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NEWSLETTER

An Entertainment Industry Organization

CALIFORNIA COPYRIGHT CONFERENCE

The Comprehensive Guide to Reclaiming Your Old Masters...

by Steve Gordon, with Nari Roye, Esq.

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The President's Corner

As we kick off the 2011-2012 season of the CCC, I'd like to thank our former president, Shawn LeMone for his leadership and for all the hard work he put in last year. Under his administration, we ended the year with a very successful Evening with the Guild of Music Supervisors. And we held our first joint event with the AIMP, the very successful Music Industry Toolbox, which we look forward to repeating soon. Looking forward, I foresee more firsts for our organization, including the presentation at our May meeting of our first CCC scholarship to a deserving music industry studies undergrad.

As usual, we're starting the season with an update on the major legal issues concerning our industry. Steve Winogradsky and Jeremy Blietz will be co-moderating some outstanding panelists including Ed Arrow, Todd Brabec, Kenneth Freundlich, and Michael Perlstein. Sounds like we're in for a fascinating and informative evening.

Next month, attorney Chris Castle will moderate a panel that will focus on the digital realm and how it's affecting our industry. I hope you all can attend.

Finally, if you're not a member yet, I'd like to encourage you all to join the CCC. Believe it or not, we don't make a lot on the dinners. Your membership fees go a long way to supporting our not-for-profit organization in its mission to educate members of the entertainment industry on key issues pertaining the owners and users of intellectual property.

Eric Polin
President, California Copyright Conference.

'Legacy' recordings, or reissues from the vast catalogs of Sony, EMI, Warner and Universal and their associated labels such as Epic, Columbia, Capitol, and Atlantic, are still a huge business for major labels. As of the first half of 2011, sales of catalog music accounted for **47% of all album sales** and **60% of track sales** according to Billboard! Spotify's top 50 albums contain many compilations with older titles including *The Essential Michael Jackson*, Fleetwood Mac's *Rumours*, *100 Hits of the '80s*, and *The Essential Journey*. But most of the income from these sales **accrues to the benefit of the record companies**, rather than the artists or their estates, because the labels only have to pay royalties after fully recouping production and marketing costs, and recoupment occurs at the artist's royalty rate.

This means that the labels are making money even if the artist has not earned enough to repay the labels' expenses. Sales of legacy records is a **huge factor in keeping the majors afloat** as they continue to suffer from competition from free music made possible by illicit websites. The demographic for legacy recordings tends to consist of older fans who are not as adept at using the internet to collect free music downloads or are more apprehensive of the legal consequences than their children.

Meanwhile, income from recorded music has plunged to approximately $6 billion from more than $14 billion over the past decade, in large part because of unauthorized downloading. But this downloading is oftentimes skewed towards newer releases, leaving the record labels disproportionately dependent on sales of older recordings.

Artists' Right to Terminate

Now, here's something the majors really, really hate. Under the Copyright Act, classic albums by Bob Dylan, Billy Joel, Van Halen, Talking Heads, AC/DC, and many others will begin to be subject to **'termination'**. This also applies to a vast number of less famous recordings, starting with those produced in 1978. This could have a **significantly negative economic impact** on the labels.

The 1976 Copyright Act includes a "termination right," which cannot be contractually given up, which allows the original content creator to "reclaim" the copyright on their works. Congress recognized the disparity in bargaining power between creators and assignees, usually corporations, and provided a practical compromise that would recognize the interests of both sides. In addition, the termination right

acknowledges the impossibility of determining the value of a work until it has been exploited. Ideally, artists would have the opportunity to sign better deals after the value of their work is recognized.

What This Means to You, the Artist or Songwriter

In regard to the music business, this means that songwriters and artists are entitled to recapture the rights in their songs and records even though they previously granted exclusive rights to music publishers and record labels.

Authors of songs and sound recordings produced after January 1, 1978 can terminate a transfer in two ways: (1) the sooner of 35 years after 'publication' (that is, commercial release) or (2) 40 years after the date of the contract (songs written prior to 1978 may also be subject to termination, but the rules pertaining to that are beyond scope of this article).

The reason this issue is important now is because the 35 year period will be coming to an end in 2013, and many artists/songwriters have **already given notice of termination** (the law requires, as discussed in the last section of this article, authors or their successors to provide at least 2 years notice prior to the year of termination, but not more than 10 years.) And, if recording artists or their successors can recapture rights in their records it is now easy to distribute those records at almost no cost through the internet.

Now, the Hard Part Begins

Sounds like a massive opportunity, though this article focuses on the hurdles that recording artists, their successors or estates will have to jump through to take advantage of termination rights. And, how the record companies will try to prevent them from doing it.

There are two major obstacles confronting artists in terminating the transfer of rights in their records to the record companies:

(1) Termination rights only apply to records that were not created as 'works for hire,' and

(2) The artist may not have been the only author of the recording.

Some Legal Nitty-Gritty: The Work for Hire Issue

Standard recording contracts almost always state that any records made pursuant to the agreement are 'work for hire.' This would make the record company the 'author' of each record and the artist would have no right to terminate his grant of rights to the label. But under the law, **these clauses may not be valid or enforceable**.

So far, there are no cases on this point. Traditionally, the labels hedged their bets by inserting an additional clause that for any reason if the recordings were not deemed to be a work for hire by a court of competent jurisdiction, then the artist agrees to assign all his rights including the copyrights in the recordings. However, under the latter provision, the artists would have the right to terminate because **an assignment is considered a 'transfer' under the Copyright Act**, and the termination provision of The Act applies to transfers.

Section 101 of the Copyright Act defines a work for hire as follows:

> *(1) a work prepared by an employee within the scope of his or her employment; or*
>
> *(2) a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire.*

In 1999, the recording industry, represented by the Recording Industry Association of America (RIAA) tried to insert sound recordings into subsection (2) by including the words 'as a sound recording' after the words 'audio visual work'. The RIAA actually did temporarily succeed in inserting this change in a 'technical amendment' to a bill called the 'Satellite Home Viewer Improvement Act of 1999,' thus conferring full authorship of those recordings on record companies rather than recording artists if the recording agreement stated that the artist's services were provided on a work for hire basis.

The amendment had no connection to the subject matter of the bill which concerned statutory licenses applicable to retransmission of TV signals. It was not included in prior drafts of the bill, but rather crept in at the last moment. According to press reports, this amendment, which clearly served the interests of record companies, was drafted and shepherded through Congress by a particular legislative aide, who, shortly after its adoption, **accepted a position as a lobbyist for the RIAA**. With neither analysis nor debate, the amendment was accepted by both houses of Congress and signed into law by President Clinton.

Then, it gets interesting. When outraged musicians and scholars discovered that the substantive law of copyright had undergone this dramatic change, the reaction was swift, loud, and overwhelmingly disapproving. Reeling from the bad press, Congress held a brief hearing, in which Sheryl Crow and Don Henley testified, and retroactively repealed the amendment.

But notwithstanding Congress' repeal of sound recordings in subsection (2), it is likely that the record companies in a court battle would still contend that sound recordings are covered by subsection (2) because each recording an artist makes can be considered to be a 'contribution to a collective work' as a 'compilation,' that is, an album.

In fact, many recording agreements include language describing an artist's performance 'as a contribution to a collective work,' one of the listed categories. Record labels would argue that each individual sound recording of a musical composition is a contribution to the collective work or compilation, that is, the finished album and, thus, a work made for hire. Artists may contend that each individual sound recording stands by itself and is only incidentally compiled into a collective work as one of its uses. They would also argue that an album is no more of a compilation than a novel with multiple chapters.

Of course they could also argue that if Congress intended to include sound recording in subsection (2) they would have not have retroactively deleted sound recordings after inserting them in 1999. However, the RIAA was able to insert in the Copyright law that the fact of the repeal of sound recordings from subsection (2) would not establish that sound recordings were not works for wire.

Since the second part of the definition of work for hire may not include sound recordings, in order for record companies to deny artists their right to termination, they may also argue that artists were 'employees' rather than independent contracts. The determination of whether an individual is an employee for the purposes of the work made for hire doctrine is determined under the common law of agency, in which a court looks to a multitude of factors to determine whether an employer-employee relationship exists. In the Supreme Court case affirming that the common law of agency should be used to distinguish employers from independent contractors in the work for hire context, Community for Creative Non-Violence v. Reid, 490 U.S. 730 (1989), the Court listed some of these factors:

In determining whether a hired party is an employee under the general common law of agency, we consider the hiring party's right to control the manner and means by which the product is accomplished. Among the other factors relevant to this inquiry are the skill required; the source of the instrumentalities and tools; the location of the work; the duration of the relationship between the parties; whether the hiring party has the right to assign additional projects to the hired party; the extent of the hired party's discretion over when and how long to work; the method of payment; the hired party's role in hiring and paying assistants; whether the hiring party is in business; the provision of employee benefits; and the tax treatment of the hired party.

Under these criteria most sound recordings would not seem to be 'works for hire' because most record companies generally do not 'control' artists when they are in the studio making a record, artists almost never receive employee benefits, they don't record on company premises, and record companies generally do not withhold payroll taxes from any advances or royalties. The labels, however, may argue that the artists were in fact employees because they usually have the right to approve the songs artists record, they control the studio time for the recording, have approval rights over what was recorded, and what studios they could record in. On the other hand, some experts contend that the labels may be reluctant to make this argument because if indeed artists were found to be employees, the labels may be responsible for paying back taxes. Indeed, most recording agreements specifically state that the artists are not employees.

Second Problem: The Artist May Not Be the Only Author

Even if the artist was not an employee and is entitled to terminate his grant of rights in his recordings to the label, there is another important issue that must be considered. Producers may be considered "authors" too! This is because they don't necessarily act at the direction of the label or the artist although they usually enter into work for hire agreements too. They are often an integral part of the creative process, and may be deemed to be "joint authors." So an artist who notifies his record company that he is terminating the transfer of rights in any recording to the company, may have to sort out a new deal with the producer prior to exploiting the re-captured recordings or risk a lawsuit by the producer. Or if an artist had to battle a record company in court, the artist may first have to seek the cooperation of the producer because one of the issues in such a court battle would be whether the artist was the sole author. It's also possible that audio engineers and session musicians may have a claim of authorship, but these would be harder cases to argue as they generally do work at the direction of others, taxes are usually withheld and they may well be considered to be employees.

(The RIAA warns in its website that if recordings are not considered to be works for hire "all collaborators on a sound recording ... would be in competition with each other and commercial exploitation ... would be impossible without the agreement of all of the collaborators, to the detriment of both artists and consumers." As we discussed in the article, though, sound engineers and session musicians would probably not qualify as authors.)

So What Happens Next?

Many experts think that there will be a lot of settlements with artists getting additional advances for legacy recordings by waiving their right to terminate and the record companies trying to avoid a court battle which could backfire if they lost the case. According to the *New York*

Times ('Record Industry Braces for Artists' Battles Over Song Rights' by Larry Rohter, August 15th, 2011), "Given the potentially huge amounts of money at stake and the delicacy of the issues, both record companies, and recording artists and their managers have been reticent in talking about termination rights."

The article goes on to quote a record company executive as stating that there are significant differences of opinion among the big four, which has prevented them from taking a unified position. "Some of the major labels," he said, "favor a court battle, no matter how long or costly it might be, while others worry that taking an unyielding position could backfire if the case is lost, since **musicians and songwriters would be so deeply alienated** that they would refuse to negotiate new deals and insist on total control of all their recordings."

In the absence of a definitive court ruling, some recording artists and their lawyers are talking about issuing termination notices rights, eventually distributing these recording themselves, while **daring the record companies to stop them**. "Right now this is kind of like a game of chicken, but with a shot clock," the Times quoted Casey Rae-Hunter, deputy director of the Future of Music Coalition, which advocates for musicians and consumers. "Everyone is adopting a wait-and-see posture. But that can only be maintained for so long, because the clock is ticking."

According to noted copyright scholar David Nimmer, a legislative solution would be best solution but until then the courts will decide on a case by case basis.

The Steps Artists Need to Take Right Now

Whatever the ultimate result, here are the actual steps that artists, their successors or estates need to take to initiate termination of his or her transfer of rights in records:

Who Can Terminate

If the artist is deceased his or her "statutory successor" can terminate. The statutory successor is the surviving spouse, or surviving children or grandchildren. If none of them are alive, the author's executor, administrator, personal representative, or trustee can terminate. If the Artist is a band or group, termination requires a majority vote of the joint authors or their successors.

When Do They Have To Serve Notice

The artist or statutory successor may give notice of termination no less than two years and no more than ten years before the date that the transfer will terminate.

Content of Notice

The notice must be in writing signed by the owner(s) of the termination interests or by their duly authorized agents, and must state the effective date of the termination. The notice must also comply, in form, content, and manner of service, with requirements that the Register of Copyrights.

To Whom Should They Send Notice

The notice must be served upon the grantee (i.e., the label with whom the artist contracted) or the grantee's successor in title. A copy of the notice must also be recorded in the Copyright Office before the effective date of termination, as a condition to its taking effect.

Congressional Debates

The New York Times recently reported that John Conyers (D. Mich) is proposing legislation that would clarify that artists can terminate their grant of rights in their recordings to record labels. The Times article commented, *"With years of costly litigation looming, groups that represent the interests of recording artists and songwriters said they found Mr. Conyers's remarks encouraging. But given the issue's legislative history any amendment process in Congress is likely to be long and complicated."*

I agree with this and would only add that although many experts have already suggested federal legislation would be a good solution to the ambiguous state of the law as discussed in my article, any such legislation would have to be very delicately drafted to address the interests of possible co-authors including producers.

Termination Rights In Sound Recordings
by Michael Perlstein

§ 101. Definition of "Compilation"

A "compilation" is a work formed by the collection and assembling of preexisting materials or of data that are selected, coordinated, or arranged in such a way that the resulting work as a whole constitutes an original work of authorship. The term "compilation" includes collective works.

A "collective work" is a work, such as a periodical issue, anthology, or encyclopedia, in which a number of contributions, constituting separate and independent works in themselves, are assembled into a collective whole.

§ 101. Definition of "Joint Work"

A "joint work" is a work prepared by two or more authors with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole.

§ 203. Termination of transfers and licenses granted by the author

(a) CONDITIONS FOR TERMINATION. — In the case of any work other than a work made for hire, the exclusive or nonexclusive grant of a transfer or license of copyright or of any right under a copyright, executed by the author on or after January 1, 1978, otherwise than by will, is subject to termination under the following conditions:

(1) In the case of a grant executed by one author, termination of the grant may be effected by that author or, if the author is dead, by the person or persons who, under clause (2) of this subsection, own and are entitled to exercise a total of more than one-half of that author's termination interest. In the case of a grant executed by two or more authors of a joint work, termination of the grant may be effected by a majority of the authors who executed it; if any of such authors is dead, the termination interest of any such author may be exercised as a unit by the person or persons who, under clause (2) of this subsection, own and are entitled to exercise a total of more than one-half of that author's interest.

House Report No. 92-487, 92nd Cong. 1st Sess. (1971)

The copyrightable elements in a sound recording will usually, though not always, involve "authorship" both on the part of the performers whose performance is captured and on the part of the record producer responsible for setting up the recording session, capturing and electronically processing the sounds, and compiling and editing them to make the final sound recording. There may be cases where the record producer's contribution is so minimal that the performance is the only copyrightable element in the work, and there may be cases (for example, recordings of bird-calls, sounds of racing cars, et cetera) where only the record producer's contribution is copyrightable. As in the case of motion pictures, the bill does not fix the authorship, or the resulting ownership, of sound recordings, but leaves these matters to the employment relationship and bargaining among the interests involved.

Copyright Office Circular 56A

A sound recording results from the fixation of a series of musical, spoken, or other sounds. The author of a sound recording is the performer(s) whose performance is fixed, or the record producer who processes the sounds and fixes them in the final recording, or both.

*** Link to the full 29 page opinion:**
http://www.publicknowledge.org/files/docs/Capitol_Records_v_MP3Tunes.pdf

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

CAPITOL RECORDS, INC. et al.,

Plaintiffs,

-against-

MP3TUNES, LLC et al.,

Defendants.

07 Civ. 9931 (WHP)

MEMORANDUM & ORDER

WILLIAM H. PAULEY III, District Judge:

Plaintiffs, EMI, Inc. and fourteen record companies and music publishers (collectively, "EMI"), bring this copyright infringement action against Defendants MP3tunes, LLC ("MP3tunes") and Michael Robertson ("Robertson"). All parties move for summary judgment. For the following reasons, EMI's motion is granted in part and denied in part and MP3tunes and Robertson's motion is granted in part and denied in part.

BACKGROUND

I. MP3tunes' Websites and Services

Robertson is an online music entrepreneur familiar with high-stakes copyright litigation. Years ago, he founded MP3.com, an entity which was the subject of a copyright infringement action in this District. See UMG Recordings, Inc. v. MP3.com, Inc., 92 F. Supp. 2d 349 (S.D.N.Y. 2000). MP3.com offered users online access to music if they could demonstrate they already owned the same music on CD. Various record labels brought suit and a multi-million dollar judgment was entered against MP3.com for copying thousands of music files. UMG Recordings, Inc. v. MP3.com, 56 U.S.P.Q.2d 1376 (2000). In the wake of that judgment,

Panelist Biographies

ED ARROW

Ed Arrow is Vice President of Copyright at Universal Music Publishing Group where he oversees a variety of administrative and licensing activities including mechanical licensing, copyright registration, copyright terminations, performing rights society registration, sample clearance, and new media licensing. Ed has over 25 years music publishing experience and he has been with UMPG for over 16 years. Prior to UMPG, Ed worked with Siegel Musikverlag, Chappell/Intersong Music Group, Warner/Chappell Music, Virgin Music, and Leiber & Stoller Music Publishing. Ed is a past president of the California Copyright Conference and has been a frequent speaker on music industry issues.

JEREMY BLIETZ

Jeremy Blietz is currently Vice President, Administration at Warner/Chappell Music where he oversees the Copyright and Royalties departments for the U.S. and Canada. Jeremy has been with the company since 1994 and prior to being named VP, Administration held various positions within the Copyright department including Senior Director of Copyright. Jeremy attended Berklee College of Music in Boston where he graduated in 1993 with a Bachelor's of Music degree.

TODD BRABEC

Todd Brabec, as Executive Vice President of ASCAP over a 37 year career, was responsible for signing most of ASCAP's successful songwriters and film and television composers, for initiating and implementing most payment and distribution changes including significant payment increases for television and film theme songs and score as well as hit songs on radio and was able to eliminate practically all ASCAP payment policies, provisions, formulas and rules which were not in the best interests of songwriters, composers and music publishers. His efforts were responsible for bringing ASCAP from an overall 20% market share to market share dominance in all major media. He is a Deems Taylor Award winning writer, the co-author of "Music, Money and Success: the Insider's Guide to Making Money in the Music Business"(7^{th} edition), an Adjunct Associate Professor at USC where he teaches the course on music publishing, music licensing and film, television and video game song and scoring contracts, an Entertainment Law attorney and graduate of the New York University School of Law and a Governing Committee Member and former Music Chair of the American Bar Association's Forum on the Entertainment and Sports Industries.

KENNETH D. FREUNDLICH

Kenneth D. Freundlich of Freundlich Law, an entertainment attorney (in New York and California) for over 20 years, and an accomplished vocalist and keyboard player, Mr. Freundlich has represented top-tier artists and small companies in the motion picture, television, music and interactive industries, including copyright royalty board proceedings, contract disputes, profit participation litigation, royalty claims, copyright litigation, artist/manager disputes, arbitrations, new media intellectual properties and clearances, right of publicity/Lanham Act litigation and general civil litigation in the State and Federal Courts and, in January 2008, the United States Supreme Court.

Highlights of Ken's career include the production of Paul Simon's Concert In Central Park, obtaining the complicated clearances for the academy award winning film "When We Were Kings", and obtaining a seven figure settlement for the Spin Doctors after a Jury verdict against the Miller Brewing Company for copyright infringement.

At the turn of the millennium, Mr. Freundlich was the Executive Vice President of Atomic Pop, LLC, an early stage internet-based record company. His responsibilities included new media legal issues, acquisitions, strategic and financial planning, syndication, joint ventures, and due diligence management.

He is a frequent lecturer, panelist and moderator of panels throughout the country on Entertainment issues (especially regarding the internet) and is on the Board of Governors of the Beverly Hills Bar Association, the Board of the BHBA Foundation and the Board of the CCC.

He is also a voting member of NARAS - the organization that puts on the Grammy Awards each year and a member of the Entertainment Law Initiative's Grading Committee.

He has also taught music industry classes at the UCLA Extension and has appeared as a legal commentator on television on VH-1, Court TV and MSNBC, to name a few.

Mr. Freundlich has a B.A. (Magna Cum Laude) in management from Brown University (1981); an MBA from the UCLA Anderson School of Business (1985); and a J.D. degree from the UCLA School of Law (1985).

MICHAEL PERLSTEIN

Michael Perlstein has practiced law for over forty years with the focus on music publishing and recording industry transactions. He represents leading artists, writers, music publishers and the estates of deceased artists and songwriters. A significant element of his practice is analysis and resolution of complex copyright issues involved in: purchase and sale of catalogs and individual works, estate planning and separation agreements and divorce settlements.

He is the author of the following articles: *In Re Marriage of Worth – Copyright as Community Property: Questions about Worth are More than Merely Trivial*, April 1988 Entertainment Law Reporter; *Contracts with Kids: A Limited Discussion of Entertainment Industry Contracts Involving Minors, Under California Law,* 1992-1993 Entertainment Publishing and the Arts Handbook; the chapter entitled *Music Publishing* in Entertainment Law, Editions 1, 2 and 3, New York State Bar Association (1989, 1996 and 2004); *A Cue Sheet Primer*, March 2000 edition of The Score, the Journal of the Society of Composers and Lyricists; *Some Aspects of United States Music Publishing Agreements: The Exclusive Term Copublishing Agreement and the Minimum Delivery Commitment*, January 2001 Journal of the International Association of Entertainment Lawyers, *Fundamentals of Termination Rights*, 2007 and 2008 syllabi of the Entertainment Law Institute of the Texas State Bar, *She Got the Gold Mine, I Got the Shaft: When Copyright Collides with Community Property*, 2008 syllabus of the Entertainment Law Institute of the Texas State Bar and the chapter entitled *International Copyright Basics*, in Copyright Practice, 2008, HalfMoon, LLC.

He is a former adjunct associate professor of law at Southwestern Law School in Los
Angeles, teaching the course on the law and business of music publishing for which he created the case book. He is frequent lecturer and panelist on music industry and copyright topics.

Mr. Perlstein holds an LLB degree from the University of California School of Law at Berkeley (Boalt Hall). He serves as a trustee and is current president of the Los Angeles Copyright Society and is a member of the California Copyright Conference and the National Academy of Recording Arts and Sciences.

He is a member of the Bar of California, New York and Illinois.

STEVEN WINOGRADSKY

With over thirty years experience as an attorney in the music industry, Steven Winogradsky is a partner in Winogradsky/Sobel in Studio City, California, providing global media and music business affairs & legal support for composers, songwriters, music publishers, recording artists and television, film, video and multi-media producers. In addition to an entertainment law practice, the company handles music clearance and licensing in all media for many production companies, worldwide administration of the publishing catalogs for a number of clients and New Media strategies and Revenue Modeling.

Prior to being in solo practice with The Winogradsky Company from 1992 to 2009, Mr. Winogradsky had served as Director of Music Business Affairs for Hanna-Barbera Productions, Inc., Managing Director of Music, Legal & Business Affairs for MCA Home Entertainment, Director of Music Licensing and Administration for Universal Pictures and Universal Television and Vice President of Business Affairs for The Clearing House, Ltd.

He was twice elected President of the California Copyright Conference, after spending nine years on the Board of Directors, served for four years as President of The Association of Independent Music Publishers and was named as one of the Outstanding Instructors in Entertainment Studies and Performing Arts at UCLA Extension, where has taught since 1997. He has written numerous magazine articles on the subject of music for motion pictures and television and lectured on a variety of music-related topics at various symposia.