TESLAW THE STATE BAR OF TEXAS ENTERTAINMENT & SPORTS LAW SECTION

April 17, 2017

TESLAW Tidbits:
*A Little Taste of TESLAW*
April 15, 2017
Issue No. 22

Dear TESLAW Members,

Thanks to everyone who joined us for the 7th Annual TESLAW Mixer at SXSW! We had a great turnout and, for the first time ever, you can see some of the photos from our event on the new and improved TESLAW website here! We expect to continue tweaking and adding more photos and functionality over the next few weeks so please keep that in mind if you are having website issues.

Next up is the State Bar of Texas Annual Meeting in Dallas on June 22nd and 23rd. Thanks to Mike Farris' hard work, we will be continuing with another 3 hours of ethics CLE programming. Immediately preceding our CLE program on June 22, we will be holding a section meeting and introducing a new slate of officers. CLE speaker and topic specifics can again be found on our new website here.

As always, if you have suggestions for the section, please don't hesitate to reach out. Thank you for allowing me to serve as Chair.

Very truly yours,
Amy E. Mitchell, Chair
Entertainment & Sports Law Section

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## Events Calendar

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| Oak Cliff Film Festival, Dallas, TX | June 8 – 11, 2017 |
| SBOT Annual Meeting, Hilton Anatole, Dallas, TX | June 22 – 23, 2017 |
| Austin Film Festival, Austin, TX | October 26 – Nov 2, 2017 |
| Entertainment Law Institute, Hyatt Regency, Austin, TX | November 16 – 17, 2017 |

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## Spotlight on Brent Turman

Brent is a business litigation and entertainment attorney based in Dallas. His practice covers a variety of matters, including business disputes, complex arbitration, and intellectual property. Brent was fortunate enough to be second chair in the Fifty Shades of Grey litigation, where a Tarrant County jury found that his client deserved a $13MM judgment as her share of the royalties from book sales. He was also second chair in a complex arbitration relating to the renewable energy industry, where he helped to obtain a $68MM award for his clients. He was recently recognized by his peers as a Super Lawyers "Rising Star" for business litigation.

Brent is the Immediate Past Chair of the Dallas Bar Association's Entertainment, Art & Sports Law Section, and he currently serves on the board of Arts Counsel Texas, a non-profit that seeks to foster communications and understanding among legal professionals and artists in North Texas. In addition, Brent is a member of the Dallas Producers Association and the SMU Meadows School of the Arts Alumni Advisory Council.

Before attending law school, Brent worked as an Associate Operations Producer with ESPN College Football. During every offseason, Brent produced and directed commercials, music videos, and in-arena entertainment.

Outside of work, Brent produces short films and co-hosts Hilltop Hoops, a podcast for SMU men's basketball fans. Brent has a narrative short film in post-production, and it is currently distracting him from SMU's loss in the first round of the tournament this year. Brent can be reached via email.

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## "Address Unknown"
## NOIs give Music Services a Free Ride by making Copyright Opt-in
## By Chris Castle

Most music and entertainment lawyers are familiar with statutory mechanical licenses under Section 115 of the Copyright Act, which requires music users to pay mechanical royalties after filing a "notice of intent" ("NOIs"). While NOIs are designed to ensure artists receive payment for a user's use of their music, some of the biggest online music users successfully use NOIs to avoid paying royalties and these type of NOIs are being filed in the tens of thousands every week.

These music users are taking advantage of a little used section of the Copyright Act that permits serving "address unknown" NOIs on the Copyright Office if a song copyright owner is not "identified in the registration or other public records of the Copyright Office." 17 USC § 115(c)(1). After a proprietary searchable private database of all these NOI filings since April 2016, I determined that there are over 22 million "address unknown" NOIs filed by Google, Amazon, iHeart, Pandora and other services, predominantly using Music Reports, Inc. (MRI) as their agent. By relying on the "address unknown" NOI, music users are absolved from paying mechanical royalties until the song copyright owner becomes "identified" in the Copyright Office. It's important to note that the mechanical royalties that would have otherwise been owed to the artist, or work's owner, are not "escrowed," and the royalties are only paid prospectively after the song copyright owner complies with the formality of registration.

Note that the protection from paying royalties is not based on the music user's actual knowledge of the copyright owner's identity. The user may very well know the artist's or owner's identity and may have licensed the identical song copyright under a direct license or another NOI. Thus, the "address unknown" NOI turns on whether the song copyright owner has complied with a formality of being "identified" to the Copyright Office—hence the Berne violation. Crucially, the Copyright Office doesn't check to see if any of this process is performed properly, so it is ripe for moral hazard and shenanigans.

By relying on "address unknown" NOIs, despite their own personal knowledge of the copyright owner, these users are turning copyright into an "opt in" system in direct contravention of the U.S. Copyright Act, the Berne Convention and probably the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS Agreement").

Not only is the matching failing on some howlers (like Sting, the Beach Boys, the Eagles, the Beatles and the Rolling Stones), there also will be no "cataloged" song registration for many new releases as it can take months for the Copyright Office to conform a registration so that the registration in final form would be findable in a search of Copyright Office registrations.

As a result, since Google and Amazon led the way with these mass NOI filings in April 2016, it appears that over 22 million long tail, ex-US songs, or new releases have fallen into this loophole—even if the music users actually know where to find the song owners. If permitted to continue, this mind-numbing mess will likely never result in payment

to songwriters for millions of streams, downloads or other uses, and denies copyright owners the rights guaranteed by the Berne Convention and U.S. law. It is time for Congress and the United States Copyright Office to study how users rely on "address unknown" NOIs and whether or not regulations need to be altered in determining a user's knowledge of a copyright owner, despite what the Copyright Office's public documents include. Additionally, if copyright owners want to best protect their works, they should ensure that their registrations and records with the U.S. Copyright Office are complete and that they work to police the unauthorized use of their work.

*Chris Castle is an attorney licensed in California & Texas, with a long history of serving businesses and artists in the music industry. In 2011, he moved his practice from Los Angeles, CA to Austin, TX, where he advises clients on transactional matters in the music industry, music-tech startups, and public policy matters relating to artist rights. For more information, visit Chris's website.*

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## BONUS ARTICLE
## MFN: BFF?
## By Eric Zukoski
### *Originally published in the March 2017 issue of the Dallas Bar Association Headnotes*

Teach Your Children

The Texas Music Project, a 501(c)(3) recognized by the Texas state legislature for its support of music education in Texas schools, and for which this writer's law firm served as general and intellectual property counsel, produced a series of compilation CD's featuring Texas artists. The first of these, *Don't Mess With Texas Music Volume I*, became the best-selling compilation of Texas music in history, raising nearly $500,000 for music education in historically disadvantaged schools. The key to the album's success was the participation of legendary Texas artists—artists with the kind of stature that they go by only one name--Waylon, Willie, Stevie, Beyoncé, ZZ (okay, "ZZ" might be two names, I'm not really sure). Yet as a start-up charity, let alone a novice at the record business, landing artists of this stature should have been an insurmountable task. However, aside from Texas having more Grammy winners than any other state, the one factor that was more instrumental to getting the CD produced than anything else—so much so that it probably deserved its own album credit—was the MFN or "most favored nation" provision.

Wide Open Spaces

Producing a compilation CD requires (1) a *master use* license from each of the controlling record labels, (2) *mechanical* licenses from each of the publishers that control the underlying compositions, and (3) AFM and SAG-AFTRA re-use waivers. Like most entertainment deals, music license negotiations start with a deal memorandum containing proposed deal terms in bullet point form. However, the Texas Music Project was asking for gratis licenses —so where the bullet points would usually convey what the record label or music publisher was getting in return for their participation, we had only big blank spaces. This is where MFN came in.

Just the Two of Us

Most Favored Nation treaties became widespread beginning in the 18th century, such as in the Jay Treaty of 1794 between the U.S. and Brittan, and required in their most basic form that if a country granted trade terms more favorable to another country, it would grant the same terms to the country with which it had a most favored nation treaty agreement. Although MFN provisions have made their way sporadically into some intellectual property agreements such as music licenses, they are rather rare. However, their primary benefits—overcoming a lack of negotiating strength, serving as a remedy for incomplete information, and providing a self-policing contractual deterrent where enforcement is difficult or expensive—suggest that they may be helpful in other industries and applications.

A Matter of Trust

As a start-up charity, the Texas Music Project lacked the negotiating strength, the track record, and the funds to secure artists of the stature necessary to achieve substantial sales. Once the Texas Music Project secured Willie's participation, however (thanks to Willie's charitable nature and a winning poker hand), it became possible to secure other "one name" artists—*so long* as they were promised the *most favorable rate and terms* given to anyone else on the album. Thus, the MFN provision effectively leveled the bargaining power and also served as a substitute for the normal licensor's due diligence that would otherwise go into this type of agreement. And since the licenses were

gratis and the labels and publishers therefore did not want to spend substantial time and resources on enforcement, a promise that each and every one of the 100 or so licenses for the album would be on an *MFN-rates-and-terms* basis was a sufficient deterrent that typical license enforcement was not necessary.

Blue Skies
No specific wording is required, and the most favored nation promise can apply to the rate, the terms, particular terms, or a combination. An MFN provision that establishes prices directly charged to consumers should be reviewed for anti-trust considerations, but other than this scenario the industries, applications, and agreements where an MFN provision might prove beneficial for all parties is limited only by the imagination of the players involved.

*Eric Zukoski is a partner at Quilling, Selander, Lownds, Winslett & Moser, P.C. and is currently on the Entertainment, Art, and Sports Law Council. Eric can be reached via email.*

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## Practice Document

Attached is an Athlete Endorsement Agreement provided by Todd Krumholz. Todd is an attorney and owner of JTK Talent, a full-service athlete endorsement and sponsorship agency based in Dallas. JTK Talent works with corporate clients, as well as select athletes, to maximize marketing and branding opportunities. Todd can be contacted via email.

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*Send questions, comments, and submissions for TESLAW Tidbits by email to Victoria Helling, Editor in Chief.*