved over the years, the identity prong has morphed from its humble beginnings of protecting only a person’s name and picture to include virtually any indicia of a person’s identity. Statutes and courts from various states have extended protections to, among other things, name, voice, signature, photograph, likeness, “look-alikes,” “sound-alikes,” catchphrases, nicknames, screen persona, performance characteristics, and biographical data.

Since its inception, the right of publicity has been a controversial doctrine, engendering criticism from academics, judges, and the public at large, particularly with respect to its interplay with the First Amendment. In one of the most well-known opinions regarding the conflict between the right of publicity and the First Amendment, the U.S. Supreme Court, in its only case involving the right of publicity, held that free speech protections “do not immunize the media” from right of publicity violations. The Court declined, however, to impose any standard or test to resolve the tension between these competing principles.

The dangers identified by Judge Kozinski stem from the perceived inconsistent and haphazard balancing of publicity rights and free speech. Indeed, no fewer than five First Amendment tests have been recognized in evaluating right of publicity claims. The U.S. Supreme Court, in its only case involving the right of publicity, held that free speech protections “do not immunize the media” from right of publicity violations. The Court declined, however, to impose any standard or test to resolve the tension between these competing principles. The result has been chaotic, as lower courts have created

Matthew Savare is a partner and John Wintermute is an associate at Lowenstein Sandler LLP, where they practice intellectual property, media, entertainment, technology, and privacy law with a particular focus on new media.
their own ad hoc balancing tests borrowed from copyright, trademark, and other areas of the law. Such a process has engendered seemingly conflicting rulings, doctrinal inconsistencies, and uncertainties for plaintiffs and defendants.

In Keller, Electronic Arts proffered First Amendment defenses based on the following four tests: 1) the transformative use test, 2) the Rogers test, 3) the public interest test, and 4) the public affairs exemption. The Ninth Circuit dismissed the latter three defenses as inapt and rejected Electronic Arts’s contention that its use was transformative. The Court held that the “realistic” nature of the players’ depictions in the game rendered Electronic Arts’s use of their likenesses nontransformative, and hence subject to the players’ publicity rights.

Keller’s “realistic use” holding, along with Hart’s nearly identical analysis, is troubling for content creators and a potential boon for athletes and celebrities. Realism, many critics of these decisions argue, is an entirely acceptable creative aim and one that judges do not have the authority or the artistic wherewithal to condemn. Given the Supreme Court’s recognition that videogames are entitled to the same degree of First Amendment protection as other forms of creative works, such as books and movies, the Ninth Circuit’s holding seems inconsistent with controlling case law and begs several important questions. Why are docudramas like The Social Network, which are based on real people and a certain degree of verisimilitude, shielded from right of publicity claims by the First Amendment while realistic videogames are not? How is a videogame, which has been held by numerous courts to be expressive speech, considered a commercial use? To what degree does someone’s persona need to be “transformed” to receive First Amendment protection? Can such transformation result in a different cause of action, such as a defamation claim? At a time when technology is enabling photorealistic renderings of individuals (both living and deceased) for entertainment content, First Amendment advocates argue that the vagaries and uncertainties of the transformative use test make it ill-equipped to balance the right of publicity doctrine with the right to free speech.

In Davis, Electronic Arts also argued that the First Amendment protected the use of former NFL players’ likenesses because they appeared in only a single feature of the game, amounting to an “incidental use” of their images. The Ninth Circuit rejected this defense, citing a number of factors, including “the unique value” of the use “and its contribution to the commercial value of Madden NFL,” Electronic Arts’s advertising of the “historic teams” feature, the prominence of the former players’ likeness, and their relation “to the main purpose and subject” of creating “an accurate virtual simulation of an NFL game.” In essence, the court held there to be a misappropriation of the players’ publicity rights because “[a]ccurate depictions of the players” was “central” to an accurate virtual experience.

But Davis, too, arguably fails to accord traditional First Amendment protections to new media. This seeming incongruity is illustrated when Davis is read in conjunction with Dryer v. National Football League, which was decided by a district court in Minnesota only three months earlier. In that case, former NFL players had sued the league itself, claiming that its use of the players’ likenesses and historical video footage in various NFL Films productions was unauthorized and a violation of their publicity rights. The Dryer court rejected the suit’s merits, finding for the NFL on all of its various arguments, including that the films qualified for full First Amendment protection as noncommercial speech and were protected under the “newsworthiness” doctrine. Given the similar fact patterns of the two cases, the contradictory dispositions of Davis and Dryer are striking.

In fact, the Dryer court addressed and accepted the same incidental use argument that the Ninth Circuit rejected in Davis: The NFL is capitalizing not on the likenesses of individual players but on the drama of the game itself, something that the NFL is certainly entitled to do. Plaintiffs do not explain how the NFL could create a visual recounting of a significant football game or the season of a particular football team without the use of footage of NFL players playing in those games. While the NFL certainly reaps monetary benefits from the sale and broadcast of these productions, the use of any individual player’s likeness—the productions’ display of footage of plays involving an individual player—is not for commercial advantage but because the game cannot be described visually any other way.

Conversely, Davis viewed the necessity of the players’ likenesses for achieving a realist virtual simulation as inculpatory, not exculpatory, evidence. That raises the question as to why Electronic Arts is not entitled to exploit its license with the NFL to create accurate virtual simulations of games (including the reenactment of historical games), just as the NFL is entitled to create traditional, visual accounts of historical games? Why is Electronic Arts’s pursuit of realism any less valid than the NFL’s? One can reconcile the Davis and Dryer holdings by pointing out that the courts are different and the Minnesota district court is not bound by the holdings of the Ninth Circuit. Such a response ignores the fundamental problem—namely, that the right of publicity doctrine is convoluted and contradictory, particularly with respect to emerging media and technologies.

This has led to more, not fewer, lawsuits. In addition to the Hart, Keller, and Davis cases against Electronic Arts, right of publicity lawsuits emanating from videogames have been filed recently by Manuel Noriega, Lindsay Lohan, No Doubt, and the estate of General George Patton. Hart and Keller, in fact, relied upon No Doubt v. Activision Publishing, Inc., in finding that celebrity depictions in a video game were not protected unless they somehow “transformed” the subject. This trend shows no signs of slowing. The mutable doctrine and ad hoc application of various First Amendment tests creates an unhealthy environment for all parties involved. Content creators are faced with uncertainty as to what rights need to be cleared, undue threats of litigation, and a potential chilling of arguably protectable speech. The persons depicted in the content have to invest the time, money, and risks associated with formal legal action. If the law were clearer on this subject, the likelihood that there would be a meeting of the minds between the parties would presumably increase and the chances of litigation would almost certainly diminish.

These problems are compounded as innovative companies and emerging technologies blend artistic, commercial, and informational messages in hybrid speech. Existing right of publicity and First Amendment jurisprudence, which compel content to be judged as either commercial or noncommercial, fails to appreciate that speech is not always binary and often cannot be placed in these neat, notional buckets. The emergence of hybrid speech, such as advertorials and native advertising, and the advent of social media and its functionalities, such as “likes” and “retweets,” have further complicated matters for brands and content creators and increased their opportunities to run afoul of right of publicity laws.

Take, for instance, the dispute between Katherine Heigl and Duane Reade in the summer of 2014, over a tweet sent out by the drugstore chain. The disputed post captioned a paparazzi photo of Heigl exiting a Duane Reade store with the message “Don’t you just love a quick #DuaneReade run? Even Katherine Heigl can’t resist shopping at #NYC’s most convenient drugstore!” Alleging that those 19 words had violated her right of publicity, Heigl sued the company for $6 million. The parties quickly settled for an undisclosed sum, but questions abound. To what extent does the First Amendment protect a company’s truthful social media statements dis-
cussing a celebrity’s use of its product or service? Does it matter that Duane Reade included its hashtag in the tweet and would it have been safer to simply retweet the photograph without any additional messaging?

On this set of facts, existing case law seems to lean in Heigl’s favor. But would more indirect messaging be acceptable? For example, companies often provide free swag at celebrity functions, such as the Oscars. Can these companies, which pay to get their products freely distributed to celebrities, post pictures of these celebrities (with no captions or other verbiage) with these products without their permission? Here, the answer appears less clear than in the Heigl case, and likely depends, among other things, such as the choice of law, on which definition of commercial speech the applicable court employs.

In Central Hudson Gas & Electric Corporation v. Public Service Commission, the U.S. Supreme Court defined commercial speech as “expression related solely to the economic interests of the speaker and its audience.” However, just three years later in Bolger v. Youngs Drug Products Corporation, the high court defined commercial speech as “speech which does ‘no more than propose a commercial transaction’.” More recently in Kaskey v. Nike, Inc., the California Supreme Court concluded that certain speech was “commercial” because “the messages in question were directed by a commercial speaker to a commercial audience, and because they made representations of fact about the speaker’s own business operations for the purpose of promoting sales of its products.”

Retweeting a picture of a celebrity carrying a company’s products, without including any messaging, still seems to be commercial speech and problematic from a right of publicity perspective under Central Hudson and Kaskey, but possibly not under Bolger. What if the facts are changed and the company posting the message is truthfully reporting on a celebrity’s philanthropic involvement with a charity that the company sponsors? Although there is no definitive answer, what is clear is that a 140 character message can expose companies—even ones that are doing more than simply proposing a commercial transaction—to a Page Six headline and a multimillion dollar lawsuit.

In light of our culture’s fascination with celebrities and sports figures, incorporating some elements of their personas into our messaging—be it a tweet, a Facebook post, a virtual reality simulation, a videogame, or a 60-second spot—will continue unabated. Likewise, because stars often earn more money licensing their name, image, voice, or likeness and go to great lengths to cultivate their image, their professional representatives will continue to enforce their publicity rights vigorously.

With all of the aforementioned doctrinal uncertainties and with the likes of Lindsay Lohan invoking her right of publicity against everyone from E-Trade to the makers of Grand Theft Auto, businesses and their advertising agencies must assume that simply evoking someone’s persona, even in the most tangential way, will result in a demand letter and ultimately litigation. Despite Supreme Court precedent to the contrary, lower courts are simply not affording certain types of entertainment speech, especially videogames, the same robust First Amendment protections it gives other expressive content. In light of this environment, any commercial venture should carefully evaluate whether using—or simply evoking—the persona of an individual (celebrity or non-celebrity) without permission in any messaging (unless unequivocally noncommercial) is worth the risk. Until Congress or the Supreme Court acts to clarify and reconcile the various discrepancies concerning the scope of publicity rights, the definition of commercial speech, and the bounds of First Amendment protection, the haystack will keep blowing.

1 Ettore v. Philco Television Broadcast Corp., 229 F. 2d 481 (3d Cir. 1956).
4 Keller v. Electronic Arts Inc., 724 F. 3d 1268 (9th Cir. 2013).
5 Davis, No. 12-15737 at 16.
6 Haelan Labs., Inc. v. Topps Chewing Gum Inc., 202 F. 2d 866, 568 (2d Cir. 1953).
7 The states with statutory sources of publicity rights are California (CIV. CODE §3344-3344.1), Florida (FLA. STAT. ANN. §540.08), Illinois (765 ILL. COMP. STAT. ANN. §1075/1), Indiana (IND. CODE ANN. §32-36-1-1), Kentucky (KENT. REV. STAT. ANN. §391.170), Massachusetts (M.G.L. ANN. CH. 214, §3A), Nebraska (NEB. REV. STAT. §20-201), Nevada (NEV. REV. STAT. ANN. §597.7700), New York (N.Y. CIV. RIGHTS LAW §§50, 51), Ohio (OHIO REV. CODE ANN. §2741.01), Oklahoma (OKLA. STAT. ANN. Tit. 21, §839.1), Pennsylvania (42 PA. CONS. STAT. ANN. §§5161), Rhode Island (R.I. GEN. LAWS §§9-3-28.1), Tennessee (TENN. CODE ANN. §§48-25-1101-1108), Texas (TEX. PROP. CODE ANN. §26.001-15), Utah (UTAH CODE ANN. §§45-3-3), Virginia (VA. CODE ANN. §8.01-40), Washington (WASH. REV. CODE ANN. §63.60.010), and Wisconsin (WIS. STAT. ANN. §895.30). The states that recognize a common law right of publicity are Alabama, Arizona, California, Connecticut, Florida, Georgia, Hawaii, Illinois, Kentucky, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, Ohio, Pennsylvania, South Carolina, Texas, Utah, West Virginia, and Wisconsin. The states that recognize both a statutory and common law right of publicity are California, Florida, Illinois, Kentucky, Ohio, Pennsylvania, Texas, Utah, and Wisconsin.
9 CIV. CODE §3344.
10 See, e.g., CIV. CODE at §3344.1.
13 See, e.g., Watts v. Frito-Lay, Inc., 978 F. 2d 1093 (9th Cir. 1992); Miller v. Ford Motor Co., 849 F. 2d 460 (9th Cir. 1988).
14 See, e.g., Carson v. Here’s Johnny Portable Toilets, Inc., 698 F. 2d 831 (6th Cir. 1983).
16 See, e.g., McFarland v. Miller, 14 F. 3d 912 (3d Cir. 1994).
20 White v. Samsung Elecs. Am., Inc., 989 F. 2d 1512 (9th Cir. 1993) (Kozinski, J., dissenting). The case involved a Samsung advertisement for its consumer electronics equipment, which depicted various Samsung products with various humorous predictions. The commercial was to illustrate that Samsung’s products would still be used 20 years in the future. The image in question in this case involved a robot dressed to look like Vanna White beside a game board reminiscent of that of Wheel of Fortune, with the caption “Longest running game show. 2012 A.D.” The U.S. Court of Appeals for the Ninth Circuit reversed the district court’s rejection of White’s summary judgment motion for a common law right of publicity claim, stating that it “declines Samsung and Deutch’s invitation to permit the evisceration of the common law right of publicity through means as facile as those in this case.”
21 Id. at 1519.
22 These tests include: 1) the transformative use test employed by the California Supreme Court in Comedy III Prods., Inc. v. Saderup, Inc., 25 Cal. 4th 387 (2001); 2) the Rogers test, from Rogers v. Grimaldi, 875 F. 2d 994 (2nd Cir. 1989); 3) the standard from the RESTATEMENT (THIRD) OF UNFAIR COMPETITION, which was used by the Sixth Circuit in FTW Corp. v. Jireh Pub’g, Inc., 332 F. 3d 915 (6th Cir. 2003); 4) the predominant use test utilized by the Missouri Supreme Court in Doe v. TCI Cablevision, Inc., 110 S.W. 3d 363 (Mo. 2003); and 5) the knowingly false standard, a concept from libel law adopted in some right of publicity cases, including Hoffman v. Capital Cities/ABC, Inc., 255 F. 3d 1180 (9th Cir. 2001).
23 Zacchini v. Scripps-Howard Broad. Corp., 433 U.S. 562 (1977). The Zacchini case demonstrates that the doctrine is not confined to commercial speech. In Zacchini, the Supreme Court concluded that a television station had to compensate a performer when it
aired his entire act without his consent during its 11 o’clock news program. Although the unauthorized use concerned a seemingly newsworthy event, the court held that the First Amendment did not immunize the station. Although commentators have construed the decision narrowly to apply only to misappropriations of a plaintiff’s entire act, its holding illustrates that even newsworthy speech is not beyond the reach of the doctrine.

24 Keller v. Electronic Arts Inc., 724 F. 3d 1268, 1273 (9th Cir. 2013).
25 Id. at 1274-84.
29 Id. at 14-16.
30 Id. at 16.
32 Davis, Case No. 12-15737 at 16.
33 Aside from the interplay between the First Amendment and the right of publicity, other challenges exist with respect to the right of publicity, including choice of law and forum shopping due to the wide variations in the law, the variations with respect to postmortem protection, and the different definitions and tests employed to determine whether the speech at issue is commercial. Based on these and other factors, numerous commentators have called for the U.S. Supreme Court to clarify the doctrine or for the passage of a federal right of publicity law.
35 Lohan v. Take-Two, Case No. 156443/2014.
38 See Keller v. Electronic Arts Inc., 724 F. 3d 1268, 1278-79 (9th Cir. 2013). (“Like the majority in Hirt, we rely substantially on No Doubt, and believe we are correct to do so.”).
43 Lohan v. E’Trae Secs. LLC, Case No. 10-084579, filed in the Supreme Court of the State of New York, County of Nassau.
44 Lohan v. Take-Two, Case No. 156443/2014, filed in the Supreme Court of the State of New York, County of New York.
Tax Residency Issues for Filmmakers, Actors, and Musicians in California

**MOVIES ARE FILMED IN FOREIGN LOCATIONS;** musicians go on tour; actors, writers, producers, and directors come to Los Angeles. As a result of all this moving around, people working in entertainment may find themselves treated as California residents for income tax purposes even if they do not intend to live here permanently. Certain tax planning techniques may be available, however, to mitigate the impact of being treated as a California resident, particularly in connection with the sale of substantially appreciated intangible property, for example musical copyrights.

Nevertheless, the consequences of being caught in a state’s tax net are significant. A person who is treated as a resident of a state is typically subject to income tax on all income, even if it was earned elsewhere. Further, each state has its own residency test, each of which may be satisfied in multiple ways. An individual may be treated as a resident of two states at the same time.

To illustrate, a New York actor coming to work on a television series in Los Angeles may be treated as a New York income tax resident under New York’s income tax laws because he or she intends to return to New York upon completion of the project and as a California income tax resident under California’s income tax laws if the work on the television project is for an indefinite duration. In this scenario, both states may seek to tax the actor’s worldwide income earned during the period of dual residency. The scenario is not completely dire because relief from double taxation is typically granted in the form of an “other state tax credit” or OSTC. However, this relief may not be complete.¹

In California, persons who are classified as residents are subject to California income tax on all their income, regardless of where it was earned.² Consequently, if a New York actor is treated as a California income tax resident as a result of being present in California while working on a television show in Los Angeles, he or she would become taxed in California on any income received while a California resident. This may include fixed fees, profit participations, and deferred compensation earned from earlier New York projects, as well as passive income such as dividends, interest, rents, and royalties. In contrast, nonresidents of California are only subject to California income tax on income that is derived from California sources.³ If the New York actor can avoid being treated as a California resident, he or she can limit liability for California income tax to the taxes owed on income from the L.A. television show.

The tax statute for determining who is a California resident or nonresident is Section 17014 of the California Revenue and Taxation Code, which defines a resident as including both 1) “[e]very individual who is in this state for other than a temporary or transitory purpose”⁴ and 2) “[e]very individual domiciled in this state who is outside the state for a temporary or transitory purpose.”⁵ A nonresident is any person who does not meet either of these tests.⁶ Not all states apply the same residency test. In fact, California’s test is a bit of an outlier. Many states apply a bright-line, 183-day presence test in lieu of an “other than a temporary or transitory purpose” test. There is no bright-line test for determining when a person is considered to be present in California for other than a temporary or transitory purpose. The evaluation is made on a case-by-case basis.

California’s Franchise Tax Board Publication 1013 explains that all relevant facts and circumstances are considered in residency determinations. The goal of the facts-and-circumstances test is to determine “the place where [the taxpayer] has the closest connections.”⁷ In this respect, the “other than a temporary or transitory purpose” test is similar to the “center of vital interest” test that applies under the tie-breaker residency provisions in U.S. income tax treaties with foreign countries. Publication 1013 lists 13 nonexclusive factors commonly considered when making this determination. They are 1) the amount of time one spends in California versus the amount outside California, 2) the location of one’s spouse or registered domestic partner and children, 3) the location of one’s principal residence, 4) the state that issued one’s driver’s license, 5) the state where one’s vehicles are registered, 6) the state in which one maintains one’s professional licenses, 7) the state in which one is registered to vote, 8) the location of the banks where one maintains accounts, 9) the origination point of one’s financial transactions, 10) the location of one’s medical professionals and other healthcare providers, accountants, and attorneys, 11) the location of one’s social ties, such as one’s place of worship, professional associations, or social and country clubs of which one is a member, 12) the location of one’s real property and investments, and 13) the permanence of one’s work assignments in California.⁸

This facts-and-circumstances test offers little guidance to taxpayers seeking certainty. However, certain rules and presumptions apply
under California law to assist in its application. First, there is a rebuttable presumption that every individual who spends in the aggregate more than nine months of the taxable year in California is a California resident. This presumption may be overcome by satisfactory evidence that the individual is in the state for a temporary or transitory purpose. Note that the converse is not true—spending less than nine months of the taxable year in California does not necessarily avoid California residency. Affidavits or testimony of an individual and of employers or business associates that the individual was in the state to complete a specific business transaction will usually be sufficient to overcome a presumption of residency.

Second, Section 17014 of the California Code of Regulations provides that presence in California for other than a temporary or transitory purpose includes “employment in California that may last permanently or indefinitely.” This rule may cause differing tax treatment of film actors versus television actors. Film actors can probably satisfy this test because principal photography lasts for a finite duration. However, television actors may not be able to satisfy this test because television series run for an indefinite duration and, while being made, often represent the actor’s primary source of employment.

Third, in apparent acknowledgment of the difficulty in applying this “temporary or transitory purpose” test, the California Legislature created a safe harbor under Revenue and Taxation Code Section 17014(d), which provides:

For any taxable year beginning on or after January 1, 1994, any individual domiciled in this state who is absent from the state for an uninterrupted period of at least 546 consecutive days under an employment-related contract shall be considered outside this state for other than a temporary or transitory purpose.

For purposes of this safe harbor, returns to California totaling, in the aggregate, not more than 45 days during the taxable year are disregarded. However, the safe harbor does not apply if 1) the taxpayer has income from stocks, bonds, notes, or intangible personal property in excess of $200,000 in any taxable year in which the employment-related contract is in effect; or 2) the principal purpose of the individual’s absence from the state is to avoid California income tax. This safe harbor is attractive to entertainers because it allows them to escape the California tax net while retaining domicile in California.

While some may qualify as residents for being in California for other than a temporary or transitory purpose, others may be treated as income tax residents by being domiciled here. The term “domicile” has a special legal definition that is not the same as “residence.” While many states consider the terms to be the same, California views them as two separate concepts, even though they may overlap. As discussed in Publication 1013, “[d]omicile is defined for tax purposes as the place where you voluntarily establish yourself and your family, not merely for a special or limited purpose, but with a present intention of making it your true, fixed, permanent home and principal establishment.” Stated differently, “it is the place where, whenever you are absent, you intend to return.”

Although a taxpayer can be an income tax resident of several states simultaneously, a taxpayer can generally only have one place of domicile. Consequently, once a person has established California as his or her place of domicile, the only way that such person can no longer be treated as a California resident is to be outside of California for “other than a temporary or transitory purpose.” Entertainers that come to work in California on a film or television project often intend to leave California upon completion of the project. They usually do not intend to make California their “true, fixed, permanent home and principal establishment” and, therefore, should not satisfy the domicile test for California residency. Once a person establishes California as a place of domicile, it is difficult to change it. To do so, a person must not only leave California but also affirmatively establish a new domicile in a different jurisdiction.

California residency opinions issued by the California State Board of Equalization are not easily reconcilable. The only common thread is that taxpayers seem to lose. One rationale given in these opinions is that a taxpayer is a resident if he or she receives the benefits and protections of California’s laws and government over an extended period of time. Therefore, the more time a taxpayer spends in California, the greater the likelihood that he or she will receive these benefits and protections, and be deemed a California resident.

If a person is not a California resident, only income from California sources is subject to California income tax. California’s sourcing rules are set forth under Revenue and Taxation Code Sections 17951 and 17952. Income from California sources includes, without limitation, 1) income from real or tangible property located within California, 2) compensation for services performed within California, and 3) intangible income that has a business situs in California.

These sourcing rules are also important for California income tax residents. This is because California allows its residents a credit against their California income liability for taxes paid to another state on income that is sourced to that state. No credit is allowed for income taxes paid to cities or to foreign countries. The credit is allowed only if the other state does not allow a credit for California taxes paid on the same income. This rule prevents credits from being applied in both states. California, like most other states, limits the amount of the OSTC to the amount of California tax owed on the double-taxed income.

This tax crediting mechanism is unlikely to provide complete relief for any California income tax paid for two reasons. The first reason is that California currently has the highest state income tax rate in the United States (13.3 percent). Therefore, the OSTC allowed in California will almost never equal or exceed the California taxes owed on the same income. Similarly, with respect to California nonresidents, the OSTC allowed in their state of residency will be unlikely to equal or exceed the California income taxes owed on any California source income because California’s income tax rate is almost certain to be higher.

The second reason that this crediting regime may not provide complete relief is that certain types of income do not have a state source (e.g., passive investment income such as interest and dividends) and therefore may end up being double taxed in the event the taxpayer is treated as a resident of two states simultaneously. Therefore, one cannot assume that reliance on OSTCs is an adequate substitute for sound tax planning.

Changing Domicile

California domiciliaries looking to reduce their state tax burden may consider a domicile shift—that is, leaving California and establishing a domicile in a state with a lower income tax rate, such as Texas or Florida. This is easier said than done. It requires: 1) abandoning the California domicile, 2) physically moving to and residing in a new locality, and 3) demonstrating by actions an intent to remain in the new locality permanently or indefinitely. Taxpayers generally must sell or lease their current California home, take their children out of California schools, move bank accounts, and change driver’s licenses, vehicle registrations, and voting registrations.

Because of the difficulty in accomplishing a domicile shift, the safe harbor alternative under Revenue and Taxation Code Section 17014(d) can be attractive. As discussed above, this safe harbor alternative provides that any person domiciled in California who is absent from the state for an uninterrupted period of at least 546 consecutive days under an employment-related contract shall be treated as a California nonresident (subject to the $200,000 intangible income limitation). This safe harbor provision, therefore, allows a California domiciliary to drop out of the California tax net.
pations and residuals are properly character-
ized as service income and therefore should not
count toward the $200,000 intangible income
limitation noted above. However, the $200,000
intangible income limitation would include
“portfolio” income, such as interest and div-
idends, and may include any royalties received
from film or record profits if the individual
owns all or part of the underlying rights.

A planning opportunity may exist when a
California resident anticipates selling a highly
valuable intangible asset, such as a music cat-
alog. This type of planning is similar to the
planning often done for individuals who antic-
ipate selling substantially appreciated closely
held business stock. The rationale of these
strategies is the same: intangible assets (whether
closely held stock or a music catalog) are gen-
erally sourced to the state of a taxpayer’s
domicile under the principle of mobilia sequ-
untur personam (chattels follow the person).
Thus, by changing one’s domicile, one can
often change the state of sourcing of income
realized from the sale of intangible property.

Changing one’s domicile away from Cal-
ifornia to reduce the state income taxes owed
on the sale of the intangible property is sub-
ject to two notable caveats. The first caveat
is that the intangible asset cannot have a
business situs in California; otherwise, gain
from the sale of the intangible will continue
to be sourced to California notwithstanding
the domicile change.

Under Section 17952(c) of the California
Code of Regulations, intangible personal
property has a business situs in [California] if
it is “employed as capital in this State or the
possession and control of the property has
been localized in connection with a business,
trade or profession in this State so that its
substantial use and value attach to and become
an asset of the business, trade or profession
in this State.” This regulation also provides
that intangible personal property of a non-
resident has acquired a California business
situs, “the entire income from the property
including gains from the sale thereof, regard-
less of where the sale is consummated, is
income from sources within this State, taxable
to the nonresident.” Little guidance exists
on the issue of what it takes for a copyright
to acquire a “business situs” in California.

In Holly Sugar Corporation v. McCollan,22
the California Board of Equalization held
that “[b]usiness situs arises from the act of the
owner of the intangibles in employing the
wealth represented thereby, as an integral
portion of the business activity of the partic-
ular place, so that it becomes identified with
the economic structure of that place.…”

Applying the foregoing guidance, it would
seem that merely licensing a song catalog into
California for use in television commercials
and movie trailers would not give rise to “busi-
ness situs” in California because it would not
arise from the act of the owner thereof (the
songwriter) using the musical copyright as part
of an integral portion of its business activity in
California.

Based on the foregoing guidance, it would
seem that merely licensing a song catalog into
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of an integral portion of its business activity in
California.

The second caveat to this type of planning
is that the property sold must represent an
intangible (e.g., a musical copyright) as op-
posed to a form of deferred compensation.
The label given to the property is not deter-
native, and the contract giving rise to such
rights must be carefully analyzed in making this
determination. The relevant analysis is illus-
trated by California and federal income tax
authorities.

For example, in its Ruling Number 345,
the California Franchise Tax Board ruled
that amounts titled “royalties” received by an
author from a New York publishing company
for textbooks written in California were actu-
ally compensation for services because they
were earned “under a continuing contract with the publisher.” In IRS Program Manager Technical Assistance Memorandum 2007-0007, IRS counsel advised that payments made in respect of a “writer’s share” interest in a musical copyright were royalty income (not compensation income) because the music publishing contract under which the songs were made: 1) did not obligate the taxpayer to write any music and 2) granted the music publisher only a limited copyright in the music—i.e., the right to use the songs in U.S. markets. In Revenue Ruling 74-555, the IRS held that amounts received by a foreign author under a contract granting a U.S. company the U.S. serial rights in his exclusive output of both long and short stories were royalty income because the contract “did not prescribe in any manner what the taxpayer was to write or when it was to be written.”

As these authorities illustrate, making the determination between compensation and income derived from the ownership of an intangible requires a careful analysis of the contract giving rise to such income.

In general, if the income is paid under a contract to provide services, pursuant to which the service provider did not retain any interest in the copyright produced from the engagement, such income should be treated as deferred compensation. In contrast, if the income relates to a “publishing” contract without any specific output requirements, the income payable to the service provider thereunder will likely be treated as royalty income as opposed to deferred compensation. In the latter scenario, if the taxpayer anticipates selling this income stream, the taxpayer could consider undertaking a domicile shift to a lower tax jurisdiction to minimize the state income taxes owed on the gain from the sale of this “intangible.” As discussed above, accomplishing a domicile shift requires 1) abandoning your California domicile, 2) physically moving to and residing in a new locality, and 3) intending to remain in the new locality permanently or indefinitely.

In conclusion, it is worthwhile for individuals working in the entertainment industry to pay attention to California’s rules regarding residency and domicile. With awareness of these rules, one can structure one’s affairs as best as possible to avoid being treated as a California resident altogether. However, even if this cannot be done, steps can be taken to mitigate the negative effects of being treated as a California resident (e.g., acceleration or deferral of income). Thus, for those who enter, all is not lost.

1 States are not bound by and generally do not follow U.S. tax treaties insofar as residency determinations are concerned. Therefore, it is possible for an individual to be considered a nonresident for U.S. federal income tax purposes (either under U.S. law or under the relevant foreign income tax treaty) but a resident of California.

A CONTRACT IS an “agreement, upon sufficient consideration, to do or not to do a particular thing.” In the entertainment field, an attorney often is brought into a contract negotiation on behalf of an actor client after an agent has discussed and potentially resolved some of the material deal points—most likely the fee and credit. The attorney is likely to handle the remaining noncompensation provisions that are essential to the deal. While actors just starting their careers often have little leverage or desire to haggle over much beyond a standard deal, seasoned or breakout performers may be able to negotiate for better nonfinancial terms. The provisions that can make or break a deal are largely dependent on the type of deal at issue.

For theatrical motion pictures or long-form television motion pictures, settling on the fee payable to the actor can often raise more questions. The first question is likely to be, “What services are covered by the fee?” For day and weekly player agreements, which are the standard for newcomers and unknown performers, the answer is usually simple. A day rate covers a day of services; a weekly rate covers a week. But the answer is not as obvious in a “flat fee” deal, which is the norm for talent of greater stature and for roles requiring services longer than a few days or weeks.

One issue is likely to be exclusivity, which is generally not a contentious issue in movie deals. The presumption is that the actor’s services will be exclusive to the production company during production periods and subject to professional availability during periods not consecutive to the production period. Both parties must agree upon the extent to which the flat fee covers these services.

Actors are typically required to render services for preproduction (rehearsal, costume fittings, etc.), production (i.e., principal photography), postproduction (which may include special effects work, dubbing, and reshoots), and publicity for the film. It is not unusual for an actor’s deal to be based on a set amount of services, broken down into a specific number of days for consecutive exclusivity.

Jill L. Smith is an entertainment attorney at Kleinberg Lange Cuddy & Carlo LLP in Los Angeles.
sive preproduction services, a specified number of weeks for shooting, and a maximum number of days for postproduction services. The actor may be required to render services beyond those specified, for which the production company pays additional sums known as overages.

Parties will often agree to a “run of show” deal in which the fee is intended to cover the services for the entire length of production. However, there can be differing interpretations of what that means. A production company may expect that a “run of show” deal means that there is no chance for overages and that no matter how long the shoot lasts, the flat fee covers all production services. The talent, on the other hand, may interpret a “run of show” deal to mean that the fee covers the period of shooting based on the scheduled period as of the start of the shoot. In that case, the expectation might be that if the shoot goes overschedule, the actor will be entitled to overages. Notwithstanding the efforts of both parties to negotiate each material deal term prior to papering a deal, these issues of interpretation may not become apparent until both sides attempt to document their differing understanding of the deal.

Similar discussions are required concerning the number of days included in the flat fee for preproduction and postproduction services. In addition, there may be limitations on the type of postproduction eligible to be included in the flat fee. For instance, are reshoots to be considered postproduction services covered by the flat fee or additional photography services that could give rise to overages? The more attention given to these issues during negotiation, the less likely disagreements will arise during the documentation phase.

Publicity Services and Credit

The requirement to render publicity services is another area for debate. Studios often consider an actor’s promotional and publicity services essential to the deal. Some studios will attempt to make it a requirement that the actor be present at certain promotional events (e.g., the picture’s premiere). While seemingly reasonable, this requirement may affect the actor’s ability to take on other work, as the new job may conflict with the deal picture’s publicity schedule.

Another issue involving required promotional services could arise in the case of an actor who is taking less money to work on a movie or is not receiving any contingent compensation. In that situation, actors may believe that they should not be obligated to render publicity services. A well-known actor appearing in a cameo role may feel that it is not appropriate to publicize the picture, given the small role, for example.

In addition to compensation, another deal point that is usually raised early is credit. Discussions will involve the order of the actor’s credit in relation to other actors as well as other details such as size and placement. While the movie-watching public may pay scant attention to the placement of credits before or after the title of the movie or in big bold letters in a poster, talent and production attorneys tasked with working out these complexities are typically quite concerned with whether the credit to actor A or B will appear first, or at the same time, or with one on the upper right side and one on the lower left. While the usual focus is on getting the biggest and best credit, there are instances in which no credit is permitted. For example, a high-status actor appearing in a cameo may insist on not being accorded any credit. The intricacies of credit negotiation at times will also involve discussions about the use of an actor’s image in advertising for a movie. A contract might address not only when the likeness can, or must, be used, but also the size of the actor’s image in relation to other likenesses appearing in the same advertisement.

Approval Rights

Some actors have sufficient clout to be accorded certain creative approval rights. Typical areas of such creative input are in respect of the selection of the director, the final screenplay, and other principal cast members. But not all approval rights are the same. Most approval rights afforded talent will provide that, in the event of a disagreement, the studio’s decision will prevail. An absolute approval right, however, provides the actor with the ability to walk away from the picture if the actor does not approve a certain element. Such an approval right can put an entire movie in jeopardy, a potentially untenable position from the perspective of a studio that may have already invested millions of dollars in development and preproduction. Similarly, an actor of a certain stature may find it wholly unacceptable to work on a film that he or she does not completely support. A typical compromise would provide for a true approval right to convert into a consultation right at some point prior to the start of shooting, but even that concept will require the parties’ agreement as to when that conversion occurs.

Other common approval rights concern the actor’s photograph, nonphotographic likeness, and biography as well as behind-the-scenes materials including the actor and footage recorded for, but not used in, the picture. It is not unusual for an actor to have input on some or all of these areas. The degree of that input will depend on the parties involved.

Another key area of negotiation in respect of motion picture talent deals is the use of the artist’s name, likeness, and voice. No one disputes the studio’s ability to use the actor’s recorded performance in the movie itself, but the breadth to which that performance may be used beyond the movie and publicity, promotion, and advertising for the movie can result in extensive conversations prior to agreement. The request in a talent deal to a “one picture license” is commonly understood to mean that the results and proceeds of the actor’s services may only be used in the picture itself and in advertising, promotion, and publicity for the picture. The biggest hurdles to overcome in that regard concern the right to use the talent’s name, likeness, and voice in connection with merchandising and soundtrack albums.

The request for a one-picture license is no longer as innocuous as it was in the past. A successful movie can lead not only to a line of board games, toys, books, and music videos but also to mobile applications, computer wallpapers, video and computer games, theme park rides, and ice arena shows. In this instance, the determinative factor is less likely to be about the performer’s stature and more likely to be about what studio is involved, as Disney and Universal have theme parks. At times a studio will insist on the ability to use an actor’s name or likeness in connection with merchandising. Short of the actor’s ending negotiations (which can happen), the next best step is to ensure that the actor is appropriately compensated for this use.

Merchandising tends to be an all-or-nothing proposition. Most pictures have little or no merchandising, but when a movie’s merchandising campaign hits, it can hit big. It is incumbent on the talent attorney to ensure that the royalty provisions are adequately and clearly negotiated. But even under the best of circumstances with heavily negotiated provisions, an actor may not feel that he or she is getting what was promised.

The use of someone else to dub an actor’s voice in their native language can be embarrassing from the actor’s perspective—or necessary from the studio’s. While not at all the only instance, Andie MacDowell’s entire performance in 1984’s Greystoke: The Legend of Tarzan, Lord of the Apes was famously overdubbed by Glenn Close. Limiting the circumstances under which the voices of actors can be dubbed and providing actors with the first opportunity to dub in their native language are customary compromises.

Consideration also needs to be given to the studio’s ability to re-create an actor’s likeness. Use of technology to fabricate an actor’s image means that the use of a double is no longer the only way to do so. An attorney representing an actor will want to give consid-
eration to these issues in order to ensure the integrity of the actor’s work.

**Nudity**

Another area often addressed in talent deals is the extent to which an actor may appear in nude, semi-nude, and sex scenes. For most roles, this topic is a nonissue; there will be no nudity or sex scenes. For others, this issue can result in heated discussions between the production attorney and the talent attorney. The SAG-AFTRA Agreement states: “The appearance of a performer in a nude or sex scene or the doubling of a performer in such a scene shall be conditioned upon his or her prior written consent.”

Separate consent is typically contained in a nudity rider, which “must include a general description as to the extent of the nudity and the type of physical contact required in the scene.” Indeed, the nudity rider more typically addresses, in painstaking detail, the specific permitted and nonpermitted filming areas of the actor’s body as well as the use of the materials. If an actor agrees to perform in nude scenes and then reneges on the agreement, the usual recourse for the production company is that a body double will be hired. The engagement of a body double in those circumstances is permitted by SAG-AFTRA. However, there has been a recent counter-suit filing by the company that produces *Femme Fatales* for Cinemax against an actress, Anne Greene, for allegedly breaching the applicable nudity rider by retracting consent.

Time will tell if that reaction proves credible.

**Perquisites and Options**

The final area of nonboilerplate, noncompensation terms in respect to an actor’s motion picture deal concerns perks. This area, like the others, comes with a wide range of possibilities. The A-lister commanding a private jet and a full entourage including an on-set pilates teacher, masseuse, and chef is far from routine. Nonetheless, negotiations between the studio and the actor’s attorney may go into the finest details. The particulars concerning the type and size of dressing room and the amenities to be included in it, the hotel, room type, quality of ground transportation (for both self-drive and with a driver) and, of course, the class and number of roundtrip air transportations to be provided, are all likely to be discussed.

Although a television or internet/streaming series may begin as a pilot (or even just a test in which an actor auditions for a pilot), the specifics are customarily entirely negotiated before the actor says a single line on camera. Series deals differ from theatrical or MOW motion picture deals primarily because they have the potential for continuing for so many years. Accordingly, while some of the non-compensation issues raised in talent deals for motion pictures are the same in series deal negotiations, there are significant distinctions.

Deals and fees for a series regular are generally structured as a per-episode payment. But even that resolved issue brings its own set of questions and negotiations. It is not unusual for a series to include episodes in which a regular cast member does not appear. The question of whether or not that actor is nonetheless paid for that episode depends on how his deal was negotiated.

The gold standard in such respects is for an actor to be paid his or her episodic rate on an “all episodes produced” basis. The actor would then be compensated for all episodes even if he or she appears in less than all. Even then there will be a discussion as to whether there is a minimum number of episodes guaranteed per season. Particularly in light of the long production schedule and burdensome exclusivity requirements, there are strong justifications for an actor to be guaranteed payment for a certain number of episodes each season.

Although some series regular actor deals are intended for one season only, the traditional series deal will grant the studio options for additional seasons. Accordingly, another threshold issue in a series deal will be the number of options granted to the studio. It is typical in these instances for the studio to want options totaling seven seasons (or seven and a half if the show initially airs in the spring). The number of options results in a long-term commitment from the actor and impacts the inevitable renegotiation of a series deal which occurs once a series becomes a success; that is, the shorter the commitment, the more leverage the actor has if a series becomes a hit.

**Exclusivity and Relocation**

A main component of a television series deal is exclusivity. The requirements of exclusivity flow in two directions—what other services the actor is permitted to render and when those services may be rendered. Unlike feature motion pictures, which customarily have a straightforward beginning and end of production schedule requiring an actor’s exclusive services and after which the actor is released, a television series by its nature is in a relatively constant state of production and postproduction during which there will be stretches of time when an actor’s services are not needed. As a result, a series actor is not usually barred from rendering outside services.
during production periods, albeit in second position to the series. The bigger issue in series deals is the other aspect of exclusivity—the nature of permitted outside services.

As a starting point, studios want the actors on their shows to be relatively exclusive to the show, at least in respect of television and, more recently, internet programming. So, even when the agreement permits an actor to render outside services, there is a practical limit to his or her ability to do so. Since the actor may only have periods of a few consecutive days off, other than during true hiatus periods (traditionally during May and June), from the beginning of production of a season to the season’s production wrap, it will be nearly impossible for an actor to schedule work on a feature. And, whereas it may be more realistic to coordinate production schedules for an appearance on another series, the actor’s deal may preclude that. While there may be some exceptions to television exclusivity in episodic deals (a limited number of guest spots, appearance in foreign commercials and services in nonidentified voice-over commercials are commonly permitted), in general, an actor signed to a series role has made a significant commitment.

Another distinction between series deals and movie deals concerns location services. For a movie, the actor may need to be on location for several months. For a television series, if the show is successful, there is a possibility that the actor will be at the production location more than at his or her preseries residence.

An actor may be provided with traditional travel and expenses for pilot services. However, most series actor deals will provide that if the series is produced on location the actor will receive a one-time relocation fee in lieu of accommodations and per diem. For some individuals, the possibility of such uproot can result in the death of a deal.

Publicity

An actor’s publicity commitment is also significant in a series deal. Like motion picture talent deals, most publicity services are subject to the actor’s professional availability. However, most studios also obligate the actor to be present at certain events (e.g., the Television Critics Association Press Tour occurring in January and July, and the annual upfront presentations and related activities occurring in May), further affecting an actor’s ability to take outside work.

The other nonfinancial deal terms that may be addressed in a talent agreement for a series are for the most part comparable to those of a feature deal. Those provisions will assuredly include credit as well as approvals and restrictions in respect of the use of the actor’s name, voice, likeness and biography. Another venue for an actor to render services is in connection with product or service commercials or endorsements. By nature, endorsements focus on the use of an actor’s name, likeness, voice, and persona. The value of an actor’s name and likeness in connection with supporting a particular product or service is evidenced by the number of lawsuits by an actor or actor’s estate in which a likeness was used without consent.8 Accordingly, issues relating to such usage are of paramount importance in these deals.

A starting point for the question of permitted usage will be the type of services required. The range of possible services includes on-camera work, voice-over services, live appearances, still photography sessions, or any combination of these. The services rendered pursuant to these types of deals are usually more limited and may result in more flexible scheduling for the actor.

Once the nature of the required services is determined, the manner in which the services can be used is the overriding issue requiring resolution. For instance, a deal requiring one day of on-camera services can result in a multitude of commercials in various lengths as well as still photographs that can be used in print ads or the like. The details of the allowable usage will address territory, term, and media. These negotiations can be a critical aspect of the deal for actors with existing deals (e.g., for a series) that impose limitations on their ability to appear in commercials.

An infrequently used but potent provision in this type of deal is a liquidated damages provision. Such a clause would obligate the contracting party (often the advertising agency rather than the product manufacturer) to pay the actor for each individual breach of the agreement. The amounts are usually very high (six or seven figures per breach), which creates a strong incentive to comply with the terms of the deal.

Another area of significance in an endorsement-type agreement is exclusivity. The exclusivity at issue does not relate to the actor’s ability to do other work but rather to what products the actor may be prohibited from also endorsing during the term of the deal at issue. Is an actor appearing in a beer commercial to be prohibited from promoting another beer, any other alcoholic beverage, any refrigerated beverage, or any beverage at all? The actor will want the scope of exclusivity to be as narrowly defined as possible while the company whose product the actor is endorsing may want to broaden the scope to both protect the brand and to have the actor’s endorsement be that much more meaningful.

Approvals and Liability

Approval rights in these types of deals may also be significant. An actor may require approval of the director of the commercial as well as the storyboard prior to committing to rendering services. While the company will be reluctant to give an actor approval rights that could significantly affect the company’s right to use materials already created (and paid for), certain deals will nevertheless provide an actor with additional approval rights over the finished products. In light of the Federal Trade Commission’s truth-in-advertising requirements, including that “[e]ndorsements must reflect the honest opinions...or experiences of theendorser,”9 approvals can protect endorsers as well as sponsors. For example, Octavia Spencer was awarded almost $1 million in damages in a default judgment against Sensa, a weight loss company, for wrongful termination of her endorsement contract based on her appropriate social media postings that reflected that she was a paid sponsor.10

One issue unique to these types of deals is the nature of protection afforded the actor arising out of a third party’s use of the product endorsed. An injured party will often seek relief against anyone affiliated with a product causing the injury that could include the actor who has been promoting the product. While the actor may ultimately be released from the claim or otherwise determined to be not responsible, the burden of defending himself from a frivolous claim should not fall on the actor. Accordingly, the issues of liability insurance and indemnification provisions are of particular importance in these types of deals.

Notwithstanding the many similarities among all talent deals, the differences between them require a talent attorney to evaluate, analyze, and negotiate each deal individually and at some point make a determination about whether a deal is in place. When all goes smoothly, as it does more often than not, that determination will not be subject to scrutiny. But, when something goes wrong, a threshold question may be whether or not there was a contract. The most famous, or perhaps infamous, situation regarding that issue reached involved the motion picture Boxing Helena and a lawsuit by the producers against Kim Basinger after she backed out of portraying the lead role. While the producers were initially victorious against Basinger in the 1993 jury trial,11 the verdict was ultimately overthrown and the case settled.12

A diametrically opposite lawsuit was the topic of another notable case filed in 2001 by Sharon Stone in which Stone alleged that her deal to reprise her star-turning role from Basic Instinct was in place.13 Stone’s suit against the producers of Basic Instinct 2 was initiated when the production was canceled. That case eventually settled,14 and, ultimately resulted in the completion and
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release of the sequel starring Stone. As the suits involving Basinger and Stone reveal, it is not always comprehensible to both sides whether or not an agreement is reached. The bottom line is that the attorney tasked with closing an actor’s deal needs to carefully consider all issues particular to, and the individual circumstances of, that deal. Not one of these issues by itself is usually insurmountable; rather, it is the totality of the deal (which certainly includes the compensation) that gets evaluated and results in either mutual agreement on all material issues or an endnote in an article about deals gone awry.

1 See http://thelawdictionary.org/contract.
5 Id.
6 “If a performer has agreed to appear in such scenes and then withdraws his or her consent, Producer shall have the right to double, but consent may not be withdrawn as to film already photographed.” Id.
9 Guides Concerning the Use of Endorsements and Testimonials in Advertising, 16 C.F.R. §255.1(a).
TRANSMUTATION OF LAW

Under *Marriage of Valli*, third-party transactions are not exempt from transmutation rules

WHEN the California Supreme Court issues an opinion that addresses a community property issue, family law practitioners take note.1 In the recent *In re Marriage of Valli* decision,2 the court held that a $3.75 million whole life insurance policy that singer Frankie Valli purchased from a third-party insurance company, naming his wife as sole owner and sole beneficiary, should be characterized as a community property asset.3

The *Valli* decision also involves the issues of transmutation and the application of Evidence Code Section 662. Although straightforward in its holding, *Valli* is a departure from prior transmutation cases and has possible consequences that could affect estate planning and creditor rights.

In *Valli*, the key distinction from prior cases holding that insurance policies purchased with community funds are community property was the fact that Valli had named his spouse both as legal owner of the policy and the sole beneficiary of the cash proceeds upon his death. It was clear from the terms of the policy that Valli had divested himself of ownership and control, apparently for estate planning purposes. The court of appeal had unanimously determined that because ownership stood in Mrs. Valli’s name with Mr. Valli’s knowledge and consent, the policy was presumed to be her separate property. The supreme court, in reaching its result, expanded the law of transmutation to include not only transactions between spouses but also between a spouse and a third party.

*Valli* also limits what role Evidence Code Section 662 may have on characterization of property in a dissolution. The supreme court considered whether the policy should be characterized as community property or separate property under Section 662, which states: “The owner of the legal title to property is presumed to be the owner of the full beneficial title. This presumption may be rebutted only by clear and convincing proof.” In *Valli*, the supreme court held that “We need not... decide here whether Evidence Code section 662’s form of title presumption... applies... Assuming for the sake of argument that [it] may sometimes apply, it does not apply when it conflicts with the transmutation statutes.”

The basic facts in *Valli* were not in dispute. During the marriage, Mr. Valli acquired the policy on his life and named his wife as its sole owner and sole beneficiary. The trial record indicated that Mrs. Valli did not participate in the transaction. She did not suggest that she be the owner nor the amount of insurance that should be acquired. Mr. Valli had the assistance of professionals (his business man-

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1 William S. Ryden is a certified family law specialist and a partner with Jaffe and Clemens in Beverly Hills. He was lead counsel for Mrs. Valli at trial and through the appeal.
ager and life insurance agent) in making his decision to acquire and title the policy. He paid the life insurance premiums with community property funds. There is no question that he relinquished all indicia of legal ownership, beneficial ownership, and management and control of the policy.

Clearly, Valli did not have any expectation of sharing in the economic benefits, since the death benefit would be payable upon his death. This is not an uncommon occurrence. For estate planning purposes, couples often take out life insurance policies and place title or ownership in one spouse’s name to keep the proceeds out of the insured’s estate in order to avoid or reduce estate taxes. In certain instances couples do not consult with attorneys before acquiring policies, nor are they likely to discuss the possible legal and economic consequences that will flow from their choices if there is a later divorce.

Prior to Valli, no family law case had extended the Family Code’s transmutation statutes to apply to transactions between a spouse and a third party. No family law case prior to Valli eliminated application of Evidence Code Section 662 to characterization issues. The facts of Valli provided the court with an opportunity to carve out an exception for situations in which the conduct of a party or the writings signed by a party demonstrate that the party intended to relinquish all ownership interest in an asset, or alternatively, to carve out an exception applicable to life insurance policies.

Considering prior applicable decisions, the court interpreted Family Code Sections 850 to 852, which concern transmutations, to apply to transactions involving third parties if one spouse claims as separate property an asset acquired during marriage and paid for with community funds that is titled in that spouse’s name. The fact that Valli did not expressly state in writing that he intended to give up a community interest or change the character of an asset meant that the requirements of Family Code Section 852 had not been met, making the life insurance policy community property. In order to appreciate the context of this new rule, one must understand why transmutation rules were created.

In 1984, the legislature enacted what are now Family Code Sections 850, 851, and 852. Those statutes provide the requirements for how one spouse could change the character of an asset from community property to separate property, or separate property to community property, or the separate property of one spouse to separate property of the other. This change of character is a transmutation, and for it to be valid, it must be made in writing by an express declaration that is made, joined in, consented to, or accepted by the spouse whose interest in the property is adversely affected. The purpose of the transmutation legislation was to eliminate the ability of spouses to claim that the character of property changed based on an alleged oral agreement or a party’s conduct.

**Transmutation in MacDonald**

In 2005, the court decided In re Marriage of Starkman, which concerned whether an estate plan satisfied the requirements of the transmutation statutes. In that case, the husband, heir to the UPS fortune, married in
1. In determining whether a transmutation will be effective, courts primarily look to the intent of the parties.
   True.  
   False.

2. A key fact in Marriage of Valli that makes it different from prior cases involving insurance policies purchased with community funds is that Mr. Valli, on his own, named Mrs. Valli as owner and beneficiary.
   True.  
   False.

3. Evidence Code Section 662 provides that the owner of legal title to property is presumed to be the owner of beneficial title.
   True.  
   False.

4. For a transmutation to be effective, it must be made in writing by an express declaration that is made, joined in, consented to, or accepted by the spouse whose interest in the property is adversely affected.
   True.  
   False.

5. In order to be sufficient to effectuate a valid transmutation, a writing need only include language of transfer.
   True.  
   False.

6. The presumption set forth in Evidence Code Section 662 can only be rebutted by clear and convincing evidence.
   True.  
   False.

7. While one spouse can transmute his or her separate property to community property, a spouse cannot transmute his or her separate property to the other spouse as separate property.
   True.  
   False.

8. In order to be sufficient to effectuate a valid transmutation, a writing must include the word “transmutation.”
   True.  
   False.

9. Mr. Valli, in naming his wife as both owner and beneficiary, confirmed that he intended to relinquish his community property interest in the policy.
   True.  
   False.

10. One purpose in enacting the transmutation statutes was to eliminate claims that the character of property (either as community property or separate property) had changed based on an alleged oral agreement between the spouses.
    True.  
    False.

11. The transmutation rules never apply to an acquisition by one spouse from a third party.
    True.  
    False.

12. Execution of a quitclaim deed can be sufficient to effectuate a transmutation.
    True.  
    False.

13. Spouses engaging in interspousal transmutations are not subject to fiduciary obligations.
    True.  
    False.

14. If an alleged transmutation writing is ambiguous, the spouse asserting that a transmutation of property has occurred may introduce parol evidence to remove the ambiguity.
    True.  
    False.

15. Instructions to an investment manager to “transmute” or “journal” stock into a spouse’s name is sufficient to cause a change in the character of the stock.
    True.  
    False.

16. It is legally permissible for spouses to enter into conditional transmutations that only change the character of separate property to community property in the event of one spouse’s death.
    True.  
    False.

17. One way to avoid application of the transmutation statutes is to provide in estate planning documents that the transmutation agreement is automatically terminated upon the filing of a petition for dissolution of marriage.
    True.  
    False.

18. The holding in In re Marriage of Brooks and Robinson is no longer applicable.
    True.  
    False.

19. For estate planning purposes, if the intention of the parties is to keep life insurance proceeds out of the estate of the insured spouse, premium payments should be paid from a separate property source.
    True.  
    False.

20. Community property is liable for a debt incurred by either spouse before or during marriage.
    True.  
    False.
1990. In 1996, he employed an attorney to prepare an estate plan. Contemporaneously with execution of the trust, the husband and wife executed a general assignment to convey “any asset, whether real, personal, or mixed” that they owned or would own to the trust. The general assignment did not specifically identify any property as the husband’s separate property. One month after the execution of the trust and general assignment, the attorney sent the parties copies of the estate plan instruments. The cover letter advised that the trust provided a presumption that all the trust assets were “your community property unless you clearly specify otherwise. Therefore, it is very important that separate property be clearly identified as such.”

The husband later executed various stock brokerage transfer forms to convey specific assets into the trust. Each form designated the assets to be held by the husband and wife as trustees. The forms did not describe the assets as either community property or separate property. During dissolution, the wife contended that the assets that her husband had conveyed to the trust by the stock brokerage forms had been transmuted into community property. The trial court disagreed and ruled that he did not transmute his separate property assets by conveying them to the trust. The wife appealed.

The question presented to the appellate court was whether the trust, general assignment, and stock brokerage forms taken together established an express intent on the husband’s part to change the character of his separate property to community property. The court reasoned that a writing signed by the adversely affected spouse is not an “express declaration” for the purposes of Family Code Section 852(a) unless it contains language that expressly states that the characterization or ownership of the property is being changed. The court also held that an “express declaration” does not require use of the terms “transmutation,” “community property,” “separate property,” or a particular locution. Although the court held that those terms were not required, “The express declaration must unambiguously indicate a change in character or ownership of property. A party does not “slip into a transmutation by accident.” Moreover, the court held that “In deciding whether a transmutation has occurred, we interpret the written instruments independently, without resort to extrinsic evidence.”

The court found that neither the trust’s terms nor the conveyance to the trust effected by the general assignment was sufficient to establish unambiguously that the husband was effecting a change of ownership in the entirety of his significant separate estate. Had there been an intent to effectuate a change of ownership, the parties might have stated that any property transferred to the trust by either of them “becomes” or “is changed into” the community property of the parties. The trust’s stated purposes could have stated (but did not) that one purpose was for the husband to transmute the entirety of his separate estate to community property. Reasonable inferences from other trust provisions regarding separate property supported the court’s conclusion. The court also found that a letter from the husband’s attorney to be inadmissible extrinsic evidence and that the estate plan instruments and stock brokerage transfer forms did not establish a transmutation of the husband’s separate property into community property.

In 2008, Marriage of Holtemann was decided, and another legal concept came into play. Effective transmutation agreements cannot be conditional. Although executed for purposes of estate planning, the characterization as community property is not limited only for estate planning. Once a valid transmutation occurs, it is valid and enforceable, regardless of the purposes for which it was done. In Holtemann, the husband and wife married in 2003 and separated in 2006. During marriage, the parties retained an attorney to prepare estate planning documents. The attorney prepared a written transmutation agreement and trust, which the parties executed in 2005. An introductory provision in the transmutation agreement stated that “[t]he parties are entering into this agreement in order to specify the character of their property interests pursuant to the applicable provisions of the California Family Code. This agreement is not made in contemplation of a separation or marital dissolution and is made solely for the purpose of interpreting how property shall be disposed of on the deaths of the parties.” The parties also acknowledged that their attorney had explained the “legal consequences” of the agreement, and that they had decided not to retain separate counsel after being advised of the advantages of doing so.

The transmutation agreement stated that the husband agreed that the property described in “Exhibit A (including any future rents, issues, profits, and proceeds of that property) is hereby transmuted from his separate property to the community property of both parties.” As noted in the decision, the agreement’s statement of intent provided: “This is a joint trust established by the settlors in order to hold community property of the settlors, which community property was created by the transmutation of separate property of settlor Frank G. Holtemann concurrently with the execution of this trust instrument.”

At the bifurcated trial on the validity of transmutation agreement, the trial court found that under express terms of the agreement, the husband had transmuted his separate property to community property. The husband appealed. The question before the appellate court was whether the transmutation agreement and the trust were sufficient to establish the husband’s express intent to transmute his separate property to community property, as contemplated by Section 852, given the fact that language in both documents indicated that they were executed solely for estate planning purposes. The court observed: “In deciding whether a transmutation has occurred, we interpret the written instruments independently, without resort to extrinsic evidence.”

The court found that the transmutation was valid. The agreement unambiguously stated that “Husband agrees that the character of the property described in Exhibit A…is hereby transmuted from his separate property to the community property of both parties.” The trust similarly provided that it was created “in order to hold community property of the settlors.” That community property was “created by the transmutation of separate property of settlor Frank G. Holtemann concurrently with the execution of this trust instrument. As the trial court aptly noted, ‘[a] clearer statement of a transmutation is difficult to imagine.’”

The Holtemann court distinguished this fact scenario from the one presented in Starkman. Unlike Starkman, in which the word “transmutation” was never mentioned, in Holtemann the word is stated repeatedly. There can be no doubt that, with the advice of counsel, the parties chose that specific term of art. Regardless of the motivations underlying the documents, the documents contained the requisite express, unequivocal declarations of a present transmutation. Moreover, the documents reflected that the husband was fully informed of the legal consequences of his actions.

In 2009, another transmutation scenario added a new wrinkle. In In re Marriage of Lund, a husband and wife executed a document titled Agreement to Establish Interest in Property in 2002, two years before dissolution. The agreement was executed concurrently with other estate planning documents, including wills, which stated that all of the documents were integrated. The attorney who drafted the agreement represented both parties. The recitals stated that at the date of marriage, the husband owned property of substantial value, the wife had assets of de minimis value, and that the husband “for estate planning purposes desires to convert said separate property into community property.”

One section of the agreement stated: “All property, real and personal, of the parties
In a dissolution, the spouse who has irrevocably relinquished interest in the insurance policy now may get a second bite at the apple if transmutation rules have not been satisfied.
duct, strict adherence to the transmutation rules allows one party to possibly avoid expressing his or her real intentions by deciding to remain silent and let the transmutation rules govern.

There is another aspect to the *Valli* case that affects estate planning. It was acknowledged in *Valli* that the premium payments were paid with community property funds. Although not addressed by the court in *Valli*, the fact that the parties used community funds to pay the premiums could have had the effect of causing, in a situation like that of *Valli*, a portion of the life insurance proceeds to be included in a husband’s estate when he dies even though he intentionally relinquished ownership and control over the policy. This is a potential pitfall. Better practice would be to ensure that if parties intend to keep a life insurance policy separate property in addition to satisfying transmutation rules, the parties must ensure that premium payments are made from separate sources.

There now seems to be an inconsistency in how title to property applies in family law cases under the family law statutes. On the one hand, if property is acquired in joint forms, certain family law statutory rules apply. Under Family Code Section 2581, the property is presumed to be community property unless there is a signed writing to the contrary. However, pursuant to Family Code Section 2640, to the extent separate property is used to acquire or improve the property, the person whose separate property is used is entitled to dollar-for-dollar reimbursement of his or her separate property without interest or adjustment for appreciation. On the other hand, there is no comparable family law statute addressing a situation where title stands in one spouse’s name. In such a situation, the general presumption applies as a starting point. In future cases in which similar situations arise, one argument might be to consider a community’s right to reimbursement for funds expended as a remedy in cases where property titled in one spouse’s name during marriage is found to be separate property.

**Considerations for Estate Planners**

The *Valli* case has many implications. With regard to life insurance policies, designating one spouse as an owner will not necessarily establish the policy as that spouse’s separate property. In order to confirm such property as separate property, a written transmutation agreement would be required. Further, if premium payments are being made, those premium payments should be paid from separate property sources not community property sources. Otherwise, portions of the life insurance proceeds may be included in the decedent’s estate.

Given the fact that Evidence Code Section 662 may have limited application, if any, in the characterization of property in a family law proceeding, creditors may now have access to more property to collect community debt. Property titled in one spouse’s name does not necessarily mean that said property is that person’s separate property. Until the *Valli* decision, property titled in one spouse’s name logically could be presumed to be that spouse’s separate property. As a general rule, community property is liable for a debt incurred by either spouse before or during marriage, regardless of which spouse has the management and control of the property and regardless of whether the one or both spouses are parties to the debt or to a judgment for the debt. So, it is possible that property that married persons believe is separate property because of title will have possible creditor exposure for collection of community debt. The holding may have an impact in bankruptcy cases. At least one bankruptcy case has cited *Valli* to support a finding that a claim identified as an asset should be considered community property in the bankruptcy proceeding even if not specifically identified as community property by the debtor.
The *Valli* case has extended the transmutation rules to more than just interspousal transactions. One difficulty in this decision is how it will affect expectations. In most situations, married individuals probably do not consult with divorce attorneys before entering into property transactions. In its departure from prior transmutation cases, *Valli* could affect estate planning and creditor rights in future dissolution cases, and family law practitioners should advise clients of these implications.

1. See, e.g., In re Marriage of Benson, 36 Cal. 4th 1096 (2005); In re Marriage of Sonne, 48 Cal. 4th 118 (2010); In re Marriage of Green, 56 Cal. 4th 1130 (2013).
2. In re Marriage of Valli, 58 Cal. 4th 1396 (2014).
3. Id. at 1406 (citing In re Marriage of Barneson, 69 Cal. App. 4th 583, 593 (1999)).
8. Id.
9. Id. at 269-270.
10. Id. (citing People v. Black, 32 Cal. 3d 1, 5 (1982); Watkins v. Real Estate Comm’r, 182 Cal. App. 2d 397, 400 (1960)).
11. MacDonald, 51 Cal. 3d 262.
13. Id.
15. Id.
17. Id. at 662.
18. Id. at 664.
19. Id.
20. Id.
21. Id. at 665.
22. Id. at 664.
24. Id. at 1170.
25. Id.
26. Id. at 1170-71.
27. Id. at 1172 (quoting In re Marriage of Starkman, 129 Cal. App. 4th 659 (2005)).
29. Id.
30. Id.
32. Id.
33. Id. at 52.
34. Id. at 48.
35. Id. at 52.
36. Id. at 54.
Security and Independence

The SEC’s Regulation D offers independent filmmakers a means to raise funds, provided antifraud and disclosure rules are observed.

Oftentimes, when independent filmmakers seek to finance the development, production and/or distribution of their films, by raising money from investors—sometimes referred to as equity financing—they are not aware that they may be selling a security. Attorneys and their indie producer clients can, however, successfully navigate this important area of the law relating to investor financing, specifically as it applies to independent film offerings.

First, it is important to understand that investor financing for independent films is significantly different from traditional industry financing. The production-financing/distribution deal and the various forms of the negative pickup transaction including foreign presales all rely on established industry entities or entertainment banks to provide financing. Investor financing generally relies on individuals outside the film industry to put up the financing (sometimes referred to as alternative financing). In other words, if a film industry entity gets involved in financing a feature film, it does not typically do so as an investor. The people who do invest in independent films generally do not work in, or have much knowledge or experience of, the film industry.

On the other hand, it is not uncommon for indie filmmakers to claim they know one or more wealthy individuals who can invest the entire amount of the budget required for their film. Unfortunately, that rarely happens. Not to say it cannot happen or that it will not happen in a particular practice, but it is quite rare.

There are also several practical problems with a single investor, or even a small group of two or three investors, that an attorney will want to discuss with indie filmmaker clients. First, people who put up all or most of the financing for a risky investment like a feature-length independent film tend to want something for their money. For example, they may...
...and,\(^{(1)}\) Action\(^{(2)}\)!\(^{(3)}\)

\(^{(1)}\) Note $X$ of Regulation D

\(^{(2)}\) Note $Y$ of Regulation D

\(^{(3)}\) Note $Z$ of Regulation D
want a relative or personal friend to star or appear in the picture. That may or may not be appropriate for the filmmaker, but all of the possible ramifications of such a decision need to be discussed.

Secondly, single investors may want to be actively involved in helping make many of the important decisions associated with producing and distributing the film. If these investors have little or no experience in filmmaking or film distribution, this could spell disaster and may also expose active investors to liability as well as raise tax issues.

Third, if both the filmmaker and the investor want the investor to be actively involved in helping make the important decisions associated with producing and distributing a feature film, and the investor does not have knowledge and experience in the film industry, the investor is really relying on the expertise of the filmmaker and others associated with the filmmaking process. Thus, the investor is a passive investor—not an active investor—and the filmmaker has sold a security, regardless of whether that was the intention. Further, if the filmmaker made no attempt to comply with the federal and state securities laws (since the filmmaker did not know he or she was selling a security), the investor can, at any time along the way, demand a full refund of the investor’s money, and the filmmaker has no defense. That is, the filmmaker sold the investor a security, took the investor’s money, and made no attempt to comply with the federal and state securities laws. If the matter ever reaches a court, all the investor has to do is prove these three elements of the case, and the burden then shifts to the filmmaker to show that he or she did comply with the federal and state securities laws, which will be impossible to do after the fact. This scenario also overlooks another potential inconvenience: selling an unregistered security is a felony.

One of the early important questions that an attorney must ask the indie filmmaker client, particularly when the client talks about funding their entire film budget through one individual or a few wealthy people, is whether the filmmaker wants the investors to be active or passive. If the client says he or she wants the investor(s) to be active, the attorney will need to discuss the legal requirements for an active investor along with the other practical problems. If the client wants the investors to be passive—a larger group of passive investors, typically more suited to a creative venture like a feature film—then the attorney will need to discuss compliance with federal and state securities laws.

Promissory Notes

There are still a few entertainment attorneys in Los Angeles who erroneously believe that allowing the filmmaker to sell contingent promissory notes avoids the necessity of complying with the securities laws. Whenever repayment of the promissory note is contingent upon the film’s earning money (i.e., the loan is to be repaid out of the revenue stream of the film), that promissory note is in fact a security, and the securities laws still need to be observed. If not, the investor can successfully demand a full refund along with, in some situations, attorney fees and damages.

Filmmakers may tell their attorneys that they have never heard that raising money from investors involves the securities laws, which may be true due to the fact that film schools across the country choose not to prepare their graduates for the business side of independent film. Nonetheless, the vast majority of these investor-financed independent films actually do involve the sale of a security, and it serves the interests of filmmakers to educate themselves.

If the filmmaker-client finally admits that he or she prefers to raise money from a group of passive investors, because of not wanting to deal with the problems associated with either active investors’ telling the filmmaker what to do or finding one or more investors who legally qualify as active investors, the next issue the attorney will want to raise with the indie filmmaker client is whether the filmmaker wants to pursue a registered (public) offering or an exempt (private placement) offering. Once the client realizes he or she is selling a security, the first general rule of compliance is that the security be registered with the SEC and with the state securities regulatory authority in each state in which the filmmaker intends to raise money from investors. For indie filmmakers, the general rule of a registered offering is rarely observed because these offerings are too complicated, expensive, and time-consuming. Furthermore, registered offerings for independent films have rarely been mounted in the United States in the last 25 years, and in each case, the offering failed to raise the financing sought. So, a private placement offering is the preferred approach.

Reference to an exempt offering does not mean that the offering is exempt from all rules. It is simply exempt from the registration requirement. However, an exempt offering must comply with a different set of rules than those of a registered offering. The filmmaker must comply with all the conditions and limitations imposed on the use of a given exemption, or the filmmaker and the offering will not qualify for the exemption, once again leaving the filmmaker in the position of having sold an unregistered security. To make this area of the law even more difficult, there are a number of different exemptions at both the federal and state levels on which to rely, each with a different set of rules. Thus, even though the filmmaker now recognizes that a security is being sold, and that a registered offering is not being conducted, if the filmmaker does not know which exemption from registration is being used, it is quite unlikely that such a filmmaker will come anywhere close to complying with all of the conditions and limitations imposed on the use of that exemption.

Some entertainment attorneys report on their websites that the federal intrastate exemption should be considered for independent film offerings. The intrastate exemption, however, is really intended for offerings that raise, spend, and earn most of their money in the local state. Since filmmakers typically want their films to earn money all over the world, the intrastate exemption is generally not appropriate for a film offering.

Regulation D

Other practitioners recommend reliance on Section 4(a)(2) of the 1933 Securities Act, the original nonpublic offering exemption. Unfortunately, there is so little detail regarding how an issuer is supposed to comply with this exemption that it becomes a risky endeavor. That is precisely why the SEC came up with Regulation D in 1982. Regulation D is intended as a “safe harbor” for businesses that want to safely offer securities, since it provides more detailed guidance regarding how to comply.

Regulation D originally offered three separate exemptions, but not all of these are that useful. For example, the general rule in securities law compliance is that the issuer must comply with both federal and the applicable state securities laws (dual jurisdiction). The Rule 504 exemption under Regulation D for offerings of $1 million or less might appeal to low-budget filmmakers, but this exemption is not recognized by the states, and thus the filmmaker relying on Rule 504 would have to conduct a registered offering at the state level, which is not practical.

The Rule 505 exemption of Regulation D allows the issuer to raise up to $5 million, but the added burden of dual regulation is still applicable. The issuer’s attorney will have to identify the specific state level exemption being relied on in each state, and add certain legends and purchaser representations to the private placement offering memorandum (PPM).

Rule 506 is the single most popular federal exemption under Regulation D for small businesses generally and independent film offerings specifically. The Rule 506 offering is considered a national offering, and, pursuant to the National Securities Improvement Act of 1996, it preempts state jurisdiction except for notice filing purposes.
securities disclosure document—the PPM—does not need to include the purchaser representations and legends for each state in which the securities are to be offered.

The traditional Rule 506 offering exemption allows issuers of securities to raise money from an unlimited number of accredited investors16 and up to 35 nonaccredited investors, so long as no advertising or general solicitation occurs. Practically speaking, that means certain persons within the issuer group must have a preexisting relationship with each of the prospective investors.17

In 2012, Congress helped to create an alternative Rule 506 offering exemption by passing the Jumpstart Our Business Startups Act (JOBS Act).18 The SEC promulgated its final rules that eliminate the prohibition against general solicitation and general advertising in certain Rule 506 offerings that are made to accredited investors only, so long as the issuer takes specific steps to confirm the accredited investor status of each investor.19 This new exemption is referred to as Rule 506(c), and the traditional Rule 506 offering is now Rule 506(b). Thus, another early discussion the attorney will need to have with the indie film client is to determine whether to raise money from both accredited and nonaccredited investors with whom they have a preexisting relationship or whether to conduct a general solicitation to accredited investors only, taking the extra steps necessary to confirm the accredited investor status of such investors.20

This decision will also determine the level of disclosure that is required in the PPM that must be given to each prospective investor before investing. The Rule 506(b) offering (if made to nonaccredited investors) requires what may be referred to as full disclosure, similar to that of a public (registered) offering. An offering like that of Rule 506(c) imposes no specific disclosure requirements because it is only being made to the more wealthy accredited investors—emphasis on the word “specific.” This does not mean there are no disclosure requirements, merely that there are no specific disclosure requirements. And the minimum disclosure rule21—the SEC’s antifraud rule—applies to all securities offerings, including those to accredited investors only.

The SEC’s antifraud rule requires that all material information regarding the offering (i.e., everything that any prospective investor would reasonably need to know before investing in the deal) be put in writing—disclosed in a PPM—and given to each prospective investor before he or she invests. Further, the antifraud rule requires that no material information related to such an offering be omitted (i.e., a material omission) and that everything disclosed in the PPM be stated in a manner that is not misleading. Significant failure to comply with the antifraud rule may result in a charge of securities fraud. Again, the SEC’s antifraud rule applies to all securities offerings.22

Disclosure

As a consequence, attorneys may disagree about how much and what specific information needs to be disclosed in such offerings to prospective investors. In practical terms, this level of disclosure decision comes down to how much risk exposure the attorney and client want to assume for themselves. As a general rule, the more disclosure (consistent with the antifraud rule), the less likely investors will subsequently demand a refund of their money or sue the attorney and client because the client failed to disclose certain information the investors felt was material. The best practice is to come as close to full disclosure as possible for both Rule 506(b) and (c) offerings. An independent film offering is one of the riskiest of all possible investments, thus it is important to take all necessary steps to reduce the risk of a lawsuit. Moreover, if the investor information is not in writing, the task of mounting a defense to a securities fraud charge is much more difficult.

Although there may be some overlap in the contents of such documents, a PPM is not the same document as a business plan or a pitch deck. The PPM is used to comply with the securities laws in providing full disclosure to prospective passive investors and is legally required in private placement situations. The business plan may be used to provide information to prospective active investors (i.e., non-securities offerings) but cannot legally be used by itself without the PPM to actually raise investment funds from passive investors. The pitch deck, on the other hand, is merely a PowerPoint presentation that provides a quick overview of the film offering. It may be used in making the presentation to prospective investors but must be supported by the PPM if offers are being made to passive investors. Passive investors cannot legally invest in securities offerings until after they have had an opportunity to review the PPM. The best practice is to complete the PPM first, and if a pitch deck or business plan is desired to supplement the PPM, take language in the PPM that is already approved by the securities attorney and use that in the pitch deck or business plan, so that both documents are consistent and comply with the law.

In 2013, the SEC also adopted a “bad-actor rule,”23 which disqualifies certain felons and other “bad actors” from participating in a Rule 506 offering, either (b) or (c). Thus, it is important that the attorney representing
indie filmmaker clients in investor offerings assist clients in conducting an adequate level of due diligence with respect to the backgrounds of everyone involved in such offerings.

From a legal standpoint, financial projections are not required to accompany Rule 506 offerings under Regulation D; however, investors tend to want to see them. So, it is important that the attorney make filmmaker clients aware the SEC has a policy regarding financial projections and that, to the extent that the filmmaker is offering a security, compliance with this SEC policy is necessary. In essence, the SEC policy requires that the assumptions underlying the projections be set forth in writing and that these assumptions be reasonable. Some of the proprietary companies that prepare film financial projections for filmmakers for a fee tend not to want to fully disclose their assumptions because it allows others to understand how they calculated their projections. However, to fully comply with SEC rules for such an offering to passive investors, the policy needs to be observed.

Section 181 and State Tax Incentives

As of this writing, the federal tax incentive for certain films—Section 181 of the IRS Code—has not been extended by Congress into 2015, thus it is no longer available to serve as an incentive for investors investing in film projects. A legislative extension was introduced in June 2014 (H.R. 5771) and was subsequently included in an omnibus bill. That bill was signed into law by the President—Public Law No. 113-295—on December 16, 2014. Unfortunately, the Section 181 extension only lasted until December 31, 2014. However, 39 states and Puerto Rico offer tax incentive programs for film production within their jurisdictions. These include tax credits, exemptions, rebates, cash grants, fee-free locations, or other perks. For tax credits, a portion of income tax owed to the state by the production company is removed. Production companies must often meet minimum spending requirements to be eligible. Of the 28 states that offer tax credits, 26 make them either transferable or refundable. The cash rebates are paid to production companies directly by the state, usually or refundable. The cash rebates are paid to pro-

production companies by three states and the District of Columbia. In some states, exemptions from state sales taxes and lodging taxes are granted to all guests staying more than 30 days. The fee-free location incentive allows production companies to use state-owned locations at no charge.

Finally, concerning the issue of crowdfunding, it is important to distinguish between donation-based crowdfunding (e.g., through Kickstarter or IndieGo), and the investor-crowdfunding as contemplated by Congress but as yet not fulfilled by the SEC. Donation-based crowdfunding involves gifts and does not involve investors; for most independent filmmakers, it offers a very limited access to funding but still may be useful for startup funds. On the other hand, Congress has asked the SEC to develop final rules for investor-crowdfunding, but the SEC has had a difficult time doing that because of the conflicting interests of securities issuers and investors, along with the significant potential for abuse. In addition, the congressional mandate itself has placed severe limits on the ability of the SEC to create rules that are not overly burdensome to issuers. Investor-crowdfunding at the federal level is not yet available, and Congress may even need to revise its legislative approach to make it possible. Some states, meanwhile, have gone forward with their own versions of investor-crowdfunding that may be used on an intrastate basis. However, film projects may experience some of the same problems as they would with the federal intrastate exemption, since such securities cannot be offered to persons who are not residents of the same state.

When independent film producers seek financing, they should always remember that the complex rules governing securities are most likely at play. Therefore, any prospective filmmaker would be advised to seek counsel that has the requisite expertise. Also, practitioners should advise producers to recognize when a security is being offered and to comply with the appropriate federal and state securities laws.

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1 The development phase of an independent film may be financed separately from the production phase, and funds for development (to cover the expenses associated with writing the script, creating a budget, attaching elements, or clearing the chain of title) may be raised from investors.


3 Under federal securities laws, specifically the Securities Act of 1933, the mere offer to sell a security—unless there is an effective registration statement on file with the SEC for the offering—is a securities offering, which can be subject to a five-year federal prison term. See §§5(c) of the Securities Act of 1933, 15 U.S.C. §77e. In addition, sales and deliveries after sale of unregistered securities is also unlawful. See §5(a) of the Securities Act of 1933, 15 U.S.C. §77e. See also CORP. CODE §25540, 25541. Most states have similar provisions.

4 See “Defining the Active Investor” in the “Articles” section of filmfinanceattorney.com.

5 John W. Cotes, Hard Money—Legal Liabilities May Arise for Independent Film Producers Who Rely on Contingent Promissory Notes, LOS ANGELES LAWYER, May 2010, at 26. This article also discusses and cites the relevant court cases relating to the more technical securities definitions used by federal and state law, although the active/passive distinction serves this purpose quite well in most situations; after all, the passive investor is the essence of the definition even for the U.S. Supreme Court’s classic Howey case. See SEC v. W.J. Howey Co., 328 U.S. 293 (1946).

6 CORP. CODE §25510.5.


10 17 C.F.R. §230.504.

11 17 C.F.R. §230.505.

12 17 C.F.R. §230.506.


14 The phrase “notice filing” refers to the requirement that a specific form be completed and sent in a timely manner to each state securities regulator in the states in which the security is being offered (along with the appropriate fee), as well as to the SEC, thus providing notice that the client intends to sell securities to citizens in those states.

15 17 C.F.R. §230.506(b).


17 See Rule 3a-1 of the General Rules and Regulations promulgated under the Securities Exchange Act of 1934 (Associated Persons of an Issuer Deemed not to be Brokers, also known as the Issuer Sales Rule).


20 Id.


22 Id. 17 C.F.R. §230.500, Preliminary Note 1.


24 Id.

25 Assumptions are the circumstances that are assumed to be factual for purposes of projecting the hypothetical results of the investment.

26 I.R.C. §181.


28 Connecticut, Idaho, and Oklahoma provide film production incentives; however, incentives programs in these states have been suspended, or funding has not been provided. The National Conference of State Legislatures provides a chart detailing the specifics of film incentive programs in the 50 states. The state names also contain links to state film offices and commissions. For full details on eligibility and requirements, the state’s film office should be contacted. Other online sources of information re state film tax incentives include the Association of Film Commissioners International, Film Production Capital, Cast and Crew Entertainment Services and Media and Film & Media.


32 States with intrastate crowdfunding laws include Alabama, Colorado, Georgia, Idaho, Indiana, Kansas, Maine, Maryland, Michigan, Minnesota, Tennessee, Texas, Washington and Wisconsin; see http://crowdfundinglegalhub.com/2014/06/25/state-of-the-states-list-of-current-active-and-proposed-intrastate-exemptions/.
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Clearance & Copyright

The target audience for Clearance & Copyright comprises the clearance professionals who vet scripts, advertisements, movies, television programs, and the like—those who police the potential infringement of anyone else’s intellectual property. But the book—now in its robust fourth edition—offers much more to the legal industry. Clearance & Copyright is one of those rare legal publications that combines expert knowledge and advice with fascinating real-life illustrations and anecdotes, spun together in an elegant and witty writing style. If ever a legal how-to book could be called a page-turner, this is it.

Here, for example, is how the authors, veteran entertainment lawyers Michael Donaldson and Lisa Callif, describe the holding in Despout v. Wilder, a seminal case in which the California Supreme Court recognized implied contractual rights—regardless of the application of copyright law—when an author and a producer have reached an understanding that the producer will pay compensation to use the writer’s idea:

What a mouthful! What a case! The courts recognize that writers are not truffle pigs, sniffing out good stories and bringing them to the attention of others, only to have the stories snatched from them by those who would use them and grow rich.

There is nothing dry about the authors’ prose style; lighthearted commentary and clever turns of phrase populate almost every page. And, while the book is primarily geared toward the interests of film producers and other content creators who deal with production companies. The narrative as a whole is well-balanced, providing practical advice to all stakeholders in the entertainment industry.

One useful aspect of this advice is the inclusion of detailed contracts, applications, and other documents that can be used as templates by the professionals who consult the book. These supplemental materials cover a wide range of topics, such as work-for-hire agreements, composer agreements, copyright and insurance applications, license agreements, and more. Many of the forms offered are downloadable from government websites and other sources, while more specialized forms, including industry-standard contracts, are available free of charge by sending an e-mail a website that the authors have created.

In addition to understanding how to keep the reader engaged with a lively writing style, the authors recognize that a book about the visual arts—primarily film and television, as the book’s subtitle declares—would suffer without a visual component. After all, biographies of, say, Beethoven and Mozart are necessarily incomplete and unsatisfying if the reader lacks immediate access to the composers’ musical compositions as performed. The fourth edition of Clearance & Copyright cures this type of shortcoming by introducing dozens of internet links to movie and television clips that illustrate many of the reported cases discussed in the book. The links are easy to find and use, and the film clips themselves are presented purely, in their original form, without taint of advertisements, pop-ups, or other extraneous matter. The links increase comprehension of the complex legal rules governing copyright, and especially the fair use defense, while at the same time helping to make sense of many seemingly contradictory case outcomes.

The authors teach that trademarks may need to be cleared as well, but to a lesser extent than copyrights. The chapter on trademarks begins with an interesting historical digression on the oldest continuously used trademarks that are still in use today (a 1366 mark for the Belgian beer Stella Artois being the winner). As with their treatment of copyrights, the authors regale the reader with examples after example of trademark use in film and television, and the stories behind the story. Some cases in point: the popular film Drop Dead Gorgeous, which was originally named Dairy Queens—until the owner of the Dairy Queen trademark sued and won an injunction, and Anheuser-Busch’s unsuccessful efforts to squelch Denzel Washington’s abuse of Bud Light in the film Flight.

Insurance Coverage

One example of the wide net the authors cast on the practice of clearance is the frequent reference to insurance issues. It is a legal urban legend that intellectual property disputes can never be subject to insurance coverage, and the authors provide specific examples of the actions they have taken, as practicing lawyers, to ensure that their clients have the best chance for insurance coverage in case of potential clearance disputes. They even take the reader step-by-step through an application for an errors and omissions policy.

Some hopes for a future fifth edition of Copyright & Clearance include an upgrade to the internet film clips, through the addition of more detailed subtitles or other references to the issues being illustrated. And while the back of the book does contain a table of cases with legal citations, there are no footnotes or endnotes, so the reader needs to do some hunting and pecking to be assured of getting to the correct legal citation for the case described in the text.

Copyright & Clearance provides the novice with a superb, highly readable introduction to copyright and trademark law, and the skilled practitioner with valuable advice on day-to-day clearance issues, from two experts in the field. This book will be a welcome addition to the library of any intellectual property lawyer.

Paul S. Marks is a partner with the Neufeld Marks law firm in Los Angeles and is a former chair of the Los Angeles Lawyer editorial board.
47th Annual Family Law Symposium

ON SATURDAY, MAY 2, the Family Law Section and the Los Angeles Superior Court will host the 47th Annual Family Law Symposium. Many distinguished family law judges and practitioners will offer a program on the important money issues that appear in cases, including current IRS civil and criminal procedures and enforcement regarding unreported income and assets, how to deal with complex cash flow issues for support and postseparation accounting, how to work with accounting experts, and a step-by-step approach to business valuations. The program will take place at the Universal City Hilton, 555 Universal Hollywood Drive in Los Angeles. Parking by hotel valet costs $16 and self parking costs $11. On-site registration and breakfast will begin at 8 A.M., with the program continuing until 4:45 P.M. A reception and mixer will immediately follow in the Club Room. The registration code number is 012375.

Free—family law judicial officers in Los Angeles County
$125—CLE+ members
$240—Family Law Section members and other family law judicial officers
$265—LACBA members
$300—all others
6.5 CLE hours, including 6.25 hours of family law legal specialization credit

Introductory TAP (i-TAP)

BEGINNING TUESDAY, MAY 5, Trial Advocacy and the Litigation Section will host a program on the evenings of May 5, 7, 12, 14, 19, and 21 from 5:30 to 8:30 P.M. in one in a series of courses offered by LACBA’s Trial Advocacy Project (TAP). Designed specifically for attorneys who have little or no trial experience, this course provides introductory trial advocacy instruction, mock trial performance, and constructive feedback. Participants learn to mark exhibits, lay evidentiary foundation, deliver opening statements, conduct witness direct and cross examinations, and deliver closing arguments. The course instructors are seasoned trial attorneys. Successful completion of this course meets the prerequisites for admission to LACBA’s five-week traditional TAP course taught annually in the fall. Completion and certification from Traditional TAP qualifies participants for a pro bono practicum with a local prosecutorial agency trying criminal cases. Written course materials will be distributed via e-mail prior to the first class, so a correct e-mail address at the time of registration is needed. The program will take place at the Los Angeles County Bar Association, 1055 West 7th Street, 27th floor, Downtown. On-site registration and dinner will be available at 5:00 P.M. Parking is available at 1055 West 7th and nearby lots. On-site registration and dinner will begin at 8:30 A.M., with the program continuing from 9 A.M. to 4 P.M. each day. The registration code number is 012418.

$995—LACBA members
$1,195—all others
16.5 CLE hours, including 1 hour in ethics

Advanced Mediation Skills Practicum

ON MAY 28, 30, AND JUNE 4, the Center for Civic Mediation will host a program offering extensive practice and coaching in advanced mediation skills. Those who attend will receive nine hours of lecture and nine hours of role-playing, observation, coaching, and feedback. Lecture topics include assessing the conflict, consensus building, problem-solving, managing multiparty agendas, legal ethics, distributive and integrative bargaining, and using case studies from a range of areas of law (e.g. personal injury, employment, contracts, real estate, and property). The advanced practicum aims to develop more advanced skill sets for practitioners as well as an understanding of key elements, principles, and strategies in mediation. Prior mediation training is required for this course, which will take place at the Los Angeles County Bar Association, 1055 West 7th Street, 27th floor, Downtown. Parking is available at 1055 West 7th and nearby lots. On-site registration will begin at 8:30 A.M., with the program continuing from 9 A.M. to 4 P.M. each day. The registration code number is 012602.

$435—Center for Civic Mediation associates
$465—LACBA members
$515—general price
18 CLE hours, including 3 hours of ethics and 1 hour of elimination of bias
Aereo Shows What Attorneys Can Do to Advise Technology Entrepreneurs

A TECH ENTREPRENEUR is often more concerned with his or her idea than the business of its development. This is understandable, given the excitement that a good idea and the technological challenge of implementing it generate, but neglecting the business aspects can be a costly mistake. This is especially true if the idea and technology are dependent upon the use of content owned by others. Owned content includes music and audiovisual programming, photos, words, graphics, drawings, and designs. Failure to provide for the legal use of someone else’s content if that use is central to the success of the venture cannot cost the venture substantial amounts of money but also be destructive of the entire business.

The recent Aereo case is an example. Aereo, a supplier of over-the-air broadcast transmissions via digital devices to subscribers, was held to infringe the copyrights owned by television producers, distributors, and broadcasters in the programs that Aereo streamed. The court's decision essentially put Aereo out of business unless it can qualify as a “cable system” entitled to a compulsory license under the Copyright Act.

Some entrepreneurs who are aware of the legal risks of not clearing content have expressed a cavalier attitude to the problem. They say that they would rather have a successful business in operation first and deal with the legalities with content owners later. This, however, places a lawyer representing such an entrepreneur in a vulnerable position. In addition, while the business-first, litigation-second model may be a risk that some entrepreneurs are willing to take, in many cases the risk is too great to justify.

For example, in the case of copyright infringement, the civil penalties can range from up to $30,000 for each infringement and up to $150,000 per infringement for willful infringement. In a case in which the entrepreneur knows he or she is infringing but proceeds anyway, willful infringement may be relatively easy to establish. The plaintiff may also be entitled to recover the profits of the infringer, plus attorney’s fees and costs and an injunction that effectively puts the startup out of business. The cost of defending a copyright infringement lawsuit can be in the high six figures or greater, and if the infringer has to pay the attorney’s fees of the other party plus damages as well, the overall cost could be in the millions. In addition to civil penalties, the Copyright Act provides for criminal penalties with fines and jail time.

There is no assurance that a claim can be settled with a content owner if the owner’s goal is to put the venture out of business. Napster was destroyed by litigation, as were a number of other tech startups. Unless investors are sufficiently experienced and are advised in writing, up front, of the risks of not clearing content, the entrepreneur may also face lawsuits from investors. Consequently, it is advisable to seek agreements at the startup stage with content owners whose content is essential to the success of the venture. An attorney for an entrepreneur should advise the client as to how to avoid infringing content by using statutory provisions that provide for safe harbors.

For example, the Digital Millennium Copyright Act (DMCA) provides for a safe harbor for qualifying Internet Service Providers (ISPs) that comply with the detailed takedown procedures provided by the act. Lawyers representing ISPs need to be fully cognizant of these requirements. Accordingly, if there is a possibility that a venture can qualify as an ISP and the safe harbor would protect it from copyright infringement liability, this should be investigated.

These safe harbors are useful when the venture is dependent upon third-party, user-generated content. If the venture is using content directly, it would be unwise to rely on a technological workaround to avoid the requirement of a license between the venture and the content owner. The only safe way to proceed is to secure permission from the content owner. Many are willing to cooperate with entrepreneurs at the startup stage by not burdening the venture with large licensing fees until the venture is successful. At that point, they expect to be paid a fair price. It may be worth giving up some equity to secure the content.

Another approach can be borrowed from the film industry. When independent filmmakers consider licensing music for their films, they do not know whether the film will be successful or even secure distribution. Consequently, it is common practice to enter into synch licenses that involve “step deals.” The initial rights granted are for festivals, usually the first step. The license fees are minimal for this type of usage. However, if the film receives theatrical distribution, there is an additional payment required to keep the license in effect. If the film reaches agreed-upon gross box office receipt amounts, an additional license fee applies at each level. This model could be adapted to new technologies.

In addition to clearing content for infringement purposes, there are other intellectual property issues that need to be dealt with, the earlier in the process the better. For example, use of photos of people may violate their rights to privacy or publicity. Statements made about people and products may constitute defamation even if they are made by third parties and republished or broadcast by the venture. There are ways to avoid running afoul of these legal problems with proper planning. Sweeping all of these legal land mines under the carpet is usually not a smart way to start a business, and it can subject lawyers to liability.

Owen J. Sloane practices entertainment and new media law at Eisner Jaffe in Beverly Hills.
PAYMENT PROCESSING, EXCLUSIVELY FOR ATTORNEYS.

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