Copyright Licensing

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I. Introduction

The purpose of this article is to introduce the subject of copyright licensing. The article discusses the following topics: the subject matter of a copyright license, exclusivity, allocation of rights, term and termination, risk management and license fees.

II. The Subject matter of a copyright license

A. Original Works of Authorship

The subject matter of a copyright license is limited to the subject matter of copyright. According to the Copyright Act of 1976 (the "Copyright Act"),[1] "Copyright protection subsists, in accordance with this title, in original ***works of authorship*** fixed in any tangible medium of expression. . . ."[2]

The Copyright Act enumerates eight categories of works of authorship: "(1) literary works; (2) musical works, including any accompanying words; (3) dramatic works, including any accompanying music; (4) pantomimes and choreographic works; (5) pictorial, graphic, and sculptural works; (6) motion pictures and other audiovisual works; (7) sound recordings; and (8) architectural works."[3] A particular work (e.g., a play) may fall into more than one category (e.g., a literary work and a dramatic work).

B. The Rights Comprised in the Copyright

The protection of works of authorship extends only to certain statutorily defined "exclusive rights." Section 106 of the Copyright Act specifies those exclusive rights as follows (emphasis added):

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[1] 17 U.S.C. § 101, et seq.
[2] 17 U.S.C. § 102 (a) (*emphasis added*)
[3] *Id.*

> Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
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> (1) to ***reproduce*** the copyrighted work in copies or phonorecords;
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> (2) to ***prepare derivative works*** based upon the copyrighted work;
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> (3) to ***distribute*** copies or phonorecords of the copyrighted work to the public ***by sale or other transfer of ownership, or by rental, lease, or lending***;
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> (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to ***perform the copyrighted work publicly***;
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> (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, ***to display the copyrighted work publicly***; and
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> (6) in the case of sound recordings, to ***perform the copyrighted work publicly by means of a digital audio transmission***.

The subject of a copyright license thus may include one or more of the enumerated rights to reproduce, prepare derivative works, distribute, display or perform publicly an original work of authorship as defined under the Act. As discussed below, the right to exercise any or all of those rights, including the right to grant a license in those rights, is initially vested in the owner: the author or authors of the work or, in the case of a work made for hire, the employer or other person for whom the work was prepared.[4] A license is necessary to exercise the exclusive rights as defined

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[4] *See, e.g.*, Landau v. Cosmetic & Reconstructive Surgery Ctr., Inc. 158 F.R.D. 117, 119 (N.D.Ill. 1994).

under the Copyright Act unless the party exercising the rights is a creator of the work, the work is not copyrightable, it is in the public domain or it falls within the domain of fair use.[5]

It should be noted that the exclusive rights also include certain rights to "attribution and integrity" within a category of pictorial works defined as "works of visual arts."[6] With respect to works of visual arts, and subject to the limitations contained in the Copyright Act, the author has a continuing right to "claim authorship," to "prevent the use of his or her name" as author in the event of an alteration that is "prejudicial to his or her honor or reputation," and to prevent any such prejudicial alteration.[7]

III. Licenses Generally: Exclusive and Non-Exclusive

A. Copyright Ownership

Allocation of rights in a copyright license begins with the owner of the copyright. Section 201(a) of the Copyright Act states that the author or authors own the copyright in and to the original work of authorship.

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[5] *See* Michael D. Scott, "Multimedia Licensing" (hereinafter, "Scott") in Michael Epstein and Frank Politano, DRAFTING LICENSING AGREEMENTS § 12.02, at 12-6.

[6] 17 U.S.C. § 106A. Section 101 defines a "work of visual art" as follows:

> (1) a painting, drawing, print or sculpture, existing in a single copy, in a limited edition of 200 copies or fewer that are signed and consecutively numbered by the author, or, in the case of a sculpture, in multiple cast, carved, or fabricated sculptures of 200 or fewer that are consecutively numbered by the author and bear the signature or other identifying mark of the author; or
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> (2) a still photographic image produced for exhibition purposes only, existing in a single copy that is signed by the author, or in a limited edition of 200 copies or fewer that are signed and consecutively numbered by the author.

[7] 17 U.S.C. § 106A.

There is an exception to authorial ownership where the author has prepared the work as a work for hire. "In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright."[8]

Whether an individual is an employee for purposes of the work for hire doctrine is determined in light of the general law of agency.[9] A work is also a work for hire if it is prepared for another party pursuant to a written contract specifying that it is a work for hire and the work falls into one of nine specified categories. One of those categories is a collective work, i.e., a work that is compilation of multiple copyrightable works such as a newspaper, magazine, or encyclopedia.[10] With respect to collective works, the Copyright Act states that "[c]opyright in each separate contribution to a collective work is distinct from copyright in the collective work as a whole, and vests initially in the author of the contribution."[11] The owner of the copyright in the collective work acquires only the privilege of "reproducing and distributing the contribution as part of that particular collective work, any revision of that collective work, and any later collective work in the same series."[12]

In the case of a joint work, each of the joint authors can exercise the exclusive rights, but each has a duty to account to the other joint author(s) as a tenant in common.[13] A joint owner may transfer his undivided interest in the work, but may not assign or

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[8] 17 U.S.C. § 201(b).
[9] *See, e.g.*, Community for Creative Non-Violence v. Reid, 490 U.S. 730 (1989).
[10] *See* 17 U.S.C. § 101 for definitions of "compilation" and "collective work."
[11] 17 U.S.C. § 102.
[12] *Id.*
[13] *See*, Melville B. Nimmer and David Nimmer, Nimmer on Copyright ("Nimmer") § 6.12[B] p. 6-35 (footnotes omitted). "However, [a] right of accounting may be enforced only as against the joint owner- licensor, and not as against his licensee." *Id*. at 6-38.5.

grant an exclusive license without consent of the other joint owner.[14]

B. Non-exclusive and Exclusive Licenses

"In its simplest form, a license means only leave to do a thing which the licensor would otherwise have a right to prevent."[15] A nonexclusive license is simply a permission to use a copyrighted work in a particular manner. It does not convey ownership or constitute a "transfer" of an exclusive right. By its nature, a non-exclusive license reserves for the licensor the right to license the same rights to other parties.[16]

Non-exclusive licenses may be granted "orally, or may even be implied from conduct . . . . In fact, consent given in the form of mere permission or lack of objection is also equivalent to a nonexclusive license and is not required to be in writing."[17] It has been held that non-exclusive licenses may be revoked absent consideration.[18]

Exclusive licenses are accorded the special status of being a "transfer of copyright ownership" under the Copyright Act:

> "A 'transfer of copyright ownership' is an assignment, mortgage, ***exclusive license***, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, ***but not including a nonexclusive license***."[19]

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[14] Glovaroma, Inc. v. Maljack Productions, Inc., 71 F.Sup. 846, 853 (N.D.Ill. 1999); 17 U.S.C. § 204(a).
[15] W. Elec. Co. v. Pacent Reproducer Corp., 42 F.2d 116, 118 (2d Cir.1930)
[16] I.A.E., Inc. v. Shaver, 74 F.3d 768, 774-776 (7th Cir.1996); *Itofca, Inc. v. Megatrans Logistics, Inc.*, 322 F.3d 928 (7th Cir. 2003) (Ripple, J. concurring).
[17] *Shaver*, 74 F.3d at 775. *See Generally*, Nimmer, § 10.02[B][5].
[18] *See*, Ortiz v. Guitian Music Bros., Inc. 2009 WL 2252107 (S.D.N.Y.,2009).
[19] 17 U.S.C. § 101 (emphasis added).

By contrast to a non-exclusive license, an exclusive license constitutes a promise that the licensor will not license the same right to another party.[20] Moreover, the licensor may not exercise the licensed rights absent permission of the exclusive licensee. Accordingly, it has been held that a licensor 'may be liable to the exclusive licensee for copyright infringement if the licensor exercises rights which have theretofore been exclusively licensed.'[21]

In addition to differences inhering in the concept of exclusivity, non-exclusive and exclusive licenses differ in three important respects: 1) exclusive licenses must satisfy a writing requirement; 2) exclusive licensees may, without first obtaining consent of the Licensor, transfer the licensed interest; 3) exclusive licensees may sue infringers.

1. Writing Requirement

The Copyright Act provides that transfers of copyright ownership (including exclusive licenses) must be in writing:

> A ***transfer*** of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent.[22]

In the context of transactions that are of material consequence (those that are defined as "transfers"), the Copyright Act reduces the risk of a licensor losing its rights through abusive practices, or mistake or misunderstanding. The Copyright Act does not specify any particular formal requirements beyond those

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[20] *Id.*

[21] Essex Music, Inc. v. ABKCO Music and Records, Inc., 743 F.Supp. 237, 241-242 (S.D.N.Y. 1990), *quoting* Nimmer (citations omitted). *See also*, Fantasy, Inc. v. Fogerty, 654 F.Supp. 1129, 1130-32 (N.D.Cal. 1987).

[22] 17 U.S.C. § 204(a)(*emphasis added*). Although not a requirement, a notarization will operate as a prima facie evidence of transfer. 17 U.S.C. § 204(b).

noted in the statute and it appears that no special words of conveyance are required.[23] One court states that "a one line pro-forma statement will do."[24]

As noted in Section 204(a), the applicable instrument may be signed by a "duly authorized agent." The statute does not define what it means to be "duly authorized," but contextually it is reasonable to assume that the agent must be appointed in writing or through a combination of writings such as corporate by-laws and resolutions appointing corporate officers. The practitioner should make reference to applicable state law.[25] As the law makes clear, the owner of the right (or the authorized agent) may confirm an oral grant of an exclusive license by subsequent memorandum signed by the grantor and thereby effect the "transfer."

While the foregoing suggests some of the minimum requirements, the parties to a license transaction are well counseled to document their intent in a license agreement that carefully parses all applicable rights.

2. Permission for Further Conveyances

A further conveyance by a licensee may constitute an infringement if it exceeds the scope of the license.[26] Non-exclusive licensees do not have the right to sublicense or otherwise convey rights absent permission.[27] Exclusive licensees are the

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[23] *See*, Nimmer, § 10.03[A][1].

[24] Effects Associcis. Inc. v. Cohen, 908 F.2d 555, 556 (9th Cir. 1990), *cert denied*, 498 U.S. 1103 (1991). *See also*, Itofca, Inc. v. Megatrans Logistics, Inc., 322 F.3d 928, 931 (7th Cir. 2003); Glovaroma, inc. v. Maljack Prods, Inc. 71 F. Supp. 2d 846, 855 (N.D. Ill. 1999). It is also likely that an email signature will suffice, but the practitioner should consult the Uniform Electronic Transaction Act as may have been implemented in the applicable state and the Electronic Signature In Global National Commerce Act (15 U.S.C. § 7001). *See*, Nimmer, § 10.03[A][1], at 10-41 to 10-42.

[25] Nimmer, § 10.03[A][4], at 10-46 to 10-47.

[26] I.A.E., Inc. v. Shaver, 74 F.3d 768, 775 n.8 (7th Cir.1996).

[27] In re Golden Books Family Entertainment, Inc., 269 B.R. 311, 314-19 (Bankr. D. Del. 2001); In re Patient Educ. Media, Inc., 210 B.R. 237, 242-43 (Bankr. S.D.N.Y. 1997); Nimmer, § 10.02[B][4]. There is

owner of the right licensed and therefore it would appear that they do not need permission to make further sublicenses of the right conveyed. Obviously the parties to a license agreement should take care to document their intent with respect to sub-licensing in the license agreement.

3. Standing to Sue for Infringement

A non-exclusive licensee has no standing to sue.[28] Of the parties to an exclusive license, by contrast, only the exclusive licensee and not the licensor can sue for later infringement of the granted rights. [29] Section 501(b) provides as follows:

> "The legal or beneficial owner of an exclusive right under a copyright is entitled, subject to the requirements of section 411, to institute an action for any infringement of that particular right committed while he or she is the owner of it. The court may require such owner to serve written notice of the action with a copy of the complaint upon any person shown, by the records of the Copyright Office or otherwise, to have or claim an interest in the copyright, and shall require that such notice be served upon any person whose interest is likely to be affected by a decision in the case. The court may require the joinder, and shall permit the intervention, of any person having or claiming an interest in the copyright."

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authority urging that exclusive licensees do not have the right to make further transfers absent permission of the owner. *See*, Gardner v. Nike, Inc., 774 (9th Cir. 2002) (holding that neither exclusive nor nonexclusive licenses can be transferred absent copyright owner's authorization). This decision has been criticized. *See*, *e.g*., Traicoff v. Digital Media, Inc. 439 F.Supp.2d 872, 877-878 (S.D. Ind. 2006).

[28] Eden Toys, Inc. v. Florelee Undergarment Co., Inc. 536 F.Supp. 1187, 1190 (S.D.N.Y. 1981), *aff'd in part, rev'd in part on other grounds*, 697 F.2d 27 (2d Cir. 1982).

[29] Althin CD Medical, Inc. v. West Suburban Kidney Center, S.C., 874 F.Supp. 837, 842 (N.D.Ill. 1994); Essex Music, Inc. v. ABKCO Music and Records, Inc., 743 F.Supp. 237, 242 (S.D.N.Y. 1990) (quoting Nimmer).

Holders of rights should obviously be cautious in granting exclusive licenses and should seek to minimize the chance that an unproductive licensee will tie up valuable rights that might be exploited more profitably by other parties. Thus, the rights holder should consider covering the risk by requiring the licensee to pay an up front minimum royalty or perhaps minimum payments at certain intervals. The rights holder might consider reserving the right to terminate or to convert the license to a non-exclusive license if sales do not reach a certain threshold

IV. Allocation of Rights: The License Grant

A. Generally

The object of any license transaction is control: the licensee should seek to maximize the rights granted—which may include locking in terms on future rights; the licensor will want to maximize revenue and be careful not to inadvertently give away rights that might be leveraged into further revenue. Accordingly, the parties will want to very carefully granulate the rights which are the subject of the grant and avoid ambiguities which might result in failure of the licensee to obtain necessary rights, the inadvertent grant by licensor of certain rights, and litigation that is costly to both sides.

Accordingly, the parties should take special care to specify the rights granted. Is the license to have the right to copy? Display? Perform publicly? Distribute? Create derivative works? What use can be made of derivative works? With respect to the rights granted, the parties should further consider the territory in which the license can be exercised, the markets, the media and technological platforms. Is, for example, the copyrighted content to be used worldwide, or just in the United States or a particular region of the United States? Is the relevant market wholesale or retail? Does the market include government, business and/or education? Is the market limited to a particular industry—e.g., sports? Or a particular sub-division of that industry—e.g., baseball? Can the content be displayed in print, radio, motion pictures, cable TV, network TV, pay TV, the Internet? If on the Internet, for example, how can the contenet be displayed—through email blasts, Skype, blogs, websites, interactive games, etc.?[30] If the subject of the license is software to be used in a company, which divisions can use the software, where can the software be loaded, how many users can access the software, etc?

Lack of clarity and foresight can lead to problems down the road. In one case, For example,[31] the New York Times and various other publishers posted the content of their newspaper and magazine publications online. Newspapers and magazines are collective works and the authors of the contributed articles in this case retained their rights to exploit their articles as used apart from the collective works.[32] The case arose in connection with an online version of the publications. The various online applications and databases were structured in such a way so that readers could access each of the contributed articles individually and separate from the collective works. The Supreme Court resolved the case in favor of the authors and held that the online storage of the articles in this manner constituted a copyright violation (a use outside the scope of a collective work):

> The publishers are not sheltered by [section 201(c)], we conclude, because the databases reproduce and distribute articles standing alone and not in context, not "as part of that particular collective work" to which the author contributed, "as part of. . . any revision" thereof, or "as part of...any later collective work in the same series." Both the print publishers and the electronic publishers, we

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[30] For an excellent discussion, see Scott, *supra* note 5, at 12-15 to 12-17

[31] Tasini v. New York Times Co., 533 U.S. 483 (2001).

[32] The Copyright Act (17 U.S.C. § 201(c)) provides as follows:

> Copyright in each separate contribution to a collective work is distinct from copyright in the collective work as a whole, and vests initially in the author of the contribution. In the absence of an express transfer of the copyright or of any rights under it, the owner of copyright in the collective work is presumed to have acquired only the privilege of reproducing and distributing the contribution as part of that particular collective work, any revision of that collective work, and any later collective work in the same series.

> rule, have infringed the copyrights of the freelance authors. . . ."[33]

Using the licensed content outside the scope fo the grant will constitute an infringement. In that context, the distinction between "conditions" and "covenants" should be noted in connection with drafting a licensing agreement and, specifically, the license grant. Breach of an obligation that is merely a covenant will give rise to a breach of contract claim. Breach of an obligation that is *a condition to the license* grant may give rise to a claim that the licensee is acting outside the scope of the license and to a copyright infringement claim (and to a request for injunctive relief under the Copyright Act).[34]

B. Exclusive License Grants

An exclusive right as subdivided and granulated in time, effect or manner may be the subject of an exclusive license and constitute a transfer so long as the grantor complies with the writing requirement. Section 201(d)(2) provides as follows:

> Any of the exclusive rights comprised in a copyright, including any subdivision of any of the rights specified by section 106, may be transferred as provided by clause (1) and owned separately. The owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner by this title.

Accordingly, the exclusive licensee retains the right to sue for infringement of such granulated/subdivided exclusive right and, arguably, the right to sublicense such right even without express consent.

C. Waiver of Rights of Attribution and Integrity

Importantly, licensees may want to use the licensed content without giving attribution to the creator or use it in a

[33] 533 U.S. at 488
[34] *See, e.g.*, Jacobsen v**.** Katzer**,** 535 F.3d 1373, 1379 (Fed. Cir. 2008).

manner that the creator might find offensive. If the licensed works fall into the category of "works of visual art" as defined by the Copyright Act,[35] the parties, at the outset, should obtain a waiver of attribution and integrity rights. The waiver must be obtained from the artist.[36]

V. Term and Termination

A. Term

The term of a copyright is prescribed by statute. The term of a copyright license may not exceed the term of the copyright and royalties cannot be enforced beyond the life of the copyright. A copyright endures from the time of creation until 70 years after the author's death.[37] In the case of joint works, the copyright lasts until 70 years after the last surviving author's death.[38] The copyright in a work for hire endures for a term of 95 years from the year of its first publication, or a term of 120 years from its creation, whichever is longer.[39]

Licenses will frequently provide for "perpetual" terms. Perpetual terms are construed to mean terms expiring at the expiration of the copyright.[40] If no term is specified, a court might imply a perpetual license.[41]

In the event that the license is for a term of years, the licensee should be very careful to negotiate renewal rights and lock in rates for renewal. Licensors of exclusive licenses should be especially wary of renewal provisions and should consider

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[35] *See supra* note 6.
[36] The Copyright Act expressly provides that these rights may be waived if the author expressly agrees to such waiver in a written instrument signed by the author in accordance with Section 106A(e).
[37] 17 U.S.C. § 302(a).
[38] 17 U.S.C. § 302(b).
[39] 17 U.S.C. § 302(c); *see generally*, http://www.copyright.cornell.edu/resources/publicdomain.cfm.
[40] Nimmer, at 10-113.
[41] Scott, at 12-24; *see*, Rano v. Sipa Press, Inc., 987 F.2d 580, 585-86 (9th Cir. 1993). *see, infra* notes 42 and 43 and accompanying text.

allowing renewals only upon licensee achieving some financial milestone that justifies renewal of the exclusive license.

B. Termination

Licensees need to be especially wary of overreaching termination clauses. Understandably, Licensors seek to protect their valuable intellectual property. Licenses will typically provide that the contract can be terminated upon failure to cure a material breach within thirty days of written notice. A question may arise with respect to whether a breach (e.g., a breach of confidentiality) is truly curable. If not, then the licensor is arguably free to terminate the contract—at least after thirty days.

Termination can have devastating consequences. The licensee may depend on the licensed content as part of its sales and marketing strategy and may have already made a substantial investment in the licensed content.

Accordingly, licensees should consider a number of options for "softening" termination clauses. For example, licensees should press for a provision that blocks termination so long as the breach was inadvertent, the licensee is curing to the extent possible and the licensee is exercising diligence to avoid recurrence of the breach. In the case of software licenses, for example, the licensee might push for a provision that liquidates inadvertent uses of the software (e.g., excess installations throughout a company) to the contract rate or the contract rate plus some small premium. Again, the licensee's perspective should be "go ahead and sue me for breach, but I'm not letting you translate my dependency on your content into a termination right that might destroy my business." Another option is to preserve the licensor's right to terminate, but for the parties to provide for an extended (say, six month) wind down period in which the licensee can make alternative arrangements and exhaust existing inventory.

Finally, under the current law and with respect to works created after 1978, a licensor may terminate a transfer of a copyright thirty-five (35) years after execution of the grant: .

> Termination of the grant may be effected at any time during a period of five years beginning at the end of thirty-five years from the date of execution of the grant; or, if the grant covers the right of publication of the work, the period begins at the end of thirty-five years from the date of publication of the work under the grant or at the end of forty years from the date of execution of the grant, whichever term ends earlier.[42]

The statute sets forth the conditions for exercising such right and also the termination rights of licensors who owned works created before 1978.[43] This termination right is not cancelable by contract.

VI. Risk Management

The parties will take a variety of steps, non-contractual and contractual, to minimize their risk under the license agreement.

A. Non-Contractual Risk Management

1. Due Diligence

A contract can be air tight; but given the costs and distractions of litigation, even a winning lawsuit is something to be avoided. Accordingly, the parties will want to do due diligence on each other before making a substantial investment in the business arrangement. The licensee should be certain that the licensor owns the rights it purports to transfer. For example, where it is known that development of the licensed content was subcontracted, the licensee may want to request production of the sub-contractors' assignments of their creative work to the licensor.

2. Insurance

The parties to a copyright licensing transaction should be aware of the insurance products that might be available to help manage the risk. Applicable coverage may be found in the advertising injury provisions of commercial general liability

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[42] 17 U.S.C. § 203 (a)(3).
[43] See, 17 U.S.C. §§ 203(a)(3) and 304(c)(3).

insurance, various e-commerce policies, professional liability/errors and omissions policies, or other specialty policies covering certain IP or technology exposures. Licensees frequently spend lots of time negotiating the nuances of indemnity agreements covering intellectual property infringement. Remember, however that the indemnity is only as good as the licensor's ability to satisfy the indemnity. Accordingly, the licensee may want to work with its broker or counsel to verify that the licensor not only has liability insurance covering its own risk of infringement, but also has insurance that covers its *contractual indemnity obligation* to the licensee.

3. Registration and Recordation

a. Registration

As explained by the Copyright Office, "copyright registration is a legal formality intended to make a public record of the basic facts of a particular copyright. However, registration is not a condition of copyright protection."[44]

Registration is good risk management, however, for three reasons. First, even thought registration is not a condition of copyright protection, it *is* a condition for bringing an action for copyright infringement. True, it is not unusual for a copyright holder to file for registration on an accelerated basis after discovering the infringement and then, after registering the copyright, bring a lawsuit.

Registration is relatively simple and inexpensive (currently $35 if done online) and doing so ahead of time simplifies the path to litigation. Some courts hold that merely filing the application is sufficient to obtain federal jurisdiction—but others hold to the contrary.[45] It may take some months for an application to be

[44] Circular 1, page 7 (accessible at www.uscopyright.gov). The variouis Copyright Office Circulars provide an excellent summary of basic copyright principles and practices.
[45] For an excellent discussion, see "William T. McGrath, Copyright Infringement, Fair Use, and Remedies" in INTELLECTUAL PROPERTY LAW

processed and registration to issue, even if processed online. Where a party intends to file an infringement suit but has not yet registered, the copyright office does offer an accelerated registration for a premium payment (currently $760).[46]

Second, registration is a condition precedent for obtaining statutory damages. Thus, for a licensor who wants to be sure of keeping its licensee within the scope of the license or where the parties to a license agreement may be concerned about potential third party infringers, registration and the prospect of statutory damages (where actual damages might be nominal or non-existent) is a powerful deterrent.

Third, registration in the case of exclusive licenses is a prerequisite for recordation of the license.

4. Recordation

Although the Copyright Act does not require recordation of transfers and the failure to record is not a defense against infringement, the parties may want to consider recording the license agreement. The purpose of recordation is to provide notice of the transaction and to resolve claims resulting from conflicting transfers.

Thus, suppose at T1 A licenses content to B on an exclusive basis. A intends the license to be restricted to network television, but the license is vague and B believes he has a license to cable TV as well. At T2, A licenses the same content to C for use on cable TV—also on an exclusive basis. B and C dispute entitlements to the cable market. Absent recordation, and assuming a determination that B's license included the Cable market, C will be out of luck and be an infringer relative to B.

How could C have managed the risk? C could have recorded his exclusive license. Assuming B did not record B's license, C would prevail against B.

(Illinois Institute of Continuing Legal Education 2008), ch. 11 at 11-4 to 11-7.

[46] Circular 4.

But if B was also careful, and recorded B's license prior to C recording C's licnese, B will prevail against C. This begs the question: how does C, *ab initio*, manage the risk of a prior recorded license at the time of entering into a license transaction.

Obviously, C will want to check the Register of Copyrights and verify that there are no prior transfers of the copyrighted work. If there are none, that's a good sign, but not a perfect "all is clear." The process is complicated by the fact that it may take some time for the Copyright Office to process the recordation and for evidence of the transfer to become available in the online public database.[47] Moreover, as a further complication, the Copyright Act gives the parties to a license transaction one month (or two months, if executed outside the U.S.) from execution of the agreement to record and retain rights against parties to agreements that are later executed, but recorded first. Thus, when C is trying to evaluate when he is "out of the woods" from prior conflicting transactions, he should add one month (or two) to a conservative estimate of the general processing time for recordations.

So, again, how is C to manage the risk? In a *perfect world*, and assuming C has the upper negotiating hand on A, C might structure an acceptance period into the contracting process.[48] Thus, A and C would 1) execute their agreement with perhaps some dollar hold-back; 2) immediately record the transfer; and 3) provide for some period of time that accounts for periods noted above for "acceptance." At the conclusion of the acceptance period, C would check the Register to see if there had been any recordings; if not, C can have some assurance that he has good title and full disbursement could be made.

[47] At this writing, it is possible that recordations can take up to three to four months and perhaps longer depending on the nature of the document to be recorded. "The date of recordation is the date when a proper document under paragraph (c) of this section and a proper fee under paragraph (d) of this section are all received in the Copyright Office." 37 C.F.R. §201.4(e).

[48] *See* Nimmer, § 10.07[A][1][b], at 10-56.15.

Alternatively, rather than providing for a hold-back and "acceptance," the parties might agree that if there is a conflicting transaction, the licensee can terminate and obtain a complete refund or liquidated damages.

The Copyright Act sets out the priority scheme in Section 205. First, Section 205(c) sets forth the requirements for recordation:

> (c) Recordation as Constructive Notice. — Recordation of a document in the Copyright Office gives all persons constructive notice of the facts stated in the recorded document, but only if —
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> (1) the document, or material attached to it, specifically identifies the work to which it pertains so that, after the document is indexed by the Register of Copyrights, it would be revealed by a reasonable search under the title or registration number of the work; and
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> (2) registration has been made for the work.

Section 205(d) sets forth the priorities with respect to conflicting transfers (as "transfers" are defined under Section 101):

> (d) Priority between Conflicting Transfers. — As between two conflicting transfers [**such as exclusive licenses**], the one executed first prevails if it is recorded, in the manner required to give constructive notice under subsection (c), within one month after its execution in the United States or within two months after its execution outside the United States, or at any time before recordation in such manner of the later transfer. Otherwise the later transfer prevails if recorded first in such manner, and if taken in good faith, for valuable consideration or on the basis of a binding promise to pay royalties, and without notice of the earlier transfer.

Section 205(e) sets forth the priorities with respect to a transfer that conflicts with a non-exclusive license. It is noteworthy that non-exclusive licenses need not be recorded to obtain a priority over a transfer—but they do need to be in writing:

> (e) Priority between Conflicting Transfer of Ownership and Nonexclusive License. — A nonexclusive license, whether recorded or not, prevails over a conflicting transfer of copyright ownership if the license is evidenced by a written instrument signed by the owner of the rights licensed or such owner's duly authorized agent, and if
>
> (1) the license was taken before execution of the transfer;
>
> or
>
> (2) the license was taken in good faith before recordation of the transfer and without notice of it.

B. Contractual Risk Management

1. Warranties

In many copyright licenses, the licensee will be concerned principally with three risks: 1) that the content is not owned by the licensor, 2) that the content contains harmful or illegal material, and 3) that the licensee fails to exploit the license.

a. Ownership

The licensee will want to be assured that he is paying for something that actually has value and that is not sitting in the public domain available for the taking by others. Also, the licensee will want assurances that the rights to the content, if proprietary, are not owned by a third party and that the license will not invite an infringement claim. Accordingly, the licensee should seek a warranty that the copyright to the content is owned by the licensor and that the content does not infringe upon the rights of any third party. The licensor may legitimately seek to hedge its bets through a "knowledge" qualification as to the non-infringement warranty (and avoid a breach of contract claim if the representation proves untrue), but offer to satisfy the risk through the indemnification provision. The licensee may seek a more robust warranty and also ask for a representation that all assignments (from subcontractors) have been duly executed and that the licensor has not and will not make any grants that are inconsistent with the license.

b. Harmful Content

Additionally, the licensee should seek a representation that the licensed copyrighted materials contain no other materials that could give rise to a claim. For example, the licensee may seek a representation that the materials contain no material that is libelous or violative of another party's rights to privacy or publicity. Again, licensee may seek to qualify these kinds of representations with a "knowledge" qualification.

c. Best Efforts

Particularly in the context of exclusive licenses, the licensor may seek a representation from the licensee that it will use its best efforts to exploit the license.[49] The licensor may demand a representation from the licensee that it will devote some minimum resources to selling product containing the licensed content. These may take the form of a representation that the licensee will devote a specified minimum dollar amount on marketing, achieve certain advertising distribution milestones, dedicate specified human resources, etc.

d. Special Cases

Obviously, the provisions contained in a copyright license, including the warranties, will depend on the nature of the material licensed. For example, software licenses will require additional warranties relating to conformance to technical and functional specifications.

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[49] Under certain circumstances, the obligation to use best efforts to exploit the license may be implied in an exclusive license even absent an express covenant.

2. Indemnification

A license agreement will typically contain an indemnification clause. At a minimum, this clause usually will provide indemnification to the licensee for copyright infringement and perhaps for other types of intellectual property infringement. The licensor should consider seeking indemnification for claims associated with licensee's use of the licensed content that are outside of licensor's intellectual property indemnity obligation.

3. Limitations of Liability

Licensors will typically seek to limit their liability to direct damages and exclude consequential, incidental and punitive damages. A licensor may also seek to cap its direct damage liability. Licensees should seek to carve out of any limitation of liability claims for infringement, including claims under the indemnity, and perhaps claims for other specified risks such as breach of confidentiality.

VII. Fees

Copyright licenses generally adopt a fixed fee model, a royalty based model or a combination of the two.

A fixed fee is generally paid up front or at fixed intervals over time. Licensees should consider negotiating for provisions that condition any fixed payment obligations on licensor's achievement of milestone/performance obligations.[50] As discussed above, the licensee may want to delay any payment until an "acceptance" conditioned, for example, on confirming the absence of competing recordations or on other significant events that may be unique to the particular transaction.

In the event the licensee is incorporating the licensed content for resale, the parties may consider a royalty based compensation model in which the licensee's payment is based on revenues or, for example, on the number of units sold containing the licensed content. The parties will want to carefully define

[50] *See supra* note 38.

when a sale occurs for purposes of triggering a royalty obligation. For example, licensors typically are unwilling to allow the licensee's royalty obligation to depend on the licensee's success in collecting payment from the end user. If royalties are to be based on revenues, as opposed to unit sales, the parties will also want to carefully define the revenue pool against which the royalty will be calculated. Licensors may want to consider pushing for the royalty rate to be applied to "gross sales" so as to minimize the complexity – and opportunity for abuse—in the calculation. If the parties agree on "net sales," the license agreement needs to carefully define just what that means and account for such items as credits for returns, sales taxes and discounts.

Particularly in the context of exclusive licenses, the licensor should consider imposing a minimum royalty requirement as a condition of maintaining exclusivity. As noted above, the licensor should consider negotiating other resource allocation requirements (minimum spends, dedicated man hours, etc.) to help increase the likelihood that licensee will meet royalty minimums.