

Music Industry Changing Its Tune

The music industry has seen its fair share of changes within the past decade. MTV no longer plays music videos, CDs have largely been replaced by digital downloads, artists are using social networks and are less dependent on record labels to successfully promote themselves. Below we explore a few changes which appear to be placing more money in the artists' pockets and which will likely impact the artist-company relationship in the years to come; what has led to these changes and what they mean for the future of the industry.

Older Artists Are Re-recording

Several "veteran" artists have found a new way to market some of their greatest hits, despite the restrictive recording contracts under which they were produced. In efforts to regain some creative control and profit, these artists are re-recording their greatest hits and re-selling the recordings themselves. For example, Suzanne Vega, known for such popular hits as *Tom's Diner* and *Luka*, recently released her *Close-Up Vol. 2, People & Places* album which is

full of re-recordings of her greatest hits. Similarly, in 2008, Carly Simon produced an album of acoustic re-records, mostly for personal reasons, but also recognizing the benefits that full ownership gave her, including earnings and creative control.

Under a typical big-label recording contract, the label owns the "master rights," the copyright in any sound recordings made by the artist during the term of the contract, in exchange for the label's services in promoting and exploiting the recordings via album sales, arranging public performances and the like. The label typically exercises creative control over the releases and retains the majority of profits from record sales, with the artist negotiating for somewhere between 8 and 16 percent of the profits. From this share, however, the record company will often "recoup" advances, recording costs, promotional costs, some touring and video costs, often leaving the artist with just a small piece of the pie and very limited control on how the works are exploited. Even with very successful albums, there

continued on page 2

Supreme Court to Resolve Question on the Level of Intent Required to Support a Claim for Inducement to Infringe a Patent

Section 271(b) of the Patent Act creates a cause of action against inducing infringement of a patent and reads "*Whoever actively induces infringement of a patent shall be liable as an infringer.*" The Supreme Court has granted a writ of certiorari in the case of *Global-Tech Appliances, Inc. v. SEB S.A.* to resolve uncertainty amongst the lower courts as to the state of mind or level of intent required for a claim of inducement to infringe a patent. The question raised is: *Whether the legal standard for the "state of mind" element of a claim for actively inducing infringement under 35 U.S.C. § 271(b) is "deliberate indifference of a known risk" that an infringement may occur or instead "purposeful, culpable*

expression and conduct" to encourage an infringement.

Induced infringement is a form of indirect patent infringement where there is some affirmative act by the person being sued to induce another to carry out a direct infringement of the patent-in-suit. This affirmative act may be in instructing, directing or advising the third party as to how to carry out a direct infringement. While the actions required to show induced infringement are fairly clear, there is a level of uncertainty on the state of mind or level of intent required to support a claim of infringement under Section 271(b). This is evidenced in recent Federal Circuit

continued on page 3

Prototypes and Priority

In order to prevail in a trademark infringement claim, as a threshold matter a trademark owner must establish that it has priority of use over the alleged infringer. Use requirements are intended to prevent wholesale "reservation" of trademarks. Only a party with priority of use can claim infringement. Without use, there are no rights to infringe. Generally, establishing priority requires showing a bona-fide actual use of a mark. Token sales or marketing of a product will not suffice. Rather, sales of goods bearing a mark or other use of the mark must be done for legitimate business reasons. Sometimes the question of date of first use of a mark is clear—there may be press releases, advertisements, sales receipts or other indicia. In some situations, none of that is available, so how can a trademark owner establish priority and show use?

The TTAB recently addressed this issue and provided some guidance. Automedx, Inc. sought to oppose Arcivent Corporation's registration of the mark SAVE for use in connection with medical devices, specifically portable ventilators, on the basis of its registration for the mark SAVE for identical goods. The opposed application had a constructive date of use of October 10, 2006. To prevail in its opposition, Automedx had to establish use of the SAVE mark prior to that date. The problem, however, is the goods were not yet approved for use by the FDA and were not in the market at that time.

As medical devices, the portable ventilators at issue could not be sold for use as same before the FDA approved such use. In October, 2006 Automedx' goods were not yet approved and still in testing and development. FDA approval did not issue until September 2007. However, during 2005 and early 2006, while awaiting FDA approval, Automedx sold several prototype units to the U.S. Air Force and Army

continued on page 2

Prototypes (continued from page 1)

who used them for field performance testing and animal testing. These units were clearly labeled with the SAVE mark and a legend stating they were not FDA approved and not for human use.

Applicant argued that Automedx did not have priority of use since its SAVE products were not approved by the FDA until September 2007. Since sale was prohibited before such approval, there was no legal way Automedx could use SAVE in connection with the portable ventilators. Therefore, any prototype sales to the mili-

tary did not constitute legitimate use of the mark in commerce as required.

The TTAB disagreed. In certain contexts, limited sales of prototype goods can constitute use of a mark for purposes of priority. Here, the transactions between Automedx and the military were arms-length commercial interactions with a legitimate business purpose. That there was no FDA approval for use on humans at the time of the sale was irrelevant, since the sales were not made with an eye to such use at the time but only for testing. Thus,

in this case, sales of a small number of prototype goods constituted legitimate use of the SAVE mark in commerce.

Though the TTAB found these particular ventilator sales sufficient to show use of the SAVE mark, it was careful to note that not all prototype sales for testing purposes will constitute actual, bona-fide use for priority purposes. Each case will turn on its facts, but this recent ruling makes it clear that at least some arms-length transactions involving product prototypes can qualify.

Music Industry (continued from page 1)

is often unrecouped debt that carries over into the next album, meaning the artist sees little to no royalties. Most often these contracts commit the artist to dealing exclusively with that label, and obligate the artist to produce six to eight records, which can take years. Attempts to get out of these contracts and/or win back rights are costly and seldom successful, as the artists seldom have the bargaining power or deep pockets the recording companies do.

By re-recording songs, artists have no need to obtain the master license from the label, because they are not using any sound recording produced under the contract, but rather creating a new recording altogether. "Mechanical rights" to the actual song, including the composition and lyrics, still belong to the songwriter or music publisher. Thus, if someone wants to create a cover of a song, a mechanical license from the owner of the song is all that is needed and there is no need to negotiate with the label at all. Further, U.S. Copyright law stipulates that once the copyright owner of a musical composition records the song and distributes it publicly, anyone who wants to re-record or create a cover of the song can do so without permission (subject to certain limitations) by issuing the copyright owner

a notice of intention to obtain a "compulsory" mechanical license. The cover song is subject to a compulsory license which provides the copyright owner an automatic royalty payment for every recording created and sold. The license is "compulsory" because the artist cannot refuse to issue the license so long as all the requirements are met. In this case, however, assuming the songwriter has not assigned all mechanical rights to a music publisher, he or she is the owner of the mechanical license in the first place and thus does not need to provide any notice or pay any royalty, compulsory or not. The only way a record label can legally discourage re-recording is with contract clauses that prohibit its artists from doing so. Typically, such clauses will state that the artist cannot re-record until five years after the contract expires. Thus, artists like Suzanne Vega, who are years out of their contracts and still own full mechanical rights can make their own recording without violating any agreement.

Problems do arise, however. Many consumers already own greatest hits albums for popular artists that have been around for a while, and many are sentimental to the original versions. Thus, the re-recorded albums can be less than marketable. On the other hand,

re-recordings are proving to be popular amongst music supervisors who choose songs for TV, commercials and the like. Purchasing licenses to use these versions is much less expensive than negotiating with labels, and consumers seldom notice differences in the re-recorded versions when played as background music.

In all, re-recording has provided a clever new way for some acts who are no longer at their peak to market themselves, and at the same time take back some creative control and reap more of the benefits, and profits, from their efforts.

New Artists Are Side-stepping the Big-label Deals Altogether

As touched on above, a big-label record deal does not in many cases bode too well for the artist. Increasingly, many are seeing such deals as wholly unfair. As a result, many artists, including those who were already unsuccessful under a big label deal and those who were never signed, are deciding to sidestep such deals altogether. With the internet, numerous artists are finding ways to promote and sell their songs without big-label assistance. They may sell far fewer albums than they would with a big-label

continued on page 3

Music Industry (continued from page 2)

deal, but they retain full ownership of the master rights for their songs, meaning they realize all of the revenue.

Adding fuel to this is the fact that the big record labels have become publicly held conglomerates with shareholders to please and thus have to provide justification for investing considerable funds in an artist who may or may not sell. Thus, they are becoming more hesitant to sign new artists, and more and more are relying on marketing tools and statistical data to decide whether to keep an artist on. For example, the band Big Head Todd and the Monsters was signed with Giant/Warner Bros. Records, and its 1993 album *Sister Sweetly* went platinum. Because its next two albums weren't as successful, the band was dropped. It went on to create its own label, ironically named BIG Records. While the band's independent albums may not have gone platinum, the band has seen more money than it ever saw under its deal with Giant/Warner because it is not giving up a majority of the master royalties.

Many other bands, such as Wilco, are following suite and creating their own labels. In doing so, the artists sign themselves to their own label, retaining all master rights and creative control. Some then license their artist services to third parties to perform some of the other functions, such as distribution or promotion. Artists under their own labels can also record, promote and sell their albums on their own for much less than the big labels, who spend anywhere from \$20,000 to \$100,000 recording a master, depending on what producer they engage. With more and more people becoming technically savvy, artists often have the know-how to produce themselves. The internet allows them to promote and distribute at a low cost as well. For example, many artists are promoting themselves on Facebook and MySpace, and by registering with CDBaby, a dis-

tribution service similar to Amazon.com for independent artists, which creates profiles for the artists, sells their music, and tracks sales numbers amongst other services. All of this means that artists are relying less and less on big-label recording contracts.

Artists May See Payment for the Performance of Their Songs on the Radio

Artists may see more revenue from their works if the Performance Rights Act is signed into law. The Performance Rights Act is a proposed amendment to the Copyright Act which would expand the protection for the public performance of copyrighted sound recordings by requiring broadcast radio (AM/FM) stations to pay the performers of the recordings they air.

Currently, broadcast radio stations are not required to pay owners of the master recordings for "performing" their recordings on the radio because under the Digital Performance Right in Sound Recordings Act, sound recordings are only afforded a public performance right in digital transmissions, such as online radio and webcasting. There has been a lot of debate over this bill; ironically, the artists and labels are on the same side of the issue this time, as it ultimately is either a label or the artist owning the master rights.

Broadcasters who oppose the bill argue that the performance right is unnecessary and overly burdensome in the current economic climate, and risks shutting down several radio companies. Further, they argue that it will be placing money in the hand of already powerful record companies. Proponents, however, point out that under the current version of the bill, where a label is involved, compensation would be divided evenly between the artists and the label and would not be subject to any record company recoupment. The artists' share of royalties would

be paid directly to them. In those cases where artists own their own copyright, all of the performance royalties would be paid directly to them. Also, a portion of the performance royalties received under the Act is designated for background musicians and vocalists.

Whether the bill will pass has yet to be seen. It is something artists and labels have been pushing for decades, and there are numerous other arguments being made on both sides. Overall, however, it is clear that several recent changes within the music industry are placing artist rights at the forefront, and that the artists themselves are taking a proactive stance in eliminating dependence on major labels.

Level of Intent (continued from page 1)

Court of Appeals decision applying both standards in inducement cases. In *DSU Medical Corp. v. JMS Co., Ltd.*, 471 F.3d 1293 (Fed. Cir. 2006) (*en banc*), the Federal Circuit held that inducement charges could only be sustained if the accused inducer "knew of the patent." In contrast, in the recent case *SEB (T-Fal) v. Montgomery Ward & Co.*, 594 F.3d 1360 (Fed. Cir. 2010), the Federal Circuit retreated from the "knew of the patent" standard and held that a "deliberate indifference" to potential patent rights could be sufficient to satisfy the knowledge requirement of inducement charges. At the heart of the *writ of certiorari* and a supporting *amicus curiae* brief is the question of whether the "deliberate" indifference standard from the Federal Circuit's *SEB* decision conflicts with the Supreme Court's decision in *MGM Studios, Inc. v. Grokster, Ltd.* While *Grokster* was a copyright case, it established a standard on inducement to infringe claims.

The *writ of certiorari* was granted on October 12, 2010. Briefing and oral arguments have not yet been scheduled.