

Copyright as a marital asset:
Practical considerations at dissolution

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When a California marriage terminates, what happens to the intellectual property?

In 1987 the California Court of Appeals decided *Marriage of Worth*¹, expressly holding that copyrights created by one spouse during the marriage are like any other property created during the marriage, i.e., community property subject to equal division between the spouses on marital dissolution.²

Worth has been criticized by a number of commentators, primarily because they perceive conflict between California's community property system and the federal copyright law, under which ownership of a copyright vests at creation in the author (or the author's employer).³ *Worth's* correctness is not within the scope of this short commentary. We treat the rule as a *fait*

¹/ 195 Cal. App. 3d 768, 241 Cal. Rptr. 135 (1987).

²/ See CAL. FAMILY CODE § 760.

³/ See, e.g., Polacheck, *The "Un-Worth-y" Decision: The Characterization of a Copyright as Community Property*, 17 HASTINGS COMM/ENT L.J. 601 (1995); Roberts, *Worthy of Rejection: Copyright as Community Property*, 100 YALE L.J. 1053 (1991); David Nimmer, *Copyright Ownership by the Marital Community: Evaluating Worth*, 36 U.C.L.A. L. REV. 383 (1988); Perlstein, *Copyright as Community Property: Questions About Worth Are More Than Merely Trivial*, ENT. L. RPTR. at 3 (April 1988).

accompli: no subsequent reported judicial decision has questioned the *Worth* rule, and thus California family lawyers must deal with its holding as a fact of life.⁴

This column instead considers the practical problems that emerge in the light of *Worth* when a marriage ends: if books, screenplays, songs, recordings, computer programs, visual art, and other copyrighted materials (and by logical extension other kinds of intangible intellectual property)⁵ belong to the community, what steps should be taken by the lawyers who are representing the divorcing spouses?

We propose the following:

I. *Identify the relationship between the spouses and the copyrighted material.* Copyrights and other intellectual property may come to the community through the efforts of one creative spouse, two creative spouses who work separately, or a married couple who work together.

^{4/} *But see* NIMMER ON COPYRIGHT §23.07[3] at 23-149 (1995 ed.) (" . . . California courts almost invariably decide preemption claims in favor of sustaining state law. [Footnote omitted.] So *Worth* should probably not be understood to lay the issue to rest."); Nevins, *When an Author's Marriage Dies. The Copyright-Divorce Connection*, 37 J. Copyright Soc'y USA 382 (1990) (predicting that *Worth* will be eventually overruled by the federal courts under the authority of 17 U.S.C. § 201(e), which prohibits government actions "purporting to seize, expropriate, transfer, or exercise rights of ownership" in copyrights owned by their original author).

^{5/} In the limited space of this column we focus on how to divide copyright ownership. Division of other types of intellectual property (such as patents, proprietary trade secrets, trademarks, and good will) presents similar problems but may also involve other special considerations.

Different approaches to property division may be appropriate for each of these different paradigms. If the two spouses have worked together during the marriage, each of them having responsibilities for the creation of the same intellectual property asset, on dissolution they will face the same kinds of issues that arise when such an asset is divided between non-marital partners. If only one spouse created the intellectual property, the future handling of the asset may involve an ongoing fiduciary relationship because the creative spouse will typically be better suited to administer and exploit the asset. In such a case, appropriate safeguards will have to be considered so that this superior knowledge and access will not be used to the detriment of the other spouse.

1. *Understand the assets.* No matter which paradigm applies, the next step is to compile an inventory of the intellectual property assets at stake, and to be sure both parties fully understand the status of these assets. As new media and technologies emerge, the variety and potential of intellectual property is expanding rapidly, so parties and counsel should pay particular care in making sure the inventory is complete. Pursuant to Family Code §§ 2100 *et seq.*, "full and accurate" disclosure of all assets (both separate and community) is mandated, with each spouse having a continuing duty to update and augment that disclosure throughout the marital dissolution proceeding. Nevertheless, an independent investigation of assets may still be appropriate, depending on the facts of the case. For example, counsel may consider searching the

records of the U.S. Copyright Office, keeping in mind that registration is *not* a requirement for copyright protection⁶, so such searches may not be complete.

Special concerns arise where there are works which have been created by one spouse together with third parties; works which have been only partially completed during the community; works which are under license to third parties (such as publishers, record companies, movie studios, merchandising agents, etc.) and (always an issue if a spouse was successful before as well as during the marriage) works which require an allocation of the community property interest versus the separate property interest.

In addition, keep in mind that copyrights and other intellectual property assets require careful, active supervision and exploitation. Therefore, any attempt to ascertain the actual and potential value of such assets will require more than simply quantifying the historical income from a library of copyrights. Also, remember that the copyright in a work is separate from the physical manifestation of the work:⁷ for example, if one spouse is a famous painter, the community's assets will include not only unsold paintings (to be valued for their sale value), but also the copyrights in both sold and unsold paintings (valued for the income that can be derived over time from reproduction rights, merchandising, and the like).

⁶/ Such registration may, however, be a prerequisite for enforcing the copyright against infringers. *See generally* 17 U.S.C. §§ 408, 411.

⁷/ 17 U.S.C. §202.

2. *Decide on a structure for splitting the assets.* A variety of methods exist for dividing intellectual property between spouses, but all of them present difficulties.

The most obvious method is simply to **divide in kind the ownership and control of each copyright**. This guarantees that each spouse will receive an equal share of the copyright assets. This approach will work well for some kinds of assets, such as musical compositions, where co-ownership and shared control are not unusual. For most types of copyrighted works, however, leaving more than one person with the power to grant licenses is problematic, because it can impair coherent exploitation of the work. For example, it is unlikely that a motion picture studio will be willing to acquire "non-exclusive" movie rights to a book: the market will ordinarily bear only one movie based on a book. The studio will need to buy the movie rights controlled by each of the ex-spouses -- meaning that one of the spouses could block a license proposed by the other, due to creative disagreements. or to an attempt to force the other spouse to agree to a certain allocation of the proceeds, or simply out of spite. Another problem is that many creative individuals simply don't want to give up control of their work, even (or perhaps especially) to an ex-spouse who may be legally entitled to a 50% interest.

Another method of dealing with copyright assets is to **divide the ownership -- and therefore the right to revenues -- but leave control to one ex-spouse**, most typically the one who actually created the works and was responsible for their exploitation during marriage. This result is not necessarily fair to the non-managing spouse because the right to control may be, in itself, a valuable asset. If the non-managing spouse should want to sell his share of the copyright,

he will potentially get less for his 50% than the managing spouse will get for her 50% share plus the "administration right." Also, when one spouse is responsible for the property of the other, it may lead to ongoing accounting problems, disputes over the fair compensation for the managing spouse's expenses and efforts, and a serious potential for conflicts of interest. (Imagine, for example, a successful songwriter/performer who has just divorced and given up a 50% share of the income from her past library of songs, but who now continues to write and record new songs. If a movie studio now asks the songwriter to provide music for a movie soundtrack, will she not have an incentive to encourage the studio to use her new songs, of which she owns 100%, rather than existing songs in her catalog, which she administers but from which she gets only 50% of the net income?)

A sometime suggested solution is to **appoint a third party as administrator for both ex-spouses' interests**, but this has the perverse effect of denying *both* spouses the artistic and economic control they each desire, and, ultimately, at least one of the spouses needs to have responsibility to ensure that the administrator is doing a good and honest job.

Even less desirable may be the approach recommended by many of the commentators -- **keep ownership with the "author" and grant the other spouse a right solely to a share of the income stream** from the copyrights. Not only does this structure yield all of the accounting and conflict of interest issues described above, but it also denies the non-writing spouse the intangible values of ownership and control. An ancillary concern is the issue of

security for the non-writing spouse in the event of the managing spouse's later financial distress, whether arising from outside circumstances or mismanagement.

The above proposals all require the spouses to continue to do business with one another after the dissolution. A "cleaner" method is for one of the spouses to **buy out** the other one -- i.e., one spouse receives cash or other assets of the estate in lieu of that spouse's share of the copyrights. The inherent problem with this method is valuing the assets. Copyright libraries can command substantial multiples when sold to an anxious buyer, so they have potentially high future value but the value is also unusually speculative. The more speculative the valuation, the more the other spouse may prefer to retain a piece of the copyrights, anticipating increased future value.

If there are multiple copyrights at stake, the parties could instead try to divide the copyrights like furniture: **each spouse could receive 100% of half of the copyrights rather than 50% of all of them.** Even assuming that the spouses can agree on a "fair" allocation of the copyrights between them (it is no easy task to predict which parts of a writer's *oeuvre* will become the most valuable over time), and even if values can be competently ascertained and agreed upon, this arrangement can be unsatisfactory if the creative spouse is seriously concerned with maintaining artistic control over all of the creations. This approach presumably works best when both spouses have been creatively involved during the marriage, and in particular when each of them has been the author of separate works.

As with other community assets, **forced sale** is always a possibility. The copyrights can be sold and the revenues divided, but this allows a third party to buy the copyrights at "distress" prices and denies both spouses the right of artistic control and the prospects of future appreciation.

Which of the methods you ultimately utilize will, of course, be geared to the particular facts of your case.

3. **Observe formalities.** Observing formalities is especially important with intellectual property assets, whose ownership is reflected largely through such formalities. Transfers of copyright ("other than by operation of law") *must* be in writing⁸ and all documents may be recorded in the Copyright Office⁹. Written notices signed by both spouses should be given to all third parties who have licenses to exploit the works, notifying them of the new arrangements, and irrevocably instructing them to pay all royalties, revenues, net profits, etc. according to the new arrangements.¹⁰ If such third parties won't voluntarily agree to the new arrangements, it may be necessary to procure appropriate court orders compelling their

⁸/ 17 U.S.C. § 204(a).

⁹/ 17 U.S.C. § 205.

¹⁰/ See CAL. MARITAL TERMINATION AGREEMENTS (CEB) (1993) §13.12 for a sample form dividing the right to residuals -- but note that residuals, unlike copyright royalties, are almost purely "passive" income, so the issues are simpler.

compliance, which consideration is beyond the scope of this article. Counsel should also give attention to the Copyright Act's provisions regarding termination of transfers, reversions, and renewals, which are too elaborate to discuss here.¹¹

4. *Spell out the terms of administration.* If one spouse will end up in control of copyright assets for the benefit of the other spouse, the parties will have to negotiate the terms under which the managing spouse administers these assets, operating as a fiduciary for the other. The agreement should provide compensation for the managing spouse's expenses (agent, lawyer, and accountant fees). Agents, business managers, or others who work for the managing spouse, especially if they are entitled to a percentage of the revenues, should release the non-managing spouse from any claims they may have for their compensation. In many cases, the parties should obtain errors and omissions ("E&O") insurance to protect both of them from third party claims such as copyright infringement.

In any event, the parties must provide for the expenses and control of litigation to protect the copyright assets from outside infringers and to defend claims from third parties. They must also specify the terms for ending the managing spouse's control: What happens when the managing spouse dies or is disabled? What if either spouse wants to sell his or her interest? (Buy-sell agreements are common and appropriate, especially given the continuing economic and

¹¹/ See, e.g., 17 U.S.C. §§ 203, 304.

artistic benefits of keeping intellectual property under the control of its creator, or someone else with some vision about the works.)

In addition, if an income stream can be predicted with some certainty, it may be desirable to provide for the managing spouse to pay regular advances, in a fixed amount, to the non-managing spouse. This consideration will obviously interact with spousal support issues.

5. *Get a specialist if you need one.* Copyrights and other intellectual property can provide a stable and secure source of income to both parties after a divorce. But mishandling or mismanagement can severely damage the value of such assets or one party's access to the revenues they provide. If intellectual property is an important part of a marital estate, it may be in both parties' interest to hire an entertainment law or intellectual property law specialist as a consultant. In some cases, one such specialist can advise both parties, but more likely each party should have his or her own advice. Typically, a successful creative individual will already have such an advisor; the other spouse should be equally well-advised, to promote a division of intellectual property assets that is fair to both parties without being destructive to the inherent value of the assets.