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FUNDAMENTALS OF COPYRIGHT LICENSING

This whitepaper is intended to provide a broad overview of the licensing practices and issues involved in consummating licenses in the media and entertainment industry generally. It begins with providing context on the underlying intellectual property that creates a licensing opportunity, moves through material terms and finishes with comments on important boilerplate items such as dispute resolution.

Licensing Intellectual Property: Copyright Defined

A copyright is a form of intellectual property that generally provides the owner a limited-term exclusive right to control the use and exploitation of a work of authorship. Copyright attaches to a work of authorship when it is fixed in a tangible medium of expression. In order to qualify for copyright protection, a work fixed in a tangible medium of expression must be independently created by its author and meet the *de minimus* creativity test. In summary, the work must show some level of creative expression that is more than just an expression of skill. Ideas on their own are afforded no protection under copyright. Generally copyright attaches under the laws of the country of origin and is enforced globally under bi-lateral treaties, the primary being the Berne Convention.

In the United States and most countries, copyright entitles the owner to five exclusive rights. These are the right to:

1. Reproduce
2. Distribute
3. Publicly Perform
4. Publicly Display
5. Make Derivative Works

Certain countries have an additional right known as a “moral right” that allows the original author to control the manner in which the work is cast or used by others. The idea being that a use that is morally offensive to the original author should be able to be stopped by the author. These rights may be passed in a license to any other party exclusively or non-exclusively. An exclusive licensee may enforce the rights passed to them as if they were the original copyright holder.

Audio/Visual Work Composition (the four types of embedded copyrights)

There are four common types of copyrighted works in the media and entertainment industry: images, music compositions, sound recordings, and moving images (commonly called audio/visual works).

Audio/visual works like movies and television programs are a single copyright-able subject matter; however they oftentimes have discreet instances of other intellectual property embedded within them that a rights-holder needs to pay attention to when licensing because limitations on the underlying intellectual property could limit the use and exploitation of the whole audio/visual work.

By way of example, a visual work with audio may have many discreet sound recordings that embody discreet music compositions. They all must be cleared for the scope of the exploitation intended for the whole work; otherwise the music will act as a limiter on where and how the entire audio/visual work can be legally exploited. (See "Music Licensing for Audio-Visual Content, www.entmerch.org/digitalema/ema-music-rights-white.pdf.)

Likewise, any other visual clips, 3D models, elements of visual compositions, and still photos embedded in the program are copyrightable subject matter that need to be cleared for use not only "in the whole" but for all forms "of use of the whole." These could be elements photographed by the camera or added later in post production.

Defining Rights: The Bundle of Sticks Analogy

Think of the five exclusive rights enumerated above as a bundle of sticks. They can be cut to any length and handed to someone else. "Cutting to a length" is analogous to placing a geographic or time scope on one or more of the sticks, for example. However, this is an imperfect analogy because the same right can be given to more than one party provided it is non-exclusive. When an exclusive right is given, the entire stick is given to the other party and it is theirs to work with exclusive of all others – including the original owner of that right.

Licensing Defined

The definition of a "license" is "a revocable permission" that passes a property right from one party to another. It is revocable usually upon a condition like a duration of time expiring but could also be any other condition. The party giving the license is called the "licensor"; the party receiving the rights under the license is called the "licensee." A joint owner of a copyright may, absent an agreement to the contrary, license and exploit the full copyright but must account to their co-owner. In practice most co-owners are ill-equipped to render an accounting, so this rarely occurs without all owners consenting.

Often times people involved in licensing will use the term "chain of title." This describes the chain of people or entities through which rights are passed from one to the next. For example, Producer may author a motion picture and license it to Distributor A for worldwide distribution. Distributor A is based in the United States and only does primary distribution in North America. Therefore, Distributor A may license Distributor B in the United Kingdom to distribute the motion picture in that territory. Distributor B may then license a television broadcaster to exhibit the motion picture in the United Kingdom. The chain of title here has four parties: Producer to Distributor A to Distributor B to Broadcaster. It is important when you are a party downstream in the chain of title to substantiate that the rights being provided to you by an upstream party are valid.

Practically speaking this can be difficult and it is not uncommon for there to be double licensing or concurrent licenses overlapping in scope. How does a licensee handle such a situation?

1. First in time is first in right as to an exclusive license.

2. As to a non-exclusive license, the business practices of the industry usually prevail. For example, one major streaming service will only license a title once for the service at any given time in a territory. They have no need for duplicate copies or rights, unlike physical product.

3. Then there are risk management strategies. These include: (i) doing complete due diligence on chain of title including copyright registry filings; (ii) using a holdback, which means the licensee does not pay for the distribution license up front but rather over a period of time to allow them to go to market and see if there are any licensing issues that become apparent once they are working with the product; (iii) contractual representations and warranties obtained from the licensor combined with an indemnity (which is only as good as the indemnifying party's credit worthiness); and (iv) insurance.

Perhaps in the future there will be a global registry of rights. The music industry is doing something like this with the GRid project. Some companies doing work in the area of rights management for audio/visual works include FilmTrack, Rightsline, and Counterpoint and online marketplaces for rights include RightsTrade, MediaPeers, and Cinando.

Common Media Licensing Schemes

The five pillars of a contemporary media licensing deal are:

- Channel
- Use Case
- Economics
- Term

- Geography

Channel

Most licenses specify a particular party that can work with the content. Here we use the term 'Channel' to mean Sales, Distribution, or Exhibition party – such as wholesaler, a streaming service, or a cable operator. One must be careful to define whether sub-licensing is allowed. If the licensee is allowed to grant sub-licenses to third parties, absent an agreement to the contrary, they can license the third party for any duration. This could effectively truncate the owner's true copyright rights.

Use Case

A use case contemplates a business model. Examples include permanent download, conditional download, time-limited download, number of views, or authenticated users allowed such as under a rental, subscription, or ad-supported model.

Common digital use cases are:

- Pay Per Download (PPD)
- Rental (VOD – time-limited download or stream)
- Subscription Video on Demand (SVOD – usually delivered via streaming)
- Free Ad-Supported Video on Demand (AVOD – usually delivered via streaming)

Economics

The economics of a license largely depend on the relative bargaining power of the parties. In the digital space, common revenue shares are as follows:

- PPD/Rental: 70% to distributor, 30% to retailer.
- Subscription: Flat license fee negotiated for a term or a per stream or download wholesale piece rate or a numerator-denominator calculation where there is a pool of revenue set aside for content suppliers and each supplier gets a pro-rata share of the pool based on consumer engagement of their content relative to overall engagement.
- Ad-supported: commonly 50/50 split or thereabouts. It is common for the exhibitor to take a "sales" fee off the top to allegedly cover its sales team efforts. This is commonly 10%.

Term

The duration of a license is obviously important. Once a right is given out it cannot be revoked except in the case where the license provides for a condition of revocation, a material breach of contract by the other party or the natural end to the licenses duration. Parties with a large amount of relative bargaining power often include termination for convenience clauses in their licenses.

Again, to reference sub-licensing ability, during the term of a license a valid licensee who has been granted the right to make sub-licenses can license a sub-licensee for any duration. Therefore, if there are sub-license rights involved the original licensor should contemplate whether to put parameters around the duration of sub-licenses. This is common in sales- and distribution-related licenses.

In the case of retail and exhibition licenses, for any business model other than subscription durations are commonly perpetual unless cancelled by either party upon notice. Companies with subscription business models tend to license content for a set duration – that is unless there is a numerator-denominator royalty calculation (where the licensor is paid based on their pro-rata engagement on the service out of all customer engagement).

Here is an example of "windows" created and licensed for a motion picture using exhibition channel, use case, and term as the primary parameters.

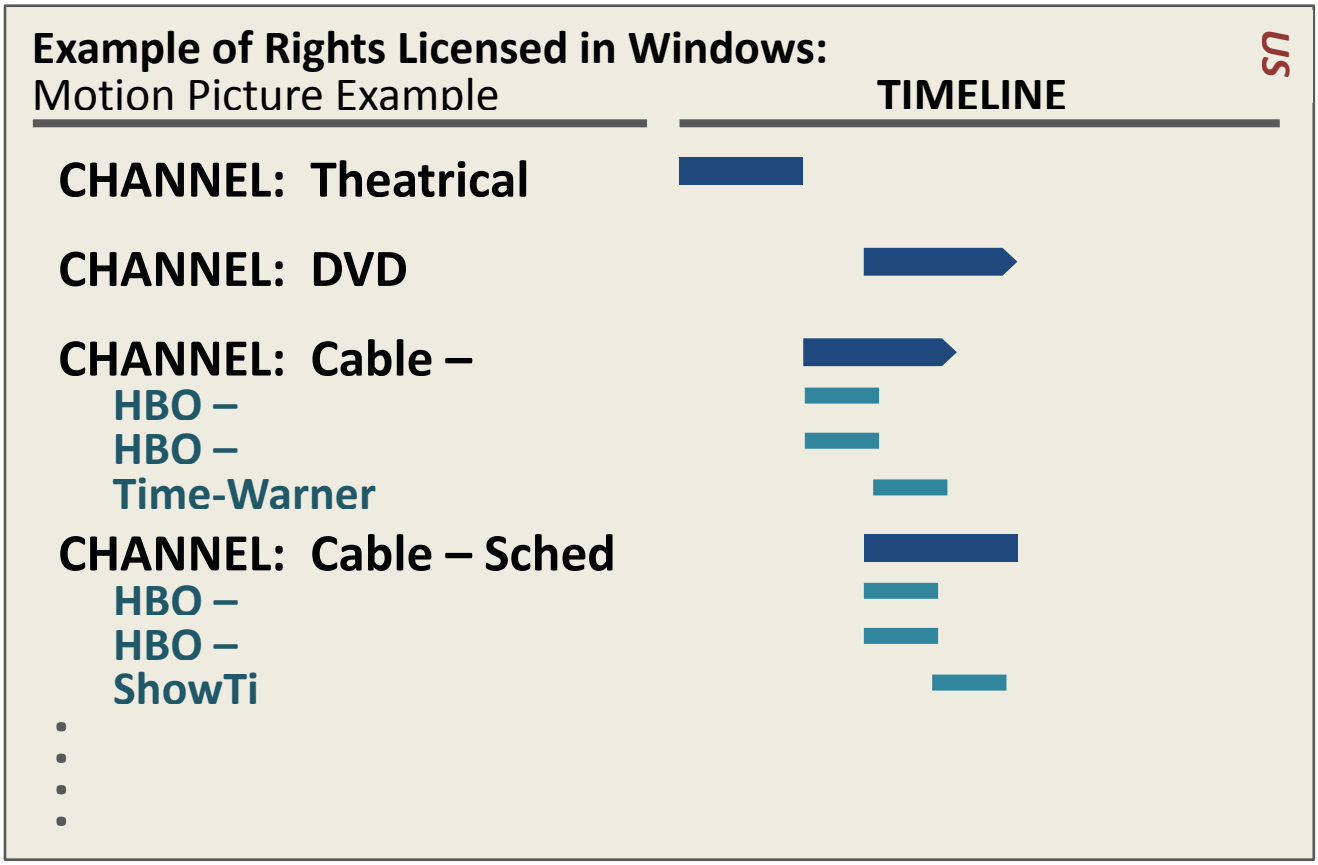

Diagram courtesy of Russell Pruitt

Geography

Geography in licenses involving physical distribution or exhibition is fairly straightforward. The licensee is allowed to physically distribute, sell, or publicly perform or display the content to buyers and/or consumers within the geographic bounds set forth in the license.

Here is an example of how a usage-based licensing model becomes more complex when the geographic variable is introduced with a global perspective:

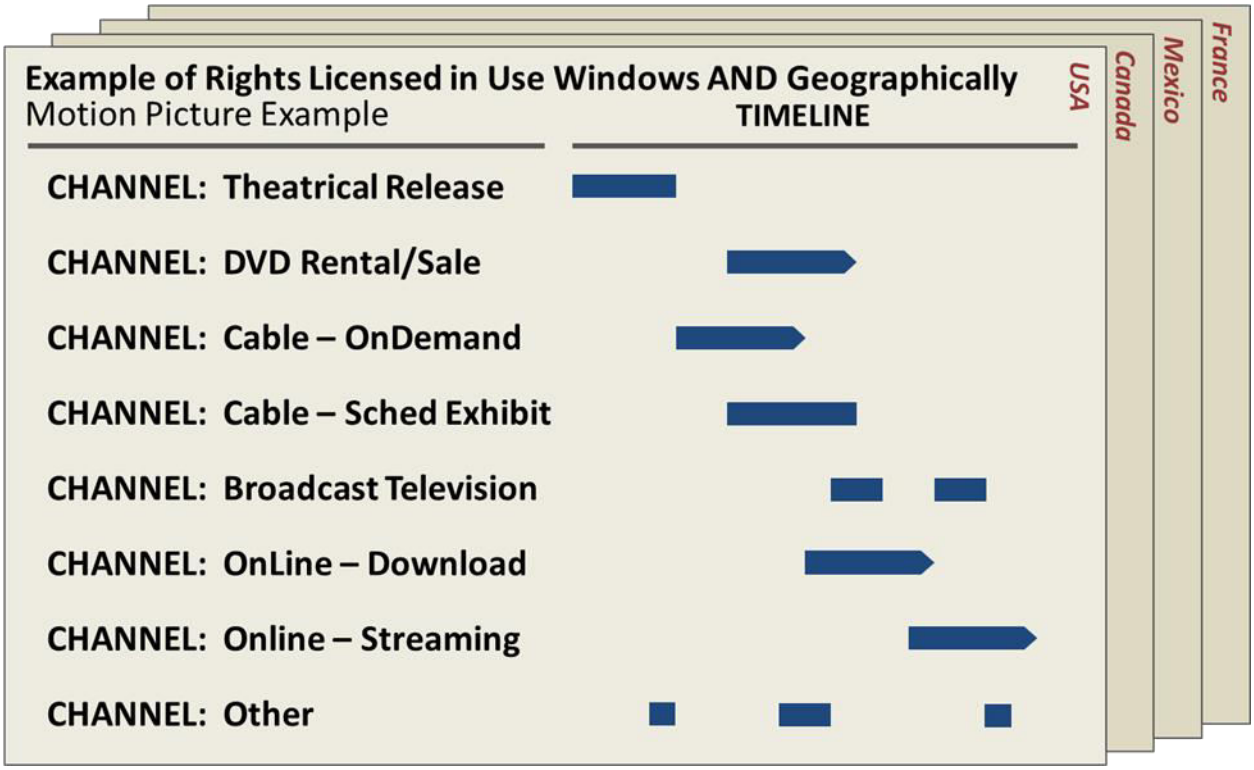

Diagram courtesy of Russell Pruitt

However, geography in licensing becomes even challenging item in the digital space. It is more challenging because a question often arises regarding if the geographic scope is related to the domicile of the licensee or the domicile of the ultimate consumer.

This is especially salient in the case where there is a chain of title involving multiple licensors and licensees. For example, let's assume Content Owner A is domiciled in the United Kingdom. Content Owner B is domiciled in the Unites States. B licenses A's content as a sub-distributor in the United States with the right to sub-license in the United States. First, there is a major television producer based in New York that wants to use Content Owner A's content provided by B, the local representative, in a major TV show that is broadcast and syndicated around the world. B happily provides the content to the major television producer as a United States-based licensee and the show is syndicated around the world. Then, there is a major online website

based in California that serves video content to consumers around the world through the internet. Can Content Owner B license this website to exhibit the program B licensed in from A to the entire world or only to people domiciled in the United States? This is an open question and should be carefully addressed in drafting.

In practice, one major company has separate legal entities in every territory in which they digitally retail content. Their providers of content contract with each individual legal entity in that country so it is clear that the license is domiciled in the country where the consumer is located. Another major company does one contract for exhibition to audiences in every country globally that specifies California choice of law and venue.

People usually immediately say, "It is clear that the sub-distributor can only license the website to exhibit to consumers domiciled in the United States." However, there is a long history quite the opposite. For example, in the case of synch licensing music into television shows where the licensor is a music library is domiciled in the United States, but represents music from an overseas producer and is acting as a sub-distributor, it is common for the Unites States-based sub-distributor to license the United States based television show producer the right to exploit the music worldwide in conjunction with that specific television show. How is a sub-distributor in the United States working with content from another distributor in a different country licensing a web portal based in the United States any different? Again, the issue needs to be addressed with careful drafting.

Global Marketplace, Local Audiences

Other notable terms and conditions in licensing include the allowable language of exhibition as audio/visual content many times also needs to be localized in both language and content for regional audiences.

Mode of Exhibition

Also, the future of television is the application. It is an internet protocol-based television experience that enables a "hybrid linear-on-demand" viewing experience. This means the user will choose a piece of content to start watching on demand and then a customized linear experience will begin much like Pandora is for radio or how Netflix starts the next show 10 seconds after the prior ends or how VEVO lines up similar music videos in a linear feed to continuously play after the initial video the user selects. Licenses need to start contemplating this. It is not enough to define the "media" as theatrical, television, videogram, or digital. Definitions should contemplate the viewing apparatus or device as well as the method through which the audio/visual program will be distributed to the viewing apparatus. For example, the viewing apparatus could be any television, computer, tablet, phone, or other personal viewing device to which the audio/visual program is delivered by way of internet packet technology using fixed or wireless networks. Or a more narrow definition could contemplate all devices but

the television or the delivery mechanism could be closed-loop cable video on demand systems and the viewing device only the television.

Enforcing a license: a Practical Guide

A license is a contract. Enforcing a contract can be challenging. The license should specify the following parameters regarding dispute resolution:

1. **Means of dispute resolution**
    a. *Mediation*: is a non-binding form of alternate dispute resolution where an agreed upon middle person moderates a dialog between the disputing parties.
    b. *Arbitration*: is usually a binding form of alternate dispute resolution where an agreed upon expert or panel of experts hear a case under a set of rules established by the parties in contract. The primary rule setting organization used in media contracts are the American Arbitration Association and JAMS. Their judgment is usually enforceable by a court.
    c. *Litigation*: occurs when a plaintiff files a complaint against a defendant in a government court. In the United States there are state and federal courts for different subject matters. Contract disputes are usually in state court but copyright and trademark cases are in Federal court. A combined case will usually be heard in Federal court under the doctrine of supplemental jurisdiction.

2. **Jurisdiction**
    Usually the drafter will want any disputes to be solved in a jurisdiction where they are present so it is convenient to prosecute or defend any claims. Cases in far flung jurisdictions and legal rules a party doesn't understand can become very costly and cumbersome. For example, for a California company to answer a complaint filed in New York is approximately $25,000 USD. That's the retainer that any normal attorney in New York will ask for to get involved. So consider jurisdiction carefully. The enforceability of a judgment is also a consideration. Collecting on a judgment is an entire area of law that is little discussed but of paramount importance and deserves its own whitepaper.

3. **Venue**
    Venue is the place where the dispute will be heard. Within a jurisdiction like California there are districts. So a venue might be Superior Court of California, County of Los Angeles or the U.S. District Court for the Southern District of New York. Drafters usually want to specify a venue near them for convenience.

4. **Choice of Law**
   Choice of law refers to which jurisdiction's law will be applied by the court in the case. For example, the parties could be domiciled in separate states or countries; the license could specify that any dispute will be resolved in the jurisdiction of Party A with the venue being the city or county Part A resides in. However, it is possible to specify that the court will apply the law from the domicile of Party B, or Party B on certain types of issues.

5. **Amount in Controversy**: Depending on the jurisdiction, there are often different courts depending on the amount in controversy. In U.S. state courts amounts less than $25,000 are usually heard in limited cases that have less discovery and pretrial motion practice than an "unlimited" amount case. Likewise, amounts under $7,000 against on individual or $5,000 against a company can be heard in small claims court, where a judgment is rendered on the spot based on a few minutes of oral argument by each side. There are also special courts for special subject matter like copyright. Copyright is exclusively under federal jurisdiction in the United States, so cases involving copyright will always be heard in federal courts.

   Practical tactics: Why does this matter? Because of practicality. State courts are backed up and can take years for a case to be heard. Federal courts have bigger budgets, so they hear cases faster. The cost of waiting can be significant and when compared to the relevancy of the dispute in the market can force settlements. Imagine having a case heard two to three years after the original controversy arose? By then the outcome may not be relevant in a business context. Similarly, licenses commonly include indemnity clauses that shift the risk and burden of payment of legal fees and judgments to parties upstream in the chain of title. In this case the cost of litigation can be extremely burdensome for parties early in the chain. As a practical matter this can lead to an early settlement instead of paying all the legal fees of the downstream parties.