



The Take1 101 Series



Loan-Out Corporations 101

By Aaron M. Ma, Take1 Insurance

- Special Points of Interest:**
- What is a Loan-Out Corporation?
 - What are their exposures?
 - Why do they need insurance coverage?
 - What insurance is appropriate for a loan-out corporation?

What is a loan-out corporation?

Loan-out corporations are separate legal entities (corporations or LLCs) whose purpose is to “loan out” the owner of the entity for their services/talent provided. These corporations are almost exclusively owned by a single individual.



Are you insuring your star client properly?

Loan-out corporations are formed for high-profile or highly-successful individuals within the entertainment industry. They can be formed for individual actors, directors, producers, screenwriters, musicians, composers, radio/TV broadcasters, athletes, and many others.

In this 101 guide, **loan-out** generally refers to an individual “star” performing a role in a filming production. The situations can be extrapolated to fit almost any kind of entertainment loan-out corporation (for instance, an athlete loan-out and its relation to a sports team).

Take1 partners with many insurance brokers to write hundreds of loan-out corporations. We offer this guide to answer some of the most frequently asked questions, and to help you understand your client and how to insure them properly.

Why are loan-outs called “shell corporations”?

The terms “loan-out” and “shell corporation” are used almost interchangeably in the entertainment insurance world.

The use of the term “shell corporation” likely originated from the original intent of the corporation, which was to shield the principal of the corporation from liability.

Take1 avoids the use of the term “shell corporation” because at its root, every corporation in the United States is a shell corporation. Take1 is a shell corporation for insurance wholesaling purposes. Microsoft, Inc. is a shell corporation for tech/software/hardware business operations. We feel that the term “loan-out” is a much clearer description of what an entertainment insurance company wishes to insure, and the actual business function of a loan-out.

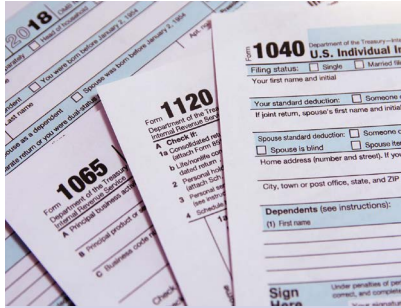
Why did my client form a loan-out corporation?

Chances are, your client formed a loan out corporation at the advice of their tax or legal professional. There are myriad benefits available to these loan-outs that an individual artist would not be able to claim.

Loan-outs are better able to justify business expenditures such as tax and legal advice.

As a separate legal business entity, the loan-out corporation provides an additional layer of liability protection than a star would not have if they performed their services as an individual.

In the film production industry, it’s common for production companies to hire loan-outs rather than movie stars individually.



It’s almost always about the taxes

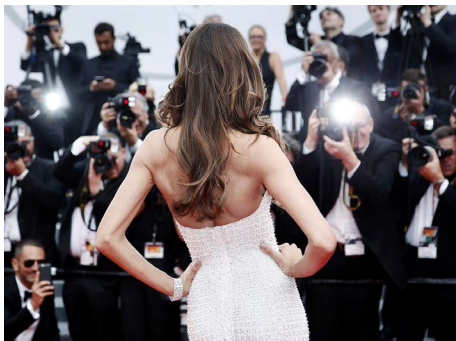
The film production company benefits by hiring the loan-out corporation without having to withhold and remit payroll taxes.

Secondly, if an artist is due licensing or royalty payments in a significant manner, the production company is better able to distribute those funds to a legal corporation as opposed to an individual.

Lastly, a film production company has the option to exclude the corporation from workers' compensation insurance as the production company would be hiring the corporation and not an individual. The loan-out can then elect to cover the star (subject to state minimum/maximum payroll) or exclude the star completely.

General liability for loan-outs

Why would a loan-out need general liability insurance? As a financial pass-through of income, and as the primary business operation of the individual, there are certain scenarios which



Right or wrong, high-profile stars are generally targets for lawsuits

may cause a star to lose their income or royalty revenue streams.

The intent of the general liability policy for a loan-out corporation is to pick up exposures that happen outside of a production environment. If something goes awry on the set,

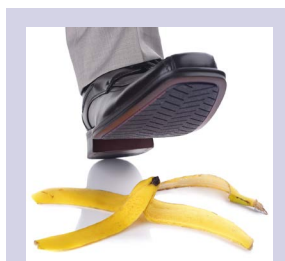
the liability should fall with the production entity, not with the loan-out. In fact, it would be wise to ensure that the loan-out is included as an insured on production policies.

As with other general liability policies, the main expense is defense of claims. Whether right or wrong, high profile stars are generally targeted for lawsuits, especially as a nuisance. Having an insurance company guide an insured through a sticky claim situation is invaluable for a high-profile artist.

Why include personal liability in a commercial policy?

For any high profile celebrity, the line between a business operation and their personal life is significantly blurred.

As an insurance broker, you are no longer acting in your capacity as an insurance broker when you leave your office. As a celebrity, if you are attending a production



Slips and trips can happen anytime, to anyone

after-party, would that be considered business or personal? What about a book signing, or a movie premiere?

If general liability and personal liability coverages are separate, there is potential that each carrier will point to the other carrier, saying that it's the other carrier's liability to provide coverage. If we combine both general liability and personal liability into one policy, it eliminates the line between business and personal insurance from the eyes of the insurance company.

As stars are generally high-profile individuals, many standard carriers avoid writing personal liability exposures for them, as they tend to attract more liability suits than Joe Q. Public.



There's a fine line between loan-outs and productions

When is a loan-out not a loan-out?

A loan-out is not a loan-out when it's engaged in production activity. A loan-out entity should be operating solely as a business service pass-through vessel for its principal owner, and nothing else.

Most often, a loan-out "evolves" into a production entity, and the exposure is caught when a certificate (or additional insured status) is requested for:

- Rental of production equipment (cameras, sound, lights, etc.)
- Lease of filming premises (or, in the case of musicians, lease of a concert hall/performance space)
- A political subdivision for a permit request

Usually, when one of these three requests is received, it should become a red flag for you to ensure that your client is insured properly for production exposures.

Not all certificate requests are signs that a loan-out has evolved into a production entity. Some common certificate requests are:

- Lease of office space (script reading, personal assistant)
- Loss payee for office equipment/owned autos
- Payroll service additional insured

When in doubt, Take1 is here to help clear the air!



The true test of whether an entity is actively producing is what they are legally and contractually responsible for

What are common coverages for a loan-out?

Having insured hundreds of loan-out corporations with many leading insurance

companies with entertainment divisions, we have solved many quirky insurance requests. The most common requests are:

- **General Liability** to evidence to production companies and tax entities that it is a legally separate and insured entity
- **Automobile Liability and PD** mostly for non-owned and hired exposures, but often including owned automobiles
- **Workers' Compensation** for the principal, but also for personal assistants
- **Personal Liability** as it's sometimes hard to differentiate between a business loss and a personal loss
- **Umbrella Liability** to go over all liability policies
- **High Limit Disability** own-occupation coverage for stars
- **Kidnap, Ransom and Extortion** coverage not just for the owner of the corporation, but extends to cover family members and employees
- **Personal Appearance Media Liability** since general liability policies don't cover personal/advertising injury exposures related to film production or events

But the loan-out has the word "production" in it!

Just because your local bank has its name on the building doesn't mean it owns the building. Likewise, just because the name of the corporation includes the word "production" doesn't mean that it actively involved in production work.

Many feature films and television shows credit many producers as individuals or production companies. At the end of most television shows, you will find several short splash screens with

production company names and logos. Those are usually used to provide extra credit to those entities providing above-and-beyond services (i.e., lining up key stars, securing a director, or finding financing).

The true test of whether an entity is actively producing is what they are legally and contractually responsible for. If the entity is not leasing equipment, renting studio space, obtaining permits, or entering into distribution agreements, its likely that the loan-out corp is not actively producing content.

Again, just because an entity has the word "production" in it, or it has a two-second splash at the end of a show, is not a reason to be overly concerned.



Take1 can help with productions too!

About Take1

Take1 Insurance is a Los Angeles-based wholesale insurance brokerage operation with practices in Entertainment, High Net Worth/Personal Lines, and Professional/Tech Risks.

Take1 is pleased to partner with many leading A-rated entertainment insurance companies. The desire to educate our

retail brokers is what sets us apart from our competitors. With over 60 years of collective experience in insuring this class of business, we will help you understand and protect your client.

Take1 operates and is licensed in all 50 states and Washington, D.C. for both standard lines and excess and surplus lines. With national reach and local commitment, Take1 takes pride in understanding our insureds, brokers, industries and markets.



Questions? Contact us.

Vanessa O. Lujan
Underwriter/Terror Specialist
(657) 261-2364
vanessa.lujan@take1insurance.com
CA License #0A94493



What is the 101 Series?

As part of our commitment to the insurance community, Take1 is pleased to present **The 101 Series**—a set of guides to common classes and coverages within our specialty practices.

It's our goal and belief that ensuring our brokers understand their clients and the products we offer strengthen the broker, the insured, the insurance company, and, at the end of the day, ourselves. In partnership, we can all protect and profit together.

Should you have any questions, please don't hesitate to reach out to us.