LEGAL AFFAIRS

Sorting Through The Confusion: Interpreting Standard Recording Agreement Provisions in the Digital Era[1]

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"I'll say it flatly. The current music industry paradigm, which has been in place a generation or so, is over. The forces are now at play that when you look at them, you know it's a model that is over. Whether it's over in a year or two, I can't predict, but the center can't hold. All the capabilities that the web has now provided and the technologies that utilize the web, such as MP3 have just made that model an impossible one to sustain from this point forward. I take that as a given. How that

transformation takes place is what we all have to see as we participate in this process."[3]

- Al Teller, former Chairman MCA Music and former President of Columbia Records

I. Introduction

The future of the music industry in the so-called "digital age" has been a topic of much discussion and debate in recent months. The focus of most attention has been the impact of the Internet, and particularly digital distribution, on an industry structure dominated by five multinational major players[4] which currently control the production and dissemination of most of the world's recorded music. Although the grand-scale questions concerning the future of the music business are certainly worthy of consideration, some integrally

important and timely questions are seemingly overlooked by an over-abundance of attention on the horizon.

The coming months promise to see the first significant forays of the major labels into the digital arena on a commercial basis. Among other major recent headlines, in June, EMI purchased a fifty percent stake in musicmaker.com, indicating that it intends eventually to make its catalog of more than 500,000 titles available for inclusion in custom compilations. In August, Zomba also announced that it would license masters to musicmaker.com for exploitation via the Internet. Atlantic Records recently experimented with a for-sale Tori Amos download made available through a variety of leading Internet retailers. Virgin Records announced that David Bowie's entire new album, "hours," will be made available for commercial download two weeks prior to its release in a tangible

medium.[5] Virtually all of the majors have indicated that they plan to initiate efforts related to commercial digital downloads in time for the holiday season.

As the major labels begin commercial (i.e., not simply free promotional) exploitation of music online, many fundamental questions are raised for artists and their representatives, some of which are long-term, others of which raise more immediate issues. These questions include, among others, the following:

* How do standard industry recording agreements deal with the new issues raised by digital distribution and the increased integration of content and distribution?

* Do artists have a right to block their labels from engaging in digital downloads of singles or the general exploitation of masters online?

* How are royalties calculated for digital downloads?

* Should (or do) labels have a right to deduct container charges for such intangible distributions (which actually are not distributions at all, but rather transmissions)?

* Do traditional "bounceback" merchandising provisions apply in connection with Internet sales?

* How should "coupling" provisions be interpreted to impact upon custom compilations?

* Does the placing of an album for sale via the Internet in downloadable form satisfy contractual provisions regarding release commitments, either domestically or internationally?

* How will (and should) mechanical royalties be treated with respect to digitally-exploited masters?

* Who owns the URL www.[artistname].com (and who should own such URL)?

A review of a sampling of typical recording agreements from each of the "majors" reveals that such

questions may have different answers for each "major," with further variations within that major's distributed labels. Until recently, negotiations over recording agreement terms would not have focused on the impact of digital technologies (except, possibly, the general acknowledgement that the agreement applies to all media, in all forms, whether now existing or hereafter developed). A fresh look at such agreements from today's "Monday-morning quarterback" perspective is likely to reveal some unexpected and unintended results.

This article presents an overview of many key recording agreement provisions that are affected by new technologies. Examples are based on typical agreements (sometimes aggregated to highlight the issue concerned), including some from recent months and others from years ago. The selection of both new and old agreements is intended to demonstrate the

disparity of treatment of certain issues over time. Of course, some of the more contemporary agreements address Internet and other digital issues explicitly, whereas older documents do not in any way contemplate more recent developments.

Nevertheless, all provisions cited and analyzed are from agreements still in effect. No identifications are made either to record companies or artists when referencing specific contractual provisions. The goal is not to single out any company based on its policies, but rather to give side-by-side comparisons of how the same issue may be addressed in different, and often surprising, ways. While efforts have been made to present a balanced view of the issues, the artist's viewpoint frequently is adopted in connection with argumentation, primarily because an empirical overview of the relevant provisions suggests that artists

are overwhelmingly penalized by the advent of new media.

II. Recording agreement provisions

The analysis is broken down into categories reflecting those provisions of standard recording agreements most significantly affected by the new technologies of digital distribution and the Internet.

A. Definitions of "records," "configurations," "formats," etc.

As an initial matter, it is critical to analyze the definitions of the terms "Record," "Phonograph Record," "New Technology Configurations" and the like. Because royalties generally are paid on net sales of Records, it is important to interpret what is meant by

a "Record" in the first place. One agreement, circa 1996, defines both a "phonograph record" and a "record" interchangeably as:

all forms of reproduction now or hereafter known (including reproductions of sound alone and audio-visual reproductions) which are manufactured or distributed primarily for home use, institutional (e.g., library or school) use, jukebox use or use in means of transportation (including, without limitation, any computer-assisted media [e.g., CD-ROM, CD-I and similar disc systems, interactive cable and/or telephony]).

The same agreement defines a "configuration" as:

each particular format in which phonograph records are now or may in the future be manufactured or

distributed, including, without limitation, 7-inch disc singles, 12-inch disc singles, analog cassette albums, digital audio tape albums, digital compact cassette albums, disc albums and CD albums.

Note the use of the terms "manufactured," "distributed" and "reproductions." Arguably, these definitions are broad enough to encompass digitally distributed music, though it is by no means clear that they do or that they were so intended. The issue may boil down to a distinction between "distributions" and "transmissions," and then whether a digital delivery falls into the former or latter category.

By comparison, consider this extremely recent definition of a "Record," circa August 1999, which by its terms includes digital deliveries without the need for implications or complicated analysis:

all forms of reproductions, transmissions or communications of Recordings (including without limitation direct delivery to consumers via broadcast, cable, telephonic, Internet or satellite transmission) now or hereafter known, manufactured, distributed transmitted or communicated primarily for personal use, home use, school use, juke box use or use in means of transportation, including records of sound alone and audiovisual Recordings and interactive media (e.g., CD-ROM).

Along the same lines, consider another definition which separates the definition of a "Record" from a "Phonograph Record." A "Record" is defined as:

all forms of reproductions, transmissions or communications of Recordings now or hereafter known, manufactured, distributed, transmitted or

communicated primarily for home use, school use, jukebox use or use in means of transportation, including without limitation, Records embodying or reproducing sound alone and Audiovisual Records.

The same agreement defines a "Phonograph Record" as:

a Record as embodied by the manufacturer and/or distributor in a physical, non-interactive Record configuration (e.g., vinyl LP's cassettes, compact discs, videocassettes) prior to its distribution to the consumer, as opposed to the transmission or communication of a Record to the consumer prior to being embodied in a physical Record configuration, whether or not it may at some point be embodied in a physical Record configuration, by the consumer or under the consumer's direction or control.

In this manner, the agreement explicitly distinguishes between tangible Phonograph Records manufactured by the label and a more general concept of Records, which more broadly includes the subset of Phonograph Records as well as digitally transmitted Records. Obviously, the value of such a bipartite definition is that it eliminates virtually all ambiguity as to whether the term "Record" includes digital distributions/transmissions.

Another recent agreement, circa May 1999, uses a similar bipartite approach by including within the definition of a "record" the concept of an "electronic transmission." In this agreement, a "phonograph record" or "record" or "recording" is defined as:

all forms of audio and/or audio/visual reproductions, now or hereafter known, manufactured, distributed or transmitted by means of electronic transmission.

The term "electronic transmission" is, in turn, defined as:

any transmission to the consumer, whether sound alone or sound coupled with an image, in any form, analog or digital, now known or later developed (including, but not limited to, direct broadcast satellite, point-to-multipoint satellite, multipoint distribution service, cable system, broadcast station, etc.) where a direct or indirect charge is made in connection with such transmission.

Again, such an explicit division of the concept of a record into physical distributions and virtual

transmissions makes it clear that both forms of exploitation are intended to be covered by the definition.

So, how does one interpret the older, typically more general, definitions of records concerning the inclusion or exclusion of digital deliveries? Are labels precluded from exploiting via digital delivery records from artists whose agreements incorporate such older definitions? If a label modifies the definition of a "record" to include digital distributions explicitly, is the argument bolstered that an older definition should not be interpreted to include such media? If the more encompassing grant language typically included in the agreements is held to transfer all rights (including digital delivery rights) in Masters to the label, how are royalties calculated if the agreement specifies that royalties are payable on "net sales of records"? While "industry customs" may develop to deal with such

conundrums, the answers are by no means clear by mere reference to the contractual language of most older recording agreements. Nevertheless, identifying the right questions and understanding the ambiguities is quite useful when it comes to discussing and negotiating such issues with the other party to an agreement.

It also is important to consider a related set of definitions for "new media" or "new technology" records, as well as for "audiovisual records" or "videos." As discussed in Section II.b.2, below, most agreements provide a reduced royalty (and often reduced publishing royalties) for such formats. Moreover, it is typical to exclude such sales when determining sales-based royalty escalations or other success-measuring formulae. Considering the apparently increased consumer-product adoption rate of late,[6] it is possible that reduced royalties for so-called

"new media" and other audio formats that may include visual images (such as DVD Audio) may come to have a more substantial economic impact for artists sooner than one might expect.

Consider the following extremely broad definition of "New Technology Configurations" from a recently executed recording agreement, which includes a variety of formats that have been in popular use in the U.S. since the late 1980s:

"New Technology Configurations" means Records in the following configurations: mini-discs, digital compact cassettes, digital audio tapes, laser discs, CD-ROM, audiovisual compact discs and other Records embodying, employing or otherwise utilizing any non-analog technology (whether or not currently existing or hereafter created or developed), but specifically excluding audio-only compact discs.

A somewhat similar definition from another recent major label agreement provides that:

"New Technology Configurations" shall mean Records in the following configurations: mini-discs, digital compact cassettes, digital audio tapes, laser discs, CD-Rom and other Records embodying, employing or otherwise utilizing any non-analog technology (whether or not presently existing or hereafter created or developed), but specifically excluding audio-only compact discs.

Note that the latter definition does not specifically reference "audiovisual compact discs." However, the same agreement defines an "Audiovisual Record" as:

any Record that embodies, reproduces, transmits or otherwise communicates visual images whether or not the interaction of a consumer is possible or necessary for the visual images to be utilized or viewed.

This definition would, at least on its face, include enhanced CDs, DVD Audio discs containing visual content and related new media formats. Consider from the same perspective the following set of definitions from a different agreement:

The term "Compact Disc" shall mean a Digital Record in any configuration (e.g., Album, Single, EP) in disc form primarily reproducing sound (but not together with visual images), the signals of which are read and transmitted from that disc by means of a laser.

The term "Audio-Visual Record" shall mean a Record embodying visual images.

Based on these definitions, an enhanced CD would not constitute a "Compact Disc" but an "Audio-Visual Record." To the extent that an agreement also provides for a reduced royalty for video formats (which most do), it is critical to focus on the interplay of such definitions to avoid unintended and unanticipated results. Artist representatives will want to attempt to narrow the definitions of "New Media Configurations" and "Audio-Visual Records," if possible, because over-inclusion may not only expand the label's rights beyond contemplated, bargained-for parameters, but also may pull more types of sales into a reduced royalty rate category.

One compromise would be to include a provision along the lines of the following, which is adopted from language found in a different major label agreement:

The royalty rate for each country of the Territory in respect of net sales through normal retail channels of copies of any record in any New Medium shall be (A) with respect to net sales in a particular New Medium occurring during the "Introductory Period" (as such term is hereinafter defined) applicable to that New Medium, seventy percent (70%) of the royalty rate applicable to the first net sale of such record through normal retail channels[7] . . . and (B) with respect to net sales in a particular New Medium occurring after the Introductory Period applicable to that New Medium, Artist and Company agree to negotiate in good faith (in light of Company's then-current policy with respect to royalty rates applicable to net sales in the applicable

New Medium as same applies to artists then currently on Company's roster who then currently maintain a stature in said industry) for the purpose and intent of agreeing upon the percentage royalty rate payable to Artist with respect thereto . . . . As used herein, the term "Introductory Period" shall mean, on a New Medium-by-New Medium basis, that period commencing on the applicable "Commencement Date" (as such term is hereinafter defined) and ending three (3) years thereafter.

Of course, a three-year "Introductory Period" might be considered an eternity, particularly in this era where hopping from one new format to another seems to be occurring with much greater frequency. Another area for negotiated compromise is a royalty provision along the following lines, adopted from a different major label recording agreement:

Records Containing Separate Portions of Audio Alone and Audio Coupled with Visual Images (e.g., CDVs): The royalty rate shall be as follows: (i) with respect to the audio-only portion of such record, the royalty rate shall be applicable rate payable pursuant to paragraph 6(a) or 6(b) of the Agreement, prorated on the basis of a fraction the numerator of which is the playing time of such audio-only portion and the denominator of which is the total playing time of such record; and (ii) with respect to the audio/visual portion of such record, the royalty rate shall be the applicable rate payable pursuant to paragraph 6(c) of the Agreement, prorated on the basis of a fraction the numerator of which is the playing time of such audio/visual portion and the denominator of which is the total playing time of such record.

By including such a proration provision, an enhanced CD would be payable at the full royalty rate with respect to the audio-only portion, while the audiovisual portion would be payable at a different rate (if at all, depending on the other provisions of the agreement). At any rate, the goal is to ensure that the artist is not unfairly penalized by adding bonus video content to an otherwise normal album.

B. Royalty provisions

From the artist's viewpoint, the recording agreement provisions most directly affected by the development of digital download and other new technologies are those dealing with royalty calculation and payment. While virtually all royalty provisions may be affected in one way or another by the new

media application concerned, the following categories are among the most important to address.

1. "net sales" through "normal retail channels"

Virtually all recording agreements provide, in one way or another, that the top-line royalty rate applies only to net sales of records through normal retail channels in the United States. Royalty provisions are typically initiated with language such as:

Company agrees to pay to Artist a royalty at the rates set forth below based on one hundred percent (100%) of net sales through normal retail channels of phonograph records embodying Masters, computed on the SRLP of such records (except as otherwise provided herein), as follows . . . .

The following provides another example from a different agreement:

The royalty rate (the "Basic U.S. Rate") in respect of Net Sales of Records (other than Audiovisual Records) consisting of entirely Master Recordings hereunder during the respective Contract Periods specified below and sold by [Company] or [Company]'s Licensees Through Normal Retail Channels in the United States ("USNRC Net Sales") shall be as follows . . . .

Section II.A. above addressed the need to analyze the definition of a "record" as to whether digital downloads would qualify as royalty-bearing sales in the first place. It is similarly important to consider whether the definition of "normal retail channels" includes sales via the Internet (whether in the form of digital downloads

or sales of physical media through Internet retailers such as Amazon.com and CDnow).

A typical definition provides that:

"Sales Through Normal Retail Channels" means sales other than as described in paragraphs 7.02 (except that the fact that a Record is a compact disc shall not in and of itself render such a sale not through normal retail channels provided it meets all other requirements therefor) 7.03, 7.04, 7.06, and 7.07.

Predictably, among the records excepted from the above definition are records in a "New Technology Configuration." Another agreement specifies that:

"Net sales through normal retail channels" means net sales of records hereunder through [Company]'s principal distributor(s) in the country in question for

resale through record stores or other retail stores for which a royalty is paid hereunder excluding, without limitation sales or distributions referred to in Schedule A hereto (such net sales in the United States, but within the territory, are sometimes referred to herein as "USNRC" net sales and such net sales and such net sales outside the United States are sometimes referred to herein as "ROW NRC" net sales).

This definition would, on its face, exclude digital downloads, to the extent that such sales do not occur through the record company's "principal distributor" "through record stores or other retail stores." It is worth considering whether Internet retailers selling physical records would qualify as "record stores or other retail stores." While one would think it unfair to contend that full-priced sales through such on-line retailers constitute anything other than sales through

normal retail channels, the above definition would at least provide for an argument by the label that the online retailers are not "stores," thus providing for the opportunity of shifting sales through such retailers into a reduced royalty category. Of course, there generally should be no difference to the label between brick-and-mortar and online sales, if the label is receiving its full wholesale price. On another note, and perhaps not surprisingly, Exhibit A (referenced in the above definition) serves to exclude from the definition of "normal retail channels" records sold directly by the record company, which, presumably, would include records in the form of digital downloads.

2. Format reductions for "new media" and "direct sales"

As suggested above, virtually all agreements provide for reduced royalties in the case of both "new media" records and records sold directly by the record company. To the extent that digital downloads arguably could fall into both categories, it is possible that a double reduction could take place, depending on the precise wording of the particular agreement.

At least one major label has modified its standard form agreement to include the concept of "Cybersales," and has specified that royalties for such sales shall be reduced as follows:

With respect to Records and other exploitations sold directly to consumers (i) by Company in the United States, (ii) or by a Principal Licensee outside the United States, or by their respective licensees throughout the Territory (e.g., licensed web sites), other than by distribution of physical Records to consumers, (e.g.,

without limitation, the downloading or other conveyance of Artist's performances in Master(s) or Video(s) concerned via telephone, satellite, cable, direct transmission over wire or through the air, and on-line computer sales) (collectively, "Cybersales"), the royalty rate shall be eighty percent (80%) of the otherwise applicable Basic U.S. Rate, Escalated U.S. Rate, or Foreign Rate. Such royalties shall be computed on the basis of eighty-five percent (85%) of Net Sales of such Records in the United States.

Accordingly, the effective royalty rate for such sales is no higher than sixty-eight percent (68%) of the otherwise applicable rate, and may be subject to further reduction. Based on this reduction, the artist is being paid one-third less royalties, while the label is theoretically being paid the full retail price for such sales, rather than the typical wholesale price.

The following typical example of a new media reduction from one major label recording agreement does not specifically reference digital distribution:

Notwithstanding anything to the contrary contained herein, the royalty rate for any Record in a New Technology Configuration shall be eighty percent (80%) of the otherwise applicable royalty rate set forth in this agreement.

The following example from another agreement, uses a slightly different reduction mechanism:

With respect to sales of new configurations, the retail list price of the record concerned shall be deemed to be seventy-five percent (75%) of the retail list price of the configuration concerned, but in no event greater than the retail list price of [Company]'s or [Company]'s

regular foreign distributors' (as applicable) best-selling equivalent configuration.

The first provision, above, applies a reduced royalty to new media formats, whereas the second provision applies a contrived reduced retail list price. The net result on the artist's royalty rate for the sales concerned, however, is identical.

Record companies point to R&D and other potential increased costs of new media formats. One possible compromise that takes into account such concerns is reflected in the following provision, which is taken from a different agreement:

With respect to New Technology Configurations, the royalty rate shall be eighty-five percent (85%) of the otherwise applicable rate. Notwithstanding the foregoing, starting on the commencement date of the

semiannual accounting period immediately following the semiannual accounting period in which royalty-bearing USNRC Net Sales of the entirety of [Company]'s catalogue of Albums in the form of a particular configuration (or in the form of a particular mode of transmission or communication) of a New Technology Configuration (including Albums in such form which embody Masters hereunder) equal or exceed during such semiannual accounting period twenty-five percent (25%) of those royalty-bearing USNRC Net Sales, your royalty rate on such particular configuration embodying Masters hereunder shall be one hundred percent (100%) of the otherwise applicable rate.

This provision would at least prevent the application of a royalty reduction once a new medium achieves broad acceptance, R&D costs have been recovered and the

costs of manufacturing the new format have been reduced.

While seeming more innocuous than the new media royalty reduction provisions, direct-sale reduction provisions may be far more economically severe for the artist. To the extent that a digital download or other direct sale of physical media by the record company (or possibly even its distributor) to consumers via the Internet qualifies as a direct sale, the royalties payable to the artist may be decreased by fifty percent, even though the label may as much as double its gross revenues by capturing the profit margin in the price the consumer paid, rather than looking only to the profits achievable when selling at the wholesale level.[8] Take, for example the following reduction provision:

If Company sells records directly (and not through licensees) via television and/or radio advertisements or

through mail or phone order in the United States, then such sales for purposes of paragraph 1(a) hereof shall be deemed U.S. net sales and, accordingly, Artist shall be paid royalties with respect thereto in accordance with paragraph 1(a) hereof, but only with respect to eighty-five percent (85%) of such net sales.

The same agreement provides that:

With respect to net actual sales of records sold via direct mail or through mail order operations (including, without limitation, record club plans) by Company's Licensees, Artist's royalty shall be one-half (1/2) of Company's net receipts in connection with such sales; provided that if Company's net receipts from such sales are inclusive of manufacturing costs and/or mechanical copyright royalties for the applicable record(s) hereunder, Artist's royalty shall instead be one-half

(1/2) of the otherwise-applicable percentage royalty rate for retail sales hereunder on a configuration-by-configuration basis.

Obviously, the question becomes whether Internet sales qualify as direct mail order sales. While digital downloads may not technically fall into such a provision, direct sales by a record company of physical CDs ordered via the Internet and delivered via the mail to consumers clearly might qualify.

The following direct-sale reduction provisions are from two other major label recording agreements:

The royalty rate on Net Sales of: (A) any Record sold by Company or a Principal Licensee through any direct mail or mail order distribution method other than a Club Operation; and (B) any Record sold outside the United States in conjunction with a major television

advertising campaign, during the next two (2) such periods, shall be fifty percent (50%) of the otherwise applicable Basic U.S. Rate or Foreign Rate.

and:

Records Sold Directly By [Company] or [Company]'s Regular Foreign Distributors Other than Records Sold Through Normal Retail Channels/Records Sold by [Company] or its Licensees in Conjunction with a TV or Radio Advertising Campaign/Premiums Sold Directly by [Company] or [Company]'s Regular Foreign Distributors: The royalty rate will be 50% of the otherwise applicable basic royalty rate (calculated on the basis of the actual selling price as opposed to the retail list price).

At least one major label agreement treats direct sales somewhat differently, providing that the artist shall receive fifty percent of the label's net receipts from such exploitations. The provision reads as follows:

With respect to the following Records and/or exploitations of Masters recorded hereunder, the royalty hereunder shall be a sum equal to fifty percent (50%) of [Company]'s net receipts with respect to such exploitation: . . . (b) Licenses of Masters recorded hereunder for methods of distribution such as "key outlet marketing" (distribution through retail fulfillment centers in conjunction with special advertisements on radio or television), direct mail, mail order, phone order, or by any combination of the methods set forth above or other methods; (c) direct mail or mail order marketed by [Company] itself; and (d) licenses of

Masters recorded hereunder for distribution other than through Normal Retail Channels or other than by the distributor who normally distributes [Company] Records or Records hereunder in the territory concerned.

Of course, the actual royalty amount received by the artist under such a provision could be greater or less than the artist's typical royalty, depending on what amounts are charged against gross revenues to obtain net receipts. Artist representatives may want to negotiate for a "floor" amount.

3. Royalty escalations

Royalty escalation provisions may also be affected by the application of "net sales" through "normal retail channels" definitions as they apply to

Internet sales. Royalty escalations provide for a prospective increase in the royalty rate once certain specified sales plateaus are achieved. The value and application of such provisions will be affected by the popular adoption of digital distribution and other new media. First, to the extent that sales in such formats do not qualify as net sales through normal retail channels, they may not count toward the escalation plateau. Second, for the same reason, such sales may not qualify for escalated royalties even once the relevant sales plateaus have been reached.

The following is one example of a typical escalation provision:

With respect to U.S. Net Sales of the First Album, [the royalty shall be] thirteen percent (13%) with respect to the first two hundred fifty thousand (250,000) U.S. Net Sales of the First Album, thirteen and one half percent

(13.5%) with respect to U.S. Net Sales of the First Album in excess of two hundred fifty thousand (250,000) but not in excess of five hundred thousand (500,000) and fourteen percent (14%) with respect to U.S. Net Sales of the First Album in excess of five hundred thousand (500,000).

This agreement goes on to provide that:

The only net sales to be considered for purposes of escalating the royalty rates . . . shall be those U.S. Net Sales for which a royalty is payable . . . . Without limiting the foregoing, net sales subject to the remainder of this Exhibit A [other than those referred to in paragraph 1(h) below] shall not be considered for the purpose of such escalations. None of the foregoing escalations shall result in an increase in any royalty rates contained herein other than for U.S. Net Sales

under paragraphs 1(a)(i), 1(a)(ii), 1(a)(iii), 1(a)(iv), 1(a)(v) and 1(a)(vi) above and paragraph 1(h) below, even though other royalties may be based on the royalty rates set forth in those paragraphs.

To the extent that sales of records in new media configurations are not considered "net sales through normal retail channels" under this agreement, such sales are excluded from the calculation of the sales plateau and from the benefit of the escalation once such sales plateaus are reached.

The following escalation provision treats digital downloads and other non-normal retail channels sales of records in a similar manner:

Notwithstanding the foregoing: (A) if any particular committed LP achieves top-line net USNRC sales in excess of 500,000 units, the applicable royalty rate in

respect of such sales of the LP concerned in excess of 500,000 units shall be the Base U.S. LP Rate plus one-half percent (1/2%); and (B) if any particular committed LP achieves net USNRC top-line sales in excess of 1,000,000 units, the applicable royalty rate in respect of such sales of the LP concerned in excess of 1,000,000 units shall be the Base U.S. LP Rate plus one percent (1%). The royalty rate increases set forth in the immediately preceding sentence shall be: (1) prospective at 500,001 and 1,000,001 units; (2) calculated on an LP-by-LP basis and (3) based on top-line net USNRC sales of the applicable LP only.

Another example ties escalations to net sales through normal retail channels:

The royalty rate (the "Escalated U.S. Rate") in respect of USNRC Net Sales of each Album recorded pursuant

to your Recording Commitment in excess of the following number of units, shall be the applicable rate set forth below rather than the otherwise applicable Basic U.S. Rate or any prior and otherwise applicable Escalated U.S. Rate.

The prevalence of the use of normal retail channel net sales as the benchmark for royalty escalations is a significant issue as digital delivery becomes a more accepted form of music distribution. To the extent that labels will not entertain the concept of broadening the definition of "normal retail channels" to include such forms of distribution, it is important for the parties to consider whether, at a minimum, such escalation provisions should be broadened so that digitally delivered records (i) count toward achieving royalty escalation plateaus, and (ii) benefit from the royalty increases once such plateaus are achieved.

4. Advance formulas for option albums

Advances or recording funds for the second and subsequent albums delivered in fulfillment of the artist's recording commitment are typically determined by a formula that almost always excludes earnings from all sales of records other than top-line U.S. normal retail channel net sales. Accordingly, earnings, regardless of how significant, from digitally delivered or ordered music may not "count" in determining monies payable to the artist.

Consider, for example, the following typical recording fund formula provision:

With respect to the Second Album, if any, and each subsequent Album constituting the Recording

Commitment, if any, a Recording Advance shall be payable to you in an amount equal to sixty-six and two-thirds percent (66 2/3%) of the amount of royalties credited to your royalty account hereunder in respect of USNRC Net Sales of the immediately preceding Album constituting the Recording Commitment. Such Recording Advances, if any, shall be payable to you pursuant to subparagraph 7(f)(ii).

Because sales of records via digital download, and possibly even sales of physical records through Internet retailers, may not qualify as "USNRC Net Sales," such sales are ignored for purposes of calculating subsequent album advances. As such sales come to represent a greater percentage of total album sales, it is obvious that the exclusion of such sales from a mini-max formula will work against the interest of artists. If specifically addressed, the label may agree to include

such sales for purposes of the mini-max formula, though most artist representatives may expect resistance on this point.

5. Royalty reductions for foreign sales

Virtually all U.S. recording agreements provide that royalties payable on non-domestic sales of records are calculated at a reduced rate, generally between fifty and eighty-five percent of the U.S. rate, depending on the stature of the artist and the territory concerned.

The royalty rate (the "Foreign Rate") on Net Sales of Records sold for distribution Through Normal Retail Channels outside of the United States by [Company], or by [Company]'s principal Licensee in the territory concerned, shall be computed at the applicable percentage of the Basic U.S. Rate that otherwise would

be applicable to USNRC Net Sales of the applicable Record as follows:

Territory:	% of Basic U.S. Rate
Canada	85%
The United Kingdom	80%
Germany, Australia and Japan	75%
Belgium, the Netherlands, Luxembourg, New Zealand, France, Italy and Spain	66 2/3%
Rest of the World	50%

With the rapid adoption of the borderless world wide web as a shopping forum, one must at least question whether sales to consumers physically located outside of the U.S. ought to be treated differently from sales to U.S. consumers. Revenues generated by direct downloads will be identical regardless of the territory

in which the user resides, because the retail price is determined by the U.S. record company/distributor, as opposed to its ex-U.S. licensee. Similarly, with respect to direct mail distribution based on Internet purchases, it must be presumed that shipping costs will be paid directly by the consumer, in addition to the retail price, so that no economic distinction can be drawn between sales to U.S. and foreign consumers. Accordingly, given the absence of higher transaction costs or the need for third-party intermediaries, it is at least worth discussing why international sales via the Internet pay a lower royalty than otherwise-identical U.S. sales.

6. Container chargers/packaging deductions

Probably one of the more obvious provisions that becomes difficult to justify with respect to digital

distribution of records is the royalty base price reduction for imputed "container charges" or "packaging deductions." Artists and their representatives frequently complain that such deductions bear no relation to the actual cost associated with packaging (specifically, that the actual costs are far lower than the amount deducted pursuant to the agreement). Because digitally distributed records involve no packaging whatsoever (other than "packaging" such as memory, CD-Rs, hard disks or "Zip"-type disks actually purchased separately by the consumer), the fairness of such deductions is all the more suspect. Nevertheless, most agreements provide that the packaging deduction for new media records (which, as noted above, generally include digitally delivered records), regardless of whether such records have packaging at all, is identical to the highest level of

deduction, that applied for CDs (usually twenty-five percent).

The following provision is typical:

Notwithstanding anything to the contrary contained herein, the following shall be excluded from the base prices against which the applicable royalty rates are to be applied: . . . (ii) As a container charge, an amount equal to (D) Twenty-five percent (25%) of the SRLP for D records and NM records.[9]

Another agreement simply identifies the container charge as follows:

Compact discs, New Technology Configurations and Records in all other configurations - twenty-five percent (25%).

The following virtually identical example provides that the container charge shall be:

Twenty-five percent (25%) of the Suggested Retail List Price for compact discs, audiophile Records, Records sold in the form of digital audio tape, digital compact cassettes ("DCC") or Records sold in the form of New Technology Configurations.

If the label is unwilling to eliminate packaging charges for digitally delivered records, it may be possible to negotiate a provision such as the following:

If [Company] changes its overall policy with respect to customary container charges, the above percentages will be adjusted accordingly.

It is notable that at least one major label has eliminated the container charge for digitally delivered records, specifying that:

[With respect to] Records sold as Cybersales[10] - [there shall be] no container charge.

It will be interesting to see whether other major labels follow this policy.

7. Master-use licenses

Virtually all recording agreements provide that when the record label licenses master recordings to third parties for commercial exploitation, the artist will share in fifty percent of the label's net receipts under that license. To date, downloads of popular music made available to the public have, for the most part, been

offered through the various digital download companies, such as amplified.com, customrevolutions.com, emusic.com, musicmaker.com, and others. These companies generally license masters from major labels for further digital transmission (or for the dissemination of custom compilation discs) to consumers. The relevant question is how artists should be compensated for such exploitations. Most recording agreements would suggest that the artist should receive fifty percent of the label's net receipts to the extent attributable to the artist's masters - an amount that almost certainly will differ from the typical artist royalties generated from sales of physical albums. As digital downloads via license arrangements become more prevalent in the industry, it becomes increasingly important for practitioners and record labels to focus on license provisions and definitions of net receipts during

negotiations, to ensure that the economic results of such provisions are understood in advance.

The following license provision is relatively typical:

[With respect to] Masters licensed to third parties by Company or Company's Foreign Affiliates on a flat fee, royalty rate or cent rate basis for any type of use not specifically covered elsewhere in this paragraph 2, Company shall credit Artist's royalty account with one-half (1/2) of Company's net receipts.

Pursuant to the agreement from which this provision is derived, sales of masters through third-party licensees do not count as net sales through normal retail channels. Accordingly, as discussed above, such sales do not count toward achieving royalty escalation

plateaus or for purposes of calculating mini-max advance formulas.

The following examples reflect treatment of third-party licenses on a fifty-percent-of-net-receipts basis:

The royalty rate for Masters licensed by Company or a Principal Licensee to a Person for use in the distribution of Records shall be fifty percent (50%) of Net Receipts solely attributable to such Masters.

Flat-fee Licenses: Subject to paragraph 34 of the Agreement, royalties will be 50% of [Company]'s net receipts from such licenses.

At least one label, however, splits net receipts from licenses using a fraction based on the artist's normal royalty rate. This provision specifies that:

Provided that a royalty or other payment is not otherwise provided for such uses elsewhere in this Article 9, including, without limitation, pursuant to paragraph 9.08 (a) above in respect of any Master Recording licensed by [Company] to another person for which license [Company] receives as royalty or other payment that is readily and directly attributed to the use of such Master Recording (the "Per-Use Fee,") [Company] shall credit your royalty account hereunder with an amount equal to a percentage of [Company]'s Net Receipts from such Per-Use Fee which is the same as the percentage of the applicable Basic U.S. Rate or Foreign Rate for Albums sold for distribution in the country concerned, provided that such credit to your royalty account shall not exceed[11] the amount that would otherwise be credited to your account hereunder for a Top Line sale Through Normal Retail Channels of

a comparable Record if sold by [Company] in the applicable territory.

Such a provision may be less advantageous to the artist than a fifty-fifty split of net receipts, unless the artist's effective royalty rate is equal to or higher than fifty percent of attributed receipts. Also, to the extent that the total of such net receipts is less than the royalty base price, the artist's bottom line will be lower than normal, while the label's net may be higher (because the record company is likely to have fewer costs associated with the generation of net receipts from licensed uses of masters than with its direct distribution of physical media; of course, the label may be losing its profits from manufacturing and distribution).

8. Reductions of mechanicals and mechanical caps

Digital downloads could also have a negative economic impact on music publishers, due to provisions involving the computation and payment of mechanical royalties for sales of records that are not "net sales through normal retail channels." Mechanical royalties are generally viewed as sacred - primarily because they generally are paid from the first record sold prior to recoupment. In fact, artists' representatives generally fight to ensure that mechanicals will not be cross-collateralized against, or offset by, any other advances or charges in the recording agreement. Because many artists never achieve a recouped position under their standard royalty accounts, reductions of mechanicals have a more profound and immediate impact on the bottom line of writer-artists and their publishers. Consider the following provision:

Notwithstanding anything to the contrary contained herein, mechanical royalties payable in respect of Controlled Compositions for Net Sales of Records for any use other than as described in subparagraphs 9(a), (b) and (e) shall be seventy-five (75%) percent of the otherwise applicable U.S. 75% Rate, U.S. 87-1/2% Rate, U.S. 100% Rate or Canadian 75% Rate, as the case may be.

In the agreement from which the above provision is taken, sales of records in the form of digital downloads are treated in one of the specified subparagraphs falling outside of the "full" controlled rate. Accordingly, the normal seventy-five percent (75%) controlled composition rate is reduced to fifty-six-and-a-quarter percent (56-1/4%) (i.e., 75% of 75%) for sales via digital download. The following provision is even worse for artists:

Mechanical royalties for "controlled compositions" (i.e., compositions written, in whole or part, by Producer, Artist, or an individual producer, or owned or controlled directly or indirectly, by Producer, Artist, an individual producer or any party associated or affiliated with any of them) will be payable at the controlled rate and will be payable only on net USNRC sales and net NRC sales of records by [Company] or its licensees. The "controlled rate" shall mean seventy-five percent (75%) of the minimum statutory rate with respect to compositions embodied on top-line records. Notwithstanding the foregoing, the controlled rate shall mean . . . sixty-six and two-thirds percent (66 2/3%) of the rate set forth in the immediately preceding sentence with respect to compositions embodied on records other than those set forth above in this paragraph 9(a) (e.g., budget record(s), sales through record clubs, through

armed forces post exchanges, and in connection with TV or radio advertising campaigns).

Thus, for sales that do not qualify as net USNRC sales, the effective mechanical rate for controlled compositions is fifty percent (50%) (i.e., 66 2/3% of 75%).

A related provision that should not be overlooked is somewhat less common, but equally (if not more) significant. This provision is one that reduces what is commonly known as the "mechanical cap" in the case of sales of records through non-normal retail channels. The mechanical cap generally specifies that the maximum mechanical royalties payable for all compositions (including controlled compositions) on a single album shall be no more than X times the controlled (or sometimes, non-controlled) rate (where X is usually a number between ten and thirteen,

depending on the stature of the artist). The following provision taken from a recent agreement provides an example of the issue:

With respect to the exploitation or sale of Records as described in paragraphs 7.02 (other than with respect to EPs, Singles and Multiple Record LPs), 7.03 . . . , and 7.06, the Mechanical Royalty maximums shall be three-fourths (3/4) of the amounts prescribed in this subparagraph 11.01(b).

Paragraph 7.02 of the agreement from which this provision is derived deals with royalty reductions for new technology configurations. Accordingly, whereas the normal mechanical cap for compact discs is eleven (11) times the amount that would be payable if the album contained only one controlled composition, the above provision serves to lower the cap to eight-and-a-

quarter (8.25) (i.e., 11 times 3/4). Of course, one must focus on whether the cap reduction is in lieu of or in addition to the rate reduction, and compare the economic impact based on an integrated analysis of these provisions.

B. Coupling restrictions

Artists frequently are able to negotiate for contractual limitations on the label's ability to "couple" the artist's masters on records embodying other artists' masters (e.g., soundtrack albums, "MTV Party To Go," etc.). Such provisions protect artistic concerns and may help protect an artist's album sales against placing the artist's biggest singles on compilation albums featuring the hits of various other artists on the label (or on other labels). The question that arises with new technologies revolves around the phenomenon of "custom

compilation" discs. Such discs are consumer-generated as opposed to pre-recorded discs assembled by the record label or its licensee(s). Specifically, the question is whether the ability to make the artist's masters available for inclusion in custom compilation discs where the consumer does the "coupling" is limited by the coupling restriction contained in the agreement. The answer will depend on the specific agreement.

Consider the following example of a coupling restriction:

During the Term, in respect of Records manufactured for sale in the United States, [Company] shall not, without your prior written consent . . . [c]ouple any of the Master Recordings with Recordings not embodying the Artist's performances on Singles; or (2) so couple more than two (2) of the Master Recordings on any other Phonograph Record . . . .

To the extent that a Phonograph Record would include a custom compilation disc (which, in the case of this particular agreement, is questionable), the record company would be restricted from coupling more than two (2) masters on any particular compilation. However, with custom compilations, it is arguable that because the consumer and not the label would be doing the compiling, the provision would not apply. Nevertheless, it must be considered whether, when neither party may have contemplated the advent of consumer-generated compilations during negotiations, the spirit of such a provision would be violated by the label permitting unrestricted coupling by consumers. An argument certainly could be made that tolerance for such conduct would undermine the artist's motivations underlying the bargained-for provision. A noteworthy twist on the problem would involve instances where a

retailer owned or controlled by the label is the entity directly offering the custom-compilation service. Such a scenario may increase the viability of an argument that the label itself is actually doing the compiling.

Other agreements specifically exclude custom compilations. The following is an example of such a clause:

During the Term and solely in respect of Records manufactured for sale in the United States, Company shall not, without your approval: Couple more than one (1) Master on any particular Record offered for sale to the public, which Record embodies Recordings that do not embody the performances of Artist, except with respect to samplers, uses on transportation carriers, and Consumer Compilations. The term "Consumer Compilation" means a Record embodying Recordings (including one (1) or more Masters) that are sequenced

and/or selected by the consumer (e.g., the Personics and similar systems).

The following is another example:

With respect to audio Records manufactured for sale hereunder,12 [Company] will not without your consent: . . . Couple Masters made hereunder on any disc Record with Recordings not embodying Artist's performances, except in the case of promotional-only Records in reasonably limited quantities, consumer compilation Records (e.g., Personics), sampler-type Records and programs for use on public transportation carriers and facilities.

To the extent that the artist desires to control the label's ability to make masters available to consumers outside of the album format, it is important to consider the

impact of such clauses as custom compilation discs become more widespread.

D. Foreign release commitments

At least from a theoretical perspective, digital delivery raises questions concerning a label's commitment to "release" an artist's albums "commercially." Is making the album available for download sufficient? The issues are more complicated when focusing on international release commitments. Artists sometimes are able to negotiate for provisions specifying that, under certain circumstances, if the label does not release a particular album (and occasionally some or all future albums) in a foreign territory, the label must reassign to the artist the rights to that territory. The following is an example of such a provision:

Provided you have fulfilled all of your material obligations under this agreement, Company agrees to commercially release each Album constituting the Recording Commitment in the United Kingdom, Germany, France, Italy, Benelux, Scandinavia, Australia, New Zealand and Japan (individually, the "Foreign Release Territory"), within ninety (90) days after Company commercially releases such Album in the United States (the "Foreign Release Period").

Another agreement provides the following somewhat different example:

Provided Artist is not then in material breach hereunder, if any Commitment Album is listed among (A) the first fifty (50) albums in the principal weekly chart of best-selling albums in the United States

published in "Billboard" magazine (i.e., the chart presently entitled "The Billboard 200 Top Albums" or the chart corresponding most closely to that chart if it is retitled or discontinued), or (B) the first ten (10) "Country" albums in the principal weekly chart of best-selling "Country" albums in the United States published in "Billboard" magazine (i.e., the chart presently entitled "Top Country Albums", or the chart corresponding most closely to such chart if it is retitled or discontinued), Company shall cause its licensees in Canada, the United Kingdom, Germany and Australia (each of the foregoing territories being herein referred to as a "Release Country") to release each Commitment Album not later than ninety (90) days after the first appearance of such Commitment Album in the first fifty (50) albums (or ten (10) albums) on either of such charts.

Does the language that "Company shall cause its licensees" in each Release Country to release each such Commitment Album permit Company to discharge its release obligations merely by making such album available for digital download? What if the album already was made available for downloading by Company itself? Does the borderless nature of the Internet erode the need to distinguish between territories (or better yet, begin to make such distinctions meaningless)?

At any rate, for today's purposes, the parties should specify that a release commitment (whether U.S. or foreign) means the actual release of physical copies of albums to brick-and-mortar retailers in the relevant territory, if that is the intent. A clearly-expressed intent is particularly important if contract periods run from the date of initial U.S. commercial release of the album

delivered in satisfaction of the recording commitment for each such period.

E. "Bounceback" merchandising

So-called "bounceback" merchandising rights involve the inclusion in records of sales solicitations and order forms which consumers are able to mail back to the label to order certain merchandising items. How do such rights apply with respect to digital distributions? Can the label make merchandise available over the Internet to consumers who download a copy of an album? If so, such merchandising begins to compete much more directly with merchandising via the artist's own web site or that offered via an artist's licensee. To the extent that artists generally desire to limit the merchandising rights of the label, it is worth

addressing up-front the label's ability to merchandise via the Internet.

F. Web-specific provisions in recent agreements

Recently, provisions attempting to deal directly with Internet-related issues have been appearing in many major label forms. As record labels grapple with the new digital age, strange and unfamiliar provisions appear to be cropping up at every turn. Some already have been referenced, including new defined terms such as "Cybersales," as well as distinctions between time-honored terms such as "Records" and "Phonograph Records" (which, until recently, were used interchangeably). Other provisions, such as the following, have been added to standard agreements to

ensure that the record label has the right to use the artist's material online:

You also grant to Company and Company's licensees at no cost an irrevocable license under copyright to reproduce, distribute and perform each Controlled Composition or any portion thereof for promotional purposes only on web sites maintained by Company or its licensees. If any such reproduction, distribution or performance of a Controlled Composition is also authorized under another license (such as a public performance license granted by ASCAP or BMI or a reproduction and/or distribution license granted by The Harry Fox Agency), that reproduction, distribution or performance shall be deemed authorized by that license instead of this agreement.

Such a provision raises the interesting question as to what the label's rights are to engage in such activities under its numerous artist agreements not containing such terms.

There are several identifiable problems with these new media provisions. First, because they are relatively untested, it is important to consider how they will impact the rest of the agreement, which may not have changed to account for the new terms. For example, it is important to test the Internet-specific provisions against definitional distinctions between "Records" (which may include digital downloads) and "Phonograph Records" (which may not) in order to ensure that no unexpected results are yielded. Second, because both the technology and ideas about business models are changing so rapidly, it is likely that the terms introduced in today's agreements may be outdated tomorrow. The latter problem suggests that

both labels and artists' representatives should seek to make agreements more flexible with respect to new media issues, including leaving room for future good-faith discussions concerning new issues as they develop and mature, and, where possible, an obligation to amend in light of general policy changes.

The issues surrounding ownership of artists' domain names (or URLs) have been treated differently among the major labels. Most labels have taken the position that the artist owns the URL www.[artistname].com. The following provision from a recent agreement exemplifies this policy:

Without your prior written consent, [Company] shall not seek to register the ownership of any World Wide Web domain name, "uniform resource locator" or the like incorporating . . . any legal, professional, group or

other fictitious names or sobriquets now or hereafter used by the Artist.

Considering that most agreements already acknowledge that, as between the artist and the label, the artist owns its professional name (whether solo or group name) and simply contain a license in favor of the label to use such name, it simply follows that the artist should also own the URL incorporating its name.

Branching out from this important starting point, the Internet provides artists with substantial new opportunities to run their own businesses building from, but not necessarily centered on, their recording careers. For example, a wide range of non-record-related lucrative activities may be offered via a first-class web site, including subscription-based fan club services, e-commerce, live chats, sponsorships, and the like. It thus seems difficult for a record label to justify

owning exclusive rights to the URL consisting of the artist's name, or, taken a step further, to preclude artists from operating their own sites altogether. One label, however, views the matter differently, and has taken the position clearly expressed in the following provision:

[Company] and [Company]'s Licensees shall have the perpetual right . . . to use and to authorize other Persons to use the names (including, without limitation, all professional, group and other assumed or fictitious names or sobriquets), likenesses and biographical material of or relating to . . . Artist . . . on and in connection with the exploitation of Records hereunder, [and] on Internet websites as provided herein . . . without payment of additional compensation to . . . Artist . . . . For the purposes of this subparagraph [], the name by which the Artist is now or in the future may

become professionally known may sometimes be referred to hereinafter as "[Artistname]". [Company] and its Licensees shall have the exclusive right, during the Term, throughout the world, and shall have the exclusive right to authorize other Persons, to create, maintain and host any and all music industry websites relating to the Artist and to register and use the name "[Artistname].com" . . . and any variations thereof which embody the Artist's name as Uniform Reference Locators (or "URL's"), addresses or domain names for each website created by [Company] in respect of the Artist (each, an "Artist Site"), subject to [the provisions stated] below. All such websites and all rights thereto and derived therefrom shall be [Company]'s property throughout the Territory and in perpetuity, subject to the terms hereof . . . . Notwithstanding anything to the contrary in [this provision, this provision] shall not operate to preclude the Artist from creating,

maintaining and hosting an internet website for the sale of Artist merchandise and tour dates and schedules for any personal appearance tour(s) undertaken by the Artist.

This provision is notably more overreaching than most others seen to date. Its ambiguity also raises numerous questions. For instance, it is anyone's guess at this point what is meant by the "music industry website" which the record company apparently has the exclusive right to operate during the Term. That phrase could mean any website referencing in any manner an artist's career, subject to the extremely narrow exclusion clause in the last sentence of the provision. In a nutshell, other than merchandising and listing tour dates, the above language could be interpreted to prevent the artist from doing most anything at all on the Internet. Although this provision may represent a

record company struggling with efforts to control new business opportunities not yet in use, it is likely that a more even-handed treatment of the issue could be adopted, taking into account the interests of both the artist and the label.

III. Postscript

As is true with any analysis of recording agreements, it is important not to focus on single provisions of a particular agreement related to the Internet and new media in a vacuum. Rather, one must analyze the provisions as parts of a system, considering the interplay among them, in order to obtain an accurate comparison of their overall impacts. It is certain that the coming months will see many changes in the standard forms used by the major labels as they relate to new technologies, and, in particular, the

Internet. Because these provisions are likely to have increasing significance, economic and otherwise, it is critical that all parties pay greater attention to the dynamic issues raised by these provisions and understand how they will affect the relationship between the parties both in the short term and over time.

[NOTES]

1 Copyright 1999 Bobby Rosenbloum.

2 Mr. Rosenbloum practices in the Atlanta office of Greenberg Traurig, formerly Katz, Smith & Cohen, in the areas of entertainment and intellectual property law, with a focus in new technologies. The author wishes to thank his friend and colleague, Jeff Kempler, who heads Greenberg Traurig's transactional music practice and who contributed his invaluable thoughts, comments and overall inspiration.

3 Quoted in Reece, Doug, "Q&A With Al Teller," http://www.mp3.com/news/172.html.

4 These players are, of course, BMG, EMI, Sony, Universal and WEA.

5 Interestingly, however, the album will be made available only through the existing web sites of music retailers, indicating the continued efforts to maintain the traditional retail model.

6 The rapid adoption curve for DVD is a prime example.

7 Note that this provision would serve to eliminate the benefit of any royalty escalations in connection with sales of records in a New Medium format.

8 Of course, digital downloads also would not generally generate packaging or distribution costs or discounts to retailers.

9 In this agreement "NM" or "New Medium" is defined as "a record in any software medium (including, without limitation, DAT, DCC, Mini-Disc and transmission directly into the home) in which recorded music is not in general commercial distribution in the United States as of October 1, 1992."

10 The term "Cybersales" is defined in this agreement to mean: "Records and other exploitations sold directly to consumers (i) by Company in the United States, (ii) or by a Principal Licensee outside the United States, or by their respective licensees throughout the Territory (e.g., licensed web sites), other than by distribution of physical Records to consumers, (e.g., without limitation, the downloading or other conveyance of Artist's performances in Master(s) or Video(s) concerned via telephone, satellite, cable, direct transmission over wire or through the air, and on-line computer sales)."

11 Artist representatives should negotiate for a "not less than" provision.

12 Query as a general matter whether consumer compilations would be deemed "manufactured for sale" under the agreement.

[ELR 21:6:4]

NEW LEGISLATION AND REGULATIONS

California enacts "Astaire Celebrity Image Protection Act" amending state's existing right of publicity statutue for deceased personalities

Fred Astaire's name has always been associated with dancing. Now, as a result of the efforts of his widow Robyn Astaire, his name also will be associated with the right of publicity.

In the wake of a right of publicity lawsuit that Robyn Astaire lost, the California legislature has enacted, and Governor Gray Davis has signed, the "Astaire Celebrity Image Protection Act" - a bill that amends an existing California statute in five ways. In a nutshell, the new Act

* moves right of publicity protection for deceased personalities out of California Civil Code section 990 (where it has resided since 1985) into Civil Code section 3344.1;

* extends that protection from 50 to 70 years after the personality's death;

* revises the language of certain exemptions from that protection;

* makes the statute applicable to all "acts" that occur in California, regardless of the domicile of the personality at the time of his or her death; and

* requires the state government to post on the World Wide Web a registry of those who claim to be successors or licensees of the publicity rights of deceased personalities.

The renumbering of California right of publicity protection for deceased personalities appears to be nothing more than a bit of editorial housekeeping. California has had a statutory (as well as common law) right of publicity for the living ever since 1972. When the statute for the living was first enacted, it was codified at section 3344 of the Civil Code. In 1985, when California enacted right of publicity protection for the deceased, that statute was inexplicably codified at Civil Code section 990. Thus, the Astaire Celebrity Image Protection Act puts right of publicity protection for the deceased where researchers would expect to find it: adjacent to protection for the living.

When right of publicity protection for the deceased was first enacted in 1985, it was given a duration of 50 years after the personality's death. This duration was selected because at that time, the duration of federal copyright protection was the life of the author plus 50 years; and publicity rights and copyright seemed sufficiently analogous to use that duration. In 1998, the duration of copyright was extended from life plus 50 to life plus 70 (ELR 20:6:8). Though Congress's reasons for extending copyright protection were quite unrelated to the right of publicity, the California legislature stuck with the analogy and extended the post-mortem right of publicity to life plus 70 as well.

When right of publicity protection for the deceased was first enacted in California, the legislature built into the statute several specific exemptions for such things as plays, books, magazines, films, original

fine art, political and newsworthy material, and for advertisements for any of these exempt things. These exemptions were the reason Robyn Astaire lost a right of publicity lawsuit against a video company that had used clips from Fred Astaire movies as introductory material in the company's instructional dance tapes. The Ninth Circuit Court of Appeals ruled that the instructional tapes themselves were exempt "films," and thus even if the introductory clips from Fred Astaire movies were "advertisements" for the tapes, the clips were exempt too (ELR 19:5:13).

Robyn Astaire had never given the video company permission to use the clips, and she was outraged by what the company had done and by the court's ruling against her. The reason for her outrage was never explained. It is difficult to imagine that she thought the instructional tapes tarnished the "image" of her late husband, because she herself authorized the use

of other Fred Astaire clips in a vacuum cleaner television commercial. Regardless of her reason, she persuaded state Senator John Burton to introduce a bill that would have eliminated the specific statutory exemptions and would have replaced them with a broad First Amendment defense. By the time the bill was finally enacted, however, the legislature rejected that approach, and instead tinkered with the language of the exemptions.

The new Act provides that plays, books, magazines, films, and so forth, are not products, merchandise, goods or services - and thus do not violate the right of publicity - if they are "fictional or nonfiction entertainment, or a dramatic, literary, or musical work." It is not at all apparent how this new language would have changed the outcome of Robyn Astaire's instructional dance video case - unless

instructional dance videos are not entertainment or literary or musical works.

The new Act also provides that if an otherwise exempt work includes an advertisement for a nonexempt good or service, the work is no longer exempt. This of course has always been the law, in California and elsewhere. Thus this subsection appears to "codify" the recent result in the Dustin Hoffman case (ELR 21:3:8). It seems unlikely that it would have altered the outcome of Robyn Astaire's lawsuit, because the Fred Astaire clips that were included in the dance tapes could only have been seen by viewers after they bought the dance tapes; and thus the Fred Astaire clips would not have been advertisements for those tapes.

Though it seems the new Act would have had little impact on Robyn Astaire's lawsuit, it would have had a big impact on another case: the one in which the Estate of Princess Diana seeks to recover for Franklin

Mint's unauthorized sale of "Princess Diana" merchandise (ELR 20:12:11). The right of publicity claim asserted by the Estate, under California's old statute, was dismissed because Princess Diana was domiciled in Great Britain when she died, and thus British law - which doesn't recognize a right of publicity - rather than California law applied to her claim, even in connection with merchandise sold in California.

The new statute provides that California right of publicity law applies to acts - such as the sale of merchandise - that take place in California, even if the decedent was domiciled elsewhere at the time of his or her death. This means that if the "Astaire . . . Act" had been the law when the Princess Diana Estate case was decided, the Estate's right of publicity claim would not have been dismissed. (Perhaps the act should have been

called "The Princess Diana Celebrity Image Protection Act.")

Finally, in a nod to the benefits of new technologies, the new statute requires the California Secretary of State to post on the World Wide Web a registry of the names of those who claim to be the successors or licensees of the publicity rights of deceased personalities.

Astaire Celebrity Image Protection Act, Cal. S.B. 209, California Civil Code section 3344.1 (1999)[ELR 21:6:18]

California strengthens "Coogan Law" to provide child actors with more protection for their earnings by requiring at least 15% be put in trust

The California legislature has amended that state's Family Code to provide child actors - and other minors employed in the entertainment industry - with more protection for their earnings. Sadly, this legislation was thought to be necessary in order to protect children's earnings from wasteful spending by their own parents or guardians.

This is not the first time California has taken a stab at this problem. Back in the 1930s, Jackie Coogan sued his parents in an effort to recover the $4 million he had made as a child-actor. In those days, a child's earnings were legally the property of his or her parents. And thus, despite the fortune he had made as a child, Coogan entered adulthood without anything.

California responded to Jackie Coogan's plight - and the similar plights of other child actors - by enacting a law that permitted judges to order as much as 50% of a child actor's "net income" be set aside in a

court-approved trust or savings plan. That law - popularly known as the "Coogan Law" - had two weaknesses, however. First, it applied only in those cases where employers sought judicial approval of the minor's contract, and often, no such approval was ever sought. (According to the Screen Actors Guild, an active supporter of the new amendments, courts review fewer than 5% of child-actor contracts.) Second, the child's "net income" was defined to exclude the cost of "support, care, maintenance, education, and training of the minor." Apparently, some parents spent extravagantly on these things, in ways that benefited themselves more than their children.

The new amendments seek to cure both of these defects. It requires that at least 15% of the child's gross earnings (rather than "net income") be set aside in trust. Where a judge approves a minor's contract, the new law requires the judge to order that 15% be set aside; and

the judge is given the authority to set aside even more than 15%, if requested to do so by the child or his or her parent or guardian. More importantly, where judicial approval of a minor's contract is not sought, the new law now requires employers to set aside 15% of the minor's earnings for deposit into a trust or other savings plan established by the minor's parent or guardian.

The new law makes the earnings of a child actor (and other minors in the entertainment industry) the "sole legal property of the minor child." Until the minor becomes 18, however, no money may be withdrawn from the trust, without judicial approval. When the minor reaches 18, he or she can withdraw the funds simply by showing the bank a certified copy of his or her birth certificate.

California Senate Bill No. 1162, amending California Family Code sections 771, 6750-6753 and 7500 (1999)[ELR 21:6:19]

California regulates activities of "advance-fee talent services" such as those who charge upfront fees for career management and consulting; new statute also appears to cover photographers, drama coaches and costume designers

California has enacted new legislation regulating the activities of those who provide "advance-fee talent services" to aspiring actors and actresses or others who hope to find employment in the entertainment industry.

The law requires those who provide such services to enter into written contracts with their clients; and it requires those contracts to include

provisions notifying clients of their right to cancel their contracts without penalty within 10 days, and of their right to demand a refund of any fees they may have paid if they fail to receive the services they were led to believe they would receive.

The law also requires advance-fee talent service providers to post a $10,000 bond, or make a $10,000 cash deposit, for the payment of damages to those who may be injured by a violation of the law.

The law was introduced in the California legislature by Assemblywoman Sheila Kuehl at the request of Los Angeles City Attorney James Hahn whose office had recently prosecuted cases in which "hundreds of parents paid millions of dollars in advance fees to frauds that promised that their children would become 'stars.'" According to Hahn, frauds "have thrived in the past because our [California] laws did not specifically address advance-fee talent services, thereby

resulting in uninformed parents susceptible to illusory promises."

As enacted, the law does prohibit fraud: it prohibits advance-fee talent services from publishing false or misleading advertisements, and bars such services from making false promises - by choice of name or otherwise - that they are talent agencies or will seek to procure employment for their clients.

However, the law is not aimed solely at those who seek to defraud the parents of would-be child-actors. It applies equally to those who deal directly with adults who hope to obtain employment in the entertainment industry (and even with adults who already are so employed).

Editor's note: It appears from news reports that the prototypical target of the new legislation was a company: whose name implies that it obtains employment for its clients, though it actually does not;

who charges upfront fees for lessons, career counseling and advice; and who charges for photographs, demo tapes or other promotional materials said to be necessary for promotional purposes. As written, however, the new law also appears to impact those who are merely portrait photographers, costume designers and drama coaches. This is so, because the law defines, as an "advance-fee talent service," any "one or more" of a number of services including "Creating or providing photographs . . . for the artist," "Creating or providing costumes for the artist" and "Providing lessons, coaching, or similar training for the artist." It is difficult to imagine that the California legislature actually intended to require professional portrait photographers, costume designers and drama coaches to post a $10,000 bond. That is, however, what the new law says. Worse yet, violations may be prosecuted as misdemeanors.

California Assembly Bill No. 884, adding California Labor Code sections 1701-1701.20 (1999)[ELR 21:6:20]

IN THE NEWS

Recording industry wins permanent injunction and then a $13.7 million judgment against international music pirate; judgment is largest in RIAA history

Members of the Recording Industry Association of America have been awarded a $13.7 million judgment in their case against Global Arts Productions and Danny Jordan - the largest judgment in the RIAA's history. Jordan and his company Global Arts Productions were found to be selling fraudulent music

licenses and recordings of popular back catalog artists to foreign companies.

Jordan and Global Arts, based in Tamarac, Florida, were the hub of a worldwide music piracy ring, which, without authorization, licensed European, and other international companies to reproduce and sell well-known back catalog recordings. Along with the bogus license, Global Arts would provide the licensee with an illegally made copy of the "master recording." As the case progressed, the RIAA, the International Federation of the Phonographic Industry and FLAPF (the trade organization that represents Latin American record companies) worked together to uncover hundreds of additional infringements and numerous other individuals and companies involved in the international piracy ring.

Federal District Judge Donald Middlebrooks found Global Arts' infringements to be "willful" under

federal copyright law. While evidence was presented of more than 500 infringements, damages were only sought and awarded on 137. For the infringements subject to federal copyright law, the court awarded the maximum statutory damages of $100,000 per song. Approximately half of the 137 infringements were of pre-1972 sound recordings, which are not subject to federal copyright laws. But Judge Middlebrooks awarded $100,000 per song for those as well - drawing an analogy to federal law.

The foreign licensees have used "master recordings" provided by Global Arts to copy and sell more than one million CDs worldwide. Illicit recordings have been found in Austria, Belgium, Brazil, Canada, Chile, the Czech Republic, Denmark, Finland, Germany, Italy, Japan, the Netherlands, Poland, South Africa, Spain, Switzerland, the United Kingdom, and the United States. IFPI, its national

groups and FLAPF, are currently tracking down the dozens of companies that purchased the fake licenses.

Earlier in the case, Judge Middlebrooks ordered a permanent injunction and other relief against Jordan. Thus far, only that ruling has been published.

Sony Music Entertainment v. Global Arts Productions, 45 F.Supp.2d 1345, 1999 U.S.Dist.LEXIS 12834 (S.D.Fla. 1999)[ELR 21:6:21]

RECENT CASES

ProServ did not tortiously interfere with at will contract between Texas Rangers' Ivan Rodriguez and competing sports agent, even though Rodriguez switched to ProServ because it promised to get him millions of dollars in endorsements but never did

Competition for clients among sports agents is as fierce as the athletic competition among their clients. In one case, Illinois-based sports agency Speakers of Sport, Inc., alleged that ProServ went too far, even by sports-agent standards.

Speakers was once the agent for Texas Rangers catcher Ivan Rodriguez. When ProServ decided that it wanted to expand its roster of baseball player clients, it promised Rodriguez that it would get him $2 to $4 million in endorsements, if he signed with ProServ. Rodriguez' contract with Speakers was "at will," so he could switch agents at any time without breaching his Speakers contract. And that is what Rodriguez did.

Alas, ProServ did not obtain significant endorsements for Rodriguez, and the catcher switched agents again, after just one year. Rodriguez did not go back to Speakers however. Instead he signed with a

third agent, who shortly thereafter got him a five-year $42 million contract with the Rangers.

That is when Speakers sued ProServ, alleging that if ProServ had not fraudulently promised Rodriguez millions of dollars in endorsements, he would have been Speakers' client when the $42 million Rangers deal was made, and Speakers would have received a commission on that deal. Speakers' claim was asserted as one for "interference with a business relationship" under Illinois state law. The claim, however, was dismissed in response to a ProServ motion for summary judgment. And that ruling has been affirmed by the Court of Appeals.

Writing for the appellate court, Judge Richard Posner noted that "There is in general nothing wrong with one sports agent trying to take a client from another if this can be done without precipitating a breach of contract. That is the process known as

competition, which though painful, fierce, frequently ruthless, sometimes Darwinian in its pitilessness, is the cornerstone of our highly successful economic system." Though competition does not permit an agent to induce an athlete to breach a contract, "it does privilege inducing the lawful termination of a contract that is terminable at will" - as Rodriguez contract with Speakers was.

Speakers did not object to competition among agents, of course. It merely argued that competitors may not compete by making promises they know they cannot fulfill. ProServ's promise of $2 to $4 million in endorsements for Rodriguez was such a promise, Speakers asserted. Judge Posner agreed that a "competitor's privilege does not include a right to get business from a competitor by means of fraud." But this principle did not change the outcome of Speakers' case.

"If [Speakers'] argument were accepted," Judge Posner explained, "and the new agent made a promise that was not fulfilled, the old agent would have a shot at convincing a jury that the new agent had known from the start that he couldn't deliver on the promise. Once a case gets to the jury, all bets are off. The practical consequence of Speakers' approach, therefore, would be that a sports agent who lured away the client of another agent with a promise to do better by him would be running a grave legal risk."

Under Illinois law, a "scheme to defraud" would be actionable. But ProServ's promise to get Rodriguez millions of dollars in endorsements was not really a promise at all, the judge said. And even if it were, he added, it was not part of a "scheme."

Finally, Judge Posner concluded that even if Speakers had established ProServ's liability, Speakers' suit would fail because it could not possibly establish

damages. Rodriguez' $42 million contract with the Rangers was negotiated years after he left Speakers. When Rodriguez then left ProServ he did not return to Speakers, but went instead to another agent. "[T]he likelihood that Speakers would have retained him had ProServ not lured him away is too slight to ground an award of such damages," the judge concluded.

Speakers of Sport, Inc. v. ProServ, Inc., 178 F.3d 862, 1999 U.S.App.LEXIS 9051 (7th Cir. 1999)[ELR 21:6:22]

Don Henley's right of publicity was invaded by Dillard's ad for "henley" shirts that included phrase "This is Don's henley," federal District Court rules

In 1997, Dillard's department store ran a clever newspaper ad for a shirt known as a "henley." The ad featured a photo of a man wearing a henley shirt, along with two phrases: "This is Don" and "This is Don's henley."

Cleaver ads are not always permissible ones. And in this case, Dillard's ad provoked a right of publicity lawsuit by rock star Don Henley.

Dillard's sought, without success, to get out of the case with a motion for summary judgment. Federal District Judge Jorge Solis denied the department store's motion, without a published opinion, on the grounds that there were fact issues concerning whether Dillard's had used Don Henley's name and whether he could be identified from the offending ad.

Then Henley himself went on the offensive, and filed a motion for partial summary judgment on the issue of Dillard's liability. Henley has succeeded.

Judge Solis acknowledged that there is a fact issued about whether the phrase "Don's henley" constitutes a use of Don Henley's name. But, the judge added, defendants have been held liable for using a "phrase or image that clearly identifies the celebrity," as well as for using the celebrity's precise name. In this case, Judge Solis concluded that no reasonable juror could conclude that the phrase "Don's henley" does not clearly identify Don Henley.

In addition, the judge concluded that Dillard's had used Henley's name for the value associated with it. During discovery, the ad's creator and designer admitted that they had used the "Don's henley" phrase because they intended consumers to recognize the ad as a "wordplay" on the name "Don Henley," and because they believed the ad would catch consumers' eyes because of the phrase's similarity to "Don Henley." "In other words," the judge said, "they used the value

associated with Don Henley's identity and personality in order to attract consumers' attention."

Henley also showed that he was reasonably identifiable in the ad "to more than a de minimus number of persons." He did so with survey evidence indicating that 65% of those asked believed there was a spokesperson or endorser in the ad, and of those, 23% thought the spokesperson or endorser was Don Henley.

Finally, Dillard's argued that it had not received any benefit from the ad, because it did not generate enough sales to cover the cost of running it. But Judge Solis responded that Henley was not required to show that Dillard's made money from the commercial use of his name or likeness. By appropriating Henley's name, Dillard's "received the benefit of a celebrity endorsement without asking permission or paying a fee."

Henley v. Dillard Dept. Stores, 46 F.Supp.2d 587, 1999 U.S.Dist.LEXIS 12644 (N.D.Tex. 1999)[ELR 21:6:23]

Joe Diffie's "Prop Me Up Beside the Jukebox (If I Die)" does not infringe copyright to song "Lay Me Out By the Jukebox When I Die," appellate court affirms, because plaintiff did not prove access and defendants did prove independent creation

Country music fans well remember Joe Diffie's recording of "Prop Me Up Beside the Jukebox (If I Die)." The song was written by Rick Blaylock, Howard Perdew and Kerry Phillips for Nashville music publisher Affiliated Publishers, Inc. According to Blaylock, the song was inspired by "Weekend at Bernie's," a movie about a character named Bernie who

has died but whose corpse is dressed up and brought to parties as though he were still alive.

Not long before "Prop Me Up" was written, Affiliated Publishers worked with a songwriter named Everett Allen Ellis who recorded a demo of a song named "Aunt Belle." According to Ellis, Affiliated's president suggested revisions for "Aunt Belle," and Ellis said that the revised version was called "Lay Me Out By the Jukebox When I Die."

Naturally, when Ellis heard Diffie's recording of "Prop Me Up," Ellis concluded it had been copied from his own song "Lay Me Out." A copyright infringement suit was the result.

At a trial before federal District Judge Robert Echols, Ellis succeeded in doing something that plaintiffs in plagiarism cases often do not. He persuaded Judge Echols that in certain respects, "Prop Me Up" and "Lay Me Out" were in fact substantially

similar. Indeed, Judge Echols found that their choruses were substantially similar; that they contained a similar idea; and that they share some phraseology, rhythms, chord progressions and 'melodic contours.'"

On the other hand, Judge Echols also found that other aspects of the two songs, including their structures, lyrics and melodies, were distinct from one another. Worse for Ellis, Judge Echols also found that Blaylock, Perdew and Phillips had not had access to Ellis' "Lay Me Out" when they wrote "Prop Me Up." And Judge Echols found that Blaylock, Perdew and Phillips had convincingly proved they independently created their song. Judge Echols therefore dismissed Ellis' case.

In a short opinion by Judge Karen Nelson Moore, the Court of Appeals has affirmed. Access can be proved by evidence that a third party had possession of a plaintiff's work and also was dealing with the

defendants. In this case, Ellis argued that the president of Affiliated Publishers was just such a third party. Affiliated's president, however, testified that he never had a copy of Ellis's "Lay Me Out," and other evidence tended to corroborate that testimony. The appellate court paid "due deference" to Judge Echols credibility judgments and factual determinations and concluded that the judge had not clearly erred in concluding that Ellis failed to prove the defendants had access to his song.

Moreover, any inference of copying that may be drawn from evidence of access and similarity may be rebutted by evidence of independent creation. In this case, Judge Echols found that detailed and specific evidence of independent creation had been offered by Blaylock, Perdew and Phillips - evidence that Ellis had not impeached. The appellate court also gave deference

to Judge Echol's factual conclusion that independent creation had been proved.

For both of the reasons, the appellate court affirmed Judge Echol's decision to dismiss Ellis's copyright infringement claim.

Ellis v. Diffie, 177 F.3d 503, 1999 U.S.App.LEXIS 9186 (6th Cir. 1999)[ELR 21:6:23]

Songwriter Philip Baptiste is barred by copyright statute of limitations from asserting that he is sole author of "Sea of Love," because he did not file suit within three years of learning that George Khoury has been credited as co-author since song was first published

Songwriter Philip Baptiste has contended that he is the sole author of "Sea of Love" for almost forty years. He has been doing so in "extensive correspondence" with the song's original publisher, Kamar Publishing Company, and with its successors in interest, Fort Knox Music and Trio Music Company.

Baptiste wrote all those letters because when "Sea of Love" was first registered for copyright, George Khoury was identified as the song's co-author. Khoury also has been credited as the song's co-author whenever it has been published. And, perhaps most aggravating to Baptiste, Khoury has been paid half the songwriters' share of the song's royalties.

When Kamar first registered the song's copyright in 1959, it listed Baptiste and Khoury as co-authors, because Kamar had entered into a written agreement with both men in which they warranted that they were in fact the song's co-authors. Baptiste alleges that the

1959 agreement was forged. But he never made that allegation in an actual lawsuit. Instead, he simply wrote letters for almost 40 years. Finally, when he threatened to file a lawsuit, Fort Knox and Trio Music beat him to the punch by filing a declaratory relief lawsuit of their own against him.

In a short and to the point decision, federal District Judge John Sprizzo has ruled that Baptiste waited too long to file his threatened lawsuit, and is now barred from doing so.

The statute of limitations for any civil action brought under the Copyright Act is three years from the date a plaintiff knows or has reason to know of the injury that gives rise to the claim. In this case, Judge Sprizzo noted, Baptiste knew of his claim as early as 1959, as shown by the many letters he wrote to the song's publishers. Since Baptiste didn't file suit within three years of that date - and still hadn't, almost four decades

later - his claim that he is the sole author of "Sea of Love" is thus time-barred. The judge has enjoined Baptiste from commencing any action under the Copyright Act claiming rights in the "Sea of Love" on the ground that he is its sole author.

Judge Sprizzo also awarded Fort Knox and Trio Music their costs of suit, but not attorneys' fees. Baptiste represented himself in the lawsuit, and he showed, the judge explained, that he "simply does not understand that the statute of limitations bars the Court from entertaining the merits of his claim." The judge was therefore "reluctant" to conclude that Baptiste was guilty of "any misconduct in this litigation," and for that reason, the judge declined the publishers' requests for attorneys' fee.

Fort Knox Music, Inc. v. Baptiste, 47 F.Supp.2d 481, 1999 U.S.Dist.LEXIS 6114 (S.D.N.Y. 1999)[ELR 21:6:24]

Employee's privacy may be invaded by television reporter's use of hidden video camera, California Supreme Court rules in case triggered by ABC broadcast of "PrimeTime Live" segment, even though employee could not have expected complete privacy because conversation with reporter could have been overheard by co-workers

ABC's PrimeTime Live has made extensive use of hidden video cameras in the production of its undercover investigations. The practice has resulted in several lawsuits, the outcomes of which have been mixed.

An undercover segment based on covertly taped conversations with employees of the Physic Marketing Group triggered two separate lawsuits. In one, ABC defeated federal court fraud and wiretapping claims (ELR 19:12:12). But it has fared less well in the other case - an action for invasion of privacy brought in California state court.

The privacy case was brought by Mark Sanders, a "telepsychic" employed by the Psychic Marketing Group. Sanders was videotaped by ABC reporter Stacy Lescht who had taken a job with the Psychic Marketing Group so she could do covert, hidden camera interviews of the kind she in fact did with Sanders. When portions of their conversation were broadcast on PrimeTime Live, Sanders sued for invasion of privacy by intrusion.

A jury found in Sanders' favor, awarding him $335,000 in compensatory damages and another

$300,000 in exemplary damages. ABC, however, prevailed at first on appeal. A California Court of Appeal reversed Sanders' victory on the grounds that the jury had also found that Sanders knew his conversation with Lescht could have been overhead by other Psychic Marketing Group employees working nearby. For this reason, the Court of Appeal concluded that Sanders could not have had a reasonable expectation of privacy, and thus his privacy could not have been invaded.

Sanders, however, won the next round. The California Supreme Court agreed to hear his appeal on the privacy issue; and it has ruled in his favor.

In an opinion by Justice Kathryn Werdegar, the Supreme Court has held that "in the workplace . . . , the reasonableness of a person's expectation of visual and aural privacy depends not only on who might have been able to observe the subject interaction, but on the

identity of the claimed intruder and the means of intrusion. . . . For this reason . . . , a person who lacks a reasonable expectation of complete privacy in a conversation, because it could be seen and overheard by coworkers (but not the general public), may nevertheless have a claim for invasion of privacy by intrusion based on a television reporter's covert videotaping of that conversation."

Justice Werdegar was careful to note that this decision does not mean that the news media's covert taping of employees always will invade privacy. "[W]here, for example, the workplace is regularly open to entry or observation by the public or press, or the interaction was between proprietor (or employee) and customer, any expectation of privacy against press recording is less likely to be deemed reasonable," the Justice explained. Moreover, she added, "Nothing we say here prevents a media defendant from attempting to

show, in order to negate the offensiveness element of the intrusion tort, that the claimed intrusion, even if it infringed on a reasonable expectation of privacy, was 'justified by the legitimate motive of gathering the news.'"

Sanders v. American Broadcasting Companies, 85 Cal.Rptr.2d 909, 978 P.2d 67, 1999 Cal.LEXIS 3900 (Cal. 1999)[ELR 21:6:25]

Television program "LAPD: Life on the Beat" may have invaded privacy of parents of drug overdose victim, California appellate court rules; videotape showed police officer informing parents by phone of their son's death and included parents' unintelligible responses

The use of a videocam in the production of a reality show has again sparked an invasion of privacy case against the program's producers. This time the show in the eye of the lawsuit is "LAPD: Life on the Beat." The offending videotape, broadcast as part of one of the show's segments, shows the police discovering the body of a drug overdose victim. It then shows an officer phoning the victim's parents and informing them of their son's death. The parents' responses - though "mainly unintelligible" - are audible on the tape too.

"LAPD: Life on the Beat" is produced by QRZ Media and syndicated by MGM, both of which were sued by the victim's parents following the segment's broadcast. The lawsuit did not get far, at first. A California Superior Court judge granted QRZ and MGM's motions to dismiss. But the California Court of

Appeal has reversed that ruling and has remanded the case to the Superior Court for further proceedings.

In an opinion by Justice Gary Hastings, the appellate court has ruled that the offending broadcast was "analogous" to the situations in two earlier California Supreme Court rulings - Shulman v. Group W (ELR 20:5:13) and Sanders v. ABC (ELR 21:6:25) - "where the media recorded the events without the consent of the intruded upon subjects." In both of those cases, the Supreme Court ruled that the plaintiffs were entitled to trials on their claims that their privacy had been invaded by intrusion. Justice Hastings reached the same conclusion in this case.

QRZ and MGM argued that the parents could not have had a reasonable expectation of privacy in connection with a telephone call from a police officer. Justice Hastings agreed that people might expect that their conversations with police officers may be

divulged in written memos or in conversations with other officers. "However, that is not the same as a third person recording the conversation for later use on a commercial television program," the justice said.

Moreover, Justice Hastings added, a jury could find that the invasion involved in this case was highly offensive. "[A] call to a parent to advise of the untimely death of a child is very personal and potentially agonizing situation," he explained.

The California Supreme Court has denied QRZ and MGM's request for a hearing.

Marich v. QRZ Media, Inc., 86 Cal.Rptr.2d 406, 1999 Cal.App.LEXIS 638 (Cal.App. 1999)[ELR 21:6:25]

USC defeats gender discrimination suit by former women's basketball coach Marianne Stanley; disparity between her pay and pay of men's basketball coach George Raveling was justified by his greater experience, appellate court rules

It took USC almost six years to do so, but it finally won a gender discrimination lawsuit filed against it by the former coach of the school's women's basketball team, Marianne Stanley. Moreover, it won without a trial: federal District Judge John Davies granted USC's motion for summary judgment (without a published opinion); and the Court of Appeals has affirmed (almost three years after hearing oral arguments).

Stanley became the head coach of USC's women's basketball team in 1989. The team enjoyed "much success" during her tenure; and in 1993, when

her initial contract was up, she asked to be paid as much as George Raveling, the head coach of USC's men's basketball team. Though Stanley was offered a substantial raise, it wasn't as much as Raveling made. And when negotiations broke down, USC replaced her.

Stanley responded by suing USC under the federal Equal Pay Act, Title IX and other anti-discrimination statutes, and on other theories. In an opinion by Judge Procter Hug, the Court of Appeals has affirmed the dismissal of all of Stanley's claims.

There were significant factual disputes about whether the pay disparity between Stanley and Raveling could be justified on the grounds that their jobs were "substantially different." Stanley argued that any differences between the two jobs were attributable to previous gender-based decisions made by USC concerning the manner in which the school treated the men's and women's teams. If so, this would have been

legally significant, because the EEOC has taken the position that pay differences between men's and women's coaches cannot be justified, if differences between their jobs are themselves the result of discrimination.

Judge Hug, however, determined that it was unnecessary to determine who was right about the reason for the differences that existed between Stanley's job and Raveling's. USC had asserted that the reason Stanley and Raveling were paid differently was because they had "markedly disparate levels of experience and qualifications." And, said the judge, "The record convincingly supports [USC's] claim."

Judge Hug explained: "Stanley had far less relevant experience than Raveling. She had fourteen years less experience as a basketball coach. She, unlike Raveling, never coached the Olympic team. She had no marketing experience outside coaching [while Raveling

did]. She had never written any books on basketball [while Raveling has]." Thus, the judge concluded, USC had a "non-discriminatory reason for paying Raveling a higher salary."

Since USC had a non-discriminatory reason, it was proper to dismiss Stanley's Equal Pay Act claim, as well as her Title IX and other anti-discrimination claims. The appellate court affirmed the dismissal of her retaliation and breach of contract claims as well.

Though it was of small consolation to Stanley, she did convince one judge that she should have been permitted to take her case to trial. Judge Harry Pregerson dissented, saying, "By focusing on the differences between Stanley's and Raveling's qualifications, the majority skips over the many ways in which gender discrimination insidiously affected the University's treatment of the women's basketball program and Stanley as its Head Coach." After briefly

describing the ways in which USC allegedly did so, Judge Pregerson said, "It is hard for me to square these realities with the majority's ruling denying Stanley relief without a trial."

Stanley v. University of Southern California, 178 F.3d 1069, 1999 U.S.App.LEXIS 11170 (9th Cir. 1999)[ELR 21:6:26]

California Workers Compensation Act applies to professional baseball player who signed Florida Marlins player contract in California, even though he was injured while playing in Florida and never played in California

As a teenager, Mitch Bowen played baseball for high school and college teams in his home state of

California. Then the dream of many came true for him. When he was just 19, he was drafted by a Major League team - the Florida Marlins - and he turned pro.

The money wasn't much. Bowen was assigned to a Marlins' minor league farm team and received just $850 a month to start, plus a $2,500 signing bonus and a college scholarship. He played three more years in the Marlins' farm system, eventually playing for the Brevard County Manatees in Florida for a salary of $1,275 a month.

Then, the dream vanished. Bowen injured his elbow while pitching a game in Clearwater, Florida, and when a month and a half of rest didn't relieve his pain or weakness, the Marlins released him at the end of the season.

Bowen received no workers compensation benefits from the state of Florida, nor from New York which was the only other state in which he had ever

played as a professional. As a result, when he returned to his home in California, he sought workers compensation benefits there, even though he had never played there professionally. The basis for his California claim: that he had signed all of his Marlin contracts in California, and that was enough under the California Workers' Compensation Act.

The California Court of Appeal has agreed. The California Workers' Compensation Act provides that an employee who is injured on the job outside of California is entitled to compensation under that Act if the employee "has been hired . . . in the state." According the appellate court, Bowen was "hired" in California, because that is where he signed his Marlins' contracts, even though the Marlins themselves signed it in Florida, and even though the contract was not effective until it was approved by the Commissioner of Baseball in New York.

The significance of this case to all of those in professional team sports was not overlooked by those who were rightfully interested. Though Bowen played only minor league baseball, his position was supported by amicus briefs filed on behalf of the NFL Players Association as well as the Major League Baseball Players Association (and an association of California lawyers who represent injured employees in workers compensation cases). Likewise, the Marlins' position was suported by amicus briefs filed on behalf of the NFL Management Council as well as the Major League Baseball Player Relations Committee.

The appellate court too realized that its decision would apply with equal force throughout professional team sports - not just to minor league baseball players. Thus, it stated its holding broadly. "[W]e conclude" the court said "that . . . a professional athlete residing in California . . . who signs a player's contract in

California furnished to the athlete here by an out of state team, is entitled to benefits under the act for injuries received while playing out of state under the contract . . . even though the team has not yet signed the contract, and, as a condition of the contract . . . the commissioner of the sport must approve the contract."

Bowen v. Workers' Compensation Appeals Board, 86 Cal.Rptr.2d 95, 1999 Cal.App.LEXIS 615 (Cal.App. 1999)[ELR 21:6:27]

Immigration and Naturalization Service abused its discretion by not explaining why it denied Louisiana Philharmonic Orchestra's application for H-1B visa for alien violinist, where INS had previously granted H-1B visas to three other musicians employed by Orchestra, federal court rules

The Louisiana Philharmonic Orchestra would like to employ violinist Lingyiang Zhao, and she would like to play for the Orchestra. Since, however, Zhao is an alien, one thing stands in their way: Zhao needs a visa authorizing her to work in the United States.

There are two types of visas designed especially for artists, entertainers and athletes: O visas and P visas. The criteria that must be satisfied for O or P visas are specifically focused on the talents that make artists, entertainers and athletes unique. But for some reason, the Louisiana Philharmonic Orchestra didn't seek an O or P visa for Zhao. It sought instead an H-1B visa.

H-1B visas are for those who perform services in a "specialty occupation," and at first blush, it does appear that playing the violin for a philharmonic orchestra is a "specialty occupation." U.S. immigration law, however, has specific criteria for determining

whether a person is engaged in a "specialty occupation," and all of those criteria relate to having a college degree.

The Louisiana Philharmonic Orchestra gathered evidence that 90% to 95% of orchestra members around the country do have college degrees; and that may be why it sought an H-1B visa for Zhao. In fact, the Orchestra had earlier sought and successfully received H-1B visas for three other musicians, thus leading it to suppose that the INS too considered orchestra members to be engaged in a "specialty occupation."

Nevertheless, the INS denied the Orchestra's H-1B application for Zhao, on the grounds that orchestra members often are selected on the basis of blind auditions, and that having a college degree was not an absolute prerequisite to being selected. The INS did not explain, however, what if anything made Zhao's

situation different from those of the three other Orchestra members who had been given H-1B's.

The Orchestra challenged the INS's refusal to issue a visa in a federal court lawsuit. And Judge Eldon Fallon has ruled in its favor. In response to the Philharmonic's motion for summary judgment, Judge Fallon has held that the INS abused its discretion by "failing to offer any explanation whatsoever for the apparent inconsistency in its decisions regarding the Orchestra's applications for H-1B visas."

This ruling doesn't necessarily mean that Zhao will get the visa she needs. Judge Eldon said, "The INS may be able to elucidate a rational basis for its denial of Zhao's petition and establish that the earlier approval notices were a mistake." If it does, the judge indicated he would be "deferential" to the INS in any subsequent review of such a decision. If the INS can't do that, however, the judge has ordered it to grant Zhao a visa.

Louisiana Philharmonic Orchestra v. Immigration and Naturalization Service, 44 F.Supp.2d 800, 1999 U.S.Dist.LEXIS 4403 (E.D.La. 1999)[ELR 21:6:27]

Royalty rate set by Librarian of Congress for digital transmission of recordings by "pay radio" channels is affirmed by Court of Appeals; but conditions imposed on RIAA as collection agent for record companies are remanded for further consideration

A groundbreaking decision by the Librarian of Congress setting royalty rates for the digital transmission of music recordings has been affirmed by a federal Court of Appeals, much to the disappointment of the Recording Industry Association of America. As a result, cable and satellite audio music channels (which are sometimes referred to as "pay radio" channels) will

pay 6.5% of their gross domestic residential revenues to the RIAA on behalf of the record companies whose recordings are performed on those channels. (ELR 20:2:5) These payments are in addition to those that must be made to ASCAP, BMI and SESAC on behalf of the music publishers and songwriters whose songs are on those recordings.

The decision of the Librarian of Congress to set a 6.5% royalty rate for digital public performances of recordings was made pursuant to the statutory royalty provisions that were added to section 114 of the Copyright Act by the Digital Performance Right in Sound Recordings Act of 1995 (ELR 17:6:3). The RIAA had sought a 41.5% rate. The RIAA thus appealed the Librarian's 6.5% rate, arguing that the law required the Librarian to use "market rates." Apparently the RIAA believes that if the Librarian had done so, the rate would have been much greater than 6.5%.

The Court of Appeals responded, however, that the RIAA's claim that the law requires the Librarian to use "market rates" was "simply wrong." Instead, the appellate court said, the law simply required the Librarian to consider "marketplace analogies" and other evidence, and then required the Librarian to choose a rate based on four statutory factors unrelated to marketplace rates. In an opinion by Judge Harry Edwards, the court concluded that the Librarian properly did this in setting a 6.5% rate, and thus that rate has been affirmed.

The Librarian also had imposed certain conditions on the RIAA, because it has been designated as the sole entity to collect and distribute digital performance royalties on behalf of all record companies, 10% of which are not RIAA members. The Librarian required the RIAA to value each performance equally when allocating royalties among record

companies. Record companies were given the right to audit the RIAA's handling of those royalties. The RIAA was authorized to deduct only specified costs from the royalties that are to be distributed. And the RIAA was required to treat "unknown copyright holders" in a specified manner in connection with royalty distributions.

The RIAA objected to these conditions, with some success. There was no evidence in the record to support the Librarian's imposition of these conditions. Thus, for that reason, the appellate court remanded this part of the case, apparently so that evidence can be taken on whether conditions of this sort are necessary and proper.

Recording Industry Association of America v. Librarian of Congress, 176 F.3d 528, 1999 U.S.App.LEXIS 9771 (D.C.Cir. 1999)[ELR 21:6:28]

Movie production company loses suit against supplier of allegedly defective film stock; Rhode Island court rules that Limitation of Liability clause in supplier's contract is valid

Several years ago, Star-Shadow Productions attempted to make a low budget movie called "The Night of the Beast." The movie's title was ironic, because making it turned into a beast of task - and then into a lost lawsuit.

To make "The Night of the Beast," Star-Shadow rented a camera and bought film stock from Super 8 Sync Sound System. Unfortunately, Star-Shadow's cameraman couldn't use the film the company had purchased, because of loading and jamming problems. A Super 8 representative tried to help, first by phone and then on location. But when her efforts proved

fruitless, she replaced the film stock with a different type; and the camera then worked fine.

Nonetheless, Star-Shadow sued Super 8 for breach of warranty and on other theories. But the production company had no more success with its lawsuit than it originally had with its rented camera. A Rhode Island trial court dismissed the case on the grounds that the price sheets and film boxes Super 8 provided to Star-Shadow contained a valid Limitation of Liability clause, which barred the claims Star-Shadow had asserted.

That clause provided that if the film were defective, Super 8 would replace it, and that "Except for such replacement this product is sold without warranty or liability even though defect, damage or loss is caused by negligence or other fault. . . ."

On appeal, Star-Shadow did no better. The production company argued that the Limitation of

Liability clause was unconscionable and did not waive the implied warranty of merchantability. But in an unsigned Per Curiam opinion, the Supreme Court of Rhode Island rejected those arguments and affirmed the trial court's ruling.

The Supreme Court reasoned that the clause was not unconscionable merely because Star-Shadow had no protection other than its "bargained for remedy of replacement film." The court explained: "In an industry where the undertaking may vary from a multi-million dollar extravaganza to a low-budget instructional film," Star-Shadow was in a better position to assess its risks and obtain protection - by purchasing raw stock insurance - than was Super 8 which was "unaware of the breadth of [Star-Shadow's] undertaking."

Rhode Island law requires waivers of the implied warranty of merchantability to be explicit. But this requirement was satisfied, the Supreme Court held, by

the Limitation of Liability clause's provision that "except for . . . replacement this product is sold without warranty or liability."

Star-Shadow Productions, Inc. v. Super 8 Sync Sound System, 730 A.2d 1081, 1999 R.I.LEXIS 149 (R.I. 1999)[ELR 21:6:28]

Previously Reported:

The decision of the Delaware Chancery Court in Walt Disney Company Derivative Litigation (ELR 21:3:9) - dismissing a shareholder derivative suit against Disney complaining about the size of Michael Ovitz's severance package - has now been published at 731 A.2d 342 (Del.Ch. 1998).

According to news reports, Kato Kaelin and the National Examiner have settled the defamation lawsuit Kaelin filed against the tabloid as a result of a headline saying "Cops Think Kato Did It!" A federal District Court had dismissed the case. But the Court of Appeals reversed, saying that reasonable jurors could conclude that the headline falsely insinuated that the police thought Kaelin murdered Nicole Brown Simpson and Ronald Goldman (ELR 21:1:12).
[ELR 21:6:29]

DEPARTMENTS

In the Law Reviews:

Entertainment and Sports Lawyer, published by the American Bar Association Forum on Entertainment and

Sports Industries, 750 North Lake Shore Drive, Chicago, Illinois 60611-4497, has issued Volume 17, Number 3 with the following articles:

Jumbo Shrimp, Military Justice, American Culture by John Frohnmayer, 17/3 Entertainment and Sports Lawyer 1 (1999) (for address, see above)

Entertainment Law and Business at the Millennium by Kenneth J. Abdo, 17/3 Entertainment and Sports Lawyer 2 (1999) (for address, see above)

Copyright Trends: With Friends Like These... by Don Biederman, 17/3 Entertainment and Sports Lawyer 3 (1999) (for address, see above)

Music Plagiarism: Notes on Preparing for Trial by Christine Lepera and Michael D. Manuelian, 17/3

Entertainment and Sports Lawyer 10 (1999) (for address, see above)

A Proactive Role: Representing Television Programs for Syndication and Cable Networks: An Interview with Daniel J. Levin by Dan Satorius, 17/3 Entertainment and Sports Lawyer 15 (1999) (for address, see above)

Book Review: Automated Contracts for the Film & Television Industry by Mark Litwak and Automated Contracts for the Music Industry by Jonathan Earp, reviewed by Richard J.Greenstone, 17/3 Entertainment and Sports Lawyer 18 (1999) (for address, see above)
[ELR 21:6:30]