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Legal and Practical Aspects of Music Licensing for Motion Pictures

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Legal and Practical Aspects of Music Licensing for Motion Pictures

Vlad Kushnir*

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Most motion pictures contain both original music composed specifically for a particular film and preexisting music (usually popular songs). In order to use preexisting music in a motion picture, the movie studio must obtain the appropriate music licenses from the copyright proprietors. The process of licensing music for use in a motion picture can potentially involve three different types of music licenses. First, the movie producer must obtain a “synchronization license,” which will allow the producer to synchronize the musical work with the on-screen visual images and to use the licensed musical work as part of the motion picture in its exhibition in movie theaters or through television broadcasts.¹ Second, the movie producer must secure a “videogram license,” which allows the moviemaker to distribute copies of the motion picture incorporating the musical composition to the general public (*i.e.*, to sell and/or rent DVDs and VHS cassettes).² Frequently, the term “synchronization license” is loosely used in the entertainment industry to designate a single license that combines both the “true” synchronization license and the videogram license. Finally, should the movie studio wish to use a particular existing recording of the musical composition, it must negotiate a “master use” license, which allows the moviemaker to use the selected sound recording in the motion picture.³ The purpose of this article is to provide an overview of the main legal and practical aspects surrounding these three types of licenses.

I. THE RIGHTS INVOLVED

Every recorded song consists of two separate copyrightable works, which are listed in Section 102 of the Copyright Act (the “Act”): “musical works, including any accompanying words”⁴ and “sound recordings.”⁵ The Act does not define “musical compositions,” but the meaning of the term has been “fairly settled.”⁶ A “musical work” is the actual underlying musical composition (the song itself), which is the product of songwriters who write the music and/or lyrics of the

1. See AL & BOB KOHN, KOHN ON MUSIC LICENSING 767 (3d ed. 2000) [hereinafter KOHN]; see also discussion *infra* Part IV.

2. See KOHN, *supra* note 1, at 767; see also discussion *infra* Part V.

3. See 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 30.01 (Matthew Bender & Co. ed., 2004) [hereinafter NIMMER]; see also discussion *infra* Part V.

4. 17 U.S.C. § 102(a)(2) (2000).

5. *Id.* § 102(a)(7).

6. H.R. REP. No. 94-1476, at 53 (1976).

composition.⁷ On the other hand, a “sound recording” is the product of the recording artist and music producer (*i.e.*, the actual vocal and/or instrumental performance, selection of sounds, positioning of microphones, selection of sound effects, music editing, and mixing).⁸ The Act defines “sound recordings” as “works that result from the fixation of a series of musical, spoken, or other sounds, but not including the sounds accompanying a motion picture or other audiovisual work, regardless of the nature of the material objects, such as discs, tapes, or other phonorecords, in which they are embodied.”⁹ Therefore, if the movie company wishes to use a particular existing recording of a song, it must obtain separate permission to do so with respect to both the underlying musical composition and the sound recording.¹⁰

The songwriter is the initial owner of the underlying musical work, because the copyright in the song “vests initially in the author or authors of the work.”¹¹ However, songwriters typically enter into music publishing agreements with music publishers, whereby the publisher is responsible for administering, promoting and licensing the musical composition.¹² Under the Act, the owner of a copyright in a musical work has four exclusive rights, only three of which are relevant to this article: (1) the right “to reproduce the copyrighted work in copies or phonorecords;”¹³ (2) the right “to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending;”¹⁴ and (3) the right “to perform the copyrighted work publicly”¹⁵

As to sound recordings, if a record company is involved, the artist’s recording services are ordinarily designated in record contracts

7. See NIMMER, *supra* note 3, § 2.05[B] (describing protection for the music lyrics under 17 U.S.C. § 102(a)(2)).

8. See 17 U.S.C. § 101 (defining sound recordings).

9. *Id.*

10. We must not forget that there is the possibility that another copyrightable work is implicated. Provided it evidences enough originality, a music arrangement is itself separately copyrightable as a derivative work. See generally NIMMER, *supra* note 3, § 3.01 (describing the protection afforded to derivative works as prescribed under 17 U.S.C. § 103(a)). Hence, the music producer must secure permission from the owner of the arrangement even in a situation where the underlying musical composition is in the public domain.

11. 17 U.S.C. § 201(a).

12. See generally NIMMER, *supra* note 3, § 30.02.

13. 17 U.S.C. § 106(1).

14. *Id.* § 106(3).

15. *Id.* § 106(4). There is also the exclusive right to prepare derivative works, *id.* § 106(2), which is not important to our discussion.

as a "work made for hire,"¹⁶ whereby the "employer or other person for whom the work was prepared is considered the author" for the purposes of copyright law.¹⁷ Hence, the record company, by virtue of being treated as the employer/author, is the owner of all rights, title and interest in the sound recording.¹⁸ Absent any express "work for hire" treatment in the record contract, the copyright ownership "will either be exclusively in the performing artist, or . . . a joint ownership between the record producer and the performing artist."¹⁹ The owner of the copyright in a sound recording also has the exclusive rights: (1) "to reproduce the copyrighted work in copies or phonorecords;"²⁰ and (2) "to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending" ²¹ However, there is no exclusive right to perform the sound recording publicly unless it is done "by means of a digital audio transmission."²² It must also be noted that only "sound recordings that were 'fixed' (*i.e.*, first embodied in a phonorecord) on or after February 15, 1972 are eligible for statutory copyright. Sound recordings "fixed" prior to February 5, 1972 are ineligible for statutory copyright, but may remain the subject of common law copyright or other state law protection."²³

Thus, to use a preexisting song in a motion picture, a movie producer must approach the owners of the aforesaid exclusive rights and enter into negotiations with the songwriter/music publisher and the record company for the use of the musical work and the sound recording respectively.

II. GENERAL LEGAL CONSIDERATIONS IN MUSIC LICENSING FOR MOTION PICTURES

A. *The Nature of the Licenses*

Overwhelmingly, permission to use preexisting music in motion pictures is acquired in the form of irrevocable nonexclusive

16. *Id.* § 101 (defining "work made for hire").

17. *Id.* § 201(b).

18. NIMMER, *supra* note 3, § 2.10.

19. *Id.*

20. 17 U.S.C. § 106(1).

21. *Id.* § 106(3).

22. *Id.* § 106(6).

23. NIMMER, *supra* note 3, § 2.10.

licenses.²⁴ In general, a license is a legal mechanism for the copyright owner to grant authority for a specific use of his or her intellectual property.²⁵ A license represents only a permission and/or privilege to act in a certain way. It does not involve any transfer of ownership, nor does it involve a grant and/or assignment of any of the exclusive rights or their subdivisions.²⁶ One must also keep in mind that a non-exclusive license is irrevocable only if consideration is present.²⁷ In the absence of consideration, a non-exclusive license is revocable.²⁸

Despite the nonexclusive nature of the licenses, it is not uncommon for parties to negotiate some restrictions on the use of the licensed music. Frequently, restrictions are inserted to avoid any potential competition with the movie soundtrack which is to be released on a CD.²⁹ For instance, a license may contain a provision prohibiting the music publisher from licensing the song to another movie studio for a short period of time (*e.g.*, providing that the song cannot be licensed until the expiration of two years from the release of the motion picture).

In the real world, the difference between exclusive rights and nonexclusive licenses is not always clear. To illustrate, we can consider an example used by several commentators: “[T]he exclusive right to perform a song on a certain television program to be broadcast in United States next Tuesday evening between the hours of 7:00 and 9:00 PM EST.”³⁰ Clearly, such limited exclusivity is illusive since “as the precision with which exclusive rights are defined increases, the distinction between exclusive rights and non-exclusive rights becomes rather nebulous.”³¹ However, the fact that the grantee has obtained an exclusive right (as opposed to a nonexclusive license) can be of immense importance for three reasons. First, only “[t]he legal or beneficial owner of an exclusive right under a copyright is entitled . . . to institute an action for any infringement of that particular right committed while he or she is the owner of it.”³² Hence, a non-exclusive licensee will not be permitted to bring an infringement lawsuit in his

24. *See id.* § 2.10.

25. *See id.* § 10.02[A] (discussing exclusive and nonexclusive licenses and divisibility thereof).

26. *Id.* (“[n]onexclusive licenses, however, do not constitute ‘transfers’”).

27. *Id.*

28. *Id.*

29. JEFFREY BRABEC & TODD BRABEC, *MUSIC, MONEY AND SUCCESS* 181 (4th ed. 2004) [hereinafter BRABEC].

30. KOHN, *supra* note 1, at 449 (internal quotations omitted).

31. *Id.*

32. 17 U.S.C. § 501(b) (2000).

own name under the Act.³³ Second, only “the owner of the copyright or of any exclusive right in the work may obtain registration of the copyright claim”³⁴ Finally, while a nonexclusive license can be granted orally,³⁵ a transfer of an exclusive right can only be effectuated in writing.³⁶ Needless to say, while at first glance it might be difficult to distinguish an exclusive right from a non-exclusive license covering the same use, the movie studio must be fully aware of the aforesaid legal implications in order to understand the extent of rights and/or privileges the studio is about to acquire.

B. Grant of Licenses

The Act provides that the ownership of a copyright “may be transferred in whole or in part by any means of conveyance or by operation of law, and may be bequeathed by will or pass as personal property by the applicable laws of intestate succession.”³⁷ In turn, the Act defines “transfer of copyright ownership” as “an assignment, mortgage, exclusive license, or any other conveyance . . . *but not including a nonexclusive license.*”³⁸ Finally, the Act states that a transfer of copyright ownership (other than by operation of law) “is not valid unless an instrument of conveyance . . . is in writing and signed by the owner of the rights conveyed”³⁹ Nonexclusive licenses are explicitly excluded from the definition of “transfer.”⁴⁰ Therefore, the “in writing” requirement does not apply to nonexclusive licenses. Not surprisingly, an attempt to transfer ownership of a copyright orally would, in most cases, result in a nonexclusive license, despite the intentions of the parties involved.⁴¹

Further, we must note that in the case of a “joint work,”⁴² one of the co-owners of the copyrightable work may license the work

33. NIMMER, *supra* note 3, § 10.02[B][1].

34. 17 U.S.C. § 408(a).

35. NIMMER, *supra* note 3, § 10.03[A][7].

36. See 17 U.S.C. § 204(a); NIMMER, *supra* note 3, §10.03[A][1]; see also discussion *infra* Part II.B.

37. 17 U.S.C. § 201(d)(1).

38. *Id.* § 101 (emphasis added).

39. *Id.* § 204(a).

40. *Id.* § 101.

41. See *Effect Assocs. v. Cohen*, 908 F.2d 555, 558-59 (9th Cir. 1990) (holding that because the plaintiff “created a work at defendant’s request . . . intending that defendant copy and distribute it” an oral grant of rights was made; thus, the plaintiff “impliedly granted nonexclusive licenses . . .”).

42. 17 U.S.C. § 101 (defining a “joint work” as “a work prepared by two or more authors with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole”).

nonexclusively without permission from the other co-owner(s).⁴³ However, the movie producer must be careful when obtaining a nonexclusive license from only one of the co-owners if an agreement between the joint owners exists prohibiting a unilateral grant of licenses. Such an agreement “will be binding on the parties to the agreement and will also bind any third party licensee taking with notice of such a restriction.”⁴⁴ Under § 205(c) of the Act, the movie producer will be deemed to have received constructive notice if the agreement was recorded with the Copyright Office (provided, of course, that the requirements of § 205(c) are met).

C. Recordation

Section 205(a) of the Act provides that “any transfer of copyright ownership or other document pertaining to a copyright may be recorded in the Copyright Office.”⁴⁵ The Copyright Office has published *Circular 12*, which contains very detailed information regarding the process of recordation.⁴⁶ The Circular states:

[A] document is considered to “pertain to a copyright” if it has a direct or indirect relationship to the existence, scope, duration, or identification of a copyright, or to the ownership, division, allocation, licensing, transfer, or exercise of rights under a copyright. That relationship may be past, present, future, or [just] potential.⁴⁷

Further, the Circular specifically lists nonexclusive licenses among the examples of documents that “pertain to a copyright.”⁴⁸ Thus, a nonexclusive license can clearly be recorded with the Copyright Office.

While the recordation of documents is not mandatory, there are at least two important advantages to recordation. First, recordation is essential in determining priority between conflicting transfers. The Act provides:

[The transfer] executed first prevails if it is recorded, in the manner required to give constructive notice under subsection [205(c)], within one month after its execution in the United States or within two months after its execution outside the United States, or at any time before recordation in such manner of the later transfer. Otherwise the later transfer [will in fact] prevail[] if recorded first . . .

43. NIMMER, *supra* note 3, § 6.10.

44. *Id.*

45. 17 U.S.C. § 205(a).

46. U.S. COPYRIGHT OFFICE, RECORDATION OF TRANSFERS AND OTHER DOCUMENTS, CIRCULAR 12 (2004), available at <http://www.copyright.gov/circs/circ12.pdf>.

47. *Id.*

48. *Id.*

and if taken in good faith, for valuable consideration or on the basis of a binding promise to pay royalties, and without notice of the earlier transfer.⁴⁹

The recordation of transfers in the Copyright Office preempts state laws.⁵⁰ Hence, a nonexclusive music license recorded with the Copyright Office will also prevail over a conflicting grant which was perfected only by filing a state UCC-1 financing statement.

Second, recordation will constitute a constructive notice of the facts stated in the recorded document, if:

(1) [T]he document . . . specifically identifies the work to which it pertains so that, after the document is indexed by the Register of Copyrights, it would be revealed by a reasonable search under the title or registration number of the work; and

(2) registration has been made for the work.⁵¹

To prevent the material terms of the agreement from public disclosure, the parties may choose to record a short-form document which merely describes the rights licensed. Recorded documents are indexed in COHD, the Copyright Office's online documents file, under the names and titles they contain.⁵² Needless to say, it is in the movie producer's best interests both to search the database prior to entering into the licensing agreement and to promptly record the document.

Finally, the movie studio will find some comfort in the fact that

A nonexclusive license, whether recorded or not, [will] prevail [] over a conflicting transfer if the license is evidenced by a written instrument signed by the owner of the rights licensed or such owner's duly authorized agent, and if –

(1) the license was taken before execution of the transfer; or

(2) the license was taken in good faith before recordation of the transfer and without notice of it.⁵³

D. Term

In most cases, music licenses for motion pictures are granted "in perpetuity,"⁵⁴ although some licenses are granted for a specified

49. 17 U.S.C. § 205(d).

50. *In re Peregrine Entm't, Ltd.*, No. CV 90-1083-AK, 1990 U.S. Dist. LEXIS 10812, at *7-8 (Cent. D. Cal. June 29, 1990).

51. 17 U.S.C. § 205(c).

52. See U.S. COPYRIGHT OFFICE, THE COPYRIGHT CARD CATALOG AND THE ONLINE FILES OF THE COPYRIGHT OFFICE, CIRCULAR 23 (2002), available at <http://www.copyright.gov/circs/circ23.pdf>.

53. 17 U.S.C. § 205(e).

54. See generally KOHN, *supra* note 1, at 782 ("the term of synchronization licenses for motion pictures is generally in perpetuity").

period of time.⁵⁵ Such words as “in perpetuity” or “forever” are in fact nothing more than shorthand for “the original and renewal term of copyright, plus any extensions, reversions, resurrections, or other circumstances that prolong the term.”⁵⁶ If the term of the license is not expressly specified and is not apparent from the intent of the parties, it will be construed that the license is valid for the then-existing period of copyright.⁵⁷ However, with respect to the use of the song in a movie trailer, the term is almost always defined in terms of months and/or years.⁵⁸

E. Territory

Typically, the territory covered by the licenses is “world” or “universe,” although this provision is certainly negotiable.⁵⁹ The copyright proprietor may attempt to limit the territorial scope in the hope of deriving additional income from further licensing of the musical composition in the excluded territories. However, the movie producer most likely will not be willing to accept anything less than a worldwide license, as any territorial limitations would seriously hinder the worldwide distribution and exhibition of the motion picture. In fact, many movie studios will refuse to negotiate with a licensor who is unable or unwilling to issue a worldwide license.

If a sub-publisher⁶⁰ is involved in the administration of the composition, the sub-publisher will typically have the right to grant worldwide nonexclusive synchronization licenses for motion pictures originating in the local territory.⁶¹ However, if the motion picture originates outside the sub-publisher’s territory, the American publisher “will usually reserve the right to issue worldwide

55. See, e.g., *id.* at 785.

56. NIMMER, *supra* note 3, § 10.14. A detailed discussion of duration and renewal of copyright lies beyond the scope of this article. One should note the case of *Stewart v. Abend*, 495 U.S. 207 (1990), in which the Supreme Court held that when an author dies before the renewal period arrives, his executor is entitled to the renewal rights, even though the author previously assigned his renewal rights to another party. An assignment by an author of his renewal rights made before the original copyright expires is valid against the world, only if the author is alive at the commencement of the renewal period. *Id.* at 219.

57. *P.C. Films Corp. v. MGM/UA Home Video Inc.*, 138 F.3d 453, 458 (2d Cir. 1998); see NIMMER, *supra* note 3, § 10.10.

58. See KOHN, *supra* note 1, at 787 (explaining that “[t]he license [for a trailer] is generally . . . limited to one year with options to renew”).

59. See BRABEC, *supra* note 29, at 177; NIMMER, *supra* note 3, § 30.04[C].

60. Subpublishers are essentially foreign publishers who administer United States material in foreign territories.

61. See M. WILLIAM KRASILOVSKY & SIDNEY SHEMEL, *THIS BUSINESS OF MUSIC* 217 (Bob Nirkind ed., 7th ed. 1995) [hereinafter KRASILOVSKY].

synchronization licenses for fees in which the local publisher does not share, even though the film may be shown in the local territory; however, the sub-publisher will commonly participate in the collection of local film performance fees for the film.”⁶²

F. Choice of Law

The “choice of law clause” is a provision wherein the parties designate the state whose law will govern any disputes arising out of their agreement.⁶³ The importance of the clause is often overlooked, but it is pivotal because “[c]opyright disputes involving only the scope of [a license] present the court with a question that essentially is one of contract.”⁶⁴ In addition, “while federal law answers the threshold question of whether an implied, nonexclusive copyright license can be granted (it can), state law determines the contract question: whether a copyright holder has, in fact, granted such license.”⁶⁵ Thus, state contract laws will be invoked to resolve purely contractual issues.

G. Limitation on Remedies

Finally, the movie studio should insert language which unambiguously limits the licensor’s remedy to an action at law to recover monetary damages only. The studio must make certain the document expressly provides that upon any breach or alleged breach of the contract by the moviemaker, the licensor shall not have the right to rescind or terminate the agreement or to sue for injunctive relief. Otherwise, theoretically a licensor of a non-essential background composition may obtain an injunction preventing distribution of a multi-million dollar film as a result of some minor breach of the agreement by the movie studio.

III. THE ROLE OF PERFORMING RIGHTS SOCIETIES

Most countries have performing rights organizations that facilitate the licensing of public performances. ASCAP (American Society of Composers, Authors and Publishers)⁶⁶ and BMI (Broadcast Music, Inc.)⁶⁷ are the two largest performing right societies in the

62. *Id.* at 218.

63. BLACK’S LAW DICTIONARY 241 (6th ed. 1990).

64. *Bourne v. Walt Disney Co.*, 68 F.3d 621, 631 (2d Cir. 1995).

65. *Foad Consulting Group, Inc. v. Azzalino*, 270 F.3d 821, 823 (9th Cir. 2001).

66. See ASCAP, <http://www.ascap.com> (last visited Dec. 2, 2005).

67. See BMI, <http://www.bmi.com> (last visited Dec. 2, 2005).

United States.⁶⁸ The societies were formed for the purpose of dealing with the difficulties composers and songwriters faced in obtaining compensation for the public performance of their music. Copyright proprietors grant to the societies nonexclusive rights to license public performance of their works in a non-dramatic fashion.⁶⁹ In turn, for an annual fee, the societies grant “blanket” licenses to radio and television stations, public broadcasters, cable stations, universities, restaurants, subscription music services, concert venues, clubs, hotels and other music users.⁷⁰ The “blanket” license allows the licensees to perform every piece of music in that society’s catalog as often as they wish during the term of the license.⁷¹ The collected fees are then distributed directly to the songwriters and music publishers.⁷²

The societies and the practice of issuing “blanket” licenses have been the subject of antitrust litigation for several decades. A detailed history of the antitrust litigation is beyond the scope of this article. However, it must be pointed out that as a result of consent decrees signed by the societies, they are prohibited from licensing movie theaters.⁷³ This prohibition reinforced an earlier court decision in

68. SESAC (Society of European Stage Authors and Composers, Inc.) is another, much smaller, society in the United States. See SESAC, <http://www.sesac.com> (last visited Dec. 2, 2005).

69. The Act does not define what constitutes “dramatic works” and the distinction can be somewhat elusive. Professors Robert A. Gorman and Jane C. Ginsburg make the following observations:

There are differing points of view as to how best to distinguish between dramatic performances . . . and non-dramatic performances. One extreme, put forward by ASCAP’s late long-time General Counsel Herman Finkelstein, defines non-dramatic performances as “renditions of a song . . . without dialogue, scenery or costumes” This, however would exclude from ASCAP license, quite questionably, a song that is sung by a person wearing a pertinent costume or standing in front of a simply decorated flat. At the other extreme is the [rule announced in *April Prods., Inc. v. Strand Enters.*, 221 F.2d 292 (2d Cir.1955)], that “the performance of a noninstrumental musical composition (*i.e.*, lyrics and music) would be dramatic only if it were accompanied by material from the dramatico-musical work of which the composition was a part.” Such a rule, however, would unwisely allow an ASCAP licensee to perform, for example, all of the songs from “South Pacific” in sequence with freshly written transition dialogue, so long as no dialogue is borrowed directly from the Hammerstein book.

ROBERT A. GORMAN & JANE C. GINSBURG, COPYRIGHT: CASES AND MATERIALS, 576-77 (6th ed. 2002) [hereinafter GORMAN] (citations omitted) (quoting Finkelstein, *The Composer and the Public Interest-Regulation of Performing Rights Societies*, 19 LAW & CONTEMP. PROBS. 275, 283 n.32 (1954)).

70. See, *e.g.*, NIMMER, *supra* note 3, § 8.19[A] (describing ASCAP’s ability to grant “blanket licenses”); see also KOHN, *supra* note 1, at 918-19. For an example of blanket license, see BMI, LOCAL TELEVISION STATION MUSIC PERFORMANCE BLANKET LICENSE, http://www.bmi.com/licensing/forms/local_tv_blanket.pdf.

71. See NIMMER, *supra* note 3, § 8.19.

72. *Id.*

73. See GORMAN, *supra* note 69, at 574.

Alden-Rochelle, Inc v. ASCAP.⁷⁴ Hence, with respect to the exhibition of the motion picture in domestic theatres, the movie producer must clear the desired music at the source (*i.e.*, directly from the copyright proprietors). However, no such prohibition exists with respect to the licensing of foreign movie theaters by foreign performing rights societies.⁷⁵

IV. SYNCHRONIZATION LICENSE

A. *The Scope of the License*

The synchronization license (commonly referred to as the "synch" license) permits the movie studio to make mechanical reproductions of a musical composition that are accompanied by the specified motion picture or other audiovisual work, for use in connection with or in timed relation with motion picture theatrical performance or television broadcast.⁷⁶ In other words, the license allows the movie producer to actually place the musical composition in the motion picture (*i.e.*, synchronize the composition with the visual images).

Further, the license allows the movie producer to make copies of recordings (of the music accompanied by the motion picture) and to import the recordings and/or their copies into any country within the territory covered by the license.⁷⁷ The license shall provide that copies of the recordings can be made in all gauges of film and/or all types of positive print. But such recording, importation and distribution should be allowed *only* "for the specific purpose of exhibiting the audiovisual work in motion picture theaters or broadcasting the work on television."⁷⁸ Although the licensing of rights with respect to distribution of copies of the motion picture to the general public is accomplished by means of the videogram license,⁷⁹ synchronization licenses typically include a so-called "limited videogram license" clause.⁸⁰ This clause provides that the movie producer is given

[T]he non-exclusive right to cause . . . the fixing of the Composition in and as part of the Motion Picture on audio-visual contrivances such as video cassettes, video

74. 80 F.Supp. 888, 898 (S.D.N.Y. 1948).

75. See KOHN, *supra* note 1, at 778.

76. See *id.* at 767.

77. *Id.*

78. *Id.* (emphasis added).

79. See *id.*

80. See, *e.g.*, *id.* at 793.

tapes, video discs and similar compact audiovisual devices reproducing the entire motion picture in substantially its original form . . . only for the purposes, uses, and performances [set forth in the license].⁸¹

The copyright owner should be able to profit separately from the use of the licensed song in a sequel or remake. Therefore, it is in the copyright owner's best interest to make certain that the definition of a "motion picture" in the license does not include remakes and sequels. However, the movie producer should obtain permission to use the song with respect to the promotion of the motion picture (*e.g.*, the producer should be allowed to use the song in movie trailers and radio advertisements of the film).⁸²

Because American performing rights societies are prohibited from issuing licenses to movie theaters, the movie studio must obtain the appropriate licenses directly from the copyright owners.⁸³ However, foreign performing rights societies are not precluded from licensing movie theaters.⁸⁴ Therefore, the license will address domestic and foreign public performances separately. For example, with respect to a public performance within the United States and its possessions, the movie producer is granted

[T]he non-exclusive right and license . . . to perform publicly, either for profit or non-profit, and to authorize others so to perform, the Composition *only in synchronization or timed relationship to the Motion Picture* as follows:

(a) . . . In the exhibition of the Motion Picture to audiences in theatres and other public places where motion pictures are customarily exhibited, and where admission fees are charged, including but not limited to, the right to perform the Composition by transmission of the Motion Picture to audiences in theatres and such other public places

(b) . . . In the exhibition of the Motion Picture by free television, pay television, networks, local stations, pay cable, closed circuit, satellite transmission, and all other types or methods of television or electronic reproduction and transmissions ("Television Performance") to audiences not included in subparagraph (a) of this [paragraph] only by entities having performance licenses therefor from the appropriate performing rights societies. Television Performance of the Motion Picture by anyone not licensed for such performing rights by ASCAP or BMI is subject to clearance of the performing right either from Publisher or ASCAP or

81. *Id.*

82. The same considerations also apply to videogram licenses and master use licenses.

83. KOHN, *supra* note 1, at 777-78; *see also* ASCAP, Customer Licensees, <http://www.ascap.com/licensing/about.html> (last visited Dec. 27, 2005); BMI, http://bmi.com/licensing/business/groupa/faq/symphony_answers.asp (last visited Dec. 27, 2005).

84. *See* KOHN, *supra* note 1, at 778.

BMI or from any other licensor acting for or on behalf of Publisher and to payment of an additional license fee therefor.⁸⁵

Many licenses also add that in the instance that a particular television station does not have an appropriate license from a performing rights society, the parties shall negotiate a reasonable fee in good faith. If the parties are unable to agree with respect to a fee, many agreements provide that the fee will be determined by a neutral arbitrator appointed by the American Arbitration Association.

As to public performances in connection with an exhibition in countries outside the United States and its possessions (but within the territory covered by the license), the license shall provide that such public performance rights are “subject to clearance by performing rights societies in accordance with their customary practice and the payment of their customary fees.”⁸⁶ Further, the copyright owner should agree that “to the extent it controls said performing rights, it will license an appropriate performing rights society in the respective countries to grant such performing right.”⁸⁷

B. Cue Sheets

Copyright proprietors are entitled to receive public performance royalties derived as a result of the broadcast of the motion picture on television and the exhibition of the film in foreign movie theaters.⁸⁸ “Cue sheets are the primary means by which performing rights organizations track the use of music in films and TV.”⁸⁹ A typical cue sheet contains a log of all music used in the motion picture and includes such information as the film’s title, air date, music length, song title, composer and publisher information, name of the performing rights society, timing/usage information, and percentage splits among copyright proprietors.⁹⁰

The synchronization license must contain a clause directing the movie producer to provide the music publisher with a copy of the movie’s cue sheet within a specified period of time (e.g., “thirty days[] after the first public exhibition of the motion picture at which

85. *Id.* at 792 (providing form synchronization license terms for motion picture exhibition).

86. *Id.* at 793.

87. *Id.*

88. See discussion *supra* Part IV.A.

89. BMI, What Is a Cue Sheet?, <http://www.bmi.com/library/brochures/cuesheet.asp> (last visited Dec. 2, 2005) (describing and providing an example of a cue sheet).

90. See, e.g., *id.*

admission is charged").⁹¹ If the cue sheet is absent, the copyright owner will not be able to receive accurate compensation.

V. VIDEOGRAM LICENSE

The synchronization license allows the movie producer to use the licensed composition for the limited purpose of exhibiting the motion picture in movie theaters and on television.⁹² On the other hand, the videogram license allows the licensee to reproduce the music in recordings that are accompanied by the motion picture and "specifically allows such recordings to be distributed to the public in videocassettes, laser discs and similar devices."⁹³ Parties may negotiate the videogram license as a separate license or as a provision of a synchronization license.⁹⁴

The licensee acquires an irrevocable nonexclusive license to:

[C]ause or authorize the fixing of the Composition in and as part of the Motion Picture on audio-visual contrivances such as video cassettes, video tapes, video discs and similar audiovisual devices reproducing the entire motion picture in substantially its original form ("Videogram"), and:

....

(b) [t]o reproduce, and to sell, lease, license, or otherwise distribute and make [the videogram] available to the public as a device intended primarily for "home use" (as [sic] is commonly understood in the phonograph record industry)⁹⁵

VI. MASTER USE LICENSE

A. *The Scope of the License*

Both the synchronization and videogram licenses are executed for the purpose of acquiring permission to use the underlying musical composition.⁹⁶ However, should the movie producer wish to use a particular existing recording of the underlying musical composition,

91. KOHN, *supra* note 1, at 794.

92. *See id.* at 792.

93. *Id.* at 817.

94. Frequently, the term "synchronization license" is loosely used by the industry to designate the license in which the videogram license is included as a clause of the synchronization license. *See, e.g., id.* at 793. This is due to the fact that in many cases, parties negotiate a single license which is, essentially a combination of both the synchronization and videogram licenses. *Id.*

95. *Id.* at 846.

96. *See, NIMMER, supra* note 3, § 30.04[C][1].

he or she must negotiate the “master use” license (*i.e.*, permission to use the existing “master” recording).⁹⁷ A “master” is the master tape (usually a CD or DAT⁹⁸) which embodies the fixation of the musical performances by a recording artist from which phonograph records can be manufactured.⁹⁹ The license requires that the “master device” shall be delivered by a specified date, with the movie studio generally responsible for paying for the making and delivery of such master.¹⁰⁰

As was previously noted, the rights to the master recording usually belong to a record company because most record agreements treat artists’ recording services as “work for hire.”¹⁰¹ Therefore, the movie studio must approach the record company to secure the master use license.¹⁰² The movie studio must make certain that the record contract between the record company and the recording artist does not require an approval from the artists for the licensing of the recordings for motion pictures. However, the license should contain an “indemnification” clause, which requires the record company to indemnify the movie studio in the event the license was granted in violation of the record contract.¹⁰³

By executing the master use license, the record company grants to the movie studio an irrevocable, nonexclusive license to record, reproduce, and perform the master recording in the soundtrack of and in timed relation with the motion picture (and trailers, promotional films, television and radio spots), and to exhibit, distribute, perform, reproduce, telecast, advertise, publicize and exploit the master recording as part of the motion picture by any method, process, media, manner and form now known or hereafter devised (specifically including audiovisual devices intended primarily for “home use,” such as videocassettes and video discs).¹⁰⁴ However, the license should also contain a clause specifically prohibiting the movie studio from manufacturing or distributing sound recordings separately from the motion picture. Therefore, should the movie studio desire to release the recording on a CD as part of the movie

97. *See, id.* § 30.04[C][2].

98. Digital audiotape.

99. NIMMER, *supra* note 3, § 30.04[B][1].

100. *See, e.g., id.* § 30.04, Form 30.04C2(1) Master Use License, Cl. 10.

101. *See* 17 U.S.C. § 201(b) (2000) (“In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author . . . [and] owns all of the rights comprised in the copyright.”); NIMMER, *supra* note 3, § 5.03[A] (discussing works made for hire).

102. NIMMER, *supra* note 3, § 30.04[C][2].

103. *See, e.g., id.* § 30.04, Form 30.04C2(1), Master Use License, Cl. 9.

104. *Id.* § 30.04[C][2].

soundtrack, it should enter into separate negotiations with the record label.

Needless to say, by obtaining the master use license, the movie studio does not acquire any rights with respect to the underlying musical composition. Therefore, licenses always state that the movie producers are solely responsible for obtaining any and all necessary permissions from the copyright owners of the musical composition featured on the master and for any and all payments required to be made to such copyright owners for the movie producer's use of the music.

B. Credit

Most master use licenses require that the record company and recording artist receive an appropriate credit.¹⁰⁵ However, the movie producer should insist on including language which states that neither casual or inadvertent failure by the licensee to comply with the credit requirements, nor any failure by third parties to so comply shall constitute a breach of the agreement by the licensee. Further, movie studios typically insist on language which allows the movie studio to refer to the professional name of the recording artist in trailers, advertisements, and other promotions of the motion picture.

C. "Re-Use" Fees

In light of the fact that the United States does not have performance royalties for musicians, as do many other countries, a national collective bargaining agreement has been established between the American Federation of Musicians (AFM)¹⁰⁶ and the major record companies and many independent record companies. As a result, if a sound recording was made under an AFM signatory agreement, and if the sound recording is now being used in a manner which is different from that for which it was originally recorded, "new-use" of that recording is created.¹⁰⁷ Therefore, if a song which was previously included on a CD now appears in a motion picture, the musicians are entitled to additional payments according to the union scale. Such payments are called "new-use" or "re-use" fees and are collected by the AFM on an ongoing basis.¹⁰⁸ The master use license

105. *Id.*

106. For more information on AFM, see American Federation of Musicians, <http://www.afm.org> (last visited Dec. 2, 2005).

107. KRASILOVSKY, *supra* note 61, at 101, 304.

108. *Id.*

should provide that the movie producer is responsible for paying the “re-use” fees to the AFM.

VII. LICENSE FEES AND VALUATION OF MUSICAL COMPOSITIONS

A. Basic Considerations

Synchronization licenses are typically obtained for a flat fee,¹⁰⁹ while videogram and master use licenses are acquired: (1) for a flat fee; (2) on a “per unit sold” basis; or (3) in exchange for a combination of a flat fee and “per unit sold” royalties.¹¹⁰ There are no hard or fast rules when it comes to determining the amount of money the licensor will receive, as such determinations are always based on several factors and criteria. Moreover, in many situations the music soundtrack is assembled at the very end of the moviemaking process and often there is little money left in the budget when the time arrives to acquire music rights.

The following is a typical list of factors, which to various extents determine the amount of the synchronization license fee:

How the song will be used (vocal performance by an actor on camera, instrumental background . . . theme, under the opening or closing credits); [t]he overall budget for the film, as well as the music budget; [t]he stature of the song . . . (a current hit, new song, famous standard . . .); [t]he duration of the use and whether there are multiple uses of the song; [t]he term of the license . . .; [t]he territory of the license . . .; [w]hether there is a guarantee that the song will be used on the film’s soundtrack album and the stature of the recording artist and power of the record company releasing the album; [w]hether there is a change in the original lyrics; [w]hether deferred payments are being offered if a film breaks even or makes a profit; [w]hether the producer requests an exclusive hold on the song or places restrictions on its use in other motion pictures; [w]hether the producer also wants to use the hit recording of a song, rather than re-recording a new version for use in the film; [w]hether the motion picture is a dramatization of the events described in the song; [w]hether the motion picture uses the song as its musical theme as well as its title; [w]hether the motion picture is over the budget at the time a song is requested; [w]hether a number of songs from the same publisher are contained in the film; [and] [w]hether the film producer wants a share of the publishing income or a co-ownership interest in the song.¹¹¹

It is also not uncommon for movie studios to negotiate licenses for a greater number of compositions than are actually included in the finished motion picture. As a result, music licenses are “almost

109. KOHN, *supra* note 1, at 776.

110. BRABEC, *supra* note 29, at 196-99.

111. *Id.* at 174-75; *see also* TODD BRABEC & JEFF BRABEC, MUSIC AND MONEY (2002), <http://www.ascap.com/musicbiz/money-intro.html>.

always contingent in nature.”¹¹² Hence, the movie producer should include a provision whereby the license fee will only be payable if the composition and/or recording is actually included in the motion picture. For instance, such a provision may require the license fee to be payable “on the full execution of [the] license or 30 days after the first public exhibition of [the] motion picture with the musical composition included therein (not including previews, press showings or other exhibitions where no film rental is charged to the exhibitor), whichever is later.”¹¹³

In addition to the licensing fee, the grantor of the synchronization license will also be able to derive income from other sources. First, the copyright proprietor will receive public performance royalties through his or her performing rights society derived as a result of the broadcast of the motion picture on television and exhibition of the film in foreign movie theaters.¹¹⁴ Further, if the song is released on a CD as part of the film’s soundtrack, the licensor will generate additional income by way of mechanical royalties.¹¹⁵ Such supplemental sources of income can be quite substantial and can easily exceed the amount of the license fee. Hence, in many instances, copyright owners are advised to issue the license despite the fact that they are forced to accept what appears to be a reduced or inadequate synchronization license fee.

B. “Most Favored Nations” Clause

In a situation where the parties are unable or unwilling to estimate the value of the composition, they may choose to resort to the “Most Favored Nations” clause. This clause provides that the fee payable to the copyright proprietor shall be “no less favorable than the fee received for the use of any other song featured in the licensee’s work.”¹¹⁶ However, the clause represents a hidden danger for the licensee because some licenses for the motion picture can be of different importance. Thus, should the movie producer subsequently need to license a more important song at a higher cost, it may be forced to pay the higher fee to the previous licensors.

112. NIMMER, *supra* note 3, § 30.04.

113. *Id.*

114. See discussion *supra* Part IV.A.

115. Mechanical royalties are paid by a record company to the copyright owner of the musical composition for sales of phonograph records. See NIMMER, *supra* note 3, § 8.04[A].

116. KOHN, *supra* note 1, at 591.

C. The "Per Unit Sold" Controversy

As was discussed earlier, videogram licenses are negotiated for the purpose of distributing the licensed music as part of the motion picture to the general public on home video devices such as videocassettes and DVDs.¹¹⁷ Copyright proprietors certainly prefer to treat such home video devices as reproductions ("copies") of the work. Thus, the copyright owners would prefer to receive "per unit sold" royalties similar to the mechanical royalties payable in the record industry. Perhaps the main reason for such a position is the fact that copyright owners want to participate in the potential commercial success of the motion picture. Copyright proprietors point out that there is no additional income available to videogram licensors, while grantors of synchronization licenses are able to participate in the commercial success by virtue of receiving public performance royalties.¹¹⁸ On the other hand, movie studios vigorously oppose "per copy sold" royalties and insist on acquiring licenses in exchange for a one-time fee (known in the industry as a "buy out").¹¹⁹ Part of the reason for such opposition is that should a movie studio be required to pay "per unit sold" royalties, it would incur additional administrative expenses associated with accounting.¹²⁰

Therefore, depending on bargaining power and customary practices of the parties, videogram and master use licenses can be acquired in exchange for (1) a one-time licensing fee; (2) payment of royalties; or (3) a combination of both. For example, it is not uncommon to encounter the practice of the so-called "modified buy-out," where the movie company will pay an advance against a specified number of copies.¹²¹ Once a specified sales plateau is achieved, the movie studio will pay another advance against another specified number of copies sold.¹²² Another solution is to word the license so that a flat fee is paid in exchange for a videogram license, provided that the movie company will pay "per unit sold" royalties should the motion picture achieve certain commercial success (e.g., gross 20 million dollars in theaters). The amount of "per unit sold" royalties is, of course, subject to negotiation and depends on the bargaining powers of the parties.

117. See discussion *supra* Part V.

118. KOHN, *supra* note 1, at 819.

119. *Id.* at 819-20.

120. *Id.*

121. BRABEC, *supra* note 29, at 198.

122. *Id.*

D. Issues Surrounding "Per Unit Sold" Royalty Payments

In the situation where the license provides for a "per unit sold" payment of royalties, the licensor must be aware that other parts of the license can be filled with hidden traps that will reduce the amount of money the licensor will receive. Essentially, the licensor may face the same types of contract clauses recording artists typically face when signing a record contract.¹²³

For example, the movie studio may insist upon including a "reserve" clause which allows the studio to withhold a percentage of the payable royalties (e.g., 25%) as a reserve against future returns. The reason for such reserve is that videocassettes and DVDs are usually shipped to retail stores on a consignment basis with the stores returning any unsold copies. However, it may take months before the unsold copies are actually returned. The licensor's attorney must make certain the language of the license prevents the movie company from keeping the withheld reserve for an indefinite period of time. The attorney must negotiate for the reserves to be liquidated (i.e., paid to the copyright owner) within a specified period of time.

Another important (and often overlooked) part of the license is the accounting provisions. If the licensor is to be paid on a "per unit sold" basis, the contract should set forth the schedule which will govern payment of the royalties. Further, the language of the license must provide the licensor with the right to audit the movie studio.

VIII. CONCLUSION

Undoubtedly, in order to successfully represent a client in a music licensing transaction, an attorney must be thoroughly familiar with common law contract principles and applicable intellectual property laws. As any legal practitioner can easily gain the knowledge of these two bodies of law from a variety of sources, a detailed analysis of the two sets of laws lies beyond the scope of this work. However, the attorney must also master the body of knowledge which stems from the jargon and customs of the entertainment industry. This article was designed to serve as a practical guide to some of these customs, and, hopefully, the effort will serve as a useful contribution towards a better understanding of the complex and unique field of entertainment law.

123. See generally Vlad Kushnir, *Royalty Payments Under a Typical Record Contract*, 15 N.Y. ST. B.A. ENT. ARTS & SPORTS L.J. 61 (2004).

