I look forward to seeing everyone at our 40th Anniversary Annual Meeting at the Cosmopolitan Hotel in Las Vegas! To celebrate the occasion, many of the Past Forum Chairs will be in attendance and honoured for their past contributions to the Forum. Confirmed attendees include Jay Cooper, Ed Pierson, Michael Rudell, Pam Lester, Joel Katz, David Given, Ken Abdo, Kirk Schroder, Richard Idell and Janine Small. As previously reported, I am thrilled that RachaelDenhollander, the first gymnast to go public with sexual assault allegations against Dr. Larry Nassar, has accepted our invitation to speak at the Annual Meeting. It was Rachael’s heroic efforts that lead to Dr. Nassar’s conviction and a $500,000,000 class action settlement with Michigan State University. I met Rachael at the Time 100 Gala in New York earlier this year, where she was named by Time Magazine to its 2018 list of the world’s 100 Most Influential People.

As I reported in my previous column, the Forum has been busy since our last Annual Meeting.

In April of this year, the Forum held its Miami Entertainment Law Symposium at the Palms Hotel where we honoured the memory of Richard Warren Rappaport, a member of the Forum’s Governing Committee, who sadly passed away in December of last year.

Several members of Forum leadership were at the Grammy Awards in January as a sponsor of the Grammy Foundation’s Entertainment Law Initiative Writing Competition, at SXSW in Austin and at MIDEM in the south of France.

The Forum’s Governing Committee met in Montreal in April for a very productive leadership meeting. In addition to discussing Forum business, the Governing Committee was hosted by the Canadian Olympic Committee, the Montreal Canadiens (including a tour of the Bell Centre) and Galerie de Bellefeuille, one of the preeminent art galleries in Montreal.

In August, the Forum presented one of the six ABA CLE Showcase Programs at the 2018 ABA Annual Meeting in Chicago. The panel was entitled “The Right (or not) to take a Knee: Social Activism and Freedom of Speech in Sports and Entertainment.” The moderator of the panel was ESPN’s Michelle Steele and the speakers were WNBA Player’s Association Director of Operations Terri Jackson, National Sports Law Institute...
Director and Marquette Professor of Law Matthew Mitten, and Chapman and Cutler Partner Cari Grieb. CSPAN coverage of the panel is available at: https://www.c-span.org/video/?448683-3/american-bar-association-annual-meeting-social-activism-sports.

Looking forward, the Forum will be holding its annual Leadership Meeting in Memphis from April 4-6, 2019. We will also be having a CLE and networking event on Thursday, April 4 and taking advantage of being in Memphis by visiting many of the local landmarks. Save the date and be there when the Forum comes to Memphis!

Also save the date for the Forum’s 2019 Annual Meeting being held October 4-6 in Las Vegas.

As always, we welcome your involvement in the Forum. We are always looking for articles for our marquee publication the Entertainment and Sports Lawyer, so ably helmed by our Editor-in-Chief Brian Rosenblatt. Please submit any proposals you have for articles to Brian at brosenblatt@bdlfirm.com. If you have an idea for a webinar for our newly revamped webinar series, please submit it to our Webinar Co-Chairs Bob Pimm (bob@rgpimm.com) and Steve Weizenecker (sweizenecker@btlaw.com). We are always looking to add people to our leadership roster so if you would like to become more involved in the Forum, please reach out to me at the Annual Meeting or otherwise.

If you have any questions, feel free to contact me directly at 416-869-5993 or lglickman@casselsbrock.com or contact our Forum Manager Bernadette Steele at 312-988-5868 or Bernadette.Steele@americanbar.org.

Len Glickman
Chair, ABA Forum on the Entertainment and Sports Industries
Letter From The Editor

“The Future is unwritten.”—Joe Strummer

Dear Forum Members,

Welcome to Issue 34:4 of the Entertainment and Sports Lawyer! This brings to a close the 2017-2018 Publishing year of our journal.

As this Issue is being readied for publication, the entire Forum, its staff, Governing Committee Members, and Division Chairs are preparing for the Annual Meeting in Las Vegas from October 4-6, 2018. With that in mind, this Issue features several incredible articles.

This Issue opens with a loving tribute to our dear friend, Richard Rappaport, who sadly passed away last December. For those of you who knew Richard, I think you will be touched by Alexandra Darraby’s tribute.

Oliver Wendell Holmes, Jr. once said: “In this world nothing can be said to be certain, except death and taxes.” Since the Oakland (soon to be Las Vegas) Raiders announced their decision to relocate to Las Vegas, there have been multiple articles written stating that the relocation will increase the take home pay of players, coaches, staff and personnel. When recent Raiders’ contracts have been reported, much of the focus centered on how those contracts were structured to allow them to take home more money by paying less income tax; however, there has been little discussion as to the reasons why they will pay less income taxes. Michael Whitaker’s article takes an in-depth look at why those players will now pay less in income taxes after the Raiders relocate to Las Vegas, as well as how you may be able to apply these same principles to allow your clients to achieve similar income tax savings.

Lewis Stark shares with the Forum “Key Financial Building Blocks of Licensing to Maximize Revenue and Protect Intellectual Properties.” In his article, Stark addresses the best interests of both licensor and licensee to have a well-defined agreement in which specific rights, responsibilities, performance obligations and avenues of recourse are in place to protect their respective financial interests. Licensors want to maximize royalty revenue while ensuring their properties are protected, and licensees want to ensure they have the ability to make a profit under the terms of the agreement.

Returning author, Scott Sisun, presents his article “Revisiting Federal and State Trademark Registration for the Cannabis Industry”, in which he discusses how brand owners in and around the cannabis industry continue to seek a toehold in the intellectual property protection of their assets. Federal laws limiting filings to “lawful” goods and services led to an increase in state trademark filings, and federal trademark filings for ancillary goods and services. As most trademark practitioners are aware, in 2010, the United States Patent and Trademark Office (USPTO) briefly opened a window to accept “medical marijuana” as an identification of goods. Closure of that window did nothing to deter the surge of filings. Things continue to progress quickly. This Article serves to help the brand owner and counsel stay familiar with federal and state trademark filing strategies for cannabis marks, including why use of a mark must be “lawful,” standard USPTO office action language, potentially acceptable identifications for ancillary goods and services, Trademark Trial and Appeal Board (TTAB) precedential opinions on the topic, specific examples of state registration requirements and processes, and other information to aid in efficient maneuvering of the registration process.

In “International Licensing of Entertainment Products”, Brenden Macy explains that International licensing can be extremely complex, and the unwitting practitioner can quickly find themselves becoming lost. Careful consideration of applicable treaties and laws surrounding intellectual property registration are a strong start. Further considerations should be given to the local laws surrounding contracting and the enforceability of certain provisions. Following this analysis, an examination of methods of enforcement will guide the prudent licensor to balance the economic value of careful licensing of their valuable Entertainment Products with the potential risks.

Michelle Wahl and her expert team of litigators provide yet another Litigation Update which will prove a most valuable resource. Peter Dekom tells us that “I Have Absolute Proof” that given that we have a President who is rather completely reliant on his own dissemination of false information, it is difficult to see how our government can take meaningful steps to stop such conduct by others. In “Float Like a Butterfly, Sting Like a $30 Million Lawsuit”, Ryan Jacobson and Max Goodman discuss a most poignant lawsuit which was recently resolved in the Northern District of California, which tested the boundaries of the Lanham Act and Illinois’ Right of Publicity Act. At the heart of the case, is a three-minute video which aired on Fox as the lead-in to Fox’s Super Bowl LI coverage on February 5, 2017. For those interested in Liter-
ary Publishing, we have provided the transcript from the Forum’s Webinar “Book Contracts 101” in which Daniel Rogna, Evan Gregory, and Jason Koransky discuss traditional and self-publishing contracts, exploring the effect of electronic publications on the evolution of the business. And finally, recent law school graduates Blake Yagman and Laura Schrauth review “How To Play The Game” by Darren Heitner and “Entertainment Law Fundamentals and Practice” by Corey Field, respectively.

Please come speak to me at the Annual Meeting with your ideas for articles.

We are actively seeking articles from authors for the Journal. I encourage anyone interested to reach out to me and submit articles. We welcome submissions from any and all authors, and are always seeking amazing articles. The Author Guidelines can be found at: http://www.americanbar.org/content/dam/aba/publications/entertainment_sports_lawyer/esl-16authorguidelines.authcheckdam.pdf. The pending deadlines for article submissions are:

- Winter 2018/2019 (anticipated January Publishing) November 15, 2018
- Spring 2019 (anticipated April Publishing) February 15, 2019
- Summer 2019 (anticipated July Publishing) May 15, 2019
- Fall 2018 (Anticipated October Publishing) August 15, 2018

Please, come speak with me at the Annual Meeting in Las Vegas, and share with me your ideas for the Journal.

Brian A. Rosenblatt
Bryce Downey & Lenkov LLC
Editor-in-Chief, Entertainment and Sports Lawyer
In Memorium of Richard Warren Rappaport

(September 20, 1948 - December 16, 2017)

By: Alexandra Darraby, Forum Governing Committee

“In Memorium of Richard Warren Rappaport...”

When the Forum board convened in Las Vegas many years ago, a spirited debate ensued as to whether the Forum should end sponsorship of its international conference in Miami. At that time, the Forum was the sole provider, and its withdrawal would effectively terminate the Miami conference. The board meeting was over-subscribed and there were not enough seats around the table for the entire Forum board. From one corner of the room, a person who, for all appearances, was dressed like a Mr. Las Vegas, stepped forward into the debate, and in a gentle, dispassionate and objective manner proceeded to inform the SRO members on the facts and figures of the Miami conference in support of continuing it. His presentation was so understated; its effectiveness grew more forceful. Any lawyer who has argued before the court after the judge has issued an adverse preliminary ruling will identify with how persuasive Richard was.

Naturally, after the board meeting I approached this mild-mannered orator, who was still standing in the corner, and asked who he was. The guy in the Lucchese cowboy boots and bronzed tan was a voice that had been heard over years on the Forum squawk box: Richard Warren Rappaport. Who was I, he asked? When told, true or false, he politely said he had always wanted to meet me. Did I mention he was also charming? From that very unlikely moment of introduction, we became, and remained, fast friends.

Like an Antonioni film, our futures unspooled in crossing tracks. The Forum continued sponsoring the Miami conference, and in fact, expanded it from a single day of programming to a weekend multi-educational and networking event. Richard and I were the two nominees elected for the same “class” on the Forum Governing Committee. Ultimately I was able to launch a CLE program in Miami on Representing Creatives, in film, TV, architecture, arts, music, which Richard gallantly shepherded talents from the Forum, industry and academia, from all parts of the USA. He graciously listened to recommendations that were made to add new speakers, and not only empaneled them but in turn befriended them.

He was into everything, music, TV, film, and he himself was an entertainment personality. CONCERT is a film about the artistry of music. “CONCERT,” set at a benefit performance, was an “…an introspective look into the world of an American singer-songwriter, Richard Warren Rappaport, where every song has a story and every story has a song.” Starring with Richard was his beloved partner, René Katz. & Arts Showcas

Richard, “… performed as a professional recording artist and is a producer, publisher and songwriter... a member of Broadcast Music, Inc (BMI) and a BMI Artist, a film and TV producer.”

He was, in so many wonderful ways, and the best of ways, Mr. Celebrity.

In November 2017, Richard and I planned to meet while I was in Miami on business. He generously offered to slog through Miami Friday traffic and pick me up at the hotel. He called me that afternoon and said he was snowed under, and had already commuted in and out of Miami several times that week, and asked to re-set. In typical Rappaport “rapport,” he was effuse with compliments, jokes, and positivity. I had no clue that would be the last time we spoke.

A few weeks later, the Forum distributed an email followed by one from his sister. It was Christmas season, but Richard was gone.

The first person to whom I would have reached out about this terrible news was Richard. He would have sorted through the shock, disbelief, sadness and our conversation would have ended on an up-note, like the music he played and was so fond of.

When the ESL asked for someone to write about him, my hand shot up—this was Richard volunteering me (again), saying “do it.”

Richard is not gone, he is still with me, and with us, and lives on, live, like the concerts he gave, and the laughter he shared.

Richard, my friend, you are so missed by all of us.


Endnotes

1. Marcel Proust (1871–1922)(Title of 7 volumes)
2. This is dedicated to Rene Katz and Carol, his sister.
...Except Death and Taxes

By Michael Whitaker

INTRODUCTION

Since the Raiders announced their decision to relocate to Las Vegas, there have been multiple articles written stating that the relocation will increase the take home pay of players, coaches, staff and personnel. When recent Raiders’ contracts have been reported, much of the focus centered on how those contracts were structured to allow them to take home more money by paying less income tax; however, there has been little discussion as to the reasons why they will pay less income taxes. This article takes an in-depth look at why those players will now pay less in income taxes after the Raiders relocate to Las Vegas, as well as how you may be able to apply these same principles to allow your clients to achieve similar income tax savings.

Overview.

In probably the most famous tax quote ever, Benjamin Franklin declared, “In this world nothing can be said to be certain, except death and taxes.” Oliver Wendell Holmes Jr. put it succinctly when he stated that “Taxes are what we pay for a civilized society.”

Generally, U.S. citizens pay income tax on their worldwide income, or income earned from sources within and outside the United States. Although U.S. citizens may receive a credit on their U.S. income taxes for taxes paid to a foreign government, they may still owe U.S. income tax on income earned outside of the United States if the income tax rate in the foreign country where the income was earned is less than what the individual would be required to pay if the income had been earned within the United States. This broad power to tax a U.S. citizen on income earned anywhere results in most people paying federal income taxes.

Limitations on a state’s authority to impose an income tax.

In addition to federal income taxes, many U.S. Citizens are also required to pay state income tax. Most state income tax laws are based on federal income tax laws, i.e. states tax their residents’ income regardless of where it is earned. However, a state’s ability to impose tax on individuals is limited by provisions of the U.S. Constitution and by federal statutory law.

One of the most important limitations on a state’s ability to tax its residents’ income, regardless of where it is earned, and a key distinction between state and federal income tax, is that there must be a close connection or “nexus” between the taxing state and both the taxpayer and the activities that generated the income the state is seeking to tax. Absent a nexus between the taxing state, the taxpayer and the activity that generated the income to be taxed, the state would not have the constitutional authority to levy an income tax on the taxpayer’s income. Determining if a nexus exists between the taxing state and the taxpayer becomes the dispositive issue in determining if a state has the authority to impose an income tax on a taxpayer’s income. Then the state must determine who it will tax and what types of income it will tax. For example, Arizona, a state that imposes an income tax, does not tax professional baseball players that participate in spring training in Arizona.

Even if a state has the authority to impose an income tax it may choose not to tax certain activities of non-resident taxpayers even if those taxpayers have sufficient nexus to the state that would authorize the state to impose a tax. On the other hand, some states attribute its taxpayer’s activity in other states that generate income to the taxing state if the activity to be taxed is connected to employment that originated in the taxing state. For example, a nonresident taxpayer who works for a New York employer must treat days worked outside of New York as New York work days if the taxpayer worked outside of New York for the convenience — as opposed to the necessity — of the employer. This would allow New York to levy an income tax on the activities that occur outside of New York, but that relate back and arise from the taxpayer’s employment that originated in New York.

A state must establish a nexus to the taxpayer or activity prior to imposing an income tax.

There are two independent connections that enable a state’s imposition of tax on a taxpayer to meet constitutional nexus standards: presence nexus and transactional nexus. Presence nexus requires that a connection exist between the state imposing the tax and the taxpayer. Presence is based on the two principles of residency or domicile and the source of the income to be taxed. Like the imposition of the federal income tax, the taxpayer’s residence or domicile in a state provides that state with a significant connection between the taxpayer and the state. This connection grants the state the authority to tax the resident’s income regardless of where it is earned.

The rationale for allowing a state to tax its residents makes sense. A taxpayer who resides in a state enjoying the benefits of the civilized society provided by the state cannot complain if the taxpayer’s income is subject to tax that funds the maintenance of the state’s civilized society. Therefore, if presence nexus exists, a state may impose an income tax on that taxpayer’s income regardless of whether the other
independent connection of transactional nexus can be established.

Establishing presence nexus as a resident or domiciliary of a state.

Presence nexus arises from being a resident or domiciliary of a state. For state income tax purposes, states generally designate certain taxpayers as “residents” for personal income tax purposes and taxes them on their worldwide income.

The states’ taxing statutes define “resident” in many different ways, but all state’s include one or more of the following five concepts when defining a “resident” for state income tax purposes: (1) domicile in the state; (2) presence in the state for other than a temporary or transitory purpose; (3) presence in the state for a specified period of time - either six, seven, or nine months; (4) maintenance of a permanent place of abode or a place of abode for a specified period of time; and (5) a presence in the state for a specified period of time accompanied by the maintenance of a permanent place of abode.2

For example, Virginia’s definition of a resident includes two classes of residents: a domiciliary resident and an actual resident.3 An actual resident of Virginia means “a person who, for an aggregate of more than 183 days of the taxable year, maintained his place of abode within Virginia, whether domiciled in Virginia or not.” A Virginia domiciliary resident is defined as an individual working outside of Virginia who has not abandoned Virginia residency. A Virginia domiciliary resident continues to be subject to Virginia income tax on the income earned outside of Virginia. Additionally, a person who is not a domiciliary resident of Virginia, but who stays in Virginia for an aggregate of more than 183 days in a calendar year is also subject to Virginia income tax.

Although Virginia’s statute defining a resident is cited as an example there is no consistent definition of a “resident” amongst the states, but all definitions include one or more of the five concepts listed above. Frequently, states include several of the five concepts in defining a “resident” so that the state’s definition of a “resident” will include as many taxpayers as possible to increase the number of potential taxpayers subject to an income tax and the potential revenue of the state. Most states’ definitions of “resident” include domiciliaries.

Many states definition of “resident” also include individuals with various other characteristics in an attempt to classify as many people as possible as a “resident” of that state for income tax purposes. For example, Louisiana defines a “resident” as any individual “domiciled in the State,” who “maintains a permanent place of abode within the state” or who “spends . . . more than six months of the taxable year within the state.”4

North Dakota defines a resident as an individual who is domiciled in North Dakota or an individual who is not domiciled in North Dakota but maintains a permanent place of abode and spends more than seven months of the tax year in North Dakota.5

Generally, a state may impose an income tax on all the income of an individual domiciled in the state regardless of where the income is earned. “Domicile” is rarely defined in a state’s statutes, but courts and state regulations generally rely on the common law meaning of being the place which an individual intends to be his permanent home, or the place to which an individual intends to return whenever absent.6 Because the common law definition is also the meaning used for tax purposes, precedents outside of a state’s tax statutes and accompanying regulations are relevant in determining a taxpayer’s domicile and should be consulted. Domiciliary status in a state is not lost by moving to a different state, unless the individual intends for the different state to become the individual’s permanent home.7

Because the definition of domiciliary does not require the individual to be present in the state during the taxable year or indicate that the individual has few or no contacts with the state other than an intent to return sometime in the future, some states exempt from resident status domiciliaries who have limited contacts with the taxing state. For example, New Jersey exempts domiciliaries who “maintain no permanent place of abode in this state, maintain a permanent place of abode elsewhere, and spend in the aggregate no more than 30 days of the taxable year in this State.”8 Other states like Arizona and Nebraska include all domiciliaries in their definition of “resident” no matter how limited the domiciliaries’ contacts with the taxing state.9

The taxpayer’s intent is a decisive factor in determining whether any particular residence the taxpayer occupies is his or her domicile.10 Domicile is not lost until a new one is acquired, and it is presumed to continue until the taxpayer sustains the burden of proving a change.11 Domicile is not lost merely by personal absence; intent to change domicile is required and the evidence to establish both a change of residence and the required intention to effect a change of domicile must be clear and convincing.12 Therefore, practitioners need to counsel their clients regarding the affirmative actions to be taken that clearly demonstrate a change of domicile and the records which should be kept in order to support that the affirmative actions to change the individuals domicile have been taken.

The New York Audit Guidelines relating to the determination of domicile are a helpful checklist for practitioners to assist clients in establishing a change of domicile regardless of which state they intend to establish as their domicile. They are:
1. The individual’s use and maintenance of a residence in the intended domicile state versus the use and maintenance of a residence not located in the domicile state.

2. An individual’s pattern of employment and sources of compensation in the tax year under review.

3. Where an individual actually spends time during the year.

4. The location of an individual’s items that hold significant sentimental value, such as family heirlooms, works of art, collectibles, etc.

5. An individual’s connections to family.

In addition to the factors noted above in the New York Audit Guidelines, the following additional factors should also be encouraged, and records kept to establish a change of domicile:

1. Active involvement in community, religious, civic or service clubs, fraternal orders and charities.

2. The address used on bank statements, vendor bills, financial data and family business correspondence.

3. The address at which bank statements, bills, financial data are received.

4. The state that issued the individual’s driver’s license.

5. Where the individual is registered to vote and where the individual has previously voted.

6. Has the individual established a relationship with lawyers, doctors, brokers in the new domicile; and

7. Does the individual’s will and other legal documents state that a particular location is to be considered the individual’s place of domicile.

Engaging in the listed activities and keeping appropriate records will manifest the individual’s intent to establish a new domicile.

The inclusion of nondomiciliaries in a state’s definition of resident invites the probability that the same income will be taxed by multiple states under a presence nexus. An individual could qualify as a nondomiciliary resident under a state’s resident statute as having a domicile using common law tests in a different state. Because two states could establish a presence nexus, both states would have the constitutional authority to tax the individual’s income of regardless of where the income is earned. Therefore, because some states include nondomiciliaries in their tax definitions of residency, an individual’s residence in one state does not necessarily prohibit another state from taxing the same income if the other state can also characterize the individual as a resident of its state under its own definition.

This situation can raise Constitutional issues as to whether the definition of “resident” in such instances results in an impermissible imposition of state income tax on an individual and an improper allocation of income to the state. This issue has not yet been addressed by the U.S. Supreme Court. In the context of individuals found to be domiciled in multiple jurisdictions, the Supreme Court has not found a Constitutional bar to an individual being deemed a resident of multiple states under each state’s definition of a resident and being taxed as a resident of those states for state income tax purposes.

Establishing a transactional nexus.

The second independent connection is a transactional nexus. A transaction nexus allows a state to impose a tax on a nonresident’s personal income arising from sources within that state. The U.S. Supreme Court authorized states to impose a tax on nonresident income arising from sources within a state when it declared, “just as a State may impose general income taxes upon its own citizens and residents whose persons are subject to its control, it may … levy a duty of like character, and not more onerous in its effect, upon incomes accruing to non-residents from their property or business within the State, or their occupations carried on therein.” Transactional nexus requires that a connection exist between the state imposing the tax and the property, transaction, or business activity of the taxpayer that generated the income being taxed.

If a transactional nexus exists, even though an individual would not meet the state’s definition of a resident, the state still has the authority to impose a tax on the income earned within the taxing state. This rationale also makes sense. A taxpayer who takes advantage of circumstances and enjoys the benefits of the civilized society provided by a state, a state other than the state in which the taxpayer resides, cannot complain when that state imposes an income tax on the income earned within that state. The U.S. Supreme Court similarly stated that “[t]he simple but controlling question is whether the State has given anything for which it can ask return.” If a state has somehow contributed, no matter how tangentially, to the income received by a nonresident then the state has the authority to impose a tax on that income.

The independent connection of a transactional nexus is met if the taxpayer’s income was earned in a state.
whether past or future, then the bonus should be apportioned like regular compensation based on the duty days or specific performance formulas described above. If the athlete or entertainer is paid a “signing” bonus, further analysis must be conducted to determine if the bonus is payment for services to be rendered in the future or if the bonus is paid for an intangible right i.e. an exclusivity agreement. If the bonus is payment for services to be rendered, it must be apportioned according to the applicable rules for apportioning compensation. However, if the bonus is payment for an intangible right like a commitment to play for a certain team or a promise to perform at a certain location to exclusion of other locations, then the bonus should not be apportioned but should only be allocated to the state of the athlete’s or entertainer’s residence.

The Federation of Tax Administrators’ model apportionment provision adopted by many states provides guidance on how to determine if a bonus should be apportioned like other compensation according to the duty days formula or if the bonus should not be apportioned and should only be taxable in recipient’s state of residence as follows:

“Bonuses” included in “total compensation for services rendered as a member of a professional athletic team” subject to the allocation described in … this section are:

(a) bonuses earned as a result of play (i.e., performance bonuses) during the season, including bonuses paid for championship, playoff or “bowl” games played by a team, or for selection to all-star league or other honorary positions; and

(b) bonuses paid for signing a contract, unless all of the following conditions are met:

(1) the payment of the signing bonus is not conditional upon the signee playing any games for the team, or performing any subsequent services for the team, or even making the team;

(2) the signing bonus is payable separately from the salary and any other compensation; and

(3) the signing bonus is nonrefundable.16

This same analysis could be applied to a signing bonus received by an entertainer.

Two myths.

Now that we have a basic understanding of the principles granting states the authority to impose an income tax, we can determine if it is possible to minimize the state income tax burden. There are two myths that
need to be dispelled before explaining the strategies to minimize state income tax.

First is the myth that well-compensated individuals like professional athletes, entertainers and others can completely escape paying income tax. There is no strategy or scheme for these types of individuals to eliminate income taxes. Therefore, the goal is to minimize income taxes.

The second myth is that organizing one’s affairs to pay the least amount of taxes as legally allowed is cheating the system. Judge Learned Hand stated, “Any one may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one’s taxes.”17 “Over and over again courts have said that there is nothing sinister in so arranging one’s affairs as to keep taxes as low as possible. Everybody does so, rich or poor; and all do right, for nobody owes any public duty to pay more than the law demands.”18 While there is nothing wrong with paying more income tax than is required, there is also no award for paying more than the law requires.

What about those Raiders’ contracts.

One specific example that has received significant media coverage is Raiders’ quarterback Derek Carr’s new deal. ESPN reporter, Darren Rovell, reported that the Raiders’ move to Las Vegas was going to save Derek Carr roughly $8.7 million in income tax. How is Carr saving $8.7 million in income taxes over the life of his contract and how will other Raiders’ players, coaches, staff and personnel do likewise? Simply put, by not having to pay California state income taxes.

By 2019 the Raiders will have relocated to Las Vegas, Nevada. Carr is currently a California resident. As such his income is subject to California state income tax. California’s current income tax rate for individuals earning over $1 million a year like Carr is thirteen and three-tenths percent (13.3%), the highest rate in the nation. Nevada does not have a state income tax. Once the Raiders relocate to Nevada by 2019, all duty days taking place in Nevada will not be subject to a Nevada state income tax. Additionally, any bonuses earned will not be subject to Nevada state income tax. However, if Carr does not become a Nevada resident, California would still have the authority to impose an income tax on Carr’s income. Just because Nevada chooses not to impose a state income tax will not prohibit California from attempting to tax Carr’s income if he continues to be a California resident. Carr must take the affirmative steps outlined above to change his domicile from California to Nevada and become a Nevada resident or face potential income tax liability in California.

Unlike Carr, and all the other Raiders’ players, coaches, staff and other employees, your clients are most likely not going to be the beneficiaries of a franchise relocating to Nevada or one of the other states that do not impose an income tax. So, what can you do to minimize their state income tax burdens?

Relocate to a state with a lower tax rate.

If relocating is an option, changing the taxpayer’s domicile to a state with a lower or no state income tax is an effective method. Not all state income tax rates are as high as California’s. For tax year 2018, for states that impose an income tax the top state marginal individual income tax rates will range from a high of thirteen and three-tenths percent (13.3%) in California, to a low of two and nine-tenths percent (2.9%) in North Dakota.20

Additionally, including Nevada, there are seven states that do not tax income earned as wage or salary. Those states are Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming. New Hampshire and Tennessee exclusively tax dividend and interest income.21 Tennessee is currently phasing out its income tax applied only to dividends and interest income and is scheduled to repeal its income tax entirely by 2022.22 Relocating to a state with a lower income tax rate or no state income tax is an effective method to decrease taxes imposed under a presence nexus. This option will not prevent states with a transactional nexus to the income from taxing income earned in that state, but it will effectively decrease the amount of state income taxes paid in the resident state.

Establish a trust in a state without an income tax.

If relocating is not an option, establishing a non-grantor trust in a state without an income tax is another potential option to reduce income taxes. While this option would apply only to the income generated by the trust, and not the income used to fund the trust, it is an effective method to increase invested wealth by not having the state income tax eat into the investment returns. It may be possible to transfer intangible rights to the trust so that any income received by the trust as a bonus for the intangible right would not be subject to state income tax.

For purposes of taxing the income generated by a trust, many states follow the same significant connection rules that apply to individuals. First, a state desiring to impose a state income tax on the income generated by a trust must determine if the trust is a resident or nonresident of the state. Resident trusts, like resident individuals, are taxable on all their income from whatever source derived; nonresident trusts, like nonresident individuals, are taxed only on income derived from sources within the state. Therefore, like an individual, a state must establish either
presence nexus or transactional nexus to have the authority to impose a state income tax on the income generated by a trust.

Trusts are unique in that the residence of a trust can be determined at the time it is created. A trust whose governing instrument expressly states that the trust is to be governed by the laws of a specific state, is administered in that state and the trustee is a resident of that state will in most cases be a resident of that state for income tax purposes. This allows an individual to take advantage of the state income tax savings benefit offered by a state without an income tax.

Not all trusts will qualify for state income tax savings. The federal tax laws and many state tax laws governing trusts will disregard the trust as a “grantor” trust if the settlor of the trust retains certain powers or controls over the trust or its investments.23 A detailed discussion of the grantor trust rules is beyond the scope of this article. What is important to note is that it is possible to structure a trust as a “non-grantor” trust that will be treated as a separate taxpayer independent of its settlor and this separate taxpayer can qualify for state income tax savings.

Thus, income earned by a non-grantor trust whose assets, trustee and administration occur in a state that does not impose an income tax like Nevada may not be subject to an income tax.

CONCLUSION

States gain the authority to impose an income tax through the establishment of a presence nexus or a transactional nexus. By understanding these concepts and counseling your clients on a proper course of implementation, it may be possible to minimize or even eliminate your client’s state income tax burdens.

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Endnotes

6. State v. Garford Trucking, Inc., 72 A.2d 851, 855 (1950) (the basic concept underlying domicile is that of home); Cal. Code Regs. tit. 18, § 17014(c).
7. See, e.g., White v. Stowell, 119 N.E. 121 (1918) (a domicile once acquired is not lost until a new one is obtained).
12. In re Wilkinson, No. 191228 (Cal. State Bd. of Equal. Oct. 15, 2003) (California properly imposed tax on a taxpayer that was working overseas because the taxpayer did not prove that he did not intend to return to California upon termination of his assignment or that he severed his ties with the state during his assignment).
13. See Matter of Clay and Rita Buzzard, No. 808865 (N.Y. Tax App. Trib. Feb. 18, 1993) (no change of domicile from New York because of the taxpayer’s expressed commitment to spending as much time in New York with their family, and their expressed commitment to continue business and social activities in the state). But see U.S. v. Minnesota, 97 F. Supp. 2d 973 (D. Minn. 2000) (Minnesota cannot presume that Public Health Service officers are domiciled in the state solely because their spouses are deemed to be, however, the state may consider other factors as indicative of domicile without running afoul of federal legislation).
21. Id.
Key Financial Building Blocks of Licensing Agreements to Maximize Revenue and Protect Intellectual Properties

By: Lewis Stark, CPA, CFE

In the retail marketplace, the cachet of licensed brand merchandise has consistently buoyed consumer sales. In fact, a survey by the International Licensing Industry Merchandisers’ Association (LIMA) showed that global sales of licensed goods rose 4.4 percent from 2015 to 2016, significantly higher than the 2.9 percent growth rate for overall global retail sales.¹

However, a more pertinent issue to brand owners and licensors is royalty revenue, which showed a year-over-year increase of just 1.3 percent. In its survey, LIMA noted that actual year-over-year royalty rates declined slightly (from 8.5 to 8.2 percent),² largely because the continued growth of online shopping among consumers is forcing retailers to be more aggressive about preserving gross margins. More specifically, it’s helpful to understand that when royalty revenue rises at a time when average royalty rates are falling, that trend almost always indicates strong demand for licensed brand merchandise. For this reason, licensing agreements will continue to be of interest to licensors and licensees. In this article, we’ll discuss some of the problems we see in the financial and audit provisions of licensing agreements, along with suggestions to improve such language.

Given the reality that margin pressure on retailers will not ease anytime soon, it’s important for both brand licensors and licensees to have greater clarity on the financial – not just legal – provisions of their agreements. Why? Consider the following:

For licensors, a well-designed financial agreement provides strong incentives for the licensee to fully exploit the branded properties, while setting specific terms by which the licensor will receive royalties or profits. This includes clearly defined financial provisions and the removal of ambiguous language from a licensing agreement, which will increase royalty revenue and prevent unnecessary disputes down the road. Well-designed agreements also help enable the licensor to recapture certain rights or terminate the agreement if a licensee misses sales or other targets for the rights granted, while protecting the value and integrity of the licensor’s trademarks, brands and characters. In addition, a solid agreement will include financial provisions that maximize royalty revenue while preventing, limiting or penalizing certain activities that can damage those valuable assets.

For licensees, the key advantage of a well-crafted financial agreement is to ensure the licensing partnership is profitable and free of surprises, largely via defined incentives to maximize sales within industry standards, which also provide flexibility to handle marketplace shifts. That said, some licensees make the mistake of entering into partnership agreements simply to gain access to a “hot property,” without carefully considering how well that property fits with their marketing model and whether it will be profitable. If financial underperformance and/or onerous terms pressure the licensee into breaching the financial provisions to make the agreement “work,” that significantly raises reputational risk if discovered in an audit – or if the breach becomes public and ends up in litigation.

License agreements contain material financial provisions often written by people who are unfamiliar with accounting and finance. We often see references to improper accounting and auditing standards such as Generally Accepted Accounting Provisions (GAAP) or Generally Accepted Auditing Standards (GAAS), which sound good, but also include unintended accounting and audit treatments that are frequently contradictory to other financial provisions within an agreement. When such standards are incorrectly referenced, defined or applied, it can result in ambiguities that may circumvent limitations on deductions, which can enable licensees to underpay royalties.

Key starting point: Defining gross sales

In many licensing agreements, the focal point is net sales, since that is generally the basis on which royalties are calculated. However, licensors who do not insist on a carefully-considered definition of gross sales are literally leaving money on the table. That’s because a licensor wants as little space as possible between the net and gross sale amounts, with maximum exclusions or limitations for allowances, credits or discounts that can reduce net sales.

In poorly structured agreements, we often find no clean definition for gross sales. Frequently, there is a vague starting point that often begins, “Net sales is sales less …,” which allows the licensee to interpret what is – and what isn’t – expressly communicated. But defining gross sales is not as simple as it sounds, depending on the licensor’s goals and contractual limitations on deductions.
A common error in many licensing agreements is to define gross sales simply as the "invoice selling price." That definition leaves plenty of loopholes for the licensee, such as the ability to subtract disallowed discounts and allowances from the invoice selling price, leading to a lower gross and net sales figure. If a license agreement limits the type or amount of discounts and allowances, the licensee can circumvent these limitations by building disallowed deductions into the invoiced price. For that reason, it's wise to ensure that the gross sales definition is linked to "list price" or another measure hard to manipulate, such as the highest actual sales price. Alternatively, you can define gross sales as the invoiced price before any deductions, which is better than just "invoiced price." However, this approach is still nebulous and subject to interpretation.

Other issues that should be addressed in the definition of gross sales (if applicable) include:

Retail sales. If the licensee is able to sell licensed product at retail within their own stores or online, this capability should be addressed in the gross sales definition. To maximize royalty revenue, gross sales should be defined as either the retail list price or the actual selling price to end-user consumers. Because allowances are not usually associated with retail sales and discounts are usually minimal, actual selling prices can be a proper definition for gross sales at retail. Alternatively, wholesale list, top wholesale pricing or average wholesale pricing can be used to define gross sales at retail. The key is to disallow intercompany transfer pricing as the basis for gross sales, especially when a licensee has a retail division.

Direct-to-retail licenses. Gross sales in a direct-to-retail license can vary widely. Royalties can be based on the cost to manufacture, or on a cost of goods linked to actual retail selling prices. If based on manufacturing or purchase costs, the agreement must clearly spell out cost components to be included and excluded. If royalties are based on retail sales, the agreement must clearly define if the basis is actual sales pricing or retail list pricing.

Sub-licensing. Under certain circumstances, it can make sense for a licensor to grant a "sub-license." In this scenario, revenue received by the licensee from the sublicensee should be addressed separately from revenue the licensee receives from selling the merchandise itself. Sublicensing royalties received by the licensee should not be considered gross receipts from sales. Instead, royalties would be payable based on the sublicensee’s sales and not the licensee’s royalty receipts from such sales. Alternatively, sublicenseing gross receipts (royalties received from sublicensees) can be split with the licensor at a rate much higher than the royalty rate, commonly 50 percent. If a license grants sublicensing rights, make sure those rights separately address sublicensee receipts in the financial provisions. Otherwise, the licensor will receive a royalty based on the regular rate applied to the amount of royalties received from the sublicensee.

Non-monetary transactions. In many cases, licensees can seek to lower the net sales amount by not recognizing the value of certain non-monetary transactions, such as bartering, intercompany sales, sales to affiliate entities or by improperly valuing such activity. To address these issues, make sure the license agreement clearly defines how such activity should be accounted for and valued. For instance, intercompany transfers should not be recognized for royalty purposes, since royalties should be based on sales of the entity that received the transfer (which may be at retail pricing). Barter transactions should be based on list prices, highest sale prices or average pricing.

Once a gross sales definition is clearly established, it should be used as the benchmark from which to cap allowances, discounts and returns (either by fixed amount or by percentage) that are deductible for royalty calculation purposes. Do not cap discounts and allowances as a percentage of net sales, as this results in a circular calculation.

Finally, it’s crucial to specify in any licensing agreement that gross sales are to be recognized on an accrual basis (at the time the product is shipped, the invoice is rendered or when payment is received, whichever is first). This avoids the problems of basing gross sales on cash receipts, which potentially could include noncontractual deductions such as bad debts or delayed recognition of sales, which can result in delayed royalty payments.

Deductions. Reducing gross sales for deductions is commonplace, as many retailers require discounts and allowances from suppliers. However, for royalty calculation purposes, make sure to include only those deductions that are measurable, pertain to the sales of licensed products and support the licensee’s ability to sell those products in the retail environment. For example, markdown allowances and price protections enhance sales and should be deductible by the licensee (up to a limit). On the other hand, cash discount and freight allowance deductions solely benefit the licensee and thus should not be considered part of the royalty calculation. Licensees should not be allowed to deduct any of their selling, shipping, warehousing, general or administrative costs, since royalty deductions should only pertain to certain amounts "given back" to customers. Unlike the recognition of sales, deductions should be recognized on a cash basis when amounts are actually credited to the customer. In order to protect the integrity of licensed brands, overall deductions should be capped.
at a percentage of gross sales. Such caps normally range between 5 and 15 percent.

**Four critical financial provisions for any licensing agreement**

*Minimum guarantee clause.* For licensors, a major goal in any agreement is to ensure that one or more licensees are selling desired quantities of the product. By inserting a minimum sales (or performance) guarantee clause, licensors can lock in a baseline level of royalty revenue they can expect over the duration of the agreement. This, in turn, provides incentive to the licensees to sell product to cover costs specified in the minimum guarantee. If the licensee does not meet the defined minimums, the clause should allow the licensor to “claw back” certain contractual rights or to terminate the agreement ahead of schedule.

As a structuring tool, all periodic payments for a minimum guarantee should fall on the same due date as regular royalty payments, and the agreement should specify that the licensee is responsible for paying the greater of either the cumulative royalty or the cumulative minimum guarantee on each of those dates. If the cumulative payment for both exceeds the guaranteed minimum amount, then a separate minimum payment does not need to be made. Licensors may create different minimum guarantees for different product lines, properties, geographies or other variables. In that scenario, however, licensors must closely monitor scheduled minimum payments and royalties reflected under those variables, ensuring that a licensee does not “cross-collateralize” royalty income from one to make up for shortfalls in another. If shortfalls occur, the unrecovered amounts of the minimum guarantees should not be carried forward to a new season, year or agreement term.

*Royalty escalations and de-escalations.* In a trademark/brand license, royalty rate escalations or de-escalations are typically tied to designated sales milestones. While such milestones can be based on currency or units, the use of currency will ease the calculation and minimize the potential for manipulation.

That said, if units are selected as a milestone, note that a licensee can apply the highest royalty rate to the lowest priced product and vice versa to improperly reduce its royalty obligations. To prevent this from happening, licensors should include language in the agreement that addresses how escalations or de-escalations should be calculated in the accounting periods in which the milestones were achieved.

Consider the following points:

- When unit sales exceed one or more defined escalation thresholds, all dollar sales within the quarterly or semiannual accounting period should be allocated to each royalty rate tranche. This should be done based on the proportional volume of unit sales in the same accounting period that are below and above each escalation threshold, or

  - When unit sales exceed each escalation threshold, all dollar sales after that date (or invoice) should be applied to the higher or lower rate.

The agreement should also specify how deductions are to be applied to each royalty rate tranche (such as on a first-sale or a last-sale basis). In this case, each deduction should be matched to a related sale and applied at the same royalty rate as that sale. Each deduction should be proportionally allocated to each royalty rate tranche, based on the amount of dollar sales allocated to each royalty rate tranche from inception.

*Interest penalties.* A strong licensing agreement should contain specific provisions that cover any interest payments due to the licensor, such as penalties for delinquent royalty payments, self-reported adjustments or audit settlements. This language protects the financial interests of the licensor while also providing incentives for licensees to make timely, correct royalty payments. The simplest way to establish an interest rate is to add a premium onto the prime rate and calculate penalty payments using compound interest.

*Other monetary penalties.* In any licensing relationship, licensees can engage in activities detrimental to the licensor. This might include selling unapproved or unlicensed products, selling licensed products to unapproved customers, outside of contractual sales channels or outside of approved sales territories, or using sublicensees without explicit approval within the licensing agreement. To help dissuade this type of activity, licensors should insert specific monetary penalties into their agreements. These penalties should have teeth, such as multiple increases of the standard royalty rate during the period in which a licensee was in breach, or a steep (50 to 100 percent) penalty on all profits related to sales in violation of the agreement. Contractual language surrounding penalties should be carefully crafted to avoid granting the right to conduct prohibited activity at the higher “penalty rate,” typically by emphasizing that such activity constitutes a breach of the license agreement.

**Make sure to include a robust royalty audit provision**

During his presidency, Ronald Reagan coined the now-famous phrase, “Trust, but verify” when it came to the negotiation of international agreements. While the relationship between licensors and licensees
is not on that scale, the concept of verification and recourse remains sound.

In our experience, an audit clause is either missing from a license agreement or neglected during negotiations, resulting in a weak and ineffective provision. Why does this happen? Frequently, it’s because a licensor places too much faith in a good relationship with one (or more) licensees, they don’t believe they have the negotiating power to add or negotiate a robust royalty audit clause, or they spend too much time focused on negotiating other provisions in a licensing agreement. However, the absence of a robust audit provision can be an expensive mistake, because licensors will have no real means to determine if royalties are being paid according to the terms of the agreement and limited recourse to recover underpayments. In addition, the lack of an audit provision may actually encourage some less-than-ethical licensees to underperform financially and to exploit properties inappropriately, since there are no “teeth” in the agreement.

For these reasons, any solid licensing agreement requires a robust, thoughtfully considered royalty audit provision, which includes a broad range of licensor rights and a narrow scope regarding audit limitations. Key elements every licensor should consider as standard language for an audit provision include:

Audit period. Consider at least a three-year window from the end of the term of the agreement in which an audit can be invoked, and as long as five years from the date that each statement was rendered.

Location of records. Consider requiring the licensee to maintain all relevant books and records at their principal business location for at least two years after an audit, in the event follow-up litigation takes place.

Required documentation. The royalty audit provision should specifically identify any and all documentation the licensee must make available in the event of an audit. This may include performance records on the specific licensing agreement, complete records about the licensee’s business and information on the company as a whole (which may include disclosure of other licensor relationships and activity).

Accounting definitions. Do not use the term Generally Accepted Auditing Standards to describe the standards on which the royalty audit must be conducted. This term has legal meaning and is associated with audits of financial statements, which would only allow the auditor to express an opinion on whether the amounts presented on the royalty statements are reasonably accurate. Insert language in any audit provision that specifically states that the auditor may choose accounting standards and procedures that are most relevant to the work required.

Employee access. A strong audit provision must include a clause that allows “reasonable access” during an audit to key employees who had management oversight of the agreement’s terms and conditions.

Expense reimbursement. Royalty audits cost money. Licensors should ensure they include a clause with a low threshold that allows them to recoup audit fees and expenses. For example, a reasonable bar for reimbursement is if an audit discovers a royalty underpayment discrepancy of five percent or more for any given accounting period.

Defense on limitations. An audit clause should ensure there are no restrictions on the licensor’s choice of an audit firm or the fee structure for such services. This arrangement allows the licensor to also use internal audit resources if they desire or to select a qualified outside accounting/CPA firm on an hourly, flat or contingent fee basis. In addition, a licensor must exclude all limitations on the time frame in which it can either file a complaint or pursue legal recourse for any breach of contract discovered in an audit.

Clearly, it is in the best interests of both licensors and licensees to have a well-defined agreement in which specific rights, responsibilities, performance obligations and avenues of recourse are in place to protect their respective financial interests. Licensors want to maximize royalty revenue while ensuring their properties are protected, and licensees want to ensure they have the ability to make a profit under the terms of the agreement. By taking the aforementioned points into account, each party can take concrete steps toward reaching those goals.


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Lewis Stark, CPA, CFE is a partner in the Royalty Audit & Contract Compliance Department of Prager Metis CPAs, LLC. He specializes in conducting royalty, distribution, and profit participation audits; contract compliance investigations and financial due diligence reviews. His licensing clients and the licensees he has audited operate in a variety of industries including entertainment, sports, print and broadcast media, electronics, life sciences, technology, electronic commerce, fashion, apparel and accessories, footwear, toys, games and video games, food and beverage, music and real estate. In addition to obtaining monetary recoveries, Mr. Stark provides essential business intelligence regarding the activities of his clients’ licensees and partners.

Endnotes
2. Ibid
Revisiting Federal and State Trademark Registration for the Cannabis Industry

By Scott Sisun

I. Intro

As of April 2018, 29 states and D.C. have statutes recognizing "medical marijuana;" 9 states and D.C. have approved recreational cannabis; and, 17 states have statutes recognizing "low THC, high cannabidiol (CBD) products for medical reasons in limited situations or as a legal defense." With momentum not abating, brand owners in and around the cannabis industry continue to seek a toehold in the intellectual property protection of their assets. Federal laws limiting filings to "lawful" goods and services led to an increase in state trademark filings, and federal trademark filings for ancillary goods and services. As most trademark practitioners are aware, in 2010, the United States Patent and Trademark Office (USPTO) briefly opened a window to accept "medical marijuana" as an identification of goods. Closure of that window did nothing to deter the surge of filings. Things continue to progress quickly. This Article serves to help the brand owner and counsel stay familiar with federal trademark filing strategies for cannabis marks, including why use of a mark must be "lawful," standard USPTO office action language, potentially acceptable identifications for ancillary goods and services, Trademark Trial and Appeal Board (TTAB) precedential opinions on the topic, specific examples of state registration requirements and processes, and other information to aid in efficient maneuvering of the registration process.

II. Federal Trademark Registration – Use of a mark must be “lawful”

Background

A brand owner is generally free to attempt to use and register a trademark that includes "cannabis" in the mark or features a cannabis related design. However, use of a mark must be "lawful" to qualify for federal registration. Cannabis marks for actual cannabis goods and services and those directly related to cannabis goods and services are not likely to be deemed lawful under federal law. This is primarily due to the fact that cannabis is federally illegal under the Controlled Substances Act (CSA) and thus a mark for such purposes is likely not "lawful." Because federal trademark registration requires lawful use or intended use of goods and services in commerce, applicants are generally denied federal registration for a proposed mark for such cannabis goods and services.

In 2010, a window briefly opened and the USPTO created a cannabis trademark category in its acceptable list of goods and services: "processed plant matter for medicinal purposes, namely medical marijuana." Four months after creation of this category, the window closed and the USPTO removed the language. Today, federal applications for marks directly and indirectly related to cannabis continue to stream in to the USPTO.

Federal Applications

The USPTO reviews federal trademark applications that appear to be related to cannabis within the parameters of the CSA, Trademark Manual of Examining Procedure (TMEP) and the Trademark Act. Most refusals made by Examiners are issued based on Sections 1 and 45 of the Trademark Act (i.e., violation of a federal law – the Controlled Substances Act).

The CSA defines prohibited uses or intended uses as, “among other things, manufacturing, distributing, dispensing, or possessing certain controlled substances, including marijuana and marijuana-based preparations.” In addition, the CSA makes it unlawful to sell, offer for sale, or use any facility of interstate commerce to transport drug paraphernalia (i.e., “any equipment, product, or material of any kind which is primarily intended or designed for use in manufacturing, compounding, converting, concealing, producing, processing, preparing, injecting, ingesting, inhaling, or otherwise introducing into the human body a controlled substance, possession of which is unlawful under [the CSA].”)

If the record in the application indicates that the mark or the goods/services violate federal law, the Examiner must make an inquiry or refusal. For example, "evidence indicating that the identified goods or services involve the sale or transportation of a controlled substance or drug paraphernalia in violation of the [CSA] would be a basis for issuing an inquiry or refusal." When reviewing evidence, the Trademark Examining Attorney has the power to look not only at the four corners of the application, but also at website evidence to determine whether the goods and services are lawful.

Specifically, TMEP §710.01(b) specifically states in part:

The examining attorney should check applicant's own website for information about the goods/services. See In re Promo Ink, 78 USPQ2d 1301, 1303 (TTAB 2006), where the Board rejected
applicant’s argument that it was improper for the examining attorney to rely on evidence obtained from applicant’s website when the application was based on intent to use and no specimens were yet required. According to the Board, “[T]he fact that applicant has filed an intent-to-use application does not limit the examining attorney’s evidentiary options, nor does it shield an applicant from producing evidence that it may have in its possession.”

The TTAB similarly accepts website evidence. TBMP §1208.03 reads in part:

Material obtained through the Internet or from websites is acceptable as evidence in ex parte proceedings . . . Material obtained from an applicant’s website, or that of a third party, may provide information about, for example, products or services . . ., although their probative value will vary depending on the facts of the particular case.

In the cannabis context, the TTAB in In re Brown explicitly supported use by the Examiner of Internet evidence, stating “[a]ccordingly, it was entirely proper for the Trademark Examining Attorney to look to evidence such as the Applicant’s specimen of use and website to ascertain that the word ‘herbs’ in the description of services encompasses marijuana.”

Applicants therefore do not benefit from concealing unlawful use by filing an application with identified goods and/or services that appear to be for lawful use. If specimens of use, website evidence, or other evidence point to unlawful use, U.S. trademark applications are likely to be refused registration on the basis that the applicant’s use in commerce or intended use in commerce of the mark is not lawful.

The standard office action refusal typically provides the following:

Registration is refused because applicant does not have a [bona fide lawful use or intended use of] the applied-for mark in commerce. Trademark Act Sections 1 and 45, 15 U.S.C. §§1051, 1127; see TMEP §907. This refusal issues when “(1) a violation of federal law is indicated by the application record or other evidence, such as when a court or a federal agency responsible for overseeing activity in which the applicant is involved, and which activity is relevant to its application, has issued a finding of noncompliance under the relevant statute or regulation, or (2) when the applicant’s application-relevant activities involve a per se violation of a federal law.” Cf. In re Brown, 119 USPQ2d 1350, 1351 (TTAB 2016) (citing Kellogg Co. v. New Generation Foods Inc., 6 USPQ2d 2045, 2047 (TTAB 1988); Santinite Societa v. P.A.B. Produtis, 209 USPQ 958, 964 (TTAB 1981)); TMEP §907.

“[L]awful use of a mark in commerce is a prerequisite to federal registration” of a trademark or service mark. In re JJ206, LLC, 120 USPQ2d 1568, 1572 (TTAB 2016) (citing Gray v. Daffy Dan’s Bargaintown, 823 F.2d 522, 526, 3 USPQ2d 1306, 1308 (Fed. Cir. 1987)).

[If the items or activities with which a mark is intended to be used are prohibited by law, “there can be no bona fide intent to use the mark in lawful commerce.” In re JJ206, LLC, 120 USPQ2d 1568, 1569 (TTAB 2016); see John W. Carson Found. v. Toilets.com Inc., 94 USPQ2d 1942, 1948 (TTAB 2010).]

In this case, the items or activities with which the mark will be used will involve a per se violation of federal law. See In re JJ206, LLC, 120 USPQ2d at 1569. Specifically, the Controlled Substances Act (CSA) prohibits, among other things, manufacturing, distributing, dispensing, or possessing certain controlled substances, including marijuana and marijuana-based preparations. 21 U.S.C. §§812, 841(a)(1), 844(a); see also 21 U.S.C. §802(16) (defining “marijuana”). In addition, the CSA makes it unlawful to sell, offer for sale, or use any facility of interstate commerce to transport drug paraphernalia, i.e., “any equipment, product, or material of any kind which is primarily intended or designed for use in manufacturing, compounding, converting, concealing, producing, processing, preparing, injecting, ingesting, inhaling, or otherwise introducing into the human body a controlled substance, possession of which is unlawful under [the CSA].” 21 U.S.C. §863.

III. A Note About CBD

The following states have statutes recognizing “low THC, high cannabidiol (CBD) products for medical reasons in limited situations or as a legal defense”: Wyoming, Utah, Texas, Oklahoma, Missouri, Indiana, Wisconsin, Kentucky, Tennessee, Mississippi, Alabama, Georgia, South Carolina, North Carolina,
Virginia, Iowa, and South Dakota. The USPTO has recently made clear that products containing CBD extracts are controlled substances under Drug Enforcement Agency Code 7350 and are not considered lawful use for a federal trademark registration. (Note: CBD sourced from certain parts of the plant may fall outside the scope of the DEA's drug code.)

USPTO Office Actions frequently include the following CBD reminder:

In December 2016, the Drug Enforcement Administration issued clearer guidance on the definition of marijuana and extracts from marijuana which can include cannabidiol (CBD) under new Schedule 1 Drug Code 7350. See the attachment from DEADIVERSION. USDOJ.GOV. Schedule I of the Controlled Substances Act was modified in December 2016 to include a new Drug Code, 7350, which is called “marijuana extract.” The new 7350 Drug Code has been interpreted by the DEA as including extracts comprised of cannabinoids from cannabis plants including CBD. See www.deadiversion.usdoj.gov/schedules/marijuana/m_extract_7350.html (copy attached). Section 802(16) defines marijuana as “all parts of the plant Cannabis sativa L., whether growing or not, the seeds thereof, the resin extracted from any part of such plant, every compound, manufacture, salt, derivative, mixture or preparation of such plant, its seeds or resin. Such term does not include the mature stalks of such plant, fiber produced from such stalks, oil or cake made from the seeds of such plant, any other compound, manufacture, salt, derivative, mixture or preparation of such mature stalks (except the resin extracted therefrom), fiber, oil or cake or the sterilized seeds of such plant which are incapable of germination.” If the oil/extract/compound/derivative used in goods is obtained from any part of the Cannabis sativa L plant that is not specifically excluded from the definition of marijuana under 21 USC Section 802(16), then the plant and any oil, extract, compound or derivative therefrom is marijuana under the CSA.

IV. TTAB Precedential Decisions

Within the last two years, the TTAB has responded to arguments in support of registration of cannabis marks as follows:

2017

In re PharmaCann LLC: Applicant attempted to register the marks PHARMACANN and PHARMACANN-MIS (Serial Nos. 86520138, 86520135) for “retail store services featuring medical marijuana” and “dispensing of pharmaceuticals featuring medical marijuana.” The Trademark Examiner refused the applications based on Sections 1 and 45 of the Trademark Act. The TTAB affirmed the refusals as to all services in the applications. This case was notable in that the applicant argued that the Department of Justice’s “Cole Memorandum” applied a hands-off approach to certain “medical marijuana” purposes. The TTAB responded by noting that the Board’s decision in JJ206 (POWERED BY JUJU, JUJU JOINTS) rejected the notion that the Cole Memorandum is of any support for attempts to register cannabis goods or services found not to be lawful.

2016

In re JJ206, LLC, dba JuJu Joints: Applicant attempted to register the marks POWERED BY JUJU and JUJU JOINTS (Serial Nos. 86236122, 86474701) for “smokeless cannabis vaporizing apparatus, namely, oral vaporizers for smoking purposes; vaporizing cannabis delivery device, namely, oral vaporizers for smoking purposes.” The Trademark Examiner refused the applications based on Sections 1 and 45 of the Trademark Act. The TTAB affirmed the refusals as to all goods in the applications. Applicant argued that it does business only in jurisdictions where marijuana is legal, and thus it is in compliance with the Cole Memorandum. The Board rejected this argument and ruled that the CSA controls, not the Cole Memorandum. Moreover, as this case involved paraphernalia involved in the delivery of cannabis, the Board noted that “any goods . . . for which the mark is used must not be illegal under federal law.”

In re Brown: Applicant attempted to register HERBAL ACCESS (Serial No. 86362968) for “retail store services featuring herbs.” The Examiner refused the application based on Sections 1 and 45 of the Trademark Act. The TTAB affirmed the refusal as to all services in the application. The Trademark Examiner provided website evidence that in addition to sale of herbs, the applicant’s retail store services included the sale of cannabis. The Board held that because the services offered by applicant included the sale of cannabis, an illegal substance at the federal level, such sale violated the CSA.

2015

In re Christopher C. Hinton: Applicant attempted to register THCTEA for “tea-based beverages” (Serial No. 85713080). The Trademark Examiner refused the application based on Section 2(e)(1) of the Trademark Act. The TTAB affirmed the refusal as to all goods
in the application. Applicant claimed that the “tea-based beverages” did not contain THC. The Board found the mark to be deceptively misdescriptive of the goods because such tea could contain THC and consumers are likely to be misled.

V. Ancillary Goods/Services

Some of the above TTAB cases involved goods and services found to be unlawful under federal law yet possibly permissible under state statutes. “Trying to argue that the trademark is legally being used in commerce at the state level will not be persuasive at the federal level. Attorneys should be advising clients about registering federal trademarks on ancillary businesses, instead of directly on cannabis goods and services. Attorneys advising clients on matters related to cannabis trademarks need to understand how the CSA applies to federal applications.”

Keep in mind, registration and use of a mark that contains cannabis industry wording (e.g., 420, CANNA-BIS, MARIJUANA, etc.) is likely registrable provided it is used or intended for use in connection with lawful goods and services or, lawful ancillary goods and services.

Use of and filing for ancillary goods and services provides, among other things, positioning for a company in a marketplace that might one day permit the legal sale of cannabis at the federal level, and may allow for some enforcement and defense against the same or similar marks for related goods/services. Therefore, filing of applications at the federal level for ancillary goods or services may provide some level of protection for the applicant.

As noted, acceptable ancillary goods and services those that are actually lawfully in use or intended for use under federal law. It does not help the trademark owner to conceal in some way unlawful use with lawful sounding terms like tobacco pipes and herbs.

Today, on the USPTO’s register, there are numerous registered and allowed marks with identifications of goods and services that include some reference to “cannabis” or “marijuana.” Some may scratch their heads over whether or not certain Class 5 registrations should have been issued by the USPTO, but the following is a non-exhaustive list of goods and services that have been found to be acceptable by the USPTO for certain classes:

- Class 5: Herbal extracts for medical purposes; Plant extracts for medical, veterinary and pharmaceutical purposes; Plant and herb extracts sold as components of medicated cosmetics; none of the foregoing containing cannabis;

- Class 5: Herbs, including, elecampane, passionflower, hops, cinnamon, cardamom, peppermint, lavender and other herbs that are lawful pursuant to the Controlled Substances Act (CSA) for medicinal purposes; medicinal herb tinctures comprised of herbal honey, organic grain-free alcohol, ethanol, glycerol, coconut oil, filtered water and other herbs and ingredients that are lawful pursuant to the CSA; medicinal herbs none of which are cannabis, marijuana, or its derivatives; medicinal herb extracts, medicinal herbs in dried or preserved form; none of the foregoing comprised of marijuana or any unlawful substances under the CSA.

USPTO for certain classes:

· Class 5: Medicinal herbal extracts for medical purposes; Medicinal herbal preparations; Plant extracts for medical, veterinary and pharmaceutical purposes; Plant extracts for pharmaceutical purposes; none of the foregoing containing cannabis;

· Class 5: Pharmaceutical preparations for the treatment of central nervous system diseases; plant extracts for medical and pharmaceutical purposes; none of the foregoing comprising or containing marijuana, hemp, cannabis or derivatives, extracts or synthetic iterations of marijuana, hemp or cannabis;

· Class 7: Agricultural machines, namely, leaf trimmers capable of harvesting and processing various plants and herbs;

· Class 9: Software, namely, downloadable software in the nature of a mobile application for use in community engagement, social networking, education and sharing of information in the field of plant cultivation, specifically cannabis and cannabis cultivation; software, namely, downloadable software for personal computers for use in community engagement, social networking, education and sharing of information in the field of plant cultivation, specifically cannabis and cannabis cultivation;

· Class 10: Breath testing unit featuring a portable container for measuring alcohol, cannabis, halitosis, diabetes, allergens, pathogens, and asthma content of individuals;

· Class 10: Medical devices for pulmonary drug delivery not including the delivery of marijuana, hemp, cannabis or derivatives, extracts or synthetic iterations of marijuana, hemp or cannabis;

· Class 16: Printed materials, namely, journals featuring cannabis, whiskey, beer and wine;

· Class 31: Plant seeds; living plants; natural
plants and flowers; unprocessed grains and agricultural, horticultural and forestry products not included in other classes, namely, agricultural seeds and seeds for planting; none of the foregoing comprising or containing marijuana, hemp, cannabis or derivatives, extracts or synthetic iterations of marijuana, hemp or cannabis;

Class 34: Cigarette papers; tobacco jars; hoo-kah tobacco; lighters for smokers; ashtrays; tobacco tins; smoking pipes and electronic cigarettes; Oral vaporizers for smoking purposes; none of the foregoing containing cannabis or for use with cannabis;

Class 34: Cartridges sold filled with chemical flavorings in liquid form for electronic cigarettes; Chemical flavorings in liquid form used to refill electronic cigarette cartridges; Electronic cigarette liquid (e-liquid) comprised of flavorings in liquid form, other than essential oils, used to refill electronic cigarette cartridges; Flavorings, other than essential oils, for tobacco; Flavourings, other than essential oils, for tobacco; Oral vaporizers for smokers; Oral vaporizers for smoking purposes; Smokeless cigarette vaporizer pipe; Smokers’ oral vaporizer refill cartridges sold empty; none of the foregoing containing cannabis or for use with cannabis;

Class 35: Promoting public awareness of the therapeutic value of medical cannabis and the need for cannabis legalization; Providing consumer information in the field of the California medical cannabis industry; Public advocacy to promote awareness of the benefits of cannabis legalization; Promoting public awareness of the need for drug policy reform and legalization of cannabis; Providing public policy information in the field of medical cannabis legalization;

Class 41: Organizing pro cannabis festivals for cultural or entertainment purposes; and,

Class 44: Providing medical information in the field of Agriculture, aquaculture, horticulture and forestry services exclusively in relation to Cannabis.

VI. State Registration – An Opportunity for Protection

The following chart includes states that have legalized or have pending legalization for medical and/or recreational cannabis.

<table>
<thead>
<tr>
<th>State</th>
<th>Medical</th>
<th>Recreational</th>
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<tbody>
<tr>
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<td>Yes</td>
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<tr>
<td>Washington</td>
<td>Yes</td>
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</table>

Benefits/Drawbacks

A state registration may, in some states, be a useful tool for registration of a mark for purposes directly relating to cannabis. Some of those benefits can include an affordable application and renewal fee, prima facie evidence of the validity of the trademark in the state, notice to third-parties via the state’s searchable database, evidence of use and dates of use within the state to help show prior use, and exclusive rights to use the mark within the state in connection with the goods and services specified in the registration. In some states, the remedies for trademark litigation based on a state registration can include a statewide injunction, treble damages, and attorney’s fees. Moreover, state-level scrutiny may not be as high as at the federal level. Less scrutiny
can create swifter processing, yet potentially less review of third-party applications and registrations, which can create potential third-party objections down the road. Despite the potential lack of heightened scrutiny, most state offices do seek to ensure that registrations are in compliance with other laws, including sale to minors, advertising, marketing of cannabis products, licenses, etc.

Generally speaking, most states have a five-year registration term, renewable every five years provided there is continued use within the state; most states have low application filing fees, generally in the range of $50–$100 per class, some fees are per application and some per class; and, specimens of use are generally required in triplicate (either identical or different). Keep in mind that at the moment most state trademark offices require applicants to use the USPTO’s list of acceptable goods and services. However, terms not acceptable under the USPTO’s lawful use rule may be accepted at the state level. For example, various state registrations include some of the following wording: cannabis oral vaporizers, cannabis flower, cannabis products, edible cannabis products, cannabis plants, and retail cannabis products.

State Specifics

The below provides state-level registration information. Disclaimer: It is the responsibility of the reader to check with each state office and state office sites to ensure that registration of a trademark for cannabis purposes is acceptable (medical and/or recreational) and to determine the availability of the proposed mark for each state. It goes without saying, but applicants should always diligently monitor, enforce and defend marks within the state.

California: In California, the California Secretary of State website claims that as of January 1, 2018, residents can register a cannabis related mark on the state register as long as two conditions are satisfied: (1) the mark is lawfully in use in commerce within California; and (2) there is usage of the classification of goods and services adopted by the United States Patent and Trademark Office. The site also specifies: “Not all cannabis-related products can be registered under current law due to the inability to meet federal classifications.” California also offers the a cannabis web portal at https://cannabis.ca.gov/. Applications can be filed online at TMbizfile.sos.ca.gov.

Oregon: The Secretary of State Office notes that the goods and service classifications must meet the classifications provided by the USPTO. Applicants must list the goods and services, and refer to one of the Class 101–142 in the application. Classifications of goods and services in the application include “Tobacco & Smokers’ Articles,” “Living Animals, Plants & Flowers,” “Advertising & Business,” and “Miscellaneous.” Lists of goods at various Oregon applications and registrations included “Agricultural products, namely cannabis,” “smoker’s articles,” “informational websites about cannabis.” Oregon has a Trademark Registration Search feature at http://sos. oregon.gov/business/Pages/trademarks.aspx.

Colorado: The electronic application form can be found at https://www.sos.state.co.us/biz/FileDocTrademark.do. Colorado Revised Statutes Title 7 Article 70 provides the statutory language to assist in filing and rules. Colorado’s Secretary of State site directs the applicant to the USPTO’s website and the international classification schedule at 37 C.F.R. §6.1. Colorado’s searchable database of trademarks can be found at https://www.sos.state.co.us/biz/AdvancedSearchCriteria.do.

Nevada: Nevada’s relevant code can be found at https://www.leg.state.nv.us/NRS/NRS-600.html. The class numbers for goods and services are provided in the application and include “smokers’ articles, not including tobacco products.” Nevada also provides a form for attempting to cancel a mark at https://www.nvsos.gov/sos/home/showdocument?id=501. Nevada’s database is searchable via business names at https://www.nvsos.gov/sosentitysearch/. (Tip: enter “entity name” and sort by “type.”)

Washington: The searchable database of trademarks can be found at https://ccfs.sos.wa.gov/#/. A review of the Washington database reveals certain goods and services filed more frequently than others: “staple foods,” natural agricultural products,” and “smoker’s articles.” The application includes a list of classifications.

Massachusetts: Massachusetts offers a searchable trademark database at http://corp.sec.state.ma.us/corpiweb/trademarksearch/trademarksearch.aspx. Massachusetts trademark applications may be refused if: “(1) the application is incomplete; (2) the filing fee is not enclosed or is for the wrong amount; (3) the specimen is not enclosed; (4) the specimen is larger than 3”x3”; (5) the application is not properly executed; (6) the applicant is not the owner of the mark; and/or (7) the specimen does not show use on the class of goods or services sought to be registered.”

The following is a non-exhaustive list of links to various state sites offering helpful information on trademark registration:

VII. Conclusion

Legalization of cannabis has reached a tipping point with more than half of the states having legalized cannabis for medical and/or recreational purposes. Brand owners and counsel should continue to look towards registration of marks for lawful ancillary goods and services at the federal level, state registrations, and monitor developments at the TTAB and courts as another window may open in the future.

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Endnotes

1. Special thanks to Sisun Law externs Matt Greenfield, Cameron Meindl, and Taylor Moskowitz.


3. Alex Halperin, Marijuana: is it time to stop using a word with racist roots?, The Guardian (Jan. 29, 2018), https://www.theguardian.com/society/2018/jan/29/marijuana-name-cannabis-racism (“At a time of intense interest in past injustices, some say ‘marijuana’ is a racist word that should fall out of use.”).


8. TMEP §907.

9. Id., citing In re JJ206, LLC, 120 USPQ2d at 1569-70; In re Brown, 119 USPQ2d at 1351-53.

10. Id.: see also In re Reed Elsevier Props. Inc., 482 F.3d 1376, 1379, 82 USPQ2d 1378, 1380 (Fed. Cir. 2007); In re Ameritox Ltd., 101 USPQ2d 1081, 1084–85 (TTAB 2011).

11. In re Morgan Brown, 119 USPQ2d 1350 (TTAB 2016); TMEP 710.01.

12. Legal Cannabidiol, supra note 4.


International Licensing of Entertainment Products

By Brenden Macy

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I. Introduction

International licensing of Entertainment Products is motivated by cultural fascination, quality content, and financial gain. “Entertainment Products” can be very broadly defined, ranging from traditional entertainment products to emerging and developing products and technologies. For the purposes of this discussion, “Entertainment Products” will only include live and recorded music, movies, television shows, video games, and sporting events. Specifically, this paper will address considerations surrounding music and video games. However, the rules and boundaries that dictate the potential traps and legal consequences of licensing such products in unfamiliar domains is not always clear. What sorts of laws are present, what sort of system these laws operate in, and what restrictions are imposed before even making it to local laws present unique challenges in jurisdictions around the world. Further, how practitioners approach these challenges is dictated not only by the laws and systems restrictions themselves, but the willingness of the practitioner to dedicate the time, energy, and financial resources to solving these puzzles, weighed against the economic gains to be made by developing a solution.

To understand how these Entertainment Products get to their final destinations overseas in international markets, we need to examine multiple sources of law. First, we will examine export restrictions and how the existing laws operate to restrict or promote the flow of Entertainment Products out of the United States. Only by understanding clearly what kinds of Entertainment Products can be exported, and what limitations may exist on such exports, can we begin to develop the scope of Entertainment Products subject to foreign licensing restrictions.

We will examine differences between the types of Entertainment Products discussed, and whether one type is more or less affected by export restrictions. For example, is a video game subject to different export restrictions than music? What does United States Copyright Law say about the abilities of rights holders to make copies, assign licenses, and export their Entertainment Products? What provisions of the Export Administration Regulations apply to each of these types of Entertainment Products? What differences exist between the applicable provisions?

Second, we will examine the applicable laws of China, Brazil, and Germany. These regions have been selected due to their large volume of trade with the United States, the sizes of the respective markets, the sophistication of consumers within these markets, and the amount of counterfeit goods generated by these markets.

China’s counterfeit market is particularly vibrant, with counterfeit goods making up nearly 70% of those in the market. United States-based companies’ options and the effectiveness of these options are limited, despite recent and continuing improvements. Licensors of Entertainment Products should consider these potentially significant concerns in their licensing arrangements.

Brazil is a fast-growing economy, boasting an average annual gross domestic product ("GDP") growth rate of five percent (5%) in 2012. Despite recent setbacks, Brazil is once again in a growth stage, and presents an especially appetizing market for licensors to make significant profits. With such explosive...
growth, opportunities and incentives for counterfeiters are plentiful. Brazil has made strides in recent years to promote better enforcement of its laws, and as a result licensing activity has increased in the country. The challenges which face licensors in Brazil initially appear to mirror those of China, but upon closer inspection are more easily remedied and are less complex for a United States-based company. Germany has been on an economic roller coaster over the last several years. Since 2008, the GDP has fluctuated wildly, from a high of $3.88 trillion (U.S. Dollars) in 2014, to a low of $3.36 trillion in 2015, a fluctuation of over $500 billion. Despite this uncertainty, stemming in part from a general slowdown in Europe, Germany remains Europe’s largest economy, and the fourth largest economy in the world. With the potential to unlock access to the rest of Europe as a result of this status, in addition to its central European location, Germany should be at the forefront of the mind of the licensor seeking success in Europe.

On the whole, licensing agreements can contain standard provisions for certain regions, such as choice of law provisions, most favored nation’s clauses, and geographical limitations. However, when dealing with different products for different uses, or when working with non-exclusive licenses with multiple licensees in a given region, standardization is not the friend of the prudent licensor. Relying too heavily on one particular clause or provision in an agreement, or on a particular agreement with a government, can be detrimental to the overall licensing scheme and should be avoided.

When assessing the various provisions of licensing agreements for use in various regions, three sources of law become indispensable: 1. a treaty, if one exists; 2. export restrictions; and 3. local law, both statutory and common-law, if in use in the relevant region. In addition to the export restrictions and various sources of law, we will examine how each Entertainment Product category is affected by the applicable laws in each region. In this way, practitioners can gain a holistic sense of the licensing landscape in each region considered herein.

II. Export Restrictions

a. United States Copyright Law

United States copyright law bestows rights and grants protections of creative works to their authors. In order to qualify for copyright protection, a work must be an “original work[] of authorship fixed in any tangible medium of expression[].” The fixation requirement is critical to copyright law because it specifically excludes patentable ideas, processes, etc., and reserves such matters for patent law. It is clear that the types of Entertainment Products discussed herein fall under the purview of United States copyright law. It is important to note that copyright protections attach at the moment of fixation, and there is no statutory registration requirement. This protects Entertainment Products from the moment of creation, but the protections are limited to the domestic acts and do not have “extra-territorial reach.” However, if a violation of copyright law occurs domestically, the “damages from foreign violations that are directly linked to the U.S. infringement” may be collected.

Although copyright registration is not required, registration remains a critical component to copyright protection. When successful in a copyright infringement suit, the holder of a registered copyright is entitled to statutory damages and to request attorney’s fees to be included in the damages they seek. Without this registration, plaintiffs are not entitled to statutory damages, and may not seek attorney’s fees. Given the intricacy of such matters, and the amount of time an attorney will spend prosecuting copyright infringement, registration seems a practical prerequisite to a suit, regardless of the absence of a statutory requirement.

There is no blanket provision governing the import or export all Entertainment Products. Certain types of Entertainment Products are given explicit treatment. It remains critical for the practitioner to remember that United States copyright law has no relevance in foreign jurisdictions. Unless specifically addressed in each licensing agreement in a choice of laws provision, or the foreign violation can be linked to a domestic violation, United States plaintiffs will not be able to haul foreign defendants into United States courts.

b. United States Export Administration Regulations

In examining United States export restrictions, we must look to the definition of an “export.” The Bureau of Industry and Security administers the Export Administration Regulations (“EAR”), which provides in §734.2(b) that “export’ means an actual shipment or transmission of items subject to the EAR out of the United States[].” Under such definition, it appears initially that Entertainment Products in physical form, such as on tapes, discs, or other physical media, are subject to the restrictions in the Export Administration Regulations. And, upon closer inspection, Entertainment Products transmitted in digital form would clearly fall under the same definition.

Video games are considerably more interactive than music or movies. Music, movies, television shows, and sporting events are non-interactive, and the consumption experience of the end consumer is largely the same. Video games however, provide an extremely wide variety of consumption experiences, as users interact in nearly infinite different ways with the product. This occurs through the coding of the video game. The EAR also would appear to cover video games, providing that, “an actual shipment, transfer, or transmission out of the United States” constitutes an export. Any time code is transmitted outside of the United States, it is an export, and therefore subject to the EAR.

Yet, the EAR does carve out exceptions for cer-
tain types of Entertainment Products. Movies and soundtracks that exist on media that requires exposure and development, i.e., film, are exempt from the EAR25. To find a movie on film is now increasingly rare, as most theaters and production companies now use digital media to record, transmit, and play back the movies.26 Though it is a small and shrinking market, the movies on film exemption still exists, and can be exploited.

Aside from this exception, Entertainment Products are not likely to fall into any other EAR excepted categories. There are certain exceptions for publicly available technology and software “already published or [which] will be published,” or which “are educational” in nature.28 This would seem to exempt Entertainment Products, until we see how the EAR defines “published.” Whenever information is available to the interested general public, it is considered “published” under the EAR.29 However, there is one caveat which would bring most Entertainment Products back into the fold. The product must be available for “free or at a price that does not exceed the cost of reproduction and distribution.”30 Since most licenses are granted for the purpose of generating revenues, and many Entertainment Products are created and distributed with the intention of generating revenue, Entertainment Products will not fall into this exception.

And so, it would seem, Entertainment Products are subject to the EAR and all the difficulty such a designation brings. Two Circuits have pointed out that the EAR is only intended to cover “dual use” items, i.e., items that have commercial as well as military applications.31 This would tend to exclude nearly all Entertainment Products from the scope of the EAR. What remains a question is whether recorded music might fall into this category, as it historically has been used in United States military operations as a method of extracting information and individuals.32 However, these operations are not “traditional” in nature, and it would seem highly unlikely that a court would make all music subject to the EAR on the extremely remote chance that it would be used in such an operation. As such, it is safe to conclude that Entertainment Products are not subject to the restrictions of the EAR, and may be freely exported and licensed in foreign jurisdictions.

III. Analysis of Entertainment Products

a. Music

First, we consider the licensing of music. Under United States Copyright law, music may fall into two categories: either sound recordings, or musical works.34 “Music” will be specifically sound recordings, as these kinds of licenses are most likely to be the ones encountered in practice. Sound recording licenses cover nearly any use of a sound recording in nearly any product, from toothbrushes35, to pinball machines36, to in-store music37, music, and more accurately, sound recordings, are found in nearly every aspect of our daily lives. This cultural permeation is not limited to the United States, and can be found in cultures around the world.

Recall that unless addressed in a choice of laws provision in the licensing agreement, or the foreign infringement can be tied to domestic infringement, United States rights holders will not be able to haul foreign defendants into United States courts. However, sound recordings are subject to provisions of copyright law that make it somewhat easier for United States rights holders to find ways to obtain jurisdiction over foreign infringers. United States copyright law imposes its own set of restrictions on the import and export of sound recordings.38

The majority of protections are against imports, and mostly pertain to the illegal import of copies of sound recordings.39 Initially this seems to have no import in the consideration of international licensing, but manufacturing is increasingly moving out of the United States and into international jurisdictions. If entering into a license agreement for the inexpensive reproduction of sound recordings, the likelihood that the reproduction will take place in an international jurisdiction looms large. It follows then, that by making the license agreement subject to United States laws, the protections against illegal import can be made effective.

Because a plaintiff must have a registered copyright in order to obtain statutory damages and attorney’s fees in a proceeding against a defendant,40 a plaintiff may choose to recover statutory damages up to $150,000 for each work infringed if the plaintiff can prove that the infringement was willful.41 In the case of a sound recording, the prudent registrant will register each song as an individual work, each sound recording as an individual work, the lyrics to each song as an individual work, and each piece of visual art as an individual work, to maximize the number of works that are subject to the protections of the statute.

This may not have immediate ramifications, but comes into play when the agreement has ended. For example, suppose an agreement provides for the license to produce and import copies of a sound recording into the United States for ten years. In our digital world, this means the transfer of a master recording file over the internet, to be printed on physical media, and then imported into the United States for sale. An unscrupulous manufacturer may be tempted to produce more copies than originally licensed and to import them into the United States to sell for their own profit. If the choice of laws provision has incorporated United States laws, an infringement action may be brought against the manufacturer.

As above, the prudent registrant will have maximized the potential number of works to be protected. In the example given, suppose the manufacturer produced an unlicensed copy of an entire album, including each track and all accompanying art work and text. Even though actual damages may be difficult to prove in such a case, a plaintiff would be entitled to statutory damages of up to $150,000 per work in-
fringed, including each track, each art work, all text, and other works present on the infringing product.

Moreover, such infringement would be seen as willful. If a defendant knows their use is an infringement, then that infringement is said to be willful. Willful infringement can also be found through conduct. In light of the existence of an agreement, and the expiration of such agreement being irrelevant, the possession of the works proving access (a requirement in most infringement suits), and evidence of actual copying, importation and sale, a plaintiff is in an ideal position to prove willful infringement. Even if a plaintiff is unable to prove willful infringement, a successful plaintiff can still obtain statutory damages up to $30,000 per infringed work. Keeping in mind the number of works involved in an album, the prudent registrant will be able to obtain a tidy sum in statutory damages even in the absence of willful infringement and actual damages.

Importantly, even though the original agreement may have expired, the incorporation of U.S. laws may play a role in the ability to haul a future infringer into a United States court. By virtue of the original license agreement, the transaction may be subject to United States laws. This can depend upon the intent of the parties, their conduct, and other factors. However, by making the agreement subject to United States law, there is a clear indication that the parties agree that all actions under the agreement are subject to United States laws. In the case of a future infringement, this necessarily means that the foreign infringement arises out of domestic actions, or at the very least, actions subject to United States laws. As such, a domestic licensor may be able to maintain an action against a foreign infringer in United States court, and therefore subject to United States laws.

There are also restrictions of exports in United States copyright law. Similar to the restriction on importation above, exportation of infringing copies of works is a violation of the rights of the copyright owner. As in the example above, a prudent registrant and licensor will have maximized the number of protected works and incorporate United States laws into agreements with foreign manufacturers. This provides a two-fold incentive to those seeking to license their works to overseas manufacturers for distribution. Specifically, 1. maximize the number of independently registered works in order to maximize statutory damages in lieu of proving actual damages; and 2. draft choice of law provisions to incorporate United States laws in order to tie future infringements to defendants and their domestic acts to maintain an action in the United States. With the uncertainty of foreign jurisdictions, a prudent registrant and licensor can reliably predict the outcome of a suit in the United States and obtain statutory damages in the event of an inability to prove actual damages.

All told, restrictions on United States sound recordings exports are essentially non-existent. The restrictions that do exist are for infringing products, with the only exceptions being for those sound recordings exported “under the authority or for the use of the Government of the United States,” for one personal copy exported at a time, or for one copy exported by a “scholarly, educational, or religious” organization “and not for private gain.” These exemptions are very limited in scope, and generally comply with the doctrine of first sale.

i. China

In China, as in the United States, a work may be licensed with or without a registration. While possible, this approach is not recommended. As demonstrated through our example above, registrations provide special rights to the owners which are not available to non-registered works. Especially when considering licensing a sound recording overseas, non-registration of a work leaves a licensor open to exploitation.

Importantly, as of October 15, 1992 China is a party to the Berne Convention. The Berne Convention is administered by the World Intellectual Property Organization and requires that signatories recognize the copyright registrations of all other signatory nations. This suggests that China would be friendly in protecting the rights of United States copyright holders, but in fact the inverse has more often been true. In 2009, a panel of the World Trade Organization “found . . . a number of deficiencies” with China’s enforcement of intellectual property rights.

Chief among concerns of intellectual property owners in China are products which violate trademarks and the Paris Convention. While seemingly minimally related to copyright, a copyright holder can find points of significance in this area. First, copyright holders should be cautious of being named as a third-party in a trademark infringement lawsuit. If a trademark owner sues a Chinese manufacturer with whom a copyright holder has executed a license agreement, it is likely that the trademark plaintiff would name the copyright holder as a third-party to the suit.

To combat this, a copyright holder would be well-advised to conduct due diligence concerning both the history of the manufacturer and the plans they have for the sound recording to be licensed. Another way to protect a copyright holder in such a situation is to include an indemnification provision in the license agreement. By getting the licensee to indemnify the copyright holder from the actions of the licensee, a copyright holder can simply point to the license agreement to avoid liability resulting from the infringing acts of the licensee. These actions should be taken together and are only a starting point in protecting a copyright holder. If a suit should actually follow, it will be difficult to enforce the indemnification, and the copyright holder should be prepared for the licensee to put up a fight.

Second, copyright holders may find unsuspected
ally in trademark owners suing product manufacturers who have infringed their products. If a trademark-infringing product makes an infringing use of a copyright holder’s sound recording, the copyright holder may be able to convince the trademark owner to institute the suit and be joined as an additional party. Trademark owners generally have deeper pockets and can be more tenacious in protecting rights against foreign infringers. Trademark owners also generally have experience in protecting their rights, and could be a resource to copyright holders in obtaining relief for infringement.

Remittance of taxes, payment of royalties, and the registration of the license agreement are important issues that licensors to China should be aware of. Generally, the Chinese licensee must pay the taxes on income generated in China. This can result in double taxation if the licensor does not obtain adequate documentation of the payment of Chinese taxes. This documentation also plays into the licensor’s ability to collect royalties from the Chinese licensee. Chinese banks have relaxed requirements for payment of royalties, but many small banks are unable to comply with the new requirements. It is recommended that licensors require the use of a large national bank to ensure that payments of royalties are handled as smoothly and efficiently as possible. Formerly, payment of royalties included the requirement of registration of the license agreement. This requirement is no longer in effect, but is still a prudent step for the licensor, as it provides notice to the Chinese public of such license, and establishes a course of practice for the licensor in China. This provides solid footing on which to institute an infringement suit if the licensor becomes aware of other entities in China using their Entertainment Product without a license.

ii. Brazil

Brazil also permits the licensing of sound recordings and other copyrighted works without a formal registration. If seeking registration in Brazil, foreign nationals are required to retain the services of an attorney licensed to practice in Brazil. As such, tying the license agreement and the applicable laws to United States copyright law becomes not only desirable for purposes of future litigation concerns, but also to keep the cost of doing business down for the licensor. However, as is the case in the United States, obtaining registration can be helpful in deterring piracy, and by serving as proof of ownership in the event of litigation.

Interestingly, Brazilian law grants moral rights to copyright holders. Moral rights allow copyright holders to object to certain uses or alterations to their works. United States copyright law does not grant these rights to copyright holders, and in fact promotes the alteration of existing works with the purpose of furthering the progress of art and knowledge. Significantly, these moral rights can protect a licensor who does not adequately limit the use of a sound recording from being used in ways to which the licensor objects.

For example, suppose a United States licensor executes a license agreement with a Brazilian licensee for use of a sound recording in a television advertisement for fruit juice. When the license is negotiated, the details of the commercial are not discussed in great detail, and the agreement is executed. Once the commercial is released, the licensee decides to utilize the song in a radio advertisement for personal lubricant. If the licensor has registered their sound recording in Brazil, the licensor is entitled to object to such a use under Brazilian copyright law.

This is another feather in the cap of the licensor seeking sound recording protection in Brazil. In the event of infringement a licensor may include violation of moral rights in a suit against a Brazilian infringer. Brazilian law is at the cutting edge of copyright protection, and the addition of this moral right is an advantage to those seeking damages from infringers. Even if a licensing agreement is subject to United States law, licensors may rest assured that Brazilian courts will work to right the wrong of infringement.

In order to collect royalties from a licensing agreement in Brazil, a licensor must submit the agreement to the National Institute of Industrial Property for approval. Once the National Institute of Industrial Property approves the agreement, it must be registered with the Central Bank of Brazil so that the remittances of royalties can leave the country. As in China, there is no requirement for the Central Bank’s approval of the transfer of funds before the funds can be transferred to a foreign licensor.

Brazilian tax law subjects income generated in Brazil to income tax, as one would expect. Similar to China, contracting parties can arrange for the payment of these income taxes by the Brazilian licensee so long as the licensor does not have a business operation or location in Brazil. This is a benefit to those licensors who would seek to simplify their international dealings, but such terms remain subject to the laws of supply and demand. A sound recording which is in high demand will better be able to negotiate for the payment of such taxes by the Brazilian licensee, where a sound recording which is not in such high demand will have difficulty obtaining such terms.

Brazil has its own vibrant music business and produces a significant amount of sound recordings. As such, the likelihood that a United States sound recording will be in sufficiently high demand is slim. However, the licensing of United States sound recordings in Brazil is not unheard of, and practitioners should keep in mind that Brazilian companies are likely incurring a higher transaction cost when licensing a United States sound recording. It would be prudent to keep transaction costs as low as feasible, and to remember that Brazilian copyright law does a more than adequate job of protecting copyright holders, provided the work has been registered in Brazil.
iii. Germany

Germany does not require copyright registration in order to license a particular work.76 However, Germany recognizes what is called a “sole” license—“a particular kind of license unique to Germany. Although sole licenses are recognized in the United States, they are not as prevalent. This is similar to an exclusive license, but does not permit the sub-licensing of licensed work.78 This is especially critical in the licensing of sound recordings.

A common model of monetization and licensing for musical artists in the United States is the licensing of songs to a library service, which then negotiate and execute sub-licenses to content purchasers for use in other Entertainment Products such as movies, television shows, sporting events, and others.79 In these licenses, the ability of the original licensee to sub-license the works is imperative to the transaction. If a client is seeking to utilize this sub-licensing model in Germany, a “sole” license will defeat this purpose.

In such a case, a traditional exclusive license is the best solution. It provides similar rights to a sole license, but it permits the original licensee to negotiate and execute sub-licenses.80 However, with a sound recording it is critical to tailor the particular agreement to the defined, narrow scope of the rights to be granted. Especially when licensing internationally, a sound recording should limit the geographic scope of the agreement to the particular country, or region, as the licensor has expertise or market share. If not specifically limited in this way, a United States artist may inadvertently find themselves to have licensed the rights in the agreement on a worldwide basis. This can lead to the strange situation where an artist may be in danger of infringing on the rights of another by using their own sound recording. Limiting the scope of rights to be licensed, and limiting the geographic region in which these rights may be exploited is the best practice to avoid such confusion.

Importantly, a sole license and exclusive license give the licensor standing to sue in German courts.81 However, in some cases involving a sole license, the licensee may find that they do not have standing in some infringement cases.82 Although there is no German case law on this point yet, the treatment of a sole licensee like a non-exclusive licensee is based upon the lack of right to negotiate and execute sub-licenses.83 In any case, the owner of a copyright always has standing to institute an infringement suit and may elect to bring in a sole licensee in order to obtain local counsel. In the case of an exclusive license, when an owner is not affected by the infringement usually because the right to royalties has also been licensed, or the right to sue has been licensed, an owner has no standing to sue.84 In any event, only the damages of the owner may be recovered in a suit in Germany, or the damages that would be recovered by the owner in the case of an exclusive license where the right to royalties has been licensed, and not the damages of the licensee.85

There are no requirements regarding the registration of a license agreement to collect royalties, however the German Copyright Act does provide substantial rules regarding fairness of royalties. For example, the owner of a copyright may “demand an adjustment of the agreement where the payment to the author is not fair and reasonable.”86 This is of particular note to United States musical artists where monetization of sound recordings is in a steep decline and revenues are scarce.87 Additionally, where license agreements omit a provision relating to interest to be paid on late royalty payments, German civil law imposes a rate of the basic or prime interest rate plus eight per cent.88

As in China and Brazil, a licensee can be made to pay the taxes due on the activity in the country.59 This can be done either through operation of a licensing agreement provision, or by the licensee withholding the taxes due from any royalty payments made.90 A prudent licensor will dictate the terms of payment of any taxes due on the royalties generated in the licensing agreement, to avoid confusion, the inadvertent non-payment of taxes, and the potential of double-taxation.

b. Video Games

Video games are a growing segment of the United States economy, representing over $23 billion in revenue in 2017 alone.91 Despite the United States’ contributions to the video game industry, this figure represents less than 25% of the worldwide market.92 Germany ranks fourth in revenues from video games, bringing in over $4 billion in 2017.93 The United States is expected to grow its revenues by 19.5% over the course of 2018, outpacing the worldwide expected growth of 10.1% in 2018.94 Still, China outpaces the United States in this category of Entertainment Products, with over $27 billion in revenue in 2017.95 With the United States and Chinese markets making up more than 50% of the worldwide market combined, it is no secret that United States video game developers will seek to increase their presence in the Chinese market and to find footholds in other markets around the world.

An additional market specifically related to video games is that of eSports. eSports is a live event where professional gamers play and compete in front of live audiences in various video game types and formats.96 This market is not only outpacing the growth of the traditional video game market at 19.7% growth in ticket sales, but nearly doubles the growth when looking at streaming numbers, showing a growth of 35% in streaming advertising in 2017.97 This market is extremely popular with males age 13 to 40, who make up 70% of the market and are a prime target for advertisers.98

With a booming market and strong growth profiles, video games present a lucrative opportunity for licensors. A combination of different types of Entertainment Products, video games present unique challenges and considerations, especially when licensing in

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international markets. Video games combine software expressed as code, audiovisual works intermittently throughout the game and in menus, and sound recordings and musical works in their soundtracks. Additionally, video games are often subject to trademark considerations through the registration of their titles, characters, and other elements. This combination can be daunting, especially in the international licensing context, but also presents unique opportunities for the knowledgeable practitioner and licensor.

Some concern may exist over video games which are cast in wars or violent conflicts, as they can appear to be related to the military. There is no case law on such video games being subject to export restrictions, and a quick examination of the content of such games eases the mind of the concerned practitioner. Take for example the video game franchise “Call of Duty.” As a “first-person shooter” type video game, the player sees what an individual on those battlefields would have seen. The franchise got its start as a semi-historic recreation of the famous conflicts such as World War II.

The franchise expanded to allow players to use more modern technology in its “Modern Warfare” series, including modern firearms, vehicles, and heavy artillery. Players aim, fire, and reload various firearms, drive and fire weapons from various vehicles, and drive and fire weapons from various other ships and aircraft during the course of gameplay. Despite its appearances, the game does not contain any classified information, weapons, or training systems, and does not fall under the Commerce Control List subject to the EAR.

Licensors of video games must adhere to the same considerations and restrictions under copyright law as licensors of sound recordings. The exportation of infringing copies, maximization of works registered under copyright, and the careful drafting of provisions relating to choice of laws and most favored nations should be considered in video game licenses. Additionally, video game licensors who have applications or registered trademarks in the United States should consider filing additional international applications directly into countries of interests, or with the United States Patent and Trademark Office under the Madrid Protocol for international registration of the same applications or registrations. The Madrid Protocol is a treaty which exists to streamline the process of trademark applications internationally, allowing an applicant to file a single application to obtain registration in multiple countries. This does not guarantee registration, as each signatory country applies its own laws regarding application, registration and enforcement, but rather acts as a mechanism for faster, easier filing in multiple jurisdictions. Further, not all countries are protected by the Madrid Protocol, and a prudent licensor will work with experienced trademark counsel to determine the benefits and risks of filing through the Madrid Protocol.

Just as United States copyright law forbids the importation of infringing goods, United States trademark law prohibits the importation of counterfeit goods. If a trademark has been registered with the United States Patent and Trademark Office, United States Customs agents may seize counterfeit goods before they enter the United States. Trademark owners often work with United States Customs and Border Protection to educate agents on how to identify such counterfeit goods. Coupled with the prohibition of the importation of goods which infringe upon copyrights, the prohibition of the importation of counterfeit goods adds another arrow to the quiver of the well-protected trademark owner.

On the whole, United States trademark law is well-developed and lends additional assistance to video game developers who qualify for its protections. Registration of trademarks and copyrights within the video games provide significant protection against infringement, and also provide for substantial damages if infringement should occur. Adding the protections of diligent United States customs agents provides significant advantages to video game developers at minimal additional cost. Video game developers should take advantage of these benefits before entering into any domestic or international licensing agreements.

i. China

Recall that in China, a copyright need not be registered before it can be licensed. However, in order to license a trademark, which would be required for the lawful sale of a video game, it must first be registered. As a signatory to the Madrid Protocol, application for Chinese trademarks may be accomplished as described supra, or an application may be filed directly into the Chinese Trademark Office through Chinese trademark counsel. Even while pending registration, a trademark license may be considered valid and the licensor may begin collecting royalties. If that mark is later invalidated, or if the application is rejected, the licensor may retain the royalties collected during the period when the application was pending. If the mark is invalidated because it was registered in bad faith however, those royalties must be repaid.

With that in mind, a licensor may execute a license agreement effectively as soon as the application for registration is transmitted. As with copyright, there is no requirement to record a license agreement in China, though it is an option available to the parties. In most cases, a licensor executing a licensing agreement in the United States would be advised to wait to license their trademarked product until the application is approved and the mark is registered. However, when advising on licensing in China, executing the licensing agreement as soon as possible may be the best course of action.

China’s booming counterfeit market is likely to take advantage of the popularity of Entertainment Products in the United States in an attempt to trade on its goodwill in the Chinese market. By properly
licensing a video game in China at the moment such license may be granted, a licensor may be able to reduce the number of potentially infringing and counterfeit products which may enter the Chinese market. At the very least, executing such license as early as possible, the licensor may be able to maximize its profits in the Chinese market before the counterfeit, infringing products enter the market and effect revenues.

As with licenses of sound recordings, registration of the licensing agreement with the Chinese government may be a prudent step for the licensor of video games. Not only does it provide notice to the Chinese public, it provides additional validity to the licensing agreement in the event of a suit. Keeping this in mind, recall that China is the largest worldwide market for video games, and market penetration, while desirable, will be difficult. Well-known video game developers, such as the various companies that develop the “Call of Duty” series, including Treyarch, Infinity Ward, and Sledgehammer Games, likely already have adequate market penetration to benefit from registration of a licensing agreement. They also are likely to have sufficient funds to institute or defend any suits that arise against infringing or counterfeit goods in the Chinese market.

In the case of a smaller video game developer perhaps seeking to enter the Chinese market for the first time, it may be prudent to initially avoid registration of the licensing agreement. Although the licensing agreement can be located by searching a database, the registration will contains information regarding quality standards, identification requirements, and whether or not a licensee may sub-license the product. Although these details should be covered in any licensing agreement, the publication of such details is generally not desirable. This may provide an enterprising counterfeiter with the details necessary to create a product which is close, but does not infringe upon the rights of the video game developer.

Also worthy of consideration when licensing in China, is the restriction on sub-licensing, and the specificity of such a clause. When drafting the provisions relating to quality standards to be maintained by the licensee, a licensor should be as specific as the situation will allow, providing strict guidelines and requiring rigid adherence. Similarly, when drafting provisions relating to sub-licensing, licensors should consider incorporating similar quality standards. Also worth of consideration is the requirement that any and all sub-licenses be approved by the original licensor before execution by the licensee/sub-licensor.

The considerations regarding the payment of royalties and taxation covered in the section on the licensing of sound recordings remain the same for the licensing of video games. Provisions in the licensing agreement should specify the particular bank to be used in the transmittal of royalty payments from China to the United States, and should specify that the licensee is to pay the taxes due on any royalties and provide documentation of their remittance, so as to avoid double taxation.

ii. Brazil

Again, recall that in Brazil, a copyright need not be registered before it can be licensed. Brazil does recognize trademark rights, but they are a “first-to-file” country meaning those rights only begin once an application has been filed with the Brazilian Patent and Trademark Office. A priority date of six months prior to the application is given provided the applicant can prove continuous use. Brazil also recognizes trademarks at common law regarding famous marks from other countries which are signatories to the Paris Convention, governing the international recognition of trademarks. Interestingly, even in the absence of a trademark registration, or any presence in Brazil, a trademark owner whose mark is being infringed in Brazil may have a cause of action. If an applicant for a mark could not be unaware that their mark is confusingly similar to that of a third party, they may be liable for infringement, even if that owner has not filed an application in Brazil.

For a trademark to be validly licensed, the minimum requirement is that an application have been filed with the Brazilian Patent and Trademark Office. Similar to copyright, a foreign national must obtain Brazilian counsel in order to obtain a trademark registration. This is critical because payment of royalties resulting from the license of a trademark cannot occur until such application has been filed.

Although these requirements seem stringent, the operation of such provisions provides broad protection for licensors. If an application has been filed, then a licensor may sue for infringement. If an application has not been filed, but infringement is occurring, they may file suit if the infringer is unaware that their mark was confusingly similar. If a mark is being infringed, and an application is filed within six months, the licensor may still file a suit and recover damages, thanks to the six month priority date provision.

The hang-up for licensors to Brazil will be the requirement to obtain local counsel and the inability to receive royalty payments until an application has been filed with the Brazilian Patent and Trademark Office. These barriers are extremely low, and given the comprehensive nature of Brazil’s copyright and trademark laws, incentivize licensors to clear the necessary obstacles for the highest level of protection. Because registration is required in order to receive royalties, this becomes an imperative incentive.

Because video games are software, they are subject to certain other provisions of Brazilian law. Importantly, Brazil permits the creation of a single copy of software for use as a back-up copy. This does not permit the copy to be sold or distributed, and is solely for back-up purposes. Video game developers may rest assured that an action for infringement may be instituted if copies are being reproduced and sold without their permission.

Brazil recognizes moral rights relating to copyright, which comes into play again in the video
game context, as Brazilian law permits the “fair use” of software.\(^{134}\) If a use is objectionable to the owner of a Brazilian copyright, they may institute a suit to obtain an injunction against such use.

Brazilian law requires the remittance of taxes on income generated on the licensing activity in Brazil,\(^{135}\) and payment of these taxes may be negotiated in the licensing agreement, as discussed supra.\(^{136}\) Brazilian law requires licenses to be registered with the Brazilian Patent and Trademark Office before royalties may be paid to a foreign entity.\(^{137}\) Interestingly, once a trademark is registered in Brazil, and the license is registered with the Brazilian Patent and Trademark Office, the licensing fees become tax-deductible.\(^{138}\)

As in China, licensors of video games should be sure to include quality standards as to their trademarks and enforce these provisions. The licensing of a trademark without policing its use and the quality standards associated therewith is called “naked licensing,” and in the United States can lead to the invalidation of a trademark.\(^{139}\) While the invalidation as a result of such “naked” licensing in Brazil is unclear, a prudent licensor will include such controls, including the control of sub-licenses, in its license agreements.

..iii. Germany

Recall that Germany does not require registration of a copyright for licensing.\(^{140}\) Similarly, trademark registration is not required for the licensing of trademarks under German law.\(^{141}\) Additionally, recordal of licensing agreements is not yet available in Germany, though it must be implemented by January 14, 2019 under the Trade Marks Directive.\(^{142}\) As such, Germany is the least restrictive of the countries herein examined when addressing the licensing of video games.

Although no formal requirements for registration exist as a prerequisite to the licensing of video games, care should be exercised no less in Germany than in other countries. In fact, in the absence of restrictions, licensors of video games should be doubly careful, so as not to open themselves up to potential infringement.

German law, like Brazilian law, permits the creation of one copy of software for use as a back-up copy.\(^{143}\) Again, licensor of video games should not interpret this as a threat to their product, as actions for infringement or counterfeit remain intact if such copy is sold. Recall that German law recognizes a “sole license,” which does not permit sub-licenses.\(^{144}\) In the case of video games, such a sole license may be the most prudent type of license for the licensor. Executing such a license would exclude others from obtaining a license, and the licensor can be sure that the licensee may not execute sub-licenses without its knowledge. In this way, the licensor can be certain that any copies of their video game that enter the market are licensed copies, from which they will receive royalties upon their sale.

German law is extremely concerned with fairness in all provisions of a contract, and that minimal rates of interest above the prime rate are statutorily mandated for late payments of royalties, even when such provisions are excluded.\(^{145}\) Licensors who omit provisions in their agreements, either by mistake or out of ignorance, may find some respite in this dedication to fairness, but should not rely upon it. Licensors should still include provisions relating to quality control to avoid “naked” licensing, described supra.

As in the United States, the registration of a trademark, while not required, entitles the owner to increased damages under German law\(^{146}\) and owners of German trademarks can enlist customs agents to assist in thwarting the efforts of would-be infringers in importing counterfeit goods into the country.\(^{147}\) Coupled with appropriate geographic restrictions in licensing agreements, licensors of video games can further ensure that not only are the copies of their video game on the market licensed copies, but that copies entering Germany are also licensed copies, and not counterfeit.

Germany is another potentially lucrative market, as it ranks as the fourth largest consumer of video games worldwide.\(^{148}\) With careful consideration and drafting, United States video game producers may be able to effectively tap into this $4 billion-plus market. Being centrally located in Europe, and the European nation with the largest consumption of video games, licensors can rest assured that by drafting effective provisions, access to the whole of Europe is relatively easy to accomplish in Germany.

IV. Conclusion

International licensing can be extremely complex, and the unwitting practitioner can quickly find themselves becoming lost. Careful consideration of applicable treaties and laws surrounding intellectual property registration are a strong start. Further considerations should be given to the local laws surrounding contracting and the enforceability of certain provisions. Following this analysis, an examination of methods of enforcement will guide the prudent licensor to balance the economic value of careful licensing of their valuable Entertainment Products with the potential risks.

Endnotes

1. Emerging and developing products and technologies have their own set of legal hurdles to overcome domestically, and will not be addressed in this paper.
5. Id.
93. Id.
94. Id.
95. Id.
97. Id.
103. Id.
104. Id.
108. Id.
115. 1-CHN Horwitz on World Trademark Law CHN § 1 (2017).
117. Id.
118. Id.
121. 1-CHN Horwitz on World Trademark Law CHN § 8 (2017).
124. Id.
125. Id.
126. Id.
130. Id.
132. Id.
134. Id.
135. Id.
136. Id.
138. Id.
139. Lanham Act, 15 U.S.C. § 1127 (2012) (stating that "[a] mark shall be deemed to be ‘abandoned’ . . . when any course of conduct of the owner, including acts of omission as well as commission, causes the mark to become the generic name for the goods or services on or in connection with which it is used or otherwise to lose its significance as a mark.").
140. 2017-1 GTDT: Copyright Germany (2014).
143. 2018 GTDT: Licensing Germany (2015) (citing German Copyright Act, § 69d(2)).
147. Id.
LITIGATION UPDATE

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The Music Modernization Act – A Long Overdue Overhaul to the Music Copyright Licensing Infrastructure

The Music Modernization Act seeks to overhaul the music copyright licensing infrastructure, a daunting task that most would say, is long overdue. The bill is a bipartisan package incorporating several pieces of legislation, including the CLASSICS Act, the AMP Act, and rate standard parity provisions from the Fair Play Fair Pay Act.

Among its proposed changes, the Act would fundamentally alter Section 115 of the U.S. Copyright Act, which regulates compulsory licenses in nondramatic musical works, or songs outside of a movie, television show, or play. Specifically, the bill seeks to reform Section 115 to ensure timely compensation to songwriters by ending the Notice of Intent process and instead creating a single Mechanical Licensing Collective funded by the digital services and providing a publicly accessible database for song ownership information. The bill further seeks to establish an agency devoted to licensing and royalties that would be led by a board comprised of individuals from various sectors of the music industry. This agency would be tasked with identifying rightsholders, issuing blanket licenses to digital services, and would collect and pay royalties to the appropriate rightsholders.

Additionally, the bill seeks to close the pre-1972 loophole by establishing federal copyright protection that would guarantee compensation for artists who recorded their music prior to February 15, 1972. It would also require digital radio to pay master rights sound recording performance royalties for music created prior to 1972 (e.g., addressing the CLASSICS portion of the bill).

The bill would also codify SoundExchange’s practice of honoring “Letters of Direction” from artists who wish to share royalties with producers and other creatives who participated in the creation of the works. It further provides a process whereby participants in recordings made before the digital performance right was established in 1995, can share in digital royalties for those sound recordings, and would further provide a “willing buyer, willing seller” rate standard requiring digital platforms to pay fair market value for music.

The bill also seeks to revamp the current rate court system who hears disputes over royalties paid by digital services. In other words, instead of having one judge hearing all rate court cases for ASCAP and another hearing the same for BMI, the Act would provide for a Southern District of New York judge being randomly assigned to each individual case. In so doing, the Act seeks to repeal Section 114(i) of the U.S. Copyright Act, and replace it so judges would have the ability to gauge market value for musical compositions.

The Music Modernization Act passed the U.S. House in April 2018 by unanimous vote and was introduced in the Senate on May 10, 2018 by Sen. Orrin Hatch (R-UT) and a bipartisan group of co-sponsors. The Act has received widespread support across the various industry groups and is expected to pass early.

HBO Prevails with the De Minimis Copyright Exception

HBO recently prevailed in Gayle v. Home Box Office, against allegations of copyright and trademark infringement involving its television series, Vinyl.

The series, set in the 1970s and centered on record executives, included a scene of a woman walking down a New York City street with a dumpster tagged in graffiti art stating, “art we all.” Itoffee R. Gayle, the graffiti artist responsible for the artwork in that scene, claimed that HBO intentionally used the graffiti art in the background, that such use infringed both his copyright and trademark rights, and that HBO failed to license use of the work.

The Court disagreed with Gayle’s position and found that HBO neither needed a license, nor was required to pay a fee for use of the image, as not all copying is unlawful. The District Court for the Southern District of New York provided that Gayle had the burden of establishing that the allegedly infringing work was substantially similar to his and that the amount taken was more than de minimis. In other words, more than a “technical violation of a right so trivial that the law will not impose legal consequences” or “that copying has occurred to such a trivial extent as to fall below the quantitative threshold of substantial similarity, which is always a required element of actionable copying.”
Unfortunately, for Gayle, the basis of his claims focused on a barely visible, fleeting shot of some graffiti on a dumpster in the background of the scene at issue. The image appeared in the scene for just a few seconds, was never the focus of the scene, and played no role in the scene plot. The Court noted the difficulty in observing the graffiti art when pausing the scene, let alone the near impossibility to notice the graffiti when viewing the scene in real time. Given the same, the Court indicated that Gayle’s claims bordered on frivolous. The Court also held that HBO’s intent was irrelevant to the de minimis inquiry because the copying itself is not actionable.

While the burden of policing works and enforcing rights falls on the intellectual property holder, rightholder must consider limitations and exceptions, including the de minimis copyright inception, when considering infringement suits for use by third parties who also seek to produce and create works.


The Shape of Water Copyright Infringement Complaint

David Zindel filed suit on February 21, 2018 against Fox Searchlight Pictures, Guillermo Del Toro, and other Defendants, alleging: (1) copyright infringement; (2) contributory copyright infringement; and (3) vicarious copyright infringement, under the United States Copyright Act.

Plaintiff David Zindel is the son of Paul Zindel. Paul Zindel is the author of the 1969 play Let Me Hear You Whisper (the “Play”). The Play tells the story of a janitorial woman who works at a scientific research lab where animal testing is conducted. While working, she discovers the plan to kill one of the animal creatures, and plans to release him before this can occur. The Play had been reproduced for television and has been repeatedly re-published in different print works. The Play has gained a significant public following as a result. Paul Zindel passed away in 2003, leaving the copyrights to his literary works to his children, including David Zindel.

Defendants financed, produced, and distributed the Oscar-winning film The Shape of Water (the “Picture”). The story told in the Picture is noticeably similar to the one told in the Play. Some of the similarities include the main character (a janitorial cleaning woman who was employed at an aquatic lab), the aquatic creature, the time in which the story takes place, and certain scenes that appear in both the Play and the Movie.

Zindel believes that Defendant David Kraus, a producer on the Picture, came up with the idea for the Picture after seeing one of the television adaptations of the Play when he was fifteen-years-old. Zindel also alleges that Defendant Kraus was well aware of David Zindel’s work, and had acknowledged this awareness in the past in a previous article. However, Defendants never sought to obtain a license for the motion picture rights to the Play. Paul Zindel was also not credited in any way on the Picture.

Plaintiff alleges that all Defendants contributed to the copyright infringement of the Play. Plaintiff requests a preliminary injunction during the course of this action, and a permanent injunction, pursuant to 17 U.S.C. § 502. Plaintiff also requests compensatory damages, consequential damages, and an accounting and restitution of all profits Defendants made as a result of the copyright infringement of the Picture.

In light of the substantial number of similarities between the Play and the Picture, it is likely that the case will become more prevalent in the coming months, especially since it recently won numerous Oscars earlier this year.


IMDB.com v. Becerra Summary Judgment

The United States District Court for the Northern District of California granted summary judgment for IMDB on February 20, 2018. IMDB had previously claimed that a California state law prohibiting IMDB from publishing age-related information was unconstitutional.

In September 2016, California Governor Jerry Brown signed into law AB 1687. The law prohibited any “online entertainment employment service provider” from publishing any age-related information, if requested by the specific subscriber. The law was also sponsored by SAG-AFTRA. The goal of this law was to reduce age and employment discrimination in the entertainment industry, specifically in casting.

On November 10, 2016, IMDB filed suit, claiming the law violated their First Amendment right to free speech. IMDB also claimed the law violated the Commerce Clause because “California [was] attempting to police the internet . . . beyond the state’s own borders.” IMDB alleged in the original complaint that IMDB was the sole target of this California state law.

IMDB also alleged that subscribers to IMDBPro have been allowed to remove age-related information for a number of years. Casting directors also use IMDBPro to access age-related information, and not the public IMDB website.
In the original complaint, IMDb sought a declaratory judgment that the California law was unconstitutional. In February 2017, a preliminary injunction was ordered preventing enforcement of the statute while the lawsuit was pending. Finally, in February 2018, the Court granted summary judgment for IMDb and permanently enjoined California from enforcing the statute.

In granting summary judgment for IMDb, the Court stated that, when applying strict scrutiny, California failed to show the law furthered the stated goal. In other words, the law is “not narrowly tailored” to achieve the overall governmental purpose of combating age discrimination. The Court specifically said that the law was “underinclusive” and the age-related information could still be found elsewhere. The law also applied to only certain age-related information (that of subscribers who requested the information be removed) but not others. When looking at all of these factors collectively, the Court determined that the statute did in fact violate the First Amendment.

Interestingly, the Court also acknowledged that the bigger issue at play was the objectification of women, not merely an age discrimination problem. The Court emphasizes the fact that the objectification of women has been a long-standing problem, with women often losing out on roles unless they are significantly younger than the leading actors involved in the project. The Court believed this should be addressed more by California, and was essentially ignored when the statute in question was passed.


**Redbox v. Disney Legal Battle Continues**

On February 20, 2018, the United States District Court for the Central District of California recently denied an injunction requested by Disney Enterprises. Disney had requested the Court grant an injunction against Redbox in order to enjoin them from offering digital download codes for Disney movies.

In the original complaint, Disney alleged that Redbox purchased DVDs, including combo-packs, packaged originally by Disney that included digital download codes. On any Disney DVD or combo-pack with these codes, language on the box clearly indicates the codes are “not for sale or transfer.” This is also stated on insert located within the combo-pack that had the code listed. After purchasing the combo-packs, Redbox would then make the code available at any Redbox kiosk. Disney alleged this resale of the codes constituted contributory copyright infringement, as well as a breach of contract with specifically the Buena Vista subsidiary of Disney Enterprises. Redbox did not have a vendor agreement of any kind with Disney at the time they began distributing the codes for resale.

As to the breach of contract claim, Disney argued that Redbox entered into a contractual relationship with Disney when the DVDs and combo-packs were purchased and opened. The main issues the Court addressed in its review of the Motion was whether the language on the combo-pack constituted a license and whether Redbox’s opening of the combo-packs constituted acceptance of the license. The Court decided that no license existed because the language does not indicate that opening the combo-pack would be an acceptance or specify that the language constituted an offer. Therefore, the Court concluded that Disney failed to meet its burden of demonstrating the likelihood of success on its claim.

As to the contributory copyright infringement claim, Disney claimed Redbox encouraged consumers to violate the license in the terms of service of the digital download services. In turn, Redbox argued that Disney could not show a likelihood of success on the merits of its contributory copyright infringement claim, due to their own copyright misuse.

In the end, the Court agreed with Redbox and said that Disney had not met their burden of demonstrating the likelihood of success of its claim. The Court reasoned that, while the terms of service did equate to restrictive licenses, anyone who purchased the combo-packs must either (1) forego their statutory right to sell their copy of the work, pursuant to 17 U.S.C. § 109, or (2) exceed the scope of the license. Disney could not go beyond the scope of its copyright to control the consumer’s right to sell or transfer the product once it was purchased.

Because of the above-stated reasons, the Court denied the injunction. However, on April 9, 2018, Disney filed an amended complaint, addressing some of the concerns mentioned by the Court.


**The NCAA Is Going To Court For Its Antitrust Problem Yet Again.**

In March 2018, the National Collegiate Athletic Association (“NCAA”) reported that the governing entity generated $106 million dollars in profit on $1.6 billion dollars in revenue during the 2017 fiscal year.1 College sports’ governing body will need every dollar as it prepares for yet another fight over its unique brand of “amateurism” in the federal courts.
After the landmark O’Bannon v. National Collegiate Athletic Association decision in 2015, which held that the NCAA rules prohibiting its members from offering athletic scholarships (otherwise known as ‘grants-in-aid’) equal to the full cost of attendance were unreasonable restraints on trade and thus violated Section 1 of the Sherman Act—a litany of challenges to the NCAA’s governing model have been filed. In 2014, two such cases challenging the NCAA’s amateurism restrictions on antitrust grounds were consolidated, for discovery purposes, into the case known as In Re: National Collegiate Athletic Association Athletic Grant-in-Aid Cap Antitrust Litigation. The two underlying cases, Alston v. National Collegiate Athletic Assoc., et al., and Jenkins et al. v. National Collegiate Athletic Assoc., et al., both targeted the NCAA’s caps on athletic grants-in-aid as unreasonable restraints on trade and included claims for both injunctive relief and damages. However, in February of 2017, the NCAA reached a $208.7 million-dollar settlement with the parties in the Alston case, who primarily sought damages on behalf of student-athletes competing in Division I football and basketball based on the difference between the value of an athletic grant-in-aid prior to the O’Bannon decision and the full cost-of-attendance post-O’Bannon. Still, this settlement did not affect the more ambitious Jenkins claims with its plaintiff-class of current and former student-athletes in the sports of men’s Division I Football Bowl Subdivision (“FBS”) football and men’s and women’s Division I basketball seeking to permanently enjoin the NCAA’s amateurism rules that place a wage ceiling on student-athlete compensation. In fact, after Judge Wilken denied the NCAA’s motion for summary judgment over the remaining Jenkins claims on March 28, 2018, she scheduled a bench trial for December 2018. Accordingly, the Jenkins trial will proceed under an antitrust rule of reason analysis, as provided by Section 1 of the Sherman Act.

Indeed, in her summary judgment ruling, Judge Wilken held that the plaintiffs met its initial burden under a rule of reason analysis by presenting sufficient evidence to show that the challenged NCAA restrictions have anticompetitive effects on interstate commerce (meeting the first prong of the analysis). Furthermore, Judge Wilken’s ruling also limited the NCAA to just two justifications for the challenged restrictions, thereby requiring the NCAA to come forth with credible evidence proving the challenged NCAA restraints either serve the procompetitive purpose of “integrating academics with athletics” or work to preserve “the popularity of the NCAA’s product by promoting its current understanding of amateurism.”

Thus, under the rule of reason analysis, Judge Wilken narrowed the scope of issues to be litigated during December’s bench trial to “whether the current, challenged rules have the two procompetitive benefits remaining at issue in this case” and, if so, whether the plaintiffs can prove that “substantially less restrictive alternatives to those rules exist.”

However, on April 28th, 2018, Judge Wilken granted a motion to exclude the use of certain expert opinions at trial. In her order, Judge Wilken granted the plaintiff’s motion to exclude the testimony of Dr. Elzinga—one of the NCAA’s expert witnesses—in its entirety. The Court reasoned that Dr. Elzinga’s proposed testimony, which related to the “definition of the relevant antitrust market in this matter and Defendant’s power within,” was moot in light of the March 28th summary judgment ruling, which adopted the O’Bannon single-sided market definition (e.g., “market for a college education combined with athletics or alternatively the market for the student-athletes’ athletic services”). Dr. Elzinga’s testimony additionally argued that NCAA amateurism rules promoted competition among schools, and thus justified the compensation limits; but Judge Wilken ultimately concluded these arguments are irrelevant to the present matter, as “[Dr. Elzinga’s] opinion does not provide any support for Defendants’ argument that the NCAA’s current rules restricting student-athlete compensation preserve the popularity of the NCAA’s product by promoting its current understanding of amateurism,” nor do the defendants “contend that it supports their argument regarding the integration of academics and athletics.”

Thus, Judge Wilken has taken tight control over the expert opinions and arguments that are allowed at trial: her court will only hear experts advancing one of the two procompetitive justifications, within the relevant market, that made it through the summary judgment stage. In Judge Wilken’s court, it appears that the NCAA will be forced to bear the full weight under a rule of reason analysis. However, given that procompetitive justifications were found in O’Bannon, the crux of the case will likely hinge on whether the plaintiffs can show that their sought-after remedy—essentially a free market for student-athlete services—is a substantially less restrictive alternative to the status quo that will still achieve the same goals: preserving the popularity of the NCAA’s unique product or the integration of academics and athletics.

Jenkins et al. v. National Collegiate Athletic Association et al. (Case No. 4:14-cv-02758-CW—U.S. District Court California Northern District (Oakland)).
The Courtroom Quarrel Between The NFL and The City of St. Louis

In 1995, the City of St. Louis, Missouri, persuaded the National Football League’s Rams to relocate their franchise to a new home, the soon-to-be-finished Trans World Dome. A mere 23 years later, the Trans World Dome—now known as the Edwards Jones Dome—sits empty today and is the cause of not only massive heartache to fans of the franchise formerly known as the St. Louis Rams, but also of a lawsuit between a major American municipality and the National Football League.

In 1995, three public entities—the State of Missouri (the “State”), the County of St. Louis (the “County”), and the City of St. Louis (the “City”)—agreed to issue $258 billion dollars worth of bonds to build the Edward Jones Dome. In 2016, when the Rams franchise formally requested to relocate from St. Louis back to Los Angeles, the public still owed over $78 million dollars in stadium bonds. That debt will not be paid off until 2021. More egregiously, the deal for the stadium in St. Louis included a contract provision that granted the tenant the right to leave for another city if the Edward Jones Dome ever failed to be maintained as a “first-tier” stadium (e.g., within the top 25% of all stadiums). In effect, the provision granted the owner of the St. Louis Rams—Stanley Kroenke—with the leverage to demand public assistance in funding upgrades to the stadium by threatening to relocate the franchise. Maintaining the Edward Jones Dome at a “first-tier” rate proved to be an incredibly difficult proposition for the City of St. Louis, with major market teams like the Dallas Cowboys opening brand-new stadiums that cost over $1.5 billion dollars. And so, after failing to maintain the Edward Jones Dome as a “first-tier” stadium, Kroenke filed to relocate the Rams to Los Angeles in January 2016. Then, in April 2017, the St. Louis Regional Convention and Sports Complex Authority, the City of St. Louis, and the County of St. Louis (collectively, the “Plaintiffs”), filed suit against the Rams Football Company, LLC (“Rams”), the National Football League (“NFL”), and the owners of the NFL’s member teams (“Franchise Owners”). The plaintiffs’ complaint alleges breach of contract, unjust enrichment, fraudulent representation, and tortious interference with business expectancy.

Although the provision to relocate the franchise was ultimately contained in the contract between the parties, the case centers on allegations that the defendants breached their contractual obligation of diligence and good faith—to the detriment of the plaintiffs—by misleading the plaintiffs into believing the City had a realistic chance at keeping the franchise. The complaint also alleges that the NFL failed to follow its own relocation procedures, again to the detriment of the plaintiffs. To support these allegations, the plaintiffs cite public and private statements made by Kroenke, his business associates, and NFL executives.

The plaintiffs ultimately seek to recoup the $16.2 million dollars spent by local authorities in an effort to keep the Rams in St. Louis, as well as to recover the estimated $15 million dollars in lost annual state revenue. In late December 2017, St. Louis Circuit County Judge McGraugh denied motions to dismiss nearly 85 defendants from the action and refused to grant the NFL’s motion to send the case to arbitration. However, Judge McGraugh did dismiss the fraudulent misrepresentation claim against all of the Franchise Owners class of defendants—except Kroenke—for failure to state a claim upon which relief can be granted. Then in April 2018, the Missouri Supreme Court denied the NFL’s motion to have the suit dismissed on jurisdictional grounds.

The parties are currently in the discovery process in preparation for trial, and all signs indicate that this case will be litigated on the merits. Accordingly, the resolution of this case will be pivotal to the overall climate of publicly financed sports stadiums in America, especially as it gets more difficult for cash-strapped municipalities to service their debt obligations in light of both rising interest rates and municipal bonds, which seemingly mature over a longer period than the lifespan of stadiums themselves.

St. Louis Regional Convention, et al. v. National Football League, et al., Case No. 1722-CC00976 — Missouri Circuit Court, 22nd Judicial Circuit, City of St. Louis County

Ohio Wants To Use Art Modell’s Legacy To Save The Columbus Crew

As a millionaire owner of an American professional sports team, what do you do when your city refuses to build a brand new stadium, on the public dime, for your franchise? You threaten to relocate the franchise to another city, of course. That is precisely why the State of Ohio passed Ohio Revised Code § 9.67, better known as the “Art Modell Law.”

In the late 1990s, the owner of the NFL’s Cleveland Browns at the time, Arthur Bertram “Art” Modell, moved the team to Baltimore, Maryland. In response, the General Assembly of Ohio passed Ohio Revised Code §9.67, thereby placing restrictions on owners of professional sports franchises that utilize tax-supported facilities. Nevertheless, because the State
of Ohio has yet to have to enforce the Art Modell Law in court, there is a paucity of case law on the statute.

In October 2017, Anthony Precourt of Precourt Sports Ventures, the operator of Major League Soccer’s Columbus Crew SC (“Crew” or the “Club”) franchise, made a public statement expressing the Club’s desire to relocate the Crew to Austin, Texas. In that statement, Precourt expressed dissatisfaction with the Crew’s MAPFRE stadium and effectively said that the team would move to Austin, Texas in 2019 if the Crew cannot finalize a downtown soccer stadium within the next year. Additionally, it is claimed that the Precourt Sports Ventures has refused offers to sell 50% and 100% of the company. Accordingly, the City of Columbus and the State of Ohio (the “Plaintiffs”), filed a lawsuit in the Court of Common Pleas in Franklin County, Ohio, against Precourt Sports Ventures, LLC, and Major League Soccer, LLC (the “Defendants”), seeking declaratory judgment and injunctive relief against the proposed franchise relocation.

The complaint seeks relief under the Art Modell law, which provides, in pertinent part, that “no owner of a professional sports team that uses a tax-supported facility for most of its home games shall cease playing most of its home games at the facility and being playing most of its home games elsewhere.” The Art Modell law does, however, allow a team to stop playing home games at its facility and move somewhere else if the team’s owner “gives the political subdivision in which the facility is located” at least “six months’ advance notice of the owner’s intention to cease playing most of its home games at the facility” and “during the six months after such notice, gives the political subdivision or any individual or group of individuals who reside in the area the opportunity to purchase the team.”

The plaintiffs argue that the Crew, as a professional sports team both utilizing a taxpayer-supported facility and receiving financial assistance from the state, fall within the Art Modell law’s purview for three reasons. First, the plaintiffs contend that the Crew leases state-owned land for parking purposes at below-market rates. Second, the plaintiffs assert that the land beneath MAPFRE Stadium was leased to the Crew at below-market rates in 1996, and was designated as tax-exempt land explicitly for the Crew’s benefit. Finally, the plaintiffs argue that in 2009, the State provided $5 million for parking upgrades at the Ohio Expo Center, where Crew fans utilize lots that are just south of the stadium, and that these upgrades were made specifically for the Crew’s benefit.

In their motion to dismiss the case, the defendants advance two primary arguments. First, the defendants argue that O.R.C. § 9.67(A) does not apply to the Crew because the club has not received taxpayer support. The defendants’ theory asserts that the Crew’s lease is not only pegged to inflation, but is actually above the market rate charged to other tenants in the fairgrounds area, and that the State of Ohio gets 30% of the parking revenue generated during Crew games. More importantly, however, the defendants argue that O.R.C. § 9.67, “discriminates against interstate commerce by attempting to impermissibly restrict professional sports teams from moving out of state and interfering with business operations” and is therefore unconstitutional under the Commerce Clause.

In any case, Precourt Sports Ventures officially gave unambiguous notice of its intent to move to Austin, Texas, in a March 2018 letter to the Mayor of Columbus, thereby officially starting the six-month notice clock as required under the Art Modell law. However, because the Ohio Rev. Code § 9.67 law has never been challenged in court before, there is no clear precedent for how the court will rule. However, municipalities and sports teams alike should be keeping a close eye on how this case proceeds, as the case raises critical issues in the debate surrounding publicly financed stadiums.

State of Ohio et al. v. Precourt Sports Ventures et al., Case No. 18 CV 001864—Ohio Court of the Common Pleas, Franklin County

Rentmeester v. Nike, Inc.

This is a copyright infringement action brought by the renowned photographer Jacobus Rentmeester. In 1984, photographer Jacobus Rentmeester shot an original and iconic image of Michael Jordan at the University of North Carolina for Life Magazine. That image is known today as the Jumpman logo. Soon after the photo was published, Nike contracted with Rentmeester to license the transparency of the photo and then ultimately to use the photo for two years on billboards. Nike also hired a photographer to produce its own photograph of Jordan using the Rentmeester photo as inspiration. In 1987, Nike created its Jumpman logo and has used that logo over the last 30 years. Rentmeester filed an action in 2015 alleging that Nike infringed on his copyright of the Jordan photo. The District of Oregon granted Nike’s motion to dismiss and Rentmeester filed an appeal with the Ninth Circuit.

To prevail on a copyright infringement case, two things must be proven. The first is that there is ownership of a valid copyright and that the opponent
copied protected aspects of that copyright. The second element of a copyright infringement case has two distinct components: copying and unlawful appropriation. In the event that the plaintiff lacks direct evidence of copying, if the plaintiff can prove that the defendant had access to the plaintiff’s work and that the two works share similarities, a presumption of copying will be made unless the defendant can prove that there was independent creation. The other element is unlawful appropriation: “[t]o infringe, the defendant must also copy enough of the plaintiff’s expression of those ideas or concepts to render the two works “substantially similar.”

In this matter, Rentmeester owns a valid copyright in his photograph of Jordan. As a result, Rentmeester is able to plausibly allege the first element for a copyright infringement case. The pivotal issue is whether Nike copied protected aspects of the image’s expression. As indicated above, the second element rests upon whether there was both copying and unlawful appropriation. Rentmeester can sufficiently show that Nike did in fact copy his image in that they were aware of his image evidenced by Nike contracting with Rentmeester to license his image. Although, Nike hired a photographer to take a photo similar to the Rentmeester photo, the fact that they had access to the Rentmeester photo does not protect Nike on the copying claim.

The basis of the case all comes down to whether Nike unlawfully appropriated the image that Rentmeester created in 1984. “To prove this component of his claim, Rentmeester does not have to show that Nike produced an exact duplicate of his photo, but rather show that Nike copied enough of the photo’s protected expression to render the works substantially similar.”

The Ninth Circuit makes determinations of substantially similar works based primarily on an extrinsic test and that application may be decided by the court as a matter of law. The court dissected the photo captured by Rentmeester versus that of Nike. They acknowledged that the photos are similar in the subject matter they depict; however, the series of creative choice and arrangement of elements were not substantially similar. The creative choices involve lighting, camera angle, depth of field and selection of foreground and background elements. The pose of a person, on the contrary is not protected. Nike borrowed the concept and idea of the photo but made different creative choices in how the image would be captured and as a result, the court decided that Nike did not unlawfully appropriate the Rentmeester image, as the image Nike created was not substantially similar.

### North American Soccer League v. United States Soccer Federation Update

Over the past seven years, the United States Soccer Federation (USSF) has classified the North American Soccer League (NASL) as a Division II league. The NASL was recently informed by the USSF that it would not be approved as Division II league moving forward. As a result, the NASL has filed a complaint against the USSF alleging antitrust violations that in denying the NASL from being approved as a Division II league, the USSF has in fact illegally protected the monopoly position of its business partner: Major League Soccer (MLS). NASL moved for a preliminary injunction, seeking a Division II designation for the duration of this litigation.

In order to be awarded a preliminary injunction a party must establish, “(1) irreparable harm; (2) either (a) a likelihood of success on the merits, or (b) sufficiently serious questions going to the merits of its claims to make them fair ground for litigation, plus a balance of the hardships tipping decidedly in favor of the moving party; [3] that the balance of hardships tips in its favor; and (4) “that a preliminary injunction is in the public interest.” However, a heightened standard is appropriate where: “(i) an injunction is ‘mandatory,’ or (ii) the injunction will provide the movant with substantially all the relief sought and that relief cannot be undone even if the defendant prevails at a trial on the merits.” As a result, the court held that the heightened standard would apply because the request is to alter the NASL’s status rather than maintain the status quo.

The most important element that needs to be established is that there is in fact irreparable harm. NASL attempts to cite several reasons as to why they are facing irreparable harm but the most convincing to the court was the loss of potential investors. NASL had evidence of letters of intent for six new teams based on a Division II status as well as evidence that the league was on shaky financial grounds otherwise.

The next critical element is that there is evidence of a concerted action. A conspiracy in violation of Section 1 of the Sherman Act “requires proof of a conscious commitment to a common scheme designed to achieve an unlawful objective demonstrated by direct or circumstantial evidence that tends to exclude the possibility of independent action.”

The plaintiffs at the very least have to prove that there was an agreement to agree to vote a certain
way and thus compromising the independent decision making of each board member. This does not happen although the plaintiff does offer circumstantial evidence in support of a concerted action alleging that conspiracies may be proven through inferences from the behavior of the alleged conspirators. Unfortunately, the evidence does not exclude the possibility of independent action and thus the court indicated that the plaintiffs failed to establish a likelihood of success on the merits.

It is likely that this case will continue as the NASL has filed a lawsuit against the United States Soccer Federation Board of Directors on grounds that they breached their fiduciary duty. I am not sure if this will be successful unless the NASL can prove that there was concerted action.

Ezekiel Elliot Case(s) against the National Football League

Last year, Ezekiel Elliot, running back for the Dallas Cowboys, was served with a six game suspension for domestic violence. As a violation of this personal conduct policy, the commissioner of the National Football League (“NFL”), Roger Goodell, issued this penalty. Before discussing the legal matter of the case it is important to know the background.

Background

On February 12, 2016, a woman called the Aventura Police Department in Florida and alleged that Elliot pushed her against a wall, which hurt her shoulder. She said that Elliot put his hands on her because she was communicating with one of his old teammates. Between July 17th and July 22nd of 2016, Elliot’s accuser reported five different instances of violence.

On September 6, 2016, the City Attorney’s Office in Columbus, Ohio, issued a statement stating that no domestic violence charges against Elliot would take place due to conflicting and inconsistent statements. However, the NFL indicated that it would have an investigation to determine if the Elliot violated the league’s personnel policy.

On August 11, 2017, the NFL announced that Elliot would be suspended for the first six games of the 2017 season based on the yearlong investigation with the league determining that Elliot had in fact been physical with his accuser at least three times in July 2016.

The NFL released a statement regarding the Elliot suspension. The NFL said that after an extensive investigation including consultation with medical experts, league investigators, and examining all available evidence that the decision to suspend Ezekiel Elliot was for the Commissioner of the NFL to make. “Pursuant to the Personal Conduct Policy, Commissioner Goodell sought the views of four external advisors to assist in evaluating potential violations.”

The National Football League Players Association and representatives for Elliot commented that the decision by the NFL is unwarranted especially because both the Columbus Prosecutor’s Office and the NFL Investigators expressly concluded that at least on one occasion the accuser was lying and that the alleged incident was undermined by the accuser’s friend’s affidavit.

On August 15, 2017, Elliot officially files an appeal. Commissioner Goodell appointed Harold Henderson as the arbiter of the appeal hearing, and Henderson affirms the decision by Goodell. Prior to the issuance of the decision, the attorneys for Elliot filed a lawsuit in Texas to vacate the results of the appeal on the grounds that the NFL was hiding critical information such as the NFL’s Director of Investigations’ reporting that the accuser was not credible in the allegations and recommended no suspension for Elliot. That information was not part of the investigation report used in determining the outcome of Goodell’s decision. The Texas court found that the hearing was not fundamentally fair and granted the preliminary injunction.

Case

Ultimately, this case was decided in New York. The NFL argued that the district court lacked subject matter jurisdiction under the Labor Management Relations Act (“LMRA”) because “a lawsuit for violations between an employer and a labor organization must satisfy the following three elements: (1) a claim of violation of, (2) a contract, (3) between an employer and a labor organization.”

The NFLPA argued that Elliot’s attorneys stated a claim that satisfied those elements and thus vested the court with jurisdiction. The NFL responded that jurisdiction under the LMRA exists only if, Elliot “exhausts his contractual remedies and that the lack of a final arbitral decision at the time of filing the complaint is a fatal jurisdictional defect.”

The court held that the NFLPA’s lawsuit on Elliot’s behalf was premature because the procedures set forth in the collective bargaining agreement between the NFL and the NFLPA were not exhausted because the contracted arbitrator had yet to make a final decision.

There are a number of issues in the NFL. The first is the power of the Commissioner to institute
discipline and the ability for the Commissioner to appoint arbitrators to hear appeals. In traditional labor relations settings, it is customary for the parties to mutually select a neutral arbitrator to hear a case. These two issues will be paramount when the NFL and NFLPA renegotiate their collective bargaining agreement in 2021, as it is likely that a long lockout will ensue.

**Turner v. Wells, et al.**

In the middle of the 2013 National Football League season, Jonathan Martin departed from the Miami Dolphins, citing that he was the victim of bullying and harassment by his teammates. The defendant in this case, Theodore Wells, a partner at Paul Weis, conducted an investigation into the matter and authored a report to the NFL concerning the issues of workplace conduct within the Miami Dolphins franchise. In the report, Wells included facts and conclusions as to Martin’s teammates and even the plaintiff, then offensive line coach James Turner. It is from that report that this case is being tried. Turner has alleged that Wells’ report to the NFL contains false statements and accusations that have defamed him, as well as led to the termination of his employment with the Miami Dolphins. Turner has sued Wells claiming defamation. Wells has filed a motion to dismiss.

A motion to dismiss in accordance with Federal Rules of Civil Procedure 12(b)(6), states, “a claim must contain sufficient factual matter, accepted as true, to state a claim to relief that is plausible on its face, meaning that it must contain factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged.”

Under Florida law, “[t]o state a claim for common law defamation, a plaintiff must allege that (1) the defendant published a false statement (2) about the plaintiff (3) to a third party and (4) that the falsity of the statement caused injury to the plaintiff.”

True statements and statements of pure opinion are protected from defamation actions by the First Amendment. Florida law states, “[c]ommentary or opinions based on facts that are set forth in the article or which are otherwise known or available to the reader or listener are not the stuff of libel.” Furthermore, an important piece in analyzing whether the speaker accurately depicted the facts depends on whether the writer presents the facts at the same time that the commentary is presented. Independent commentary provided in this matter usually results in a finding of being purely opinion based.

Turner challenges the Defendants’ recitation of the blow-up doll incident and the characterization that Turner was somehow taunting Martin among other statements. The court held that since the facts were presented in the report before any commentary was made that the conclusions made by the Defendant was opinion based and thus under Florida law is an exception to defamation as it is protected under the first amendment. As a result, the motion to dismiss by the Defendant was granted by the court.

The case was appealed to the Eleventh Circuit. The court agreed with the lower court about the statements being opinion based and in arguendo added that Florida law states that a dismissal of a complaint on any ground supported by the record is permissible, even if that ground was not considered by the district court. The court found little difficulty coming up with the conclusion that Turner would be considered a public figure when an assistant professional basketball coach was considered to be a public figure. Moreover, other jurisdictions generally consider coaches from professional and collegiate sports teams to be public figures. Turner also availed himself to being a public figure when he appeared on HBO’s 2012 Season of Hard Knocks, a television program that features one National Football League team during its pre-season. Since Coach Turner is a public figure, he must establish actual malice on behalf of the author of the report and that means that the author made the false statement with knowledge of its falsity. As a result, Turner could not prove that standard and the case was affirmed.

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Endnotes


2. 802 F.3d 1049 (9th Cir. 2015).


6. Id.


8. Id.

9. Id.

10. Id.

11. Id.


13. Id.

14. Id.

15. Id.


18. Id.


22. Id.

23. Id.

24. Id., at 41–47.


27. Id.


35. See Compl., supra n. 33.


37. Id. at 14.

38. Letter from J. Anthony Precourt, Chief Exec. Officer, Procourt Sports Ventures, and William Z. Ordower, General Counsel, Major League Soccer, L.L.C. to Andrew J. Ginther, Mayor, City of Columbus (March 16, 2018).


41. Shaw v. Lindheim, 919 F.2d 1353 (9th Cir. 1990).

42. Rentmeester v. Nike, Inc., 883 F.3d 1111 (9th Cir. 2018).

43. Id.

44. Mattel, Inc. v. MGA Entertainment, Inc., 616 F.3d 904 (9th Cir. 2010).

45. Rentmeester, 883 F.3d at 1111.

46. Id. at 1118.

47. McCulloch v. Albert E. Price, Inc., 823 F.2d 316 (9th Cir. 1987).

48. Rentmeester, 883 F.3d at 1123-1125.


50. Id. at 7.

51. Id. at 10.

52. Id. at 14.


54. Id.

55. Id.


57. Id.

58. Id.


60. Id.


63. Id. at 1365.

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66. Id.

67. Seminole Tribe of Fla. v. Fla. Dep’t of Revenue, 750 F.3d 1238 (11th Cir. 2014).


I Have Absolute Proof!

By: Peter Dekom

Conspiracy theorists point lovingly to viral social media and “factual” websites to support their rather obviously distorted view of what is happening in the world. It is this propensity to believe “what is written,” what is retransmitted as the gospel often received from fellow conspiracy theorists, that continues to empower the Russian apparatus of digital disinformation used to destabilize democratic elections the world over and to discredit Western leaders who criticize mother Russia. The hyper-accelerant of polarization and discontent, fueling the undercutting of democratic institutions unprepared to defend against such onslaughts under the protection of free speech. The very liberalism of communication that lies at the heart of democracy is precisely its Achilles Heel.

With little or nothing being done by the Trump administration to stem this Russian tidal wave of destabilization – apparently to avoid admitting that the Russian effort was directed at supporting Trump and denigrating Clinton – the Russians are only accelerating their highly effective hacking the disinformation machine. The President is content to ignore the research and investigative results from his own intelligence agencies… and even his most recent political appointees… on point.

As reported by Reuters, “Senior Trump administration officials warned Congress on Tuesday, May 22, 2018, of ongoing efforts by Russia to interfere in the 2018 midterm congressional elections as the federal government prepares to hand out $380 million in election security funding to states.”

“At a briefing attended by about 40 or 50 members of the 435-member U.S. House of Representatives, the heads of FBI, Homeland Security Department and the director of National Intelligence told members to urge states and cities overseeing elections to be prepared for threats..., DHS Secretary Kirstjen Nielsen [a most recent Trump appointee] told reporters she agreed Russia was trying to influence the 2018 elections.”

But if you think you’ve witnessed highly effective digital misdirection to date, think again. As artificial intelligence and technology improve, you ain’t seen nuffin’ yet. Audio-visual manipulation can now create seamless videos accompanied with voices that seem to be completely real… but they are creative visions that never happened, total fabrications.

Franklin Foer, provides a coarse example of this new technological phenomenon: “In a dank corner of the internet, it is possible to find actresses from Game of Thrones or Harry Potter engaged in all manner of sex acts. Or at least to the world the carnal figures look like those actresses, and the faces in the videos are indeed their own. Everything south of the neck, however, belongs to different women. An artificial intelligence has almost seamlessly stitched the familiar visages into pornographic scenes, one face swapped for another. The genre is one of the cruelest, most invasive forms of identity theft invented in the internet era. At the core of the cruelty is the acuity of the technology: A casual observer can’t easily detect the hoax.”

Foer continues, stating “[t]his development, which has been the subject of much hand-wringing in the tech press, is the work of a programmer who goes by the nom de hack ‘deepfakes.’ And it is merely a beta version of a much more ambitious project. One of deepfakes’s compatriots told Vice’s Motherboard site in January that he intends to democratize this work. He wants to refine the process, further automating it, which would allow anyone to transpose the disembodied head of a crush or an ex or a co-worker into an extant pornographic clip with just a few simple steps. No technical knowledge would be required. And because academic and commercial labs are developing even more sophisticated tools for non-pornographic purposes—algorithms that map facial expressions and mimic voices with precision—the sordid fakes will soon acquire even greater verisimilitude.”

Further, “[t]he internet has always contained the seeds of postmodern hell. Mass manipulation, from clickbait to Russian bots to the addictive trickery that governs Facebook’s News Feed, is the currency of the medium. It has always been a place where identity is terrifyingly slippery, where anonymity breeds coarseness and confusion, where crooks can flinch the very contours of selfhood. In this respect, the rise of deepfakes is the culmination of the internet’s history to date—and probably only a low-grade version of what’s to come.”

If this is the “low grade” version of our digital future, and technology is accelerating, what exactly can you expect when over-funded, exceptionally technical–advanced software experts – such as the ones produced in Russia by the tens of thousands every year – decide to perfect this substitute-for-reality audio-visual manufacturing? Add artificial intelligence to the mix, and the expected horrors are obvious: you can pretty much get any person who has ever been recorded on video very convincingly to be depicted as saying and doing just about anything the audio-visual
technologists delight! Anything you can dream of will, sooner rather than later, be able to be constructed in a believable manner to support even the wildest and obviously false conspiracy theories imaginable.

But there is a side-effect to all this visual falsehood: the ability to challenge the veracity of audio-visual material that is not fake! Foer continues: “[t]hat all takes us to the rub of the problem. It’s natural to trust one’s own senses, to believe what one sees—a hard-wired tendency that the coming age of manipulated video will exploit. Consider recent flash points in what the University of Michigan’s Avi Ovadya calls the ‘infopocalypse’—and imagine just how much worse they would have been with manipulated video. Take Pizzagate, and then add concocted footage of John Podesta leering at a child, or worse. Falsehoods will suddenly acquire a whole new, explosive emotional intensity.”

“But the problem isn’t just the proliferation of falsehoods. Fabricated videos will create new and understandable suspicions about everything we watch. Politicians and publicists will exploit those doubts. When captured in a moment of wrongdoing, a culprit will simply declare the visual evidence a malicious concoction. The president, reportedly, has already pioneered this tactic: Even though he initially conceded the authenticity of the Access Hollywood video, he now privately casts doubt on whether the voice on the tape is his own.”

“In other words, manipulated video will ultimately destroy faith in our strongest remaining tether to the idea of common reality. As Ian Goodfellow, a scientist at Google, told MIT Technology Review, ‘It’s been a little bit of a fluke, historically, that we’re able to rely on videos as evidence that something really happened.’”

But as much as these efforts have helped the Trump/GOP election effort in 2016 – protected in part by the First Amendment – there are aspects of that amendment he finds abhorrent.

As the President attacks mainstream media (“MSM”), labeling at least that Trump-critical segment (most national media) as the “enemy,” seeking to expand his right to sue for defamation against a rather clearly limited liability of the press, Donald Trump seems to fall back on his disdain for those elements of the United States Constitution that stand in the way of his autocratic pronouncements and political goals. Even the most conservative Supreme Court is unlikely to reverse the “actual malice” defamation threshold for the press enunciated in New York Times Co. v. Sullivan. But the President presses (pun intended) on.

The President’s disdain of those who criticize him has also led to an unfavorable ruling against his attempt to cut off his Twitter feed to selected anti-Trumpists. “Trump — who notoriously uses Twitter as his social-media platform of choice — has blocked several celebrities on Twitter [specifically, the comment section of Trump’s personal account, @realDonaldTrump], including novelist Stephen King, Rosie O’Donnell and Chrissy Teigen.”

On that date, in Knight First Amendment Institute v. Trump, U.S. District Judge Naomi Reice Buchwald labeled Trump’s Twitter account a “public forum” protected under the First Amendment and ruled: “This case requires us to consider whether a public official may, consistent with the First Amendment, ‘block’ a person from his Twitter account in response to the political views that person has expressed, and whether the analysis differs because that public official is the President of the United States… The answer to both questions is no.”

Watching how technology, the Constitution and our leadership react and interact in a new world, where traditional democratic structures become enablers of political manipulation, is both fascinating and terrifying. The Facebook personal data-abuse debacle with now-defunct Cambridge Analytica worldwide as well as the battles between social media – particularly Google and Facebook — against the antitrust and privacy statutes and regulations in Europe are escalating. On May 25, 2018, the EU’s General Data Protection Regulation (GDPR), which is designed to enable individuals to better control their personal online data, took effect and pushed that battle one giant notch higher.

While privacy concerns seem to a lesser priority in this country, there are some very real concerns about how these changes impact our most basic political systems. All Donald Trump seems to want is to allow those mass communications that support him to expand but his critics to be silenced and that private information that enables his communications to blossom be accessible. The ability to make “fake news” count as much as cold hard facts, to be able to discount cold hard facts as questionable, add variables that will put our commitment to a free, open and truly representative democracy to its ultimate test, particularly under an administration that shows little respect for constitutional limitations on governance.

The real challenge will be how a First-Amendment-Protected-American-Democracy can effectively negate the democracy-destroying impact of speech and press reports that are depicted as real, but are total fabrications. It gets worse when such offenses are so numerous as to defy tracking, verification, and
control. We need to push these issues to the fore… NOW!

I’m Peter Dekom, and given that we have a President who is rather completely reliant on his own dissemination of false information, it is difficult to see how our government can take meaningful steps to stop such conduct by others.

**Endnotes**

2. Id.
4. Id.
5. Id.
6. Id.; See also Breiner, Andrew, Pizzagate, explained: Everything you want to know about the Comet Ping Pong pizzeria conspiracy theory but are too afraid to search for on Reddit, Salon (Dec. 10, 2016, 4:00 P.M), https://www.salon.com/2016/12/10/pizzagate-explained-everything-you-want-to-know-about-the-comet-ping-pong-pizzeria-conspiracy-theory-but-are-too-afraid-to-search-for-on-reddit/.
7. Id.
8. Id.

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**Float Like A Butterfly, Sting Like A $30 Million Lawsuit:**

**Muhammad Ali Enterprises Throws a Haymaker at Fox with a Right of Publicity Claim**

By: Ryan B. Jacobson and Max B. Goodman

A $30 million lawsuit is currently pending in the Northern District of California, which is set to test the boundaries of the Lanham Act and Illinois’ Right of Publicity Act. At the heart of the case, is a three-minute video which aired on Fox as the lead-in to Fox’s Super Bowl LI coverage on February 5, 2017.

The piece entitled, “The Greatest,” begins by paying tribute to Muhammad Ali (famously self-nicknamed “The Greatest of all Time” or simply “The Greatest”) who died eight months prior. The segment uses footage of Ali’s fights and newsreel, taking the viewer through pivotal moments of Ali’s life — from his lightweight bouts to his refusal to report for induction into the U.S. Army during the Vietnam War — culminating in his lighting of the Olympic torch in 1996. The first half of the segment is a pure tribute to Ali with a moving narration and musical accompaniment building as the piece progresses. Until the 1:30 mark, football is not mentioned once.

Almost exactly halfway through the piece, it pivots from Ali, as football’s greatest athletes and coaches are depicted and the narrator segues, “in the Super Bowl, many have marched towards this same confrontation with greatness.” Other players are shown, but Patriots’ quarterback, Tom Brady, receives a lion’s share of the screen time as the voice-over mentions “passing the torch” and how “greatness can become The Greatest.” The shots then cut repeatedly between Brady and Ali. The segment ends with the viewer being asked to:

“Walk with me to that light at the end of the tunnel, fearlessly, right into the heart of it – it’s the only way to prove you’re worthy of being called, “The Greatest.”

As the narrator says “the greatest,” the screen fades to black displaying a bare logo for Super Bowl LI.

The current owner of the intellectual property rights associated with Ali, Muhammad Ali Enterprises
MAE argues that Fox violated the Illinois Right of Publicity Act (“IRPA”) in airing this segment without first obtaining MAE’s consent. IRPA defines the “right of publicity” as “the right to control and choose whether and how to use an individual’s identity for commercial purposes.” IRPA prohibits the unauthorized use of another’s identity for commercial purposes.

For example, if a photographer captured someone drinking a Pepsi and Pepsi used that photograph in an advertisement without his written consent, IRPA would permit recourse. IRPA would similarly protect a professional model who licensed her image for certain companies, but who did not consent to her photograph being used to advertise a particular product.

The Act, however, has multiple exceptions to its applicability, which may prove its defeat in this instance. The Act does not apply to the use of an individual’s identity for any “noncommercial purpose,” defined in relevant part as including “any news, public affairs or sports broadcast.” The Act also does not apply to any promotional materials or advertisements for any news, public affairs, or sports broadcast.

Fox contends that The Greatest segment is itself a news, public affairs, or sports broadcast and that MAE’s IRPA claim is improper. The argument makes clear that Ali was a figure of legitimate public concern, and that The Greatest segment was nothing more than a documentary short about his life. Here, Fox is correct to a point: if The Greatest segment was a mere Ali documentary, the publication would fall squarely into this exemption. Had The Greatest segment stopped at the 1:30 mark, this argument would pack a stronger punch.

Fox argues that the mere fact that the second half of The Greatest segment shows clips of previous Super Bowls doesn’t suggest liability. Accounts of previous Super Bowls, Fox maintains, are also matters of public interest and thus entitled to a “noncommercial” designation. This is a creative argument, but it belies a plain viewing of the segment as a whole.

The segment is not a pure tribute to Ali, nor is it merely a recount of previous Super Bowls. This is intended to liken Ali’s greatness to Brady’s asking the viewer, “will Tom Brady perform at this Super Bowl sufficient to warrant this comparison to Ali – watch tonight to find out.” Portions of The Greatest segment pay tribute to Ali and parts speak to other football greats. There seems little support for the argument that The Greatest segment is itself a news, public affairs, or sports broadcast distinct from the Super Bowl itself.

Fox is on surer footing to avoid IRPA liability in its claim that The Greatest segment is an advertisement for the Super Bowl. It relies on the IRPA exception for promotional materials for sports broadcasts (seemingly, a perfect fit). Here, the sports broadcast is Super Bowl LI and the closing scene of The Greatest segment displays the Super Bowl LI logo (evoking the feel of an advertisement). MAE concedes that Super Bowl 51 was a “sports broadcast” while offering an interesting argument as to why this exemption should still not shield Fox from liability.

The relevant IRPA provisions read as follows:

“This Act does not apply to the following . . .

promotional materials, advertisements, or
commercial announcements for . . . non-
commercial purposes, including any news,
public affairs, or sports broadcast.”

This exemption was designed to allow sports broadcasters to advertise their programs without those ads running afoul of this Act. MAE asks the Court to read this exemption to only allow sports broadcasters to promote their non-commercial programs using the identities of individuals who appear in those programs. MAE suggests that this exemption should allow for the unauthorized use of Tom Brady’s identity in The Greatest segment (who was a participant in Super Bowl LI), but not Ali (who was not). MAE does not address whether the unauthorized use of former football stars — such as Joe Namath (who also did not appear in Super Bowl LI), whose identity is used in The Greatest — should be exempted from liability.
MAE asserts that Illinois courts have previously only addressed the news and sports broadcast (and associated advertising) exemption where the individual’s identity used is also the subject of the news or sports broadcast. For example, in Schivarelli v. CBS, the television network was not liable under IRPA for the unauthorized use of a hot dog vendor’s identity in a thirty-second advertisement for a later broadcast in which the vendor was interviewed.22 Similarly, Best v. Berard, held the television company not liable for broadcasting an arrestee’s arrest without the arrestee’s consent.23 MAE argues that this Court should reach a different outcome because unlike Schivarelli or Best, Ali was not a participant in the broadcast; this exemption was not intended to allow for this type of unauthorized use of an individual’s identity.

MAE can point to IRPA’s definition of “commercial purpose” - “the public use or holding out of an individual’s identity for purposes of advertising or promoting . . . services” – to argue that Fox’s use of Ali’s identity was for a commercial purpose.24 MAE can also point to the fact that our Supreme Court has referenced three factors that if all are present, demonstrate the complained-of speech is commercial in nature: (1) is the speech an advertisement; (2) does the speech refer to a specific product or service; and (3) does the speaker have an economic motivation for the speech.25

MAE also appears correct that no previous Illinois court has extended the exemption to allow a broadcaster to appropriate someone’s identity to promote their broadcast when that individual is not also a participant. This may be a difference without a distinction given the plain language of the exemption. The Court can interpret this statute, but it cannot make a finding in conflict with it.

Lanham Act

MAE’s alternative theory of liability is premised on the fact that Fox’s unauthorized use of Ali’s identity falsely implied that Ali (or MAE) endorsed the Super Bowl.26 MAE seeks recovery under Section 43(A) of the Lanham Act.

To prevail under the Lanham Act, MAE must show (1) Fox’s use of Ali’s identity without consent; (2) that his identity was used in a commercial advertisement or promotion; that (3) is likely to cause confusion concerning the affiliation, sponsorship, or association of Ali with Fox and/or the Super Bowl; and (4) damages.27

Fox can assert that it is entitled to a defense under the Rogers test which allows references to individuals in expressive works if the use is artistically relevant to the work as a whole and if the reference does not explicitly mislead the viewer as to sponsorship.28 This is a low threshold to meet for Fox. MAE argues that the Rogers test does not apply to this case as the complained-of use was to promote a different expressive work (the Super Bowl) and accordingly, the Rogers test is inapplicable.

In support of its position, MAE points to Facenda v. N.F.L. Films, Inc., where NFL Films used tapes of a famous broadcaster’s voice in a production, “The Making of Madden NFL 06” (a cable production about the football video game, Madden NFL 06).29 The Facenda Court ruled the production as an example of “commercial speech,” explicitly refusing to apply the Rogers test because there (like here) the work accused of the Lanham Act violation aimed to promote a different work.30 It was this additional degree of separation that rendered the Rogers test inapplicable for the Facenda Court. MAE encourages this Court to come to the same conclusion.

MAE argues that since the heightened Rogers test does not apply, the Court should simply apply the Lanham Act’s “likelihood of confusion” standard. MAE believes there is a likelihood of confusion as to whether Ali (through MAE) endorsed the subject broadcast pointing to several cases noting the common assumptions that when a celebrity’s name is used in a commercial, that celebrity endorses that product or service.

The resolution of these right of publicity and Lanham Act claims could reshape First Amendment jurisprudence and will affect celebrities’ ability to control how their image is used and media to create content.

Damages

Super Bowl LI commercials were valued at approximately $5 million per thirty second commercial. MAE’s lawsuit seeks in excess of $30 million for the depiction of The Greatest segment (lasting a total of three minutes with six thirty second segments).31 If liability is proven, however, there is a strong argument for damages beyond the advertising time.

An individual’s right to publicity is a property right and how one’s identity is used when advocating for a cause or selling a product impacts the value of that property. Even if Fox’s use of Ali’s identity was in line with how MAE would have used this intellectual property, the unauthorized use could have affected the value of the Ali brand through overuse or an association with the Super Bowl or the NFL. Any damage to Ali’s rather valuable brand, if proven, should be recoverable.32
Further, any profits Fox obtained (i.e. any benefit to the Fox brand) from the unauthorized association with Ali, should be recoverable as well. As a result of Ali’s achievements both in and outside of the ring, he is widely known and admired. His death eight months before Super Bowl LI increased the public’s attention and recognition of his importance while solidifying his place in our collective consciousness. Whether unlawful or not, Fox tapped into that feeling of universally-recognized greatness and goodness while wrapping itself in Ali’s memory to increase viewership and hype.

The timeliness of Ali’s death and apt comparison to Tom Brady (given his performance in Super Bowl LI leading a historic come-from-behind victory) aside, MAE can also argue that Fox used Ali’s identity as part of an effort to suppress or quell certain political divides which had followed former Colin Kaepernick’s national anthem protest.

At the time of Super Bowl 51, the Kaepernick debate had reached its pinnacle. Many have questioned whether these protests or the backlash they sparked hurt the NFL brand (valued at approximately $25 billion in 2015). Although the NFL is not a party to this case, this issue is relevant because in 2011, Fox (along with CBS and NBC) extended their contract to broadcast NFL games until 2022. Further, in 2016, Fox made $1.44 billion in ad revenue from its contract to broadcast NFL games. If less people watch the NFL, Fox would suffer. If Fox’s appropriation of Ali’s likeness benefited the NFL, MAE can argue that Fox still benefited financially.

Fox’s pregame show included a four-minute discussion of Kaepernick’s protest; towards the end of the pregame, Fox aired a mini-film set to Johnny Cash’s “Ragged Old Flag” in an attempt at a unifying message. Fox’s decision to appropriate Ali’s likeness without his consent seems counterintuitive in this context, but if liability is shown and Fox’s unjust enrichment evidenced, additional damages could flow to MAE.

NOTE--These issues of law, damages, and public relations surely weighed on each party at various points in this contentious litigation. In July of this year, the parties opted to settle rather than to test the boundaries of Illinois’ Right of Publicity Act and the Lanham Act. The issues of law raised by the parties are left unresolved. At stake is an individual’s right as to how their image is used and the media’s unencumbered freedom to report and comment on news of the day. How these competing interests can be balanced remains to be seen.

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**Endnotes**

2. Id.
3. Id.
4. Id.
5. Id.
6. Id.
8. Id. at 6.
9. Id. at 7.
10. Id.
13. 765 ILCS 1075/10.
14. Id.
15. Id.
16. Id.
18. Id.
19. Id.
24. 765 ILCS 1075/10.
30. Id.
32. See Anderson, Mae, Muhammed Ali not ‘The Greatest’ at endorsement deals, The ASSOCIATED PRESS (June 6, 2016) (available at: https://www. thestar.com/news/world/2016/06/08/muhammad-ali-not-the-greatest-at-endorsement-deals.html). (This 6, 2016, decades after he stopped boxing, Muhammad Ali was tied with Michael Jordan and Tom Brady for No. 1 in ‘familiarity’ on Marketing Evaluations’ annual sports Q ratings – a measurement of various aspects of athlete and celebrity marketability.)
33. Kaepernick first began his protest in August of 2017. This issue dominated NFL reporting each week culminating with President Trump notably commenting at a campaign rally in September of 2017 “wouldn’t you love to see one of these NFL owners when someone disrespects our flag to say ‘get that son of a bitch off the field right now – out – he’s fired. He’s fired!’ This issue was at the forefront of NFL coverage at this time.
BOOK CONTRACTS 101—An ABA Forum on Entertainment & Sports Law Webinar Transcript

Moderated by Daniel Rogna
Panelists: Evan Gregory and Jason Koransky


Welcome to “Book Contracts 101” cosponsored by the ABA Forum on Entertainment and Sports Industries, Young Lawyers Division, and the ABA Center for Professional Development.

Moderating the program today is Daniel Rogna. Daniel is an associate at Partridge Partners PC and is located in Chicago, Illinois. Daniel, please proceed with today's program.

Daniel Rogna: Thank you. Joining me on the program today are Jason Koransky and Evan Gregory. Jason is an associate at Pattishall, McAuliffe, Newbury, Hilliard & Geraldson in Chicago. Jason’s experience includes a decade serving as an editor of “Downbeat,” an international music magazine, and Jason’s taken that experience into his career as an attorney. Today, Jason's practice focuses on trademark, copyright, advertising, data privacy, and internet law.

Evan is a senior agent at the Ethan Ellenberg literary agency in New York. Evan has extensive experience managing subsidiary rights in foreign deals, and Evan represents a variety of literary, fiction and nonfiction authors, with particular focus on fantasy and science fiction. If you’re looking for more of Evan after the program, I suggest you follow him on Twitter @Evanjgregory.

The purpose of the program today is to review publishing contracts. And although these the standard terms of a book agreement haven’t changed much over the years, the publishing industry and the technology associated with that industry has evolved substantially. We have standard terms that take on new meanings with this evolution, and those new challenges require innovative approaches. The goal today will be to review standard publishing agreement terms, present drafting tips to avoid legal risks and suggest negotiation strategies. The objectives that we expect the viewer to be able to achieve at the end of the program will be to competently discuss standard publishing contract terms, recognize the grant of rights in a publishing contract and assess whether the language, format and territory grants are advantageous to their client, identify favorable royalty terms; assess the risks associated with publishing contract representations and warranties; and advise clients on related issues, like self-publishing alternatives, book title trademarks and literary agent agreements.

So, let’s start with the description of the work. Evan’s going to speak on this a little bit. But the idea is we’re not just selling any book, we’re selling a specific book. So, we need to describe the work, including things like the title, genre, content and length, even if the book is not fully completed at the time of contracting. Evan, what are your thoughts about the best way to draft a description of the work?

Evan Gregory: Well, typically as an agent, an author, you don’t have a lot of input on it. Usually, it’s what the publisher presents to you. And sometimes there are instances where you may need to renegotiate some of the wording or make sure that genre distinctions are narrowed a bit, because if you have a client, for example, I have writers, both fantasy and science fiction, and if they have a work that is solidly in one camp or the other, and the publisher publishes both, it could be a problematic to have the description be sort of vague. Like to have it be like a fiction novel. So, it’s good to say it is science fiction novel or a hard science fiction novel, or it is a military science fiction novel, to differentiate from other types of novels that an author might write.

Daniel Rogna: It’s fair to say what you want to do when drafting the description of a work or negotiating a contract is to make sure that the expectation of the publisher is clear.

Evan Gregory: Right.

Daniel Rogna: by being as specific as possible?

Evan Gregory: Right. If your author turns in a fantasy novel when they’re supposed to turn in a science fiction novel, they could get the book rejected and have to return their advance. That’s no fun for anyone.

Daniel Rogna: We’ll talk about that later.

Evan Gregory: Exactly. The secondary concern is usually length. So, length expectations are kind of a big deal. Everyone has a different idea of how long a novel should be, and there are different expectations in different genres. You don’t want to promise a fantasy novel that is...
Daniel Rogna: Is that where you, as an agent, step in with a realistic approach about how long the book is actually going to be?

Evan Gregory: Yes, usually, yeah.

Daniel Rogna: Once you described the work, generally the next thing you find in the contract is the grant of rights. The grant of rights is usually a very dense clause. What it does is transfer rights in the literary property from the author to the publisher. Copyright law confers a number of rights in the author of any copyrightable work. These are considered or often referred to as the bundle of rights. And the author has the authority to grant third parties the right to exercise this bundle in whole or in part, and breaking down that bundle is a lot of what the contract negotiation for a publishing agreement is about.

Let's take a look at a typical grant of rights. This is language that you might see. It says, “the author grants to the publisher the exclusive right to print, publish, sell, distribute, and license the work in the English language, in all formats, in whole or in part, throughout the world during the full term of copyright and any renewals and extensions thereof except as provided herein.” So, there are a lot of parts in there. There’s exclusivity. There’s the language, the format, territory and the term, all bundled together in the grant of rights. Think of those, one big takeaway is pay attention to the grant of rights, because it’s perhaps the most important part of the agreement. Evan, let's just talk about exclusivity for a second. Is that something that comes up in the publishing agreement?

Evan Gregory: Not often, no. Usually, if you are granting rights to a publisher for publication rights, they want them exclusively, and same goes for conferring film rights or translation rights to other third parties. So usually they want them exclusively. There are a few instances where nonexclusivity is kind of a necessity. Usually, it’s for like serial rights. There are first, second, third serial rights. Usually, first serial rights are exclusive. So, if you are publishing an excerpt of your literary novel in “The Atlantic” for example, you would be granting “The Atlantic” exclusive serial rights. But after it’s already been published in “The Atlantic” obviously it’s no longer exclusive. Excerpts from a novel or even the same excerpt can be republished multiple times. So, that’s where sort of nonexclusive rights may be granted.

Daniel Rogna: Great. But exclusivity is something you also want to pay attention to when looking at a selfpublishing agreement, because you do not want to, under most circumstances, give the publishing platform exclusive rights to that work.

Evan Gregory: Right.

Daniel Rogna: The next topic within the grant of rights, we’ve got the term. How long should the term be generally?

Evan Gregory: It depends on which rights you’re licensing. Obviously, most publishers will accept nothing less than the full term of copyright and all extensions and renewals, which is, if I understand it correctly, life plus 70 years, and whatever extensions by law happen during that term. Usually the publisher wants the rights for the whole duration of that. If your book is a bestseller, and it goes into reprint and it’s one of those classic books that is always going to be bought and printed, there’s potential for them to hang onto and be the exclusive publisher for your entire life plus 70 years, for the entire life of your children and grandchildren. So that’s something to look out for. Most subsidiary rights deals, however, the term is shorter. For translation deals, for example, terms may be as little as five years or as much as ten years. For audio rights, it’s usually around like ten years, with automatic renewals.

Daniel Rogna: Sure. I’ll point out that there is a statutory reversion, which any copyright attorneys in the room understand, and it’s complicated, and I have had to deal with it in the past. But short of the statutory reversion, you want to make sure that the contract includes a reversion right in the event the work is out of print and if it isn’t one of those classics that’s always being printed. We’ll talk about that a little bit more later. But if it’s out of print you want to make sure you get the rights back.

Moving on. Let’s talk about territory. It may be a worldwide license, it may be country specific. Evan, in your experience, what’s preferable for the author? What do you see most frequently? What should new attorneys looking at their first book contract think about when they’re presented with the territory grant?

Evan Gregory: It’s become increasingly popular for publishers to demand worldwide rights, and in several instances, it’s advantageous to the author to grant them worldwide rights, especially if they have subsidiaries in the UK, for example. So, if you are limiting the grant of rights to the English language, worldwide distribution with the publisher that has publishing arms in other territories can be advantageous.

Now, it doesn’t always work that way. Sometimes you want to reserve some territory. So, you might want a book to be published by a publisher in the United States and to reserve UK rights, because you have an author who is based in the UK and there’s a different UK market, and you might able to sell those rights to a UK publisher for more money and have them publish it in their home territory with more fanfare and publicity. That is one
get from licensing those rights on your behalf. If you usually a 50% cut of any proceeds that they would also have subsidiary rights departments that sell those rights, someone doing that full time for you, then it could be kind to help us sell those rights in other languages, or sell different territories, and we split commission with them.

Our case, we work with subsidiary rights agents in several who is going to do that for you. Usually, it's an agent. In the grant, you want to make sure that splits are stricken from the agreement so there’s no doubt about it. You've pointed out that the book may be in any and all media, whether now known or hereafter developed. Well, if you’re counseling a client for certain royalty rights on books, and ten years later, the book is still in publication, and now it’s an electronic book, and

Daniel Rogna: Would it be fair to say that an author or author’s representative is going to have an easier time negotiating that if they’re dealing with a smaller publishing house, as opposed one of the big five?

Evan Gregory: Well, not really, no. It depends on the book, and whether or not you have a rationale for retaining those rights, because you have to have a reason to want to publish it with a separate publisher in other territories. Otherwise, those rights can be useless to you. If I reserve, for example, UK rights for a book and I didn’t have a UK publisher in mind to send it to, and it wasn’t a book that was particularly popular in the UK, I would be sort of cutting off my nose to spite my face. Because I could grant those rights to the publisher, and they could distribute those books in the UK, and my client could make a few sales in the UK that they otherwise would have not made if I just sat on those rights.

Daniel Rogna: I think that’s a great point. Retaining rights, any of these rights we’re talking about, can allow the author to maximize control of the work. But if you don’t have a plan for how to exploit the work in other territories, maybe you’re doing more harm than good. Is that fair to say?

Evan Gregory: Yeah, you have to weigh the benefits and costs.

Daniel Rogna: So, in conjunction with territory, we think about language. You’ve pointed out that the book may be English language worldwide, but we also have to think about individual languages in different territories. Do you think about them in conjunction all the time? Is there a strategy that you advise somebody looking at an agreement?

Evan Gregory: Yeah, yeah. I would advise if you are unagented, or if your client doesn’t have an agent, that it would be better to allow the publisher to retain translation rights. Unless you have a plan to sell them and someone who is going to do that for you. Usually, it’s an agent. In our case, we work with subsidiary rights agents in several different territories, and we split commission with them to help us sell those rights in other languages, or sell translation rights in other languages. If you don’t have someone doing that full time for you, then it could be kind of useless to retain those rights, because the publishers also have subsidiary rights departments that sell those rights on behalf of the publisher and you, and you would get usually a 50% cut of any proceeds that they would get from licensing those rights on your behalf. If you have an agent, it’s advantageous to retain those rights, because you will be giving up a 20% commission. But keeping the rest of the money from the disposal of those rights in other territories. In the grant, you want to be specific about it being I mean, the grant is often as much about what it doesn’t say as what it does. So, you want to be specific and say in the English language, if you mean to retain all those translation rights. Then you also want to check further in the contract in subsidiary rights provisions to make sure that splits are stricken from the agreement so there’s no doubt about it.

Daniel Rogna: Great. Yeah, I think that is a good point that we’ll talk about when we get to subsidiary rights, that you want to be as clear as possible. And if you are retaining rights, you don’t want to leave it unstated, you want to be absolutely explicit about which rights you are retaining.

Evan Gregory: Exactly.

Daniel Rogna: So, let’s talk about the format, the form of the publication. Is it typical to see all formats of the work? Do you often advise clients to retain paperback publications? What's typical for an agreement?

Evan Gregory: Typically, the publisher will try to grab as many rights as possible, and when negotiations open they will often send you a deal that has everything that they could possibly grab or they will want. And it is your duty to ask for those things back, basically. In terms of format, like for publication rights, hard covers, soft covers, etc., usually the publisher controls most of those rights. Then there's separate subsidiary rights, which you should be mindful of, especially when it comes to film, TV, merchandising, those sorts of rights are big basket rights that all go hand in hand if you want to exploit film or TV adaptation rights. Typically, if you are going with a big five publisher, they’re going to want to retain all of the publication rights, unless you have specific reasons for excluding some. So if you are doing, for example, there are publishers that only publish hardcover books, and they publish sort of fancy hardcover books, and you might only want to confer rights for hardcover books to them because if you conferred soft cover rights and all those other things, they wouldn’t utilize them anyway. You might be able to utilize them on your own.

Daniel Rogna: One caveat would be this future technologies clause. So now, when we think about all formats, we absolutely consider ebooks. There was a point in time when ebooks weren’t a thing, and a lot of contracts still included language that spoke to it could say something like “in any format or version, by any means, and in any and all media, whether now known or hereafter developed.” Well, if you’re counseling a client for certain royalty rights on books, and ten years later, the book is still in publication, and now it’s an electronic book, and
under the contract the publisher has rights to that, maybe you’ve been disadvantaged a little bit. Do you have any strategy for dealing with a future technologies clause? It’s hard to think about what could come after an ebook, but it was probably hard for people to conceive of an ebook 20 years ago.

Evan Gregory: Certainly. I mean, the enforceability of future technologies clauses is, I think, always going to be a bit in doubt. I’m not an attorney, so I can’t speak to this as well as perhaps you might be able to. But in my experience, when it came to reviewing contracts that didn’t specifically grant ebook rights and when publishers made claims on having those rights, they often tiptoed around it a little bit and were amenable to negotiating terms after the fact. Usually, with new technologies, they don’t have the royalty framework worked out about how they’re going to monetize it, and so those terms will always have to be added after the fact, and you as the person granting rights, you have a lot of leverage when it comes to negotiating those terms. I don’t worry too much about the future of media technology clauses for that reason from a business standpoint.

Daniel Rogna: From a business standpoint, yeah. As a lawyer, there’s a lot of concern about it. But I understand –

Evan Gregory: It’s problematic because you can get into a little bit of legal trouble for it.

Daniel Rogna: Sure.

Evan Gregory: Also as a practical matter, publishers are pretty loath to change those terms. I’ve gone round for round with them on certain future technologies provisions, making sure to limit them. I would, of course, if they concern you, always ask. It doesn’t hurt to ask. The worst they can say is no. It’s always a good idea to try to limit the scope of those clauses as much as possible.

Daniel Rogna: That’s a great point. So, there’s one case that I wanted to bring up that deals with this grant of rights clause, Random House vs. Rosetta. In that case, Random House sought an injunction to stop sale of electronic books by Rosetta Books. When the court reviewed the agreement, the language that they pulled out was that the grant to the publisher was to print, publish, sell the works in book format. The court decided to deny the injunction because the contract was explicit that it didn’t include digital publication. They relied on this in book form language. But they also relied on the fact that the author very clearly reserved rights in other portions of the agreement, so they contemplated this, and because they contemplated not including electronic formats the injunction was denied. I think you make a good point, though, from a business perspective, that both parties are going to want to come to an agreement about how they can move forward and both mutually benefit from it. From a legal perspective, if you can limit it at all, that would be the advice that we’d give.

Evan Gregory: Right. In terms of this circumstance, there are also a lot of contracts in which Random House was able to sort of squeak by, because they had provided there was language about grants of rights for books on microfiche and books on like a publication other than just book form that they tried to sort of wiggle around to confer ebook rights. So yeah, if in the future there are technologies that inscribe books on the inside of your eye lids with laser beams, you know, they would probably have a right to that.

Daniel Rogna: Sure. All right. Let’s move on to subsidiary rights, which we’ve talked about a bit right now. Can you explain what constitutes a subsidiary right? And we’ve got a large list here. What should we be thinking about when we come to an agreement? What are the important subsidiary rights that we want to make sure we talk about in the agreement?

Evan Gregory: It’s mostly translation and adaptation rights, and then other weird publication rights. In the book business, there are many ways to skin a cat, other than publishing a book in hardcover or softcover and sending it to bookstores. There’s obviously ebooks, included in the standard grant of rights these days, but weren’t always. Sometimes they were considered a subsidiary right, because it was entirely new, different thing that wasn’t as popular as it is today. Then translation rights, obviously, so translations in other languages; adaptations into film; audio book adaptations; and then associated merchandising rights when it comes to sort of film and TV; theatrical rights, if they wanted to adapt a new stage play, which happens infrequently; and book rights, which are usually retained by the publisher, so special edition rights, like they are creating 10,000 of your books for a corporate retreat because you have written this business book that is very popular, things like that.

Daniel Rogna: Yeah. From a legal perspective, I think we can lump all these in as derivative works, for the copyright attorneys in the room.

Evan Gregory: Right.

Daniel Rogna: To give everybody a feeling for what kind of language this looks like in the agreement, it would sound something like “author grants to publisher sole and exclusive right throughout the world to sell, license, and otherwise exploit motion picture rights, radio rights, television rights, compact disc rights, dramatic rights, public reading and all of the nondramatic performance rights, then include information about royalties subsequent to that.” So, when you’re negotiating subsidiary rights, what is your strategy? I’d be interested to hear how you deal with it.
Daniel Rogna: When should an author expect the advance payment on top of it? It's an advance against royalties.

Evan Gregory: Yes, you're going to be successful, to at some point hopefully earn out your advance or get close to earning out your advance. The advance is usually against royalties, so you are given $10,000 and you do not get additional royalties until you have earned $10,000 in royalties based on the percentages that you negotiate.

Daniel Rogna: Yeah, I think that's a great point for anybody who is new to this. The advance isn't just free money on top of it. It's an advance against royalties.

Evan Gregory: Exactly. They will give you $10,000 if you sell through your first printing of the book, you will usually earn additional royalties on the second printing.

Daniel Rogna: When should an author expect the advance to be paid? Are installments typical?
Evan Gregory: Yes, installments are typical. You know, it’s usually in two parts, but it can be in three parts. If it’s in three parts, it would be a third on signing. There would be a third upon delivery and acceptance of the manuscript, which means if you have a completed manuscript they’ve already seen, they still need to edit it, you still need to perform edits, you still need to copy edits, and after the publisher deemed it acceptable for publication, then you get the second chunk of money. Usually there’s a third, or sometimes there’s a third payment upon publication. And it’s important when you are if there’s a publication payment to have a “But no later” clause, so if they accept the book, you want to have that third part of the advance within a year to 18 months, because they could unreasonably withhold publication of the book, and then you wouldn’t get that third part of the money, and your royalties would be earning against an advance you never received. You have to be clear about that.

Daniel Rogna: Yeah, when you’re drafting, make sure if it’s being paid in installments, you understand what the expectations for those installment payments are.

Evan Gregory: Right. Installments are also negotiable. If the publisher wants to pay in three installments, or pay in four installment, because it hasn’t been written yet, so it want to pay you on delivery of a proposal, then delivery of the complete manuscript, you can also negotiate them down, and say, “No, I’d rather do it in two pieces than three.”

Daniel Rogna: Like we mentioned a little bit before, and we’ll talk about shortly, you can be required to pay back the advance, correct?

Evan Gregory: Mmhmm. You can be. Usually, there are provisions for that in the contract, for under what circumstances that that happens. So, it happened to me on my first deal. I had a client who submitted a proposal and was supposed to write the book and did not write the book in time, and then when he did ultimately deliver the book the publisher was like, “No, this is kind of half done.” So, they rejected it, and he had to pay back the advance and I also had to explain to him that I wasn’t going to be paying back my commission, because I had done my job, which was a fun conversation to have on your first publication deal. Now, it doesn’t always mean, non-delivery isn’t usually the only reason that you might have to return an advance. If anyone is paying attention, like the Milo Younopolis thing, where his book was eventually canceled, he probably got to retain the entirety of his advance, because he did his job. He returned the book. It was acceptable to them. People complained about Simon and Schuster publishing it, and they decided to pull the book just because there was bad publicity and they expected it to flop and there to be boycotts, etc., etc., etc., but just because that happens, it’s not his fault, and he probably retained all of his money in advance anyway.

He didn’t see any additional royalties, because the book was never published, but he got to keep his advance.

Daniel Rogna: Right. He bargained in good faith and got to keep the benefit of that bargain.

Evan Gregory: Right.

Daniel Rogna: Let’s talk about royalties now. What we recommend is that royalties should be based on suggested retail price. That’s because it allows for the author to maximize the revenue regardless of the actual sale price of the work. If the suggested retail price is $14.99 and the royalty is based on that, the author is going to be getting a higher payment than if the book is heavily discounted to $8.99, something like that. Evan, when looking at royalty rates, what did the publishers typically present as the original bargain? What do you turn around? What basis and what, I guess, percentage are you looking for?

Evan Gregory: Oh, well, first, can we talk about suggested retail price and net receipts?

Daniel Rogna: Yes.

Evan Gregory: It’s not just about maximizing the money. It’s also about transparency. If you are basing royalties on suggested retail price, you know dollar for dollar what you’re getting. If your hardcover is selling for $25 MSRP, and you are getting a 10% royalty of that, you know exactly what you’re getting. Whereas, with net receipts royalties, the publisher doesn’t have to disclose to you what they are netting out. They obviously have confidential terms with their distributors about the amount of money they’re giving up for distribution and you are not privy to that information. Net receipts can be sort of a black box, wherein they sell the book for X amount of money, and they give you 10% of mystery money. That’s usually why you want to go with the suggested retail price royalty. It’s not always financially better, but it is more transparent. Then, secondarily, it’s not always feasible for a publisher to give you a royalty based on suggested retail price just because of the nature of the product they’re selling. When it comes to ebooks in particular, you will expect to see a net royalty, because the pricing fluctuates and it has to be adaptable. In most publication contracts, there are also provisions for discounting that will reduce the amount of royalties that you have. For books sold at greater than 50% or 60% discount, you will receive a reduced royalty or half royalty, depending on what you negotiate with the publisher.

Typical royalties for hardcovers, these have been unchanged for decades. It’s usually 10% on the first 10,000 copies, 12.5% on the next 10,000 or 5,000 copies, depending what you negotiate, then 15% at the high end. Paperback royalties can be 6%. 6% is a little low. Usually, it’s escalators of 6%, 8%, 10%, and it’s kind of
all over the map what the escalators should jump at, like the number of units you’re selling. So, paperbacks have sort of undergone a change. It used to be you could be reasonably expected to sell 100,000 paperback copies, because they were cheap, plentiful, and people were buying them. Now, ebooks have sort of reduced the need for cheap edition paperbacks, because people prefer to buy ebooks instead, so the threshold for the escalators have gotten a bit lower. I try to negotiate for like every 50,000 copies sold there should be an escalator, up to 10% is usually the ceiling for paperback royalties. That’s for mass market paperbacks. There’s also a differentiation between mass market paperbacks and trade paperbacks. A lot of publishers, in lieu of publishing a hardcover edition, publish a trade paperback, which you’ve seen. It’s a bigger, fancier paperback that has a waxy cover. The dimensions are different than five inches by whatever it is, four inches, the little mass market paperbacks, the cheap paperbacks.

Daniel Rogna: Is it fair to say we can expect to negotiate different rates for each of those different formats?

Evan Gregory: Yes. In hardcover, there are different considerations than there are for paperbacks. Then there are usually two sorts of paperbacks, the mass market paperbacks which they’re printing, they’re pulp paperbacks, printed in large numbers. Then there are trade paperbacks, which are sort of in between the hardcover and your mass market paperback in terms of print sizes. For those of you who want escalators as well, they usually start around 7.5% with a ceiling of 10%.

Daniel Rogna: Great. So, you mentioned ebook royalties. It’s, at least in my experience, been disputed. I’ve got this quote from the Author’s Guild about what their position is, that it should be a 50/50 split of ebook profits. Have you seen tension over negotiating royalty rates? Is it leveling out at this point?

Evan Gregory: Yeah, I think we sort of reached a detente with the big publishers around 2008, that they weren’t going to give any more than 25% of net receipts, which nobody thinks is fair, but the publishers are sort of unwilling to budge on that, because they haven’t been in the business of ebooks long enough to know if it’s going to be profitable. At this point, they probably have, and there are I mean, we certainly make efforts on behalf of clients who have a lot of leverage to improve terms for the ebook royalty rates. And I can’t say whether we’ve had success with that, because it would be confidential, but yes. Certainly, ask, certainly try, certainly pressure the publishers to do better, because they, I personally think, should do better. I agree with the Authors Guild that a 50/50 split is probably equitable.

Daniel Rogna: OK. Do you see different royalty rates from a publisher who is ebook only?

Evan Gregory: Yeah, sure. In certain circumstances, there are publishers who don’t offer advances, and are just offering higher than average royalties. And those deals can be great if you have a client who otherwise couldn’t get his foot in the door with the bigger publisher and get an advance to get a deal like that. Usually, it’s like they’re onlineonly publications, they don’t dabble in print at all. Their main bread and butter is on Amazon, Kobo, or the other platforms.

Daniel Rogna: Does the typical royalty structure change based on the type of the work?

Evan Gregory: Yes, certainly. Yeah, for a novel, for fiction, for popular nonfiction, they’re fairly standard. For children’s books, you can expect a lower royalty depending on the cost of the book itself. So there are lower royalties for children’s books and for specialty markets, like gift books, where production costs are higher because they’re using better paper, they’re using fullcolor printing, the actual cost of the book is going to be greater than just pulp paper with words printed on it. You can expect to have lower royalties. Typically, for children’s books, though, it’s not too much lower. For most of our children’s clients, I haven’t found it’s been substantially lower than other types of fiction or nonfiction.

Daniel Rogna: The takeaway I think would be try to negotiate up, by keep expectations realistic.

Evan Gregory: Right.

Daniel Rogna: Let’s talk about accounting now, sort of the last point of the financial section. How often do you want the publisher to submit payments and statements? What’s standard? What is the expectation that you need to produce to the client about when they’re going to get paid and how they can check the math to make sure everything is right?

Evan Gregory: Semiannually is sort of the lowest threshold, and I do have publishers who pay monthly, which is lovely, and preferable. Yeah, usually, it’s semiannual with statements being rendered 90 days after a certain period. So, with the year split into two halves, January to June, and June through December. Then you usually get statements rendered in April and October, and that’s typical.

Daniel Rogna: Can you speak about reserve on return a little bit? I think that might be a concept that’s new to some of the audience members.

Evan Gregory: Sure. Books are returnable goods. So usually the way the business works is that the publisher will warehouse 10,000 copies of the first printing, and then they will take orders from bookstores. The bookstores may usually order more than they need. And then after a period if the book isn’t selling as well, they will return those copies. A reasonable reserve is kept
to cover those returns. If the publisher is expecting that your book is going to be a blockbuster and they print a zillion copies and ship them out to the bookstores and it's a flop, they like to keep a reserve so that they can cover those losses.

Daniel Rogna: Is there a reasonable percentage?

Evan Gregory: There is a reasonable percentage for the reserve for returns. It depends a lot on the book. I couldn’t give you like a real figure, but yeah, usually you want to negotiate based on the size of the print run so that they’re just not withholding a bunch of money that you never see, and you want them to release that reserve each statement period.

Daniel Rogna: OK. Great. Do you have any other points you want to make?

Evan Gregory: Yeah, make sure that you are very clear about when they account and how they account. You want to make sure that the accounting provisions are very precise and that they will tell you exactly how many books they are selling and how many they are returning, and which formats, and that it is all transparent.

Daniel Rogna: I think that’s a good point. Transparency is key. If something seems awry, rely on that ability to account for the payments, go back and check the books.

Evan Gregory: Don’t be afraid to negotiate auditing clauses to your advantage. Publishers will try to limit the number of times you can audit in a certain period, and they will try to make it difficult for you to get an auditor in there to do it, because they want to restrict it to what they will allow for them to open their books. So yeah, do be mindful of those clauses in auditing clauses.

Daniel Rogna: Great. All right. Thanks, Evan. We’re going to turn over to Jason now, who is going to start talking about publication. Let’s lead off with delivery. Jason, is there a deadline? Are we trying to look to set up a deadline to deliver the manuscript? How do we compromise a reasonable date? Do we consider multiple deadlines?

Daniel Rogna: Yeah, I think that’s a great point. If you can get it in writing, that’s great. If we don’t have a provision that requires the publisher to put in writing, does the publisher have a duty to edit the manuscript before they reject it? I’ll give you guys a second to vote. While there is no absolute, a publisher does have a general duty to edit the manuscript. It’s considered a good faith effort consistent with the duty that the publisher takes on in the agreement to provide feedback about it. I would never recommend relying on that duty to edit, but like Jason says, if you can get it in writing that the publisher needs to turn around and say explicitly what problems it had with the manuscript, that certainly is going to cover you better.

Daniel Rogna: You used the word “acceptable.” I think that’s an interesting concept in publishing law. It certainly is subjective. How can we protect the author from this subjective standard of acceptability?

Jason Koransky: Well, it’s fairly difficult to provide an absolute protection to the author. This is a subjective standard and it is a standard that has traditionally been set as far as it has to be satisfactory to the publisher. Now, there could be language in there that would allow, for example, the author to get editorial input, specifically editorial input from the publisher in order to have them help define that standard. So, they just can’t say, “This is not acceptable, give me another version.” You give another version, “Sorry, this is not acceptable, we are not going to be publishing the work.” That would probably be a very strong way to, at least, require the publisher to provide reasons. Another way would be, you can also agree to it, to provide in writing, as a lawyer, it’s always something you want to have included in an agreement as often as possible, where the other party has to provide a breach clause, something like that, if there are specific reasons, here for the acceptability, provide in writing specific reasons why it is not acceptable and whether or not they have provided recommendations. That can be negotiated. At least, you want to be able to provide, the author wants to be able to know where in particular the publisher has issues with the manuscript.

Daniel Rogna: Yeah, I think that’s a great point. If you can get it in writing, that’s great. If we don’t have a provision that requires the publisher to put in writing, does the publisher have a duty to edit the manuscript before they reject it? I’ll give you guys a second to vote. While there is no absolute, a publisher does have a general duty to edit the manuscript. It’s considered a good faith effort consistent with the duty that the publisher takes on in the agreement to provide feedback about it. I would never consider relying on that duty to edit, but like Jason says, if you can get it in writing that the publisher needs to turn around and say explicitly what problems it had with the manuscript, that certainly is going to cover you better.
Daniel Rogna: In the Harcourt Brace Tranavovich Fitzgoldwater case the court found there was an implied obligation for the publisher to engage in appropriate editorial work with the author of the book.

Evan Gregory: Usually in most publication agreements, under delivery and acceptance, there’s a question here as well. I see that, that pertains to this. Give a time for the publisher to respond with editorial comments, and there are usually terms about what satisfies that threshold. So, it says usually the publisher must make a reasonable effort to respond within 60 days, 90 days, or 30 days to submit a manuscript. Otherwise, the contract may be terminated.

Jason Koransky: Or, I’ve also seen where if they don’t respond within that certain period of time it would be deemed accepted.

Evan Gregory: Right. Yeah. Or you’re able to make a written request, etc., etc.

Daniel Rogna: A point that ties into this, that we raised earlier, is if the manuscript is rejected, is the author going to have to pay back the advance. And generally, yes, you’re going to be required to pay back at least part of the advance. We’ve got some case law here. You know, the circumstance that Evan brought up earlier wasn’t one in which the manuscript was rejected, it’s one in which the publisher decided not to publish the work. So, it’s a different situation there that won’t require, most likely will not require, repayment of the advance.

Jason Koransky: Right.

Daniel Rogna: What happens to the advance if the publisher declines to accept the manuscript? How can the author protect him or herself against having to return the advance? I guess, Jason, how can we avoid the risk of repaying the advance? What strategies would you suggest?

Jason Koransky: I always see an advance not as also a risk that the publisher is taking. The publisher is taking a business risk in which they are making an investment in that author. So, it can be good to have a contractual clause in which perhaps 50% of the advance, if the work is rejected, and that can be negotiated, would not be returnable. The author would be able to retain that advance. Unless, of course, the author is then able to turn and sell the manuscript to another publisher. At that point, then that remaining portion of the advance would have to be returned to the original publisher. That’s a very fair and reasonable way to both make sure that the author puts a lot of time and effort, perhaps their own money, into completing a manuscript, that does not end up with absolutely nothing. As well as the publisher should be able to agree to those sort of terms, since they understand we’re taking a business risk and this is not a situation in which we’re risk free. If it doesn’t work out, we get all of our money back. That is not reasonable for a publisher to insist upon such a term.

Daniel Rogna: Yeah, I think you make a good point. We’ve been looking at most of these terms from the perspective of the author or the author’s representative. The publisher has obligations and responsibilities as well. If you can try and hammer out this situation ahead of time, you can avoid some messy conflict down the road.

Jason Koransky: Exactly. The Nance vs. Random House case. That was a situation in which the language in FIA contract read “if the manuscript for work number two is rejected, author shall retain 50% of moneys previously advanced for work number two.” Basically saying that the author would have the right to, again, retain 50% of those moneys, unless they were then sold to another publisher, which in fact they did. So, they had to return all those moneys.

Daniel Rogna: Great. Let’s move over to publication date. How can you protect the author from having the manuscript fall into a black hole, i.e., after submission of the manuscript the publisher fails to act? Can I reasonably expect the publisher to accept a publication date?

Jason Koransky: Oh, absolutely. This is a standard clause in a publishing agreement. If the publisher fails to meet the deadline, two things should happen: The author should get to keep the advance that’s been paid to them. If you had that clause in there, that if the author after a particular amount of time has not responded, that this should be deemed accepted. The other is that the work, any rights to the work, should revert back to the author.

Daniel Rogna: Yeah, absolutely. It keeps it out of this limbo period of they have rights to the work, but they aren’t doing anything with the work, and I’m sitting here not making any money on the book.

Jason Koransky: Yeah. And the publisher may insist on some sort of, just as the delivery date, some sort of extension, some sort of acts of God type clauses, things like that. Which can create a little bit of ambiguity towards the publication date. But you should really try to have as concrete of a deadline as possible in the agreement.

Daniel Rogna: OK, great. Let’s talk about the concept of clearances. What party is normally going to be responsible to obtain permissions and releases? What’s the risk involved there? Do you have any strategies you can advise about?

Jason Koransky: Yeah, sure. Obviously, in a lot of agreements this responsibility is going to fall on the shoulders of the author. The author is the person doing the
research, especially in nonfiction work. Pulling together materials, finding photographs, finding old excerpts of songs, books, whatnot. Usually the author is the party on whose shoulders that falls. Oftentimes, it is helpful for the author to have legal counsel for these matters. It could be a situation where, based upon the research and the work on the book, they can have a very, very simple agreement in which they’re able to provide to the source of the materials granting them all of the appropriate rights to use that photo, that excerpt in the book. But I think it’s important to actually have that paper, have that in writing, and it can be very simple agreement, but should be something that the author is cognizant of and does not do based on the back of a napkin type contract. You should have a good contract in place to protect them.

Daniel Rogna: Yeah, that’s a great point. I think often lay people have this concept of fair use that doesn’t really fit with what the legal concept of fair use is.

Jason Koransky: Precisely.

Daniel Rogna: That’s where, as the representative, you need to step in and make sure that as you say, Jason, they’ve got all the paper in place, that there’s a good clear chain and we know that we have rights to use the song excerpt. So that when legal, at the publisher, comes to ask us about it, we can show it to them, and they can feel comfortable moving ahead with the publication.

Jason Koransky: Exactly. Especially if you get the book published maybe in electric format, maybe multimedia issues in there. I’ve litigated many cases that dealt with fair use. Regardless of all the case law that exists, each fair use case is determined on the facts of that case. Anytime someone calls me and asks me, “Is this a fair use?” I can’t give you a brightline answer on that. I can give you what may or may not, but it’s impossible for me as an attorney to say, “Yes, that is a fair use.” There’s just no brightline rule there.

Evan Gregory: If I can interject again. My advice to clients, when they’re using material, is always to get explicit permission. Just because.

Daniel Rogna: Why not, right?

Evan Gregory: As a matter of course. Or usually my advice is if it can be left out, to leave it out. Because it can turn into a legal headache, yeah.

Daniel Rogna: Great. Let’s move over to outofprint clauses. Jason, can you talk about that for a little bit?

Jason Koransky: Right. Usually, there was a concept of a clause where if there are no longer specific copies of the book available, then the rights to the book revert to the author. Obviously, this is a little more difficult these days with digital material, which is something that can always be available. That point, the clause should have some sort of minimum sales or minimum royalties, or whether the book is actually even accessible via any sort of additional media. But at that point, once the book is out of print and the terms it’s out of print specific to the terms of the agreement, the rights of the work should revert back to the author.

Evan Gregory: In terms of outofprint provisions for a minimum threshold in terms of digital works, it can be percentage of royalties, but it can also be like an actual dollar amount of royalties in certain circumstances. It’s like if the book is earning you less than $200 per statement period, and it falls below that threshold, it’s available for reversion.

Daniel Rogna: Great. Let’s talk about options a little bit. I think that’s a term that most people will be familiar with, but maybe not know how they should address it in a contract.

Jason Koransky: Sure. That’s obviously something where the publisher is taking a business risk on the author, and they’re often going to want to have something along the lines of perhaps a right of first refusal for a second book. Perhaps even a third book. You’re going to want to have terms, however, specified in there. What would the advance be for that? There should be a period of time under which the publisher can exercise those rights. You don’t want an openended term to exercise those rights. It should be a very specific period of time under which they have the ability to have the option for the next book. Also, sometimes it can also be the option for the next book for the same or similar type of content, so that the author can have the right to pursue another publisher for a different type of work, but for perhaps another book in this series the publisher would have the right of first refusal for that next work.

Daniel Rogna: That’s a great point. If you’re working with a prolific author who has one series going, make sure that the contract isn’t so broad that it’s going to encapsulate every kind of work that this author is doing, and limit it more to that series, so that the business relationship is focused on that particular line of work.

Evan Gregory: Sure. An option clause, yeah, in certain circumstances, it’s advisable to limit the option to only future books in that particular series. If you’re writing a series of science fiction novels, let’s say, it can be advantageous to keep it to that series specifically to allow your client to write another science fiction series for somebody else, if they so deem it.

Jason Koransky: This goes without saying, but I’ll keep repeating this, but the option clause should be that they exercise their option in writing. It should be like if you have a phone call saying, “Yeah, we’d like to do that.” It’s
nebulous. Every time there’s a certain clause that involves continuing rights or obtaining rights, electing to do something, it should be in writing. That should be explicitly included within that clause.

Daniel Rogna: Great. The basic point of the case is that if the clause is too vague, it’s going to be unenforceable. Like we said with pretty much everything so far, specificity is key. Be very clear about what you’re negotiating for. Let’s turn over to the last segment here. Let’s try and talk about representations and warranties and a little bit about indemnification. Jason, what are the standard representations and warranties? What’s the legal implication of those to avoid risk?

Jason Koransky: Sure. I have a pretty interesting take on this one, because the representations, warranties, and indemnification revisions oftentimes can mirror each other, they can look very similar. The reps and warranties: if the work is original or it’s sole author or joint author, if there’s multiple authors, that it doesn’t infringe a copyright or trademark or right of publicity or libel another party, and so those are the standard representations and warranties. One of the issues with it is that oftentimes there isn’t a text in there that says “knowingly is original,” or “knowingly is a sole author,” or “knowingly infringes the right.” I’ve had situations where you can actually negotiate to include that sort of language within the reps and warranties. Also, it’s possible to actually delete these from the representations and warranties. The reason being is that you can tell the publisher, “this is how the reps and warranties work with the indemnification clause, we are already indemnifying you, the publisher, I am indemnifying you against claims based upon copyright infringement or libel. Why do I also need to include a rep and warranty?” It’s something that has become a standard way of drafting these agreements, but if you really think about it, it is superfluous, and it’s a rep around warranty that it can create more liability. Because, as we say here, breaching of warranty can expose the author to risk. If you are already indemnifying the publisher, consider pushing back on this. So again, as I said, the indemnification would basically say that “if these claims are brought, and also in part to include in there by a third party,” because I’ve seen contracts where you’re indemnifying a publisher against any of these claims. Arguably, based upon the contract language, you’re identifying the publisher has a claim they would have against you as the author. So, that’s something you want to make sure to include in the indemnification clause. Also you want to have, if possible, if you are indemnifying, the author is going to want to have control of the litigation. You’re going to want to be able to control who the attorney is and perhaps how any sort of litigation or negotiations may proceed. But usually, there’s going to be something in there regarding any sources that would have to be agreed upon by both parties.

Daniel Rogna: Sure. That’s a really interesting argument. How is the publishing company going to encounter that argument. Is it a take it or leave it situation?

Jason Koransky: It can be. Again, we’ve been successful in making this argument. It has been successful. So it could be it also depends upon the author, their leverage, their bargaining, if they’re negotiating say between several publishing companies. Oh, one other point on there is that indemnification clause should also be contingent upon the publisher providing notice within a certain period of time, perhaps 30 days, 45 days, 60 days, to the author of this claim by a third party. Otherwise, it’s waived. Daniel Rogna: That’s a great point. How to minimize risk and keep the client in the best shape possible. Quickly, I’ll point out that the author can consider obtaining insurance. I don’t know if that’s something that either of you recommend to your clients. The publisher may cover the author, but that coverage is probably going to be limited. Do either of you have any points you want to make about insurance?

Evan Gregory: I’ve never recommended a client obtain separate insurance, but in several circumstances the publisher will include them as part of their insurance. To speak to the publisher’s rationale when it comes to warranties, usually they don’t like to be sued for libel for something that you did, and they want you to warrant it to them, because they don’t have the capacity to fact check things. If you were making untrue claims of another party, they’re usually not going to check that just because their focus is on turning in a book that is editorially sound and will sell, and they don’t have the same sort of journalistic duty to present facts as facts. I think a lot of people get upset about that, but the publishers usually want to keep the warranties for those reasons.

Jason Koransky: I agree wholeheartedly, absolutely. That’s the reason they want to keep them, to say it is possible.

Evan Gregory: They want plausible deniality, to be like, “We didn’t check the facts on it. The author warranted that they were true.”

Daniel Rogna: OK. Registration of the copyright is important. Jason, do you have anything you want to speak to about that?

Jason Koransky: Well, having a registration of copyright allows a party to go to court, and it allows them to obtain statutory damages and attorneys’ fees. It depends. Also depends upon the nature of the work, whether you want to obtain a file of the copyright application prior to publication. That could be important to do, simply because it’s the type of work where if it can get leaked out it would be very valuable. But the timing and the nature of the copyright application would be important to consider. The
Evan Gregory: It’s in their best interest to do it.

Jason Koransky: Absolutely, yeah.

Daniel Rogna: I will say, I had one experience where we were dealing with a client whose book was infringed. We went to do the early due diligence, and I could not find a copyright registration. Pulled up the agreement. It was publisher’s responsibility to register that copyright, and they failed to do so. We’re a few years down the line at that point, so we had to just put the claim on the side and deal with the problem other ways, because that had been overlooked. I agree, the publisher’s best interest is to go through the very simple process of registering the copyright, but as the author, you want to double-check to make sure that doing their job.

Jason Koransky: Very good point, yeah.

Daniel Rogna: How are these term negotiations usually carried out? Red lining? Face to face? Or phone?

Evan Gregory: I will happily answer that question. Usually, negotiations begin well, in my case, via email, sometimes over the phone. Mostly via email. And mostly a request like a memo in advance of them drafting an agreement that delineates the terms, so there’s no doubt about it. That usually includes everything in the grants, royalties for the primary editions that the publisher is going to be publishing, option terms. Those are all hammered out before an agreement is drafted by the contracts department or the publisher. Then, once I get the contract, there’s usually a couple rounds of red lining and asking for minor things to be changed and adjusted. If that makes any sense.

Jason Koransky: Oftentimes the publisher will have a standard agreement and have standard terms in which they would like the, we hit on this previously, they’d like to have the authors agree to. Sometimes these terms don’t make any sense to the work at hand. So just because you get this contract know that these terms are negotiable, and this is in the best case scenario what the publisher would like to see, if there’s not been, as Evan said, these pre-negotiations as far as specific terms. Just be prepared. Don’t worry if there’s a lot of red line on there. That’s not unusual. That’s common.

Evan Gregory: Yeah. Usually, if you are lucky enough to have a literary agent, their contracts department has standard contracts that are adjusted for things we’ve already asked for, for other clients. Just because they know we’ll ask for them every time. So they don’t waste time, I usually get a contract for things I know I’ve negotiated with other clients. This is just stricken from the agreement when I get it. That’s nice to have.

Daniel Rogna: That sounds very nice to have. How much of the negotiation is handled by the literary agent? Does the literary agent usually have a role? I think the easy answer is it’s the biggest role, if you have an agent, right?

Evan Gregory: Yeah, exactly. Yes. I do the majority of the negotiating. I have worked with clients who also have attorneys who specialize in intellectual property. Usually I will negotiate the initial terms. Like I said, in terms of grants, royalties, etc., etc., then the attorney will step in on some of the issues once we have contracts, or we’ll work in conjunction with each other and the client to get them the most advantageous terms. It can be kind of a pain in my neck to work with an attorney, because they want certain things that I know that the publisher doesn’t want to negotiate or is not likely to give. So, it can complicate things for me. I’m like, “Do we have to ask for this? I know we’re not going to get it.”

Jason Koransky: That’s our job, though, Evan, is to tolerate it.

Daniel Rogna: I think the nice thing that we’ve learned here, though, is the business negotiation side of things from you. Do modern publishers have standard splits for subsidiary rights licensed to the publisher? Or is it generally a negotiation?

Evan Gregory: Some are negotiable. And it depends on the leverage you have. Like if you are publishing a book that you know will be translated and you want a larger cut, you can always ask for one. I usually ask for larger cuts for serial rights in instances where I know that those rights will be exercised, but standard splits are usually 50/50, and that’s the way it goes. If you’re working with a publisher that has a really good film division, like McMillan does, if they want to represent film rights on your behalf, it might be advisable to ask for a larger cut, just because even up to just asking for whatever the standard commission would be for an agent to represent those same rights, because that’s basically what they’re acting as. But generally, it’s 50/50 for subsidiary rights, like book publishing rights, most of the rights that the publisher retains for subsidiary rights that they intend to utilize themselves or give to third parties.

Daniel Rogna: OK, great. What is a work made for hire and how do you minimize a risk to the author if they’re dealing with a situation that may be construed as a work made for hire.

Jason Koransky: Sure. Well, there’s a couple of things that have to be considered here. One, a work made for
Daniel Rogna: Yeah. An alternative could be to have the author assign all the rights in the work to the publisher and avoid the work made for hire distinction entirely.

Evan Gregory: Yeah. I remember there being some kerfuffle about it. Was it James Frey? He had the sort of book packaging thing where he was churning out like YA novels from authors straight out of grad school, and they were all under work for hire contracts, but producing entirely original works for him.


Jason Koransky: I edited that. If you’re in Chicago, Mary Hutchings Reed was the author with David Creasey. They did a wonderful job. I did help write this with part of the LSA Law Guide Series. I don’t have any other particular suggestions. I always like, as far as forms, in entertainment publishing and the arts, if you have access, I think always has a pretty nice selection. I think also Nimmer on Copyright as well.

Daniel Rogna: Nimmeer has great forms in there, if you’re looking for a basis to start off with. What should an agent agreement look like; what red flags are there that we should pay attention to, if a client comes to us with an agent agreement?

Evan Gregory: Sure. Yeah. Agency agreements should obviously include scope of representation matters; you want to be able to narrow it down as much as possible. If you have a client who writes academic works that need to be excluded from representation, just be clear about which works are going to be falling under the agent’s representation. You can even do it narrowly by genre. If you have a client who might have two agents, one for the nonfiction career he has and one agent for fiction that he is writing. Agent compensation typically is 15%. If you are working with an agent who is part of the Association of Authors Representatives, it’s capped I believe at 15%. That’s for domestic deals. We usually do a 20% commission for translation rights, because we are splitting it in half with are a subsidiary rights agent. Termination agreement as well; usually it can be mutually terminated with the understanding that we’re still the representative for rights that were negotiated under the term of the contract. So, if I have done a deal with a publisher, I would still be the agent of record for that deal in perpetuity, and I would also be able to conduct deals for subsidiary rights from that publication deal. That way, you should be in agreement. Usually, termination should be as simple as you want to fire me, you get to fire me and vice versa. There are clients that have been like, “Hey, it’s been a good run, but I haven’t sold anything for you. I’m letting you go, terminating our agreement, and here is a letter to that effect.”
Daniel Rogna: That’s a good point, it should be a mutual understanding between the parties. My takeaway would be if a client comes to you and says, “Hey, I got this agent who wants to sign me up, I just have to pay him five grand,” that’s a big red flag to me.

Evan Gregory: Exactly, yeah.

Daniel Rogna: Avoid that.

Evan Gregory: There should be no reading fees. There should be no fees of any sort. Be very careful about expenses that can be charged back to the client. That’s generally what to look out for. You should also be mindful in terms of expenses that you can specify that expenses should be taken out of some of the money paid to them by a publisher, not just have an agent who is like, “I spent a thousand dollars printing out your manuscript to send to several different editors, and now you owe me money for that. Even though I didn’t sell your book.” Be specific about that, too.

Daniel Rogna: Great. Just before we wrap up here, I will point out the author’s guild itself as having great resources on book contracts. That’s all the time we have, unfortunately. It was a great conversation.

To our faculty for the program, Jason Koransky and Evan Gregory, thank you so much for sharing your expertise with us.

On behalf of the ABA, I’m Daniel Rogna. Thank you for joining us.

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Book Review: How to Play the Game: What Every Sports Attorney Needs to Know (2nd ed.) by Darren Heitner

By: Blake Yagman

Darren Heitner’s second edition of How to Play the Game: What Every Sports Attorney Needs to Know, like a lead-off homerun, touches all of the bases of sports law from the very initial pages of the book. How to Play the Game is an essential read — not only for current or aspiring sports attorneys, but for members of the sports business at-large. Heitner breaks down all of the types of law that impact the sports industry in a way that lawyers and non-lawyers can understand.

How to Play the Game immediately tackles one of the greatest philosophical divides in the sports law world: whether “sports law” is an independent body of law (and deserving of its own name), or whether sports is merely an industry affected by the law (and deserving of the name “sports and the law”). Heitner believes the former: “…there truly is a distinction between a sports lawyer and all other types of practitioners. It requires a deep understanding of the nuances that largely affect athletes, their representatives, and companies providing products and services in the space.”

Heitner’s opinion on this philosophical argument is instrumental; as he demonstrates in his book through his command of the material and through his personal anecdotes, Heitner is a titan in the sports law sphere he is helping to shape.

Another key component of this book is it’s highlighting of niche roles. Through Heitner’s experience as a sports lawyer, he has been able to analyze the industry from a macro perspective and, as such, he has been able to identify different roles within the sports law world which could develop to into future staples of the industry. For example, Heitner believes there is plenty of room for current and future attorneys to occupy the space of “sports arbitration” and even provides strategy for how to do so. From the chapter on arbitration: “While a civil litigator by trade may be able to quickly adapt to the various players’ associations’ regulations and case law, a seasoned practitioner in this area should have a tactical advantage based on his or her knowledge and experience with using the applicable precedent, the general demeanor of the arbitrator, and the relaxed rules of evidence… This is
one area where I truly believe a sports lawyer can distinguish himself or herself from someone who merely dabbles in sports-related issues.”

Darren Heitner’s How to Play the Game illuminates potential legal issues for non-lawyer sports business professionals who otherwise might not have been aware of certain rules, regulations and laws. For example, in Heitner’s chapter on “Athlete Agents,” he comprehensively breaks down the legal obligations of an agent and the regulatory process that is required for agent licensure. To an aspiring agent, this chapter’s discussion of the penalties for not properly registering as an athlete agent with your respective state — practicing as an agent without state registration is a felony in some states — is worth the price of the book alone.

For the sports law practitioner, How to Play the Game is a useful tool to use; it discusses relevant cases in every type of law that encompasses sports law as a whole. The chapters of this book, which are organized by different types of law, serve as guidepost for the cases one would have to otherwise find through legal research. For example, if a sports lawyer wanted to bring a concussion case on behalf of their collegiate athlete-client, How to Play the Game not only provides an analysis of important cases, but discusses strategy of how the NCAA defends concussion cases.

Finally, How to Play the Game is an enjoyable read for any sports fan, or for people who are interested in how sports are impacted by the laws we create as a society (like myself). Heitner’s case studies provide illustrative examples of how the law interacts with sports in unconventional ways. For instance, Heitner’s chapter on “Intellectual Property Matters” discusses the nuance of what copyright protection athletes have on the tattoos that they get. An issue that superficially does not seem appear to be a common issue, How to Play the Game stresses the applicable ways in which an athlete would need copyright protection for their tattoos — namely, in video games and in movies.

The second edition of How to Play the Game is unique: it provides a practical, yet entertaining guide to how one of the world’s most exclusive industries is crafted by almost every different type of law. This edition of the book includes some of the hottest developing fields within the sports law sphere, including eSports, sports gambling, and drug use in sports. Also, the book provides subchapters that discuss how the law interacts with specific facets within sports business; for example, the book has a subsection dedicated to “Naming Rights.” These subsections prove useful when attempting to understand potential legal conflicts specific to different areas of the sports world.

How to Play the Game by Darren Heitner is not only an essential read, but an essential resource.

Blake Yagman recently passed the bar exam in New York and is working as a law clerk with a focus on antitrust law. Blake, a graduate of the Cardozo School of Law, writes extensively about sports law issues.


By: Laura Schrauth

This past Spring, I was given the opportunity to attend my first American Bar Association conference as a Law Student Reporter. After three amazing days observing and learning, I realized that there was still a whole world of entertainment law and intellectual property I had yet to uncover. Entertainment Law: Fundamentals and Practice by Corey Field works as the “Rosetta Stone” essential to bridging the gap between those with limited experience in entertainment law and well-practiced professionals. This treatise is an excellent resource for law students, practitioners, and curious laypeople alike who want to learn more about entertainment law.

In the Acknowledgments, Mr. Field shares that he often instructs his students, “Be lawyers, think like lawyers.” This treatise helps pave the way. In just 359 pages, readers are given a crash course in all things entertainment, with each of the text’s eight chapters dedicated to a different subcategory within entertainment law: Film, Television, Book and Magazine Publishing, Music, Live Theater, Radio, Celebrity Rights of Publicity and Privacy, and Cyber Law.
The organization of *Entertainment Law: Fundamentals and Practice* is practical and thoughtful. Mr. Field begins each chapter with an introduction that includes relevant background information and explains what will be included in the chapter’s discussion. The chapters then walk the reader, step-by-step, through each part of the entertainment process, allowing the reader a full appreciation for and immersion into the issues at play.

For example, Chapter 1: Film, first introduces the reader to “The Life Cycle of a Film.” Before ever discussing the legal issues or techniques, Mr. Field breaks down what is necessary to turn an idea into a film, from development to marketing. The chapter also goes into details on financing, taxation, paying crewmembers, licensing music, and other core issues that are not covered in the average entertainment law class, yet are central to thriving entertainment law practices.

While some treatises read more like casebooks, *Entertainment Law: Fundamentals and Practice* reads like a survival guide for entertainment lawyers, especially those new to practice or practice area. Cases are used to illustrate points, but do not take up too much of any section. Information is straightforward and presented with the full legal picture in mind. Chapter appendixes include helpful diagrams and charts to help drive home the chapter’s important takeaways. There is a wealth of knowledge within the pages that enhance the reader’s understanding of both legal concepts and industry practices, lending perspective from all sides of the entertainment area. This is especially helpful for inexperienced students and new practitioners.

Although this text is incredibly useful to law students and young practitioners, it also includes vital information that even the most experienced practitioners can gain valuable insights from reading. As new mediums of entertainment and communication become available, attorneys of all levels need to know how to approach the growing needs of their clients. This treatise can help them, too.

*Entertainment Law: Fundamentals and Practice*, is in depth and covers a wide variety of entertainment topics. Some notable subtopics include:

Chapter 2: Television, includes information on streaming for Internet and mobile platforms, reality programming, and even fan fiction.

Chapter 3: Book and Magazine Publishing, includes information on self publishing.

Chapter 4: Music, covers everything from basic licensing, to music for TV and film, to YouTube.

Chapter 5: Live Theater, includes Broadway Guild Agreements.

Chapter 6: Radio, discusses radio formats, on air personalities, and licensing for radio.

Chapter 7: Celebrity Rights of Publicity and Privacy, covers the state specific rights to privacy and publicity, endorsement deals, and social media influencer deals.

Chapter 8: Cyber Law, explains the Digital Millennium Copyright Act, the Anti-Cybersquatting Consumer Protection Act, domain name registration, and software licenses.

Every chapter feels like its own, complete law school course. Whether read as a whole, or by topic-specific chapter, the text is full of opportunities to learn something new about entertainment law.

*Entertainment Law: Fundamentals and Practice* has the information that experienced entertainment lawyers have learned through years of practice, presented in a way that the most junior entertainment law novice can understand. For the law students, recent graduates, and curious minds of every level of mastery interested in learning more about entertainment law, Mr. Field’s treatise is a must read. We’ve managed to “be lawyers,” let the “think like lawyers” follow.

Laura Schrauth is a May 2018 graduate of Northern Illinois University College of Law. Laura served as Lead Articles Editor for Volume 38 of the Review, where her comment was published in Spring 2018. As an aspiring IP, entertainment, and media attorney, Laura served as a Law Student Reporter for the ABA-IPL 33rd Annual Spring Conference. Correspondence is welcomed: Laura can be found on Twitter @LauraSchrauth17.