

LOS ANGELES

Daily Journal

THURSDAY,
JULY 20, 2006

— SINCE 1888 —

OFFICIAL NEWSPAPER OF THE LOS ANGELES SUPERIOR COURT AND UNITED STATES SOUTHERN DISTRICT COURT

Focus

Chain of Title Review Is a Major Hurdle for Film Investors

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Before making an investment in a motion picture, a prudent investor should perform careful due diligence of the rights required in order to produce and exploit the motion picture. An oversight or mistake during this process could lead to the production of a motion picture without the rights necessary to produce the picture without infringing on the rights of others or without the rights necessary to exploit the motion picture. Although by no means exhaustive, the following discussion addresses several key factors that a potential investor should consider when performing due diligence in connection with a possible investment in a motion picture.

Carefully reviewing chain of title is the first, and arguably most important, step in performing due diligence in connection with a prospective motion picture project. In this context, a proper chain of title review should consist of a close analysis of the documents that evidence transfers of the proprietary intellectual property rights respecting the motion picture from the original owner or creator of the underlying work upon which the motion picture project is based to the producer of the motion picture project. Without carefully analyzing each link in the chain, an investor cannot be certain what rights are actually being acquired or whether such rights are free from encumbrances.

The first question to ask in performing chain of title review is, Who is the author of each underlying work? Copyright ownership (and its attendant nonstatutory protections) vests in the author of an original work immediately upon creation of the work in a fixed form. However, if the underlying work was created by an

employee within the scope of employment or under a work-for-hire agreement with another party, then, under the Copyright Act, the employer or other party is considered the author of the underlying work and the owner of the copyright in the underlying work and is entitled to copyright protection under the act. Accordingly, in

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performing chain of title review, the potential investor should determine whether the underlying work was the product of an employment relationship or subject to a work-for-hire agreement because, if so, only the employer or counter-party in the work-for-hire agreement will have the authority to transfer or assign such work.

Moreover, if the underlying work was the product of the collaborative efforts of several people who intended that their contributions be merged into a single work, then each collaborator is considered an author of the work, and the copyright is co-owned by the collaborators. Under that scenario, in order to effectively transfer exclusive rights to the work, each author/owner must execute the operative transferring document. Thus, in performing chain of title review, the potential investor should verify that each author/owner signed the agreement(s) transferring rights in the work.

Although registration of a work in the U.S. Copyright Office is not a requirement for copyright ownership or copyright protection, registration provides comfort to

prospective transferees and/or assignees by establishing prima facie evidence of a valid copyright (provided that the work was registered within five years of first publication). On the other hand, with few exceptions, copyright registration is required in order to prosecute a legal action against an infringer of a work that was created in the United States. Additionally, under the federal Copyright Act system, registration is required in order to record (and thus perfect) a security interest in a copyright, although at least one court has held that a security interest in an unregistered copyright can be perfected under the Universal Copyright Convention by filing a UCC-1 Financing Statement at the state level. Thus, a potential copyright transferee or assignee, or secured party relying upon collateral consisting of copyrights, will want to confirm that the underlying work was properly registered. However, failure to register does not necessarily make the chain of title defective, because registration can occur at any time during the term of copyright protection (although, as noted above, the work must be registered within five years of first publication in order to establish prima facie evidence of a valid copyright).

Another factor to consider in reviewing chain of title is whether all documents evidencing transfers of copyright ownership (for example, assignments, mortgages, grants of exclusive licenses, transfers by will or intestate succession) and other agreements affecting the copyright in the underlying work were recorded in the Copyright Office.

Section 205(c) of the Copyright Act provides that recordation of a document in the Copyright Office gives all persons constructive notice of the facts stated in the recorded document, but only if 1) the document, or material attached to it,

specifically identifies the work to which it pertains so that, after the document is indexed by the Register of Copyrights, it would be revealed by a reasonable search under the title or registration number of the work, and 2) registration has been made for the work.

Thus, while not required for ownership, properly recording such documents in the Copyright Office can provide constructive notice of a party's interest in the work and establish a party's priority interest as against a party that obtained an interest in the work under a conflicting transfer.

While it is clear from the language of Section 205(c) that recording a document in the Copyright Office in connection with a work that has not yet been registered fails to establish constructive notice, the question remains whether constructive notice is achieved by registering the work subsequent to such recordation. Unfortunately, case law does not provide a clear answer to this question. The possibility therefore exists that the interest of a secured party that recorded a transfer before registration might find itself subordinate to another secured party that recorded subsequent to registration. To avoid this result, it is prudent for a transferee to re-record the transfer to it as soon as possible after the work has been registered. Thus, in reviewing chain of title to an underlying work, the prospective investor should consider the timing of the recordation of the copyright transfer relative to the registration of the work and whether the transfer was re-recorded after registration.

A work created on or after Jan. 1, 1978, remains protected for the author's life plus an additional 70 years after the author's death (unless the work was created as a work-for-hire, in which case the term of protection endures for the shorter of 95 years from first publication or 120 years from creation, or unless the work was a joint work, in which case the term endures for 70 years after the death of the last surviving author). In contrast, the copyright protection for pre-1978 copyrighted works endured only for an initial term of 28 years. Such work was eligible for a 67-year renewal if the owner renewed during the final (for example, 28th)

year of its initial term, but failure to timely renew during the final year resulted in the work entering the public domain. However, for works copyrighted between 1964 and 1977, the renewal terms were extended for an additional 67 years even without formal renewals (although the Copyright Act provides certain incentives to renew formally in a timely manner). Thus, in reviewing the chain of title to a work, the prospective investor should verify whether it was necessary to formally renew and, if so, whether the copyright in the work was properly renewed.

It is also important to determine whether the proper party renewed the copyright in the pre-1978 work. For works first copyrighted before 1978, the renewal term of copyright vested solely with the author or with the author's statutory successors. For example, if an author transferred the initial and renewal terms of copyright to a work that was copyrighted in 1970 to a movie studio for adequate consideration, and the author died before 1998, the year in which the renewal vested, then the studio's claim to ownership of the renewal term would have been destroyed, and ownership of the renewal term would have vested with the author's statutory successors at the time of the author's death, unless all of the author's statutory successors previously had granted the renewal rights to the studio. Moreover, if the author's statutory successors timely renewed, the studio's continued exploitation of the picture would constitute an infringement. This is a significant consideration in reviewing the chain of title to a pre-1978 work because it is possible that the statutory successors of an author who died before renewal vested unknowingly have a claim to the renewal rights, even if the original grant of rights from the author purported to cover both the initial and renewal terms.

In addition to the foregoing considerations, in examining each document during the course of performing chain of title review, the prospective investor should be mindful of the nature of the underlying work (for example, is the work a book, screenplay, motion picture?), whether the work is protected or in the public domain, the rights

that were granted under each agreement, whether the grant was a license or an assignment and whether the grant was exclusive or nonexclusive.

In the context of a grant of an exclusive license, it's important to know whether the exclusive licensee was expressly entitled (under the terms of the license or by separate instrument) to assign or sublicense rights (in the absence of which, at least in the 9th U.S. Circuit Court of Appeals, the sublicense or assignment may be invalid, because the Copyright Act of 1976 does not allow a copyright licensee to transfer its rights under an exclusive license without the consent of the original licensor. *Gardner v. Nike*, 110 F. Supp. 2d 1282 (C.D. Cal. 2000).

Also, it's important to determine whether any rights were reserved (for example, the right to make motion pictures based on the underlying work), whether any renewal rights were granted and by whom, whether the grant includes "droite morale," or so-called moral rights of authors, which include the right of attribution, the right to publish a work anonymously or pseudonymously, and the right of integrity, whether the rights revert at any time, whether any turnaround rights exist, whether an option was granted and, if so, whether the option was properly exercised under the terms of the option agreement, whether the applicable option fee was remitted, whether all of the applicable conditions precedent have been satisfied, whether the applicable purchase price was remitted and whether the document was fully executed by all relevant parties.

It is impossible to predict in a vacuum every issue that will arise during the course of a chain of title review, as no two chains of title will be identical. However, careful attention to detail and consideration of the issues and possible pitfalls described above will help ensure that the review is accurate and comprehensive.

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